TRANSCRIPT OF ORAL EVIDENCE

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TAKEN BEFORE

THE FINANCIAL INCLUSION COMMISSION

THE LIGHTHOUSE, 11 MITCHELL LANE, GLASGOW, G1 3NU

FRIDAY 16 JANUARY 2015

MS LAURA JAMIESON, MR JOHN POLLOCK, MR FRASER SUTHERLAND, and MR NIALL ALEXANDER

Oral Evidence

Taken before the Financial Inclusion Commission

On Friday 16 January 2015

Members present

Sir Sherard Cowper-Coles, in the Chair
Mr Chris Pond, Vice Chair
Mr Laurie Edmans
Dame Mary Marsh
Professor Sharon Collard

Witnesses: **Ms Laura Jamieson**, Policy and Improvement Manager, COSLA; Mr **John Pollock**, Partnership and Support Officer, Trading Standards Scotland; Mr **Fraser Sutherland**, Policy Officer, Citizens Advice Bureau Scotland; Mr **Niall Alexander**, PT Affordable Credit and Financial Inclusion Consultant, PT Moneyline, Development Director

Chairman: Well, thank you all very much for coming and I'm sorry to have kept you waiting. As the morning has gone on we've learned how much we've got to learn from (a) the challenges you face in Scotland from financial exclusion, but also the collaborative way in which local government, which other bodies, the voluntary sector are coming together to address it and there's a lot for us to learn.

Now, this Commission wasn't my idea, it was the idea of Chris Pond sitting on my right that there should be a group that would come together to look at the state of financial inclusion across the UK, following the progress that was made under the Pomeroy financial inclusion taskforce which wound up in 201, and really to produce what we hoped would be some very crisp conclusions to try and influence the main political parties in the run-up to the election on the 7th of May.

So, the aim is to work back from a report that we're going to produce in March, and I would urge you all in your evidence to be thinking what would you like to see from your point of view recommended, put out in the political space in terms of unfinished business on financial inclusion in the UK.

My background is nothing to do with financial services but I have been working for the past year for HSBC Group on what we should be doing and saying about financial inclusion, both in terms of public policy, the unintended consequences of de-risking and regulation and the way in which we are exiting markets and customers and sectors, but also in terms of devising products, particularly in emerging markets in order to address the problems of financial exclusion. I mean half the world's adult population is still unbanked, and I'll get the other Commissioners to introduce themselves. We would then like to ask each of you to make a short opening statement if you want to, and then we've got about an hour for discussion and questions, and if there are things that you realise afterwards was not covered or you'd like to put in writing do please get in touch with us. We're just about to enter the sort of drafting stage of our conclusions. So, let's go round the Commissioners who are present.

Mr Pond: I'm Chris Pond and as you heard I'm acting as Vice Chair for this Commission. My background is in politics and the voluntary sector, but my current day job is with a thing called Kreab Gavin Anderson which is an international communications agency, and I also Chair The Money Charity. I spent a bit of time working on financial capability with the FSA before I took my current role.

Mr Edmans: I'm Laurie Edmans, I'm from financial services, pensions and life assurance so I'm everybody's favourite. I'm still involved with financial services doing some of the non-exec roles and I am also a non-Executive Director for the Money Advice Service.

Dame Mary Marsh: I'm Mary Marsh, I'm mainly in the Charity and Social Enterprise Sector but particularly in the UK, across the UK, including Scotland. I'm also on the Board of HSBC in Europe and have other non-exec roles and I have a background in education.

Professor Collard: I'm Sharon Collard, I'm based at the Open University Business School in the Centre for Public Understanding of Finance, and before that I spent 15 years at Bristol University doing research on financial inclusion and other personal finance things.

Chairman: Great, well over to you. Do you want to go first Laura?

Ms Jamieson: Yes, thank you. So, my job title is Policy and Improvement Manager for Trading Standards Scotland, a team that's based within COSLA and I'm probably going to deliver something a bit different from you've heard from the rest of the people giving evidence today because what I want to mention really is people who are finding themselves in financial difficulty due to getting caught up in a cycle of scams or doorstep crime.

What we're finding anecdotally, and I'm going to be quite brief in this session because I want to find out some better evidence for you to get exact figures.

Q. Chairman: Right.

Ms Jamieson: People are getting targeted time and time again, we've got anecdotal evidence of people losing their life savings, but not only that, people losing their homes, and it was just really to base a marker on that, just another aspect that maybe people haven't covered, and that is one of my areas of work within the team in COSLA and it's to raise awareness about that to yourselves. Like I said I'm still trying to gather some more robust evidence on how important that is. So, it's just to raise that flag just now and I'll be submitting something in more detail to you hopefully by the start of next week.

Q. Chairman: Thank you, that's completely new to us, you're the first of our many witnesses to raise this. So, please do follow up as quickly as you are able to.

Q. Dame Mary Marsh: So, this is the evidence you are going to give us obviously from the Scottish experience in particular, but are you in touch with people discussing this elsewhere in the UK?

Ms Jamieson: Yes, I am. I've got a contact down south who I work quite closely with and she'll be able to give me the perspective for England and Wales, and I have also got contacts over in Northern Ireland. So, I'll report back as fully as I can on that for you.

Professor Collard: Just before you go, can I say that Chris and I went to the session recently which was talking about online illegal money lending and then somebody from Trading Standards there who was dealing with it online so we could pick up with him as well I think.

Ms Jamieson: Absolutely.

Q. Chairman: John, do you....?

Mr Pollock: Yes, my name is John Pollock, I am the Partnership and Support Officer with Trading Standards Scotland COSLA. Previously my role was with the Scottish Illegal Money Lending Unit which obviously investigates across Scotland and I'm here to give you a picture of where we are with that.

I first joined the community in 2008 prior to moving across to Trading Standards Scotland in 2014. So, the project has been going since 2004 which is one of the original pilot project areas in Scotland. So, I hopefully can give you a picture of what our experiences have been since 2004 right up until the present day.

Q. Chairman: Okay, and do you want to say anything about, I mean about the substance?

Mr Pollock: Well, I think some of the things that we've come across is that a lot of our victims are very financially excluded, they're probably in the bottom 5 per cent of most totals and most statistics that we see. One of the things that we find quite a lot is that they don't have access to things like low interest credit, they're using high interest loans which then leads on to going on to illegal money lenders. The majority of victims will have rent arrears and Council Tax arrears. They don't have any sort of savings and very unlikely to have insurance which is a huge problem considering many of them will lose keys at some point and they live in areas where crime is very high.

Chairman: Give us some idea of the scale of the problem then of illegal money lending.

Mr Pollock: It's hard to actually probably put a figure on it. We've got over 300 pieces of intelligence on potential illegal money lenders across Scotland but that could be the tip of the iceberg as far as we're concerned because people will only come forward when they're in a state of panic and fear. They won't come forward when they're actually able to meet payments to their loan shark. People only come to us when the loan shark started threatening them; maybe there's actually been an assault taken place, they've been persecuted in some way. We've seen various different ways of that happening, including social media being used for that quite a lot. In one case we had somebody use a church bulletin board, basically a sign that these people all owe me money.

So, we have got that sort of evidence that we've seen from that, and it obviously puts extra pressure on local services because people don't have the budgeting skills to actually think to themselves, 'Well, what happens if I reach crisis point', so they will just continually cycle through high interest loans and illegal money lenders because they've actually not got any skills and understanding of what they need to do, and a lot of them will have numeracy and literacy skills issues as well. They're deliberately targeted because of that. The loan sharks will deliberately target people in that sort of situation because they can control them. It's the same as it is with alcohol dependency, drug dependency, mental health issues, gambling. There's a reason why they're probably targeted because they're easily controlled.

There are people that will take Post Office account cards off of the victims, hold them and basically withdraw the money themselves. They give them back whatever they feel that the victim's entitled to that day. In fact, we had one gentleman, what he was doing was he would actually hold on to drink in his house and he would force them to come to his house and he collected whatever money he felt they were due that day from their benefits, and in the house they would then just sit down and have a drink and the victim was paying for it, and unfortunately a majority of the victims actually don't see themselves as a victim. They don't see themselves as somebody who has been the victim of a crime, they just see themselves as somebody who knew what they were kind of getting themselves into or think they knew what they were getting themselves into.

I think the amount of times I've heard 'Oh, he's a loan shark? He's a nice guy. He'll collect my shopping for me, he'll buy me drink. Basically if I need a tenner he's there to give me that tenner', but people don't understand that £10 can spiral quite quickly into hundreds of pounds, and I think the scary thing is that we are seeing the rise of them now to thousands of pounds being given out, more than it used to be when I first came in in 2008 it was probably 10, 15, £20 here and there, nowadays it's a thousand and upwards, a couple of thousands at a time.

I think the big difference is that in England and Wales it seems to be a lot more connected to the drugs trade down there. In Scotland we have anecdotal evidence of that happening, in Scotland it's much more community based. It's people that have maybe worked in areas of heavy industry for a long time, Glasgow is a prominent example of the east end, Lanarkshire with the coal mines and the steel. If you go down to places like Inverclyde with the ship building those areas are rife with illegal money lenders because they're traditional, always been there and have always been seen as a way, a house of last resort.

Q. Mr Edmans: When you said 300 that's 300 organisations or people?

Mr Pollock: That's people that have been reported to us through various different channels.

Q. Mr Edmans: And are they by and large each (inaudible), are they by and large working individually or is it organised?

Mr Pollock: The majority are working individually.

Q. Mr Edmans: So, it isn't an organised issue?

Mr Pollock: There is anecdotal evidence of that but we don't seem to be having as much luck coming across as maybe the English team were. They have had several high profile cases, but we've certainly not had, a lot of them in Scotland seem to be far more community based and people that are what we would term 'one man band' operations where it's just one gentleman who's been in a community for 30 or 40 years who everyone knows them their gran went to them, your grandpa, your auntie and uncle, your mum, you dad, everyone went to them and it obviously works the same way as, for example the Provident worked. It's a very similar business model except it's totally illegally and they will charge a higher rate of interest eventually.

Mr Edmans: In the 1950s the name for that particular bit was (inaudible due to loud laughter!) registered next to the scrap yards.

Q. Mr Pond: This is something we found, sorry Sharon. When Sharon and I spoke to some of your Birmingham colleagues a while ago they told us the story about the debt recovery procedures of one of these people which was to pick up the kids from school and deliver them home, and the clear message was ‘Next week if the debt’s not paid your kids may be picked up from school and maybe they won’t come home’. What’s your best anecdote?

Mr Pollock: My best anecdote, we’ve not had that scale that the Birmingham team have. We’ve obviously been in contact with them and they did tell me that story. We’ve only had that as a threat really, it’s been used as a threat of ‘I know where kids go to school’ and that sort of thing, and on some occasions actually sitting outside the school and making sure that the person can actually see them as they go to collect their kids.

We’ve heard anecdotally of several cases where if it was female sexual exploitation, in some cases forced prostitution. In male situations we’ve seen drugs, loan sharks felt they could force people to grow cannabis in their lofts and it will be cultivated and sold on by the lender. So, we have seen things like that. I think our more notable issues is we’ve seen a couple of assaults that have taken place, one which the Procurator Fiscal Service decided not to proceed with but we did get a conviction for the illegal money lending, but in that sense we have seen a few assaults.

I think our best anecdote is finding money in freezers and things like that when we’ve been executing warrants at people’s houses. Sorry, my best anecdote would be that this was an investigation I was on, would be that we found several thousand pounds in a cooker hood in somebody’s kitchen, and it just shows you check everywhere when you’re searching someone's house. We unscrewed it and out fell the money, almost took my head off actually as I was unscrewing it. So, they hide the money wherever they can. Also laundering money is quite hard as well to go through. Obviously we use the Proceeds of Crime Act quite a lot but people find different ways to launder their money. I know of at least one people who have done it through buying expensive bottles of whisky and then attempting to sell it on at later dates. That gentleman was told that we couldn't seize liquid assets – I think he took it a bit too literally as such.

Q. Chairman: Is there a particular profile of clients of these illegal, do they tend to be young, single or....?

Mr Pollock: I think up until not too long ago it was probably older gentlemen who had addiction issues. In England the profile was slightly different from that. They were looking I think at younger females between 20s into their 40s and the majority were single mothers. We have seen a rise in that in recent times, and it's not a surprise with the way welfare reforms are currently going on that we have seen that specially amongst single mothers, but I would still say it's predominantly male victims that we come across, and the majority seem to still have some form of addiction issues and again it's because they are easily controlled.

Q. Professor Collard: It ties in with the pattern of where the lending was in areas that used to be heavy industry and, you know, that's how traditionally those people would get access to credit.

Mr Pollock: Yes.

Q. Chairman: Okay, thank you, fascinating picture. Fraser?

Mr Sutherland: My name is Fraser Sutherland, I'm Policy Officer from Citizens Advice Scotland. I know you've already heard from colleagues at Citizens Advice England and Wales, but just to keep up appearances in the Scottish team as well is to give you a wee bit of the flavour here. Probably most of what I'll say will probably include a lot of what they find but will cover specific Scottish things as well.

I think one of the main things for us was last year we've been working with the short term credit sector and the impact that can have on people. Obviously John was talking about the illegal side, but obviously the people that we're helping with is the legal companies that they're dealing with. One of the challenges obviously for us has always been that we want people to get the best deal for finding, for consumers to get the best deal for getting money for loans or whatever, and some of the campaign we've looked at is obviously to reduce the costs, cap the costs of certain things that obviously can come in.

The problem, of course, with that is where do these people end up going that are now unserviced, and that's something that we will start to see I think from now since the cap's come in, we're keen to know what's going to happen, it's quite a big unanswered thing for people to go down the road that John talked about; possibly not, there are other avenues for them to go down, but the disappointing thing I think from our point of view is that there hasn't really been an answer thought up for that. No-one has come up with a solution, it's just kind of we'll sort out the problem but let's not think about and everybody just goes 'Well, Credit Unions can sort it', but Credit Unions can't just sort it. They can do so much and they do a lot of good work, but they haven't got the profile, the funding and everything else that would make it available to every single person.

Q. Chairman: Or the online presence?

Mr Sutherland: Yes, they don't have the online presence and the need to save for so many months. We're talking about people who just don't have the money to save in the first place so how can they build up the saver's profile the Credit Union wants them to have before they'll lend to them. One of the big problems which touches on all the different questions that you've listed is people's incomes are so low we're seeing that a lot of our clients that we're seeing, you know, they're stretching their budgets so far and they've got hardly anything at the end of the month.

I laughed almost at some of the questions about insurance, about how we got people to take out insurance: they don't have the money to pay for insurance, and it's not a criticism of the insurance industry to say 'Well, what do I want them to offer insurance that's 20p a month'. They can't do that, it's not affordable, but this is the kind of, that's the kind of level of payment that some people really struggle to find that kind of money.

I mean, one gentleman I remember we had in the focus group, after he got his benefits and his pension that he was entitled to, he would count out every single pound and put it into an envelope for each thing he had to pay for: his rent, his energy, his food, and at the end of it he had £3 a week. Now, how can you expect him to pay for insurance or other services when all he has after he's paid for all his necessities is £3 a week? That's not enough, you know, even for him to buy a paper every day of the week. So, it's difficult for these people to buy things that then would cover them, whether that's life insurance or whether that's home insurance, things like that, they just don't have the spare capacity to do that, and obviously with a lot of the welfare reforms that's happening with people's benefits either being delayed due to undue considerations, or if they've been sanctioned or their entitlement has been changed, it's stretched their budgets even further.

One of the things that you've raised, and I think is quite a welcome development, is the idea of the jam jar bank accounts, but I would say that actually people on the low incomes are actually the better people at budgeting, they're much better than people who have higher incomes. Most of us, if you asked 'How much do you get every month, how much do you spend?' you wouldn't know. These people know down to the pennies exactly how much they've got coming in. Now, these accounts might be able to help them do that better, it might also help them avoid unnecessary fees and charges and, of course, obviously we've seen a recent thing in the last couple of months with the new basic bank accounts that won't have fees and all the rest of it, and that's something that we've been campaigning for years and it's great, it's happened and the Government are taking great plaudits for doing it even though they were forced by the European Commission to do it.

So, we were disappointed with how it's come out, the banks are doing such a wonderful job for all these consumers, even though they've been told that they have to do it and it's not good enough, they've not been doing it for years. So, it's a welcome step and obviously we want to see that continue, and the other aspect that's more specifically Scottish, or it certainly affects rural communities especially, is there are fewer bank branches in rural areas. We have concerns that a lot of them have, you know, banks are saying to us 'But people do everything on line' and there's a certain population of consumers that just can't do things online, and that's not because they're old and the problem will be solved in 20 years' time because those old people won't be here and, therefore, everyone will use a computer.

There are a significant number of people whose access to the internet is just, through disability or through learning difficulties, they just can't operate those kinds of systems in the way that a bank or another financial provider would like them to, and we can provide training and there's lots of good schemes out there, especially there's some good schemes run by major financial institutions to improve people's skills, but we're always going to need the facilities for those kind of people, those very, very vulnerable consumers who can't access those kind of services, and there's an assumption I think by a lot of the big banks that everyone can do this online, in 25 years' time everyone will have a mobile phone and do everything on their mobile, and they'll send the money to the plumber by text and all that, and that's great for the majority of consumers, you know, switched on consumers, most of us in this room will do all that but there is a significant number of vulnerable consumers who will always be in that category and, you know, no matter how much improvements we make to the service there are still going to be people who need face to face services. It's how you deal with these people, especially in these rural areas where there is no longer a branch and it's really disappointing that a number of big banks have reneged on their branch in every town pledge, where they said they would not close the branches where they were the last branch in town.

There are some banks have developed their mobile branches, mobile vans go down and they're actually quite a good asset. It's a different way for them daring to think about how to do it, to keep on the ground access. There's obviously the links with the Post Office as well, the problem is that the Post Offices are also closing and if people have to travel 20 miles to go to the nearest branch it's not really reasonable for them, especially if they're a low income consumer, they don't have their own cars, they can't rely on public transport because obviously these areas there isn't very good public transport, so it's a lot different.

Q. Chairman: Thank you very much indeed. Niall?

Mr Alexander: Thank you for the opportunity to come in and speak to you first of all. I am grateful to you for inviting me. I've worked solely in the field of financial inclusion for the past 15 years in a variety of roles: a community project, I'm a Community Development worker by trade, I was Director of Financial Inclusion at the Bank of Scotland 2002 to 2004 and for the past 10 years I've worked on my own as a Freelance Consultant looking at the issues of affordable credit, lack of access to financial products and services, including insurance, including bank accounts, including affordable credit for low income, the bottom 20 per cent income consumers, and for the past year as well as working two days a week as a Consultant I've worked as Development Director for a company called Moneyline, a social business, not for profit. We lend money, and it's in that capacity that I wanted to frame my opening remarks, if I could, because I think I've got an issue that has come up for us within the past month, and I think the solution is something that the Commission could look at as it is relevant to their work.

So, our very recent experience; Moneyline has 20 branches in England and Wales. We lent £8.4 million last year through 18,500 loans. The customer is best characterised as young, young women with children living in disadvantaged communities, average age of customer is 32. 43 per cent of our customers are lone parents, 73 per cent of our loans go to households within the most disadvantaged 20 per cent, I won't bombard you with numbers, I'll supply all these to you.

Q. Chairman: Yes please.

Mr Alexander: 73 per cent, three out of four, of those loans are going to the most deprived 20 per cent of neighbourhoods in England and Wales, 43 per cent lone parents, 61 per cent, working age but not working, median household income just over £1,000 a month. This is a customer who cannot borrow from mainstream financial institutions as they have poor or thin credit ratings. 90 per cent of our customers rent their home.

We saw in September, October and November of this year a significant uplift in the number of people attending our branches for loans. A first loan from us £220; £220 less than you can withdraw at the ATM. So, our first loan is £220, lending usually peaks at Christmas and summer. We have extensive data on our customers. September/October we saw a 30% uplift. We put some of that down to the changes in the payday market, we put some of that down to changes in the home credit market, both of which are seeing a significant reduction in customers - and I chime with what Fraser said about, you know, where will the customer's go, I'm not a believer in the FCAs proposition that people will "go without", I just don't believe it.

So, in September/October/November in 2013 we distributed 4,775 loans. The equivalent period last September/October/November 2014 6,358 loans, a lift of 1,583, not a big number for some people, a big number for us. So, this is a big increase for us. We would normally out of our 20 branches expect to, in November, see 150 loans a day; that would be busy. We started seeing in the first week in December an unprecedented increase – 200 loans a day, 217 loans a day, 196 loans a day. We ran out of cash. This is our issue: We ran out of cash. We turned the tap off on December the 3rd 2014. We had done 217 loans, (in the first three days) next day we did 99. Week one in December was still the busiest we've ever had, we issued 802 loans to exactly the same demographic.

I failed to add, but I *should add,* we also encourage savings with our customer, so 65 per cent of customers who take loans also open a linked savings account. We have deposited £5 million into savings accounts for our customers, same demographic: young women, 32 with 2.07 kids. We get them to save small sums and they then withdraw the small sums, so the £5 million we've set aside since 2005 they've withdrawn £4.8 million.

So, back at the beginning of December we were running out of cash. What are we to do? We could not meet the demand that was coming into the shops. Big uplift in new customers as well as repeat business. We phoned our investors, we had borrowed £3 million already, (to lend) we borrow a million from the RBS micro loan fund, we borrow a million from Big

Society Capital and we borrow a million from Big Issue Invest. Because we're a social business it's all very tight margins. We let down probably in the region of 750 to 1,000 people we could have lent to. We probably let down the same number of people because we pared back the amount of money we could give them.

We were good for the money, we have been going for 12 years. We know our bad debt inside out, we know our customers inside out. We asked investors if they could lend to us, we went to our bank, of course, and asked for an overdraft facility, chicken and egg, "never made a profit so we can't give you any money". We knew we were good for the money. Big Issue Invest lent us £100,000 off their own balance sheet. Christmas Eve we had £20,000 left to lend in our account. We lent over £8.3 million over the year and on Christmas Eve we had 20 grand. 10 days later we had 420 grand left in our account. If we had the money we could have lent money, we couldn't lend it because we didn't have it.

So, what's the issue; and I've lots of other issues I'm happy to talk about throughout the hour, but the pressing issue for us is also a big issue for the Commission: the lack of access to loan capital. Moneyline has taken, 4,000 days to lend a sum that payday and home credit lend in four days. We've lent 50 million in total through almost 100,000 loans, home credit payday will still lend it, so we're a sliver of that market and they're a sliver of the overall consumer credit market, but the chicken and egg situation is different. So, what we need, I think, notwithstanding that there are good intentions, and I don't decry those who we have already borrowed money from, we're delighted with RBS funds, we're delighted that Big Society

Capital and Big Issue Invest have lent to us but there needs to be affordable credit loan capital options..

I think what is required, (and we see in the housing market you know, where the mortgages are supported), either someone who is..... when I worked in a bank this was a typical phrase, the bank, were always “last in first out”, we need someone who is “first in last out”. The kind of capital that is required for an organisation like ours, needs that type of support. We could lend more money, if we could access it. We are not going to scale up and be a rival to those businesses we’re talking about, but we could do significantly more. We lost 250 grand last year, we’ll probably break even this year. When we break even it’s on an APR that’s 144 per cent, we can’t do it for less.

Our focus is not on lending sums of £1,000 or more, we don’t do lots of £1,000 loans, the typical loan is £219 first, average loan £455.

So, I think the issue for us and the Commission, - and I know there’s lots of other things you want to talk about - and its impact on our customers. My job is to talk to our customers, I’ve got thousands and thousands of evaluation forms that rate us so highly it feels a bit like the North Korean (loud laughter) election results. We are considered a “value proposition” by our customers. They borrow, they save, they open bank accounts. We could sell them insurance, I didn’t mention this – only 12 per cent of our customers have insurance: We could sell insurance, they’re interested in home insurance, they’re interested in life insurance. So, to an extent they’re interested in getting insurance but they’re interested in those subjects, and we could sell them these things. We operate face to face, we operate from branches, we don't operate online as yet but I think there is an inevitability that we will have to go down that route as well. So, those would be my remarks for the commission to consider....

Q. Chairman: Well, thank you very much, very, very interesting perspectives. Who would like to go first with the questions?

Q. Mr Pond: Using my privilege as sitting next to you Chair, but could I because there's a theme has run through what all of you talked about there, and particularly that theme that emerged in the last session as well that it is the lack of access to affordable credit, and what has happened is that there's been a focus on regulation on the supply of credit, particularly you know the payday and the interest rate cap, but very much less emphasis on how you fill that gap, and as Sharon said in the last session the FCAs assumption has been that that gap is going to be made up by people either discovering discipline that they haven't discovered for generations. Somebody once described it as teaching people to fly by throwing them off the roofs of buildings.

So, we teach people to reduce spending and manage their money, or they turn to family credits, and Sharon and I have also been involved in hearing some research recently happening in the states where payday restrictions are also much further down the line, you know this Niall, it's doing very well, the Policies research. Now, what that is showing is that in the UK the reduction in the availability of payday credit has been about 1.25 billion. If you compare that with the total, not just the reduction or the increase, but the total amount available from Credit Unions, the CDFIs, it's about half that.

So, the prospect of them scaling up to three times what they currently do to fill that gap in the short term is pretty small and, therefore, I'm concerned that they're going to become your clients John and they're going to fall into the hands of the illegal lenders and not only the guys with the baseball bats and the Alsatians but those operating online where it would seem to be much less damaging, because after all there are some (inaudible) this particular firm is licensed or unlicensed and when you borrow the money of course it's all hunky dory until you can't pay it and then, of course, none of the regulations about conduct apply to these guys any more than they do to the guys with the baseball bats.

So, in a sense what you have been saying to me in this session and really to all of us is actually you're worried about it too, is that right, that actually you need to do something rather dramatically to increase the supply of affordable credit, and Niall's heart-breaking story, and I used to run an organisation (coughing) Gingerbread, the heart-breaking thought that you turned away 750 to 1,000 of those people in the last few days before Christmas....

Mr Alexander: I think that I am closer to the number that the Consumer Finance Association believe will miss out from high cost short term payday credit of 400,000 than the 75,000 that the FCA settled on, and don't forget when we ask our customers where they borrow from, one in three of our customers had no internet availability whatsoever and most do not borrow online. Our customers are familiar with Provident, Brighthouse and to a lesser extent the

Money Shop. The payday retail group who announced just days ago they're going to close 200 stores.

If you look at the new payday websites they're all saying 'have you tried your Credit Union, have you considered other options...?'..... Their change in emphasis is astonishing. The credit spectrum will change. We know from a credit referencing agency (Call Credit) that the credit score of our customers is considered to be 478 which places them in the sub-prime category. We know that, we've got evidence. So, they're not even "near prime" and where payday would previously look to advance sums to sub-prime, they'll now move up the credit curve toward near-prime. Provident too are shifting their criteria, I have no difficulty with Provident, they sell cash, it's more expensive than we are, but I think it's fairly transparent. Provident have dropped 300,000 customers from 2012 to 2013 why? Because that 300,000 customer's profile is harder to demonstrate to the FCA on affordability and creditworthiness compliance, is my guess. So, those customers who are the most vulnerable on their book, and the ones denied payday what will they do? They might use savings if they've got it, friends and family if they haven't exhausted their money and are good for the money, but I believe customers will look elsewhere, and I agree with Fraser's comments that Credit Unions are not going to meet that unsecured demand, much as I'm a fan of the Credit Union saver and borrower model, indeed I am a credit union saver and borrower; they're good for me and I'm good for them.

Mr Edmans: Can I ask about this sort of almost protecting question about the fund raising which comes because going back some years now I was one of the founding Directors of

Funding Circle, and I was the first Chairman in fact, and I found myself wondering as you were describing the shortfall that clearly the payday lenders are now used to your customers but are they used to you?

Mr Alexander: Absolutely. We are in the process of producing our first social impact report; we believe that the money we lend is going to improve not only the standard of living and quality of life and we have evidence to that effect, and I think Crowd funding or some kind of peer to peer funding is something we ought to look at (I don't know enough about it to know how to even start it), but we are absolutely interested in looking at that as an option for us.

Mr Edmans: As I'm not involved in the operation any more but I'll be very happy to make the connection, but I don't know what the numbers look like but if, in fact, your business is making a return which would be reasonably acceptable to the people that are going to the funding circle what you do with that money is the funds, once they're passed, will be your business and is it good for, you know (both talking at once).....

Mr Alexander: Sorry, we pay for the money we borrow, capital and interest, and the point I was making about first in last out, last in first out, we're willing to pay; I think organisations like ours are willing to pay. Gone are the days of saying we're viable and not sustainable, anything is viable if you throw enough money at it, we want to be sustainable. That's how we've arrived at the price at......

Q. Mr Edmans: What's the default line then?

Mr Alexander: We write off 8 per cent of capital issued, we write off more from the first borrowers than from the second one, first one at 14 per cent, second one about 10, third one lower still. We write off 8 per cent, so we lend £8.3m, we write off 8 per cent of that, staff costs £1.6m overheads on the office, £1m, before we know it we've got at least 3.25 million to cover, that's a lot of tiny sums of money to cover that, you know, on the basis of generating 60 quid on 220 quid. It's almost illogical, you can understand why Provident are priced at 82 per 100 and we're at 50.

Q. Professor Collard: But I think it raises a really interesting point actually which we've been hearing and which Sharon has been talking about quite a lot over the course of the Commission which is the whole issue about delisting amongst mainstream financial providers which means that people like you and people like Scot Cash won't get any money and so you're left with this massive gap where you've got a withdrawal of services that are helping certain people like Home Credit and nothing to fill the gap, and no way of funding the providers that are there and that could fill the gap and in terms of banking there has been a report recently to say that, you know, mainstream banks are delisting to such a point that actually some charities can't get bank accounts. So, we're seeing this gulf opening up on unserved organisations and unserved individuals and I think that, you know, that's a really strong message for the Commission to give, and so I think what you're talking about Niall is that these alternative sources of funding like crowd funding, like peer to peer, they're somewhat untested, they're actually, for an organisation they may be quite risky, but they may be the only source that you've got.

Mr Alexander: They all have the same problem as us.

Professor Collard: And so coming back to the point about why the demand has spiked so much, do you think there is a particular reason why it has spiked so much this year?

Mr Alexander: I do, yes. I think there is a lag between the FCA taking over responsibility and the start of April and the drop off in online and retail payday, the denial of credit from payday to those who are more closely assimilated to our customers, has now caught up. Money Shop are withdrawing 200 branches from the market and changing criteria. All of those organisations are now saying, you know, that if you're not employed then you will not get any money at all from us. Now, that may be a good thing. Our employed customer rose – if I sat here this time last year our employed customer was 30 per cent of the book, it's now 36percent. We've seen an uplift in low-income employed customers coming to us. We've also seen I think the shift from, partly the shift from online and retail payday, partly the shift from Home Credit, everyone of these commercial lenders has raised their credit bar – I'm not disagreeing with any of the issues the FCA have around forbearance and the affordability assessment around credit, they're absolutely right to impose tighter regulation (inaudible). The commercial lenders are not seeing the same number of customers, and I think that some of that outflow then comes to us.

Professor Collard: Sorry, could I ask another question, would that be alright?

Chairman: Yes.

Q. Professor Collard: Because the other thing that strikes me across John and Fraser and Niall is the importance of around understanding the granularity of the customer bases. So, the people that John experiences and is coming into contact with through illegal lending, what I'm interested to understand am I right in thinking that MoneyLine and Scot Cash could lend to, I think the answer is probably no, in which case what happens to those people and what's the overlap at the other end between Money Line and Scot Cash and, you know, some of the other high cost credits? As you said Niall it tends to be Home credit rather than online payday. So, if there's a reduction in online payday and that's mainly used by young people, young men, it's used by men in work generally, what fills the gap for them? Sorry, that's lots of questions rolled into one.

Mr Pollock: I think there's a link for some people to Scot Cash and Money Line, Niall and I have been asked in the past about this, there are some people who yes I have referred them to Scot Cash. One of the issues is exactly that point. Where do they go if they don't fit, if they don't meet that need, where do they turn to, and I think that's where my victims end up in a cycle of continuing to borrow from the illegal money lender. It becomes very difficult for somebody to actually think themselves 'I need, I have crisis point, my washing machine's broken, where do I turn to right not to get money to go for that white good?. I've got school clothes for my kid to get to school tomorrow and I have no washing machine. What do I do? I'll just go round the corner to the guy that'll give me £50 right now so that I can go and get a washing machine' or whatever, whatever bottom line is used, but that is where you'll go for the money. You'll probably want to go..... and I think there's also a stigma attached as well to a lot of things that we're going through to a shop front, I think a lot of the victims we come across is the reason why they go to high cost lenders and things like that is because they don't want to admit that they're in financial trouble.

I've got a client just now who is £13,950 in debt. She owes it mainly to payday lenders and several other places. She has, the unfortunate thing is she's got a legal loan at the moment as well which causes an absolute problem because the person that has guaranteed the loan for them has not told his family that he's guaranteed the loan. So, you've now got a complete crisis effect on the other family by having to deal with this loan, you've got to put your client's needs first in that regard and that's one of the biggest difficulties that we see for our victims. It's about getting them to understand how we can get them out of this hole, how we can address those needs.

Q. Mr Pond: Is there a case where there's specific examples like that, in the States I gather there's this volume (inaudible) in some states that if it's an illegal lender then....

Q. Professor Collard: They wouldn't be enforceable anyway?
Mr Pollock: The illegal debts are enforceable as soon as we, the first time we tell all victims and the money lender is this debt is not enforceable. The only thing is we have, I suppose it's best to point this out, there was a case in Edinburgh, an alleged illegal lender successfully took a case to Small Claims Court and won, it was prior to us becoming involved. We believe the sheriff was mistaken in his decision as he did not have the full understanding of what was actually going on. The person claimed it was a friend to friend loan but we had evidence that he was operating a consumer credit business unlicensed, but due to the previous

ruling it was difficult to proceed with an illegal money lending case, when we became involved we identified several other victims of this individual which he had made considerable money from

Q. Professor Collard: He probably had enough money to pay for a good brief?

Mr Pollock: Yes, and he managed to successfully argue on that basis of friend to friend loan. One of the things we always have to warn our victims is that this case happened, because the first question I'm always asked is 'But can they take me to Court?', we now warn them that and now there has been this one case and it was successfully argued', we have to make them aware of that.

Q. Mr Edmans: I suppose it depends how fond you are of your kneecaps. (inaudible) but before doing so I just wanted to ask Fraser particularly about a topic we have taken a lot of evidence on a lot of different things, but your funeral costs and the issues there, I think it would be good for us to hear about that issue.

Mr Sutherland: Yes, since the summer time we've seen a huge upturn in the number of people coming for advice. I mean I can share with you the research we did on figures and stuff in place, I'll send it through, but essentially it's the fact that if someone is hit with a bereavement and they don't have the money to pay for a funeral there is a huge problem with funeral funds from DWP for people who are on benefits, and there's a huge waiting time to get that paid out to them, how much that actually covers. It doesn't cover the whole cost of the funeral so they borrow to meet the rest of the costs. The average cost of a funeral goes up by about, it’s gone up something like seven times the value in the last 10 years or so. It’s gone up massively, there’s a huge amount of cost to every single funeral.

There’s also a postcode lottery that exists in Scotland depending on where you live, how much the local authority charges you for burial or cremation and that can widely vary from a £680 in the Western Isles to £2,800 in one local authority just outside Glasgow. So, that is a huge issue, it’s something we’ve take taken up with the Government and we want sorted. It doesn’t matter where you live you get your fee because it seems unfair that one Council can charge you a huge amount to dig a hole, and then exactly the same hole in another graveyard somewhere else you’re paying a lot less, so that’s a huge issue, but in terms of the costs where do people turn to for support?

I mean obviously some people obviously have life insurance and that will help cover the cost. Some people have, as I say, very bad insurance so Over 50 plans, these kind of products where people think they’re covered to cover their funeral. The family’s been told ‘Don’t worry about me, I’ve got this thing, the insurance will cover my funeral and all the rest of it’, the family get paid out and they realise it’s half what the cost of the funeral is. To what extent that product wasn’t properly sold to that individual is then really difficult to tell because that person’s dead, so how do you establish whether mis-selling is taking place in the over 50s market is impossible because we can’t go back and ask the people ‘Were you made aware that you would only get this amount, were you made aware of this exclusion, were you made aware of all this?’. We can’t interview people who have passed away, and they’re the only people who have the experience of what they were told at the time and what their understanding was of the product. So, we've seen the mis-selling about bank accounts coming now, PPI in the past, but it's really difficult to work out what's happening in that market because we can't ask the consumer who bought the product, but it is leaving a lot of people without cover that they think they have.

There's also the issue that if you miss a payment on one of those plans you lose everything you've paid in. So, you've got this insurance product where you're meant to pay in so much a month and if there's financial difficulty at one point and you miss a payment the policy is cancelled and they've lost everything that they've paid into it. It's not like other things where you've paid in so long and..... It's not like a funeral plan where you've paid up, say to the Co-op or someone else, so much and then you've bought that product and you've paid it up, it's different and we've seen it where people have lost everything, even though they've been paying into it for 10 years.

Q. Mr Edmans: It's absolutely appalling, there is no financial reason why there shouldn't be some other (inaudible).

Mr Sutherland: The products are targeted at people who, you know, they're done very slickly and they have celebrity endorsements and all the rest of it, people that they trust, and people sign have signed up to these products thinking that they are protecting, not themselves, it's not really about protecting themselves, it's about protecting their family for when they pass away, and yet there's a big gap there and, of course, then the other issue is that people don't have cover because they can't afford cover at all. There's a gap and we're getting Councils, not officially called Council funerals but what I would term Council funerals which the local authority have to take responsibility if there is no-one who can afford it.

Now, that cost is then falling on the public purse, someone is having to pay thousands of pounds to bury all these people because there is no savings in their accounts, the families simply can't afford to pay for it. There's real problems with the bereavement in the family because they're not involved at all. They hand over the funeral to the Council, they don't have a say in what happens at the funeral, they don't have a say in when it happens or where it happens. They have very little control and they will find out what time it's happening, what day is it but it's usually the first cremation of the day at 7 o'clock in the morning sometimes. So, it's really difficult for the, you know, for the bereavement process when people have absolutely no control over that person's funeral, and it's a real problem, it's definitely a growing problem that we're seeing like never before.

Chairman: Well, thank you all very much, quite depressing, not helped by the colour of your shirt.

Mr Sutherland: It's just as well I didn't wear a black tie.

Q. Chairman: Laura, there's one question that Chris was suggesting we ask you, and I hope the answer's going to be yes, which is do you agree that it would be a good thing if every local authority in Scotland or across the United Kingdom was obliged to have a financial inclusion strategy?

Ms Jamieson: Oh definitely yes.

Q. Chairman: That's the answer I wanted, and I inferred from all of your evidence that you support the object of the Commission and the point of the Commission which is that there is serious unfinished business in this area and the next British Government should be doing more to address this than the present one has done?

Mr Alexander: Yes.

Q. Chairman: Well, thank you very much indeed, such a variety of very, very interesting evidence and original research and anecdotes. I asked the previous witnesses if you were in the position of Lisa and Jennifer in drafting this report what would you want us to put in to the next Government about what they should be doing, I mean clearly addressing this gap in the credit, the supply of credit and it's very, very important, but are there particular things you would like to see? Maybe you want to write to us.

Mr Pollock: I would like to see more funding put in place to be able to try and find a solution to the gap that is in the market at the moment. I think what Niall spoke about is very apt, where did these people have to go to in the event to borrow money, that they weren't able to borrow at that period of time (inaudible), and I think of great concern to myself and the rest of Trading standards Scotland is that if the sanctions we see coming in as well, the additional pressure that it might put on existing services and people may turn round and say 'Well, we can't access this' or 'We can't get access to this. We need to get ourselves into a situation where they have to borrow from the illegal money lenders' and that's where our biggest concern is.

Mr Sutherland Well, since they've both mentioned credit I'll mention about the rural banks again. I think the assumption that closing rural branches is a good idea because it saves money and it can be spent on other services. It's flawed and it does leave a big gap in how they access financial services. We need some kind of solution to that. I don't know what the solution is because I have had this argument with so many people in banks and they say 'But it costs us so much to run it and only seven people come through the door every day'. It's really difficult for them to justify keeping that open. I see why that's impossible; when there's no branch for 80 miles, you know, it's difficult for some people. So, there's got to be some kind of model where we can have branches, and I don't know whether there is something that through Post Offices they can access more services through... I don't know whether that's the model but whether there is some clubbing together of banks to have one branch....

Q. Professor Collard: Sharing a mobile branch.

Mr Sutherland: Absolutely, so all the banks operate one branch and you can access all products from Barclays, RBS, Bank of Scotland, Lloyds, everybody but it's one branch and they all share it, how you do that I don't know but, you know, there's a gap been left in a lot of communities.

Q. Chairman: There's parallels with sharing the mobile phone mast system or all the ATM network. Niall?

Mr Alexander: I have a long list but I'll limit myself to just three or four if possible.

Q. Chairman: Yes.

Mr Alexander: There is an issue about disclosure of data. It's not been mentioned but I would like to mention it. We, for example, plot every loan that we issue, over a heat map of deprivation, and I think the issue there is let's see the bank disclosing the data where they lend and I think even the Credit Unions where they lend. Are we reaching parts of the country that need access to affordable credit? (inaudible).

The second point I would like to make is around, I'm sure you've covered it in many other sessions, is around the misnomer of APR and the difficulty that organisations have, particularly organisations like Moneyline. We're officially a high cost short term credit company exempt from the payday cap, but I can tell you that we spoke to people in the regulator a year ago and they said 'You just seem like the rest of them to us', and we clearly don't believe we are, it's that kind of tabloid headline dominating the debate, some politicians know the difficulty of that, and the constant referencing to "eye watering" APR is unhelpful in this space. Thirdly, it's a public policy issue. We lend to many people who don't work, and that is not just a credit issue around lending to low income working people, it's a public policy issue about do we and how do we support those individuals who don't have enough money, and need a couple of hundred pounds sometimes £50 Why in 2014 are we obliged to sit down for 45 minutes and discuss with somebody to lend us 50 quid so their daughter can attend a party on the Saturday..

My final point is around some form of discussion around an underwriting fund of some kind, we're not asking for free money, I'm asking I'm saying, there's a need for some kind of, as I say, first in last out, some form of discussion with bankers, and other financial institutions where people feel more comfortable to lend because part of their lending is being underwritten.

Mr Pond: Just on that point this social fund will not be sent off to the local authorities and decimated, that could have acted as the lender of last resort and, you could use that to leverage funds from the broader sector for your purposes.

Mr Alexander: There are some very clever people who would be able to help and work on that, there's a way to do it.

Q. Professor Collard: I'm sorry to drag this on, I'm just interested to pin down if we can some of the specifics around that that because the CSJ report did have a recommendation about a kind of new funding platform. Was that, did you....?

Mr Alexander: We liked that report.

Q. Professor Collard: So, you thought that was a positive, and you think what they suggested was positive because I think some people had already suggested it and if it can add weight to that.

Mr Pond: We suggested it.

Q. Professor Collard: Right, it's just the fact that it's already been suggested so are we suggesting something new or are we supporting a suggestion that's been made on the number of places?

Mr Alexander: There needs to be activity, yes, but yes, I am supportive of that report.

Chairman: Good.

Professor Collard: Thank you very much.

Chairman: Thank you very much indeed.

Professor Collard: We could have kept going a lot longer I suppose.

Lunch.