





Community Investment Coalition (CIC) newsletter, May 2017

Contents

-  **Campaign update**
-  **News**
-  **Parliamentary activity**
-  **Reports and research**
-  **Events**



Community
Investment
Coalition

Campaign update

CIC launched its #GE2017 manifesto submission.

CIC partner, Responsible Finance CIC partner launched '[Tackling Financial Exclusion through Local Finance Partnerships](#)'. Funded by the [Barrow Cadbury Trust](#), **the report sets out how local finance organisations such as responsible loan funds and credit unions could serve more consumers through partnership working.**

Pat Conaty has written a blog on '[Public Banks, CDFIs and a Joined-Up Agenda](#)' looking at public bank development in the UK.

Thought to be at risk of almost total cuts in March from President Trump's first budget, the USA's CDFI fund received its highest ever appropriation from Congress in May, some \$248 million, at a time when many federal grant programmes are being gutted. The funding victory came after a concerted effort to use social media throughout April to tell the individual stories of those helped by CDFIs (community development finance institutions) and credit unions in the US.

Coventry University are carrying out the first academic assessment of changes in the credit market following the introduction of regulations around high-cost short-term credit. The university has extended the deadline of a voluntary survey forming part of the research to 2nd June to allow recipients of this newsletter to respond. The survey takes 15-20 minutes to complete and you can find it [here](#).

I attended a symposium on 'Responsible Lending: lessons from Australia' organised by [CHASM](#) and other academic institutions. Gerard Brody from the [Consumer Action Law Centre](#) and Adam Mooney from [Good Shepherd Microfinance](#) gave presentations on financial inclusion in Australia. They highlighted the importance of a national [Financial Inclusion Action Plan](#) to engage public and private organisations in taking real action to tackle financial exclusion. You can watch a short film about the action plan [here](#).

Jennifer Tankard, Director CIC

News

The Conservative, Labour and Liberal Democrat parties have now released their manifestos, read our selected summary [below](#).

The Financial Conduct Authority [launched a review](#) of retail banking to investigate the effects of recent regulatory and contextual changes to the sector. The goals are:

- understand retail banking business models in greater depth by looking at the business models of firms to identify any potential conduct or competition issues
- understand how free-if-in-credit banking is paid for, in particular whether it leads to any distributional concerns between different types of consumers
- understand the impact of changes such as increased use of digital channels and reduced branch usage on business models and consider potential consequences for our consumer protection and competition objectives

Inflation has been outpacing wage growth for the first time since 2014, adding to the squeeze on household finances, according to research from IHS Markit. This has dented consumer sales and confidence and contributed to record low rates of saving. ([Times, £](#))

Prosecutions missing debt repayments have hit a 10-year high. 300,000 CCJs (county court judgements) were issued from January-March this year, up 35% on the same period last year. To compound the concern voiced by debt advice charities, the amounts for which debtors have been brought to court have been growing ever smaller, and are now averaging under £1500, down from over £3,600 in 2008. ([Mirror](#), [Guardian](#))

The Guardian [highlighted](#) PCPs (personal credit plans) as a source of concern for regulators against the backdrop of mounting consumer debt. PCPs allow consumers to find otherwise unavailable credit to purchase cars, as the credit is secured against the car itself. The Financial Conduct Authority is drawing up the terms of an inquiry, but The Guardian speculated that the Bank of England will be nervous about the effect of additional regulation on a resurgent UK automotive industry.

[Submissions are open](#) for the 6th **global Ethics & Trust in Finance Prize** until July 31. Competing papers are invited to set out analyses or proposals for innovative ways to promote ethics and trust in finance, with \$20,000 allocated among the winners.

NatWest [will announce the winners](#) from their £2 million Skills & Opportunities Fund on 6th June.

At Cheung Kong Graduate School of Business, China, **Christopher Woolard, Executive Director of Strategy and Competition at the FCA**, [laid out his vision](#) for the role of competition in running financial markets.

Describing the risks associated with lower barriers to entry, Woolard said:

Policy makers could, for example, lower capital resource ratios to lower barriers to entry. But this could have consequences for financial stability if a systemically important bank doesn't have sufficient capital and goes into a disorderly wind-down. In light of recent history, I think we're all aware of the impact that could have.

The counter argument is that lowering barriers to entry creates more entrants, creating a more diverse market. This can lower the likelihood of banks becoming systemically important, which can have positive implications for financial stability. Furthermore, firms subject to competitive pressures tend to be more efficient, so competition can create a healthier market in the long-term.

The empirical evidence in financial services is inconclusive.

On the level and type of competition, Woolard said:

In particular we often hear the argument that the existence of multiple firms means there will be competition. But it's not just a question of numbers. We also need to consider the propositions on offer to consumers. Is there a diversity of choice – both in the providers and the products and services available to consumers? Our duty is carefully framed – competition in the interests of consumers.

On persistent credit card debt:

A further example is our work in the credit card market. There are 60 million card accounts in the UK. For the vast majority of customers the market works well, but around 3.3 million people are in persistent levels of debt. They are also some of the most profitable customers for credit card firms. We are using our powers to change the balance of incentives for credit card firms to ensure that fewer people get into persistent debt and get help quicker if they do.

On learning from new, innovative business models, Woolard pointed to the example of Aire:

Aire's model focuses on a previously underserved sector of the market – thin file clients, those who are financially capable but unable to get credit because of limited credit histories. Most commonly affected are young adults, the elderly and immigrants, all of whom have had little or no recent interaction with the credit system.

European Commission Vice President Valdis Dombrovskis asked **the European Banking Authority to find a way to allow FinTech firms to access users banks account information (with permission) without identification**. Existing proposals involved a dedicated API to allow FinTech firms to do this, but FinTechs have contended that dependence on a singular platform is vulnerable to outages and effectively a barrier for new entrants.

The supposedly ‘frictionless’ future of financial services as a driver of competition came under scrutiny in the [Financial Times \(£\)](#). The contention is that more open and competitive platforms that make switching easier drive firms to increase incentives aimed at keeping consumers with existing products. The result is that many benefits are denied those who do switch platforms, something that complicates the work of regulators intending to use competition to produce better consumer outcomes.

Social Investment Scotland (SIS) announced their second Social Enterprise Supplier Development Academy cohort (in association with Asda). Applications for loans of up to £50,000 are invited to the programme and additional free support shaping social impact plans is available for successful applicants. SIS will also be running a series of ‘Buy Social’ Workshops in October and November (see [‘Events’](#) below).

After calls in recent times from British regulators to maintain international standards in regulation, the [Economist \(£\)](#) writes about **signs of divergence between the USA and Europe around capital requirements** related to Basel III negotiations.

The FCA [has introduced measures](#) to bolster whistleblowing protection in UK financial services, including requiring foreign banks operating in the UK to adhere to UK rules, meaning employees can blow the whistle without informing their employer ([Financial Times, £](#)).

Parliamentary activity

Parliament is of course dissolved at the moment, but **Labour, the Liberal Democrats and the Conservatives have all now released their manifestos for the general election**. Both Labour and the Conservatives have included pledges to extend UK-wide Scotland’s ‘breathing space’ Debt Arrangement Scheme ([BBC](#)).

[Labour](#)

- Introduce a UK-wide version of Scotland’s Debt Arrangement Scheme. (Pg. 50)
- Establish a National Investment Bank (NIB) which will deliver £250 billion through private finance and support a network of regional development banks (RDBs). The NIB and RDBs will help support the co-operative sector, doubling its size. Mandate the NIB and RDBs to identify and prioritise gaps in SME lending. (Pg. 18)

- Introduce a new law barring the closure of retail bank high street branches where there is a “clear local need”. (Pg. 16)
- Legislate to create a more diverse banking system and launch a consultation on breaking up RBS to create new local public banks. (Pg. 16)

The Liberal Democrats

- Major banks to fund the creation of a local banking sector dedicated to meeting the needs of local SMEs. (Pg. 44)
- Expand the remit of the FCA to include a statutory duty to promote financial inclusion as one of its key objectives. (Pg. 44)
- Greater devolution of “financial responsibility” will be delivered to English local authorities and new devolved bodies will be established. (Pg. 64)

The Conservatives

- Introduce a UK-wide version of Scotland’s Debt Arrangement Scheme, possibly through a statutory repayment plan. (Pg. 60)
- Post-Brexit, returned structural funds will go into a Shared Prosperity Fund, designed to reduce inequalities between communities across the four nations (to be widely consulted on). (Pg. 35)
- ‘Future Britain’ sovereign wealth funds will be created from shale gas profits and dormant assets. (Pg. 20)

Reports and research

The Institute for Fiscal Studies (IFS) produced [an analysis of trends](#) related to income and inequality. Most strikingly, **IFS predict the return of child and overall absolute poverty rates to early 2000s rates**, driven by a cut to working age benefits. Also projected are that median incomes will run into 2022 at substantially lower than the long-run trend, and rising inequality.

Ahead of the general election, **Joseph Rowntree Foundation (JRF) have [mapped](#) poverty risk by parliamentary constituency**. The foundation used the data release [to call](#) for key policy changes, including more opportunities for retraining, better regional economic deals and rebalancing, and a relaxation on working-age benefits and restrictions on universal credit.

JRF also released the second annual [Inclusive Growth Monitor](#) in May. The tool allows Local Enterprise Partnerships (LEPs), metro mayors and local authorities to measure how their regions perform on inclusive growth.

The Money Charity released their [2016 annual report](#), highlighting key achievements from the year, including:

- Growth in the [Money Statistics](#) webpage, including increasing coverage from mainstream news organisations

- The impact of financial education workshops, which have now reached over 150,000 people since 2010
- Advocacy work, which played a role in changing the Government's decision to create separate debt and pensions advice services to the creation of a single advisory body

In conjunction with [a proposal](#) to introduce 'living rent homes' with stable, affordable rents, **Shelter reported that one in three Britons borrow to meet rent payments.**

[An ING survey](#) across 13 European countries plus the US and Australia found increasing support for a fully cashless society, with **one in three Europeans willing to go completely cashless if given the option.**

The Federation of Small Businesses (FSB) have called for a simplification of funding streams to replace EU funding available to finance small businesses. In [a press release](#) supporting the launch of 'Reformed Business Funding: What small firms want from Brexit' [[PDF](#)], the FSB highlighted concerns that businesses would face a "support black hole" but that the change in the landscape was an opportunity to simplify funding available to LEPs. Find the press

Events

The Resolution Foundation is hosting *A family affair: The transfer of wealth across generations* on Tuesday 30th May (17:30-19:30). The event will launch a new book on the topic by Karen Rowlingson, Professor of Social Policy at the University of Birmingham, who will discuss the topic with Polly Toynbee, columnist at the Guardian. Register [here](#).

Birmingham University's Centre on Household Assets and Savings Management (**CHASM**) will hold its [Annual Conference](#) on **21st June** (13:00-16:30). It will investigate financial decision-making for older people.

The BBA is running its annual retail banking conference on 29th June. See the programme and book tickets [here](#).

Social Investment Scotland will be running a series of 'Buy Social' Workshops in October and November aimed at social enterprises seeking opportunities to retail directly to consumers. The workshops will cover marketing, pitching and product development. To register interest, get in touch via hello@socialinvestmentscotland.com