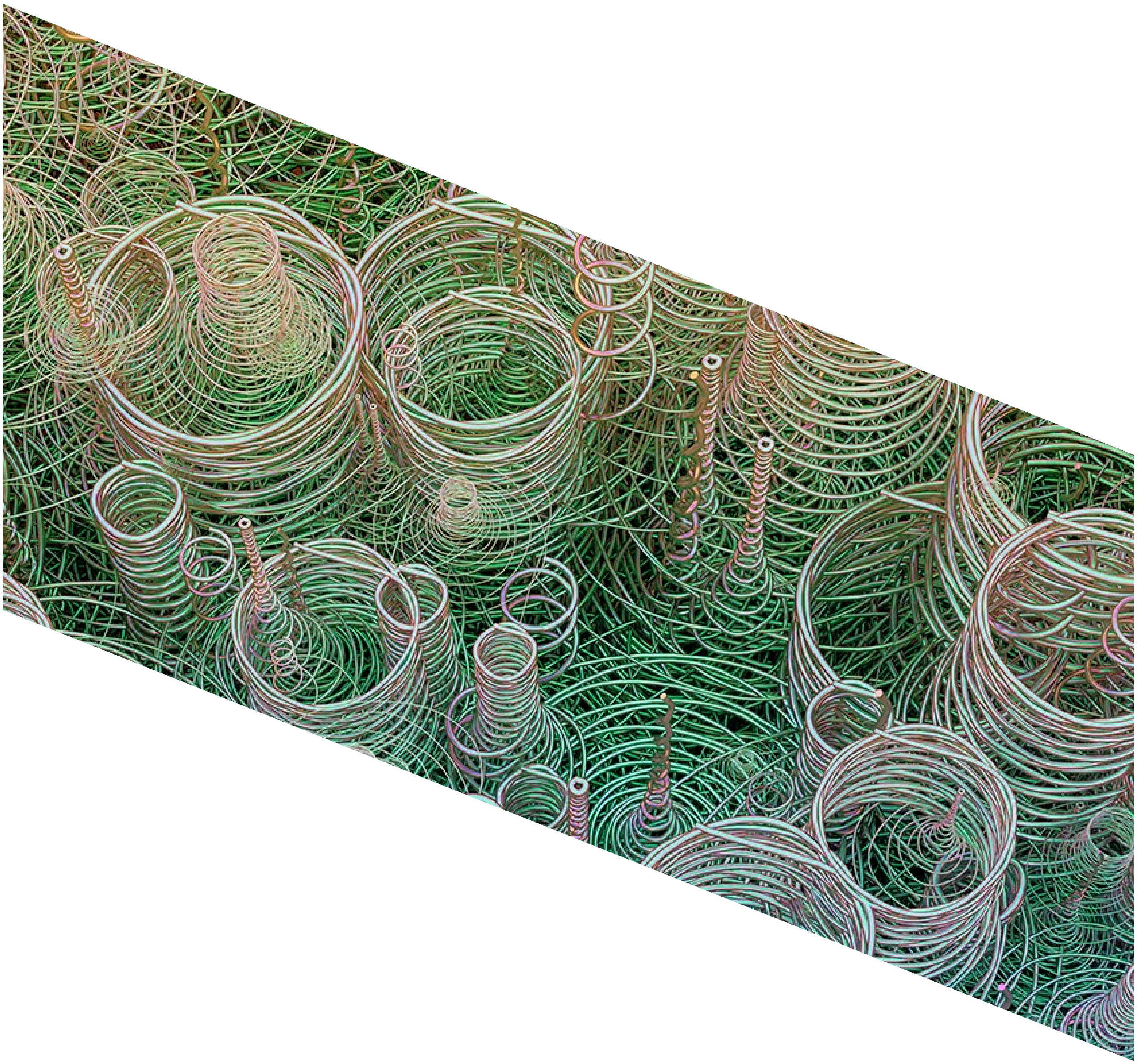
Shock absorbers

Innovating to boost financial resilience in Europe

Louise Marston

May 2021



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List of interviewees:

In Germany:

Caritas	Cornelius Wichmann
Institute for Responsible Finance	Hanne Roggeman
Fine Incubator	Franziska Weissbach and Helen Wrona
ING	Thomas Bieler
Bertelsmann Stiftung	Jake Benford
Independent Fintech Advisor	Christian Trumm
TechQuartier	Dominik Zborek

In France:

ADIE	Nicolas Hamel
Crésus Foundation	Jean-Louis Kiehl and Pauline Dujardin
Finansol	Jon Sallé
Banque Postale	Vanessa Ly and Florence Benistan
Nickel	Thomas Courtois
Cathay Innosquare	Daniel Balmisse
Impact Partenaires	Mathieu Cornieti
Finance Innovation	Maximilien Nayaradou
Finleap	Nicolas Montes-Edwards

In the UK:

Behavioural Insights Team	Pantelis Solomon
Fair by Design	Emma Steele
Fair4All Finance	Tom Lake
Finance Innovation Lab	Marloes Nicholls
Financial Conduct Authority (FCA)	Lucy Hayes, Flo Farghly
IEP Boost	Lydia Ragoonanan
IncomeMax	Lee Healey
Flex Money	Jos Henson Grič
Level 39	Ben Brabyn
Money and Pensions Service	Michael Royce
Nationwide	Gareth McNab
Nest Insight	Will Sandbrook

Nesta Challenge Prize Centre	Chris Gorst
Personal Finance Research Centre, University of Bristol	Sharon Collard
Responsible Finance	Theodora Hadjimichael
Salary Finance	Asesh Sarkar
StepChange	Peter Tutton
Tech Nation	Liam Gray
Trezeo	Garrett Cassidy
Toynbee Hall	Sian Williams

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Executive Summary

A crisis in financial resilience demands new approaches

We are in the midst of an unprecedented economic shock, creating a significant challenge to the financial resilience of households across the world. Across Europe, governments have put in place huge support for household incomes. Despite this support, pre-crisis financial vulnerabilities have crystallised as income shocks, reduced savings and increasing borrowing. Such a huge, co-ordinated hit to the financial positions of households demands that we look at new approaches to addressing these long-standing issues. This report considers the nature of financial vulnerabilities, existing systems of support and the framework within which innovation is nurtured. The breadth of the diverse 'financial resilience' landscape requires us to look at government support, the financial and fintech sectors, charities and social impact initiatives.

Financial resilience is composed of economic, financial and social factors

Financial resilience is often defined as the ability to cope with a financial shock, such as unemployment, a sudden illness or an unexpected cost, such as a car breakdown. Coping with such shocks is not exclusively about having access to money. Although having a savings buffer or eligibility for government benefits are important factors, access to affordable credit, good financial advice and social support are all components of financial resilience.

In After Shocks, the Resolution Foundation took a comparative approach to assessing not only what happened to financial resilience over the past year, but also the position of households when the Covid-19 pandemic struck, to provide a full picture of the dynamic impact of the current crisis on financial resilience. Households that entered the crisis in a weak financial position tended to see their financial resilience further deteriorate, increasing the urgency of addressing such vulnerabilities. This report is a companion to After Shocks, examining the available support to address these problems, and the potential for innovation to improve financial resilience in France, Germany and the UK.

Household income is the key underlying driver of financial resilience. Those in the lowest income groups have the weakest levels of formal financial assets to cover a reduction in income, and are more exposed to debt. Younger people are also less likely to have financial assets and are more likely to be financially vulnerable.

Although issues of financial resilience are relevant to the whole population, given the close link with income, this report focuses on ways in which innovation could help improve financial resilience for low-to-middle income households.

France and Germany are relatively resilient, but have growing problems

Both France and Germany started 2020 with higher levels of household financial resilience than the UK, and – particularly in Germany – have so far experienced less severe economic shocks.

While France had a similarly sized labour market shock to the UK, its benefits system has done more to protect incomes. But with an employment rate of just 66 per cent in 2019 (compared to 75 per cent in the UK and 77 per cent in Germany), there is a longer-term issue of unemployment, which has intensified during the crisis. France has taken a legislative route to supporting financial resilience, with requirements placed on banking institutions to create additional support and monitoring. Innovations have been supported by existing financial institutions, such as La Banque Postale, as well as being developed by start-ups.

Financial resilience is generally viewed as a less acute societal problem in Germany, than it is in both France and the UK. This is due to an effective social welfare system, a strong culture of saving, and more limited use of credit by households. Germany has had a smaller shock to employment and household incomes. But the bottom end of the income distribution went into the crisis in a weaker position, with 38 per cent of households containing no working adults, compared to 25 per cent in the UK and 28 per cent in France. The financial position of the lowest income households has deteriorated further, with 30 per cent increasing spending in the past year as the costs of spending more time at home have mounted. In addition, reforms to the welfare state and demographic changes are putting pressure on the German model, with significant problems emerging for those on the lowest incomes. However, Germany has both a significant fintech community and large charitable institutions that could offer capacity to undertake innovation on financial resilience.

There are well-known gaps in the UK support system for financial resilience

In the UK, financial health is a significant policy concern and is recognised as a society-wide problem. According to the Financial Conduct Authority, 12 million UK adults had low levels of financial resilience in July 2020.

There have been many reports, recommendations and initiatives on this issue in the UK over the past 20 years. The most recent example, the Money and Pensions Service (MaPS) UK Strategy for Financial Wellbeing, sets out a clear list of issues to address, including financial education, building up savings, reducing the use of credit for essential costs, increased access to debt advice and planning for retirement.

UK households have low savings – 45 per cent of working-age households had less than one month's income in savings in 2017, compared to 38 per cent in France and 40 per cent in Germany. British households are more likely than those in France or

Germany to borrow (although they are also more likely to hold property wealth). Progress had been made on some areas before the crisis, such as access to basic bank accounts and caps on high-cost credit. The Covid-19 crisis has intensified problems for many households, however: 50 per cent of those who have experienced an income shock have struggled to meet housing costs.

As lockdowns lift and support and forbearance schemes start to be removed, many of these problems will increase further, and become even more urgent.

Innovation is an underused tool for financial resilience

Innovation is a relatively underused tool in supporting financial resilience. The growth of fintech – technology used to enhance or automate financial services – in the past decade has demonstrated that there is potential for improved efficiency, better features and novel products that can produce benefits for consumers. So far, relatively few of these approaches have been used to improve financial resilience, or have addressed the specific issues faced by low-income households.

Although digital innovation certainly cannot address all aspects of financial resilience, and is not appropriate for some vulnerable groups, there is potential for it to be useful. Drawing on the lessons from fintech, as well as from the financial health sector, there is scope to improve access, help address underserved groups and reduce costs. This report attempts to identify areas of opportunity, gaps in provision and approaches that could merit further support.

Product and process innovation could increase access to more appropriate services

One approach to financial resilience is to encourage households to build up a savings pot that can substitute for income in an emergency. However, the lowest income groups are often unable to build up savings as housing and other essential costs frequently exceed income. New approaches and products are not necessarily an appropriate solution for these groups.

However, we have identified some aspects of the financial resilience challenge where product and process innovation, better use of data and digital tools could play a greater role. These include: the need to streamline and automate processes in debt advice organisations and affordable credit institutions; new approaches to assessing credit risk for those excluded from mainstream credit; automated savings products; money management using open banking data; and products to smooth incomes or better match outgoings with income. These approaches clearly do not represent a complete solution to issues of financial resilience, but, until recently, have been relatively underexplored.

A new group of accelerators and innovators is emerging to address these gaps

Strong fintech and social enterprise systems in the UK are starting to combine to create a growing financial inclusion sector. This is being supported at present by foundation impact investors, charities and government entities, such as Fair4All Finance (a non-profit created in 2019 by the UK Government with dormant bank assets). In France, innovation is emerging from community finance institutions and from charities, as well as from a small number of social fintech start-ups. In Germany, the innovation landscape is less developed, but there is a small but emerging focus on financial health from some fintech networks.

Some innovations target gaps in provision or services from mainstream finance, such as products for the self-employed, temporary workers, those with carers, younger savers or those with low credit scores. Others aim to change saving, spending or budgeting behaviour with better information, nudges and automated systems.

With appropriate support, and used in the right circumstances, digital innovation and 'fintech for good' can become an important new tool for improving financial resilience. New approaches will be urgently needed in the wake of the Covid-19 crisis, and the need to help rebuild financial resilience will persist long after the government support schemes have been withdrawn. This withdrawal risks creating a 'cliff edge' of financial resilience challenges, precipitating a new wave of household finance crises. The impact of the Covid-19 crisis has intensified problems that existed well before the pandemic. Addressing damaged household finances will need solutions that combine the best thinking of fintech, charity provision and social enterprise and impact investing.

Recommendations

- Innovation support aimed at financial resilience should engage with target users, to ensure that technologies and approaches are appropriate and relevant. Charities and frontline organisations can be key partners to bring this perspective into an innovation process.
- France has a range of innovations emerging from start-ups and existing institutions. Further cross-sector collaboration, as well as stronger connections to the growing fintech sector could improve provision further.
- Germany has fewer organisations that recognise financial resilience as a problem. Convening social and digital innovators with the large-scale charity networks might help to increase recognition of problems, and develop ideas that suit the German context.
- The UK has a variety of start-up support initiatives for financial resilience. Continued support for start-ups should be scaled up, including via partnerships with financial institutions, charities and employers.

Side-by-side comparison of financial health landscapes

	France	Germany	UK
Financial vulnerability	Generous benefits, a more equal pay distribution and limited over-indebtedness. Key issue is unemployment.	High savings and a strong welfare system mitigate financial problems, but low-income groups are particularly vulnerable.	Low household savings. Relatively widespread property ownership. Low earnings and low hours contribute to low incomes. Widespread use of credit.
Effect of the Covid-19 crisis	Unemployment, already a problem pre-crisis, will likely worsen further. Government benefits and programmes have mitigated effects so far.	Government interventions have limited the worst economic effects of the pandemic. Low income groups are more precarious.	Existing vulnerabilities have increased, with more severe effects on workers in specific sectors, and on renters.
Existing responses to financial vulnerability	Government provision mitigates effects. Charities cover issues of poverty and deprivation. Legal responsibilities to consumers have increased in the past decade.	Welfare system is strong, and large charities provide support. Little policy attention on this issue. A diverse banking system covers many financial needs.	Shrinking welfare support in the past decade. Charity provision stretched, but starting to explore more digital tools. Small community finance sector.
Resources for innovation	Both social investment and fintech sectors are growing. An established social investment system and community finance institutions.	Fintech and social tech are both significant sectors, but very separate. Fintech is not focusing on low-income households.	Impact and fintech investment available, but with little overlap. Fintech and 'tech for good' sectors provide new ideas and talent.

Conditions for innovation in financial resilience	New ideas are mainly emerging from existing banks and charities. Significant regulation to support financial health has been introduced in recent years.	Few connections between different sectors in this area. Limited recognition as a policy or social challenge. Fintech innovation is growing in other areas.	Increasing numbers of start-ups. Some banking institutions interested in innovation. Need for partnerships to create routes to scale. Some regulatory barriers for advice.
Emerging innovation landscape	Innovations mainly emerging from existing institutions. Little connection between fintech and social issues.	Very little innovation emerging that focuses on resilience for lower-income groups.	Accelerators and prizes have generated a flow of new ideas, but the system lacks routes to scale.

Section 1

Introduction

Europe is experiencing a huge economic shock, creating significant challenges to the financial resilience of households. Unfortunately, pre-pandemic resilience vulnerabilities are crystallising as income shocks, reduced savings and increased borrowing. Such a huge, coordinated loss demands that we look at new approaches to addressing long-standing issues.

This report is a companion to After Shocks[1], where we analysed financial resilience in France, Germany and the UK before and during the Covid-19 crisis. We take the current issues of financial resilience and existing support, and look at opportunities to innovate within this context. The breadth of this diverse landscape requires us to look at government support, the financial sector, charities and social impact initiatives.

The objective of this report is to set out the challenges for financial resilience in France, Germany and the UK, and to identify the potential for innovation and technology to provide new approaches to improving financial resilience in each country.

Elements of financial resilience

Financial resilience is often defined as the ability to cope with a financial shock, such as unemployment, a sudden illness or an unexpected cost, such as a car breakdown. Financial shocks can come in the form of lower income or increased spending. Households can respond to these shocks using income, savings or debt. As After Shocks shows, household income is the key underlying driver of financial resilience. Those in the lowest income groups have the lowest levels of financial assets to cover a reduction in income. Younger people are also less likely to have financial assets, so are more likely to be financially vulnerable. Although issues of financial resilience occur across the whole population, given the close link with income, this report focuses on ways to address financial resilience for low-to-middle income households.

The unusual nature of the Covid-19 crisis means that many have been affected despite remaining attached to their jobs, with the greatest impact on those whose sectors have been required to shut down. This has meant that, in most cases, those who were out of work at the start of the crisis have not experienced an income fall. The vulnerability of this crisis has been primarily work-related, mitigated by various levels of state support.

1 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

However, we should bear in mind that financial shocks continue to occur outside recessions and crises, and we must also bear in mind the large numbers of those who are now much more vulnerable to future financial shocks. There are, therefore, many lessons that we can learn from the impact of Covid-19 on financial resilience so far.

Financial vulnerability reflects both financial and social resources

Financial resilience involves access to appropriate and available funds, but coping with a financial shock is not just a matter of having money available. It also means: having access to credit at a reasonable cost and to other appropriate financial products like insurance; the capability and knowledge to navigate the services and products on offer; and social capital to access support and advice.

Vulnerability is linked to a person's financial position – the state of their finances, including their levels of debt and arrears, illustrating how precarious they are to financial shock. Both the UK and France have defined financially vulnerable or fragile groups that banks and other financial institutions have specific duties towards. For example, one of the definitions of 'financial fragility' used by the Banque de France's Observatory of Banking Inclusion is being listed for three consecutive months on a registry of those no longer allowed to issue cheques or use a bank card.

Financial vulnerability is often associated with and exacerbated by personal and social circumstances that might be temporary or permanent. These include health (including hearing or visual impairments, mental health and physical disability), bereavement, relationship breakdown, and personal resilience and capability (low knowledge or low confidence in dealing with financial matters).[2] The complicated reality of such contributing factors can make it hard to address the root causes through simple interventions.

Vulnerable customers may be less able to represent their own interests, may have non-standard needs, and may be more prone to behavioural biases – for example, having a 'scarcity mindset' that makes it hard to make good financial decisions.[3]

These characteristics are important to bear in mind when considering the potential for innovation and new solutions to address financial resilience. The issues are often complex, and those that most need help might be hard to reach. Innovation will not be the solution in all cases, and any support programme should consider who can be reached through a new approach.

2 FCA, Treating vulnerable consumers fairly, https://www.fca.org.uk/firms/treating-vulnerable-consumers-fairly Accessed 6 April 2021.
3 Guidance Consultation GC19/3: Guidance for firms on the fair treatment of vulnerable customers, FCA, July 2019.

Method

This report draws on a wide range of existing literature, as well as interviews with stakeholders from across the landscape of institutions and organisations involved with fintech, social enterprise, financial resilience and start-up support in France, Germany and the UK. A full list of interviewees is provided in the Acknowledgements section.

Descriptions of current levels of financial resilience draw on the analysis in After Shocks. Where we refer to the lowest income groups, we generally refer to the lowest income quintile used in that report. This income quintile has income below: €18,500 in France; €16,600 in Germany; and €14,700 (approximately £13,230) in the UK.

The structure of this report

The structure of this report is as follows:

- Section 2 sets out a framework for assessing how innovation can be used and supported to improve financial resilience in each country, looking at the needs and demands, as well as the existing supply of innovation.
- Section 3 applies this framework to France.
- Section 4 applies this framework to Germany.
- Section 5 applies this framework to the UK.
- Section 6 examines the opportunities for innovation to address financial resilience, and provides a mechanism for supporting this.
- Section 7 contains conclusions for those wishing to support improving financial resilience in each country.
- Annexes provide case studies and examples of innovations and innovation support.

Section 2

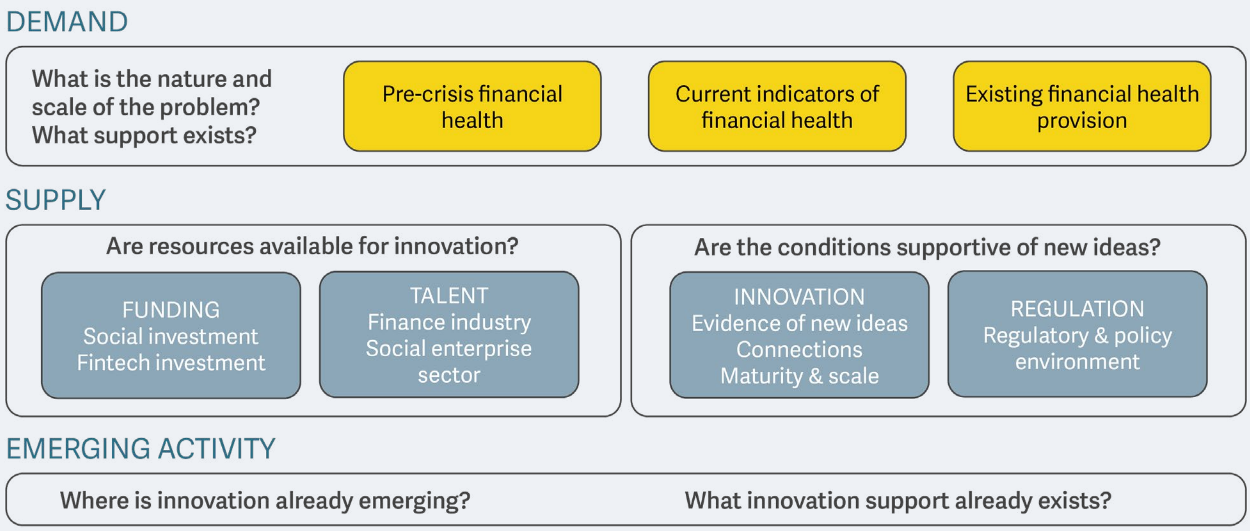
Assessing the potential of innovation to improve financial resilience

In reviewing the potential for innovation to improve elements of financial resilience across France, Germany and the UK, we developed a framework outlining the demand and supply conditions for innovation in each country. This framework analyses:

- Demand side: the underlying need for financial resilience support, the impact of the Covid-19 crisis, and the existing provision of support from government, charities and the private sector.
- Supply side: the availability of talent, finance and sources of ideas for innovation, as well as the connections between sectors and the regulatory environment.
- Emerging activity: innovations and innovation support mechanisms that are already emerging in each country.

In this section we outline the elements of this framework and which questions are considered within each element. Subsequent sections discuss how it is applied to the specific landscape in each of the three countries.

FIGURE 1: **A framework for identifying the potential for innovation to support financial resilience**



Demand: the need to support financial resilience

The first element of the framework is the demand side – who needs support with financial resilience, what is the nature of the support needed, and what provision already exists locally to provide this support?

What is the nature and scale of financial health problems in the country?

By examining the level of financial resilience and problems with financial health within each country, it is possible to identify groups that are in need of support, the nature of the gaps in provision, and opportunities to support financial resilience in new ways.

After Shocks has analysed the financial position of households, focusing on incomes, savings and debt levels, and a unique survey conducted by the Resolution Foundation for After Shocks provides a view into the effects of the Covid-19 crisis and an analysis of its impact on households.

The need for innovation must take account of these conclusions, in addition to existing qualitative research and the current support available for those who are financially vulnerable, to identify the areas in which a meaningful impact can be made.

What support for financial health already exists?

As well as understanding the nature of financial need and vulnerability, we must also consider the current landscape of support in order to identify the gaps and potential for innovation.

Support for financial well-being is provided through three main routes:

- Government – principally though the welfare and benefits systems, but also through other support schemes (national and local).
- Charities – most often debt advice charities, but also those that provide emergency funding and services to people on the lowest incomes or who are vulnerable for other reasons.
- Financial institutions – some countries require financial institutions to identify and support their most vulnerable customers, to prevent over-indebtedness and other symptoms of financial difficulty.

Supply: what exists to support emerging innovation?

What resources are available for innovation?

For innovation to be a useful approach to tackling financial resilience, there must be supportive conditions in place. Any innovation needs: people to work on it, generating ideas and putting them into practice; funding to support those people and their work; and connections to the necessary partners, customers and users to create an impact. These can be supplied by existing financial services organisations, new fintech communities, impact investing and social enterprise, financial regulators and other financial health institutions.

Financial services and fintech

Financial services and fintech can provide a number of important elements in supporting innovation in financial health – or 'fintech for good'. These include: funding; partnering to help scale up; infrastructure – for example, incubators that can support both commercial and social start-ups; talent; and tacit knowledge of innovating in finance.

Countries with strong fintech sectors are more likely to be able to provide these resources for new ideas.

Social enterprise and impact investment

In developing ideas that can support financial resilience for those on low-to-middle incomes, impact investment and social enterprise are important contributors to a country's ability to support financial 'tech for good' ideas. They can provide similar types of talent and an understanding of social impact among the target audiences. Existing connections with funders, charities and policy makers are also useful resources.

Are conditions supportive of innovation?

As well as having active sectors that generate knowledge and talent to support new ideas, an innovation ecosystem needs other conditions to be successful. These include a connected environment, where it is possible for ideas from different sectors and domains to collide and collaborate and – especially for regulated areas such as financial services – a regulatory environment that permits a degree of experimentation and allows new entrants.

Innovation thrives on connections between pools of different talent and ideas. The extent of these connections is hard to assess, but can be detected through, for example: partnerships between organisations; examples of innovation that have emerged from cross-sector collaborations; events or reports that address multiple perspectives; and the extent of awareness within one sector or domain of new ideas emerging from another area.

Innovation for a vulnerable user group, such as those with financial difficulties, requires careful design and consideration of users. Approaches that include the participation of those with lived experience can address these difficulties. One route to including this perspective is to create partnerships with frontline service providers such as debt advice charities.

The status of a regulatory environment, and how welcoming it is to innovation, can be examined through the work of a national financial regulator to address issues of innovation and financial vulnerability and also through the experiences of innovators in working with these organisations. In some countries, the effect of regulation or legislation might be to encourage innovation or new approaches from incumbent organisations.

Emerging activity: where are innovations being developed?

Where new approaches are being used to address financial health and resilience, where are they emerging from? Who is supporting them? And how might they continue to grow in scale and impact? In this report, we have reviewed examples of new companies and products. Identifying what exists and where it has arisen from can help to identify sources of innovation and innovation support, and where gaps might be identified.

Examples and case studies of innovation support initiatives in each country are given in the Annexes.

Section 3

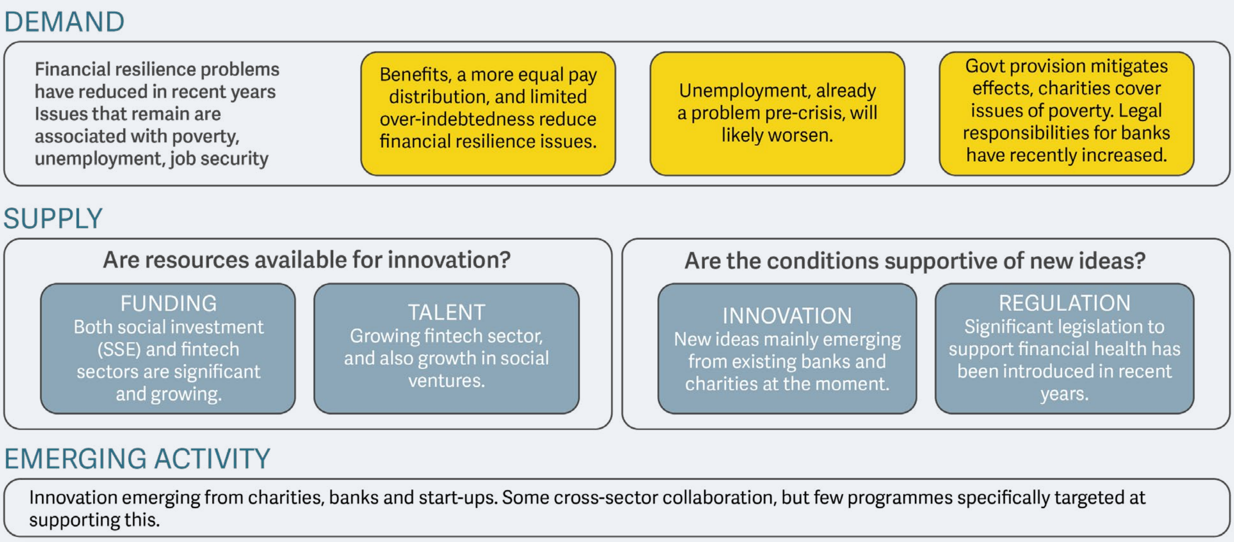
The financial resilience landscape in France

France entered the pandemic with a higher rate of unemployment than neighbouring countries, as well as increasing use of temporary contracts and levels of self-employment. However, savings levels are generally higher than in the UK, and so the majority of problems with financial resilience are linked to low incomes and to unemployment.

The French state has implemented a range of regulatory and legislative measures to address financial resilience in the last decade. This, along with a financial landscape that includes a range of community and social finance institutions, may have contributed to existing banks, charities and other established institutions becoming interested in financial innovations to support their lower-income customers.

There are few connections between social and mainstream tech investment, as well as between the mature impact investment and solidarity finance markets. Potential areas to support include building these connections, developing partnerships with institutions, and addressing root causes, such as employment opportunities.

FIGURE 2: **The financial resilience and innovation landscape in France**



Demand: financial vulnerability is linked to insecure work and unemployment

The nature and scale of financial resilience issues centres on unemployment

Before the Covid-19 crisis, unemployment was persistently high, with increasing self-employment and use of temporary contracts

France faces stubbornly high unemployment. The employment rate for 15-64-year-olds in 2019 was below 66 per cent in France, compared with 75 per cent in the UK and 77 per cent in Germany.[4] Unemployment pre-crisis had been between 8 per cent and 9 per cent, and the latest Banque de France forecasts[5] expect unemployment to stay below 10 per cent in 2021, with adjustments in job hours absorbing some of the impact of the Covid-19 crisis.

Self-employment has been rising in France, reversing a long-term decline, with a total of 3.5 million self-employed people in 2017. This has been driven by the new micro-entrepreneur status, added in 2009.[6]

A two-tier labour market has also emerged in France, divided between those in full-time jobs with strong protections and others in temporary work (lower-paid jobs, often in agriculture and tourism) with far less protection.

Alongside an increase in short fixed-term and temporary contracts, the number on permanent contracts is stagnating – in effect, there is a transition to a more casualised workforce as has been seen in other countries, including the UK. In 2015, 87 per cent of new employment contracts were temporary[7] and, currently, short-term contracts represent over two-thirds of recruitment – often involving the re-recruitment of the same employee in consecutive short-term contracts.[8] This is due to liberalisation of the labour market and measures such as the 'auto-entrepreneur' policies. Employers often favour short-term contracts for a number of reasons, such as lower costs and shorter notice periods. Those on short-term contracts are more likely to be trapped in a work-unemployment-work cycle, which exacerbates inequalities and financial fragility.

4 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
5 Banque de France, Macroeconomic projections, March 2021,
6 L Salembier, G Théron, Panorama de l'emploi et des revenus des non-salariés, Insee, 28 April 2020.
7 R Thillaye, French labour market reform: good intentions, poor delivery, Social Europe, 4 April 2016
8 S Berhuet, P Croutte, et al, Tous autonomes et vulnérables à la fois, CRÉDOC (Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie), N° 348, February 2020.

Over-indebtedness particularly affects those on low incomes and renters

France has higher savings rates than the UK, and a relatively compressed income distribution: the ratio of the lowest to the highest income groups is 3.2, compared with 4.7 in the UK.[9] The lowest income groups generally spend within their means, with not much evidence of using credit for essentials. Of the three countries in this report, lower-income French households are the least likely to have financial debt: 27 per cent have financial liabilities, compared with 39 per cent of the lowest income group in Germany.[10]

There were almost 860,000 people registered for over-indebtedness in 2019.[11] Although this is a small proportion of the population (around 1 per cent), problem debt seems to be concentrated among a few groups, including single-person households, women and renters.

A CRÉDOC survey conducted for the Financial Sector Advisory Committee (CCSF) in 2019 shows that the number of over-indebtedness or credit repayment incidents had decreased significantly over the past decade.[12] This could be due to the various pieces of legislation that have been implemented, including the recent law preventing banks from closing over-indebted accounts.

Lack of a bank account and problem debt are therefore far smaller problems in France than poverty and precarious work. This may mean, for example, that securing a better paid job in France tends to bring more immediate benefits than in the UK.

Poor financial resilience is connected to other issues of deprivation, including housing and social isolation

There are a number of factors that are inter-connected with financial resilience, either as a cause or consequence, or both. These include poor housing, place deprivation and social isolation.

Rising house prices and rents in France mean that households are having to spend an increasing proportion of their resources on housing. Households with the highest proportion of their income spent on housing costs tend to be single people and those living in highly populated urban areas.[13] An estimated 20 per cent of French households

9 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
10 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
11 Banque de France, Rapport de l'Observatoire de l'inclusion bancaire (OIB) 2019, July 2020.
12 ,I Aldeghi, P Croutte, P Jauneau-Cottet, Ménages pauvres: surendettement en baisse, accès aux services bancaires en hausse, Consommation & Modes de Vie N° 313, CRÉDOC, October 2020.
13 S Berhuet, P Croutte, et al, Tous autonomes et vulnérables à la fois, CRÉDOC (Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie), N° 348, February 2020.

are also affected by fuel poverty.[14] Fuel poverty tends to be felt most by older people, home owners, rural residents and households with modest incomes.

Covid-19 has increased employment problems

This year, as in other countries, Covid-19 has put existing inequalities in the spotlight, with the most financially vulnerable being disproportionately impacted by the pandemic. Food bank use has risen in France, along with more people having difficulties paying their housing costs. Social organisations have already seen a rise in requests related to over-indebtedness, and are expecting this to increase as the pandemic continues.

Unemployment was already a problem, but has worsened through the crisis

Unemployment is a root cause of financial problems and low income in France, and this underlying problem of unemployment has increased over the past year. At the end of 2020, employment was down by 1.4 per cent year-on-year, representing a net loss of 400,000 jobs (although this was less than originally forecast and was cushioned by the short-hours work scheme, and reduced hours).[15] In the survey conducted for After Shocks, France has the highest proportion of previously employed respondents moving out of work in the last year. The proportion of workless households grew from 24 per cent to 32 per cent.[16]

Those on temporary contracts do not seem to have been more likely to have lost hours or lost work, unlike in Germany and the UK. There is, however, a greater likelihood that women and those born abroad have moved out of work during the crisis.

Income shocks have been moderated by the welfare system

French households have therefore received significant income shocks during the Covid-19 crisis, with 39 per cent of households experiencing a negative employment change between February 2020 and January 2021, and 24 per cent reporting lower levels of income.[17] The effects on financial resilience have been somewhat moderated by the provisions of the welfare system, and by government loans to support companies. Of those who have lost income, 37 per cent have drawn on savings and 8 per cent have taken on debt. Around half of those whose income fell (across all income levels) decreased their spending as well.[18] Despite being hit hard by unemployment, household

14 S Berhuet, P Croutte, et al, Tous autonomes et vulnérables à la fois, CRÉDOC (Centre de Recherche pour l'Étude et l'Observation des Conditions de Vie), N° 348, February 2020.
15 Banque de France, Macroeconomic projections – March 2021.
16 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
17 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
18 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

incomes in France have been better protected, in part by a more generous social security system: among those respondents newly claiming unemployment insurance or other government transfers (outside of furlough) since the onset of Covid-19, 33 per cent reported a fall in household income in France, compared to 56 per cent in the UK.

Support for financial resilience as a national agenda

Financial inclusion has been on the national agenda in France since the financial crisis in 2008. A collaboration between the largest national NGOs resulted in the publication in 2011 of a manifesto for the banking inclusion of 'financially fragile' customers, which raised public awareness of the issue of financial exclusion and vulnerability.[19] Successive governments have since made a series of legislative moves to create a significant regulatory safety net aimed at reducing poverty and financial exclusion – including a new right to a bank account. These include:

- Lagarde law 2010, which reformed consumer credit and led to a multi-year plan to combat poverty and social exclusion;
- The establishment of the Banking Inclusion Observatory (OIB) by the Banque de France in 2013, following the implementation of a social inclusion plan; and,
- PACTE law 2019, which intends to support French companies to rethink their role in society, by providing the necessary means to innovate, grow and create jobs.[20]

Although the right to a bank account has improved access to financial services for the most excluded (in 2016, there were an estimated 500,000 people without access to the financial system, but as a result of the right to a bank account this has been falling each year[21]). There is evidence that poorer households are still hampered by a lower understanding of what services are available and are less likely to be able to access digital services. Financial exclusion and digital exclusion are closely linked. Nationally, one in five are not confident using digital technology, and one in 10 do not use the internet.[22] Age, socio-economic status and levels of education all play a role in determining the level of digital skills.

According to the OIB 2019 Annual Report, 3.4 million French residents (in a population of 67 million) are financially fragile,[23] many of whom have accounts with La Banque Postale. La Banque Postale is a public bank and branch of the government-owned French Post Office. The mission of La Banque Postale is to ensure banking is accessible,

19 Croix-Rouge Française, Manifeste pour l'inclusion bancaire en France des populations fragiles, July 2011.
20 French Government, https://www.gouvernement.fr/en/pacte-the-PACTE The action- plan- for- business- growth- and-transformation, accessed 6 April 2021.
21 Banque de France, Rapport de l'Observatoire de l'inclusion bancaire (OIB) 2019, July 2020 .
22 Labo Société Numérique, Les Français et le numerique: Quels usages courants?, March 2020.
23 Banque de France, Rapport de l'Observatoire de l'inclusion bancaire (OIB) 2019, July 2020.

and (supported by a €350 million annual state grant) the bank operates services and initiatives to deliver this mission.

Government support and welfare is generally strong

French social security is among the most comprehensive in the EU and covers healthcare, workplace injury, family allowances, unemployment, pensions, sickness and death benefits. The average income replacement rate for a single adult with sufficient contributions is 64 per cent after two months of unemployment in France, and (excluding rental support) 52 per cent for couples with children.[24]

In response to Covid-19, there have been changes to the social security system and additional protections, including more generous eligibility criteria and additional payments. Measures have also been introduced to support businesses, including a state-backed solidarity fund for SMEs and a generous state-guaranteed loan programme.

A diverse banking system connects banks and state

The banking system in France comprises more than 400 banks, which can be split into four categories: la Banque de France, deposit banks, investment banks and banks that provide medium-term and long-term loans. Although each bank determines its pricing policy, they are required by law to set rules and ceilings in order to protect financially vulnerable customers. France also has a significant number of state and non-government institutions with social missions around financial resilience. They provide services at scale and work together to put financial resilience on the national agenda.

As we have noted earlier, 'the right to a bank account' legislation and other protections mean that poverty is a bigger issue than debt or lack of access to banking. Some gaps do exist, however. One significant difference between France and most other countries is the lack of a central private loan registration system. This means it is impossible for lenders to obtain a complete debt overview of an applicant as they are unable to check their existing debts. It makes it much easier for borrowers to take out new credit to repay existing debt, and potentially get themselves into a dangerous cycle of debt.

Recent legislative changes have built an infrastructure to reduce poverty and financial exclusion

Much of the support for financial resilience in France has been driven by a series of legislative changes, as set out above. These aim to protect consumers in a number of ways, including by ensuring that everyone has the right to a bank account and that all banks meet the needs of their vulnerable customers.

24 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

La Banque de France has a leading role in collaborating with social support agencies to improve the quality of assistance for individuals in need. It also facilitates financial inclusion through the provision of personal and professional microcredit, and implements and monitors the procedure for ensuring a legal right to an account. For those who are over-indebted, it can initiate a procedure with the Over-indebtedness Commission, which can impose obligations on the individual's bank.

La Banque Postale also has an important state-backed role in providing 'public service banking', and financial advice and support. In addition, it undertakes research and innovation. Private banks, such as Crédit Agricole and Caisse d'Épargne, also provide banking services to many vulnerable customers. This has incentivised these organisations in recent years to design solutions to improve how they identify and support vulnerable customers.

There is a great deal of collaboration across the national organisations in France, often through formal alliances, which aim to reduce financial exclusion and ensure that financially vulnerable individuals get support. The organisations often involved in collaboration are the public authorities, Banque de France, La Banque Postale, Crésus, the French Red Cross and ADIE (Association pour le Droit à l'Initiative Economique). La Banque Postale has created a number of collaborations aimed at financial inclusion or supporting vulnerable people, which are discussed below. These include traditional collaborations with public and private organisations, alongside more innovation-focused collaborations with fintech.

Large charities play an important role

Many of the largest French foundations are concerned with poverty and local communities, both of which have overlapping concerns about financial health. The fight against banking exclusion was put on the French public agenda by some of the biggest French NGOs. In the field of financial health, it is mainly Fédération Crésus (an association of organisations) and its foundation that works on debt prevention and social exclusion, providing face-to-face and telephone debt counselling and budgeting advice.

Microcredit is used to support individuals and SMEs

Assisted microcredit is a mechanism designed to improve the financial inclusion of vulnerable populations, pioneered in India. It involves the provision of small loans to borrowers who do not have access to traditional bank credit for either personal or professional reasons.

While banks participate in the provision of microcredit, the vast majority is issued by social and state organisations, such as ADIE, Crésus and Banque de France. Each year, ADIE finances nearly 20,000 new business owners who do not have access to the traditional banking system. This microcredit is targeted at those most at risk of financial exclusion because of socio-economic factors.

Supply: innovation emerging from within institutions

Conditions for innovation: fintech and social and solidarity finance are both growing

Fintech developments are starting to appear

Fintech is a growing sector in France, largely in Paris, with investment more than doubling between 2017 and 2019, although investment levels are lower than in the UK and Germany.[25] In 2019, 80 new fintech companies were registered in France and the sector is beginning to mature, with an increasing number of fintechs now having operated for more than five years. France is also beginning to see international inward investment, and overseas venture capital funds have increased their presence and are now leading 65 per cent of funding.[26]

Fintechs are beginning to be seen in the financial inclusion and social impact investment landscapes. They have enabled new markets to be served and have revolutionised the customer experience, with consumers being able to open an account or get a loan in a matter of minutes, exchange or send money internationally at low fees, and buy products on finance and interest free. Services offered by Consumer-facing French fintechs include those offering payment services; alternative lending, including a number of crowdfunding platforms; personal finance management, and personal banking and insurance services. Some of these are developed in partnership with mainstream banks, for example Mansa's Budget+, offered in collaboration with Société Générale.

Digital exclusion is a barrier to adoption

There are a number of initiatives to improve digital skills across the French economy and government as a whole.

25 R Bloch, R Gueugneau, La fintech française tente de rattraper son retard sur l'Allemagne et le Royaume-Uni, Les Echos, 28 January 2020.
26 R Bloch, R Gueugneau, La fintech française tente de rattraper son retard sur l'Allemagne et le Royaume-Uni, Les Echos, 28 January 2020.

There have also been efforts specifically aimed at start-ups in need of advice. La Banque Postale founded its own fintech incubator, Platform 58, which works with selected start-ups, offering tailored advice.

The French Government launched the Digital Society Mission, a result of La Loi PACTE (2019), to consolidate legal and economic projects that use technology in public services. It aims to provide businesses with the necessary skills to innovate and make best use of digital technology, and therefore increase the competitiveness of SMEs with their larger competitors.[27]

Recognising the importance of digital inclusion, La Banque Postale organises digital workshops, in collaboration with WeTechCare, which are designed to upscale the digital knowledge and experience of their staff and clients.

Social impact investment is well developed in France

The social and solidarity economy (social enterprise) agenda is well developed in France, and has led to government and private sector action often focusing on local and community issues. But it is also a fragmented landscape, with around 165,000 social enterprises, employing 2.4 million people.[28]

Socially responsible investment (SRI) is a broad concept, which integrates social, ethical and environmental concerns in the investment choices. The Government created an accreditation for financial products that contribute to sustainable development. By the end of 2019, there were 514 SRI funds in France, amounting to €204 billion.[29]

Another designation, separate to SRI is solidarity finance. This aims to support people in difficulty by bringing together forms of savings to finance socially useful activities. Employee saving schemes are the main channel for social finance, followed by savings in banks and insurance organisations and those invested in social enterprise. With 810,000 new subscriptions in 2019, the total social and solidarity savings assets amounted to €15.6 billion in 2019, which was a rise of 24 per cent from 2018.[30]

Finansol is a network organisation that is active in solidarity finance and brings together financial institutions engaged in the promotion and/or management of solidarity-based financing vehicles and tools. It unites more than 90 organisations in its approach, and provides a solidary finance 'label', currently applied to 159 savings products.

27 Digital Society Mission https://societenumerique.gouv.fr/la-mission/ Accessed 6 April 2021
28 Observatoire national de l'Economie Sociale et Solidaire, Atlas commenté de l'économie social et solidaire – Édition 2020, August 2020].
29 H Chen, Étude de l'évolution du label ISR public français et des fonds labellisés, Forum pour l'investissement Responsible, October 2020.
30 Finansol, Finance Solidaire le baromètre, Edition 2020-2021, June 2020.

Social private equity invests in social enterprises and provides capital to SMEs in underprivileged areas. It has a focus on community redevelopment, particularly investing in deprived neighbourhoods.

Although this market is small, it is growing, with around 35 small management companies in France. Impact Partners is the largest social private equity organisation in France. Established to integrate financial and social performance, it invests in companies that encourage a significant social impact in deprived areas. Impact Seed is a programme to support entrepreneurs who want to start a franchise.

Although social impact investment is mature in France, we did not see examples of investment in social fintech, or initiatives to connect fintechs with social investors in an organised way, which may indicate an area for future action.

There is also scepticism from social innovators about the ability of France's comprehensive legislative approach to financial inclusion to stimulate innovation. Some are frustrated that French legislative frameworks tend to encourage old solutions, rather than stimulating innovation. The emergence of Nickel gives weight to this point (see Box 2). On the face of it, Nickel duplicates the role of La Banque Postale and Banque de France – yet it has grown rapidly, meeting a need that is supposedly already met by comprehensive state action.

As is true across Europe, the impact of open banking is still at a relatively early stage and while some have acknowledged its potential for disruption and innovation, it is yet to be taken advantage of fully. Open banking data could be a key accelerant or catalyst for subsequent developments (perhaps around private loan data).

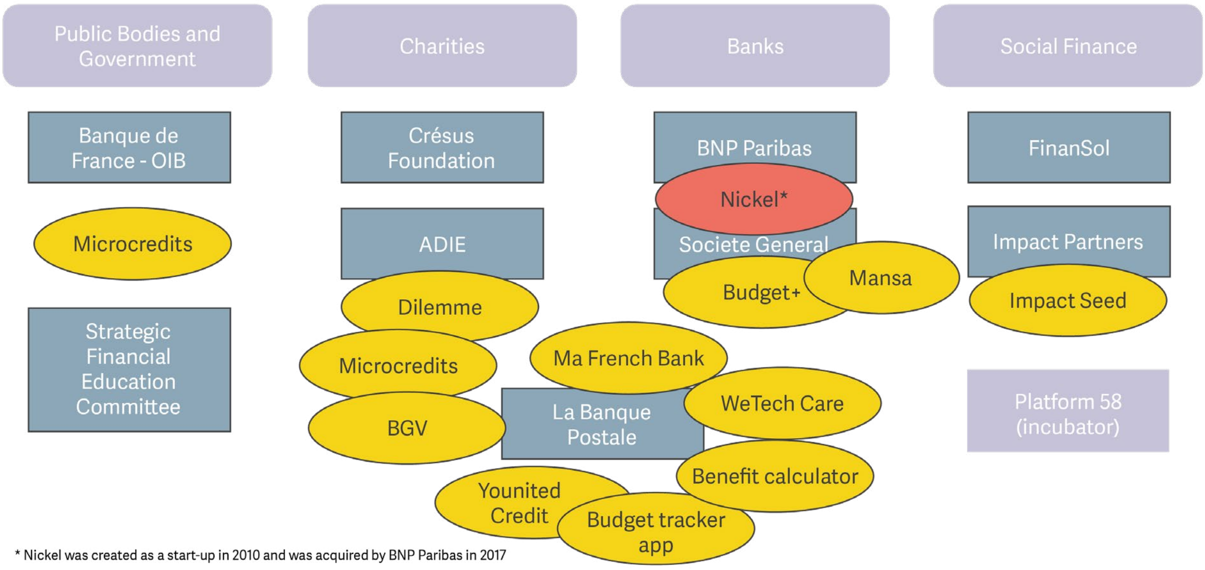
Digital exclusion is an issue for businesses not just individuals, particularly SMEs, around half of which believe their digital skills are weak and only 15 per cent of whom sell online.[31] This might be important when combined with the growth of micro-businesses, where low income and poor digital skills can create another form of in-work financial fragility.

The economic damage of Covid-19 is likely to be similar to other EU nations, but there are also signs that venture capital funding has slowed and some business model vulnerabilities are being exposed. That said, smaller fintechs or social innovation organisations might be best placed to react to these uncertainties.

31 European Commission, Digital Economy and Society Index (DESI) 2020 France Country Profile, December 2020.

Emerging innovation: existing institutions are playing a role

FIGURE 3: **Many innovations are developed by or supported by existing financial firms**



* Nickel was created as a start-up in 2010 and was acquired by BNP Paribas in 2017

Innovation is emerging from existing banks, foundations and public bodies

La Banque Postale is leading efforts to address the needs of financially vulnerable customers. It put together the initiative against banking exclusion, with 22 members across the financial resilience landscape, and it aims to develop new practices and solutions. It is also looking to collaborate with research organisations to be better able to understand the factors that contribute to financial vulnerability.

There have been a number of commercial efforts in the fintech sector to make banking more accessible. The most noteworthy is Nickel, which enables a bank account to be set up at any tobacconist across France. It was set up independently in 2012 and then bought by BNP Paribas in 2017.

BOX 1: **Nickel**

Nickel is an alternative banking phenomenon. Founded in 2010 by Ryad Boulanouar and Hugues le Bret, it now has 1.8 million customers and 5,800 points of sale (mostly tabac kiosks) – making it the third largest network of bank outlets in France. Boulanouar and his family came to France from Algeria in the 1960s and were financially precarious. When he found himself with one job selling phone cards through tobacconists and another selling pre-paid gift cards, Nickel was born: a real-time, no-overdraft banking service based on pre-paid cards.

A Nickel card can be opened, loaded or unloaded in any tabac. No overdrafts mean no extra costs and no discrimination, as without an overdraft there is little or no risk to the bank. In 2017, Nickel was sold to BNP Paribas (95 per cent stake) and the Tobacco Shops Association (5 per cent stake).

Tobacco shops are the key infrastructural points. Nickel makes them the 'new bankers' of the neighbourhood. Nickel sees its work as complementary to La Banque Postale – although, of course, La Banque Postale receives €350 million for its public mission, while Nickel has developed a profitable business without subsidy. Nickel therefore raises an important question: with all the effort France invests to create a financial exclusion safety net, how did an unsubsidised start-up still find so much unmet need?

Fintech developments are showing some social purpose elements

French fintechs typically offer the following services, some of which have a 'social impact' element:

- Payment services, such as Shine, offering alternative banking aimed at freelancers;
- Alternative lending and funding, including crowdfunding – for example, Younited Credit, a large crowdfunding platform which rapidly processes customers' requests for online loans (up to €50,000) through an advanced credit-scoring and underwriting system;
- Personal and business finance management – for example, Birdycent, an app allowing customers to easily save money through rounding up to the nearest euro on expenditure to save in a digital piggybank; and,
- Personal banking and insurance services – for example, Mansa's 'Budget+' (in collaboration with Société Générale), which helps self-employed people secure small loans using software to assess the risk of default.

Financial education programmes are being developed by the state and charities

There is a national strategy on budgetary and financial education, led by Banque de France, which has resulted in a number of training and information schemes designed to prevent over-indebtedness.

The Strategic Financial Education Committee, established in 2019, brings together public authorities, Banque de France and social organisations to develop economic and financial education. This programme is accessible by any individual, but is targeted specifically at young people, entrepreneurs and those experiencing financial difficulties.

Charities are collaborating to develop new digital services

Through collaboration with others, Crésus Foundation has created a number of new programmes using digital tools to raise awareness of financial exclusion, develop budget management facilities and provide assistance to financially fragile customers:

- An online version of the game Dilemme provides budgetary and financial education to raise awareness and increase confidence in dealing with financial issues;
- A budget calculator, Budget à Grande Vitesse, developed in collaboration with banks, fintech acceleration programmes, health insurance funds and other charities (see Box 1); and,
- Acting as a mediator and financial guide for customers identified as fragile by bank partners, including BNP Paribas, Crédit Mutuelles and La Banque Postale.

BOX 2: **Budget à Grande Vitesse**

Crésus was motivated to develop a new digital tool for its users, partly in response to the general frustration that France does not have a central registration system for private loans. This makes it impossible for lenders to obtain a complete overview of a prospective borrower's outstanding debts.

It invested significant time and money – originally scoped as €2.9 million over three years[32] – to develop an application called BGV (Budget à Grande Vitesse). It is supported by a broad collaboration of knowledge and funding between traditional banks, fintech acceleration programmes (often supported by the Government), health insurance funds and charities. Supporters include La French Tech, Finance Innovation, Banque Française Mutualiste, La Banque Postale, the BTP Plus foundation, France Active (socially responsible entrepreneurs) and Amundi (asset management).

BGV is an app-based tool, which automates and simplifies personal financial planning. This free and accessible application informs its users about their rights, keeps track of their paperwork, provides legal advice and can be used as a personal finance manager. The application allows the Crésus foundation to scale up its

32 Crésus Foundation, Le digital, arme contre le surendettement, October 2017, Accessed 6 April 2021.

budget advice in a much more efficient and all-encompassing way.

The size and trusted role of Crésus, as an independent and non-profit adviser, made it possible both to develop the app and to create a network of supporters for it.

Summary

France's welfare system and underlying financial resilience were relatively strong as it entered the Covid-19 crisis. Lack of a bank account and problem debt are far smaller problems in France than poverty and precarious work. The greatest problem underlying households' financial vulnerability was unemployment and as this has increased in the crisis, and is likely to increase further later in 2021, this remains an important factor.

The institutional landscape in France has more organisations with an interest in financial resilience, relative to the other countries in this report, including large banks with a social purpose, such as La Banque Postale. The role of the central bank, Banque de France and the French ecosystem have both been shaped by changes in legislation in the last few years, including the right to a bank account, Loi PACTE, and the creation of the Strategic Financial Education Committee. Banque de France now bears a number of legal responsibilities for safeguarding consumers, which are passed on to commercial banks. This is part of the reason why we found more new ideas being developed or supported by the existing financial landscape than in Germany and the UK.

The key challenges for France are to address the vulnerabilities of the unemployed and single-earner households, in particular. Low-income households, as in other countries, are more precarious and are affected by multiple deprivation, which has many causes and challenges.

Innovative approaches could focus on those low-income households in employment and those in self-employment or other forms of more precarious work. Income smoothing, access to affordable credit, money management and budgeting tools might all be helpful here. Those not in paid work and those living in poverty are better supported with policy and charity developments.

Although new solutions have been emerging from charities, social enterprises and fintechs, these are all at a relatively small scale. There is a lack of connection between social fintech and mainstream tech investment, as well as between the mature impact investment and solidarity finance markets. Additional support and connections might be able to increase the scale and impact of these communities.

Section 4

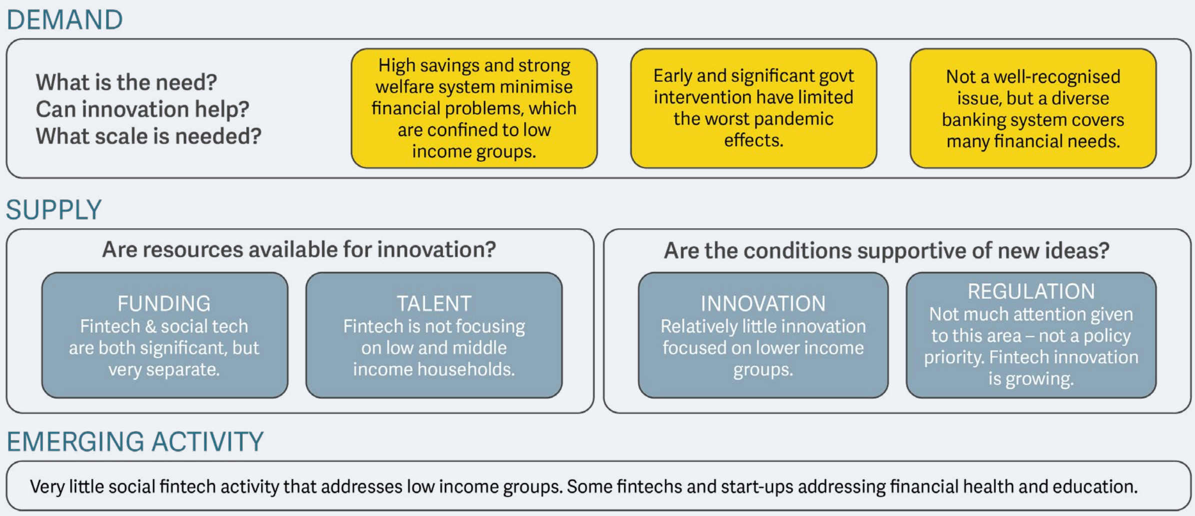
The financial resilience landscape in Germany

Germany has many of the elements of financial resilience necessary to protect its citizens from financial shocks. Savings rates are very high across a range of incomes, the social welfare system is generous, use of short-term and high-cost credit is relatively low, and there are a large number and variety of banks and financial institutions. This has perhaps led to some complacency about financial health, as real issues have been growing for those on the lowest incomes.

As the issues are not as widespread as in other countries, there is less state focus on this policy issue, and little attention from social enterprise and business.

Greater connections between these groups could increase understanding of the growing issues, and create opportunities for innovation.

FIGURE 4: **The financial resilience and innovation landscape in Germany**



Demand: overall financial health is strong

German households generally have high savings rates and low borrowing

Germany is a country in which many households have good financial resilience, with high savings levels and relatively little debt. Home ownership rates are low, as most people rent, so there are lower levels of property wealth (around 45 per cent of households own their main residence). However, there are still 39 per cent of working-age households that have less than one month's income in savings. This rises to 56 per cent of low-income households.[33] These households more often have high housing costs, significant debts, spend a high proportion of their income on essential items, and have high rates of worklessness. 38 per cent of households in the lowest income group are workless – a higher proportion than the equivalent group in the UK (25 per cent) or France (28 per cent).[34] Low-income households spend 45 per cent of their income on housing and utilities, and 24 per cent of financial debt for this group is used for living expenses.

The relatively healthy position of most households has hidden the range of issues affecting low-income households, and the issue of financial resilience is not a particular priority for policy or the financial sector. There is also a social stigma associated with debt in Germany – unemployment and insolvency are causes for shame and being cut off from social contacts.

A 2015 BBC article drew a link between debt and guilt in language: "The German word for debt – 'schuld' – is the same as the German word for 'guilt'" [Professor Marcel Fratzscher] explains. "To get into debt you have done something bad and that describes the German people's attitude quite well."[35]

Financial resilience is not a significant policy focus

Financial resilience is not high on the political, and perhaps even cultural, agenda in Germany. Representatives of institutions from a broad spectrum of social life (charities, foundations, corporations, fintech observers, and academic and financial institutions) convey the trust they have in 'the system'.

Despite the large safety net, Germany has a high level of wealth inequality and low social mobility for low earners. Both of these factors are partly linked to high levels of private

33 Analysis in RF After Shocks defines income quintiles. The lowest income quintile for Germany is those with an annual income below 16,600 euros.
34 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
35 See for example BBC News, Inside the German's Debt Psyche, 13 February 2015

renting, which creates financial fragility for the poorest (many of whom are migrants). Germans also have a culture of not speaking openly about problems with personal debt – although seven million Germans are thought to be over-indebted.[36] Two-thirds of those with problem debt owe less than €20,000.[37]

At present, there seems to be little concern about whether the welfare system can cope with demand, but, as with the rest of Europe, the population is ageing, the full welfare costs of Covid-19 are still unknown, and low take-up of private pensions is a problem awaiting the next generation.

Over-indebtedness is an increasing problem for those on low incomes

Germany's seven million over-indebted individuals equates to 3.4 million households. The relatively small size of problem loans (less than €20,000) and the declining value of the average debt (more, but smaller, debts) could be a symptom of more households struggling to meet regular expenses and using debt to pay for basics.[38]

There are also barriers to tackling problem debt because German banks have no specific regulation or detection systems, unlike French banks, to identify financially vulnerable clients before they miss a payment (although they can see the person's other loans, which is not the case in France). Low visibility of problem debt among the banking sector, coupled with a cultural reluctance to discuss debt, means that where problems occur they can grow unseen.

The Institute for Responsible Finance data also shows that around two-in-five cases of over-indebtedness studied were due to issues out of the control of the individual (for example, unemployment, divorce or separation, and illness).[39] Just under a fifth of the cases were due to what were considered as avoidable behaviours, such as consumer behaviour and a lack of financial education.

Low income is a particular problem that is on the rise among Germany's migrant population (though it is still low in comparison to other European countries).

Digital exclusion can present an additional barrier to vulnerable groups

Digital exclusion adds an extra layer to financial exclusion as more services migrate to online access. It is often those who are older or with lower levels of education who tend to use digital technology less frequently, and are less skilled at using it than younger people or those with higher levels of education. Access to digital technology is also an issue for those on lower incomes, again affecting the migrant population the most.

36 Institut Für Finanzdienstleistungen (iff), Uberschuldung in Deutschland, June 2020
37 Institut Für Finanzdienstleistungen (iff), Uberschuldung in Deutschland, June 2020
38 Bundesbank, Household wealth and finances in Germany: results of the 2019 survey, April 2019
39 Institut Für Finanzdienstleistungen (iff), Uberschuldung in Deutschland, June 2020

One further aspect of need in Germany is the role cash still plays. Although use of cash is declining in Germany (and across the EU), Germans are still heavy users of cash (80 per cent of transactions by number, and 55 per cent by value in 2017), much higher than in France or the UK[40], despite 99% of the population having access to a bank account, and 81% having used the internet to pay bills or buy something. With the rapid transition to contactless payments seen during the Covid-19 pandemic, those without access to online banking or who cannot pay by card because their account is overdrawn may be doubly disadvantaged.

Renting is linked to higher costs, especially in cities

Germany's wealth inequality and its relationship with home ownership and with the legacy of reunification also have an impact on financial vulnerability. This wealth difference can be seen geographically between eastern Germany, where the median household wealth was €23,400 in 2017, and western Germany, where the median household wealth was €92,500.[41] Home ownership plays a big role in this: of Germany's relatively small number of home owners, very few live in the eastern states.

Not only do renters lack the financial security of property equity, but they face a double disadvantage because of the high and rising cost of renting in Germany compared with other countries.

The labour market is dividing

The number of employed people in Germany has grown by over five million since 2000, in part due to an increase in immigration. Disposable income inequality and the low-income rate are stagnating, but the trends differ depending on migration background. In the German-born population, the low-income rate has not changed since 2008, and for some age groups it has even declined. Over the course of the most recent wave of immigration, the rate increased significantly to around 30 per cent[42] for those with a direct migration background, although the first effects of refugees' integration into the labour market are just now being seen. Therefore, immigrants still require support integrating into the labour market.

In 2014, the low-wage threshold was gross earnings of €10 per hour. Lower hourly earnings were classified as low wages. Low wages were distributed very unevenly across groups in society and economic sectors. In 2014, 27 per cent of women received low wages, compared with 16 per cent of men.[43] The main drivers of this difference are that

40 H Esselink, L Hernández, The use of cash by households in the euro area, European Central Bank Occasional Paper Series No 201, November 2017
41 Deutsche Bundesbank, Household wealth and finances in Germany: results of the 2017 survey, Monthly Report April 2019
42 The German Federal Statistical Office (www.destatis.de)
43 The German Federal Statistical Office, Earnings at a Glance – Edition 2017, April 2017

women frequently work in low-paid occupations and sectors, and are more likely have part-time jobs, 'mini-jobs' or be in marginal employment.

According to the German Trade Union Confederation (DGB) – an umbrella organisation for eight German trade unions, representing the interests of over 5.9 million people – the Hartz laws are responsible for creating a huge low-wage sector. That was exactly what was intended 15 years ago. The SPD-Green Party government had commissioned Peter Hartz, then head of human resources at Volkswagen and a former IG Metall union official, to 'reform' unemployment and social assistance legislation in order to quickly move the unemployed into low-paid jobs.

An ageing society

The 65-plus generation in Germany faces an increasing risk of poverty. The Federal Statistical Office (Destatis) reports that the proportion of those aged over 64 who are at risk of poverty, measured by the federal median, has increased by 4.7 percentage points over the last 15 years, reaching 15.7 per cent in 2019.[44] The increase since 2005 was higher than in any other age group. In the same period, the total at-risk-of-poverty rate rose 1.2 percentage points to 15.9 per cent. This means that the at-risk-of-poverty rate (an indicator measuring relative income poverty) was roughly the same for people aged over 64 as for the total population in 2019.

Sectoral mix, fewer lockdowns and government support have reduced the impact of Covid-19 on households

Germany's less severe and shorter lockdown periods throughout 2020, together with a welfare system that has protected many people, have seen German households faring better than those in France and the UK in response to the Covid-19 crisis so far, although the future is uncertain. Around one-quarter of German households surveyed experienced a negative employment change to January 2021, compared with around one-third of French and UK households.[45]

Despite the welfare system and the reduced overall impact of Covid-19, where unemployment has occurred, the income shock has frequently been significant. The proportion of German households in which one person has moved out of work that also experienced a decrease in household income is 45 per cent, including 28 per cent who experienced a significant income fall (i.e. a fall in income greater than 25 per cent). Both these figures are slightly smaller than in the UK, but bigger than in France.[46]

44 The German Federal Statistical Office, Earnings at a Glance – Edition 2017, April 2017
45 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
46 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

Prior to the Covid-19 crisis, those on the lowest incomes had shown signs of financial vulnerability. During the crisis, 15 per cent of those on the lowest incomes have cut back on spending to afford their housing costs. Overall, 23 per cent of those in the lowest income group have drawn on savings and 13 per cent have drawn on debt to support their living expenses. 31 per cent of low-income households have had to increase their spending – higher than in the UK (28 per cent) and France (26 per cent).[47]

A broad benefits and welfare system, with large charities supporting those in poverty

The welfare safety net is broad and strong – but gaps are emerging

Financial resilience is not seen as a significant problem in German society. This confidence stems from two sources: a large and comprehensive national welfare system; and a culture of saving that ensures that most Germans have money to draw on during a financial shock.

The big 'social state' model, created after World War II, is an important pillar. The state is viewed as a robust guide in the midst of a complex world and as a protector of individual welfare. A tightly woven web of state health, pension, accident, nursing care and unemployment insurance protects citizens against the consequences of life's risks and threats.

Although Germany is a highly devolved and federated nation with large differences between East and West still visible, Germans trust their central 'social state' and the comprehensive welfare system it provides from birth, through their careers, and into retirement.

The social security system in Germany is funded through contributions paid by employees and employers. The contributions are paid on all direct wages, as well as indirect wages.

The most important aspects of the system during the recent crisis have been the insurance-based unemployment benefit (which pays a percentage of previous wages), the supplementary unemployment benefit, Hartz-IV (which pays a flat rate), and the reduced-hours scheme, Kurzarbeit. Employees working reduced hours generally receive 60 or 67 per cent of their flat-rate net remuneration. Temporary loss of work can be compensated (in part) for up to 12 months.

47 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

The German social security system faces challenges and problems, including an ageing population, an increasing number of people in less-regulated and low-paid occupations, child poverty and increasing poverty among older people.

Use of banking

Germany's consumer banking system has three parts – private, co-operative and public savings – and is uniquely fragmented, with around 1,800 institutions and a dense branch network. Private banks, such as Deutsche Bank, are mostly in cities. Co-operative banks (for example, Sparda-Bank) are the most numerous, and are mostly small local institutions. Savings banks (Sparkassen) are owned by municipalities and are often the only option in smaller villages. Private banks hold only about 40 per cent of Germany's assets – a marked difference to many other banking markets.

Unlike in both France and the UK, there seems to be no requirement for German financial institutions to identify and support financially fragile or vulnerable customers.

Charity provision is extensive, covering a range of social assistance functions

Germany's social welfare and charitable organisations, including the 'social arm' of the major church denominations – Caritas (Catholic) and Diakonisches Werk (Protestant) – play a more important role in the provision of social services than in most other welfare states. They are committed to supporting the health and welfare of those in need through thousands of affiliated organisations and independent charities. The Caritas Association employs more than 600,000 people, more than any other commercial employer in Germany, and performs hugely varied roles, filling gaps in social care, healthcare and childcare, as well as social assistance, including debt counselling.

These organisations generally operate in very traditional ways. Some, like Caritas, are trying to find new ways to operate digitally to "bring their heritage into the digital age",[48] but they are only at the start of that journey and a long way from creating social welfare fintech. They also recognise the issues of digital exclusion in the communities they serve. In addition, there is a big question about how to achieve enough digital scale to make a difference. One solution for the social sector could be to collaborate and pool resources to develop projects together. But this is unknown territory. Caritas has acknowledged it has a steep learning curve. It is beginning to test ideas through online consultation, but every development raises new questions, like how to maintain an open-source community or administer open-source licences.

48 Interview with Caritas

Supply: low priority for policy and social enterprise

Conditions for innovation: strong fintech and social enterprise sectors, but little connection between them

Fintech activity is very strong in Germany

Germany's fintech sector is the second largest in Europe, after the UK. There are around 800 fintech and insurtech companies active in Germany, and fintech is the second largest recipient of venture capital funding (after mobility start-ups). Fintech activity is focused around Berlin (with one-third of the activity) and there are smaller but growing hubs of activity in Frankfurt, Munich and Hamburg.[49]

A large proportion of fintechs are business-to-business (B2B) focused, especially those based in Frankfurt. A list of the 10 fastest growing start-ups includes only three business-to-consumer (B2C) businesses, and two of those are insurtech.[50] Fintech aimed at consumers (B2C) tends to provide budgeting or money management services – for example, Finanzguru, an AI-based financial assistant that has raised €6 million in funding.

Among the B2B examples is Solarisbank, which acts as a white label for other providers. It has a full German banking licence and partners access Solarisbank's modular services including payments and e-money, lending, and digital banking. Solarisbank does not market directly, acting solely as a platform for companies like Tomorrow, Smava and Trade Republic. By lowering barriers to entry, white-label providers may also provide a route into the market for future social fintechs.

Germany's fintech sector is strong and growing, but not relevant for low-income groups

Germany has a number of fintech services (usually backed by venture capital) designed for a mainstream consumer audience. Although they are not targeted at those most in need, they would all support financial resilience. These focus on financial literacy through positive financial behaviours, money management, forecasting and budgeting:

- Joonko. A digital finance portal that offers customers individually tailored finance and insurance products. It wants to be the first point of contact for customers in financial matters and ensure more fairness and transparency in the market.
- Bonify. Berlin based, this offers credit-scoring tools and personal finance services to

49 I Woodford, Meet the fasted growing fintech startups in Germany, Sifted, February 2020
50 I Woodford, Meet the fasted growing fintech startups in Germany, Sifted, February 2020

its users. The company gives customers free and easy access to their credit score and lets them upload additional relevant data. Then, it offers tools and personalised recommendations to help optimise the customer's financial situation. Bonify's mission is to educate consumers about the importance of their credit score and help them take control of their personal finances.

- MoneyCoach. Based at Factory Berlin, this makes personalised budgets that will save users money by enabling them to create budgets for everyday spending (food, drinks, tickets, travel) within an overall monthly 'envelope'. The more they stay on budget, the more savings they can access.
- Zuper. Berlin based, this manages all the bank accounts of a customer, sets budgets and tracks spending, so customers can save time and money.
- Smava. A fintech platform based in Berlin, it offers an overview of 70 loans between €1,000 and €120,000 from over 20 lenders. Consumers select and take out the loan that suits them. On average, Smava borrowers pay 35 per cent less interest than the national average.

The Covid-19 pandemic has been a catalyst for certain types of digital innovation and for action from the Government. DurchblickMacher is a service to help freelancers and the self-employed identify financial aid that was rapidly set up in response to the crisis. Covid-19 has also led to a raft of policies around reduced working times (Kurzarbeit) to protect those in work from unemployment or income loss. So far however, there is little evidence of any merging of action to protect the financial vulnerable with digital innovation.

Low earners in rented housing in the eastern states, along with low-earning migrant households, are two cohorts where poor financial resilience seems more common. Among these, those with problem debt, exacerbated during 2020 by Covid-19, could be important end beneficiaries of new products catalysed by an innovation programme.

Social enterprises tend to focus on climate impact, childcare and overseas issues

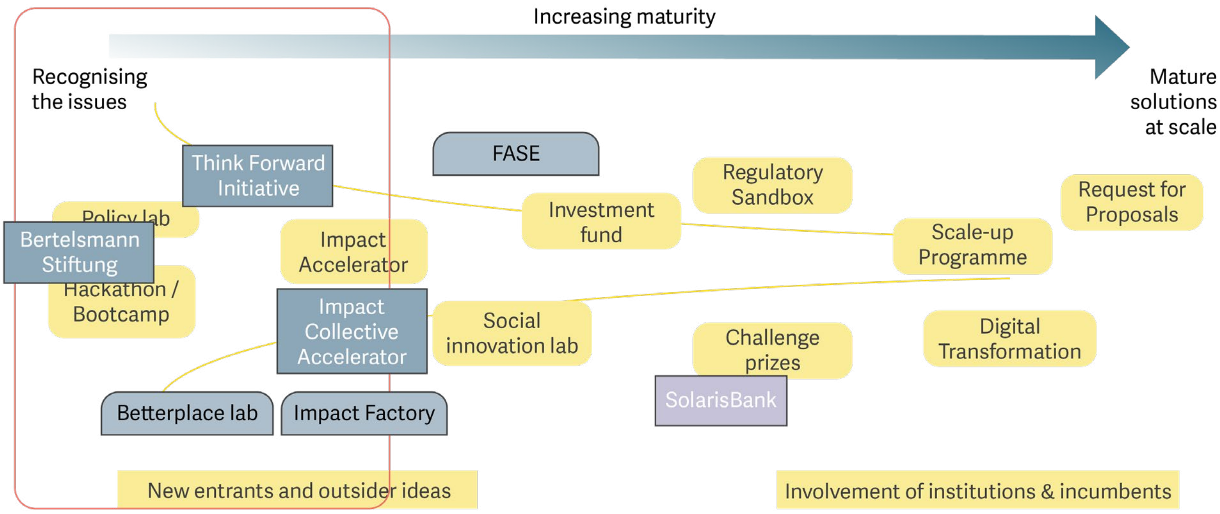
The large social welfare organisations are wary of working with commercial innovators because in Germany 'charity' and 'civil society' are very different from 'business'. This leaves little space for 'social innovation' or 'tech for good' of the kind we see in France, the UK and the US. There are one or two organisations trying to create a German model that is commercially competitive and has a social mission – but this is an unfamiliar model and is at a very early stage. Examples include companies that aim to improve gender equality in financial products, such as FinMarie, and those focused on environmental sustainability, such as Tomorrow Bank, which uses customer deposits for socially responsible investing.

Connections between organisations are scarce

As we have highlighted, these two major areas of activity – social welfare and fintech – have few connections. In fact, they are almost sealed off from one another. This is probably due to a combination of reasons including a 'mistrust' of the private sector among welfare organisations and their lack of digital literacy, the fact that commercial fintechs are finding success in developing mainstream B2C products, and the reluctance of Germans to talk openly about problem debt.

However, we have identified one example of a German accelerator in the social innovation space – Impact Collective Accelerator (see Annex 2). There may be others, but this gives an insight into the actions of an accelerator operating in the German context.

FIGURE 5: **Germany's innovation landscape is at an earlier stage**



Notes: many of these models can span a range of maturity levels depending on how they are designed and implemented

Summary

German households have high levels of financial resilience overall, supported by high savings rates and levels, and a broad welfare state. These factors, along with less severe lockdowns during Covid-19, have left German households in a significantly better position than the two other countries examined in this report.

However, there is no room for complacency, as those low-income households that were vulnerable before the Covid-19 crisis have been badly affected by it. Low-income households in Germany typically face high housing costs, increasing amounts of debt, and spend a large share of their income on essentials.

Low earners in rented housing in the eastern states and low-earning migrant households are two cohorts where poor financial resilience seems more common.

These issues are likely to grow as city rents continue to increase, digital exclusion becomes a greater barrier and if indebtedness continues to rise. Demographic changes are also putting greater pressure on the welfare state.

Charities are aware of these issues, but struggle to engage with digital and social enterprise communities. Social fintech movements exist, but focus on either climate outcomes or financial education and money management for higher-income groups.

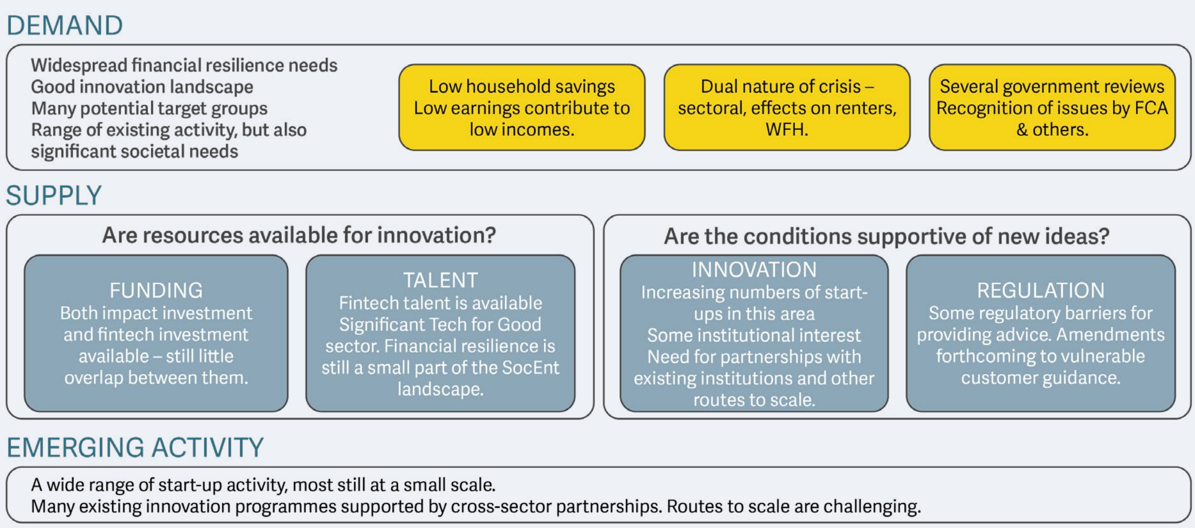
Section 5

The financial resilience landscape in the UK

Financial health is a significant policy issue for the UK and is recognised as a society-wide problem. According to the Financial Conduct Authority (FCA), 12 million adults in the UK had low financial resilience in July 2020. This takes the form of low savings rates, relatively high borrowing levels and the use of high-cost credit for essentials.

Progress has been made. Successful campaigns have reduced the punitive interest rates at the most extreme end of the market, and provided for basic bank accounts and access to cash. However, significant and persistent issues are still present, and have been exacerbated by the Covid-19 crisis. The increasing use of online and mobile banking creates opportunities, but also risks leaving behind the digitally excluded, a factor that is exacerbated by local bank branch closures and the loss of face-to-face options.

FIGURE 6: **The financial resilience and innovation landscape in the UK**



Demand: several broad groups are financially vulnerable

The UK has many low-to-middle income households in poor financial health

UK households generally have low levels of savings. This problem occurs at many income levels, but is concentrated at the bottom half of the income distribution. A lack of a saving habit is a contributor here – not just insufficient income to set aside. Even those on higher incomes may lack the knowledge or practice to set aside regular savings amounts.

The UK has had relatively high employment rates, although the use of temporary and precarious contracts means that those on low incomes are often working a lower number of hours, as well as receiving low hourly wages.

Use of high-cost credit for essential purchases, including rent and bills, is relatively widespread, especially among lower-income groups. This reflects a range of factors, including insufficient income from wages or benefits and exclusion from mainstream credit through credit scoring based on past behaviour or irregular income.

A high proportion of people have property wealth, compared with France and Germany, even among low-income households.

UK households are frequently underinsured. There are low penetration levels for many insurance products that could protect from financial shocks. This stems partly from lack of awareness, lack of affordability and lack of an appropriate product.

There are well-known gaps in the UK support system for financial resilience

The Money and Pensions Service (MaPS) UK Strategy for Financial Wellbeing (see Box 3) sets out a clear list of issues to address, including financial education, building up savings, reducing the use of credit for essential costs, increased access to debt advice and planning for retirement. The range and scale of the challenges identified by this exercise indicates the severity of financial resilience issues in the UK, and the ways that policy currently prioritises these challenges.

Progress has been made in recent years in the provision of basic and low-cost bank accounts without excessive charges, following campaigning on this issue. Caps on high-cost credit have also been introduced. However, there are still more than one million people in the UK without a bank account. Many of the problems identified by MaPS would be easy to recognise from previous research and government reviews.

BOX 3: **The Money and Pensions Service UK Strategy for Financial Wellbeing**

The recently formed Money and Pensions Service announced a new UK Strategy for Financial Wellbeing at the start of 2020, with a series of challenge groups to be formed around its targets to identify ways to reach specific goals by 2030. In response to the Covid-19 crisis, these groups have been re-orienting to look at immediate crisis response measures for the next two years, and thereafter to refocus on the issues to 2030.

The basis for this strategy includes a review of available evidence on what works, input from the private, public and third sector through consultation, and a 'listening exercise'. The Strategy provides a useful and timely summary of the current issues being faced by households in the UK, and how these have been prioritised for the sector to address. In particular, some areas were highlighted by the strategy and the challenge papers as being areas for potential innovation (see Section 6).

The report identifies five challenges and national goals for 2030. These are:

- Financial foundations – two million more children and young people getting a meaningful financial education;
- Nation of savers – two million more working-age 'struggling' and 'squeezed' people saving regularly;
- Credit counts – two million fewer people often using credit for food and bills;
- Better debt advice – two million more people accessing debt advice; and,
- Future focus – five million more people understanding enough to plan for, and in, later life.

Segmentation – issues faced by 'struggling' and 'squeezed' groups

MaPS (following work done by its predecessor, the Money Advice Service) uses a market segmentation approach to characterise UK consumers into three core groups and a number of sub-groups. These are the 'struggling', the 'squeezed' and the 'cushioned'.

These are based on qualitative ethnographic research, and are characterised not just by income, but by other factors including indebtedness, dependence on benefits, budgets and confidence with money.

Many innovation approaches specifically target the 'squeezed' group – those who have enough to manage (are generally able to meet their regular financial obligations), but who often have significant debts, a lack of savings and 'financial blind spots'. Those in this group are vulnerable to financial shocks, and tend to be tactical rather than strategic when managing money. They are most often working, and have children and busy lives with multiple pressures. Many do not plan and do not recognise the need for financial help. 46 per cent of this group struggle to keep up with bills and commitments, and 65 per cent do not focus on money in the long term.

Those in the 'struggling' group are characterised by low incomes, tight budgets, with little or no buffer, high levels of debt, with many living on a 'financial tightrope'. Their circumstances often dictate a short-term and reactive approach to money. Tackling the issues of this group often focuses on maximising access to entitlements through benefits or through other schemes, and tackling problem debt through debt advice. Some interventions increase the scope of face-to-face support, such as the Toynbee Hall Money Mentors scheme, which aims to increase capability and skills. They are generally thought to be more difficult to serve with a technology-based approach – although this differs significantly by age. Those in this group often have a 'negative budget' – greater outgoings than income – and may be shut out of many financial (and digital) services, either through affordability or through capability. Suggesting better ways to save or to manage money may be inappropriate for people who fundamentally do not have enough income to meet their outgoings – in 2016, 27 per cent of those in the 'struggling' group did not often have money left over after paying for food and regular bills. Lower costs of credit, more accessible debt advice and income maximisation are more appropriate for these people. They are more likely to prioritise control, transparency and certainty in the products they choose.[51]

A large proportion of UK consumers are financially vulnerable

According to the FCA, 50 per cent of UK adults show an indication of potential financial vulnerability.[52] These include: those with low financial capability; those with a physical or mental health condition; those who have experienced a significant life event recently (such as divorce or bereavement); and those with low financial resilience.

Updated guidance has recently been published on how financial firms can comply with the FCA's Principles for Business and treat vulnerable customers fairly.[53] The FCA emphasises that those customers experiencing difficulty with repayments should contact the lender in the first instance, and that "firms should be flexible and offer a

51 The Centre for Social Justice, Future Finance: A new approach to financial capability, June 2015
52 FCA, Guidance Consultation GC19/3: Guidance for firms on the fair treatment of vulnerable customers, July 2019.
53 FCA Guidance for firms on the fair treatment of vulnerable customers, 23 Feb 2021 https://www.fca.org.uk/publications/finalised-guidance/guidance-firms-fair-treatment-vulnerable-customers.

full range of shorter and longer-term options, tailored to reflect customers' individual circumstances."[54]

Covid-19 has reduced household incomes and employment, especially for those working in shutdown sectors

The UK has experienced a broader sectoral hit than other countries, with larger falls in household income. Longer and more severe lockdowns have had an impact, and the UK's benefits system is not as generous as those in France and Germany. The lowest income quintile in the UK has an average income of €14,700, compared to €16,600 in Germany and €18,500 in France[55]

Those on precarious contracts have been particularly likely to have experienced a fall in earnings or to have moved out of work.

Of those whose income has decreased as a result of the Covid-19 crisis, 27 per cent have drawn on debt, mainly to cover living expenses.[56] This illustrates the vulnerabilities that were present before the crisis.

There has been a particularly acute effect on young people, who are more likely to have been employed in shutdown sectors.

The largest sources of UK financial support are government benefits and charity debt advice

The government safety net has reduced in the last decade

The first option for most people in financial trouble, or those who have experienced a financial shock, is to apply for government benefits. This was seen most acutely with the huge rise in new applications for Universal Credit at the start of the Covid-19 crisis. Universal Credit is now the key means-tested benefit for those on low incomes (it replaces six previous means-tested benefits). There are also benefits and support schemes run by local authorities.

Very broadly, changes to benefit structures and levels in the last decade have largely cut benefits for working-age recipients, while preserving benefits for those over pension age. Indicators of financial resilience before the crisis reflect some of these changes and cuts, leaving many at the bottom of the income distribution in a precarious position, with

54 FCA Press Release 22/10/2020 https://www.fca.org.uk/news/press-releases/fca-highlights-continued-support-consumers-struggling-payments.
55 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
56 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.

'negative budgets', where income does not cover outgoings for the household. Income replacement rates in the UK are significantly below those in France and Germany. Replacement rates for a single adult with no children after two months of unemployment are 17 per cent in the UK, compared with 59 per cent in Germany and 64 per cent in France.[57] (Although they improve when housing benefits are included – to 46 per cent in the UK, compared with 59 per cent in Germany and 68 per cent in France.)

In response to the Covid-19 crisis, the UK Government announced several new support schemes, as well as increases to existing benefit provision. Resolution Foundation analysis suggests that the impact of these measures combined has had fairly even effects across the age distribution, with younger workers primarily benefiting from the Job Retention Scheme ('furlough'), and older workers being the largest recipients of the Self-Employment Income Support Scheme (SEISS).[58] However, there are some groups who have slipped through the cracks and have not benefited from these schemes at all. These include those self-employed people who have not been trading long enough to show the required two years of tax records to prove their pre-crisis income, and owner directors. Those who remain employed but who have lost income through reduced hours are also less likely to have received support.

Charities and debt advice provide for those in serious difficulties

Two of the largest charity providers of debt advice in the UK are StepChange and Citizens Advice. These services have been traditionally provided (mainly) face-to-face or over the phone, but both are seeing rising demand for services provided online – boosted significantly during the current crisis. 1.7 million people in the UK currently receive debt advice.[59] The MaPS UK Financial Wellbeing Strategy has a target of an additional two million people receiving high-quality debt advice by 2030.

Key challenges for debt advice are getting people to seek help sooner, increasing capacity to create access for more people, and addressing the root causes of problems.

These services often start by putting together an income and expenditure report, to understand a client's sources of income and spending. This can be a time-consuming and manual task, involving asking the client a lot of questions and searching through paperwork for reference figures. A large proportion of people who come forward for debt advice have a 'negative budget' – their income is not enough to cover their essential outgoings. In this situation, although some assistance can be given to maximise income

57 Fig 16 M Gustafsson, K Henehan, F Rahman & D Tomlinson, After shocks: Financial resilience before and during the Covid-19 crisis, Resolution Foundation, April 2021.
58 M Brewer, K Handscomb, All together now?: The impacts of the Government's coronavirus income support schemes across the age distribution, Resolution Foundation, September 2020.
59 Money and Pensions Service, Better Debt Advice: Challenge Pack, March 2020.

(for example, through benefits to which they are entitled, but currently not claiming), it is hard to address paying down debt when there is no surplus to go towards repayments.

Debt problems are also frequently linked to other issues: housing, relationships, employment, benefits, addiction, health. In 2018-19, 56 per cent of clients of MaPS-funded debt advice had been diagnosed with a mental health problem. More complex and connected needs require more nuanced and holistic solutions.[60]

Debt advisers often focus on immediate needs and do not have capacity to work on longer-term issues of financial resilience. Post-advice support is limited, and figures show that a large proportion of those a year on from contacting debt advice have not rebuilt their financial resilience to be able to deal with a new financial shock. Increasing numbers turn to other forms of online advice to help with their finances.

Lenders and utilities have a minimum responsibility to vulnerable customers

In addition to government support, there is a range of services that those on low incomes can expect from utilities and other service providers. Charities such as StepChange and Citizens Advice, as well as newer companies, such as IncomeMax, can help individuals to navigate these options and access support where it should be available.

Some energy companies provide hardship funds and grants to help those on low incomes, and have partnerships with debt advice charities. People over pension age and people who are sick or disabled may qualify as vulnerable customers for priority services. However, this does not guarantee help with payments. Each of these schemes has to be navigated for a specific energy provider, and provision is complicated and patchy.

One of the big obstacles to addressing financial well-being following a financial shock is the time taken to address the issue. StepChange finds that about half of its clients have waited more than a year to deal with their problems. Contacting creditors and banks at an early stage is an important step to getting help, but few are prepared to do this, because they do not believe it will result in their being better off. Frequently, people will borrow more, often at high interest rates, compounding the problem and increasing the overall debt.

One of the deterrents to seeking help can be the impact on credit scores. Several companies can provide individual consumers with a view of their credit rating. This can also be used as a threat by companies to ensure compliance – if you cannot stick to the payment schedule required, your credit score will be damaged. This has a long-lasting effect on people's finances and ability to access financial products.

60 Money and Pensions Service, Better Debt Advice: Challenge Pack, March 2020.

A third element of the support system is the independent consumer advice organisations, including Which? and Martin Lewis. Lewis, a self-styled money expert, and creator of the Money Saving Expert brand and website, has a newsletter that goes to 12 million people. He provides advice to help people choose between financial products, and offers ways to save money. He has increasingly also taken on a campaigning role to argue for policy change. He has done much to popularise ideas of switching tariffs, finding better deals and making the most of grants and allowances. He is one of very few public figures to champion the importance of seeking better deals, creating a budget, and building up savings.

Supply: innovation is emerging in start-ups

Financial services

The UK financial services landscape is characterised by a few – very large – banks, with very little customer movement between them.

Branch closures, and moves away from cash and cheques, are creating new inequalities and making banking harder to access for many groups. In 2019, Barclays announced it would leave the Post Office Banking Framework. After significant opposition, it reversed this position, but this move underlined the vulnerability of this framework, which aims to preserve access to cash via the Post Office network. Recent moves have focused on using cashback at retailers to achieve similar goals.

Challenger banks are some of the fastest growing fintechs, but the model has yet to be proven. It is not clear whether they serve those who are unable to access mainstream banking.

Many people who are unable to access mainstream bank accounts make use of prepaid card accounts to receive money and make payments. When the FCA suspended the activities of Wirecard's UK payment processing business in June 2020, a number of card providers found themselves unable to complete payments, and their customers were unable to access their accounts. Others were able to use their technology platforms to alert customers immediately and give some notice of the changes.

Other forms of financial innovation, such as crowdfunding platforms, are further advanced in the UK than in the rest of Europe.

Insurance products could support financial resilience, but have low take-up, especially among the most vulnerable groups

There is a range of financial services products that should be able to help those who experience a financial shock. These include income protection insurance, household insurance and critical illness cover.

The UK has relatively low levels of life assurance and income protection insurance take-up, especially among those on low-to-middle incomes. People on low-to-middle incomes tend to have the basic financial products they need, but they are much less likely than those on higher incomes to be saving for their retirement or to have life assurance or income protection products.[61]

Responsible finance and credit unions provide affordable credit, but make up a tiny proportion of the lending market

Community lending, credit unions and local banking form a small part of the UK market, compared with other countries (although this varies across the nations of the UK, with more credit union membership in Northern Ireland, for instance).

Community development finance institutions (CDFIs) are social enterprises providing affordable loans and money management advice to households unable to access mainstream financial products. Credit unions have a larger footprint, but still small in the context of a high-cost credit market of more than £3 billion.[62] UK affordable credit providers have a larger presence in supporting small businesses, social enterprises and charities, as compared to consumers: in 2019, CDFIs made consumer loans of £24 million out of a total of £200 million.[63] Both CDFIs and credit unions are community based and usually focus on their particular local area.

In other countries, most notably the US, CDFIs are an important part of the financial health infrastructure. This report identifies significant barriers to scaling up this sector, including the need for capital investment in systems and management teams. Credit unions are likewise sub-scale as compared to other countries, and bad experiences with software implementation in the past mean there is still a lack of digitisation in the sector, which is now being addressed.

Fair4All Finance, supported with dormant account money assigned by the Government, is tackling the problem of scaling these sectors, setting the challenge of scaling the sector tenfold (see Annex 3). Its analysis of what is needed to scale up affordable credit

61 Resolution Foundation, In Brief: Financial Inclusion & Financial Capability Explained, August 2009.
62 K Dayson, P Vik, J Curtis, Scaling up the UK personal lending CDFI sector: From £20m to £200m in lending by 2027, Carnegie UK Trust, 2020.
63 Responsible Finance, Responsible Finance – the Industry in 2019, December 2019.

includes suggested areas of innovation, such as shareable back-end systems and tools for affordable credit, new affordable credit products and improved customer access to financial information.[64]

A new group of accelerators and innovators is emerging to address these gaps

Strong fintech and social enterprise systems in the UK are combining to create a small, but growing, financial inclusion sector. This is being supported at present by foundation impact investors, charities and public bodies, such as MaPS and Fair4All Finance.

Some innovations target gaps in provision or service from mainstream finance – for example, products for the self-employed, temporary workers, those with carers, younger savers, or those with low credit scores.

Others aim to change saving, spending or budgeting behaviours with better information, nudges and automated systems.

Strong fintech and social enterprise sectors provide good resources for innovation

The UK's fintech sector is one of the most active in the world, supported by a large financial services sector and moves made by government and regulators to support innovation. A 2019 government report suggests there are more than 1,600 fintech firms in the UK, employing 76,500 people.[65] Government support for the sector includes a FinTech Sector Strategy, the FCA's regulatory 'sandbox", the release of open banking data and associated initiatives to support this, and Tech Nation's support of fintech companies through programmes and competitions. A number of large financial services companies also run accelerator or venture development programmes, especially in London. These include the Barclays Accelerator, Level 39 and Accenture's FinTech Innovation Lab.

Fintech

Networks such as Tech Nation and Innovate Finance provide support, information and events for entrepreneurs in fintech. The large existing talent base in UK financial services, especially in technology departments, is a significant factor in the growth of UK fintech. The majority of fintech ventures are aimed at B2B, serving the large number of existing financial institutions in the UK with new technology. Relatively little of the activity is B2C, focused on consumers.

Innovate Finance records investment as being up by 38 per cent in 2019, with $4.9 billion of capital raised. This was more than the rest of the top 10 European countries combined.

64 Fair4All Finance, Affordable Credit Theory of Change, February 2020.
65 Department for International Trade, UK FinTech: State of the Nation, 2019.

One focus of UK fintech is to provide alternatives to the large bank services that suit smaller customer groups. These can take advantage of being smaller, more nimble, and having no legacy infrastructure or customers to support. The rise of challenger banks, such as Starling and Monzo, is part of this, as is the range of lending channels.

Fintech founders and funders are part of social networks that lend credibility and help to source support and advice. What is missing from those networks is virtually anyone with lived experience of poverty, financial exclusion or debt. While the fintech focus on wealthy and digitally savvy clients is partly drawn from where funding and customers are available, it is also a result of a lack of knowledge about underserved markets and social impact. Connections are starting to be made, and Tech Nation's Fintech support programme has seen a number of social fintech participants in the most recent cohort.

Social enterprise and impact investing are thriving in the UK

The UK social impact landscape is very well developed, relative to others in Europe. Starting with pioneers such as Big Society Capital and early accelerator programmes like Bethnal Green Ventures, the social enterprise and 'tech for good' world has now been operating for around 10 years. Big Society Capital funds an annual report into the size of the social investment sector in the UK, reporting it as a £3.5 billion market by the end of 2018, a 30 per cent increase over the previous year.[66]

There has been an increasing institutional interest in measuring the sustainability and societal impact of investment, but this has not yet translated into a different view of responsibility to customers, including those who are vulnerable.

Foundations and funders

Many of the largest UK foundations are concerned with poverty and local communities in some respect, both of which overlap with concerns about financial health. The large foundation funders that have some focus on financial health and resilience include the Joseph Rowntree Foundation, Esmée Fairbairn Foundation, Friends Provident Foundation, Barrow Cadbury Trust and Carnegie Trust. Corporate funding and philanthropy includes foundations set up directly by financial firms (for example, JPMorgan Chase Foundation, Aviva Foundation). In addition to these charitable funders, there are important organisations created by government and funded by money set aside from dormant accounts and from industry levies. These include MaPS, Big Society Capital, and Fair4All Finance, recently created from the Inclusive Economy Unit at the Department for Digital, Culture, Media and Sport (DCMS). Recent announcements by the

66 Big Society Capital, For third year in a row, UK Social Investment Market grows by 30% - now worth over £3.5 billion, November 2019, Accessed 6 April 2021.

Government have directed additional dormant account resources to charities and social enterprise.

Social enterprises

There is a wide range of social enterprises in the UK, working in different sectors, with different organisational forms and a range of origins. Very few areas of UK society have no social enterprise activity and, in some areas, such as healthcare and community services, they are essential parts of the system. Social Enterprise UK, a membership body, identifies that the sector is continuing to grow, with 42 per cent of social enterprises under five years old, and three in 10 under three years old. They are also expanding, with 52 per cent growing their turnover in the previous 12 months (compared with 34 per cent of all SMEs).

Incubator and accelerator programmes, such as Bethnal Green Ventures, Zinc and the Impact Hub network, provide a useful starting point for new enterprises and help to create networks within the sectors.

Within financial resilience and health, ventures often seek to provide services to an underserved group, where mainstream finance is not well suited to their needs. Services include income smoothing, improving credit ratings with non-traditional information, and supporting credit unions and community lenders to improve access and efficiency.

Cross-sector initiatives create connections

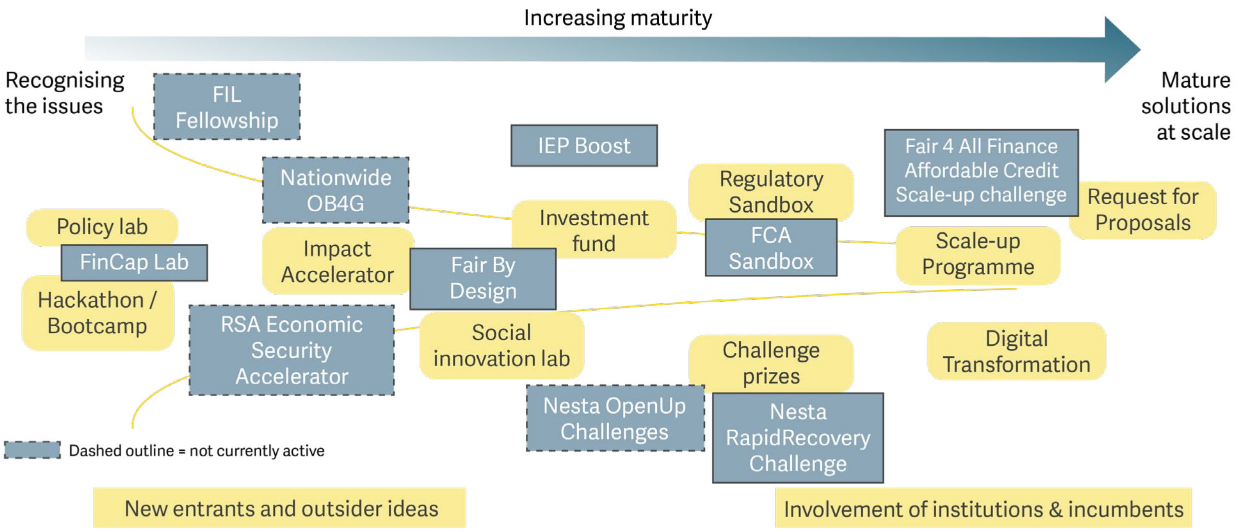
There are a number of cross-sector initiatives in financial health and financial inclusion. The UK Financial Wellbeing Strategy, led by MaPS, includes leadership from credit unions, charities and the commercial sector.

The Financial Inclusion Commission, an independent body, includes researchers, practitioners, finance industry experts and politicians. Its role is to convene, gather evidence, and influence public policy to ensure that financial inclusion is a priority.

The Inclusive Economy Partnership is a government-created group that includes companies and charity partners, with a broad set of initiatives supporting innovators and partner projects.

Emerging innovations: innovations are emerging from start-ups and accelerator programmes

FIGURE 7: **The UK has a variety of innovation initiatives addressing financial resilience**



Notes: many of these models can span a range of maturity levels depending on how they are designed and implemented

Programmes established in recent years include:

- Nationwide Open Banking for Good. This 2018 accelerator provided connections to charity partners, grant development funding and expertise and mentoring for six months to support those using open banking data to benefit financially squeezed households.
- Economic Security Impact Accelerator. The RSA in partnership with the Mastercard Center for Inclusive Growth ran this programme in 2019. The aim was to support 12 organisations and also to grow the ecosystem and connections to create systems change. The remit was broader than financial resilience and covered good work, inclusive growth and economic security.
- Finance Innovation Lab fellowship programme. This programme focuses on supporting individuals with early-stage ideas, and has been run several times since 2015. The remit is to change the financial system to serve people and the planet, and specific cohorts have focused on issues such as use of data.
- IEP Boost. Supported by the government-backed Inclusive Economy Partnership and run by the Young Foundation, this programme covers three themes of financial inclusion and capability, mental health and the workplace, and transitions into work for young people. It focuses on connecting ventures to experts and mentors to

support scaling an existing solution.

- Tech Nation Fintech programmes. Government-supported Tech Nation runs a regular Fintech programme. This does not focus on social enterprises specifically, but nevertheless has seen several participants in the area of financial inclusion and capability.
- Nesta Open Up Challenges. These challenge prizes have been aimed at stimulating innovation using open banking data, but not with a particular focus on financially vulnerable groups. In 2017 it was aimed at supporting small businesses; a 2020 follow-up focused on consumers.
- Nesta Rapid Recovery Challenge. This challenge prize programme began in 2020 and runs until September 2021. It aims to support financial health and employment in response to the Covid-19 crisis.
- Fair4All Finance Affordable Credit Scale-up Challenge. Fair4All Finance created this challenge with a very specific focus to support the expansion of affordable credit from CDFIs and similar organisations. Following a pilot, the scheme has been expanded.

A smaller number of these programmes are still running. Nationwide announced a new incubator programme in Spring 2021. IEP Boost is also running a new programme in 2021. For more details, see Annex 3.

A small number of organisations are investing in financial health and inclusion

When it comes to sources of capital, these are relatively scarce compared with some other areas of social investment. Fintech investment is fairly healthy, especially for ventures based in London (see above). Relatively few social investors and foundations have a focus on financial health. Those foundations that provide investment in this area are often those with a focus on poverty and living standards.

Funders that are active in this area specifically include:

- Fair By Design - a campaign and a social investment fund, co-funded by partners including the Joseph Rowntree Foundation, Big Society Capital, Social Tech Trust, Comic Relief and Barrow Cadbury (see Annex 3 for more details).
- Fair4All Finance – with a current focus on affordable credit and credit unions. It recently participated in the provision of a quasi-equity £5 million perpetual bond for Fair for You (an affordable credit community interest company), along with Joseph

Rowntree Foundation, Esmée Fairbairn Foundation, Tudor Trust, Barrow Cadbury Trust, Robertson Trust, and Ignite.

- Joseph Rowntree Foundation - the UK's most prominent charity foundation focused on solving poverty, its social investment arm has £15 million to invest in solutions to poverty. It has supported Fair By Design with £3 million of this.

Summary

The UK has a range of financial resilience issues, affecting overlapping, but distinct, groups. Over-indebtedness is not only associated with low income, but is prevalent across a range of income groups. The widespread nature of various forms of precarious work also creates a relatively large cohort who can be poorly served by traditional finance practices.

Although high home-ownership rates provide some cushioning against financial shocks, savings rates remain very low and so borrowing has been used much more by UK households than those in France and Germany – both before and during the Covid-19 crisis.

The groups in need of support include those on stable but low incomes, those who struggle with debt at a range of income levels, those with low savings, and those with variable month-to-month income. Although this last group is a broad group with a variety of financial health needs, it is worth identifying because it is often badly served by a financial services system that assumes regular, salaried income as the default.

Innovation is emerging from a range of early-stage 'fintech for good' start-ups, supported by a mixture of charity and government support, and stimulated in part by the release of open banking data.

The key challenges are to address the range of behavioural changes needed to make a significant impact on the issues, and to scale up the small innovations that are emerging so that they can reach a large number of users.

Section 6

How innovation can support financial resilience

Not all financial resilience issues can be tackled by digital and fintech innovation – it is important not to present tech or new products as the solution to fundamental issues, such as a lack of employment income, or a threadbare welfare state. The range of issues described in the previous sections of this report can only be addressed with multiple methods that include policy change, charitable provision and education. Yet it is the case that the growth of fintech has demonstrated the potential for new products and services to address specific user groups, or to reduce costs and increase efficiency. Examples of innovations that can boost financial health have appeared in all the three countries we have examined in this report, and there is potential to have greater impact with greater scale and scope of these innovations. To date many of these have been targeted at consumers from better-off households – but there may be scope to adapt some of these approaches so they better serve those more likely to be lacking in financial resilience.

Innovation can be supported or boosted by programmes that aim to stimulate, fund and connect ideas. These include short-term boosts such as pitching competitions and hack weekends, as well as longer-term efforts such as accelerator programmes, challenge prizes and investment funds. Policy makers, charities and impact investors are among those who can set up and support these programmes to create greater impact on financial resilience issues.

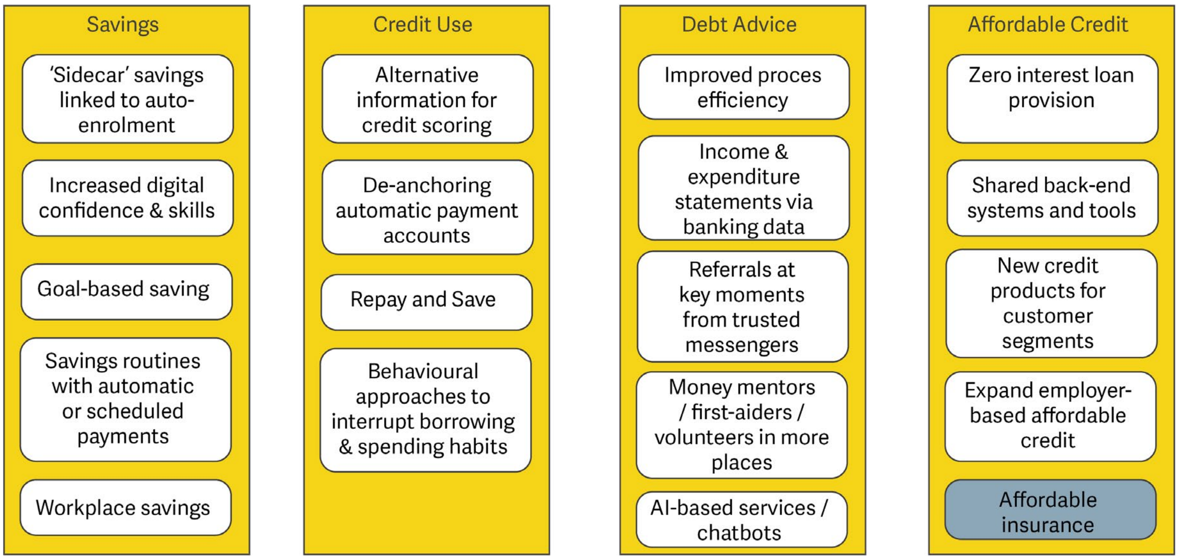
Can innovation help?

Not all areas that need intervention need innovation – some require policy changes, charitable or philanthropic work, increased funding for existing initiatives, or joining up existing providers.

Where innovation is potentially useful, it might be by offering new products and services to underserved groups, by using new practices or technology to make products more affordable or accessible, or by transforming existing services to reach more people.

Across a range of previous research and analysis, there are recurring financial resilience issues where innovation in products, services or processes has been identified as a potential solution.

FIGURE 8: **Areas of financial health with potential for innovation**



Savings

Building up a savings pot is a fundamental component of good financial resilience. Encouraging people to save more, or to develop a savings habit, is a route to building financial resilience for those groups who have enough income to make this a realistic option.

Technology and innovation can support saving by making the process easier, and by linking savings to goals. Most innovation in this area is aimed at supporting behavioural change.

Innovations targeted at savings generally focus on making savings unnoticed or automatic, for example through payroll deductions, so that it does not require active intervention to build up a savings pot. Active saving is a behaviour that is closely linked to financial well-being, but having a 'savings mindset' and making regular savings is more important than the amounts saved. There is also a link to financial education and capability – non-savers and irregular savers are more likely to be low in confidence.[67]

However, there is a balance to be struck between setting aside savings and managing credit. While saving 'for a rainy day' is one way to secure financial resilience, evidence suggests this is a poor motivator in encouraging people to save. Specific goals are a better incentive, and creating barriers to immediate access can help to discourage impulsive spending.

Other approaches include working with employers to set aside savings directly from

67 Money and Pensions Service, Nation of Savers: Challenge Pack, March 2020.

wages, 'repay and save' products that pair repayment of debts with building up savings, and offering subsidised incentives to save (often through government schemes).

A number of start-ups use automatic deductions, reminders and digital rewards to promote saving. Those with high digital capability are more likely to be saving regularly, regardless of income level,[68] so another way to promote saving is to increase digital confidence and capability.

The available evidence also suggests the effectiveness of the following approaches:

- Promoting goal-based saving with small achievable goals for new savers;
- Establishing a savings routine with automatic payments or a routine for saving loose change;
- Automated deposits at the start of the budgeting cycle;
- Mechanisms to reduce access to savings, with notice required over the counter, or separate but linked accounts; and,
- Commitment devices to save routinely without 'seeing' the money being saved.

Managing credit and repaying debts

The need to repay debt can be a barrier to building up savings and can increase costs for those on the lowest incomes. The use of high-cost credit, including payday and doorstep lending, is still a very large issue for the UK, although less prevalent elsewhere.

Most experts working on financial resilience issues acknowledge that the goal is not to eliminate the use of credit, but rather to offer affordable and appropriate credit where it is needed (see the section on affordable credit below).

Technology and innovation can be used to add different information to the process of risk and credit scoring, which can make credit more affordable for some groups. It can also be used to support behavioural change, by supporting ways of paying down debt.

Credit scores are frequently cited as a barrier to accessing credit at reasonable rates, pushing those in need of credit to higher-cost providers. New approaches to risk assessment focus instead on working directly with employers, and using open banking data and AI to predict risk using different and non-traditional sources of data. This can bring more people into scope for mainstream lending.

68 Money and Pensions Service, Nation of Savers Challenge Pack, March 2020.

Managing credit well involves ensuring that repayments are made when money is available, and not creating unnecessary overdraft charges, or underpaying such that the duration of lending is longer. Better matching repayment schedules and amounts to people's circumstances, for example, by matching repayments to a four-weekly or two-weekly salary cycle, can help people to budget and manage money, and reduce the likelihood of late payments.

Behavioural techniques can also be used to interrupt spending and borrowing habits – for example, adjusting recommended automatic payment amounts, changes to direct debt defaults, and disclosure remedies showing the duration and cost of repaying in different scenarios. These behavioural approaches are among those that have been tested by the UK's Financial Capability Lab.

Products and services starting to be offered by banks and challengers include income tracking (balance after bills), spending analysis, money management tools, gambling blockers and cash withdrawal limits. All these can help to manage money and repayments more easily and transparently, or reduce spending in line with repayment goals.

Affordable credit

Use of credit is an important element of financial resilience. Affordable credit is most often associated with community finance institutions, such as credit unions, CDFIs, and mutual and co-operative banks. These institutions often have long-standing operational practices creating opportunities to digitise and improve existing processes to support greater scale or accessibility.

Fair4All Finance has provided considerable analysis of the areas for innovation in affordable credit, which includes shared systems to increase efficiency and coverage for existing providers. Start-ups such as UK provider incuto provide back-end technology that can help providers to connect with more customers.

New areas for development include zero-interest loans for those excluded from other forms of lending, an approach which is used in Australia. Appliance provider AO has launched a rental service, in partnership with housing associations, to make white goods more affordable for housing association tenants.

Crowdfunding and micro-credits are other mechanisms for making credit available outside traditional lending processes, and are more widespread in France.

User innovations

In addition, there are some more general aspects of financial products and services that would benefit from innovation and new approaches. These include:

- Usability – making products more accessible, easier to use and more transparent.
- User engagement – increasing awareness of product benefits, attracting new users for existing products.
- Simplification – making it easier to have control and certainty, with transparency over the way money is treated and when charges will be applied.
- Basic advice – making suggestions on basic levels of savings, credit and goals that are appropriate and setting norms and habits to follow. (Although there is some concern about making these 'suggestions', where it potentially infringes on regulated financial advice activities.)

Debt advice

In the countries in this report, the primary providers of debt advice are charities, often those which have been established over a long period of time to help those in poverty. In many cases, these long-standing institutions have limited digitisation, and are more likely to be using inefficient systems, tools and processes than banks and credit providers. Scanning documents and organising client paperwork and other 'pre-advice' activities and tasks are time consuming for debt advisers. For example, simplifying and automating the production of an income and expenditure statement would provide the opportunity to refocus an adviser's effort on working with the client, rather than on managing paperwork.

Reviews of debt advice effectiveness have noted that advisers often lack capacity to provide post-advice support. Many debt problems are linked to complex and interlinked issues, such as unemployment, mental health and domestic abuse or coercive control.[69] This can mean it is hard to get to the root causes of the problem in a short window of time, when the focus tends to be on a short-term problem.

Opportunities that have been identified to improve engagement with debt advice at the outset include referrals from trusted, influential 'messengers' that could reach people at key moments such as major life events. Previous research suggests that referrals from employers, GPs and children's centres could be particularly impactful.

69 Money Advice Service, Better debt advice: From a moment of crisis to a lifetime of resilience, December 2017.

Other suggested ways to improve reach and capacity include:

- Video delivery of advice sessions;
- AI-powered services and chatbots;
- Connecting people to money mentors, money first-aiders or volunteer advisers; and,
- Financial driving licences – self-service financial education.

Increasing confidence and social support

A more intangible element of financial resilience is instilling the confidence to seek solutions, to find support and tackle problems when they occur. The stress caused by financial problems can induce a scarcity mindset, making it hard to make decisions and build confidence. Understanding these aspects of financial vulnerability are critical in designing a solution that attempts to overcome these barriers.

Some innovations aim at supporting confidence and behavioural change. The most effective interventions have involved some face-to-face support, including MyBnk's mentoring schemes and Toynbee Hall's Money Mentors programme.[70]

Although creating behavioural change through technology is difficult, there is some possibility that peer groups and communities connected by technology might be able to support these changes. For example, a number of innovations, particularly in Germany, aim to support women in increasing their financial confidence.

What else could be done?

Selecting mechanisms to support innovation

Having identified that there is a demand for innovation in some areas of financial resilience, and that there are some resources that can feed the development of these ideas, it might be desirable to provide additional support that can encourage and accelerate the development of innovations.

Experience across the three countries focussed on in this report, as well as from elsewhere in the world, and from existing commercial fintech support suggests there are a range of appropriate models for organising support for innovation. These include:

- Creation of a policy unit or think-tank. This would research and raise awareness of the issues, inform debate and provide data on the potential users/audience/beneficiaries.

70 Financial Capability Lab, Toynbee Hall's Money Mentors programme evaluation, https://www.fincap.org.uk/en/evaluations/toynbee-hall-s-money-mentors-programme, accessed 6 April 2021,

- Exploratory innovation lab. A space for user research, identifying problems, and testing solutions at increasing levels of scale. Examples include Nesta public sector lab, Y Lab, and the Financial Capability Lab.
- Start-up accelerator. Providing resources, including funding and hands-on support, to early-stage ventures to grow and scale. Can be more or less targeted at a particular challenge or issue.
- Scale-up programme. These are usually focused on specific challenges of scaling an existing and proven model. For example, access to capital, access to customers or suppliers, marketing.
- Regulatory sandbox. This can be targeted at early-stage or later-stage ideas, with the aim of helping work with regulations and testing ideas within an existing regulatory framework, at lower cost and with expert support.
- Digital transformation. This is usually an internal innovation programme supporting innovation within an existing organisation, focusing on the use of digital to upgrade processes, develop new products and improve user interactions.
- Innovation brokerage. A matching programme linking existing organisations with innovators or technology providers who can help address their issues.
- Innovation platform. Providing a white label or open source set of technologies that can be built on to create innovations without the associated costs of developing the underlying technologies.

The supporting conditions for these approaches include the status of impact investment and social enterprise, and the availability of innovation and social objectives within financial services and fintech.

Identifying the appropriate measures to use requires considering aspects of the landscape that have been outlined in the previous sections. Understanding the demand for innovation, and the types of solutions needed, can suggest the stage that should be targeted. Knowing the scale of funding and support that is available, along with potential collaborators and supporters indicate which types of innovation at which stages might be effectively supported. Understanding the existing supply of funding, talent and ideas, and the gaps in that supply, can show where interventions might be effective.

The concluding section attempts to combine these considerations with recommendations for each of the three countries considered in this report.

Section 7

Conclusions

This report has identified some general principles that should be considered when developing and supporting innovation to support financial resilience.

Digital innovation should be used alongside other approaches to address financial resilience

Digital innovation is not always the right approach for financial resilience problems. The root causes often demand different strategies, including policy changes or expanding charitable provision. It can be tempting to view financial resilience through a specific lens of savings or debts, but financial problems are often connected to other issues, including health, life events, housing, and family and social connections. Understanding the nature of the issues that need to be addressed and the limitations of narrow solutions is vital.

Understanding and engaging with financially vulnerable users helps innovations create useful solutions

There is a great deal of existing expertise and evidence on financial health. This is often held by foundations and charities that provide frontline services, including debt advice. For example, the UK's Financial Capability Lab has run experiments and gathered evidence on which interventions are effective. Building partnerships and relationships with this expertise is important in identifying approaches that are most likely to be impactful.

Those on low incomes and facing financial vulnerability may be the potential users of innovative approaches, but they also have very particular needs. They might be less able to access digital tools, through cost or capability. And they may be harder to engage in long-term thinking when they face urgent short-term worries about money. Understanding and respecting these challenges and needs is especially important if attempts at innovation are to succeed.

Scaling to reach enough users to create impact and sustainability is a challenge that needs supporting through partnerships & funding

Financial health problems vary in scale and scope and so should potential solutions. Scale might be achieved through partnerships with existing financial institutions, by working with significant charities and by working through employers or with government.

Finding a route to scale innovation is as important as the underlying new idea or approach, if it is to achieve significant impact. An innovation system that supports only idea creation, but does not provide easy routes to scale, is unlikely to make significant inroads into financial challenges.

Here we provide specific conclusions for each country in this report.

France

France already has emerging examples of innovation in financial resilience, with some coming from the private sector and others from social purpose banks and charities. It is encouraging to see that it is possible to create cross-sector collaborations in this area, such as the group that has supported Budget à Grande Vitesse.

Addressing poverty and unemployment as root causes of financial vulnerability should be a priority

There are a number of potential target areas for innovation. The issue of unemployment is a root cause of financial vulnerability, and one that has increased as a result of the Covid-19 crisis. Alongside the unemployed, those in temporary employment, single households and those living in cities are more likely to be on low incomes. Some of the problems of low income might be mitigated through innovations including microcredit, benefits calculators and alternative credit-scoring methods. Some of these will not be appropriate for the very lowest income groups though. Addressing root causes might mean reducing barriers to work through employability and training, or improving access to resources such as transport and childcare.

Temporary contracts and variable earnings are appropriate targets for digital innovation approaches

The widespread use of temporary contracts and the insecure and variable earnings associated with self-employment are growing issues. There is scope for some financial innovation here as current banking systems are not well adapted to these types of income. Income smoothing and earned wage access products can be useful, as can money management systems that help to match the timing of income and expenditure.

In a landscape where state intervention and legislation play a major and visible role, we believe there are opportunities to combine action through more systematic and targeted initiatives, bringing together established social institutions, fintech and venture capital.

France has the conditions to support greater financial resilience innovation, if more connections and funding are made available

France has a good number of fintech incubator and accelerator programmes, as well as a range of social institutions that have a financial fragility remit. However, there does seem to be a gap where social fintech and mainstream tech investment communities have relatively few connections and collaborations. Greater interactions between these groups might produce more opportunities for innovation, and for scaling new ideas within existing institutions.

The approach taken by a number of UK programmes that involve charities, in defining the problems that innovators can seek to answer is one way of building connections between the sectors, as well as bringing in frontline knowledge of the issues.

Digital exclusion is a factor that is linked to financial exclusion, and has become more acute as financial interactions increasingly move to digital channels during the Covid-19 crisis. Addressing this issue should align with France's wider Digital Society Mission, and is an area where social enterprise could play a greater role.

A new programme of innovation support might focus on issues of insecure and temporary work as a starting point. There is also potential for savings and low-cost lending solutions to be developed.

New programmes of support for innovation must incorporate user engagement, either directly or via charities and other front-line organisations, alongside support for innovators. Establishing routes to scale, that might include links to existing commercial or charitable institutions, is another important element in promoting innovation in this space.

Germany

Financial resilience is an issue for low income households in Germany but is not yet a priority for innovators

In Germany, there is a lack of acknowledgment that financial resilience is a problem that needs to be addressed. While the majority of German households are in a good financial position, even during the current crisis, the financial shock has still been significant and many of those who were already struggling are now in a more acutely vulnerable position.

Those households with the lowest incomes are more likely to be single parents or single households, to be unemployed, to have been born abroad and are more likely to have high housing costs (relative to income).

Building connections between those with understanding of these challenges – in charities and research organisations, and the emerging social fintech scene – would help to build awareness and increase attention on this issue. There is a significant social stigma to debt and over indebtedness in Germany that should be addressed to make this problem easier to tackle.

Large charity networks deliver vital services and could make use of digital tools with support and partnerships

There might also be ways for digital technology to better support charitable delivery, by building more efficient and effective processes for service delivery, and by making better use of banking data to provide effective support. This is an area where existing fintech activity suggests that partnerships might be effective.

For low-income households, the priority is increasing income, so solutions should aim to provide support with access to employment and benefits. Low-income migrant households, together with low-income households facing high rental costs, should be particular priorities for support. Digital innovations such as benefits calculators, earned wage access products and alternative credit scoring and lending approaches might also bring about gains for target groups. Supporting charities who provide much of the existing support for these groups with digital challenges would also be a useful approach.

For those households that are over-indebted, bolstering the capacity of existing debt advice and support through charities is an important element. Debt consolidation, zero-interest loans and affordable credit options are also areas that could be developed. As there has been an increase in debts taken on by low-income households, and a significant proportion of this borrowing is for essential bills, finding more affordable ways to cover these income shortfalls is an important area to target.

Given the lower profile of financial health and resilience in Germany, any effort to improve innovation and new solutions will need to also build awareness of the issues, and create connections between fintechs, social enterprise supporters, charity foundations and existing financial institutions. Some existing programmes, such as the Think Forward Initiative (TFI) and SEND are in a strong position to convene any such initiative.

A next step would involve competitions, hackdays or other forms of short-term funding and support to develop ideas, that might form the basis of a pipeline for a longer-term support or accelerator programme.

UK

Financial resilience problems affect a wide range of households in the UK, but innovations should identify specific groups to be effective

The UK has a range of financial resilience challenges, affecting a broad spectrum of income levels and demographics. With appropriate targeting, there is the potential for a wide range of opportunities to create new approaches to building financial resilience. In contrast to the other two countries in this report, given where the UK is starting from, there is considerable opportunity to use innovation to support those in work on moderate incomes to improve their savings, reduce debt and improve money management.

The recent Maps UK Strategy for Financial Wellbeing is a comprehensive review of the UK landscape, and emerging recommendations from each of the Challenge groups are an important source for any new financial resilience support plans.

Affordable credit, income smoothing and maximisation, and debt advice are all areas where innovation could be supported and expanded

There could be gains from increasing earned wage access, and access to income-smoothing products, as well as the expansion of affordable credit and alternative credit-scoring approaches. Benefit and income maximisation approaches are also useful, as are measures to improve charity debt advisers' use of open banking data and digital tools for service delivery. Low savings levels are being addressed through workplace and employer savings programmes, such as sidecar savings, 'repay and save' schemes and automated savings products. Mitigating the challenges of irregular income arising from precarious work is a growing area that can in part be addressed through insurance products, income smoothing, alternative credit models and other product ideas.

Support for credit and managing debt will be particularly urgent in the wake of Covid-19

Given the increase in borrowing seen through Covid-19, finding ways to manage this borrowing as support schemes are withdrawn will become increasingly urgent. More effectively managing debts requires a range of support, such as zero-interest loan pilots, alternative credit-scoring approaches and support for affordable credit providers.

Affordable credit and the role of credit unions and CDFIs have been covered by many previous reviews, and is the focus of work to date from Fair4All Finance. This remains an underdeveloped sector in the UK, and the lack of large community finance institutions is also a gap in developing and scaling other solutions.

Any new innovation support should consider existing programmes and seek to fill gaps or amplify impact

There is already a wide range of emerging innovations in the UK, as well as a number of policy, third sector and investment interventions in progress. Any new support for innovation in this context should take account of these existing programmes and the many detailed analyses of the issues. There has also been good testing and evidence gathering via evaluation from a range of initiatives, including the Financial Capability Lab. It is important that new ideas avoid duplication and build on this existing knowledge.

Challenges to scaling social fintechs will require partnerships with larger companies and charities

Despite an increasingly active innovation landscape, it also remains fragmented. There remain gaps in supporting early-stage development of social fintech ideas, in connecting social fintech to the well-developed mainstream fintech ecosystem, and in supporting ventures to scale their reach and impact. A lack of large-scale community finance institutions in the UK means that routes to scale are a particular challenge. An open-innovation programme that engages with large financial service companies, charities and employers would be one way to tackle the scaling barrier that many start-ups face in finding and acquiring target users.

The three countries covered in this report have significantly different challenges in financial resilience. Each entered the pandemic with different underlying household finance problems, and the different structure of the banking and finance landscape in each country means that innovation and new solutions will need to look different as well. There may well be lessons to be learned from innovations emerging in each country: adapting a new approach to credit scoring might be relevant in all three markets. But for those charities, foundation and government departments who are concerned with supporting improved financial resilience as well as growing innovation, adapting support to the different landscapes that exist is critical to success. All three countries would benefit from a new injection of impetus and resources to ensure that the relevant aspects of financial innovation are adapted, tested and scaled to better meet the needs of low-income households in the aftermath of the pandemic.

Annex 1: Examples of innovation and innovation support: France

Finance Innovation

Partners: Algoan, Arkéa, Axa, Crédit Agricole.

Finance Innovation is France's leader in supporting fintechs, insurtechs and other players in the financial sector. Its goal is to help them forge links with national and international partners, and to raise public and private funds to accelerate their growth.

The priority is to consolidate and enliven the local fintech ecosystems, but also to promote exchanges and interdependencies between regions with established specialisms.

Innovative and strategic start-ups can receive the Finance Innovation 'label', which allows them to improve their visibility and credibility (in France and internationally) with their partners, and to benefit from the support of the cluster for raising public and private funds to accelerate their growth.

Le Swave

Initiated jointly by the French Government and the private sector in 2017, Le Swave is the first French innovation platform fully dedicated to fintech, insurtech and paytech. Its main objective is to encourage experimental products and services and to accelerate the development of young companies that are trying to find new models to serve the financial sector and its users (B2B and B2C). Le Swave is hosting 37 fintech ventures, five of which have a potential social impact.

France FinTech

Partners: Arkéa, Société Générale.

France FinTech is a non-profit association whose mission is to promote the sector in France and abroad, and to represent French fintech with the public authorities, the regulator and in the ecosystem. It brings together French fintech, insurtech and regtech with the potential to become European or world leaders. All the players wishing to support this movement and to be recognised as an integral part of the ecosystem have come together: technology companies, investment funds, law and consulting firms, banks, insurers, industrial companies, public entities and associations.

Examples of innovations: Finfrog, Algoan, Younited Credit.

Annex 2: Examples of innovation and innovation support: Germany

Think Forward Initiative (TFI)

Partners: ING, Deloitte, Dell/EMC, Dimension Data, Amazon Web Services, the Centre for Economic Policy Research (CEPR).

TFI is a multi-year initiative, bringing together experts representing governments, academics, consumers and the financial and technology sectors, to research and analyse the challenges people face when making financial decisions and help build solutions to empower them. It is supported by a network of nearly 1,500 researchers, policy makers, entrepreneurs, consumer advocates, NGOs, innovators, corporates and influencers who share TFI's aim to help empower people financially. TFI is an open collaboration and is always looking for potential new members.

Through research they aim to establish a better understanding of people's needs and struggles related to their financial lives. How do people cope with problematic debt? And why do people find it hard to save money for a rainy day? The TFI Research Hub generates insights from newly commissioned research and builds on existing knowledge to help individuals and households improve their financial decision making and well-being. The TFI research community has over 700 experts from various fields and from numerous institutions and organisations worldwide.

Since 2016, the TFI Research Hub has initiated around 45 short-term (lasting up to six months) and long-term (lasting up to two years) research projects. The Accelerator Hub research insights are activated through new innovations and tools to help consumers. The Growth Track helps selected start-ups to scale faster (start-ups with at least 7,000 active users). And the Incubator programme develops new innovations from scratch.

Impact Collective Accelerator

Partners: KfW Stiftung, Beisheim Stiftung, SEND (Social Entrepreneurship Netzwerk Deutschland.

The Impact Collective Accelerator supports promising start-ups into the proof-of-concept phase and leads them to a proof-of-market. It supports selected non-profit (and profit) impact start-ups that have already founded, or are preparing to do so, to stabilise their development and ensure they are sustainable, with a view to possible scaling. Hybrid business models are therefore gaining in importance.

Start-ups must already have understood the social problem very well and must be well networked in that environment. The provided solution must make an important difference and must be aimed at many users and be scalable. The potential market can be regional, national or international, but must be substantial. Increasing scalability must not be accompanied by a loss of quality.

The solution(s) offered must already have been successfully tested (beyond family and friends), with evidence required from user experiences, customers, pilot projects or (ideally) sales.

There must be a clear vision of the business model: the symbiosis between creating the solutions and a commercial (basic) knowledge must be clearly formulated and tested.

Although there are few programmes in Germany aimed specifically at social purpose and financial resilience, there are a larger number of social enterprise organisations, including:

SEND (Social Entrepreneurs Network Deutschland)

Partners: BMW Foundation Herbert Quandt, KFW Stiftung, Schöpflin Stiftung, Samsung

SEND is a national members network of social entrepreneurs and supporters, with regional and specialist sub-groups. Although not focused on finance in particular, their mission is to expand social entrepreneurship and social enterprise in Germany. This programme is based on four pillars: funding social innovations; creating visibility and networking opportunities; removing barriers to entry; and inspiring talented individuals into a career in social entrepreneurship.

Social Impact Lab

Social Impact Lab is the agency for social innovation. Another general institution supporting social enterprise, it offers a programme of networking and events, as well as coworking space, workshops and coaching. There are nine Social Impact Labs throughout Germany. Some of these Labs support specific themes such as young people, rural areas, children, and those with migration backgrounds.

Annex 3: Examples of innovation and innovation support: UK

Nationwide Open Banking for Good

Partners: Nationwide, Accenture, Inclusive Economy Partnership, 17 charity partners.

This competitive £3 million programme worked with third sector partners to provide seven ventures with financial and non-financial support for six months. It was focused on ventures using the newly-available open banking data. The programme is part of the UK government's Inclusive Economy Partnership.

The target beneficiaries are explicitly the 12.7 million 'financially squeezed'. It was created from an awareness that, although open banking innovation was happening, it was not benefiting consumers for the most part, and especially not those in the squeezed group.

Three tenets were used to ground the programme and ensure its results were useful:

- Grounded innovation – a deep understanding of the challenge and the lived experience of the target audience.
- Co-creation – close and continued collaboration between innovators and 17 charity partners as the user experts, to help ensure that the solutions put forward and developed focused on issues that the charities believed would be needed and could be effective for the problems they saw.
- 21st century mutuality – a primary purpose that is social, not commercial.

The programme was framed around three challenges:

- Income smoothing – helping the growing number of people who have irregular or unpredictable income to manage their regular outgoings.
- Income and expenditure – making it easier for someone to produce an accurate financial statement.
- Money management and help – helping people to practice and maintain good money habits.

IEP Boost (Inclusive Economy Partnership)

Partners: Cabinet Office, DCMS, Ernst & Young, the Young Foundation.

The Inclusive Economy Partnership is a government scheme to connect government, business and the third sector in pursuit of a broad set of objectives to create an inclusive economy. IEP Boost is a scale-up programme to connect existing, but early-stage, ventures with potential partners and customers. The three thematic areas it covers are: financial inclusion and capability; mental health and the workplace; and young people's transition into work. The overall theme is enabling people to participate more in the economy.

The main support that is provided is through mentors. Rather than one mentor, it offers point-to-point mentoring, so that participating businesses can be connected with relevant mentors for targeted issues they are facing. This can help snowball into more contacts and connections, or just offer subject-specific advice.

After six months and across 18 organisations supported, the programme cites partnerships with over 100 new businesses, civil society organisations or government departments, and leveraging over £4 million in additional funding and investment (an average of more than £200,000 per organisation).

Nesta Open Up Challenge prizes

Partners: Nesta Challenge Prize Centre, Open Banking Implementation Entity (OBIE).

There have been two Open Up Challenges, aimed at stimulating innovation using open banking data. The 2020 Challenge prize was aimed at finding and growing promising ideas for consumers. The £1.5 million prize fund provided development funding as well as final prizes. Additional funding was made available for those with a focus on financial inclusion.

Challenge prizes necessarily are one-off interventions, and involve an element of competition among those competing for the prize. They are often better suited to existing companies that want to innovate or expand their products, rather than brand-new start-up companies. Modern challenge prizes, such as the Open Up Challenge, also provide funding to finalists to develop their ideas, to support the costs of competing and to increase the pool of those able to participate.

Non-financial support included offers of help with user experience, marketing support, expert insight, and connections to regulators and policy makers. The focus was particularly on connecting the finalists to Open Banking Limited, and on supporting them to use the data.

The prize was looking for products and apps that use open banking to help people better manage their money through more transparent, accessible and fair products.

The four prize winners were: Mojo Mortgages, Moneybox, Plum and Wagestream. Other finalists included: Cleo, Canopy, Creditspring, Currensea, Kalgera, Moneyhub, Portify, Sustainably, Toucan, Tully and Updraft.

Fair By Design social investment fund

Partners: Ascension Ventures, Barrow Cadbury Trust, Joseph Rowntree Foundation, Big Society Capital, Toynbee Hall.

Fair By Design is both a £10 million venture investment fund, managed by Ascension Ventures, for loans and equity into seed to Series A ventures that address the poverty premium, and a campaign, run by the Barrow Cadbury Trust, that argues for changes to reduce the poverty premium. The campaign focuses on one issue at a time to create change, with examples including energy pricing and insurance services. The objectives of the fund are much broader than financial services, but there are a significant number of finance ventures that it has already backed.

It works with Toynbee Hall in order to include the voice of lived experience. This is very helpful in evaluating potential investments, especially B2C models. The approach also provides valuable test data and feedback.

The social impact of the ventures is reviewed through interviews with founders and by detecting reluctance or avoidance when discussing impact metrics and KPIs, as well as scrutinising the model – where growth in the model means growth in impact and no cross-subsidies.

Current portfolio companies relevant to financial inclusion and financial resilience include:

- Youtility – utitlity comparison and switching;
- SteadyPay – gig economy income smoothing;
- We Are Digital – digital and financial inclusion training;
- Incuto – B2B banking tech for credit unions, co-operatives and CDFIs;
- Wagestream – income smoothing, aimed at employers; and,
- Credit Kudos – a new credit bureau.

In March 2021, Fair By Design announced a new partnership with Nationwide on investment and a new incubator programme.

Finance Innovation Lab fellowship

Partners: World Wildlife Fund (WWF) and ICAEW; NatWest Bank, Toynbee Hall.

The Finance Innovation Lab was founded by the World Wildlife Fund and the ICAEW (Institute of Chartered Accountants in England and Wales) to change the financial system so it serves people and the planet. Its vision is of a financial system that is more democratic, responsible and fair.

The fellowship programme has been running since 2015 as a nine-month programme of support for leaders of start-up businesses with a social or environmental mission. Over that time it has supported 43 organisations. The 2017 focus was on financial health, partnering with Toynbee Hall. In 2019, the focus was a data fellowship.

The 2017 fellowship programme on financial health was evaluated independently by Damon Gibbons, Director of the Centre for Responsible Credit. The fellows considered that the programme was successful in improving their knowledge, skills and confidence. They emphasised the benefits of a collaborative approach, which connected them to the financial system and to each other.

Affordable Credit Scale-up Programme

Partners: Fair4All Finance.

Fair4All Finance was established by the Department for Digital, Culture, Media and Sport (DCMS) in 2019 with dormant account funds to increase access to financial products and services for the most vulnerable in society.

The Affordable Credit Scale-up Programme is targeted at achieving a tenfold increase in the size of the affordable credit sector in the UK, aimed at existing and sustainable organisations that already have a track record and a clear plan to scale up. The support on offer includes long-term debt or quasi-equity and grant funding.

An early beneficiary of this approach is Fair For You, an affordable credit community interest company. Fair4All Finance has invested £5 million in a £7.5 million perpetual bond, co-funded by other social investors. The importance of this approach is that it provides a quasi-equity investment, meaning the cost of the funding is stable, there is no repayment date, and this allows the organisation to leverage commercial funding as well. The investment will allow Fair For You to expand its lending tenfold over five years.

RSA Economic Security Impact Accelerator

Partners: RSA, ALT/Now, Mastercard Center for Inclusive Growth.

The RSA ran the Economic Security Impact Accelerator in 2019, supporting 12 organisations including co-operatives, companies and non-profits. The aim of the accelerator was not just to support the individual organisations that were selected to participate, but to grow the ecosystem for these ideas, framing their work within system challenges and a broader narrative for change.

The focus of the project was a broad list of good work, inclusive growth and economic security. Supported ventures included Earwig, Indycube, Workerbird, Trezeo, Bob Emploi, and Labour Xchange. The programme concluded in early 2020. Several of the ventures have already raised additional funding, and others have built partnerships with each other.

Financial Capability Lab

Partners: Money and Pensions Service, the Behavioural Insights Team.

The Financial Capability Lab was set up in 2016 by (what is now) the Money and Pensions Service and the Behavioural Insights Team (BIT) to test innovative ideas to address financial capability.

It is an innovation lab, rather than an accelerator or incubator, drawing on research to test solutions at increasing levels of scale.

The Lab was set up to address three objectives: managing credit; building a savings buffer; and getting guidance when needed.

With input from experts, 240 ideas were developed, and then these were prioritised by potential impact and feasibility. 18 of the ideas were tested using BIT's online platform (and these were written up). The most promising of these ideas are now being tested with partners.

By developing and testing the ideas in-house initially, the Lab has been able to look at a wide range of potential solutions before narrowing to those being put into practice. The disadvantage of this approach is that finding and setting up trials with partners who are introduced to the ideas at a later stage is a much slower process.

There are two aspects to working with a partner on a trial: one is designing the intervention and how it will work within an existing platform or product; the other is designing and constructing the evaluation. The second can be particularly disruptive and challenging.

Resolution Foundation

The Resolution Foundation is an independent research and policy organisation. Our goal is to improve the lives of people with low to middle incomes by delivering change in areas where they are currently disadvantaged.

We do this by undertaking research and analysis to understand the challenges facing people on a low to middle income, developing practical and effective policy proposals; and engaging with policy makers and stakeholders to influence decision-making and bring about change.

For more information on this report, contact:

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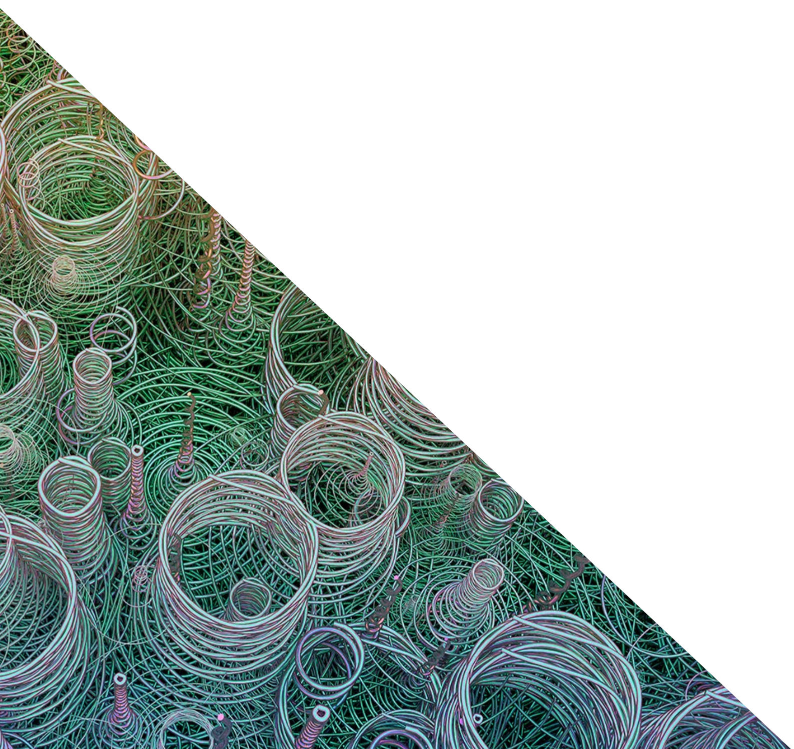

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