Introduction

Mydex CIC would like to thank the Committee for providing us with the opportunity to present evidence on plans and proposals for a Scottish National Investment Bank. During this session a number of questions/issues were raised. This follow up submission addresses them.

1. The wording of Clause 2: Objects of the Bank

There was much discussion of draft wording in the Bill that says that the main object of the Bank should be to give “financial assistance to commercial activities”. Our evidence echoed that of many others, saying that the original mission-oriented stance of the Bank risks being lost. We said we would suggest an alternative wording. It is this:

The main Object of the Bank should be to provide capital, including long term patient capital, to enterprises supporting and enabling the achievement of Missions set by Scottish Ministers and/or to achieve sustainable inclusive and social economic benefits in Scotland.

2. Time scale for break even

We were asked how soon the Bank should be expected to break even. We replied ‘15 years’. We acknowledge that this may seem excessive and note the response in the committee that this would span the cycle of two or three parliaments. The implication is that such a long term perspective may be politically impractical.

In our view however, one of the main purposes of the Bank is to counter the short-termism which currently dominates the financial sector by providing long-term, patient capital. Patient capital is especially important when dealing with infrastructure projects. Investments in infrastructure such as roads, railways, electricity networks or sewers are not expected to deliver paybacks within the 3-5 year time scales demanded by traditional private sector financial investors. Genuine infrastructure investments are often still delivering returns 10, 20 and many more decades later. The Bank should be open to similar investments in 21st century infrastructure with similar return time scales, including digital and green technology infrastructure.

When we say the Bank should not be expected to break even before 15 years, we are talking about the Bank as a whole. We are not saying all of its investments should have such a long term perspective. Some investments may deliver a return over very short time scales. But if long term investments are made, the fact that they are long term will ‘drag down’ return average levels of the portfolio as a whole. This is an arithmetic issue, not an economic one.
One way to avoid negative perceptions of performance would be to create clear categories of investment by expected timing/form/level of return and to report back to Ministers on performance in each of these categories. In this way, an extended pay-back period for some strategic investments need not become ‘cover’ for lax lending criteria or loose operational discipline.

3. Advisory Group

We felt there was some crossed purposes in our Q&A around the Advisory Group.

The intended Advisory Group will provide Ministers with advice on the Bank’s objectives, conduct and performance. The question we were raising relates to the nature and existence (or not) of the Advisory Group’s direct relationship to the Bank. How can the Group advise Ministers effectively without access to detailed information about the Bank’s conduct and performance? Where is the Group to get this information from?

Our suggestion is that there should be statutory provisions for the Bank to provide the Group with information it asks for, so that the Group has the information it needs to provide good advice to Ministers.

4. Reporting on the Bank’s performance

The Bill as currently worded has three detailed Clauses on reporting 12. Reporting on Missions, 13. Reporting on Investment Performance and 14. Review of Performance (which is once every five years).

However, we have noted both in our written and oral submissions that nowhere in these Clauses is there any provision for the Bank to actually report to Ministers on how effective it has been in delivering the Missions it has been set, on how relevant the investments it has made are to these Missions or the role of these investments in ensuring Mission success.

Clause 12, as currently worded, only requires the Bank to report to Ministers as to how it “intends to respond to the strategic missions that Ministers have set for it”. It is silent on any requirements for the Bank to report on its actual performance in relation to these Missions. We would expect the Bank to report to Ministers in detail, on its actual performance in achieving each mission separately.

Reporting on success (or not) in delivering specific Missions is not the same as reporting on narrow financial performance. It is poor governance to relegate such reporting a five yearly review.

This oversight, when viewed in the context of detailed provisions for reporting on overall financial performance, reinforces our concern that the original mission focus of the Bank has been lost or diluted in the current wording of the Bill. Including specific requirements for the Bank’s to report on its actual performance relating to each mission is part of our suggestions for getting the Bank back to its original mooted purpose.
5. Example of a Mission

The Panel asked us to provide an example of a Mission.

We (Mydex CIC) see ourselves as being on a 30 year mission to help create the infrastructure needed for our society and our economy to realise the full value and potential of personal data for all its citizens and service providers (rather than just a small handful of larger organisations).

Personal data creates to many complex issues such as consents, terms and conditions of use, access to relevant data, quality of data, distribution of rewards/benefits of use. How these issues are best handled varies across different purposes and functions personal data is used for (e.g. for basic administration, proving identity (via the collection of an assortment of verified attributes), diagnostics (using data to identify what a particular individual needs), processing applications and entitlements (using personal data to determine eligibility for services and benefits), actual service provision (e.g. using personal data to provide financial/debt advice), advertising targeting, and so on.

Mydex CIC’s key insight is that **these complex, context-dependent issues cannot be addressed efficiently or effectively solely via blanket legislation and regulation such as GDPR. They also require new adaptable infrastructure** for data collection, sharing and use.

This infrastructure needs to be designed to be inclusive and fair as well as efficient. As currently organised, individuals as citizens and consumers are effectively excluded from direct participation in (and benefit from) the workings of the digital economy because they do not have the tools or means to do so. This is because, currently, the only entities with the tools and means of collecting and using personal data are organisations (mostly, large organisations). As is to be expected, these organisations focus on using the data they collect to pursue their own purposes.

As a result, individuals’ exclusion from direct participation in the digital economy creates a knock-on social and economic effect: by restricting access to the data, todays’ data controllers are also restricting and narrowing the purposes it can be used for, thus blocking the realisation of its full social and economic potential.

This is a **structural** problem emanating from the architecture of the system: the fact large organisations have an effective monopoly on the collection and use of personal data, and that individuals are effectively excluded from being able to use their own data for their own purposes, independently of their relationship with these organisations.

This structural imbalance, in turn, generates multiple knock-on problems including imbalances of power and reward, problems relating to the operation of consent and permissions mechanisms and processes. The longer this continues the greater the risk that **opportunities for innovation will be restricted and economic growth both stunted and distorted.**
The infrastructure solution is to provide individual citizens with the tools and means to collect, use and manage their own data for their own purposes - by providing each one with their own personal data store. (This is akin to modern financial services industry providing individuals with personal bank accounts - the tools and means to collect, use and manage their own money for their own purposes. Where would modern financial services be without this development?).

The main social and economic benefits of empowering individuals with their own data are:

- **Better quality, lower cost services** Helping individuals manage day-to-day ‘life administration’ including collating and sharing information with organisations so that these organisations can deliver better services more efficiently (administration, applications, diagnostics, service provision etc). With a personal data store citizens are enabled to share information with service providers (in public, private and third sectors) safely and at very low cost. This new infrastructure can take huge amounts of cost, effort and risk out of service provision, for both citizens and organisations.

- **Innovation and growth** By enabling personal data to be used for new purposes - helping individuals manage their lives better, as well as helping organisations manage their operations better - the infrastructure will act as an important driver of additional innovation and growth.

Mydex CIC is a Scottish social enterprise working to create this infrastructure. Our mission is to provide every citizen with a personal data store.

This is a classic mission as laid out by Professor Mazzucato. It has:

- a highly specific goal (the creation of a safe, citizen-empowering, efficiency-driving personal data infrastructure)
- encompasses multiple sectors (such as financial services, public administration, health and social care, education)
- involves multiple (different, but related) use cases, including management of consents and permissions and GDPR compliance, and the use of data for multiple purposes (administration, applications, insights and diagnostic, operational delivery of services etc)
- delivering multiple, different benefits to multiple, different stakeholders and the economy as a whole.

However, even though the social and economic benefits of this mission are very large, Mydex CIC has struggled to get the long-term, patient investment we need to scale. Private sector investors shun us because of our CIC status (which is necessary for the trust that our mission requires). The social investment industry as it currently works is not set up to provide long term patient capital on the scale that’s needed for our mission.

All of Mydex’s current projects, in areas such as improving cancer journeys, debt advice, poverty alleviation and tackling social exclusion, are based in Scotland. They are helping public/third sector service providers achieve order-of-magnitude
reductions in the costs of providing their services, while delivering better outcomes to citizens. All of Mydex CIC’s projects at least cover their costs. We are not looking for subsidies. We are looking for the capital we need to scale. But Mydex’s ability to do so - and therefore to spread and deepen these benefits is severely constrained - because we do not ‘fit’ the requirements of traditional investors.

In our view this mission - providing a personal data store to every Scottish citizen to realise the full social and economic benefits of personal data - is a perfect example of the sort of investment the SNIB should be making.