Community Investment Coalition (CIC) newsletter, August 2017

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Campaign update

This week saw more news about problem debt in the UK, with Citizens Advice reporting on credit cards and problem debt. One of the report's recommendations is that money advice should be provided at key moments in people's lives. CIC campaigns for the need for more financial capability support for adults and the role that employers can play in building the financial skills of employees. Despite the strong evidence base linking debt levels to individual stress and loss of workplace productivity, the willingness of large employers to address this is patchy.

The alternative finance sector provides critical support to help people get out of debt and develop money management skills. You can read my blog here about the impact of the responsible finance personal lending sector.

There is always lots of news about fintech innovation as a way of driving change in the financial services sector. But **innovation isn't always about fintech**. 'Culture Bank: A new paradigm for community investment' explores non-financial assets as a key component of the value exchange and innovative way of investing in artists and communities.

Jennifer Tankard, Director CIC

News

The Financial Conduct Authority (FCA) released a feedback statement resulting from its call for input on high-cost short-term credit (HCSTC). After a one-year review, the cap on HCSTC will remain in place, to be reviewed again in three years. The FCA found that the cap did not adversely affect customers, with the majority of those turned down who might otherwise have been accepted for a loan retrospectively glad that they were denied. Unarranged overdrafts are now to be acted upon, with rent-to-own, home-collected credit and catalogue credit sectors also to be investigated in more detail. The proposals for action will be published in spring 2018.

The fallout continued in August from the flurry of statements from the Bank of England last month warning against lax risk assessments on the part of consumer lenders and ballooning consumer debt. The Guardian's economic editor emphasised that the short-term issue of the consumer debt mountain is a result of the long-term failure of the economy to produce wage growth.

Niall Alexander of the Carnegie UK Trust blogged on LinkedIn about the effect of regulation on pulling legal and sustainable credit options out of the market for those on low incomes, suggested work needed to be done to bolster the responsible finance (CDFI) sector and pointing to successes in Scotland in this regard.

Many outlets carried summaries of a decade of soul-searching among financial services, policymakers and regulators since the financial crash, generally regarded as having kicked off in August 2007.

- 'A decade on from the financial crisis, what have we learnt?' (FT, £)
- 'Alistair Darling: from here to uncertainty' (FT, £)
- 'The global financial crisis 10 years on: A timeline of the global events that shaped the crash from the credit crunch to the recession and beyond' (City AM)
- 'Credit crunch, 10 years on: fate of RBS shows global crisis is not over' (Guardian)
- '10 years after the crash, alternatives are emerging' (Guardian)
- '10 years since the credit crunch began: are we safe from a repeat of the financial crisis now?' (Telegraph)
- ''That was chilling': Ten years since the financial crash' (BBC)

The consensus is the subprime mortgages packages that triggered the crisis were a result of a culture of impunity among bankers and perverse incentives for ratings agencies to give good ratings to mostly bad debt packages. But much of the problem was caused by a general overleveraging of banks that could not be seen due to the volume and complexity of inter-bank lending. New regulations address industry incentives and practices, and by require banks to hold more equity as leverage and understand better their own risk profile. So long as industry regulations and global consensus survive the Trump presidency, the system should be more stable, transparent and checked than before.

There are, however, worries about mounting consumer debt in the UK, a defaulting car loan market in the US, and high levels of debt in China. Central bank policies to deal with the crash – i.e. low interest rates and quantitative easing – have also pushed up global debt to a record $217 trillion and created asset bubbles, the most obvious of which being London's housing market.

The Financial Times reported on the return of subprime mortgages (£) to the US market after a period of rapid growth in what is now branded 'nonprime' mortgage-backed securities. Dodd-Frank regulations seem to have significantly improved lending and trading practices, but some commentators are worried at the effects of an excess of available credit and yield-hungry investors on originators, as well as the looming Trumpian regulatory roll-back.

An FCA report on the Royal Bank of Scotland's Global Restructuring Group (GRG) was leaked (BBC). **The division was supposed to turn around ailing businesses that owed money to RBS, but 92% were subject to what the FCA describes as 'inappropriate action'**, such as raised fees or interest charges, and only 10% of businesses emerged intact from the group. The revelations prompted Liberal Democrat leader Vince Cable to call the bank's refusal to accept guilt 'to its great discredit', and former SNP MP George Kerevan to call for the resignation of RBS chief Ross McEwan on Twitter.

Financial markets commentator Chris Skinner reposted a press release on his blog asking **whether, and how, Amazon are going to enter the banking market**. Large tech companies have the capital and capacity for true industry disruption, and Amazon have already launched payments services as well as Amazon Lending, fund supporting SMEs in the UK, Europe, US and Japan, that has already disbursed $1.5 billion.

Skinner also posted 12 comments on the future of finance from a recent interview.

Parliamentary activity

The London Assembly launched a consultation into the Mayor's role in supporting financial inclusion. Respondents have until 1st October to submit their views on the following key topics and other issues:

- The extent of financial exclusion in London, how it manifests itself and what the main causes are
- The kinds of support currently available to those financially excluded
- How the Mayor could work with the charitable sector and business to support and promote financial inclusion
- What impact the closure of high street bank branches will have on lending to smaller SMEs
- What scope there is for the establishment of community banks to support lending to SMEs unable to access mainstream financial services

The Government's referral scheme for small businesses – through which businesses rejected for finance from major lenders would be referred to one of three online platforms for alternative lenders – has assisted only 230 businesses since launched in November 2016, distributing £3.8 million. 8,100 businesses were referred in total, meaning less than 3% of referred businesses are accessing funds through the scheme. From November this year, a fourth platform will join the scheme.

Lord Bird asked the Treasury what steps they are taking to explain and promote

(1) the factors that are taken into account by firms carrying out credit-related regulated activities when **assessing borrowers' creditworthiness**, and
(2) the steps that borrowers may take to **increase their creditworthiness**.

Lord Bates, replied:

> *Leadership in this area is provided both by government and by the Money Advice Service, which was set up by the Financial Services and Markets Act 2010 and was given statutory objectives to enhance the understanding and knowledge of members of the public of financial matters, including the use of credit.*
>
> *The Money Advice Service website provides free-to-client impartial guidance on creditworthiness including what information is in a credit report and what steps members of the public can take to improve their creditworthiness.*
>
> *The government has recently introduced legislation into Parliament to create a new financial guidance body. The new body will replace the Money Advice Service, The Pensions Advisory Service (TPAS) and Pension Wise and is designed to offer a simpler source of guidance, reducing duplication across the government's guidance services. The new body will take forward the work of the Money Advice Service on enhancing public understanding of financial matters.*

Reports and research

The FCA announced a consultation on assessing creditworthiness in consumer credit. In particular, it wants to clarify:

- The distinction between affordability and credit risk
- The factors that should be used when deciding the proportionality of assessments
- The role of income and expenditure information
- Its expectations around firms' policies and procedures

An associated occasional paper on preventing financial distress by predicting unaffordable consumer credit agreements was also released. Using broader measures of financial distress, the FCA found that 2.2 million people in the UK face moderate or severe financial distress. The paper puts forward that **there is a role for lenders in refusing credit when they can predict that there is a significant risk of the credit causing later financial distress for the consumer**.

Assessing creditworthiness is also addressed by the paper. Credit reference agencies (CRAs) were found to be sometimes slow in reflecting changes to a customer's credit performance, and there were inconsistencies between CRAs in the ratings they gave individual customers. Non-bank lenders were also found to be at a disadvantage, have more restricted access to CRAs.

The House of Commons Library published an explainer on the new regulatory regime for high-cost consumer credit, with an overview of the effects of the new regime on providers and customers.

Two linked reports were released by the Meteos Banking Futures project:

- **'Banking Small Businesses: Forging Closer Ties between Banks and the Real Economy'** makes recommendations on how, in the face of Brexit, banks and policymakers can support SME access to finance, advice, protection and redress
- **'Pathway to Long-Term Value: Identifying and Defining Long-Term Value for Banks'** looks at the non-financial and data-driven information and communication that underpin a healthy financial ecosystem and can yield benefits for banks down the line

Citizens Advice released a report on problem debt. 'Stuck in Debt' calls for four key changes:

- Credit cards providers shouldn't be allowed to increase a credit limit without a customer's permission and should offer forbearance to customers stuck in problem debt
- Unarranged overdraft fees, that push people further into debt, should be scrapped
- More people use money advice when it is offered to them, so it should be provided at key moments
- People should have a clear route out of debt through legally enforceable debt management plans

The Social Market Foundation (SMF) reported that £200 billion is cash is being saved beyond the 'rainy day' level (three months of income). If invested in the FTSE 100 over the past five years, this cash would have returned an additional £94 billion. On the other side, **26 million UK adults do not hold adequate rainy day or pension savings, and 14 million do not have savings at all**. Policy measures were suggested to increase public awareness of fund investing, including a proposal to use money saved by reducing ISA allowances to give all 15-year-olds £1,500 to invest in a range of asset classes, supplemented with real life financial education.

The Financial Services Ombudsman followed up on its recently-published annual report with an update on PPI, clearing up uncertainty that was pending the outcome of a Supreme Court judgement and subsequent FCA consultation. 150,000 people have now received the necessary update from the ombudsman, and **the FCA must revisit around 1.2 million rejected complaints** which may now be able to raise issues once again.

20% of UK adult consumers now 'consciously avoid' shopping where they can only pay with cash, according to research by a shopping app. £4.5 billion was spent using contactless cards in May, up from £3.9 billion in April.

The National Institute of Social and Economic Research announced **the latest issue of the National Institute Economic Review would concentrate on the question of financial stability**.

Asda research found that 75% of UK regions have seen a decline in consumer spending power in Q2 2017 (compared with Q2 2016). While the average drop was 47p per week, Wales and Northern Ireland saw the largest declines, with respective decreases of £5.90 and £4.60.

The Confederation of British Industry reported that a slowdown in spending was starting to affect economic growth.

Events

In collaboration with Financial Health Exchange at Toynbee Hall, CIC partner the Centre for Responsible Credit will deliver the 'Improving Financial Health: new approaches and innovations' conference in London on 30th October.

The University of Birmingham's CHASM research centre is holding a **'major policy symposium'** in London. **The event will look at financial inclusion** in light of a major report from the House of Lords Select Committee on Financial Exclusion in March and the June appointment of Guy Opperman as parliamentary under-secretary for pensions and financial inclusion at the Department for Work and Pensions. The following speakers will be present:

- Baroness Claire Tyler, Chair of the House of Lords Select Committee on Financial Exclusion
- Sian Williams, Director of the Financial Health Exchange at Toynbee Hall
- Professor Stephen McKay, University of Lincoln
- Christopher Woolard, Director of Strategy and Competition at the Financial Conduct Authority
- Sir Brian Pomeroy, Former Chair of the Financial Inclusion Taskforce and current President of the Financial Inclusion Commission

Limited places are available at the event, which will take place on **Thursday 21st September** from 9.30-12.30 (followed by lunch) at The Royal Society, 6-9 Carlton House Terrace, London SW1Y 5AG. Please email Helen Harris at H.M.A.Harris@bham.ac.uk to participate or for more information.

'The Financial Inclusion Conference 2017' will take place at The Hive in Manchester on Wednesday 4th October. Organisers One Manchester announced they are introducing the 'Financial Inclusion Awards' at this year's event. Entries in the following categories are open until Friday 15th September.

- Best Innovative Project
- Best Partnership Working
- Individual Contribution

'Financial Inclusion: Making consumer markets work for everyone' is an SMF panel event at 16.30 in London on Tuesday 19th September. Panellists are yet to be announced. Contact Hannah Murphy at events@smf.co.uk to register or for more details.

Social Investment Scotland will be running a series of 'Buy Social' workshops in October and November aimed at social enterprises seeking opportunities to retail directly to consumers. The workshops will cover marketing, pitching and product development. To register interest, get in touch via hello@socialinvestmentscotland.com.

The Centre for Local Economic Strategies (CLES) have released their upcoming events schedule:

- Liberal Democrat, Labour and Conservative party conferences
- 'Building a New Local Economy' one-day conference in Cardiff on 18th October
- 'Community Wealth-Building' workshop on Thursday 2nd November in Manchester

Events are taking place in September at the RSA in London **taking stock of progress in economic thinking since the financial crash**.

A series of 21 talks on Thursday 14th September will cover everything from citizen's wealth funds, to affordable homes, to the end of neoliberalism featuring journalist Robert Peston, comedian and blogger Gerry Thompson, economist Ann Pettifor, Gabriela Ramos of the OECD, and more. Tickets range from £12.50 - £25 per talk, with discounted packages available (proceeds go to the 'Promoting Economic Pluralism' research group).

'10 Years after the Crash' will see the Chancellor at the time, Alistair Darling, reflecting on what we have learned since, on Monday 11th September.

Other events are also taking place from 2nd September – 21st October, mainly in London.

Joe Garner, Chief Executive of Nationwide, will speak on mutual societies as an alternative model of financial services leadership that could help to restore social trust (9am, Wednesday 11th October, London).

Stir to Action are hosting 'Exploring the Past, Present and Future of Money' in Manchester on Saturday 14th October. The workshop will explore the origins of money and what that could mean when considering reform to money and banking systems.