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**Inclusive Financial Innovation**

**Ideation Event**

**Highlights**

- Governments around the world are increasingly seeking to promote ‘inclusive growth’ – economic growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly.

- The role of finance in promoting prosperity needs rethinking. On the one hand, there is a new consensus that ‘more finance’ is not always a good thing. Depending on the nature of the innovation, new financial services can undermine an economy. On the other hand, rapid changes in the data and technology available to use in finance present opportunities to give people greater control over their money, but they also bring risks of greater inequality, exclusion and exploitation.

- To explore these opportunities and risks, the Finance Innovation Lab held an ideation event in Edinburgh in October 2018. Using a participatory process and design thinking principles, attendees worked together to generate and test new ideas in response to the design challenge: **how might we create fairly shared prosperity for Scottish citizens through innovating financial services?**

- Ideas included a mentoring platform for entrepreneurs which draws inspiration from websites such as Trip Advisor and ‘e-lancing’ platforms such as UpWork; a financial services provider focused on SMEs that are poorly served by the existing financial landscape; an app-based savings club which helps members of communities to support each other with access to finance; and a platform that enables people to borrow money in exchange for non-financial offerings such as labour time.
Background

On 25 October 2018, the Finance Innovation Lab (the Lab) partnered with the UCL Institute for Innovation and Public Purpose (IIPP) to bring together 24 experts from finance, academia, civil society and policymaking to co-create new ideas about how finance can help to build a more inclusive, fair and prosperous society. Using a participatory process and design thinking principles, participants worked together to generate and begin to test new ideas about how financial innovation can promote inclusive growth.

The event formed part of a series the Lab ran across the UK, supported by Barrow Cadbury Trust, to generate new ideas that harness the power of data in finance to help tackle our most pressing social and environmental challenges. The IIPP is a research centre which works with partners around the world, including the Scottish Government, to explore how new sources of finance can open up new technological frontiers and economic opportunities. A full list of the workshop participants is provided in the Appendix.

Finance and inclusive growth

It has long been recognised that finance is a vital ingredient of a prosperous economy. However, the consensus view of how finance relates to economic development has evolved over time. Until recently it was widely believed that more financial innovation is always beneficial, because with more financial services and pricing information markets allocate resources more efficiently. This in turn helps to maximise economic growth, which is the best way to increase living standards for everyone (‘a rising tide lifts all boats’). However, in recent years this orthodoxy has been reappraised following a number of developments.

First, the global financial crisis demonstrated that not all financial innovation is healthy innovation. Rapid financial innovation in the years preceding the crisis – such as the increasing use of complex derivatives – itself fuelled the crisis and contributed to widespread public harm, while contributing little (if anything) to the real economy. Second, a number of empirical studies, including from the International Monetary Fund and Bank for International Settlements have found that too much finance of the wrong type can undermine the real economy, increase inequality and disempower communities. As a result, it is now widely recognised that ‘more finance’ is not always better for economic growth.

In addition, since the financial crisis, a growing number of economists have acknowledged that the benefits of economic growth are not always shared across society, and too much inequality can even be bad for economic growth. As a result, governments around the world, including the Scottish Government, are increasingly seeking to promote ‘inclusive growth’ – economic growth that combines increased prosperity with greater equality, creates opportunities for all, and distributes the benefits of increased prosperity fairly.

Innovation opportunities

Banks and other financial institutions have always held a wealth of information about our money and spending habits. But in recent years, developments in technology and behavioural science have made it dramatically easier to collect data, move it about and make sense of it, in the context of an increasingly digital economy. For example, artificial intelligence (AI) is already used to automate a wide range of decisions and activities, such as trading and financial advice, while digital platforms offer new ways of managing and exchanging data. Recent changes to financial regulation, including the Payments System Directive 2 (PSD2) and Open Banking, are also catalysing the use of data in finance.

This data revolution potentially offers new opportunities to give people greater control over their finances, for example by:

- Helping us have improved oversight of our finances – such as anticipating when we’re about to go into an expensive overdraft
- Automating behaviours in our best interest – such as switching to the savings account with the highest interest rate
- Reducing the costs of accessing services – such as addressing the gap in financial advice for those on lower incomes, or supporting shared digital infrastructure for credit unions and community lenders.
However, data-driven innovation could also lead to greater economic inequality and exploitation. For example:

- Many vulnerable groups in society do not have continuous or high-speed access to the internet, and because digital services tend to be cheaper, this could increase inequality.
- People on lower incomes tend to be viewed as riskier credit propositions, so innovations that provide greater information about customers may actually lead to companies charging poorer people more.
- If new innovations are overwhelmingly controlled by a few large companies or elite entrepreneurs, then this could lead to a greater concentration of power and wealth.

What distinguishes financial innovations that, in contrast, have the potential to contribute to greater equality? At the workshop, participants heard from three speakers who shared their experiences of how financial innovation is already helping to deliver shared prosperity:

- **MyDex**: Jenni Inglis from MyDex explained how their platform is helping people manage their lives more effectively, by equipping them with the means and mechanisms to capture, manage, analyse and share their personal data in a way that is safe and secure – and how this can help people get the best deal on financial products and services.
- **Tumelo**: Georgia Stewart from Tumelo explained how their new app is helping young people turn their limited savings into personalised investment portfolios that align with their values. Users are able to select the amount of money they wish to invest and their risk appetite, as well as the impact objectives they wish to support, such as climate change, workplace equality or global health. The app then recommends an investment portfolio that reflects these preferences.
- **Fintech Scotland**: Stephen Ingledew explained how Fintech Scotland is creating an integrated fintech ecosystem through provision of funding, support, infrastructure and talent, to help Scotland become a major player in the global fintech movement. He shared examples of new fintech companies that are changing finance in Scotland; for example, by opening up new channels of finance for SMEs and making it easier for people on low incomes to access finance.

**The design challenge**

For the participatory element of the workshop, attendees worked together to generate and test new ideas in response to the following design challenge:

> How might we create fairly shared prosperity for Scottish citizens through innovating financial services?

**Lived experience**

Designing the future of finance to work better for people and planet cannot be done in the abstract. Instead, it is essential that the lived experience of those who are currently underserved by our financial system are placed at the heart of any new ideas, ideally through direct co-creation throughout the design process. For the purposes of this time-limited workshop, participants were invited to reflect on fictional case studies, based on real life examples, to develop a deeper understanding of and empathy with those they were seeking to serve.
Case studies

**Ewan:** Many small businesses like ours are ready and keen to grow, but they face a mountain of challenges. Barriers like an unwillingness among the big lenders to take on ‘young’ companies with a higher risk profile; limitations on early stage equity funding; and business owners being unaware of alternative lending competitors can all get in the way of us accessing much-needed finance. Actually, late payment is one of the biggest challenges we have.

**Harriet:** When I’m not working I sometimes have to take out a loan because it’s my daughter’s birthday and Christmas at the same time. You get a loan and you pay just about double back, which is disgusting. So, say I borrow £200, I pay four back nearly, but if it’s my daughter’s birthday what choice do I have?

I’ve been there too many times. You get put into a situation that you can’t get out of, it’s really bad. I try to pay the debt off but sometimes I miss a payment and then I get charged again even if I do pay up – but just a week later or something.

**Ron:** The branch in Port has gone, the one in Wigtown has gone, and the one in Newton Stewart has gone. It’s getting more and more difficult to manage your money. All the old people here use the banks a lot. It’s rubbish that they’re not caring about older people, just money. You know, for me – I’m in my seventies and registered blind and internet banking is just impossible.

**Anisa:** When we left uni, some friends and I decided to try and set up our own thing. We’re trying to do the work we love and be our own bosses. We’ve set up a design co-op, offering all sorts of services including graphic design, web development and film making. We’d love to work for charities and social enterprises but we might not be able to be so picky yet! There’s been a lot of admin, which is pretty tedious. One of the challenges has been sorting out our finances. We’ve had a lot of blank faces from bankers when we’ve tried to describe what we do. We’d also like to try and bank somewhere that shares our values.
Ideas generated

Working in groups, participants were asked to tailor the design challenge to one of the case studies and then work together to generate new ideas for financial innovation that would help address the problem in the case study. Four new ideas were generated:

1. Three’s a Crowd

**Case study:** Anisa  
**Design challenge:** How might we provide Anisa with advice?

*Three’s a Crowd* is a mentoring platform for entrepreneurs which draws inspiration from websites such as TripAdvisor and ‘e-lancing’ platforms such as UpWork.

**The problem:** At present, entrepreneurs who have a business idea are generally directed to government business advice services, who provide them with advice to get their ideas off the ground. However, much of the advice given is generic and is not tailored to the specific needs of different entrepreneurs and business ideas. This can be a particular problem for entrepreneurs who are seeking to create businesses in new or emerging markets, or adopt unconventional business models (e.g. co-operatives and social enterprises).

**The solution:** Rather than going to government business advice services, prospective entrepreneurs would be directed to a website where they would enter details about their business idea. The entrepreneur would then be presented with a list of expert mentors who have experience setting up similar businesses, and select the expert that is most relevant to their project. The entrepreneur would be able to engage with the mentor directly via an online video call, to seek their advice and assistance on key aspects of setting up a business. After the advice session, the mentor would be paid by the government for their time, and the user would rate the quality of advice provided. The result would be a thriving online marketplace for business advice which would match prospective entrepreneurs with the best possible information and support.

**Feedback:** Participants were generally supportive of the proposal. However, some questions were raised about how the platform would be able to ensure that the expert mentors were of high quality, given that successful entrepreneurs are often very busy. Some concerns were also raised about the reliance on government funding, and whether this could really be a sustainable business model.

2. The Adequate Returns Bank

**Case study:** Ewan  
**Design challenge:** How might we improve and simplify cashflow management for Ewan?

*The Adequate Returns Bank* is a new financial services provider to serve SMEs that are poorly served by the existing financial landscape.

**The problem:** SMEs account for 99% of all enterprises and 55% of private sector employment in Scotland. However, many of these businesses are not well served by the financial sector. While there is substantial support for firms with high-growth potential, most businesses do not fall into this category. These businesses play a vital role in our economy, but often struggle to access financial services that are affordable and accessible.

**The solution:** The Adequate Returns Bank would be a new financial services provider offering access to cost effective, unsecured finance to SMEs across Scotland. The Bank would pool resources from the public sector, private investors and individual savers to provide low-cost financial services such as cashflow management and long-term loans. Although the Bank would seek to make a small return, it would not seek to maximise profits. This would enable it to serve parts of the market that are generally underserved by profit-oriented firms, and in turn promote local development and jobs and help to revitalise communities across Scotland.

**Feedback:** Participants were generally supportive of the proposal. However, some participants expressed a view that the Bank may find it difficult to raise capital, given the limited returns on offer, while others thought that existing financial services providers would already be doing this if it was possible to make returns from doing so.
### 3. MenAPP

**Case study:** Harriet  
**Design challenge:** How might we support Harriet to access information about managing her finances that sets out the best options available to her?

*MenAPP* is an app-based savings club which helps members of communities to support each other with access to finance whenever they need it.

**The problem:** Many people depend on access to short-term credit in order to make ends meet, finance one-off purchases, or deal with emergencies. However, the people who require this form of credit most critically are often considered to be high-risk, and are often shut out of the mainstream financial system. As a result, many resort to high-cost credit providers (such as payday lenders) which charge exorbitant interest rates, leading to spiralling debt problems.

**The solution:** Based on the historic Scottish concept of a ‘Menage’ (also known as a ‘chit fund’ in some countries), *MenAPP* is an idea for an app-based savings club. Each week, every member of the club would agree to pay a fixed amount into a common pot, and a decision would then be made to allocate the entire pot to one member of the group, based on need. For example, if there are 10 members who agree to pay £10 a week into the pot, each week one person would be selected to take home £100. The idea is that people can access larger amounts of money when they need it, therefore avoiding the need to resort to high cost sources of credit. *MenAPP* is designed to bring this concept into the 21st century by using an app to coordinate the process, making it quicker and easier to administer. The app would also enable members to share information about how they are managing their money, therefore helping to foster positive saving and spending behaviour.

**Feedback:** Participants were supportive of the idea, noting that it was adapting a tried-and-tested model. However, some questions were raised about the governance of the system, and how it could be ensured that those who were in the most need were always supported.

### 4. Value Exchange

**Case study:** Harriet  
**Design challenge:** How might we help Harriet use the assets she has to maintain resilience?

*Value Exchange* is a platform that enables people to borrow money in exchange for non-financial offerings, such as labour time.

**The problem:** Financial services providers typically assess creditworthiness on the basis of financial risk (the likelihood that the lender will be able to pay the money back). However, those most in need of short-term credit are often considered to be the highest risk and are charged the highest interest rates, which can lead to spiralling debt problems.

**The solution:** Value Exchange would be a platform where creditworthiness is not determined on the basis of financial risk, but on the borrower’s potential to provide something of equal value at some point in the future, in return for the credit. Borrowers would share their credit needs on the platform, and lenders would bid to supply credit in return for something deemed to be of equal value. Crucially, however, this does not need to be money – in exchange for the loan, lenders could ask for non-monetary offerings, such as labour time or other goods or services. This would give people who struggle to access credit an opportunity to borrow on reasonable terms.

**Feedback:** Participants were generally supportive of the idea of assessing creditworthiness based on future potential, rather than historic track record. However, some concerns were raised around how the platform could ensure that lenders actually receive what the borrower promised to provide in exchange for money.
What happens next?

The Inclusive Financial Innovation workshop generated a range of ideas to meet real, pressing needs in Scotland and contribute towards inclusive growth. The innovations were not always ‘hi-tech’ or without precedent – instead, they identified the potential of new forms of collaboration, new business models, adapting business models to unmet needs, or using technology to update concepts for a digital world.

Following this event, and two others held in Bristol and London, in 2019 the Lab plans to hold a data sprint to build on one of two underlying themes that emerged from across the three events, each challenging fundamental assumptions about how data is used in finance and offering exciting opportunities for innovation that serves people and planet: data pooling and forward-looking data. To find out more and express your interest in taking part, please email our Head of Programmes, Marloes Nicholls, via marloes@financeinnovationlab.org.
Appendix – Participant list

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Nicola Anderson Fintech Scotland
Gemma Bone Newcastle University
Paul Bradley SCVO
Jennifer Coleman Royal Bank of Scotland
Chris Cook Institute for Strategy, Resilience & Security, UCL
Jamie Cooke RSA Scotland
Daisy Ford-Downes Resilient Scotland
Sarah Forster The Good Economy
Pauline Hinchion Scottish Community Reinvestment Trust
Stephen Ingledew Fintech Scotland
Jenni Inglis Mydex CIC
Sujai Kumar Edinburgh University
Laurie Macfarlane Institute for Innovation & Public Purpose, UCL
Duncan Oswald Eunomia
Julian Parrott Ethical Futures
Neil Rutherford Scottish Futures Trust
Carol Sinclair NHS National Services Scotland
Georgia Stewart Tumelo
Katherine Trebeck Wellbeing Economy alliance
Hugh Wheelan Responsible Investor
David Wilson Scottish National Investment Bank
Michelle Wilson Triodos Bank
Shelagh Young Home Start