Community Investment Coalition (CIC) campaign update, January 2016

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Campaign update

The Financial Inclusion Commission has received notification from the Department for Business, Innovation and Skills that following their campaign to protect the Illegal Money Lending Teams, which the Community Investment Coalition fully supported, BIS will continue to fund them at the level set for this financial year, to allow time for Treasury to move towards an industry levy.

Commenting on the outcome **Tony Quigley, Head of the England Illegal Money Lending Team** stated:

> *'We will need to make a 7% saving but this is nowhere near the 1/3 saving we would have had to make if you had not intervened.*
>
> *I cannot thank you enough for your support and effort. I will provide further detail as and when more information is received but I wanted you to know the impact you have had in changing the direction of the previous decision and regarding the preservation of the illegal money lending teams.'*

The furore about the FCA's decision to drop its review **into banking culture** rumbles on (see Parliamentary section below) as well as political interference into senior appointments at the FCA. CIC welcomes Andrew Tyrie's intervention asking that the Treasury Select Committee should have a power of veto over appointments of the chief executives of the FCA and PRA.

The British Bankers' Association (BBA) and **the Council of Mortgage Lenders (CML)** jointly published the latest aggregated postcode lending data. The data details borrowing by the UK's largest lenders to individuals and businesses classified by more than 9,000 postcode sectors at the end of the second quarter of 2015. You can read **CIC's** briefing on data disclosure as well as **Coventry and**

Newcastle University analysis of the first three quarters of data (commissioned by **CIC**, **Big Society Capital**, **Citi** and **Unity Trust Bank**) here.

News

The Money Advice Service and the **UK Financial Capability Board** have published the findings of the most comprehensive research ever done into Scotland's ability and attitudes to managing money.

It found that around 40 per cent of adults in Scotland are not in control of their finances. Key findings include:

- 37% of people in Scotland do not know their bank balance within £50
- Fewer than 1 in 3 people in Scotland have financial goals and plans to achieve them
- 1 in 7 people in Scotland are over indebted
- Nearly a fifth of people in Scotland are reliant on credit

The survey shows that Scottish money management skills remain low, with people in Scotland taking a 'live for today' attitude like the rest of the UK. But it also found that whilst the overall picture was bleak, the findings show that six out of ten people have savings of £500 or more which could cover an unexpected bill.

The **Money Advice Trust** has announced that almost four in 10 people contacting National Debtline for help are not aware that interest rates may rise in the near future, prompting fresh concern for those in existing financial difficulty who are likely to be at the sharp end of interest rate rises when they arrive.

The findings show that more than three quarters of those National Debtline callers who were aware that interest rates may rise were concerned about the impact this would have on their financial situation (76 percent). A similar number (77 percent) said they expected to have to cut back on their household spending to help cope with interest rate rises when they do arrive.

The Money Advice Trust warned that the government, financial services industry and advice agencies face a significant challenge in helping households to prepare for a higher-interest rate economy – and in particular, those who are already in financial difficulty.

The charity is also concerned that public debate around the impact of interest rate rises has so far centred around households with mortgages only, ignoring the impact of those in private rented accommodation who are likely to face higher rents as landlords pass on the additional cost to their tenants.

Previous research by the **Building Societies Association** has found that over half (52%) of borrowers say they will struggle when interest rates rise, with one in ten believing that they would experience real financial problems, falling behind on a range of loan commitments.

The Money Advice Trust and Building Societies Association have produced a leaflet designed to help and support borrowers who may have trouble paying their mortgage when rates rise available here.

StepChange Debt Charity has responded to the Work and Pensions Committee report on local welfare safety net.

Welcoming its findings **Francis McGee, Director of External Affairs at StepChange Debt Charity**, said:

> *"Aggressive debt collection by councils is a long-standing issue, but the introduction of localised support schemes for Council Tax support has created an even greater problem. Some of the most financially vulnerable people in the UK are now liable to pay Council Tax, and those who fall behind are subjected to bailiffs, court action and the addition of fees and charges that simply deepen their existing financial problems.*
>
> *"There is currently a major gap in the protections available to people in debt and the Committee's proposal that the government consult on a 'breathing space' scheme is very welcome. There is a clear need for a new scheme that allows people in temporary financial difficulties sufficient time and space to recover their situation by delivering effective protections such as freezes on interest and charges and a halt to enforcement action.*
>
> *"With millions of people living on a financial knife-edge and consumer borrowing rising at its fastest rate since the economic crisis, the government needs to look seriously at the protections that are available to people in debt. Last year, it was announced that HM Treasury and the Insolvency Service would complete a review of the 'legal framework for debt administration'. This review is yet to take place, but it provides a crucial opportunity to deliver better protections for people in financial difficulty and to ensure that short-term struggles do not become long-term intractable debt problems".*

New analysis by the **Trades Union Congress** (TUC) shows that household debt is rising again, with total unsecured debt reaching a new high. Total unsecured debt (including consumer credit and student loans, but excluding mortgages) rose to £319bn in the third quarter of 2015 – a record high, and well above the £290bn peak in 2008 ahead of the financial crisis.

The TUC analysis finds that unsecured debt as a share of household income is now 26.5% – the highest it's been for five years. The analysis also finds that unsecured debt per household rose to £11,800 in the third quarter of 2015, which is up £600 on a year earlier. On this per household measure, debt has never been higher.

Earlier this week the Bank of England published an analysis showing that household borrowing surged in the run up to Christmas. The monthly cash rise in consumer credit for November 2015 was the highest since February 2008.

However, the TUC warns that there is a much bigger problem than just 'Christmas on credit'. The analysis published today follows the recent forecast by the Office for Budgetary Responsibility that UK household spending was set to be £40bn in deficit for 2015 – the highest on record. And the Bank of England's Chief Economist Andy Haldane recently told the Treasury Select Committee that consumer credit is "picking up at a rate of knots".

The TUC says that the growth of consumer credit should worry the government as a signal that fundamental problems with the economy have not been fixed.

Citizens Advice has issued a joint response to the consultation on public financial guidance and the Financial Advice Market Review. Offering money advice when people are in debt could help consumers avoid future money worries and make them more resilient to financial shocks, says Citizens Advice. The national charity, which helped with 1.8 million debt and financial issues in the last 12 months, wants people who receive debt advice to also have the chance to get money advice.

The recommendation forms part of the charity's joint response to the consultation on public financial guidance and the Financial Advice Market Review. The response identifies four advice gaps which are standing in the way of people getting the help they need to manage and plan their finances.

Previous research from Citizens Advice found 13 million adults find managing money difficult. Yet just six per cent of people have paid for advice in the last two years, and of the remainder who haven't - only four per cent plan to pay for it in the future.

Citizens Advice believes that as well as supporting people at crisis point, offering holistic advice services at key moments in people's lives and in settings where consumers wouldn't usually think about their finances could mean more people get the support they need and are better prepared for the future.

The **Money Advice Service** has published its draft Business Plan for 2016/17 and three-year Corporate Strategy and opened a period of consultation with industry and wider stakeholders.

The plan builds on changes already implemented following an Independent Review in March 2015. The Money Advice Service now has a new emphasis on working with many partners to encourage people to engage with their money and improve their financial capability.

Key deliverables include:

- In 2016/17 Money Advice Service will complete the process of change to become a strategic influencer and facilitator for the financial capability sector
- Provide funding help for 425,000 heavily indebted people (15% more than in 2015/16) and provide more capacity in the free debt advice sector by funding new telephone helpline capacity
- By 2020 double the proportion of indebted people who seek debt advice from 17% to 34%.
- Carrying out a nationwide campaign to help 12.6m particularly "squeezed" consumers identified in segmentation to understand where they can cut costs on everyday spending to enable saving
- Supporting people as they transition to Universal Credit by providing a free, fast tool to help them with their household budgeting
- 1 million children and young people will be served by delivery organisations that have signed up to building a shared evidence base about financial education, and continually refining what they do to increase its impact (the "IMPACT" principles).

The consultation period is open until 15 February 2016.

The latest **Small Business Index** from the **Federation of Small Businesses** for Q4 2015 has shown a growing gap in confidence between businesses in Scotland, North East England and Wales and those in the Midlands and the South of England. While there is good news for the UK as a whole in terms of job creation, increasing revenues and improving productivity, firms in the North East of England, Scotland and Wales risk of being left behind.

In the last 12 months, smaller firms in the North East, Yorkshire, Scotland and Wales have all shown a year-on-year decline in confidence. In Wales, confidence has dropped into negative territory for the first time in two years. In Scotland, confidence levels are at their lowest levels since the start of 2013. Elsewhere confidence levels have remained stable, supported in particular by firms in technology and business/professional services.

John Allan, FSB National Chairman, said:

> *"A clear divide in confidence is now emerging across different parts of the UK, with businesses in the South and in sectors like technology and professional services feeling more positive about 2016. The recent flooding is likely to further weigh on business confidence in the North where small firms are now beginning to pick up the pieces as the waters recede."*

The International Longevity Centre-UK has published new analysis to feed into FCA and HM Treasury Financial Advice Market Review which found that 2.7 million people take out financial products without collecting any information beforehand.

Their analysis also found that:

- Approximately 18.2 million people took out a financial product in the last two years, with nearly 3.1 million investing in risky assets
- Among the 43.5% who have taken out a financial product in the last two years, approximately 1 in 10 (11.2%) had been influenced by an Independent Financial Adviser. In terms of overall population, this is equivalent to approximately 2 million people
- Worryingly, 2.7 million people took out a financial product in the last two years without collecting any information at all.

The ILC-UK reveal that best buy comparison websites most influenced decisions about which product to take out, followed by information from providers. In making product decisions:

- 6.1 million people were influenced by "Best buy information, comparison website or shopped around a lot of different sources"
- Approximately 2 million were influenced by an "Independent Financial Adviser"
- Roughly 3.9 million were influenced by "Information collected from providers or providers websites"
- About 1.7 million were influenced by friends or family.

Parliamentary activity

During a **Question for a Short Debate on Banks: Vulnerable Customers** in the House of Lords, Baroness Hayter of Kentish Town asked Her Majesty's Government whether they have any plans to ensure that retail banks treat their vulnerable customers fairly.

Among those taking part **Baroness Janke** responded:

> *My Lords, I am grateful for the opportunity to hear from the noble Baroness, Lady Hayter, about the experience that she has described. It is certainly the case that banks need to look at how their systems work regarding vulnerable customers. I was hoping today to raise the wider issue of financial exclusion in the UK, which has been of concern for some time.*
>
> *The Parliamentary Commission on Banking Standards estimated that 3 million people are financially excluded—that is, excluded from or unable to engage with the financial services necessary to play a full part in modern life, to manage money to absorb financial shocks, and to plan and provide for the future. Information from the* ***Community Investment Coalition*** *states that 9 people million are overindebted; 13 million people do not have enough savings to support them for a month if they experience a 25% cut in income; and 56% of the poorest households do not have home contents insurance. Citizens advice bureaux in England and Wales dealt with 4,907 new debt problems every day during the quarter ending September 2015.*
>
> *Access to basic banking facilities is an essential part of modern life, as employers and government agencies move away from cash and cheques towards electronic payments. Small and micro businesses are also affected by difficulties in accessing basic affordable financial tools. This impacts on their sustainability and opportunities for growth. Effective tools for savings, payments and accessing credit and insurance can help people to climb out of poverty or get through a crisis or emergency without falling into debt. It can help businesses to survive and grow and not slide into bankruptcy should a crisis occur.*

You can read the full debate here.

John McDonnell MP, Labour's Shadow Chancellor has responded to the **Bank of England**'s recent consumer lending figures by stating:

> *"These are worrying figures that suggest this Chancellor has not learnt any of the lessons of the financial crisis, and reveal his cynical plan for the economy.*
>
> *"In his time at the Treasury George Osborne has failed to meet his own targets for reducing Government borrowing; and as the Autumn Statement revealed he is basing his plan for the economy on families going further into debt.*
>
> *"The Chancellor seems very content for families to be saving less and borrowing more while earnings are still below pre-2008 levels, and the concern is that we may have a debt fuelled bubble emerging with a government hoping for it to happen.*
>
> *"Rather than cosying up to banks, slashing support for working families while cutting taxes for the rich, George Osborne has to wake up to the fact that families are being forced to borrow more due to the unbalanced economy that he has created."*

Susan Kramer, Liberal Democrat Treasury Spokesperson, has responded to reports that consumer borrowing is now at its highest rate since before the financial crisis stating:

"We must not repeat the mistakes of the past, the Government must be wary of inflating another consumer bubble.

"We need to build our economy around investments and exports and not risk it all with excessive consumer lending.

"The Liberal Democrats played a vital role in the UK's economic recovery, the Tories now risks throwing that all away."

The **Business, Innovation and Skills Committee** has launched an inquiry on access to finance, looking at how the landscape for access to finance has developed since the end of the financial crisis and the improvements on finance which Government could make to boost the number of successful and high-growth businesses.

Iain Wright MP, Chair of the Business, Innovation and Skills (BIS) Committee, said:

"After real difficulties during the credit crunch, business access to finance appears, superficially at least, to be back to normal. But small businesses, in particular, still say that access to finance is one of their biggest obstacles to future growth. As a Committee, we want to look at how access to finance has changed since the end of the financial crisis. Among other issues, we will want to examine some of the alternative ways of raising finance, such as crowd-funding and peer-to-peer, and whether they are sufficiently well-regulated and monitored for companies to be confident in utilising them."

The Committee is seeking evidence on the following points:

- How has the landscape for access to finance evolved since the end of the financial crisis?
- What have been the most successful government policies to assist growing companies access private finance and where is there room for improvement?
- Does the UK have globally competitive markets / suppliers for financing (and debt financing) at 1) seed 2) venture and 3) growth stages? What steps could Government take to strengthen these systems?
- Are alternative methods of raising finance (such as crowd-funding and peer-to-peer) sufficiently well-regulated and monitored for companies to be confident in utilising them?
- What are the main improvements or interventions, in terms of finance, that the Government should make to achieve the objective of increasing the number of successful and high-growth businesses in the private sector?

Written evidence should be submitted by 10 February 2016 via the inquiry page.

Dr Rupa Huq and Jo Stevens asked the Economic Secretary to the Treasury: What discussions he has had with the Financial Conduct Authority on its decision to **end its review of banking culture**.

Harriett Baldwin, The Economic Secretary to the Treasury replied: The Financial Conduct Authority is an independent regulator. No Treasury Minister or official had any discussions with the FCA before it took the decision to discontinue the review.

Dr Huq: Given that the popular image of bankers right now is probably on a par with used car salesmen or MPs even, does the Minister not agree with the hon. Member for Wyre Forest (Mark Garnier) that to abort the review now, which could have looked at regulating challenger banks as well as historical mis-selling, is a missed opportunity?

Harriett Baldwin: I find it hard to take lectures from the Labour party on regulating the financial sector. In fact, since my right Hon. Friend became Chancellor, we have set up the Financial Conduct Authority and moved on from the failed regulatory system under the Labour Government. We made it a criminal offence to manipulate the UK's key benchmark, we brought in the toughest rules on bankers' pay of any financial centre and we are bringing in a new criminal offence so that senior managers whose reckless decisions bring down banks can face up to seven years in jail.

Jo Stevens: With the terrible impact of bad banking practices highlighted in the Tomlinson report, particularly in commercial lending to small businesses, still unresolved for one of my constituents, does the Minister agree that both the public and small businesses still have significant concerns about the behaviour of many individuals within the banking sector?

Harriett Baldwin: I completely agree with the hon. Lady that we need to see the highest levels of conduct from the banking sector. We also need to continue to take steps in terms of our long-term economic plan to secure access to funding for small businesses. That is why we have taken steps to back peer-to-peer lending and extended funding for lending for another two years. We continue to benefit from record low interest rates thanks to our prudent economic management.

You can read the full transcript here.

Nick Smith asked the Economic Secretary to the Treasury: What his plans are **for future funding of illegal money lending teams.**

Harriet Baldwin, The Economic Secretary to the Treasury replied: The Government are exploring options to ensure that the England and Wales illegal money lending teams have the funding they need to ensure that consumers continue to be protected from illegal loan sharks, and are confident of transitional arrangements being agreed.

Nick Smith: Too many of my constituents are victims of loan sharks. The illegal money lending team has helped nearly 24,000 victims across the country, yet the Government have treated the service with disdain. Will the cuts to this vital team and to local employment standards not make the poorest more vulnerable?

Harriett Baldwin: Far from agreeing with the hon. Gentleman, I must say that the Government are finding ways to put the team on a sustainable basis to continue the valuable work it does to protect people from illegal money lending.

Research and reports

Research from **National Savings & Investments** into Britain's financial education and capability has found that over half of people feel out of their depth when managing their money on a day-to-day basis and have never received any formal financial education but would have liked to have done, it found that:

- Over 15 million Britons say they never received any formal financial education but wished they had
- Over 4 million Britons feel out of their depth when it comes to managing money on a day-to-day basis and for the future
- Just over a third of the British public turn to family for their financial advice; just under a quarter would seek help from a professional financial adviser.

Additionally over 7 million Britons admitted to having no savings at all, over half of these never received any formal financial education and 58% do not save any money month on month.

While only 15% received financial education for the first time at secondary school, the overwhelming majority (43 million, 87%) support the principle that children of school age should receive some form of financial education during their formative years.

According to research from **uSwitch** almost nine in ten Britons will be starting the New Year with credit being owed on their credit cards, with an average debt of £2,400. They also found that:

- On average, those struggling with debts think they will take 17 months to clear them
- Nearly half expect to still be paying off this year's festive debt when next Christmas rolls around
- 6% say they can't ever imagine being debt free.

A new report by the **Social Market Foundation** has investigated how ways to reduce stress and boost workplace engagement can help improve UK productivity. They present new analysis of Understanding Society, a longitudinal survey of 40,000 households across the UK and examine how stress affects workers, reducing productivity, and how low financial resilience is a substantial contributing factor.

Lloyds Bank in association with **Accenture**, **Toynbee Hall** and **Go ON UK** have published the UK's first behavioural data-led study of 1m consumers' digital and financial capability and has been baselined to enable annual longitudinal analysis. The report, observes and analyses consumer trends in digital and financial capability and, for the first time, seeks to understand the links between the two from a UK wide perspective.

Research from **Experian** and **StepChange Debt Charity** has found that financial problems have clear geographical and social patterns in the UK.

The research used national data to analyse and map areas across the UK with the greatest concentrations of people seeking professional advice for debt problems, and areas where financial problems are most prevalent. The charity's data was used to identify the social and demographic make-up of those people seeking advice.

Inner cities and their surrounding areas up and down the country feature prominently on the list of places with the most debt related problems. Parts of East London and West Birmingham as well as Manchester and Hull topped the rankings for locations where people had 'severe financial problems' and had fallen behind with bills and credit commitments.

Top 10 locations where people have… "sought professional advice over debt problems" are:

1. Newham
2. Barking and Dagenham
3. Kingston upon Hull, City of
4. Sandwell
5. Manchester
6. Knowsley
7. Leicester
8. Nottingham
9. Middlesbrough
10. Glasgow, City of

A new report from **Citizens Advice** has claimed that government departments are treating people worse than private companies when chasing debt. The report says that the number of issues people have sought help for on local and national government debts has doubled from just under 200,000 a year to around 400,000 in the last decade. The consumer champion reveals that nearly £1 in every £5 of the debt people contact them for is now owed to government.

In the report, researchers focus on government debt problems most commonly raised – council tax arrears, tax credits overpayments, benefits overpayments and magistrates court fines. The charity found evidence of poor practice, including a lack of consideration given to whether people can afford repayments and people forced to pay a debt when it is under dispute.

Events

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.

It is the annual gathering of the leaders, influencers and practitioners with a commitment to bringing fairness to the financial services industry and increasing access to responsible finance. We bring together the banking, alternative funding, community and policy sectors to share emerging trends, build partnerships and develop future strategies that make money work for people, businesses and communities. The inspiring speakers, dynamic discussions and great networking attract a growing number of delegates each year and has established this as a must-attend event for anyone interested in responsible finance.

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.

Entries for the 2015/16 awards are now closed.

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