Community Investment Coalition (CIC) newsletter, June 2016

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Campaign update

Without wishing to state the obvious, following the EU referendum, British politics and Westminster remain in a state of flux with limited attention on bread and butter issues, such as financial inclusion. Nevertheless we continue to promote our key campaign themes as and when we can. If you want to find out more about our campaign themes, do visit our website and follow us on Twitter.

News

In response to the publication of the **Bank of England's** Money and Credit statistics for April 2016, **Peter Tutton, Head of Policy at StepChange Debt Charity**, said:

> *Creditors must ensure they are lending responsibly, with thorough and robust affordability checks. If they do not, and consumer credit continues to rise, not only could it increase the vulnerability of those already struggling, it could also see a whole new group of people dragged into the nightmare of problem debt.*

The Money Charity also updated their **'Money Statistics'** for June 2016. Significantly, the numbers indicate that unsecured debt is currently growing at a faster rate than at any other point in the past decade.

The Money Advice Trust published a 12-step guide to providing financial advice to vulnerable people. The guide aims to address common deficiencies, build a base of best-practice and embed this across the sector.

Caroline Siarkiewicz, Head of UK Debt Advice for the Money Advice Service, commented:

> *Debt advisers see people displaying a range of vulnerabilities. For example; over 52% of clients who have received debt advice from Money Advice Service funded organisations display a mental health condition, 27% are unemployed and 16% are permanently sick or disabled.*

Following a survey of 1800 members, **StepChange Debt Charity** have called for a 'breathing space' scheme which would freeze interest, charges and enforcement action for a period of 6-12 months allow those with debt problems to seek advice on recovering their finances. The survey found that methods of seeking repayment actually made it more difficult for many borrowers to repay.

Steve Pateman, Chief Executive of Shawbrook Bank, said:

> *This research underlines the fact that people in temporary financial difficulties have no guarantee that creditors will call off interest and charges or accept affordable repayments. Undoubtedly this puts people off seeking assistance.*

New evidence from Citizens Advice has shown that many struggling with debt would put themselves at greater risk by choosing to address consumer debts before other debt which should be regarded as higher priority. The key statistics are:

- 3.6 million people (15%) would stop paying their rent or mortgage before their credit card repayments
- 6.5 million people (27%) would stop paying their council tax before their credit card repayments
- 1.2 million people (5%) would stop paying their gas bill before a store card

In its response to the Government's **consultation on public financial guidance**, the **Financial Services Consumer Panel** has raised concerns that the abolition of **Money Advice Service (MAS)** could leave consumers without a source of impartial financial guidance, and slow down progress on the UK's financial capability strategy.

Sue Lewis, Chair of the Financial Services Consumer Panel, said:

> *The Government appears to expect the MAS successor body to take responsibility for improving financial capability, but without saying where leadership for the UK strategy should lie, or what the governance arrangements should be. There are real risks for consumers in these proposals and we hope the government will consider the evidence carefully, including experience from overseas, before taking hasty and damaging action.*

The British Business Bank launched the updated version of their **Business Finance Guide**, which sets out the main things to consider and outlines sources of finance available to businesses – ranging from start-ups to SMEs and growing mid-sized companies.

Published by the **ICAEW's Corporate Finance Faculty** and the British Business Bank, with contributions and endorsement from 21 major professional, membership and representative organisations, including Responsible Finance, it features several tools and ideas, as well as explanatory videos, to help businesses consider their options, make decisions and plan how they will finance expansion.

The Bank of England launched a **FinTech accelerator**, prompting **Hannah Nixon, Managing Director of the Payments System Regulator** to state that her department "will be working closely with the Bank, the FCA and our stakeholders" to open settlements access for all payment and e-money institutions and expand competition in the area, claiming:

If you can open settlement access, organisations will have greater choice in access to payments systems. The wider ripple effect is that with greater access, more companies may innovate and both consumers and businesses will have a greater choice of payment services available to them.

The FCA have established a **Financial Advice Working Group** in response to the recommendations of the **Financial Advice Market Review (FAMR)**. Find out more here.

Parliamentary activity

The post-Brexit reshuffle of the Labour shadow cabinet has included the following changes:

OUT	POSITION	IN
Owen Smith	Shadow work and pensions secretary	Debbie Abrahams
Seema Malhotra	Shadow chief secretary to the Treasury	Rebecca Long-Bailey
Angela Eagle	Shadow business secretary	Chi Onwurah

This year's **Private Members Bills** have been announced, the 8th on the list being the **Families with Children and Young People in Debt (Respite) Bill** put forward by **Kelly Tolhurst of the Conservatives**. The bill calls for a duty on lenders and creditors to provide periods of financial respite for families with children and young people in debt in certain circumstances; to place a duty on public authorities to provide access to related advice, guidance and support in those circumstances; and for connected purposes.

Adam Afriyie, Conservative, asked **HM Treasury**:

What assessment has been made of the role of financial technology in encouraging consumers to switch their current account?

Economic Secretary to the Treasury, Harriett Baldwin, answered:

The Government is committed to increasing competition in banking to improve outcomes for consumers. This includes delivering the Current Account Switch Service (CASS)… Financial technology is an important part of this. In its recent provisional decision on remedies, the Competition and Markets Authority (CMA) proposed requiring the largest retail banks in Great Britain and Northern Ireland to develop and adopt an open API banking standard by early 2018. The Government stands ready to take action as necessary once the CMA publishes its final report in the summer.

Andrew Rosindell, Conservative, asked **HM Treasury**:

What assessment has been made of the effect on competition between banks of the adoption of the recent recommendations of the Competition and Markets Authority on the capping of unarranged overdraft fees?

Harriett Baldwin, answered:

We support the CMA's ambition to increase competition through its retail banking market investigation, including helping overdraft users understand the fees associated with overdrafts and mitigating the adverse effects of unarranged overdraft fees.

The CMA's investigation is ongoing and it is currently consulting on the provisional decision on remedies. The government welcomes the CMA's work as a crucial step towards the goal of a highly competitive banking system, and stands ready to take action as necessary once the CMA publishes its final report in the summer.

Gill Furniss, Labour asked **HM Treasury**:

What recent assessment has been made of the adequacy of regulation of banking sector?

Harriett Baldwin answered:

Since 2010 the Government has: legislated for the ring-fencing of large banks' retail arms from their investment banking arms; ensured that the senior managers of banks are held accountable for their decisions; and put the Bank of England back in charge of bank prudential regulation.

The IMF noted in its recent Article IV concluding statement that "owing to a large extent to a wave of welcome regulatory reforms since the crisis, the main parts of the UK financial system appear resilient". The Government agrees with the IMF's assessment.

Jim Shannon of the Democratic Unionist Party asked **HM Treasury** what steps have been taken to regulate the level of bank account charges in the last 12 months.

Harriett Baldwin replied:

Following extensive government negotiations with the banking industry on basic bank accounts, in January 2016 the UK's nine largest banks and building societies implemented an agreement to end bank charges on those accounts when a direct debit or standing *order fails. Basic bank accounts are now truly fee-free, helping people to manage their money without fear of running up an overdraft.*

Baldwin also referenced the ongoing CMA investigation into the retail banking market.

Owen Smith of Labour asked the **Department of Work and Pensions**:

How many referrals to debt advice services have been made by jobcentre staff in each of the last five years?

Minister of State for Employment, Priti Patel, responded that the information is not held.

Andrew Tyrie, Chairman of the Treasury Select Committee, was active in correspondence to regulators. He wrote to **Tracey McDermott, Chief Executive of the FCA** to raise concerns that bank de-risking in response to new rules on anti-money laundering means many pawnbrokers are becoming locked out of access to credit and current accounts. The knock-on effect is that **some pawnbrokers cannot continue as an alternative provider of financial services** leaving consumers to face a more limited market.

See initial correspondence here:

Chair to Tracey McDermott: http://bit.ly/1sGczn1

Response: http://bit.ly/1WGzU4t

Tyrie also contacted **Andrew Bailey, Chief Executive of the Prudential Regulation Authority**, to highlight the **Treasury Committee's** concerns about whether the right balance is being struck in terms of the amount of **public disclosure of supervisory information**. Tyrie commented on the correspondence:

Effective market discipline should be a priority for regulators. For this a high degree of transparency is required. Risks on bank balance sheets need to be visible. Regulators collect a great deal of information valuable to an effective assessment of these risks. But it is not available to shareholders, creditors and depositors, the people with most 'skin in the game'.

Lastly, **Tyrie** wrote to both **McDermott and Bailey** about whether consumers would benefit from **further regulation of the peer-to-peer lending market**. Tyrie commented on this correspondence:

Government policy – letting peer-to-peer investments form part of an ISA allowance, for instance – represents a form of official support for investments that may be inherently higher risk. Whether and, if so, to what extent investors would benefit from stronger consumer protection now needs careful thought. The prudential impact of the financial sector's increasing exposure to unsecured loans through crowdfunding platforms also warrants closer scrutiny.

In a busy month, **Treasury Committee Chair, Andrew Tyrie**, also found time to engage the **Chancellor of the Exchequer, George Osborne**, questioning whether peer-to-peer lending on ISAs (for which the

Treasury introduced tax relief subsidies for to increase competition in the SME lending market) were being marketed to people who can least afford to lose the money and cannot reasonably be expected to understand the risks. Osborne, replied:

> *At its own request, the peer-to-peer lending industry is now regulated by the Financial Conduct Authority, which is alert to the risks that my right hon. Friend identifies, but I wish to make a broader observation. In the financial crash, we saw the limitations of the UK's credit system, where many companies were reliant on bank finance. In the last few years, we have tried to broaden the range of financing options for small and medium-sized businesses, in terms of not just capital markets but innovative new products such as peer-to-peer lending. Using things such as ISA wrappers to encourage this new form of finance for small businesses is a good thing for our economy.*

The Treasury Select Committee discussed the progress of the **Competition and Markets Authority's (CMA)** **Retail Banking and Market Review** following the publication of the Provisional Decision on Remedies last month. The following were invited to attend as witnesses:

- **Professor Diane Coyle, founder, Enlightenment Economics**
- **Paul Lynam, chief executive officer, Secure Trust Bank**
- **Caroline Barr, member, Financial Services Consumer Panel**

The main topics of discussion were:

- State of retail banking
- Free-in-credit banking
- CMA Report
- Reforming retail banking
- Account number portability
- Unarranged overdrafts
- Small businesses
- New customers
- Too big to fail
- Capital requirements
- FCA

EU Referendum News

In the wake of the referendum, **Bank of England (BoE) Governor, Mark Carney**, emphasised banks' liquid capital reserves and £250 billion of additional BoE funds as a means for the banking sector to continue lending to UK individuals and businesses.

The FCA stated that, until specific changes to legislation are made, UK regulations derived from EU law would remain in place, regardless of the political backdrop. The FCA would work with the government to work through relevant arrangements for the UK's future relationship with the EU.

Peter Holbrook, Chief Executive of Social Enterprise UK stated his concern regarding "a combination of delays on public sector contracts, banks using the decision as an excuse not to defer lending money, and for-private profit businesses seeking to keep their balance sheets looking good by squeezing their suppliers". Holbrook also called for the Government to ensure replacement funds for the **EU Social Fund** and to sort out public sector procurement policy and competition law, much of which is derived from EU legislation.

The Charity Bank reaffirmed its commitment to using savings deposits to make loans to charities and social enterprises. **Triodos Bank** admitted there will be a period of uncertainty with an unclear outcome, but that appetite for sustainable banking remains strong. **Nationwide** highlighted high levels of capitalisation which will allow them to remain stable. As a "strong, low-risk, UK-only retail bank", **Virgin Money** are confident that little will change for their model going forward.

The Payment System Regulator stressed that no changes were to be anticipated on regulation applicable to UK payment regulation.

Santander, **Lloyd's Banking Group**, **RBS** and **Barclays** all released statements stressing continuity in terms of services and forward planning. **HSBC** was the most circumspect, with **Chairman Douglas Flint** stating that the result marked the beginning of "a new era for Britain and British business."

Reports

Co-operatives UK released their **Co-operative Economy 2016** report accompanied by the headline takeaways:

- 17.5 million people (a record) are co-operative members – up 2.3 million over five years
- The sector's 7000 independent businesses are worth £34 billion a year and account for 223,000 jobs across the UK
- Retail and agriculture are leading the charge, with credit unions playing an important role in boosting the membership figures

Payments UK released a report on open access payment systems. **A vision for World Class Payments in the UK** outlines the payments industry in the UK and the steps that have been taken already to support open access, and identifies the four main challenges to creating a truly open access ecosystem.

Events

The Cabinet Office is running a series of roundtables to coincide with their **review of mission-led businesses**. The dates and times are as follows:

City	Date	Time
Cambridge	28 June 2016	(2pm to 4.30pm)
London	1 July 2016	(10am to 3pm)
Cardiff	4 July 2016	(midday to 3pm)
Oxford	7 July 2016	(midday to 3pm)
Bristol	13 July 2016	(11am to 2pm)
Manchester	14 July 2016	(midday to 3pm)
Birmingham	18 July 2016	(midday to 3pm)

CfRC centre for responsible credit Local Trust creating lasting change CCLA Responsible Finance