



FINANCIAL CONDUCT AUTHORITY (FCA) CALL FOR INPUT: CROSS-SECTOR SANDBOX

AUGUST 2019

1. INTRODUCTION

- 1.1. Fair By Design welcomes the Financial Conduct Authority's Call for Input on a Cross-Sector Sandbox.
- 1.2. Please note that we consent to public disclosure of this response.
- 1.3. For more information about this response please contact Martin Coppack, m.coppack@barrowcadbury.org.uk Tel: 020 7632 9060.

2. ABOUT FAIR BY DESIGN

- 2.1. Fair By Design is a movement dedicated to reshaping essential services, like energy, finance and insurance, so they don't cost more if you're poor.
- 2.2. People in poverty pay more for a range of products including energy, through standard variable tariffs; credit, through pay day loans; and insurance, through post codes considered higher risk. This is known as the Poverty Premium.
- 2.3. We collaborate with industry, government, and regulators to design out the Poverty Premium.
- 2.4. Our Venture Fund provides capital to help grow new and scalable ventures to innovate in the market.
- 2.5. Fair By Design was conceived by the Joseph Rowntree Foundation and Big Society Capital. The Campaign is managed by the Barrow Cadbury Trust, and the Venture Fund is managed by Ascension Ventures.

RESPONSE TO FCA CALL FOR INPUT: CROSS-SECTOR SANDBOX

1. Are there any instances when a cross-sandbox would have been useful for you?

- 1.1.** Fair By Design is a campaign and a social investment fund, so would not stand to have the same benefits as a new disruptive firm would. However, as an organisation that works with businesses across sectors to design out the poverty premium, we would benefit from working more closely with participants and the organisers of the sandbox.
- 1.2.** In particular, we would benefit from the opportunity to work with firms so that products and services are designed inclusively – ensuring financial inclusion is embedded at the product design stage.

2. Are there specific regulators which you would like to see working more closely together?

- 2.1.** We at Fair By Design would be particularly interested in a cross-sector sandbox programme which involves regulators in essential services markets, including energy (Ofgem), financial services (the Financial Conduct Authority), water (Ofwat), as well as with the Competition and Markets Authority. In doing so, beneficiaries of the sandbox can learn lessons that are relevant across markets.
- 2.2.** A cross-sector sandbox should be mission-based to ensure innovation is pursued to a positive end. For example, addressing vulnerability and eliminating the Poverty Premium. Alternatively, sandbox cohorts could be assigned themes, including tackling the Poverty Premium.
- 2.3.** We are particularly inspired by the principle aims of the UK Regulators Network (UKRN) in its data sharing scheme between energy and water companies. Such a scheme aims to help customers in vulnerable circumstances¹. We believe that the sandbox environment can, for example, be one where the lessons of data sharing between regulated firms in different sectors can be disseminated among entrepreneurs – from the outset of their business journey.
- 2.4.** Additionally, we believe the sandbox should incorporate inclusive/universal design principles to:
 - 2.4.1.** guide an approach to understanding the needs of all consumers (through evidence, research and market analysis), to help set priorities, develop and implement interventions, and assess their effectiveness.
 - 2.4.2.** guide regulators' expectations of firms to embed consideration of low-income consumers when they design and deliver products and services.
- 2.5.** We would like to see a sandbox environment that enjoys support and resource from each of the regulators responsible for essential services – that is truly cross-sector in approach. This environment could cover the existing ground of other sandboxes (testing innovative products, services, business models and delivery mechanisms), with an additional commitment to address consumer vulnerability issues. These issues include vulnerability, poverty reduction, social and financial exclusion,

¹ <https://www.ukrn.org.uk/how-safe-and-secure-sharing-of-data-between-water-and-energy-companies-is-helping-customers-in-vulnerable-circumstances/>

innovation for good, treating customers fairly, positive customer outcomes, and user-centred design principles.

2.6. Fair By Design can facilitate this type of programme, ensuring that the pursuit of positive customer outcomes is a core part of new business development. We do this by looking at how good business models interconnect with a commitment to reduce the poverty premium faced by low income consumers, as well as wider positive outcomes for consumers in vulnerable circumstances.

2.7. Fair By Design does not do this work alone. We work in partnership with a number of additional organisations. Those organisations include, but are not limited to, the following:

- Toynbee Hall
- Gingerbread
- Fair4All Finance
- The National Lottery Community Fund

3. Looking forward, can you foresee any instances where a cross-sector sandbox would be helpful for you?

3.1. Fair By Design, and its beneficiaries, would stand to benefit from a cross-sector sandbox in two ways.

3.2. Firstly, evidence and good practice on issues related to vulnerability (including the poverty premium) could be shared to new market entrants across sectors more easily and formally by participating regulators.

3.3. Secondly, it could help generate brand new relationships with our investment fund whose remit involves support for new market entrants working to eliminate the poverty premium across a number of essential services markets.

4. Would you use a cross-sector sandbox and if so, which would be the regulators of most interest to you?

4.1. Fair By Design would be in a position to work with a cross-sector sandbox in a facilitating and subject matter expert role. We could work with regulators, especially the FCA and Ofgem, to build into the sandbox programme further insight and information on the poverty premium. This would then be followed by co-designing ways of ‘designing out’ such premiums from essential products and services.

5. What do you see as the main benefits and opportunities to firms or regulated markets of a cross-sector sandbox?

5.1. A cross-sector sandbox environment would begin to address an important gap for new firms: shared learning and expertise to address consumer vulnerability at the product design stage.

5.2. In 2018, Daniel Gordon of the Competition and Markets Authority noted the following: “The current structure of consumer regulation looks market by market,

despite the fact that each regulator is talking at the same people. [Regulators] need to come together and identify those who are the most vulnerable”.

5.3. Mr Gordon rightly notes that people in vulnerable circumstances are very often experiencing vulnerability across markets, which makes cross-sector regulatory approaches absolutely crucial.

5.4. One opportunity to kickstart this cross-regulator work is to create a cross-sector regulatory sandbox environment where firms can address this problem from within a business context. Plus, this would allow them to learn lessons from existing good practice on how to deal effectively with consumers in vulnerable circumstances and ensure there is a course for creating positive consumer outcomes.

5.5. Furthermore, as noted by the FCA in the Call for Input document, cross-sector data sharing could facilitate automated switching for utilities consumers, and therefore prevent them from incurring a loyalty penalty – a component of the Poverty Premium.

6. What do you see as the main challenges and risk to firms or regulated markets of a cross-sector sandbox?

6.1.

7. What do you see as the main benefits and opportunities to regulators of a cross-sector sandbox?

7.1. Fair By Design believes that participating regulators will be better able to meet their consumer protection objectives by sharing lessons from across consumer markets. Regulators would also be sharing these lessons to new market entrants in an environment that encourages collaboration and competition.

8. What do you see as the main challenges and risk to regulators of a cross-sector sandbox?

8.1.

9. Is there anything else which might be useful to be aware of for this study?

9.1. The cross-sector sandbox environment has the potential to be a catalyst for cross-regulatory work to better meet all consumers’ needs, rather than ‘ideal or ‘super’ consumers. We view a cross-sector sandbox as a great facilitating programme for placing consumers at the heart of new businesses.

9.2. Fair By Design expresses an interest in working with regulators to carry out this work jointly, along with partnering organisations. This would ensure new firms are equipped with the knowledge and skills they need to be good regulated businesses, able to address issues such as poverty, vulnerability, and exclusion.