Community Investment Coalition (CIC) newsletter, December 2017

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Campaign update

On 12th December, the CIC jointly hosted a roundtable event with Social Investment Scotland (SIS) in the Scottish Parliament on using data to tackle financial exclusion in Scotland. We had an excellent line up of speakers, including Keith Brown SNP MSP and cabinet secretary for economy, jobs and fair work; Jackie Baillie Labour MSP and spokesperson on economy, jobs and fair work; Tom Mason, Conservative MSP and spokesperson on sustainable economy; Damon Gibbons from CIC partner CfRC and David Dooks from UK Finance.

Other participants represented the broad range of financial services, including retail banks, credit unions and responsible finance providers as well as experts working on debt advice and other aspects of financial exclusion.

We had an excellent debate and UK Finance announced some new improvements to the bank lending data, currently available on its web site. We especially welcomed the cross-party consensus on the need to do more to tackle financial exclusion; the value of bank lending data in understanding access to financial services; and the importance of the responsible finance sector in providing credit to those excluded from mainstream finance. We are now developing an action plan to build on the momentum created by the event.

The **roundtable** was featured by a number of news outlets. Third Force News' article covered the event, describing it as a 'summit' to 'tackle Scotland's poverty premium'. You can read the press release about the event here.

You can read our latest briefing on the importance of disclosure of bank lending data here.

I would like to wish all of you a happy Christmas and look forward to continuing to work with you to tackle financial exclusion in 2018.

Jennifer Tankard

Campaign Director

News

CIC partner **Responsible Finance** released its 2017 Annual Industry Report, showing that the industry supported 34% more customers than in 2016. The report shows that £235 million was lent to 61,163 customers, and that responsible finance providers have helped customers deposit over £3 million in savings accounts. It also outlines Responsible Finance's key asks to the Government, which includes calls for a £150 million Responsible Finance fund and a guarantee that access to EU funding and facilities is maintained or replaced.

Uswitch has found that millions of British people are facing a frugal festive season this year as nearly one in eight families will keep costs down by not putting up a Christmas tree. Stagnant wage growth and inflation has meant that many UK families are worse off than they were this time last year, with 18% of consumers stating that they will be cutting back on their Christmas spending. Tashema Jackson, money expert at uSwitch.com, said:

"For many, Christmas is the season of giving, however, with the cost of gifts, Christmas dinner, travel and treats all racking up, consumers can be left feeling anxious about how they're going to be able to afford the festivities.

"It is a reflection of the times that so many families will be forced to cut back on well-loved staples like the traditional Christmas tree. However, there are a few simple things households can do now which can help manage costs and prevent having to tackle a bigger financial issue later.

"If you feel like your spending is spiralling out of control, help is at hand. Charities like StepChange offer free and impartial advice to help get on top of your debt."

Link ATM Interchange Fees

The consumer group ***Which?*** has called for an urgent review of free-to-use cash machines, after concerns emerged over their funding. It has written to the Payment Systems Regulator asking it to step in and conduct a review to fully evaluate the potential impact on consumers – millions of whom rely on the free-to-use network of ATMs to access cash.

The **Financial Times** reported that two of Britain's biggest independent cash machine operators have warned that they will have to close thousands of ATMs, or start charging consumers to withdraw money if banks proceed with plans to cut the fees paid by card issuers. The risk of the creation of "ATM deserts" will be exacerbated by the high street bank closures which are sweeping the UK. Some of the largest independent cash machine operators have said that their networks of free to use ATMs will become unsustainable.

The **Association of Convenience Stores** has called on the Treasury Select Committee to scrutinise the proposals on changes to ATM fees. It expressed scepticism at LINK's claims that they intend to 'retain an extensive network of free ATMs for consumers', as a cut in the interchange fee would inevitably lead to a decline in the number of cash machines available for customers. In response to concerns, LINK has stated that the fee change will not apply to machines that are on their own with no others within a 1km radius.

Association of Convenience Stores **chief executive James Lowman** said:

"Convenience stores have invested in the provision of free cash machines as part of their commitment to serve thousands of communities, but this remains under threat by LINK's proposals which could make many unviable. We need clarity on the number of cash machines that would be protected by the 1km proposal, as any removal of cash machines in rural and isolated communities would have a significant negative impact on both the stores housing them and other small businesses in the area."

On the response to her letter to **Sir Mark Boleat, Chair of LINK, Nicky Morgan MP** commented:

"LINK has committed to maintaining the reach of the current network of free-to-use ATMs. Given the information currently available, it's difficult to see how they can guarantee that this commitment will be met.

"As my predecessor Lord McFall said, they are taking a 'leap in the dark' with these proposals. The Committee, therefore, will examine developments to ensure that there are no negative impacts on financial inclusion.

"It's important to understand whether the proposals are a reasonable step to protect the sustainability of the ATM network, or whether it's a profit-boosting drive by the big banks at the expense of consumers.

"As bank closures increase, so too does the reliance on ATMs. Every effort must be taken to ensure that the 2.7 million people reliant almost entirely on cash transactions aren't cut off."

Which? also responded to the latest bank branch closures announcement. According to their research, there have been 1,962 closures since the start of 2015. Gareth Shaw, *Which?* money expert said:

"With bank branch closures gathering pace, it's vital that banks ensure all consumers have access to vital everyday banking services, no matter where they live.

"At a time when the payment industry is putting forward proposals that could significantly reduce the number of free-to-use ATMs, this news will be even more concerning for consumers who must not be left struggling to access the cash they need."

FCA proposals on credit card customers in persistent debt

The **FCA** has published an updated consultation on rules to help customers in persistent credit card debt. This follows an April 2017 consultation paper on proposed remedies to help millions of people get out of expensive longer-term credit card debt. The proposals include firms, at designated timeframes, prompting customers to make faster repayments or proposing repayment plans, as well as intervening earlier if customers are struggling to repay. It also proposes that where a customer cannot afford any of the options proposed to repay their balance more quickly, firms must take further steps to assist them to repay the balance in a reasonable period, for example by reducing, waiving or cancelling any interest or charges.

The **Money Advice Trust** has welcomed the focus on early intervention, but has stated that the FCA 'could go further' on persistent credit card debt. **Joanna Elson OBE**, chief executive of the Money Advice Trust, the charity that runs **National Debtline**, said:

"The FCA's continued focus on early intervention is welcome, but the regulator could go further in ensuring these remedies are made as effective as possible in tackling persistent debt.

"Many credit card providers are already working hard to intervene early when signs of financial difficulty are identified, and the FCA is right to take steps to bring about further improvements. However, 36 months remains too long for someone to be struggling under persistent credit card debt, and we will continue to make the case for the time periods the FCA has set out to be reduced.

"The FCA's behavioural trials on increasing credit card repayment levels are a welcome step. We hope that the door remains open to future increases in minimum payment levels, to ensure that debts are paid down in a more reasonable period."

Citizens advice has criticised the FCA proposals to change how credit card firms offer credit limit increases. The plans include a voluntary agreement with credit card companies which will require people to opt out of receiving unsolicited credit limit increases, however it will remain the default option for existing customers. With 85% of consumers opposed to unsolicited increases and evidence they are given most frequently to those who can least afford them, the charity is now calling on the FCA to take action and ban these rises. **Gillian Guy, Chief Executive of Citizens Advice**, said:

"The FCA's voluntary agreement with credit card companies still leaves people vulnerable to building up problem debt.

"Existing customers will still receive extra credit they haven't asked for by default - unless they contact the card provider to opt out. This arrangement allows credit card companies to sidestep the real issue of lending more responsibly, and is unlikely to prevent people building up problem debt as people tend to stick to default options and are unlikely to opt out of uninvited increases.

"There isn't a single good reason to allow unsolicited increases to continue. If we are to stop people getting trapped into debt spirals, the FCA should use the extended consultation period to reconsider the voluntary agreement and end the damaging practice of raising people's limits without their consent."

This month the **Money Advice Service** announced a new **five-year strategy** to better target those in most need of debt advice. Working with partners to provide holistic support for financially vulnerable groups, it says the new approach will deliver the following client outcomes:

- An increasing proportion of clients from target groups access debt advice services;
- Everyone receives a service which is tailored to their needs and increases their financial resilience. (Embedding financial capability where possible);
- Clients receive timely and effective advice at all stages of the advice process.;
- Clients receive effective advice in line with their needs from well-trained, empathic staff;
- Clients are able to access, or are sign-posted to, services complementary to debt advice to help them address the root causes of their debt problem;
- Existing and emerging technologies are effectively utilised to meet client need.

These outcomes will have a particular focus on over-indebted people with dependent children, a low household income and those who are experiencing mental ill health.

Community Investment Coalition

In other news, the **FCA** has published its final rules requiring providers of personal current accounts and business current accounts to publish information that will help customers compare the service they could receive from different providers.

The new information will help customers, comparison websites and the media to make meaningful comparisons of the services different current account providers offer. By encouraging competition, it is expected that the new rules will mean providers will improve their service and performance.

Under the new rules, customers will be able to find:

- How and when services and helplines are available
- Contact details for help, including for 24-hour helplines
- How long it will take to open a current account
- How long it will take to have a debit card replaced
- How often the firm has had to report major operational and security incidents
- The level of complaints made against the firm

On 19th December **HM Treasury** revealed that over 900,000 new fee-free basic bank accounts were opened between July 2016 and June 2017, taking the total number of fee-free accounts open to nearly 5 million. Commenting on this, **Stephen Barclay**, the **Economic Secretary to the Treasury** said:

"Making sure that everyone has access to the financial services that they need is at the heart of our plan to build a fairer society and an economy that is fit for the future. The Government has legislated to make sure fee-free basic bank accounts are available to those who need them and I am pleased to see that so many people - who might have previously been at risk of running up debt through bank charges - have access to a completely free account. It is important for a fair economy that banks continue to help all their customers to manage their finances confidently and responsibly."

CIC partner **Responsible Finance** attended an FCA roundtable event regarding its Call for Input and review of the high-cost short-term credit price cap. It has now published its response to this review, including the decision on the future of the high-cost-short-term credit price cap. In this it sets out its decision to maintain the price cap at its current level, committing to review in within 3 years to ensure its effectiveness. It also includes priorities for the next stage of review, which will focus on overdrafts, rent-to-own, home-collected credit and catalogue credit.

Parliamentary Activity

On 20th December 2017 the **Government pledged £370 million of funding** to secure the future of the Post Office. The Post Office has moved into profit for the first time in 16 years, and branch numbers are the most stable they have been for decades. Currently, 95% of small business customers can access day-to-day banking services in post offices; improving the business environment for small and medium sized firms - a key part of the Government's Industrial Strategy.

HM Treasury is offering £2 million to budding entrepreneurs that can develop an application aimed at allowing renters in Britain to share their rent payment data, in an attempt to improve their credit scores and chances of getting a mortgage. The **Economic Secretary to the Treasury, Stephen Barclay,** said:

"People's monthly rent is often their biggest expense, so it makes sense for it to be recognised when applying for a mortgage. Without a good credit score, getting a mortgage can be a real struggle.

"Most lenders and Credit Reference Agencies are unable to take rental data into account, because they don't have access to it. The Rent Recognition Challenge will challenge firms to develop an innovative solution to this problem and help to restore the dream of home ownership for a new generation."

However, the **Centre for Responsible Credit** (CfRC) has warned that the sharing of rent and Council Tax repayment data could be dangerous for people who are struggling financially. It believes that it could have the effect of increasing levels of financial exclusion for these groups, and raising the cost of credit they will have to pay. The CfRC briefing came in response to **Lord Bird's Bill** in the House of Lords, who wishes to make it compulsory for lenders to take account of these types of data when assessing a borrower's creditworthiness.

Damon Gibbons, **Director of the CfRC** commented:

"The evidence base for sharing rent and Council Tax data with credit reference agencies, and through them the wider credit industry, is flimsy at best. Adverse impacts – such as worsening credit scores for people in rent arrears – have routinely been played down, and the benefits for people with good payment histories overstated. A much more rigorous analysis is needed, and policy makers should not move forwards on this issue until it is available. For that reason, we urge Members of the House of Lords to vote against Lord Bird's Bill tomorrow."

House of Commons (HoC) written answers

Regarding the voluntary agreement by lenders not to increase customers' credit limits without their permission, both **Rachel Reeves** and **Paul Blomfield** asked the **Chancellor of the Exchequer** what representations he has received, and what evidence he has that this agreement will effectively ensure customers credit limits are not increased without their permission. **Stephen Barclay** responded that the regulation of consumer credit is a matter for the Financial Conduct Authority (FCA). It has carried out an extensive credit card market study and proposed an industry agreement to restrict unsolicited credit limit increases to tackle persistent debt.

Gareth Thomas asked the **Chancellor of the Exchequer** what plans he has to support access to credit unions. **Stephen Barclay** reaffirmed the Government's commitment to supporting access, stating that it has done this by:

- Announcing in the Autumn Budget that where a credit union's membership conditions are based on a locality, it can increase the number of potential members from 2 to 3 million.
- Contributing £600,000 to an initiative to start savings clubs in primary schools and educate young children in the benefits of saving.
- Contracting the Association of British Credit Unions Limited to deliver the Credit Union Expansion Project.
- Announcing that from 2018 a scheme which incentivises credit union membership in communities at risk of being targeted by loan sharks will be expanded.

Also in the **HoC**, **Sir Michael Fallon** asked the **Chancellor of the Exchequer** 'what steps he is taking to promote better access to affordable credit, and whether his Department has plans to create a national interest-free credit scheme available to people eligible for universal credit'. Mel Stride's replies largely mirrored those above, adding that new Universal Credit claimants can apply for advance payments, and claimants who have been in receipt of Universal Credit for six months are eligible to apply for an interest-free budgeting advance to cover additional expenses.

Jonathan Reynolds posed two questions to the **Chancellor of the Exchequer.** These asked what information the department holds on whether the UK's Credit Reference Agencies have sent all the required demand letters to the banks requesting small businesses credit information, and what his Department's timetable is for the implementation of the Commercial Credit Data Sharing scheme.

The questions were answered by **Stephen Barclay**, who stated:

"Each of the banks designated by the Government has received a formal letter from at least one of the designated credit reference agencies to request the data that banks are required to share under the scheme. All nine designated banks will therefore be sharing data by the end of the year."

The regulations include a requirement for the Treasury to review the scheme which has been recommended for summer 2018.

A question was also posed to the **Chancellor of the Exchequer** by **Chi Onwurah**, asking what assessment has been made of the potential for reduction in the cost of payments transactions and the effect of changes in that cost on financial exclusion. **Stephen Barclay** responded that whilst the Government has not made a comprehensive assessment of the potential for reduction in the cost of payment transactions or for the effect of such changes on financial inclusion, it is taking action to drive down the cost of transactions and pass this saving to customers. He went on:

"From 13 January 2018, for most retail payments, merchants will also not be able to add a surcharge just for using a particular payment instrument.

The Government is also supporting competition in payments to drive down costs. The second Payment Services Directive (PSDII) will provide for greater competition by creating a regulatory regime for new payment initiation services, which are generally lower cost than card services.

Furthermore, in 2015, the Government established the Payment Systems Regulator (PSR) in 2015, with statutory objectives including promoting competition and innovation, and ensuring that user needs are taken into account."

House of Commons (HoC) Debate on Financial Inclusion

Chair of the APPG on credit unions, **Jeremy Quin**, led a debate on **financial inclusion,** the single financial guidance body and the commission's ambition that *"by 2020, every adult should have access to objective and understandable advice on credit, debt, savings and pensions".*

He spoke on the issues of high cost credit and pay as you go services, which are costing poorer families £1,300 a year. There is a need for early education on financial literacy and he welcomes it being part of the citizenship education on statute. He also welcomed the cross-party support for the **Financial Guidance and Claims Bill** which he thought joined up services and filled gaps in provision.

The **Parliamentary Under-Secretary of State for Work and Pensions**, **Guy Opperman**, outlined progress made and reiterated the intention of the Financial Guidance and Claims Bill. He agreed that the single guidance body provided an opportunity to tackle financial inclusion.

Quin asked about ensuring guidance reached vulnerable groups including disabled, lone parents and single pensioners.

Responding, Opperman agreed there should be a focus in areas currently lacking such as the need to "*ensure that information, guidance and debt advice is clear, cost-effective and not duplicated elsewhere; to ensure that information, guidance and debt advice is available to those most in need, particularly people in vulnerable circumstances; and to work with devolved authorities".*

On financial education Opperman stressed that the guidance body intended to provide lifelong guidance and help children better understand financial challenges at any age.

The House of Lords (HoL) Debate on Financial Inclusion

On Monday the **HoL** debated the report from the **House of Lords Financial Exclusion Committee** that was published in March, following the Governments response in November. The report called on the Government, the Financial Conduct Authority and banks to give greater priority to tackling financial exclusion. The Committee found that 1.7m in the UK were without a bank account and 40% of the working age population had less than £100 savings, making them vulnerable to becoming financially excluded in the event of relatively minor unforeseen circumstances. The Committee called for an end to the 'scandal' of the poorest being charged more for products and excluded from even the most basic financial services.

Baroness Tyler explained there were four areas where the report made recommendations. These were: Government leadership on financial inclusion and the need to expand the FCA remit; vulnerable groups such as the elderly, people living with a disability and mental health problems; the increasing number of people without a bank account and bank closures; and, the high cost credit market.

She had been disappointed with the Government response which she said, *"lacked a sense of urgency and ambition"* and *"failed to engage directly with a significant number of the issues raised".*

Lord Patten felt that local bank, post office and service closures needed to be the focus of the Government to help financial inclusion, along with the need for the provision of financial education.

Discussions focused on the debt faced by the most vulnerable in society, cuts to welfare budgets, and the impact of local bank closures. **Lord Empey** raised the fact that the Government had not properly responded to calls for repayable long-term investment capital through credit unions in a greater array of products.

Mirroring our calls at the CIC Round table last week for financial inclusion policy to be stepped up, **Viscount Brookeborough** said that financial exclusion was as important as the security of the population or their health or education.

Opposition spokesperson for the treasury **Lord Tunnicliffe** also added his disappointment that it had taken the Government so long to respond to the report, but said it was gratifying to learn that, of the 22 recommendations of the committee, four had already been implemented, with a further five partially implemented.

He agreed that the FCA should have a duty of care to its consumers at the heart of its mission, adding: *"It is simply not possible to achieve a good deal for consumers and protect those affected by financial exclusion by relying on a fair markets approach".*

Lord Tunnicliffe went on to question why other recommendations would not be implemented, closing: *"Why cannot the Government, who have done so much to make the poor poorer, do more, as this report recommends, to help the poor, the old, the unconnected and the disabled to pay less?".*

On the committee's proposal on the **Financial Inclusion Policy Forum**, **Lord Bates** said he looked forward to it being set up in the first quarter of 2018 and said further details about its membership and the date of its first meeting would be published soon. The forum would meet every six months, he said, with the agenda published, and the Government to make decisions on what would happen with the minutes.

Reports and Research

A new report by the debt charity **Step Change**, [‘Stuck in the Red’](), has shown that over two million people in the UK are still in a constant cycle of persistent overdraft debt. It also highlights evidence of unaffordable lending in the overdraft market, and cases where banks have failed to offer customers a means to deal with overdraft debt even when customers have made it clear they are in financial difficulty.

Step Change made a series of recommendations, including: Banks and the Financial Conduct Authority (FCA) should work to more proactively identify customers in persistent debt; banks should end charges for unarranged overdrafts and the FCA should investigate unaffordable lending in the overdraft market. In the wake of the report, **Liberal Democrat** leader Vince Cable condemned banks for using overdraft problems for profit.

The **Financial Conduct Authority** released its report Shining a Light on Illegal Moneylending, in which it finds no evidence that illegal moneylending has increased as a result of the imposed payday loan cap. The report also finds that illegal moneylending is more prevalent in areas of high economic deprivation, happens across the UK, and has existed for generations.

The Joseph Rowntree Foundation released a briefing on poverty in Scotland, in which it summarises changes to poverty rates and underlying drivers of poverty. It found that the poorest fifth of the population in Scotland do not have any savings or investments, and are not building up a pension, however poverty is lower in Scotland then the rest of the UK.

The Financial Ombudsman Service published updated figures on the problems consumers are raising this financial year (2017/18) along with the proposed plans and budget for the next financial year (2018/2019). Regarding short-term lending, 4,500 more complaints are expected this year than previously forecast. It also found that payday lenders are wrongly rejecting six in ten complaints, which is higher than typically seen in other product areas.

National poverty charity **Turn2Us** has said that new research into those seeing its help found that a quarter do not have a freezer, while 21% do not have a washing machine. The research also found that 15% of respondents didn't have a cooker and 16% didn't have a fridge. The charity says that living without basic household appliances can have a serious impact on a person's health and broader wellbeing, and makes it harder for them to manage on a limited budget.

Events

On 8th January 2018, **The London Assembly Economy Committee** is launching its report which examines the Mayor's role in promoting and supporting the financial health of Londoners. The Committee has been investigating financial inclusion in London, seeking to establish how the Mayor should work with London's financial services and charitable sector to promote and support financial inclusion for households and SMEs in London.