Community Investment Coalition (CIC) newsletter, April 2018

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Campaign update

On Tuesday, the government defeated Gareth Thomas MP's amendments to the Financial Guidance and Claims Bill. The amendments would have put a spotlight on lending, forcing banks and payday lenders to disclose exactly what and where they are lending, down to postcode level. Nonetheless, the campaign continues.

The CIC exhibited at our partner, the Centre for Responsible Credit, and the Financial Health Exchange's conference yesterday. The inspiring programme included sessions on redesigning support for lower income households, tackling high cost credit, and how best data can be used to support financial inclusion. The event was well attended, and the line-up of speakers included actor and activist Michael Sheen and Christopher Woolard, the FCA's Director of Strategy and Competition.

We have updated the resources page of our website. It now includes statistics on the number of ATMs and number of commercial bank branches per 100,000 adults in each country of the European Union. The World Bank data spans the past 10 years and provides an interesting comparison of trends in each country. We also released our manifesto ahead of the 3rd May local elections which is also available on our website.

CIC Policy Assistant, Eleanor Pughe, attended a meeting with the Public Bank for Wales Action Group this month. Tony Greenham from the Royal Society of Arts gave an interesting presentation on the co-operative local banking movement, which could lend itself as a model for a network of Welsh banks. We look forward to keeping up to date with how the movement progresses.

Jennifer Tankard

Campaign Director

Community Investment Coalition

News

The main high street lenders cut access to credit in the opening months of this year and plan to limit it further, according to a **Bank of England** survey. The proportion of lenders expecting to restrict access to credit between April and June was the highest since the financial crisis in 2008.

The news follows reports that personal debt is reaching levels similar to those seen in 2008, whilst rates of savings are falling. According to them, consumer spending is being underpinned by debt, with an increased dependency on credit cards, personal loans, payday loans and car finance. At the same time, real incomes are falling and the housing market is slowing.

The **Office of National Statistics** (ONS) released figures showing that the rate of unemployment fell to 4.2% in the three months to February and wages grew 2.8%. This means that for the first time since January 2017 real earnings are growing again as wages outpace inflation.

The **Institute of Directors** responded to the statistics. Tej Parikh, it's Senior Economist, said that the question is whether the forward momentum on hiring and wage growth can be sustained. Employers are beginning to struggle to fill vacancies due to chronic labour shortages, which have been compounded in a number of sectors by the notable drop in the number of migrants coming to the UK. He said that further wage growth will be restrained by the limited ability of SMEs to compete for a shrinking pool of labour. This means that SMEs will need more support to manage regulatory costs and raise productivity.

The **Financial Times** reported that the ONS data was strong enough to cement expectations that the Bank of England will raise interest rates in May, although the Bank has hinted that this will not be the case.

The **Trades Union Congress** commented on these predications. It said that wages are still worth less than before the financial crisis leaving many working people struggling to get by. A hike in interest rates by the Bank of England would be detrimental. It's General Secretary **Frances O'Grady** said:
"What people really need is higher wages, not higher interest rates. It's time for a new deal for working people that makes wage growth a much higher priority.

"The government should start by funding a proper pay rise for every public sector worker this year. And they must raise the minimum wage to £10 an hour as quickly as possible, so that more families can get by without getting into debt."

The **Joseph Rowntree Foundation** responded to the employment figures saying that despite more people being in work, many are still trapped in poverty. It's Chief Executive **Campbell Robb** said:

"Whilst it is welcome that more people are in work than ever before, the combination of low pay, stagnating wages and a lack of progression opportunities is locking more people in poverty. 1 in 8 workers are living in poverty and once inflation is taken into account, average workers are still earning £25 per week less than 10 years ago.

"It is not right that so many workers are being swept into poverty by a tide of low pay and rising living costs. Measures to improve skills and progression are important but will take time. The government can right the wrong of in-work poverty immediately by enabling low paid workers to keep more of their earnings by increasing the work allowances in Universal Credit."

Despite these optimistic statistics, the **Office for National Statistics** released its economic well-being report for the period October to December 2017. The report found that for the first time in over two years, consumers reported a worsening of their perception of their own financial situation for three consecutive quarters.

They **Money Charity's** April statistics revealed that the number of UK households with no cash savings increased by 3.5% in 2017. This means the overall amount has risen to almost 10 million, with a further 3.26 million households with savings of less than £1,500.

This rise in households with no savings in the UK indicates a reliance on everyday credit. Without savings, many people face increasing debt burdens as they rely on credit to cover emergency costs. This correlates with the increasing levels of consumer credit debt in the UK, which rose by **£1.9bn** in February 2018 according to the Money Statistics.

The Independent reported that 250,000 households face energy bill hikes in the next three months as 130 fixed-rate tariffs will come to an end, according to comparethemarket.com. The households face paying an extra £200 on their energy bills in the coming months as suppliers switch them to more expensive default tariffs.

The **Scottish Government** pledged £1 million to the Carnegie Trust's Affordable Credit Loan Fund as part of the Tackling Child Poverty Delivery Plan, doubling the size of the fund. This support could help grow the sector, opening up more options for those that need affordable credit, reducing the cost of borrowing and making sure that people can access financial products and services that meet their needs in a responsible way.

On 13th April, **Transferwise**, the first non-bank **payment service provider** (PSP) joined a UK payment system settling in central bank money. The event marks an important milestone to facilitate greater innovation and competition in the payments industry. TransferWise is a Financial Conduct Authority (FCA) regulated PSP facilitating the international transfer of payments, is now a direct participant in the UK's Faster Payments system.

Wider access is expected to bring financial stability benefits through increasing the proportion of settlement in central bank money, diversifying the number of settlement firms, and driving greater innovation in risk-reducing payments technologies. It also has the potential to enable more efficient, effective and inclusive payments.

A new resource has been launched for early stage FinTech and PayTech companies. The Emerging Payments Association (EPA), with the support of its Benefactor Saxo Payments Banking Circle, has launched a regulation helpline. It aims to provide guidance to help FinTechs navigate new payments-related regulations. The project encourages trade between EPA members and organisations that use payments outside the UK, to stimulate the adoption of new payments products and services in emerging markets, and support the growth of early stage PayTech companies around the world.

CIC partner **Responsible Finance** held its first transatlantic webinar in partnership with the Council of Development Finance Agencies in the US. The session was watched by 90 delegates from across the US and the UK, and explored differences in SME access to finance across the two countries.

On 3rd April the **US Treasury** released a memo on the Community Reinvestment Act (CRA). The memo outlined recommendations to ensure the CRA keeps up with the organisational and technological developments in banking and finance that have taken place over the past four decades.

The aim of the review was to ensure a bank's CRA activity aligns with the needs of the communities that it serves, is made in a manner consistent with a bank's safety and soundness, and is subject to supervision that does not create unintended disincentives to serving communities. The memo focused on regulatory and administrative changes consistent with the original intent of the CRA, including common sense reforms that reduce the complexity and burden on banks, regulators and community advocates.

The four key areas of the Treasury's recommendations focus on:

- Assessment Areas: to update the definitions of geographic assessment areas to reflect the changing nature of banking arising from changing technology, customer behaviour, and other factors.
- Examination Clarity and Flexibility: improvements that could be made to CRA evaluation criteria that would increase the transparency and effectiveness of CRA rating determinations.
- Examination Process: improvements to the timing of CRA examinations and issuance of performance evaluations, and to consistent use of census data throughout an assessment period.
- Performance: the purpose of the CRA is to encourage banks to meet the credit and deposit needs of their entire community. The law does not have explicit penalties for non-performance. However, performance is incentivised as CRA ratings must be considered by regulators as part of various bank application processes, and performance evaluation reports are made available to the public. The recommendations cover how to improve the current regulatory approach to incentivise CRA performance.

Treasury staff met with almost 100 stakeholders representing community and consumer advocates, academics and think tanks, financial institutions, trade associations, and law firms, amongst others.

Parliamentary Activity

House of Commons

The House of Commons Library released a briefing paper on the Financial Guidance and Claims Bill outlining the provisions of the Bill and the debates on it in parliament. It contains a useful summary of the Bill and its stages.

Topical Questions

During topical questions, **Paul Blomfield** stated:
"The number of people with unmanageable payday loan debt has more than halved since the Financial Conduct Authority introduced a total cost cap more than three years ago following pressure from Members on both sides of the House. New analysis by Citizens Advice suggests that extending the cap to doorstep-loan and rent-to-own markets would have the same impact on problem debt in those sectors, and **could save consumers up to £154 million a year**. Will the Chancellor consider taking such action?"

John Glen responded that the FCA is looking into the proposal and will publish another report in May. He met with Andrew Bailey to underscore the importance of the issue, and as the new single financial guidance body is constructed this will be another focus of its work.

Written Answers

Frank Field asked the Chancellor of the Exchequer what assessment he has made of the effect of sales incentives for staff working in the rent-to-own and doorstep-lending industries on outcomes for financially vulnerable customers.

John Glen responded that the FCA has strong powers to protect consumers. The FCA's review of the high-cost credit sector has identified concerns about the high costs of rent-to-own borrowing for what is a particularly vulnerable consumer group, and the consequences of that borrowing. The government welcomes the FCA's ongoing work to review the high-cost credit market, including the rent-to-own sector. The FCA aims to consult on proposed remedies in spring 2018.

The FCA has consulted on proposed rules and guidance on staff incentives, remuneration and performance management in consumer credit firms, and published final rules on 27 March 2018. The rules will require firms to identify and manage risks arising from remuneration and performance management practices, and will come into force on 1 October.

Susan Elan Jones asked the Chancellor of the Exchequer what steps the government is taking to promote community banking facilities.

John Glen responded that the government is committed to creating a regulatory environment that allows banks to enter and expand within the market, and serve customers and communities effectively. The Financial Conduct Authority and the Prudential Regulation Authority established the New Bank Start-up Unit to help prospective new banks enter the market and through the early days of authorisation. In addition, the government created the Payment Systems Regulator to ensure all banks can access payment systems on fair and equal terms. The government supports credit unions, and also the provision of over the counter banking services via the Post Office. UK Finance and the Post office will be raising awareness of the banking services available at the post office in the year to come.

Robert Halfron asked the Chancellor of the Exchequer what plans the government has to increase access to financial education for people on low incomes.

John Glen responded that government policy focuses on ensuring people have the confidence and skills to successfully engage with their finances. The Money Advice Service (MAS) was established to provide free financial guidance, and coordinates the UK's Financial Capability Strategy. Part of its 10-year strategy involves gathering evidence from effective interventions and supporting and coordinating initiatives that are proven to work. The MAS will shortly publish its plans. They will focus on low income households and children and young people.

The new single financial guidance body will merge the MAS with other services. The new body will develop and coordinate a national strategy to improve the financial capability of members of the public.

House of Lords

Written Answers

Lord Bird asked what assessment has been made of each of the six conclusions in the Royal Society for Public Health report, Life on Debt Row.

Lord O'Shaughnessy responded that his department is currently reviewing the conclusions. Action is led locally to ensure the solutions put in place reflect the needs of local communities. The government has committed to implementing a Breathing Space scheme. The NHS provides some services, and some GP practices and mental health services signpost patients to debt advice services as part of their care. The government is also going to review the practice of GPs charging patients experiencing debt issues to complete Mental Health Evidence Forms when they require medical evidence for their creditors.

Lord Bird also asked what steps the department for Digital Culture, Media and Sport are taking to authenticate individuals' digital identities, including as part of the gov.uk verify scheme, and what plans they have to promote affordable and suitable financial and credit products and services.

Lord Ashton of Hyde responded that Gov.uk Verify has agreements with companies that the government has approved to verify users' identity.

The government is committed to delivering a well-functioning and sustainable consumer credit market. In March the Financial Inclusion Policy Forum met for the first time. It brings together stakeholders to coordinate action and provide leadership. Its mission is to ensure that individuals, regardless of background or income, have access to appropriate financial products, including affordable credit.

The government also supports credit unions, and recently announced its intention to increase the number of potential members of a credit union from two million to three million. Also, from this year a greater proportion of funds recovered from illegal money lenders will be allocated to incentivise vulnerable people to join, save, and borrow with a credit union instead of turning to loan sharks.

The Department for Digital, Culture, Media and Sport has responsibility for setting the direction for the spend of dormant assets funding. In March, the Department, with the Big Lottery Fund, published a statement of intent for £55 million in funding for financial inclusion. It sets out that the money will be put towards increasing the use of fair, affordable and appropriate financial products and services. Ministers are expected to issue formal policy directions to the Big Lottery Fund about the detailed focus of the programme and what it should achieve in summer 2018.

National Assembly for Wales

Oral Answers

David Melding asked what additional funding the Cabinet Secretary can provide to the local government and public services portfolio to support people who are in debt.

Mark Drakeford replied that additional funding for credit unions and the discretionary assistance fund has been included in the local government and public services budget for 2018-19. Once the Financial Guidance and Claims Bill has passed through parliament he anticipates that the responsibility and funding for debt advice will be transferred to Wales.

Mr Melding responded that it is national Stress Awareness Month. According to the Debt Support Trust, half of those in serious debt have mental health difficulties and contemplate suicide. He asks for front-line services to be given a high priority in the minister's considerations.

Mr Drakeford responded that the government is making £6 million available this year to support organisations such as Citizens Advice to provide advice across Wales on social welfare issues. He is involved with local government about council tax debt. Council tax debt is meant to include an identification of whether a household is vulnerable for other areas. Whilst some local authorities in Wales do this very well, some have no policy at all on vulnerability, so there is ground to be gained in funding and in the way the services are delivered on the ground.

Sian Gwenllian commented that the period that people have to wait for their first payment under universal credit is likely to cause more people to get into debt, and receiving payments on a monthly basis will also create problems. She asked why the Welsh government doesn't take control of elements of the benefit system and funding, meaning it could move towards a system of making universal credit payments fortnightly.

Mr Drakeford agreed with Ms Gwenllian on the impact of the benefit problems. However, the transfer of responsibility to Wales is a broader question that the government is considering today.

Reports and Research

The **RSA** called on the government to overhaul pension tax-relief in its new report, *Venturing to Retire*. It found that the top 10%, who earn £70,000 a year or more are handed 40% of the relief. This is despite the fact that this group only make up 24% of pension contributions. The current system gives basic rate payers fewer incentives to save. It is particularly discriminatory to the self-employed, who earn less than the average employee and have no employer topping up their pension.

The report called for a flat 30% rate of pension relief. This would be progressive, cost-neutral and leave three-quarters of earners better off. It also called for a new 'Office for Financial Security Among the Self-employed' to safeguard the prosperity of the increasing numbers of self-employed people. The report includes a range of other recommendations.
Matthew Taylor, Chief Executive of the RSA and author of the Taylor Review said:
"Given they now make up one in six workers, it is time to stop assuming the self-employed are also self-sufficient.
"As my Review on Modern Employment for the Prime Minister made clear, the rise in self-employment isn't 'good' or 'bad' in itself, provided the state acts to address the downsides."

Michael Johnson (the **Centre for Policy Studies**) gave evidence to the Treasury Committee on household finances in November. He also believes that the incentive structure in the UK is fundamentally flawed. He said that we need to ask ourselves why approximately 70% of the Treasury's total investment in incentivising people to save goes to the top 15% of the income distribution, who are least in need of it.

Pat Conaty, Research Associate at Co-operatives UK, released a blog and report on Trade Union and Co-operative Innovations for Precarious Work. In it he discussed how disruptive technology is 'hollowing out' corporations by eradicating conventional jobs and substituting casualised ones, leading to a squeeze in real wages greater today than any time since 1850. The mutual aid pushback historically by trade unions and co-ops against the unrestrained free market in the 1840s led to social justice solutions. A similar push back is kicking off today. The report highlights a diversity of emerging best practice by trade unions and co-operatives to secure decent work through creative forms of worker control.

The **Finance Innovation Lab** released a briefing 'Ethical use of AI in Finance' following its roundtable event in February. The event brought together experts from banking and fintech, policymaking, consumer groups and civil society to explore how the use of Artificial Intelligence in finance can impact financial health, financial inequality and citizen power.

AI holds huge potential for finance as it could help people make sense of their finances, automate actions that serve best interests, and drive real competition in the sector. However, this potential is not guaranteed. AI could instead increase information asymmetry and complexity, reduce customer control, and exacerbate exclusion and discrimination. To harness its opportunities and mitigate its risks, the report said we need to:

- Protect and enhance financial market competition in the data-driven economy;
- Expand the focus of regulation of AI use from processes to outcomes;
- Create a new, compulsory professional qualification for people working with AI in finance.

Citizens Advice released two new reports on Universal Credit which show that it risks adding to the financial instability of low-income and self-employed workers. Its analysis shows that a self-employed worker who receives Universal Credit could be worse off by £630 a year compared to an employee on the benefit, even if their year-end earnings are identical.

The report highlights issues with the Minimum Income Floor, a rule that assumes everyone claiming Universal Credit who has been self-employed for a year or more is earning the National Minimum Wage (NMW).

If they earn less than the NMW one month, their Universal Credit payment won't make up the difference. But if their monthly earnings go over the NMW, their benefit payment will be reduced accordingly. The charity says this design flaw is unfair and risks causing financial hardship as self-employed workers often earn different amounts from one month to the next.

The second report finds that employees could also be at risk of financial insecurity when they move to Universal Credit. In 2015, the government announced a series of cuts to the benefit which will result in 2.1m working households receiving less money under Universal Credit compared to the old benefit system. One of the biggest cuts was to the work allowance, resulting in workers seeing a reduction in the amount of hours they can work before their Universal Credit payment starts to decrease.

Citizens Advice is calling for the government to review both the lowered work allowance and the Minimum Income Floor to give workers better financial security and ensure they are incentivised to progress in work.

Citizens Advice also released new research showing that 140,000 households in Great Britain have been left without gas or electricity because they didn't have enough money to top up their prepayment meter. It found that the vast majority of these households have people who are particularly vulnerable to being without heat or power living there. Only 9% of those who self-disconnected contacted their supplier to discuss the issue, and 17% said they felt ashamed or embarrassed.

Citizens Advice said more needs to be done to ensure people are aware of the support that is available. The localisation of emergency welfare and a lack of coordination between privately run schemes has resulted in a patchwork of support which can be difficult and confusing for people to access. It is calling on industry and the government to take measures to reduce the impact of self-disconnection on vulnerable customers.

Callcredit released new research which revealed 45% of respondents felt that the financial burden on their personal finances has increased from the year before. The research placed emphasis on the importance of appropriate affordability checks by lenders. 30% of consumers saw defaulting on a loan payment as being the fault of the lender rather than the borrower, and 41% said that their ability to repay has not increased in line with the higher credit limits they have been offered.

The **Living Wage Foundation** released a report *Life on Low Pay.* It surveyed UK parents working full time and earning less than the real Living Wage, and found that over a third have regularly skipped meals due to a lack of money, and almost half have fallen behind on household bills. It also found that 22% have taken out a payday loan to cover essential purchases and 71% said they worried so much it affected their day to day life.

Over 5.5 million people in the UK are still earning below the real Living Wage. A worker on the Real Living Wage earns nearly £1,800 more a year than someone on the government minimum. The report calls for more employers to join the movement.

Events

New City Agenda are holding an event on 2nd May – The Future of High-Cost Credit: Fintech & Other Stories, with Andrew Bailey from the FCA, Which? and Sian Williams from Toynbee Hall. It has been 4 years since the FCA took over regulation of the UK's £200 billion consumer credit market. Andrew Bailey has expressed concern that there is not currently a sustainable supply of credit available, and he has indicated that the FCA will put the consumer credit market at the heart of its agenda this year. This event will aim to address the following questions:

- What further work does the regulator have planned in the Consumer Credit market?
- Where are the key risks to consumers?
- Has the FCA done enough to tackle the key drivers of overindebtedness?
- Does the regulator require politicians to make decisions about the introduction of price caps in other sectors of the consumer credit market?
- How can fintech improve the experience of high-cost credit for customers?
- What other actions can be taken by the FCA, government and others to promote a sustainable supply of consumer credit?

For more information and to register, please contact Dominic Lindley.