The All Party Parliamentary Group
on
POVERTY

Minutes of the evidence session on business solutions to the poverty premium (financial services)
Tuesday 13th November 2018, 15:00-16:00, Portcullis House - Room R

Officers present:
Neil Gray MP (Chair)
Lord Bird

Giving evidence:

Patrick	FitzGerald	Salary Finance
Damon	Gibbons	Centre for Responsible Credit
Amanda	Mackenzie	Business in the Community
John	Neasham	Incuto
Ashley	Price	Yorkshire Building Society
Andrew	Rabbitt	Incuto

Others present:

Thomas	Cave	Lord Bird's Office
Jen	Durrant	Toynbee Hall
Dave	Eaton	Financial Conduct Authority
Rianna	Gargiulo	The Equality Trust
Andrew	Lincoln	Competition and Markets Authority
Louisa	McGeehan	Child Poverty Action Group
Max	Mortimer	Financial Conduct Authority
Nick	Quin	Yorkshire Building Society
John	Ricketts	Lord Bird's Office
Lucie	Russell	Fair By Design
Oliver	Sidorczuk	Lord Bird's Office
David	Thompson	Lloyds Banking Group
Jase	Wheatley	Incuto
Isabel	Wilkinson	Business in the Community
Wanda	Wyporska	The Equality Trust

1. Introduction

Neil Gray MP welcomed attendees to the penultimate session of the APPG on Poverty's Poverty Premium inquiry.

He noted that the APPG had received a written submission from Brighthouse, a rent-to-own retailer who has received some attention and scrutiny by the APPG, which will be uploaded online along with the minutes of this session.

2. Evidence from businesses and financial services

Amanda Mackenzie, Chief Executive - Business in the Community

Business in the Community (BITC) extracts good practice and disseminates this across businesses to encourage businesses to behave more responsibly. Amanda said that businesses do not have all the answers; many want to improve their practices and all have to start from somewhere.

BITC has created a 'Responsible Business Map' which identifies the key issues businesses need to address to achieve long-term financial value and progress towards the SDGs. Amanda noted that financial wellbeing was not included in the first draft of the map, but it is currently being reviewed.

In working with their members, Amanda outlined the ways in which BITC encourage businesses to alleviate the Poverty Premium:

1. Considering what targeted support they can introduce for vulnerable and low income customers
2. Recognising which products and behaviours are encouraged through branding and marketing
3. Mitigating the impact of poverty through enhanced employee support

Amanda cited BITC's Mental Health at Work 2018 Report, which found that those on the lowest incomes were more likely to report a mental health diagnosis, clearly linking financial wellbeing to mental health. Amanda suggested that precarious employment conditions are responsible for much of this, and highlighted that workers on temporary, part-time and zero hours contracts in general would prefer full-time and permanent jobs. She also highlighted an unfortunate nexus between training and progression; while low salaried workers who receive training and development opportunities are much more likely to progress than those who do not, low paid workers are overall much less likely to be offered training opportunities in the first instance.

Amanda said that Salary Finance had been announced as BITC's Responsible Small Business of the Year for 2018 for their positive impact on employee financial and mental wellbeing.

Amanda also referenced Starbucks' 'Home Sweet Loan' employee benefit, which provides an interest-free loan specifically to aid moving into private rented accommodation to any staff employed there for longer than six months. She said that, like this policy, businesses need to consider carefully the moments in their employees' lives where they may struggle, where they could help out as an employer, and to intervene at those moments. This would be particularly useful in relation to Universal Credit payments.

Amanda noted that the Poverty Premium was ultimately rooted in ‘pay as you go’ services. She said that this was prevalent in financial services, where people without a permanent address face financial exclusion due to not having a bank account.

Amanda said that businesses must think about every aspect of what makes ‘good’ work (for instance, wages and contracts, etc.), to acknowledge that people do and will get into debt and to consider how they can help. She mentioned that most workplaces do not offer financial wellbeing advice as they often do for mental wellbeing. Where these services are offered, she noted, they need to take place discreetly and outside of the workplace. Employee benefits also need to be more than just cinema and restaurant tokens, but something that actually supports the lowest paid employees.

Andrew Rabbitt, Chief Executive - Incuto

The vast majority of people in the UK do not understand what a credit union is. Andrew explained that a credit union is a network of ethical and safe financial organisations that have financial inclusion built into their structure and ethos. Only 2% of the UK population have a credit union account, compared to around 77% in Ireland and 54% in the USA, often opting for high-cost credit from payday lenders instead.

Incuto is a technology platform aimed at credit unions and Community-Based Financial Institutions (CBFIs), which aims to create a user experience for credit union customers that mimics that of payday lender. Andrew stated that the decline of Wonga was in fact nothing much to celebrate. In reality, he said, for those who relied on Wonga, future borrowing is likely to end up much worse as opposed to better – for instance, loan sharks and doorstep lenders.

Andrew highlighted that digital and financial exclusion do not necessarily go hand-in-hand, with 90% of payday lending being arranged online. Andrew said that the key driver for people choosing payday lenders is the speed of turnaround. Unlike price comparison websites for other products and services, payday lending comparisons often focus on how quickly the money will arrive rather than the overall cost.

Andrew said it was important to recognise that it doesn’t just cost more to be poor, but it also costs businesses more to help the poor. He said that by creating the platform, they provided an opportunity to reduce these costs for businesses. It is important that credit unions are still able to deliver their products in person, but they have also provided a digital channel to overlay this service, ensuring that the experience is the same as using payday lenders and standard banks. He noted that credit unions are still far from providing the type of personal financial data dashboards that are made available by high street banks and payday lenders.

Thanks to Incuto, however, credit unions are able to offer the slickness, connectivity and efficiency of a payday lender without the high cost to customers. Incuto’s partners can deliver cash within 5 minutes, which Andrew claimed is four times quicker than Wonga delivered its loans. 90% of Incuto's loans are paid out within the same day. Incuto has also reduced the credit union's cost of lending from £50 to £12, reducing the risk and therefore ensuring the unions can keep their interest rates affordable.

Incuto aligns with the sector, with a transactional pricing model, meaning any credit union of any size can afford the service. Andrew highlighted that these are transactions which most credit unions are already paying, for example for credit scoring or faster payments. By purchasing significant numbers of these transactions, Incuto are able to aggregate volumes and therefore significantly reduce costs across the sector. For instance, some credit unions will pay between £5 and £7 for a credit report, whereas Incuto can charge as little as £1.30. Andrew referred to this as a 'positive disruption' of the market, in opposition to the majority who aim to exploit it.

Andrew said that Incuto are connecting with the Post Office, allowing credit union members to withdraw or deposit money in any Post Office branch nationally. He noted that 99.7% of the UK population live within 1 mile of a Post Office. They are also partnering with Starling Bank to offer a real debit card that compares with high street banking, with no monthly transaction or account fees. Andrew expressed concern that there is currently no legislation against the costs of prepayment debit cards.

Incuto are a service provider to credit unions, not a competitor to them. This allows them to strengthen credit unions without actually challenging the model itself. Andrew envisions that technological advances in credit unions will means that soon they will no longer be considered a 'poor person's bank', but a desirable bank for mainstream customers offering a competitive interest rate.

Damon Gibbons, Director - Centre for Responsible Credit

The Centre for Responsible Credit is an independent policy and research unit, situated within the Learning and Work Institute. The Centre successfully campaigned for the payday lending cap.

Damon said that credit markets operate on a risk-based pricing model, which inevitably means the poor will always pay the most. He said that the decision to be made is whether we want to put limits and controls on this system or not. Credit scoring is based on historical payment, with the system ensuring that people are held accountable for any payment issues for the next six years. Life shocks, such as divorce, ill health and disability, are key drivers over-indebtedness – these events can happen to anyone. Damon highlighted the irony of the situation, in that charging higher prices to the poorest customers actually increases the risk of the these customers not being able to afford their payments.

Damon expressed his concern with Lord Bird's Creditworthiness Assessment Bill. He explained that including rental and Council Tax data in credit scoring could further exclude the most vulnerable people. People are increasingly less resistant to shock, as a result of the increase in zero hours contracts, the rising costs of the rental sector, the bedroom tax and cuts in Council Tax support by local authorities. As a result of each of these, being able to pay your rent can be made impossible almost overnight and with no warning. Damon said that credit scoring has high social costs that lenders are never required to pay.

Damon said that introducing caps on prices forces lenders to limit the risks they take, and therefore puts a limit on who can actually access credit. Damon highlighted that the majority of debts are not actually held in payday loans but in everything else not subject to cap – for instance, credit cards, catalogues, doorstep lending, etc.

Damon said that the Centre for Responsible Credit refused to ‘play ball’ with the credit scoring system, finding ways to disrupt it instead. They are piloting a rent flexibility scheme with 60 tenants in partnership with Money Advice Trust, which they are hoping to extend to 1,000. This system encourages tenants to openly report financial problems and allows them flexibility over rent payments to prevent the need to access credit. Tenants on the scheme are able to plan an annual budget, identifying months where they will ‘overpay’ and ‘underpay’.

Damon expressed that the initial results had been positive, demonstrating a significant decrease in the proportion of tenants who had run out of money before the end of the month. He said that there were also significant benefits to landlords, as the system was shown to lessen the likelihood of defaults and to result in less money spent on debt collection.

Beyond the issue of renting, Damon said that utilities need to move away from the ‘anti-loyalty’ strategy and instead offer flexibility for customers across a longer term basis. With the help of technology, ‘bill flex’ could be managed through mobile phone apps, with the risks of this shared across utility providers. He highlighted this as a positive alternative to subprime credit card use.

Additionally, Damon emphasised the need for a cap on the *entire* consumer credit market, not piecemeal legislation on specific sectors.

Ashley Price, Head of Share Plans - Yorkshire Building Society

Ashley said that Yorkshire Building Society (YBS) currently provides share plan administration to around 250 companies. The scheme, known as ‘Share Save’ or ‘Save as You Earn’ provides a lifeline for many people. He said that 35% of those enrolled into the scheme would have no savings if it were not available. Ashley said that more than 17 million people of working age have less than £100 in savings, and explained that a suitable savings buffer was £1,000 or more.

The YBS collaboration with Salary Finance came about from a strong shift from employers towards supporting employees to accumulate workplace savings. Through Share Save, employees pay a chosen amount of money directly from their payroll into a savings account each month. These are instant access should they need the money, and offer a basic interest rate. Ashley said that people who have used Salary Finance for a loan often want to start building a savings buffer once they have paid it back, having gotten used to as putting a certain amount of money aside every month.

Patrick FitzGerald, Commercial Director - Salary Finance

Salary Finance is a consumer platform for employees delivered through their employer with no upfront cost, which now reaches around 1 million UK employees. They are working with a number of big companies including Tesco, Sainsbury's, local authorities and NHS Trusts.

Patrick outlined Salary Finance's research on the 'financial health' of the UK's workforce, through which they analyse employees' financial worries and the impact of these on individuals' ability to perform and be healthy both inside and outside of their work. Salary Finance also provide a digital financial education service, delivered primarily through through online videos.

Patrick said that Salary Finance provides loans with a recommended cap that are deducted directly from an employee's salary. He said that customer acquisition costs are low and they also have a low operating cost. The average loan size is around £3,000 and saves people on average around £600, which is three times cheaper than a standard bank loan. For those who work in the gig economy, the ability to drawdown an advance on their salary prevents the need for immediate, often high-cost credit.

Ashley highlighted the stigma and shame around accessing financial advice in the workplace. As a result, an online, digital solution with simple and clear information is ideal and prevents the fear of being spotted by colleagues. He also highlighted the need for inclusivity in providing the service. For instance, it is important that the service works for part-time staff, who are also often female.

Ashley said that the workplace could deliver significant impact as a credit distribution channel as people both want to see their employers do more and say that they trust their employer to do this.

4. Q&A session

Q Lord Bird asked what can help people to move on from 'bad' financial choices and behaviours. He also asked what Parliamentarians were able to do to support the rent flex scheme.

In relation to the Creditworthiness Assessment Bill, Lord Bird noted that around 15-21% of people will be left worse off by the inclusion of rental data, but that we should not ignore the sizeable majority who will benefit because of this. He highlighted the need to create alternatives not based on 'risk', to move towards social borrowing and money that is not tied to past behaviour. Lord Bird expressed that it was unlikely that the 15-21% worst off are unlikely to be using credit checking systems and functions anyway. He also said that it will be important in the committee stage to build into the bill the systems needed to ensure there is an opportunity for people to see whether they will be left worse-off by credit referencing before they consent to giving their data.

Neil Gray MP said that overall there are two aspects for the inquiry to consider: firstly, addressing the cost to businesses (namely lenders and financial services providers), and secondly, alleviating the situation that puts people in a difficult financial situation initially.

Q Louisa McGeehan asked Damon Gibbons to expand on the specifics of the rent flexibility scheme. She asked which local authorities and housing associations were involved.

Damon Gibbons responded that Optivo housing association, which has tenants in London and the south east was currently involved, and that discussions with other housing associations were taking place. He highlighted the 'onboarding' process and marketing of the scheme as crucial. All tenants get initial support from a financial inclusion budgeting officer who helps them to 'maximise' their existing income by switching tariffs and providers, backdating benefits payments and ensuring they are receiving any benefits eligible to them. Tenants can also take the initial month as rent free to allow them to get out of any existing, high-cost debts. Overall, tenants have save around £2,500 through onboarding.

Damon explained that it is also during this process that the overall payment schedule is agreed. The tenants on the pilot are predominantly those with children and a history of rent arrears, and so popular times to be 'rent free' are December or January to cover the costs of Christmas, as well as the school holidays. Damon expressed that tenants are very aware of which months would be most financially difficult for them. Overall, the onboarding process is critical as it builds trust between the tenant and the landlord. Landlord-tenant relationships built on trust will reduce cost, unlike the credit system which is built on distrust and punitive measures.

Damon explained that there is a clear message to tenants to be open and honest if anything changes, as the payment schedule can always be amended. Therefore, in a period of unexpected low income, tenants are aware that their landlord will work with them to resolve the situation.

Neil Gray MP agreed with Damon's concerns regarding credit scoring criteria, as he has noted that the main cause of debt among his constituents are Council Tax and rent arrears.

Q Lord Bird asked whether the rent flex system was suitable for people not on very low incomes. **Damon Gibbons** responded that some tenants using the scheme are in good employment but have chosen rent flex to reduce their reliance on credit.

Q Lord Bird asked what scale this type of system could be delivered on within a housing association, for example. **Damon Gibbons** said that it would be necessary to work out how many people need to to under/overpay at different times to ensure that the cash flow might even out. Overall, the housing association would in fact have great certainty over their cash flow as fewer households would default on payments. Moreover, if the tenant does default, the costs of debt collection are far reduced. The money made back through these methods essentially acts as the 'interest rate' on the loans.

Q Amanda Mackenzie asked what would happen if someone continued to default. **Damon Gibbons** said that there have been a few examples of this. For instance, one tenant experienced a bereavement, followed by severe depression and a spiral of debt. She contacted the budgeting officer from the onboarding process and worked to agree an affordable payment method. Damon emphasised that low income households have a higher incidence of negative things that happen which are likely to induce periods of indebtedness.

Andrew Rabbitt said that Damon Gibbons's suggestion of 'flex' payments for utilities should also be offered by financial institutions. He also expressed that the community-focused aspect of the credit union changes the dynamic of lending and borrowing. When using credit unions, the people with the worst credit history might pay back their loans most efficiently, while those with the best credit history may be the most unreliable borrowers. Andrew also highlighted Incuto's work with Northumberland Community Water to create a 'social tariff'. This 50% discount for low income customers actually saved the company money in reducing the cost of debt collection processes, and created a friendly relationship built on trust between customers and the supplier.

Q John Neasham asked why banks were not doing more. He expressed that credit ratings had a value because banks were willing to pay for it, and so the data should either be made free or regulators should ensure banks set aside a CSR fund to cover the costs. **Amanda Mackenzie** highlighted that a lot of banks are looking at using their orphaned assets to subsidise or mitigate these expenses.

Q Jen Durrant asked how some of the employee benefits discussed in the session could work for 'self employed' workers in the gig economy. **Patrick FitzGerald** said that Deliveroo drivers, for example, accrue their earnings hourly. They see these available on their shift app but they are not able to access this until the employer's set payroll date. Salary Finance's system allows workers to drawdown on earnings they have accrued. The cost on payroll can either be met by the employer, or can be charged to the employee at £3 per transaction. Patrick expressed that there is a balance here between having access to credit and the impact these administrative costs might have.

Q Neil Gray MP asked whether there are any similar savings mechanisms for those who cannot work? **Patrick FitzGerald** said that they are working with HMRC on their Help to Save scheme which helps people on working tax credits to save, with up to £1,200 provided free by the government. He did say, however, that at the moment the saver has to manually contribute to the savings fund. **Neil Gray MP** noted that these mechanisms would not be able to support everyone.

Q Louisa McGeehan asked what happens when these people move onto Universal Credit? **Patrick FitzGerald** said that interest is still paid on whatever the saver has accrued historically, and as such there is no downside to signing up. This system, he said, alleviates poverty and delivers impact through design by removing the friction to savings for low income families.

Q Lord Bird noted that all of the contributors' work related back to financial education. He asked if it was possible to bring each strand of work together to form an educational package for those who are in the worst-off financial situations.

Amanda Mackenzie highlighted that the most vulnerable and excluded financially are not online, taking them out of many of the solutions discussed in the session. **Andrew Rabbitt** told the story of a parent who had been to BrightHouse to buy a games console for her child for Christmas, but whose child had prevented her from buying it as he had understood the real costs. Digital and financial inclusion often go hand-in-hand. He also expressed concern about the lack of formal education in money and personal finance. By the age of eight, people have already formed their financial behaviours.

Damon Gibbons said that in his work he also sees 'self-sacrificial' behaviour from parents who save up their child benefit but as a result are forced to take out high cost loans for day-to-day living. This is an emotional, as opposed to a rational use of available resources. He explained that it is important to be careful about creating emotional attachments to spending in these circumstances.

In relation to credit scoring, Damon said that transparency and public control was necessary. From policy perspective, a distribution of debts across the nation has never been published. Companies such as Experian and Equifax have this data, while the government wastes money doing household surveys. As a result, the government and regulators make decisions without knowledge of the full facts.

Q Lucie Russell said that the people are taking out high cost loans are aware of the huge cost of these, but they are not aware there are any alternatives. Payday lenders have enormous budgets for marketing and advertising. She asked how we can make people aware of the affordable alternatives. Lucie explained that research shows 'credible messengers' are trusted to deliver these messages, for instance, affordable alternatives could be promoted by local people in the community who can discuss the options with people face-to-face.

Andrew Rabbitt said that there is an issue with 'bandwidth of choice', and therefore educating people about the nine different options available is not the solution. Instead, we need to change the attitude of whether people save or not. Like pensions, a savings payroll deduction could be normalised as an opt-out rather than opt-in system.

Amanda Mackenzie said that financial literacy training in schools has not been done so far in a way that has been effective, and suggested that the curricula needed to be redesigned. She said that the term 'literacy' implies that someone is currently illiterate, when actually it is often more that the systems are not designed to work for certain people. **Wanda Wyporska** agreed, noting also that academies do not have to follow the curriculum and so curriculum redesign becomes increasingly meaningless. She said that education provided 'just in case' will often be forgotten by children by the time they need it.

Damon Gibbons said that financial literacy needs to be taught through practical application. He discussed potential projects where children aggregate their household items, such as washing up liquid and kitchen roll, and place bulk orders on behalf of their families. However, he noted that schools often do not have the resources to accommodate these schemes.

Referring back to credit scoring, Damon also said that campaigning and advocacy work needs to go into challenging the length of time that credit scores are held on people's record. He said that while we have shortened bankruptcy length, credit scoring has remained at six years without question.

5. Conclusion

Neil Gray MP thanked both the session's speakers and the APPG's Secretariat for their work on the inquiry.

Neil noted that the final session of the inquiry, focusing on business solutions to the poverty premium (utilities), would take place on Wednesday 12th December from 15:00-17:00.

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