Community Investment Coalition (CIC) newsletter, July 2018

Contents

Campaign update

Earlier this month we attended an evidence session by the All-Party Parliamentary Group on Small Shops on the impact of LINK's interchange fee cuts on the ATM network for businesses and consumers. Banks branches and ATMs continue to close across the UK; **Which?** released figures showing that cashpoints are shutting down at a rate of 300 every month. In light of this, we welcomed the news last week that **LINK** has made a u-turn on its plans to cut the interchange fee paid by banks. The regulator must now conduct a review on the drivers behind LINK's decision and intervene if the cuts to interchange fees this year and in 2019 lead to gaps in the network of free to access cash machines. Many people on low incomes rely on cash as a means of budgeting. A cashless society would also be dangerous for those without bank accounts.

We welcomed the discussion paper released by the **FCA** this month on price discrimination in the cash savings market. The CIC has previously highlighted the importance of savings and lack of incentives for people on low incomes to save. The FCA is concerned that the interest rates longstanding customers receive on easy access cash savings products are generally lower than those received by customers who shop around. It sets out a range of options to address the harm caused, including introducing a basic savings rate (BSR).

The City Council in Los Angeles has agreed to put a measure on its November ballot that would allow the city to form its own bank, making it the first in the US to allow voters to weigh in on a public banking mandate. According to an article by Ellen Brown, the bank is expected to save the city millions of dollars in Wall Street fees and interest, while injecting new money into the local economy and reinvesting in low-income housing, critical infrastructure projects, and clean energy. The public banking movement seeks ways to better leverage taxpayer dollars to reinvest them in the needs of local communities. We continue to monitor the area with interest.

I attended the New City Agenda event 'Banks, Frauds and Accomplices' which discussed the lessons learned from Operation Hornet, a six year investigation into fraud at HBoS. In June, the Project Lord Turnbull report was released into the public domain. The report makes serious allegations of fraud, malpractice, and a subsequent cover up at Lloyds and HBoS.

We are currently planning a roundtable event in the autumn to discuss access to finance for ethnic minority firms. We wrote a blog and a short piece of research on ethnicity and financial exclusion in May. Stay tuned for further details in the coming months.

We will be taking a break over August, but in the meantime if you would like to find out more about us and our campaign you can find lots of useful resources on our website, or follow us on twitter (@BankingBetter).

Jennifer Tankard

Campaign Director

News

Last week **LINK** scaled back its plans to cut the fees paid by banks to cash machine operators. It began its phased reduction in interchange fees on the 1st July and had planned cuts of 5% per year until 2021. The cuts would have saved banks millions of pounds in charges. The next planned cut in June 2019 will still go ahead, but the third reduction in January 2020 has been cancelled and the fourth, scheduled for January 2021, has been put under review. The U-turn came after campaigners, MPs and regulators voiced concerns about the loss of free ATMs and its implications.

The **Payment Systems Regulator (PSR)** welcomed the change and said that it proves its approach to regulation was the right one.

Which?, who has campaigned extensively on the matter, welcomed the decision, however said that it should have been subject to proper scrutiny before the first cuts to the interchange fee were implemented. It said the regulator must now urgently step in to independently conduct a wider review to investigate the drivers behind LINK's decision and the impact the changes will have on communities.

The **Association of Convenience Stores**, who campaigned alongside **Which?**, welcomed the news but said the LINK's original decision had already forced retailers to make choices about hosting ATMs in their stores. It said that the PSR must be prepared to intervene if the cuts lead to areas of the UK where people do not have access to free cash.

The **National Federation of Retail Newsagents** is calling for the suspension of next January's cut. It also asked that suppliers now desist from swapping free to use ATMs to pay to use machines in independent retailers' premises and suspend trials of "lite" fees of between 50p and 60p.

The move into digital payments and the digital banking infrastructure was criticised by Brett Scott in **The Guardian** last week. The article said that financial institutions are trying to nudge us towards a cashless society and digital banking for their own corporate profit. According to him, payments companies like Visa and Mastercard want to increase the volume of digital payments services they sell, while banks want to cut costs. He said that a cashless society brings dangers, such as the reliance on one single payment method, illustrated by the recent Visa crash, and also dangers for people without bank accounts. These people will find themselves further disenfranchised from the cash infrastructure that previously supported them. At the same time, the psychological implications of cash encouraging self-control while paying by mobile phone or card can encourage spending. Brett Scott calls on people to stop accepting stories about the cashless society and hyper-digital banking being "natural progress".

UK Finance released its June 2018 household finances update. It revealed:

- Estimated gross mortgage lending for the total market in June is £23.5bn, 2.1 per cent higher than a year earlier.
- The number of mortgage approvals by the main high street banks in June fell by 2.1 per cent compared to the same month a year earlier. Within this only remortgaging approvals increased and were 3.4 per cent higher than for the same period a year earlier, this was offset by the 4.7 per cent reduction in house purchase approvals and 4.3 per cent drop in other secured borrowing.
- Credit card spending was 4.7 per cent higher than a year earlier, with outstanding levels of card borrowing having grown by 5.6 per cent over the year. Outstanding overdraft borrowing was 5.8 per cent lower compared to the same time last year.
- Personal deposits grew by 1.3 per cent in the last 12 months. Deposits held in instant access accounts were 4.2 per cent higher than a year earlier.

The **BBC** aired its docu-drama 'Killed By My Debt' last week. As part of the Taking Control coalition, **Citizens Advice** is campaigning for bailiffs to be properly regulated. Gillian Guy, Chief Executive of Citizens Advice, said:

"Aggressive enforcement practices can cause greater financial distress for those already in trouble and can lead to serious mental health problems such as depression and anxiety.

"The piecemeal reforms of 2014 have failed. Since then, Citizens Advice has seen a 25% rise in bailiff problems - helping 42,000 people with 98,000 issues last year. We frequently see blatant violations of the rules, such as bailiffs refusing offers of payment and even entering people's homes unlawfully.

"It is inconceivable that there is not an independent bailiff regulator already. The Ministry of Justice must use their promised call for evidence to take strong action and look specifically at how this could work. Without it, far too many people will continue to live in fear of the bang on the door."

R3 – The Insolvency Trade Association has found that 22% of British adults have had an outstanding credit card balance for at least six months, including 4% of British adults who have had an outstanding balance for over five years, according to a survey of over 2,000 British adults. The research, part of a long-running survey of Britain's personal finances by R3 and ComRes, also found that, of the 34% of British adults currently worried about their level of debt, 49% are worried about their credit card debt – by far the most common cause of concern of the types of debt tested.

Citizens Advice modelled the impact of its proposed total cost cap in the rent-to-own sector. It found that a total cost cap on rent-to-own items like washing machines and fridge freezers could save consumers £276 (28%) per product. It says a cap on interest and charges associated with rent-to-own products could save consumers up to £62 million on 245,000 goods. Citizens Advice is calling for the FCA to commit to its April 2019 deadline and implement its proposed 100% cost cap in the rent-to-own sector that:

- **Makes rent-to-own products more affordable.** By limiting the upfront cost of the item, plus installation/delivery fees and interest, the outstanding levels of debt held by rent-to-own clients would be reduced.
- **Limits late payment charges at £15 per agreement per year.** Nearly 60% of rent-to-own clients are charged late payment fees. These charges commonly amount to £72 over the course of a loan.

The Co-operative Group released figures showing that UK workers could save £250 million a year if payroll loans replaced high cost credit. It has introduced financial wellbeing company Neyber alongside its two credit unions to offer loans with a typical 7.9% APR to its staff. It says that as personal debt continues to rise, 300,000 people a month take out high-cost short-term credit. At the end of 2016, 1.6 million people had high cost credit debt, with the average loan just over £300. If that interest was only 7.9% APR instead of the current capped high cost credit loan rate of £24 per £100 borrowed for 30 days, then it says UK workers could save a total of £252 million per year.

Nationwide announced that it is backing the Open Banking for Good campaign which is launching in September. The campaign will convene people from established fintechs and start-ups, through to innovators and debt and money charities. It aims to close the financial capability gap in the UK and forms part of Government's Inclusive Economy Partnership. Nationwide will challenge the fintech community to develop Open Banking technology that helps improve the lives of the UK's financially squeezed households.

Twenty of Britain's leading savings and investment firms are to launch **KickStart Money**, a ground-breaking collaborative project that aims to take financial education to over 18,000 primary school children, catalysing a movement to build a national savings culture for the future. The initiative aims to raise over £1 million, and calls for financial education to become a compulsory element of the Primary National Cirriculum. It's prime delivery partner will be the financial education charity MyBnk.

The **Competition and Markets Authority** has found that Experian's purchase of ClearScore may reduce competition for people who want to check their credit score. ClearScore and Experian are the first and second-largest providers of free credit score checking in the UK. Experian is also the largest paid credit score checking provider. Millions of people in the UK use the companies' services each year to check their credit scores, understand their finances, and choose loans and credit cards online.

As Experian and ClearScore are the market leaders in this field, and each other's main competitor, the Competition and Markets Authority (CMA) is concerned that the merged company would be less likely to innovate to help people better understand their finances, potentially leading to people paying more for credit cards and loans. Experian and ClearScore have until 27th July to offer solutions to resolve the CMA's concerns, otherwise the merger will be referred for an in-depth phase 2 investigation.

Parliamentary Activity

House of Commons

Topical Questions

Gareth Thomas asked the Economic Secretary to the Treasury what steps the Treasury might now take to tackle the issue of a lack of access to finance inhibiting the growth of the co-operative sector. He referenced the new report from the New Economics Foundation (below, in 'Reports and Research').

John Glen responded that he has held workshops with both representatives of credit unions and of community development financial institutions in recent weeks. He has also convened a working group from the financial inclusion taskforce, which will meet in September to consider urgently expanding access to credit options on better terms than the high-cost ones that exist in the market. He said the Government is doing all that it can to incentivise growth in that sector.

Written Answers

Martin Fellows asked the Secretary of State for Business, Energy and Industrial Strategy if he will take steps to expand the role of his Department's Industrial Strategy in supporting and growing the cooperative sector.

Richard Harrington responded that the Government's ambitious, modern Industrial Strategy sets out a long-term plan to boost the productivity and earning power of people throughout the UK. It sets out how it will help businesses create better, higher-paying jobs in every part of the UK with investment in the skills, industries and infrastructure of the future.

He said that the Government recognises the social and economic contribution of the co-operative and social enterprise sector and remains receptive to exploring opportunities to help it realise its potential, as set out recently in its response to the Law Commission's report on pension funds and social investment.

Mr Jim Cunningham asked what recent discussions the Chancellor of the Exchequer has had with the Secretary of State for Health and Social Care on the effects of bank overdraft fees on the mental well-being of people borrowing money.

John Glen responded that decisions on overdraft fees and charges are a commercial matter for firms. The Financial Conduct Authority requires firms to treat their customers fairly and has powers to enforce breaches of its rules. It is currently consulting on measures to secure greater protection for consumers using overdrafts, and is considering overdraft pricing as part of its wider strategic review of Retail Business Banking.

Mr Jim Cunningham also asked the Secretary of State for Justice what he plans to meet debt advice charities to discuss the scope of the upcoming call for evidence on bailiff reform announced on 2nd April.

Lucy Frazer responded that Government intends to launch its call for evidence to evaluate the enforcement agent reforms introduced by Tribunals, Court and Enforcement Act 2007 soon after the summer recess. Minsters have had no recent meetings with representatives from the bailiff industry to discuss bailiff reform, however officials are planning meetings both with representatives of the bailiff industry and with debt advice organisations to inform the call for evidence.

House of Lords

Debate - Economy: Personal Savings

Lord Leigh of Hurley (Con) debated measures to promote personal savings and the role it could play in building a stronger and fairer economy. He emphasised the importance of savings to the overall health of the UK economy, highlighting that a "lack of savings harm our productivity by ultimately curtailing investment and innovation."

Lord Hurley said that technology helps with tackling the financial inclusion challenge. In 2012, 2 million people took out some form of high-cost credit. If they had access to savings pools this might not be necessary. He noted research that has shown that if households had just £1,000 in accessible savings their risk of debt would be reduced by 44%, which could prevent half a million families from falling into problem debt. He said that clamping down on high cost credit is not the answer. He praised the Government's Help to Save scheme which allows anyone entitled to working tax credit or child tax credit to deposit up to £50 a month and receive up to £1,200 in tax-free bonuses:

"The desire to save is ubiquitous but higher barriers exist for the poorest. Tax-free incentives such as ISAs are aimed at those who can afford to save thousands of pounds a year, so new businesses looking to help the unbanked, such as Pockit, which Cavendish is helping, are to be welcomed. It has found that few high-incentive savings products currently exist for those who can afford to put away a few pounds every week or month."

Lord Bishop of Chester pointed to credit cards and the 40% of people with no savings as deep issues facing society. He noted that home ownership used to be the way people saved, but rates of home ownership were falling. He also highlighted that disputes over finances were a key reason for relationship breakdown.

Lord Suri (Con) said that without savings or a bank account to put savings into it is impossible to meaningfully participate in the modern economy. He believes a greater focus is needed on providing children and teenagers with practical advice on saving and banking.

Lord Northbrook (Con) said that with interest rates as low as they are there is little point in savings, as far as the general public were concerned. He spoke about "jam-jarring" for those on low incomes, which allows customers to automatically put aside amounts from their income into virtual "jam jars" for regular essential expenses.

Shadow treasury spokesperson **Lord Davies of Oldham** (Lab) stated concerns that workplace pensions might detract from people's approach to saving in other respects. He noted people were wary of saving because of the persistence of low interest rates.

Lord Davies echoed comments about the need to prioritise financial education and understanding and said that because of the rent generation the Government needs to think about the support that this generation will need when they do not have the obvious support that comes with buying a house with a mortgage.

He said there was a lack of measures to address the problems faced by those on much lower incomes than those to whom ISAs were addressed. The opposition party are also worried about levels of credit and credit cards and confirmed there should be a cap on the charges that credit cards attract.

In reply, Government spokesperson **Lord Young of Cookham** said that the Government has sought to help people at all income levels, however they need to do more for those on low incomes. He said that the Money Advice Service in 2016 showed 4 in 10 working people across the UK lack a savings buffer, with less than £100 in savings available to them at any one time. One-quarter of households have total financial assets that are less than £1,100; and almost 26% of working adults have no savings. This evidence speaks to a demonstrable lack of a financial safety net for many in our society, leaving households in a state of financial uncertainty. With that uncertainty comes vulnerability to unexpected bills or income shocks and exposure to loans at high rates of interest.

Scottish Parliament

The **Economy, Jobs and Fair Work Committee** released a report on the impact of bank closures on local businesses, consumers and the Scottish economy. It was written in light of the decrease in bank branches in Scotland. The report reflects on evidence about towns which have suffered as a result of the loss of their last bank, and the impact on communities including reduced footfall for businesses and tourism. Local people often have to travel to access their bank branch, therefore missing out on the social interaction of a local branch. Despite recognising that banking habits are changing, the report illustrates that bank closures have had a negative impact on people and communities across Scotland, both for personal and business customers. Alternatives do not suit everyone, and for some bank branches are still the most suitable form of banking.

Based on the evidence heard by the committee, it says there is an urgent need for a systemic study of the impact of bank closures across the UK.

Reports and Research

The **Finance Innovation Lab** launched its publication 'The Regulatory Compass: towards a purpose driven approach to financial regulation.' The report draws on the experiences of the Finance Innovation Lab's community of purpose-led innovators to argue that rather than being 'purpose-neutral', regulation is often designed around the large, shareholder-focussed firms that dominate the market. The Finance Innovation Lab explores how regulatory assumptions hinder financial firms focussed on social and environmental impact, and identifies three conceptual fallacies that limit the ability of regulators to embed social purpose in their approach:

1. The **fallacy of composition:** if every unit in the system works, the whole system works
2. The **fallacy of neutrality**: current regulatory approaches are values-free and any changes to this would mean taking an unjustified moral stance
3. The **fallacy of market efficiency**: competition and 'market integrity' are effective proxies for the outcomes we want the financial system to serve.

It calls for UK regulators and policymakers to develop a more explicit and holistic concept of what social purpose means in the context of financial services. It aims to open up a new debate about the future of financial regulation.

New Economics Foundation released a report 'Co-operatives Unleased' on doubling the size of the UK's co-operative sector, and how enterprise can serve the interests of the people it employs and those in the communities around them. It is also about how doing business can increase economic democracy, and how the wealth created can be more broadly and equitably shared. Based on the findings of the research, the report proposes a programme of recommendations in five interlocking steps:

1. A new legal framework for co-operatives
2. Finance that services the co-operative agenda
3. Deepening co-operative capabilities through a Co-operative Development Agency
4. Transforming business ownership
5. Accelerating community wealth building initiatives

It also recommends an Inclusive Ownership Fund which would compel/strongly incentivise all shareholder or largely privately-owned businesses to deposit a small, annual share of profits in the form of equity into a worker-controlled fund.

Citizens Advice Scotland released a report showing that Scotland's rural businesses are being held back by parcel delivery surcharges and poor broadband. It found that 1 in 5 SMEs have said they 'could not function' without the postal service, with a further 72% saying the Post Office is very or fairly important to their business. However, nearly a quarter have to pay additional surcharges due to their location and 21% experience delivery delays for the same reason.

Meanwhile one third of SMEs report a poor or variable broadband service, with the figure rising to 45% in remote rural areas.

The **Institute for Work and Technology** published its report on ‘Financial Systems as Part of the German Model: An International Comparison of Company Finance from a Spatial Perspective.’ The research compared the banking systems of Europe by focusing on the spatiality of bank-based business finance. It examined the role of decentralised and centralised banks in business lending, and how regional and large banks organise their lending decisions. It also identified factors explaining why decentralised banking persists.

Germany has the most decentralised banking system, followed by Spain and the UK. It identified three factors of success contributing to the persistence of decentralised banking:

1. Short operational and (especially) functional distance and embeddedness in supportive regional bank associations. Short distances allow banks to capitalise on soft information advantages in lending, whilst banking associations also secure access to advanced banking knowledge for banks headquartered in peripheral regions.

2. The development of “real” decentralised universal banking. Here, the time when regional savings and cooperative banks received the right to lend is crucial. Because it took them so long to get permission to offer loans, savings banks in Spain and the UK were latecomers to (business) lending, whereas lending had always been the business of German savings banks. Therefore, savings banks in the UK and Spain were not able to capitalise on soft and local information advantages in short distance lending.

3. The interplay of the regional principle (regional market segregation), regional embeddedness and a national system that balances regional disparities. Together, these three factors help to make regional banks sufficiently successful, even in economically weak regions, and hinder competition between banks, thereby supporting meaningful cooperation in banking associations and relationship lending.