Community Investment Coalition (CIC) newsletter, October 2017

Contents

Community Investment Coalition

Campaign update

Coalition member **Responsible Finance** announced the signing of a historic partnership agreement on 17 October with US-based Council of Development Finance Agencies (CDFA). The transatlantic exchange will boost finance practitioners in both nations and will help foster best practices, collaboration, learning and a greater understanding of how economic development and infrastructure is financed in the two nations. The agreement was covered by London Loves Business. This partnership agreement will also support the Community Investment Coalition by linking us to key experts and developments on the Community Reinvestment Act (CRA) in the USA. This will prove valuable as CIC continues to campaign for the value of bank lending data disclosure, which is required by the CRA.

Community Economic Development: lessons from 2 years of action research was launched by Co-ops UK. This really important piece of work, involving Co-ops UK, Locality, NEF, Responsible Finance and (in year one) CDF, looked at how communities can drive sustainable local economic development.

The UK National Advisory Board on impact investing also released 'The rise of impact: Five steps towards an inclusive and sustainable economy'. This report looks at how to harness impact investment and purposeful business to tackle societal challenges in the UK.

I gave evidence to the London Assembly Economy Committee Meeting on 11 October after submitting written evidence to a consultation about The Mayor's Role in Promoting Financial Exclusion. See below for more details about the session.

A new series on BBC One has showcased the role of the responsible finance providers in transforming people's lives through provision of ethical loans in its programme 'A Matter of Life or Debt.' Please do watch this and raise awareness of it through your communication channels as it contains some fantastic case studies on the work of credit unions and responsible finance providers.

Jennifer Tankard

Campaign Director

News

The government announced a call for evidence on a scheme to help people struggling with serious debt by offering 'breathing space' from their bills. Proposals would provide individuals with up to six weeks free from further interest, charges and enforcement action on their debts if they seek debt advice.

Following engagement with the FCA, **BrightHouse, the rent-to-own company, has committed to pay over £14.8 million** (in the form of cash payments and balance adjustments) to 249,000 customers in respect of 384,000 agreements for lending which may not have been affordable and payments which should have been refunded. You can read the FCA's press release here. CIC partners, including the Centre for Responsible Credit have been central in raising awareness of the high costs of lending attached to some rent-to-own companies and the importance of responsible alternatives, such as Fair for You.

The FCA's **Financial Lives Survey** was published on 18 October (see *"Reports and Research"* below for more details). It found that 3% of UK adults are unbanked and only four in ten UK adults have confidence in the financial services industry. Over 3 million adults have at least one high cost loan now or have had one during the past 12 months.

A survey by YouGov shows that "a majority" of the UK public support a legal ban on **unpaid internships and unpaid work experience** lasting more than 4 weeks. Bdaily covered the results of YouGov's polling of nearly 5,000 people, released ahead of the second reading of Lord Holmes of Richmond's Private Members' Bill in the House of Lords on Friday 27 October, which proposes a ban on unpaid work experience or internships lasting more 4 weeks. The Social Mobility Commission has repeatedly called for a ban in its successive State of the Nation reports to Parliament.

The **Financial Conduct Authority (FCA)** agreed on 18 October to proposals by the Treasury Select Committee to scrutinise its report into how customers in the **Royal Bank of Scotland (RBS)'s Global Restructuring Group (GRG)** were treated.

Andrew Bailey, FCA's chief executive, has agreed that the Committee will appoint its own legal advisor to compare the FCA's summary report with the findings of the "skilled persons report."

Our September newsletter covered the decision by the FCA not to publish its full (skilled persons) report into the GRG, after the report was leaked in August. FCA's Bailey wrote to the Treasury Select Committee on 11 September to state why the regulator would not publish its full report; this decision had been criticised by organisations including The Federation of Small Businesses (FSB).

Last November RBS ringfenced £400m to compensate small business customers.

Inflation

Britain's inflation rate reached a new five-year high: 17 October figures showed that the consumer prices index rose by 3.0% in September, up from August's 2.9%. Rising food and transport costs in particular pushed the index upwards. The FT, The BBC and numerous media reported that the rise increases the pressure on the Bank of England to raise interest rates at the next monetary policy meeting.

Average wages have risen by 2.1% per year between June to August 2016 and June to August 2017, according to latest **UK labour market report**, published by ONS (Office for National Statistics) on 17 October. But state pension payments from April 2018 will rise in line with September's consumer prices index. And business rates are due to increase by September's Retail Prices Index (RPI) of 3.9%.

In testimony to the Treasury Committee on 17 October, Mark Carney, Governor of the Bank of England, said the fall in the pound since the vote for Brexit means inflation is likely to rise over 3% *"in the coming weeks."*

Above-target inflation and a squeeze on living standards are likely to be features of the British economy for years to come, according to a blog by Bank of England staff published ahead of next week's monetary policy meeting. The research was published on the BoE's Bank Underground blog and covered by The FT (£).

Universal Credit

The 55 pence per minute charge to contact the Universal Credit (UC) helpline dominated PMQs on 11 October. Jeremy Corbyn's questions were largely about UC, the helpline, and delays in payments; Conservative MP Heidi Allen added her concerns, saying there were many on the government's benches who believed changes were needed.

In a work and pensions committee meeting on 18 October David Gauke, work and pensions secretary, told MPs all charges would be abolished by the end of the year.

In September, Citizens Advice had published research showing that people on Universal Credit *"typically only have around £3 a month left to pay creditors"* (based on analysis of over 50,000 cases where it has helped people with their debt problems).

The Sun newspaper reported on 23 October that Iain Duncan Smith (the "father of Universal Credit") says the delay for claimants should be cut from six weeks to a month. Their report covered Duncan Smith's interview on 23 October with Sky News in which he said *"One of the reasons I left from Government was I didn't agree with the additional waiting days... I am saying the government needs to look at in the run up to the budget."*

Reports on 22 October, including in The Observer (and online, The Guardian), had suggested that concessions to Universal Credit are likely to be made in the Budget after an Opposition motion to pause the rollout was passed on 18 October (see Parliamentary Business, below) with one Tory MP voting against the government. Earlier in the month up to 25 Tory MPs had been prepared to rebel, according to the Telegraph and The Sun.

The Sun's 23 October piece reported that *"Rising debt and rent arrears concerns have been raised as the roll-out of the policy continues. A shock report out today from the Smith Institute shows that an average claimant in Southwark and Croydon had £156 of arrears nearly five months after joining the benefit - despite being in credit beforehand."*

The Guardian, The Independent and other media also covered the Smith Institute report into Southwark and Croydon councils. A 23 October piece in The Guardian newspaper said:

"Southwark and Croydon councils in south London warned that without rapid changes the new system could have a devastating effect across the country as it is rolled out over the next few months, warning that arrears could reach "many hundreds of millions of pounds" and that tenants could face severe hardship. One food bank reported an increase in referrals of 97%.

It continued, *"The report examined rent accounts for 775 social housing tenants in the two boroughs who had moved on to universal credit between August and October 2016, comparing them with 249 rent accounts held by tenants who moved on to the older housing benefit system during the same period.*

"The study found that 36% of those moving on to universal credit failed to pay rent at all in the first week, and on average accrued arrears for each of the next 11 weeks. At this point arrears stabilised but were not fully paid off. At the end of the study period 406 of the 775 households on universal credit

were in a worse financial position that at the start. On average, each universal credit tenant ran up arrears at a rate of 60p per day. Total arrears for this group rose by £89,000 over the period."

And in The Independent, Political Correspondent Ashley Cowburn wrote,

"Universal Credit has the potential to be "catastrophic" and lead to a spiral of debt for claimants unless major flaws are addressed, according to a new report by two councils among the first in the country to rollout the new regime.

"The damning report into the Government's flagship welfare programme by Southwark and Croydon councils claim that after 20 weeks of transferring from the legacy benefit system to Universal Credit the average claimant had £156 of arrears."

Writing in the Sunday Times on 22 October the Archbishop of York, John Sentamu, said Universal Credit assumes:

"everyone has a nest egg that will tide them over as they wait a minimum of 42 days for payouts…That assumption is grotesquely ignorant, because millions of people, especially those in need of support, are already in debt and have nothing to fall back on. If their rental payments lapse, they are at risk of eviction.

"That means, in the case of families with young children, an additional burden for their local council, which is obliged to house them and whose resources are already stretched to breaking point."

In a blog earlier in the month on The RSA website, Benedict Dellot suggested that UC *"won't just push families into financial hardship; it will damage incentives to work as there will be little to gain in many cases from extending working hours."* Dellot says the low earning self-employed would have much to fear from *"a series of new draconian measures"* as Universal Credit is rolled out.

Inside Housing published results of a survey of social landlords on 19 October (registration required). Their findings revealed that many social landlords are providing Universal Credit claimants with food, vouchers and help in paying utility bills.

Bacs has partnered with the Social Market Foundation to *"investigate how the [payments] market is working for vulnerable consumers."* An editorial in the Big Issue suggested that the *"fintech revolution is breaking down financial exclusion,"* saying *"payment innovation…is the key to unlocking fairer and more inclusive payment and banking alternatives, which are breaking down the barriers of financial exclusion to aid the unbanked and underbanked."*

The piece described a number of products and services from new and existing providers, and quoted Anne Pieckielon, Director of Product and Strategy at Bacs:

"Just last month, we partnered with the Social Market Foundation to investigate how the market is working for vulnerable consumers. The research identified three core groups who are especially challenged: the digitally excluded, repeat overdraft users and the unbanked, recognising that we could all be vulnerable at any point in our lives, due to market or personal changes.

"Policymakers must establish improved measures for assessing whether progress is being made for these vulnerable groups. There must also be an acceptance that those working across the payments and financial services industries have a crucial role to play in putting the needs of consumers first."

The article also highlights the Emerging Payments Association and its Inclusion Project.

A feature (sponsored by Bacs) in Prospect Magazine describes Prospect's **round-table discussions at the recent Labour and Conservative conferences** in which the magazine brought together *"groups of experts and policymakers to analyse issues linked to financial exclusion"* and suggest possible solutions.

"Aside from changes in government policy towards banking – including a proposed duty of care towards customers and possibly going as far as setting out the industry's social obligations as a basic utility – the many potential responses to the problem of financial exclusion involve regulators, technological innovation, competition between incumbents and the addition of new providers such as the Post Office," according to the piece, which also covered Universal Credit, the Open Banking reforms set to go live in January, and how to measure financial exclusion and unbanked households.

An **Independent Money Alliance** conference, Money, Power and People took place in Glasgow on 19-20 October.

Power to Change co-ordinated the **Community Business Weekend** with nationwide events on 5-8 October.

Interest in **sharia-compliant stocks and bonds** is growing across the non-Muslim as well as Muslim world, according to Larisa Yarovaya, Lecturer in Accounting and Finance at Anglia Ruskin University, writing in the (peer reviewed) online magazine, The Conversation.

Parliamentary activity

Jennifer Tankard was invited to speak at the **London Assembly Economy Committee** Meeting on 11 October after submitting written evidence to a consultation about **The Mayor's Role in Promoting Financial Exclusion.**

The Minutes will be available here but have not yet been published by the Committee. However, a webcast (2hours 53 minutes) of the committee is available here (the London Assembly Economy Committee media player BUT please note, you will have to scroll to 30 minutes in, on the media player, which is where the webcast begins).

Jennifer (see 0:45:51) spoke about policy interventions such as Regional Growth Fund, Funding for Lending, and the Enterprise Finance Guarantee (and the disparity between serving microenterprises and the smaller parts of the SME sector); access to finance and whether banks always give formal declines; finance for the self-employed (and a potential pensions time bomb).

In answer to a question about advice and support (1:19:40) Jennifer described the routine support given by RF members to clients in developing business management skills; business mentoring and finding high quality mentors *("it's wrong to assume that because someone has worked in a big corporation this means they can give quality advice to small businesses"*).

And responding to a query about the sector from Assembly Member Andrew Dismore, Jennifer described (1:46):

- how RF members are geographically located and provide holistic services *("not just credit but the ability to manage that credit");*
- the strong relationships management approaches that Responsible Finance members have with customers, and the benefits of these;
- how members serve specific market segments;
- risk and assessing risk;
- the cost of borrowing from members and transparency in comparison with unregulated lenders;
- default rates;
- and made a comparison between the US CDFI sector, which receives over $200m per year of subsidy, and attempts to make the UK's responsible finance sector sustainable, arguing in support of a fund for the sector to enable the sector to continue to create economic value.

The committee also considered regulation, with invited speakers including Jennifer and Fair Finance's Faisel Rahman correcting an assumption from one committee member that responsible finance providers are unregulated.

Three-quarters of the way through the committee hearing, discussion turned to Community Banking (at 2:10 within the webcast); community banking was described as a solution to financial exclusion for individuals and small (and micro) businesses, and a means to rebuild trust in banking.

In closing remarks at 2:47:34, Jennifer described how the community banking model as set out *"is very reliant on access to cheap capital and certainly as a sector if we had access to cheap capital we could scale very quickly."* Jennifer added that the Northern Powerhouse and Midlands Engine Funds were a model that the Mayor should consider for a London Enterprise Fund.

Also in attendance were: Faisel Rahman, Fair Finance; Tony Greenham, Director of Economy, Enterprise and Manufacturing, RSA; Professor Richard Werner, Director, Centre for Banking, Finance and Sustainable Development (University of Southampton Business School); Natasha Jones, UK Head of Corporate Communications, Funding Circle; Mike Conroy, Executive Director for Corporate and Commercial Banking, UK Finance.

Prime Ministers Questions on 11 October was dominated by the admission that it can cost up to 55 pence per minute to call the Universal Credit helpline. As we've covered above, on 18 October the Government announced that the helpline will become a Freephone line.

The Commons debated the **Universal Credit Roll-Out** on 18 October. Debbie Abrahams (Labour MP for Oldham East and Saddleworth) moved the motion *"that this House calls on the Government to pause the roll-out of Universal Credit full service."*

The Opposition motion passed, with one Tory MP, Sarah Wollaston, voting against the Government. It had been reported earlier in the month that up to 25 Tory MPs could rebel. Downing Street held an emergency meeting on 17 October between Prime Minister Theresa May, Work and Pensions Secretary David Gauke and rebel MPs Wollaston, Heidi Allen and Johnny Mercer.

Over 90 MPs requested to speak in the Universal Credit Roll-out debate (and there were speeches from more than 75); the debate included extensive discussion about the impact of the six-week delay for new claimants between making a claim for UC and receiving any benefit, which Abrahams said is *"pushing people into debt, rent arrears and even homelessness."*

The official record in Hansard is here.

The Guardian newspaper reported on 22 October that the work and pensions committee

is *"hoping to publish a report this week giving cross-party suggestions for how universal credit could be improved, placing further pressure on the government to change course."*

Reports and Research

We've covered the independent report by the **Smith Institute into two Universal Credit pilots**, Southwark and Croydon councils, above. The report found that Universal Credit has the potential to be "catastrophic" and lead to a spiral of debt for claimants unless major flaws are addressed.

The **FCA's [Financial Lives Survey was published on 18 October](#)**. It is the FCA's largest tracking survey of consumers and their use of financial services, drawing on responses from just under 13,000 UK consumers aged 18 and over. The survey collects information about the financial products consumers use and their attitudes to managing their money.

It revealed that 4.1 million people are "in difficulty" (financially), defined as having *"already failed to pay domestic bills or meet credit commitments in 3 or more of the last 6 months"* and that 3.1 million UK adults have one or more high-cost loan (such as a payday loan or home collected loan) now or have had one in the last 12 months.

Furthermore, 50% of UK consumers (25.6 million) currently show one or more characteristics of potential vulnerability and people showing characteristics of potential vulnerability are twice as likely to have used high-cost credit in the last 12 months as other UK adults, according the findings; the report also showed that *"at least 4.5 million UK adults say they have been declined a financial product in the last two years. Around half say they were unable to get the product they needed at all, while some say they ended up paying more or being subject to different terms and conditions."*

The Financial Lives Survey 2017 provides FCA with "the ability to cut the data on multiple dimensions" according to the report which continues, *"In this report we have chosen to analyse results primarily by age. This is because people have different experiences and responsibilities at different stages of their life, and age is an important driver of people's product holdings and how they interact with financial services."*

Adults of 18-24 were found to be have the lowest level of financial resilience, but 23% of adults of 25-34 are over-indebted, the highest of any age group. 35-44 year olds are the most likely of any age group to be revolvers of credit card and catalogue credit balances.

The report found that *"a small proportion (3%) of UK adults are unbanked. This means they have no current account or an alternative e-money account. This is not a problem for all of them:*

• those most affected are the 18-24s and those over 85; one in twenty (5%) of each group is unbanked

• most of the unbanked 85s and over have a Post Office card account instead

• this leaves the youngest age group with the greatest proportion unbanked and the greatest proportion who see this as a problem

• overall, at least three in eight of the unbanked would prefer to have a current account."

Weighted data tables were also released with the report anyone wishing to use these data further for research purposes has been invited to email financiallivessurvey@fca.org.uk.

The primary focus in this report is on analysis by consumers' age; however FCA *"intend to review further insights from the survey over the coming months and will be publishing further analysis in due course."*

The **October Money Statistics, produced by the Money Charity**, revealed that the average outstanding mortgage in the UK stood at £121,678 for the month of August, in 2017 – the highest level of mortgage debt per household ever recorded. The statistics also describe lengthening mortgage repayment periods, *"the amount of 35-year mortgage terms has increased from 2.7% in 2005 to 15% in 2017,"* and the report adds, *"as wages stagnate in real terms, the average first time buyer is borrowing 3.63 times their income. Therefore, with outstanding mortgage debt rising to new levels, and higher interest rates predicted in the next month, it could become harder for households to pay off such mortgages."* But it says the *"amount of mortgage accounts with arrears has remained largely unchanged"* – largely as a result of low interest rates.

Civitas published their new "Blueprint for a new capitalism" on 6 October in which director David Green called for *"a new 'inclusive capitalism' that delivers prosperity for all,"* and identified a *"a series of interventions that would be compatible with a market economy and lead to better outcomes."*

Social Investment Scotland published their new Social Impact Report on 9 October. The report covers customers' social impact on communities all around Scotland; it's based on an annual customer survey which, SIS reports, this year had a response rate of 96% from 130 customers. The report makes use of Big Society Capital's Outcomes Matrix "to measure social impact in relation to fifteen beneficiary groups and nine outcome areas."

The **Institute for Fiscal Studies** published a report on the impact of the cost of housing (and rent increases) on low-income households. The project, supported by The Joseph Rowntree Foundation, covers trends in housing tenure, rents and incomes, and the characteristics of rented homes. It found that *renters "are paying considerably more for their homes than 20 years ago,"* and that housing is become less affordable.

New research was published by Aire, *"Credit where credit is due: scoring the right balance in today's economy."* The 29 page report covers the UK consumer credit market and is based on research of a representative sample of 2000 adults. It describes a "*misallocation of credit, where some people are perhaps spurred on to bite off more than they can chew, while others who would be genuinely able to afford credit face problems accessing it."*

It examines the historically-used tools to determine whether to lend – the "3Cs of credit": collateral, capacity and character. It does investigate problem debt but also describes a situation in which credit is not available to workers in the new economy who could afford it.

And it argues, perhaps unsurprisingly since it promotes Aire's own credit scoring technology, that "*it is time to add a few upgrades to the classical system of credit scoring and make it fit for purpose again, so that lenders and regulators can feel confident the right amount of credit is given out to the right people,"* continuing *"changing trends such as the huge increases in self-employment and freelancing, together with zero hours contracts and the emergent 'gig' economy, are challenging the boundaries of traditional credit scoring…. there is an increasing number of inherently creditworthy loan applicants who are being turned down, or charged extra, for credit. This problem can be solved — We just need to sharpen up our blunted credit scoring tools."*

Events

The University of Birmingham's POLSIS (Department of Political Science and International Studies) is holding a workshop, *The Political Economy of Banking*, in Birmingham on 17 November.

Speakers will address subjects including the culture of banking, Brexit and the banks, gaining control of the banks, currency reform and the welfare state. It's free to attend but places are limited and registration is required: contact Huw Macartney: H.Macartney@bham.ac.uk

REMINDER: Improving Financial Health: new approaches and innovations, London, 30th October

The Centre for Responsible Credit have teamed up with the Financial Health Exchange at Toynbee Hall to deliver this new conference in London on 30th October on financial inclusion. For further details, and to book your place today please click here.

Financial Capability Week (FinCap Week) is an annual event which takes place in mid-November (13-19 November 2017). It celebrates, showcases and amplifies the work underway to improve financial capability and ultimately to improve financial wellbeing. The week is organised as part of the Financial Capability Strategy for the UK and aims to get more people talking about money. #talkmoney

You can get a Participation Pack at https://www.fincap.org.uk/fincap-week-get-involved and tweet about events and involvement with the hashtag #talkmoney

The **Locality Convention ’17**, in Manchester on 14-15 November includes visits to community organisations and a debate about “What will a thriving community look like in 2025, and how should you prepare?”

Social Investment Scotland’s “Buy Social” workshops continue in November, aimed at social enterprises seeking opportunities to retail directly to consumers. The workshops will cover marketing, pitching and product development. To register interest, get in touch via hello@socialinvestmentscotland.com.

The Centre for Local Economic Strategies (CLES)’ ‘Community Wealth-Building’ workshop takes place on Thursday 2nd November in Manchester.

The date for the **next Budget** is Wednesday 22 November.