Community Investment Coalition (CIC) newsletter,

May 2016

Contents

Campaign update

Apologies for the delay in sending May's edition of the CIC newsletter out. I was away on holiday!

Following the election round on 5th May, we are writing to the **new members of the Scottish Parliament, Welsh Assembly, Northern Ireland Assembly and London Assembly** to spread the word about the work of CIC. That's 45 MSPs, 22 MAs (Wales), 31 MLAs and 10 MAs (London).

We recently launched **an animation on the disclosure of bank lending data** as an important pathway to identifying gaps in financial access: https://youtu.be/x-63jPF_vlo Please do watch and share, if you haven't already.

We attended the **FCA**'s launch of **Occasional Paper No. 17: Access to Financial Services in the UK**, a comprehensive report into how the regulator can work to expand financial access in the UK, more on which below.

In an accompanying article, the FCA highlighted market-based finance (MBF) as a growing

> *"[Market-based finance] presents the rise of a model of banking, akin to a disruptive technology, that fundamentally transforms the manner in which the world creates, distributes and manages money, credit and risk… The greater influence on future growth is likely to continue to be advances in technology and business models. Several innovative approaches have already blossomed in recent years, including advances in small business financing brought about by big-data analytics.*
>
> *For policy makers, this of course represents a significant logistical challenge. How do you manage such a large, intricate and kaleidoscopic market? Our analysis strongly indicates the*

need to take a risk-based approach – making assessments of markets not just individual firms. If we succeed, there is every reason to believe the rise of market based finance should be welcomed, not feared."

We attended ***Is it Possible to Build a Common Good with Money?*** hosted by **Together for the Common Good** at St. Michael's Cornhill in London. The highlights from the discussion between **Prof Philip Booth, Academic and Research Director at the Institute of Economic Affairs**, and **Lord Maurice Glasman, Founder of Blue Labour**, were:

- Financial systems should acknowledge human failings, incentivising good behaviour and removing incentives to cheat
- Regulation and government-driven safeguards negate the need for prudence, with emphasis shifting to maximising returns
- Demutualisation has led to a demoralised, commodified workforce, which needs to be countered through democratisation. Including a cross-section of employees on company boards is one way to do this.

We attended **Sir John Vickers' New City Agenda** talk, ***How Much Capital Should UK Banks Have?*** He addressed ring-fencing in UK banks and spoke about the recommendations of the **Independent Commission on Banking** regarding capital requirements. The main points were:

- Academic consensus is that banks should keep a standing equity of around 30% of risk-weighted assets to withstand an economic downturn. This is not viable in the global commercial environment, so the ICB workaround is around half of that value with retail activities ring-fenced and buffered from investment banking.
- Sir John advocated for the **Bank of England** raising their buffer level to 3% from 1.3% for major banks, in line with ICB recommendations.
- Failure to tackle 'too big to fail' means we will be operating a 'fingers-crossed' approach to the economy and risk a political cataclysm far greater than that of the 2008 crash should a similar economic disaster occur in the near future.

News

The Queen's Speech introduced the **Better Markets Bill** which will include measures to make it easier for customers to switch banks and energy provider as well as increasing competition among providers. **The Lifetime Savings Bill** introduces the Help to Save scheme to help those on low incomes build up "rainy day fund" and a new Lifetime ISA for under-40s, offering £1,000 tax-free payment each year for those saving £4,000. Further reforms include the merging of the Pension Advisory Service, Pension Wise and Money Advice Service (MAS) pension activities into a single UK-wide advice body. Also under the auspices of the **Pensions Bill**, a new, UK-wide financial guidance body will replace the MAS.

In support of the UK Financial Capability Strategy, the **Money Advice Service** launched the $7 million **What Works Fund** to support existing and new interventions aimed at expanding financial capability. You can apply for funding here.

Leeds City Region Enterprise Partnership (LEP) and **West Yorkshire Combined Authority (CA)** unveiled the revised **Strategic Economic Plan (the Plan) for the City Region**, which sets out how they will create an additional 35,700 jobs for local people over the next 20 years and grow the City Region economy at a faster rate than the national average. Amongst the priorities is expanding access to finance for businesses through the following actions:

- Deliver a programme of capital expenditure grants and loan funding including at a pan-northern level
- Use input and resources from the private sector to deliver a programme of support to enable SMEs to be more investor-ready.

Coastal entrepreneurs were given a boost as **The Department for Communities and Local Government** announced **£90 million of government funding targeted at coastal communities** over the next 4 years, building on the £120 million Coastal Communities Fund operating since 2012.

Grants from £50,000 to £4 million are available for:

- coastal community teams
- charities
- councils
- development agencies
- local enterprise partnerships
- private sector companies
- social enterprises
- voluntary and community sector organisations

Bids for the latest round in England will close on 30 June 2016. Wales, Scotland and Northern Ireland applicants should prepare bids now for when their applications will open in early July.

Google has announced it will no longer host ads from payday lenders (which it defines as those offering loans due within 60 days or with an interest rate of 36% or higher) regardless of legality. BBC

Bank of England chief economist Andy Haldane said that more of the mathematics curriculum should be oriented around financial literacy, stating,

> *"Re-orienting the school curriculum in [a] more practical direction might help. What better set of real-world decisions [to study] that financial ones: how to draw up a monthly budget, how to make sense of an annual percentage rate (APR) on a loan, how to decide between competing savings, pensions and mortgage products."*

Jonathan Davidson, director of supervision – retail and authorisations at the FCA spoke at the **Building Societies Association** annual conference in Gateshead. On financial inclusion generally he said,

> *"The important thing to ensure when targeting customers, who some in the industry now refer to as 'under-served', is that underwriting standards remain robust for what are often more complex cases. We will continue to monitor lending standards across the sector to ensure that standards hold firm because no one wants to see a return to some of the poor practices seen in the past."*

More specifically addressing financial inclusion for the elderly, the message was,

> *"There is an ever-increasing proportion of consumers aged 55+, and over 85s represent the fastest growing segment of the population. For this reason, we have launched a project that looks specifically at the way in which financial services meet the needs of older consumers [through innovation], with a view to publishing a series of recommendations for future action in 2017. We are seeking dialogue with those who are innovating or seeking to innovate in this space. The output of this project is a Regulatory Strategy for older consumers."*

Economic Secretary to the Treasury Harriet Baldwin spoke at **City Week 2016**, reviewing the four main aims for the banking industry over the past year:

1. Strength and stability
2. Compete with the best financial centres in the world
3. Provide the best possible services to people at every stage of their lives
4. Learn from mistakes made in the past and earn public trust again

As part of improving strength and stability, it was mentioned that the Treasury has used recent reforms to help SMEs access finance and improve competitiveness and diversity in the lending market. The full text can be accessed here.

At the Labour Party's **State of the Economy Conference** on May 21, **Shadow Chancellor John McDonnell** emphasised how a National Investment Bank could "help local and regional institutions provide the financing for our small businesses, still starved of funding by our existing banks." You can read the full speech here.

StepChange Debt Charity welcomed the Telephone Preference Service (TPS) and Ofcom's launch of the 'text to register' service, but pushed for it to be taken further, adding,

> *"TPS will only truly be effective if people are automatically registered and need to opt-in to receiving marketing calls. For those in financial difficulty, the offer of a payday loan can lead to deepening financial problems. Unsolicited marketing calls offering payday loans or paid for debt management should be banned by the **Financial Conduct Authority**."*

Parliamentary activity

Parliament has created a **Select Committee to consider financial exclusion** and access to mainstream financial services, to make recommendations and report by 31 March 2017. Members are Baroness Tyler (chair), Bishop of Birmingham, Viscount Brookeborough, Lord Empey, Lord Fellowes, Lord Harrison, Lord Haskel, Lord Holmes, Lord Kirkwood, Lord McKenzie, Lord Northbrook, Baroness Primarolo and Lord Shinkwin.

Alison Thewliss of SNP asked **HM Treasury:**

> *"To ask Mr Chancellor of the Exchequer, if he will bring forward legislative proposals to prevent payday loan companies from advertising financial services from third party companies to customers during the loan application process."*

Economic Secretary to the Treasury Harriett Baldwin responded:

> *"The Government has fundamentally reformed regulation of the consumer credit market, transferring regulatory responsibility from the **Office of Fair Trading (OFT)** to the **Financial Conduct Authority (FCA)** on 1 April 2014. This more robust regulatory system is helping to deliver the Government's vision for a well-functioning and sustainable consumer credit market which is able to meet consumers' needs.*
>
> *"The FCA has introduced detailed rules regarding firms' promotions and advertisements. It has consulted on possible new rules, including forbidding financial promotions appearing in or among the rankings of price comparison websites comparing high-cost short-term credit."*

Rachel Reeves of Labour asked the **Department of Communities and Local Government**:

> *What discussions he has had with local enterprise partnerships in Yorkshire about the creation of new enterprise zones.*

James Wharton, Parliamentary Under-Secretary of State, responded:

> *In 2015 we ran a competitive bidding round that provided an opportunity for Local Enterprise Partnerships to submit bids for a new round of Enterprise Zones.*
>
> *All Local Enterprise Partnerships within Yorkshire successfully submitted bids for new Zones or extensions to existing ones. We announced two new Enterprise Zones in November, in Leeds and York, and at Budget we announced an extension to the existing Sheffield Enterprise Zone that is subject to local approval.*

Lord Myners asked Her Majesty's Government what assessment they have made of the growth in private sector credit; the use of lending strategies by banks; payday lenders and peer-to-peer lenders; and risks to family finances and financial stability.

Lord O'Neill of Gatley, Commercial Secretary to the Treasury, responded:

> *"Private credit growth grew at 3.7% in the year to March, below the 2003-08 average of 11.5%. Industry sources such as Nesta estimate that peer-to-peer lending for consumers and business facilitated £2.4 billion of gross lending in 2015, 85% higher than in 2014. The*

volume of payday lending fell 35% in the first six months after the government transferred regulatory responsibility of the consumer credit market to the Financial Conduct Authority in April 2014.

*"The Government created the independent **Financial Policy Committee (FPC)** to ensure we don't repeat the mistakes of the past, and they have judged that financial stability risks from domestic credit growth are not elevated. The FPC has already taken action on loan-to-income ratios and mortgage affordability to ensure against risks from indebted households, and interest payments as a proportion of household income have fallen to a record low of 4.7% in Q4 2015, compared to 10.6% in Q1 2008."*

Conservative Robin Walker asked

*"How many credit unions have approached churches or church organisations as a result of the **Archbishop of Canterbury's #TOYOURCREDIT** initiative?"*

In a written reply from **Caroline Spelman,** Second Church Estates Commissioner, said:

"Churches across England have responded to the Archbishop of Canterbury's call to support credit unions and other forms of responsible credit and savings. At least 31 out of 40 dioceses have been actively involved in supporting over 50 credit unions in various ways, such as: promoting the local credit union in their congregation and wider community, recruiting credit union volunteers, hosting training sessions, opening church premises as credit union access points, encouraging payroll savings schemes among local employers, helping to set up school savings clubs.

*Through the **Church Credit Champions Network**, one of the core initiatives of **the Archbishop's Task Group on Responsible Credit and Savings**, the pilot scheme has engaged over 350 churches in London and Liverpool alone and trained more than 260 Credit Champions to date. Other creative diocesan responses include the Murston Community Bank in Canterbury diocese, Lichfield's Funeral Project, Southwell & Nottingham's 100x100 scheme are all designed to raise local awareness of credit unions.*

*The other core initiative, the **LifeSavers programme**, is working with eight credit unions across the country to set up savings clubs in primary schools, alongside an integrated programme of financial education. Following a successful pilot, the programme is being rolled out to 120 church and non-church primary schools over the next three academic years with **financial support from Virgin Money**. Additional funding from Government will help extend the coverage to many more primary schools through a dedicated LifeSavers website."*

Reports

The FCA's Occasional Paper No. 17: Access to Financial Services in the UK was launched, looking at why financial access matters and what the regulator can do to expand it, reporting on the key issues, state of play and "through a consumer's eyes: what might good look like?" in areas of:

- **Digital transformation**

- AML (Anti-money laundering) and KYC (know your customer regulations) in **compliance and crime prevention**
- **Automated processes**
- **Segmented markets** for insurance
- Catering to the needs of an **ageing population**

The Money Advice Service has published its Business Plan for 2016/17 which sets out continuing activities and ensure that the new money guidance body that will come into existence in two years' time is as effective as possible, in co-ordination with the Treasury and the FCA.

Key deliverables:

- **Identifying 'what works'** – Increased funding into the front line with up to £7 million pounds set aside to commission external organisations to conduct trials, pilots and research
- **Funding more debt advice** – Fund help for 425,000 over-indebted people, a 15% increase on last year, by providing more capacity to encourage that person to seek advice earlier
- **Improving financial capability** – Continuing to establish the Financial Capability Strategy for the UK to develop clear, accountable action plans for each thematic area
- **Financial education** – Driving forward collaborations and partnerships with key organisations delivering financial education for children and young people
- **Support for Universal Credit recipients** – Continuing partnership with **DWP** by providing free, fast household budgeting tool for people transitioning to Universal Credit
- **Payment accounts** – Delivering on statutory duty to increase awareness of basic bank accounts and empowering customers to compare fees charged on all payment accounts

To measure impact, the plan outlines 18 key performance indicators.

A new report on household debt from the **House of Commons** contextualises the latest UK figures against historical figures, other types of debt and household debt levels in another OECD countries. Currently standing at 140% of income, the **Office for Budget Responsibility** expects household debt to rise to pre-recession levels of 160% over the next 5 years, but with the cost of servicing that debt half as much as in 2008.

The Competition and Markets Authority (CMA) published its provisional decision on remedies detailing measures to improve competitiveness in PCA- and SME-banking. The thrust of the proposals is fourfold: (a) increasing customer engagement and available comparative information, (b) improving the current account switching process, (c) tackling severe PCA overdrafts terms and punitive fees, and (d) addressing information gaps putting SMEs at a disadvantage and incumbents at an advantage in BCAs and SME loans (leading to nearly 60% of personal customers staying with the same bank for over 10 years and over 90% of SMEs getting their business loans from the bank where they have their current account).

Alex Neill, director of policy and campaigns at Which? said,

> *"After 18 months, this inquiry achieved little more than to propose basic information measures that the big banks should have introduced years ago. The ball is now firmly in the*

Financial Conduct Authority's court. They must also go further than better information to tackle the unfair, punitive charges faced by unauthorized overdraft users, some of whom are hit with fees far in excess of payday loans."

Digital current account provider **Ffrees** published the results of a separate survey of 2,014 Britons which found 85% would rather their bank did not offer unauthorised overdraft facilities at all. **Chief unbanking officer Alex Letts** said of the findings,

"Our results suggest [the CMA report] does not go far enough, with consumers simply wanting to see the back of unauthorised overdrafts. [The CMA's] proposal would save overdraft users an average of £140 – and 'heavy' users £260 if they switched accounts to avoid the fees – we think there is even more room to protect consumers from these unfair practices."

You can submit comments on the provisional decision until **7th June**.

A **MyBnk** report commissioned by the **Building Societies Association** highlighted the leading role building societies play in educating young people in financial literacy, with 59% of societies providing education and 95% of those tracking impact. 3 strategic recommendations are included. The full report is available here.

The APPG on Financial Education for Young People published the results of a six-month enquiry into the impact and effectiveness of financial education in schools. The key recommendations are summarised below:

- **Strengthening school provision** – through explicit incorporation into school inspections, strengthening statutory financial education and encouraging financial services organisations to contribute funding to financial education initiatives in schools
- **Improving teacher confidence and skillset** – by embedding financial education within teacher training and encouraging schools to share good practice and appoint a financial education 'champion' as part of a drive to build a national network of 'champions'
- **Encouraging coordination** – HM Treasury should ensure replacement body for the MAS has a remit to coordinate, signpost and identify best practice of financial education
- **Measuring long-term impact** – via a long-term study on the impact of financial education on young people's financial capability – and The Department for Education should agree for the UK to participate in the OECD's evaluation of financial literacy in 2018

New research from **Which?** uncovered common consumer misunderstandings about credit reports.

1. **Credit blacklist**: Three quarters (77%) of people incorrectly think there is a credit blacklist. Each lender makes its own assessment of whether or not to offer credit, there is no such thing as a 'credit blacklist'.
2. **Credit reference agencies decide who gets credit**: 60% of people incorrectly think credit reference agencies make lending decisions but they have no say in the outcome of applications.
3. **All credit reference agencies hold the same information**: 54% of people wrongly believe all credit reference agencies hold the same information about them. Not all lenders share

information with all credit reference agencies, so people can have slightly different reports with different agencies.

4. **Checking your credit report will damage your credit rating**: 36% of people think checking their credit report too frequently damages their credit rating, but this will have no impact on future credit applications and is, In fact, a good way to spot fraud early.

More than half (53%) of those surveyed have never checked their credit report.

The Financial Ombudsman published their annual review 2015/16

- Complaints about packaged bank accounts more than doubled – while complaints about credit broking fell by more than half
- More than half of the total number of complaints dealt with involved four banking groups – while 4,076 financial businesses accounted for just 3% of complaints
- The proportion of people from an unskilled background (the DE socio-economic group) who used the service rose by just under half

"It was clear that many of these situations would have been less distressing – or avoided altogether – if financial businesses and their customers had had open, honest conversations at a far earlier stage… Disappointingly, we had to remind some businesses of their obligations [to respond constructively]. We also found that some businesses had focused narrowly on one debt – rather than taking into account their customers' circumstances as a whole."

Events

To support the launch of the 'What Works' financial capability fund, the **Money Advice Service** is running supporting launch events around the UK in June. Some have passed already, but the remainder can be found here:

- June 6, Webinar – register here
- June 6, Belfast – please email Janine Maher for details at janine.maher@moneyadviceservice.org.uk
- June 7, Wales – register here
- June 9 and 10, Scotland – please email Allison Barnes for details at Allison.barnes@moneyadviceservice.org.uk

Places at the events will be limited, but further webinars will run if the demand is there. For further information please email Kat Hodgkinson at kat.hodgkinson@moneyadviceservice.org.uk