Responsible Finance

9th June 2020

About Responsible Finance

Responsible Finance is the trade body for responsible finance providers (also known as community development finance institutions (CDFIs)). CDFIs offer loans and support to individuals, social enterprises and viable micro, small and medium sized enterprises (SMEs) in deprived and underserved communities which are unable to access finance – or to do so at a fair rate – from mainstream lenders. They are a critical source of support that helps to increase the financial resilience of people in vulnerable circumstances through access to appropriate financial products and services, building their long-term wellbeing.

Affordable credit is a necessary tool to help individuals to smooth fluctuations in income and address unexpected calls on their finances. People on low or fluctuating incomes or with low credit scores are often turned down for mainstream credit. CDFIs have a robust and agile digital infrastructure, supported by call centres, and alongside the wider affordable credit space, including credit unions and advice agencies, they support some of the most vulnerable and hard-to-reach households in the UK.

Responsible Finance's mission is to support the development of a thriving and sustainable responsible finance industry that provides finance for underserved communities and, as a result, contributes to their increasing wellbeing and prosperity.

About our submission

We have already made one submission to this inquiry on behalf of our business lending members which addresses the Government support packages in place for businesses. This submission will focus on the economic impact of coronavirus on individuals, and the assistance the affordable credit sector can offer the Government in delivering financial support to households to help them rebound financially, enabling the recovery to be as 'v shaped' as possible.

Job Protection Scheme and Self-employment Income Support Scheme

- **What problems (if any) are individuals facing in claiming support from the Job Protection Scheme and the Self-employment Income Support Scheme?**

  We have outlined some of the problems individuals are facing in claiming support below.

  Self-employment Income Support Scheme

  Citizens Advice estimates 400,000 self-employed people are not able to claim support from the scheme. Some of the gaps we are aware of are:

  - those who do not meet the 'majority' self-employed income threshold (where their self-employed income accounts for less than 50% total earnings);
  - those who only commenced full-time self-employment during the 2019/20 tax year;
  - those who earn more than £50,000 in profits;

- Sole directors of limited companies. These people could furlough themselves but some will have paid themselves largely in dividends which aren't taken into account. In this case they may be better off claiming Universal Credit, but it is unlikely this will cover business expenses.

Job Protection Scheme

- Start-ups which didn't run first payroll until the end of March;
- individuals in the shielded group who are being denied furlough.

- **How effective have these schemes been in maintaining employment and reducing job losses?**

  The schemes have been reasonably effective, however UK employment looks set to rise rapidly as the number of people claiming unemployment-related benefits rose by 850,000 to a total of 2.1 million between the 12th March and 9th April. At the same time, data from HM Revenue and Customs has shown that the number of employees on companies' payrolls has dropped significantly. Due to job insecurity, 37% of furloughed private renters are worried about being able to pay their rent once the coronavirus lockdown ends[1].

- **How viable is it for the Job Protection Scheme and the Self-employment Income Support Scheme to be open for longer? /How and when should the Government's support packages be wound up?**

  The Government's support packages should be wound up gradually to ensure there is not a cliff edge of job redundancies and income loss. They should not be wound down significantly until the majority of businesses in each sector are able to establish a stable 'new normal' way of working which can be maintained for the duration of the pandemic; however long that may be.

- **How should the Government prioritise which continuing sectors and groups to support as time goes on and ongoing support is needed?**

  The Government should prioritise sectors which have been significantly impacted by the lockdown. Sectors that will likely need extra support include hospitality, tourism and the arts. These sectors account for a significant share of overall employment, and due to the nature of COVID-19 restrictions, will take longer to reopen and recover.

  Vulnerable and low-income groups will also need additional support. Low-income households are at greater risk from the negative financial impacts of COVID-19 as they are more likely to work in shut-down sectors and less able to work from home, and ethnic minorities are more economically vulnerable therefore more likely to be impacted.

[1] Joseph Rowntree Foundation: New research by JRF finds more than a third of furloughed private renters (37%) are worried about being able to pay their rent when the coronavirus lockdown ends.

Economy, public finances and monetary policy

- **What will be the impact on inequalities within society and how should the Government address inequalities that may have been exacerbated by the crisis?**

  In the UK inequalities exist in income, living standards, health, family environments and life chances. Since the Great Financial Recession of 2008 economic instability, squeezed household budgets and living costs outstripping incomes has exacerbated the precarious financial position of many in the UK. Too many households had little or no savings and 8 million people relied on high-cost credit to pay essential household bills[2], meaning they were highly vulnerable to a financial shock when COVID-19 hit the UK[3].

  People and families already in hardship or at risk of hardship, who were just about getting by before the pandemic, are in critical need of additional financial support to stop inequalities being further entrenched. Independent research by the world-leading Yunus Centre at Glasgow Caledonian University, which includes clients of CDFIs, has demonstrated, pre-COVID-19, the precarity of the financial portfolios operated by people on the margins of financial exclusion. This has shorter-term detriments on wellbeing and on longer-acting social determinants of health. Although this will be informed by further research, we expect the financially vulnerable population to be amongst the hardest hit by the coronavirus pandemic and the associated measures in place to combat it.

  Individuals who have been impacted financially have been hit with redundancies, reduced working hours and pay, furlough and worries over job security. Those on low incomes or with lower socio-economic status are of particular concern as health vulnerabilities and mental health problems are already prevalent in these groups[4]. Even a small loss of income or increase in costs can be devastating. Research carried out by the Fawcett Society, the Women's Budget Group, and academics from the Mile End Institute at Queen Mary University of London and the London School of Economics (LSE) shows that over half (51%) of parents with young children will struggle to make ends meet in the next three months[5].

  Low-income households more likely to work in sectors which have been shut-down, and less likely to be able to work from home. They also have less capacity to absorb income shocks because they spend a higher proportion of their income on essentials[6]. Limitations on discretionary spending and the continuation of essential spending will impact different households in different ways, and will likely exacerbate inequalities of wealth. Research in April found that three million people reported that a lack of food had forced someone in their household to go without eating, and 21% of those that went hungry did not have

---

[2] Money Advice Service (2018) Mapping the unmet demand for debt advice in the UK. https://masassets.blob.core.windows.net/cms/files/000/001/064/original/Mapping_the_unmet_demand_for_debt_advice_in_the_UK.pdf /

[3] Step Change (2017) The High Cost of Credit. https://www.stepchange.org/Portals/0/documents/Reports/stepchange-affordable-credit-discussion-paper-july2017.pdf

[4] The Institute for Fiscal Studies (2020) Recessions and Health: the Long-Term Consequences of Responses to the Coronavirus. https://www.ifs.org.uk/publications/14799

[5] Fawcett Society (2020) Parents are Struggling to Cope Financially and Women Key Workers are More Anxious, https://www.fawcettsociety.org.uk/news/parents-struggling-and-women-keyworkers-are-anxious

[6] Money and Pensions Service (2020) COVID-19 Impacts on Financial Wellbeing.

enough money to pay for food[7]. Another poll found that millions of households are having to choose between paying their rent and buying food[8].

Households have been given payment holidays on their mortgages and personal debt, yet renters have not been given the right to a rental holiday. Despite the significant increase to LHA rates, they will not always cover the full cost of rent, and a recent survey commissioned by Citizens' Advice found that 20% of respondents had already missed or expected to miss paying rent, council tax or telecoms bills, with young people and those in insecure work particularly likely to struggle[9]. There are fears of a surge in eviction proceedings when the temporary ban on evictions is lifted. High housing costs are a significant driver of homelessness, so this could unravel the progress the Government has made in housing homeless people[10].

With the right support, we believe this period of financial vulnerability can be temporary for many, and they will be able to regain their financial security in the long-term, and bounce back into employment, or managing their own business. Rising indebtedness could further widen the inequalities in society, therefore financial support such as hardship grants and no interest loans should be made available to vulnerable households. These schemes can be delivered through the affordable credit sector, including personal-lending community development finance institutions (CDFIs).

CDFIs are a national network of lenders offering fair and affordable credit alongside non-financial support. We have decades of experience working with people in vulnerable circumstances, to help them stabilise and improve their financial wellbeing. The sector has a robust and agile digital infrastructure, supported by call centres, and alongside the wider affordable credit space, including credit unions and advice agencies, we support the most vulnerable households in the UK to improve their financial wellbeing. We are offering this infrastructure to help the government and local authorities fill the gap and efficiently reach and deliver support to those individuals and families most at risk of financial hardship due to COVID-19.

The long-term benefit of supporting vulnerable families at this time of crisis will have far reaching consequences, particularly for the children of these families. These individuals face an uncertain and daunting financial future; they need the right support delivered by a fair and trusted source. We do not feel it is appropriate for low-income households to borrow and incur debt at this time given they cannot repay it. We therefore feel the support could take the following shape:

---

[7] Financial Times (2020) Three Million Go Hungry in UK Because of Lockdown. https://www.ft.com/content/e5061be6-2978-4c0b-aa68-f372a2526826

[8] The Guardian (2020) Millions in UK Having to Choose Between Paying Rent and Eating, Poll Suggests. https://www.theguardian.com/world/2020/apr/13/millions-having-to-choose-between-paying-landlord-or-eating-research-suggests-coronavirus

[9] Citizens Advice (2020) Millions Facing Financial Cliff Edge When Coronavirus Protections End. https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/millions-facing-financial-cliff-edge-when-coronavirus-protections-end2/

[10] Berry C, Macfarlane L and Nanda S (2020) Who wins and who pays? Rentier power and the COVID crisis, IPPR. http://www.ippr.org/research/publications/who-wins-and-who-pays

A targeted emergency fund for Local Authorities, with national delivery supported by affordable credit providers, providing the following products to financially vulnerable people affected by the pandemic:

- **Follow-on emergency hardship fund to cover basic needs**

  We believe an additional, follow-on grant fund to the £500 million hardship fund announced at the Budget is the most appropriate form of support. The assessment criteria for the hardship grant fund would be directed to the most vulnerable households. The grants would help to pay for basic essentials, and would aim to relieve the most severe and immediate financial impacts of the pandemic.

  The sector's online application and assessment tools can help Local Authorities quickly and efficiently deploy the right type of support based on consumer needs.

- **HM Treasury to bring forward the No Interest Loans Scheme (NILS) proposal**

  Once the financial landscape in the UK begins to stabilise, some consumers may be able to afford to take on new loans but at zero interest. CDFIs and other affordable credit providers are ideal delivery partners for HM Treasury to deliver the no-interest loans scheme to individuals in need. A grant from HM Treasury would provide capital for the pilot, incentivising other sources to match it.

  The affordable credit sector has a strong track record of working in partnership with local institutions to transform the lives of their customers. In these circumstances they can serve as the one-stop-shop to help Local Authorities assess and triage vulnerable consumers with the most appropriate product. This collaborative approach can not only help Local Authorities and government fill the gaps in delivery in the short-term, but create a more inclusive affordable credit sector, increasing overall access to fair options in the long-term.

- **What are the lessons that society can learn for the future e.g. reducing carbon emissions, increased home working, business resilience?**

  The Money and Pensions Service is tracking the impact of the pandemic on customer's finances to inform the development of its National Strategy to improve the UK's financial wellbeing. The crisis has outlined the urgent need for financial resilience and savings, as well as a strong affordable credit sector which enhances the financial stability of its customers by supporting them through advice and ensuring they do not get trapped in cycles of debt.

  CDFIs support the financial resilience of individuals, encourage them to build savings and help them to reduce reliance on unsustainable debt and avoid falling into poverty. The Government should continue to support Fair4All Finance to increase access to fair, affordable and appropriate financial products and services but supporting and scaling the affordable credit sector and work with the devolved nations so that their dormant accounts are focused proportionately on financial inclusion and affordable credit.