Community Investment Coalition

Bank Lending Data Disclosure:

Three years on, what have we learnt?

Summary

Data disclosure: achievements and state of play

The data released only covers 60% of lending, excluding credit card lending, and is not presented in an immediately useful format. Due to the highly-localised and complex nature of problem debt and financial exclusion, more granular data is needed with more variables, particularly around interest rates on repayments. As it stands, the data needs a lot of work to approach the picture of coverage that banks already have to hand. Getting data released on credit card debt is of particular urgency, given its significant share of overall consumer debt.

Fair Finance have demonstrated over 10 years that data disclosure is inexpensive and can be used to identify customers, open branches and work with stakeholders. Banks need to see this to understand its commercial usefulness. From the BBA's point of view, they have not got a clear steer on what data – which belongs to individuals – is appropriate to share.

The role of legislation and the Financial Conduct Authority

The initial measure on financial inclusion – that the FCA 'may have regard to' financial inclusion as a competition issue – was drafted imperfectly and passed into law on a circumstantial wave of enthusiasm at the time. However, the underlying principle and first lever were put in place. The FCA should be empowered to collect data, with the United States' 1977 Community Reinvestment Act (CRA) a useful model. 'May have regard' should be amended to 'must have regard'. Credit reference agencies also have enormous amounts of data which is granular and up-to-date. Legislators could seek to mandate bureaus to disclose data, rather than reticent banks.

Digitalisation

Open data platforms (APIs) are an area of movement and, along with other FinTech, have natural potential to bring about greater opportunity for transparency. Customers will be empowered to consent to how their data is used. Banks could do more around digitalisation and responsible branch closure.

CfRC centre for responsible credit

Local Trust creating lasting change

CCLA GOOD INVESTMENT

Responsible Finance

Moving forward

Collaboration on the issue will continue between parties and across houses. The FCA's shift in focus to plugging market gaps is encouraging and their current consultation on Mission provides an opportunity to affect their thinking. A working group will be set up to refine and identify short-medium term effective 'wins' and provide the leverage for political buy-in. The next Financial Services Bill, likely towards the end of 2017, provides the opportunity to draft and appropriate amendment.

The positive side of data disclosure should be emphasised to ease the fears of the banks. Greater insight can open up commercial opportunities. As happened with the CRA in the USA, disclosure will empower other groups, not just lay responsibility for financial inclusion at the door of the banks. Financial inclusion and financial advice dovetail as issues, so should be looked at together.

Presentations

Baroness Kramer

Lord Sharkey and Baroness Kramer focused on the absence of structure in British banks which is key to serving UK communities. Initially they focused on trying to get government and the FCA to be responsible for filling the gap. As a 'plan B' we drafted a measure on data release expecting government lawyers to pick up the idea and redraft it in a better form. The third reading coincided with Justin Welby's election as Archbishop of Canterbury. The wave of enthusiasm and pressure meant the imperfect amendment passed through. However, the underlying principle was established and the first lever put in place. This was a public change in the Government's attitude to banking.

Dr Nick Henry

The data released by banks has substantial 'lackings' in how useful it is for mapping problem debt. British Banking Association (BBA) lenders are only part of the jigsaw puzzle, constituting only 60% of lending, excluding credit card lending. How can the data be extended? Recommendations:

Reform the way data is presented (on raising that issue there has been a good response from the BBA)

Increase the number of variables (relying on a breakdown by postcode sector renders the data of limited use – there has been some progress on transparency with other non-BBA lenders)

Greater data disclosure (to better understand the nature of debt problems)

Mortgage lending data is very opaque. The Leicester forensic analysis shows how hard it is to make data work. You need access, a desk, time and expertise to draw out insight. The Social Investment Taskforce mooted data disclosure in 2000. There is strong evidence of behavioural change from banks in the USA (following the introduction of the Community Reinvestment Act). The Open Data Institute have flagged open data platforms and FinTech as having a natural potential to bring about greater data transparency, something the Competition and Markets Authority (CMA) has taken action on. So what is to be done? Recommendations:

Fundamentally deepen data disclosure from BBA providers (would like to work with BBA on building the evidence base around what data is needed and to establish a cost-benefit point)

The Community Investment Coalition (CIC) should work with credit unions, responsible finance providers (CDFIs) and other sector associations annually collecting data

The FCA should be empowered to collect data (the United States' CRA being a good example of how this could work)

Damon Gibbons

Worked with TUC on 'Britain in the Red', with national scope. Also worked with Local Trust on the Leicester data project. The TUC work looked at aggregate data for debt compared to income after outgoings, i.e. the savings ratio. It established that the interest rate burden for households has fallen with lower base rates. Looking at the stock of consumer credit, you can estimate the increase in household surplus debt. The consumer credit stock is the same as it was in 2008 (after a dip in the intervening years). Squeezed incomes mean the debt burden is increasing, so the rate is up from 17% in 2008 to 25% now. This has precipitated a squeeze on consumption. Increased repayments have not translated into savings returns, but are going onto bank balance sheets.

It is hard to get a local picture of debt. The types of credit are important. Credit card debt is increasing. Sub-prime credit card debt is not subject to high-cost short-term (HCST) caps. Greater indebtedness leads to concentrated, localised community problems with resources regarding social ailments. The BBA data identifies individual lenders. The Leicester research looked at how the 'Big 4' were lending, breaking it down into different Super Output Areas (SOAs). All this work was done to find a map that BBA lenders themselves already know, and establish who each bank lends to.

The amendment means the FCA "may have regard" when competition issues are a problem. The Leicester map shows geographical variations which could happen for all sorts of reasons. There are big discrepancies in lending patterns across various SOAs. Regardless of why, the FCA have a mandate to take action from on the basis of competition. If there is a lack of competition then there is a possible cost to poor consumers. There is a big urgency to get credit card debt into the framework regardless of the CMA focus on overdrafts. Personal loans make up only 15% of overall market, and there are major problems with the data we've got.

Gareth Thomas MP

Visited the Thamesmead Estate in South London, where there was not one bank branch. High cost lenders and loan sharks have moved in. With no bank branch, there is no serious competition. Data disclosure is fundamental to challenge that. Lending to SMEs sparked government interest in lending. 85% is done by the Big 4. That is worrying for communities with no easy access to the Big 4. Branch closures are continuing regardless. There is further dependence on HCST credit for personal lenders too. It is up to the politicians in the room to take data and force change. Until the CRA kicked in in the United States, there was no competitive pressure on banks to serve all communities. It is our responsibility to maintain pressure on the Government. Labour will continue to take up the issue.

Faisal Rahman

Background on Fair Finance: Fair Finance have invested £20m to 25 thousand over 5 years. Personally has spent 20 years in the financial inclusion sector. Inspired by the level of data available in the USA and keen for Fair Finance to disclose data. Beginning the Fair Finance project, was told financial inclusion is not a problem, it was too expensive to release the data, there were confidentiality problems and the data was useless to the financial services industry. Wanted to prove them wrong. Has used data to identify customers, open branches and work with stakeholders. Fair Finance put their data breakdowns online, which has come to a total cost of £15k for 25 thousand datasets in 10 years. Banks need to see data to understand its usefulness.

Exclusion is complicated. It's not just about banks and we need to pick up alternative finance providers. It is a highly localised problem. We need SOA-level data for adequate insight. One of Fair Finance's observations is growth of HCST credit for small businesses. It has not been picked up anywhere else and there is no transparency legislation.

Aneesh Varma

Aire are now the fourth national-level credit bureau. Non-mainstream data makes credit-scoring difficult. A lot of self-employed are using personal finance for business needs, for example. How do we get individual credit analysis? Banks look at a population-level point of view. How do we go beyond that to get more context on the consumer point-of-view? Would like to see how Aire's data could augment the research that others are doing.

Mike Conroy

Listened to the points with interest. There are shortcomings in the current data disclosure framework. It is only catching part of the marketplace. The Leicester report was first class, but wouldn't take too much insight from banks localised lending, as that can be put down to a number of factors.

The data belongs to individuals and the BBA have not got a clear steer on what data is appropriate to share. Safeguards and redactions are in place to protect individuals. It can become particularly obvious who is lending what amount to whom when it comes to business lending. Can only think of two reports which used the data made available. There is a challenge in using the data as it is. To make it more useful, we could align the dataset with more socioeconomic data. There is no evidence to suggest red-lining is an issue in the UK. Open APIs (ordered by the CMA) will empower customers to consent to how their data is used. The 21-month CMA investigation did not reference data disclosure.

What problems are we trying to solve? Is it that there is not enough lending too certain individuals, or too much? The Prudential Regulation Authority (PRA) are looking at more statistical analysis in this regard. A wider pool of contributors would be welcome.