Community Investment Coalition (CIC) newsletter, July 2016

Community Investment Coalition

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Campaign update

In 2013, the largest high street banks entered into a voluntary framework to disclose bank lending data. This was a major step forward in transparency of bank lending data. The data allows stakeholders including local authorities, businesses, and the voluntary and community sector to begin to see how the banking and building society sectors are serving the wider economy, and in what areas of the United Kingdom there is less lending. Publishing data on lending patterns assists competition, allowing new entrants to identify where there is unmet demand and to pursue new business in these areas. It also supports the responsible finance sector to scale up by identifying unmet demand and working with others to fill the gap. The most recent quarterly data is now available from **Barclays, Clydesdale and Yorkshire Banks, HSBC, Lloyds Banking Group, Royal Bank of Scotland and Santander UK** you can access the data and read more about bank lending data disclosure on our website.

Nationwide Building society has yet to release their latest figures but as soon we have those we will update the briefing.

We have started to meet with and brief members of the new House of Lords **Select Committee on Financial Exclusion** which has opened its **call for evidence**, with a deadline for submissions of 14th September. The remit of the Committee is “to consider financial exclusion and access to mainstream financial services”. We plan to make a detailed submission around our campaign themes of:

- Increased transparency and public accountability of financial service providers to support consumer choice and allow effective intervention in under-served markets.

- Increasing diversity of providers and choice for consumers in the financial services sector, with more providers offering a wider range of fair and affordable products.

- More innovation in the financial services sector so that affordable financial products are delivered accessibly to all communities.

- Sustainable local economic growth with a greater share of locally generated income remaining within communities.

- Better financial literacy for all.

The Committee has already held three evidence gathering sessions. More detail about these is set out in the 'Parliamentary activity' section below.

We attended a **Bank of England** post-Brexit briefing laying out the forward risks and concerns of the monetary and financial committees. Although the economy is much more resilient than in 2008, household indebtedness is an area the BoE will be monitoring closely.

News

The **British Bankers Association** (BBA) has launched new Standards of Lending Practice for personal customers to bring an increased focus on ensuring good customer outcomes. The Standards comprise:

- Seven overarching principles that provide the framework for how firms serve their customers.
- A set of desired customer outcomes linked to different stages of the customer journey from initial application to closure, including supporting customers who find themselves in financial difficulties.
- For each outcome a number of standards demonstrate how the outcomes will be achieved.
  The new standards will become effective from 1st October. The new Standards and the lending commitments can be found on the Lending Standards Board website.

The Money Charity released their **'Money Statistics'** for July. Figures include:

- **£143 million per day**: Average increase in net lending to individuals in May
- **£773.78 per UK adult**: The rise in personal debt from a year earlier, an increase of more than 2.5%
- **£1.479 trillion**: Total personal debt nationwide – £29,266 per adult, 112.9% of average earnings
- **597,216**: New enquiries to Citizen's Advice during January, February and March 2016.

The Bank of England has given the go-ahead for banks to reach £5.7 billion into their capital buffers for the purpose of stimulating lending which, it is hoped, will help to stave off recessionary pressures. Still acting as **Chancellor of the Exchequer** at the time, **George Osborne** signed an agreement with the UK's main lenders to make the extra capital available to support lending to UK businesses and households.

Andy Haldane, Chief Economist at the Bank of England, gave a speech entitled 'Whose recovery?' which concluded that 'So far at least, this has been a recovery for the too few rather than the too many, a recovery delivering a little too little rather than far too much'.

The Co-operative Party committed to defending the co-operative model throughout the Brexit negotiations to guard against further barriers coming into play which could damage a sector already facing a challenging situation.

Family borrowing figures were highlighted by the **Money Advice Service** as an area of concern.

The FCA has opened a call for input into the rules around loan- and investment-based crowdfunding. The deadline for submissions is the 8th September 2016.

Following on from its criticism of the **Competition and Markets Authority's** 'provisional decision on remedies' released in May, **Which?** published the results of research into the cost of overdraft charges on personal bank accounts. They found that an unarranged overdraft of £100 could lead to charges up to 12.5 times higher than those legally allowed on payday loans.

Social Enterprise UK and 27 other leaders in the sector, including CIC partner**, Responsible Finance,** signed a letter to **Greg Clark (Secretary of State for Business, Energy and Industrial Strategy), Nick Hurd, Margot James and Jesse Norman**, asking that the government make a concerted effort to get behind social enterprise as part of wider business strategy**.** All four of the new ministers have a strong track record of supporting social enterprise and progressive businesses, and will be key to delivering the new Prime Minister's call for an 'economy that works for us all'.

Stepchange Debt Charity called for the **FCA** to institute a ban on nuisance calls offering high-risk financial products. According to a 'nationally representative poll' of 2,044 adults:

- 59% had received at least one call (29.5 million people nationwide)
- 8% received a call more than once a day (4 million people)

Financially vulnerable people also received these calls. Separately surveying 1,177 of its own clients, Stepchange found that:

- 32% received calls offering them high cost credit every week
    - On average, they received 5.3 calls a week
    - One in eight who had received a call had taken out high cost credit
    - They took out an average of £1,052 in extra borrowing.

The Financial Ombudsman Service first quarter statistics show that payday loans were the fourth most commonly complained about financial product or service. Nearly 4,000 complaints were made about payday loans with 55% of cases upheld.

At the **2nd Annual Culture and Conduct Forum for the Financial Services Industry, Jonathan Davidson, Director of Supervision at the FCA** [spoke about](#) the role of the regulator in fostering an environment which will "make doing the right thing for consumers and the markets the objective that is always considered".

Parliamentary activity

Among **changes to the Cabinet** by **Theresa May** following **her appointment as Prime Minister** are the following:

OUT	POSITION	IN
George Osborne	Chancellor of the Exchequer	Philip Hammond
Greg Hands	Chief Secretary to the Treasury	David Gauke
Stephen Crabb	Work and Pensions Secretary	Damian Green
New position established	Work and Pensions Minister	Penny Mordaunt
Greg Clark	Communities and Local Government Secretary	Sajid Javid

A new ministry was created, the **Department for Business, Energy & Industrial Strategy (DBEIS)** (from the Department of Business Innovation & Skills and the Department of Energy and Climate Change).

OUT	POSITION	IN
Sajid Javid	Secretary of State for BEIS	Greg Clark
New position established	Minister of State for BEIS	Nick Hurd

Over the summer the government will clarify ministerial roles and fine tune departmental responsibilities.

The new **House of Lords Committee on Financial Exclusion** took evidence for the first time, from:

Panel 1:

- **Joanna Elson, Chief Executive, Money Advice Trust**

Panel 2:

- **Guy Rigden, Chief Executive, MyBnk**
- **Russell Winnard, Head of Programme and Services (Financial Education), Young Enterprise**

Elson updated the panel on the appropriateness of government strategy on financial inclusion and debt advice, focusing in particular on the record of the **Money Advice Service** and incoming changes which will see a successor organisation take over its role. Elson highlighted the need for more resources to be directed to the front line of financial inclusion work and debt advice. Rigden and Winnard discussed financial literacy, particularly with regards to young people and the addition of financial education on to the statutory school curriculum.

At a second session **Gwyneth Nurse, Director of Financial Services, HM Treasury and Neil Couling, Director General of Universal Credit, Department for Work and Pensions, gave evidence.**

Couling said that having a bank account was key to getting people job-ready and his department wanted to work holistically with the Treasury to achieve this. The Bishop of Birmingham wondered if any thought had been put into linking up the local universal support system with the offer by banks for free banking for start-up accounts. Nurse said data on which banks were offering these accounts was going to be made publicly available and added she was going to take away the idea of analysing this data on a regional level.

At a third session on 19th July, Catherine McGrath, Managing Director, Transactions, Insurance and Mass Market, Barclays and Matthew Carter, Director of Products and Marketing, The Co-operative Bank, gave evidence**.** Issues raised included digital banking, basic bank accounts and bank branch closures. Lord Kirkwood asked, in relation to bank branch closures, if it 'would it be a natural consequence of such local engagement with your account holders that those who were engaged could be handed over to perhaps more appropriate CDFIs or credit unions'.

In Parliamentary questions:

Richard Burgon, Labour, asked the Treasury what assessment had been made of the effect of a FCA-regulated monthly maximum charge on unarranged overdrafts for personal current accounts.

Harriett Baldwin, Economic Secretary to the Treasury, replied:

> *The Competition and Markets Authority (CMA) is currently undertaking a market investigation into competition within the retail banking market, including personal current accounts. In its May 2016 provisional decision on remedies, the CMA proposed requiring banks to take steps including: a monthly maximum charge for unarranged overdrafts; alerts to help customers avoid unarranged overdraft charges; improving comparisons by allowing customers to share data on transactions with other banks and trusted third parties; and regular prompts for customers to check that they are getting good value from their banking provider.*
>
> *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.*

Julian Knight, Conservative, asked:

> Whether any successor organisations to the Money Advice Service will have a remit to promote financial capability amongst the public?

Harriett Baldwin replied:

> *The government is committed to improving financial capability among the public and recognises that increased financial capability for consumers will lead to better outcomes for both individuals and the wider economy. That is why we launched the Public Financial Guidance consultation in Budget 2016 to seek input on what role the government should*

play in promoting financial capability, and how the public provision of free-to-client, impartial financial guidance should be structured to give consumers the information they need to make financial decisions. The consultation closed on 8 June. The government is currently considering the responses and will respond in the autumn. Financial education has been on the national secondary school curriculum in England since September 2014.

The House of Commons hosted a backbench business debate on bank branch closures, with contributions from MPs Christian Matheson, James Heappey, David Lammy, Gareth Thomas and John McDonnell. While Economic Secretary to the Treasury, Harriet Baldwin, emphasised existing solutions to many of the problems mentioned, there was general agreement across parties and the urban-rural divide that this is an issue of concern and it was resolved:

That this House is concerned about continued bank branch closures and the damage that this causes to local communities, small businesses and the welfare of senior citizens; and calls upon the government to help maintain access to local banking.

Stephen Doughty of Labour and the Co-operative Party brought the topic of **Co-operatives** before the **House of Commons**. It was resolved:

That this House has considered the contribution of cooperatives to the economy.

The House of Lords held a debate on the root causes of poverty, brought forward by **Lord Bird**. **The Lord Bishop of St. Albans** spoke about the work **Christians Against Poverty** carried out with nearly 13,000 clients last year, among other faith-based anti-poverty initiatives. The motion, that the House takes note of the case for tackling the causes of poverty in the United Kingdom, was agreed.

The Business, Innovation and Skills Committee held an oral evidence session as part of their ongoing **Access to Finance Inquiry** at which the following were present:

First session:

- **Gareth Oakley, Managing Director, SME Banking, Lloyds Banking Group**
- **Rishi Khosla, CEO, Oaknorth Bank**
- **Marcus Stuttard, Head of UK Primary Markets & Head of AIM, London Stock Exchange**

Second session:

- **Chris Hulatt, CFO & founder, Octopus Investments**
- **James Meekings, UK MD & co-founder, Funding Circle**

James Meekings and Rishi Khosla both made interesting contributions, with Khosla in particular emphasising the gap between viable SMEs to lend to and the risk banks were willing to take as they contracted lending towards the “middle of the [risk] bell curve”. Since launching in September, Oaknorth Bank have distributed £500-600 million to such peripheral businesses.

At a subsequent evidence session, the following were invited to give evidence:

First session:

- **Christopher Woolard, Executive Director of Strategy and Competition, FCA**
- **Keith Morgan, CEO, British Business Bank**

Second session:

- **Anna Soubry MP, Minister for Small Business, Industry and Enterprise, Department for Business, Innovation and Skills**

Morgan noted there was a particular issue regarding the lack of UK start-ups being able to scale up to nine employees over a three-year period. According to Woolard, crowd funding tends to be used by larger SMEs, making up 7% of total business loans, with the figure concentrated in 1% of the total number of SMEs. Soubry (who is no longer Minister for Small Business, Industry and Enterprise) remarked that she said she did not know whether there was a problem with access to finance for SMEs, suggesting that the problem might be a myth. Greater knowledge among SMEs of the British Business Bank's Business Finance Guide would go some way to redressing any issues.

A group of **challenger banks** wrote to the **Treasury Select Committee** to emphasise to potential for post-Brexit restructuring to be leveraged to improve competition in the banking sector. The letter was published, and cited the contribution of challenger banks in increasing choice to consumers and SMEs, and increasing economic resilience. A key policy demand was that capital requirements be structured so they do not excessively punish challenger banks in comparison to incumbents.

In the **National Assemble for Wales**, **Mark Isherwood of the Conservatives** asked the **Cabinet Secretary for Communities and Children, Carl Sargeant**:

> *Will the Minister detail his plans to increase financial inclusion during the Fifth Assembly?*

To which the minister answered:

> *The 2016 Financial Inclusion Strategy sets out how we aspire to work with partner organisations – in Wales and at a UK level – to help improve access to affordable credit and financial services, access to financial information, including debt advice, as well as the need to improve financial capability in Wales. A Delivery Plan is currently being developed in consultation with key partners and informed by responses to the public consultation on the draft Strategy.*

Gill Furniss of Labour asked Mr Chancellor of the Exchequer, what steps he is taking to limit the level of overdraft charges for people in financial difficulties.

The recently appointed **Economic Secretary to the Treasury, Simon Kirkby**, answered:

> *The Competition and Markets Authority's investigation into retail banking is considering the issue of overdrafts. The government stands ready to take action after the CMA publishes its report. And we have already taken steps to support customers in financial difficulty. For example, truly fee-free basic bank accounts have been available since January 2016.*

Jim Shannon of the Democratic Unionist Party asked if the Chancellor will hold discussions with credit card companies on steps to support people who have large credit card debts related to shopping.

Simon Kirby answered:

> *The FCA is currently undertaking a thorough review of the credit card market through its 'credit card market study'. The market study is investigating three areas, one of which is the extent of unaffordable credit card debt. On 3 November 2015 the FCA published its interim report which found that the market was working reasonably well for most customers. However, the FCA expressed concern about the scale of potentially problematic debt in this sector, and the incentives for firms to manage this.*
>
> *The interim report also included the FCA's early thinking on potential remedies which include measures to give consumers more control over their credit limits, measures to encourage customers to pay off debt quicker when they can afford to, and proposals that firms do more to identify earlier those consumers who may be struggling to repay and take action to help them manage their repayments.*

Reports and research

The **Financial Conduct Authority** (FCA) published the final findings of its study of the credit card market, and set out a package of measures, which include a series of industry led proposals, to help consumers take better control of their spending. The FCA proposes to take forward a package of remedies that will enable consumers to shop around more effectively, budget more efficiently and where appropriate repay debt faster. For consumers in problem credit card debt, the FCA is proposing further action so firms address this specific issue and contact consumers before they get into financial difficulties.

Commenting on the report, Sue Lewis at the Financial Services Consumer Panel said:

"We do not agree that the FCA's evidence shows that competition is 'working fairly well for most consumers'. The litany of consumer confusion and misery set out in the report warranted tougher action. Yet the FCA has swept aside the concerns previously expressed by consumer bodies and apparently allowed the industry to write its own remedies, even including a statement from trade body the UK Cards Association in its report. Unsurprisingly, then, almost every single remedy entails bombarding consumers with information that they are expected to process and act on, with no evidence they have the capacity to do so.

This is a wholly inadequate response to the consumer problems the FCA found, problems that will get worse if the economy weakens. It is also in stark contrast to the tough and swift action the regulator took on high-cost short-term credit. The FCA's market study has not addressed the core problem of over-lending by firms. The best way to prevent problem debt is to stop firms lending to people who cannot afford to repay. By looking at affordability separately the FCA has left the job of protecting consumers half done. We hope that will change soon, and that the regulator will take tough action against all firms that lend irresponsibly."

The FCA's report highlights the problem of 'persistent' credit card debts, with 750,000 people regularly paying only the minimum for three consecutive years.

A **Financial Conduct Authority** investigation into consumer disclosure found that more upfront information on rates and other regulatory measures could encourage consumers to switch to higher-paying savings accounts. A separate investigation into differing rates offered between long-standing and new cash savings accounts found that some consumers could be better off moving account. The comparative information has been made available to market commentators, consumer groups and the media.

The Bank of England Financial Policy Committee's Financial Stability Report identified household indebtedness as a key risk factor in the post-Brexit environment.

A **Move Your Money** report into bank branch closure found that bank branch closure dampens SME lending growth by 63% on average in postcodes that lose a bank branch. This figure grows to 104% for postcodes that lose their last-bank-in-town, with these postcodes receiving £1.6million less lending over the course of a year.

The total number of debit cards in circulation has surpassed 100 million for the first time, according to a report by the **UK Card Association**.

Ernst & Young's FinTech Adoption Index contained statistics from a survey of 10,000 'digitally active' people in Australia, Canada, Hong Kong, Singapore, the UK and the USA. The first was that, of the top 7 reasons for choosing a FinTech provider over an existing bank, 6 of the reasons were quality- or choice- rather than price-related. The second was that the main reason for not using a FinTech alternative was being unaware that it existed (53.2%). Only about one third claimed they had no need and less than one per cent have used FinTech but would never use it again.

The All-Party Parliamentary Group on FinTech unveiled **'Stepping Forward for FinTech'**, a report into the possibilities of FinTech which includes a section on financial inclusion and access to finance.

The British Business Bank (BBB) and the **ICAEW**, with input from 23 partners from the business and finance community, including CIC partner, **Responsible Finance**, published an updated **Business Finance Guide**, which is aimed at taking small businesses through their financing options from inception to maturity.

The BBB also published their annual report. 17 months since inception, the BBB has, through 90 finance partners, supported more than 48,000 businesses with a total stock of finance of £7.5bn, delivering against the following objectives:

1. Increasing the supply of finance to smaller businesses – total stock of finance up by 45% over the year
2. Helping to create a more diverse finance market – 90% of funding delivered through partners outside of the 'Big Four' banks, up from 79% in 2014/15

3. Promoting better information in the market so smaller businesses better understand their finance options – awareness of different forms of funding has risen to 48% from 45% in 2014/15
4. Managing taxpayers' money efficiently – 2.0% return on capital employed, exceeding the target for the year.

Following a survey of almost 1800 clients, **StepChange Debt Charity** found that the top three organisations those in debt felt treated them unfairly were:

1. Bailiff (50%)
2. Local authority (42%)
3. The Department for Work & Pensions (36%)

The results were released as part of a report into creditor and debt collector conduct.

The British Banking Association published **The Way We Bank Now: Help at Hand**, a report on how FinTech is changing banking, focusing on the gains in customer experience and increased levels of customer interaction with their bank.

The Centre for Local Economic Strategies (CLES) and the **Sheffield Political Economy Research Institute** have produced a policy brief for devolved government. Part 8 advocates for a UK equivalent to the German 'Sparkassen' model, a publicly funded, locally coordinated network of banks aimed at supporting SMEs.

A new research paper from think tank **Demos** finds that British families are not prepared to weather financial shocks. Building on Demos' existing body of research in this area, Next Steps for Financial Resilience sets out how Government and business can better work together to ensure that Britons' personal finances are flexible and resilient enough to protect them from economic shocks.

Events

The Centre for Local Economic Strategies and the Webb Memorial Trust are holding two launch events in Manchester on 28th July and London on September 7th for their new publication, Forging a Good Local Society.