Community Investment Coalition (CIC) newsletter, February 2018

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Campaign update

This month a motion was tabled in the Scottish Parliament and two debates took place in the House of Commons that referenced the value of bank lending data in tackling financial exclusion. The Community Investment Coalition continues to work with UK Finance and Coventry University to improve the quality of bank lending data and ensure researchers and others can use it alongside other key data sets. You can read our detailed briefing about the importance of bank lending data to understanding patterns of financial inclusion here.

I was delighted to speak at the launch of Carnegie UK Trust's £1million fund to support affordable lending to financially excluded households as an alternative to exploitative high-cost credit, last month.

Loans from high cost credit companies, including pay day loan firms and door step lenders, currently cost people in Scotland millions of pounds in interest repayments every year. The new Affordable Credit loan fund set up by Carnegie UK Trust, in partnership with Social Investment Scotland, will help more people access affordable credit, delivered on a not-for-profit basis by a range of social enterprises.

The launch was accompanied by the release of a short film, featuring actor and activist Michael Sheen. Michael Sheen has confirmed that he will speak at Responsible Finance's 2018 conference – see 'Events' below.

We also released a blog today 'Opportunity Zones in the US: A Tool for Community Development.' It looks at President Trump's new Tax Cuts and Jobs Act and its provision for the creation of Opportunity Zones with the potential to benefit low income communities, and highlights the value of community led economic development.

Jennifer Tankard

Campaign Director

News

The **BBC** reported that the value of outstanding personal loans in Great Britain has grown four times faster than wages – increasing by 25% since 2013-14. At the same time, wage data from the Office of National Statistics showed the typical full-time worker has seen pay increase by only 6.5% over the same period. This has forced people to borrow money to survive.

It also reports:

- January 2018 was **Christians Against Poverty's** busiest month ever for people seeking debt advice.
- Regions that have seen the lowest increases in median pay for full-time workers have also seen the largest increases in unsecured personal loans.
- More than half of postcode areas in Great Britain have seen unsecured lending amounts increase by more than 25%.

A UK Finance spokesperson commented, stating:

"It's also important to remember these figures don't reflect total borrowing or indebtedness by area, as they exclude other sources of credit such as car loans, payday lenders and student loans."

New rules came in this month requiring banks to warn people before they slip into overdraft. The **Competition and Markets Authority** (CMA) announced the change as part of its Retail Banking Investigation, meaning banks must now set up an alert system to help their customers avoid unnecessary charges.

During its investigation, the CMA found that banks receive around £12 billion a year from unarranged overdraft charges. A number of banks already have alert systems in place, but the new rules require all banks to send these alerts – through texts or a mobile banking app – and to implement other measures, such as a grace period in which people can transfer money into their account to avoid being charged.

The **Financial Conduct Authority** (FCA) published an update on its high cost-credit review. It is extending its investigation beyond payday lending into the wider high cost credit market. The areas of concern include arranged and unarranged overdrafts, rent-to-own products, home-collected credit and catalogue credit. The FCA has been gathering evidence from firms on these products and consumer research is currently being completed. It has not yet reached any final conclusions or decisions.

The update highlighted the role of responsible finance providers as an alternative to predatory lenders, and noted the challenges for fair lenders as the costs and risks of providing small loans to high risk consumers are high. It went on to say that the alternative credit sector needs to be self-sustaining in order to offer the prospect of expansion and longevity, and as the sector is able to demonstrate its track record the costs of financing are expected to become more predictable.

It recognised that a number of stakeholders are calling on the government to reduce the risks of investing in the sector by subsidising some losses with tax incentives. This would encourage investment. It also said:

"We will engage with social investors, the banking industry and other commercial investors to understand their appetite for and concerns about investment. We are keen to explore ways to promote long term, commercial capital in this space and to identify whether there are regulatory barriers that prevent the market working well. We are exploring lessons from other jurisdictions and how these could be applied in the UK. We would be open to innovative thinking in this space, for example, different ways in which credit union capital could be made available to support lending by CDFIs. We will discuss with government whether there are mechanisms for de-risking or incentivising investment which could support sustainable growth in alternative credit."

A further update is due in May 2018.

CIC partner **Responsible Finance** released a response to the update, 'Responsible finance is the only real alternative to predatory lending', and stated:

"Responsible Finance welcomes the FCA's investigation beyond payday lending into the wider high cost credit markets. We also welcome the emphasis that the FCA is putting on supporting ethical alternatives to high cost credit, such as responsible finance providers."

Which? called for action on unarranged overdraft fees. It said that the FCA is still dragging its feet on these charges while customers continue to be hit by extortionate fees. It urged the regulator to act quickly to restrict them, bringing them into line with arranged overdraft fees.

Chief Executive of **Citizens Advice** Gillian Guy responded to the update:

"The FCA's high-cost credit review update echoes our concerns that rent-to-own companies and unarranged overdraft fees unfairly penalise vulnerable consumers. Credit products should help consumers manage their money and not push them into debt.
"It's encouraging to see that the FCA is willing to intervene in the market in order to protect consumers from high-cost credit debt, and we look forward to seeing their consultation paper in Spring.
"The total cost cap on payday lending has succeeded in reducing the number of people getting into problem debt. The FCA should build on that success by extending similar protections to other types of high-cost credit."

The **House of Commons** released a report on the FCA's regulatory regime change on high cost consumer credit in the UK. The findings included:

- Acceptance rates for High Cost Short Term Credit (HCSTC) dropped from 50% to 30% from the start of 2014 to the middle of 2015.
- Profitability has decreased for firms.
- Default rates have declined, and some firms no longer charge late payment fees.

The industry recognises these findings. It ascribes changes to not only the price cap, but the limit on rollovers.

Payday loans are the third most complained about financial product, behind PPI and current accounts, according to statistics released by the **Financial Ombudsman Service**. Payday lenders are wrongly rejecting 56% of complaints put towards them, which is higher than typically seen in other product areas. This upholding rate has however dropped from previous quarters, which could mean the quality of complaints is declining.

LINK Interchange Fees

At the end of January **LINK** announced a series of measures which it says are designed to maintain and rebalance the UK's ATM network. It says the measures aim to shift incentives from developing ATMs in city centres to rural and less-affluent communities.

The main changes are:

- A phased reduction in interchange (the fee card issuers pay ATM operators) beginning with a 5% (around 1p) reduction from 1st July 2018. The position will then be reviewed annually taking into account the impact on consumers.
- All ATMs one kilometre or more from the next free ATM will be exempt from any reductions in interchange.
- An enhanced subsidy of up to 30p (tripling the current 10p) will be paid wherever needed to ensure that free ATMs remain in areas that could not otherwise sustain them.

LINK also said that it will publicly monitor the whole country to report on free ATM availability and highlight areas where it is lost. It says it will also use the Financial Inclusion Programme to ensure all communities retain free access to cash.

Ahead of the changes, **Which?** revealed consumer reliance on free-to-use ATMs. It surveyed 1,200 members and found that 80% of people find access to free-to-use ATMs important to their daily lives and needs. Removing free-to-use access would leave one in 10 (9%) struggling to make payments, shutting many consumers out from local shops and services. A reduction would also lead to one in seven (16%) being deterred from using outlets that accept cash only, placing a strain on consumers and retailers alike.

The **Payment Systems Regulator** (PSR) has three key requirements of LINK to ensure there continues to be a broad geographical spread of free-to-use ATMs. It released a quick reference guide, containing them:

1. A commitment to do whatever it takes to protect the current broad geographical spread of free-to-use ATMs.

2. It must introduce its proposed cuts in stages. As well as monthly reporting, it must review the impact of each cut annually. It must take positive action and must not implement further cuts if there's been a negative impact for consumers.

3. It must bolster its Financial Inclusion programme to continue to fill gaps in the free-to-use network.

Earlier in the year, the PSR commissioned an ATM Impact Study to look at whether and how potential changes to the LINK interchange fee might affect the future of free-to-use ATMs in the UK, and the potential number of end users that could be affected. Key findings included:

- The distribution of at-risk ATMs is broadly in proportion to the country distribution of all ATMs, with the large majority located in England.

- A disproportionately high number of Independent ATM Deployer (IAD) owned non-branch ATMs are potentially at risk. This is because they operate a disproportionately large share of low volume non-branch ATMs.

- Profitability analysis shows that even with no change in volume and interchange fees, a number of non-branch ATMs may be potentially at risk.

- The potential impact of reductions in interchange fees on the total number of at-risk non-branch ATMs is likely to be small. Most of the additional at-risk ATMs are likely to belong to IADs.

- **The viability of individual ATM sites is likely to be more affected by a fall in interchange fees than a fall in transaction volume.**

It also responded to **LINK's** announcement saying it will continue to actively monitor developments. It will require LINK to report monthly on the impact of its decision and on the action that it has taken to address any unexpected negative impact on the network. If any protected ATM is due to close, the PSR is keen to ensure there is a quick transition to a new operator without any adverse effects on consumers.

At the end of this month, CIC will be attending the **New City Agenda** event **'**The Future of the UK's Cash Machine Network' with LINK and others. For more information see 'Events' below.

Royal Bank of Scotland Global Restructuring Group (GRG)

The Herald in Scotland reported that **Royal Bank of Scotland** (RBS) chiefs 'mislead' MPs investigating the alleged abuses of vulnerable business customers. Shadow Treasury Minister Clive Lewis claimed to have seen an unredacted copy of the Financial Conduct Authority's investigation, which appears to contradict RBS bosses' claims to the Treasury Select Committee that cases of mistreatment were isolated. He said:

"In one shocking passage of the report out of hundreds [of passages] the bank boasted one family business was set to 'lose their shirts' so RBS could get a 'chunky equity deal'.

"Furthermore it is clear the summary of the report the FCA has published is what I would politely describe as a sanitised version."

Mr Lewis said he now believes that RBS executives mislead the committee in their evidence. MP's are now calling for criminal charges to be brought against bankers at the Global Restructuring Group.

The FCA was unable to meet its deadline of 16^{th} of February so it sent the report to the Treasury Committee, who published it on Tuesday.

Commenting on the publication, Nicky Morgan (Con) said:

"The findings in the report are disgraceful. The overarching priority at all levels of GRG was not the health and strength of customers, but the generation of income for RBS, through made-up fees, high interest rates, and the acquisition of equity and property.

"The Committee has not taken the decision to publish lightly. Normally, reports prepared under section 166 are confidential, but there is overwhelming public interest in bringing transparency to what happened at GRG, given the earlier leak of the report, and in ensuring that everyone can see, and know that they are seeing, an authentic and verified copy of Promontory's original report.

"We have today published the terms of reference for our inquiry into SME finance. We'll examine what must change to prevent what occurred at GRG from ever happening again, and how to restore confidence among SMEs in banks as a source of finance. I encourage all those with views to submit evidence.

"As well as continuing to monitor the FCA's further investigation into GRG, we'll keep a close eye on RBS' Complaints Process to determine whether it is providing the fair and reasonable compensation that has been promised to mistreated customers. Any person referred to in the report is invited to make any observations to the Committee."

In the wake of the collapse of **Carillion,** the **Federation of Small Businesses** (FSB) welcomed the launch of the **BEIS** inquiry into supply chain bullying and small business productivity and the Treasury Select Committee inquiry into access to finance for small firms.

National Chairman **Mike Cherry** said:

"The collapse of Carillion provides a mere glimpse of the pernicious supply chain bullying culture which is sadly rife among big corporations. Taking forward FSB recommendations for ending a late payment crisis that causes 50,000 business deaths a year should be the BEIS inquiry's top priority. What we can't have is another Carillion scenario in future.

"Small firms account for 99 per cent of the UK business community. The solution to closing our productivity gap lies in incremental output gains among small firms and the self-employed, not headline-grabbing initiatives from big multinationals. We look forward to working with the BEIS committee on routes to upskilling small businesses and encouraging them to innovate and invest.

"From the staircase tax, to GRG, to cash machine cuts, the Treasury Committee has been vocal on the issues that matter to the small firms in recent months.
"As it launches this new inquiry, the Committee is right to flag the absence of regulatory reform around small business lending since the financial crash. That's despite hundreds of entrepreneurs being driven to the wall by banking scandals during the downturn. The FCA's most recent set of recommendations for increasing small business access to redress fall well short of the mark. We encourage the Treasury Committee to keep the pressure on regulators during this inquiry.
*"**Only one in ten small firms currently applies for external finance.** The majority of small businesses rely on traditional loan or overdraft facilities from banks, even though they may well not be the right products for them. We need to get more small firms thinking about all of their options while breaking down misconceptions around equity finance. We look forward to working with the Treasury Committee to scrutinise these issues in the weeks ahead."*

In other news, **UK Finance** announced simpler steps for small businesses opening a business current account, as account providers now require the same basic set of information from new customers. It also launched a new online guide to help small businesses open and switch accounts. The measures come after the **Competition & Markets Authority** identified that the account opening process was a barrier to switching for some small and medium sized businesses.

Last year the **UK National Advisory Board** recommended the creation of a 'friction free' way for new business to adopt social and environmental purpose in their legal answers. This month, **Unlimited**, **DCMS** and **BWB LLP** launched a new online tool 'Purposely' that does exactly that. It is designed for smaller firms and startups and helps them quickly and simply create a legal statement of their purpose. It is intended to overcome the misconception that companies are legally obliged to focus on shareholder return.

Parliamentary Activity

Scottish Parliament

A motion was lodged by **Pauline McNeill** (Lab) on growing household debt. It referenced UK Finance data that suggests the value of outstanding personal loans has grown rapidly, and the fact that organisations have said that January 2018 was the busiest ever month for helping people seeking debt advice. It also noted regions that have seen the lowest increases in median pay for full time workers are also experiencing the largest increases in unsecured personal loans. It said that the current data is only the 'tip of the ice berg' as it does not include other forms of debt, such as payday loans, and that the sharp rises in household debt pose a danger to the economy and the difficulties faced by many.

It calls for the Poverty and Inequality Commission to recognise that these findings represent a large number of people who are one large bill or missed month of pay from finding themselves in serious financial difficulty.

CIC has written to the MSPs that supported the motion with a briefing on the bank lending data released by UK Finance.

House of Commons

Following the introduction of **Open Banking** (OB) and the **Payment Services Directive II** (PSD2) in January, the House of Commons released a briefing 'Open Banking: banking but not as we know it?'

The impetus behind these initiatives is a view that the retail banking personal current account market is not working well, from a competition and consumer perspective. OB requires firms to:

- make it possible for people to share their financial transactional data far more easily with third parties online.
- allow third parties to initiate payments directly from a person's account as a bank transfer as an alternative to credit or debit card payments.
- make public and openly share their product information and importantly, their customer satisfaction scores and other 'service level indicators'.

OB refers to technological solutions to opportunities for a new type of banking, whilst PSD2 is its legislative base.

The response to the introduction of OB is mixed, with fears over data and financial security dominating media headlines.

Written Questions & Answers

Jeff Smith MP asked the Chancellor of the Exchequer what plans have been put in place for the next round of the Financial Inclusion Fund.

John Glen MP responded that the fund ended in 2011 and there is no provision for a further round of funding. He said that the government has recently announced £55 million to be awarded to financial inclusion and capability initiatives as part of the funds unlocked from dormant accounts. He said the government is also establishing a Financial Inclusion Policy Forum, bringing together stakeholders to better coordinate the government on financial inclusion.

Credit Cards: Cost Regulation debate

Stella Creasy (Lab) led a debate considering the regulation of the cost of credit cards, reflecting her concern over the nation's personal debt. She feared an imminent personal debt crisis and believed proactively dealing with credit cards could help avoid this.

Tulip Siddiq (Lab) noted the role of organisations such as Citizens Advice in supporting those in dire credit card debt. She believed debt management services must be preserved.

Creasy believes there are deep connections between those who struggle with debt and the nature of the credit cards they hold. She pointed to the fact that credit card debt amounts to 15 per cent of total household debt, yet totals half of all interest payments made annually, as evidence for the need for reform.

She urged the minister to intervene before the situation reached that of the payday lenders, and labelled credit card companies "loan sharks pretending to be good guys". She called for a cap on the cost of credit cards, similar to that on payday lending.

Economic Secretary to the Treasury, **John Glen** said the government was working with the regulator to ensure consumers are treated fairly and protected from unscrupulous or predatory practises.

He outlined the government's previous record on consumer credit such as transferring regulatory responsibility from the Office of Fair Trading to the Financial Conduct Authority on 1st April 2014.

He pointed to the FCA's broad "enforcement toolkit" to punish breaches of its rules, and its consultation last year on remedies to tackle persistent credit card debt.

On the FCA's proposed "robust package of remedies" to tackle the issues, the minister explained that these included requiring firms to take steps to encourage customers to repay debt quicker, and also to offer forbearance where repayments could not be made within a reasonable period. He confirmed that these rules applied to all credit card companies, including those that lent at higher interest rates and to customers with poor credit ratings.

Glen expected the FCA to publish a final policy statement soon, and that he would look carefully at what it said.

On the issue of limits on the cost of credit card borrowing, the minister said it was important to note that the government had already given the FCA scope to cap all forms of credit it felt were necessary.

However, it was not in the government's mandate to intervene in a functioning and competitive market. A credit card cap would also be "inherently more complex" than the price cap introduced on payday loans in 2015.

Community Bank Closures Debate

The House of Commons hosted a debate on community bank closures. Some MPs called for a US-style Community Reinvestment Act for the UK. A summary of the debate can be found below.

Ruth Smeeth (Lab), called on the House of recognise:

- The vital importance of community-based banking;
- That national banks have a responsibility to their customers;
- Concerns around the effect of branch closure announcements;
- That the government should support measures to protect access to banking services in local communities in the UK.

She stated that in the past three years, 1,500 bank branches have closed, not including the further closures made in the past three months. She went on:

"The closures will have an immediate effect and impact on people's lives.

"One of the defences often given in advance of such closures is that nearby ATMs will continue to be available, yet hundreds of them are at risk of being closed down thanks to the proposed overhaul of the LINK network…

"The social cost of excluding low-income consumers from mainstream financial services can be severe, and could even risk driving people into less legitimate but more visible and convenient methods of financing, including loan sharks, legal and otherwise.

"We must recognise that there remains a place for community banking, local lending and face-to-face advice. That means we need the banks to take some ownership and responsibility for their loyal customer base. They need to be imaginative and consider sector and community-wide solutions, not pass the buck and blame their customers. If they will not do it voluntarily, we will have to force them to.

"The banking sector has options. Banks could launch community banks that share counter facilities, like they do in parts of Spain. They could invest in multi-functional ATMs so that customers can pay in money directly, in their local communities. They could fund more extensively community-based financial education to assist people with online banking. They could even fund access to broadband in some of the harder to reach communities, so that their customers could access online banking. Yet all we have had from the sector is silence. We need to ensure that our banks are working in everyone's interests, not just their own."

Chris Elmore (Lab) stated the failure of the banking system and the banks is in not following through on the community banking schemes that they are meant to be doing to serve communities.

Mr William Wragg (Con) called for the government to consider placing a duty on the Financial Conduct Authority to promote financial inclusion as one of its core objectives, as recommended by the Financial Inclusion Commission.

Caroline Flint (Lab) spoke of the 2015 access-to-banking protocol, which she says was not as it seemed. It laid out a timetable for consultation regarding bank branch closures, but no mechanism to stop a branch closing. This means that it determined a process for closure, but a mechanism to halt a closure remains non-existent. She asked why can't Post Offices be located in secure bank premises, shared with more than one bank? And went on:

"Parliament needs to demand more from government and more from the big five banks, beginning with support for local communities.

…communities are soon to be left with no bank, and the government need to do something about it. They could begin by collecting and reporting data on bank branches and the rate of closure, to face the uncomfortable truth about the loss of services in small town Britain."

She went on to say that this was about inclusion and equality.

John Lamont (Con) spoke about the complete lack of consultation that goes on with bank branch closures, and he called on the government to apply moral pressure on banks to think again about decisions surrounding closures.

Jonathan Edwards (PC) spoke about the need for a more plural banking system to rebalance the economy. He talked about examples across the world that can be looked at for potential solutions. For example, in Germany, strong economic performance is underpinned by the Sparkassen and Landesbanken network, which he said are essentially publicly sponsored community banks. He went on:

*"… we need a **US-style Communities Reinvestment Act** to ensure that the big commercial banks have to invest their vast resources geographically and equitably, to ensure that businesses can obtain finance and wealth is shared evenly. Otherwise, banks will continue to concentrate on the City of London, and on socially useless investments that deepen sectoral and geographical wealth inequalities in the British economy."*

He also called for:

- The protection and enhancement of Post Office financial services, so post offices can operate as all-inclusive providers and community banking hubs.
- To change the business model to utilise the ready-made network of RBS and Natwest. Given that the British government own 73% of RBS which owns Natwest.
- The Welsh government to develop a network of banks under a Welsh Public Bank brand.

Michelle Donelan (Con) spoke about the minimum three month notice of branch closures that banks are required to offer. She does not believe that three months is long enough for people to change their habits or prepare, and called for banks to operate a six-month policy. It is vital that banks review the transport network and infrastructure when making decisions on closures. She concluded by saying that:

"…we should encourage a sustainable hub model to emerge—a one-stop shop—where post office and banking facilities can be offered, as well as debt advice and potentially even a citizens advice bureau."

James Frith (Lab) asked that the government sponsor more not-for-profit challenger banks. Labour's proposed regional investment banks would ensure that community banking has a primary role, and the government should adopt the principle immediately. He called for tax incentives for community banking operations. Finally, he urged the government, instead of propping up the Carillion model of employment, to stand up for real employers and heed concerns about the withdrawal of banks.

Phil Wilson (Lab) suggested the banks that are proposing closures should report, once a branch has closed, how many vulnerable customers they have been able to retain, or how many have gone on to other banking mechanisms and systems, to ensure they do not become financially excluded. If they did that, he says we would be able to take a snapshot of how many people are becoming financially excluded because of closures.

He also talked about the destruction of high streets as a result of bank branch closures, and made a request to the banking sector:

"look at how you can change your offer on the high street; look at how you can make the physical bank presence more affordable and more accessible; and look at whether there is a way to merge banking with leisure, such as, for example, placing bank branches within a café."

Paul Sweeney (Lab/Co-op) talked about his constituency, where a Clydesdale bank branch was closed in Springburn. When he went to look at the old branch, he saw a BrightHouse shop doing good business. BrightHouse is a greedy organisation that exploits the poorest communities by mis-selling consumer goods at outrageous rates of interest. He said that this is something that needs to be challenged – *"as more people are forced out of normal banking into the hands of these rapacious lenders, such lenders have to be challenged."*

He called for the banking sector in the UK to be put under scrutiny. Five of the major commercial banks hold 85% of all current accounts – it is an oligopoly and one of the most centralised systems in the world. Germany has 400 local savings banks, 1,000 co-operative run banks, and 300 private commercial banks. They are characterised by providing "patient finance" to households, consumers and industry.

The Co-operative party proposes turning RBS into a mutual owned by its members and run in a not-for-profit manner in the public interest. He continued:

*"We want to create a legislative mechanism to support the development of credit unions in the United Kingdom, one perhaps based on the **US Community Reinvestment Act 1977**, which I think was mentioned previously. The key innovation of the Act, introduced under the Carter Administration, was to combat discrimination and provide access to credit for low and moderate income communities. If we reflect on the nature of bank closures in the UK, it is highly likely that they disproportionately affect the poorest communities. In the United States, that was known as "redlining": banks essentially blacklisted communities they thought not worthy of investment. We can make the accusation that that is happening today in this country, albeit on an informal and opaque basis. It is about time a light was shone on the reality of the economic dislocation happening in our poorest communities.*

"Legislation similar to the Community Reinvestment Act would combat that discrimination by providing access to credit for low and moderate income communities. It would apply a rating to banks based on their density of operation in poorer areas. In the US, investment credit unions are included as a CRA activity, meaning that the credit union sector is worth billions of dollars and it competes on an equal footing with commercial banks. Santander's operations in the United States contrast with its operations in the UK: a £11 billion five-year commitment to support community benefits. An increase of 50% was announced in the US. It does not extend its American community reinvestment activity to the UK, because there is no legislative or regulatory imperative to do so.

"The picture in the UK today is one of perilous dislocation, with banks withdrawing from our most vulnerable communities. It is the duty of this House and this government not simply to capitulate to free market dogma, but to temper and control that market in the public interest."

Bill Esterson (Lab) spoke on the impact of closures on individuals and communities. The Social Market Foundation points out that 11% of the population rely completely on high street banks, and only 30% of the over-65 population use online banking. He also asked:

"Has the time come to put public good ahead of short-term profit? The challenger banks—such as Metro, which is open seven days a week, and the Bank of Dave, which results from the entrepreneurial approach taken by Dave Fishwick in Burnley—have demonstrated that it is possible to make a success of a bank branch. Is it time for banks and financial services to be seen as a utility, an essential public service that delivers for customers—for high streets, communities and small businesses?"

He went on to reference the RBS and GRG and how it serves as another reminder that the current attitude and approach of banks is not what is needed by their customers. The systemic abuse, intentional and coordinated approach of management, and the clear RBS board responsibility for the mistreatment of small businesses.

John Glen, The Economic Secretary to the Treasury, responded to the debate. He made clear that the management decisions of banks are made without intervention from government. The government support a range of measures to protect access to banking services in local communities across the UK. Branch footfall is falling, and the number of banking app transactions has risen massively. The government cannot resist these facts. He spoke about the Access to Banking Standard's three principal obligations:

1. Banks will give customers at least 3 months' notice of closures.
2. Banks will work with customers after the announcement has been made to ensure they know how and where they can continue to bank.
3. Banks are required to identify vulnerable customers and ensure that they receive all the help they need.

He said that the Lending Standards Board has the responsibility for monitoring and enforcing this standard. It has the power to cancel or suspend a registered firm's registration and give directions on future conduct. He will consider whether anything can be done to strengthen the measures further.

Turning to the ATM network and post offices, he acknowledged that the government has made strides in bolstering the over-the-counter banking services available at post offices, and an extra £370 million to support that work was announced in December. UK banks and building societies reached a new commercial agreement with the Post Office that has set the standard for the banking services available in post offices, ensuring a uniform level across the 11,600 branches.

He has written to the Post Office and UK Finance about the importance of developing detailed joint proposals. He is clear that those proposals must include the following:

- a shared vision for public awareness of the banking services available at the Post Office;
- measurable outcomes that the parties agree they can use to determine their progress in delivering that vision;
- specific actions that the Post Office, UK Finance and parties to the banking framework agree to take to achieve the outcomes, collectively and/or individually, and a timeline for doing so;
- and arrangements for measuring the impact of the specific actions on public awareness throughout the UK to ensure the outcomes are achieved.

He asked for a response by the end of March.

He then said that the government recognise the frustration and disappointment caused by bank branch closures. Ultimately, the government cannot reverse market movements or customer behaviour, and it is right that the government do not intervene in commercial decisions that respond to such changes.

Ruth Smeeth responded, asking for more clarity, and asking that the government hold the banks to account. The banks are not being imaginative, so the government may have to make them.

Regarding LINK, while she welcomes its announcement and what that may mean for access, the evidence suggests that 3,500 ATMs may close. She urged the Minister to consider that more closely, in addition to using the post office network. Colleagues across the House have agreed that face-to-face, personal contact is vital, and the post office network, while helpful, does not currently provide what is needed. We also need to start talking about public transport infrastructure, so that people can access alternatives.

The debate was resolved:

"That this House recognises the vital importance of community-based banking; believes that national banks have a responsibility to their customers; is concerned about the effect of branch closure announcements by Lloyds Bank, RBS/Nat West, Santander, Yorkshire Building Society and the Co-operative Bank; and calls on the government to support measures to protect access to banking services in local communities in the UK."

Financial Guidance and Claims Bill

The House of Commons debated the Financial Guidance and Claims Bill. The Bill provides for an arms-length non-department public body, known as the Single Finance Guidance Body, to take on the functions currently delivered by the Money Advice Service, the Pensions Advisory Service and Pension Wise.

Gareth Thomas (Lab) raised concerns about whether the financial guidance body will have access to sufficient data to guide it on the allocation of the debt advice funding that will continue to be available as a result of the levy on banks. He went on:

*"Unlike in the United States, **we do not have in law a comprehensive requirement that banks and other lenders have to provide clear datasets** to government and regulators on where, and at what level, debt is being incurred. Therefore, one cannot track exactly where the most indebted parts of the country are…*

"One of the great contrasts between this country and our great ally, the United States of America, is that there is provision in American law for banks, building societies and other lenders to have to report to bodies what they are lending and at what rate. Such a provision would allow the new financial guidance body to work out which areas might need a higher level of debt advice funding."

He will meet **Guy Opperman** (Con) in the coming weeks to go through his concerns regarding data in more detail.

Reports and Research

The **British Business Bank** released its 2018 Small Business Finance Markets report. It reveals evidence that the UK's small businesses are diversifying their choice of finance. Although still the predominant channel, there are promising signs that small businesses are looking beyond their main bank for finance and turning to alternative sources.

The report finds that UK start-ups could become fast-growth businesses if there was greater availability of long-term patient capital. However, it also shows a decline in smaller business confidence and low demand for external finance.

GK and onefourzero launched a new white paper on Britain's consumer credit market Life on credit: the new normal. It analysed demand for credit cards and overdrafts and found that reliance on consumer credit has become the new normal. The whitepaper shows that British consumers are borrowing more now than ever, as consumers use credit to plug the gap between wages and the rising cost of living. The findings include:

- Despite a slowdown in consumer credit growth overall, demand for overdrafts is increasing rapidly, with 23% year-on-year growth in 2017. There was a huge spike in demand for overdrafts in November 2017, with a 46% increase in demand compared to November 2016.
- Demand for credit cards shows significant seasonal variation, with marked increases in demand in January (20%) and July (10%), indicating that consumers are using credit as they struggle to finance seasonal expenses.
- Increased consumer demand and regulatory interest provides an opportunity for new products and services which offer better rates for consumers, greater transparency and predictability and promote financial inclusion and good financial health.

The Bank of England published its Credit Union quarterly statistics for Q3 2017. The key findings are:

- The number of adult members across the UK grew slightly to a peak of 1.73m in Q3 2017;
- The total Assets of the UK have increased 1% to £3.2bn, with Assets in England rising 2% to £883m;
- Total Capital across the UK grew 4% to £400m in Q3 2017;
- The total value of net liabilities in arrears in the UK fell 2% to £63m, representing 4.7% of total loans to members.

The **Bank** also released its consumer credit statistics, which showed that consumer borrowing has risen by 9.5% in the year to December 2017, ending a period of slowing growth and pushing the total to £207.1 billion. The 8.9% growth in credit card lending has pushed the total borrowed on cards beyond the £70 billion mark to £70.2 billion.

Gillian Guy, Chief Executive of Citizens Advice responded:
"It is a cause for concern that the growth in consumer borrowing has quickened at a time when many people are struggling with debts. We are especially worried that the growth of credit card borrowing has also ticked up after a period of slowdown as our research shows people who use credit cards are more likely to get trapped in debt. It is important that credit card companies play their part in making sure people do not take on unaffordable debt by scrapping uninvited credit limit increases."

The Insolvency Service released its Insolvency Statistics October to December, which showed a rise of 9.4% in individual insolvencies in England and Wales in 2017. The **Money Advice Trust** responded, saying the insolvencies reflect 'challenging times', but raise questions on regulation too. It is concerned that Individual Voluntary Arrangements (IVAs) are being sold that are unsuitable for people's circumstances.

The **Centre for Responsible Credit** has been commissioned by the Local Government Association to scope out ways in which direct financial support, advice, and affordable financial services provision could be better integrated to meet the needs of low income households. The research will involve working closely with up to ten local authorities between now and the end of March to explore whether direct financial support for low income households (including Housing Benefit, Council Tax Support and a range of discretionary payments) could be better integrated with debt and budgeting advice and wider financial inclusion initiatives at the local level, and whether this could improve outcomes for statutory service provision.

Inflation and interest rates

The **Money Advice Trust** responded to the latest **Office for National Statistics** (ONS) inflation figures, which showed the Consumer Prices Index remained unchanged at 3% in January 2018. Jane Tully, director of external affairs at the Money Advice Trust, said:

"Inflation remains high at three percent with wages not keeping pace, and for the thousands of people we hear from each week at National Debtline, meeting day-to-day costs, such as energy, water and council tax continues to be a challenge.
"Recent research shows that as many as half of all low income households are already struggling. We are concerned that the slightest change in circumstances, such as a further interest rate rise, could push many of these households into further difficulty."

The **Resolution Foundation** released a report 'An unhealthy interest? Debt distress and the consequences of raising rates'. It came after the Bank of England's February Inflation Report, which stated that the **Monetary Policy Committee** expects to raise interest rates earlier and by a greater extent than it had previously thought. If correct, UK households face the prospect of rising interest rates even as income growth remains subdued.

Consumer credit has surged to levels last recorded before the financial crisis, lifting household debt towards the £1.9 trillion mark. Sluggish income growth over the past decade means the UK's stock of debt remains elevated relative to household resources, leaving them exposed to any increase in rates. A significant minority of borrowers are already displaying signs of debt 'distress', with 6% of households suffering three or more measures of distress in late-2017. Figures for lower income households are even more stark. Among the poorest fifth of working age households, 45% reported at lease one form of debt distress. These groups are also more likely to be without access to savings and further credit that can provide resilience in changing circumstances.

Despite this, the ratio of debt-to-household income remains well below the pre-crisis peak, and post-crisis reforms have removed some of the worst lending practices. Also, the increase in consumer credit appears to be being driven by higher income households, so according to the report UK households look relatively well placed at the aggregate level to deal with future rate rises. However, while it is higher income households who have driven recent credit growth, the burden of debt continues to weigh heaviest on lower income groups.

The enduring size of the debt burden means that the situation is extremely sensitive to the ultimate scale of rate rises. The report states that **the Bank can feel reassured that the first steps along the route of monetary tightening won't result in huge numbers of households falling over, but it – and policy makers more generally – must remain sensitive to the very different and more worrying prospects facing all too many indebted families.**

Events

Responsible Finance has announced that Michael Sheen will speak at its annual conference in March. The event will take place at the prestigious Glasgow City Chambers on 20th and 21st March. At the conference Michael Sheen will introduce The End High Cost Credit Alliance, which will help ethical and responsible finance partners compete with high cost providers. You can read more in the press release here. There are still places left for the conference. You can register here.

The **Centre for Responsible Credit** is holding a conference on 25th April 'Redesigning Financial Services and Support' in conjunction with **Toynbee Hall's Financial Health Exchange**. It comes in the context of changing financial services, with Open Banking, developments in the use of Artificial Intelligence, and the creation of new payment platforms and FinTech applications. It will explore new approaches to regulation and the delivery of support that are needed to ensure that technology is put to work for the benefit of consumers. More information and bookings can be found here.

St Paul's Institute is launching a series of events looking at how a common good approach could make an important difference in addressing some of the most pressing issues currently confronting use. The launch will be on Monday 19th March under the Dome of St Paul's, with Michael Sandel. It will be a major public debate entitled 'Democracy and the Common Good: What do we Value?'. CIC partner **Responsible Finance** will be mentioned as an organisation that seeks to foster the common good in the UK. You can register for the event here.

Intrum has announced a two-day hackathon in Helsinki on April 11th – 12th to create innovations to improve individual consumer's financial wellbeing. Participants from education institutions, startups, SMEs and other organisations will create new concepts for managing personal finance.

On 26th February **New City Agenda** are hosting an event **'**The Future of the UK's Cash Machine Network' with LINK, Which?, Nicky Morgan MP and Cardtronics. At the event, LINK will outline the results of its consultation, followed by a reaction from a panel. For more information and to register, click here.