

STRIKING THE SOCIAL BALANCE: ANALYSING THE SOCIETAL IMPACT THE IMPLEMENTATION OF FINANCIAL TECHNOLOGY CAN HAVE ON UK COMMUNITY DEVELOPMENT FINANCE INSTITUTIONS

BACKGROUND

Community Development Finance Institutions (CDFIs) are not-for-profit organisations which aim to provide affordable credit to the estimated 20% of the UK population who are excluded from mainstream credit. Through providing affordable personal and business loans to financially vulnerable segments of the population, CDFIs aim to improve financial health and wellbeing, financial resilience and reduce economic inequalities.

To date, CDFIs contribution to reducing social inequalities has been marginal compared to the scale of unmanageable debt in the UK. In the same period that CDFIs lent £250m, high-cost, short-term lenders lent £3bn. Furthermore, these organisations have struggled to develop a scalable business model without support from government grants.

The economic impacts of the pandemic and the cost-of-living crisis have created a surge in demand for affordable alternatives to high-cost lenders, pushing CDFIs to rapidly develop their online, digital product offerings.

Despite the rapid adoption of fintech in financial services, as CDFIs look to streamline their processes and systems to scale sustainably, little research has yet been conducted to identify if moving to fintech too fast could leave certain demographics of CDFI's core customer base even further behind.

The aim of this research project is to explore the social benefits and risks to customers of implementing financial technology in CDFI systems and processes using the definition of fintech to be:

“The integration of technology into offerings by financial services”.



RESEARCH OBJECTIVE

- To understand where fintech can be implemented in CDFI systems and processes.
- Identify how different fintech adoptions may alter the social impact achieved by CDFI organisations.
- Present the key effects on social impact which may be caused by implementing fintech in this sector.

METHOD

LITERATURE REVIEW

34 annual impact reports, academic and industry articles and industry transformation reports were reviewed to identify where fintech can be implemented throughout the customer journey as well as explore linkages between current CDFI lending methods and their ability to achieve their social impact goals. This provided a foundation for conversations with key stakeholders in the second phase of this research.

STAKEHOLDER INTERVIEWS

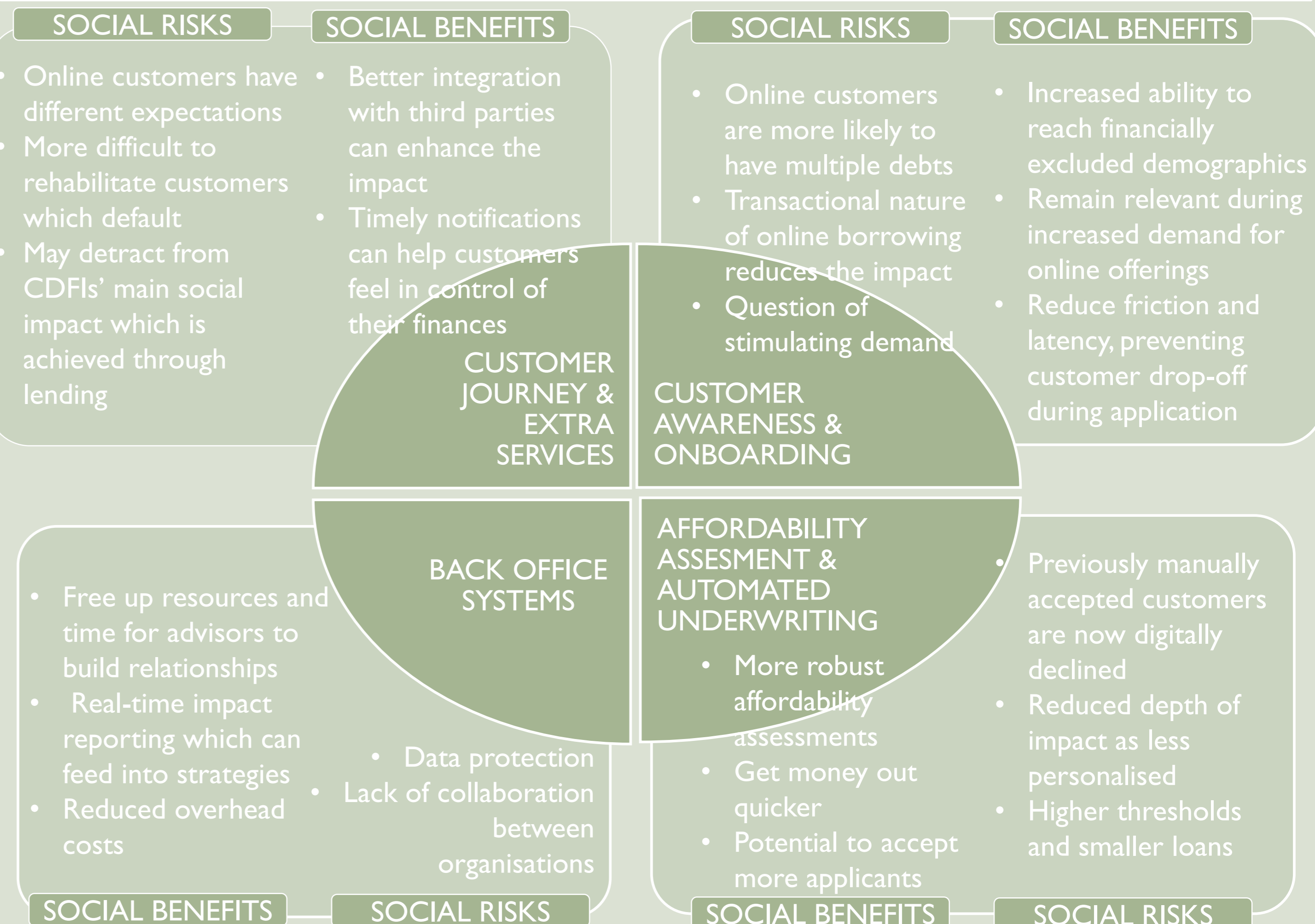
13 key stakeholder interviews were conducted with managers and CEOs of UK personal and business lending CDFIs, as well as with managers of sector bodies and contributors to sector transformation reports and projects.

These interviews were semi-structured to enable these industry experts to raise any pertinent considerations regarding the social impact of implementing financial technology in the sector.

THEMATIC ANALYSIS

Each interview was transcribed from its audio recording to allow for qualitative analysis. Thematic analysis grouped comments and interviewee quotes in 48 codes relating to personal or business CDFIs and both. Each comment was then categorised and coded depending on if it suggested a social benefit or social risk associated with implementing financial technology in each of the 7 different customer journey sections which were: Customer Awareness, Customer Onboarding, Affordability Assessments, Automated Underwriting, Customer Journey, Extra Services and Back office Systems.

This systematic process allowed for a clear identification of common themes currently being considered in the sector as well as exploring if there is a trade-off between breadth and depth of social impact achieved for organisations that have currently utilised technology in their services and products.



CONCLUSION & RECOMMENDATIONS FOR FUTURE RESEARCH

As financial technology has not yet been tested over a full economic cycle, we cannot be sure of which demographics will be particularly vulnerable to the exclusionary nature of technology. It has been highlighted throughout this research project and particularly in interviews conducted, that current technological offerings are not a perfect solution for the sector and CDFIs have to balance breadth and depth of social impact. Interviewees acknowledged unanimously that every technological implementation has an increased exclusionary risk. Therefore, CDFIs will need to be careful when adopting new technologies that they are continuing to have their intended social impact, by closely monitoring their customer demographics and making adjustments accordingly. As the economic climate in the UK continues to worsen and the cost of living crisis is affecting more households and businesses, these organisations are rejecting more customers than ever on grounds of unaffordability. Therefore this research has left us with the question:

Where will the customer go that CDFIs reject?

