

Introduction

Citizens Advice Swansea Neath Port Talbot (CASNPT) is an advice agency that has been supporting clients for nearly 80 years since 1939 with a range of money problems. Specifically, the organization employs accredited debt advisers and operates under the Consumer Credit Act 1974 As a debt counselling service.

In 2017 – 18 30% of the workload of CASNPT related to assisting people with debt issues. This compares with 23% in the preceding year and is becoming more of a concern given that predictions by others e.g. Bank of England are suggesting household debt will be increasing in the coming years. We are able to demonstrate with our data reports from our Case Management System Casebook that we are often supporting individuals who are the most disadvantaged and who generally are on low income, whether this is state benefits or low earnings. **(For data see Appendix 1)**

The Financial Conduct Authority (FCA) is the conduct regulator for the financial services industry and financial markets in the UK. Their operational objectives are:

- To protect consumers
- To protect financial services
- To promote competition¹

Financial Conduct Authority: High-cost Credit

This paper is being submitted in response to the FCA's two consultations and the reviews contained in publications:

CP18/12 High Cost Credit Review: rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit and discussion on rent to own pricing; and CP18/13 High Cost Credit Review: Overdrafts – both published on the 31 May 2018.

In respect to the consultations under review our adviser at CASNPT has examined client cases falling within each remit of the high cost credit consultations. The adviser has also contacted individual clients for a further follow up conversation concerning their experience of using the different types of high cost credit and gain their views on the matters the FCA is seeking to address.

¹ <https://www.fca.org.uk/about/the-fca> As at: 27 August 2018

The FCA, have instituted a study as they have concerns regarding the behaviour of credit providers in the High Cost credit Industry. Work into Payday lending has already been completed.

The FCA are now examining the behaviour of lenders involved in Hire Purchase & Conditional Sale (under the remit of Rent to Own), Doorstep lending (under the remit of Home collected Credit), Catalogue Credit (and store cards which the FCA feel have much in common as they tie consumers to a specific provider and can both involve Buy Now Pay Later, (BNPL), deals). A separate piece of consultation is also looking at overdrafts.

The concerns raised involve issues we see in our office routinely during the debt work we carry out. Moreover, the FCA have requested input from organisations, such as ourselves, regarding our experience with clients who use the forms of credit discussed in this report. The FCA is keen to hear our opinions on their proposed changes to the rules and regulations regarding each of the forms of high cost credit covered by their report.

Rent to Own, (RTO), (HP & Conditional Sale):

The costs to consumers of using RTO are high, sometimes exceptionally so, compared with what consumers would pay on the high street for the underlying goods. Many RTO users are on low incomes and may be dependent on state benefits for a variety of reasons. We are aware that some of our most vulnerable consumers with the lowest incomes are paying the most for their goods.

The FCA is also concerned with the issue of Insurance as expensive policies are often sold alongside the RTO and the FCA found worryingly that many lenders are inferring that such insurance is not an option but compulsory.

We found in discussion with our clients that this concern was well founded and locally to ourselves those clients using XXXXXXXX have experienced such pressure to buy high cost insurance products.

Those clients we spoke with felt compelled to purchase this insurance as they had an urgent need for the goods in question. None were happy with this and had they felt it was not compulsory none would have taken out the insurance.

The FCA appear to be correct in their belief that currently customers are led to believe the insurance policies are integral to the purchase. All of the clients we spoke to were strongly pressured into taking out the insurance and only one felt able to resist that pressure.

While the FCA are suggesting that sale of insurance at point of purchase be banned entirely and that all consumers be given a 2 day cooling off period, before signing any agreements our clients suggested to us that after a 2 day cooling off period they would still feel compelled to purchase the insurance policy. Therefore, a longer cooling of period, perhaps 7 days may be needed to achieve the end that the FCA state they wish to achieve. This would also enable an individual to have the time to check with an adviser regarding the commitment being entered into.

Clients suggested that XXXXXXXX had told them that they do not need the product insurance if they have household insurance but none of our clients can afford home insurance.⁵⁶⁷

The FCA also believe that most RTO users felt that a poor credit rating left them unable to access other forms of credit, again all the individuals we spoke to confirmed this misconception.⁸ Moreover a number of them also used other forms of High Cost Credit confirming another concern raised by the FCA study.

Finally, the primary issue at point of sale was indeed the weekly cost not the total price of the item. As weekly cost was the issue that affected affordability for the client. However, clients did express regret at the final cost.

⁵ Consumers may opt to buy this insurance from the RTO provider or elsewhere

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<https://www.fca.org.uk/publications/market-studies/general-insurance-add-ons-market-study>

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http://webarchive.nationalarchives.gov.uk/20140402172757/http://oft.gov.uk/shared_oft/markets-work/OFT1403.pdf

⁸ The FCA held a series of 20 interviews with consumers and three focus groups for each high-cost product examined in this paper. See PwC (2018), Usage and experiences of High Cost Credit, <https://www.fca.org.uk/publication/research/usage-and-experiences-of-high-cost-credit-consumer-research-report.pdf>

RTO Case Studies:

1. *The client has been using XXXXXXXX for RTO and found them very expensive for overall cost.*

The client was not merely offered insurance but told she MUST take it by the sales people. However, this client was strong willed and refused to pay for the insurance.

The client purchased a Sofa and washing machine (which never worked) from XXXXXXXX.

The repair men from XXXXXXXX came out to see the washing machine but once in her home did nothing but make unhelpful comments to the client about the machine. The client was particularly upset that the repair men from XXXXXXXX made no attempt to open the machine to find out why it did not work.

At purchase the client's primary concern was the cost of fortnightly payments, not the total cost over the 36 months of the HP agreement. (CL-67188122 / CA-141859431 (HP))

2. *The client has used HP extensively over the years, primarily for various children's games consoles. She finds that HP lenders generally sell at double the market price, the client quoted the cost of an X-box console she had purchased as an example.*

The client was told that the Insurance policy was compulsory, and she felt that she had no choice but to pay the extra cost. However, this client did say in fairness that the sales people told her that she would not need insurance on the product if she had household insurance, but the client cannot afford household insurance. (However, we are aware that Microsoft have run a special free repair scheme for the X-box 360 for years due to a product fault. So no insurance would have been needed with that product).

The client was not sure if a delay in the insurance sale would help in her case and gave the impression over the phone that under pressure she would feel that she had no choice but to accept any insurance offered as a matter of course.

The client stated that she would have agreed to anything to get the product for her children. (CLI-4186503-B0G0S0 / CA-136046964 (HP))

- 3. The client bought a laptop on HP because she could only afford one through HP. The inflated cost bothers this client especially since the lender, also insisted on insurance which further inflated the costs for the client.*

The client was unhappy with the cost and the insurance but needed a new laptop very badly at the time.

This client has multiple forms of High Cost Credit debt. (CLI-1040187-Z8B8W8 / CA-138653505)

- 4. The client has used HP which she found expensive, the client was strongly advised to take out an insurance policy. XXXXXXXX insisted that the client must either take out their policy or have a third party policy in place prior to purchase.*

Due to her financial problems the client felt unable to go anywhere else for insurance and felt she had no choice but to take out the XXXXXXXX insurance even though she did not want it. Her finances left her unable to afford a household insurance policy and she was led to believe that an insurance policy was compulsory. (CLI-6429832-T6P6W6 / CA-136736264)

Home collected Credit, (HCC).

As with consumers using RTO, there is a common perception that people on low incomes or with poor credit histories have limited available options for getting credit. This is an expensive form of borrowing but the primary concern with this form of lending is the issue of the cost of repeated use of home collected credit, not the costs of any single loan. A majority of HCC consumers have more than one loan from the lender during a 12 month period.⁹

Additionally, the convenient manner in which loans are arranged and collected in the customer's home is also a valued part of the service. This is especially the case for those clients who may have difficulty leaving their homes. The clients we spoke to stated that some of the loan offers were made over the telephone rather than in their own homes adding to

⁹ CRA data analysis of a cohort of consumers who opened home-collected credit accounts in Q3 2017

the convenience.

Some clients feel firm representatives are quick to suggest that they take out further borrowing when eligible or at certain times of year, such as Christmas time, or simply because they were eligible for additional borrowing because they had repaid a certain percentage of their current loan.

HCC Case Studies:

1. *Client has used Provident loans including roll over facilities. The last time he did so it caused him serious problems and prompted a visit to Citizens Advice. We are currently requesting a write off on mental health grounds for this client.*

This client is very vulnerable and suffers from Mental health problems including Recurring Depression, Anxiety, Post Traumatic Stress Disorder (PTSD), Self Harm & schizophrenia.

He stated initially that the Provident agent did not suggest he take out a new loan in his home and that he had to contact them by phone to request one. However, he then went on to state that at Christmas time the agent suggested he take out a roll over loan. As he had £800.00 rolled over into the next loan leaving him owing £4,362.00 the repayments that followed caused him difficulties.

He has also had two separate loans at the same time in the past, with the last one being the roll over mentioned above.

He found the loans expensive and it became hard for him to pay for his priority commitments, as a result the client found himself borrowing to pay his everyday household bills. (CLI-489058-G2O2S2 / CA-137045131)

2. *The client used Provident and encountered the issue of being offered new, unsolicited loans in her home. This led to the client having multiple debts to Provident at a time. (CLI-1040187-Z8B8W8 / CA-138653505)*
3. *The client had debts with both Provident and Morse and found the interest very high. The client was offered a second loan in her home by Provident. Morse also did this. Morse also offered further loans to the client over the*

phone. These offers were entirely unsolicited and the client was in her home each time. (CLI-6429832-T6P6W6 / CA-136736264)

Catalogue Credit and Store Cards

Catalogue credit and store cards both create similar risks for consumers in the eyes of the FCA so they've decided to consider both together for their current consultation.

The FCA is very concerned that customers do not understand the nature of Buy Now Pay Later, (BNPL), deals. Especially how high the cost of failing to repay the BNPL deal in full, prior to its expiry date¹¹ can be.

One further concern the FCA have is that customers are having their credit limits increased without the customer being consulted or in some cases even informed of the credit limit increase.

The clients we spoke with in relation to this study have not however experienced these issues, primarily because their reasons for utilising this form of credit do not appear to involve large high cost purchases.

Catalogue credit Case Studies:

1. *The client has difficulty getting cloths to fit her in local shops and feels forced to use catalogues as a result. The client made it clear that she does not use catalogues for cloths due to cost or affordability. But only because she has little choice since she is unable to get clothing that fits her in the Swansea area.*

The client has also had problems with expensive postage & returned items. Especially with late payment charges.

Recently one of the catalogues accused the client of taking out debt knowing that she could not pay it back. However, the reality was that shortened working hours reduced her income unexpectedly and caused her to fall into arrears with them.

The client is upset with this company as she feels they accused her of deliberately taking out debt in the full knowledge she could not pay which is not true. Moreover they could not have ben less helpful accusing her of

¹¹ CONC 4.2.5R(2)(c)

not intending to pay instead of helping to put an affordable agreement in place.

The client did state that when taking out the debt she did not consider the long-term cost. (CLI-1040187-Z8B8W8 / CA-138653505)

- 2. This client stated that she had a very positive experience when using catalogues. The client has not encountered the issues that concern the FCA, as she uses her catalogue only for small purchases. The client has not used BNPL, either with catalogues or any other form of lending. The catalogues she used all informed the client of potential increase in her credit limits. Which give her the opportunity to turn them down. The client was also happy with the repayment rates and she did not notice the catalogue payments finding them convenient. (CLI-6429832-T6P6W6 / CA-136736264)*

Overdrafts

FCA research shows that overdrafts are poorly understood,¹⁵ with low levels of consumer engagement and weak competition.

Indeed our experience with clients over many years confirms the FCA finding that a majority of Overdraft users do not appear to see Overdrafts as a form of borrowing and often clients do not understand that they are debt^{18,19}.

Overdraft Case Study:

- 1. This client stated that she did know, “in a way”, that an overdraft was a debt. However, she said she had a poor understanding of the nature of her overdraft in just the manner that concerned the FCA.*

The client has incurred substantial monthly fees as a result of her overdraft during the time she used it. She explained that she had to run this up in order to pay her rent. So the client was using her overdraft to pay vital everyday expenses.

¹⁵ Four out of five people from a sample of 99 overdraft users. Atticus (2018) Consumer research on overdrafts, p8

¹⁸ CMA (2016), Retail banking market investigation Final report, p173

¹⁹ Atticus (2018) Consumer research on overdrafts, pp40 – 43 & Atticus (2018) Consumer research on overdrafts, pp52-59

This resulted in high charges and the client lost control of her income, as a result she came to us for help. We advised her of the need to change her bank. She no longer has this issue with her new bank as she no longer uses an overdraft facility.

This client was using multiple forms of high cost credit at the same time. The repayments on these contributed towards her problems overall and her need to use her overdraft to pay for basic domestic outgoings such as her rent. (CLI-1040187-Z8B8W8 / CA-138653505)

Other Issues:

In addition to the issues above few of our clients come to us with just a single debt. In this case study some clients had debts that did not fit within the remit of this survey. Such as Payday Loans, which were dealt with in a previous FCA study and Credit Card debts for example.

In some cases vulnerable clients have been placed into a position where they have taken out more debt than was affordable. This can lead to a spiral of debt as individuals are forced to borrow just to make ends meet on a daily basis due to the level of their loan repayments.

Conclusion

Debt advice can make a significant difference for individuals. Former clients have told us that advice helps them with their knowledge and confidence to help themselves in the future and get back to a feeling of being in control of their finances '*suddenly a light went on*'²⁶. However, alongside supporting individuals to improve their skills at budgeting and their knowledge to understand commitments they are entering into, regulators can do much to prevent those on low incomes being disproportionately more vulnerable to financial services suppliers who give the impression that they have little choice in accepting added costs, inflated charges and linked insurance compared to individuals who have more spending power and can afford to pay more.

²⁶ Client quote who had been assisted with a Debt Relief Order.

We have aimed to identify from our case management system client cases which fall within the remit of the FCA's review into High Cost Credit. While, as stated above, it is rare that individuals attend our advice service with single debt issues we have specifically identified a number of clients who had issues as part of their overall debt problems which fell within the FCA's consultations. These clients were contacted by telephone with a view to exploring further their views about the specific matters under scrutiny. We have set out above summaries of those cases we have identified which appear to relate closely to the areas of concern raised by the FCA in their review and which would give support to the FCA's intentions set out in the consultation documents.

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August 2018



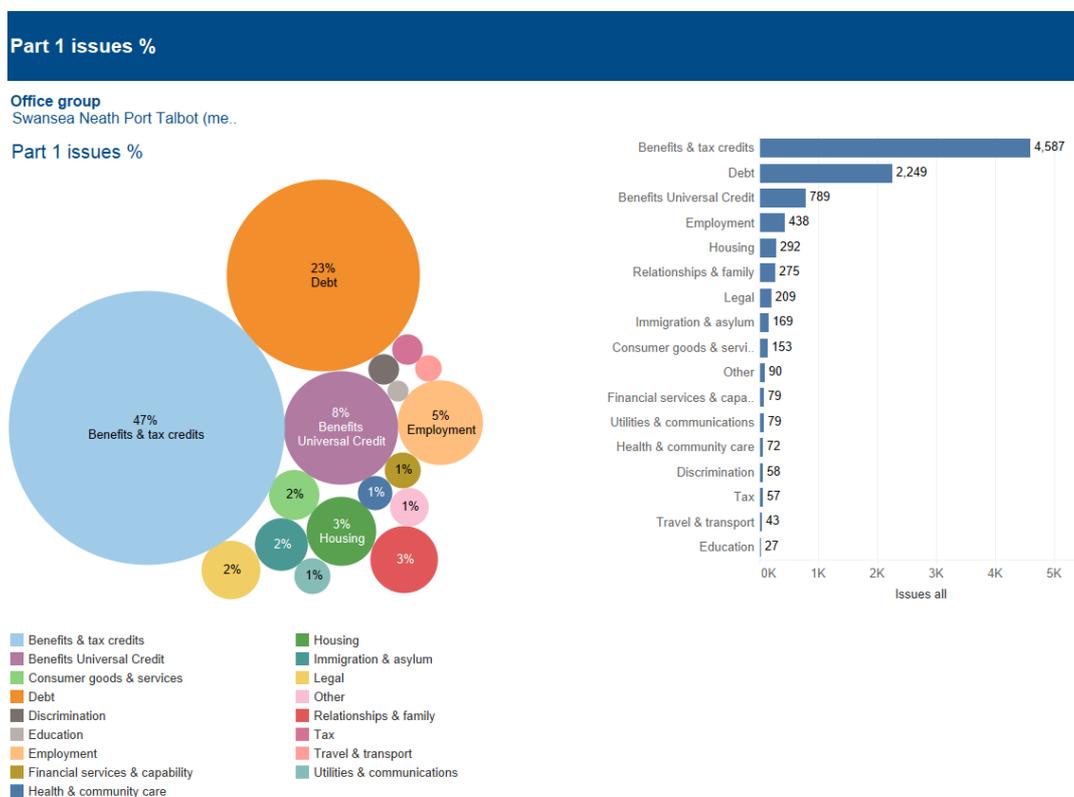
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Appendix 1

Some Data

This data is extracted from our Casebook Case Management System and includes data captured for the period 1 January 2018 to 30 June 2018. This period is often the busiest in terms of debt advice.

For the period 1 January to 31 July 2018 debt as a proportion of client issues is shown below along with the other areas of work (issues data):



The distribution of clients in terms of having a debt issue for the period 1 January to 31 July 2018 is shown below:



Where we have captured income profile data for clients (one third) with a debt issue the infographic below shows the distribution for the period 1 January to 31 July 2018 (showing 80% of clients have a monthly income less than £1,500 per month):

