

Treasury Committee

Oral evidence: Household finances: income, savings and debt, HC 565

Wednesday 28 February 2018

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Members present: Nicky Morgan (Chair); Charlie Elphicke; Stephen Hammond; Mr Alister Jack; John Mann; Alison McGovern; Catherine McKinnell; Wes Streeting.

Questions 74 - 178

Witnesses

I: Matt Upton, Head of Consumer Policy, Citizens Advice; Phil Andrew, Chief Executive, StepChange; John Montague, Managing Director, Big Issue Group.

II: Hamish Paton, CEO, BrightHouse; Paul Smith, Chief Executive Officer, Morses Club; Richard Fuller, Managing Director, Cash Shop Ltd.

Examination of witnesses

Witnesses: Matt Upton, Phil Andrew and John Montague.

Q74 Chair: Good afternoon, gentlemen. Thank you very much indeed for coming to give evidence to the Treasury Select Committee, this afternoon. You are the first of two panels that we have this afternoon. There will be some other colleagues from the Committee joining us. It is quite a busy afternoon in Parliament, and people are coming and going to various events. For the benefit of those who are not in the room but who are watching elsewhere, I am going to ask you to introduce yourselves.

Matt Upton: I am the head of policy for consumer and public services from Citizens Advice.

Phil Andrew: I am Phil Andrew. I am chief executive of StepChange, the debt charity.

John Montague: I am John Montague, managing director of the Big Issue Group and Big Issue Invest.

Q75 Chair: Thank you all very much indeed. We are going to have a series of questions. Do not feel that you have to answer every question that is asked, but please chip in if you have points to make and things you think the Committee needs to hear about. I wanted to start with Citizens Advice and StepChange first. The Money Advice Service and the Financial Conduct Authority have estimated separately that just under a sixth of the UK adult population are overindebted, and they define that as: "keeping up with domestic bills and credit commitments is a heavy burden". That is around 8 million. I wondered, from your work, the evidence you collect and the people you work with, if that sounds like a fair estimate. Would you agree with that as a definition of overindebtedness?

Phil Andrew: From a StepChange perspective, we would agree with those numbers. You have to split them down. As a charity, we help around 620,000 people a year. If you break it into average numbers, we are helping about one in 100 people in the UK on an annual basis. In some regions like the north-east, it is more like one in 50 people, so we recognise the numbers. We recognise the numbers as not only those who are in significant financial difficulty, which would be 2.8 million to 3 million people, but those who are in some distress or at risk of financial difficulty, being 8 million to 9 million. Quite often they are individuals you would expect to be able to manage their lives on a day-to-day basis, but through perhaps overspending by £100 to £150 a month, when they have a life shock of some kind—they fall ill, lose their jobs or have a quiet month on a zero-hours contract—they get themselves into difficulty.

Q76 Chair: Do you think that is a fair definition of indebtedness, about keeping up with domestic bills and credit commitments being a heavy



HOUSE OF COMMONS

burden? Is that a fair summary of where you would see people beginning to need support and help?

Phil Andrew: Yes.

Matt Upton: As you say, it is right that definitions of overindebtedness combine a combination of objective measures of arrears and, as you say, how people feel about their ability to pay. The same as Phil, that very much chimes with our experience. Debt is the second biggest issue that we see people with. We see about 2.7 million people a year, face to face, in total and many tens of millions more through our website. We help about 350,000 individuals with debt every year, and there are multiple debt problems within that.

Phil talked about the regional and demographic breakdowns of some of those issues. Another thing that is important to consider as part of this is that those figures of overindebtedness hide the differences between people in short-term debt versus people in much longer-term, persistent debt. We did some analysis recently and we found that about 1 million people struggled with long-term debt, from 2006 all the way through to 2014. That is eight years of persistent debt. Some of the headline figures hide that nature of

persistent versus short-term problems.

Q77

Chair: You have already hinted at some of this: the reasons for debt. You have mentioned life shocks, employment, more hours worked one month than perhaps another, and everything else. Are your case workers finding it has become easier to become overindebted? Are you finding people are slipping into that overindebtedness more quickly and more easily?

Phil Andrew: We are. We are seeing the average amount owed going up slightly at the moment, with the amount owed on individual credit cards going up to over £8,000 for individuals. We are seeing that individuals are not just owing to one creditor, but owing on average to just over five creditors. That creates a difficulty in terms of how you are going to manage that, who shouts loudest and what that intervention then is. We see that as a significant challenge.

Chair: Is that something that the CAB would agree with?

Matt Upton: Yes, we would very much echo that. I doubt that we are going to get into a big macroeconomic debate about the trends over the last five to 10 years, but we are seeing a picture of increased insecurity. Whether it be through stagnant wages, rises in inflation, universal credit and a number of wider reasons, people have fewer pounds in their pocket to ride out shocks when they happen. Also, people are on increasingly volatile and insecure incomes. One in 10 people, not just of our clients but one in 10 people broadly, from the research we have recently done, see their incomes fluctuate on a significant level from month to month. Many more see their incomes fluctuate from year to year. That really



HOUSE OF COMMONS

adds to the problems that we see and, as you say, makes it very easy for people to slide into high levels of debt.

Q78 Chair: John, does this all sound familiar to you? I know you have a slightly different perspective on it, as you are not offering debt advice services as such, but you work with people.

John Montague: Big Issue Invest is now the biggest investor in social and ethical lenders for various things. The challenge we have is that people talk about debt; the measures we do are on debt and we talk about affordability, but how do we talk about suitability? How do we change data sets? How do we look at stuff so that people can understand debt? People do not.

The analogy I would give is that some of the adverts you now see on telly for things remind me of the Marlboro advert: actually, debt is great. There is a slight predatory nature to the way that we promote the ability to get it now and that it is fine. Particularly for low incomes and a lot of the people we work with, the promotion of debt seems to be acceptable. It is moving to the Marlboro advert. I am not going to name any particular ones, but the adverts are sexy. One of the problems you have is that there are alternative positions, but it is the predatory lenders with the big bucks that are advertising that people are attracted to. How do we open up the market and let people know that credit unions exist and what the alternatives are? It is a very singly focused market of who has the biggest budget.

Q79 Chair: One of the things we have heard evidence about is that we should not be too worried about the overall picture, although the level of consumer credit has grown by about 10% over the last year. It is problematic debt, as defined. Do you agree?

John Montague: It certainly was for Toys "R" Us, Maplin and Carillion, and they are just extensions, to be honest, of overindebtedness. This country has the biggest credit card bill going at the moment, has it not? How do we get people to understand what debt is? There is a misconception about it. Society is different. My kids, if they see it, will want it. How do we change, take this away and talk about suitability of product?

The FCA is hung up on percentage interest rates, but some of those high rates may be absolutely suitable for that short-term fix. We talk about affordability, yet the data that is collected by credit reference agencies is debt data. It is not spend data, hence us pushing on the Creditworthiness Assessment Bill to get rent data, because the biggest expenditure of any household is their housing. How do we make sure that, in the affordability or the suitability, people's expenditure is done? I am sure your team, when you are going through it, will say, "Stop going to William Hill or drinking so much". We are not looking at the suitability of the debt; we are looking theoretically at the affordability based on indebtedness. It seems upside down to me.



HOUSE OF COMMONS

Phil Andrew: From a StepChange perspective, we do not see credit in itself as a bad thing. The question is whether it is affordable, appropriate and sustainable. Do you understand, when you are getting into it, what you are getting yourself into, and then are you using it appropriately? For instance, if you are using credit cards to pay your utility bills or you are using credit to pay off credit, these are the classic signs that you are getting yourself into trouble.

John Montague: It is a spiral.

Phil Andrew: It is a spiral. It is a spiral out. We move on to the next question: rather than being an adequate ambulance at the bottom of the cliff to help these individuals, the question for us is what we are doing to stop people falling into this in the first place. We move straight on to the concept of rainy-day savings and people having the ability to pay out of some savings or to go to a social low-cost provider of debt, rather than going to one of the better publicised ones, as John says.

Matt Upton: Could I make a couple of quick comments on your question about aggregate growth in consumer credit, versus problematic debt? It is right: people can get fixated on this £200 billion to £210 billion figure. As you say, borrowing is not bad in itself. It is very difficult to see, but there are a couple of points I would make about it. One thing that is worth focusing on is those debts that, for obvious reasons, have more significant consequences. Those would be priority household debts around rent arrears that can involve you being kicked out of your home, energy debts that can mean you being cut off, or debts to, say, your council that can involve imprisonment.

One of the real dangers is that a lot of those debts, the non-consumer-credit debts, are not captured as part of this £200 billion figure. The Bank of England and other bodies are very clear on the size of this consumer credit bubble, but absolutely no attention is being paid to these much more damaging debts, which we know run into the billions and billions of pounds and have those more severe consequences. There is a sense of someone needing to grip the overall picture, rather than just obsessing about consumer credit.

One of the other sides that we are quite focused on is that we should be focused more on problem debt, where it is the product itself that can often cause the debt. I know that later on we will be coming to talk about high-cost credit. Whether they are credit cards, whether they are short-term high-cost credit products, such as rent to own or home credit, people do not just use them as a result of being in debt and not having enough money. They actually exacerbate and add to people's debts in and of themselves as well.

Q80 **Chair:** John Mann and I were hosted by CAB Nottingham last Thursday for a very interesting visit. One of the things we explored there was evidence of non-credit defaults, such as on council tax and utilities, as a growing trend, so particularly government debt, central or local. I



HOUSE OF COMMONS

wondered, from StepChange's point of view, whether that is also something that you see. We heard that government departments can be very inflexible in terms of creditors making arrangements to pay. Is that something that would reflect your experience?

Phil Andrew: It is absolutely something we are seeing. We saw significant council tax debts, over £1,000 on average now, in around 31% of our clients last year. Quite often, the governmental organisations are very aggressive in the way in which they go about getting the payments made. This quick jump to the use of bailiffs, particularly on council tax areas, is something that we are really quite concerned about.

Matt Upton: We obviously talked about it at great length last week, so this will not be news to you. This is a point that people find slightly difficult to grasp, because when people first hear that government collection and local authority collection is effectively worst in class, versus consumer creditors, perhaps they hear it on a rational level, but it is quite difficult to accept emotionally. Government must be better than some of these rapacious firms that we hear about. Actually, there is a lot that Government could learn in terms of forbearance and standing from some of those consumer creditors.

Part of that has been because regulation has brought some of those firms in line but, partly, if you talk to banks, it is because lots of organisations have realised that incredibly aggressive collection methods are not effective in and of themselves at getting money in the door, because people do not respond well to some of those tactics. There are a couple of reasons why Government and local authorities should look at the way that they collect debts.

John Montague: One of the bits in pushing for better data recording is that there will be people who are two months behind on their rent and have not paid their council tax, but all CRAs will say, "Job's a good-un. Give them some more money". The debt grows and the intervention cannot happen early enough. There is a subtle difference between some of the high-cost lenders and their attitudes and the Government. One of the reasons that their prices are so high is that they are factoring in failure. The way to get high-cost loans down, apart from stopping some of the predatory action, is to lower the failure record.

Wes Streeting: I am so tempted to go right down the path of what happens to people in crisis, but I am going to be disciplined and stick to creditworthiness and financial inclusion, which is firmly within the scope of this Committee.

Chair: You are going to get excited about this one too, you know.

Q81 **Wes Streeting:** No, I am quite excited about it. Apologies, by the way, if I leave shortly afterwards, but one of my constituents is here as part of the lobby of Parliament, and they are my boss. Please do not think it is a reflection of my interest or lack thereof in this topic at all. To begin with,



Mr Montague, the Big Issue has put its support behind Lord Bird's Creditworthiness Assessment Bill, which would require firms assessing creditworthiness to take into account rental and council tax payment history. What problem do you think this will solve and how much practical difference would you expect it to make to borrowers?

John Montague: There are two elements to it. First, if you take society at the moment, everyone concentrates on mortgage, mortgage, mortgage. Actually, there are 12 million renters and growing. The biggest bit of someone's spending is their household rent. We have people growing up from 22 who are not going to buy a house until 35. They are being excluded from the credit service market, because they do not have a digital footprint. They do not have any record of doing stuff. Why am I still paying my kids' blinking mobile phone bills? It is because they cannot get a credit account themselves, because they are paying rent, but it is not recorded anywhere. They do not exist.

Some of it is about digital authentication. In the work we did on a social housing basis of 4.2 million tenants, about 30% of those would not even pass digital authentication because the data is not there. We have developed a credit system. I will test you now, Wes: what was Experian called 20 years ago?

Wes Streeting: We ask the questions around here. We are just politicians.

John Montague: It was GUS; it was Great Universal Stores. It was a catalogue company. It grew from providing affordable credit to the masses. What seems to have happened is the CRA system has moved from where it started to excluding the masses, because of the nature of the data that is being recorded. Our real challenge on creditworthiness is what the right data sets are that we should be recording for calculating someone's credit rating and, more importantly, that the data is available to look at affordability and suitability of product. Does that make sense?

Q82 **Wes Streeting:** It does. I want to broaden it out to the panel, because one of the bits of evidence the Committee has heard, but we also see this in our case work as constituency MPs, is that there is a real cliff edge in consumer credit ratings. There is this perverse situation where anyone who has some adverse credit history is then pushed towards high-cost lenders, because those are the only lenders that are prepared to lend to them. Effectively, because of bad or troublesome credit history, we end up pushing people towards a higher cost of borrowing. If you have been in that poverty trap, you are more likely to spiral, to borrow John's words, further into that trap. Do you think that Lord Bird's proposal or including rent in credit assessments would help address this problem?

Phil Andrew: The only counterargument to the point here is that that is fine if the thing that is going to be included is something that you are paying well and on time. If you are behind on your rent and your council tax payment, all that is going to do is enhance the social exclusion for



those individuals. For some people it would be incredibly helpful, but for a minority of people it could push them further into social exclusion.

Matt Upton: I would echo Phil. There is a lot of good in the proposal. It is important to acknowledge that it is a double-edged sword. As you say, we see lots of people struggling to pay those bills, and that will not necessarily affect them in a positive way. Obviously we will get on to broader topics, but of the clients we see who struggle to access credit there is a proportion for whom credit referencing is a factor. For a greater proportion it is not the big factor.

John Montague: We have had the big discussions about negative things, but the last thing the Creditworthiness Assessment Bill is about is promoting people getting into more debt. It is making sure that the data is recorded accurately on them, so the suitability and access to products are improved. If you go and try to buy insurance, if you put in your correct address, you will get one quote. If you go and change your postcode by two digits or your house number by 10, your quote will go up by 20%, because it is going, "Ping, ping, ping. There is a bit of a dodgy bit here that does not tie in with what I have from the credit bureau. We will put the price up. We will price the risk automatically". If you have no digital footprint or a very thin file from that credit bureau, you are automatically paying more. That is wrong.

Q83 **Wes Streeting:** Could I ask a broader question? This is a policymaker's dilemma, so hopefully you are going to solve it for us this afternoon. Broadly speaking, in terms of how we approach problematic debt and tackling it, you can either restrict access to credit but potentially deny people an opportunity to smooth their incomes or to overstep those bumps in the road without hitting crisis, or reform credit products so that they become more sustainable and less risky for the consumer. Is that latter option realistic or is this more of a case of preventing people from accessing inappropriate credit in the first place? What direction should we be pushing as policymakers?

Matt Upton: As you would expect, I am going to say it is a complicated answer. Clearly, as we have talked about, borrowing is a positive thing, where people borrow to smooth expenditure. There is no doubt that we see a certain proportion of clients for whom it is right that extra borrowing will get them into further financial difficulty and, to some extent, it is not the answer for them. The thing that I would want to be very careful of is that we are going to get in a conversation later on, and you will hear, after this panel, arguments about whether to regulate or not regulate high-cost lenders, for example. An argument that is often used is that, if you regulate, you will just deny people access to credit; it is a simple trade-off, but all our evidence shows that it is just not the case.

If you look back at payday loans, which we will talk about in a second, those were the arguments made about payday lending: you will just restrict access to credit if you improve these products. The evidence says



HOUSE OF COMMONS

that is not the case. The vast majority of people who need credit can still get it. All it stops is the predatory side of it, which means you have a group who are not shopping around according to cost and value. They are just desperate for credit. It means those people cannot be exploited to the same extent. I do not see it as a trade-off between access to credit and improving credit products.

Phil Andrew: I would break it down into four stages. The first element is the education and awareness element, which we must talk about, because it is extremely important that individuals understand what good personal financial management looks like and can avoid getting themselves into difficulty. That goes on to the second element, which is talking about having a safety net, so that you are not immediately recouring to debt and have a little bit of a safety net there or, to use John's point, at least access to a social lender, which is going to do things at a reasonable rate. If you have to take on debt, it has to be affordable, sustainable and appropriate for you.

If you get yourself into difficulty with that, as the last point, there have to be measures in place, such as the breathing space legislation that is going through at the moment, which gives you a little bit of time and forbearance. If you get yourself into difficulty, you are given a bit of time without penalty interest to get yourself back on your feet and to start putting in place a proper debt management plan or whatever. It is important because, in terms of StepChange as a charity, we say that, if you have borrowed it, you should pay it back. We should give people the opportunity to pay it back, even if it is over a long period of time.

John Montague: The great thing about payday loans is that there are a lot of people who do not have a bank overdraft and do not have a credit card. At the end of the month, the washing machine is broken. Crikey, that is a five-week month. We have to accept that some of the payday lending or the short-term lending is what many in this room may do because their cat got sick or whatever. I do not think we should demonise the fact that people, at some point in a month or every other month, are a couple of hundred quid short. That is just how life happens: the boiler goes wrong. We have to have that ability.

We have to accept, if we talk about savings, that people are living to the ends of their means. In the old days, you could go up to Nottinghamshire and the wife of the house would go to the pit on a Friday, pick up the wage packet, give the guy his money to go to the pub and she would manage the rest, but they would manage on a week-by-week basis. People are still managing on a very tight budget with no cushion. Our important thing on the stuff we are doing, certainly with the ones we are investing in, is that we are not hung up too much on interest rates. We are hung up on the suitability and the checks they do but, more importantly, with what happens when things go wrong. We spend a lot of time looking at affordable lenders saying, "What do you do when it goes



wrong?" That is the critical point for these people: what happens? If it just spirals out, where is the support? Where do you do that?

On the education stuff, fairmoney.com just launched, which is trying to provide a website for better lending decisions. It starts with credit unions and explains what they are. How do we get education out there that is alternative and understands stuff? Things have gone wrong; you see the advert on the telly. We as a society are very poor. Those with the biggest marketing budgets can be the most predatory. That is my view on the market at the moment.

- Q84 **Wes Streeting:** I think we have all experienced that feeling of wishing that someone had come to us sooner for advice before they hit crisis point. Can I just finish with a question on the FCA's consultation on assessing creditworthiness? It is proposing including an explicit definition of affordability risk, which would require firms to assess whether repayments could have a significant adverse effect on a customer's financial situation, even if they do not default. Is that the right approach? Is there a risk that this will cut people's access to credit, as we have been discussing? Is the FCA maybe being a bit too paternalistic? Particularly for you, John, how do you see the FCA's consultation and its stated objectives?

John Montague: Its first bit came round as the definition of "high cost" as over 100%. Actually, I have a bit of a struggle with that, because I want to know about the package. What is the suitability for the individual, the risk, et cetera? If you look at the amount of effort that now goes into mortgage lending, we are changing. We are getting small loans of £1,000 that can be done willy-nilly. There has to be greater effort in checking the affordability and suitability of that. There is no question. That is the start of putting the fence at the top of the cliff, not the ambulance at the bottom.

Phil Andrew: From a StepChange perspective, we absolutely welcome the FCA's suggestions and recommendations. There are some areas where we need to go further, particularly on revolving products, persistent overdrafts and that kind of thing, but we broadly welcome them.

Matt Upton: Likewise, this is definitely a step in the right direction. We still see too many cases where, especially for relatively small loans, affordability is not properly assessed. Anything to strengthen that is a positive step.

- Q85 **Charlie Elphicke:** Good afternoon. The head of the FCA, Andrew Bailey, told this Committee, "I do not think we have a sustainable means of providing them"—low-income households—"with that credit at the moment in this country". Do you agree with that and what might be done about it?



John Montague: I agree. We are doing tip-of-an-iceberg investing into ethical and social lenders but, because of the legal structure—they tend to be charities and CICs—it is lending; it is a loan. How do they ever pay it back if they grow? It is having that large lump of capital that can support. Why have credit unions not grown? They do not have the capital to do it, whereas Barclays or whatever may run big equity. It is about the legal structures. Where is that big lump? It is not the £7 million we have got in; it is the £100 million or the £200 million that is supporting the growth of that sector and is a long, 25 or 30-year position. People cannot grow businesses on short-term positions.

Phil Andrew: We agree entirely. One of the challenges we have to ask ourselves about is the reasoning behind the lending to individuals with very low credit scores, and whether one of the reasons is because there is some hope that they might fall into difficulty in some way and, therefore, create a very profitable situation for those lenders. I agree with John that the challenge we have at the moment is that there is no fully developed market in terms of social and low-cost lenders. People have to resort to lenders that do a fully risk-based pricing approach to the way in which they lend money, so interest rates are very high. We are very welcoming of the cap on overall borrowing costs, but we need to extend it into other areas, such as rent to own, which we can perhaps talk about in a little while.

Q86 **Charlie Elphicke:** Mr Upton, the FCA is going to consult on proposals to reform high-cost credit including overdrafts, rent to own and home-collected credit in the spring. What changes would you like to see?

Matt Upton: I would very much echo what Phil just said. We would like to see the cap that was applied successfully in payday lending extended to other forms of high-cost credit. These are very individual markets. They have to be looked at individually, but there is a strong case, particularly in rent to own and doorstep credit, that a cap would have a strong impact.

You will not find any credible voice that argues anything other than the fact that the payday loan cap was a success. All the spectres were raised before it was brought in about denying access to credit and people going to illegal moneylenders. These things sound incredibly emotive, especially in a forum like this, particularly things around people moving to illegal moneylenders. We have not seen it. The FCA has not seen it. No one has brought any credible evidence that this is happening.

There is such a strong argument to protect that group of low-income consumers who, as I said earlier, do not effectively shop around and differentiate between products. In these particular markets, they are just being exploited with exponential interest rates, rolled-over loans, et cetera. That is something we would very much like to see.

Phil Andrew: Rent to own is a big market. It is over 500,000 people a year and is very much towards the vulnerable end. Your typical



HOUSE OF COMMONS

rent-to-own participant is young, is usually female and is often very vulnerable. You have individuals put into a situation where, at the moment, there is no cap on the cost of credit. It is then compounded by the fact that, very often, inappropriate and overly expensive warranties are bundling in with these sales. When you do the overall cost, it is absolutely horrendous and quite frankly that just has to stop. It is not right.

Matt Upton: Just to pick an example of that, the figures we have are quite eye-watering. From research we did recently, about 20% of all rent-to-own customers pay a fifth of their disposable income on rent-to-own repayments. That is a phenomenal amount of money, so we are not talking about small amounts in the margins.

Q87 **Charlie Elphicke:** Just looking at rent to own, many of my constituents in Dover complain deeply about BrightHouse and the incredible effective rate of interest. Frankly, the goods themselves are far more expensive than they would be able to find in their local Currys, where they would also find better credit terms on offer. What sort of caps should be placed on rent-to-own-type products?

Phil Andrew: At the current time as a starter, there should be a 100% cap, as we have on payday lending. As I said, we need to look more widely at the overall cost, including warranty. You need to decouple that warranty. Honestly, it just needs properly regulating. It serves a really useful purpose. A lot of people use it and, if used well, it can be effective, but it is deeply under-regulated and that needs to change.

Matt Upton: The detail of this is something we are trying to explore with the FCA at the moment. To an extent, a relatively simple headline cap would solve some of the problems because, even if the upfront cost of the actual item itself is hugely inflated, which in many cases it is, it is much easier on a comparison basis as a consumer to see if it is incredibly highly priced. There are other ways around that if you extend the cost gap, for many of the reasons Phil said. It can work, even though it is a slightly different product from payday.

John Montague: It is also how it is promoted. If you go to a certain store, you will see a big 72-inch telly: "only £10 a week". What you do not see is that, by the time you have finished, you will have paid £3,500 or whatever for this telly when it is only worth 1,500 quid. It is the presentation. You will see "only £10 a week". It is how we promote them. That is not being insulting to people. We need to have an explanation of what that really means big, loud and bold. One problem is that some of these things promote this unending cycle of debt, and we have to stop products that promote that continuing cycle.

Q88 **Charlie Elphicke:** Could I move to credit cards? The FCA's credit card market study proposes to give consumers greater control over credit card limit increases, and earlier warnings and interventions for those getting into difficulty. What do you think of these ideas?



HOUSE OF COMMONS

Matt Upton: On the unasked for, unsolicited credit card limit increases, we do not think it went far enough. About 6 million of us get those increases every year. I am sure people in the Committee have had that letter through the letterbox and have been surprised by why, suddenly, their limit has gone up from £3,000 to £5,000 without having asked for it. For us, it might be an irrelevance or slightly annoying. For the huge proportions of people who are targeted who are in financial distress, it can be hugely distressing. Of those people who are in financial distress and are given a limit increase, nearly 50% increase their spending as a result.

When you look at the voluntary agreement that has been brought in by the FCA, there are a number of holes in it. You have to ask why. It goes back to a point Phil made earlier on: there is a phenomenal amount of money to be made out of pushing credit on to people. You have to ask why the banks fought so hard for a voluntary arrangement. It is one of those things that, if I am honest, and this is a personal opinion, in five years' time we will be sitting here with it being banned. We will be thinking of this incredible situation we used to have, where people could be given credit without even the chance to say yes or no when it was first offered, thinking, "How was that ever something we considered to be fair game?" Of the people we have asked, nearly 90% think it is a ridiculous concept that should not happen. It is a very strange move not to bring in a ban.

Q89 **Charlie Elphicke:** You would say that the regulator should come along and just ban it full stop, saying, "This is not an acceptable practice. This voluntary stuff is not good enough". You want proper regulations to enforce.

Matt Upton: In this case, voluntary schemes can be good. We do not push for regulation for regulation's sake. We are not even saying that people cannot be offered credit. There are responsible and irresponsible ways to do it. If someone sends someone a text and says, "We think you are able to have an increased credit limit; do you want it, yes or no?", that is one thing. It is not a huge barrier for a bank to pass. It is a very different issue from just raising it unilaterally without asking them in the first place. It just seems very strange.

Phil Andrew: From StepChange's perspective, we think it is a good start in terms of the suggestions. It works on individuals who have got themselves into trouble, but it is not doing enough and does not address the ability of people to get themselves into trouble in the future, because there are no proper assessments done of an individual's ability to affordably pay off those credit cards going forwards. It is a good manoeuvre for after the horse has bolted, but we are not sure how much it does going forward.

Q90 **Charlie Elphicke:** Finally, the FCA says that it does not propose to restrict 0% credit card balance transfers. That is good news for consumers, is it not? Is it exploitative?



Phil Andrew: That was an interestingly leading question. Again, it depends what you are going to do with that 0% balance transfer. If you are going, in a sophisticated manner, to game the credit card industry to have a continual rolling 0% interest balance structure, that is absolutely fine. If you get to the point where that runs out as a 0% balance transfer period, and you end up on a higher overall cost of borrowing than you would have had if you had stayed where you were, that is a problem. If you game it, it is fine. If you get caught out by it, it is not. That goes back to financial education and being aware of what you are getting into.

John Montague: It is 0% promotionally but, the minute you spend on that credit card, the debt that you are paying off when you pay it off is the 0% bit, not the 26.5%. It is promoted in such a way that, to a lot of people, there is not clarity on it.

Matt Upton: It is a difficult one. As you say, some people are very good at this. A lot of people use credit cards in the wrong way. They just roll balances over from period to period, which is not a particularly good way to use credit and not necessarily what it was intended for. It is why some of the other remedies that the FCA has brought in were very positive, around stopping people being stuck on those minimum repayments, just leaving the outstanding balance there and building up more and more credit in the background. It is positive to see some of those moves from the FCA.

Q91 **Rushanara Ali:** I want to focus on the rainy-day savings ideas. Mr Andrew, StepChange's written submission to this inquiry states, "If every household in Great Britain had at least £1,000 saved, this could reduce the number in problem debt by 500,000". Is this realistic in your view? The actual cost would be very significant, at £6 billion or so. Can you say a bit more about that?

Phil Andrew: It is not going to be easy to get everybody to put aside £1,000 in accessible cash savings. It has to be clear that that is an aspirational target: some people will be able to do it and some people will not. For us, we have to get to understanding the incentive mechanisms that allow people to do this. A matching scheme through the UK Saving Gateway, as a pilot, was very successful. We applaud that and would like to see it extended out.

There have been suggestions that an area that would be very helpful is giving tax relief, an ISA-style structure. We do not feel that works as well at the lower-income end of the spectrum, so we are not so keen on that. It has a place, but probably not for the types of individuals who come in and contact StepChange as a charity.

Q92 **Rushanara Ali:** You would say that the ISA schemes are not well targeted towards the most indebted.

Phil Andrew: They are not because, if you are paying very little or no tax, the fact that something is tax-free is pretty much irrelevant to you.



The marginal tax saving you are getting is very small. It may sound a shallow structure, but what we have seen work well in other environments is a prize-giving saving scheme, like premium bonds. You are given an incentive to save by getting tokens and prizes, and something that is potentially going to give you a big jump up, which is free to you at the point of saving. We have found that that works very well in other parts of the world. It worked very well at the beginning of the premium bond evolution and is something that needs to be looked at.

Matt Upton: To add to two of Phil's points, tax-based incentives do not tend to benefit or appeal to lower-income households. Bonus-based ones are much more effective, so I very much agree.

John Montague: One of the things is how we can be a bit more innovative. The model of the credit union is that you borrow but, as you are paying back, you save at the same time. How can we think of debt positions whereby, as I am paying off my credit card at 26% or whatever, a percentage is going into a savings account within that bit? If I keep paying, I will end up with a lump at the end. If I do not pay, it will be useful there. How could we be a bit more initiative and encourage repayment with reward at the end, which could reduce the interest rate? If I already have £200 quid in that, I am going to keep paying, because I want that back. There is a bit of innovation about how we look at products that can be both credit and savings at the same time.

Matt Upton: To build on that point, it is a slightly different way to look at it, as you say. When people are in debt, how do you encourage that saving? There has been really positive take-up of the standard financial statement, in terms of use with creditors, where people build in that element of saving while paying back their debts, which is incredibly positive, because of the habits it builds.

That is much less adopted by public sector creditors and collectors. You will often see a situation where someone has a plan in place, if they are a consumer creditor, and is able to save something, but then excessive amounts are taken back by the state or the local authority, in terms of debt collection, which stops them from saving that amount that might solve their problem in the longer term. That is another challenge of the Government and public sector taking with one hand, but causing problems with the other.

Q93 **Rushanara Ali:** You have kind of answered the supplementary question I was going to ask you. Thank you for giving us your time, but this whole session is thoroughly depressing. This is not personal, but that is why I picked this section, because I was really keen to understand better where the big interventions could be made by Government. On the one hand, my questions and my section are about how the indebted individual could be supported to save. Earlier on, you talked about the kind of labour market people are occupying, the uncertainties about income and the pressures. There are even greater pressures with changes in the benefit



HOUSE OF COMMONS

systems and so on. What I am trying to get at is to what extent you think this is going to be resolved by coming up with new innovative mechanisms to help people save. If you do not have the money and just cannot make ends meet, how are you meant to save? What is your proposal to Government about what they should be doing to address that side of the equation?

Matt Upton: You can still make a huge difference. I am not going to sit here and pretend that there is not just a challenge with, as you say, how much money people have in their pockets, particular groups more than others. Of course that is the case. I go back to high-cost credit and I will not dwell on it for too long, but certain products do not just not help the problem; they actively make it worse. They actively exacerbate it. If you regulate some of those products effectively, you can make a huge difference. As Phil said, you give people a small savings buffer and, again, you can make a huge difference. Focus on savings and focus on regulating the market.

We talked about a classic example of debt collection from the state last week, when you came to Nottingham. Someone had a £27 council tax debt and the council was calling in bailiffs. Suddenly, it is £227 and it runs away. There are changes you can make there, macro issues notwithstanding.

Q94 **Rushanara Ali:** Can I ask you to say a bit more about the Help to Save programme, how well targeted it is and what your hopes are for that programme?

Phil Andrew: We welcome Help to Save. It cannot help those who are in problem and crisis debt today. It will stop people from falling into that at some point in the future. If you are looking for a solution within this parliamentary cycle, that is not going to do it. We think there are about 3.5 million low-income adults who are eligible for Help to Save and, therefore, we recommend and fully support doing that.

The question for us is how the Government are going to help to maximise take-up of that. It is deeply counter-cultural as it stands at the moment, because we have got ourselves into a culture of absolute immediacy and a culture where building up debt, as a student for example, is deemed as absolutely acceptable. If you are an undergraduate, you are actively encouraged to get yourselves £40,000 into debt and not to worry about the interest rate, as you might not have to pay it off anyway. If we are giving that kind of message to people who already want everything right now, saying to people, "Right, we have this great new scheme, which is Help to Save" is so far off-kilter from normal culture that it is going to be difficult to sell. That is what we are concerned about. It will require real drive.

John Montague: Is there a way of driving it? Education and people's understanding of stuff are awful. People are going for advice after the event. How do we promote people understanding that and what £10 a



week really means? How do we promote a product that can be dual? Can we promote and develop a product that is both credit and saving at the same time?

Q95 Rushanara Ali: Do you think that the Government have the wrong balance in terms of tax breaks, if you look at ISAs and some of the others?

John Montague: They are middle-class products.

Q96 Rushanara Ali: The middle classes tend to do better out of those products. Do you think that there could be a refocusing of some of the resources and incentives towards those who are more indebted, so that we are coming at the problem from both directions, from more aggressive government interventions to target that group of people, as well as encouraging people to save themselves and changing culture?

John Montague: Look at the promotion of ISAs: "You can save up to £20,000 a year". That is cloud cuckoo land for lots of people.

Rushanara Ali: My constituents' salaries are nowhere near that.

John Montague: How are we promoting and getting some sort of product that says, "You can save £5 a week".

Chair: Make it more manageable, so it is within people's experience.

John Montague: That £5 could be £6. The language is wrong. The ISA is 20,000 quid and all the promotion at the moment is to "get in before".

Q97 Rushanara Ali: There are a lot of concerns about not being able to take your money out. That is the other issue: not being able to access it, if your cycle of expenditure is up and down. What would you recommend to the Government to do around those schemes that are reachable for people who are on very modest incomes? What should they be doing around those sorts of concerns that people have?

John Montague: How do you promote something? The mortgage industry went very much towards the joint account between your current account and your mortgage account, so you were quite often using the mortgage as you were bouncing in and out. You paid a bit off and you could go back, et cetera. The majority of these people would be in rented, and it is how we link their rent. There are a few associations going on a global rent account, which you are paying, but you have some variety. You could miss a month because you have overpaid that.

We all have good times and we all have bad times. These buffers are small: 10 to 20 quid is the difference. Out of Leicester, we have a couple of housing association tenants who were going to the food bank. They are now selling the Big Issue—promotion. They are selling 10 a week, but that 15 quid is absolutely transformational. For some of this stuff, we are not talking about £20,000. We are talking down at the grass-root level of 20 quid a week transforming people's lives.



Matt Upton: You are absolutely right. It is not just the small amount of money but, as you say, it is the speed at which people might need to spend it. We might traditionally imagine saving over a one, two, three or four-year period, but high-velocity saving is something that is very natural to a lot of our clients, which is saving for four, five or six weeks to pay a £50 expense, which otherwise would tip them over the edge. That should be encouraged because that is the reality of how their lives are. It should not be discouraged because it feels like a different type of saving to what we are used to.

Q98 **Rushanara Ali:** Some of the responses to this inquiry have suggested that part of their pension savings under auto-enrolment could be made available as liquid savings, in a sidecar account. Would you support this and what limits would you need to put in place?

John Montague: My personal point of view is that we are just mortgaging our future. There are so many people who are going to be in such poverty in their old age. The whole point of auto-enrolment was to try to build something. To rob it now really is Peter and Paul.

Phil Andrew: We think there is a place for this, if it is properly policed and done for extremely specific purposes for a small portion of your overall pot. If it is a small, short-term bridging element, we are okay with that. The concept of allowing it to ebb away your overall pension pot in a material way would be a significant challenge.

Matt Upton: Pensions are the best way to save. As you say, we would encourage the principle, but not anything that ebbs away at your pension.

Q99 **Catherine McKinnell:** John, you have already touched upon this in some of your previous answers, so I was going to direct this at Phil and Matt. In your organisation's experience, what level of financial awareness do you think people have in terms of education?

Phil Andrew: It is a really difficult question to answer. One of the challenges we have is that we always ask our clients, "Do you understand what we are recommending? Do you understand what we are saying? Do you understand your financial position?" Generally speaking, they will say, "Yes, we do". That can mean one of three things. It can mean, "Yes, I completely understand, thank you very much indeed". It can mean, "I do not really understand, but I trust that you are doing the right thing for me", or it can mean, "I do not really understand, but I am too embarrassed to say".

Sometimes it is really difficult to tell which one of those it is, so we find ourselves having to iterate around that, which makes calls very long, in order to see whether people are really understanding what they are getting themselves into. A lot of that is around basic education and understanding.



The one caution I would give is that, quite often, it does not matter how well financially educated you are; sometimes you simply cannot earn any more money. Then you will fall into shock through illness, job loss or whatever it happens to be. It does not matter how well educated you are; you fall into these issues. If you look at the cohorts coming through to StepChange, very many of the people who come to us are very highly educated, have previously been very well paid and have single or multiple circumstances that have hit them, which they just did not see coming. Add on to that the overlay of the culture of "It is alright for you not to have any backup savings and no safety net", and people switch over into crisis extremely quickly, regardless of how well educated they are.

Catherine McKinnell: Do you have anything in particular that you need to add to that?

Matt Upton: No, this is not an "instead". For nine out of 10 of our clients who get into debt, it is because of changes in their circumstances.

Catherine McKinnell: That goes back to the whole savings issue.

John Montague: There are two different bits. One is people, whether because of rent to buy, who are just increasing their debt, and then there is crisis debt. I am sure that, on the day that Carillion went bust, there were a lot of employees who had spent up over Christmas, the mortgage was due in three days and they did not see it coming. Many would not have had that resilience; nor do many of us. We cannot muddle the two up. There is the crisis debt, an unknown. Carillion goes bust and, for 4,000 people, your paycheque is not coming.

Q100 **Catherine McKinnell:** In one sense you say we cannot muddle the two up but, in another sense, I guess I am asking, from your experience, what you think is the best way to tackle one side of that coin, but also encourage people not to get into that situation in the first place. Jobs or circumstances change. It comes a little bit back to what Rushanara was asking about, in terms of rainy-day savings, but what can the Government do? That is fundamentally what I am asking in terms of what recommendations we can make. Also, where do you think the balance needs to fall between putting resource into prevention and putting resource into cure? It comes down to that issue that there are different solutions, but it is fundamentally the same problem.

Phil Andrew: The challenge that we are going to have here is that the sector overall is fundamentally underfunded. If you take away the approximately £35 million a year that individual debtors pay to organisations for help and advice, the sector gets about £150 million a year to provide debt advice and solutions.

Catherine McKinnell: That is helping people who have got themselves into debt. I am wondering how much of that resource should go on preventing people getting into debt.



Phil Andrew: The amount that goes into education is tiny compared to that. If you are going to make a significant impact—and this is not an answer you will want, because it is complicated and hard to do—it has to be a holistic approach. You have to reduce the width of the pipe of the number of people coming through, because they are better educated, they have a bit of a safety net and they have been using Help to Save, so the number of people falling over the cliff is lower. Even if you have fewer people falling over the cliff, as a sector, we can still only help about a third of the people who need help, because of the lack of funding to do it. Even if you restrict the width of that pipe, it is still underfunded.

- Q101 **Catherine McKinnell:** You are not suggesting we should reduce or transfer funding from crisis services to prevention services, because we need that funding and some more for prevention.

Phil Andrew: Bear in mind that StepChange as a charity has been in demand-suppression mode for four years because, if we advertise, we simply cannot cope with the number of people who want our help. We have to demand-suppress down to about 620,000 people a year, when we know that somewhere between 1.3 million and 1.8 million people could really do with our assistance. We could probably help three times as many people with twice as much money, but that is an unpalatable answer.

Matt Upton: It is important to say as well that debt advice is preventative in itself. It is not just solving someone's isolated situation. Our advisers will work with someone to build their financial capability, manage their budgets and think about how they avoid getting into that situation again. The evidence is that it is very successful, both for the individual and for creditors, in terms of the money they get back and the money saved for the state.

- Q102 **Catherine McKinnell:** There is a specific proposal in terms of the breathing space scheme to give some breathing space for people who have got themselves into debt. How effective do you think that will be? To what extent do you feel that is the solution or part of the solution?

Phil Andrew: We fundamentally support it. We have been pushing very hard as a charity, as the sector has, for a long time. It is part of a solution, and a question that needs addressing quite quickly is how long that breathing space is for. If it is only for six weeks, it is just not enough, because it does not give people time to get themselves on their feet, have sensible conversations with their creditors and work it through. We would want to see that at least doubled to 12 weeks or more, but we are very pleased to see it moving towards statute.

- Q103 **Catherine McKinnell:** In terms of the type of situations that it should apply to, should it specifically address non-credit defaults, council tax and utility bills, or is it equally or more important to ease the burden of meeting repayments on financial debts? How wide do you think the scope of this should be?



HOUSE OF COMMONS

Matt Upton: For us it is the full set. About 50% of people now come to us with those sorts of government priority debts, so it would have to include those to be effective, from our perspective.

Q104 **Catherine McKinnell:** I know it is in place in Scotland already. Have you seen it being successful? What evidence have you seen and what is the length of time that it has been applied in Scotland? Do you know?

Phil Andrew: I am not sure what the length of time is, no.

Matt Upton: We would have to get back to you on that.

Catherine McKinnell: It is okay; I can find that out. Have you had a look at how it works in Scotland?

Phil Andrew: We undertake this scheme in Scotland and it works very effectively. It is more time-consuming to set up, but it is very effective.

Q105 **Catherine McKinnell:** There has also been a proposal to link it through the NHS to people who may be experiencing a mental health crisis. Do you have any particular thoughts on how that might be applied?

Phil Andrew: I think you are referring to the Money and Mental Health Policy Institute Recovery Space scheme. We are fully supportive of that. We think it is an excellent initiative, which should go hand in glove with the primary legislation.

Catherine McKinnell: To summarise, we should probably just get on with that.

Phil Andrew: Just crack on with that.

Catherine McKinnell: I say "we"; I mean the Government.

John Montague: With that, one thing is to make sure that, if rent is included, by putting that in place, you do not exclude people from having access to stuff: "I am not going to do that because, if I default on the debt, I will not get my rent for three months". There has to be some balance. We talk about inclusive systems, but we also have to make sure that systems we have put in place are not used by others as an excluding tool.

Q106 **Catherine McKinnell:** I wanted to ask a question about credit unions. This may seem a bit loaded; it is not. Do you see credit unions as benign or do you see them adding to the problem of overindebtedness? Where do you see the role of credit unions in supporting saving and supporting access to the kind of credit that we are talking about, but also some of the danger points?

John Montague: Credit unions have never scaled. They have never had the infrastructure. It has been a great story. They are very localised. The danger we have seen with some of the credit unions is that people go in to borrow £50, walk down the store that says something with big tellies in the front and use the money for that. How do we link the lending to



HOUSE OF COMMONS

the disaster? The credit unions remind me that, at school, we used to have a savings bank in the tuck shop. They are still very localised, driven by people in the community because they want to do something.

Q107 **Catherine McKinnell:** Should they be encouraged to grow?

John Montague: Absolutely, but there is just not the capital behind that sort of stuff. They are very small localised organisations. How do we scale up? More and more, they are very physically based. People use whatever it is and expect the answer on that. If you look at why people engage with high-cost lenders, it is because they can do it on the Tube. How do we move into the modern world?

Q108 **John Mann:** Apologies for arriving late, but I was presenting a Bill—not “but”—however, I was presenting a Bill in Parliament, and one cannot be in two places at once. I have two questions, and I am not interested in your views on the issue, with respect. I am interested in whether you have any quantifiable evidence at all about whether gambling has any impact on household finances.

Matt Upton: That is a very good question. We do. We released a report recently on the impact of gambling, particularly high-stakes gambling. We do see it. I do not have the figures to hand, but I would be more than happy to share with the Committee the problems that we see and possible recommendations.

Phil Andrew: Matt and I can maybe present something to you that has our overall statistics in it. The only thing I would say is that it is one of the reasons that some people fall into problem debt, but it is not the biggest challenge that we see, by any means. The biggest challenge that we see is that individuals are just generally slightly overspending on a month-to-month basis, and then have a shock. For some, it is a challenge and we signpost through. We will give you the numbers, but it is not the overwhelming problem that some might see.

Q109 **John Mann:** We get lobbied on it as a big issue. I am just interested in quantifiable evidence. My second and final question is on universal credit. Again, I am not interested in your view on it, with respect, but are there any specific improvements that you would recommend in relation to universal credit that would have a significant positive impact, which we should be considering?

Matt Upton: Again, we could have a long and separate conversation about universal credit. We have seen lots of people getting into debt as a result of universal credit and we have been sharing that evidence with the DWP as appropriate. We were pleased to see some of the changes that the Government made to universal credit, around the turn of the year, to help people get access to advanced payments and to lessen the weight for the first payment. Clearly there is more that could be done in all those areas, and we would be happy to share that with DWP and with the Committee in due course. We will be looking to see how those changes take effect.



Phil Andrew: Now that that weight has been largely removed in terms of how long it takes you to get your first payment, that is better. The question for us is always, if you run short, where you are bridging it. If you bridge it sensibly or could bridge it sensibly by getting that money from a credit union or some social low-cost capability, that is great. If you are going to a payday lender, all that is going to do is tip you into a spiral. It is not whether it creates a problem; it is what people do about it to solve that short-term problem. That is the challenge.

John Montague: We have seen that some landlords in the sector are incredibly positive about preparing people for it. Others are doing nothing and then it is a disaster. It is a big shock. We will not go on policy; it is the way it is being implemented. The implementation, based on better data sets and better knowledge, could be a lot cleverer and cause a lot less pain.

Q110 **Catherine McKinnell:** Chair, if I may, I have been reliably informed that the Scottish breathing space scheme is any reasonable length of time, depending on the amount of debt and the ability to pay, as opposed to the six weeks that the Government are currently consulting on. I assume you would prefer the Scottish model in the UK, rather than the limited six weeks. That is what your evidence seemed to suggest.

Phil Andrew: We would, but then we are also realistic about the prospect.

Catherine McKinnell: Anything is better than nothing.

Matt Upton: It is the flexibility that is key there. Six weeks is a period of time. It may be that one of our debt advisers is not able to get some of the support they need within that period. We need to have the flexibility to extend as is required.

Chair: Thank you very much indeed for your generosity with your time this afternoon. It has been really interesting. If there is anything that you think of after the session, or that you would have liked to raise but did not get a chance, particularly in relation to what you said, you can write to us. We would like to hear further evidence if you have anything to share. For now, thank you for your time. It is appreciated.

Examination of witnesses

Witnesses: Hamish Paton, Paul Smith and Richard Fuller.

Q111 **Chair:** Thank you very much indeed, gentlemen. I know some of you heard at least part of the first session. Thank you all very much for being here today for our second panel in our inquiry on household finances. It would be very helpful, for the benefit of those who are not in the room, but who are watching—amazingly, people watch our sessions online—if you could introduce yourselves.



HOUSE OF COMMONS

Richard Fuller: My name is Richard Fuller. I am managing director of Cash Shop Ltd. We are a 10-store retail financial services company here in the UK.

Hamish Paton: I am Hamish Paton, chief executive of BrightHouse.

Paul Smith: I am Paul Smith, chief executive of Morses Club.

Q112 **Chair:** I want to start with some questions just to understand your customers. It would be really helpful to hear about the gender, age and income profiles of those you are working with, whether they have bank accounts and, for those of you who are national, whereabouts in the country they tend to be based. Perhaps you can do some scene-setting for us.

Paul Smith: We have 230,000 customers in the base. We are a home-collect credit firm. Some 66% of those customers are female. To give you some age demographics, the proportion of customers between the ages of 18 and 50 is 66.7%, but the majority, the rump of the business, is 36 to 50 year-olds. That is a third of our business, at 33.6%. Household income is a mixture of wage and benefits, and is about £15,000 per annum. We have 100 regional offices across the UK, and we have 2,100 self-employed agents managed from those offices. We have a full national footprint, including in Scotland and in Northern Ireland.

Hamish Paton: BrightHouse, if you have not heard of us, is the UK's lending rent-to-own operator in the UK. We give our customers the opportunity to get something for their home that they might find difficult to get in other places. If you are a low-income family, and there are lots of them in the UK, and you are not lucky enough to have a pot of savings, but you need a washing machine, you might well come to BrightHouse. You come to us because we have a proposition that is welcoming, flexible, affordable and we are a little bit different from some of the other offers in this space. We do not lend money. There is not a single financial transaction. It is all about a deep, involved relationship with the customer, typically on a longer term than some of the other products in this space, typically three years, but it is a way that our customers can access some of the products that they need for their homes.

Q113 **Chair:** Can you tell us about the customers: their profile, their gender and their age?

Hamish Paton: They are slightly skewed towards females. Typically they are part of a family: 60% of them have children; 30% of them have three or more children. The one thing that characterises them all is that they tend to be on low incomes, so the average household income would be about £300 per week. They are up and down the country. We have 281 stores up and down the country, from St Austell in Cornwall up to Inverness, so a good spread geographically. They tend to be predominantly in the larger conurbations within the UK, which probably



HOUSE OF COMMONS

comes as no surprise. Yes, the thing that also characterises them is that they tend to be customers who have low credit scores. I am sure we will come back to that in a moment.

Richard Fuller: Our customers are 63% male and 37% female. The age range is 30% between 18 and 25, 40% between 26 and 40, 21% between 41 and 55, and 9% over 55. Income levels are approximately the same, so we get a lot of C2, D and E customers.

Q114 **Chair:** Perhaps to Mr Paton and Mr Smith, according to the FCA, a lot of the borrowers in the home credit or the rent-to-own markets have especially low median incomes. I wondered whether you would consider your customers to be financially vulnerable households. Is that how you would think of them, Mr Paton?

Hamish Paton: Without question, our customers have some of the lowest credit scores around. They are low-income and therefore, when you think about vulnerability, our customers are more susceptible than other members of society. We need to make sure we take special care of our customers. When you look at the broader aspects of the business, two things really stand out for me: the importance of affordability and forbearance. Those together are the things that mean we can lend responsibly to that customer group.

Paul Smith: There are a few points on credit scores that I would like to draw out. They go back to some of the comments made by the charities that were in the first session. A credit score does not always tell the complete picture, because of course a credit score is predicated on how deep your financial footprint is. If you pay for your services pre-paid rather than post-paid, and you do not run credit accounts for your electricity, gas, mobile phone and so forth, you leave a very shallow footprint. That is often translated into a very low credit score. It does not necessarily mean that the customers in themselves are uncreditworthy, unreliable or, indeed, vulnerable.

The only way that you can find out about somebody is to go and see them, which is what the home-collect credit model is based upon, so you do not rely on online credit scores to make your credit judgments. You go and visit the person, get to know the person and understand their circumstances. If you do engage with them, you go back and see them every single week because, as has been said by some of the charities and by Hamish here, bill shock or income shock is something that our customers are exposed to, because their levels of disposable income are quite slender. Interestingly, when we trawl through our records, we find that the loan repayments that are due to Morses Club represent 13.3% of their net disposable income. We have some very strict controls and measures in terms of how much disposable income we would allow a customer to spend when repaying a loan with Morses.

To get back to the nub of your question, yes, that community has a lot of vulnerable people in it. Yes, you need to assess that. The only way to



HOUSE OF COMMONS

assess that is in a face-to-face situation. You need to record those customers who are vulnerable. You must not discriminate against them and say that they cannot take loans just because they are vulnerable, but you must be able to justify every decision you make, whether it is a positive or a negative. Then you need to test those decisions by having a completely separate entity within your business that can go round, look at those vulnerable records and say, "Did we make the right call? Did we issue correctly or did we refuse credit correctly?"

Q115 **Chair:** To follow up on that, what is the proportion of customers for whom the answer is no?

Paul Smith: We reject credit applications for first-time customers who apply through websites and other marketing channels about 75% of the time.

Q116 **Chair:** I am not sure whether you would know this information, Mr Fuller, but how many other loans do your customers tend to have? Perhaps Morses would know more, in terms of the investigations that you have to do.

Paul Smith: In terms of the income and expenditure, I can only really talk through the lens of my organisation. I will try to make it market-centric. We take income and we evidence income by having an immediate real-time link into the tablet devices that our agents use, with credit reference agencies. If a customer says, "I have £300 a week income", within a split second we will be able to get a reference back that says if that is false, if it is within 10%, if it looks about right or if it is absolutely correct.

With outgoings, the agent has to look at every single outgoing that the customer has. They have to populate all of the fields and then they have to record the evidence of what they have seen into the system. The credit policy rules are embedded in work flows in the system. If any of the points of data breach a rule, part of the algorithm that goes on in the background, there will be a refusal of credit. A lot of our decisioning is based upon income and expenditure, and not credit score, but the ability to ascertain whether the evidence that you are being given by the customer is correct or not.

Q117 **Chair:** Mr Paton and Mr Fuller, do you have any views on your average customers and how many other loans or commitments they tend to have?

Richard Fuller: It is difficult for us. When we offered high-cost short-term credits and pulled credit files, the data was very similar to what the FCA produced in its high-cost credit report. Yes, they would definitely have some other commitments.

Hamish Paton: Probably a third of our customers have a relatively thin credit file, when there is not much lending than they have done previously. The other two-thirds would have some other form of lending, typically home-collected credit loans of some sort. That would be the



HOUSE OF COMMONS

most frequent that we see, along with quite a lot of catalogue lending and a few credit cards. Our customers have other options. They have a suite of different options within this high-cost credit space that they can access, and they do so regularly.

Q118 Chair: Finally from me, what is your most profitable customer? What is your ideal? We have just heard from credit card companies that their ideal is somebody who does not pay off their balance every month, who rolls it forward and pays interest. Which kind of customer do you make most out of?

Hamish Paton: From my perspective, the customers we make most money from are the customers who pay on time every single week, and they make 156 weekly payments, every week, week in week out, and they get to the end. They get to the point when they own the product. It is not in our interest for any of our customers to go into arrears. We charge a one-off late fee of £12 per customer each time a customer goes into arrears.

Q119 Chair: Is that each weekly payment missed?

Hamish Paton: No, that is a one-off charge. It is one £12 fee per customer, irrespective of how many agreements they have. That goes towards the cost of trying to get that customer back on track. We do not make any money out of that; it is a contribution towards the activity that we have to undertake. For me, on-time payment every single time is what we want from our customers.

Paul Smith: It is a fixed-term, fixed-price product. To put that into context, if you take £100 over a 33-week period, you will repay £165. If you take 333 weeks to repay that £100, you will still only ever pay £165. There are no admin fees, no penalty fees and no compounding of interest. Not one additional penny is added to the original principal sum or the repayment that you are supposed to make.

Q120 Chair: Is that even if people miss payments and fall into arrears?

Paul Smith: That is correct. To give you some idea of the typical performance of our base, a good customer to us is one who misses one in four or one in five repayments. The reason that they do that is because they are susceptible to income shock. Very frequently, we will call to collect the repayment and the person repaying us will say, "I have had to buy a pair of shoes this week for one of my kids. I will see you next week," and that is it. There is no fuss and there is no bother. There is simply an extra week added to the end of the agreement.

If you look across all 230,000 customers, the average performance in the last 12 months is 80% to terms. That means, on average, our customers will miss one payment in every five payments. If you apply that to a 52-week loan, they have had an extra 13 weeks to repay completely free of charge and that is the average across the base. That is not in extremis; it is just a pure average. The vast majority of customers,



HOUSE OF COMMONS

three-quarters, reside in our top three repayment bands, which means that they have between 75% payment to terms and 100% payment to terms. When we talk about profitability of customers, it is kind of the same as BrightHouse: the better the quality of customer, the less time that we need to take collecting and the less capital outstanding we have over any course of time, but we do not make more money from people who take longer to repay. In fact, it is the opposite.

Richard Fuller: A big part of it is pawnbroking, and the most profitable customer is the one who is able to redeem their item. That does not happen very often but, every now and then, customers will renew and pay off the interest to get another six-month term. If an item goes unredeemed, we employ best efforts to get the best value for that item because, after we reclaim our principal and interest, any surplus goes back to the customer, but that is a fairly involved process.

Q121 **John Mann:** Good afternoon. You are all saying you have systems in place for defining affordability when it comes to customers. Could you send us a clear explanation of your systems for affordability, so that we can have a good look at them?

Hamish Paton: Yes, absolutely.

Q122 **John Mann:** How do you define customer vulnerability?

Paul Smith: We define it as either mental or physical health issues, age-related vulnerability and financial vulnerability. Anybody who is not making a repayment, other than the occasional missed repayment, so the 20% to 25% misses that I am talking about, would have a vulnerability flag placed upon them. The system forces the manager to visit that customer at least once a month. The reports from that go into a separate risk and compliance team, which will then go and visit those customers as well, in the company of the manager, to make sure that we have made the correct decision. Number one, are they vulnerable? Number two, did we refuse a loan correctly or did we grant a loan correctly? We are constantly perpetuating our assessment of that part of our community.

Hamish Paton: Similar to Paul, vulnerability in our world points to customers who are especially vulnerable or susceptible to detriment. It takes either a financial form or a health and wellbeing form. We train our colleagues in the front line in the stores to identify vulnerability. Like Paul, we will put a flag on our system. We need to take special care in terms of the affordability assessments that we do, and we also take special care with the forbearance options that we provide to customers in that situation. We need to work very carefully in those circumstances to make sure that they are not treated unfairly.

Richard Fuller: The FCA would be the first to say that it is very difficult to define vulnerability but, if you ask me personally, any person who comes in and needs a service like mine probably would not need that



HOUSE OF COMMONS

service if they could afford to live paycheque to paycheque. By my definition, there is a vulnerability there. They found themselves in a situation whereby they might have to use a service like mine to help smooth things over.

Q123 **John Mann:** How many of your customers are either illiterate or semi-literate?

Paul Smith: I cannot give you that statistic off the top of my head. I do not have that in my notes, I am afraid.

Q124 **John Mann:** Would you have that statistic?

Paul Smith: We would.

John Mann: You could send us that.

Paul Smith: Absolutely.

Hamish Paton: I am not sure we would necessarily have that statistic, but we would be able to give you information on the number of vulnerable customers we have.

Paul Smith: To clarify, those with learning difficulties is probably what I would be able to give you, rather than illiterate.

Q125 **John Mann:** I was asking about literacy and semi-literacy.

Paul Smith: I cannot give you that then. I can give you learning difficulties.

John Mann: Okay, but you cannot give me literacy and semi-literacy.

Paul Smith: No, we would not break it down to that.

Hamish Paton: It is not something we would break down either.

Richard Fuller: I would probably have to say none, because all our customers would have to be able to read and understand the consumer credit agreement. Through the process of an application, we would sense-check certain elements for understanding. There are sometimes difficulties with foreign languages, where we would encourage somebody to bring a translator if there was any concern. In terms of illiteracy, if that was flagged, it would certainly be a vulnerability that would question whether or not they are able to make a proper borrowing decision.

Q126 **John Mann:** Mr Fuller, you take all your customers through and you check that they have appropriate literacy.

Richard Fuller: When they are going through a credit application, absolutely.

John Mann: But you do not, Mr Paton, and you do not, Mr Smith.



HOUSE OF COMMONS

Paul Smith: Yes, we absolutely do. One thing I should have added to my response is that, when we have somebody with a learning difficulty, there has to be another—

John Mann: To be clear, I asked about literacy.

Paul Smith: Okay. When somebody has difficulty with literacy, there would have to be another appropriate adult in the room, who would read the statutory obligations, explain them to the customer as well as our agent and sign on their behalf.

Q127 **John Mann:** I am just trying to ascertain how you would find that out.

Paul Smith: That is how we deal with it.

John Mann: How would you find that out?

Paul Smith: It would be by asking the question.

John Mann: You ask someone whether they are illiterate.

Paul Smith: The agent will already know the customer they are serving.

John Mann: How?

Paul Smith: Because they are one and the same person, who lives in the same community. All our agents are local to their own customers.

John Mann: Sorry, how would they know whether that person is illiterate or semi-literate?

Paul Smith: In showing them the information to read, understand and sign, the customer would say, "I cannot read that. I will get my daughter, my next-door neighbour or my social worker", or whoever the appropriate responsible adult would be.

John Mann: That is your systemic approach.

Paul Smith: It is indeed.

Hamish Paton: Like Paul, we have a sign-up process that is detailed and relatively lengthy. Through the course of that sign-up process, we would be testing whether the customer understands what they are signing up to. If we picked up that it was clear that they did not understand the agreement in full, we would flag that customer as vulnerable and seek some further support for that customer to bring somebody in.

Q128 **John Mann:** Therefore, there are no cases that could occur in your systems, you are all saying, whereby someone who is illiterate or semi-literate—define "semi-literate"—could escape your system. There is no possibility that somebody was incapable of reading what they had signed, other than where you had identified it and someone else, on their behalf, had done that for them. You cited a daughter, Mr Paton, or



HOUSE OF COMMONS

someone such as that. I am just clarifying that is the case.

Richard Fuller: From my perspective, if somebody entered into a credit agreement that they should not have, because we should have been aware that there was a literacy issue, we would know about it if it was flagged as a complaint, where we may have lent irresponsibly because of that situation. However, that situation has never arisen.

Paul Smith: I will give a more direct answer. Of course there is a possibility that that could happen, because a customer could be presented with a tablet to read, pretend that they could read it and then put a squiggle on the screen to say, "I have understood it". If the customer is lying to us, we have no way of knowing that.

John Mann: You have no way of assessing customer vulnerability.

Paul Smith: No, whether they are literate.

John Mann: Therefore, you have no way of knowing customer vulnerability. You said a minute ago you have a system in place for that and now you are saying you do not have.

Paul Smith: We have a systemic approach to this, but you have just asked me specifically whether it is possible for one single person, the minimum, to slip through the net who cannot read. I cannot say that it is not; nobody can. Anybody can pretend that they can read.

John Mann: I am just trying to clarify what your system is.

Paul Smith: The system is exactly that: "Can you read this and understand it?" "No, I cannot". "Then I cannot proceed with this any further, until you have somebody in the room with you who can read and sign on your behalf". That is the system.

Q129 **Chair:** It is reliant on the customer being honest. We know that illiteracy is very difficult for people to admit to. We all know that, as constituency Members of Parliament, because we see it in our offices and our surgeries, on a monthly if not weekly basis.

Paul Smith: Yes, and if somebody pretends that they can read, and is determined to hoodwink you into thinking that they can read, it is very difficult to stamp that out.

Q130 **Chair:** There is an exposure, because your contracts could be challenged. Somebody could challenge, in the same way as signing any kind of legal document. How much loss do you suffer from contracts being written off because people, it turns out, did not know what they were signing?

Paul Smith: The only things that I can point you to are statistics from the Financial Ombudsman Service. To give you the precisely accurate number, of 35 referred cases so far this year, no change resulted in 33 and two changes were required by the ombudsman service, which is a 6% rate.



HOUSE OF COMMONS

Q131 John Mann: I just happen to have been in with the Financial Ombudsman Service and their staff all morning, but that is for another session on how they deal with stuff. I am just clarifying your systems because you are fairly bullish, Mr Fuller, in what you have said. You appear to be, Mr Paton. You appear to be changing your mind, Mr Smith. Mr Paton, are there any riders? I asked a simple question: how you define customer vulnerability when it comes to literacy and semi-literacy.

Hamish Paton: The one thing I would add, in terms of how often it happens, is that we do not see it happen very much in our book. It is not a problem that comes through systemically, as part of the complaints. If it was, it is something that we would certainly look at in more detail. In all those instances, if it were to happen, we would work with the customer to rectify the situation and do that very quickly.

Q132 John Mann: What is your range of fees: typical fees, interest rates and total repayment costs charged on the loans? What is the range, Mr Fuller?

Richard Fuller: For pawnbroking, it is a monthly fee. We have bands, so it is as low as 2.9% per month for loans of £2,000 or more that are secured against an asset, 5.9% per month for loans that are between £500 and £2,000, and 8.9% per month for loans up to £500.

John Mann: That is the highest.

Richard Fuller: Yes.

Hamish Paton: Our typical representative APR is 69.9%.

Q133 John Mann: That is not the range, so what is the range?

Hamish Paton: The highest APR we charge is 99.9%.

Q134 Chair: What is the lowest?

Hamish Paton: The lowest is 69.9%.

Paul Smith: For a 20-week product on £100 there would be £50 of interest added. On a 33-week product on £100, £65 would be added. On a 52-week product, £82 of interest would be added to the £100. To put that another way, in terms of the payday cap, that translates on £100 loans to be 80p per day. For the three products that I have just mentioned, ours are 36p, 28p and 22.5p, so significantly under the cap. To put those into terms of APR, they are 756%, 433% and 272%.

Q135 John Mann: Again, it would be useful, if there is any further information on this, if you would write to us, so we have a clear picture of the range of typical fees, interest rates and total repayment costs charged on loans. That would be useful to us. Thank you. What profit margin do you make on each loan?

Richard Fuller: My business has been operating now in the UK for eight years. This will be the first year that we have turned a profit and our



margin will be about 12%.

Hamish Paton: The margins on our products would be about 50% gross margin, but there are a lot of other costs we have in our business. We have 281 stores. We have a supply chain that delivers and prepares the products, and there is a lot of activity around supporting customers as they go through difficult times. There is a perception about rent to own that we make millions and millions of pounds.

John Mann: You said, "Supporting our customers when they go through difficult times". We will come back to that in a minute.

Paul Smith: If it is helpful, I will break it all down for you, but I will start off with the profit margin. The shareholder return is 17.8% at the gross level. Corporation tax comes out of that, and obviously there is reinvestment back in the business. Dividends are 60% of retained profits. That is 17.8% at the gross level, pre-tax. Funding costs are 0.9%, depreciation 1.3%, overheads 17.8%, salaries 15.4%, impairment 24.4%, and agent commission 22.5%. That is of revenue. They get 10% of cash. The cash they collect is part capital, part interest. That is the full breakdown of where the money goes.

Q136 **John Mann:** To come back to this point about supporting customers in difficulties, what do you mean by that, Mr Paton?

Hamish Paton: I mentioned affordability earlier on. That is really important when a customer takes out a loan in the first instance. As I said, it is only one part of the story. Our customers are susceptible to shocks, as was discussed in the first session, whether from income or expenditure. Things happen in our customers' lives to knock their affordability. We work really hard with our customers to make sure we get them through any difficult times.

Q137 **John Mann:** How many of your loans are rolled over?

Hamish Paton: We do not roll over any loans. The forbearance options that we have include breathing space for our customers, typically up to 28 days, but we can extend it if customers need to. Like Paul suggested earlier, we will take those missed payments and add them to the end of the loan for no extra interest. We will take the remaining weeks on that customer's contract and reduce the amount of the weekly payment but extend the number of weeks, again for no additional interest. One of the advantages you have with products is that you can change the product. If the customer has a 40-inch TV and they want something cheaper, we can offer them something smaller, like a 32-inch TV, something that matches their affordability post the income or expenditure shock.

Q138 **John Mann:** You mentioned your late repayment fees. How much a year are you getting in? What is the total amount of money you are getting in?

Hamish Paton: Late fees are about £3 million. There is one other forbearance option, which is really, really important, because it distinguishes rent to own from some of the other products in this space.



HOUSE OF COMMONS

We do not lend money. If you use a loan to buy a TV and after six months you change your mind because your circumstances have changed, you cannot phone up the loan company and say, "Can you come round, pick up the telly and that will be the end of it?" With BrightHouse you can. That is exactly what we do.

Customers have full returnability at any stage in the contract. There are no further interest charges. There is no further liability. There is no default that goes on the customer's credit score. There is no spiralling debt for that customer. If a customer's circumstances change, they get to walk away from the agreement with BrightHouse and move on. It is a really important thing that distinguishes the rent-to-own proposition from some of the other lending products in this space.

Q139 **John Mann:** You require insurance.

Hamish Paton: We require insurance, yes, as part of the hire purchase agreement.

Q140 **John Mann:** How do you ensure people are getting the best deal on insurance?

Hamish Paton: Customers can take our own product, which tends to be specific to the individual product. It is designed with our customers' needs in minds. It is a weekly payment insurance product with no excess, but customers are very able to go and get their own choice. It does not have to be our product. They can get insurance from wherever they choose.

Q141 **Alison McGovern:** This relates to some questions that have already been answered. Mr Paton, on the information you just gave about people handing back the products, what proportion of transactions end in such a return of the product?

Hamish Paton: Typically, across all the contracts, about half get to the point of ownership. Maybe a third get to the point where they change their mind at some point in the contract and they hand the product back to us. The remaining sixth, or whatever it would be, are situations where the customer does not return the product but stops paying. That would end in a default.

Q142 **Alison McGovern:** What happens there? What is your process?

Hamish Paton: We have a process that lasts 120 days with our customers. We will try to re-establish contact with the customer. In our experience, it is much better to engage with the customer and try to find an option—one of the options we have talked about—to get them back on track. Some customers do not wish to engage. We will try to connect and, if we cannot, that process lasts 120 days. At the end of the 120 days, we will write off that product.

Q143 **Alison McGovern:** That is about 20% of your contracts.



HOUSE OF COMMONS

Hamish Paton: Yes, 16% to 17%.

Q144 **Alison McGovern:** Mr Smith, you mentioned 66% of your customers are women. What is the gender balance of your agents?

Paul Smith: Exactly the same: 66%.

Q145 **Alison McGovern:** The same question, Mr Paton: what is the gender balance of your staff?

Hamish Paton: I would need to come back to you with the exact stats, but in stores we have a skew towards females.

Q146 **Stephen Hammond:** Good afternoon, gentlemen. Thank you for coming along. You are obviously aware that the payday cap was introduced in 2015. The FCA has then produced research, which it suggests indicates most customers denied access to that type of lending have not moved into other high-cost credit products. I wonder if, individually, you could tell us what you make of that research and specifically whether your firms or your industry have seen any boost to demand from the decline of payday.

Paul Smith: It is quite a complex question. No, we have not seen any boost but we did not expect to. The postcode locations of people using payday loans are completely different to the postcode communities for home-collected credit. Typically, these are households with £35,000 to £40,000 worth of income, in full-time employment, with no benefits. They are mortgaged properties and very different to the profile of customer we visit. In fact, even if an application came through from one of those customers, we would not be able to serve it, because we would not have an agent living close enough to service the account.

The interesting thing about the payday cap is that it has clearly had a few very, very positive effects. The amount of default has gone down by 50%. The amount of rolling over of loans has gone down by 50%. A slightly concerning statistic is that the FCA expected to see 250,000 customers drop out of that market, and 600,000 customers dropped out of that market. The biggest proportion of where those customers went seemed to be into friends and family lending. I do not think we are far enough down the road yet to understand exactly what that means.

Q147 **Stephen Hammond:** I would like to come back to that in a moment, if I may, because that is an important point.

Hamish Paton: Similarly to Paul, between our customers and those with payday, there is not much of an overlap. Probably less than 10% of our customers have had a payday loan at any point in time. We certainly have not seen growth in our business on the back of it.

Richard Fuller: Given that ours is a secure lending product, we do not have access to credit reports. Therefore, we would not know what percentage of our customers are also payday lending customers.

Q148 **Stephen Hammond:** The next point I was going to ask about is that the



FCA has also said it found no evidence that customers who have been turned down by payday lenders went into illegal lending or, shall we say, uncertified lending. Mr Smith, you have just suggested a number had gone into uncertified. We might want to talk about that in a moment. In terms of illegal, in your article—I think it was a report in the *Guardian* last September—the implication of the article was that the FCA was wrong to make that assertion. Did you think the FCA is wrong to have stated that there is no evidence of people going from payday loans into illegal? Secondly, can you provide any quantifiable evidence to the Committee to show that or not?

Paul Smith: The best quantifiable evidence would come from the Illegal Money Lending Team. We work and are in dialogue with the unit based in Birmingham, with Tony Quigley at the head of that. There are two separate views on this. First, illegal moneylending in the communities that I serve with Morses Club is far more prolific than it is in the communities where payday lending was used. That is the first point of clarification. As I said to the journalist from the *Guardian*, there is not a sign above a door that says, “Illegal loans available here” with a person sitting behind the desk waiting to receive customers. An illegal moneylender will come and find you, and they will find you by recognising signs of vulnerability.

They will then—and this can be fully supported by the unit in Birmingham—use you to seed a community that is around you: your friends and family. They will become your friend. They will not become your illegal moneylender. They will want to know about all the attributes of your friends and family, and they will start to pick off those friends and family, by getting recommended to them by the original seeded person. The Illegal Money Lending Team in Birmingham was at pains to disagree with me, in that it was more prevalent in council estates and that it slipped over into the heartland of payday lending. I have no evidence for that, but I assume that it does because it was quite adamant that that was a reality. It is too early to say what those friends and family loans are in their substance, whom they are with and who exactly these friends are.

Q149 **Stephen Hammond:** From your point of view, it would be very difficult to provide any quantifiable evidence of that gap of 350,000 that you identified going into that sector, but that is your suspicion.

Paul Smith: That is my suspicion.

Richard Fuller: In the FCA report, the client customers that it is referring to represent only 30% of the declined payday lending customers, because 70% of the applicants’ applications did not get as far as the credit-checking process. The FCA was looking only at CRA data. I pointed that out to the FCA a few months ago, and it was met with: “Oh, we did not think about that”. When you think about the fact that those applications that did not reach the credit-checking stage failed at the hurdles of income and affordability, they tend to be a bit more



HOUSE OF COMMONS

vulnerable. I thought that the FCA downplayed the illegal moneylending side of things.

It took me five minutes to go on to the illegal moneylending website to find out that it estimates there are more people going to illegal moneylenders than there are to rent-to-own and guarantor lenders combined, which is about 300,000. It estimates there are 310,000. This is the Illegal Money Lending Team on its website. It estimates 310,000 people are currently in debt to illegal moneylenders.

Q150 Stephen Hammond: Going back to Mr Smith on the point about illegal moneylending, it must be true that, although you have no quantifiable evidence, you must have qualitative evidence on the basis that, given what you have just said, those people will be in direct competition with your agents. Otherwise, these people who are now being sourced by the illegal firms would be coming to your agents. Is that not right?

Paul Smith: Yes. Part of the work that we do with the unit is to promote awareness within our agency force and encourage them to tell us where they see evidence of illegal moneylending.

Q151 Stephen Hammond: What do you then do as a firm?

Paul Smith: We pass that straight on to the team. In fact, we have opened up channels of communication so the agents can do that anonymously, bypassing us and going straight to the unit.

Q152 Stephen Hammond: In one of your earlier answers, someone pointed out the positive effects of the cap on payday lending. Given there are those positive effects, does that not strengthen the case for making a cap on other high-cost sectors?

Paul Smith: In our sector, as I have already tried to illustrate, our pence per day charges in some cases are four times lower, and in other cases are two and a half to three times lower, than the cap that already exists. We do not charge any admin fees. We do not charge any admin fees or penalties back on to capital and then recalculate compound interest on the new total. None of that exists within our industry, which was the original reason why home-collect credit was carved out of the cap, but if you applied the same cap it would not make any difference whatsoever.

Stephen Hammond: It might not in your case, but it might in BrightHouse's case.

Paul Smith: It might well. I do not know.

Q153 Stephen Hammond: It would in BrightHouse's case, because of the interest rates you quoted.

Hamish Paton: The impact would obviously depend on the nature and form of any cap. The cap we have today in payday is for contracts less than 12 months. Typically, our agreements are done on a three-year term and therefore are longer. We would need to think through how that might work. From my perspective, the danger of any cap is that you run



the risk of restricting supply further. You restrict supply for the people who are on the lowest incomes with potentially some of the lowest credit scores. The people who end up losing out in that situation are the people who have fewest options.

You also need to be aware of the impact of the cap. It might have impacts on the product design, for example. If you look at payday loans, they have gone from very, very short-term monthly cycles to something a little longer. As I have said, ours are three-year contracts. It might mean that we need to change the design. Also, it generally challenges the industry to move more and more online. Our business is focused in our stores. It is a face-to-face relationship. We have our stores in the communities in which we lend to our customers. That face-to-face relationship is really, really important. When you are talking through a product like rent to own, or even a loan like Paul's, having that interaction face to face is really important to make sure the customer understands what they are getting themselves into. It is very difficult to do that online. Especially when you throw in affordability checks and forbearance options, having that face-to-face dialogue is really important.

Richard Fuller: I sit on the board of the Consumer Finance Association. I would venture to say that there is still much fragility within the payday lending sector. It is easy to say all is rosy, but one of the main three providers online, Money Shop, has left the market. It does not offer online payday loans any more. Despite the fact that Matt from Citizens Advice said it is a fully risk-based pricing structure, that is not true at all. Any business that operates, whether on the high street or not, has rents, rates and staffing. The amount of investment that goes into providing a technology-based solution that would facilitate something like an online payday loan is very expensive. There are huge compliance costs. There are huge responsibilities around data protection and consumer protection.

Q154 **Stephen Hammond:** To be fair, I did not point out the benefits of the cap; one of your answers did. I was just asking what the effects were.

Richard Fuller: It is too early to say, but my sense is that the payday lending sector is not as strong now from a supply point of view. That is the risk.

Q155 **Mr Jack:** If I could turn to competition, Mr Paton, your website shows first of all the weekly cost, the cost of the product, the delivery cost and the cost of the product with delivery. It then states the number of weeks of repayment, the APR as a percentage and the total cost of everything including interest. However, what it does not do is show the total cost of the interest as a single figure. Is that deliberate?

Hamish Paton: That is not deliberate at all. We have done a lot of work on our price tickets in the last couple of years. We have worked with the FCA to make sure each of the different elements of the pricing is broken down and as clear as we can make it. It is not in our interest to hide any element of our pricing. We tend to break it all out and make it as



HOUSE OF COMMONS

transparent as possible. The difference between the amount of credit and the total payable is the interest component. That is not something we are trying to shy away from.

Q156 **Mr Jack:** You do not think showing the interest as a single figure would detract from customers when they saw the enormity of that number.

Hamish Paton: I do not.

Q157 **Mr Jack:** Do you not think that might cost you some business?

Hamish Paton: No, we are very clear with our price ticketing. It is something we could look at. If we wanted to put an extra box on there and absolutely disclose the interest element, not just the total payable and the credit taking, we could do that.

Q158 **Mr Jack:** Mr Fuller, in its high-cost credit review, the FCA found that the pawnbroking sector was relatively benign among the high-cost credit options. Is there anything preventing pawnbroking and retail finance more generally from scaling up to increase competition with what I would call the more problematic forms of high-cost credit?

Richard Fuller: Yes.

Q159 **Mr Jack:** What is the problem?

Richard Fuller: The banks. I was speaking to Ray Perry, who is the chief exec of the National Pawnbrokers Association. He has had 35 inquiries from people looking to get into the pawnbroking market, all of whom have been refused a bank account. I am in a banking situation, a tenuous one. I am looking to switch because my bank effectively told me I had to give up my money service business licence or it would take my account away. This is not because of my inability to manage my money laundering risk; it is due to its inability to manage its money laundering risk. I have gone to HSBC, RBS, NatWest, Metro Bank and Lloyds, and they have all said that they have a policy of not about opening new accounts in that sector, period. There is a huge barrier to competition there.

We had somebody from the British Bankers' Association at the NPA conference who categorically denied that the banks had policies about opening new accounts. I challenged him. Now I have gone myself and have been told flat out no. I have a meeting with Santander the week after next, but I am not holding out any high hopes. The bank has shut the door. Whether it is pawnbroking, money service businesses or hire car short-term credit, banks are not opening new accounts. It is a serious problem. It is the one thing that keeps me awake at night and has done for years.

Q160 **Mr Jack:** Mr Paton, coming back to you on the competition thing, the three largest rent-to-own firms, BrightHouse, PerfectHome and Buy As You View, had 91% of the market in 2016, again according to the FCA. The last of those has gone into administration. Does that reflect a lack of



competition in your sector?

Hamish Paton: I cannot speak directly for Buy As You View, which has gone into administration. Its problems have been related to the turndown in the amount of lending it has done since the closer scrutiny of the FCA. That has been the cause of its particular issues. There are two players now, PerfectHome and BrightHouse, in that direct space. We tend to think of rent to own as being one of a number of different alternative credit options that our customers can have access to. You have PerfectHome; you have BrightHouse, but we are a small part of a much broader high-cost credit market. That is where the competition sits.

Q161 **Mr Jack:** You are the only renters in that market. Is that right?

Hamish Paton: We have two very similar models, yes.

Q162 **Mr Jack:** Do you communicate at all? Are you competing fairly and squarely?

Hamish Paton: We do not communicate, no.

Q163 **Mr Jack:** I was just checking. That would be naughty. I had to ask it.

This is my final question. It is to Mr Paton and Mr Smith. The credit unions offer APR interest rates of up to 43%, to a broadly similar cohort of customers that you have. Why do consumers take a loan out with you, rather than going to a credit union?

Paul Smith: The credit unions are highly polarised. They find it very difficult to scale. In fact, if you go back to an interview the Archbishop of Canterbury, Justin Welby, did in 2013, he said he wanted to put Wonga out of business and that he was going to set up a Church of England credit union, to run an experiment to see if it could compete in that market. He concluded, after doing that study, that the real rate of interest—not the APR—would have to be set at 80%. If you recall, my 52-week product is set at 82%. That is where the problem lies.

When you look at the cost of finance when scaling the business, the cost of IT and covering off all the fixed items, you end up with a very big sum in fixed cost. If you are lending £400, £40,000 or £400,000, that fixed cost is pretty static. You have things you have to do, particularly if you have a highly face-to-face-centric model. It becomes even more expensive. That is why people come to us, rather than credit unions, because the credit union solution is not a scalable solution, because of all those things I have just mentioned. Somebody prominent, having looked at it, tried it as an experiment and extrapolated that experiment forward, concluded that real rates of interest would need to be set at 80%. Indeed, that is our most expensive product.

Hamish Paton: Credit unions do a good job. Our customers sometimes find it difficult to get access to loans from credit unions. They might not meet the criteria around common bond. They might find it difficult to get to the point where they save first, which is a common feature of credit



HOUSE OF COMMONS

unions. The credit union industry is highly fragmented. They are subscale and insufficiently funded. Therefore, it is difficult for them to grow in a way that has scale and can compete on a national basis.

Q164 **Mr Jack:** If the cap on interest rates charged by credit unions was to be raised further, would you still be able to compete against them?

Hamish Paton: If their cap was raised from 42.6%?

Q165 **Mr Jack:** If it was raised for them, yes.

Hamish Paton: Yes, absolutely. I happen to think that would be a good thing, because it would unshackle some of the restrictions around credit unions and begin to demonstrate, to Paul's point, the true cost of taking on the risk in this part of the market.

Q166 **Catherine McKinnell:** Good afternoon. Mr Paton, I am going to address my questions to you first. The FCA took over regulation of consumer credit in 2014 and, since then, it has said, it has seen your firm change its business models in response to its concerns. What changes have you made to respond to the concerns the FCA has highlighted with you?

Hamish Paton: The first observation would be the switch from OFT to FCA. We now have a tough regulator in the FCA, with a lot of scrutiny and robust processes. In terms of our business, we have been working with FCA for the last three years. We have spent a lot of time working with it on affordability. Our affordability assessments are now close to best in class, but that has taken work with the FCA. We have looked at forbearance and making sure the forbearance measures we have in place are suitable for the needs of our customers. We have looked at product design. We have unbundled the service package that goes alongside the core product. There has been a big piece of work looking at oversight and control, making we sure we have three lines of defence that work effectively, both in the front line with compliance monitoring in place across the organisation, but also in internal audit, to make sure the things we do we can robustly defend and that we are doing it every time. If you look at the BrightHouse of today compared to what it was maybe three years ago, it is a different business.

Q167 **Catherine McKinnell:** Particularly on the issue of warranties and insurance, I cannot remember how you referred to them. There was quite a lot of jargon in your response there. They are now unbundled, so they are not compulsory as part of the sale of the product. How many customers take them out with you now?

Hamish Paton: Just over 60%.

Q168 **Catherine McKinnell:** What impact have the changes you have made, working with the FCA, had upon your profitability as a business?

Hamish Paton: Significant. We have seen a significant drop in the volume of new business we have written.



HOUSE OF COMMONS

Q169 **Catherine McKinnell:** Have they had an impact on the viability of the business? We know that your rival, Buy As You View, has gone out of business. It underwent some financial restructuring. Ultimately, there is an accusation that your business is not viable or profitable unless, in the words of Andrew Bailey, it treats customers unfairly. What do you say to that? To clarify, Andrew Bailey did not say that about BrightHouse. He said it about Buy As You View, your competitor.

Hamish Paton: To pick up on the observations, currently we are losing money. In the last full financial year, we lost £23.2 million. We continue to make a loss through the course of this year. We have had our own refinancing issues to deal with. We had a corporate bond of £220 million that we have had to refinance in the last month or so, but we have got to an arrangement with our bondholders, who have done a debt for equity swap. We have spent a lot of time talking to our creditors, our bondholders, looking at the business plan and its viability. Where we get to is that we believe in the proposition; we believe there is strong customer demand for this type of credit in this type of market.

We believe we have shaped a business plan that gets us back to financial viability. It requires some growth. It requires us to do certain things differently. It requires us to get online and give our customers a choice of how they interact with BrightHouse, so not just in stores. They will stay but they are an important part of a mix. We will do more online, which is how some of our customers want to shop with us. It will involve taking some cost out of our business.

Q170 **Catherine McKinnell:** Is that not contrary to some of the statements that you made today, that that face-to-face element is a really key part of your business?

Hamish Paton: We have customers who want to shop with us in different ways. Some customers highly value that face-to-face interaction. There are other customers who do not want to come into the stores; their world is online. I want to get to a place where the business can give customers a choice. It is really important, when we are signing up new customers in the first instance, that we spend time with them, if we can face to face, but certainly on the phone, to talk them through the journey, the proposition and what it is all about. We need to get to a place where we can carry on lending in the stores, but give them more options online as well.

Q171 **Catherine McKinnell:** In the statement that Andrew Bailey made about Buy As You View, the exact words were, "The model was not sustainable unless there was behaviour that was contrary to treating customers fairly". As you develop your business model to try to improve those efficiencies and profitability, that is something I have no doubt he will be keeping a close eye on and you will have to work with the FCA on, to make sure that is not how that will be achieved.



HOUSE OF COMMONS

Hamish Paton: We will be keeping a very close eye on it too. From my perspective, we have changed our business significantly in the last couple of years. We have got to a point where we do treat our customers fairly. We have got to a point where we are now an authorised business, and we will stay in that place.

Q172 **Catherine McKinnell:** You say you have got to a point. I refer back to a previous appearance that you made in front of the House of Lords Financial Exclusion Committee back in November 2016. You said, "BrightHouse has one of the most stringent affordability checks that exist in the market today", yet a year later the FCA revealed that you had to pay £14.8 million in redress to customers who had been sold unaffordable loans and said that you had not been a responsible lender. How do you think your earlier comments correspond with the FCA, and how can we be assured now that some of the changes you are looking to make will not result in unaffordable or inappropriate lending to customers in the future?

Hamish Paton: In terms of timing, I think the House of Lords appearance was in October 2016. Through the course of that summer, we implemented new affordability processes in conjunction with the FCA. In large part, they are the same affordability processes that we do today, but they were already in place by October 2016. We have been through a redress scheme, but the redress scheme was valid to a time when we were signing up new agreements before we implemented the new affordability processes and before they were embedded. Therefore, I can stand behind the claim at the time that our affordability processes are as robust as anybody's and they continue to be today.

Q173 **Catherine McKinnell:** BrightHouse still gets quite a lot of bad press and there are a lot of anecdotal stories out there in the papers of fairly vulnerable customers taking out products that are not affordable and not understanding the full cost of their loans. Why do you think that is?

Hamish Paton: I would stand behind our affordability processes. We have spent so much time with the FCA.

Q174 **Catherine McKinnell:** Why do you keep getting bad press? Why are those stories still appearing? I read one just a couple of months ago. Why are they still appearing?

Hamish Paton: There has been quite a lot of noise on the back of the redress programme we announced in October. I am always disappointed to hear of any of those stories coming through. I am disappointed that we have let customers down. We go back and do what we can to fix the individual situation. If there is something there for us to look at as part of our business, we will go and look at it. My job as Chief Executive of BrightHouse is to make sure our customers are happy, satisfied and keep coming back.

Q175 **Catherine McKinnell:** Mr Smith, your firm, we have heard, uses self-employed agents to meet their customers, to create the business and to collect the repayments. Do you have adequate control over these



HOUSE OF COMMONS

agents to ensure that they are treating customers fairly? We have already touched upon some of the literacy challenges that there may be. What reassurance can you give us that you have sufficient control over their actions, and the type of loans they are making and collecting on?

Paul Smith: The whole process of issuing and collecting a loan used to be a highly paper-based transactional process up until three years ago. We worked with IBM to translate all those paperwork flows into technology flows. We then embedded our credit policy rules into that same piece of technology. You cannot circumvent any of the steps. The steps are in the order that they should be, and they go through the compliance gates that they have to go through. The full statement about what the customer is getting into is read to the customer by the agent. The tablet is locked out for the period of time that it takes to read that statement. All the evidence of outgoings and incomings is recorded into the system, and then there is a full digital record of that, which is auditable by the FCA.

Q176 **Catherine McKinnell:** You are not concerned that there is a fundamental issue with agents of that sort being self-employed.

Paul Smith: There is not a systemic problem, no.

Q177 **Catherine McKinnell:** Your rival, Provident, has phased out self-employed agents—I do not want to say “under pressure”—having been encouraged to by the FCA. You do not think that is something you need to do.

Paul Smith: It has never said it was pressured to by the FCA. In fact, Peter Crook, when he was still in office went on record at a capital markets day to emphasise that it was purely a commercial decision. If you look at where Provident was in the marketplace, it was prevented from acquiring competitors because of anti-competitive practices. It was very hard pressed to grow organically, because it had already reached our glass ceiling.

Therefore, if you look at the one point of improvement it could make to the bottom line in home-collect credit, it would be to take away the 22% of its revenue that it was paying to self-employed agents: 10% of cash and 22% of revenue. That would have made quite literally tens of millions of pounds a year extra profit for Provident. It would have also freed up capital to go into Vanquis Bank to satisfy its capital adequacy needs. Those were exactly the reasons why Peter Crook chose to do that. If you look at it on a spreadsheet, it makes absolute sense. When you bring the symbiotic relationship of an agent to a customer into play, it has been disastrous. The way in which it executed that move from self-employed to employed has really caused some serious customer detriment.

Catherine McKinnell: Mr Fuller, you have been saved by the bell.

Chair: No, not quite. We could not let you go without having a question for you.



HOUSE OF COMMONS

Q178 **Catherine McKinnell:** You have not been saved by the bell. It is a more general question about how the FCA's takeover of the oversight function has affected the pawnbroking sector and consumer credit.

Richard Fuller: Pawnbroking has been around for centuries. There are very low levels of complaints. It has fairly tried and tested systems and processes. We have not really had to modify anything in that regard.

Chair: Thank you very much indeed to all of you for being on the panel this afternoon. It has been very interesting to hear about you, your businesses and the way that things work. If there is anything that, having given evidence, you have not been able to raise or there are other things that occur, please feel free to write to us with further evidence. In any event, we are not going to forget: we will look at the transcript, as I am sure you will too. There are some things that you said you will write to us about. The Committee will be in touch to follow up on that and anything else arising from the transcript that needs further clarification. For now, can I thank you very much for giving evidence today?