REPORT | PAPER ONE

MAY 2023

Get Britain growing

How digital payments technologies enable growth: Creating a pathway to inclusion

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REPORT

Foreword

Kelly Devine
Divisional president,
U.K. and Ireland, Mastercard

How can the U.K. create economic growth that's sustainable over the long term, raises productivity, and creates prosperity?

It's the question many are grappling with after the past few years. While in some areas of the economy there are promising signs of resilience and confidence, many people and businesses are still finding it tough. Creating opportunities for those most in need is vital.

We're also living through a period of huge technological change. New technologies bring challenges such as some individuals being excluded because they are unable to keep up with the pace of digitisation across key areas of their everyday lives, like paying their utility bills or having secure and easy access to welfare disbursements. And the skills people developed through education and early in their careers, may not be sufficient to maintain good jobs or build a meaningful career in the future.

But new technologies also bring new opportunities. Through innovation we can help individuals build their skills to be part of tomorrow's workforce, improve their life opportunities and resilience, boost businesses of all sizes, increase trade and exports, support the transition to net zero, and make the U.K. more competitive and productive.

Politicians agree that technology and innovation is the foundation of the U.K.'s future economy. Nowhere is this more apparent than in digital payments.

The U.K.'s payments industry has been an engine of innovation for the past two decades, giving consumers more choice than ever, helping businesses grow, and governments to distribute payments quickly and securely. The U.K. has pioneered account-to-account faster payments, contactless and open banking. Home-grown fintechs are transforming finance, helping underserved groups, entrepreneurs, and business owners, bringing them into the financial fold and helping them grow.

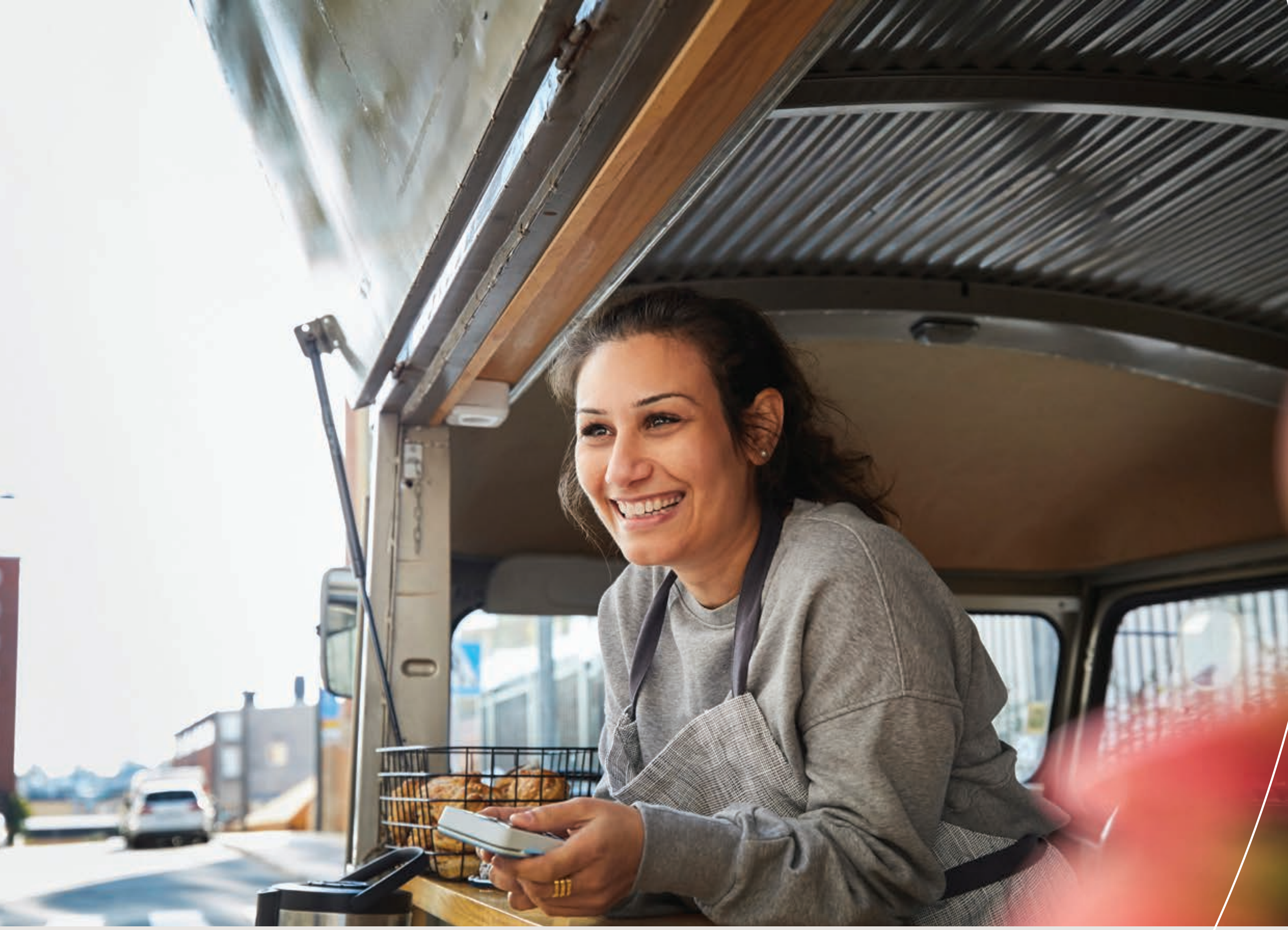
At Mastercard, we see first-hand how these innovations keep the U.K. economy moving, but we also wanted to hear from innovators, think tanks, industry experts, consumer, and civil society representatives. Algbra, CleverCards, Hi, The Financial Inclusion Commission and the RSA have all provided their valuable insights for our first paper, with recommendations for policymakers, regulators and industry to consider.

This first in our series of policy papers, explores how digital payments technology can enable growth that's equitable, create prosperity and opportunities by tackling exclusion, and help individuals build their financial capabilities and resiliency. This includes enabling better access to current and new digital financial services for underserved consumers, helping people navigate today's cost of living crisis and withstand future economic shocks, and helping people to build lifelong skills so they can succeed both now and in the future.

The U.K.'s world leading digital payments industry can support the U.K.'s transformation into a high-growth economy, and we look forward to working with industry, government, and civil society to get the U.K. economy growing in a way that's not only sustainable long term, but more importantly, gives everyone a chance to succeed.

Kelly Devine
Divisional president,
U.K. and Ireland, Mastercard

This paper is the first in Mastercard's Get Britain Growing series. It's a collection of views from various organisations on how we create growth across the U.K. economy through the opportunities afforded by digital payments technology and innovation. This paper is specifically focused on how digital payments technology and innovation can improve digital and financial skills and inclusion. The views and policy recommendations set out by the third-party organisations are not the views of Mastercard.



Executive summary and recommendations

How digital payments technologies and innovation can enable growth through improved skills and inclusion

"New innovations powered by the U.K.'s thriving fintech sector are providing financial services for people long underserved and excluded, helping individuals understand and manage their money better."

Digital payments technology and innovations are ideally placed to be the foundation on which we can grow the economy.

For individuals they keep everyday payments flowing, helping people receive their salary or benefit payments, and pay their utility bills securely and conveniently. New innovations powered by the U.K.'s thriving fintech sector are providing financial service options for those long underserved and excluded, and helping individuals and businesses understand and manage their money better. Innovation, including the advances the U.K. is making in artificial intelligence (AI) can also enable individuals' lifelong learning and skills development which will enable the U.K. labour market to be not just fit for purpose, but offer world class talent both now and in the future.

Despite the U.K. facing a challenging economic environment, we have a unique opportunity. Ours is one of the world's leading digital payments industries and a powerhouse for innovation in the U.K. and abroad. This innovation can be leveraged to increase prosperity by improving access to financial services for millions of individuals still excluded or underserved, helping them to navigate the short-term pressures associated with the rising cost of living while building their financial skills and resiliency and financial security for the long term. This innovation is also essential to improving the U.K.'s lifelong learning ecosystem, helping the U.K.'s workforce gain the skills for the jobs of tomorrow. This is essential if we want to grow the U.K. economy in a way that gives everyone a stake in the economy.

To realise this potential, we're asking policymakers to get behind the U.K. payments technology sector and help get Britain growing by:

1. **Being a champion for, and adopter of, digital payments technology and innovation that's addressing exclusion.** Whether that's prepaid cards or account-to-account payments or new fintech solutions that help vulnerable and excluded individuals get access to financial services and build their financial capabilities and resilience.

2. **Backing digital payments technology that's helping to power small and micro businesses including helping them** to release cash flow, improve their productivity and increase their trade across borders, enabling them to grow and thrive.

3. **Backing digital payments technology and innovation that supports new start-ups,** boosts cross border trade and is a key part of supporting consumers and small businesses in their transition to net zero.

4. **Adopting a bolder approach to building world class talent and skills** to tackle skills gaps, improve upskilling and create a learning ecosystem that's fit for purpose and prepares our workforce for the jobs of tomorrow.

These four principles will underpin our advocacy in this area.

The following is a summary of recommendations for policymakers and regulators together with industry to consider:

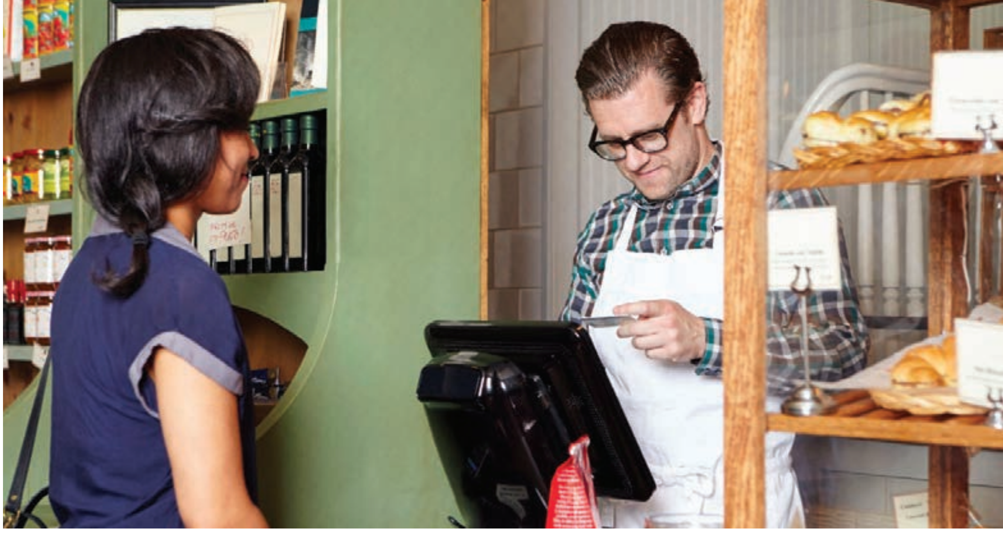
Policymakers

Recommendation	Championing organisation
Supporting innovation that addresses exclusion	
The Centre for Finance, Innovation and Technology (CFIT) should prioritise inclusion as a national issue for the finance sector.	Algbra
Make funding available to help regulators incubate more inclusion focused fintechs.	Algbra and Mastercard
Champion U.K. digital payments technology and innovation, whether that's prepaid cards or new fintech solutions, that are helping to improve access to financial services.	Mastercard
Building digital and financial capability, skills, and resiliency	
Create a National Financial Inclusion Strategy that seeks to improve access to affordable and appropriate financial services and products for underserved communities, complemented by a national digital up-skilling programme. As part of the strategy, government should seek to establish a national programme to equip people of all ages with digital financial skills, and with the confidence to apply these to digital financial services.	Financial Inclusion Commission and Mastercard
Invest more in the twin issues of digital and financial literacy with a particular focus on minority communities who have disproportionality less access to programs that improve literacy than white communities.	Algbra
Consider the use of digital prepaid cards for disbursements and economic stimulus payments.	Clever Cards

Explore encouraging free, flexible access by employees to their salary. Government should work with industry to raise awareness of faster access to earnings and helping the adoption of a more flexible payment policy that allows employees to choose how they access their wages.	Hi
Consider driving financial inclusion by expanding the public sector's use of digital payments innovation such as prepaid cards and account-to-account payments amongst underbanked and unbanked individuals, for example in the disbursement of welfare payments, to continue improving digital financial skills and confidence among most vulnerable groups.	Mastercard
Building skills and lifelong learning	
Consider building a new model of education and learning, which is digitally enabled, and personalised. This new model would seek to nurture, recognise and reward what are often invisible skills or capabilities — skills beyond the academic and vocational but which are essential to the future world of work. That would include creativity and entrepreneurship, resilience and problem-solving, communication and negotiation, empathy and tolerance.	RSA

Regulators

Recommendation	Championing organisation
Supporting innovation that addresses exclusion	
The Financial Conduct Authority should formally "have regard" to financial inclusion.	Financial Inclusion Commission and Mastercard
To continue to encourage innovation that's improving financial inclusion, regulators should be enabling an environment that encourages investment in emerging innovations and nascent providers, and work on ensuring market economics appropriate to catalyse innovation, such as a level playing field.	Mastercard
To further catalyse innovation, the Financial Conduct Authority and Payment Systems Regulator could consider a sandbox for innovators specifically focused on innovation for excluded and underserved consumers.	Mastercard
Financial services regulators should, as part of their pro-innovation objectives, champion the U.K.'s world leading payments and financial technology industry at home and abroad.	Mastercard



Back innovation that builds financial capability and resiliency to get Britain growing

The decisive, permanent shifts in the way people work, shop, and interact online driven by the pandemic, at the same time also worsened digital poverty and digital financial exclusion across the U.K. The current economic downturn is also shaping people's behaviours and spending habits, leading to changes in the way individuals are interacting with their finances. Over a quarter (27%) of all adults and 42% of younger people (aged 18–34) planned to save more money in the 12 months from August 2022.[1]

To create growth and prosperity that's sustainable in this challenging and rapidly changing environment, policymakers and regulators need to rethink their approach to improving how individuals' access and interact with financial services, and focus on building their financial capabilities, skills, and resiliency. To do this, its imperative policymakers make it a priority to better harness the opportunities afforded by digital payments technology and innovation.

The advent of Open Banking and the increase in financial services provided by fintechs, near real-time account-to-account payments, and prepaid cards, are all, already helping to drive better digital and financial inclusion and helping people to better manage their money — but we need to do more.

There are clear opportunities to use fintech based payment solutions and other digital payment innovations to reach more unbanked and underbanked consumers and unlock growth by helping these individuals interact more productively in the digital economy. To ensure innovation continues at pace, policymakers need to shift the focus from simply identifying issues to one that encourages and enables outcomes.

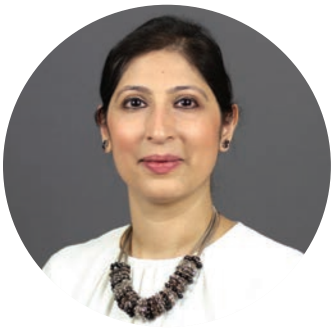
"To ensure innovation continues at pace, policymakers need to shift the focus from simply identifying issues to one that encourages and enables outcomes."

While not the focus of this paper, we should be mindful that digital payments are not for everyone, so it's important that consumers who wish to use cash, whether exclusively or alongside digital payments, aren't left behind. Though we welcome the initiatives to protect access to cash as part of the Financial Services and Markets Bill, leveraging a suite of digital payments innovations and improving digital financial inclusion both in terms of access and skills is also vital to ensuring access to cash endures.

In the following perspectives, Mastercard, U.K. fintechs, civil society champions and thought leaders set out how we are working to create products and services that address the needs of long underserved individuals. We consider what more policymakers, regulators and industry can do to harness this innovation and get the U.K. economy growing by boosting skills and further enabling inclusion.

Perspective: Mastercard

We need to be bold and back digital payments innovation to get Britain growing



Pooja Bhachu
Director for public policy, U.K. and Ireland at Mastercard and chair of Project Inclusion at Payments Association

"Mastercard is working with fintech partners to address the needs of underserved and niche groups."

As of 2020, 1.2 million people in the U.K. remain unbanked, either by choice or because they cannot access appropriate financial products.[3]

And in 2020 on average, the cost of the poverty premium equated to over £430 a year for a low-income household, costing the U.K. economy £2.8 billion, leaving those who can least afford it, paying more for goods and services.[4] And while 7.4 million people now have access to a basic bank account, the options for them to access other financial products or move on from a basic bank account remain limited.

These inequalities have only been exacerbated during the past few years.

While we welcome policymakers focus on harnessing current and emerging technology to make the U.K. an innovation powerhouse, there is a need to focus more on digital and financial equity, and on improving the capabilities and long-term resilience for individuals so they can withstand future economic shocks as a foundation of growth that's sustainable in the long term.

To do this, policymakers should back the U.K.'s world leading digital payments innovation and technology; innovation that's already supporting individuals to access and interact with financial services — whether that's accessing welfare or cost of living support payments via prepaid cards, or accessing much needed credit through Open Banking based services — and innovation that's either in the pipeline or yet to be realised.

Innovation is key to building financial capabilities and resiliency

Industry has an important part to play in harnessing technology to help create pathways to inclusion and help individuals build their digital financial capabilities and resilience.

Mastercard is working with fintech partners to address the needs of underserved and niche groups by developing products and services that account for faith, sexual orientation, gender, age, ethnicity and social impact, and other values-based frameworks that may impact how people live their lives. Our involvement in these initiatives is an extension of our global commitment to better serve the underbanked, strengthen the financial resilience of individuals and bring one billion individuals into the digital economy by 2025.

There are clear opportunities to use fintech based payment solutions and Open Banking to reach unbanked and underbanked consumers and underserved segments. However, clear, consistent in-journey consumer education is needed to both inform, reassure and protect consumers.

"The government should widen its own use of digital payments innovations, such as prepaid cards and account-to-account payments."

For those consumers who already hold a bank account, fintech based payment solutions and Open Banking can deliver an element of ease in terms of decisioning processes. However, while this does depend on the entity reviewing the application, better data can enable more nuanced decisions. Fintech innovation in payments is also helping give individuals better visibility of their finances, manage money across multiple accounts and helping people on low incomes to budget, which has been vital in supporting many to navigate the cost of living challenges over the past few years.

However, there's more to be done and this requires better partnership between the public sector and industry.

With all this great innovation already happening or on the horizon, policymakers, regulators and bodies like the new Centre for Innovation, Finance and Technology (CFIT) will also need to ensure they work together, outlining shared and more importantly, outcome focused goals.

Data can unlock better financial inclusion

Fintech payments innovation can also help improve digital financial inclusion, through improved access to open data for individuals and financial service providers.

Better and more open data can support those with low or no credit history; groups like women from ethnic communities with low or no incomes, that remain unbanked with little or no financial profiles, or those fleeing domestic abuse, or refugees fleeing conflict – all must start with little or no credit history. Better use of data, and use of wider data sets, can give individuals access to credit from a wider range of providers, as well as help them to compare products and services, finding what works best for them.

When considering how fintech innovation, whether in payments, Open Banking, open finance or beyond, can support inclusion, policymakers, regulators, and bodies like the new Centre for Innovation, Finance and Technology (CFIT) should focus on how innovation that harnesses open and smart data sharing can tackle digital financial exclusion in a way that focusses on outcomes for those most in need.

Policymakers must lead by example

Policymakers must provide leadership, including championing the U.K.'s world leading payments industry and innovation at home and abroad, so it can continue to move the dial on inclusion.

For example, government, with the support of the Financial Conduct Authority and Payment Systems Regulator, should consider setting up a sandbox specifically to help fintechs focused on innovation that improves inclusion.

The government should also widen its own use of digital payments innovations, such as prepaid cards and account-to-account payments — for example to disburse funds to those most in need.

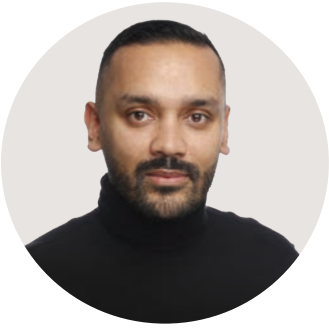
We're also supporting the Financial Inclusion Commission and others in their calls for the Financial Conduct Authority to 'have regard' to financial inclusion, and for government to create a National Financial Inclusion Strategy.

To enable industry further, and to realise their pledge of a more pro innovation regulatory environment, policymakers must continue to encourage financial services regulation that's agile and proportionate. This includes regulators enabling an environment that encourages investment in emerging innovation and getting market economics appropriate to catalyse rather than stifle innovation.

In the meantime, as industry, we must keep innovating to enable inclusion and help build the financial capability and resiliency of the most in need individuals; supporting growth that's truly sustainable — and it's a challenge we look forward to taking on.

Perspective: Algbra

As the U.K. digital economy continues to grow, we must grow our financial services to reflect a post financial-inclusion world, where the historically underserved are fully catered for.



Nizam Uddin OBE
Chief strategy officer at Algbra

algbra

4x

Black African and Black Caribbean groups are four times and 3.5 times more likely to be denied a loan respectively compared to white groups

The manner in which we transact has transformed beyond recognition in a relatively short period of time. From the advent of digital banking and electronic money institutions to the adoption of open banking, we have seen an evolving critical infrastructure that now drives the digital economy.

It's why in 2021, accelerated by the pandemic, 99% of U.K. adults made or received a digital payment, while cash payments accounted for just 15% of all U.K. payments — a 1.7% decrease on the previous year. Such a pace of change, however, is accompanied by an exacerbation of existing challenges as well as paving the way for new opportunities.

Those existing challenges include the financial exclusion of various underrepresented and minority communities. Fair4All Finance have embarked on research (due be published soon) exploring how ethnicity influences access to financial products and services in the U.K., with a view to understanding for example why Black African and Black Caribbean groups are four times and 3.5 times more likely to be denied a loan respectively compared to White groups, and why 60% of Asian and 63% of Black households have no savings, compared to 33% of white households.

The reasons for this have historically been categorised into two strands: (1) the disadvantage of these minority groups based on low education attainment, leading to low employment outcomes and therefore, financial exclusion; and (2) discrimination or bias practised by financial institutions reflected in the products and services offered which further led to their financial exclusion.

Given that such communities are also disproportionately affected by the cost of living crisis, we have a window of opportunity now to ensure financial services are truly serving their needs and doing so in a manner that doesn't "other" them or stigmatise them. We must take this opportunity to re-build a financial services sector that permanently looks beyond financial inclusion and helps communities make the most of their money.

So where do we start?

We start by acknowledging something fairly fundamental: The journey to a more inclusive and sustainable payments sector — and by extension, a more inclusive society — is driven by a better understanding of customers' needs. And that those needs are evolving beyond traditional metrics to now include people's values and lifestyle choices.

Our report with Mastercard and the Payments Association, "Helping the Financially Overlooked with 'Lifestyle and Values Banking,'" highlights how fintech innovation is already enabling more personalised forms of banking to emerge through global platforms such as Doconomy (carbon footprint impact), Lucy (affordable credit for female entrepreneurs), Daylight (financial support for LGBTQ+ communities) and Algbra (ethical and Sharia compliance).

But these should not just be seen as niche products for niche markets; the Islamic finance industry, for example, accounts for close to $4 trillion in total assets globally.[8]

Consumers are increasingly aligning their purchasing and investment behaviour with their lifestyle and values, changing the frontier of what is possible and crucially, what can be expected. Industry is adapting to reflect this sentiment.

But we now need enabling environments, from regulation to capital allocation, to help further incubate and grow these propositions in the U.K. The recently launched Centre for Finance, Innovation and Technology (CFIT), born out of the 2021 Kalifa Review, is a good start. CFIT should take on as a strategic priority an ambition for U.K. financial services to become the most inclusive in the world, actively sharing good practice across the sector, from newer entrants to traditional banks.

CFIT might also consider its role to help promote the twin issues of digital and financial literacy, both disproportionately absent across minority and underserved communities. For example, while the national financial literacy rate sits at 67%, a recent Muslim Census report — supported by Algbra and the National Zakat Foundation — found that less than half of British Muslims feel informed when it comes to their financial literacy and understanding. Younger Muslims feel less informed than their older counterparts.[9]

This is further exacerbated by huge disparities in access to technology and good internet connectivity and why the Bank of England emphasises the need for us to find new ways to deliver financial education during this accelerated transition away from cash towards digital payments.[10, 11]

The World Bank identifies an opportunity within this change, one where fintechs have the ability to address "significant financial inclusion gaps within core markets," especially as they tend to appeal to a "young demographic [that] is highly tech savvy." It's part of the reason why Algbra has financial education embedded within our platform and why we founded our Chai Mama initiative, a space for women generally — and mums in particular — to equip themselves with the knowledge they need to feel confident and empowered in all of their financial decisions.

> "Prioritising financial education can contribute an extra £6.98 billion to the U.K. economy each year, adding up to £202 billion by 2050."

A 2021 GLFEC paper concluded that about one-third of the financial literacy gender gap between women and men can be explained by women's lower confidence levels, and precisely why we have been bringing money professionals to provide financial wellbeing workshops led by women, for women. [13]

Such a targeted approach to improve financial literacy can be incredibly effective. The FT's Financial Literacy and Inclusion Campaign (FLIC) is another example of this, targeting demographics that are most likely to benefit from a boost to financial literacy — from women to older people without access to digital services to younger people who can be digitally native but lack broader digital skills, leaving them exposed to scams on social media and online marketplaces. Steven Bartlett's planned "money school" for entrepreneurs in the Grenfell Tower community is another recent example of how this approach is evolving.

But targeted interventions need to be balanced with existing national programmes, such as the Bank of England's "Money and me" programme: a 12-lesson, freely available teaching resource for primary school students.[17]

The best of these national programmes are often a collaboration between the public and private sectors, another important ingredient for sustainable reach and impact. The CBI goes further by advocating for a collaborative national strategy to financial inclusion that "allows the government to leverage policy and draw on private sector expertise to achieve" its goals.[18]

This makes all the more sense when we realise prioritising financial education can contribute an extra £6.98 billion to the U.K. economy each year, adding up to £202 billion by 2050.[19]

Perspective:
Clevercards

Using digital payments to cement the U.K.'s position as the world's pre-eminent financial centre

Kealan Lennon
CEO and founder of CleverCards

CleverCards®

"There are numerous political, economic, and social benefits that this digital and financial inclusion brings to U.K. workers."

The switch to digital is binary.

Whether it was listening to music on plastic CDs or watching movies on plastic DVDs, British consumers of all demographics adopted more technologically advanced, greener solutions — largely software applications on mobile devices.

In the financial services sector and specifically within the payments sector, British consumers are relatively advanced in the adoption of mobile payments. The Far East, however, is more than ten years ahead of Europe in the digitalisation of finance and Europe is ten years ahead of the United States. So, if the U.K. Government is serious about cementing the U.K.'s position as the world's pre-eminent financial centre of the world, the inflection point is in sight and it now needs immediate government intervention to incentivise British businesses, capturing the extraordinary potential of technology in existence today, to drive mass consumer adoption in the digitalisation of payments.

The answer is digital payments and a form of digital currency, one that already exists in the U.K. market today, as distinct from the broader plans being assessed by the Central Bank Digital Currency (CBDC) Taskforce.

Access to innovative and much more cost efficient digital payment infrastructure providers, like CleverCards, enable anyone, anywhere, anytime to be paid by government or businesses instantly, using digital prepaid cards which employees or citizens can use to pay online or instore anywhere.

A digital prepaid card is a form of digital payment that exists alongside cash and bank deposits, rather than replacing them; recognising that cash remains important to millions of people across the U.K.

However, there are numerous political, economic, and social benefits that this digital and financial inclusion brings to U.K. workers, U.K. social welfare recipients, U.K. SMEs, and U.K. large businesses in addition to the regulatory advantages, in particular those around anti-money-laundering.

The use cases are wide, but an initial use case to promote inclusion and competition in payments while turbocharging the post-Brexit U.K. economy, is to introduce a £1,000 tax free non-cash benefit for all U.K. employees.

The U.K. lags way behind its European peers with Ireland recently increasing such benefits from €500 to €1,000 and Italy increasing it from €256 to €3,000. The benefit is paid for by employers (who obtain full tax deductions), email a digital prepaid card to their employees (who pay no income tax) and the digital prepaid cards are used to spend by employees largely within the economy on cost of living expenses.

"By bringing the U.K. population into the fold of digital inclusion, the government can set itself up to benefit from digital advancements in the future."

Businesses of all sizes benefit, and individuals benefit from being upskilled in the realm of digital engagement. In the Irish market businesses have driven 100% digital adoption by its employees.

Digital verification to activate these digital prepaid cards removes risks associated with plastic cards or cash and the black market falters as the funds can only be spent in a retailer or business that accepts a Mastercard for example, removing the circulation of cash obtained via illicit means, driving additional VAT and other taxes.

There is of course the added benefit of tackling sustainability and climate change-related challenges, helping to deliver a greener financial sector that supports the transition to net zero.

This injection is a boost to businesses and individuals in the middle of the greatest cost of living crisis the U.K. has faced in decades. Economically, this type of digital payment will spur economic activity, but also aid those financially that need it most in the current challenging economic environment.

CleverCard's spending data has shown that individuals are spending more of their money on typical living expenses rather than on luxury items or discretionary spending. This is a clear aftereffect of the cost of living crisis, one that is likely to continue for the foreseeable future. And so, the loss in tax-earned from to the exchequer will be made up in increased spending among the general public, the spreading of capital, and the economic growth that the U.K. economy so desperately needs.

By bringing the U.K. population into the fold of digital inclusion, the government can set itself up to benefit from digital advancements in the future. For example, by preparing the population to utilise such a digital technology, the U.K. could begin disbursing social welfare payments directly to people's phones, cutting out social welfare fraud and the time burden and potential shame of receiving welfare face to face. The U.K. could also begin disbursing grants, such as food stamps, directly to consumers, which digital prepaid cards are enabled to ensure are spent on only the item provided for.

All of this releases much needed government budget to go towards healthcare, hospital capacity, reduced waiting lists and social and affordable housing, for example.

It will not happen overnight: it will take the will of the U.K. government and drive of the business community, but most importantly, it will take cooperation.

Perspective:
Hi

Breaking the debt cycle through flexible pay

David Brown
Founder and CEO of Hi

31%

the number of households considered financially secure has fallen to less than a third, from 38% to 31%

"Flexible pay improves financial wellbeing by giving greater control over cashflow and allowing for more efficient budgeting."

As the U.K. faces rising debt amid a cost-of-living crisis, a more flexible approach to being paid is one-way employers can ease the debt burden.

U.K. householders are continuing to turn to expensive credit to meet their rising monthly costs, thanks to a crippling combination of rampant inflation and soaring fuel costs.

Inflation hit a 40 year high of 11.1% in October 2022, sending food and utility bills soaring. Meanwhile energy costs are set to rise even higher than first forecast.

A study from money manager Abrdn Financial Fairness Trust and Bristol University found that the number of households considered financially secure has fallen to less than a third, from 38% to 31%. According to one of the report's authors, this is the first "substantial deterioration" in people's finances since the pandemic began in early 2020.

Reconsidering the monthly payroll cycle

There are several benefits to monthly payroll, such as more predictable cashflow, reduced administrative costs and compatibility with various digital payment schemes. However, these are skewed to the employer rather than the employee.

The current cost of living crisis should prompt greater questioning of the standard model and lead employers to consider dropping the concept of a monthly paycheque.

Instead, they could adopt a more flexible payment policy that allows employees to choose how they access their wages. Employers should also ensure that their workers are given supporting financial data, such as real-time wage updates, helping them to manage their monthly budgets.

Today, innovation from fintech platforms is helping to make this a reality, without increasing operational time or expense for employers. This has the potential to reinvent remuneration, transforming how time and pay are tracked, viewed, and verified.

Flexible pay improves financial wellbeing by giving greater control over cashflow and allowing for more efficient budgeting. It would also reduce the dependency on loans and credit and lessen the chance of long-term debt.

"The current cost of living crisis should prompt greater questioning of the standard model and lead employers to consider dropping the concept of a monthly paycheque."

Providing employees with flexible access to their salaries also has benefits for employers. A Mastercard and Ipsos Mori survey found that 61% of workers find it appealing to have instant access to their earned wages. By introducing flexible salaries, employers can better attract and retain talent at a time when competition for talent is fierce, enhance employee wellbeing and reduce absenteeism.

Free versus paid access to salary

While employees should have flexible access to their own salary, there are questions to whether it is morally right to charge them for the privilege.

While a £1 to £5 fee might seem like a nominal fee, it equates to a large APR when you consider the amount they are accessing, and the duration of the financing. It raises the question whether employees should be the ones footing the bill and providing free, flexible pay for their employees.

If salary access products are truly designed to improve financial wellbeing and help people through the cost-of-living crisis, they need to be free for the employee.

Hi's partnership with Mastercard

Hi has partnered with Mastercard, to launch a "Freedom of Pay" salary access card, enabling users to access their pay as soon as they've earned it. For a user, the card works exactly as a normal payment card. However, the card balance automatically increases in line with earnings as soon as a shift is completed, giving access to funds as they are available. When payroll is run at the end of the month, anything spent on the card is simply deducted from the final net pay, which goes into the users primary account as usual.

The role of government

We believe the U.K. government should be doing more to raise awareness of the positive impact of faster access to pay with industry groups and encouraging adoption of new technology solutions.

This not only positively impacts on workers but would inject billions of pounds of unproductive capital currently sitting in corporate treasury departments into the economy.

If government wants to support workers through this cost-of-living crisis and create growth that benefits everyone, they should explore breaking the feast and famine cycle of monthly pay and encouraging free, flexible access to their salary. This will bring not only significant benefits to workers, but the economy at whole.

Perspective: Financial Inclusion Commision

Improving digital and financial capabilities, skills, and resiliency

Chris Pond
Chair of the Financial Inclusion Commission

"An estimated one million people in the U.K. do not have a transactional bank account."

The United Kingdom is a global leader in fintech and digital financial services, yet five million people still rely on cash, leaving them financially and digitally excluded from accessing the benefits of one of our most promising growth sectors.

The Covid-19 pandemic acted as a catalyst for the already dwindling access to cash, and brought about a dramatic decline in cash transactions, as well as bank branch closures and a sharp reduction in free-to-use ATMs. Nevertheless, with so many still relying on cash, the Government is taking measures, which the Financial Inclusion Commission supports, to protect access to cash. However, the depositing of cash, crucial for many small businesses, is not being safeguarded.

These five million people may rely on cash for a multitude of reasons, such as budgeting and a greater sense of control, to avoid the escalation of online scams and a lack of digital skills. An estimated one million people in the U.K. do not have a transactional bank account. Many in the U.K. workforce are paid in cash and have no choice in using it for their main transactions.

Despite the U.K.'s position at the forefront of global fintech, the lack of consumer confidence and skills in using digital transactions still needs to be addressed if we want financial services to be more inclusive.

According to Ofcom in 2021, around 1.5 million homes in the U.K. were without internet access, leaving them unable to access essential financial services. However, despite the vast majority of the population being active online, this does not always translate into sufficient skill or confidence to navigate digital financial services.

This is clearly seen in the buy now, pay later sector, where people with low understanding of credit can find themselves confused and vulnerable to its embedded nature.

The scale of online scams continues to grow, with Ofcom reporting in June 2022 that 27% of U.K. internet users had recently encountered scams, fraud, or phishing online. This serves to undermine trust in digital financial services. Security is paramount to overcoming anxiety about scams so those providing financial services online must be able to provide reassurance that transactions are safe.

We support the calls for the Government to hold online platforms legally responsible for identifying, removing and preventing fraudulent content.

If we are to leverage the U.K.'s position as a global fintech leader, we need a national programme to equip people of all ages with digital skills, and with the confidence to apply these to digital financial services.

Some of the U.K.'s most used digital financial products have been around for a while and allow swathes of the population to access affordable and appropriate financial services, but these products are still not widespread enough among under-served demographics. It is this lack of access which incurs a poverty premium, a whereby the same goods and services cost more. For example, through the use of 'non-standard' billing methods, high-cost credit or having to pay to access cash through fee-charging ATMs or pre-paid cards. In total, the poverty premium comes at a £2.8 billion cost to the British economy.

The FCA has been world-leading in supporting and encouraging fintech, for instance through the innovatory "Sand-Box", but it is constrained by its current statutory objectives in what it can do to support financial inclusion.

Our calls for the FCA to "have regard" for financial inclusion have been supported by parliamentarians across the political spectrum during debates on the Financial Services and Markets Bill now going through Parliament. This would ensure that the regulator maintained a watching brief on the issue, reporting to Parliament each year on progress towards inclusion – or lack of it.

The industry has in the past collaborated to work to tackle this exclusion issue. TechNation and the now defunct Treasury FinTech Development Panel showcased how technology could be used to address financial exclusion by shaping services more flexibly to people's changing needs, for instance through the FinTech for Good initiative.

The newly established Centre for Financial Innovation and Technology (CFIT) can also provide a framework for further support and development of such initiatives. Of note, the industry is also making great strides on budgeting and saving nudges through the continuous development of smartphone apps.

"Without inclusive design there can be no inclusive growth."

However, while many of the consumers in most need of these services and products do not have the skills to use the industry's latest innovative tools, products must be designed inclusively to improve access, close the digital skills gaps and tackle financial exclusion. Without inclusive design there can be no inclusive growth.

The U.K.'s fintech and digital financial services sectors represent a huge opportunity to serve the underserved and create sustainable growth. For example, the continued development of Open Banking will see easier access and provision of credit with more secure e-commerce payments. The rising use of alternative data sources for credit scoring will further open up financial services and products never before available to under-served households.

It is clear industry can produce the digital financial services needed to harness the U.K.'s growth potential in an inclusive manner. However, the steer from Westminster and Whitehall is lacking, and without it, many are not feeling the benefits of the U.K.'s world leading fintech sectors.

The Financial Inclusion Commission is advocating an overarching, consolidated ask of government to provide this incentive and guidance to the fintech sectors: a National Financial Inclusion Strategy. With inclusive policy and product design at its core, this Strategy should seek to improve access to affordable and appropriate financial services and products for under-served communities. To achieve its aim, the Strategy must also be complemented by a national digital up-skilling programme.

This will not only open opportunities for many but build public trust in one of the U.K.'s brightest growth sectors.

This is how to get Britain growing inclusively.

Back technology and innovation that improves lifelong learning and skills to get Britain growing

Breaking down the barriers to opportunity and prosperity is essential to get the U.K. economy growing. This can't be done without recognising that the nature of work and demand for skills across different parts of the U.K.'s economy are changing rapidly, and in conjunction with using innovation in all types of technology, including AI, to create a world leading lifelong skills and learning ecosystem for the U.K.

If we're to create growth that benefits everyone and is sustainable over the long term, we need to use innovation to equip individuals with the skills, and businesses with the talent, to prosper.

Technological advancements and automation were already re-shaping the needs of the labour market over the next decade, with an estimated 30 million people needing to upskill or reskill by 2030.[1] On top of this, the pandemic created further uncertainty about the skills and jobs that will be in demand over the next decade.

"We need to use innovation to equip individuals with the skills, and businesses with the talent, to prosper."

While high-tech jobs have been growing rapidly in the U.K., other sectors such as retail are increasingly at risk in the long term. And while many workers have returned to work, the future for many industries is far from clear, with the supply crises and inflation adding to labour market uncertainty and exacerbating the challenging economic environment for many. As a result, many workers, particularly those in low-skilled and low paid jobs, will need to constantly reinvent themselves throughout their careers if they are to maintain a good standard of work, remain financially secure and prosper throughout their lives.

Skills development and lifelong learning are fundamental enablers of decent work, productivity, and sustainability that can raise the value and output of labour, empower the lives of workers, and enrich societies. For individuals, they provide the key to pursue their interests and aspirations, access the labour market, escape from social exclusion and adapt to the changing world of work.

Some of the barriers to lifelong learning Mastercard's work has uncovered include ineffective skill infrastructures which make it challenging for people to identify and access relevant training opportunities, expensive costs, lack of digital access, and lack of flexibility and transparency around course relevance and quality. In order to help address these, it is critical that we harness the opportunities of digital technology and innovation.

Lifelong learning is often mooted as a solution to help bridge the divide between low paid, low skills work and more in demand skills and jobs.
To create a world leading lifelong learning ecosystem, we're calling on policymakers to support digital technologies that can connect more people to the right opportunities and help develop a lifelong learning eco-system that promotes economic security, social equity, and individual wellbeing; all key to get the U.K. economy growing.

Perspective: RSA

The age of personalised learning

Andy Haldane
CEO of RSA

RSA

"There is now no greater challenge to growth in the U.K. economy than in the areas of skills."

The universal education system has been around for less than two centuries in the U.K. Although not perfect, it has served the U.K. economy and society well. It has enabled huge rises in the stock of human capital which has in turn fuelled rapid rises in productivity and economic growth. The education system has been the well-spring of this mass flourishing of individuals, society, and the economy over the past couple of centuries. But the tectonic plates are shifting in the U.K. economy.

There are more unfilled vacancies at present in the U.K. — over one million — than ever previously. Every sector, industry and region of the U.K. cites staff and skill challenges as among the largest impediments to doing business and generating growth. Until this skills constraint is lifted, it is difficult to see how the U.K. can grow significantly and sustainably. The economic arithmetic really is that simple — and stark.

Societal shaping forces

Let me first outline some secular forces driving this deficit, before outlining the changes likely to be needed to our education system if individuals and the economy are to continue to flourish. From a long list, let me highlight three: demography, inequality, and technology. As in earlier centuries, all three pose a near-term challenge to individuals, economies, and existing education systems. But they also open up significant medium-term opportunities to secure the mass flourishing of many more people than in the past.

Demography

People born today will plausibly live 100-year lives and have 70- or 80-year careers. In future, many people will need to undergo multiple transitions, not just in jobs but in careers. This will put a much greater premium than ever before on making lifelong learning a practical reality. Doing so would open up huge potential economic and societal gains. It would expand the workforce with experienced and expert people, their skills renewed and refreshed, while also boosting the wealth and wellbeing of these individuals.

Inequality

Educational differences are seeded in early years and grow through people's lifespan. These educational inequalities in turn seed inequalities in opportunity, income, and wellbeing. Many people leave education loathing, not loving, learning. This means those often most in need of lifelong learning are least likely to engage in such learning, amplifying educational inequalities. Some of this inequality in educational opportunity and outcomes arises from the model of learning used in most schools – the "chalk and talk" model assessed through examination. This learning model simply does not suit the learning style of many people, leaving their potential unfulfilled. If in future we could personalise learning, attuning it to individual learning styles, we should be able to unlock the potential in many more people – people otherwise lost to education and lifelong learning.

Technology

The challenge technology poses to peoples' jobs and skills is well understood. The Fourth Industrial Revolution will lead to a massive skills transition in the decades ahead. Perhaps between a half and three-quarters of all jobs will undergo some significant change over the next few decades. Equal to this change in jobs will be changes in the skills needed for the future world of work. Most studies suggest this technological transition is likely to increase demand not only for higher-level academic and technical skills, but also vocational and interpersonal skills - skills not easily replicated by robots, however sentient.

In the face of this jobs and skills transition, it is important we fully embrace the vast opportunities new technologies present to our model of education, especially digital and AI technologies. Thus far in human history the main constraints on learning have been hard constraints — numbers of teachers and schools. Technology will loosen these constraints, if not removing them entirely. For example, AI means that completely personalised learning, fine-tuned to our individual learning styles, is now well within our technological grasp. This could potentially transform how we teach and learn, unlocking the potential currently constrained by the standard learning model.

21st Century education model

Against this backdrop, what can we say about the sort of education model we might need in future, one which avoids the pitfalls and maximises the opportunities presented by inequality, technology, and demography?

At the RSA, as well as re-imagining this 21st Century model of education, we will be working with organisations such as Mastercard to make an inclusive lifelong learning system a reality in the U.K. to promote inclusive growth.

Both "what" and "how" we learn will need to undergo a significant overhaul if we are to surf the technological, demographic and inequality waves crashing over us.

On the "what", this will mean seeking to nurture, recognise and reward what are often invisible skills or capabilities – skills beyond the academic and vocational but which are essential to the future world of work. That would include creativity and entrepreneurship, resilience and problem-solving, communication and negotiation, empathy, and tolerance. This new model of skills would then be a three-layer cake with foundational skills (literacy, numeracy, digital literacy) as the base layer, non-transferable vocational and academic skills as the middle layer, and transferable capabilities or attributes (from creativity to empathy) as the often overlooked top layer of the cake. This would require a strong public and private collaboration to better understand both skills gaps and the skills of the future for a flourishing economy and promote an integrated system for the provision of education and skills.

When it comes to the "how", the shift in practice will need to be no less radical. We need to transform the existing education infrastructures, institutions, and policies to ensure that we are rigorously harnessing the power of digital innovations; that learning opportunities are made available to all, not just key target groups; and promoting innovation by building experimental spaces for lifelong learning innovation, such as sandboxes.

Within this transformation learning should take place granularly, through modules, rather than in the big blocks, allowing work and learning to be fused on a lifelong basis; that personalised learning journeys can be delivered for all – including an improvement to digital access and inclusion policies and infrastructure; AI-attuned to our individual learning styles and circumstances; that experiential rather than examination-based techniques are used for assessment; and that learning can be digitally delivered, captured in personal learning accounts and recognised and rewarded through skills passports, such as digital badges.

Taken together, this would represent a giant leap in education and learning practices, the like of which we probably have not seen for a century or more. At the RSA, as well as re-imagining this 21st Century model of education, we will be working with organisations such as Mastercard to make an inclusive lifelong learning system a reality in the U.K. to promote inclusive growth, as part of our new Design for Life mission. This new model of education and learning, digitally enabled, and personalised is just what is needed to unlock the potential in people, economies and societies.

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For further information contact:
Pooja Bhachu, Director, Public Policy, UK&I
pooja.bhachu@mastercard.com

ABOUT MASTERCARD

Mastercard operates a global payments technology network, investing in innovations that enable and protect consumers, businesses, and the Government as they make and receive payments. We provide the technology that helps banks and other payment service providers to make and receive card payments on behalf of consumers and businesses.

Vocalink, a Mastercard company, is the operator of a significant element of the U.K.'s account-to-account payments infrastructure – processing over 11 billion transactions with a value of £6 trillion – or 3.7 times the U.K.'s GDP a year. Vocalink provides the infrastructure for the Bacs, Faster Payments and the LINK ATM switching network – so we process your salary payments, your standing order, the U.K.'s instant payments, and the network that allows you to take cash out of any one of the U.K.'s over 50,000 ATMs. Mastercard and Vocalink play a vital role in the economy as, on average, U.K. consumers use these services every other day.