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THE FINANCIAL INCLUSION COMMISSION

CHEYNEYGATES ROOM, WESTMINSTER ABBEY, LONDON SW1P 3PA

TUESDAY 25 NOVEMBER 2014

MR RUSSELL HAMBLIN-BOONE, MR BEN HUGHES, MS MELANIE JOHNSON, MR MARK LYONETTE and MS CLAIRE WHYLEY

Oral Evidence

Taken before the Financial Inclusion Commission

on Tuesday 25 November 2014

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Martin Coppack
Dr Omar Khan
Mr Chris Pond
Ms Sian Williams

Sir Brian Pomeroy, in attendance

Witnesses: **Mr Russell Hamblin-Boone**, Chief Executive, Consumer Finance Association; **Mr Ben Hughes**, Chief Executive, Community Development Finance Association; **Ms Melanie Johnson**, Chair, The UK Cards Association; **Mr Mark Lyonette**, Chief Executive, Association of British Credit Unions Limited; and **Ms Claire Whyley**, Member, Financial Services Consumer Panel.

Chairman: Thank you all very much for coming. We had one of the Canons of the Cathedral come and brief us this morning in this room in which Sir Thomas More was once detained before he was sent, Russell, for execution at the Tower.

Mr Hamblin-Boone: Do not keep looking at me!

Ms Johnson: I hope it does not set a precedent!

Q. Chairman: He was explaining this room is a thousand years old and I am afraid the central heating feels about a thousand years old.

Briefly, the Commission was not my idea but I think it was the idea of Chris Pond and it was

set up to take stock after the work which Brian Pomeroy did under the last Government with the Financial Inclusion Task Force on the state of financial inclusion in the UK. The idea is we are taking evidence over the next few weeks. We are travelling around the United Kingdom. We are inviting written submissions. It is a cross-party Commission. The idea is in a very practical way to produce next Spring, probably by the end of February, not more than two or three sides of very practical recommendations for what the in-coming Government should be doing about financial inclusion from Friday 8 May next year. It is really the unfinished business. We are very grateful to all of you for coming along. What we would like to do is ask each of you to make an opening statement. We have got two hours up until one o'clock, and then in questions we will try and tease out some of the ideas. If you could focus on practical outcomes. What do you think has not been done that should be done and could realistically be done by Government, by the regulator and by financial firms as well, and perhaps by civil society in this space. If there are things you think of after this session or you do not have time to cover in your oral evidence, please write to us because it is an opportunity to get financial inclusion back on the political agenda.

Talking among ourselves as Commissioners, we have got cross-party representatives. We have got experts like Omar Khan from the Runnymede Trust; Sian Williams from Toynbee Hall; Martin Coppack from the Financial Conduct Authority (although here very much in his own right); and Chris Pond, of course, a former Minister and activist in this space. For us the definition of success will be for each of the three major Party manifestos to have some language, even just the two words 'financial inclusion' in the text of that manifesto. Can I ask you to each make an opening statement? Perhaps we will start with you, Claire.

Ms Whyley: I am here today with my Financial Services Consumer Panel hat on but I do have personal experience of this as well so I will be very clear when I am talking with one hat

on or the other. At the Consumer Panel we take a broad definition of financial inclusion because we want to be able to apply it right across the market and to a wide range of consumers. We think of financial inclusion as the ability to access and use financial products in order to gain some benefit or utility from them. For us access is not all about all consumers being able to access all products, but it is about them being able to make informed decisions about their use or, more importantly, the non-use of particular products, focusing specifically on being able to function effectively in society on a day-to-day basis and in the medium term being able to maintain their financial health using products related to savings, smoothing and protection and in the longer term being able to look towards building assets and building up longer term protection for themselves.

We recognise at the Panel that a wide range of consumers struggle to access particular financial products at particular times or due to particular circumstances as well as there being a hard core of very vulnerable low-income consumers who struggle to access any mainstream financial products. As a Panel, we see it as our role to highlight concerns about access right across the market and not just in relation to this group very disadvantaged group of people who generally have very low incomes or have suffered some kind of financial shock or financial difficulties.

We also take a broad view on the nature and causes of financial exclusion. We have spent some time unpicking the dimensions of financial exclusion because we think it is important to be able to identify the specific root causes of different types of exclusion. We think it is very important that everything is not just lumped into the same basket. We think if we unpick it and we separate out these various dimensions it will be clearer both to the regulator and to financial service providers and government potentially where things need to be changed.

We see financial exclusion as having six dimensions. The first is market failure, which is one of the ones more people think about, which relates to there simply being a lack of suitable products for particular groups in the market or the withdrawal of provision, either from particular segments of consumer or from particular geographical areas or specifically from particular channels that are very important to some groups of consumers. I think we have seen a lot of that in recent years.

The second dimension is refusal, which is another one that is talked about quite a lot, where firms simply refuse to offer products to particular groups of people

The third dimension relates to price or payment exclusion. This would be where products are inaccessible either because they are only available at prices that make the, unaffordable or at prices that make them very poor value for money for that consumer. Price and payment exclusion also however covers products that only available on payment terms or via channels that make them inaccessible or unaffordable for particular consumer groups. For us that is distinct from just not having enough money. There is a way that products are provided or paid for that make them inaccessible even to people who have enough disposable income to use them.

Our fourth dimension is condition exclusion. We see this a lot in relation to general insurance products but other products too. This is products that are only available to consumers with terms and conditions that either significantly reduce their utility and or make them very poor value for money.

Our fifth dimension is affordability exclusion. This covers consumers who are unable to access products because they just do not have enough disposable income even when those products are priced fairly and reasonably

Our final dimension, but it is a critical one, is self-exclusion, where consumers make a choice or a decision not use financial products, either because they lack the financial capability or confidence to use them or because products are just too complex and they cannot find a path to make those decisions. They may lack trust in providers. People may self-exclude because they are unable to access the product they need via their preferred channel. They may lack a perceived need for that product. I think that is particularly the case for bank accounts where they might be seen as essential but for some consumers they simply do not deliver what that consumer needs. While society may see them as having a need for banking they would say actually it really does not help them. Then there are some psychological barriers to using financial products. We see that particularly among people who have operated outside the financial mainstream for a long time and who are very comfortable and happy being able to do that.

Just to sum up, on the Panel, particularly in recent years, we have focused on some of the more traditional access and exclusion issues like transactional banking and the features that make basic bank accounts useful for people. We have obviously looked a lot at short-term credit and other aspects of the credit market. We have also highlighted to the FCA access concerns relating to a wider range of products and services such as mortgages, following the mortgage market review and the financial downturn, and general insurance, where there are a whole raft of access and exclusion issues which do not always relate to consumers having low incomes or having financial difficulties. Also we have looked a lot at people's access to the

high-quality advice they need that enables them to make informed decisions about more complex financial products and longer term protection products.

Q. Mr Pond: Could I ask, Claire, is there a seventh dimension which is effectively regulator exclusion? You mention MMR and some people have said the IVR excludes certain people from access to regulated financial advice.

Ms Whyley: We have not pulled that out. For me it is embedded in some of them. We have seen a withdrawal of provision from particular channels or particular groups as a result of regulatory intervention, but it might be helpful to pull out some of the regulatory barriers. There are some regulatory barriers to providing savings products to people who want to save very small amounts of cash, for example, which are really complex. It may be worth pulling it out, but I think there are regulatory issues embedded in most if not all of these dimensions.

Q. Chairman: Thank you very much. Russell?

Mr Hamblin-Boone: You probably already know that the Consumer Finance Association is the principal trade association for short-term lenders based on-line and in stores and it accounts for approximately 60 per cent of the market. Perhaps if I just add to the context with some figures in my opening statement. We had a Code of Practice and the Government had a Customer Charter which has paved the way for the rules that we now have under the Financial Conduct Authority, which I think is offering much more protection for consumers and seems to be driving out the worst of practices as well, but the market is undergoing a huge transformation and we are concerned that the provision of credit continues to be fit for purpose and available to all those that need it. We know that some people will always be prime customers, if you like, with a good credit score. We know that some people will fall into the sub-prime category and have poor credit scores, but there are around 12 million

people, one in four, who float between the two, depending on the economic climate and the availability of credit. As a consequence of that, and the changes that we have seen in the economy, a new generation of products has been developed to meet those needs. Small-sum short-term credit effectively or high-cost short-term credit, as the FCA terms it. There are new products also in the process of development for that specific market, partly as a response to the regulatory change.

According to the Competition and Markets Authority, a third of customers have an average income of more than £36,000. Just under one-third have an income of less than £18,000 so it is a very broad mix. Over half of the payday customers have net household incomes above the national average and almost 40 per cent are in the ABC1 socio-economic group, so again it is very broad and I think we need to look at this in its entirety.

I am sure you have heard lots of other reports from other witnesses that would say to the contrary, but this is based on surveys of actual customers that our members are serving. Payday customers also have similar levels of education to the population as a whole so they are not necessarily financially illiterate. I think it is incorrect to assume that people on low incomes cannot manage their finances or lack education. Many simply do not have an option. Our figures show that 57 per cent of customers have no other viable credit options and the CMA found similar, 60 per cent of people cannot get credit elsewhere.

As a result of new regulation with tighter affordability checks, lenders are no longer able to provide loans to many people. In the first three months of the year in preparation for the FCA's regulation which started taking effect from 1 April, my members cut the number of loans approved by 54 per cent and that decline has continued. The FCA estimated that up to

210,000 people would be cut out of the credit market as a result of regulation. We expect it will be even higher than that once the price controls take effect in the New Year.

If we look at the unsecured lending landscape under the new rules we can envisage a much smaller market with much reduced profits, but there are other implications including for mainstream lenders. This month we funded a think tank that has published a report called *Climbing the Credit Ladder: Short-term Loans as a Path to Long-term Credit*. As I said, we fund it. It was written by experts including Professor John Gathergood, of whom you are probably aware, and it makes a number of recommendations designed to recognise how people who are only able to access high-cost credit can be transitioned into the mainstream by rewarding good behaviour. The report argues that a reformed short-term credit industry has the potential to be both socially and economically transformative for people in need. I think the provision of financial services is evolving and it is changing under the regulator. While we do not agree with all of the recommendations- we do not think they are all properly developed -we support the principles behind the report and in particular two of the recommendations. It suggests that payday lenders should create an opportunity for credit enhancement amongst low-income customers, meaning that there should be lower prices for customers who demonstrate good borrowing behaviour, in other words risk-based pricing, what the credit card industry, for example, would call ‘low and grow’. We also think that the credit reference agencies should work more collaboratively with alternative finance providers to positively reference and capture good loan repayment behaviour in order that people can transition from one form of credit to another form of credit, so from high-cost credit to a cheaper form of credit.

In many ways, that is a direct challenge to the mainstream finance sector. We have heard of

some banks penalising people for using high-cost credit and being part of the decision-making process when they make decisions about whether people should be able to access cheaper credit. We have to accept that attitudes to money management are changing. Short-term loans are being used by some people as financial management tools and they are not purely an option of last resort and the provision of financial services is evolving along with the regulation and the new regulator's cultural approach to the credit industry. Short-term lending is becoming for many people mainstream. If that happens we need to ensure that we have the right protection and regulation in place to help those people, but I also think there is an opportunity to grasp the proposition of transitioning people using certain forms of credit as a stepping stone to help people have wider financial options.

Q. Chairman: Thank you, Russell, very much. We will come back to questions later. Mark?

Mr Lyonette: I will be really brief. I am Mark Lyonette, the Chief Executive of the Association of British Credit Unions. ABCUL represents about two-thirds of the credit unions in Britain and a growing percentage actually. Credit unions in Britain, England, Scotland and Wales now have about £1 billion in savings and about £0.5 billion in loans so two very nice round figures really, which is helpful. Interestingly, when the former Government's Financial Inclusion Task Force was created, the credit union sector has actually doubled in size in that period from 2005 to 2014, so it is definitely going right direction.

A couple of key trends in the sector to give you. There is a big push for many credit unions to move to being more sustainable. A number of community-based credit unions have had a business model that required some degree of external funding/revenue support. That is a challenge. Not only is it risky but it does not drive efficiencies and it does not drive good

business for the credit unions or for their members. One of the other trends that links to that is there is a big emphasis in the sector, in a number of different forms actually, on collaboration and shared operations, shared business models collaborating on small things, collaborating on big things. We ourselves have one of those big initiatives in terms of building a shared operating model. Cornerstone Mutual Services is our subsidiary which has 58 credit unions committed to building a common way of working. There will be others and it is important that there are others.

Those are the key trends in the sector. I would put in one example from both credit savings and transaction banking of things that we think you should pay some attention to. I think we should acknowledge that many more people are recognising that short-term savings, putting something aside is a big part of handling the dangers of high-cost short-term credit. It is not so much high cost; it is short-term credit is the challenge in that space. I think that has changed. I remember when Claire and I were in the Task Force it took about three years to persuade the Treasury that savings had anything to do with this at all. Not being too ambitious in terms of people's ability to save, but it is a big part of how people tell you they have turned their life around and it is about how people tell you they have built their own assets. So that is a point on savings.

On credit, there are all the obvious points to make about credit, but the one that might be less visible to you from the roles that you all play is that it is incredibly difficult to make a responsible loan in 2014 because with the best will in the world all the data you would need to assess somebody's affordability is not there. We have all the regulation, we have all the things that require us to do that, but, f we are honest, it is incredibly difficult to do. It links to the point Russell made about credit reference agency data. It is not possible to find in one

agency or even in the three main agencies together all the data you would need to make an assessment of affordability. At best it is an approximation. We would like to see a bit more attention on how that industry could be challenged to include all the data that people have available and to do it in a way which is still competitive. I am not sure we want one big agency, but at the moment, certainly for smaller players, it is not that easy to even access three different sets of data. There is lots of politics between the banks and the agencies but it is important to reform it.

I think the third point which you cannot get away from having a conversation around banking is it would be fantastic if the Commission thought it could say something around the challenge of allegedly free in-credit banking. I have lost track of how many conversations we have had in commissions and parliamentary inquiries where everybody ends up saying it is a problem but nobody is able to say here is a way that we might work our way out of it. There is no short-term solution but somebody has to have guts and say this is actually a real problem. You do not need me to rehearse all the different ways it challenges exclusion, but that would be great if the Commission saw that as something to put a little bit of thinking into.

Q. Chairman: Thank you, Mark, very much. Ben?

Mr Hughes: Ben Hughes from the Community Development Finance Association. We are the trade body for CDFIs, non-profit lending institutions, non deposit takers, that have been around since the Social Investment Task Force in about 2000. The CDFIs are unusual in that they lend across different markets so they lend to personal consumers but they will also lend to enterprises, generally at the micro end. They will lend to civil society organisations and social enterprises and they will also lend to homeowners who, if you like, are cash poor and not asset rich, but have at least some asset, typically older people who may need adaptations

to their home. They look different in straddling the different markets but they are unified I suppose in a commitment to what we might call meeting these challenges of financial exclusion, in that they will only lend to people who are denied access to mainstream "affordable" finance. I think the definition, very loosely speaking, would be helping people who are not able to access the full range of financial products and services necessary to play a full and meaningful role in society and the economy, so their view is it is very much around the provision of finance. However, it is not just finance, it is not just loan finance; often it is as much about stabilising people's situations. Many borrowers present as people who are facing eviction or some other crisis, so the role of CDFIs is very much around stabilising people's situations prior to considering any kind of direct loan finance, and in that context they are very well networked with other providers who may well be critical in stabilising people's financial situations. I think the causes behind it - insufficient income, issues around the living wage - are very important to this debate because some of the challenges we face are simply to do with inadequate income and lack of suitable products and services. Many have already touched on that. Poor delivery channels, particularly around the non-profit, affordable end, if you like, of what we call the community finance sector. Very low awareness of some of those alternatives and another one, Mark touched on this; data. Whilst there is data, we feel there is neither the right data nor is it suitably analysed, and so we are very supportive of the voluntary disclosure of bank lending data that commenced in January of this year. However, it does not cover all markets and in the way that it is made available it is actually very difficult to understand what the real picture is. We think all of us sitting on this panel and others should be required in a proportionate way to make available lending data so that we can get a real picture of where people are accessing what and where the challenges are and where we need to target resources.

CDFIs, as with credit unions, are growing quite significantly, particularly enterprise lenders with about a 60 per cent per year growth. Total loan figures across the CDFI industry are about £180 million a year. Their aggregate loan book is about £800 million at the moment and they are becoming more sophisticated in back office sharing and loan management systems although there is much work still to be done on that.

I think I would close on what for us is without doubt the biggest challenge given that CDFIs and credit unions and others have the basis of an infrastructure; which is what we lack is capital. The recorded demand for CDFI borrowing last year is just shy of £1 billion yet in total they lent £180 million. Pretty much the sole reason for them not having met the entirety of that demand is their lack of access to capital. We are very keen on exploring a range of ideas which I think we can come on to, but I think a number of them do need to be cognisant of the need for legislative reform to stimulate bank lending into this space.

Q. Chairman: If we do not cover those points in questions, Ben, make sure you write to us. Melanie?

Ms Johnson: I am Chair of the UK Cards Association which represents the issuers of cards, both charge, debit and credit cards and also some acquirers as well. We regard card payments as essential in a modern economy and an important part of daily life. I am just going to say a few words by way of general background about cards before I come on to some headlines about some of the things that we think could help improve the situation. We regard them as an important part of daily life because they give access safely and conveniently to transacting and the ability to access e-commerce products and services, which can often be cheaper than alternatives available on the high street. That makes it very important that people can obtain and use payment cards. The industry knows that it is providing an essential component of

people's lives and it has the responsibility to ensure that it adapts products and services to meet the diverse needs of different customer groups, and that includes making existing products more accessible to people who might find them difficult to use, for example those with visual or audio impairments and those with mobility restrictions who may need to rely on others to help them make payments.

All the major banks offer basic bank accounts and as a result of the Government and the banks' shared target of halving the number of people without a bank account, there has been a substantial reduction in the number of unbanked people. However, there are still about 1.75 million people who have no transactional bank accounts.

Access to credit is an integral part to financial inclusion. The *Breakthrough Britain* report actually notes that overall personal debt has almost doubled in the past decade. However, UK credit card debt has fallen by 13 per cent since 2008 whilst spending has an increased by £26 billion, as consumers use their cards more prudently. Outstanding balances on credit cards in the UK have fallen by £8.9 billion, down from £65.8 billion in 2008 to £56.9 billion in December of last year. 91 per cent of the adult population have a debit card and 60 per cent have a credit card. In addition, the proportion of credit card balances bearing interest has declined steadily since 2002, down from 81 per cent in 2002 to 60 per cent in 2013. More bills are being paid in full each month and consumers are paying off their outstanding balances faster and there is also increased use of nought per cent interest deals which have contributed to the decline in figures. The 'low and grow' model, which has already been touched upon, operated by the credit card industry allows a controlled and phased approach to borrowing thus allowing customers to build up their limits over time. It also allows people to build a credit record over time to enter mainstream credit. This will become an increasingly

important source of new credit as the impact of new regulation and price capping on payday loans reduces the supply of credit to low-income groups. The model is very different from payday lending. The objective is a long-term, sustainable customer relationship and a pathway to access into mainstream lending.

The impacts of a thin credit file, which we have also touched on in mentions about data I think, can be a key impediment to inclusion and can impact a wide variety of groups. We have worked extensively with the MoD, for example, to give Armed Forces personnel help and guidance when applying for and managing credit and also technical involvement on data-matching for British Forces BFPO addresses. However, the ability for a lender to thoroughly assess applicants for credit and make properly informed affordability assessments depends on having a comprehensive view of their income and their outgoings. In the case of those with low incomes, government data on benefits and industry access to invisible data such as HMRC records, student loans and council tax arrears would help the lender to get a full picture and make better decisions, particularly when there is not much other information. The FCA also needs to ensure that its affordability assessment requirements are not a hurt to inclusion.

Financial exclusion results from a complex set of overlapping barriers and consequently successful financial inclusion initiatives have got to address a lot of issues. I would particularly like to mention people who are excluded from mainstream financial services, who might use high interest credit and lack insurance and pay more for utilities or lack an account into which income can be paid. We can assist that in two further ways in addition to the ways I have already mentioned and some other details that we can talk about.

The first is good financial decision-making and for this people need to have financial literacy, which means understanding the concepts to a degree. More than that, people need financial capability and skills and the motivation to plan ahead and information on when to seek out advice and how to apply it. The range of products is getting ever more complex so financial capability is now more important now than it ever was before. The need for financial education is ongoing and continuous throughout people's lives as the market and their own circumstances change. I think it needs to be pitched at the right point in their lives as well.

Q. Chairman: Thank you very much. Before we move into general session there is one more question which we would like each of you to answer so that we can read it into the record. We are trying to establish whether there is general or perhaps even unanimous support among our witnesses for the principle that the UK should seek to be a leading force in promoting financial inclusion around the world? Should this be an objective for United Kingdom Government policy? If you agree with that, if you agree Britain should aim to be leading on financial inclusion, what are the practical steps you think Government and the regulator and the financial services firms should be doing to address that, particularly in the next Parliament. You may want to answer the latter part of the question in writing, but could we just ask you, perhaps starting with Claire, do you agree that for the next British Government it should an objective that Britain is a global leader in promoting financial inclusion?

Ms Whyley: Yes, I think the Panel would think that makes perfect sense.

Mr Hamblin-Boone: Yes, if we are a centre for financial services, the capital of financial services, as we aspire to be, then we should equally take responsibility for financial inclusion.

Mr Lyonette: I would maybe add one nuance and instead of saying the obvious yes (because the answer is obviously 'Yes'), I would say I am more interested in inclusion than in

promoting financial inclusion. The last thing I would want is an industry of financial inclusion professionals. That would not be helpful. I am more interested in people being included and they do not always go together.

Q. Chairman: That is a good point. I perhaps phrased the question badly. As a leader in financial inclusion rather than promoting financial inclusion. Ben?

Mr Hughes: Yes, I agree. Actions speak louder than words, so I think the way to do it is by building good practice that other people will see and follow rather than talking and propagating internationally. I will follow that up. I do not think we will achieve that without the required leadership that I think we need very much from both the FCA and the Bank of England as two key nodes, if you like, in driving forward the financial services industry.

Ms Johnson: Yes, of course, but I think it is important to understand there is probably not a silver bullet here, as I think everyone has been indicating, and I am sure you are all aware. There are a lot of things that need to be done. I think the authorities, the Government and the regulators need to think very carefully about some of the other things that they are doing and the potential impact on this as they do them. There are complex echoes around the great web of things, as it were, which sometimes reduce impact.

I will just give you an example where maybe the anti-money laundering requirements - sensible and indeed very desirable though they are - and issues around immigration which require addresses for a lot of things actually militate against those who have not got an easy form of permanent address or one that has got any sort of track record on it. Some of these things need to be thought about in a wider context and with greater sensitivity and with a degree of flexibility in some circumstances.

Ms Whyley: I know we are not at the free-for-all stage yet but could I just chuck something

else in from a Panel perspective? As everyone has said, it is difficult not to agree with that statement, but I think what we would say is that that needs to be underpinned by a clear vision of what financial inclusion really means. It is not about getting people into products. I think one of the things we have learned over the last few years is that when this is product-driven it does not work. It needs to be consumer behaviour and needs driven. I think that is where we have seen some real problems.

Q. Chairman: Thank you, Claire. You are not the first witness to make that point and it is a very important one. There is no point in tactics without strategy.
Ms Whyley: And actually there is lots of leadership. There are lots of places abroad that are doing way better than we are in terms of inclusion so we need to be prepared to learn as well as to lead.

Chairman: I think now we will throw the session open and I will ask my fellow Commissioners, Chris, do you want to start?

Q. Mr Pond: I wanted to first of all ask, Claire defined financial inclusion in terms of availability and access to appropriate products and here we are talking about credit. I wondered first of all whether or not there was one person on this table who perhaps in talking about credit is not appropriate and one person whom we would have liked to have invited but Stan the Loan Shark was not able to join us today. The one I am thinking about, Melanie, is credit cards and the way you described it for those who are not financially excluded was as, effectively, a mechanism of payment more than a form of credit? They only become a form of credit for those who do not pay them off each month and therefore amongst those who are, on the whole, the more financially excluded and those who are on the lower incomes. Is it

increasingly the case that they are a mechanism of payment rather than a source of credit?

Ms Johnson: They are certainly regarded by a lot of consumers as a mechanism of payment. That is undoubtedly true and 60 per cent of consumers (although the figure is probably a bit lower) are using them effectively to manage their finances from one month to the next and a lot of people are paying off their balances in full each month. That would correlate with what you would think but, on the other hand, if I could go to the other end of spectrum briefly, the three per cent or so where current balances are the result of minimum payments all the time, are distributed over the entire income range, so there are consumers across the entire income range who are using repeated minimum payments over six months or a year for one reason or another. Some of them it may be that just suits their lifestyle, their choices or whatever, but it is not easily pigeonhole-able is what I am saying. Amongst the borrowing it is not easily pigeonhole-able.

The other thing I would say is that GfK have done research for us which actually shows that lower income consumers are better organised in their spending and their payments than a lot of other people and they manage their money rather well, so a lot of those people on lower incomes are rather nifty and skilled at managing their money.

Q. Ms Williams: I want come back on a couple of those points because I could not agree more, the less disposable money you have, the more attention you pay to it. I often fail to pay my credit card off in full because I can afford not to. I want to come back on two points you made in particular, Melanie. One was around education. I fundamentally disagree that financial products have to become more complicated and that the only possible response to that ---

Ms Johnson: I did not say they had to; I said they were.

Q. Ms Williams: Therefore my question back to you is surely the more nuanced response is to say how can we avoid unnecessary complication, how can we simplify wherever possible? I am interested in that as a line of discussion.

My second point is picking up on that point around minimum payments. We do not know why people might make so many minimum payments. I think that is very interesting to me because it is something that has been raised many times across the sector about the potential detriment hidden behind minimum payment behaviour. We have seen other parts of the credit sector have tried quite hard to be thinking about where there might be hidden detriment and yet what we have not seen in the credit card sector is any attempt to tackle detriment behind long-term minimum payment behaviour. I am interested as to where you stand on that?

Ms Johnson: I would need to disagree with you in the nicest possible way because about three years ago we implemented letters to people who made repeated minimum payments. If you make a repeated minimum payment for six months on your credit card you will get a letter from your issuer saying you have made a minimum of six months of minimum payments and this is not in your best interests. You are shaking your head.

Q. Ms Williams: I tried it as a direct experiment. I think that might be a policy but in practice I do not think it is happening.

Ms Johnson: We would be very interested to know if there are any gaps in that.

Q. **Ms Williams**: I can name four companies which do that.

Ms Johnson: That is not what the policy is.

Q. Ms Williams: Yes, I agree with you.

Ms Johnson: That is not what the agreement is and that is not what the industry in the main is doing. If I can just explain that almost all the credit card issuers use Argos, which is a US-based data handler, to handle the information about their credit card accounts. There are about 40 million of our credit card accounts in the UK on that database. You do not have to extrapolate from the data. You have got an awful lot of hard data. We used that in the credit card review with the Government in 2009-10 onwards and we have used it subsequently, so when the minimum pay letters went out in line with the new policy we have been monitoring behaviour. It is interesting when you send out a letter like that a proportion of customers will actually pay more of their accounts off as a result of that, and that does not just affect the card that they may have the letter in relation to, interestingly, but it changes their behaviour on other cards that they might have had which they have not had a letter on because it is not relevant. It is interesting. It was a proposal of the Government that the industry did this, which we did willingly and voluntarily at the time, but it is also something which behaviourally we were not sure whether it would lead to any changes. The interesting thing is that it has led to some changes and I am very happy to supply you with some more background data on that.

Q. Ms Williams: Can I have a follow-up? You will have seen the working report on debt and one of the things that we looked at there was around how fair was it in terms of how many times do you repay debt. Obviously within the payday loan industry, we are now looking at a limit of twice in total, and I am really interested in again how that might translate across to credit cards. For example, one thing that Claire and I have worked on is looking at the fact that you might be on minimum payments for many years and never get anywhere close to actually being clear of debt and it is easily more than twice what you have paid to

what you originally owed, and I am just wondering where the card industry thinking might be around learning from some of the payday sector work and instead of having regulation imposed upon you thinking around what is fair.

Ms Johnson: We are looking at doing much more research into minimum payers, which is the other thing that I should have said. We are increasingly focusing on that area. In some cases, people may choose to do this even if they are not in any financial difficulty. That is up to them. It is a free world on something like that. And it is much cheaper money than many other sources of money, albeit it would not be cheap. It is a much better way of borrowing in some cases for people than some of the alternatives would be. So from that point of view it is a choice.

Where there are people in financial difficulty, obviously the industry runs a whole lot of forbearance programmes so that people can declare that they have a problem and be put into a forbearance programme and be helped, as it were, to run their balances down. Their interest rates will not be put up, they will be frozen at whatever their interest rates are and they will be able to pay down the balance on their account and they will be helped to do so. I might say that one of the things that we would also like to see on this is we run forbearance programmes of one kind or another but if you are the HMRC, the councils or the utilities, they do not run these forbearance programmes, and I think that there should be a level playing field on forbearance because to people who have got problems obviously a debt is a debt and it impacts on them equally.

Chairman: That is a very interesting last point. Martin?

Q. Mr Coppack: Mel, I was interested that you said that there is a real need for leadership

from the regulator and the Bank of England. I just wondered if you and others had any thoughts around the Government's responsibility for leadership in this area?

Mr Hughes: The CDFI model has been imported from the US and if we look at how that industry has evolved into a $55 billion highly successful and developed industry, it has largely been through different politics and different kinds of industry, but the Federal Reserve has had an absolutely pivotal role in driving forward not only appropriate regulation and legislation, but I think critically in being able to bring a range of different providers together. In part it goes back to the strategy question to agree how as an industry we can really tackle the challenges that lie ahead. I suppose if we look at the UK context, what we would like to see, and there are some encouraging signs and we would like to see much more of it, is the FCA working with the Bank of England to, if you like, enable precisely some of those early stage conversations around how we can arrive at what kind of industry we want to see and how do we make that happen. I think that is step one.

Step two moves us into what I think is post-Election obviously, around putting in place the structures necessary to realise that vision. For us we are quite clear that banks have a very key role in that, but unless there is some structured framework and legislative requirement for banks to work more closely with a range of local providers and indeed to make that capital available to this still profitable but less profitable end of the market where there is absolutely market failure, there is no question that I think it is going to be very hard for us to realise that objective.

Ms Whyley: I would like to respond to that question as well. For me there is a really clear role for Government in providing that leadership. Since we had the change of Government and the end of the Financial Inclusion Task Force, there has been no leadership. Nobody has been setting expectations and monitoring where we are. Under the Task Force there was

regular measurement of the number of people who were unbanked, for example, and I do not think we have seen that systematically since the end of the Task Force. All of that was pushed through by the Government saying we need this data and we need to know how people are operating in society so that we can address it.

The other reason I think that is critical is that I know from discussions that the Panel has had with the FCA that they see a very clear distinction between financial regulation and social policy. To a degree, that is fair. I think they do expect Government to set the ground rules which they can then address in terms of regulation. Financial regulation can have huge social policy implications if this is not connected and thought through. I think there is a clear role for government. I do not think it is fair to expect the regulator to do all of that. I think the regulator needs to respond and work with government, but I think there needs to be a statement of intent and somebody monitoring it.

Q. Chairman: It is a bit difficult to find a government department that is in the lead on this.

Ms Whyley: The DWP was supposed to be doing it. That was the narrative. HMT had backed it and once the Task Force ended this was all supposed to be put within the DWP. I have not noticed it.

Mr Lyonette: To be fair to DWP, and I find myself defending a government department, they were only taking on the bit that they had ever had. They were not taking on bank account monitoring.

Ms Whyley: I thought they were.

Mr Lyonette: That would be a very strange division.

Ms Whyley: I thought they were providing leadership.

Q. Chairman: That is in the past.

Mr Lyonette: The point I would make is I think Claire is right that the impact of government that is kind of holding people to account is important. I think the thing I would like to change from any of the powers addressed last time is for it not to be all focused on the high street global banks, so both there needs to be a wider range of financial services firms there but also - and Melanie talked about it this morning - some of the people who really do not help any of these challenges were never there at all, like utility firms and local government really. We had some links with local government but they were not sat around the table. If it really is going to be a holistic approach, it needs to be a broader range than just banks. If I am honest, some of the reason banks were there was because people thought they would be the way to bankroll it. That has not really happened and I do not think it is likely to happen.

Ms Whyley: I think the focus was on banks originally as well because the Task Force decided bank accounts were the gateway to financial inclusion. That thinking has probably moved on significantly, which is the other reason why there needs to be a much broader range of players. That was the initial focus that if we could get people into banking they would then have access to a wider range of products.

Mr Lyonette: I think it was beyond the Task Force. It was already decided who the players were around the table, was it not, Claire, and we did not get to choose who sat round the table.

Ms Whyley: I think we decided what the priorities were.

Mr Lyonette: Well, okay.

Mr Hughes: Very quickly, when I talked about the FCA and the Bank of England I was not for a minute suggesting there was not a role for the Government. We have a constant challenge in working with five different government departments all of whom have an interest in the work of CDFIs. We feel very strongly that the solution to this is that the Treasury is the overarching one that is governing the purse strings of those individual departments many of

which are doing the best they can under the circumstances. The problem is they are not integrated and their work is not pulled together. I think the only department that can really handle that is Treasury. One of the things that would be incredibly helpful for this Commission to be flagging up is the need for cross-government leadership and that one department does have primary responsibility for pulling together the different strands in different departments.

Chairman: That must be right. I asked a very senior Treasury official when I started on this what the position was and he said they were not doing anything under the present Government on it. In fact, ministers simply want to encourage spending in the run-up to the next Election and there is no interest in this area. I think the Commission is about generating political interest.

Q. Dr Khan: I have two specific questions for Melanie and Russell and then just some general questions. Melanie, are you looking at pre-payment cards? Is that something you are looking at? For Russell I just want clarity on that 54 per cent cut in loans and then I have a more general question. Looking forward, what do you think the effects of the cap are going to be on your industry? When you say a 54 per cent cut is that loan value, is that the number of people getting loans, the number of loans provided.

The final one is we have no high street banks here so obviously we are not only looking at high street banks, but I was curious for all of you, this is supposed to be a session around credit specifically for low income groups, do you think high street banks cannot be part of the actual delivery solution because of their business model or do you think we need alternative finance institutions such as credit unions. Do low income consumers like a particular kind of

product or delivery model that potentially high street banks cannot deliver or would you like to work more with the high street banks?

Ms Johnson: Your first question was about pre-paid cards. We do not actually represent the issuers of pre-paid cards at the moment, but obviously quite a number of our issuers are also the issuers of pre-paid cards. All I would say is obviously they are quite a good way for people to take money around with them and they do provide an alternative in a way to a debit card, and yet you do not need an account to do it so you can just load them up like you load up an Oyster Card or whatever.

Q. Dr Khan: Do you have data on that? How many members offer them?

Ms Johnson: We have got a little bit of detail on the market. We can certainly try to supply you with whatever we have but it is fairly limited. There are a wide diversity of people who issue them way beyond the traditional issuers of debit and credit cards and a lot of different players in the market. They are a way of doing something and making a payment. I would just say I do not think credit is the only issue. Being able to pay for things easily and cost-effectively is really important on debit or on the equivalent by whatever means. Obviously the pre-paid payment card is a little bit like Empays, the model of mobile payments where the phone account is used as a way of transferring money between two individuals, and currently phones are being used as intermediaries in our system. There is a lot of potential for technology to drive things forward and completely alter this landscape over the next five, ten, 15 years. It does also need massive co-ordination across more than one industry to make it happen. Not only do I think we need the wider range of players in the market to do various things, but I think also when we want to drive these things forward across lots of industries, various players, mainly government and others, do need to act as a way of bringing people together and making sure those co-ordination things happen. If you are a consumer,

particularly talking about the complexity of products and using products, actually what you want is a very simple interface as a customer. The danger is it is a bit like railway tickets, if I can say that off the record. We do not ever buy railway tickets officially in my job, but I do and I guess everybody else does. It is just they are all at different places and different values. They are enormously complicated and the only thing is to go to the window and ask for one, I find. We do not want to end up in that position. If you have lots of different forms of mobile and other payment technologies being used in different ways and it is all ending up different across different industries, because the NMOs are increasingly a player in this field. transport is coming on-stream with contactless, not just in TfL but elsewhere in the country on other mass transit systems, all of those things require a common system so that if you use it in London or Manchester or wherever it is the same and you know you will be able to use that in the same way. This is about ease of access and simplicity for consumers. I have quite a lot of sympathy for the fact consumers ought to find it pretty easy to use things. It is not their job to be aces at this; it is our job to make it simple. It is complicated within one industry. Our industry put a huge investment into making chip and pin universal. It is still being discussed in the States. If you want to do something across industries with many different players it is much harder than ever it was before.

Ms Whyley: I just want to come in briefly on the pre-payment cards point because you said you wanted to focus on new solutions, so I say this with a personal hat on, although I do not think it would go against anything that the Panel believes either. I am confused as to why pre-payment cards have not taken off. Towards the end of the Task Force we were seeing them as a potential solution that could go mass market and could reduce some of the costs of basic banking and could meet some of the needs that people had for day-to-day money management that bank accounts had struggled to provide them with. If you have an opportunity I would really like to see some challenge to the banks as to why this has not been

rolled out as a different interface between high street banks and transactional banking and consumers who currently are bordering on exclusion or are excluded. I do not understand why they have not taken off. They are used quite successfully in other bits of the financial services sector but in a way which attracts relatively high charges or transactional costs, and I really do not understand what the barriers are to them being mainstream.

Q. Chairman: They have taken off in other parts of the world.

Ms Whyley: Absolutely.

Mr Lyonette: I was not going to talk about pre-paid but I think you should ask a banker about that. I think most of the banks that entered pre-paid have since exited. There are business model issues. Fundamentally, there are challenges with making money on it or making enough money on it from their business model. I think the bigger challenge in the UK marketplace - and Melanie is much more of an expert than me on this - is the existence and domination of ordinary debit cards creates conflict there. In most of the places where mainstream banks will supply pre-paid cards there was not the initial penetration of existing debit cards. We have some structural challenges in the UK about pre-paid and as a provider of small number - we have 40,000 people using our pre-paid card - it is a difficult business model and it is only going to get worse when the EU changes the interchange rules in the next however long the EU will take over it.

I was going actually going to talk about mainstream credit. The first thing to say is I do not think the banks will play in this space. I think the banks are less likely to play in this space every year and they are moving up market and becoming narrower. One of the things that has always fascinated me is government track and many of you track the usage of the supply of basic base bank accounts, if you like, and we can keep numbers on that. We track the demand

for alternative credit like Russell's members supply. We do not track the supply of other parts of banking in the sense of not many people know where minimum income levels are for getting a mainstream current account versus a basic bank account. The banks move it regularly and it is getting higher, so I think we should track other mainstream supply. We do not understand well where the credit cut-offs are. There are a whole lot of other things we could track if we are interested in how the mainstream getting smaller and that is not just about usage of other alternative providers of credit. You can measure a whole variety of things in the supply side of what banks do and do not do. They will not publish them very likely, but it is not very hard to get hold of them if you ask.

Mr Hamblin-Boone: In terms of the 54 per cent that is the reduced number of loan approvals.

Q. Dr Khan: Do you have any sense that they are higher or lower? That is one of the other things. Is there a particular kind of loan that people are now not getting?

Mr Hamblin-Boone: This was measured pre-regulation so what would have been an average 30-day single-payment loan. There are not the figures available yet for the new products that lenders will bring to market as a result of the cap. One of the things that is suggested by that reduction is that must be a good thing - fewer people getting access to credit - and the FCA made a big play of that when they looked at the customers that they surveyed. But they surveyed a very narrow band of customers who had either just qualified for a loan or just failed to qualify for a loan. We did a much broader survey of people during the summer, so post the regulation, who had been turned down for loans purely because of the tighter affordability checks that lenders were applying. Only 25 per cent of them said they were better off, because they incurred other fees for missed payments and bank charges and so on. This industry is always looked at very logically and it is a very illogical industry and it is a very illogical customer base as well. We know that a significant proportion of those people

said that they were just going to other high-cost credit products - guarantor loans and logbook loans and so on. - So what one would suggest was a good response that half the market has gone away, actually it has not gone away, and this brings me on to the earlier point where the regulator is caught between economic policy and social policy which it has less responsility for. Our concern here is that people are being excluded as a result of regulatory change but that is not the regulator's problem.

Q. Dr Khan: Do you think the long-term effects will still be 54 per cent or do you think the new products that will be designed will pick it up? Have you seen any estimates? You are saying they are still using other products; presumably that means that if you offer good products potentially you will pull them back in.

Mr Hamblin-Boone: That is obviously the way you would hope the market is going to go. What we will see after the beginning of the year is further a reduction as a result of those lenders who are not able to meet the authorisation requirements exiting the market. If I were a betting man (and I am not) I would suggest that there would be about a dozen businesses offering a range of high-cost short-term loans, whether they are mini personal loans or running credit or similar types of products. Regarding the 30-day or less, single-payment loan, I think it will be very difficult for more than one or two lenders to offer something like that.

Ms Whyley: I say this with a personal hat on. We have talked a bit already about looking at this from a consumer needs perspective and not a product perspective. I think the only way to really assess the utility and the problems with some of these products is to look at why people are using them. I think that is particularly relevant in the credit space. Credit is so pervasive now. Credit cards have gone from being fairly small to a huge mass market and they are used for a whole range of different reasons. People that are using credit cards for example to cover

income inadequacy are probably always going to get into difficulty. People using them for other reasons, short-term smoothing or convenience or whatever, are probably always going to be okay. I think the important question about what is happening in the payday loan sector is which are the customers who are not getting their loans. I have seen a number of segmentations of payday loan users. Those who are using payday loans alongside other mainstream financial products tend to be struggling. They tend to have reached payday after they have got into trouble with other types of financial products. Payday is something they come to towards the end of their lines of credit and they are already in trouble and so the use of payday for them is associated with financial difficulty. Within those same segmentations there is a group of people who are largely operating outside the financial mainstream who use payday as part of that and do not get into difficulty with it because they are using it in a different way for different reasons. I am interested to know who is not getting payday loans any more. Is it the ones that were using it without difficulty or is it the ones that were using it and having difficulty? Just coming at it from a product perspective does not help us ensure that we are protecting the right groups of people and that is what I find difficult. I think there are some product features that are always going to be problematic for any group of consumers and however that product is used. There are some product features that are fine if you use them in the way that they are intended to be used but not if you use them in a way that they are not intended to be used. I do not think minimum payments were ever meant to be used for 25 years but some people are using them like that. It is about understanding - and this is particularly the case with credit - what is the range of reasons that people use credit and how are different products used and combined to meet those needs? That is how you understand where people are going to fall through the gaps or where things are going to combine to create problems.

Back with my Panel hat on, we keep emphasising to the FCA that they do need to look at this from a new perspective and not focus just on particular product features because if you do not apply consistency across the market you have this water bed effect where people are paying charges in one bit of the market instead of another bit and we need to know that the right groups of people are being protected across the market and not being shifted about from one type of credit to another.

Mr Hamblin-Boone: The key to that is affordability and what has driven the changes in the market has primarily been around affordability. I do not think those affordability checks or the tighter criteria has allowed lenders to recognise that people have irregular incomes, and there is an increasing number of people who have irregular incomes. 20 per cent of people are self employed, five per cent of people are on zero hours contracts. And yet the way the regulator wants lenders to approach their customers now does not allow them to take into account the volatility of people's incomes. It does not allow them to recognise, for example, that somebody who may not be able to pay back a loan in a month, by smoothing their finances over three months or six months finds they can. People's circumstances are very different, and those people are not, with all due respect to Martin, employed by the Financial Conduct Authority who get paid on the last day of the month the same amount every month for 12 months and so are able to manage their regular income and expenditure. I have been in this situation myself when I was younger, if you wrote it out on paper and presented it to someone, you would see that my income did not exceed my outgoings but you survive because there is a smoothing process, a robbing of Peter to pay Paul. Lenders have not been able to build that into their affordability assessments because the assessment has to be much more simplified satisfy the regulator. Consequently, it applies to both people who were on very low incomes who perhaps should not have this type of credit in the first place, because it is expensive, and also to people who were managing very well but where lenders like the

banks have moved to a similar tighter lending criteria. In terms of whether the banks - and this leads on - would move into this market, I think there are already some issues around competition. The banks have a strong control over the lenders in terms of the banking services they provide, and we are concerned when there are some banks which say they will not work with certain businesses. They are effectively acting anti-competitively if they drive their competitors out of the market because of the stranglehold they have on short-term lenders and then come to market with a product themselves. We would be a bit worried about that. The banks also have not grasped an understanding of these types of customers. The fact that short-term loans are simple and convenient for many people is viewed a negative by many people. Most of those people have probably never had a short-term loan or met somebody who had short-term loan. But that model is exactly what everyone is driving towards. It is an irony to me that high-cost lending through the stores is probably going to be driven off the high street at the same time as people on a slightly higher income in a slightly different, middle-class world would like to see local banking services on the high street in exactly the same way as high-cost lenders are providing community services. Short-term credit, foreign exchange, money transfer, all of those types of things currently on offer from loan storesare doing effectively what people would like in an idyllic world the banks to be doing on the high street in areas of high population density.

The other point to make which the banks will struggle with and mainstream creditors will struggle with is the technological advances that the short-term lenders have developed, the demands they make on the credit reference agencies and their use of a range of data in order to profile customers. It is illogical to suggest that you would lend to people who were high risk if you did not know an awful lot about those people and were able to make an assessment in quite detailed terms of what the probability is of you getting your money back. We are

moving now into real-time data where we can look at people's immediate circumstances as well as their recent financial management and to some extent start to model what their future financial management will be in order to assess whether somebody can afford a loan or not. That is cutting-edge technology which is at the moment far beyond anything that the banks can offer.

Q. Chairman: Russell, while you have got the floor, could I ask you either now or writing to us later to address the question what would the Consumer Finance Association like to see the next Government do in this area? What practical steps, within the realms of the politically possible obviously?

Mr Hamblin-Boone: The first thing is to recognise that by tightly regulating a very small part of the market (less than one per cent of the unsecured credit market) in order to address a whole range of social policy issues is virtually killing the market and moving a problem elsewhere, while not tackling the root causes. We have been the proxy for all the ills of the recession, in many respects, and there has not been a recognition that what this market has done and the innovation it has brought could actually be harnessed and used as part of a solution. Not only has the market been demonized but its customers have been stigmatised. I will write to you with some specific things around what the regulator could do. I place this in the hands of regulator because in our part of the market the Treasury has had very little involvement really. It has only been occasionally when there have been legislative issues around bigger bills that there have been elements of payday lending where the Treasury has taken an interest.

Q. Chairman: I think you are essentially saying the next Government should take on the Archbishop of Canterbury?

Mr Hamblin-Boone: I have spoken to Archbishop of Canterbury's team and they are very clear that they see the need for choice.

Q. Chairman: I think we need to focus on what practical changes you would like.

Mr Hamblin-Boone: I would say the regulator is the focus. As Claire said, you start with the consumer; understand who the consumer is. The product is developed in response to that consumer , so now we are seeing three-month loans being developed as an alternative to a single-payment loan. The early indications are the repayment levels are much higher. People are happier and more easily paying off a three-month loan. Many of those people were those who previously took out a payday loan with the deliberate intention of paying it back in three months because they set out at the beginning to roll it over three times because they knew three months was what they needed.

Mr Lyonette: So you got it wrong?

Mr Hamblin-Boone: No, I do not think so. It was a mix of different people responding in different ways.

Mr Lyonette: Single-term loans have always been and should always have been a really niche product. They are not affordable for most people. It is not even the cost of credit; it is the term. If you really see it from consumers' needs why did you all offer single-term credit?

Mr Hamblin-Boone: I think you will find the same challenges when it is presented to credit unions who will have to step into this space and provide a single-payment loan.

Mr Lyonette: We are not interested in providing single-payment loans.

Ms Whyley: But some customers need them. I say that with my personal hat on.

Mr Lyonette: It is a really niche product. I have not got the energy to rehearse the whole of the payday arguments this morning. I did not come here to do that.

Q. Mr Pond: To follow up that if Archbishop of Canterbury were here - and who knows, he might pop in any minute given where we are and we had his representative even closer to Earth Hector Sants yesterday - he would be saying we have done our bit in terms of payday, we have choked off all providers in the market, so onto the stage come credit unions and maybe the CDFIs. Are you going to fill that gap? Is it possible to scale up in order to meet the need for that short-term credit?

Mr Lyonette: I do not imagine and I do not suppose anybody really imagines that credit unions will fill all the credit demand or alleged demand for single-term repayment. We have got no ambition. We think the amount of people that we see who have had huge detriment from single-term payments is a massive percentage of that market-place. The cost of the credit is what has got all the politicians' interest but actually it is the term that is the problem, not the cost of credit. Even if you were borrowing it for free, the average loan size - at Wonga's height it was just over £200 - is really difficult for most people to repay £200 and adjust their budget by £200. It is not impossible. As Claire said, there is a market, but it is a much smaller market. I do not think our ambition is to provide single-term loans. Our ambition is to get more convenient, get stronger and be able to serve people's need for responsible credit, honest loans if you like, over multiple repayments. I do not think anybody expects us to fill all that gap. CDFIs are a much smaller entity. I do not think that is our ambition, Chris. We will keep growing, we are growing healthily now, but I do not think we are the answer, if there is an answer, to single-term credit.

Mr Hamblin-Boone: We must not forget that 65 per cent of single-payment loans were paid on time, so clearly the majority of people do.

Mr Lyonette: I have done that myself and because you keep rotating it is a long time before you actually realise what you are in. The actual level of defaults hides the real damage. I actually do not want to do the whole payday thing; you will get me going wild.

Mr Hughes: Chris, pushing your point a little bit further and going beyond single term to say are CDFIs, credit unions and other players - and it is not just us, we have the emergence of crowd funders like QuidCycle who are very keen players and I suspect we are going to see an awful lot more of them - a viable alternative, if you like. At the moment I do not think we are at all. We are far too small, the level of awareness is far too low, it is confused, there is a very weak infrastructure within the CDFI sector and from what I can gather others too, although work is in progress, which is positive. So what do we do? I think we will all face different challenges because CDFIs and credit unions for instance are different. The constraints of the credit union model mean credit unions will not be able to lend to those that have a very high risk profile for whom to make it viable you are going to have to charge higher interest rates. These institutions need to be able to work together. Certainly CDFIs as non-deposit takers have a massive absence of capital, as we said, and others within the crowd funding piece do as well. As Sir Hector mentioned yesterday and we are very supportive of, the practical thing is the use of bank fines to reinvest back into the local community or other finance sector. £452 million I think it was last year. At the moment that money is just deployed within Treasury on a whole range of different Government priority areas of expenditure.

Q. Chairman: I think Richard Pauls(?) has suggested that.

Mr Hughes: A number have and I think if we could ring-fence a proportion of that to reinvest back into the local industry, if you like, that in itself would have a significant effect.

Q. Mr Coppack: Perhaps it could fund financial education which I think is another idea that has been around the Treasury at the moment.

Ms Johnson: The research that we have done so far using the data base that I talked about before has just revealed quite a lot of surprising information, such as you cannot characterise

repeated minimum payers as being in a particular income bracket and all that sort of thing. I think we do need to understand consumers and what makes them tick a lot more. They are not pigeonholed simply by their incomes or their circumstances. We are all individuals and psychologically we behave differently in different settings. People's lives change. They can be one minute employed and the next minute unfortunately not. There are also changes in circumstance which may bridge certain things, so I think there is a lot of understanding that we need to get together. Whilst it would be really good to actually see things like basic bank accounts, and there is the European Personal Accounts Directive of which I am sure you are aware which does require banks to provide basic bank accounts, although I think all the mainstream banks are providing them anyway, to get people banked, to get them access to debit cards, et cetera, et cetera. I think what we also need to do is to look to the technologies and what is happening in the technology space. I think that is why your focus on technology is particularly useful because we ought to think particularly in its development about how it can expand financial inclusion and actually reduce some of the issues that the traditional means, as it were, have so far left untouched that we ought to be solving.

Chairman: It is a very important point. First of all, many people in law enforcement prefer financial inclusion, but the sorts of sanctions that are driven particularly from New York of excluding criminals from the financial system do not work in the wider interests of society. We should be including potential criminals in the financial system where they can be monitored.

The other thing is there is interesting evidence to suggest that much of the AML activity has not actually prevented much credit crime or deterred any subsequent crime. It has just displaced activity elsewhere. This research, originally funded by the US Treasury and the

IMF, does convey rather unwelcome news, but it looks very respectable to me.

Q. Dr Khan: Can I pick up the technology point and in particular issues around data. It was interesting hearing Russell's point. My understanding - and maybe Mark can talk about it - is a major part of the credit union modernisation is to improve access to certain kinds of technique. I was just curious, and also for Melanie then the question being how we can make a positive impact on people's credit scores through people's good behaviour and what kind of data have you got on that. I suppose it is for all of you, but I just also want to put the other side of it which of course is my understanding is that a lot of people like the face-to-face service of a credit union, the personal interactions, not just seeing people as numbers. One of the things that makes you successful arguably is that you had people who knew that community quite well and they were not just a loan collector. So I am curious about the balance between that as well. Is there an opportunity there? In particular, how we can feed some of the repayments that we are seeing from you into mainstream credit to improve access to mainstream credit but also your reflections more generally on the limits of it?

Ms Johnson: I think the low and grow strategy which I talked about and also there are some credit builder products out there which enable people to gradually build a deeper credit file, as it were, and open up more credit to them. Those are things which I think are really important and there is a danger that they can be looked at in the wrong light. For people providing some of these products, for example MBNA and Capital One, they all provide that kind of product to a degree to a section of the people that they have in their customer base and actually those customers typically will be given a low loan level to begin, a low credit limit, and actually it does not make it economically viable to provide that service initially, but they are given the opportunity within quite a constrained couple of hundred pounds or whatever on that to actually demonstrate over a period of time that they can manage their finances. That is

obviously quite risky because at that point, especially if you do not already have a bank account with a provider, none of them actually runs a bank account so they have not got that history of the individual with a bank account with them. They are taking the other information and taking a risk and then they will grow this person on, they will increase that credit limit, and the aim is to produce something that works from both sides as a result of that and to give people the opportunity to go into a form of mainstream credit. I think that is one of the things that is very helpful. It is a step-up opportunity and some of the products are built with that in mind, but I think the data issue is really quite important. If I could go back to my limited but important example of Armed Forces personnel, it is very difficult if you have got a lot of Corporal Bob Smiths or whatever at a BFPO address to distinguish one from another and give them any opportunity, so the ability to build that kind of information, and a lot of that is the same problem only it is a microcosm of it in a particular way that a lot of the rest of the population have, so this greater sharing of data and the data that the Government themselves have about people would be very valuable. Obviously there are issues in doing that because people have anxieties about their data and who it is being shared with and for what purposes, and quite rightly, but that would potentially provide a means for a lot of people to get access to products they cannot currently access.

I just wanted to make one point. We have talked a lot about those products that those of us along this table represent or deal with, but obviously there are other things like bank loans and HP agreements and all the rest of it. There are many other forms of unsecured credit which could conceivably be relevant in certain situations.

Q. Chairman: I think that is a very important point and we need to work with our staff. There has been some interesting work in other parts of the world. It might be non-traditional

records such as mobile phone records, housing payments, all sorts of other things that can be used to build a credit file.

Mr Lyonette: I should talk a bit about us doing something. The challenge of the previous Government's Growth Fund is that small sum short-term credit in credit unions has created some distabilisation over the last five or six years and it is very difficult for credit unions to make money on those people to break even. So for two reasons, partly to increase the customer experience, the member experience of borrowing, and to reduce credit union costs, they have tried to become more automated in a whole range of ways, one of which but only one of which is where it is possible to make easy yes/no decisions on lending and then to use the credit reference data. It is, as Melanie said much more eloquently than me, a far from perfect system, but we have rolled out to 76 credit unions an automated rules engine working to Experion alone at the moment, and it has made a huge impact on the sector in terms of better lending decisions and not lending money to people who would not have repaid you. That has really helped. It has not yet cut their labour costs hugely because it is not integrated into their core systems, but that is the next stage of the programme. I think that is really helpful. I think there is only so far it will go. At the moment I think we have got something like 45 per cent referrals in the middle so you still have to kind of deal with those manually, but for the other 55 per cent you have got a much smoother process. It is not just lower costs for the individual, it means that you can now turn round loans when the office is closed on a Friday night or a Saturday and the whole thing can go straight through. That is a big step forward for the sector. In terms of serving a higher membership, which we would say we would need to balance it out, we do not buy into this idea that community finance organisations are going to hand on their profitable customers to the banks. I do not believe that happens with CDFIs and it is certainly not going to happen with credit unions. You want that mix, you need that mix of people. If we do not have some of that automation, Omar, then

we will not actually be able to have the kind of comfort factors that people on an average income or slightly above average income would expect today. For that it is not about cost efficiency; it is about providing the minimum expectations of the consumer really.

Mr Hamblin-Boone: That point about personal interaction is less relevant now because systems are automated and that is what the regulators want to see. Obviously in terms of the customer experience, there is a different demographic of people who use stores compared to people who lend on-line. People who use stores do like that reassurance. They do like the fact that it is not somebody in a suit, it is someone in a polo shirt and it is someone from their community who speaks their language, and the lenders have captured all of that almost as an alternative to the type of experience - and this is what customers say - the patronising, embarrassing experience of having to go to a bank. They find it much more comfortable. But, equally, on-line like LiveChat has also meant that customers can have a personal experience on-line as well. Online lending has a slightly higher demographic and a slightly younger demographic who use colloquial language when they interact with the lender. They do not feel they are dealing with some sort of monolithic authority. They feel that they are dealing with a retailer, if you like, and you can see that in the transcripts from calls and in the email exchanges.They will very happily drop an email to a lender and say, "Just to let you know, work messed up tonight, didn't get paid. Can you give me a couple of days?" Literally that language and the operative can respond saying, "Yep, no problem. We can hang on for a bit. Lots of love." Maybe not quite that, but I have seen customers signing off "Lots of love" because they feel that they are having that personal interaction. Having said that, again it is automated so that automation is also looking out for things like fraud. We are susceptible to fraud. The market is considered an easy target at the moment.

Ms Johnson: Can I very briefly mention identity here in all of this because we have just touched on it. Having something to identify someone, which I mentioned earlier on with the

AML and home addresses and so forth, the Government has got an identity assurance programme that it is developing which might also be a means of using other forms of things to identify people by. It could be their bank account, it could be a mobile phone, it could be something else. The amount of data you have to produce to get a mobile phone contract these days is virtually your grandmother's name as far as I can see. It is very complicated and they have got an awful lot of information about you once you have got one of those things, f it is a contract; obviously not everybody has contracts. I am just saying there are identifying issues which are a problem for a lot of people out there and that is another thing I think we should be particularly focused on.

Mr Lyonette: We heard that on Friday when we were listening to the guys talk about Estonia and the head staff that they have got in that space. That is hugely impressive because it is not just the credit data, as you say. Even in the mainstream I think most of our high street bank partners would say that they get too few electronic ID confirmations. It is a techie thing but it would be potentially a really helpful thing for everyone's business model.

Mr Hughes: Can I come back, Omar, on your point about the importance of relationships which Mark really addressed. Whilst I think it is true that moving towards automated systems is very much the way the CDFIs have developed a completely automated model, there is a significant cohort of customers who, as Russell says, want the comfort of face-to-face contact, and if that is not provided you will drive people to those places where they think they are going to get that comfort. There is a very direct correlation with the increasing level of bank branch closures. Even if we are saying that many of these customers would not access traditional bank finance, nonetheless, it was a source of provision for some. We have to look at a way of balancing the need for the benefits of efficiencies that automation brings about with the need for front-line contact for those that are going to need it.

I wanted to get back briefly as well to the issue of banks and the role of the high street bank in this because they are not seriously going to see a resurgence of lending in this space. We are very keen to support and there are some good examples of co-financing so that banks, if you like, provide the back office, certainly the capital, but in many instances CDFI loans effectively provide the de-risking that can enable the bank loan to be effective. I do not think we should see it as an either/or. I think there is a big process of culture change for banks to recognise that actually they can lend if they partner with others that have greater expertise and are prepared to consider different risk profiling.

Q. Chairman: All the banks at the moment are marching in the opposite direction. They will turn back, but they will need accompaniment on the journey and I think those sorts of devices will help. Claire, you had a point.

Ms Whyley: Just to come in with a few observations really. I think the banks are marching in the opposite direction, but I think partly that has been allowed to happen because nobody is holding them to account for walking in that direction rather than going anywhere else. I think the Financial Inclusion Task Force found a real lack of appetite amongst the high street banks for moving into this short-term, low-value credit market, but I think the big issue that we have is partly scale and is partly appetite. Mark has said the alternative lenders do not have the appetite to provide some of the credit products that there is demand for out there and there is the ongoing issue of scale, so I do not think we can let the high street banks off the hook. There has to be a way that they are involved here and it has to be about scale. It really has to be. I do think a new generation of financial inclusion activity would really challenge the high street banks on this and look to deliver something that has scale because that is what we need.

I think my other observations are that we maybe need to start thinking about some new

language. When we started talking about affordable credit we used the word 'affordable' to indicate not just price but how you could pay for it, in recognition that sometimes the way you pay could make even expensive things affordable. I think it has led to an assumption that there is a way of providing this credit cheaply. There is not. Low-value credit to people who are high risk is never going to be cheap. I do not think we have moved to a grown up discussion about how you provide something expensive to people who do not have enough money, but that is the problem that we are facing. Somewhere those costs have to be picked up, either the customer picks them up or they are picked up some other way. That is what we are looking at. There is not a cheap way of providing small low-value credit to people who are high risk so I think it might be that we need to change the language.

The other thing I would say is I think it is true that some people need a personal touch, especially if they are quite new to financial services. I do not think that has to be face-to-face. I think there are ways of being personal without it being face-to-face. Maybe that is through really good use of technology. Maybe it is through working with intermediaries who provide that, but I do not think we should be too preoccupied with the face-to-face thing. I do not think we should lose sight of the personal, but I do not think these things are necessarily tied together. I bank with a bank that only has an on-line presence and I get the most personal service from them, more personal than probably anyone else in my life. I do not think face-to-face equals personal.

Q. Ms Williams: I have got two questions. One is for Claire because it would not be fair to ask you guys this question, which is around you and I share a view that it is really important to have access to credit and it is really important to have access to a wide range of credit that meets your needs, so neither of us believes that credit is bad in any form, but there are

potential detriments around credit. My question to you is given all the guidance and regulation around pushing credit at people which is supposed to be regulated, do you think that is effective? Do you think that there are still situations where people who are in vulnerable positions are being offered credit that they did not ask for, that they would not have asked for and that they were trying to avoid but someone makes it too easy? Do you think that is still the case? What is the evidence for that? That is a question to you.

Then more broadly, following on from that, when credit is not the right answer, we all jump to a solution which is you ought to signpost. How fair is it to expect the credit industry to be funding signposting to effective debt advice? What support do you need if that is a good solution, if that is a good pathway? What does the Government need to do to make it possible? If it is not the right solution what might be a better solution if credit is not the answer?

Ms Whyley: To your first question I think this comes back to understanding the whole range of reasons people use credit and how they use what is in the market because it is hard to regulate a product like credit cards, for example, which is used in so many different ways by so many different people. I think it is hard for one set of regulatory requirements to cover all that. I think it probably is still the case that credit is too easily available to some groups. We live in a world ---

Q. Ms Williams: I am not talking about being available. I am talking about them pushing it. I am talking about me being told that my credit limit on my card has just been increased by £3,000 and I never even asked for it. Or a payday lender targeting people and saying “Would you like this money?” even though they have not asked for it. That is what I am really interested in. I think it should be accessible but is it still the case that people are being pushed

it?

Ms Whyley: From a Panel perspective we do not have direct consumer evidence of that. With my personal hat on I would say there is still some of that. There are two things that happen there. One is that in a society where we have a cohort of people who live with ongoing income inadequacy and have to borrow to make ends meet, the more credit is pushed at them, the harder it is for them to refuse it. I have interviewed people within the last year who have said, "I am desperate not to borrow again but when the credit comes to my door it is going to be to too tempting because there are so many things I need." Equally, with things like unsolicited credit card increases, there is an extent to which people think that if their lender is offering them more money and making more money available that that means it is okay. Somehow someone has done some calculation that says "We recognise you are able to take on this extra credit." That is not the case and people misunderstand what that means. There are still some issues there, but I think that credit regulation does need to be underpinned by a real understanding of all the reasons why people use credit so that you can make sure you are maximising the desirable effects and minimising the undesirable ones.

Mr Hamblin-Boone: Just on that point around targeting short-term lenders, we should not target any particular group. We are facing a threat tomorrow that the Lords are going to stumble into legislating to prevent advertising before the 9 o'clock watershed. Equally, there is a group of people who say that adverts should not be before the 9 o'clock watershed because that is when lazy layabout people are all at home because they have not got jobs, not recognising the fact that lots of people are on shift work, lots of people work at home and there are very many reasons why all sorts of products continue to be advertised during the day time. On this issue of targeting, we need to be careful that we are not talking about that specifically. Traditionally high cost lenders have not offered people more money for good borrowing behaviour in the way that credit card issuers have, but if we move to risk-based

pricing, then we might see them going down the same route as the credit cards because people are proving that they can manage their money and maybe they can manage higher amounts as well. We might inadvertently in wanting the market to move in one direction cause other consequences that may or may not be detrimental. I am not making a judgment on that.

In terms of signposting to debt advice, what my members have found - and I am sure this applies to mainstream as well - is the point at which you have been told you cannot have something is not the time to tell somebody, "Alternatively, I can give you some debt advice or I can refer you or I can do a warm referral or I can directly transfer you to somewhere." The responses particularly from people turned down in stores are not repeatable. I think there is a piece of work to be done around what is the appropriate time to approach somebody and ask them whether they had thought of looking at their finances in a broader sense and whether they need some help managing their debts and so on. I think there is a useful piece of work that can be done where, for example, with our members we are required to refer people to debt advice when we identify them as being in financial difficulty. Equally, we could be working with the credit unions in helping people to save a very small amount and the credit unions have an opportunity here to say it does not matter if you want to save a pound a week. The banks might not want that type of account, but perhaps we can look at that sort of account and make that more accessible to people. And rather than setting themselves up against payday lenders with negative advertising, there could be some positive advertising from credit unions, working with the short-term lenders as well as signposting to debt advice. There is one example of this with the Debt Counsellors Charitable Trust, which is a debt management scheme which also works with the Dotcom Unity Credit Union where a couple of my members are working with them in a pilot scheme whereby people who are referred for a debt management plan are also encouraged to save with a credit union. I think that is a much more

productive way forward.

Mr Lyonette: The second bit of your question, Sian, was should the industry pay for free debt advice.

Q. Ms Williams: No it was: is it appropriate for the credit sector to bear the costs? So, if your affordability assessment is lending is not the right solution for you, there is something else, one, is it an appropriate moment to do it, and, two, is it appropriate that the lender who has been approached has to bear the cost of that and, three, what might be an alternative, better model and where might Government play a role in that?

Mr Lyonette: I had not actually heard anybody suggest that that would be a good time to make the referral. I think I would agree with Russell. I thought you were just talking generally about should the polluter pay. We would be interested in the polluter pays more generally with one caveat. It is not an easy thing to assess who created the over-indebtedness in me, but there should be some proportionality around that about being responsible and being less responsible. I think it would have to be with the caveat though which would be that industry would have to be reasonably efficient and reasonably market driven and you would have to see that. I have not thought about the idea of being referred at the time of being turned down, which does not sound to me like it is going to be very successful. Most people are just angry at that point.

Q. Ms Williams: It is one of the suggestions out there.

Ms Johnson: I was just going to say I do not think it is very helpful to talk in terms of the polluter because for example, with credit cards, people could end up losing their job or their circumstances could change, their marriage breaks up or whatever, and they could end up being what looked like a good credit risk and moving into a bad one as their circumstances

change. There are lots of reasons why things become difficult for people. It is sometimes neither necessarily their own fault nor the fault of the company who lent to them in the first place or gave them the line of credit in the first place. I think we need to keep a fairly balanced view, bearing in mind that credit is not intrinsically bad. It is an opportunity that needs to be used wisely in the right circumstances. Just to say on pushing credit UCLIs all the data still shows that the very broad brush that actually there is an entirely responsible lending correlation between upping the length of the limit for somebody and them being less likely to default than actually if they ask for an increase, even if it is granted, and the majority of people who ask for increases because their circumstances are the reason why they have asked for that increase. If you are still granted it, you are more likely to default or run into problems with your loan than you are if you are actually offered UCLI, an unsolicited increase. You have the right to ask for that to be lowered or to be kept at the original rate. You can adjust your limit downward at any point.

Q. Ms Williams: I absolutely take the point that different behaviours will lead to an outcome, so if you are asking for your credit limit to be increased you probably want credit and there is probably something going on why you need credit so therefore there has to be a greater risk that your finances are struggling than if you are working within your current credit balance and somebody else externally comes to you without you having asked for credit and offers it to you.

Ms Whyley: If everybody who is a good credit risk gets an unsolicited increase, then the only people who are left to ask for one are ones who are a bad credit risk.

Ms Johnson: I have never been offered an unsolicited credit line increase even though I have two credit cards.

Q. Ms Williams: I was two months ago when my credit card company wrote to me and said they were increasing my credit limit by £1,000 and I just thought, "It is still going on. I am functioning really well within my credit card limit. I have not asked for credit. There is nothing about me that is suggesting that I want more credit but here it comes again, and that is really interesting. That is just not where we want the sector to be. I guess the question there is what evidence do you see.

Ms Johnson: All I would say is that it is a responsible practice and the data shows that it is responsibly done and there are not bad results.

Q. Ms Williams: I just want to come back on it. It is responsible from provider's perspective of the making some money out of me, not necessarily from my life because there was no indication that I needed another £1,000 worth of credit or that I was looking for £1,000 worth of credit. For me there is still a mismatch. It comes back to something Russell has been talking about really eloquently, and Claire too, which is around customer needs and thinking about do we start from the customer or do we start with curtailing the products. If we start from the customer, then you do not just write to someone and say out of the blue would you like something that you did not ask for, because that is not actually responsible, customer-led development.

Mr Lyonette: Except actually, Sian, a lot of customers feel really good when they get told that they can have another £3,000 or £5,000.

Ms Whyley: That is a very different thing though.

Mr Lyonette: It is but it does meet a need.

Q. Ms Williams: That is a stroke.

Mr Lyonette: I might not use it but I feel my status has changed.

Q. Ms Williams: But that is not a lead.

Ms Johnson: Can I just make a couple of points on this? The solvency requirements now placed on the banks mean, as I understand it, that for those amounts of credit potentially extended there has to be solvency provision made because they could potentially be used and so there would be a cost to the bank in terms of its liquidity and its borrowing, as it were, to cover that. The utilistion levels are actually still quite low and quite modest across most accounts basically. I just wanted to say that for who is responsibly lent to, if you look at the bottom, for anybody earning below £15,000 only 0.2 per cent of households in that category have access to a credit card. They may not have started off in that category, before everyone says why on earth would they have a credit card in the first place, but there is not a focus on people who have very low incomes anyway. They do not tend to have credit cards. That is a very tiny proportion.

I just want to say on debt advice, we work really closely with the debt advice sector. Typically people get referred to debt advice when they run into problems and we work regularly and liaise with the agencies, we have regular meetings with them and share information because it is useful for us to know if there are any problems coming down the line that we are not aware of. We never used to have these channels of communication and relationships but they are very good. I think therefore working together is really important. Obviously some of those do have some industry funding; others have other sources of funding completely. I think they are covering off a lot of different things. One of the problems in the idea that those responsible might pay is that those responsible change so that, for example, the evidence that the debt advice sector could give us and do give us at the moment is that very few of their problems are around credit card debt for example. So that would also be a

complication of that kind of arrangement.

Chairman: Thank you very much, Melanie, and thank you to each and every one of you. It has been a very challenging session and we could have gone on a lot longer. Thank you for your interesting and thoughtful comments. Will you write with further ideas particularly focusing on what you would like to see on front page of our report next February. Thank you very much.

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