HOUSE OF COMMONS

Treasury Committee

Oral evidence: Access to basic retail financial services, HC 808

Thursday 3 November 2016

Ordered by the House of Commons to be published on 3 November 2016.

Watch the meeting

Members present: Mr Andrew Tyrie (Chair); Helen Goodman; George Kerevan; Kit Malthouse; John Mann.

Questions 1-167

Witnesses

I: Russell Hamblin-Boone, Chief Executive, Consumer Finance Association, Mr David Rees, Chairman, Law Committee, Consumer Credit Association, and Mr Mark Lyonette, Chief Executive, Association of British Credit Unions Ltd.

Examination of witnesses

Witnesses: Russell Hamblin-Boone, Mr David Rees and Mr Mark Lyonette.

Q1 **Chair:** Thank you very much for coming to give evidence to us this morning. As you know, this subject is of long-standing interest and concern to the Committee, which has been looking at it now on and off for the best part of a decade and did quite a bit of work on it in the last Parliament. It is closely related to the de-risking issue and also the issue of basic banking inclusion. All three of those strands are areas of interest to the Committee. Can I begin by asking you, Mr Hamblin-Boone: have previous consumers of regulated and unregulated lenders been pushed into the hands of illegal lenders as the market has become more constrained and regulated?

Russell Hamblin-Boone: Good morning. We have regularly conducted research to ask people what alternatives they have taken where they have been unable to get access to licensed lenders and short-term loans because of an increasingly tighter regulatory framework. Over the past three years, we have seen a slight increase in the number of people who have considered or claim to have used unlicensed lenders.

Q2 **Chair:** What do you mean by slight?

Russell Hamblin-Boone: Of those people who were turned down, three years ago, 2% were prepared to say that they had used an unlicensed lender; at the beginning of this year, that had increased to 6%.

Q3 **Chair:** What you're really talking about here is people who are prepared to tell you that they may be doing something illegal, so you are scarcely likely to get a very full response.

Russell Hamblin-Boone: That's absolutely right. We have to take that response with caution, but it does indicate that there is a trend at least in awareness, if nothing else, of the fact that there are unlicensed lenders. It also indicates that there has been some impact of the cap and regulation that may be negative. But it is worth pointing out first of all that our customer demographic is people with higher incomes, not the most vulnerable people or people on the lowest incomes. The average salary of our customers now is £24,500 per annum, so it is very close to the national average of £26,000. The other consideration is that we picture—

Q4 **Chair:** Just to be clear about that, what you are saying is that there is probably a whole stratum of people out there who are now outside your market altogether and in an unregulated environment.

Russell Hamblin-Boone: And probably always have been. There has been an assumption that—

Q5 **Chair:** Yes, since time immemorial, in a market that probably is not really capable of regulation because it is criminal.

Russell Hamblin-Boone: Exactly, and therefore very difficult to measure.

Q6 **Chair:** Or it may engage in practices that are at risk of being deemed criminal.

Russell Hamblin-Boone: And it is increasingly moving online. Our picture of a loan shark is someone with a baseball bat who knocks on doors and uses intimidation, but online lenders can also be illegal, especially when they are operating outside the UK. People may not be getting the intimidation, but they are not getting the protection of a legal credit product.

Q7 **Chair:** Mr Rees, you have some experience of this issue. What evidence do you think there is, if any, of changes in behaviour as a consequence of the regulation? This Committee called for action, which has now been taken.

Mr Rees: We do not have evidence of it in the sense that you have just asked my colleague. You asked him whether there were changes in view of the price cap that had been put in. We are aware of the research that has been done into this area.

In particular, I am looking at a piece of research done for the DTI in 2006, which said, "In the UK, of those who have been refused credit by a legitimate lender are 20% more likely to use an illegal lender than other credit users, whilst those who have been turned down by a high-cost lender are more than five times more likely than other credit users to turn to an illegal lender."

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That was specifically looking at our sector of home-collected credit, which I will explain to you. Shall I do that now?

Q8 **Chair:** Go ahead, yes, why not?

Mr Rees: I am here representing the Consumer Credit Association. We represent the home-collected credit sector in the UK. This is a very unusual system. We serve 2.4 million customers through agents. Most of the agents are women who call on the customers each week. The peculiar or particular feature of the loan that holds great importance for the customer is that there are no default charges. So the charge is completely fixed.

You might borrow £100 with a £40 charge over, say, 20 weeks. That charge includes 20 weekly collections by the agent. If it takes you 40 weeks to repay that loan the charge is still only £40. There is no increase in the charge at all. The real cost of credit, if you have a difficult patch, is actually falling for you with our system because it is the same charge over a longer period, as a technical matter.

Q9 **Chair:** It is interesting. Some of us have extensive experience of this industry, both on a constituency basis and, in some cases, prior to that from friends or relatives. It is helpful that you have described what it looks like. You are saying that a part of it has not changed very much for a very long time.

Mr Rees: Our system goes back a long way.

Q10 **Chair:** Since time immemorial; certainly going back before the war.

Mr Rees: Before the first world war. Our system actually came out of the "Scotch Drapers" system, where clothing was sold on credit to people. It was manufactured in Scotland, brought down by the Scotch drapers and sold on weekly instalments. My reason for outlining home-collected credit is that this particular piece of research, conducted in 2006, was really before the advent of payday lending. It was looking at the effect of the customer being turned down by us.

Q11 **Chair:** It sounds as if we need some more research to find out what is really going on in the light of the changes that have been pushed through, partly as a consequence of pressure from this Committee and others in Parliament. Is that what you think and are saying?

Mr Rees: All research is good.

Q12 **Chair:** I am not sure about that at all. Quite a lot of research seems to be wasted, if you ask me. What, if any, research might assist an inquiry of this type? Or is there none worth doing because you are trying to track down something that is so close to illegality?

Russell Hamblin-Boone: The credit industry is about to be levied to support the illegal-money-lending team. That is the specialist team that tracks down loan sharks. That is where the expertise lies. If that were to get additional resource, so that it can look at the size of its problem rather

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than having to tackle it cutting its cloth, as it were, and putting all its resource into—

Q13 **Chair:** There is an obvious conflict between people asked to address a problem like that and research designed to try to find out what its extent is, at least over time. So we need to separate those two out.

Can I go back to Mr Rees? Is there a piece of research that should be undertaken that this Committee should call for? If there isn't, say there isn't. If there is, please tell us.

Mr Rees: I am not a researcher.

Q14 **Chair:** I am not asking you to do the research; I am asking you to tell me the things you need to know.

Mr Rees: If it could be done, it depends what your question is with research. The question is whether you could design a piece of research that would establish a correlation between reduced customer access through the cap and the impact on illegal lending. If that piece of research could be designed, I would say that is an appropriate piece of research to do. The most recent research was in 2010, again by Policis for BIS, looking at how effective the illegal lending teams were. That is quite interesting. It talked about 300,000 individuals in the UK—on a conservative estimate, from a survey sample of some 1,800 people, so it was quite big—actually using illegal lending.

Q15 **Chair:** I still don't feel I have got anywhere. I am going to give up. Mr Hamblin-Boone, do you think the action that has been taken has done something to protect those who were among the most vulnerable, who were clearly being exploited by a part of the payday loan industry?

Russell Hamblin-Boone: Yes. The firms that I represent put in place a code of practice for our members, and that paved the way for what we have in a statutory framework. There is certainly a rump of the market that has disappeared and been driven out by higher standards. People who are potentially vulnerable would have used those types of products from those types of firms. What we have to recognise is that the lending landscape has changed dramatically. The market has moved increasingly online. The split now is 80% online, 20% store based. As I have already explained, the demographic is very different. There is a higher income type of customer and a type of credit is available to people who have irregular incomes, not necessarily the lowest salaries and not necessarily the most vulnerable people. With the shrinkage in the number of lenders from 240 in 2013 to about 60 firms now, that will certainly have an impact on access to credit, not necessarily in a positive way because people who would have been able to access some form of credit, albeit a more expensive form of credit, are most certainly not able to get access to it now.

There is another thing to point out when we talk about the cap. The cap and regulation were implemented at about the same time, or within a short period of time, so it is difficult to split out the impact of the cap from

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the impact of regulation, particularly affordability checks, which meant lenders have tightened the criteria on the people they will lend to.

Q16 **Chair:** I haven't given Mr Lyonette a chance to speak yet. Is there anything you want to add? We are going to come on to looking at credit unions.

Mr Lyonette: To go back to your question about research, it is probably worth saying that we are talking about two very different kinds of credit here. We are talking about long-standing home-collected credit, which has its place in the market and has done for decades. The payday industry sometimes talks as though it has been here for ever, and it often wants to talk about a binary kind of, "If it's not us, people will go to illegal lenders". I think the piece of research that needs doing is not so much about people's preparedness or actual use of illegal lending, because that is difficult to evidence at real scale, because for all the obvious reasons people do not want to say or they aren't going to say and so on. I think we have to go back to where did the payday industry come from. It was not a sudden new surge of demand for credit; people had those needs for credit for ever. We have got to say: where was the transference from? What was not available that led to the rise of the payday industry in the form of the single bullet payment, which is what Russell was talking about, which is now no longer so prevalent?

I think the research is around the availability and accessibility of credit cards and overdrafts, because that is actually part of what tightened up and became less available and therefore led to the ability for some of the bigger payday lenders to raise massive awareness from almost a standing start—unknown companies getting huge awareness, getting huge buy-in from people.

So I reject this idea that is constantly put out that it is either us or illegal lending. We need to ask what else has happened. I know Citizens Advice, for example, would tell you that there has also been a transference into different kinds of debt as a result of that. So where can the transference have happened? Where did it come from in the first place? I would suggest that it is maybe partly the banks, to answer the question about the availability of overdrafts and the different credit risk appetite on credit cards in the last 10 years. That, I think, is what led to the growth of the payday industry in a large part.

Q17 **Chair:** That is a very interesting reply. I do not think that it is that we want to give up on trying to find out what is going on in what might be a criminal sector—quite the opposite—and what the effects might be of action taken in other parts. It is also that there are other very important causes of the change in the market, not least the growth of new products and the development of existing ones in new ways.

Mr Rees: I agree with that analysis. I think that analysis was spot-on. Historically, if you look at the UK market, you can see that markets have shifted and moved primarily in response to legislation for probably the best part of 100 years, from cash credit to retail credit—the agents in mail

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order businesses in the early 20th century. So these movements are very common and very visible. I agree with your analysis.

Q18 **Kit Malthouse:** Mr Hamblin-Boone, I want to take you back to something you said earlier in response to the Chairman. You said there had been a slight increase on your survey, I think from 2% to 6%, which is actually a tripling of the numbers. In my book that is not so slight. What are the absolute numbers there? Is it from 200,000 to 600,000?

Russell Hamblin-Boone: I can certainly provide you with the absolute numbers. It was based on a survey of 1,000 people but then of those people a proportion would have been turned down for credit. I will need to get you the specific figures on that. The point to be made is it is 6% of that population of people who were turned down, so I suppose in that point I was saying it is 6% as opposed to, say, 30% or something.

It is an increase, but we have to take it with caution because this is about people who had considered as well as those who had used an unlicensed lender. It is very difficult—you obviously cannot ask somebody directly, “Have you acted illegally?” so in response to questions about, “Yes, I borrowed from people other than family”, you are asking, “Did those people have a credit licence?” You are working your way through a number of questions to get to something that suggests that they may be using somebody illegally, possibly without even realising it is illegal to do so.

Q19 **Kit Malthouse:** We are interested to try to understand what the impact has been on your industry of the regulation. Could you give us a pattern of what has happened, essentially since 2008?

Russell Hamblin-Boone: If I can take 2012, because I have got a figure here, according to the Competition and Markets Authority in 2012 there were just over 10 million loans being provided. That dropped in 2013 to 6.3 million and the most recent figures in 2015 suggest that 1.8 million loans were issued in 2015. That is pretty much how the market has plateaued out.

Q20 **Kit Malthouse:** It has dropped by 80%, effectively.

Russell Hamblin-Boone: Yes, 70% since 2013, and getting on for 80% since 2012.

Q21 **Kit Malthouse:** In terms of those numbers, what is the actual capital employed? So 10 million loans equalled how much outstanding and 1.8 million equals how much outstanding? How has the average loan moved?

Russell Hamblin-Boone: In terms of price reduction—

Q22 **Kit Malthouse:** No, the amount lent. So 10 million loans equalled—I don’t know—a hundred million quid, and at 1.8 million equals two million quid.

Russell Hamblin-Boone: In 2013, if my recollection is correct—no, I’m not going to offer you something. I can write to you on that with the specifics.

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Q23 **Kit Malthouse:** Would you let us know?

Russell Hamblin-Boone: Yes, absolutely. Those would be Competition and Markets Authority figures. The average cost of a loan has also fallen, which has been another impact, along with, obviously, a reduction in customer choice, which is the access to credit issue. The cost of a loan has fallen by an estimated £36, so the price cap has made a difference, but also the market has moved from the single-payment loan that is due a payment in 30 days to three, six, nine, 12-month instalment loans, which has increased the number of people who are paying back on time. Only 7% of people actually incur any fees or penalties for missed payments now. As you probably know, the cap is also limited because lenders can levy a fee of only £15 maximum, regardless of the length of the loan. Also, as a result of affordability checks, 93% of loan applications are declined.

Q24 **Kit Malthouse:** Ninety-three per cent. are now declined?

Russell Hamblin-Boone: Yes.

Q25 **Kit Malthouse:** So for your 1.8 million loans, that equates to something like 11 million applications.

Russell Hamblin-Boone: Yes. There continues to be high demand.

Q26 **Kit Malthouse:** So of your 93% declined, you are saying that, currently, 6% say that they might consider using or do use an illegal lender. Right, so that gives us around 6% of 9 million applications.

Russell Hamblin-Boone: Your maths would be far better than mine.

Q27 **Kit Malthouse:** That is quite a big number.

Russell Hamblin-Boone: As I said, we have to take these things with caution, because it is not an exact science at this point.

Q28 **Kit Malthouse:** It is around half a million people.

Russell Hamblin-Boone: Which is slightly shy of the 300,000 we have already identified.

Q29 **Kit Malthouse:** Prior to the regulations coming in, or prior to 2012, when the industry first started, is it the case that demand was so strong that, notwithstanding the fact that lots of companies were setting up, there wasn't much competition in terms of rate and terms and all the rest, and that the reduction in cost and rate has largely been because of regulation?

Russell Hamblin-Boone: Yes, regulation has certainly had a bigger impact than the price cap. Access to credit has obviously reduced, but, as I said before, we have to be clear that online borrowers in particular are in a higher demographic than vulnerable people. We are not talking about unbanked, financially illiterate, benefits-dependent people using these forms of loans, so it is not necessarily people who would feel that they have to resort to their local neighbourhood loan shark.

Q30 **Kit Malthouse:** Are you saying that the truth is that the people who have

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now been excluded from your market, to whom you do not lend because the level of regulation means that the risk and return equation isn't really worth it any more, probably have a higher propensity to use illegal lenders?

Russell Hamblin-Boone: No. I can tell you that when people who were turned down were asked what they did, 36% said that they would borrow from family and friends, and around 70% of those would say that that would be a one-off. A third of people said that they would have gone without some of their daily essentials, and others would turn to alternative forms of credit. So, 9% said that they would try to pawn something, 7% said that they would use home credit—David's group—6% said that they would use a planned overdraft, 9% said that they would use an unauthorised overdraft, and 8% said that they would still have access to a credit card. I can send those figures to you, if it's helpful.

Q31 **Kit Malthouse:** I suppose what I am trying to get to is the population of people who are now excluded. If you are saying that 93% are declined and 1.8 million are outstanding, is that growing, falling, or staying about the same?

Russell Hamblin-Boone: I think it is about the same.

Q32 **Kit Malthouse:** Right, so the industry-collective book is not expanding at the moment.

Russell Hamblin-Boone: No, and there are currently alternative high-cost credit products that have yet to face the full authority of authorisation.

Q33 **Kit Malthouse:** Looking back to 2012, when you had 10 million loans outstanding, what was the rejection rate then?

Russell Hamblin-Boone: Online, it was still about nine out of 10 loans.

Q34 **Kit Malthouse:** On 10 million loans, you were actually getting 100 million applications for loans every year.

Russell Hamblin-Boone: Potentially. It was certainly a much bigger market and a newer market.

Q35 **Kit Malthouse:** So there has been the same reduction in applications as there has been in loans.

Russell Hamblin-Boone: Yes.

Q36 **Kit Malthouse:** If that's the case, that means there are 90 million potential applications out there that are not even coming to you and being refused.

Russell Hamblin-Boone: That is why you can see guarantor loans have grown up significantly, log book loans have increased and the pawnbroking industry has seen an increase. People have become more aware of the idea of alternative credit or non-standard finance, and therefore other parts of the market have seen an uplift.

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Q37 **Kit Malthouse:** So you think those 90 million loan applications have gone elsewhere. But there might be a higher proportion of those—you do not see them; they do not form part of your 6%, because you haven't had the chance to ask them the question—that may have gone more to the illegal sector, and within that is this section of people, who perhaps have a chequered credit history and financial difficulties, who might have a high propensity to move into the illegal sector.

Russell Hamblin-Boone: Absolutely. Those people are the people for which, in designing the price control and the regulation, there was not a social policy to take account of them. The FCA was concerned about markets and protection, and that was the point of its cut-off—"We are responsible for the commercial sector up to here. What happens to those people is someone else's problem." That is where it is important we have some social solution or welfare solution.

Q38 **Kit Malthouse:** I understand. Looking at the headline numbers, from what you have told us about your industry it looks as though regulation has choked your industry off.

Russell Hamblin-Boone: No. It's made a significant difference. It's shifted the market. It's made the loans more affordable. It's offered more flexibility for people. What it has fundamentally done is change the market from one based on volume lending and aggressive collection, to very responsible and cautious lending. That means that you do not need huge collection teams, because fewer and fewer people are actually getting into default.

Q39 **Kit Malthouse:** But if you've got 1.8 million loans accepted per annum—

Russell Hamblin-Boone: Yes.

Q40 **Kit Malthouse:** And they have an average life of up to 12 months—

Russell Hamblin-Boone: On average. Three months and £256 is the average loan.

Q41 **Kit Malthouse:** Okay. So as an industry you have got fewer out of the 1.8 million loans outstanding at any one time. It is quite a small number, given the small ticket size. If the average ticket size is a hundred quid or a couple of hundred quid—

Russell Hamblin-Boone: £256. So the market—

Q42 **Kit Malthouse:** And if the market isn't growing?

Russell Hamblin-Boone: We're talking about people who were sort of defined by the payday product, if you like. What the market will need to do is push into that slightly higher, and much broader, non-standard finance bracket, where you have firms like 118 118 Money or Amigo Loans that have never been caught by the payday label but are doing similarly high-cost credit products. That is where former payday lenders will need to push their market. Otherwise, as you say, it is not a big enough market for even 60 firms.

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Q43 **Kit Malthouse:** On that maths, you have got about half a billion outstanding—500 million in total—across the 60 firms with, as you say, not much prospect for the sort of growth that the industry saw in the past. So it won't attract—is it attracting investment?

Russell Hamblin-Boone: It is, because of the flexibility, the new products that are being tested and the complete move away from this single payment product. You can still get a payday loan, if—

Q44 **Kit Malthouse:** Give us an example of a new product that is being tested.

Russell Hamblin-Boone: There are open line of credit-type products, where you can draw down and pay back. You have a limit to what the lender is ever able to allow you.

Q45 **Kit Malthouse:** Like an overdraft?

Russell Hamblin-Boone: It is a very similar type of product, but much more based online and much more responsive to consumers' needs; they are convenient, quicker and—probably more importantly—simple products. That is one of the plus points of non-standard finance breaking into the market and literally challenging some retail banking products.

Q46 **Kit Malthouse:** Obviously that search for growth is by a smaller and smaller number of participants. Are they making money still?

Russell Hamblin-Boone: Not a great deal at the moment.

Q47 **Kit Malthouse:** Are they therefore likely to continue? Do they seek consolidation?

Russell Hamblin-Boone: They recognise that there continues to be a demand. There isn't, for example, an alternative retail bank saying, "We will change our criteria and will lend to people with impaired or thin credit files." There doesn't seem to be an appetite for that. There is a very competitive non-standard finance market. I have talked about some of the big firms that you see regularly advertising on television—118 118 Money, Amigo Loans—and that is where the non-standard finance market is going to move to. The technology that is being used now is way advanced to anything that is being used by mainstream credit providers in terms of data analytics, customer profiling, underwriting and risk—all of those things. It demonstrates what the future of finance could look like when the mainstream catches up.

Q48 **Kit Malthouse:** Right. Generally, in my experience, what has happened in the finance industry in the long term is that these new firms get absorbed into the mainstream players in the end, so you could see the banks deciding to buy or take over those kind of products.

Russell Hamblin-Boone: You may do, but because of the historic toxicity, if you like, there is no appetite at the moment for any bank to move into this market. The kind of technology and things that are being used, and the approach of the business people that are developing non-standard finance products—they don't come from the traditional banking sector, so it is a very different type of industry.

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Q49 **Kit Malthouse:** To look at the flip side, obviously regulation has had a massive impact in the industry and reduced it very significantly. Do you think it has been overdone?

Russell Hamblin-Boone: In terms of access to credit, there are people that should and have proven in the past to have very good borrowing habits and behaviour but are not lent to because of the regulation and the extra caution that lenders have applied in order to demonstrate conduct to the regulator. There are some people that they probably would lend to, were there to be some recognition that we now have a tightly regulated market. If we are going to stop people using any other form of credit that might not be appropriate, we should allow a little bit of easing and allow lenders to take a bit more risk about lending to people, provided they are doing it in such a way as affordability suggests they should, which is making a decision about whether it is the right thing for the person to have that credit as opposed to whether they can get the money back.

Q50 **Kit Malthouse:** On your 2012 figure of 10 million loans, the vast majority of those loans were presumably paying back just fine.

Russell Hamblin-Boone: At the time, at the height of the market, it was about 70% of people.

Q51 **Kit Malthouse:** Paying back fine.

Russell Hamblin-Boone: Were paying back fine.

Q52 **Kit Malthouse:** But the vast majority of those 70% of people are now by regulation excluded from using the service.

Russell Hamblin-Boone: Potentially, yes.

Q53 **John Mann:** Interesting, though of course interest rates may have an impact as well, and mobile technology. Aren't you going to see your sector squeezed further as mobile technology encourages peer-to-peer lending on a very micro-level?

Russell Hamblin-Boone: Potentially, but our market has faced the full rigour and weight of regulation and what we've got, we can now review. The price cap is due for a review next year and, as I have said, maybe there is some flexing that can be done in terms of who is able to afford this type of product and who it is appropriate for. We have yet to see a new set of rules and scrutiny of the peer-to-peer and crowdfunding sector. The regulations are currently being drawn up, and that may have a similar impact where it is decided that this is another one of those burgeoning growth markets that needs a little bit of control around it. I don't think those two markets are in competition.

Q54 **John Mann:** There is an impression given by you all that over-indebtedness has been static over time, when in fact I am pretty sure that the banks encouraged it with excessive access to credit and it became a cultural change. All that has happened recently is that the banks are happy to have people coming back and have been easing restrictions on credit and, indeed, bumping the prices back up. In recent

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years they have been encouraging people to spend money they don't have and they are now charging them more for the beauty of doing so. So there is a cultural issue here, isn't there? That is the big issue that has changed.

Russell Hamblin-Boone: I think it's cultural and it's also something to do with value judgments and making assumptions about what markets apply to what type of customer. We tend to judge people by the products they use rather than by their actual circumstances, whether financial or otherwise.

Q55 **John Mann:** Can I come on to you, Mr Lyonette? Mr Hamblin-Boone uses the term "customer", but obviously if I can't put bread on the table, I am not a customer; I am someone who can't put bread on the table. It is a different concept. You have 1.29 million people using credit unions. What is the regional breakdown of that, approximately?

Mr Lyonette: By country?

John Mann: Let's start by country.

Mr Lyonette: The 1.29 million people is England, Scotland and Wales—Britain, if you like. There are another half million people in the rest of the UK—in the north of Ireland. Approximately 50% of the population in the north of Ireland use a credit union regularly. Within that 1.29 million, there is a greater concentration in Scotland—I think there are now 360,000 there. They might not be quite comparable at the same date, but there is a much higher percentage of members of credit unions in Scotland—about 7% of the population, rather than about 2% of the population in England and Wales.

Q56 **John Mann:** Where is the lowest take-up?

Mr Lyonette: Wales, in terms of the three countries.

Q57 **John Mann:** And in England?

Mr Lyonette: It's about 2% across the piece.

Q58 **John Mann:** Where's the lowest in England?

Mr Lyonette: South-east, outside London.

Q59 **John Mann:** What percentage of people asking to borrow from credit unions are being refused because they are not creditworthy?

Mr Lyonette: It really depends on the credit union and its risk appetite. Refusals can be as high as 80% for some kinds of loans in some credit unions, but they can drop to just over 50%. There is quite a wide divergence from the average.

Q60 **John Mann:** Credit unions seem to have a bit of a reputation in this place for helping out the poorest in society, but the poorest in society don't access credit unions, do they? They are actually for a tier above that.

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Mr Lyonette: I don't think that's true, actually. When the previous Government put the growth fund in place, I think we demonstrated that we made over 400,000 loans to people on the very lowest incomes—people with the poorest credit records. Nobody, we should say, should be making loans to people who can't afford to repay, but within people's ability to repay, credit unions demonstrated then that they could do that and they did it very well. I think the Department for Work and Pensions was pleasantly surprised at the time how effectively the credit unions reached right down the income chain, if you like. It was quite effective.

The challenge of the growth fund for credit unions was not the ability to meet demand, but that if you just do that, it is very difficult to run a sustainable business. The credit unions need to do a broader range of lending, not just lots of tiny loans at a very, very low percentage rate, because it is very hard to make that stack up on its own. That was the learning from the growth fund.

Q61 **John Mann:** You are turning away 50% of people, and in some cases 80% of people. Let us take the 50% of people. The vast majority of those people are coming because they have major problems. They are not coming because they just fancy getting a second television and no one else will lend. They are not coming to say, "Can we borrow and get a second television, please? We need two TVs, not one." That is not really the profile of customers, so you are turning away a lot of people and sending them back to Citizens Advice, or they go nowhere, or they go to the illegal market or to payday lenders.

I want to clarify your role in things. Your role isn't the most-difficult-to-get-to people, the ones who might go to the illegal market, is it?

Mr Lyonette: I don't think that's true. I think I said in my previous answer that, out of the 1.3 million members of credit unions, there will be quite a broad range of society. There are probably not many more people above average income. Russell was talking about the average income being £26,000, and not many credit union members will have higher incomes than that—there are tens of thousands of them, but they are not the majority. Credit unions serve people right across the piece. I don't think there are people with credit needs that should be met whom credit unions would not be serving.

Q62 **John Mann:** The most successful credit unions are those based on, say, workplaces.

Mr Lyonette: Yes.

Q63 **John Mann:** The continental model works very successfully there. I am sure it is perfectly valid, rational customer service. That customer service for people in work is working really effectively, but credit unions have been repeatedly portrayed in here as something for the most financially excluded in society.

Mr Lyonette: The point I am making is that we need to do both of those things.

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Q64 **John Mann:** Who's we?

Mr Lyonette: The credit unions. The credit unions serve many, many people who are the most excluded and bring them into inclusion. There is a real link with the employer piece, which is helpful in the economic structure of a credit union in that you have some slightly larger loans and a lower cost of serving those people, which helps balance the institution.

There is another part of that that is critical when you are talking about the conditions that create exclusion and that create detriment from having a low income. Savings are a massive part of what low-income employee credit unions do. If you can help people to put aside a little bit of money, they don't need to borrow £200 at the end of the month because they have £200. It took an awfully long time in the late 2000s, when the Government's Financial Inclusion Taskforce was in existence, for people to recognise that savings are actually part of the credit agenda in terms of understanding how you manage the risk of borrowing that people need to take.

I would absolutely suggest something completely complementary—credit unions focusing more on working with employers. That is tried and tested, and it is the dominant model of credit union development around the world. That is how credit unions represent anything between 15% and 50% of the population in many countries around the world.

Q65 **John Mann:** What discussions are you having about putting community social credit for volunteering through the block chain into the credit union system?

Mr Lyonette: I don't think we are having any discussions about that at the moment.

Q66 **John Mann:** If you're not, I will come back to what credit unions are for. If you're financially excluded and not in work, the ability to save is incredibly difficult and the propensity to save is incredibly low. That is quite different from someone who is in secure, long-term accommodation, which might be rented, let's say a traditional council house, and is in low-paid work with an employer who is very happy to encourage a credit union. There, the model of the credit union is very clear and obvious, and has been tried and tested for generations in some parts of the world. Defining those people as the financially excluded is not necessarily accurate. You are turning the financially excluded away from borrowing but they are not in a position to save.

Mr Lyonette: I don't think that's entirely correct either. I don't think credit unions are turning people away because they are financially excluded. They turn away people who have already got too much debt to be able to afford even another £100 loan. We could bring you thousands of examples of people who do manage to save, even on the lowest incomes. One of the best things the Government did in the last 20 years in our space was allowing deductions from benefit to credit unions, as well as deductions from payroll. If you like, it is just another form of the same thing. It allows people to put a tiny amount aside. People are putting £1 a

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week aside, which you might think is minuscule, but when you get to £50 or £100 of savings, that has a massive impact on people's confidence and ability to feel in control of their finances. For you and me, £50 or £100—it's probably hard to imagine that that even was savings if you have a high income, but credit unions demonstrate time and again that you can borrow from them at that small piece and put aside a small amount of savings at the same time. That's actually the transformational piece. If we think of ourselves as balance sheets, getting credit doesn't make any of us richer unless we are investing it in something that has a return. Building small savings is actually what makes people wealthier.

Q67 **John Mann:** It's not something that's either unfamiliar or a surprise to me. I know my constituents extremely well, so I know the profile of constituents on benefits who would be capable of saving the amounts of income they get and why they would be saving. I also know those who aren't. Having looked at those who are being excluded by credit unions, what I am trying to get at is that, when we look at credit unions, we are actually looking at the wrong thing. You are fulfilling a different role in the market from what we are anticipating and expecting. When it comes to the really financially excluded who are getting into the illegal money markets, what the credit union model is offering isn't, some would say, succeeding—I would say relevant. You are saying that, in some cases, 80% are being refused, or 50% overall. It would useful to get a breakdown of who those 50% are. The question of community credit for volunteering is quite fundamental to that. What is the commodity available? What is the definition of income that allows those who are the most excluded to actually have "credit in the bank"? It is not always going to be cash.

Mr Lyonette: I can only refer you to the report that your own Government did around the impact of the growth fund and who credit unions are serving. I have said that three times.

Q68 **John Mann:** Yes, but I also look at the huge state subsidy to credit unions in terms of local government support, accommodation and facility that gave you a privileged place in the market. It looks to me as though, when it comes to the seriously financially excluded, we are potentially overplaying the credit union role. The self-organising role inside the workplace or inside, for example, an institution such as the Church, is very powerful where that network already exists for credit unions, but it is not one that is going to fit those people you are excluding.

Mr Lyonette: I can certainly send the Committee more evidence on who the credit union sector serves.

Q69 **John Mann:** Please, but information about the bits that have been excluded—the 50% of people who have been excluded—would be the most useful and valuable. Information on those who are not being served by it would be the most valuable, and any analysis of that would be extremely useful. This is not a criticism of the credit unions; it is a criticism of the aura of the credit unions and what they are seen to represent. I put it to you that you are seen to represent something that

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isn't quite accurate, in Government and in our thinking, and that there is a need there that you cannot and are not choosing to meet, which should be looked at. We—either this Committee or Government—should be looking at that and not pretend that simply throwing money at, say, credit unions will get anywhere towards meeting it all.

Mr Lyonette: There are some interesting points in that. We in the association have been the major proponents of saying to Government, for 20 years, "Please stop funding credit unions with revenue subsidy." Revenue subsidy as you described it, from local government predominantly and more recently from central Government, has not created stronger credit unions. That is entirely different from saying, "Are there not things that a Government can do to support the sector in terms of legislation, regulation and, indeed, capital investment?" As mutuals, one of the challenges that credit unions face is that they can grow only as quickly as they can build capital, and capital in a mutual tends only to be able to come from retained income. One of the things that Lloyds bank has done superbly well in recent years is put aside £4 million—£1 million a year—simply to allow credit unions to grow quicker than they could if they had to produce that profit themselves to build their own capital at the end.

I think we have always been consistent about what credit unions are and are not. We certainly are not a panacea for everything to do with poverty, which is probably where some of the local government drives around credit unions in the '80s were. I would say that from within the sector, we have been the major proponents of saying what we can and cannot do well, and we certainly do not pretend to do things we don't. On the other hand, we most definitely do not turn away people because they are excluded. If people don't get a loan, it is because they cannot afford to repay it.

Q70 **Helen Goodman:** I want to go back to the discussion you were having with the Chairman at the beginning. Mr Rees, is the number of people using illegal moneylenders increasing at the moment?

Mr Rees: Our impression—these are only impressions—is that there has been a general increase over time, and that is based on research from 2006.

Q71 **Helen Goodman:** But that is 10 years ago.

Mr Rees: Yes, I know, but given the progression from there to the latest research in 2010—I agree that that is also six years ago—our impression is that it is not falling away. I hope you don't mind me offering these views, but I think it is important to look at the history of intervention in credit markets. Historically, it has been shown that if you intervene in markets in any way, that tends to have an effect in this particular area.

Q72 **Helen Goodman:** Let's pause before we go into what the reasons for this might be. What has been happening to the resources put into tackling illegal moneylending over the period? Mr Hamblin-Boone, you are nodding as though you know the answer to that.

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Russell Hamblin-Boone: All I know is that we and others were part of the group lobbying to ensure that the Illegal Money Lending Team continues to retain its funding and that the funding should be levied across the whole credit market, because we all share responsibility. So I am pleased to see that—

Q73 **Helen Goodman:** It has continued, but has it continued at the same level or has it been cut?

Russell Hamblin-Boone: It has continued at similar levels. The challenge to that organisation is that although it is tackling, preventing and tracking down loan sharking, it perhaps needs some more resource to use all the intelligence it has to try to look deeper at the size of the problem, because it is clearly able to tackle only a very small part of it, and maybe it is the tip of the iceberg.

Q74 **Helen Goodman:** Okay. Mr Lyonette, is there any evidence that in areas where there are credit unions there are fewer loan sharks?

Mr Lyonette: Unfortunately, we don't have any evidence at all on that. It is not something that our credit unions would be able to prioritise researching.

Q75 **Helen Goodman:** Okay, fine. I'll ask some other questions if you don't know.

Mr Hamblin-Boone, I was very interested in what you said about the people to whom you are lending. It sounds to me as if, given the changes in the labour market, payday loans will potentially be more attractive to people on zero-hours contracts and people in the gig economy—people like Uber taxi drivers. Is that the kind of customer profile you have—people who are quasi self-employed and have irregular salaries?

Russell Hamblin-Boone: Absolutely it is people with irregular salaries, but that can also be people with very high salaries, which is probably why the average comes out higher than one would expect from what you read about the market. Yes, there are, as you say, people on zero-hours contracts in catering, cleaning and those types of jobs, but there are also people who are web developers or consultants and other people who have non-standard incomes.

Q76 **Helen Goodman:** So knowing the average income of the people you are serving is perhaps slightly misleading. It would be useful to know what the modal average and the distribution are, wouldn't it?

Russell Hamblin-Boone: Yes.

Q77 **Helen Goodman:** Can you delve into this in a bit more detail? You might have 10% of people on £40,000 but 90% on £15,000, or something like that.

Russell Hamblin-Boone: I don't have—

Q78 **Helen Goodman:** If you haven't got it here, maybe you can send it to us.

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Russell Hamblin-Boone: We can look into that, but that is absolutely the case. Obviously, people who have low to middle incomes are more likely to have that volatility in their income than people with a very high income.

Q79 **Chair:** Just on Helen's point, is the distribution reasonably even, or is it very skewed, as Helen is suggesting?

Russell Hamblin-Boone: We did some research and looked at the types of jobs that people have. Between March and May 2014, we took a snapshot of our members' customers, which amounted to about 1,000 people, 52 of whom were company directors, 14 were police officers and 12 were legal secretaries. There is a mix. We can certainly see if we can delve down. We are doing some work with the Social Market Foundation that we will be publishing later this month, which is looking at the impact of the price cap and regulation on consumers. Rather than pre-empting what the Social Market Foundation has found having interrogated lots of data provided by my members, it might be better to present you with that report.

Q80 **Helen Goodman:** I am amazed that you have police officers, who have an extremely regular income and regular hours. It might be quite interesting for us, if it's not too late, to find out how many of those people are eligible for tax credits, because that is a benefit that goes to people who are in work. I don't know whether that's available or not.

Russell Hamblin-Boone: I can ask the question.

Q81 **Helen Goodman:** Because the point I was going to ask Mr Rees and Mr Lyonette about is this. Of course we have had this change in the regulations since 2010, but a lot of other things have been going on as well. Mr Rees, the profile of your customer base is different. Would you like to describe it to us?

Mr Rees: Yes. Just to emphasise, I am here representing the Consumer Credit Association. The data I am going to give you is from my company—

Q82 **Helen Goodman:** Sorry, which company?

Mr Rees: Provident. It is a large company, and we are fairly confident it is a proxy for the sector. Our customer base is very broadly, off the top of my head, Cs, Ds and Es—a little bit more in E, but that kind of spread. It covers a range of incomes, but we would lend according to income. The last time I looked—a long time ago—the loans were broadly referable to the amount—

Q83 **Helen Goodman:** What's the age profile?

Mr Rees: Again, off the top of my head, I think the bulk of our customers are probably in the age group 25 to 45 or 50. It is that kind of age range. Essentially it is when a household has its major expenditures. There is a slight preponderance towards women. It is probably a 60:40 customer split between women and men.

Q84 **Helen Goodman:** Mr Lyonette, have you got any information on your customer make-up?

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Mr Lyonette: Unfortunately, as I keep mentioning, the only solid research we have got at scale across the sector is the Government's research that led to the growth fund and the expansion programme. We ourselves have not funded any systematic collection of data across the credit unions.

Q85 **Helen Goodman:** Fine. Some of the people who you are serving, Mr Rees and Mr Lyonette, will have been affected by the very significant cuts in benefits and welfare payments since 2010. Is that fair to say?

Mr Rees: I haven't got any data on that, but certainly from conversations there is some effect from that, yes.

Q86 **Helen Goodman:** Mr Lyonette?

Mr Lyonette: Absolutely. It is all anecdotal from credit unions telling us what is happening to their members.

Q87 **Helen Goodman:** We may have seen an increase in the use of illegal moneylenders in the past six years. We have also seen an explosion in the use of food banks over those years. Have you got any feel, Mr Rees, as to whether there is any overlap between the two groups of people?

Mr Rees: Sorry, which two groups?

Q88 **Helen Goodman:** The more than 1 million people accessing food banks every year and the people going to illegal moneylenders.

Mr Rees: No, I am afraid I haven't.

Q89 **Helen Goodman:** I think if we were going to have some research, we would want to delve into some of these wider contextual issues, too. Mr Rees, why do you think that the mainstream clearing banks are as unwilling as they are to serve the client group whom you serve?

Mr Rees: I think there is another dimension to that issue, which is whether the client group that we serve wants to use the banks. That is quite an important facet, too, but I will answer your question. There are two or three aspects to it. One is basic economics. The economics of our customer base are that they want very small loans, and they want control. There is an aversion among many of our customers to using credit cards and overdrafts, because those two products, while they are hugely flexible, which is a plus, are potentially extremely difficult to control. Therefore, you will find fairly low use of both those products in our market sector.

Q90 **Helen Goodman:** We were taking evidence from the Competition and Markets Authority the other day, and we found that some of the overdraft payments were coming out at £90 a month. Your customers were probably making quite a sensible assessment. I am interested in what you say, because sometimes the banks describe a group of people whom they regard as financially risky, but you are distinguishing two things, are you not? You are distinguishing the riskiness in terms of people's capacity to repay loans and the transaction costs of running financial services for people who want £50 or £100 and who are putting money in at a small level and taking money out in small chunks.

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Mr Rees: Yes. If I can come back on that point, I mentioned control. There is some interesting research by Consumer Focus, which used to be the National Consumer Council, called "Making Ends Meet". We did not know about it until two years ago—the report was published in 2011, so it is relatively recent—but it looked at various products.

The research said that customers knew that some products cost more, but that those products offered them more control. The piece of research was looking at credit, phones, utilities, and what the researchers actually found—I think they were drawing together various pieces of research, so I am not sure whether it was quantitative work, but it was certainly qualitative—was that people were making thought-through trade-offs, looking at cost versus control.

The problem for many of our customers is that they are actually working on very tight budgets. If you are working on a tight budget, that does not mean that you are not responsible, but what it does mean is that your budget can be derailed. If your budget is derailed, what do you then do with your credit repayments?

Specifically with home credit, the whole point is to help the customer through that. So if the customer has a problem, the agent calls, the customer says, "I can't pay this week, because I've had to buy a new tyre for the car", and the agent simply says, "It's not a problem. Pay me next week", and the whole block of remaining payments just ratchets on one.

Q91 **Helen Goodman:** So what is your average APR?

Mr Rees: It depends on the contract term. It can range from 200% to over 1,000%, but the Competition Commission said that APR was a very poor method of assessing cost. I will send you the actual quotes from the Competition Commission, which said that actual cash cost was much more important. Looking at cash cost, if you are borrowing £100—

Q92 **Helen Goodman:** Why did they think that?

Mr Rees: The Competition Commission?

Helen Goodman: Yes.

Mr Rees: The APR is an annual percentage rate, so the formula actually uses the year as a unit of time, but if you apply it to short-term loans—and I am a lawyer, not a mathematician, an economist or whatever, but this is my understanding—loans for less than a year, you get an exaggerated impression of the cost.

Q93 **Helen Goodman:** Well, you get a bigger number. I do not know whether you get an exaggerated impression, but you do get a bigger number, undoubtedly.

Mr Rees: If we had a weekly percentage rate, which would have been a perfectly valid way for the regulators to proceed when they designed the rate disclosure system, we would not be having a discussion, because it would only look to be a little bit more.

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Q94 **Helen Goodman:** How long is the average time period of a loan?

Mr Rees: Our loans range—some of our members will do loans for as short as 10 weeks, the average is probably somewhere between 26 weeks and 52 weeks. So when you take out a loan, they are fixed-term loans for a period.

Q95 **Helen Goodman:** So some of them are 52 weeks, so the APR would be relevant.

Mr Rees: Yes, but the APR on the 52-week loans is at the lower end of the range I have given you.

Q96 **Helen Goodman:** Which was 200%.

Mr Rees: The longer term, the 52 weeks—but let me give you an example. This is not a home credit loan, but if I lent you £10 for a week and charged you £1, most people would say that that was a reasonable transaction—

Helen Goodman: That was not my question to you; I understand that point.

Mr Rees: No, but I am simply illustrating—

Q97 **Helen Goodman:** That is why I asked you how long your loans are, and you said between 26 and 52 weeks, so the distortion effect, which is your concern, is not so great in terms of whether the APR is an accurate measurement when we are talking about loans for between 26 and 52 weeks.

Mr Rees: I agree, but to continue with the example, of a £1 charge on £10 for a week, most people would say, "That's a reasonable deal", but the APR on that is something like 14,500%—

Q98 **Helen Goodman:** Yes, I know that, but that is not what I am asking you, Mr Rees. What I am asking you is: what APR you are charging those people who are having loans for 52 weeks? That is my question, and I think you said that it was 200%.

Mr Rees: It will be of that magnitude. I do not have the figures with me, but if you want to check our rates—you can do it if you have a tablet with you—you can go to lenderscompared.org.uk, punch in your postcode and put in 52 weeks. I brought some for shorter periods with me, but I did not actually do the calculation for 52 weeks, I am sorry. But go on to lenderscompared, put your postcode in and it will show you—this is one of the remedies from the Competition Commission inquiry we had—what the charges are for the lenders in your area, in cash terms and in APR terms.

Q99 **Helen Goodman:** Mr Rees, does the Consumer Credit Association represent only home credit—

Mr Rees: Home-collected credit, yes.

Helen Goodman: You don't represent those people who rent to buy white goods on the high street.

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Mr Rees: No, not at all.

Q100 **Helen Goodman:** Mr Rees, what would you feel if the same kinds of limits as have been applied to payday lenders were applied to home credit and rent-to-buy? Do you think that would be a reasonable levelling of the playing field?

Mr Rees: The difficulty with rate caps is that they are—there is a series of problems with them. First, they do not really work with small amounts. What you do with most rate caps, if you have a crude, single figure cap—depending on where you set it—is you eliminate the smallest loans and the shortest-term loans. There is a demand for those. That is one problem.

Q101 **Helen Goodman:** So any regulation needs to be sophisticated, not crude.

Mr Rees: Yes, but when you listen to the other problems, I think you will begin to see that there are many difficulties with rate caps. The second is that you have to consider default charges, which are not included in the APR. I know that has been done with payday. That is a second complication. We do not, in fact, charge default charges, but we would be penalised for doing that, because we have to include the cost of missed payments in our charge. If you had a cap, that would start to work against that advantage—

Q102 **Helen Goodman:** So you're saying that if the cap was extended to other sectors, we might need to reformulate the cap in order that the home credit market could be on the same footing as the payday loan market.

Mr Rees: I think that the third point I am going to make is probably the most critical. Much credit in the UK is supplied in the form of retail credit, where goods are supplied on credit. I have spoken to Italians who have said that when you had price controls across the world a century ago, everything in Italy was sold as retail credit.

What happens with retail credit if you sell goods at 0% interest is that the credit charge is built into the cost of the goods. Therefore, controlling that price is completely elusive. As well as the control on the credit, you then have to start controlling the price of goods, which takes us back to resale price maintenance. It all starts to become almost impossible. Every time you put a cap in on cash credit, you start to benefit the retail credit sector.

Rent-to-own has an explicit credit charge—I do not know what rate it is—but it is also selling goods on credit. The thing is technically—in my view, at any rate—almost impossible to deal with in an appropriate way. It is impossible without distorting the market in a huge way.

Q103 **Helen Goodman:** Mr Rees, I am looking at the evidence that you submitted to the House of Lords Select Committee on Financial Exclusion.

Mr Rees: Yes, we sent it to your Clerk.

Helen Goodman: In it, you describe the home credit sector. You say there are "400 firms, ranging from small family businesses…through medium-sized firms, to two large firms listed on the London Stock

Exchange." One is Provident. What is the other?

Mr Rees: The other one is Non-Standard Finance, which has actually taken over the business of a previously—well, I think it still is a listed company: S&U plc. S&U plc sold its home-collected credit business to Non-Standard Finance.

Q104 **Helen Goodman:** What share of the home credit market do those two firms have?

Mr Rees: It is probably more than 60%.

Q105 **Helen Goodman:** It's interesting, isn't it, that there are two firms with such a dominant position in the home credit market? Do you think that is related to the transaction system that you run and the network of collectors that you have built up over a very long period of time?

Mr Rees: I cannot really offer a view on that. I am not an economist. The whole situation was—

Q106 **Helen Goodman:** You know why your business is profitable and you know what the assets are on its balance sheet. We have just agreed that it is the transaction costs that is one of the things that puts off the clearing banks. You run your transaction costs through that network of people. I would have thought that that was pretty fundamental to your business, isn't it?

Mr Rees: Absolutely it is. You mean the transaction costs? I am sorry; I am losing track a bit.

Q107 **Helen Goodman:** What I am saying is you employ a lot of people—also a lot of women—to collect and you have built up that network of people who know their communities to make those collections over a long period of time, and that is an extremely valuable asset to you.

Mr Rees: Yes.

Q108 **Helen Goodman:** I do not know whether you have made an evaluation of it, or how many people you are employing, but I think you employ a lot of people, and they, in turn, contact a very high number of households. Have you got some numbers for those?

Mr Rees: Do you mean our company?

Q109 **Helen Goodman:** Your company and the other large one.

Mr Rees: I would say between us it is somewhere around a million—something like that. A million customers.

Q110 **Helen Goodman:** Do you think that the network which you have built up, which is known to you and which is semi-formal and semi-informal—do you think it might be seen as a barrier to entry to the market for other practitioners?

Mr Rees: I think in response to that I would refer you—I am not an economist; the Competition Commission looked at this in huge detail and I

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can certainly forward to you. I will talk to our economist and, if I may, send you an analysis from the Competition Commission's conclusions on that. I do apologise, but I think that is probably the best way to tackle it.

Q111 **Helen Goodman:** Thank you.

Mr Lyonette, my colleague Mr Mann was asking you some questions about the people who credit unions provide services for and the people who credit unions turn down. When we are talking about financial exclusion there are often two mental models that people have in their head. One is that the people who are financially excluded are perhaps not very good at managing their money; and the other is the institutions are perhaps not very good at managing them.

Mr Rees has just described for us why the idea that there is a deficit of capability among these people may not be wholly fair. I wonder what reflections you have on the balance between those two. Your model is that people must save before they can borrow. That is right, isn't it? Can they borrow before they save?

Mr Lyonette: Absolutely.

Q112 **Helen Goodman:** They can borrow before they save; they don't just have to save before they borrow.

Mr Lyonette: Absolutely, yes. It used to be the case 20 years ago.

Q113 **Helen Goodman:** Okay; when did you flip over, and what impact has that had?

Mr Lyonette: The credit unions, most of them would have perhaps changed between 10 years and 15 years ago—perhaps more like 10 and 12 years ago—really when they got to a point where they felt able to make decisions on creditworthiness without relying wholly upon savings as the collateral, if you like. Historically credit unions felt that was the best way to insure against the credit risk, but, of course, in the '80s and '90s, it was a deeply unattractive credit product to say to people "You have got to save for three months before you can have a loan." That is a major reason why the sector was not growing well in the '80s and the '90s.

Q114 **Helen Goodman:** I just wondered: would you say you put more emphasis on saving than other actors in the market?

Mr Lyonette: I think we see the connection between people's need for credit and their level of savings much better than organisations that only lend; and in a sense being a regulated deposit taker, as opposed to a regulated lender, does give us that ability.

Some credit unions now almost describe giving people the loan, which is the request they present with—"I need a loan: £200, £1,000 or whatever"—as a way to almost trick them by the back door, speaking in the nicest way, into putting £1, £2, £5 or £10 aside. People build a savings habit in those cases because they are happy to do it. They are paying less money than they would pay to other people, and they are putting aside for savings only a fraction of what they are saving in interest costs, yet they

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finish a year-long loan with more put to one side than they started with. Often, they had none put to one side when they started.

There is a real correlation between saving and need and appetite for credit. Like David, I would say that I do not think there is a direct correlation with people's desire to manage their money well on low income. As David said, the ability for the lack of flex to catch you out is actually the problem. It is not about people being feckless or less capable; in fact, they are often the opposite, in order to manage with the small amount of flex that they have with really tiny incomes.

Q115 **Helen Goodman:** I was just wondering whether the credit unions were trying to bridge this divide by encouraging a change in behaviour, alongside providing a particular institutional arrangement.

Mr Lyonette: I think that is true. We absolutely see, and live every day, people telling us that their lives have been changed by having £50 or £100 in savings instead of just endless credit. We see that all the time. To answer your original question, I think it is fair to say that the mainstream banking institutions do not have a set of products and services or an approach, even if they could afford to serve all those people, that has that impact of changing how people make the best of the money they have, whatever level of income that is.

Q116 **Helen Goodman:** This is my last question. We used, of course, to have a state actor in this arena, because we had the social fund. Originally, it gave grants for one-off items, and then we moved over to a loan system. That was abolished in 2010.

Mr Rees and Mr Lyonette, looking at how your businesses developed in the last six years, to what extent are people now coming to you who would previously have used the social fund? I know that the social fund is intended to have been devolved to the local authorities, but I have never really come across anybody who has been able to access that, and I do not imagine you will have done either. You can correct me if I am wrong.

Mr Rees: I must admit that I researched the same thing. I apologise, because I was only invited last week, but I did have a quick look at that. My impression from our figures is that it is still offered at the devolved level, and that we have a proportion of customers who use it. About 13% of our customers are using social fund loans. I do not know when the system was changed; please forgive me. We still have figures which suggest that they are accessing something, whatever it is.

Q117 **Helen Goodman:** Okay. Will you send those numbers to us, please?

Mr Rees: Yes.

Mr Lyonette: I am not sure, actually, of any national surveys on the impact of the change, but I think it still might be considered to be too early. I am not aware of anybody having done any research on that impact.

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Mr Rees: All I can send you is the figure that we have. I don't think we actually know anything else.

Q118 **George Kerevan:** As my colleague John Mann was asking his questions, I thought I would do some research and apply for a payday loan. It did not take me the one minute suggested on the advertising to fill in the form; it took me about three minutes. It is an interesting market. Mr Hamblin-Boone. Do members of your association have to subscribe to a code of conduct?

Russell Hamblin-Boone: No, they are now regulated by the Financial Conduct Authority. The CONC rules were specifically designed for the market, and that has had a significant impact, as I have been explaining, on the move from a single-payment product. Probably what you are more likely to have been offered there is a three-month loan, or possibly another instalment length.

Q119 **George Kerevan:** But did you ever have a code of conduct?

Russell Hamblin-Boone: Yes, we did.

Q120 **George Kerevan:** And you have withdrawn that.

Russell Hamblin-Boone: The code of conduct paved the way for regulation, if you like. For example, we capped the number of rollovers at three. The Financial Conduct Authority CONC rules capped the rollovers at two. And if you build in affordability checks every time somebody wants to extend their loan, rollovers are pretty much obsolete in the market.

Q121 **George Kerevan:** So you are happy with the regulatory minimum.

Russell Hamblin-Boone: Regulation overall has had a significant impact. It has been a painful process for the firms, but those that have had the scrutiny have come out with better, more sustainable businesses as a result.

Q122 **George Kerevan:** I will ask the question again. You are happy with the regulatory minimum.

Russell Hamblin-Boone: The regulatory minimum on—

Q123 **George Kerevan:** As laid down by the FCA.

Russell Hamblin-Boone: In terms of CONC? Yes. As I mentioned earlier, on affordability for example, we could provide access to a slightly wider group of people, rather than applying the very tight criteria that are applied at the moment, and perhaps those people would benefit from access to an instalment loan over three months, as other people already do. That might be something to look at. The cap is being reviewed next year, and there might be some things that could be flexed in that, but overall, the regulatory framework is what the market needed.

Q124 **George Kerevan:** Where I'm going with this is that I'm trying to assess whether being a member of your association is in any sense a badge of confidence that the consumer can look to. Do you take anyone who

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applies to your association?

Russell Hamblin-Boone: We have high standards. If we bring people into the fold, that is with the expectation that we will be able to drive up standards across a wider part of the industry. We represent probably something like 90% of the market as it stands, and if we had people applying to belong to the association, we would expect them to meet certain standards, and we would look to be driving up those standards.

Q125 **George Kerevan:** I will just ask for clarity on that. Are those "certain standards" the regulatory minimum?

Russell Hamblin-Boone: The regulatory minimum is the standard for membership.

Q126 **George Kerevan:** So anyone can join your association.

Russell Hamblin-Boone: Provided you had been authorised by the Financial Conduct Authority.

Q127 **George Kerevan:** So anyone, obviously; otherwise you wouldn't be in business.

Russell Hamblin-Boone: Well, some people are still operating with interim permission.

Q128 **George Kerevan:** So anyone can join if they meet the FCA standards. Do you ever exclude anyone?

Russell Hamblin-Boone: People have excluded themselves. We have lost members who have decided that they cannot meet the CONC standards, or what were our code standards. If people want to join us, then as a trade association, we want to be a standard bearer; we want to set good practice and share best practice. We are only as strong as our weakest member. This is about conduct. If a firm came to me and the conduct and ethos of the company was not in line with what the Financial Conduct Authority expects of the high-cost credit market now, I would not want them to join us.

Q129 **George Kerevan:** Indeed, and I hope you would report them to the FCA, but any lender recognised by the FCA and adhering to FCA standards can be a member of your association, so it is a trade association; it does not police the conduct of its members, beyond their meeting the regulatory minimum.

Russell Hamblin-Boone: At the moment, no, but we certainly look to go beyond it. For example—not to get into a separate conversation—we have some additional pledges in place around advertising to children that go over and beyond the regulatory restrictions.

Q130 **George Kerevan:** Perhaps you could explain those.

Russell Hamblin-Boone: It's pretty much common-sense stuff. There are restrictions on, obviously, advertising to children. Lenders go further by making additional checks to ensure that, for example, their adverts are not appearing next to programmes that might be appealing to children but

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are not actually children's programmes. Programmes like "Friends" or "The Simpsons" are adult programmes, but children might be inclined to watch them, so lenders will be very careful to ensure that their products are not seen next to them.

Q131 **George Kerevan:** So you do have some standards beyond the regulatory minimum.

Russell Hamblin-Boone: Yes; those are voluntary.

Q132 **George Kerevan:** If a member broke those standards, what would you do?

Russell Hamblin-Boone: Well, they are voluntary. They are about common sense and the industry policing itself, because we have statutory regulation in place. It is about conduct and fairness, and doing the right thing, which is all about where the regulations—

Q133 **George Kerevan:** So you would exclude the company from the association if it didn't adhere to your voluntary standard on advertising.

Russell Hamblin-Boone: Yes, I think that is the case, and that my members, if they did not exclude the company, would certainly put pressure on it to fall into line to stay in membership.

Q134 **George Kerevan:** So how would that process work?

Russell Hamblin-Boone: It is a voluntary commitment at the moment. We had a code of practice with an independent panel that monitored. That has all been superseded by regulation.

Q135 **George Kerevan:** I am having a little difficulty reconciling that with your criticism of Google for banning payday advertising. Will you comment on that?

Russell Hamblin-Boone: The diktat from California to be applied around the world did not recognise that in the UK we have both price control and very tight regulation of the market, and how much influence Google has in the online market. Google chose to demonise a particular market without understanding, from its base in California, exactly how the UK was controlling its market with a regulatory framework, and it chose to ride over that and say, "Regardless of what anyone else thinks, this is our opinion of this market, and we are going to restrict it in this way and prevent UK customers having access to this product because we have the power to do that."

Q136 **George Kerevan:** What is your opinion of the latest Wonga advert—the one with the little hamster in the ball that rolls along?

Russell Hamblin-Boone: I do not represent Wonga. I understand it is advertising a three-month instalment loan product.

George Kerevan: Yes, at 1,261% APR.

Russell Hamblin-Boone: Within the price cap.

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Q137 **George Kerevan:** So a jolly little advert with a hamster rolling along in a ball up a flight of books and the ad saying, "Wongability will help you"—do you not find that a little childish, and does it not perhaps infringe the FCA regulations that you shouldn't appeal to children?

Russell Hamblin-Boone: We have had almost two years now of the Broadcasting Committee on Advertising Practices inquiry into our market, which conceded that, in terms of content, there was nothing to suggest that the adverts appealed to children. Then it looked at the scheduling of adverts and concluded that there was nothing to suggest that the scheduling appealed to children. We conducted our own research with customers to find out exactly what their objections were to the product, and they conceded that there is no influence on their children, their decisions, or children having any ability to access credit.

We have yet to see the latest tranche of the inquiry for the advertising committee, and obviously, where anything is in breach of the advertising standards, the Advertising Standards Authority would take action.

Q138 **George Kerevan:** If in the end you felt that a member of the association had gone into a questionable area of advertising, you would take action.

Russell Hamblin-Boone: I think the industry would regulate itself, because—

Q139 **George Kerevan:** You are the industry's trade association.

Russell Hamblin-Boone: Yes, but I am not a regulator.

Q140 **George Kerevan:** You began the conversation by saying that you are the trade association and you would potentially remove people from membership if they didn't meet the standards you set, and you said that the association extends a little beyond FCA regulations when it comes to advertising. I am assuming—perhaps I am being naive—that you are the trade body in those circumstances, and would take action against a member if you thought they were infringing your rules of membership.

Russell Hamblin-Boone: We are talking about something theoretical for which there is no evidence.

Q141 **George Kerevan:** We are trying to probe the nature of your association, and how it polices the industry.

Russell Hamblin-Boone: There would be a process that I would have to go through as the chief executive of a trade association. If that incident arose, I would probably need to refer it to my president or chairman. We would need to discuss what the process would be: whether it would be a vote of members or, more likely, an individual conversation with the company, such as: "Do you think this is an appropriate way to operate?". Of course, those firms also have an obligation to report anything they consider is non-compliant to the regulator as well. That is a statutory obligation on them.

Q142 **George Kerevan:** Mr Rees, what code of conduct do you impose on members of your association?

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Mr Rees: The Consumer Credit Association was, I believe, the first industry trade association to have a code of practice. It was launched in this House in the mid-1980s with Sir Gordon Borrie—Lord Borrie—who recently passed away, sadly.

When the Consumer Credit Association was set up in the late 1970s, there was basically a group of traders who were convinced that they were trading properly, and they wanted recognition for that. They were criticised, just as they can be criticised now. The code was an important element of that.

We are one of the few trade associations actually to have expelled people from membership—probably half a dozen, I think. That does not sound much, but there are always less nuclear options than that.

Q143 **George Kerevan:** What proportion of the industry are members?

Mr Rees: Of the home-collected credit industry, pretty well everybody, I believe. I am not aware. We have been asked this question. There may be a handful who are not, but I think most people join.

If you are a small trader, there are important benefits in joining. You get the protection and the expertise that they can give you. You can buy agreements from the association that have been cleared by counsel. I think we used to clear them with the Office of Fair Trading as well. There are powerful reasons for joining, but we eject people. We do not want people in the trade association who are giving everybody else a bad name.

Q144 **George Kerevan:** Could you give some examples to the Committee?

Mr Rees: Names?

George Kerevan: No, just the broad circumstances. What kind of conduct would lead to expulsion from the association?

Mr Rees: It would be pretty egregious conduct. The fastest we ever sorted a complaint was 40 minutes. You have that at one end if something had happened with a customer. It would be people just breaking the rules, but in a very knowing way, if you like. Mercifully, there have not been that many of them, but it would be that kind of thing.

Q145 **George Kerevan:** Would a customer or another member report to you?

Mr Rees: Both, actually. We might get customer complaints. You would not act on just one customer complaint, but if you got a series of them, questions would be asked. It is escalated within the association. We have a disciplinary committee, so it goes there. We have all the mechanisms to do it properly. I don't have the code with me, but it has the mechanisms.

Q146 **George Kerevan:** Perhaps you could supply that.

Mr Rees: Yes, I can.

Q147 **George Kerevan:** How does the association's code go beyond the regulatory minimum?

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Mr Rees: Originally, it used to go a long way beyond. Even though there were broad duties in the original UK credit law to trade—I can't remember what they were now—in effect, we went beyond that.

What has happened is that FCA regulation, as well as being a detailed code, also has principles. In effect, the regulation is catching up with the codes, in that sense. We still don't want people in the association who are breaking the rules in an obvious and inappropriate way.

Q148 **George Kerevan:** That probably answers the question I was going to ask, which is: if you had your own industry standards, do the FCA rules need to be extended to meet where you were?

Mr Rees: They pretty much already have been. If we do eject somebody, we then send the file to the regulator, so that they can deal with them as they see appropriate, so it does not just end with them being ejected from us.

Q149 **George Kerevan:** That's useful to know, because other parts of the industry might like to learn from that practice. Mr Lyonette, on similar ground, do you have a code of practice?

Mr Lyonette: No, we don't. Well, we have in one area. We are regulated by both the PRA and the FCA, so we rely on the PRA to set the standards around prudential requirements, and conduct requirements at the FCA. We ourselves have a corporate governance code. Again, it is voluntary—members can choose to use it—but it has been very popular.

Largely, we rely on the relationship between the ownership of the credit union—its members—and the people running it to let, if you like, the ethos drive the good behaviour. That isn't to say that there haven't been examples, at times, of people doing things that they shouldn't do; wherever there's money, those things always happen, I think. But we don't have a full set of behaviours that we expect people to have to be members of the association.

Q150 **George Kerevan:** I stand corrected on the terminology, but your rules of governance, from looking at your website, show that there's a kind of hierarchy, and a gold standard of governance.

Mr Lyonette: Yes.

Q151 **George Kerevan:** What's the difference between the basic and the gold?

Mr Lyonette: Just better practices, really, and sometimes—if we're honest—gold probably needs a certain level of resource and scale to deliver and achieve. Remember, we've got credit unions that have anything from a couple of hundred members up to about 35,000 to 40,000 members. It's a very broad piece, so you're trying to set a standard that can be achieved at those different levels of scale.

Q152 **George Kerevan:** Could you give me a sense of what the difference might be between the two levels?

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Mr Lyonette: I actually cannot remember off the top of my head. It's a while since we've revisited those.

Q153 **George Kerevan:** But are members encouraged to move up the ladder?

Mr Lyonette: Yes. We are currently doing a big piece of work around governance, because in small deposit-takers, such as credit unions, these things are critical to success in so many ways. We've just done some work about the relationship between boards and executives—things that would never happen in banks, because they've got such established ways of working.

If you think of credit unions, when they grow organically, it is often the case that originally the board was the operators as well as the governors, so you've got to put in place things that recognise the need to separate governance and operations—things that, as I say, would never be the case in a large institution, but it's that organic growth over 20 or 30 years that you've got to protect. The board must always be right for the size of the institution today, and that sometimes is a challenge, as people are growing and need to change.

Q154 **George Kerevan:** Have any members ever been excluded from membership?

Mr Lyonette: Other than the obvious reasons of perhaps not paying their annual subscription, I don't think so, no.

Q155 **George Kerevan:** I have a generic question to the three of you, in your respective parts of the industry. Do you encourage your members to accept a duty of care to customers?

Russell Hamblin-Boone: It is inherent in the way the industry conducts itself within the regulatory framework that it has. As I said, as a trade association we pride ourselves on being a standard-bearer for the industry. So, in that respect, yes, I would expect the firms to act in a certain way and that is something that is shared by the members anyway. There is a common good to this.

Q156 **George Kerevan:** So you believe that, as presently constituted, members of your association have a duty of care to customers?

Russell Hamblin-Boone: Yes.

Q157 **George Kerevan:** But that is not explicitly written down in any of your rules of—?

Russell Hamblin-Boone: No. It is explicit in the financial conduct regulation.

Q158 **George Kerevan:** Given you represent the industry, would you envisage having members who join the association agree to an explicit commitment to a duty of care towards customers?

Russell Hamblin-Boone: I don't see why not.

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Mr Rees: I have a different view on this, I think. It is a legal distinction. First of all, I would say that the general thrust of what you are asking is already there in what's called PRIN, which are the principles—the Principles for Businesses—that apply under the FCA scheme, and I think that it is PRIN 6 that says firms have an obligation to treat customers "fairly"—and there are other things in that list.

Q159 **George Kerevan:** I know the legal distinction between the different forms of terminology, which is why I am pushing on—

Mr Rees: The problem with duty of care in the context of credit is that the consumer has to accept some risk; the FCA accepts that in its objectives. If you impose a duty of care, you may be setting up a legal liability on the lender to completely indemnify the customer for everything, which would destroy the credit industry as it exists, because there has to be risk on both sides, if you see what I mean.

Q160 **George Kerevan:** I appreciate that it is an ongoing debate. So, on precise legal grounds, you reject that terminology.

Mr Rees: But not the general direction of travel of what you are after. I think it is set down in PRIN, actually.

Q161 **George Kerevan:** It is. What action do you take with regard to encouraging members?

Mr Rees: I cannot remember the precise wording, but we certainly require all our members to comply with the law, and PRIN is now a part of the law. There are general statements in the code as well in terms of that kind of thing. I apologise; I cannot remember the wording.

Mr Lyonette: We do not have anything formally. We do not have a formal view. I know there is a lot of pressure at the moment around pushing for a duty of care. I would be wary of something that, although well intentioned, either added to the cost of credit or made it less available. We see that all the time in some of the intentions of debt advice. Clearly, it is always a good idea for people individually to help them with that situation, but the strategic impact of making it easier and easier to discharge a debt is that the cost of credit goes up and access reduces. Somewhere at Government level we need to balance those two things out. It is good to protect consumers, but you also need products to be available and affordable.

Q162 **Kit Malthouse:** We heard that the rejection rate was 90% on payday loans. Did you say it was 80% in credit unions?

Mr Lyonette: No. In some credit unions it will be 20%. It is a really broad range.

Q163 **Kit Malthouse:** And doorstep?

Mr Rees: Oddly enough, I cannot remember what our company's figures are. It has gone out of my head. For small traders, we reject about eight out of 10. So that is 80%—the same.

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Q164 **Kit Malthouse:** So quite a lot of people are still pinging around looking for credit. On the numbers that we talked about, I think I have got my maths wrong. If you said you had 1.8 million loans and a 93% rejection, that means you have just under 26 million applications a year, of which 6% are thinking about using illegal lenders, which is about 1.5 million people thinking about using illegal lenders at some point.

I want to quickly ask about geography. You said that credit unions do not have much penetration in south Wales. Is there a large doorstep industry in south Wales?

Mr Rees: Yes. To operate home credit economically, you have to have a relatively high density of customers because the agent has to go from door to door.

Q165 **Kit Malthouse:** So you may crowd each other out and credit unions might not get a foothold. There used to be a quite well-known slot television company in south Wales.

Mr Rees: That is different. Again, that is not part of our operation.

Q166 **Kit Malthouse:** Helen Goodman referred to the impact on your book of benefit cuts. Presumably the prodigious rise in employment in the country over the last few years has seen a firming up or a reduction in delinquency across your books generally.

Mr Lyonette: We have seen a reduction in delinquency, but, again, it is so hard always to isolate one factor. We think that the main reason is probably less to do with the market and levels of unemployment and more to do with the credit unions having got better at judging a good loan from a bad loan.

Q167 **Kit Malthouse:** Right. I know it is true of the Provident, because it says so in your latest interim report.

Russell Hamblin-Boone: It is probably similar, but, as Mark says, it is very difficult to single it out because we have had regulation as well. Delinquency or default rates have certainly dropped dramatically. If more people are in income, more people are potentially eligible for credit.

Chair: I thank all three of you for giving very interesting and informative evidence on an important subject in which not everything is quite as you think at first blush. It requires a lot of concentration and care in order to make meaningful improvements.

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