The Oversight Trust
Assets for the Common Good

Fair4All Finance Quadrennial Review

Final Report

16th January 2023

Contents

Summary

This Quadrennial Review for Fair4All Finance is coming early in the organisation's life. Consequently, any assessment of impact can only be preliminary, but there was a high degree of consensus throughout interviews across all stakeholder groups that:

First, the groundwork of institutional relationship-building that underpins impact has been laid. Three years into its eight year life, Fair4All Finance can credibly claim to be a trusted and respected voice in the sector, with a unique perspective and position, and can point to broad support across Government and mainstream finance for its research, for lessons learned from its initial experiments (successful and unsuccessful) and for its style of influencing institutions. The picture is more mixed from the perspective of community finance sector organisations and regulators, where there is room for relationships to be improved.

Second, despite its unique positioning and supporting role in addressing the gap in equitable provision of financial services, Fair4All Finance cannot be expected to deliver the required impact alone. The 'system change' that will enable mainstream finance to play its necessary role supporting financial inclusion in general, and in particular providing affordable finance, depends on changes in policy and regulation. Even with such system change and the prospect of additional resources, Fair4All Finance will depend on working effectively with multiple partners to bridge the gap in provision of affordable finance.

Third, specific and valuable outputs have been produced by Fair4All Finance, spanning improved understanding of the market, support to selected players and building a capable organisation. It is simply too early to claim improved availability of affordable credit or sustainably transformed community finance organisations as a result of Fair4All Finance's actions. Fair4All Finance would need much more time, funding, engagement with partners, action on policy and regulation and, consequently, the requisite scale to deliver significant impact for both financially vulnerable customers and fragile intermediaries.

There was also a high degree of consensus around the issues that require further leadership thought and attention:

- Fair4All Finance benefits from a unique perspective and position vis-à-vis Government, but it cannot and should not claim the role or ability to solve alone the complex bundle of issues surrounding financial inclusion. It needs to be clear on what it is choosing to prioritise and where it is dependent on others. Greater focus and transparency will enable better understanding and engagement by others with the work of Fair4All Finance.

- Mainstream finance must play a significant role in creating sustainable markets serving financially vulnerable customers. This could be seen as part of mainstream finance's licence to operate. This will require Fair4All Finance, and multiple other players, to continue to develop opportunities for direct and indirect investment in the sector by mainstream finance — and will also require Government and regulators to review multiple regulatory disincentives.

- Fair4All Finance should pause to take stock and review the nature of its engagement with the community finance sector, with an open agenda of achieving partnership working that is more genuine, of better collaboration on finding solutions and of building a mutually beneficial greater shared understanding of opportunities and limitations.

- Although no-one suggested that Fair4All Finance should campaign publicly, there is space for Fair4All Finance to advocate evidence-based recommendations.

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Drawing on the interviews with key stakeholders, the review panel proposes that Fair4All Finance leadership continues attending to five dimensions of this complex set of inter-related issues:

1. Given the complexity of the challenge, past disappointments, the vital roles of regulators and partners, what would it take to make substantial progress? What Is the role for Fair4All Finance? Given that Fair4All Finance will always have limited resources, where should leadership select its priorities?

2. Given that mainstream finance appears unlikely to make a substantial direct or indirect contribution to the affordable credit market without significant Government and regulatory interventions, how should Fair4All Finance contribute and stimulate under different scenarios?

3. What is a realistic expectation for the contribution of community finance institutions within the current Fair4All Finance horizon? How can Fair4All Finance collaborate with the sector?

4. How can Fair4All Finance build on its positive start as an industry influencer? Without becoming a public campaigner, what more could be done to advocate evidence-based options and recommendations in conversations with decision-makers?

5. Where should Fair4All Finance look to improve its organisational effectiveness, to articulate its resourcing strategy and to retain talent?

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Review Process

The independent review panel ('the Panel') of Keith Leslie, Claire Brown and Danielle Walker Palmour, supported by Fiona Young Priest (secretariat), was tasked with assessing whether Fair4All Finance has met its objectives and whether it is effective in its operations. The Panel was accountable to an Oversight Trust (OT) group of Nicola Pollock, Stephen Howard, Andrew Rose and Alastair Ballantyne. Fair4All Finance made its senior staff available for interview; established a comprehensive data room of material, meeting records, analyses and other documents; and the senior Fair4All Finance leadership engaged regularly with the Panel. We are grateful to Sophie Kelly for her support with documents, arranging meetings and dealing with various questions from the Panel. Terms of Reference are appended as are brief biographical notes on the reviewers (Appendices 1 and 2 respectively).

The approach adopted by the Panel, in agreement with OT and Fair4All Finance, was to engage the people and stakeholders of Fair4All Finance in conversation, exploring the successes, challenges and opportunities for the organisation, being mindful of both its short life to date and the life it set itself at outset (defined on formation as eight years: 2019-27). The Panel did not conduct an audit of Fair4All Finance data nor develop alternative analyses; the review was conducted on the basis of data and analyses provided by Fair4All Finance. The priority was to have open conversations with a wide range of stakeholders on the topics they wished to discuss and to do so in a constructive and confidential atmosphere. The Panel believes this priority has been realised.

The Panel worked with OT and Fair4All Finance to identify 40-plus stakeholders and organisations including: Fair4All Finance Board members, OT Directors, policy makers, regulators, banks, sector bodies, Credit Unions (CUs) and Community Development Financial Institutions (CDFIs). Appendix 3 lists the stakeholder organisations who were represented during the interview process. Interviewees also suggested further organisations and individuals who could provide valuable insight. Alongside the internal and external interviews, an open invitation was shared on the Fair4All Finance and OT websites, by the Department for Digital, Cultural, Media and Sport (DCMS) and via social media channels (from 1st September to 30th September 2022) to encourage input from the social sector. Respondents were encouraged to either share free-form responses to a dedicated mailbox or complete a short online survey.

We found a high degree of consensus across all our circa 40 interviews. Typically, an interview discussion comprised 15-20 minutes' appreciation of Fair4All Finance's work and 20-40 minutes' discussion around issues and options facing Fair4All Finance, all addressed constructively. Another beneficial aspect of our interviews was that, in many areas, there was a high degree of commonality and consensus in points raised, which should enable Fair4All Finance both to respond to this review and constructively use its findings when looking at areas on which to focus.

Internal interviews took place at Fair4All Finance's offices with external interviews taking place over Zoom. The Panel believes this combination worked well and we believe that we obtained full and open input from interviewees and full and open feedback from Fair4All Finance on our thinking and the report as they developed. Our thanks are due to all whom we 'met' during the review period 26th September to 21st October 2022. All data cited was correct as of 14th November 2022, but some may be subject to later change as reports are updated in the normal course of events.

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Overview of Fair4All Finance

Context

At the time of the review much of Fair4All Finance's data was not in the public domain. The section that follows is mostly based on Fair4All Finance's unpublished data and is compiled to reflect its presentation of what has been achieved to date.

Fair4All Finance's mission is to increase the financial wellbeing and resilience of people in financially vulnerable circumstances through increasing access to fair and affordable financial products and services. In its short life to date, Fair4All Finance has focused on expanding the provision of affordable credit, partnering with banks and financial services providers to increase the provision of services, and deepening understanding of the needs of people in financially vulnerable circumstances to support the development of products and services at scale.

Since Fair4All Finance was founded the number of people in financially vulnerable circumstances has increased significantly. Originally, the demand for affordable credit was assessed to exceed supply by a factor of 10[1]. Since 2019, the amount of regulated short term unsecured credit available to people in financially vulnerable circumstances has fallen from some £3 billion to circa £1.5 billion[2] with the collapse or withdrawal from the market of many high cost providers. This rapid contraction is creating a vacuum and the risk is that it is being filled by unregulated lenders, family and friends. The rise of Buy Now, Pay Later products has potential to offer good customer outcomes, yet, in the absence of regulation, it has seen many customers fall into problem debt or pay unanticipated and expensive fees. The cost-of-living crisis further threatens a rise in short-term consumer distress, a worsening in community (not for profit) finance viability and an increase in mainstream finance risk-aversion.

Fair4All Finance's vision is of a society where the long-term financial wellbeing of all people is supported by a fair and accessible financial services sector. Fair4All Finance's purpose is to increase the financial wellbeing and resilience of people in financially vulnerable circumstances through increasing access to fair and affordable financial products and services. It uses the Financial Conduct Authority (FCA) indicators of vulnerability: financial resilience, financial capability, physical and mental health issues and life events — a deterioration in any of which can tip someone into financially vulnerable circumstances.

The financial system is designed around people with predictable lives and incomes — yet over 17 million people in the UK demonstrate characteristics that mean they struggle to access the financial products and services to help them manage life's ups and downs, such as affordable credit, insurance and savings[3]. Many people are at risk of becoming financially vulnerable at some point in their lives. 45% of UK adults are 91 days away from not being able to cover their living expenses if they lose their current source of income. One in four households in the UK have no insurance safety net. Eight million people struggle to access affordable credit. COVID19 has delivered uneven outcomes with 11 million people collectively accumulating £25 billion of debt to pay for essentials[4]. Amongst people in financially vulnerable circumstances, 35% are lone parents with dependent children, 58% are social housing tenants and a significant number live in the most deprived 20% of areas in England.

Mission

Fair4All Finance's plan to address the market failure is three-fold:

- Understand the different customer segments of people in financially vulnerable circumstances and focus on solutions for different segments,

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- Evidence and scale what works to provide affordable credit provision, starting with community finance providers (CDFIs and CUs) and secure investment (direct and indirect delivery) from mainstream finance (banks and building societies), and

- Establish the social and economic value of such provision in order to create mechanisms for a sustainable market including appropriate legislation, regulation and impact returns on capital.

The plan reflects that, in addition to scaling up community finance, growth of provision delivered by commercial providers and potential new entrants is necessary to bridge the gap in credit provision. Fair4All Finance is working with Government, regulators, mainstream finance and providers of affordable credit to address these issues.

Previous Government-funded initiatives to grow CUs (the Department for Work and Pensions (DWP) Growth Fund[5] and the Credit Union Expansion Project[6]) failed to deliver sustainable growth. With the DWP Growth Fund there was a lack of focus on supporting the development of sustainable business models with the focus on lenders working with a single group of customers which led to over-indexing them on higher risk customers. The Credit Union Expansion Project had a narrow remit with a one-size-fits-all approach focused on a single IT platform and cost £38 million. There are now no CUs left trading who engaged with this programme (all now liquidated). The learning from these programmes informed the approach adopted by Fair4All Finance.

Scaling up affordable credit needs (a) a more certain and improved regulatory environment (b) supportive Government policy changes (c) capital at scale and (d) improved delivery capability in the sector driven by an infusion of skills, improved scalable processes, technology and leadership — the sequencing of both investment and these actions are critical.

Mainstream finance (defined as banks, major building societies, insurance companies and investment managers) has limited appetite to serve customers in financially vulnerable circumstances or to finance community finance providers, due to a combination of regulatory, brand, profitability and opportunity-cost reasons. There are better opportunities elsewhere for it to deploy its capital. This further exacerbates the supply problem in the market.

COVID19 threatened the survival of community finance — Fair4All Finance interaction and subsequent investments supported CDFIs and CUs demonstrating a basis for sustainable growth.

Fair4All Finance has invested to support growth and has leveraged its funding with co-investments from social investors and non-standard finance providers. However, the Fair4All Finance initiative to establish a Debt Fund to provide finance to community finance providers from mainstream finance has had to adjust due to the hurdles that need to be overcome regarding reputation, return expectations and regulatory capital.

Strategy

Fair4All Finance published its strategy in December 2020[7]. This and its key workstreams were established after the pilot scale-up programme with five community finance organisations, to test how to scale provision for customers in financially vulnerable circumstances. To deliver on its mission Fair4All Finance aims to work with the financial services sector to understand how to serve well people who are in financially vulnerable circumstances, to ensure:

- Well-designed products and services are available at scale

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- People are aware of the choices
- Financial services organisations can develop sustainable business models to enable them to serve this customer group, identifying where subsidy is necessary and appropriate.

Fair4All Finance looks to collaborate with groups and organisations who are working to improve financial inclusion and with financial services providers delivering products and services to people. Its focus is on finding solutions that work and supporting providers to deliver these at scale and then sharing those lessons across the financial services sector to achieve market transformation. It aims to base its work on data and evidence.

As a new organisation, Fair4All Finance has had to develop its strategy quickly and has already pivoted twice; firstly, for COVID19 and now the cost-of-living crisis. This work is developing and Fair4All Finance currently aims to:

- Invest in organisations already serving well those in financially vulnerable circumstances to help them grow and reach more customers.
- Catalyse investment in developing new products, services and technologies — supporting all financial service providers to better serve this customer group.
- Conduct research programmes that generate an evidence base to inform policy and regulation to support a sustainable market at scale that serves this customer group well.

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Programmes

Investments

Funding background — Fair4All Finance was allocated:

- An initial £55 million to deliver its mission to include credit, insurance and savings
- In May 2020 a further £41 million allocation was made for market transformation and new product/service development
- In November 2021 £4 million was allocated to deliver a consolidation loan pilot
- £100 million in total.

Of these allocations, it has created the following programmes:

- £35 million is directed to promoting affordable credit scale-up, including £5 million for a COVID19 Resilience fund
- £5 million is directed to its technology investment fund
- £35 million is directed to market and product transformation.

Affordable Credit Scale-Up Fund — community finance providers deliver affordable credit in a fair and responsible way, yet this is a very small proportion of credit available to this customer group. Through its credit scale up programme Fair4All Finance is seeking to test and prove sustainable models that can be scaled and adopted by others and increase the overall provision of affordable credit. To achieve this £35 million has been allocated in grant, equity like investment and debt. By October 2022 £30.2 million had been committed to the following organisations:

Programme	**Organisation**	**Equity or equity-like**	**Debt**	**Grant**	**Total** (£000)
Scale Up Pilot	Enterprise CU	0	0	90	**90**
Scale Up Pilot	Fair for You	5,000	0	500	**5,500**
Scale Up Pilot	Five Lamps Trading	0	0	110	**110**
Scale Up Pilot	Leeds CU	0	0	50	**50**
Scale Up Pilot	Moneyline	7,000	0	600	**7,600**
Scale Up II	East End Fair Finance	2,300	500	500	**3,350**
Scale Up II	Great Western CU	1,500	0	130	**1,630**
Scale Up II	Hull and East Yorkshire CU	0	0	40	**40**
Scale Up II	My Community Bank	500	0	0	**500**
Scale Up II	Salad	0	7,000	0	**7,000**
Scale Up: grant-in-kind or other directly procured support				370	**370**
Subtotal (Scale Up programmes)		**16,300**	**7,500**	**2,440**	**26,240**
COVID19 Resilience Fund (31 grantees)				**3,913**	**3,913**
Total		**16,300**	**7,500**	**6,354**	**30,154**

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COVID19 Resilience Fund — set up in April 2020. It was designed at speed in consultation with key stakeholders to help identify the risks of the pandemic to community finance providers and people in financially vulnerable circumstances. The fund provided £3.9 million to 31 community finance organisations. Fair4All Finance estimates the fund helped preserve circa 50% of lending capital targeted at people in financially vulnerable circumstances. Grant recipients recorded cumulative surpluses of £1.5 million and without the funding cumulative losses would have been £2.3 million over the same period. Indicators show that lending to customers in financially vulnerable circumstances recovered swiftly and lending has been sustained. It is Fair4All Finance's view that in some cases, the fund provided a 'lifeline' to grant recipients and they may well not have survived the initial impacts of the pandemic without it.

Technology Investments — Fair4All Finance is investing £5 million to develop new technology solutions to support the delivery of fair and affordable financial products and services. The first area of focus is on loan management systems to help community finance providers deliver a service at scale — to include better customer journeys, more data-enabled credit underwriting and integration with other back office systems to drive operating efficiencies. This investment pipeline is in its early stages.

Market and Product Transformation Fund — £35 million has been allocated to enable interventions at scale to address significant market gaps; examples of this include the allocation of £5 million to support the piloting of a No Interest Loan Scheme (NILS) which has secured co-investment of £8 million from His Majesty's Treasury (HMT), the devolved nations and JP Morgan. This fund is also intended to allow Fair4All Finance to seize wider market opportunities to deliver at-scale provision.

Developing an evidence base to serve customers in financially vulnerable circumstances at scale

Codifying best practice

Fair4All Finance has used its work with the affordable credit sector in particular to develop an evidence base of what works to deliver sustainable provision of products and services that serve customers well. This has included the following reviews:

- Transforming Affordable Credit in the UK including Affordable Credit Theory of Change and Affordable Credit Code of Good Practice
- Understanding the Role of Technology in Community Finance
- Webinars on technology and cyber security co-hosted with GCHQ's National Cyber Security Centre
- Affordable Credit — Navigating Uncertainty and Growing Community Finance
- Unlocking Tenant Financial Resilience
- Payroll and deductions lending.

Research programme

Fair4All Finance has a research programme that looks to deepen understanding of the needs of customers in financially vulnerable circumstances, of what works to deliver good outcomes and to understand wider market dynamics. The objective of this research is to enable practitioners and

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policy makers across the financial services space to improve the way that financial products and services increase inclusion. The research conducted to date and in progress includes:

- Social impact of Fair for You, an investee[8]
- The costs to society more generally arising from the use of high cost credit in the UK
- Customer segmentation and persona development
- COVID19 Banking Best Practice
- Increasing the financial inclusion of people from black, Asian and minority ethnic communities
- Illegal money lending.

Convening and market engagement

Fair4All Finance has convened various roundtables across the landscape; including one on Scaling Affordable Credit held on 12th September 2022. It has worked with MaPS (the Money and Pensions Service) on the National Financial Wellbeing Strategy and collaborated with Fair By Design[9] on insurance.

Organisation and resources

Fair4All Finance was set up in 2019 as a not-for-profit company limited by guarantee, with a board of 12, including two executive directors, and an anticipated eight-year lifespan. Richard Collier-Keywood was the first executive chair of Fair4All Finance as the organisation developed out of DCMS. Sacha Romanovitch was appointed as the first CEO (and executive director) in October 2019. Fair4All Finance has a headcount of 33 with four vacancies (at July 2022) based at its offices in Toynbee Hall, London (full-time equivalent (FTE) of 30). The team is organised in four workstreams:

1. **Finance, funding and investment:** six people making investments in providers and working with them and other funders to establish sustainable financial models, funding structures and to secure further investment to support scaling of provision.
2. **Systems change and impact (including research and policy, impact, market engagement and communications): 1**0 people establishing the evidence base for best practice and for policy and/or regulation change to support development of a scaled market; this includes establishing the social and economic value of investment in serving this customer base.
3. **Growth and development:** 10 people supporting market transformation covering: (a) Operational excellence: testing and proving efficient operating models, technology transformation; (b) Markets, consumer insights and product design: deep customer segmentation, branding and marketing good practice development and establishing platforms and partnerships for new product/services development (such as NILS) through to stimulating new market entrants to meet major market gaps (including appliance poverty); (c) Leadership and governance: supporting the development of governance and leadership in organisations.
4. **Operations (including finance, procurement and contract management, noting that the organisation is subject to full public procurement rules):** seven people.

DCMS announced that dormant assets funding should also be spent on the provision of services for young people and financial inclusion. The Civil Society Strategy of August 2018 stated that funds would be distributed through two new bodies and that DCMS would work with the National Lottery

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Community Fund to support their establishment. During 2019 Fair4All Finance, alongside Youth Futures Foundation was set up. DCMS has directed that Fair4All Finance's funds be used to 'meet expenditure which has a social or environmental purpose and is to be made for making expenditure which is in or is connected with (a) the development of individuals' ability to manage their finances or (b) the improvement of access to personal financial services'. The organisation was established to be independent of government and overseen by the Oversight Trust. Fair4All Finance's remit does not include financial education or financial capability as these areas are covered by other organisations.

To date, £100 million of dormant asset monies has been allocated to the company to deliver on this mission; the initial £55 million referenced an eight-year life. Each allocation comes with a spending direction from the Secretary of State. It can only be drawn on an as-needs basis under grant agreements with the National Lottery and Communities Fund. Due to changes on subsidy rules post-Brexit and further changes around codifying the Additionality Principle following the update to the Dormant Assets Act, the grant agreement for the latter two allocations was finally signed in October 2022.

From the initial funding agreement of £55 million; £51.5 million has been drawn (in stages) following the formal approval of Fair4All Finance's business plan in late December 2019. The direction for the funding allocation is broadly up to £40 million for scaling affordable credit provision (including through community finance providers and technology transformation), partnering with mainstream credit providers (up to £5 million), market and product transformation (up to £45 million), with the balance being used for research, evidence building and development of best practice guidance, operational costs and contingency over Fair4All Finance's lifespan.

Fair4All Finance has been set up with the power to use its capital flexibly to achieve impact, including through the making of grants and investing in equity and loans.

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Key Achievements and Impact

Compared with earlier Quadrennial Reviews (QRs) for Big Society Capital and for Access — the Foundation for Social Investment, this QR for Fair4All Finance is coming early in the organisation's life and consequently any assessment of impact can only be preliminary. In our view, which is based on Fair4All Finance data and circa 35 stakeholder interviews, it is reasonable to assert the following.

First, the groundwork of institutional relationship-building that underpins impact has been laid. Three years into its eight-year life, Fair4All Finance can credibly claim to be a trusted and respected voice in the sector, with a unique perspective and position, and can point to broad support across Government and mainstream finance for its research, for lessons learned from its initial experiments (successful and unsuccessful) and for its style of influencing institutions. The picture is more mixed from the perspective of voluntary sector organisations and regulators, where there is room for relationships to be improved.

Second, despite its unique positioning and supporting role to address the gap in equitable provision of financial services, Fair4All Finance cannot be expected to deliver the required impact alone. The 'system change' that will enable mainstream finance to play its necessary role in providing affordable finance depends on changes in policy and regulation. Even with such system change and the prospect of additional resources, Fair4All Finance will depend on working effectively with multiple partners to bridge the gap in provision of affordable finance.

Third, specific and valuable outputs have been produced by Fair4All Finance, spanning improved understanding of the market, support to selected players and building a capable organisation. It is simply too early to claim improved availability of affordable credit or sustainably transformed community finance organisations as a result of Fair4All Finance's actions. However, there are indicators of future impact on the overall market resulting from Fair4All Finance's work that:

- Built deep insights into customers in financially vulnerable circumstances and their financial behaviours, including segmentation, personas and research into financial exclusion of diverse ethnic minorities.
- Researched and evidenced what works in customer journey design and sustainable business models.
- Articulated insights into the multiple customer segments within the affordable credit market and the multiple business models serving the market.
- Created from scratch an organisation with significant knowledge, skills and experience from both community and mainstream finance.
- Applied COVID19 Resilience Fund of £3.9 million to sustain affordable credit provision from lenders delivering £150 million of lending to nearly 150,000 customers through the crisis. Independent evaluation found significant positive impact[10].
- Invested £30 million in community finance providers, who have business plans to triple their affordable credit provision to £900 million. 10 community finance organisations — who were supported with leadership coaching, organisation design and marketing strategy — increased their confidence levels in achieving their strategies by 23% (2.8/5 to 3.9/5)[11].
- Used convening and delivery capability to bring together the UK Government together with the

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devolved Scottish, Welsh and Northern Irish Governments to deliver a NILS pilot, leveraging a further £8 million funding on top of the funding commitment of £5 million from Fair4All Finance funds, together with funding from JP Morgan and Local Authorities in England, whilst engaging with the FCA. NILS pilots are already showing evidence of sustainably increasing financial inclusion, with 87% of applicants having poor or very poor credit scores, yet so far 94% of repayments have been met.

As we discuss in the issues identified below, in order to deliver its aspired impact, Fair4All Finance will need all of the following to happen — some of which are beyond their control:

- Action from Government and regulators to remove disincentives and promote action by mainstream finance.
- Effective partnerships with multiple mainstream commercial and community finance players.
- More time, funding, engagement and, consequently, the requisite scale to deliver significant impact for people in financially vulnerable circumstances and fragile community finance organisations.
- Improved measures and tools to capture its impacts — positive and negative — on its context over time.

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Strategic Issues for Consideration by Fair4All Finance Leadership

Before proposing strategic issues for leadership attention, we observe:

- Invariably, reviews of this nature focus more on issues than strengths.
- For most organisations, their issues or challenges are consequences of their strengths and therefore typically call for balanced judgments rather than radical change — this is the case for Fair4All Finance.
- There is a 'family resemblance' in the strengths and issues faced by the three operating companies that we have reviewed (Big Society Capital, Access and Fair4All Finance), which suggests a further conversation with OT and DCMS around lessons learned.

Throughout our interviews across all stakeholder groups, there was a high degree of consensus around the issues that require further leadership thought and attention. Interviewees most often raised these suggestions in the context of Fair4All Finance being a much needed and welcome addition to the financial inclusion agenda and a relatively young organisation with a nascent and necessarily evolving strategy. Debate around these issues should be seen as part of supporting that evolution:

- Fair4All Finance benefits from a unique perspective and position vis-à-vis Government, but it cannot and should not claim the role or ability to solve alone the complex bundle of issues surrounding financial inclusion. It needs to be clear on what it is choosing to prioritise and where it is dependent on others.
- A perceived lack of focus and a wish for greater transparency to enable better understanding and engagement with the work of Fair4All Finance. Interviewees did not see the whole picture of Fair4All Finance activity, nor how the focus of its work has evolved based on learning and experience. In many respects, this is unsurprising given that Fair4All Finance's approach has been 'test and learn' and its strategy is consequently emergent.
- A belief that mainstream finance must play a significant role in creating sustainable markets serving financially vulnerable customers, as part of mainstream finance's licence to operate. This will require Fair4All Finance to continue to develop opportunities for direct and indirect investment in the sector by mainstream finance — and will also require Government and regulators to review the multiple regulatory disincentives.
- Fair4All Finance should pause to take stock and review the nature of its engagement with the community finance sector with an open agenda of achieving partnership working that is more genuine, of better collaboration on finding solutions and of building a mutually beneficial greater shared understanding of opportunities and limitations.
- Interviewees expressed the view that Fair4All Finance has built effective networking, research and learning. Although no-one suggested that Fair4All Finance should campaign publicly, there is consensus that there is space for Fair4All Finance to advocate evidence-based recommendations to Government and regulatory players across a range of necessary actions: ensuring mainstream finance participation, removing regulatory disincentives for mainstream and community finance, providing subsidy. Further, in the event of a winding-down scenario this should be the primary focus of Fair4All Finance.

Based on this consensus across interviews, we propose Fair4All Finance leadership continues attending to five dimensions of this complex set of inter-related issues:

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1. Given the complexity of the challenge, past disappointments, the vital roles of regulators and partners, what would it take to make substantial progress? What Is the role for Fair4All Finance? Given that Fair4All Finance will always have limited resources, where should leadership select its priorities?
2. Given that mainstream finance appears unlikely to make a substantial direct or indirect contribution to the affordable credit market without significant Government and regulatory interventions, how should Fair4All Finance contribute and stimulate under different scenarios?
3. What is a realistic expectation for the contribution of community finance institutions within the current Fair4All Finance horizon? How can Fair4All Finance collaborate with the sector?
4. How can Fair4All Finance build on its positive start as an industry influencer? Without becoming a public campaigner, what more could be done to advocate evidence-based options and recommendations in conversations with decision-makers?
5. Where should Fair4All Finance look to improve its organisational effectiveness, to articulate its resourcing strategy and to retain talent?

The balance of this report explores each of these issues in turn.

Issue 1

Focus of Fair4All Finance impact on the complex bundle of issues around financial inclusion

The UK has a complex and highly financialised economy, where access to appropriate financial services and systems is central to the financial health of individuals and households — as well as economic growth and sustainable productivity gains. Financial inclusion has been the subject of public debate and numerous initiatives over decades. The impact of a decade of austerity, the years of fallout from the pandemic and currently the cost-of-living crisis make the currently inequitable provision of affordable credit and other basic financial products increasingly more pressing in terms of human impact and social costs that ultimately fall on taxpayers. It also represents a failure of the financial system (regulators, mainstream finance and community finance) that results in a loss of national economic performance and flexibility. It does attract entrepreneurial activity — but largely with undesirable impact. Despite the time, effort and money expended, it remains a topic on which limited progress has been made and one where there is still significant lack of understanding of the facts on the ground, of the potential national economic gains and of what successful initiative looks like.

Role of Fair4All Finance

The establishment of Fair4All Finance in 2019 signalled a commitment from Government to direct funds with the aim of engaging both mainstream and community finance in 'closing the gap' in financial inclusion — without tying the hands of Fair4All Finance in pre-determining either the end-point or the specific mechanisms to achieve success. This enabled Fair4All Finance to define its priorities, notably to focus on affordable credit during its initial years. 'Affordable credit' is defined by Fair4All Finance as "credit delivered in a fair and responsible manner which meets the needs of people who are typically financially excluded"[12]. Fair4All Finance reports it has provided 80%[13] of all patient capital into the affordable credit sector in recent years in support of its potential hypotheses as to market growth — learning by doing. This flexibility also meant that Fair4All Finance has been able to respond to events, not least the pandemic, with a range of short-term and longer-term initiatives.

We note above that Fair4All Finance has had many successes in improving understanding of the facts, the variability of customers and business models, and carving out a unique position in the affordable credit ecosystem — and that it is still early days to be assessing the impact of Fair4All

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Finance. Acknowledging this significant progress, we highlight issues around the mission and measurement of impact of Fair4All Finance:

- Growing the provision of affordable credit is a complex bundle of issues of policy, regulation, industry capabilities, system innovation and capacity, the potential role of new entrants and the provision of capital and subsidy. It was clear from all of our interviews with stakeholders that there is no single set of actions nor any quick fix to closing the £3 billion[14] gap in affordable credit demanded by customers in financially vulnerable circumstances — and currently largely supplied at either high cost, an unregulated source or illegally. Consequently, if Fair4All Finance is to be one of the principal mechanisms to address this gap, the current funding horizon of £100 million over eight years will suffice only to test hypotheses, rather than achieve decisive impact.

- Although Fair4All Finance benefits from its creation by, and positioning with Government, there is also a trap in being seen as 'the answer' when, in fact, substantial impact from Fair4All Finance depends on action by Government, regulators and partners.

- Fair4All Finance has not yet secured wider alignment around its priority outcomes. None of our external interviewees (who all work closely with Fair4All Finance) could offer a clear and compelling definition of what successful impact would look like for Fair4All Finance, other than fragments of impact — for example, funding community finance, building credibility or developing new products. This lack of a broadly aligned definition of success leaves Fair4All Finance financially vulnerable to success being casually defined as 'what the Minister/industry thinks impact can be from moment to moment'. It also makes it harder for Fair4All Finance to invest in a toolkit for impact measurement that has support and contribution from multiple players and, therefore, higher profile.

- Lack of clarity also contributes to the perceived lack of focus and transparency, as reported in many of our interviews with stakeholders — and covered further under Issue 3. Paradoxically, the flexible response of Fair4All Finance to events perhaps means that its longer-term mission has been obscured to stakeholders. Fair4All Finance is currently developing a Financial Inclusion Theory of Change, which will draw out the alignment of work from different actors across the landscape and will set clear goals.

Opportunities to explore

This review cannot determine nor recommend the appropriate resources or timeframe to deliver Fair4All Finance's ambitious mission in a complex context, where other initiatives have disappointed over the years. It would be odd if anyone could be categorical in laying out a detailed plan, given that Fair4All Finance's strategy is, by definition emergent and based on 'learning by doing'. As noted above, Fair4All Finance cannot 'solve the problem' and has to be focused on a priority sub-set of 'the problem'.

Fair4All Finance has published its Affordable Credit Theory of Change[15], a number of reports on specific areas such as technology and 'Transforming Affordable Credit' and held effective roundtables. Despite this, it seems to us that leadership could productively reiterate its impact objectives and priorities across a number of parameters in a way that increases transparency with stakeholders, including:

- Market performance — for example, closing 25–50% of the gap in the market over 10–20 years? Providing a certain quantum of investment/subsidy over a certain time period?

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- System change — for example, regulatory action on market disincentives? Priorities for activity by mainstream finance and community finance? Impact on intermediaries as well as end-users?
- Research/convening/evidence-based advocacy — and how its effectiveness would be measured?
- Focus versus scale — for example, the role of funding (or not) for community finance?

Issue 2

Fair4All Finance's contribution to engaging mainstream finance

When Fair4All Finance was established, considerable emphasis was placed by Government on the explicitly provided support of banks, major building societies, insurance companies and investment managers ('mainstream finance') for Fair4All Finance's efforts to improve inclusive finance, including the supply of affordable credit. This was based on a number of indisputable facts:

- The urgent social and economic need to provide affordable finance and the longer-term benefit of improving national economic performance. Previous direct projects to grow community finance had limited success and the scale of the challenge requires the participation of mainstream finance.
- Some near-prime customers in need of affordable credit are often already customers of mainstream finance and could use a range of facilities (including consolidation loans or overdrafts) that are cheaper than other forms of higher-cost credit. However, work is needed to make these alternatives known and easily accessible to displace higher-cost but rapidly available online sources.
- Mainstream finance has substantially withdrawn from serving customers in financially vulnerable circumstances for regulatory, brand, profitability and opportunity-cost reasons. Explicit action to address these disincentives is required if there is to be any prospect of re-entry, either directly or indirectly, by mainstream finance.
- Community finance organisations (further discussed under Issue 3) are more likely to be successful suppliers of affordable credit to customers in financially vulnerable circumstances who would not be attractive to nor attracted by mainstream finance. However, mainstream finance has a vital indirect role to play in providing capital and some capabilities to enable community finance organisations to grow their supply of affordable credit.

Role of Fair4All Finance

These facts underpin the explicit ambition of 'system change' articulated in the role of Fair4All Finance from its establishment. They are reflected in Fair4All Finance's broad engagement with banks on the funding of community finance, improving customer journeys and measuring social impact. Three years on, the engagement by mainstream finance in the work of Fair4All Finance remains positive in terms of respect and relationships, but lacking in tangible outputs.

Mainstream finance is reluctant to expand its direct presence in supplying affordable credit to customers. The main Fair4All Finance initiative for mainstream finance to provide its indirect presence — the Debt Fund to provide capital to community finance organisations — has stalled. The reasoning behind this paradox of 'positive relationship' but 'little action' was universally articulated by all stakeholders we interviewed:

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- The economic opportunity for mainstream finance in affordable credit is both unattractive and relatively small compared to other growth opportunities. The gap in affordable credit provision is estimated at £3 billion[14], whereas social impact investment now totals £7.9 billion according to Big Society Capital[16] and property or corporate opportunities are much larger.

- Mainstream banks frequently treat engagement in financial inclusion as a corporate social responsibility/donation issue, rather than a business opportunity — and all banks and building societies already have full social agendas of their own.

- Multiple regulatory disincentives and media exposure risks make the direct provision of affordable credit unattractive to mainstream finance. Regulators require sub-prime lenders to provide levels of regulatory capital that deter participation in the market, amplified by the prospect of retrospective claims liabilities and the costs/resources required to cope with consolidated customer complaints.

- Serving the sub-prime market implies higher operating costs, higher regulatory capital — and therefore results in higher interest rates. In turn, this increases the risk of damaging media coverage. None of the regulators made time to speak with us in the preparation of this review but it appears safe to assume that, for reasons of consumer protection, the current difficult regulatory context for direct provision of affordable credit will not change rapidly.

- Traditionally, the financial services sector effectively averaged risk across the population, but the 'drive to digital' and particularly the move to individualised credit rating has penalised customers in financially vulnerable circumstances by raising the price for higher-risk individuals.

- New entrants (in the form of challenger banks or FinTech players) have not yet had a major impact on the supply of affordable credit, mainly because they also target more affluent customers and because their virtual business models do not reach or suit the needs of the relevant customers.

- Community finance organisations, who would be the intermediaries for indirect mainstream finance provision, need more than increased capital, they also need to transform their business models in order for the new capital to be recouped. Currently, indirect support (for example, through the Debt Fund) does not appear attractive to many players in mainstream finance. As many interviewees pointed out, there is a huge gap between start-up not-for-profit funding and viable-scale commercial funding — leaving few options currently for scaling-up community finance organisations.

- Mainstream finance would only play a substantial role if provided with regulatory incentives and faced with penalties that favour affordable credit. In the United States, the Community Reinvestment Act 1977[17] (subsequently much amended during successive Administrations and Congresses) involves a rating system for "community engagement" by banks (and others) that is publicly available on the Federal Financial Institutions Examination Council (FFIEC). This is taken into account when a banking institution applies for new bank branches or for mergers or acquisitions.

- In the current economic context, mainstream finance is on the receiving end of multiple asks from Government and affordable credit is not believed to be top of the list.

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We agree that it is a 'given' that closing the £3 billion demand/supply gap in affordable credit will require considerable engagement by mainstream finance, but that this will only happen if there are system changes, probably catalysed by a significant shift in Government priorities, including addressing the fundamental regulatory disincentives outlined above. Our interviewees believe that it is unlikely Government will, in the short term, choose to prioritise exerting that degree of pressure on mainstream finance — whether through a UK version of the Community Reinvestment Act or some other measure.

We encourage Fair4All Finance to continue to build evidence to better articulate the social and economic case for Government to prioritise the increased contribution of mainstream finance to closing the demand/supply gap in affordable credit. It is essential that mainstream finance does not view affordable credit as 'Fair4All Finance's task' and therefore engages in both:

- **direct** provision of affordable credit to near-prime customers where applicable, and
- **indirect** support through provision of capital to community finance organisations.

We note that Fair4All Finance's leadership team is currently influencing Government, regulators and mainstream finance to deliver these multiple ends.

Opportunities to explore

Would it be a helpful part of preparing for a range of uncertain (but potentially high-impact) events, for Fair4All Finance to further articulate its scenario-based plans — including developing them with partners to stimulate action?

A. An 'inflexion point' plan where Fair4All Finance can act on a cross-industry basis if/when Government enacts a policy — for example, subsidy, local reinvestment plans, cross-industry capital injection, regulatory (dis)incentives — that engages mainstream finance in direct or indirect supply of affordable credit.

  - Triggers could include a worsening in the cost-of-living crisis or the optics of banking profits as a result of higher interest rates. Fair4All Finance would want to think through the potential impact of those triggers carefully — it might have the positive impact of engaging Government and mainstream finance, but also threaten the failure of some affordable credit players and hence affect Fair4All Finance as a market builder.
  - Fair4All Finance should continue to prioritise work that provides evidence on what long-term system change might look like, the cost and the benefits — including the likely total capital funding need, financial subsidy (first loss and capacity building), regulatory changes and societal impact benefit analysis. Existing work exploring approaches in other countries could be accelerated, expanded and shared, illustrating their benefits and constraints.

B. A 'long haul' or 'opportunistic' plan where lack of Government intervention constrains Fair4All Finance's scope for action across the market and the emphasis is instead on continuing the current focus on specific opportunities and responding to events/players.

  - Making the case for investment and capability building in community finance organisations by highlighting the growth and development of those who invest in transformation — and responding if/when individual organisations fail or present consolidation opportunities.

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- Developing new products (for example with the insurance industry) that can be distributed via community finance organisations.
- Working with individual mainstream players that are prepared to invest ahead of industry-wide action — for example: serving segments within their existing customer base, deployment of capital into a revised Debt Fund.
- Supporting new entrants, especially FinTech players oriented to affordable credit provision.

Issue 3

Fair4All Finance's contribution to scaling community finance

Fair4All Finance estimates that the size of the credit market for customers in financially vulnerable circumstances in the UK is currently worth around £8 billion and will rise to around £10 billion over the coming five years. High-cost credit options make up over 50% of this market, community finance less than 10%, with the remaining £3 billion either not served at all or represented by customers' resorting to unregulated credit and illegal money lending[2]. Affordable credit has historically been provided by the 'community finance sector' which is made up of:

- CUs, who had £1.7 billion[18] in loans outstanding in 2021, circa 50% in England. Fair4All Finance estimates that of this only £300 million of CU lending is to people in financially vulnerable circumstances. CUs often operate in areas of significant deprivation.
- CDFIs, whose lending tends to be targeted at people in the most financially vulnerable circumstances. In 2021 CDFIs accounted for around £30 million of lending[2].

Given the gap in provision and the damage high-cost credit can bring, there is scope for significant expansion of the community finance sector in provision of affordable credit to the most financially vulnerable and their communities. Community finance is a sector of its own, part of the spectrum of financial provision in the UK, and due to the 'high touch' nature of its work cannot be easily replicated by mainstream banks.

Constraints on growth

Community finance organisations cannot fill the gap alone — growth is often long and slow given the challenging nature of what they do. Many community finance organisations are small scale and local, which is often beneficial as they are rooted in the communities they serve and are able to offer the high touch wrap-around support needed by financially vulnerable customers. It does mean, however, that they struggle to reinvest in their own infrastructure and expertise or to have any excess financial capital for growth.

CUs have additional regulatory restrictions which limit their potential profit margins due to their capital level requirements, capped APR of 42.6%[19], and the need to serve their members which includes paying members dividends.

From our interviews, it is clear that growing community finance organisations is challenging:

- If customers need a high touch solution and affordable interest rates, then community finance will arguably always need subsidy or blended finance (be that patient capital, first loss guarantee or revenue grants) to be able to expand.

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- Historic under-investment means that many community finance organisations do not have the technologies, human resources and skills that could enable them confidently to take investment capital — even if such capital was more readily available.

- Many community finance organisations are reluctant to take loan capital, due to regulatory constraints on capital and because it puts further pressure on profit margins, potentially leading to a higher cost of lending for financially vulnerable customers, and because it is high risk, especially in the current rising interest rate environment.

- Even if more loan capital were available to them, community finance organisations are, in the main, 'not investment ready' and need significantly more technical assistance to develop business planning, leadership, technology and marketing.

Role of Fair4All Finance

Community finance leaders all expressed their support for the establishment of Fair4All Finance and for its initial ambitions for system change, especially the provision of capital and capability for community finance. Interviewees universally perceived Fair4All Finance as Government's answer to funding the affordable credit sector, able to make grants or provide the patient capital so much needed as other providers have stepped back. However, it is equally clear that Fair4All Finance does not, on its own, have the resources needed to grow the community finance sector to fill the £3 billion gap. Fair4All Finance has chosen to focus on:

- Committing investment capital to not-for-profit and for-profit players who it believes are most likely to scale significantly provision of affordable credit.

- Making grants for technical assistance/investment readiness and providing management tools and templates.

- Piloting, with others, new products (for example NILS), developing technological solutions, supporting merger activities and developing impact measurement for the sector.

This has enabled Fair4All Finance to research, test and learn from the various strands of work, and build networks, expertise and understanding of the challenges for the sector.

Challenges for Fair4All Finance cited in most community finance interviews include:

- Communicating the evolution of its activities and approach, given the high expectations when it was set up. Many interviewees from the community finance sector strongly support Fair4All Finance and feel it has positive momentum, but needs to be clearer on future sources of provision of capital for scaling-up.

- Sharing its learnings from its experience in the sector more, to involve as many as possible from the sector in its projects as trusted and experienced partners, and to be clearer about how the sector could engage with it going forward. Some expressed concern as to the amount of data collected by Fair4All Finance as part of its investment process, and further questioned how this data could be used to support the sector in the future.

- In the event that Fair4All Finance does not continue beyond 2027, there was concern as to how its unique voice, knowledge and influence would be shared with and embedded in the sector. Similarly, concerns were expressed about future funding for investment in community

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finance if Fair4All Finance had no more funds to invest and capital was not made available from elsewhere.

- Some interviewees questioned the balance of the use of the £100 million — specifically whether £35 million for capital investment mostly into CDFIs versus £35 million for market transformation was putting innovation ahead of the growth of already-proven approaches that just need capital to scale.

- Many interviewees agreed there was still significant 'investment readiness' technical assistance needed by community finance organisations. However, they thought this would be better done by building capacity and capabilities within the sector, rather than Fair4All Finance being the producer and repository of guidance and best practice models. Several interviewees suggested closer alignment with trusts and foundations who have the appetite to support community finance.

- Given the experience and size of the CUs in providing affordable credit to the financially excluded, and their access to some of the most deprived areas in England, many interviewees expressed disappointment that Fair4All Finance does not engage as extensively with CUs as they would wish, nor understand their expertise and constraints. There was a concern across most of the stakeholder groups interviewed that this was a missed opportunity as CUs are seen as an essential part of improved financial inclusion across the UK.

Opportunities to explore

It seems to us that there are opportunities for Fair4All Finance to explore the following:

- Is there an opportunity to review as part of its strategic discussions, the appropriateness of lenses used to determine what is 'success' in the expansion of affordable credit beyond simply scale, and the types of funding and support that community finance organisations offer?

- Could revisiting and publishing research and learning to date be done to determine more clearly the scale of need (capital, subsidy, grants, first loss, capability), and identify who is best placed to deliver the various elements of the long-term system change?

- Could setting out the regulatory and policy changes needed to enable community finance organisations to secure investment, including potential ongoing subsidy, be prioritised?

- Can it provide greater clarity and transparency as to Fair4All Finance's criteria in funding/not funding decisions, likely future funding philosophy, and their rationale?

- Can it improve engagement with the community finance sector (particularly CUs), clarifying Fair4All Finance's views on the sector's role going forward and the potential for partnering with the sector?

- Could understanding the diverse interventions of the community finance sector providing support for financial health and resilience, especially those embedded in small localities, help Fair4All Finance to provide more differentiated and clearly articulated responses to support the sector?

- Would reviewing the investment decision-making framework to reflect learning from the strategy to test, pilot, learn and network, help build advocacy capabilities as well as deliver a reasonable investment return and attract commercial investors?

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- Could revisiting the approach to investment, balancing the relatively small number and volume of the investments, the level of expertise and flexibility required going forward, the other benefits and insights arising from investment, help as a tool in Fair4All Finance's armoury? Fair4All Finance could share analyses that challenge the observations of many external interviewees who commented that most organisations receiving Fair4All Finance investment had already attracted investment from other capital providers, suggesting a substitution of funds rather than expanding investment in the sector.

- Could expanding partnership and collaboration with other community finance sector-based organisations, including more of the various trade bodies that represent the sector, help deliver better programmes and create incentives for sustainable funding of the sector?

- Can it continue to support community finance organisations as it seeks sustainable commercial funding, whether or not the Debt Fund happens?

Issue 4

Influencing through research, convening and articulating options

The range of organisations with an influence on the lives of financially vulnerable consumers is disparate and the policy and regulatory context complex. Key stakeholders include banks, community-based organisations with different legal structures and organising principles, financial market regulators, mission investors, FinTech organisations, charities and local and central Government.

There has been a range of interventions designed to bring together stakeholder groups over the past two decades — including institutional taskforces and working groups such as the Financial Inclusion Taskforce, the Inclusive Economies Working Group, the Financial Capability Working Group, and the Financial Inclusion Commission. Alongside these, other groups with more focused remits have concentrated on important aspects of the financial exclusion agenda, such as tackling high-cost credit, coordinating the provision of debt advice and the provision of consumer detriment and financial education.

The role of Fair4All Finance

Our interviews with stakeholders across the spectrum affirmed the importance of informing, convening and finding points of consensus. Arguably, one of Fair4All Finance's most important contributions has been its forensic analysis of the context of and its consistent focus on financial vulnerability. It has built its credibility as a commentator on the basis of sound evidence and objectivity. Interviewees commented that this is an area that currently is not very well coordinated in terms of having a shared research base, shared market intelligence or mechanisms for pursuing shared goals.

Interviewees felt that there was scope for an independent organisation to play a central coordinating and convening role — conducting 'the choir' of stakeholders. To do this, the importance of independence — from Government, industry, and civil society advocates — is central to success. Fair4All Finance has brought up to date and offered relevant insights into consumer journeys in the current context. Its relative lack of pre-existing institutional position has enabled a clear focus on the issues — the needs for affordable credit, innovative products to improve consumer journeys, continuing subsidy and potential roles for all parties — rather than a fixed set of solutions.

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Fair4All Finance has to date avoided capture by, or being perceived as the creature of, any single group. This has obvious advantages and disadvantages in terms of assessments by different stakeholders of its success to date. Interviewees did not think that there was a gap for a further think-tank, nor that Fair4All Finance should define itself as such. There was a feeling that Fair4All Finance has done enough research and now has sufficient understanding of the issues to focus more on solutions.

Scope for more convening and coordinating

Although the convening role undertaken by Fair4All Finance is valued by those that took part, some interviewees questioned whether some stakeholder groups featured as prominently as might be expected. This may be inevitable given the breadth of the field and the lack of a shared view of how the affordable credit market can be scaled.

Potential investors appear less prominent in Fair4All Finance's convening and coordinating activities. Although we heard of bilateral conversations and long-standing relationships built with specific mission investors, the coordination of more strategic investor networks does not appear to be a prominent part of the strategy. This may be because there are existing significant investors in this space such as Big Society Capital, and established networks, but some interviewees attributed this to the strategic capacity within Fair4All Finance being absorbed in pursuing the Debt Fund with mainstream banks.

We heard from some interviewees that Fair4All Finance works effectively with non-corporate actors in the sector; we also heard that this was not always the case. Given the complexity of the issues and the important role played by a range of stakeholders, developing and adapting ways of working to suit different contexts will be important for long-term success.

Opportunities to explore

Key directors and staff have spent the last three years forging good relationships across much of the spectrum of stakeholders and the organisation is now in a strong position to leverage these links. Against this overall picture supporting Fair4All Finance's informing and convening role, there appear to exist opportunities for leadership to consider the following.

- Is Fair4All Finance using the full range of its flexible structure — as a convenor and coordinator, having policy analysis and research capacity alongside its investment and grants functions — to innovate and incubate new solutions?

- Could Fair4All Finance apply a different repertoire of styles and approaches to convening and coordinating? For example, expanding the application of true partnership approaches with other third sector organisations, avoiding the perceived need to own or claim attribution for sector-wide initiatives.

- Is there a role as an independent organisation to challenge existing orthodoxies about both the engagement of banks in financial inclusion and about how best to support community finance?

- Can Fair4All Finance's investment capacity be used to practically explore options that emerge from policy and research work? Examples could cover a wide range of options including: new products/services to serve financially vulnerable customer segments; new business models to test the need for action on regulation or subsidy or capital.

- Could disseminating and sharing investment learning about the financial structuring of investment deals and returns provide useful 'proof points' that could underpin the pursuit of the expansion of affordable credit?

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- How is Fair4All Finance developing the tools to measure its impact — both overall and in its informing and convening role? This could cover: clarifying the scope, measurement and impact of this role; its position in relation to lobbying/advocacy; its interaction with other workstreams; providing feedback; identifying methods to embed learning with other relevant organisations when Fair4All Finance leaves this role.

- Is Fair4All Finance at a point where it has done enough research and sector engagement to fully understand all the issues and different stakeholder perspectives to have the confidence to be more 'vocal' in articulating evidence-based solutions going forward, and if not, what yet needs to be understood?

- Wherever possible, can Fair4All Finance publish its research and best practice guidance more quickly?

Issue 5

Improving Fair4All Finance's organisational effectiveness and transparency

Fair4All Finance is a young organisation, operating in a complex environment (as set out under Issue 1 above) and working intensively to support and understand people in financially vulnerable circumstances; their realities and their product needs. Working across a wide range of stakeholders, Fair4All Finance has developed major programmes to change the financial systems to be more inclusive and, as a first focus, to grow supply of affordable credit and deliver long-term impact.

Fair4All Finance benefits from being a not-for-profit organisation. Its funding is deemed to be public money and seen (as set out under Issue 4 above) as 'of Government', allocated under the direction of the Secretary of State in DCMS and distributed by the Lottery, yet independent. The context of rapid growth from scratch, complexity, uncertainty and public funding results in:

- An organisation that presented its Theory of Change before it began operating, followed by an iterative process of testing, to ensure DCMS had a high degree of confidence in the proposal. Fair4All Finance published its Affordable Credit Theory of Change in February 2020 after convening over 100 organisations[15].

- Resources and structures that had to be in place from the beginning to handle public money according to public sector processes, in contrast with most organisations who will begin more organically.

- An organisation tasked to develop rapidly the ability to source, fund and research financial inclusion in a way not seen before.

- Ongoing demonstration to DCMS that the organisation remains fit for purpose whilst its original hypotheses have had to evolve.

Fair4All Finance has 'many masters'; including DCMS, HMT, the OT and the Lottery. The OT could support Fair4All Finance as it navigates the many accountabilities and reporting requirements that this brings.

Rapid growth

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Over the last three years Fair4All Finance has grown its systems, structures, staff and skills to:

- Support growth in, and access to, affordable (for-profit and not-for-profit) finance and develop relationships with the mainstream financial sector, Government and regulators.

- Support community finance including developing fundamental management tools and templates, open-banking technology, income maximisation protocols for enterprises to manage business risks, and support in governance matters and with toolkits.

- Engage in consumer and economic research, now informing high-level roundtable discussions taking place.

The staff team grew from a handful to 33 posts/30 FTEs. Interviewees stated that the team has become credible over the last three years, bringing high energy, richness to discussions, a human approach and straightforwardness, whilst avoiding dryness. Fair4All Finance has established a strong investment team over the last three years, committing 85% of its allocated funds.

Future staffing model

The organisation is only three years into its journey and is working in a rapidly developing context. It needs to remain agile and able to flex. The recruitment of a relatively large permanent staff team may make it more difficult to respond effectively to change.

Fair4All Finance has chosen to increase headcount in response to the resource gaps in organisations it is funding, for example in marketing and technology support, rather than funding it externally. Interviewees across the spectrum (commercial and Government as well as community finance) were repeatedly surprised (many used words like 'shocked' and 'astonished') at the size of the organisation. CDFIs, CUs and others commented on Fair4All Finance's 'resource luxury' (compared to their stretched organisations) and the impact this has on Fair4All Finance's mindset. Some interviewees felt Fair4All Finance had a responsibility to be as 'lean' as it could be. In the Panel's view Fair4All Finance should be more transparent on how the team is structured and welcomes the detail provided under "Organisation and Resources" above.

Others commented that, given the number of staff, it was surprising that there are few specialists — for example, experts in insurance and community finance. Overall, many speculated that this might be a consequence of Fair4All Finance's testing multiple ideas in its early stages, but felt it now needed to focus on delivering a few key priorities supported by experienced staff.

Fair4All Finance lives with the tension of possibly receiving further dormant asset monies, which could well require the organisation to scale up. Any expansion would face increasingly difficult talent acquisition and retention, due both to market conditions and limitations on the level of salary that could be offered. Interviewees suggested approaching banks and others for secondees to bring in needed experience; particularly those who would be able to network at a high level across the sectors represented.

As the organisation grows, the Panel would suggest Fair4All Finance revisits the way it considers impact assessment and publishes learning; possibly by working with an external contractor.

'Top-down approach' feels culturally similar to other dormant assets companies

As an organisation utilising dormant assets, Fair4All Finance is seen by many interviewees as having a family resemblance to other such organisations. Most commented that the process for applying for investment/funding and a sense of a 'top down' approach, speaking an alien language, was particularly reminiscent of Big Society Capital. Similarly, it was observed that the

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nature of dormant assets themselves is different to any other form of financing such as banks, investment houses, commerce, Government and philanthropy. Dormant assets result from members of the public losing track of their bank accounts, pensions etc. Interviewees felt the deployment of this new form of financing requires a different approach to traditional sources and Fair4All Finance has an opportunity to consider new and innovative ways of deploying capital rather than using commercial sector practices.

A repeated theme was the perceived lack of lived experience at Board and staff level, both in understanding the difficulties of working in a small under-resourced/overstretched organisation and being a customer in financially vulnerable circumstances. The Panel understands that Fair4All Finance does have Board and staff with this experience. Interviewees from mainstream finance expressed surprise that the Board did not include an experienced retail banking operator, given its focus on bringing in mainstream finance. Interviewees from community finance similarly commented on the seeming absence of experience of their businesses.

It is easy — but insufficient — to dismiss these concerns as 'not factual' or resulting from a 'communication gap', but that would be to miss that these are the realities experienced by essential partners.

Mismatch of expectations with CDFIs' and CUs' resourcing

Many interviewees felt a resource mismatch between the Fair4All Finance team and the organisations it is funding. From Fair4All Finance's perspective, the disparity in resourcing is justified to allow it both to fill the capability gaps in the sector and carry out other work. CDFIs and CUs mentioned the constraints and limitations that they face and commented that Fair4All Finance needs to understand these better, particularly when setting its expectations of these organisations.

CDFIs and CUs have been happy to engage with Fair4All Finance but there was a sense that this takes a lot of their scarce resources — for example, producing information and opacity as to its subsequent use. Interviewees saw a role for Fair4All Finance which goes further than providing funding. Several suggested a Fair4All Finance 'liaison' postholder could bridge this gap, supporting reporting, marketing and applications for funding (all areas CDFIs and CUs struggle to resource). In addition, interviewees asked that Fair4All Finance becomes more transparent about 'what they are all doing', while making the benign assumption that much needed to be done to support the sector.

Investment Team

Interviewees commented that the investment team prized academic and corporate experience over multi-year experience of those working in the sector, despite the fact that many Fair4All Finance people come from that sector. Interviewees stated that Fair4All Finance due diligence processes were similar to those of banks, and that small affordable credit organisations do not have the resources to be able to supply information within the timelines set by Fair4All Finance. The process was felt to be very slow, one-sided with little co-design and particularly unclear around when decisions would be made. However, interviewees accepted that there is no other funding source for affordable credit organisations following 10 years of underfunding in the sector. Community finance organisations remain very fragile. They need significant new financial support, as well as the scaling-up, focus on growth and capability building identified by Fair4All Finance, to equip organisations for commercial capital.

Many interviewees identified a disconnect between the Board and staff at Fair4All Finance that leads to decision making delays. One organisation was referenced as waiting 18 months to be turned down for funding. Interviewees' experience was that decisions had been delayed once

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proposals went to the Board. Investees felt Fair4All Finance did not understand how much risk their organisations were taking in receiving investment to try to grow their organisations.

Opportunities to explore

Given the challenges of the first years since Fair4All Finance was established and its relative youth, it is unsurprising that most of our interviewees raised questions about the organisation and culture. In our view, leadership will benefit from considering:

- Whether the organisation size, shape, focus, collaborations, opportunities for secondment and out-sourcing requirement is appropriate? — given the uncertainties in which it is operating, ensuring it remains flexible and able to change focus, while coping with difficulties in talent acquisition and retention.
- How the perceived 'lived experience' shortfall can be bridged? — experience within the staff and Board team of community finance and of the need to respect the challenges of poorly resourced organisations; and similarly, how the perceived need for retail banking experience can be addressed?
- Whether the investee experience be improved? — by genuine co-design of programmes, by considering the resource requirement needed for due diligence in a small organisation, together with better communication of the length of time taken to understand investee businesses and make funding decisions.
- How to provide clearer and more accessible information on staffing structure and how resources are being utilised?
- How to improve capabilities in Fair4All Finance's impact assessment and publishing learning — possibly by investing in an external contractor?

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Appendices

Appendix 1 – Terms of Reference

Purpose

To examine the effectiveness of each organisation within the TopCo Group in delivering against its respective Objects/Mission, as set out in its governance documents

Output

A brief, high level report, envisaged at less than 20 pages, which is intended to be focused rather than comprehensive. The review team will identify (i) the organisation's key achievements and successes; and (ii) strategic issues where the review team believe further consideration is required. The Chair of the reviewed OpCo will be expected to offer a public response.

The review will <u>not</u> attempt to offer specific recommendations to the organisation's management.

Data

Primary data: interviews with key stakeholders; open call for evidence; interviews with key staff.

Secondary data: governing documents / articles of association; internal policies and procedures; published financial accounts; published impact data.

	Social impact	Systems Change	Operational effectiveness	Organisation specific
Potential guiding criteria	Does OpCo have a clear and ambitious strategy for achieving social impact which is in line with its mission? Has effective execution of this strategy delivered social impact? Do both the OpCo's mission and strategy meet a need which is not adequately met by alternative interventions?	Has OpCo articulated a clearly stated Theory of Change in line with its mission? Does OpCo's Business Plan reflect the Theory of Change? Has OpCo attracted other funding or other resources through partnerships to leverage its activities?	Does OpCo have well functioning governance structures? Is the organisation operating with appropriate levels of transparency? Are the operating costs of OpCo in line with comparable organisations?	What are the particular challenges faced by OpCo? How well has OpCo responded to these challenges? Is the organisation prepared for changes to the conditions it may face in the future?
Potential points to consider	OpCo's approach to measuring the impact of, reporting the impact of, and learning from its programmes [OpCo's ability to deliver sustained improvement in the social issue; its approach to longevity (i.e. spend down vs evergreen)] [OpCo's approach to making returns on programme related investments]	OpCo's role in the wider ecosystem Evidence for the System Change that OpCo has achieved The partnerships that OpCo has formed, resources OpCo has leveraged, and funding it has unlocked for use on the social issue	OpCo's approach to its operating costs OpCo's pace of deploying funds OpCo's ability to identify and manage risks (appropriate risk appetite) OpCo's controls and procedures around deploying funds	To be determined by the review panel, in association with TopCo board members and key stakeholders

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Appendix 2 – Reviewers

Keith Leslie

Keith is Chair at Samaritans in UK and Ireland and author of A Question of Leadership. He is a former partner at Deloitte LLP and McKinsey & Company.

Claire Brown

Claire sits on the Advisory Board of Cazenove's Charity Authorised Investment Funds and is a trustee of various charities including the Barts Charity. Formerly she sat on the Investment Committee of Comic Relief and was the Finance and & Investment Director at the Esmée Fairbairn Foundation.

Danielle Walker Palmour

Danielle is currently Director of Friends Provident Foundation, a capitalised charity providing grants, investment and strategic coordination in support of a fair economy. She sits on the Board of the National Lottery Community Fund and other national charities.

Fiona Young Priest

Fiona was formerly the Head of Finance and Resources at the Tudor Trust and before that the Director of Finance and Resources at Crisis UK. She is co-author of the National Council for Voluntary Organisations' Good Guide to Financial Management.

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Appendix 3 – Interviewees' organisations

Association of British Credit Unions Ltd. (ABCUL)
Aviva
Back bench MP (Con)
Barrow Cadbury Trust
Big Issue Invest
Big Society Capital
Church of England
Citizens Advice
DCMS
Enterprise Credit Union
Fair By Design
Fair Finance
Fair For You
Fair4All Finance
Good Faith Partnership
Great Western Credit Union
HM Treasury
Hull & East Yorkshire Credit Union
Irish League of Credit Unions
Leeds Building Society
Lloyds Banking Group
Moneyline
National Westminster Bank
Nationwide Building Society
Provident
Responsible Finance
Salad Money Limited
South Manchester Credit Union
The Esmée Fairbairn Foundation
The National Lottery Community Fund
Toynbee Hall