

Community Investment Coalition (CIC) newsletter, February 2017

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Campaign update

This month has seen more bad news for the financial resilience of low-income households. Reports that private rents may rise by 20-30% as tax rises hit landlords and a rise in inflation will create real pressure on people's budgets. A report by Which? shows that 2.7 million people are using overdraft facilities to meet everyday expenses. But with some unauthorised overdrafts costing more than pay day loans, this is yet another strain on household budgets. It is clear that many people still do not have access to appropriate financial products and the financial services market is not changing at the speed it needs to. This and the previous government have placed a lot of focus on competition as a driver for increasing access to financial services. But the sad news that the Airdrie Savings Bank has closed shows how difficult it is for different and smaller financial services organisations to thrive.

Our friends in the USA continue to show how you can use the power of data to support targeted interventions for areas and communities excluded from mainstream finance. '[Access to Capital and Credit in Native Communities](#)' addresses both problems with and prospects for capital access. It considers what is working to improve access to capital and credit for Native Communities and what can be done to build on that success to sustain and accelerate positive change.

Next week, I will be speaking at CfRC's conference '[Building a Financially Healthy Society](#)' on the role of data to support innovation to tackle financial exclusion.

And finally, well done to the European Microfinance Network and partners on the launch of the [European platform for financial education](#). It provides resources targeted at young people and entrepreneurs while also encouraging leadership on this issue.

Jennifer Tankard, Director CIC

News

The Scottish Government [is to investigate the failure of Airdrie Savings Bank](#), the last mutual savings and loans bank in the UK. The findings are expected to touch on the burden of regulation and the cost of investing in new technology for small, challenger banks and similar financial institutions, including credit unions.

The Competition and Markets Authority (CMA) published [the final order of its retail banking market investigation](#), initially launched in 2013. The order finalises the timetable for implantation of the key recommendations from the investigation.

- **End of Q1 2017:** Banks due to publish less sensitive information, such as prices, terms and conditions and branch location
- **October 2017:** Banks to begin collecting information on service quality (confirmed by November 2017)
- **13th January 18:** Deadline for banks to ensure full implementation of open API banking standard, and to release data on business and personal current account switching
- **15th August 2018:** Banks to begin publishing service quality information (confirmed by 1st September 2018)

Which? [responded](#) to draw attention, as much of the reaction to the initial report did, to the absence of a cap on unarranged overdraft fees in the CMA's measures, and followed up to [call on the FCA to address the issue in their current consultation on high-cost credit](#). Which? allege that charges by big high street banks can amount to 180% of the amount borrowed.

Look out for the [Open Up Challenge](#), a £5 million prize competition to generate open API innovations for retail banking for small businesses. Run by Nesta, the CMA's retail banking report mandated the largest banks in the UK to support the initiative. Applications open on 23rd March 2017.

The fallout from the Royal Bank of Scotland (RBS) **Global Restructuring Group (GRG) scandal continued, with the launch of another inquiry into banking conduct backed by MPs**. This inquiry will focus on resolving disputes between banks and small businesses which are out of the scope of the Financial Ombudsman before they become large scale scandals, possibly through a dedicated dispute-resolution facility.

After failing to sell its William & Glyn unit to satisfy state aid rules, RBS [pledged](#) £750 million-worth of measures to boost competition in business lending, particularly among challenger banks. SNP MP George Kerevan, Chair of one of the all-party parliamentary groups investigating dispute resolution, [called on social media](#) for the £750 million to be directed to small businesses mismanaged by the GRG.

MPs urged Lloyds Banking Group, the owner of HBOS, to compensate the victims of a £245 million loans fraud orchestrated by two former employees who were jailed for their crimes.

Citizens Advice [warned](#) that the tactics of some doorstep lenders is intimidatory, in breach of FCA regulations, and risks pressuring borrowers into taking on more unsustainable debt. Chief Executive Gillian Guy said:

It's important there is strong regulation of high cost credit markets to make sure companies put the needs and interests of consumers at the heart of their services. The FCA's intervention drastically reduced problems in the payday loan market - we now want to see similar protections introduced for consumers using other high cost credit products, including doorstep loans.

The charity made the following recommendations to the FCA's high-cost short-term credit consultation which closed in February:

- Extend the cap on payday loan interest rates and fees across the market
- Strengthen affordability guidance into rules to ensure responsible lending across the market
- Place a limit on the number of times a doorstep loan can be refinanced
- Review the methods doorstep lenders use to collect repayments
- Ban cold call selling of doorstep loans
- Introduce a requirement for doorstep lenders to disclose the commission they make on collecting repayments so borrowers understand what is driving lenders action

[A pilot anti-fraud scheme](#) has saved pensioners in London an estimated £1 million in four months, and **will be rolled out by police forces nationwide**. The scheme works by allowing branch staff to call 999 and use the password 'banking protocol' to summon police when they suspect an elderly client is being pressured or manipulated into withdrawing money.

The Money Advice Service launched [an online tool](#) that helps Universal Credit claimants manage their finances and transition into the world of work. The Online Money Manager will help people find personalised information about bank accounts, set up direct payments, budget and save, as well as provide guidance on where to go for additional support.

Speaking at the Economic Council Financial Markets Policy Conference in Berlin, Germany, [FCA chief Andrew Bailey considered progress](#) in financial market regulation in the 10 years since the financial crash. **Bailey defended free markets as a factor in growth, and argued for national regulators to focus on maintaining macroeconomic stability to preserve and enable free markets.** Regulation should not be regarded as an obstruction to growth – rather, regulators can encourage competition and broader market access as a tool to promote greater stability and a fairer financial system. Finally, Bailey explained how more international uniformity in regulation can bring about more effective regulatory governance and more stable global free markets.

The speech came as [the Bank of England warned](#) of the risks to the global economy from fragmentation in international regulatory standards.

The Financial Times [reports \(£\)](#) that **the big three credit rating agencies have asked policymakers to ensure they are adequately regulated in the UK after Brexit**. The UK is currently their European hub but they are not regulated by UK authorities. EU regulators will need to be satisfied UK regulation meets European standards if Moody's, S&P and Fitch are to remain in the UK after Brexit.

Parliamentary activity

Parliament [debated local economic growth](#) following a question from Lucy Powell (Labour/Co-op) asking what steps the Secretary of State for Business Energy and Industrial Strategy (BEIS), Greg Clark, is taking to encourage businesses to support local economic growth.

Clark pointed to the half a billion pounds being devolved to northern local enterprise partnerships, but was pressed on key infrastructure issues such as devolution of skills, early years and education. Bill Esterton (Labour) raised the issue of the mistreatment of small businesses by some banks.

The Government launched an industrial strategy consultation with [a green paper](#) towards the end of January, with submissions closing on 17th April. The paper invites contributions on improving opportunities for small business finance outside of London and the South East.

Chris Davies (Conservative) [asked](#) the Secretary of State for BEIS what recent discussions he has had with the Chancellor of the Exchequer on **improving access to finance for businesses**. Small Business Minister Margot James pointed to the industrial strategy consultation and added:

We already help businesses through the business finance and support finder on gov.uk, and we recently launched the finance platforms service, which offers small and medium-sized enterprises that have had finance rejected by the large banks the option of a referral to alternative finance providers.

Pressed on **the accelerating trend of bank branch closures** by David Hanson (Labour), James responded:

The impact of bank closures is, to some extent, ameliorated by the Post Office's announcement a few weeks ago that it will be enabling both personal and SME banking customers to have a massive increase in face-to-face banking services across the country.

Margaret Ritchie (SDLP) [asked the Chancellor](#) of the Exchequer what steps the Government is taking to encourage banks to impose **the voluntary cap on overdraft charges for personal current accounts** recommended by the Competition and Markets Authority in 2016; and what assessment his Department has made of the effectiveness of that cap on customers' accounts where it has been imposed. Simon Kirby, Economic Secretary to the Treasury, reconfirmed the Government's commitment to the CMA's proposals and added:

The CMA proposed a series of remedies in its final report to improve overdraft transparency. This includes requiring all personal current account providers to set a monthly maximum charge (MMC) for unarranged overdraft charges by Q3 2017. The CMA also recommended that the Financial Conduct Authority (FCA) assesses the ongoing effectiveness of the MMC and considers whether other measures could be taken to further enhance its effectiveness.

In addition to this, the Government welcomed the FCA's commitment to look in more detail at overdrafts from both a consumer and competition perspective, as part of its broader review of the high-cost credit market.

Kelly Tolhurst (Conservative) [asked the Chancellor](#) what recent steps he has taken to support **high street banking for local communities**. Simon Kirby, replied:

A new agreement between the Post Office and UK banks, announced on 24 January 2017, means that more individuals and businesses can use 11,600 local Post Office branches to access a wider range of banking services. Thanks to the new agreement, the Post Office estimates that 99% of personal bank customers and 75% of business customers will now be able to do their day to day banking at a Post Office.

In March 2015, the Government helped to broker an industry-wide agreement to work with customers and communities to minimise the impact of bank branch closures and put in place alternative banking services. The Government has also made a manifesto commitment to support credit unions in making financial services more accessible.

Royston Smith (Conservative), [asked the Chancellor](#) what progress has been made on (a) funding and (b) bringing forward legislative proposals on a **breathing space mechanism for families in debt**. Simon Kirby answered:

The government committed to exploring whether some form of “breathing space” would be a useful and viable addition to the current range debt solutions available to consumers and creditors. Work is continuing on this review and government plans to report back shortly.

Mark Hendrick (Labour) [asked](#) the Department for Work and Pensions which credit unions have received **funding under the Credit Union Expansion Project**; and how much each such union has received. Richard Harrington answered:

I can confirm that DWP has contracted directly with the Association of British Credit Unions Limited (ABCUL) for the delivery of the Credit Union Expansion Project (CUEP). ABCUL’s subsidiary Cornerstone Mutual Services (CMS) contracts individually with each Credit Union agreeing specific financial terms and incentives. DWP does not hold statistics on funds that have been allocated to each Credit Union as this forms part of the commercial agreement between CMS and the Credit Unions. It should be noted that the bulk of the CUEP funding has been invested in the development of a shared infrastructure for Credit Unions to modernise their business models and become more sustainable.

The Treasury Select Committee on Access to Finance held [oral evidence sessions](#) in February. The first was attended by:

- Moray McDonald, Managing Director of Personal and Business Banking, RBS
- Steven Noakes, Managing Director of Retail Customer Products, Lloyds Bank

Mr Noakes and Mr McDonald defended the structure of bank accounts, including fees and rewards, across the their respective banking groups, and fielded questions on branch and ATM closure, citing the Post Office and digital banking as the key methods of mitigating consumer harm in these instances.

The second session was attended by:

- Stu McInroy, Chief Executive of the National Pawnbrokers Association
- Dominic Thorncroft, Chairman of the Association of UK Payment Institutions
- Dr John Low CBE, Chief Executive of Charities Aid Foundation

The second session dealt with the potential for bank de-risking to arbitrarily lock groups of people out of certain financial products and the knock-on effects of an overzealous approach to compliance.

Reports and research

Joseph Rowntree Foundation (JRF) [released a report](#) tracking **the Minimum Income Standard (MIS) from 2008/9 to 2013/14**. The MIS is a benchmark for minimum acceptable living standards based on the opinion of the general public. The proportion of households with incomes below the MIS has risen from 21% to 29%, with 40% of households with children below the standard. Recent economic recovery has slowed this trend, but has not reversed it.

A number of reports illustrated **the continued increase in household debt-to-income and debt-to-savings ratios**:

- The BBA released [figures](#) for high street bank lending in December 2016. Consumer credit continued on its steady rise (up 6.6%).
- The Money Charity's [monthly statistics](#) indicated personal debt has risen 3.41%, or £995.53 per adult per year.
- Separately, the Money Charity cited [a historically low figure](#) for the percentage of income people in the UK are saving, an average of 5.6% (£1,480.44 per year). This appears to be driven, at least in part, by record low returns on savings, with returns on interest failing even to keep up with inflation.
- Finally, Money Advice Trust pointed to [rising individual insolvencies](#) (up 13.1% in 2016) as an indication that the debt-to-income ratio is starting to visibly bite.

The Bank of England released [quarterly statistics for credit unions](#) which show the following:

- Stable overall membership of well over 1.9 million credit union members
- Total assets have reached over £3 billion, leading to a corresponding increase in loans to members
- After a year of gradual increases, total net liabilities in arrears have decreased

The Financial Ombudsman's third quarter statistics release came with **a breakdown of complaints by generation**. Some notable insights:

<i>Generation (born)</i>	<i>Percentage of complaints (excluding PPI) about payday lending</i>	<i>Proportion of overall complaints</i>
Millennials (1980–)	12%	13%
Generation X (1965–1980)	4%	40%
Babyboomers (1946–1964)	1%	40%
Pre-babyboomers (–1946)	0.1%	6%

Overall, PPI still makes up just over half (51%) of complaints to the Financial Ombudsman.

The British Business Bank [released](#) their latest Small Business Finance Markets report. The headline insight is that, although overall business borrowing is up, **smaller businesses are wary about taking on credit in general, with 71% willing to accept slower growth rather than borrow to grow faster.**

Events

Our sister organisation, **Responsible Finance**, is hosting [its annual conference](#) in the Marriot Hotel in Cardiff on 28-29th March. Confirmed speakers include Fatima Manji of Channel 4 News, Jane Hutt AM, Leader of the House and Chief Whip in the Welsh Assembly, and Stefanie Rupp from the British Business Bank. The conference will discuss the impact of Brexit, the UK Government's approach to business and finance, and the future of financial services in the UK. **The event will include the [Citi Microentrepreneurship Awards 2016/17](#).**

As part of the event, **the European Microfinance Network will be running a workshop on 'Managing Stakeholder Relations'**. Speakers will include a responsible finance provider and a large microfinance organisation from Europe and the session will cover:

- How to map and identify local stakeholders
- Building relationships
- Maintaining relationships over time
- What to do if a relationship breaks down

Please get in touch Theodora Hadjimichael – t.hadjimichael@responsiblefinance.org.uk – if you would like to attend.

Also in Wales, Aberystwyth University will host the **Behavioural Change Festival**, which runs over three days and is themed '**Resilient Communities**'. On the 21st March, the Public Bank Development Group will host a two hour workshop from 13:15 – 15:15 investigating the potential role of a Public Bank to support sustainable communities in Wales. The event is hosted by the [Good Practice Exchange](#) and others including the [Wales Centre for Behavioural Change](#) and the [Welsh Local Government Association](#).

The University of Birmingham's Centre for Household Asset Management (CHASM) is holding a seminar on Wednesday 8th March 2017, 12.30pm – 1.15pm, entitled '**Making Work Pay: The Role of Workplace Financial Wellbeing Services in the UK**'. Dr Margaret May and Dr Edward Brunson, Honorary Research Fellows, School of Social Policy/CHASM, will be speaking at the event, which will look at the range of services from debt counselling and credit facilities to non-pension savings, income protection and educational schemes, which are being promoted as inclusive ways of sustaining financial resilience across the workforce in the face of economic uncertainty and welfare state retrenchment. The venue is Room 415, 4th Floor, Muirhead Tower. Please get in touch with Helen Harris – h.m.a.harris@bham.ac.uk – if you would like to attend.