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(Fin)Tech for good: how innovative financial services solutions are improving financial inclusion

Much has been written about the astonishing rate of change within the financial services (FS) sector. The rapid proliferation of fintechs, the rise of banking-as-a-service (BaaS), and the many innovative new financial products and services on the market are remarkable, and to the tech-savvy and financially stable reader, this can only be good news, right?

Sadly, however, this is not the case for everyone. For the unbanked, underbanked and financially vulnerable populations within the UK, the fintech revolution might seem like news meant for somebody else. For the 12.5M UK adults with little to no confidence in their ability to manage money, or the 1M who do not have a bank account, open banking and BaaS solutions seem like distant, irrelevant developments. This, however, is anything but true.

Increasing financial inclusion within the UK is essential. People who lack the means of accessing the best financial and banking solutions available to them are less able to improve their own financial wellbeing or withstand the shocks of unforeseen complications like COVID-19.

14M people – or 28% of adults – experienced a *direct negative impact* on their income due to the coronavirus pandemic (as of May 2020), so the proportion of those financially excluded could end up increasing rather than decreasing, and in a country that sees itself as a leader within the financial world, this is unacceptable.

Having access to a greater range of versatile and fairly priced financial services can offer benefits to everyone, and improved information and knowledge sharing about these benefits can lead to more people achieving improved financial wellbeing. In this way, the new generation of fintechs and the agile, customisable services and products being made possible by BaaS and open banking have the power – and the obligation – to help make financial inclusion a reality for everyone.

How they can help

One of the key causes of financial exclusion is standardised credit scoring factors, which can be a barrier to accessing funds. Judging everyone against the same yardstick fails to take into account the outlying factors that affect the financial health of certain groups and individuals.

> *Positively, fintech has the power to lower costs, increase speed and accessibility, and allow for more tailored offerings.*

Providers today can offer an upfront online decision and release the cash within minutes, empowering customers to check whether they’re eligible, and select the right loan for their situation in no time. Fintech also allows for alternatives to traditional lending options – for instance, companies that are able to work closely with startups who have not yet built up the track record of business operations that is often required by a bank.

Moreover, the new tranches of financial offerings being launched by innovative fintechs and non-financial companies through the use of BaaS means that everyone has access to more options when seeking out financial products.

Since these are no longer the exclusive property of large banks and providers, fringe demographics that were traditionally unserved by these actors are more likely to be included.

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Open banking has an important role to play in these developments. Not only can smart solutions that are powered by open banking software and APIs help people with limited knowledge of the FS space to find products better suited to their needs, but the interconnected datasets that are generated as a result can also help providers to identify groups that are underserved and provide a roadmap for alternative solutions that can be designed to meet their needs.

This is why it is so important that prominent actors within the FS and fintech space are vocal about the importance of financial inclusion, and keep it in mind as a priority when stating their missions and values. Pricing is a critical element of financial inclusion as well, with many FS products actually proving more expensive to those with lower scores and less capital. By serving smaller groups with tailored products, fintechs can set pricing that allows people to improve their financial wellbeing without hobbling themselves.

Case study: Fronted

The good that can be done by these products is not just hypothetical – companies that embody this benevolent ideal are currently operational and changing lives as we speak. Given that *19% of UK adults* have less than £100 in savings, coughing up one-to-two months' rent as a deposit can be a major obstacle – particularly when moving between properties with a previous deposit held in stasis.

For those without access to superior services, they may be forced to turn to payday loan providers, who might charge exorbitant interest rates in turn for providing a short-term cash boost. Enter neo-lender *Fronted*, a socially minded fintech who have identified low-capital renters as a group in need of a better option. By serving a smaller demographic, they are more aware of the specific needs and challenges that this group experiences, and are able to lend the funds they need at more favourable rates as a result.

> *This is a perfect example of fintech for good – standing up for the excluded and underserved by*

identifying a need and creating a tailored product to suit it.

Given the rise of BaaS and its ability to generate new products faster and more easily than ever before, companies like these can continue to create worthwhile new services that bring more people into the FS space and improve the financial health of those who would most benefit from it.

The good news is that it seems to be the way things are going. Yobota's most recent survey showed that almost two-thirds (64%) of UK banking and financial services firms plan to invest in products that drive financial inclusion in 2022. I hope we see more companies, large and small, embracing this idea and bringing as many people into the fold as possible – financial wellbeing contributes to peace of mind, which is something we should all hope to achieve.

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