

Community Investment Coalition (CIC) newsletter, November 2016

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Community
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Campaign update

I was fortunate enough to attend [CDFA.net's](#) annual conference in the USA in November. It was a great opportunity to discuss community finance in USA and the impact of the Community Reinvestment Act (CRA). The general view was that CRA is now so embedded within the financial services sector, that there is limited interest in trying to undermine or change it. You can read [here](#) about recent action in response to a bank's failure to fairly serve local markets. However, the conference took place immediately before the presidential election. It is possible that despite broad consensus about the positive impact of CRA and the valuable work of the CDFI sector in the USA, that attempts are made to weaken the community investment landscape.

I was delighted to go to the launch of the [Fairlife Foundation](#). The Fairlife Foundation is raising standards of the financial services sector with a fair trading mark. Its work includes supporting better financial inclusion teaching in schools.

In advance of the Autumn Statement, CIC partner Responsible Finance made a submission to the Treasury setting out the impact that investment in the responsible finance sector can have on local economic growth. You can a blog about the submission [here](#).

CIC attended a New City Agenda talk from Xavier Rolet, Chief Executive of the London Stock Exchange. In addition to warning that euro-denominated clearing should remain in the UK after Brexit (as reported [in City AM](#)), Rolet emphasised the 5 million SMEs in the UK as a national asset, especially considering there are only 23 million in total around Europe. A rethink of SME financing could help protect and embolden UK SMEs, with a shift in emphasis from collateralised credit that brings about short-termism to other forms of financing which allow for longer-term planning: equity finance, crowd-funding, stock exchanges, asset managers, etc.

Just a reminder that if you want more news about the campaign or any of the issues we campaign on, you can visit our [web site](#) or follow us on [twitter](#).

Jennifer Tankard, Director CIC

News

The Treasury Select Committee [publicly criticised](#) the Competition and Markets Authority (CMA) for **failing to adequately address problems in the retail banking market** in their review published in August despite having widespread backing to do so. Labour MP Rachel Reeves called it a “dereliction of duty” and reiterated her [call for a cap](#) on unauthorised overdraft charges.

The Financial Conduct Authority [announced](#) it would be **picking up the baton from where the CMA left off**. Executive Director of Strategy and Competition Christopher Woolard said the FCA “will continue to look more broadly at how well these markets work, with a particular focus planned on high-cost credit including overdrafts.”

The Treasury [has announced](#) that [nine of the UK’s biggest banks](#) will now be required to refer **rejected small business borrowers to alternative lending portals**, namely [Funding Xchange](#), [Business Finance Compared](#) and [Funding Options](#). Research shows that 71% of businesses seeking finance only ask one lender and, if rejected for finance, many simply give up on investment rather than seek alternative options.

[September statistics](#) from the British Banking Association showed **that consumer credit grew in that month at its fastest rate since December 2006**. Consumers are increasingly using short-term borrowing to take advantage of record low interest rates – a trend that has accelerated since the Bank of England cut rates in August. Household credit card debt [was up](#) 8.4% over the past year, the highest annual growth rate since November 2008. **Banks were accused of cashing in on the credit spike by unfairly hiking rates** despite the historically low Bank of England base rate introduced in August.

As a result of the above, **overall household debt broached £1.5 trillion for the first time**. [This is a worry](#) for debt advice agencies, as inflation (and therefore interest rates) look set to rise next year, which may make some debt unmanageable. StepChange Debt Charity [expressed concern](#) and called for Government action.

A similar trend is visible for SMEs, as figures from the Bank of England [have shown](#) that **credit for small and medium-sized businesses rose by £842 million in September**, 2.1 % higher than September last year.

PricewaterhouseCoopers [found](#) that **the daily rise in unsecured debt has reached £62 million. Only 15% of people worried about their ability to repay.** 10-14 million people are stuck in 'near-prime' limbo, meaning they may find it difficult to access credit from mainstream sources.

[Government statistics](#) show an **uptick in personal and corporate insolvencies** from Q3 last year to Q3 this year. Andrew Tate, president of insolvency and restructuring trade body R3, says, "so long as the economy continues to grow steadily insolvency numbers are unlikely to rise too much, but, of course, that all depends on what impact 'Brexit' has on the economy."

The first of the warnings related to the yearly explosion in personal debt brought about by seasonal festivities have begun to trickle through. Nationwide [highlighted](#) some interesting statistics.

The Money Advice Service [claimed](#) that UK consumers could gain £108 billion over 30 years through better money management.

[A £2.2 million loan fund](#) has been established in Worcester to support SMEs. It has the support of Worcester County Council and will be administered by BCRS Business Loans.

The Department for Communities and Local Government [published](#) an **updated national LEP assurance framework** to ensure projects funded through local enterprise partnerships deliver value for money.

In an effort to boost social impact investing, the Minister for Civil Society, Rob Wilson, [asked](#) the Law Commission to **review the rules around pension funds** making these kinds of investments. The Commission [have opened a consultation](#) on the topic until 15th December. The move is part of [a wider Government strategy](#) to increase social investing. (Social Business Trust [announced](#) last month through their 2015/16 impact report that corporate investment partnerships had enabled them to reach 1 million people).

The FCA [published feedback](#) from their call for input on regulatory barriers to social investment, opened late 2015. They found that **the key barriers to social investment came from it being not fully mainstream**, not widely understood in-depth (and with a relatively small pool of active investors), and potential investors were unclear how to gauge appropriateness. Social investments should be regarded as financially the same as any other, so taking action to differentiate the industry in any way was decided against.

Ahead of the finalisation of Basel III regulatory measures in January, **European Central Bank chief Mario Draghi** [has warned against](#) rumours **US administrators would roll back bank regulation** following Donald Trump's election victory in November. [The Daily Telegraph](#) suggested these concerns were misguided.

The FCA [published feedback](#) on its early-2016 consultation on the payments services regime.

The UK Cards Association [discovered](#) that **contactless payments jumped from 7.9% of card payments in August 2015 to 21% in August 2016**, £2.3 billion overall.

Andrew Tyrie, Chair of the Treasury Select Committee, [wrote](#) to Andrew Bailey, Chief Executive of the FCA, to request that the FCA address **difficulties visually impaired customers have accessing financial services**.

Complaints against payday lenders [have risen dramatically](#) since last year, according to uSwitch. This indicates an ongoing problem, but also encouraging signs that more people are aware of their right to complain.

In their recent review of retail banking, **the Competition and Markets Authority put their hopes behind new technology delivering greater competition and consumer results from banks**. This is one of the 17 imposed changes the CMA **have opened [a month-long consultation](#)** on. Responses are due by 23rd December.

Parliamentary activity

Nigel Adams, Conservative, [asked the Chancellor](#) how many recorded incidents of fraud on contactless cards have been recorded since that technology became available. Simon Kirby, Economic Secretary to the Treasury, replied:

Industry statistics received from Financial Fraud Action UK indicate that in the first half of 2016 there were £2.9 million losses attributed to fraud on contactless cards compared to a spend of £9.27 billion. According to the industry, fraud on contactless cards accounts for less than 1% of card fraud losses.

Julian Knight of the Conservatives submitted a written question to the Chancellor about **crowdfunding regulation**, asking if he will (a) review and (b) ease restrictions on intermediary balance sheet lending by platforms under 36H of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No. 2) Order 2013. Simon Kirby [responded](#):

The FCA are currently undertaking a review of the regulatory regime for crowdfunding, including 36H of the Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2) Order 2013. Possible changes to the regulatory regime will be considered in light of the findings of the FCA review. Further information on the review can be found on the FCA's website [[here](#)].

The House of Lords Financial Exclusion Committee hosted oral evidence sessions on three occasions in November. Written transcripts of the sessions are not available at the time of writing, but will be posted [here](#) in due course. Links to video transcripts and witnesses follow:

8 November 2016

- Martin Lewis OBE, Founder and Chair, MoneySavingExpert.com
- Polly Mackenzie, Chief Executive, Money and Mental Health Policy Institute
- Mark Lynonette, Chief Executive, Association of British Credit Unions Limited
- Eric Leenders, Managing Director, Retail and Commercial Banking, BBA
- Faisal Rahman OBE, Chief Executive, Fair Finance

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- Virraj Jatania, Co-founder and CEO, Pockit
- Monica Kalia, Co-Founder and Chief Strategy Officer, Neyber
- Adam Micklethwaite, Director of Business and Innovation, Tinder Foundation
- Peter Wells, Policy Associate, Open Data Institute
- Nick Williams, Director of Consumer Digital, Lloyds Banking Group

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- Jenny Barksfield, Deputy Chief Executive and Senior Subject Specialist, PSHE Association
- Adrian Lyons, National Lead for Economics, Business and Enterprise, Ofsted

The Treasury Committee took [oral evidence](#) as part of their access to finance inquiry. The following witnesses discussed those rejected from mainstream lending and the role and prevalence of payday lenders, illegal lenders and credit unions:

- Russell Hamblin-Boone, Chief Executive, Consumer Finance Association
- David Rees, Chairman, Law Committee, Consumer Credit Association
- Mark Lyonette, Chief Executive, Association of British Credit Unions Ltd.

In the House of Lords, Lord Shipley [asked](#) the Department for Business, Energy and Industrial Strategy **what steps they are planning to take to ensure that the British Business Bank lends to all parts of the UK.** Baroness Neville-Rolfe answered:

The Bank's programmes are supporting almost £3.2 billion of finance to more than 51,000 smaller businesses and are participating in a further £4.6 billion of finance to small mid-cap businesses across the UK. The British Business Bank is further supporting the availability of finance by creating the Northern Powerhouse and Midlands Engine investment funds to provide debt and equity to small growing companies. These investment funds have been designed in close partnership with Local Enterprise Partnerships to ensure they respond to regional demand where market failures exist, to promote local growth and help create an economy that works for everyone.

A motion in the Scottish Parliament [backed by 12 SNP MSPs](#) acknowledged the progress made in diminishing reliance on payday lenders. Looking forward, the group noted the forthcoming FCA review of the effect a cap on payday lending would have, and commended the work of StepChange

Debt Charity* and the credit union sector for 'providing affordable loans with fairer conditions and longer repayment terms than the HCSTC market'. The work of [the responsible finance sector](#) was conspicuously overlooked in the statement.

* StepChange [made a separate call](#) for **preventative measures against individual taking out multiple payday loans** to finance existing debt.

In the Northern Ireland Assembly, Thomas Buchanan of the DUP [asked](#) the Minister for Communities to outline the support his Department provides for local Credit Unions. The minister replied:

The Department recognises that credit unions could help improve financial inclusion among low income households. In that context my officials have been working with the Irish League of Credit Unions and the Ulster Federation of Credit Unions to explore options to improve access to services for people living on low incomes and to improve financial inclusion. The Department agreed to provide financial support for a pilot (primarily for smaller credit unions) to modernise operations and improve access to services.

A coalition led by Co-operatives UK [descended on the Northern Ireland Assembly](#) to promote co-operative model of investment and social enterprise.

Reports and research

Christopher Woolard, Director of Strategy and Competition at the FCA, [launched an 'occasional paper'](#) exploring access to finance, incorporating the work of their consumer insight team and two independent academics. Topics and projects addressed include:

- Barriers to bank accounts
- Access to insurance
- Digital transformation
- Ageing population
- The Financial Advice Market Review

The Business, Energy and Industrial Strategy Select Committee released [a report on access to finance for businesses](#). They recommended targeted financial help for scale-up firms and improved access to finance for businesses outside of the South East. Iain Wright MP, committee chair, said:

If the Prime Minister is serious about building an economy that benefits the UK as a whole, then improving access to finance for businesses outside London and the South East will go a long way to achieving this. The willingness of the Government to intervene in this clear market failure represents a test and opportunity in the context of its next industrial strategy...

These efforts will only work if businesses know about these options and how to access them. Our inquiry found that access to such information and advice was often more of a barrier to an SME gaining the finance they needed than the availability of the funding itself.

The Committee also says the British Business Bank should be allowed time to establish itself and focus on identifying businesses with high potential for growth. It should also respond to the Committee by explaining its strategy for promoting understanding of the Business Finance Guide and how it will identify and target hard to reach groups.

The FCA [released a statement](#) responding to the report into the actions of the RBS Global Restructuring Group (GRG). Between 2008 and 2013, the GRG was ostensibly tasked with turning around ailing small businesses, but was found to have pressured some businesses into liquidation to return a larger profit to RBS. The cause is alleged to have been the GRG's twin restructuring and profit motives, along with a failure of RBS to follow its own complaint procedures. **RBS will proceed with an internal review of complaint procedures and automatic refunds to SMEs charged complex fees by GRG.** The FCA is considering if and what further action is appropriate.

Professor Griggs OBE has published [a 'one-year-on' review](#) of his investigation into **bank branch closure protocol**. The report lays out his intention to work with the banks to **simplify the protocol and allow banks more freedom** in determining how they go about closing branches, with a view to a new protocol coming into effect in early 2017.

[A report](#) entitled 'Smarter Regulation' emerged from the Confederation of British Industry. It calls for **a more thoughtful approach to financial services regulation** – rather than a reduction in regulation – **to empower smaller firms making a challenge to incumbents**, thereby supporting competition in the sector.

The British Business Bank published [a report](#) taking an in-depth look at the **Northern Powerhouse Investment Fund** designed to stimulate local economies in the north of England.

The Social Mobility Commission's ['state of the nation' report](#) fails to mention access to finance as a social mobility issue. However, the report [did find](#) that 31% of people are unable to save after monthly outgoings and less than 23% putting aside more than £200 per month.

[New research](#) from Money and Mental Health quantifies the link between poor mental health and problem debt, suggesting **problem debt halves the recovery rate for depression**.

Events

Responsible Finance '17 conference and awards will take place on March 28th-29th in the Marriot Hotel in Cardiff. [The conference](#), will

provide the banking, alternative lending and community sectors with an opportunity to explore emerging trends and develop strategies that allow fair and affordable finance for people, businesses

and communities. [The awards ceremony](#), delivered in partnership with the Citi Foundation, celebrates the economic and social impact responsible finance providers have made over the last year.