# Creating Local Finance Partnerships a toolkit

Our research, *Tackling Financial Exclusion Through Local Finance Partnerships*,[1] found that a holistic and joined-up approach by local finance organisations can provide scalable alternative financial services systems that unlock better access and greater choice for UK residents and businesses.

Organisations providing financial services should consider partnering to:

- Provide better access to additional products and services to customers. This has the benefit of increasing customer choice, keeping customers in house, and preventing customers from borrowing from high-cost credit providers.

- Gain access to additional customer markets through partner organisations, expanding one's own customer base.

- Consolidate operating costs, through shared marketing campaigns, staff, office space, and back office systems.

- The benefit of engaging in partnership rather than starting an entirely new entity is that there are fewer set up costs involved, and organisations can immediately tap into the existing infrastructure and customer trust.

Partnerships can be complex and time-consuming to set up – getting the right people around the table, creating buy-in, aligning product offers, and ensuring that the joint offer indeed improves access and choice for the consumer. This toolkit was created to guide organisations through these critical steps.

The toolkit is organised into the stages of setup and presents questions and factors to consider, with links to external resources where relevant.

The material in this toolkit was developed through a study of previous and existing partnerships. This toolkit provides general guidance but organisations should keep in mind that unique local circumstances may raise additional considerations not covered here.

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[1] Responsible Finance (2017) *Tackling Financial Exclusion Through Local Finance Partnerships*, http://responsiblefinance.org.uk/policy-research/local-finance-partnerships/

# Is a Local Finance Partnership for You?

## 1. Identifying unmet demand or a gap in the market

Local finance organisations are experts in responding to local need, having developed specialised products and services. They and the partnerships they engage in are demand-driven and aim to improve more consumers' financial health. So, partnerships are often formed to overcome a particular barrier or gap in the market. Some questions to consider when homing in on the unmet gap are:

- Are you declining/turning away a significant portion of customers and do you suspect they may be worse off as a result?
- Are you noticing a pattern in your customer base that you cannot address through your current product offer?
- Are there demographic or geographic similarities within this group?
- Are there particular trends in your local city or region around the provision of financial services (e.g. bank branch closures, elevated levels of over-indebtedness, reliance on high-cost credit) that have had a negative impact on residents' social wellbeing?
- Are you looking to enter a new market but do not currently have the required infrastructure?

In addition to pinpointing market need that is currently outside of the scope of your delivery, it may be possible to measure the following gaps:

- The % / # / £ of potential custom you decline per month
- The usage of high-cost credit, over-indebtedness, or other finance related barriers in your area (on which the local authority or another local institution may have done an analysis)

Measuring and quantifying the gap can help with planning a product response and generating support/buy in from partners.

## 2. Mapping local stakeholders

When you identify a gap in the market you can assess whether you have the resources, capacity, and internal expertise to launch a product to fill that gap. For many organisations, the barriers to entry and costs associated with launching a new product are high, so partnering with an existing organisation is more cost effective.

The first step is to map out and approach local stakeholders, which should be aided by the fact that many local finance organisations are already well-connected within the community. Depending on the gap in the market, common stakeholders in local finance partnerships include:

- Local authorities
- Responsible loan funds or CDFIs
- Credit unions
- Money and debt advice agencies
- Housing associations
- Specialist charities
- Specialist advice agencies
- Banks/local bank branches
- National technology firms

Organisations should use the market gap as the driver for identifying partners based on which local organisations have the product capacity and market presence to add value to a joint offer.

This local audit will identify organisations that can potentially work with you to fill the gap in the market through partnership. Getting the right organisations and people from those organisations around the table is a crucial hurdle for establishing a successful partnership. This is no small feat, so an important factor for pitching the partnership is to design win-win incentives, and to sell the benefits upfront. It is likely that the potential joint offer fills a gap for the other organisation as well, so emphasising the potential solution it offers upfront helps to engage the organisation on a practical level.

Common challenges observed in setting up and maintaining partnerships include:

- Organisations viewing potential partners as competitors for customers, funding or political championing
- Organisations viewing potential partners as part of the problem not the solution
- Organisations entering into partnership discussions without a clear purpose, or even driven by funding or publicity

Although these challenges are significant, and often require a degree of behavioural change, the learning generated from existing successful partnership provides some approaches that could help overcome some of these challenges early on:

- Use data to show the impact you have on your customers
- Present the partnership as a shared solution addressing gaps that all participants are currently experiencing
- Remain customer-driven, demonstrating how the joint offer will ultimately result in customers being better off

There are often organisational benefits from partnering as well, including sharing costs and access to new markets. These benefits appeal to organisations as they strive for sustainability and scale in the current operating environment

## 3. Structuring the partnership

Once the right organisations and people from those organisations are around the table, a next step is structuring the mechanics of the partnership.  Key questions should include:

- What is the customer journey?
- What are the touch points between the partners involved?

As with previous steps, when determining the structure, you should aim to reflect the purpose of the partnership and so set it up in a way that generates benefit for consumers. The structure will also influence the benefits returned to participating partners.

Some key considerations for structuring the partnerships are driven by the market gap and product offer:

- Does the customer need to access multiple products at once?
- Who will do the assessment and manage the relationship with the client?
- Who will manage the functionality of the partnership?
- Do multiple organisations need to be involved in the delivery of the joint offer?
- Does the delivery of the joint offer require full or partial co-location?
- How will the joint offer be marketed?
- How will ‘leakage’ (customers dropping off during the process) be managed?

Depending on the responses to these questions, there are a few options for setting up partnerships:

## referral

Independent organisations cross-referring customers when they cannot serve them. One step further than this is an embedded referral model, where organisations co-locate, lessening the risk of losing the customer at the point of handover. The referral model is flexible and can accommodate multiple partners. The referral model works well where there is some overlap in customer demographic and customers may need to access more than one product at once.

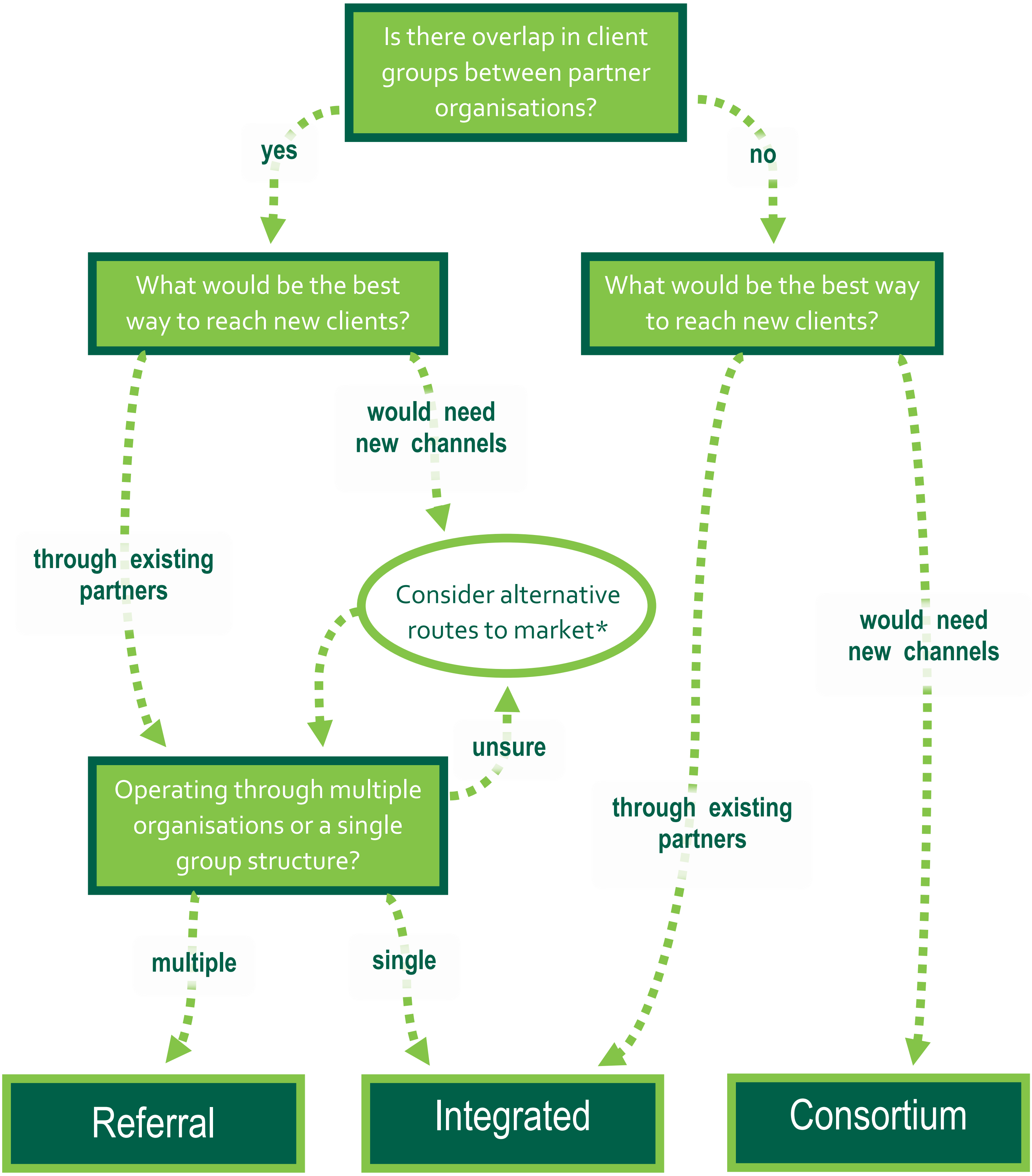
## consortium

A group of independent organisations together offering a product continuum through a single organisation that acts as the overall coordinator. In many cases, the consortium operates under a single brand and application process. This can require some alignment of products and processes before the partnership is launched. This partnership structure works when there are multiple partner organisations which are geographically disbursed. Typically, there is less overlap in customer demographics and customers do not necessarily need to access multiple products at once. While it is not necessary, consortium partnerships can use common technology platforms to offer a joint service.

## integrated

This model involves organisation working together in a company group structure, or organisations merging. Integrated models provide a simple customer journey and product branding, and offer economies of scale and consolidation of operating costs. These models are appropriate for localities where there is no existing organisation to partner with, so the head organisation may need to launch a separate company to fill the gap.

Looking at the specifics in terms of physically locating the partnership, management of customer relationships, and coordination of back office systems and marketing, it is possible to arrive at what is likely to be the most beneficial form of partnership, as shown in the decision tree on the following page.




* This could mean adding additional partners with reach or exploring new marketing options

For any partnership, there is a point of client referral, where one organisation hands off the client to the other. For this handoff and particularly if it is back and forth between the partners, organisations will need a broking license from the Financial Conduct Authority (FCA). Most organisations working in the local finance ecosystem will already be authorised by the FCA for their existing activities with consumers.[2] Adding the broker permission involves a request to the FCA to vary permission and up to 6 months for the variation to take place.[3]

With most of the partnership models listed here, organisations can offer their existing products, but in some cases the identified market gap may demand a product shift, or a new product all together. For example, organisations may need to adjust decision times, or decide to merge loan and savings products to enable an easy pathway to building savings.

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[2] The guide to becoming authorised as a consumer credit firm can be found here: Financial Conduct Authority (2017) *Consumer credit firms and authorisation* https://www.fca.org.uk/firms/authorisation/how-to-apply/consumer-credit

[3] You can find the FCA's key rules on broking, with links to more substantive guidance, here: Financial Conduct Authority (2016) *Credit broking firms: key rules* https://www.fca.org.uk/firms/credit-broking-rules

# Setting Up a Partnership

## 4. Partnership management

Dedicated project management will be needed during both the set up and delivery phases. This includes an individual or team to lead the collaboration including scheduling meetings, driving the direction of the partnership, and following through with action items.

### Who

The partnership lead in a consortium model is typically an independent or someone from a partner organisation who is seconded onto the project. In other models, it is typically one of the partners. When the partnership management lead is from one of the partner organisations, it is important that in this role they exhibit independence and ensure the 'lead organisation' meets the same level of standards.

### How

Organisations engaged in partnership, whether it is 2 organisations or a group of 10, should enter into an agreement, such as a service level agreement (SLA) or memorandum of understanding (MoU), to codify each organisation's role and operating expectations. This should include:

- Purpose of the partnership
- Role of organisation (e.g. to provide loans, or a savings account)
- Whether the organisation has a governance role in the partnership
- What the organisation is committing (e.g. staff time, resources, back office functions)
- Time period of engagement, if applicable
- Minimum standards (e.g. comply with decision time of x days, x regulatory permissions required, use a certain operating platform)
- Specifying the organisation's KPIs (if any), and reporting schedule
- Process for sharing customer data if relevant, which is compliant with data protection laws
- Process for withdrawal including what happens to any funding commitment

### What is involved

As a first stage, managing the set-up logistics once partners have bought in includes establishing a governance structure, commissioning new technology to be developed to handle customer flow, establishing a marketing strategy, and setting partnership guidelines and expectations. If a consortium or integrated model a new company may need to be set up.

During the course of the partnership the lead is responsible for monitoring the effectiveness of the partnership, promoting and marketing it according to plan, and adding new partners if needed.

## 5. Funding

Funding the partnership is another critical consideration when setting up and operating the partnership, as its sustainability impacts on the long-term customer benefits.

Local finance organisations are already skilled at mobilising multiple funding sources from public, private, and philanthropic sources. There are three stages of the partnership that distinct funding is needed, either from external or internal sources:

### Set up

For this initial exploratory and development stage, seed capital (ideally in the form of a grant) is needed. In existing partnerships, this start-up capital comes from the local authority or another government agency that has a stake in the market gap being filled. In many cases the local authority also plays a leadership role in convening the partners, eventually handing it off to the partners to manage.

### Ongoing management

Once the partnership is set up and running, the costs of ongoing management of the partnership will need to be covered. A common approach is for partners to pay a fee per customer or a fee on successful loans to fund the management function. This also creates an incentive to generate the volume needed to sustain the operation of the partnership.

### Product funding

In existing partnerships, it is common for organisations to source their loan capital (or other capital to fund their products) individually, rather than as a collective or to share capital within the partnership. In United States local finance partnerships, it is more common to share capital, i.e. for credit unions to capitalise loan funds, and for loan funds to invest equity into credit unions. The US model has a different regulatory and legislative environment that enables this, but it provides an interesting blueprint for UK local finance organisations to test.

Throughout these phases, local finance organisations have chosen to invest their own capital into the set up or operation of the partnership, either as equity or as a grant, to get it off the ground. This is a decision made at the board level depending on the circumstances of the partnership and the external funding environment.

## 6. Marketing and customer acquisition

A huge asset of going into partnership is to use the ready access into new markets and customer demographics. The marketing strategy and customer acquisition should leverage this infrastructure. There is also the advantage of sharing the costs of marketing, which can benefit small organisations.

The partnership will have been set up to serve a specific market segment, so the marketing strategy will need to be tailored to the preferences of that market, for example, if customer acquisition should be primarily digital or promoted through trusted sources such as advice agencies, housing associations, or doctor's offices.

Another consideration when starting up is whether to market externally or to source customers through existing channels. In general, most local finance partnerships do a pilot test, where the customer flow is controlled. To do this, marketing is geographically targeted, or customers are sourced through the partner organisations.

Finally, partnerships will want to consider the brand and whether to white-label products. This will again depend on the market segment targeted and the most effective way of reaching those customers. Local finance organisations are specialised organisations and white-labelling products is often a way of raising profile and demystifying their purpose.

## 7. More information

For more information read the full report on 'Creating local finance partnerships'. Or contact Responsible Finance at info@responsiblefinance.org.uk

Responsible Finance

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