Tackling Financial Exclusion Through Local Finance Partnerships

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Responsible Finance providers play a critical role in tackling inequality and financial exclusion and supporting people to become economically active and financially resilient. In 2016, responsible finance providers lent £20 million to 37,000 individuals and helped customers save £3 million. A new report, *Tackling Financial Exclusion Through Local Finance Partnerships*, funded by the Barrow Cadbury Trust, sets out how responsible finance providers could serve many more consumers through partnership working.

The ability to access fair and affordable financial services remains a challenge for millions of UK residents and businesses. Unlocking better access and greater choice would help people to manage their finances with significant beneficial knock-on effects for the wider economy and society. An array of interventions is targeted at tackling financial exclusion with reasonable success. These include locally-based responsible finance providers like credit unions and responsible loan funds (also called CDFIs), government funds to stimulate both on-lending and innovation, a mandate for banks to provide all consumers with bank accounts, and tighter regulation on high cost credit providers. More recently the introduction of financial technology ('FinTech') firms and technology-based initiatives are helping to tackle financial exclusion through digital routes.

As with most complex market failures, there is no silver bullet to tackle financial exclusion. It requires a range of approaches closely matched to individual needs. This research explored the impact on financial exclusion of local finance institutions which provide alternative financial services (loans, savings accounts, advice). It found that by working in partnership, these finance institutions could have significantly greater impact, reaching many more consumers. Good examples of this already exist in the UK, for example Scotcash, Sheffield Money and Headrow Moneyline.

These initiatives are often locally-focused and pioneering in how they are tackling financial exclusion. This report brings together the experience, learning and aspirations of existing partnerships to explore their impact, lessons learnt and future aspirations. While it is important to acknowledge the limitations of partnerships, there are reasons for optimism given the impact of local finance partnerships so far and the innovative, adaptive nature of local finance ecosystems.

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Partnership Framework

Based on the structures of existing partnerships, the research sets out a framework for organisations to consider when partnering.

	Model for partnering		
	Referral/Embedded Referral	Consortium	Integrated
Considerations when partnering	Identifying a target market and partnership objectives		
	Designing a product response		
	Legal and regulatory requirements		
	How the partnership is funded		
	Designing practical incentives and aligning cultures		
	Practically managing the partnership and sharing lessons and good practices		

Recommendations

The research found that partnerships between local finance organisations increase access to a wider range of financial products and services and so increase consumer choice for people on low incomes. Going into partnership also has benefits for the organisations involve by providing organisational levers to achieve sustainability and scale. The local finance partnership model has the potential to be replicated to increase access and build robust organisations that are well positioned to meet the demand for affordable alternative financial services. The following recommendations will enable local finance organisations and their stakeholders to establish effective, adaptive and innovative collaborations:

- Going into partnership can be challenging in terms of aligning incentives and creating the necessary buy-in. To overcome this, the creation of partnerships should be driven by the needs of the consumer and underpinned by the articulation of the organisational benefits.

- Strong leadership and a space for testing partnerships to meet market needs is required; this leadership should ideally come from external organisations, such as local authorities and trade bodies, to help overcome cultural resistance to change.

- Because of economies of scale, partnerships are a prime testing ground for innovation and process disruption, including adoption of new technology.

- Regulators should support the evolution of partnerships by using proportionate regulation to enable innovation and closer collaboration.

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