Community Investment Coalition (CIC) campaign update, February 2016

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Campaign update

CIC made a submission to the **European Union's Green Paper on 'Retail financial services: better products, more choice, and greater opportunities for consumers and businesses'**. The EU sought views on how to improve choice, transparency and competition in retail financial services to the benefit of consumers and how to facilitate cross-border supply of these services, so that financial firms can make the most of the economies of scale in an integrated EU market. It also discussed the impact of digitalisation on retail financial services with a view to allow for growth of innovative solutions in the EU. Our submission focused on the importance of transparency, accessibility of product information and robust redress schemes for consumers.

We also submitted evidence to the **House of Commons Business, Innovation and Skills Committee's inquiry** on Access to finance. We highlighted the significant problems still facing businesses trying to access finance, especially small and micro businesses and the role that Responsible Finance providers can play in filling this gap.

Some time ago, I gave evidence to the **United Nations Environment Programme's** inquiry on human rights and the design of a sustainable financial system. The final report references our evidence and is available here.

News

The **Finance Innovation Lab** is running a new Fellowship programme which seeks to incubate the next generation of financial pioneers. The Lab Fellowship is a six-month programme of business coaching, action learning and leadership development for financial innovators with a social or environmental purpose.

The programme is free to start-ups and takes place from March to October 2016 in London. It includes monthly business strategy and peer coaching sessions, social events to connect you to a wider community, and a two-day residential leadership retreat.

Applications close on **tomorrow**. More details can be found here.

StepChange Debt Charity and **Martin Lewis**, founder of MoneySavingExpert.com, have jointly called on the Government to fix the patchwork of rules and voluntary schemes for people struggling with temporary debt problems in England and Wales.

They are calling on the Government, in its forthcoming review of the legal framework for debt administration, to consult on proposals for a comprehensive 'breathing space' scheme.

Such a scheme would see people who seek advice for debt problems given a period of six months to a year in which interest and charges are frozen and enforcement action halted, to give that person time to get advice to recover their finances. And where people can repay their debts at an affordable rate and within a reasonable time, these protections should continue. These protections would only be accessible when recommended by a regulated debt advice agency.

Martin Lewis, founder of MoneySavingExpert.com, said:

> *"The inability to heat your home and feed your family is an easily prevented nightmare – if we bring in a widespread breathing space scheme. It won't just help people financially, but also reduce the damaging mental-health consequences that are often a symptom of serious debt pressures."*

A thematic review by the **Financial Conduct Authority** (FCA) has found that advice firms demonstrate some good practice on due diligence but greater consistency is needed.

The firms in the review were generally able to demonstrate some good practice on the work they did to better understand the quality of the products and services they recommend. However, many firms did not show consistently good practice across all products and services and there is room for further improvement.

Linda Woodall, director of life insurance and financial advice at the FCA, said:

> *"Research and due diligence is one of the three pillars of getting advice right, which is why we have returned to this issue. Firms clearly want to get this right and all firms, regardless of size or type, can carry out good research and due diligence.*
>
> *"However, there are still improvements firms need to make and we'd encourage all firms to look at our findings and ensure that they are challenging themselves to ensure they're delivering quality due diligence for their clients."*

Following visits to firms during the review the FCA undertook a range of measures to address the issues found including instructing three firms to make improvements in their research and due diligence process.

The FCA will also publish a second consultation paper on the implementation of the Markets in Financial Instruments Directive (MiFID II) later this year. Based on ESMA's Technical Advice to the Commission of December 2014, they anticipate that this will include requirements in relation to research on products.

The **Money Advice Trust**, the charity behind **Business Debtline**, has welcomed the recommendations by business owner **Julie Deane** as part of a government-commissioned review of self-employment.

The newly-published report makes several recommendations on how the self-employed can be better supported, including better education, more accessible advice and support and the need for more flexible financial solutions.

The Money Advice Trust in particular welcomed calls for "a central portal from which to navigate impartial support and services available to the self-employed", which echo its own concerns over the 'support gap' facing this key group.

Jane Tully, head of insight and engagement at the Money Advice Trust, said:

> *"Julie Deane is absolutely right to highlight the need for more accessible advice and support for self-employed people. This is particularly important in those first few weeks and months, when the right support and guidance can mean the difference between triumph and disaster."*

The Money Advice Trust's recent Cost of Doing Business research highlighted the challenges facing self-employed people in financial difficulty, with many paying a high personal cost for business financial problems and showing a lack of financial resilience in the form of savings or pension provision.

New findings from the **Institute of Fiscal Studies** have shown how taxes and charges can affect the attractiveness of different forms of savings. The research also highlights how recently announced changes will take the returns to many people's savings out of tax altogether. It also means that, from April, those who can arrange their affairs so as to take up to £1,000 of interest income, £5,000 of dividend income and £11,000 of capital gains in any year could, if they can also use their income tax personal allowance, take up to £28,000 in returns to savings entirely free of tax, compared with £11,000 for those who can use only the personal allowance.

The research highlights that people in different positions can face very different incentives to save in the same vehicles, while charges and matching contributions from employers may matter more than any tax differences:

- The new universal credit (UC) system will create huge disincentives to have more than £6,000 of savings in cash or shares for the seven million families affected. On the other hand those facing withdrawal of UC as their earnings rise will have a very big incentive to put money in a pension.
- The introduction of auto-enrolment obliges employers to contribute to most employees' pensions if the employees do. Under the default scheme employees will get a pension 60% bigger than without the match.
- An annual charge of 1% on funds can have an effect broadly comparable to charging basic-rate income tax on returns. For similar reasons, a low-charge ISA can offer a better return than a high-charge pension despite the tax advantage associated with the latter.

Stuart Adam, one of the report's authors, said:

"The last few years have seen radical changes announced to the taxation of savings. These will take millions of people's savings out of the tax net altogether. Ideally people might make savings decisions based on the underlying risks and returns of different assets. But taxes and charges can significantly change the relative attractiveness of different savings options. If people are unsure about how taxes and charges might change, their decisions become even harder."

Economy Minister Edwina Hart has announced £21m of new finance to help Small and Medium Enterprises (SMEs) in Wales expand and create or safeguard more than 1,800 jobs.

The money will be distributed to Welsh businesses through two Finance Wales funds and the Welsh Government's new £5m Repayable Fund for SMEs, which offers repayable finance of between £50,000 and £500,000 to help SMEs grow and create jobs. The fund aims to create and/or safeguard at least 500 jobs.

The Wales Micro-Business Loan Fund, which is managed by Finance Wales, will receive a £6million boost, while a new £10 million Wales Technology Venture Investment Fund will allow Finance Wales to invest in innovative technology businesses.

Since its launch in 2012, the Wales Micro-Business Loan Fund, which provides finance of between £1,000 and £50,000 for micro-businesses in a range of sectors, has invested over £5m in nearly 200 companies leading to the creation and safeguarding of over a thousand jobs.

The additional £6m will help businesses create or safeguard a further 1,000 plus jobs and attract an additional £3.6m in investment.

The Wales Technology Venture Investment Fund is providing funding for innovative technology businesses - already based in, or locating to Wales - with the ambition and potential to become international market leaders. The fund aims to attract an additional £20m in private finance, leading to the creation and safeguarding of at least 300 jobs.

According to the latest survey of over 2,000 British adults by insolvency trade body **R3 and ComRes** fewer people say they are struggling from payday to payday than at any point in the last six years.

Just over a third of British adults say they often or sometimes struggle to payday. This is well down from a record high of 51% in May 2012.

A joint record low of 39% of British adults say they are at least fairly worried about their current level of debt. Debt worries were last this low in January 2012.

The research found that:

Personal Debt

- Two in five British adults (39%) say that they are at least fairly worried about their current level of debt.
- Women (42%) continue to be more likely than men (36%) to say that they are worried about their current debt level.
- Younger British adults are more likely than older British adults to be worried. Half of 18-44 year olds (50%) say they are worried, compared to a third of 55-64 year olds (34%) and one in six of those aged over 65 (17%).
- Credit card debt (47%) remains the primary concern among those worried, followed by overdrafts (21%) and mortgage repayments (17%) .

Struggling to payday

- More than a third (36%) of British adults say they often or sometimes struggle to make it to payday, the lowest level since tracking began in 2010.
- There continues to be a gender gap with respect to struggling to payday, as women (42%) are considerably more likely than men (31%) to report that they struggle.
- The rising cost of basic expenses continues to be the main problem among those that struggle, particularly rising costs of food (49%) and household energy (37%).
- Wage freezes are a lesser concern (15%) than a year ago (24% in March 2015), and the proportion of those saying that they are struggling due to recent cuts in welfare benefits (12%) has remained stable since August 2015.
- Only 5% of British adults say they are likely to seek a payday or other short-term, high interest loan in the next six months, a slightly lower proportion than observed over the previous year (6% in August 2015, 8% in March 2015).
- Worryingly, a high proportion of those who say that they are extremely worried (16%) or very worried (21%) about their current level of debt say that they are likely to seek a payday loan in the next six months, which could compound their already high exposure to debt and potentially further aggravate their financial struggles.

Financial situation and outlook

- British adults continue to be more likely to expect their personal finances to improve (26%) than to worsen (15%) over the next six months.
- Economic pessimism continues to stand at a record low –remaining at the same level as August 2015 (15%).
- Younger adults are twice as likely to be optimistic as older adults, with a third of 18-44 year olds (34%) expecting their financial situation to improve over the next six months, compared to 17% of those aged over 55.

The Money Charity has found that borrowing has fallen for the first time since 2011. Statistics are out and for the first month since December 2011, the amount owed in mortgages, loans and credit card debt has fallen.

People in the UK owed £1.455 trillion at the end of December 2015, this is down £4.7 billion from November. That's not much compared to the growth of nearly £200 billion in the last four years, but it is the first time that there has been a significant fall in that period. In the last year the amount people owe increased by £627.09 per UK adult, £194.41 of which is unsecured lending such as credit cards or loans. Savings rates are at a near record low of 4.4% and that around 9.61m (36%) households have no savings, while a further 3.47m (13%) have under £1,500.

The Money Charity is particularly concerned that 82 months of 0.5% Bank of England base rates has allowed debt to build up and deterred saving, leaving many consumers in potentially difficult positions.

The **Money Advice Trust** has stated that there is 'clear evidence' that changes to Debt Relief Orders (DROs) are working following statistics released by the **Insolvency Service** showing that there were 20,404 individual insolvencies in England and Wales in Q4 2015, up 3.6 percent on the previous quarter but down 10.5 percent on the same quarter in 2014.

The quarter-on-quarter rise has been driven by an increase in the use of DROs, a form of insolvency designed for people with low incomes, few assets and relatively small debts, after changes to eligibility criteria took effect in October. DROs are now available to people with up to £20,000 debt (previously £15,000) and £1,000 in assets (previously £300).

There were 6,501 DROs in Q4, up 15.5 percent on the previous quarter. A quarter of these (1,629) were for individuals with debts higher than the previous limit of £15,000.

Joanna Elson OBE, chief executive of the Money Advice Trust, the charity that runs National Debtline, said:

> *"These figures are clear evidence that recent changes to the eligibility criteria for Debt Relief Orders are working, and this is good news for people in financial difficulty. With this important option now available to more people who are struggling with problem debt, the changes are helping us to help more people back on the path to financial health."*

Research from **Arrow Global** has predicted that a rise in consumer borrowing coupled with higher interest rates will fuel a 17% increase in households in default by 2020. The rise is expected to see an additional 700,000 households default (increasing from an estimated 4 million currently to 4.7 million by 2020).

The rise follows a period where lower interest rates have handed borrowers an estimated windfall of £34 billion a year (£1,300 per household per year). If the Bank Rate is just 0.5% higher than expected over the whole forecast period, defaults would rise by 24% by 2020, with the number of households in default reaching 5.0 million.

Consumer debt defaults will rise by 17% over the next five years according to FTSE-listed Arrow Global, which today releases the results of the first ever econometric forecast of consumer debt defaults. The forecast correlates the default triggers of unemployment and interest rates to existing government predictions of consumer debt levels. It has been carried out by Arrow Global as part of a major report to be published in full later this year called 'Debt Britain: The Big Picture'.

The **Financial Conduct Authority** (FCA) is calling for input from stakeholders with regard to the FCA's approach to the current payment services regime. They are seeking views on existing guidance they provide to assist firms in complying with their legal requirements under the current payment services regime, including the Payment Services Approach Document and the Perimeter Guidance Manua l (PERG 15) published in 2009.

The Revised Payment Services Directive comes into force in the UK in January 2018 and brings about changes to the way they regulate payment services. These changes will need to be reflected in the guidance they provide. Before they begin to update their guidance, they are seeking views on whether the current documents have kept pace with market developments and growth in payment services, so that this can be taken this into account when they are updated.

The views are sought of anyone interested or affected by the regulatory regime for payment services, including payment service providers (PSPs) such as banks, building societies, money remitters, credit card issuers and merchant acquirers; and also individuals, businesses or organisations that use payment services; or those that represent PSPs or users.

Responses can be made via their online form by 23 March 2016.

The **Institute for Fiscal Studies** has published another chapter of its IFS Green Budget 2016.

The main purpose of this chapter is to set out the impacts on incomes and incentives of introducing Universal Credit (UC), given the current (substantially revised) plans for how UC will look. They also review some of the other very important changes that will be associated with the introduction of UC, such as the regime of conditionality, and discuss its potential effects on behaviour, such as labour supply and take-up of benefits.

This chapter of the IFS Green Budget 2016 covers the following points:

- The Government is in the process of integrating six means-tested benefits and tax credits for working-age families into a single payment called universal credit (UC). This is the most radical reform to the working-age benefits system for decades.
- Since it was first proposed, the design of UC has been significantly changed. The amounts recipients can earn before their benefits start to be withdrawn have been cut, shaving almost £5 billion per year off its long-run cost. As a result, 2.1 million working households will get less in benefits due to the introduction of UC (average loss of £1,600 a year) and 1.8 million will get more (average gain of £1,500 a year).
- Overall, UC will cut benefit spending by £2.7 billion a year in the long run. Taking working and non-working households together, 3.2 million will see lower benefit entitlements (average loss of £1,800 a year) while 2.2 million will see higher benefit entitlements (average gain of £1,400 a year). Those relatively likely to gain include low-earning households in rented accommodation and one-earner couples with children. Working lone parents, those with assets or unearned income, and two-earner couples are more likely to lose.
- The increase in support for one-earner couples with children strengthens the incentive for couples with children to have one adult in work rather than none, but weakens the incentive for both parents to work rather than just one.

- By increasing entitlements for renters while reducing them for owner-occupiers, and reducing support for those with substantial savings or unearned income, UC will likely focus support more on those with long-term rather than temporary low incomes than the current system, but will impose very high effective tax rates on saving for some claimants.
- Despite cuts to work allowances, UC will still strengthen work incentives overall. Importantly, UC will have the welcome effect of strengthening work incentives for groups who face the weakest incentives now: the number of people who keep less than 30% of what they earn when they move into work (due to the combination of withdrawn benefits and taxes) will fall from 2.1 million to 0.7 million. UC will also reduce the numbers facing very high effective marginal tax rates: 800,000 people who would currently keep less than 20 pence, and in many cases less than 10 pence, of an additional pound earned would keep at least 23 pence under UC.
- Expanding job-search conditions to recipients in working families is an unprecedented step. Some recipients may work more, though it could discourage some from claiming. Integration of benefits will likely boost take-up, make the system easier to understand, and ensure easier transitions into and out of work. Making UC a single monthly payment to one person in the household and removing direct payments to landlords may be riskier.

Parliamentary activity

The Treasury Committee has published correspondence between **Rt Hon. Andrew Tyrie MP, Chairman of the Treasury Committee**, and **RBS, HSBC, Barclays**, the **Financial Conduct Authority** and **Prudential Regulation Authority**, **Bank of England**, in relation to IT system failures at each of the banks during the period June to November 2015.

Commenting on the correspondence **Mr Tyrie**, said:

> *"Every few months we have yet another IT failure at a major bank. These IT blunders and weaknesses are exposing millions of people to uncertainty, disruption and sometimes distress. Businesses suffer, too. We can't carry on like this.*

Bank IT systems don't appear to be up to the job. This brings with it not just conduct risk, but also systemic risk. Someone - probably the head of the PRA, needs to assume a leadership role, bring together those most involved among regulators and government agencies, and ensure that there are improvements at the banks. Until these are made, the public will remain more exposed than necessary to the risks of banking failures, including delays in paying bills, an inability to obtain their own money, and unauthorised access to their accounts."

During a **Question for a Short Debate on Banks: Internet Banking** in the House of Lords, The Lord Sharkey asked Her Majesty's Government what assessment they have made of the number of failures of retail banks' software systems to provide internet banking to customers.

Lord Ashton of Hyde (Con): My Lords, it is the responsibility of firms to ensure the resilience of their IT systems. However, the financial authorities take the resilience of the sector seriously, which is why the Financial Conduct Authority and the Prudential Regulation Authority recently completed a technology resilience review of the largest UK retail deposit-taking firms. The review's outcomes have not been published, but the authorities are developing work plans to ensure that further improvements are made to IT systems, and customers protected.

Lord Sharkey (LD): Two years ago, the FCA said:

> *"We want to make sure that the banks have resilient IT systems in place that are able to cope with consumer demand, so customers aren't left financially stranded or disadvantaged".*

It has not happened. HSBC alone had three systems failures in January, the latest last Friday, the most critical day of the month. Even the Bank of England systems collapsed at the end of 2014. Can the Minister say that the banks are devoting sufficient time and resource to long-term solutions and not just looking for an even more short-term patch? What assurance can he give that the FCA is really on top of all this?

Lord Ashton of Hyde: My Lords, it is true that there have been incidents, but none as serious as the one that occasioned the "Dear Chairman" review in 2012. Since then, they have not been as serious as that. I assure the noble Lord that the FCA and the PRA are taking this very seriously. They have initiated a second "Dear Chairman" exercise, which has sought to assess the improvements made since the first exercise and the extent to which good resilience practices are embedded with those firms. The regulators are aware that firms are spending considerable amounts on their IT systems.

Lord Stevenson of Balmacara submitted a written question on Debts to ask Her Majesty's Government whether they plan to take forward the consultation on the legal framework for debt administration proposed by the 2015 Farnish Review of the Money Advice Service, and if so, when.

Lord O'Neill of Gatley replied: The Government is committed to exploring whether some form of "breathing space" would be a useful and viable addition to the range of formal and informal debt solutions available to consumers and creditors. Officials in HM Treasury and the Insolvency Service have been asked to discuss this issue with stakeholders with a view to identifying possible options and have begun work on this review.

During Oral Answers to Questions in the House of Commons Richard Graham MP asked what support the Church of England provides to local credit unions.

Mrs Spelman MP replied: Churches and dioceses across the country have responded enthusiastically and creatively to the Archbishop of Canterbury's call to support credit unions and community finance, often building on pre-existing initiatives and helping to build financial resilience in communities. The diocese of Gloucester has recently part-funded the appointment of a credit union development worker for Gloucestershire Credit Union and established collection points in local churches.

Richard Graham MP: The diocese of Gloucester has shown real commitment to breathing new life into Gloucester Credit Union; I should declare an interest as a long-standing member. However, we need to do much more to reach effectively those who are most vulnerable to loan sharks. Can my right hon. Friend assure me that, while the Church of England builds and promotes its own new credit union, that will not distract from the important work it does in supporting existing local credit unions?

Mrs Spelman MP: I absolutely give my hon. Friend that assurance. Every Member of this House would recognise the importance of credit unions at the local level, but that goes hand in hand with, and does not detract from, the Archbishop's task group on responsible credit savings, which has sought to harness the Church's national and grassroots resources in support of developing a stronger community of finance.

Mr Robin Walker MP (Worcester) (Con): As chairman of the all-party group on credit unions, may I welcome my right hon. Friend's last answer? I also welcome the leadership that the Archbishop of Canterbury has shown on the issue of problem credit. Does she welcome the launch of Fair For You, and will she comment on how the Church can support that community finance initiative in the rent-to-own sector that is taking on some of the challenges in that sector and showing that responsible, local community finance can compete?

Mrs Spelman MP: I will certainly take that suggestion back to Church House. The Church has shown commitment to helping people manage their money and invest safely, and to teaching our children at the very earliest age—through its LifeSavers project, with assistance from the Treasury—how to ensure that they do not get into debt. All of that is evidence, I think, that the Church will be supportive of my hon. Friend's suggestion.

Reports

A new report, *Pushing Boundaries – 2015 UK Alternative Finance*, from the **Cambridge Centre for Alternative Finance at the University of Cambridge, KPMG** and **Nesta**, has shown that in 2015, the combined market activity of the UK online alternate finance industry grew to £3.2 billion; an 84% increase in growth compared to 2014. Although the absolute year-on-year growth rate is slowing down (the growth rate between 2013-2014 was 161%), the alternative finance industry still recorded substantive expansion across almost all models. Looking beyond the total market size, stand-out findings from this study include:

Increased share of the market for business finance:

- In 2015, approximately 20,000 SMEs raised alternative finance through online channels, receiving £2.2 billion in business funding.
- Total alternative business lending reached £1.82 billion - 3.43% of gross national banks' lending to SMEs (BoE, 2014).
- Looking specifically at the small business sector, estimates of peer-to-peer business lending (excluding real estate lending) supplied the equivalent of 13.9% of new bank loans to small businesses in the UK in 2015 (BBA, 2014).

2015 saw increased involvement from institutional investors in the online alternative finance market. This is particularly significant within peer-to-peer lending which estimate that 32% of loans in peer-to-peer consumer lending, and 26% of peer-to-peer business lending, were funded by institutional investors.

Although it started from a relatively small base (£2 million in 2014), donation-based crowdfunding is the fastest growing model in the 2015 study - up by 500% to £12 million.

Events

The **Massachusetts Institute of Technology** is running an online course called ***Just Money: Banking as if Society Mattered: Learn how banks can use capital as a tool to promote social and environmental wellbeing.*** No previous knowledge of finance or banking is needed to take this course.

The course starts on Starts on April 19, 2016. You can enrol here.

The **Global Hub for the Common Good** is running a 3-days seminar called ***Leaders for the Common Good*** (in English) in Málaga, at the Spanish "Costa del Sol" between 10-12 June 2016.

> *'Leaders for the Common Good is a experiential and very special activity for everyone who want connect with her/his inner leader and work to build a better world.*
>
> *The programme includes theoretical and practical sessions, dynamics, walks in the nature, activities in the beach, yoga, cooking together, connecting with the local community, night-fire discussions, free time, and more….'* More information can be found here.

Responsible Finance '16

Crowdfunders, peer-to-peer and other alternative lenders are booming, banks are rebuilding their reputations and payday lenders are in retreat. Is this the solution to filling the gap that's prevented thousands of families and small businesses across Britain from accessing the fair and responsible finance they need? Has the 'mainstream' shifted to the point where access to finance is no longer an issue? Not quite. Evidence tells us, despite a return to economic growth, nearly two million adults are still without a bank account and 8.8 million people are over-indebted. This forces families to unnecessarily pay a 'poverty premium' of £1,300 each year. What's more, under investment into Britain's micro and start-up business community is restricting the nation's ability to grow its economy and create wealth and opportunity for communities.

Responsible Finance ’16 will probe the issues, create the opportunities and work up solutions to shape a finance system that works for our economy and our people.

Registration for this event can be made here. Please click here for the programme and speakers.

Citi Microentrepreneurship Awards

Responsible Finance is partnering with the Citi Foundation to bring the global Citi Microentrepreneurship Awards to the UK for the third year. The awards celebrate the innovative and invaluable work of responsible finance in supporting financial inclusion and economic growth.

They are celebrating the economic and social impact of responsible finance providers on the people and places of Britain, and championing the outstanding microentrepreneurs that are creating jobs, services and prosperity in their communities.

This year they have expanded the categories, and increased the prize fund to £65,000.

Reservations for a place at the Citi Awards Dinner can be made here.