Community Investment Coalition (CIC) newsletter, March 2017

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Community Investment Coalition

Campaign update

The Select Committee on Financial Exclusion released its report, which called on the FCA and banks to give **greater priority to tackling financial exclusion in the UK**. Chairman of the Committee, Baroness Tyler of Enfield said:

> *The UK financial services sector is a world leader which makes it doubly unacceptable that it is failing those who need it most. Too many people still have no bank account or cannot get access to basic or fairly-priced financial services... The Government and the FCA should introduce a duty of care for bank customers - currently some banks deliver on their social responsibilities, but too many don't. It is time we required them to do so.*

You can read the joint submission of the Community Investment Coalition and Responsible Finance to the inquiry here.

I was delighted to speak at the Centre for Responsible Credit's annual conference about the importance of transparency and data use to improve financial inclusion. You can see a cartoon of the speech here and read a blog here.

The Trump administration is proposing to end decades of bipartisan support for funding for Community Development Finance Institutions (CDFIs) in the USA. Congress allocated $233.5 million to the CDFI Fund in 2016. Under President Trump's budget proposal funding would be eliminated. The CDFI sector and other groups are already campaigning to protect this fund, which plays a vital role in supporting economic growth in the many rural, urban, and Native communities that lack adequate access to capital. You can read more here. In the UK, CIC has based much of its campaigning for some type of Community Reinvestment Act (CRA) and a sustainable fund for the responsible finance sector, on the American model. We will monitor developments in the USA closely to see what progress the Trump proposals make and what impact they have.

Jennifer Tankard, Director CIC

News

Amidst the reaction to the Chancellor's (last ever) **spring budget, the Resolution Foundation announced that their analysis (PDF) predicts 15 years of spending cuts and lost pay growth**. Foundation Director, Torsten Bell, said:

> *Spring Budget 2017 offered the Office for Budget Responsibility and the Chancellor the chance to respond to better than expected economic news in recent months, following grim forecasts about the outlook for Brexit Britain back in November's Autumn Statement. Both have largely ignored it.*
>
> *The big picture from yesterday's Budget is that the big squeezes on both the public and family finances have been prolonged well into the 2020s.*

Office of Budgetary Responsibility figures show that **an expected increase in pension savings will likely come over a sustained period of people dipping into short-term savings**. The Money Charity highlighted this as an area of concern, stressing that long-term savings should not replace the stability of rainy day funds.

Household borrowing continues to be high, with consumer credit 6.6% higher in February than in February 2016.

R3, the UK's insolvency and restructuring trade body, **says 41% of British adults are worried about their current level of debt**, with a quarter reporting a negative impact on their mental health. The level of worry spikes amid 35-44 year olds. R3 set out 9 steps to facing the problem.

Inflation rose faster than expected in February, up to 2.3% from 1.8% in January, **adding to the squeeze on household incomes**. As the Resolution Foundation pointed out, this ends a record 38 months of inflation running consistently lower than the Bank of England's 2% target and is **expected to already have a depressive effect on real wages**. For the first time, the Office of National Statistics included reference to the CPIH, which incorporates costs incurred by owner-occupier households into the CPI (consumer price index).

Higher inflation raised the prospect of rise in the Bank of England base rate on the horizon. The Times and City AM reported in late February that **the Government's Insolvency Service warned that a rise in borrowing costs of 1% would tip a further 18,000 people into bankruptcy**.

22 organisations have come together to agree on the format for the standard financial statement (SFS), launched this month by the Money Advice Service. The purpose of the SFS is to standardise the assessment used by debt advice providers, improving the customer journey and allowing for more effective reporting to stakeholders for organisations using it. Roll out is expected to take place over the next 12 months.

Citizens Advice services announced the Martin Lewis Fund – £625,000 to be distributed through 25 local Citizens Advice services to support innovative pilot projects exploring new ways of reaching out to those in need of advice.

The Times warned this month against signs of a global roll-back of post-crisis financial regulation, highlighting US President Trump's lack of understanding of the "gigantic cat's cradle of cross-border bets and liabilities". At a meeting of G20 finance ministers and central bank governors in Baden-Baden, Germany, it was indeed announced that such regulation would be reviewed for side effects.

The rise in zero per cent balance transfer credit cards has raised alarm as banks book profits on those cards years before they start showing a return. The standard practice allows banks to reach credit requirements and justify dividend payments. **Bank of England chief Mark Carney remarked that he was thinking of taking action against ballooning consumer credit**.

The Department for Culture, Media and Sport launched a consultation on UK digital strategy. **Chapter 3 references the role of digital technology in combating financial inclusion,** stating:

> *In order to support digital innovation that helps people better manage their money, we will launch a competition to encourage the development of digital approaches to support financial inclusion. This will be run by Tech City UK, as part of its wider role on FinTech, with external support from both charitable and financial service providers.*

Chapter 7 emphasizes data innovation as a tool for unlocking innovation and efficiency across all sectors, a focus that dovetails with CIC's campaign on Data Disclosure for access to finance.

The final deadline for claiming against mis-sold PPI has been set by the Financial Conduct Authority (FCA) as the 29th August 2019. A communications campaign will run and it is hoped that, in conjunction with the deadline being set, this will bring forward claims that have been put off.

The New City Agenda reports that banks and other financial firms have received £1.2 billion back from regulatory fines between 2013 and 2017, using a 30% discount available for settling earlier. **Lord Sharkey proposed an amendment to the Criminal Finances Bill** that would require banks fully identify the cause of the regulatory breach and institute preventative measures before receiving the full discount.

Journalist Simon Neville live-Tweeted the experience of **trying to open a bank account for a refugee**. It took seven hours, visits to six banks and calls to both a GP and the Home Office.

Parliamentary activity

The Economic Secretary to the Treasury, Simon Kirby, fielded questions, regarding **the Scottish Government's debt 'breathing space' and debt arrangement schemes**, from [Philip Hollobone (Conservative)](), [Steve McCabe (Labour)]() and [Margaret Ferrier (SNP)](). He answered:

> *The Government has committed to exploring whether some form of "breathing space" would be a useful and viable addition to the current range of debt solutions available to consumers and creditors.*
>
> *In its response to the Independent Review of the Money Advice Service (March 2015), the Coalition Government agreed to review the legal framework for debt administration, and to consider the impacts of additional statutory protections for consumers.*

The work on both reviews is ongoing, and the Government intends to report back on both shortly.

Roger Mullin (SNP) asked:

> *The systemic maltreatment of businesses, as exemplified by the Royal Bank of Scotland's dash for cash, requires action.* ***Does the Chancellor accept the case for imposing a duty of care on the banks, particularly in their dealings with small and medium-sized enterprises?***

To which Simon Kirby answered:

> *The Financial Conduct Authority has published a summary of the main findings of its skilled persons report on RBS's global restructuring group. The FCA is carefully considering that, and it would not be appropriate for me to comment while the process is ongoing.*

Chi Onruwah (Labour) asked the Chancellor what steps the Government (a) has taken and (b) plans to take to ensure that the UK's Open Banking Standard can be leveraged internationally, and also asked **what role the Government envisages for the (a) Financial Conduct Authority and (b) Information Commissioner's Office in an open banking environment**. Simon Kirby answered:

> *In September 2015, the Treasury requested for the Open Banking Working Group (OBWG) to be set up, to explore how data could be used to help consumers transact, save, borrow, lend and invest their money. The group published a report on Open Banking Standards, which has since been picked up by governments and organisations globally.*
>
> *The Treasury welcomes the Competition and Market Authority's (CMA's) remedies on Open Banking, which has the potential to bring significant benefits to consumers and SMEs by promoting competition in the retail banking sector.*
>
> *Currently the government has no plans of requiring open data sharing standards beyond the banking sector.*
>
> ***The Financial Conduct Authority (FCA) will continue to provide a key supervisory function to protect consumers from the harm that can be caused by firm misconduct. As the competent authority under the EU Payment Systems Directive, the FCA will have a key role in monitoring the Open Banking Standard.***

The Information Commissioner's Office (ICO) will continue to safeguard personal data and provide advice to banks to ensure data is shared in a secure and responsible manner.

Andrew Gwynne asked what estimate the Treasury has made of the number of adult UK citizens without a UK bank account. Kirby replied:

> *The Treasury has made no such estimate. However, independent estimates, such as those reported in the University of Birmingham's Financial Inclusion Annual Monitoring Report 2016, indicate that* ***approximately 1.71 million adults in the UK do not have access to a bank account in their own name****.*
>
> *Since September 2016, the nine largest personal current account providers in the UK are legally required to offer basic bank accounts to customers who do not have a bank account or who are ineligible for a bank's standard current account.*

The All-Party Parliamentary Group (APPG) on Fair Business Banking issued a call for written evidence into their **inquiry entitled 'Bridging the Gap: A Level Playing Field for Financial Disputes'**, aimed at gathering accounts from those with experience or knowledge of allegations of mistreatment of businesses on the part of banks. The APPG website is under construction, but you can download the inquiry document here. Responses are to be sent to policy@ciarb.org; no closing date is available as yet.

Lord Sharkey proposed an amendment to the Criminal Finances Bill that would require banks fully identify the cause of regulatory breaches and institute preventative measures before receiving the 30% discount available to banks who settle early on fines. He said:

> *My amendment proposes to put this gigantic discount mechanism to better use. It would enable the FCA to have direct sight of the improvements in process and behaviour agreed in any settlement. It would enable it to see that appropriate disciplinary action had been taken against those responsible for the transgressions. It would give the settling firms a powerful incentive to fulfil any settlement conditions. It would do this by making part of any discount withholdable until the settling firm had satisfied the FCA that all appropriate disciplinary actions had been taken. Only then would the full discount be realised.*

The APPG on Alternative Lending called for an inquiry on the part of the Financial Conduct Authority into **overdraft charges**, which can often cost consumers far in excess of now-capped payday lending. It was acknowledged by the group that an extension of the type of caps seen with payday lending may not be the best solution to the problem.

A Scottish Parliament motion lodged by Ruth Maguire (SNP) recognised that **credit unions help to create good savings habits**, in the wake of a report by the Fairbanking Foundation (PDF) examining the **SAYB (save as you borrow) model**.

Another Scottish Parliament motion, lodged by Maurice Golden (Scottish Conservatives), **recognised the difficulties low income families have in finding credit for purchases with large up-front costs, and noted the work of Fair for You and the Robertson Trust** in helping families access affordable credit.

Reports and research

A third of UK adults reported that they felt their financial situation would get worse over the course of 2017, with almost half already finding it difficult or 'just about managing' their finances, according to research from the Chartered Institute of Personnel and Development.

Similar research from Which? looking specifically at households found that five million working people in the UK are undergoing some sort of financial distress, with **61% of households feeling negatively about their financial situation**.

The Money and Mental Health Policy Institute released a report on **how FinTech can help people with mental health problems**.

A record number of firms will gain access to the interbank payments system in 2017, according to the annual access and governance report of the Payments System Regulator. There are potentially ten firms to join in 2017, up from just four last year. You can find a fact sheet summary of the report here.

PwC released a report in collaboration with the British Banking Association (BBA) called 'Who are you calling a challenger?' The report claims **new entrants into the retail banking market are developing niche and unique product offerings and are distinctive players in their own right**, rather than simply nascent banks offering a more digitised version of existing products and services. PwC suggest four sub-sectors within the challenger bank umbrella:

- Mid-sized high street banks
- Specialist banks
- Digital-only banks
- Non-bank brands

The UK's first mobile-only bank, Atom Bank, has broken the £200 million funding barrier, after another round of funding raised £83 million. In collaboration with Innovate UK, the UK's innovation agency, Atom Bank are also engaged in a three-year KTP (Knowledge Transfer Partnership) with the Mathematical Sciences Department at Durham University.

The Government released a briefing paper breaking down by region the money allocated in three rounds of local growth deals (July 2014, January 2015, and November 2016). The initial round of £6.3 billion was topped up with further rounds of £1 billion and £1.8 billion respectively.

The European Commission released its white paper on the future of Europe. Unsurprisingly, there were mentions of Brexit and the future of financial services in Europe. Read Politico Europe's take here.

Following the introduction of the **draft Reporting on Payment Practices and Performance Regulations 2017** by Business Minister Margot James, the House of Commons Library has released a historical summary (going back to 1994) of legislation introduced to tackle late payments on debts belonging to SMEs. The report states: "It is difficult to prove how effective legislation has been. Fairly consistently **about 30% of SMEs suffer from late payment**."

Events

Applications are open until **10th April 2017 for** the **Finance Innovation Lab and Toynbee Hall's Financial Health Fellowship**. Early-stage innovators are invited to take part in the six-month programme that includes monthly business strategy sessions, peer coaching sessions, mentoring, specialist workshops and two residential leadership retreats.

Our sister organisation Local Trust is running a series of workshops around the UK this spring, on everything from exploring different approaches to delivery and working with local partners, through to setting up community managed land and assets, increasing opportunities for skills and employment and organising large scale events that reach the whole community. Event dates and locations:

- Liverpool, Thursday 27th April
- Sheffield, Saturday 6th May
- Birmingham, Saturday 13th May
- Chester-le-Street, Durham, Tuesday 16th May
- London, Saturday 27th May

To book a place, email Priti at priti.shah@localtrust.org.uk, or call 020 3588 0578.

What Caused the 2008 Crisis & Will There Be Another One? is a talk from Professor Steve Keen to be held in the House of Commons on Wednesday 8th March as part of the New City Agenda series.

The BBA is running its annual retail banking conference on 29th June 2017. See the programme and book tickets here.