THE NEW STATESMAN

Spotlight

Thought leadership and policy

Fintech and the future of personal finance

Tulip Siddiq MP
Francesca Bria
Janine Hirt

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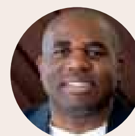

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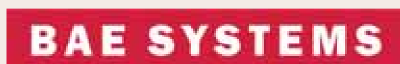

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The "buy now, pay later" revolution

In November 1973, Geoffrey Howe – then a junior minister in the Department for Trade and Industry – introduced to parliament a landmark piece of consumer protection legislation. The Consumer Credit Act passed into law the following summer, establishing for the first time a comprehensive regulatory regime for the UK's fast-growing credit market.

Nearly 30 years later, shortly after the turn of the millennium, the Blair government clarified the scope of the law. The Financial Services and Markets Act included a number of exemptions for businesses, but perhaps the most significant was article 60F(2).

The exemption had a simple purpose: to allow companies to easily spread the cost of goods and services, such as season tickets and gym memberships, over 12 months. Without it, providers would have been subject to the same stringent regulations as banks.

In recent years, however, a new breed of fintech companies has sought to capitalise on the regulatory vacuum article 60F(2) created. "Buy now, pay later" (BNPL) vendors have exploited the loophole to develop a market that has grown rapidly during the pandemic.

The rise of the $100bn sector is evidence that consumers value innovation in the credit market, which has been dominated for too long by incumbents that charge punishingly high interest rates. However, as the BNPL market has grown, it too has come under scrutiny. While vendors don't charge interest, instead passing on their cost to retailers, they still pose a risk. Last year the former Financial Conduct Authority CEO Chris Woolard warned that BNPL "represents a significant potential consumer harm". A key concern is that users of multiple BNPL services can easily amass credit obligations of £1,000 that are not visible to other lenders. This is an issue that needs urgent attention as the cost of living crisis intensifies.

While interest rate rises may ultimately curb the sector's profits, Emma Haslett reports on pages 20-21 that vendors are turning to other avenues to make money. As these firms increasingly resemble traditional lenders, they must be regulated like them too. Recent regulatory proposals are long overdue. ●

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Spotlight

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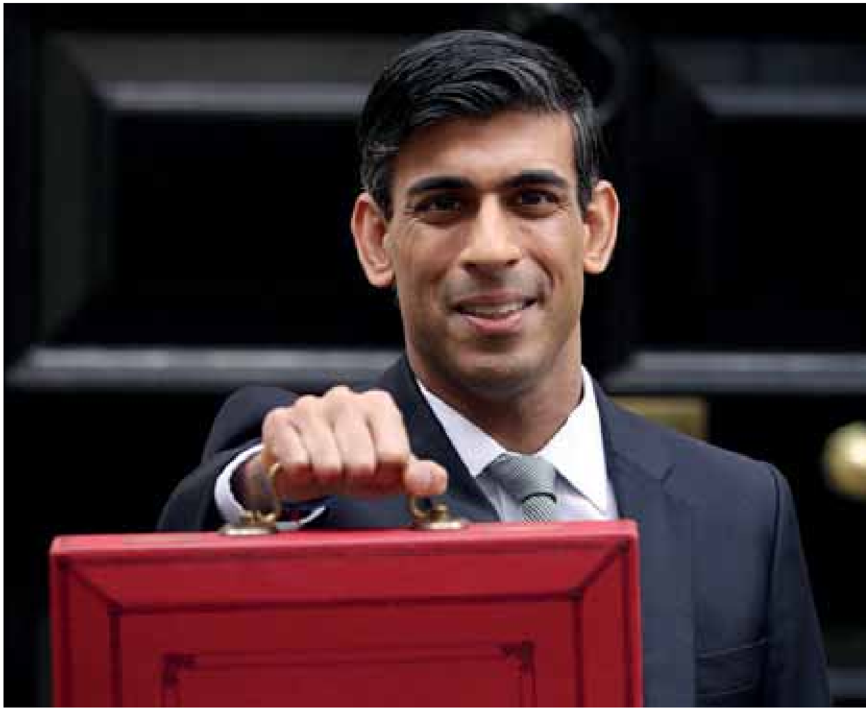


Tax cuts to counter cost of living crisis

The Chancellor Rishi Sunak announced measures that aim to battle the cost of living crisis in last week's Spring Statement, including a rise in the income threshold at which people start paying National Insurance, scrapping VAT on domestic energy-efficiency measures and cutting fuel duty. Increases in energy, fuel and food prices, together with the conflict in Ukraine and the impact of the Covid-19 pandemic, have driven inflation upwards, with many expecting it to rise to 8 per cent this year.

The Green Alliance think tank said the Chancellor should have gone further by expanding the Warm Home Discount. Labour and anti-poverty groups, meanwhile, criticised Sunak for not making any changes to Universal Credit, which will rise by 3.1 per cent in April, in line with inflation rates from September 2021 – far below this year's projected rise in the cost of living.

The government will provide an extra £500m to councils to help families through the Household Support Fund. The Institute for Fiscal Studies said Sunak had "done nothing" for the very poorest besides this "small amount" of extra cash for local councils for discretionary help.

The Chancellor also pledged to reduce income tax by a penny to 19p by 2024, when the next general election is expected.

Britons fear falling into debt in 2022

One in five British people expect to be driven into "problem debt" this year, says debt charity StepChange.

It based its view on a YouGov survey, which found that one in three people expect to struggle to pay for essentials, such as a healthy diet and clothing for the weather; two in five people anticipate struggling to pay a regular bill such as for gas, electricity or council tax; and nearly half expect to use up their savings in 2022.

Britons are also concerned about other bills, according to the telecommunications company Lebara, with the average person using 5GB less data each month. Six in ten expect to see their costs rise by £100 per month, and around half of people are also concerned by rising petrol and food prices.

People with a disability and pensioners are among those most at risk from the cost of living crisis. Prior to the Spring Statement, Disability Rights UK called for a benefit rise of 7 per cent, while investment platform Interactive Investor reported the average pension withdrawal was up 25 per cent in January and 7 per cent in February.

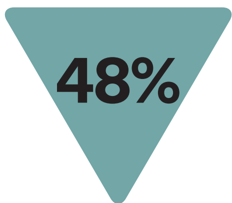
Following the Statement, the government has been criticised for introducing tax cuts that do not target people on low incomes, and for not announcing additional benefit support.

As more people fall into debt, there is a risk that they will turn to "loan sharks", with the Centre for Social Justice estimating that more than a million people are already in debt to an illegal money lender. People on a low income, with a long-term condition or already in debt are particularly vulnerable to this, and illegal lenders are increasingly using social media to find customers and threaten them.

DAN KITWOOD / STAFF / GETTY

The percentage of Brits expected to fall into "problem debt" in 2022

The rise in the Consumer Prices Index in the 12 months to February 2022



The percentage of bank branches that have shut since 2015 or are due to close

FCA mandates transparency for "buy now, pay later" firms

The Financial Conduct Authority (FCA) has pushed "buy now, pay later" (BNPL) companies to ensure that their terms are fairer and more transparent due to concerns about risks to customers.

The FCA says the move has resulted in Clearpay, Laybuy and Openpay voluntarily refunding customers who have been charged late payment fees in specific circumstances in the past. Klarna has also agreed to introduce contract changes.

Sheldon Mills, executive director of consumers and competition at the FCA, said: "'Buy now, pay later' has grown exponentially.

"We do not yet have powers to regulate these firms, but we do have powers to review the terms and conditions of consumer contracts for fairness, and have acted proactively to ensure that the BNPL industry adopts high standards in their terms and conditions.

"The four BNPL firms we have worked with have all voluntarily agreed to change their approach. We welcome this and hope that the rest of the industry will now follow." ●

Cash-strapped consumers defer grocery payments

As the cost of living crisis squeezes families across the country, credit firms are offering "buy now, pay later" (BNPL) deals on grocery shopping.

Zilch, an online convenience platform, is offering BNPL deals on goods from the supermarket Iceland, for items including ready meals, fizzy drinks and pet food. Rival company Flava advertises similar services, where users pay off the cost of groceries in instalments over a number of weeks.

As BNPL schemes are relatively new, they are largely unregulated, although the Treasury is expected to publish proposals on regulation of the sector later this year. A 2021 report from Citizens Advice found that 41 per cent of those who used BNPL schemes have struggled to make a repayment. ●

MATT CARDY / STRINGER / GETTY

Banks close their doors across the board

HSBC will close 69 branches across the UK in 2022, as more than half of its customers no longer use in-store services and more people opt for online banking instead.

The average distance to a branch with in-person contact will now be four miles. The company's decision is part of a swathe of branch closures across the industry this year, including 70 from TSB, 32 from NatWest and 48 from Lloyds Banking Group. *Which?* reports that nearly 5,000 branches have closed since 2015.

Banks, charities and industry bodies set up the Cash Action Group in 2021 to improve communities' access to cash and store services. This includes a "shared hub" model, where bank firms share a building and take shifts in the week to help customers while the Post Office delivers basic banking services at a counter. Other interventions include more free ATMs, pop-up branches and "cashback without purchase", where customers can withdraw money at 2,000 UK retailers without buying something.

The closure of branches particularly impacts older and disabled individuals, people on low incomes and those living in rural areas. A report from the charity Age UK into the decline of cash found that 2.2 million people aged 65 and over would not be able to cope with a cashless society (see pages 16-19). ●

Comment

Why we need to end the crypto Wild West

Blockchain tech can be harnessed for good but only if we properly regulate the sector

By Tulip Siddiq MP

Cryptocurrency has come a long way since its humble beginnings in the further reaches of the internet. When Bitcoin was first launched in 2009, its appeal was largely limited to online pioneers, tech utopians and libertarians. It has now truly entered the mainstream – an estimated 2.3 million people in the UK own crypto assets, according to research from the Financial Conduct Authority (FCA), and the number of companies trading in crypto is likely to grow further over the coming years.

Has the rise of unregulated cryptocurrencies brought about the new world of finance as foreseen by its early followers? Many wished for the end of central banking, the replacement of the dollar and fiat money by Bitcoin – or "digital gold" – and an upending of regulation in markets and of the potential surveillance of consumers. But the crypto evangelists have so far been disappointed. Like all utopian projects it has collided with the realities of geopolitics, corporate power and illicit finance.

With reports that Russian oligarchs may rush to convert their assets into cryptocurrencies to avoid sanctions, many are rightly questioning whether crypto has a future at all

However, the UK does not need to choose between a total crackdown on ownership of cryptocurrencies and the Wild West approach advocated by some parts of the Conservative Party.

Properly regulated crypto assets have the potential to transform our economy and the financial services sector. Many innovative companies are embracing different forms of blockchain technology to improve transparency in finance and to create high-skilled, high-productivity jobs across the UK. This has the potential to reduce regional inequalities, with $696m invested in financial technology companies based outside London and the south-east in 2021 alone, driving efficiencies in all sorts of industries.

But the government has risked undermining the reputation of the sector. In the absence of a comprehensive regulatory regime, the UK has become a centre for illicit crypto activity. According to Chainalysis – a global leader in blockchain research – cryptocurrency-based crime such as terrorist financing, money laundering, fraud and scams hit a new all-time high

in 2021, with illicit activity in the UK estimated to be worth over $500m.

Despite pressure from Labour and the financial sector, ministers have yet to acknowledge the scale of the threat.

The FCA has identified over 230 unregistered crypto asset firms operating in the UK. Many companies have not even applied to register for anti-money laundering or "know your customer" checks, yet face little or no sanction from the government. This has allowed some firms to exploit anonymity-enhancing technology to protect the identity of criminals and individuals linked to hostile states such as Russia.

Also concerning is the rise of crypto-related scams in the UK – reports of digital assets fraud were up by 50 per cent in 2021 compared with the previous year. The government has stood by and let the firms responsible for these scams trade with impunity and has continued to delay introducing stronger rules on the advertisement and marketing of cryptocurrency products.

A survey by investment platform AJ Bell found that many crypto investors are simply unaware of the high-risk nature of their investments. This is worrying, particularly as many of these investors have sunk a huge proportion of their savings into crypto – half don't have an ISA while four in ten don't have a pension. A serious collapse in crypto could therefore not only wipe out the life savings of many people, but also significantly destabilise the UK's financial market.

US President Joe Biden has announced plans to introduce a comprehensive, all-of-government framework to address the emerging risks and opportunities posed by crypto assets. If the UK doesn't follow suit, we are at risk of falling behind our global competitors, including the US, in the crypto space. We could be leaving ourselves open to market failure. A Labour government would be serious about attracting fintech companies to the UK and safely harnessing the progressive potential of crypto technology. But it's time to reject the arguments of the libertarian right and properly regulate the sector. ●

Tulip Siddiq is Labour's shadow economic secretary to the Treasury and MP for Hampstead and Kilburn

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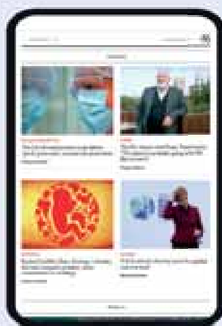

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Profile

“There is no technological sovereignty without economic and political sovereignty”

Francesca Bria, president of the Italian National Innovation Fund, on the politics of cryptocurrencies

By Jonny Ball

If you take a look at some of the Instagram posts, Twitter feeds and subreddits of the huge online community of crypto and blockchain evangelists, you'll find a world with its own unique language, culture and political outlook driven by comedy memes, YouTube gurus and dodgy bar charts. It's a world where investing in crypto assets like Bitcoin makes sense because “number go up”. It's where speculation is rife in digital currencies that were jokingly developed to satirise rampant speculation. And it's where, when the dollar value of personal wallets rises, they go “to the moon”.

When the numbers are going in the opposite direction, investors are advised to “HODL” (“hold and don't panic sell”) and “BTFD” (“buy the fucking dip”), often accompanied by animated cartoon gifs.

Members of this online community celebrate in the crypto world's extreme market volatility, referring to themselves offensively as “autists” and “degens” (autistic and degenerate), particularly when they hold their crumbling assets during fire sales, and revel in the obvious inanity of the boom market in non-fungible tokens (NFTs) – unique, blockchain-based digital images that can fetch eyewatering prices at auction.

This is also a world that is suspicious of state authority, that takes a borderline conspiratorial view of the power of central banks, and that happily quotes the market libertarian philosopher and Soviet emigre Ayn Rand alongside rocket emojis and crypto hashtags. Many describe themselves as “ancaps” (anarcho-capitalists) and are believers in free-market, Austrian economics and “sound money” – non-fiat cash redeemable against a commodity with limited supply. These so-called “maximalists” see Bitcoin as a potential “digital gold” that will rein in the ability of governments and banks to inject new money into struggling economies, a practice employed in response to economic downturns.

This is the madcap prevailing culture of the extremely online world of “crypto bros” (and “bros” is appropriate, since the vast majority of cryptocurrency owners are male).

But was this culture's development inevitable? Does crypto have a libertarian, market-driven ethic programmed into it? Is there something hardwired into the blockchain that

makes it into what Vitalik Buterin, the developer of Ethereum and one of the most influential people in crypto, describes as "a right-leaning thing"?

Francesca Bria is the president of the Italian National Innovation Fund, a €4bn government programme to boost the country's start-up infrastructure. She's the former chief technology officer for the city of Barcelona, appointed by the left-wing mayor and activist Ada Colau. An honorary professor of the Institute for Innovation and Public Purpose at University College London, Bria has been listed as one of the top 50 women in tech by *Forbes* magazine, and she advises both the UN and the European Commission on digital and innovation policy and digital rights. Throughout her career, she has been involved with several blockchain-based software and crypto-relevant projects, but her professional journey is evidence that crypto doesn't have to be aligned with right-wing meme culture or the ever-expanding vagaries of retail investing.

"I think that decentralised and privacy technologies like crypto could serve different paradigms – not only the hyper-libertarian, anti-state vision," she tells *Spotlight* in a recent email exchange.

"If you want to democratise and decentralise the economy, you will need the state"

Bria has her fair share of criticism for the economic models set out by the maximalists of the crypto bro world – and she doesn't share their politics. In 2018, she contributed an essay to the then shadow chancellor John McDonnell's book, *Economics for the Many*, on how data can be harnessed to benefit ordinary people and improve public services as opposed to being hoarded by corporations to create ultra-targeted marketing campaigns and gig economy platforms.

"The problem with the extreme end of crypto's techno-utopian vision is that it hides new questions of power – who holds it, with what legitimacy and for what purposes," she says.

Some of the emancipatory promises of crypto, whether it's "liberating" people from the traditional banking and financial systems or defending against encroachment by regulatory agencies, often border on the surreal. A recent commercial for Coin Cloud directed by and starring Spike Lee announced that "the digital rebellion is here", "old money is out" and "new money is in". Old currency "pushes us down", it "exploits" and it "systematically oppresses". It has excluded women and minorities: "We call it green, but it's only white. Where's the women? Where's the black folk?" Lee asks. "Inclusive" crypto, he assures us, will be different.

"We risk falling into a kind of 'technological solutionism'," says Bria. "It closes other possibilities and paths for alternative political scenarios. Today, decentralised finance and crypto promise to empower… assuming it will automatically decentralise ownership of the real economy. And yet, the risk is that despite the genuine enthusiasm, these trends will end up reinforcing market concentration and fuelling rampant speculation."

Last year, academics from three Italian universities found that "despite the heavy emphasis on decentralisation in cryptocurrencies, the wealth distribution remains in line with the real-world economies". Their report suggested that "the free-market fundamentalism doctrine may be inadequate in countering wealth inequality within a crypto-economic context". They discovered that 0.01 per cent of Bitcoin wallets contained over 58 per cent of all Bitcoins in circulation.

"The crypto bros," Bria says, "seem ideologically resistant to regulation." That's something that creates "structural risks to the wider financial system, with the $2.5trn-worth of crypto assets in circulation ending up in the hands of fewer (and more centralised) players than we think".

It's a situation that needs to be remedied by more and better regulation, not less, claims Bria, against the prevailing laissez-faire ethos of Bitcoin advocates: "Most of what's happening with crypto in the current form seems to me the result of central ▸

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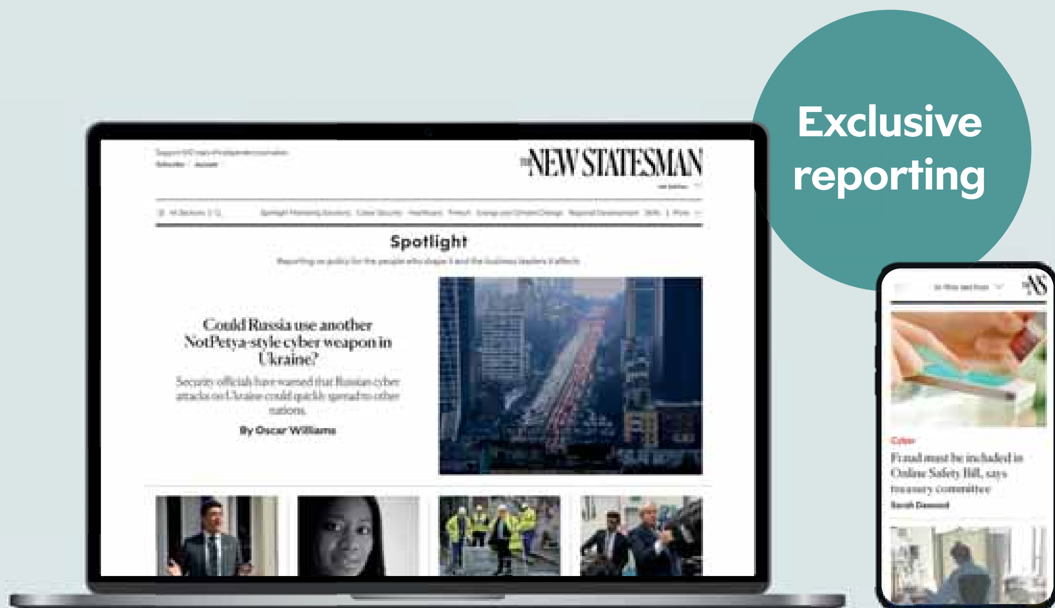

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◂ banks' inaction and delay in grasping the threats that come from leaving this industry unregulated. That's why we need a different political programme, able to take advantage of the benefit of crypto and decentralisation, but without incentivising even further the financialisaton of all assets and social behaviours. That's a vision based on fostering democratisation and decentralisation from within the state and the public sector, not bypassing democratic institutions."

Bria has spent years working towards this goal, trying to put new technology to use for progressive purposes. After her involvement in the anti-globalisation movement of the 1990s and the Independent Media Center, an open publishing network for activists, she led D-Cent, an EU-wide project that developed blockchain platforms for facilitating democratic decision-making and economic empowerment, including participatory budgeting. These platforms, powered by software called Decidim, which was designed for citizen consultations, online assemblies and participative processes, allowed citizens to have a say in how the revenues of local governments were allocated. They were adopted by left-wing municipal authorities in Catalonia and over 80 cities globally. She later established Freecoin, a "community cryptocurrency" that aimed to "solve the question of the concentration of economic power and promote economic empowerment and decentralisation". It was "born to empower the local social economy", she says, but it "arrived too early".

"The question is, of course, not only the technology," Bria says, "but also the business models, the economic, geopolitical and the social programme that is associated with it.

"Decentralisation can never be just about decentralising infrastructures. One always needs to have a requisite strategy for decentralising institutions as well. This is exactly the problem. I have always aimed at the decentralisation of economic and political power as the necessary condition that was needed to deliver on the true emancipatory potential of decentralising digital infrastructures."

JOE RAEDLE/GETTY IMAGES

The former congressman Ron Paul addresses the Bitcoin 2021 conference

Celebrating the decentralised networks of fintechs, or the democratising, apparently liberatory potential of blockchains espoused by crypto-evangelists, ignores the political, institutional and social transformations that are needed to truly take advantage of emerging technologies. "There is no technological sovereignty without economic and political sovereignty," says Bria. Her background in activism is rooted in a long tradition of "horizontalist" organising that is particularly strong on the southern European left. Decentralisation is key to a philosophy that tries to eschew top-down hierarchy, or at least ameliorate the effects of unbalanced power relationships, and favour a more direct, deliberative and participatory approach to decision-making. But that philosophy doesn't preclude engagement with the state, and nor does it try to transcend political structures with technology, but rather it attempts to try and transform them.

> "Crypto doesn't need to serve the libertarian, anti-state vision"

"There is a big fight for the democratisation of the state," says Bria, "for strengthening the notion of the democratic public. You do need the state to green macro-financial policy and progressive fiscal policy, to enact new regulatory frameworks, to do new types of economic planning (especially now at a time of massive supply chain disruptions), and to test new ownership patterns and structures inside an economy. The state is the only tool that we have, it's the one and only institution that we have to regulate and to create laws that would prevent big companies from usurping their dominant position and abusing their market power. So, in the end, if you want to democratise the economy, you will need the state. We need to reclaim that power, and transform it, not hide away from that responsibility by invoking the power of crypto or the market or financialisation, seeing the state purely as a censor or an enemy to fight."

Hers is a philosophy that is not normally associated with the world of libertarian, Silicon Valley crypto bros. But if crypto and blockchain technologies are truly to be harnessed for good, and put to use beyond speculative get-rich-quick schemes riddled with fraud, scams, laundering and tax evasion, then it is exactly the philosophy that we need. ●

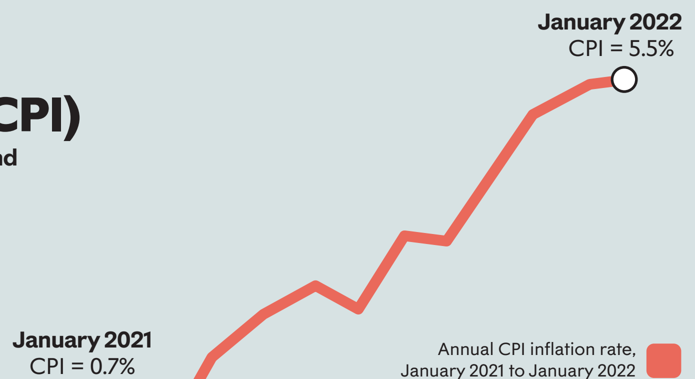
The cost of living crisis in numbers

Salaries are not keeping up with the price of daily essentials

The Consumer Prices Index (CPI)

The CPI measures the average rise or fall in prices of goods and services over time, such as food, transport and medical care

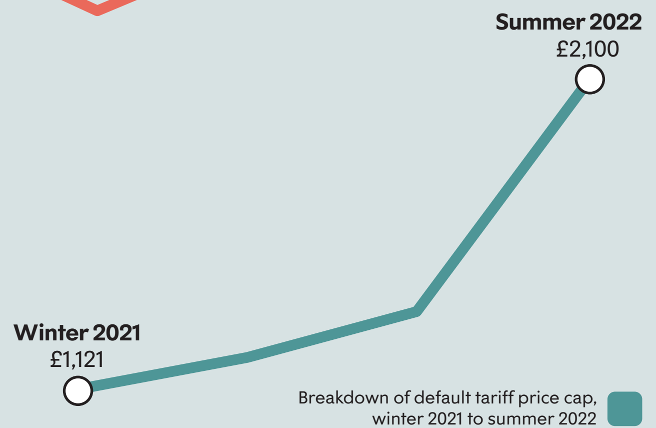
- The CPI rose to 5.5% in the 12 months to January 2022, up from 0.7% in January 2021
- This is the highest 12-month inflation rate since March 1992, when it stood at 7.1%



Gas prices

Energy bills are going up because the energy price cap – the maximum price suppliers can charge – will be raised

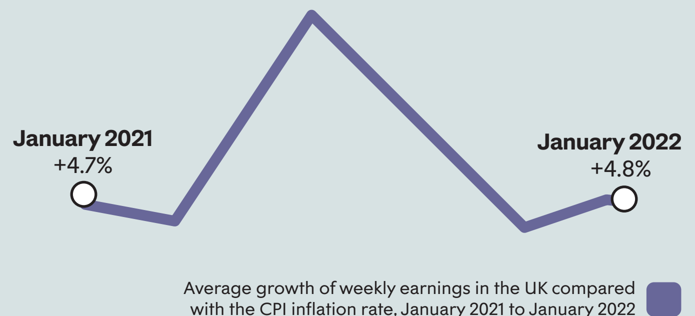
- From April, energy suppliers will be able to raise bills by 54% when the new cap is introduced
- The cap could rise again in October – Investec bank warned that bills could top £3,000 a year, partly due to the West moving away from Russian energy

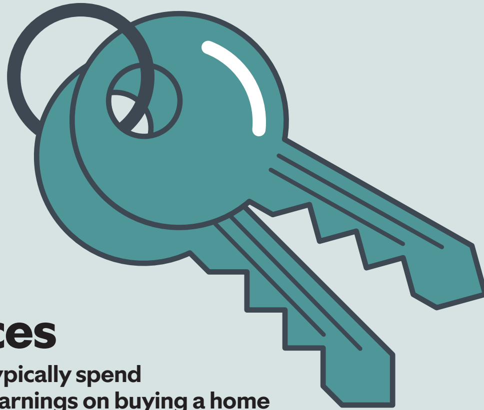


Wages

Wage increases are being offset by inflation (the rising price of goods and services)

- Growth in average weekly earnings has fallen the furthest behind inflation since 2014
- After inflation, real-term growth in total pay was just 0.1% between November 2021 and January 2022





House prices

Full-time employees typically spend 9.1 times their annual earnings on buying a home

- March 2022 saw the average UK house price surpass £350,000 for the first time
- Annual growth in house prices is above 10% across the UK, except for in London and Scotland

Food inflation

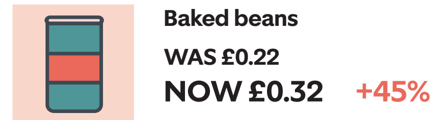
The cost of living crisis is hitting our shopping baskets, as well as our electricity and gas bills

- The UK's cost of food increased by 5.1% in February 2022 compared to February 2021
- Even supermarket own-brands are more expensive – campaigner Jack Monroe investigated the cost of basics...

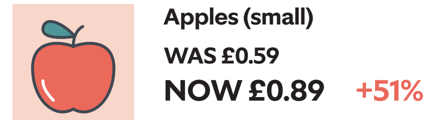
Your basket

How much are you paying for these items compared to the same time last year?

Pasta (500g)
WAS £0.29
NOW £0.70 +141%



Baked beans
WAS £0.22
NOW £0.32 +45%

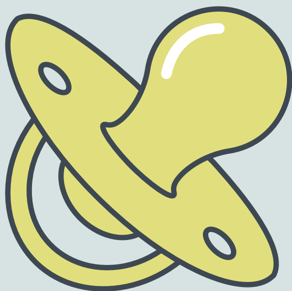


Apples (small)
WAS £0.59
NOW £0.89 +51%

Peanut butter
WAS £0.62
NOW £1.50 +142%

TOTAL: WAS £1.72
NOW £3.41 +98%

CHECKOUT



Cost of childcare

Changing work habits and a lack of facilities such as nurseries mean that parents face a difficult juggling act

- Parents are paying 3.5% more for childcare for 3- and 4-year-olds than they were this time last year
- The UK has the third-highest childcare costs in the developed world, behind Switzerland and Slovakia

SOURCES: ONS.GOV.UK, RIGHTMOVE.CO.UK, KANTAR.COM, TWITTER.COM/BOOTSTRAPCOOK, CORAM.ORG.UK, DATA.OECD.ORG

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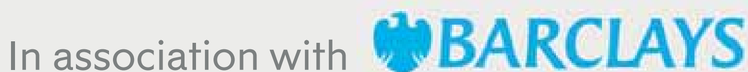
The rise of embedded finance

We are committed to driving exciting innovations in the fintech world

By Mariquit Corcoran



Here at Rise, created by Barclays, we have evolved our corporate innovation model to focus on creating more growth for the fintech ecosystem as a whole. We are creating opportunities for founders to be able to step forward with ideas and for us to help them bring those to market. We're trying to attract a more diverse talent pool. And we're offering cost-free and equity-free programmes to the Rise ecosystem for companies at the initial idea stage.

About a month ago, we announced a partnership with a world-leading corporate innovation and venture development firm called Rainmaking. Our partnership has created our Rise Start-Up Academy, a "digital skills-building programme", targeted at spawning initiatives that will drive innovation in the fintech world. We are really focused on making sure that we are enabling entrepreneurship to help these companies progress and, ultimately, create a viable and successful business.

There are so many exciting fintech companies in their infancies at the moment, so we decided to ensure each initiative has a distinct fintech theme to ensure the support we offer to participants is desirable, feasible and viable. One of the first of these initiatives to launch focuses on embedded finance.

Embedded finance is the integration of financial services into non-financial companies. For example, if you are buying a TV and need to borrow money to pay for it, the retailer would embed a loan application into the customer journey, so neither the customer, nor the company, are required to go to multiple places to complete a transaction. It allows companies to create really innovative financial offerings in a variety of fields, ranging from retail to healthcare, and agriculture to the music industry. The opportunities that embedded finance present benefit not only the customers, but banks and the technology companies that are involved in the process.

There are so many far-reaching benefits to the successful application of embedded finance. Firstly, it makes the process a lot simpler for the customer – there's less friction, and the whole buying process is far more streamlined. But there are also significant benefits for the company. Embedding the

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financial process gives organisations increased customer loyalty, and by improving the customer experience it deepens that all-important relationship between the buyer and the seller. Overall, there is little doubt that embedded finance has significant wins for all parties involved. The process for customers is fast and efficient. And for companies, delays to their sales process are a thing of the past. The whole experience is frictionless.

The embedded finance market has the potential to be exponentially larger than it is today, and with more improvements. In the near future, we believe there will be some financial aspect of metadata to any customer journey, whether it's buying something from an online retailer or managing your income. In the music industry, for example, where you have workers who are paid per job and don't necessarily have an easy way to manage their income, there may now be transparency embedded into the financial tools that they use.

This helps them better manage their finances. We are already seeing embedded finance for taxi drivers, for example. The driver who is paid per ride no longer has to manage their finances in a separate banking account – the company that employs them already has the technology and the banking is embedded for their drivers.

Of course, such technology is not without its challenges. "Buy now, pay later" services, for example, have provided some challenges for both retailers and customers, and have highlighted the need for certain responsibilities for the consumer, merchant and finance provider that must be considered. When providing these services, it is incumbent on the financial provider to be as transparent as possible, and make sure the language is clear and coherent. Similarly, merchants need to ensure that the finance providers whose products they embed follow best practice when it comes to responsible lending. I, myself, have been in this industry for a couple of decades, but I still make sure to reread the terms and conditions three or four times when making a purchase, to ensure I've fully understood my contractual obligations. There is a collective responsibility for everybody involved to make sure that people do understand what it is they're buying. We do not want to turn this great innovation into a "later problem" for buyers – the language and expectations must be totally unambiguous.

Embedded finance is at the top of our mind as a new, exciting innovation that has the potential to transform the financial world. There are a number of companies in our Rise ecosystem here at Barclays that are working on embedded finance offerings, including Jifiti, an organisation that provides a white-labelled point-of-sale financing solution for any retail financing programme in any geographic location. WealthKernel is a company providing investment-as-a-service technology, enabling fintech providers to incorporate investment products and services into their offering.

As we can see, there are many organisations across the board exploring the potential of embedded finance, with more popping up every day. At Barclays, we are committed to supporting organisations to bring their ideas into fruition and driving forward innovation in the fintech world. ●

Mariquit Corcoran is group chief innovation officer at Barclays

The death of the bank branch

How going cashless will leave millions of people out of pocket

By Sarah Dawood

When 86-year-old David's local Co-operative Bank branch in Bedfordshire closed in 2020, he was left without access to financial services. He used to go into the bank with a carer to withdraw money and pay his bills. Living with neurological disabilities, he lacks the dexterity needed to use a computer or smartphone, so now his only option is telephone banking. But with a disposable income of just £10 per week and wait times of up to an hour on a line that charges customers 9p per minute, he is forced to hang up early.

He wishes the bank would do more for disabled people like himself. "When my local branch closed, it was a bitter blow to me," he tells *Spotlight*. "It has put

Halifax, which is set to close 17 branches this year, is one of many banking firms that are reducing their physical footprint

NATHAN STIRK / STRINGER / GETTY IMAGES

me in a very difficult situation. I can't hold on the phone for more than ten minutes because my costs will rise. It can't carry on like this."

Despite the bank having a free-to-call number for vulnerable customers, David was not made aware of this. A Co-operative Bank spokesperson tells *Spotlight* that the bank has "continually protected its lines for its most vulnerable customers" and that it would investigate David's case. It says that pandemic-related illness and the turbulent job market has increased call waiting times but these are now improving: "The bank continues to prioritise actions to address wait times in our contact centres, and we acknowledge the inconvenience this can cause customers who wish to use this channel."

The steady shift to online retail has left David worried about his future independence – he currently makes all shopping transactions by phone or relies on home support workers or members of his local church to buy things for him, entrusting them with his debit card. "If it all goes online, I, with many countless others, will virtually not be able to purchase anything," he says.

He is one of millions who have felt the impact of bank branches closing. While this was expedited by the economic turbulence of Covid-19, the trend started long before – *Which?* reports that nearly 5,000 bank and building society branches have closed across the UK since 2015.

Access to cash has also diminished, as people increasingly opt for contactless card payments. The charity Age UK estimates that the number of free-to-use ATMs fell by 24 per cent – nearly 13,000 – between 2017 and 2020, even though 5.4 million UK adults still rely on money as their main day-to-day payment method. Cash use is not spread equally, and is inextricably linked with socioeconomic disadvantage – while London experienced an 81 per cent fall in ATM withdrawals at the start of the pandemic, withdrawals in Liverpool Walton, one of the most deprived parts of England, fell by just 23 per cent. ▸

In 2019, an independent *Access to Cash Review* funded by cash machine network Link and led by Natalie Ceeney, former chief executive of the Financial Ombudsman Service, concluded that up to eight million UK adults would "struggle to cope in a cashless society", with older, disabled and low-income individuals particularly impacted. The review made recommendations to government, including: "guaranteeing" cash access within a reasonable distance of people's homes and workplaces; ensuring cash continues to be accepted in shops and by service providers; and prioritising digital inclusion to upskill people in online banking.

Since then, the government has said it will legislate to protect cash, with the main proposals being ensuring people have access to free-to-use cash machines and that retail banks, building societies and the Post Office provide deposit and withdrawal facilities within specific distances, regulated by the Financial Conduct Authority (FCA). The government also accepted an amendment to its Financial Services Bill last year, proposed by the House of Lords peer Chris Holmes, which enables people to withdraw cash at the till in participating shops, cafés and other outlets without needing to make a purchase. He tells *Spotlight* that many people are using this new cashback option to withdraw amounts of less than £20, proving that it serves a need that even ATMs do not generally fulfil.

Holmes, a former Team GB Paralympian swimmer, is blind and a vocal campaigner for inclusion, having recently worked with the Bank of England to develop a braille £10 note. He says that financial and digital exclusion are "two forces that go hand in hand" and is calling on government to commission a review of access to digital payments to improve the accessibility of banking apps and websites.

"What's desperately disappointing is that these digital platforms are not being designed as accessible, even though they absolutely could be," he says. "There is no bigger cost to developing and deploying fully inclusive digital products."

People tend to be offline for a plethora of reasons, including lack of skills or trust in online services, products or apps not being disability-friendly, the cost of devices or data, or an unreliable broadband connection, such as in rural areas. While Holmes is a keen advocate for protecting cash, he also believes that the millions who rely on it face a "poverty premium" and should be supported in getting online – utility bills, for example, are often discounted when paid via direct debit.

"In no sense do I want to condemn people to having to use cash," he says. "In many ways, it's less secure and more expensive. But the reality is, cash is what some people trust and there is a big job of work to enable them to become digitally included." There needs to be "collective action" from the financial services industry, he says, to do in-person customer research and use this to inform the user experience design of banking services.

Banks collaborate to provide services

There is an obvious need to retain access to physical infrastructure, whether that be banknotes or branches. The *Access to Cash Review* led to several initiatives, including the industry-led Community Access to Cash Pilots, which involved testing different services across eight UK communities. This included banking "hubs" – a shared building where the Post Office provided basic services at a counter and major banks "took shifts" to provide customer services in a private room on different days.

The pilot was successful – two hubs in Essex and South Lanarkshire are still going and the idea has since developed into the Cash Action Group, which is looking at creating eight more permanent shared banking hubs across the UK this year. The programme is coordinated by Link and includes other interventions such as installing more free ATMs nationwide.

This novel approach shows a significant industry commitment towards collaboration, says Holmes: "The most positive thing about this is we're seeing banks wanting to work together to enable financial inclusion." He says that while this is a step in the right direction, the UK needs "hundreds" of these hubs, and there will be potential competition issues to address.

> Cash is a lifeline for many older, disabled and low-income individuals

Cat Farrow, programme lead for the Cash Action Group, says that these hubs have also had a positive societal impact, serving as "anchor units" that have helped to create a sense of community and boost independence for older people following the pandemic. In future, the hubs could also be transformed into training spaces with free wi-fi where people could learn online banking skills.

Physical infrastructure will continue to play an important role, she says, particularly for people with accessibility issues: "We might find that digital isn't actually appropriate for everybody. For example, people with cognitive impairments may benefit from having physical cash in front of them to manage their money in that way."

Industry innovations for cash access

There were several initiatives launched to keep people financially connected during the pandemic, including the straightforward solution of physically posting cash. The Post Office partnered with the Department for Work and Pensions (DWP) to identify 30,000 vulnerable customers and offered them a "cash delivery" service, as did Barclays, NatWest and Tesco Bank. Some banking groups, including Lloyds Banking Group and NatWest Group, opened special helplines for over-70s and vulnerable people.

Christopher Brooks, head of policy at Age UK, says that cash deliveries are an expensive long-term solution but could be plausible if banks identified a small group of customers who would benefit from such a service. A recent survey from the FCA shows that ATM use decreases as people get older, with a third of over 75s not using cash machines in 2020, often due to vision or dexterity issues, confusion around use or safety concerns, says Brooks.

Pre-paid carers' cards are another helpful intervention offered by several banks, which enable trusted people to access a limited amount of money from someone's account so they can do their

Good Things Foundation conducts workshops to train people in digital skills

GOOD THINGS FOUNDATION

essential daily shopping for them. Carers have their own card with a separate pin, alleviating security concerns about handing over card details. Other fintech apps have been launched to tackle cash access issues specifically; Sonect allows people to "click and collect" cash at a shop of choice rather than find a free ATM, while Shrap is a "cash recycling" service where users load their small change onto a virtual card to use locally.

Many of these initiatives require a degree of digital competency and access; some programmes tackle digital and financial exclusion in tandem. Clean Slate, a social enterprise, recently partnered with the digital inclusion charity Good Things Foundation on Nobody in the Dark – an initiative providing financial guidance for people on low incomes. This centred around supporting individuals to complete an online "money health check" questionnaire, which simultaneously increased their digital confidence and signposted them to further support around safer internet use, with some participants receiving free digital devices.

Jeff Mitchell, founder at Clean Slate, says that upskilling people is crucial because the "poverty premium" extends beyond the cost of using cash. Universal Credit is now solely online, meaning that digitally disconnected individuals miss out on potential entitlements, and there are additional costs associated with being offline – getting a fine for not buying an online parking permit, for instance. Banking apps can empower people on low incomes with more "laser-focused" daily budgeting, he says: "There's an opportunity to help people be as scrupulous with their financial management as if they were working in cash."

Government action to tackle exclusion

There is a "mismatch" between what policymakers create and what people need, says Mitchell – the sudden shift of Universal Credit online locked many people out of the benefits system, and was counterintuitive to the fact that low income is one of the key driving forces of digital exclusion. The new system also means that recipients need a bank account to receive their benefits.

Digitisation of services coupled with other industry shifts, such as firms starting to charge customers for basic bank accounts, could mean even more people are financially excluded. The government has a duty to better regulate such changes in the banking sector, says Mitchell. "If the government is now saying that someone must pay for a bank account in order to receive benefits, there seems to be a social justice issue," he says.

Procedures around the closure of bank branches need to be more thorough, adds Age UK's Brooks, beyond notifying customers – the FCA should scrutinise why branches are closing and ensure that people are always resourced. "The regulator could intervene, forcing branches to stay open until a shared hub launches," he says. "Otherwise, communities will be cut adrift."

Holmes thinks that a "national network" of these shared hubs needs to be legislated for, to ensure pockets of the UK are not left behind by a patchy system. He believes that cash needs to be designated "critical national infrastructure" and is calling on government to create a "universal service obligation" for it, which is what currently exists for broadband. "This would mean that, wherever you are, you could have an absolute expectation and reliance that you could reasonably access cash," he says. This is not just a question of inclusivity but of resilience – in the event of a cyberattack halting the UK's digital payment systems, a cash network would be crucial.

For older customers, fear of fraud is a major barrier in their transition to online banking. Brooks believes that the Contingent Reimbursement Model (CRM) Code, a voluntary mechanism that banks sign up to reimburse scam victims, should be strengthened and mandated. "Some banks are very good and refund most customers, while others only do so under duress or when forced by the ombudsman," he says. They could do better due diligence, he adds, by actively identifying at-risk individuals and increasing "banking friction" such as risk warnings and "cooling-off" periods, where payments don't go through for 24 hours.

Financial and digital exclusion are evidently linked, and the most vulnerable people in society are feeling their impacts. While fintech is the future, retaining traditional payment methods will be vital to enable people to transition online and empower them to manage their money as they choose. Industry and government have a collective responsibility to help people do that, whether that be through distributing free devices, providing online banking training, or ensuring in-branch services survive. "If we can make some significant strides towards financial inclusion, everybody benefits," says Holmes. "It makes sense socially, economically and psychologically – there are no downsides." ●

The future of credit

Can the "buy now, pay later" boom continue?

As interest rates rise, firms such as Klarna could be forced to look for profit elsewhere

By Emma Haslett

"Buy now, pay later" (BNPL) has exploded in the UK in recent years – one click and the price of that new frock is divided into neat, affordable bundles. In a consumer culture in which speed and novelty are paramount, it is used by more than half of millennials to put off purchases until payday.

Companies such as Klarna, Clearpay, Laybuy and Openpay are thriving – payment processing firm Worldpay estimates that 5 per cent of online buyers break up their purchases in this way. Customers don't pay any interest or charges, and retailers pay a small fee (comparable to the fees paid for processing card transactions) to the BNPL providers. In return, they get shoppers who are ready to spend without hesitation on what looks like a much smaller payment.

What BNPL companies actually do is extend miniature interest-free loans. Their margin comes from the difference between what they make from providing their services to retailers, and what they spend lending money to shoppers. The problem is that these companies rely on low interest rates. As central banks begin to raise rates, the BNPL companies' margins will narrow. Their scale and popularity is such that this could have knock-on effects for all of us.

Prices are on the rise: in the UK, inflation is forecast to reach 8 per cent by April, its highest level since the early Nineties. To combat that, the Bank of England has begun a rate-hike cycle, edging up interest rates at its Monetary Policy Committee meetings. Faced with a supply crisis and rising energy costs, central banks all over the world are doing the same: increasing the cost of borrowing in order to dampen demand for goods and keep prices from rising still further.

For companies like Klarna, which is based in Sweden but is one of the UK's largest BNPLs, that's potentially bad news. Klarna funds its loans in two ways: some comes from deposits across its banking arms, which operate in Sweden and Germany; the rest comes from its own borrowing – in the next two years, 3.1 billion krona (SKr3.1bn, or £244m) of bonds will mature, according to the Bloomberg news agency.

As rates start to rise, Klarna will be forced to pay its savers more for their deposits, and it will pay more for its borrowing. The problem is that its

margins are already "razor thin", says Jeff Tijssen, global head of fintech at the consultancy Bain & Co. Meanwhile, after several years of rapid expansion, Klarna made a loss of (coincidentally) SKr3.1bn in the nine months to September. If rates rise, Tijssen says "what is likely to happen is that margins [contract] because of an increase in the fixed costs of running these businesses".

Klarna has already acknowledged the risk. In a prospectus for a SKr10bn bond in November, it said "the degree to which interest rates may vary... presents a significant risk to Klarna's financial position". It is not the only company that's concerned: earlier this year, an American BNPL, Affirm, was even more explicit. In an investor call its chief financial officer, Michael Linford, warned that after 2023, every time borrowing rates rise more than one percentage point above expectations, one measure of its profit could fall 0.4 percentage points (on the same day its shares fell more than 20 per cent after it accidentally posted its second-quarter results on Twitter).

What are the BNPLs' options? They could start charging their customers interest, although that's unlikely, says Alice Tapper, the financial campaigner. "The reason that Klarna is able to exist is because of a loophole in the Consumer Credit Act, which says that if a product is no-interest and relatively short term, it doesn't need to be regulated," she says.

Klarna does have a financing option that charges interest on larger transactions, she says, although it's not likely to become the company's core offering. There are other options: it could, for instance, charge merchants higher fees.

This is where it becomes everyone's problem. There is already widespread evidence that the prevalence of BNPL is increasing costs for retailers: last May, Klarna's head of US, David Sykes, told Forbes that "we see retailers' average order value increase between 20 per cent and 80 per cent" when Klarna is used. In other words, because they can afford it, people buy more.

That's good for retailers because they make more – but the phenomenon has already increased prices, thanks to returns. "The merchant has to pay for posting, they have to pay to get it back. Very often, the products returned are not sellable any more. They have to build in this huge cost," says Ania Zalewska, a professor of finance at the University of Bath. Indeed, one report from accountancy firm KPMG showed that returns are costing British retailers £7bn a year; many goods go to landfill because they can't be sold on.

If interest rates increase, BNPLs will probably increase the amount they charge retailers – a cost that retailers will, naturally, spread across all their goods. So the more people who use Klarna, and the more they return, the higher prices will become for everyone.

BNPL firms like Klarna are used by more than half of millennials

This isn't a problem that's confined to fast fashion: BNPLs have already entered the grocery market. In the UK, Zilch.com advertises ways to pay for shopping at Asda and Morrisons on its website through its own service, although, so far, no UK grocer offers its own BNPL option. However, a survey by *Pymnts.com* has found 25 per cent of US grocers are planning to introduce BNPL in the next year. If more people choose to spread the cost of their weekly shop – and as inflation escalates, this could become more popular – then increases in BNPL fees could elevate the cost of food, whether you use BNPL or not.

What's next for these companies? Last month, four BNPLs agreed to change terms and conditions that the Financial Conduct Authority said were "potentially unfair" – a small but significant step towards regulation. Meanwhile, Tijssen suggests the firms will begin to look at new ways to make money. Klarna, for instance, has already entered people's wallets with a credit card that allows them to spread the cost of purchases. "When you speak to any... player, especially the more established ones, 'buy now, pay later' was their entry into the market," he says. "It was never the end game." ●

Emma Haslett is associate editor, business, of the New Statesman

How the UK's fintech start-ups took on the legacy banks

Progressive regulation has been key to innovation in the sector

By Janine Hirt

In the aftermath of the global financial crisis, technology-based firms – "fintechs" – burst onto the scene and disrupted the financial services industry. These new, innovative companies grew quickly, focusing on customer needs and identifying gaps in the market revealed by the financial crash.

Over the course of the past decade, the fintech landscape has gone from strength to strength, as new entrants have increasingly provided consumers with more choice and quicker and easier access to a wider range of products.

Within a relatively short time, fintech lenders, such as Starling and Funding Circle, established themselves as formidable alternatives to the incumbent banks, and now provide over half of all lending to Britain's small firms.

During the pandemic, fintech continued to support individuals and businesses, further accelerating the adoption of fintech products that are now used by eight out of ten Brits.

What's more, British fintech firms are fast challenging and overtaking established banks, with Revolut valued at $33bn last year and Checkout.com at $40bn in January. Success stories like these indicate that the UK fintech sector has come of age – moving from the fringes of the industry, to setting the pace of innovation and change in financial services, and driving greater benefit for the consumer.

Progressive regulation has been key

The UK holds a global leadership role in fintech and has long been recognised as the home of pioneering financial services innovation. This has been powered by new forms of technology, but also by a unique regulatory approach. Initiatives around open banking and the Financial Conduct Authority's ground-breaking regulatory "sandbox" – which launched in 2016 and allows innovators to test products safely – have since been replicated by nearly 50 other hubs around the world.

In order to ensure the UK remains the global leader in fintech, we now need a new wave of regulation that will nurture the next generation of innovation.

Today, a new technology revolution is under way, with powerful artificial intelligence able to help consumers take control of their finances, digital currencies providing faster and cheaper payments, and blockchain supporting

more secure and direct asset transactions. Embedded finance will consequently evolve as a product of open banking and data sharing, with innovative privacy protocols in place to safeguard consumers and their interests.

Diversifying the banking sector can act as a catalyst to stimulate healthy competition in the market, increase ethical collaboration and promote innovation. By joining forces, the fintech industry can also help tackle the threats posed by a volatile geopolitical and cyber environment.

Brexit has created a key opportunity for an even more forward-thinking UK regulatory system that continues to both enable innovation to thrive and protect the consumer, therefore building the trust that responsible fintech needs to offer new opportunities to individuals and businesses.

Going forward, we need to ensure that regulators have the culture and capability in place to continue to be proactive and move at pace with regards to regulating new products and services.

Delivering more inclusive finance

What this will ultimately deliver is a future-facing financial services system that supports innovation, keeps in step with the latest technology and unleashes the full power of fintech to benefit consumers.

All the outstanding financial innovation achieved to date has delivered a continuous stream of new market entrants that are challenging the status quo. We've already seen many fintech companies focusing their proposition and business model solely on improving consumers' financial lives. These fintechs are deploying new technologies and using novel approaches with data to achieve their mission-driven desire to make a genuine difference to those less well off.

The important role fintech has played in fostering greater financial inclusion, financial wellness, financial resilience and financial well-being reflects the shift from more traditional, transactional business strategies to a more considerate, empathetic approach that puts the consumer back at the centre of the proposition.

Many fintech companies are targeting demographics that have traditionally been poorly served by incumbent financial institutions. This is particularly the case for small- to medium-sized enterprises (SMEs) that have long struggled to get the finance they need for growth.

Fintech firms are providing much-needed support to smaller businesses, says Hirt

Fintech is also unlocking opportunities for consumers to build their wealth through savings, pensions and investments in a cheaper and more transparent way; it is no longer the reserve of the wealthiest in society.

Fintech also has a crucial role to play in helping to tackle the climate crisis and our collective effort to reach net zero. We've seen an acceleration in the growth of green finance, and increased levels of financial investment are being poured into sustainable start-ups and green initiatives in the industry.

Diverting capital away from carbon-heavy activities towards low-carbon or carbon-neutral initiatives is a step towards meeting climate target achievements, and fintech will sit at the heart of this effort.

We can't afford to rest on our laurels

The UK has produced world-beating fintech firms that fly the British flag internationally. More than $11.6bn of investment poured into the UK fintech sector last year, second in the world only to the US and ahead of the next six European fintech hubs combined.

The *Kalifa Review of UK Fintech*, released in early 2021, provided a helpful roadmap set out across five chapters – covering policy and regulation, investment, skills, an international outlook, and national connectivity – to ensure the UK strengthens its support of the fintech ecosystem and maintains its position as one of the best places in the world to start, build and scale a fintech. It is critical that we continue this forward momentum and do not rest on our laurels.

If we – industry, government and regulators – all seize the opportunity to support the next wave of innovation, we can solidify the UK's position as the trusted global centre for financial services, and, most importantly, secure a more sustainable, effective and inclusive financial services sector for all. ●

Janine Hirt is the CEO of Innovate Finance. Spotlight is a media partner of the Innovate Finance Global Summit

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