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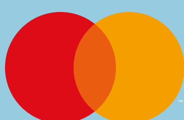


Low-Cost, High-Tech Credit

Solving financial inclusion through innovation

FOREWORD

I've been excited about this report because I have been urging the world of payments to look towards the world of credit as a source of solutions and insight for some time.

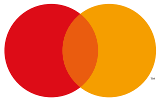
Our payments community sets out to reduce friction, cut cost and add value to payments everywhere. So for those unable to access the full gamut of value available alongside a payment, because they are largely excluded from the digital or financial world, lending can provide them with value of a different type.

But too often, those excluded pay most to borrow. So it's time we reviewed what is available to those seeking to borrow in a convenient, affordable way, without needing to always opt for small amounts of expensive credit designed largely with the interests of the credit provider in mind.

We're grateful to the ten experts from the lending industry who generously took part in interviews for this report, each presenting a different perspective on issues related to credit. You can access these interviews through links in the report below.

I recommend this report to you, while sending my thanks to the author, Jos Henson Gric, those on the EPA's Project Inclusion team, and at Mastercard and The Inclusion Foundation CIC who have helped to make this possible. When the right companies provide products designed with the excluded in mind, credit really does make payments add value.

Tony Craddock
Director General
Emerging Payments Association



When developing work programme ideas in early 2020, Project Inclusion discussion focused on the access barriers to banking products. We covered whether products for older and younger age groups were designed correctly, whether we accounted for the lived experience of groups we targeted, and whether options like subsidised bank accounts would work. In other words – a conventional conversation about financial inclusion.

My esteemed colleague Neil Harris put to our Project Inclusion group: "At some point, our sector has to earn its keep." That is, fintech needed to do more of the standard practice of lending deposits to develop a sustainable revenue stream. He reflected on an element of our dialogue that troubled us all – we were pontificating about life circumstances we had never experienced. Hence, we would misdiagnose problems and revert to paternalistic views of financial services – including the provision of credit.

Yet credit offers value for everyone, regardless of circumstance, and when effectively designed, managed, risk assessed and regulated, it can be transformative. Neil's comments predated the pandemic, but the increased distress COVID has visited on families and businesses since shows he was typically prescient, as affordable credit has helped cushion its impact and is helping the recovery.

We all appreciate that credit providers have a tough job on their hands given the impact of a less well-regulated market a decade ago. However, these excesses never removed the need. It is there, perhaps more urgent than ever. Our industry is laying down way markers to a more sustainable and affordable future. This report profiles some of them with the intention of stimulating the growth of a necessary market.

Josh Berle
Business Development Director
Mastercard

Our mission at The Inclusion Foundation is to ensure financial inclusivity and financial empowerment for all.

To put this into context, our studies show that there are 13m households with low financial resilience in the UK today, with 31% of them experiencing a decrease in household income.

With unemployment at 5% today in the UK, and projections for this number to rise to between 9.7% - 13.2% depending on the various scenarios of how COVID-19 measures will take effect throughout 2021-22.

Regardless of the severity, the socioeconomic outlook for 2021-22 is forbidding, with unemployment rates rising significantly. This means that there will be more people in vulnerable situations who are at risk of becoming financially disengaged out of mainstream lending, and therefore seeking credit provision from alternative lenders.

There has been an enormous amount of innovation already in the unsecured credit arena during and following the pandemic. Buy now, pay later is one industry that has grown exponentially in the last year and now represents £2.7B of consumer spend in 2020 in the UK alone. The challenge is that 1 in 10 of these users have debt in arrears with other credit providers.

At the Foundation, we believe that innovations in FinTech can play a huge role in providing access to alternatives for short-term unsecure lending, whilst supporting the new regulation needed to ensure continued consumer protection and transparency of the cost of credit.

In partnership with Project Inclusion at the Emerging Payments Association and Mastercard, this is where we lead the debate within this industry report. The report aims to dive into the common myths around affordable credit and to provide a focus on our industry's journey towards "Inclusive FinTech".

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INTRODUCTION

In 2021 over 10 million UK adults can't access affordable credit, a problem known as financial exclusion.[1] Typically, these are people on low income who inevitably struggle to build financial resilience in the form of savings and insurance. This in turn makes them especially vulnerable to a loss of income or other financial shocks such as from illness, unemployment or household repairs.

Without access to affordable credit, one event can send a person and their family into a spiral of debt that can take years to recover from.

As our economy increasingly moves towards flexible 'gig-economy' jobs and zero hour contracts, the need for access to affordable credit is now as essential as a bank account to manage irregular income cycles.

While over 70 per cent of UK customers now use Fintech services to manage their money, innovation in consumer credit - especially for the financially excluded - has been slow. But this is changing rapidly.[2]

This report provides an overview of how Fintech innovation is increasing access to affordable credit and tackling financial exclusion. ■

Financial Exclusion in Credit

LIMITED ACCESS	HIGH PRICES	DEBT TRAP
1 in 5 UK adults struggle to get credit[3]	People pay up to £1 for every £1 borrowed.[4]	14.2 million people at risk of problem debt.[5]

1 Provident Financial, Investors Annual Report and Financial Statement, 2016
2 Ernest & Young, Global FinTech Adoption Index, 2019
3 Policy Exchange, 'FinTech For All', 2020
4 FCA, 'PS14/16: Detailed rules for the price cap on high-cost short-term credit'
5 The Guardian, 'Covid fallout has put one in four UK adults at financial risk, says FCA'

CONSUMER CREDIT

Credit comes in all shapes and sizes - from overdrafts to mortgages - but in all forms it has the same core features. Lenders provide 'cash' to borrowers who agree to repay the full amount, plus interest, according to an agreed schedule.

Why People Use Credit

There are a huge number of ways that consumers and businesses use credit, but while the financial products and services have grown increasingly complex over time, the primary uses for credit stretch back thousands of years.[6]

Credit products provide:

- **Income smoothing** to cover a cap between income and expenses
- **Financial planning** to spread our large expenses, such as a house or car
- **A form of insurance** to cover unexpected expenses in place of savings

For the 10 million people that currently struggle to access credit, these three core reasons to use credit are just as relevant as for 'mainstream' consumers. However, the specific circumstances, amounts and durations that credit products are needed for differ considerably. This consumer demand for small-sum, short-duration credit products - such as to manage irregular expenses during a fixed monthly income cycle - is not unique to low-income consumers, but it is more important to their financial wellbeing.

Although this distinct segment of consumer demand represents 1 in 5 UK adults, it is the least well served part of the market and is poorly understood by mainstream banks and lenders.

Ultimately the lack of tailored credit products, both in product design and provider business models, are the root cause of financial exclusion from affordable credit.

Do People Need Credit?

Yes! In today's modern society affordable credit is not a luxury or a sin. It is an essential part of everyday life for all people, regardless of their income.

Recent shifts in the economy and employment mean that millions of people are now self-employed, on zero-hour contracts, or working in flexible 'gig economy' jobs, for companies such as Uber and Deliveroo.[7] At the same time, over 8 million households are being migrated to Universal Credit, the government's flagship welfare reform programme that merges six separate benefits into one single monthly household payment.

For some, this may make their welfare payments easier to manage, no longer having to track multiple separate payment cycles during a month. However, by 'fixing' a complicated inefficient system of irregular payments, Universal Credit is also imposing a new requirement on claimants to manage their income and expenditure on a monthly cycle and at a household level, rather than as individuals.

Objectively simpler and beneficial in the long run, millions of people have had to adapt their money and life around a different money cycle determined by welfare policy and benefit payments. This is a substantial change and not easy to manage all at once, especially as it is compounded by other changes such as longer wait times before the first payment is made under Universal Credit.

6 Business Insider, '5,000 year history of consumer credit' , 2017

7 Statistia, Self Emplyoment in the United Kingdom
The Conversation, 'One million Britons will be on zero-hour contracts by 2020', 27 Feb 2020
The Independent, Helping more than a million self-employed workers', 27 Jan 2021

The lack of access to affordable credit to cover this gap was cited as a major problem and reason for the rise in debt and housing arrears amongst claimants after moving over to the new system. Examples like this make it clear that everyone needs access to affordable credit. Some will be subsidised under programmes like the DWP's Social Fund which provides almost a million people with affordable interest free credit. But many still fall through the cracks and this is where inclusive Fintech can help most.

How Much Does Credit Cost?

Credit should cost what it costs to produce and with a profit margin that incentivises capital and talent into the sector to run those lending businesses.

The theory

In a well functioning financial services market the cost of credit is no different than for any other good or service. There are underlying costs to 'make' credit costs to ''provide' credit, and then a minimum level of profit that will incentivise providers to invest their time and energy in pursuing that product line rather than doing something else. In a truly perfect market the level of profit made by the lender - taking into account all of their costs - would, theoretically, decrease to zero over time. This is because new providers who are willing to accept a lower level of profit, would enter the market and undercut them to the point of market saturation when all providers earned zero profits. This is known as 'perfect market equilibrium'.

The reality of credit pricing

Obviously the world we live in today is nothing like the theoretical world described in economic textbooks, with rational consumers and perfectly competitive markets.

The fundamentals are, of course, still true in that price is determined by three main components of any lending business:

- **Cost to 'make' credit** is predominantly the cost paid by a lender to access the funds they can make loans with. In the case of an individual lending their own money the cost is zero, for banks it is the interest they pay on savings accounts and for non-banks it is the returns paid to investors who they are 'borrowing' money from to 'make' loans.
- **Cost to 'provide' credit** is the costs incurred by a lender to pay for staff, to run their website and office, as well as banking and legal services.
- **Profit margins** made by the lender, after all incurred costs - that make it worthwhile for them to operate the business and provide credit. ▸

There is one aspect of consumer credit that does differ and make it distinct from traditional goods and services, such as clothes, food or a haircut. With every credit product, whether a mortgage or a payday loan, there is a risk of loan defaults. This is when a loan is made and money paid out to the borrower, but the loan is not then repaid together with the agreed interest charges on time and according to the repayment schedule set at the time the loan was made.

Technically this issue is not unique to the provision of credit products. With any sale of goods or service there is a risk that the full payment expected will not be received by the seller. When an item is returned to a shop within an agreed period of exchange, but cannot be resold for its full value, the seller loses money. If credit is embedded indirectly within the provision of a service, such as painting or gardening, there is always a risk that the buyer will not pay for the service once the work is complete.

As a house cannot be 'unpainted' and a lawn cannot be 'uncut', the provider has lost their time and opportunity to take on other jobs, with the high cost of legal enforcement for non-payment often making it simply not worthwhile to pursue the buyer for the debt in the courts.

Risk based credit pricing

As a loan is a purely financial transaction, the risk of non-payment for providing a loan is inevitably greater than the risk of non-payment for high street retailers. Certain credit products, namely those secured in some way against a borrower's property - like a mortgage or hire purchase agreement - reduces the risk of financial loss for a lender. In the event that repayments are not made on time or in full, the lender can seek to seize the house or car as compensation.

For other types of loans, such as a credit card, overdraft or payday loan this is simply not the case. If a loan is not repaid, whatever the borrower's reason or financial circumstances, the result is that the lender incurs a financial loss. This is typically a mixture of interest payments owed under the loan agreement as well as part, or all, of the original loan amount. As interest rates are typically a fraction of the total loan, the latter is usually far greater and therefore only partly offset by whatever interest payments were made prior to the loan default.

Simple mathematics illustrates the impact that even low levels of loan defaults have on the business model and commercial viability of the lender's business model.

Impact of loan defaults

This simple example below shows that, **if just five out of every 100 loans made by the lender default,** the total losses are larger than the interest earned from the 95% of loans that are paid back. This is before accounting for any of the costs incurred by the lender for staff, their website, marketing activities and raising funds from investors, in order to make new loans.

Understanding the basics of how credit is used and priced is essential to developing innovative Fintech solutions to financial exclusion. ■

Example - Impact of loan defaults on a Lender's business model

TOTAL CREDIT	£1,000	£1,000	£10,000
# of Borrowers	10	10	100
Loan Amount	£100	£100	£100
# of Loans Repaid	**10**	**9**	**95**
Repayment	£100	£100	£100
Interest Paid	£10	£10	£10
TOTAL Repayments	**£1,100**	**£990**	**£10,450**
# of Defaults	**0**	**1**	**5**
Amount	£0	£100	£100
Unpaid Interest	£0	£10	£10
Total DEFAULTS	**£0**	**£100**	**£500**
NET Profit / Loss	**100**	**- £10**	**-£50**
Profit (%)	**10%**	**- 11%**	**-0.5%**

FINANCIAL EXCLUSION

The UK is one of the world's most prosperous nations in the world, leading the digital evolution of government, economy and society. Success has been driven by London's financial sector for over 200 years and its continual ability to drive innovation in merchant shipping insurance, global commodities trading and in consumer credit.

Yet in 2021 there are still high levels of financial exclusion in banking, credit, insurance and savings. There are few products and services that are designed specifically for the 10-12 million underserved consumers. A lack of access to affordable credit has major consequences for low-income consumers, limiting their social, economic and financial opportunities.

The knock-on effects mean people without access to affordable credit are at greater risk of debt, mental health issues and can pay a poverty premium of £485 a year for basic everyday essentials like energy bills, food and transport.[8]

Impact of financial exclusion

- Low financial resilience
- Increased reliance on (high cost) credit
- High risk for problem debt
- Pay a poverty premium
- Increased risk of mental health issues and unemployment

Why People Can't Access Credit

The reasons why people cannot access affordable credit are rooted in the fundamentals of how credit works, is priced and how providers operate and design products and services around their business model.

- **High prices** mean credit products are less useful and more harmful, causing consumers to **avoid credit, relying instead - if possible - on meagre savings, insurance and loans from friends and families.**
- **Poor quality data and customer insight** means that firms are unable to effectively assess applications and control the risk of default for their entire loan portfolio. On average, high cost lenders reject around 50% of loan applications, which suggests they are not managing to reach their 'target' consumers.[9] This is an expensive deficiency for lenders, as the costs of each rejected loan is ultimately passed on in the form of interest charges within each loan that is approved.

Example - the cost of poor data and rejections

If **two borrowers** both apply for a **£300 loan,** with interest 'costs' of £300, only **one** is accepted, but **the lender** has **paid £25-70** for **each** application.

This is equivalent to almost half the costs paid on the approved loan.

8 The Guardian, 'Britons without a bank account 'pay a £485 poverty premium
9 CMA, 'Payday lending market investigation'

- **Product design amongst non-standard lenders serving the millions of non-standard credit customers is woefully inadequate,** failing to provide what is most needed for all consumers - a means of controlling and managing income cycles and irregular expenditures. Overdrafts or credit cards are perfect for managing money throughout the month and are used regularly by non-financially excluded customers. The cost of this borrowing is minimal compared to the cost of unsuitable fixed loan options available to the 10+ million that cannot access affordable credit.[10]
- **Business models most commonly seen in the financial sector are tried and tested, known to be profitable for investors over the long term.** They are also entirely unsuitable for providing affordable credit to low income customers. Mainstream banks, for example, rely on lending out customer deposits, generating sufficient revenue to pay interest rates on savings accounts, cover all operational costs and deliver an attractive return for investors. This means people with low income levels will always be a secondary priority as, within that business model, they are a high risk, low reward customer demographic.

Why People Get Into Debt

A common misconception is that low-income people lack money management skills, which is either partly or largely the cause of their difficult financial circumstances and any debt problems.

The importance and necessity of 'financial education' as a prerequisite to the responsible and effective use of financial services was further solidified when it was included as part of the national curriculum.[11] The impact of this has yet to be robustly evaluated, not least because delivery is coordinated by local schools. Furthermore, schools receive few additional resources or specialist training when it comes to financial education. This leads to widely varying quality and focus on the PSHE to be in some way 'financially educated'.

10 Policy Exchange, 'Fintech for All', 2020.
11 House of Commons Library, Financial and enterprise education in schools', Nov 2016.

In contrast, there is extensive research and evidence around people's attitudes towards money, their confidence and decision-making when using financial services. Overwhelmingly this has shown that the psychological factors, biases and often suboptimal decisions people make around

Example - Psychology of Gambling

Perhaps the best way to illustrate this is when looking at the average spending across income demographics on gambling in the UK. Objectively and rationally, there is no financial benefit to any gambling activities, as the odds are always weighted towards player losses. The widespread prevalence and size of the gambling industry within the UK indicates the motivations for people choosing to gambling are therefore not entirely rational.[13]

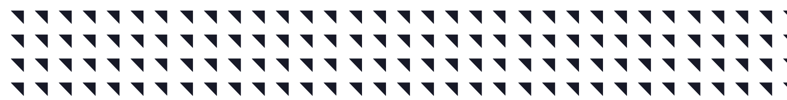
Aggregate data on player spending and losses - roughly equivalent to profits earned by casinos and online gambling sites - highlights that this illogical financial behaviour is prevalent across the income deciles. What differs relative to income is the amounts spent on gambling, which are linked to the psychological aspects of what makes gambling exciting for players, as the amounts won and lost need to be 'meaningful for each individual'.

money and their use of financial services, especially in relation to credit and savings, are largely unrelated to a person's income.[12]

A major driver of debt is the lack of access to affordable credit

Without access to affordable credit, people struggle to manage their income cycles effectively, inevitably resorting to inappropriate and overpriced consumer credit products, if available. When repeated, it is highly likely to worsen their financial situation over time.

Millions live within this vicious circle with missed loan repayments, defaults, missed bills and rent payments all further restricting their access to credit. Use of flexible and affordable credit can help to avoid missed payments on rent and bills, with the cost of credit decreasing over time with regular repayments. For those without access, their use of high cost short-term fixed car loans with costs so high - £1 for every £1 borrowed - that it almost seems rigged, does eventually harm their financial situation. ■



12 FCA, 'Financial Lives Survey'', 2017 & 2020 editions
13 Nature Human Behaviour, 'The association between gambling, financial and social outcomes', 2021

INCLUSIVE FINTECH

The launch of the Barclaycard in 1964 as the world's first credit card outside the U.S., solidified the increasing role of technology as the driver of success in financial services. This pace of innovation has only increased ever since. There are currently over 1,600 Fintech firms in the UK - including 17 of the top 50 global firms - with the sector employing over 76,500 people and generating over £6.66 billion in revenue each year. [14]

Yet the success of the Fintech sector overall has only recently featured prominent firms that can be categorised as 'inclusive Fintech': startups that design products and services specifically for financially excluded consumers and pioneer innovative technology to serve them better and at a lower cost.

Technology Powers Inclusion

It is often assumed that the move towards digital technologies, whether in banking, credit or communications is inherently exclusive, leaving people behind who are unfamiliar with the latest devices or simply unable to use them effectively and for their benefit.

While there will always be some challenges in keeping pace with the latest trends, technologies and social norms, it is clear that technology can and does drive inclusion more than ever before. This has become apparent during the COVID-19 Pandemic and subsequent challenges of the lockdown restrictions that dictated a more digital way of life for everyone.

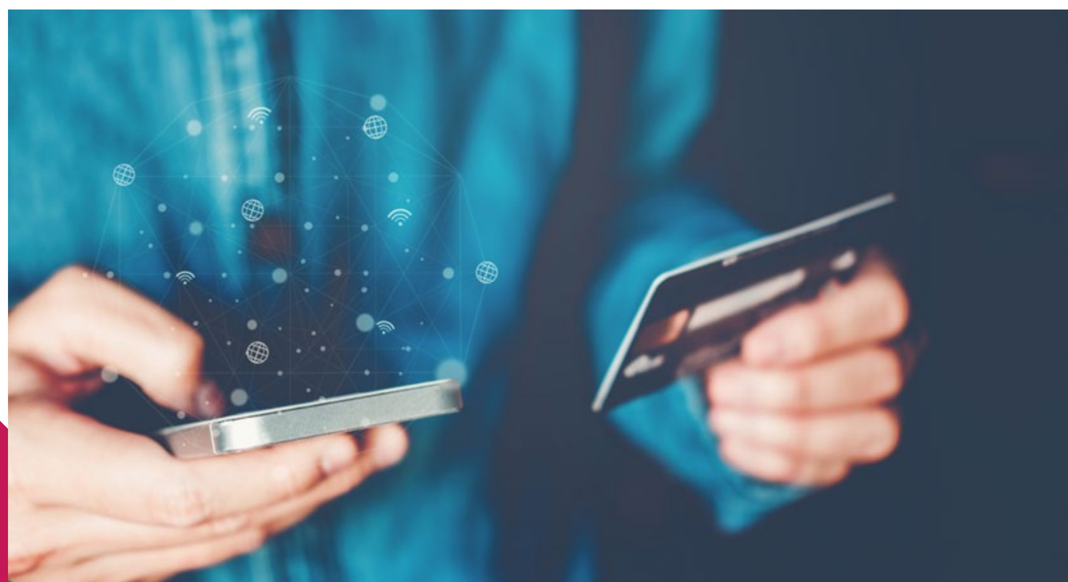
The inclusive nature of technology has been clear, especially for groups that are in some way disadvantaged in daily life, whether due to age, disability or economic circumstance. Greater efforts have been made to get older people online than ever before, to connect them with loved ones and tackle the loneliness of prolonged isolation. Access to online payments has increased amongst people and groups that were previously reliant on a rapidly disappearing and expensive cash infrastructure. And more apps and devices are being launched to help people with disabilities adapt to remote working, but whose benefits will be enjoyed long after offices reopen.

Indeed, many of the problems that previously were thought of as being caused by technology have shown themselves to be ones that technology is capable of solving. The key driving factor has been the consumer demand for these technological solutions, combined with a newfound willingness across society to adapt and try new things. Everyone was excluded by the pandemic, not just those on the margins of society. The universal need of everyone to work, communicate and access services online has driven progress, especially in areas where digital transformation lagged.

14 KPMG, 'FinTech Focus Report', 2020

The same principles are fundamental to understanding how inclusive Fintech solutions can increase access to affordable credit. Emerging businesses and apps in this area are benefitting from their ability to match the economic incentives for providers to solve these problems with a clear visible consumer demand for specific solutions.

Over the past 20 years the context around financial inclusion and access to affordable credit has not facilitated innovative solutions - an unintended consequence of well-intentioned public policy, consumer protection regulation and a distorted, uncompetitive market unable or unwilling to meet consumer demand. **As the Fintech market continues to develop with increasingly scalable, powerful backend services and white label technologies, it has unlocked a new wave of**



Fintech firms that are well-placed to shake up the market and make affordable credit available to millions more people.

Four Types of Inclusive Fintech

Broadly speaking there are four main categories and types of innovations currently seen amongst 'inclusive Fintech' providers.

Areas of innovation

- Insights and alternative data
- Assessing and decreasing risk
- Use-case based product design
- Alternative business models

In reality most of the new generation of inclusive Fintech firms demonstrate one or more, if not all, of these areas within their business and approach to providing credit to financially excluded customers. However, these categories are useful for understanding the primary focus of each firm and why their innovative approach can increase access to affordable credit. ■

MARKET OVERVIEW

The final section of this report provides a comprehensive overview of the inclusive Fintech Sector in 2021. This includes both established firms and emerging startups across all four areas of Fintech innovation in affordable credit. Companies named below have not been involved in this report and did not pay to feature as a case study, nor do they represent the entirety of the inclusive Fintech sector.

Customer Insights

What's the problem?

Automated credit decisions are essential to modern financial services, as they greatly reduce the time, cost and ultimately the price of credit. However, if the metrics, data and scoring algorithms are not tailored for the product or customer's real world behaviour and financial situation then they will be ineffective at making accurate lending decisions. The result is higher prices due to higher default rates, more 'false negatives' that exclude customers and ultimately a breakdown of the credit market as the inability to control defaults affects business models, the cost of credit skyrockets and a cycle of debt, decline and exclusion prevails.

Fintech is the solution

In order to develop accurate automated, data-driven credit scoring algorithms that can significantly reduce both the cost of credit for low-income customers as well as overall levels of financial exclusion, it is necessary not just to improve existing credit scoring algorithms, which were developed in the 1950s for US banks, but to fundamentally change the types of data collected about customers and understand their use of credit over time in order to create different, more accurate predictors of 'good' and 'bad' credit risk profiles. This type of 'alternative credit scoring' provides an entirely different customer insight and firms in the UK are building successfully off a range of innovations and international examples from countries where credit scoring and credit reference agencies are not well-established, which facilitated rapid innovation.

Credit building

These firms offer innovative customer-led solutions and routes for financially excluded consumers to proactively take actions that will increase their ability to access affordable credit score - either through regular savings, engagement with content or a combination of similar activities not recorded by a normal credit reference agency. This helps tackle the Catch-22 situation faced by those without a credit score and with no way to access any form of credit in order to build one.

LoqBox | **Portify** | **Bits**

Assessing and Decreasing Risk

What's the problem?

The inability of firms to accurately assess the risk of default amongst financially excluded consumers and differentiate between consumers using traditional credit scoring systems is one of the main factors that drives up the price of non-standard credit and reduces the usefulness of credit products for excluded consumers.

Fintech is the solution

Innovations in this area are the most diverse and have been accelerated in their development through the continuing implementation of open banking standards and the availability of tools that make connecting customers accounts and data sources a scalable automated process.

Innovative startups featured here are developing services that help to assess credit risk more effectively amongst financially excluded consumers and also decrease the risk of lending through the use of data which has a substantial impact on making that credit affordable.

Open Banking scoring

Lenders and startups offering alternative credit scoring services to lenders via scalable cloud based integrations, which are able to provide a significantly more accurate view of a customer's current and past financial position in terms of their transactions across all their accounts, rather than utilising proxy measures around repayment history of other bills and credit products that financially excluded customers may not have used or been able to access.

Credit Kudos | **Auden** | **Koyo**

Psychometrics

Inclusive Fintechs are innovating additional means of refining credit scoring processes through psychometrics and behavioural factors in scaleable ways that seamlessly integrate into a more traditional lending process and can help significantly in improving credit decisions.

Oakam | **Aire** | **Updraft**

Salary-backed loans

Inclusive Fintech startups are working to decrease risk via innovative ways of assuring loans will be repaid, allowing credit pricing to be decreased exponentially. This is done primarily through direct integration with payroll systems that mean loans can be made against wages already earned during a pay cycle, at a very low cost because the direct integration ensures repayment.

Wagestream | **Steadypay** | **Salaryfinance**

Account-backed repayments

Another area of innovation by inclusive Fintech firms is also focused on decreasing the risk of loan default and providing more useful forms of revolving credit products, as opposed to a fixed term loan. This is done via integration with a customer's bank account, and innovative technologies that allow repayments to be collected via an interactive customer-led approach that maintains engagement, repayments and avoids aggressive repayment levels that would cause financial hardship.

SafetyNetCredit | **Drafty**

Product Design

What's the problem?

The multi-faceted causes of financial exclusion from an affordable credit market that has only offered a limited range of expensive and unsuitable options to low-income consumers, which do not allow them to benefit fully from the use of credit.

Fintech is the solution

In this area, inclusive Fintech firms have pioneered innovative product designs that enable a lower cost of credit because they address the driving factors underpinning financial exclusion - risk assessments, cost of credit provision and a vicious circle of high priced credit that drives up defaults.

Flexible workers

An emerging group of Fintech firms have addressed these issues through product design, primarily to reflect the changing nature of employment and the rise of freelancers and gig economy workers. By designing products that are tightly linked to specific use cases, firms are able to gain additional customer insights that can reduce risk and the cost of lending, as well as structure credit in a way that is affordable, which ultimately helps to reduce defaults and cost.

Wollit	Trezeo	Fronted

Buy now, pay later

One of the biggest and fastest growing areas of inclusive Fintech seeks to integrate credit directly within retailers systems and customers' shopping experience. Typically offered as a 'split pay' product with 0% APR, these products provide low-income consumers with the benefits of credit that previously were only available on high price items for non-excluded customers.

Klarna	Clearpay	Laybuy	Splitit

Customer centric

Firms in this category are similar to those aiming to serve gig economy and freelance workers, except with product design aimed at addressing specific customer groups rather than specific categories of employment.

Jaja	Koto	Tymit

Business Model

What's the problem?

The causes of financial inclusion in credit are deeply intertwined and it is therefore difficult to unpick them or to resolve the issue unless the main drivers are addressed by the sector in a coordinated way. The business models that predominate amongst high cost lenders are perhaps the best example of this, in that the core business model of banking and push towards a certain type of automated lending process in the 1980s was a catalyst for widespread financial exclusion, yet the business models since then in the alternative lending sector have been largely determined by deficiencies in credit scoring and risk management that dictate how a firm can operate.

Fintech is the solution

There are two specific ways in which inclusive Fintech firms are addressing this issue, beyond the natural improvements made possible by innovations around credit scoring and reduced loan defaults. These are the growth of digitally connected, scaleable and more professionalised social enterprise models of lending and specialised models of Peer to Peer lending that are tailored to serving financially excluded customers in a way that is more affordable.

Digital community finance

Firms featured here are some of the standout leaders in the recent move to bring ethical models of financial services, such as community based CDFIs, to a national market via adoption of Fintech innovations around process automation, digital marketing and online lending systems. The key in this area has been their ability to retain their distinctive advantage in terms of their insight and trusted relationships with customers, while operating online and at scale.

Fair Finance	Just Borrow	Incuto	Fair for you

Social lending

Peer to Peer (p2p) lending and crowdfunding platforms are among the most diverse areas of Fintech, yet only recently have inclusive Fintech startups been able to innovate around mainstream social lending, to tailor it as a business model and product offer designed specifically for people in need of affordable credit. Their success is built on a combination of tailored product design and innovations around the core p2p business models.

Fund ourselves	The Money Platform	Stepladder

ACKNOWLEDGEMENTS

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Flex Money

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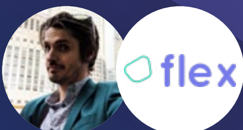

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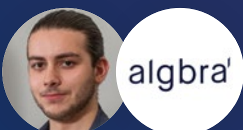

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in Emerging Payments Association

About the EPA

The Emerging Payments Association (EPA), established in 2008, sets out to make payments work for everyone. To achieve this, it runs a comprehensive programme of activities for members with guidance from an independent Advisory Board of 15 payments CEOs.

These activities include a programme of digital and (when possible) face-to-face events including an online annual conference and broadcast awards dinner, numerous briefings and webinars, CEO Round Tables, and networking and training activities. The EPA also runs six stakeholder working groups.

More than 100 volunteers collaborate on the important challenges facing our industry today, such as financial inclusion, recovering from Covid-19, financial crime, regulation, access to banking and promoting the UK globally. The EPA also produces research papers and reports to shed light on the big issues of the day and works closely with industry stakeholders such as the Bank of England, the FCA, HM Treasury, the Payment Systems Regulator, Pay.UK, UK Finance and Innovate Finance.

The EPA has over 130 members that employ over 300,000 staff and process more than £7tn annually. Its members come from across the payments value chain including payments schemes, banks and issuers, merchant acquirers, PSPs, retailers, TPPs and more. These companies have come together to join our community, collaborate, and speak with a unified voice.

The EPA collaborates with its licensees at EPA EU and EPA Asia to create an interconnected global network of people passionate about making payments work for all.