POVERTY & THE DATA REVOLUTION

Ideation Event

Highlights

• There is an urgent need to tackle poverty and inequality in the UK. Around 14 million people (20% of the population) are living in poverty. In addition, the 'poverty premium' describes how the poor pay, on average, £490 per year, for essential goods and services, like finance.

• Rapid changes in data and technology present potential opportunities to design new financial services that eliminate the poverty premium and give people on lower incomes greater control over their finances. However, data-driven innovation can also lead to greater economic inequality, exclusion and exploitation.

• To explore these opportunities and risks, the Finance Innovation Lab held an ideation event in London 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 make the cost of living in the UK fair for people with lower incomes through innovating financial services?

• Ideas included: a more holistic assessment of credit-worthiness that supports people to access affordable credit; a 'one-stop-shop' app that searches for the best deals on behalf of its users; a bulk purchasing scheme for communities to access better value food and utilities; a new, ethical lender designed to support people on low incomes to break the cycle of problem debt; and a platform that supports lower-income households to collectively bargain for cheaper prices.
Background

On 18 October 2018, the Finance Innovation Lab (the Lab) partnered with Fair by Design to bring together 27 experts from finance, academia, civil society and policymaking to co-create new ideas about how financial innovation can support financial health and help to overcome poverty in the UK. Using a participatory process and design thinking principles, participants worked together to generate and begin to test new ideas for how finance could help to overcome the poverty premium.

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. Fair by Design campaigns in the UK to reshape essential services like finance so that they don’t unfairly cost the poor more. A full list of the workshop participants is provided in the Appendix.

Finance and the poverty premium

In 2017, the Joseph Rowntree Foundation UK Poverty report found that 14 million people in the UK (20% of the population) are living in poverty, defined as having a household income of less than £16,000 a year. This includes eight million working-age adults, four million children and 2 million pensioners. In addition, through the ‘poverty premium’, the poor pay more for essential goods and services, which makes it even harder for people in poverty to make ends meet.

Researchers at the University of Bristol’s Personal Finance Research Centre estimated in 2016 that, on average, low-income families pay an additional £490 a year in this way.

For low-income people and families, this premium represents money that could otherwise be spent on essentials, like new clothes for their children, warming the home in the winter months and fresh, healthy food. Fair by Design is focusing on tackling the poverty premium across energy and utilities, insurance and finance:

- Fixed pre-paid energy metres can cost a family an additional £38 per year, while the annual cost of not switching to the cheapest possible fuel tariff is estimated to be £233
- The insurance market currently fails low-income families, offering too few basic insurance products and encouraging a postcode lottery by charging households more for where they live
- The inability to access affordable credit, money and debit card payments are all ways financial services cost poorer households more. On average, turning to high-cost credit providers after being refused an affordable alternative costs £55 annually, while accessing cash incurs a premium of £9 a year.

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 and specifically redesign financial services to support people with lower incomes, for example by:

- Improving financial oversight – including raising people’s awareness of their expenses and outgoings and highlighting more affordable options, where they are available
- Automating actions – such as limiting spending or switching money between accounts to avoid excessive overdraft fees
- 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 support people living in poverty? At the workshop, participants heard from four speakers who shared their experiences of how financial innovation is already helping to tackle the poverty premium and support financial health:

- **Centre for Responsible Credit**: Damon Gibbons, Director of the Centre for Responsible Credit, presented the ‘Supported Rent Flexibility’ trial he is running in partnership with Optivo Housing Association. Initial results indicate that individualised rent payment schedules (allowing for pre-agreed under- and over-payments) can support social housing tenants in the face of fairly predictable income volatility and prevent them resorting to expensive forms of credit.

- **Community Money Advice**: Heather Keates shared how the national charity she leads, Community Money Advice, is using Open Banking to help their clients gain a full picture of their finances, which can then lead to accurate and better budgeting, and the avoidance of problem debt.

- **Elifinty**: Maysam Rizvi explained how AI technologies can play a role in helping to bolster financial health. He drew on his expertise founding Elifinty, a personal finance app that uses data analysis and AI to help users make sense of their finances and identify the most appropriate services for them. The app uses data, including past transactions, to understand a user’s financial situation. It then provides tailored insights about actions users could take to save money and manage debts (including commercial products, local authority provision, social enterprises and charitable services).

- **Yolt**: Lucy Woelfenden shared some of the opportunities she believes Open Banking presents for financial health, based on her experience working for the mobile money app, Yolt. Lucy described how, by sharing their financial data with Yolt, individuals benefit from being able to easily manage all their UK bank accounts and credit cards in one place, in real time. Using one app to oversee all accounts can provide people with a better overview of their finances, helping them to budget accordingly.

### 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 make the cost of living in the UK fair for people with lower incomes 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 real case studies, collected by Fair by Design, to develop a deeper understanding of and empathy with those they were seeking to serve.
Case studies

**Michael:** I live in a council flat in East London with my mum. I’m a money mentor for Toynbee Hall debt charity. It’s changed my life because I can now help my family and people I know to start to manage their finances better, and it really means a lot to me that I can help others.

I think the poverty premium is really unfair. Why should people with nothing pay more than people who have more money? It’s hard enough for people in poverty already and having to pay extra just isn’t ok. With Brexit happening and all the other difficult things we’re dealing with this just adds to it.

On the poverty premium and how it affects us, we have pre-payment meters for gas and electricity. Me or my mum wouldn’t have the faintest idea how to change them to get better deals that are cheaper, and living in a council flat I am not sure we would be allowed. When we have anything like this mum would rather stick with it then try anything new because she is set in her ways, plus we know nothing about it.

As for contents insurance, we don’t have it, no one has it round where I live. It’s far too much money. If we get burgled we just have to live with it. We just hope we don’t because there is no way we could afford to go out and replace anything we get stolen.

**Alicia:** I left home at 15. Thought I knew better and wanted to live my life my way. I was pregnant at 18, married at 19 and pregnant again at 20 all whilst suffering domestic violence.

Whilst being stalked by my ex-husband we lived at numerous addresses including hostels. Having enough money to live on has always been stressful. I wouldn’t eat for days so I could keep up payments or just to put food on the table for my children. My family would lend me money but that always came with conditions on how it was spent.

I used loans from the social fund and a doorstep lender for carpets and furniture. I also used rent-to-own furniture stores. Every week was the same... do I pay my loan payment and the money I have borrowed or put food on the table? There was never a week I could make all the payments and cover all the household bills as well. In all of the addresses we lived at, I had pre-payment meters for gas and electric so I would pay, and still do pay, over the odds for these.

I managed in time to get a decent job but had to get a cash loan of £400 to cover the first month’s childcare. That meant I was always starting my monthly wage with half of it gone. I met a lovely new man and financially things were much better, but then my new husband had a breakdown. We went from a two wage family to my wage and benefits. We had built up loans from previous store cards and credit cards, all of which needed to be paid. I was shopping for bare essentials on credit cards like weekly food shopping and petrol. I lost my house my car and my self-respect. We were homeless for eight weeks and I had to give up my job to look after my husband. His recuperation was slow and I built our lives back up on pennies, eventually working three jobs, five days a week.

I was finally allowed a catalogue account to rebuild my credit rating. They kept upping my credit limit and I now owe money with them just for buying school uniform, footwear and clothing. On top of all that I now have a long-term chronic condition and my husband is my full-time carer. Between the two of us we live on just over £10,000 a year; at one point that was for five of us. The cost of us all living is one thing, but the constant debt and extra costs we have to pay for not having things like Direct Debit just makes it more of a nightmare.
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. Five new ideas were generated:

1. **CreditFair**

   **Case study:** Alicia  
   **Design challenge:** How might we prove that Alicia’s credit worthiness would increase if banks lent money to her?

   *CreditFair* is an app that uses alternative data sources to build a more holistic and improved credit score for its users.

   **The problem:** Alicia is trapped in a cycle of high-cost credit loans. She continuously fails to qualify for loans from mainstream lenders (like banks) because of her poor credit score, which only worsens her debt problem and credit score.

   **The solution:** The CreditFair app works to improve the credit risk associated with people trapped in problem debt so that they can access more affordable credit and more quickly pay off their debts. To do this, the app utilises alternative data sources such as utility bills, rental payments, childcare costs and mobile payments. Users can suggest and contribute other forms of evidence of their ability to pay too.

   **Feedback:** A number of participants agreed that building a more holistic model of Alicia’s credit-worthiness could help her access more affordable credit, and were positive about the idea of using alternative data to challenge current credit risk assessments. However, there were questions about which data sources would be used, because some information (ranging from rental payments to social media posts) could potentially work against users. In general, any past data could be inappropriate for assessing the credit-worthiness of people who have experienced a lifetime of hardship.

2. **The AI Agitator**

   **Case study:** Michael  
   **Design challenge:** How might we create a space for Michael to find the best deals for products and services?

   *AI agitator* is a ‘one-stop-shop’ app that searches for the best deals on behalf of its users.

   **The problem:** Michael is financially savvy and intelligent, but money- and time-poor. He doesn’t have the time to search price comparison sites for the best priced utilities, insurance and credit providers.

   **The solution:** AI Agitator is a freely downloadable mobile phone app. It aims to help time-strapped people like Michael, by acting as a “one-stop-shop” for the best and most affordable essential services. Based on past behaviour and user-analytics, and using Open Banking and AI, the app searches for the best deals for services including travel, mobile, insurance, finance and energy. By automating otherwise complicated search processes, it saves people time and money. If the app identifies that a user is in financial difficulty, it will signpost them to services that can help (such as their local authority or a debt advice charity).

   **Feedback:** Participants praised the concept but questioned the app’s business model – how could it be self-sustaining, while ensuring that the service maintained its independence and responsible advice provision? They also wanted to understand more about the algorithm behind the app, and the factors that would determine its assessment of the best deal.
3. Mass participation bulk purchase thingymabob (MPBPT)

**Case study:** Alicia  
**Design challenge:** How might we make food and utilities services cheaper and more convenient for low-income families?

*MPBPT* is a bulk purchasing scheme for communities to get the best deals on food and utilities.

**The problem:** Alicia’s lack of mobility, money and time mean that she is limited to shopping at a small range of local but more expensive stores.

**The solution:** MPBPT uses the power of bulk purchasing syndicates to get the best deals for communities on food and utilities. The service is run by local co-ordinators who also manage distribution and delivery (where appropriate). Using data analysis, the goods that service users need and want to buy can be easily and quickly identified by coordinators. As well as securing great deals, MPBPT aims to reduce the environmental impact of shopping (via transport and waste) and encourages people to work together in community.

**Feedback:** Participants were generally supportive of the idea, especially because they thought that working in community to tackle the poverty premium could also have positive effects on other challenges people were likely to be facing, such as loneliness, anxiety and stress. They also questioned how the scheme would achieve the scale required to be effective and how it would be governed.

4. Ask Alicia

**Case study:** Alicia  
**Design challenge:** How might we make borrowing affordable and flexible for low-income families?

*Ask Alicia* is a new, ethical lender designed to support people on low incomes to break the cycle of problem debt.

**The problem:** Alicia’s vulnerability and past experience of domestic-abuse has led her into a negative cycle of paying off high-cost debts with other high-cost loans, and there is no support to help her break the cycle.

**The solution:** Ask Alicia is a new, ethical lender designed around the needs and experience of people on low incomes who are stuck in problem debt. The lender will listen to the stories and understand the experiences of borrowers, like Alicia; support them to set their own monthly milestones to pay off or consolidate their debt; and help them access affordable credit. It is envisaged that the lender would be funded through the Government’s Dormant Accounts Scheme.

**Feedback:** Some participants questioned whether access to credit, even if it is more affordable, is the right solution for people in problem debt – perhaps it should be written off? Others questioned how Ask Alicia was distinct from existing responsible lenders, such as credit unions.

5. Community Collective

**Case study:** Michael  
**Design challenge:** How might we enable people facing the poverty premium to access better value products and services, while creating benefits for providers?

*Community Collective* is a platform that enables people on low incomes to use their collective bargaining power to access services at a cheaper rate.

**The problem:** Michael knows that he is paying too much for essential services, but needs support to find out if and how he can access cheaper and better value products and services.
The solution: Community Collective is a platform, run by a trusted third-party organisation, that enables groups of people to club together to demand the best price from competing service providers. The platform is a win-win for customers and providers: through collective bargaining, customers benefit from a reduced price, while service providers benefit from new business. A vetting process and customer feedback help ensure providers are responsible and offer high-quality services. It is envisaged that the platform could work with landlords to onboard groups of tenants and residents to participate in bulk purchasing syndicates. The landlords of low-income households would benefit from this because, with tenants spending less on other outgoings, it would be more likely that they could pay their rent on time.

Feedback: Community Collective received support as well as a range of questions from participants. Since the platform would only be viable and effective if sufficient people signed up to it, participants questioned how such scale could be achieved. There was some scepticism that landlords could be incentivised to engage with the platform and would help to organise their tenants to join it. There were also concerns that it was too restrictive to only let people sign up through their landlord, which could also create complications if people moved house.

What happens next?

The Poverty and the Data Revolution workshop generated a range of ideas that could help to tackle the poverty premium and better support people in the UK who are unfairly struggling to make ends meet. Many of the solutions built on the value of community to help people access the best and most affordable services, including through collective bargaining power, information sharing and peer support. In general, participants felt that opportunities for people to meet with new service staff and other service users would be important alongside any technological solutions. This would help to build trust in the service, encourage the sharing of personal experiences, and enable the provision of additional in-person support.

Following this event, and two others held in Bristol and Edinburgh, 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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<th>Name</th>
<th>Title</th>
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<td>Jason Bates</td>
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<td>David Beardmore</td>
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<td>The Open Data Institute</td>
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<td>Sam Brown</td>
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<td>Diane Burridge</td>
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<td>Damon Gibbons</td>
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<td>Merlyn Holkar</td>
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<td>Stuart Holland</td>
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<td>Jothi Jayadevan</td>
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<td>Neil Kadagathur</td>
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<td>Dominic Mukwamba</td>
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