

Written evidence submitted by Mastercard

Overview

As the UK begins the long and difficult process of recovering economically from the COVID-19 pandemic, some things will not look the same. There have been decisive, permanent shifts in the way people work, shop, and interact which risks creating winners and losers. To ensure an inclusive recovery that will allow the country to build back a better, fairer UK, Mastercard believes that digital and financial inclusion should be a core principle of the economic recovery and, more broadly, will be fundamental to the long-term financial and economic health of the UK.

As well as the moral case for ensuring people are well equipped for the digital era, there is a significant economic and productivity boost to be had from individuals and businesses having the right access to, and skills for, digital innovation. This is particularly the case for SMEs, who need to be able to make the most of the opportunities that going digital provides – getting online, making and receiving payments quicker using digital options, managing cashflow and reaching new customers both inside and outside the UK.

Furthermore, better use of data insights, generated from digital technology, both by organisations and by Government, is fundamental to delivering truly inclusive, economic growth for the UK. Better use of timely, regionally focused and accurate data has the potential to facilitate targeted policies that can help improve lives and empower communities through, amongst other things, better digital and financial inclusion.

From a citizen's perspective, using data insights presents the opportunity for public services to be developed based on their needs, to be available with less friction and with more personalisation, improving the experience of interaction with government at all levels. And this has never been more important for UK citizens. For government, data innovation allows greater measurement of how effectively various policies are working. And as a deliverer of public services, it offers government substantial opportunities to improve the efficiency with which services are delivered.

For businesses, data innovation can deliver insights about the commercial environment in which they operate and provide greater insight about both their customers and their own performance, that could lead to more informed operational and strategic decisions particularly as businesses look to recover trading lost during the pandemic. As businesses adopt digital forms of making and receiving payments - a shift which has been hastened by the pandemic - the insights that can be generated from transactional data also increase.

However, as more businesses become digitally enabled, trading online as well as in the physical world, fraud and economic crime has moved to take advantage of this trend – these are threats that need to be managed. Effective use of data is also key in helping manage these new threats and offer the opportunity to effectively protect businesses and their customers from this dynamic and ever-changing threat. The practices of “data sharing for good” are growing and need to be nurtured and balanced with the appropriate mechanisms and controls to protect individuals. This requires balancing innovation with concerns about privacy and security of the data while ensuring confidentiality.

As the Treasury Select Committee undertakes its inquiry into jobs, growth, and productivity after coronavirus, Mastercard would urge the membership to consider the importance of enabling digital

and financial inclusion, wider use of digital payments technology and innovations such as pre-paid cards and account to account payments, as well as better and regular use of data insights, to aid the economic recovery and help secure a long-term upwards trajectory in the UK's productivity and growth.

About Mastercard

Mastercard operates a global payments technology network, that enables and protects consumers, businesses and HM Government as they make and receive digital payments. We provide the infrastructure that helps banks and other payment service providers make and receive card and account to account payments on behalf of consumers, businesses and the government every day. Vocalink, a Mastercard company, is the operator of a significant element of the UK 's account to account payments infrastructure – processing over 11 billion transactions with a value of £6 trillion – or 3.7 times the UK's GDP a year. Vocalink provides the infrastructure for the Bacs, Faster Payments and LINK ATM switching network – so we process your salary payments, your standing order, the UK's instant payments, and the network that allows you to take cash out of any one of the UK's 60,000 ATMs.

Digitally and financially excluded consumers: impact on productivity, jobs and the economy

Being excluded from the digital economy can negatively impact consumers and hold back productivity for the whole economy. Addressing these challenges will be an important part of ensuring a sustainable and inclusive recovery.

As banking, shopping, government support, and other essential services increasingly moved online during the pandemic, those who lacked access to the internet or basic digital skills were increasingly being left behind. There are 1.9 million households in the UK without access to the internet¹, and 11.7 million people who lack basic digital skills². Additionally, new research from Ofcom concluded that while the divide narrowed during the pandemic, *'digital exclusion during the lockdown was likely to be more disempowering than ever'*³. This is because excluded people tend to be from the most vulnerable sections of society – elderly, with an impairment, from a low socio-economic background, or living in a remote part of the country. Illustratively, Mastercard research conducted in the summer of 2020 found that 19.4 million Brits are unprepared for the impending economic downturn and, crucially, 27% do not know how to access any online guidance for their finances.

The pandemic has further highlighted that financial exclusion is inextricably linked to digital exclusion, which deepens the disadvantages of being digitally excluded. For example, many who relied on cash to pay for goods and services and were already digitally excluded because of limited or no access to digital devices or services before the crisis, have been unable to access essential online services and support. By contrast, those who are digitally included benefit financially from better deals online, online banking and free money guidance. Their easier interaction with the digital world benefits them in other ways as well, including through better access to training and jobs.

¹ Good Things Foundation with the University of Liverpool, Digital motivation: exploring the reasons people are offline (2019)

² Lloyds Banking Group Consumer Digital Index (2019)

³ <https://www.ofcom.org.uk/about-ofcom/latest/media/media-releases/2021/digital-divide-narrowed-but-around-1.5m-homes-offline>

Digital exclusion has a direct impact on our economy, as individuals who are not able to operate online are not viable customers for an increasing number of businesses who went online during the pandemic, and who may stay there after the pandemic. We expect a long-term impact on future economic growth; as our economy becomes increasingly digital, if we do not address digital exclusion and digital skills gaps, we limit productivity by restricting the potential for start-ups to be created, for established businesses to expand and for our workforce to be seen as adequately equipped to support and grow businesses looking to invest in the UK from abroad. A lack of digital skills and gaps across different regions could affect investment by both local and international employers. If the burden of upskilling their workforce is perceived to be too great, or if the UK is seen to lag behind other countries in terms of a digitally skilled workforce, companies may be deterred from investing or expanding in the UK.

A workforce with solid digital skills and better use of digital innovation will also be essential in helping create a sustainable, well-functioning and inclusive economy for both flexible workers and their employers; a part of the overall UK economy only set to grow further over the next decade. Those with no, or limited, digital skills are likely to face challenges in adapting to the changing professional environment, as workplaces place greater emphasis on the importance of digital skills and access to digital services.

Mastercard's efforts to support digitally and financially excluded consumers

Recognising the systemic impact of digital financial exclusion on individuals and the economy, Mastercard, and its partners, have been running a number of initiatives to address this issue prior to, during and beyond the pandemic. As a payments technology company, we have a unique understanding of, and experience in, helping individuals participate in the digital economy. We know how much this can benefit consumers and the UK economy.

In response to the impact of COVID-19 Mastercard extended its commitment to help the financially excluded, pledging to connect 1 billion people and millions of micro and small businesses across the globe into the digital economy by 2025. This represents a doubling in our original announcement in 2015 to reach 500 million people.

Leave Nobody in the Dark

At the height of the pandemic, Mastercard partnered with the Good Things Foundation – in coalition with the Joseph Rowntree Foundation, APLE Collective, and Clean Slate – to run an emergency campaign, Leave Nobody in the Dark, supporting digitally and financially excluded people most disadvantaged by the pandemic.

Over six months we were able to reach over 1.5 million people through the campaign portal containing digital financial support, information and resources to help people make online savings, access debt advice and take control of their money. We also supported people with devices and data, equipping those struggling most to make ends meet with practical money guidance, helping to develop their digital confidence, and working with them to design better ways of bringing digital inclusion into financial support.

Mastercard's partnership with the Good Things Foundation has now been extended.

This year, we will be working to ensure 1000 individuals are supported by improving their digital skills and confidence to use online financial services, building financial literacy and resilience. Specifically:

- 600 people will be supported through community partners (Online Centres network);
- 250 people will be supported through a pilot in partnership with Change Please; and
- 150 people will have self-serve support, promoted through our campaign

The Inclusion Foundation

Together with other leading fintech innovators, Mastercard has helped to set up The Inclusion Foundation, a not-for-profit community interest company. Its mission is to support the 1.2 million unbanked and the 13 million underserved adults in the UK, by enabling access to payment methods that better meet their needs. This builds on Mastercard's previous work as a founding supporter of the Financial Inclusion Commission. The Inclusion Foundation is for example providing a signposting function to the most appropriate products and services in the market for vulnerable consumers, as well as providing educational material on financial services.

Prepaid card services

Whilst we support the continued availability of cash for those that require it, we also continue to innovate to drive financial inclusion through digital payment methods. For example, prepaid cards provide a bridge for individuals and businesses that want to realise the benefits that digital payments can provide over cash, without having to open a bank account. Prepaid cards continue to play an important role in quickly and securely getting funds to vulnerable individuals whose access to cash may have been affected by the pandemic, including those that did not have access to traditional banking services such as a bank account.

Policy recommendations

- 1. HM Government should make improving digital and financial inclusion and upskilling those with limited or no digital skills a key pillar of its recovery strategy** to level up communities and stimulate economic growth across the UK. Currently at every level – policy, regulatory, provision – the link between digital and financial exclusion while being acknowledged is not being tackled with any specific policy goals. There is now an urgent requirement for Government policy to reflect this link and tackle digital and financial exclusion in tandem.
- 2.** Alongside our coalition partners, Good Things Foundation, we are calling on **HM Government to invest £130 million over the next three years** - the term of their parliament. The 'Great Digital Catch Up' would help 4.5 million more people to cross the digital divide by 2024 through providing basic digital skills and confidence, through trusted local organisations, with world-class online learning products.
- 3. HM Government should consider driving financial inclusion by expanding the use of prepaid cards**, which provide a bridge for individuals and businesses that want to realise the benefits that digital payments can afford them over cash, without having to open a bank account. Mastercard's experience during the pandemic was that prepaid cards began to play an increasingly important role in quickly getting funds to vulnerable individuals whose access to cash was impaired.

Digitally and financially excluded SMEs: Impact on productivity, jobs and the economy

The pandemic has brought into sharp focus the increasing importance of SMEs making the most of the digital economy and digital innovation. Enabling small businesses to get online, and more importantly, stay online, will support them in becoming more productive. By utilising digital technologies to increase their market access, they will be able to better manage operations and cash flow and invest more in staff development.

Prior to the COVID-19 crisis the UK's SME sector was thriving, but today many are struggling to recover from the severe economic and societal consequences that the pandemic had on their business. According to recent research by McKinsey, 80 per cent of SMEs surveyed are reporting a decline in revenue. One in four report concern about defaulting on loans, and 28 per cent expect to reduce headcount in the aftermath of the pandemic⁴.

For many SMEs, the lack of an online presence and limited digital skills have compounded these challenges. Furthermore, the pandemic has highlighted the increasing reliance of small businesses on the ability to make and take payments using digital methods such as contactless, mobile wallets, Faster Payments and card, as consumers also continue to move away from cash.

The Government's 2017 Digital Strategy highlighted that only 22 percent of SMEs in the UK use any form of e-commerce, which is behind many other European nations⁵. A lack of online presence is reported to be one of the top three reasons for start-ups failing in the UK⁶ demonstrating the negative cost of not being able to transact in the digital economy.

We know that, as a result of the pandemic, many SMEs are moving online for the first time. Cisco's 2020 Small Business Digital Transformation Report found that 72 per cent of small businesses across eight of the world's leading markets – including the UK - are accelerating their digitalisation rates to address challenges associated with the pandemic. Furthermore, SMEs that integrate digital into their business are growing up to eight times faster than those who do not use digital tools⁷.

Despite this, significant numbers of businesses are still struggling to get online⁸. This has a considerable impact on the UK's productivity levels and we support the Government's position that enabling SMEs to transact digitally '*could play a crucial role in closing the UK's productivity gap with the G7 average*'⁹.

According to recent research from Tide, UK SMEs are "crippled" by late payments with businesses chasing more than £50bn worth of invoices, according to a survey of 1,000 CEOs, founders, directors and senior management at SMEs. This research also states that the average small business is chasing five outstanding invoices at once, wasting an hour and a half every day. More than three quarters of owners believed that having their own business would feel more "worth it" if cashflow was not such a problem¹⁰.

Similarly, payment systems that do not allow for flexibilities (e.g. flexible payment time, proportion) also play a role in compounding financial challenges that small businesses face, especially under current circumstances. i.e. static periodic payments such as utility bills, rent, which may occur at a specific time every month and are predictable, but income for many small businesses may not be. Being in such a precarious situation that is largely beyond their control serves as a powerful brake on

⁴ <https://www.mckinsey.com/industries/public-sector/our-insights/how-the-covid-19-crisis-is-affecting-uk-small-and-medium-size-enterprises#>

⁵ <https://www.gov.uk/government/publications/uk-digital-strategy/uk-digital-strategy#fnref:62>

⁶ <https://www.experian.co.uk/business-express/hub/blog/management/lack-online-presence-one-top-three-reasons-start-ups-failing/>

⁷ https://www.cisco.com/c/dam/en_us/solutions/small-business/resource-center/small-business-digital-transformation.pdf

⁸ HM Government's 2017 Digital Strategy highlighted that only 22 percent of SMEs in the UK use any form of e-commerce, which is behind many other European nations

⁹ <https://www.gov.uk/government/publications/uk-digital-strategy/uk-digital-strategy#the-wider-economy---helping-every-british-business-become-a-digital-business>

¹⁰ Tide, 'New research: UK SMEs chasing £50bn in late payments', Jan 2020

SMEs' ability and willingness to invest in themselves and their workforce, innovate and subsequently grow.

Creating an environment where businesses of all sizes can easily get online, and stay online, and take advantage of digital payment solutions is vital to ensuring the productive potential of these businesses as well as helping to build consumer confidence and encourage economic activity. To this end, while we welcome HM Government's recently announced Help to Grow Digital Scheme, we remind them that it's not just about getting SMEs' access to the technology they need but it's important to help SMEs have the skills and support to make the most of that digital technology.

Mastercard's efforts to support SMEs

Every day the UK's digital payment systems provide critical services to the 5.9 million SMEs in the UK as they adapt to an evolving commercial environment, accelerated by the need to shift to online and the changing consumer behaviours as a result of the pandemic.

Mastercard's approach to helping SMEs is all about partnership, where we seek to work with all corners of the ecosystem – from our customers, the banks and other card issuers, to large businesses and small businesses to reduce the many pain points they are experiencing, and which have been particularly exposed by the pandemic. Our approach is set into three pillars, **Get Capital, Get Paid and Go Digital**.

Get Capital is all about helping SMEs get access to credit and working capital through alternative lending techniques and partner data sources. For example, our soon to launch Mastercard Instalments service which will enable Mastercard cardholders to split transactions across equal monthly instalments using their existing debit, credit or commercial card at the time of purchase, can help unlock much needed capital from elsewhere in the business.

It's critically important that the UK Government plays a role in helping SMEs understand that there are a variety of tools at their disposal, with different finance and credit solutions being more appropriate for some scenarios and SMEs than others.

Cashflow and payment speed

Alongside measures to increase the availability of credit for small businesses, we believe there is a strong case for ensuring that these same small and micro businesses can better access their own money more quickly, or in other words how they can get paid quicker by their customers. This is the second pillar of our support for SMEs – **Get Paid**.

We are also a supporter of 'Good Business Pays', live from 17 May, that aims to end the curse of late and slow payments. The campaign calls for a better, smarter way of doing business through advances in technology and the availability of data, whilst building an engaged community of corporates and SMEs to get suppliers paid sooner. SMEs should have the option of getting an invoice paid, when they need it, ending the wait for payment and helping SMEs to survive and thrive.

As such, payments innovation has a significant role to play here in ensuring that micro and small businesses can get paid by, and make payments to, suppliers faster and with greater confidence in their own liquidity.

For example, Request to Pay, a nascent payments mechanism in the UK, will provide greater flexibility by giving businesses the control to pay their pre-existing periodic bills at a time of their choosing and in separate 'segments' depending upon their financial circumstances at that point in time. Similarly, the work that we are doing with Previser, which uses AI to pick out specific invoices with complicating factors that require greater scrutiny, allowing for the majority to be paid within a day – has significant potential to improve the liquidity of micro and small businesses.

The opportunity for business and central government to work together here is clear. As the single biggest user of the UK's payment systems there is a significant role for HM Government at all levels – as a supporter and early adopter of appropriate payments innovation that will enable it to actually lead by example by a) paying its small and micro business suppliers far more quickly than is currently the case and b) in doing so help to drive acceptance, and therefore critical mass in these payment systems amongst the wider b2b community, with wider knock on liquidity benefits.

Digital innovation is critical to helping SMEs grow

Digital innovation can help SMEs get online quickly, and is already, through innovations such as e-invoicing and fast, account to account payments, helping many stay online by making it easier and quicker to make and receive payments to and from suppliers. To this end the third pillar of our support for SMEs – **Go Digital** – is aimed at helping small businesses adapt to the new digital requirements that they are facing. This support ranges from helping SMEs understand their digital readiness, protect current assets and digitize their operations e.g., CRM & Education Platform (vCita), Cashflow, Digital Onboarding, Merchant in a Minute.

Beyond direct payments innovations, during the pandemic and now, we are continuing to work on several initiatives to ensure that small and micro businesses are able to accept card payments. For instance, Mastercard has been working with Square to offer small and micro-businesses low cost, flexible and mobile card acceptance devices.

Furthermore, to protect SMEs operating online during the COVID-19 pandemic, we developed an E-commerce Safety Package for merchants, bundling a number of our services together to make it accessible and affordable for smaller merchants. We are also continuing to work with UK banks to prevent business-related payments fraud which, according to Vocalink's 2019 Small Business Fraud Report, affects 23% of UK SMEs.

Through our philanthropic hub and social impact arm, Mastercard's [Centre for Inclusive Growth](#), we are currently designing a social impact programme in the UK specifically focused at bolstering the digital and financial resilience and growth of British micro and small enterprises. We hope to launch the programme in the autumn.

Policy recommendations

There needs to be a proactive, approach to directly tackle the areas where SMEs continue to struggle, including cash flow uncertainty and the lack of know how around how best to get online and use the suite of digital payments technology available to help their businesses grow sustainably

1. The **Small Business Commissioner should ensure that small businesses have knowledge of the full range of digital payments options** that can reduce the time spent waiting for payment. There is a growing market of innovation that can enable businesses to pay invoices in vastly reduced timeframes to that which many small businesses currently wait, but often limited knowledge of these options.

2. **HM Government and its agencies should lead by example, evaluating available options to facilitate rapid payment of invoices in its dealing with small businesses.** In any event it should make greater use of e-invoicing, Faster Payments and procurement cards when dealing with small businesses, and consider making this mandatory for all Government and state agencies in the payment of invoices to businesses. HM Government might consider mandating card payment mechanisms for purchases by public agencies and authorities up to a pre-determined limit, as opposed merely to recommending them as is currently the practice.
3. **HM Government should evaluate how it can work with industry to be an early adopter of Request to Pay** payment solution in its dealings with small businesses (and individuals) at all levels of government, and how it can encourage larger billers to also offer this payment solution to small businesses.

Data innovation to help inform policies and create inclusive growth

Data holds great promise as a transformative resource for social and economic development. Better use of data, generated from digital technology, both by organisations and by Government, has the potential to deliver more inclusive, economic growth for the UK. Better use of timely, regionally focused, and accurate data can facilitate targeted policies that can help improve lives and empower communities through, amongst other things, better digital and financial inclusion.

From a citizen's perspective, it presents the opportunity for public services to be developed based on their needs, to be available with less friction and with more personalisation, improving the experience of interaction with government at all levels. And this has never been more important for UK citizens as we look towards building a better UK post the pandemic.

For government, data innovation allows greater measurement of how effectively various policies are working. And as a deliverer of public services, it offers government substantial opportunities to improve the efficiency with which services are delivered.

The COVID-19 pandemic has demonstrated the importance of data in providing government and other public bodies with timely and targeted information to help inform policy decisions. Having access to actionable insights and aggregated data sets, including those specific to different locations, enables economic recovery policies to be developed that are targeted on a specific location and to address local economic challenges. The pandemic has demonstrated the importance of having an adequate data sharing ecosystem in place to enable data to be shared efficiently across both the public and private sectors for the wider benefit of the UK economy.

For businesses, data innovation can deliver insights about the commercial environment in which they operate and provide greater insight about both their customers and their own performance, that could lead to more informed operational and strategic decisions particularly as businesses look to recover trading lost during the pandemic. As businesses adopt digital forms of making and receiving payments - a shift which has been hastened by the pandemic - the insights that can be generated from transactional data also increases. However, as more businesses become digitally enabled, trading online as well as in the physical world, fraud and economic crime has moved to take advantage of this trend – these are threats that need to be managed. Effective use of data is key in managing these new threats and offers the opportunity to more effectively protect businesses and their customers from this dynamic and ever-changing threat.

Geo insights and spending pulse data

A key challenge facing HM Government throughout the pandemic has been understanding the full extent of the financial impact of COVID-19 on all parts of the UK economy, not just in big cities or towns, in order to respond accordingly. Insights into local and national payment behaviours and trends can play a critical role in helping HM Government meet this challenge, and Mastercard have undertaken a number of innovations to support both central and local government with this decision-making:

- Mastercard's Geo-insights, which include our Retail Location Insights (MRLI) data and visualisation tool is helping the Greater London Authority model and assess the impact of COVID-19 on retail spending across the city and help support recovery planning. We are also providing this service to Belfast City, Hull and Southwark Councils. There is also interest from additional local government and business improvement districts.
- We have also developed the Business Locator tool. The tool uses the data that underpins Geo Insights to indicate whether businesses are open or not, and because it is not sharing spending data, rather just the fact that a transaction has occurred and that spending is happening, it can helpfully provide details of which businesses are affected by decreasing footfall. Hence users can see what pattern of business openings have affected the high street, both now and historically.
- Our Spending Pulse Economic Data, which has been a regular source of information for policy makers for several years, is being distributed widely across government. The data includes information on consumer spending across different sectors of the economy, and is designed to help policy makers understand, and assess, the changing impact of the pandemic on retail spending patterns and the economy, as a whole.
- Vocalink used a mixture of subject matter expertise, analysis and iterative working to identify core data which can then be used by the ONS to provide leading indicators to help ONS assess the impact of the pandemic on the UK population. For example, Vocalink was able to use data on returned direct debits (with a focus on mortgages), and data on gig economy wages to understand the impact the pandemic was having on employment and people's financial wellbeing. This work is pioneering because 1) this data has been provided to HMT and ONS much faster than was previously possible and 2) Vocalink were able to get consent to share the relevant data from our partners, including Pay.UK, the operator for the UK's Bacs, Faster Payments and cheque Image Clearing payment systems, and the banks, quickly and without any impediments to sharing data.

Insights from aggregated data can help the more efficient delivery of public services and the operation of national and local government, ensuring that finite resources are focused on areas where they are most needed. Analysing spending data for smart city services is just one way to improve the design of cities and delivery of the public services of tomorrow. Again, this will be vital in helping to build back a better UK, better public services and a better economy, post the pandemic.

Led by our [Centre for Inclusive Growth](#), we will soon be launching the Inclusive Growth Score (IGS) tool in the UK, which is currently live in the US. The IGS is an interactive tool blending open-source data with a proprietary layer of insights based on Mastercard's aggregated and anonymised transaction data. The IGS represents the degree to which the environment, economy and community in each census tract benefit from equitable growth. When complemented by local knowledge, the Score helps identify and prioritise opportunities for revitalisation and measure changes to economic health over time. You can access measures of inclusion and growth to help

indicate how economies are faring in each census tract, and the impact on its residents. These indicators can be used to develop targeted economic and social development policies.

Policy recommendations

1. **HM Government should consider better and regular use of data insights and innovation to help understand economic activity**, inclusive growth, citizen needs and job requirements or shortages in particular regions. These insights will be vital in helping HM Government social and economic development policies be evidence based, and targeted, thereby helping to level up communities and build back better, fairer communities.
2. The practices of “data sharing for good” are growing and need to be nurtured and balanced with the appropriate mechanisms and controls to protect individuals, balance innovation with concerns about privacy and security of the data while ensuring confidentiality. **A helpful first step would be a more joined up approach amongst Government bodies in how they understand, interpret and implement current data legislation to enable better data sharing from the private sector to government, and in certain, specific circumstances for the social good**, across the private sector, e.g. identifying and tackling economic crime. To do this right, there needs to be a comprehensive consultation on principles enabling sharing mechanisms as well as to protect data sharing from being misused. These principles can be the foundation on which a self-supporting ecosystem can then develop through industry led and voluntary initiatives that enable better data sharing. Any data sharing ecosystem should ensure that firms are not obligated to make datasets available.

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