Written evidence submitted by Jubilee Debt Campaign and by the Centre for Responsible Credit

Introduction

This is a joint submission made by [Jubilee Debt Campaign and the Centre for Responsible Credit.]

It focuses on the need for improved credit regulation and debt remedies to ensure that those groups most impacted by the Covid-19 pandemic are able to participate, and contribute to, the economic recovery.

Even prior to the Covid-19 pandemic 7.2 million people (14% of the population) were heavily burdened by debt[i] and research by the Money and Pensions Service[ii] had found high concentrations of debt problems amongst lower income households, renters, younger households, and families with children - especially single parent households.

These same groups have faced further financial pressures because of the pandemic, which has also had a disproportionate impact on people from ethnic minority backgrounds and the low paid self-employed[iii].

The result has been a fifteen percent increase in over-indebtedness, with the Financial Conduct Authority ('FCA') warning that, of the 8.5 million people now in this position, there may be as many as 6.7 million people who are not yet receiving debt advice but who will likely need to do so in the year ahead[iv].

The amount of debt held by these individuals is considerable. The average *pre-pandemic* level of unsecured[v] debt held by individuals seeking advice has been independently reported by both StepChange[vi] and Europe Economics[vii] to be around £14,000. This would indicate that an aggregate amount of approximately £119 billion is owed by all over-indebted households, and that £93.8 billion is owed by those who are yet to seek advice.

However, due to the increased borrowing of many financially stressed households in the early stages of the pandemic[viii], and increasing rent and Council Tax arrears throughout the past year[ix], it could now be considerably more.

Centre for Cities research[x] has also shown that there has been a regional disparity in the increasing levels of indebtedness, with northern cities and towns facing a debt 'avalanche' as Covid support ends. People in around half of neighbourhoods in Hull, Bradford, and Liverpool are likely to have been pushed into debt trying to meet the cost of essentials due to pandemic job losses, furlough and a lack of savings.

Our joint briefing[xi], published in March, drew upon the previous methodology used by the National Audit Office in 2018 to estimate that over-indebtedness is likely to cost the taxpayer *at least* £9.7 billion per year, due to its negative impacts on mental health and its knock-on implications for employment and housing problems.

We therefore urge the Treasury Committee to consider how the Government can ensure that over-indebted households can be better assisted to find relief from their debts as part of its Equal Recovery inquiry.

This submission focuses on the following key areas, identified by the FCA's 'Woolard Review' in February of this year. The review identified amongst its high-level priorities for the creation of a healthy, sustainable, consumer credit market: (i) the regulation of the currently unregulated Buy Now Pay Later sector; (ii) the provision of a well-functioning debt advice sector, including sustainable funding for debt advice providers and (iii) improvements to the landscape of available debt solutions.

Regulation of Buy Now Pay Later

Whilst we welcome the Government's commitment, made in February, to regulate the Buy Now Pay Later sector, we are concerned that the FCA has not yet come forward with any firm proposals in this respect. Similarly, the Economic Secretary has indicated that any regulatory proposals must be "proportionate", because the interest-free nature of the product makes it "inherently lower-risk than many other forms of credit."

In our view, this seriously under-estimates the risks involved, and the Government is in danger of creating an uneven playing field for credit providers by only applying FCA regulation to the sector in a highly selective manner.

As Citizens Advice have recently reported,[xii] of people using Buy Now Pay Later in the past 12 months: 26% have regretted using the product – rising to 31% of BAME customers and 39% of disabled users; 39% used it without realising; 42% didn't fully understand at least one part of what they were signing up for; and 41% have struggled with making a repayment. A similar percentage of customers have been found to be "unable to pay for essentials such as food, rent or bills because they were making payments for a BNPL product".

This high level of customer detriment arises because people are drawn to the product by its top-line marketing as a three-month interest-free product. However, this extended interest-free period (which is compared favourably by providers to the highly regulated credit card sector) is only possible *because* the sector is currently unregulated and not subject to proper affordability assessment and redress through the Financial Ombudsman Service.

We therefore urge the Committee to use the opportunity of the Equal Recovery inquiry to call for the full application of current FCA rules to the Buy Now Pay Later sector, as well as for the Competition and Markets Authority to be consulted on any proposed 'partial' regulation of the sector.

Improved Debt Advice Provision

Whilst welcoming the fact that the Money and Pensions Service has increased its budget for the provision of debt advice for England by £66.6 million since 2019/20, we are concerned that this is expected to provide for an additional 1.5 million more debt advice sessions. This provides an average investment in the sector, per session, of just £44.

Our work with the We are Debt Advisers Group, which has recently surveyed 300 front-line advisers, indicate considerable problems with the current Money and Pensions Service contracts for debt advice. These include high volume targets, combined with an additional layer of quality assurance through the Debt Advice Peer Assessment ('DAPA') process which have rendered the contract impossible to deliver unless advisers work unpaid additional hours. The Covid pandemic has undoubtedly had an impact in this respect, with advisers reporting that cases have become more complex, whilst the closure of face-to-face provision has also meant that more vulnerable clients, have struggled to maintain contact with service providers.

The result of high-volume targets and onerous quality assurance processes is that around 12% of the advisers surveyed have quit their jobs directly because of the Money and Pensions Service contract requirements, and vacancies to MaPS funded positions cannot currently be filled.

The Money and Pensions Service is currently re-tendering for the provision of debt advice and is predominantly channelling its funding away from the face to face services which are most needed by vulnerable client groups. Of its total funding for debt advice, only £16.6 million is being tendered to regional providers. The lots for these tenders have also been significantly increased in size, with the Money and Pensions Service using a prime contractor model, as previously implemented by Department for Work and Pensions. The tender exercise essentially results in a competition to offer more volume for less money amongst existing providers, whilst it also risks failing to ensure a reasonable distribution of advice provision within the three prime contractor areas (the North, the Midlands, and the South). We cannot see how this approach can possibly meet the needs for debt advice amongst the groups with which the inquiry is primarily concerned.

The landscape of debt solutions and need for debt-write down

Whilst recognising the introduction of the national 'Breathing Space' scheme and the recent changes to the eligibility requirements for Debt Relief Orders, a more fundamental review of insolvency and debt remedies is urgently required. This has been made all the more necessary by the failings in the IVA market, which the Woolard review correctly described as 'broken'. We therefore welcome Government's recent announcement that a full review of insolvency procedures will be undertaken, although no clear time-frame for this has as yet been set out.

In our briefing in March 2021, we made an outline case for greater debt-write off to aid the economic recovery. According to the FCA, 1.7 million people sought debt advice in between March and October last year[xiii]. Fewer than five percent obtained access to an insolvency solution and therefore a write-down of any of their debt over the same period[xiv].

Yet a considerable proportion of the debt that is currently outstanding has already been written down by originating lenders. In 2018/19, lenders sold over £55 billion of household debt on the 'secondary market' to debt purchasing and collection firms[xv]. These firms buy up debt for pennies in the pound and make profits by collecting the debt out over periods of up to twelve years.

On average, debt purchasers expect to collect back between two and three times[xvi] what they paid for the debt, indicating that as much as seventy percent is not expected to be recovered at all. Reflecting the low cost that they have paid for the debt, and the need to incentivise people to repay, many firms also offer debtors a discount on the amount owing if they can pay a lump sum in 'full and final settlement'[xvii].

However, these offers are not made available to people who seek advice, who don't have lump sums available to pay off the debt, and who subsequently have to enter into long-term Debt Management Plans. In these cases, the full face-value of the debt is collected out over lengthy periods, despite the debt having already been sold off by the original lender for a fraction of its face-value.

This is manifestly unjust, creating considerable social and economic harm which the government must urgently act to address.

We therefore urge the Committee to encourage the Government to set out a clear timeframe for its review of insolvency procedures, and as part of this investigate how a 'fair debt write-down' of debts which have been sold on the secondary debt market could be incorporated into its proposed Statutory Debt Repayment Plan scheme.

About Jubilee Debt Campaign and The Centre for Responsible Credit

Jubilee Debt Campaign *is a registered charity that works to end poverty, inequality and exploitation caused by unjust debt. We do this through research, education, organising and campaigning, in partnership with allies in the UK and globally. Our current areas of focus are the UK's household debt crisis and the global South sovereign debt crisis.*

The Centre for Responsible Credit *is a politically independent, not for profit, research and policy agency with a particular focus on consumer credit use and over-indebtedness amongst lower income households.*

We work with a wide range of associates and partner agencies to provide high quality research and policy analysis regarding the effectiveness of credit regulation, impacts of over-indebtedness and the effectiveness of financial support.

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[i] Financial Conduct Authority (2021, p,14), 'Financial Lives 2020 survey: the impact of coronavirus'.

[ii] Money Advice Service (2016, pp. 8 -10), 'A Picture of Over-indebtedness'.

[iii] Money and Pensions Service (2020, Executive Summary, pg. iii), 'Corporate Plan 2020/21: Responding to the Covid-19 pandemic'.

[iv] See note i, p,23

[v] This includes consumer credit debts such as loans, credit card balances and overdrafts as well as household liabilities such as arrears on rent, Council Tax and utility bills, but excludes mortgages and student loans.

[vi] StepChange Debt Charity (2020, pg.8), 'Statistics Yearbook: Personal debt in the UK, January to December 2019'.

[vii] Europe Economics (2018, pg.19), 'The Economic Impact of Debt Advice: A report for the Money Advice Service'.

[viii] The Financial Conduct Authority has recently reported that 15% of adults saw their unsecured borrowings increase as a result of the pandemic (see note i, pg. 78).

Center For Cities report: https://www.centreforcities.org/press/northern-cities-and-towns-face-a-debt-avalanche-as-government-covid-support-ends/

[ix] StepChange Debt Charity (2020, pg.9), 'Covid-19 Client Data Report: Exploring the experience of debt advice clients during the Covid-19 pandemic'.

[x] Centre for Cities (2021), "Northern cities and towns face a debt 'avalanche' as Government Covid

support ends", https://www.centreforcities.org/press/northern-cities-and-towns-face-a-debt-avalanche-as-government-covid-support-ends/

[xi] Jubilee Debt Campaign & The Centre for Responsible Credit (2021), 'A Fresh Start After Covid-19 – An outline strategy to tackle Britain's household debt crisis', https://jubileedebt.org.uk/wp-content/uploads/2021/03/A-Fresh-Start-After-Covid19-web.pdf

[xii] Citizens Advice (2021), 'Buy Now…Pain Later?'

[xiii] See note iv above.

[xiv] Calculated from tables 3 and 4 in Insolvency Service Monthly Statistics, January 2021.

[xv] See presentation by John Ricketts, Chair, Credit Services Association to the UK Credit and Collections Conference 2019, available on-line at UKCCC 2019 - State of the collections industry - YouTube

[xvi] Figures taken from Cabot Credit Management Limited, Annual report and accounts, 2019, available from Companies House.

[xvii] There is, for example, an active forum on this issue on the MoneySavingExpert website at Full and Final Settlement Offers — MoneySavingExpert Forum

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