FLA SUBMISSION TO THE FINANCIAL INCLUSION COMMITTEE

INTRODUCTION

1. The FLA is the leading trade association for the asset, consumer and motor finance sectors in the UK. Our members include banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of specialist lenders.

2. FLA members provided £89 billion of credit to UK businesses and households in 2013. Of this, £66.6 billion was in the form of consumer credit, representing almost one-third of UK consumer lending. FLA members provided £20.8 billion of motor finance to consumers in 2013 and financed three-quarters of all new private car registrations.

3. The FLA regards financial inclusion as an important issue. However, our submission is constrained by the short timeframe for response. We have focused on the relevant questions for our sector.

SUMMARY

4. It is primarily the role of Government to promote financial inclusion. When designing policy and rules, regulators should also consider the potential impact of intervention on increasing financial exclusion. When looking at achieving financial inclusion, it is clear that borrower responsibility and lender responsibility are important parts of the equation.

5. Whilst consumer credit is a key aspect of the economy and consumers use credit to purchase a broad range of services and household goods, it would be irresponsible for finance companies to lend to those who are unable to repay in the name of financial inclusion.

6. Credit scoring is an essential feature of a dynamic credit market and responsible lending which enables a lender to assess a borrower’s ability to repay. Without it, UK lenders would be unable to serve customers as efficiently and widely as they currently do.

QUESTIONS

General

Q1 What policy change would most support increased financial inclusion for the client group you represent?

7. Over the last decade, UK consumer credit markets have been the subject of extensive regulatory activity. The Consumer Credit Act 1974 was updated in 2006, and again in 2011 following the adoption of the EU Consumer Credit Directive. Alongside this, the Office of Fair Trading introduced Irresponsible Lending Guidance in 2010 and 2011. Most recently, consumer credit regulation moved to the Financial Conduct Authority (FCA) in April 2014. This regulatory change has particularly focused on the need for lenders to check the affordability and creditworthiness of prospective customers and lending criteria has tightened as a result. It is too early to fully assess what impact this might have had on financial inclusion and therefore it is unclear whether further policy change is necessary. The new regulatory framework for credit needs to be allowed to fully bed in before any judgment on this can be made.

Q2 What do you see as the role of the regulator, government, and financial services in promoting inclusion?

8. We believe that it is for the Government to develop a framework to encourage financial inclusion because this is a societal issue.

9. The FCA should have regard to the impact on consumers of any market intervention be it in terms of rules or other measures. For example, the imposition of more stringent rules on lenders may serve to reduce the volume of consumers served as (i) lenders become more cautious about their customer base and/or (ii) firms leave the market.

10. Many financial institutions already promote financial inclusion as part of their commitment to corporate social responsibility. For example, a tie-up with local schools to promote financial education.

11. The FCA’s current work on Smarter Disclosure and dealing with Vulnerable Customers may also play a role in shaping change in how firms provide information about financial services to assist customers make more informed borrowing decisions. This should help with financial inclusion.

Affordable and Fair Credit

Q11 Is there scope to bring people into mainstream credit who are currently excluded, while also ensuring that this does not risk financial difficulty?

12. Financial exclusion can take any number of forms. It could mean someone without internet access who is unable to take out a particular product which is available online only. It can also refer to low income customers, for whom their risk profile prevents them accessing credit. FLA members are committed to lending to customers who are able to repay and therefore there is no automatic 'right to credit'. To suggest otherwise, risks irresponsible lending if the borrower is unable to repay their loan.

13. Certain products are better suited to less financially experienced consumers. For example, store cards offer low credit limits which enable a responsible consumer to build up a credit history. And credit unions also provide a helpful introduction to saving and borrowing.

14. The role of data sharing via the credit reference agencies (CRAs) also helps customers build and demonstrate a repayment history which can be used when applying for mainstream credit. The credit industry has recently worked with The Big Issue Invest on an initiative which is piloting the sharing of rental data. This is helping customers with 'thin credit histories' show they have a good repayment track record which should assist when applying for credit.

Q12 For people who are unlikely to qualify for mainstream credit, what might affordable alternatives be? Should banks, building societies and others play a role in provision?

15. We support the Government's efforts to promote financial inclusion. However promoting credit unions will only ever be a partial solution given that not everyone will qualify to be a credit union customer.

16. Lenders price according to risk. To artificially provide a wider provision of consumer credit on a profitable basis, would jeopardise a prudent lending environment.

Q13 How does credit scoring contribute to financial exclusion, and are there viable alternatives to traditional credit scoring?

17. The UK has one of the most dynamic systems of credit data sharing and scoring which is crucial to delivering responsible lending. Lenders operate these systems alongside their lending policies when assessing an individual's credit risk – therefore a lending decision would not be based on the credit score alone. A return

to a purely manual verification would be slower, less accurate and susceptible to human bias or prejudice.

18. Like most lenders, FLA members collect and store personal information relating to their customers. This is done to the extent necessary to process an application for credit, to provide credit to the customer, and to service the credit agreement during its lifetime. The procedures are robust and kept under constant review.

19. Certain elements of this information are shared between lenders via the CRAs. These include name, address, date of birth, and payment profile. Sharing this information enables other lenders to gauge an individual's level of indebtedness and thus take responsible lending decisions. For this reason, consumer advocacy organisations support the sharing of information for such purposes. The shared information is also important in verifying an individual's identity, managing risk and minimising potential bad debt.

20. It is clearly very important that the personal data involved is properly protected and handled so as to minimise the opportunity for fraud. FLA members may therefore also share information on an individual with CIFAS (the UK's Fraud Prevention Service) if that individual has undertaken a proven fraud. This is important in enabling other lenders to identify potential fraudulent applications.

Q14 What reforms could be considered to ensure consumers getting into financial difficulty are protected including those who become insolvent?

21. Most lenders exercise forbearance to those encountering payment problems. The evidence from customers who have successfully reached payment arrangements with their lenders confirms that making early contact is an essential feature. Lenders therefore undertake extensive action with the aim of persuading customers to come and speak to them at an early stage, for example through telephone calls, letters, emails and home visits.

22. The FCA's Consumer Credit Rulebook (CONC) already provides for firms to act appropriately with consumers in financial difficulty. Section 7 covers arrears, default and recovery procedures. Section 8 sets out debt advice requirements. Many lenders already engage with such borrowers early, for example, via collaboration with debt advice agencies. They also work closely to help financial rehabilitation.

23. It is worth emphasising that consumers themselves have a part to play in borrowing responsibly and working with lenders and advice agencies. Legislators must therefore recognise this when developing policy or rules and not assume that market intervention alone will deliver financial inclusion.

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