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EXTRAORDINARY TIMES NEED EXTRAORDINARY MEASURES

PROPOSALS TO DEAL WITH THE IMMEDIATE AND LONGER TERM FINANCIAL IMPACTS OF THE COVID19 PANDEMIC

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INTRODUCTION

The Covid19 pandemic has highlighted serious health and income inequalities in society. Recent analysis by the Office for National Statistics (ONS) shows that the Covid19 related mortality rate in more deprived areas is more than double the rate in less deprived areas.[1] Similarly, Covid19 related mortality rates are significantly higher amongst BAME groups than the white British group.[2]

At the Financial Inclusion Centre, we focus on economic and social justice, and financial inclusion issues. Covid19 threatens to cause devastating economic and financial shocks. The full extent of the impact is yet to unfold but it is certain to be worse than the aftermath of the financial crisis in 2008.

This crisis is also different to 2008 where there was a clear sequence – a financial crisis became an economic crisis, which was followed by austerity. This time we are seeing an economic crisis of a different order (where economic activity in key sectors has almost stopped), a financial crisis, and the public health crisis all happening at the same time.

A range of large scale, ***temporary*** interventions have been needed to keep the economy and financial system working, maintain jobs and household incomes, provide reassurance to millions of vulnerable households, and ease the financial and emotional stress they face. Regulators have also introduced temporary consumer protection measures.

But, we must prepare for the fact that the crisis will be far from over when these temporary measures are removed or phased out. The crisis will play out in four phases:

- Emergency phase (while the temporary government and regulatory measures are in place)
- Survival phase (when the support measures are removed/ phased out and businesses and households have to survive financially until a sustained economic recovery comes)
- Recovery phase (when the economy begins to recover – but it will be some time after this before jobs and household finances recover)
- Rebuilding and restructuring phase (when the challenge of rebuilding and restructuring the economy, financial system and household finances needs to begin, new reforms are put in place against the risk of future economic shocks, and existing public policy crises dealt with).

In this paper, we:

- Set out how households are likely to be affected during the different phases of the crisis, identifying which groups are most vulnerable to the economic and financial shocks;
- Assess the effectiveness of current government and regulatory measures in place to protect households; and
- Propose a range of measures to protect households during the different phases of the crisis to stimulate debate.

The proposals are aimed at:

- Improving income support and social security measures
- Providing access to emergency and recovery loans, and affordable long term credit options
- Protecting overindebted households including those in arrears on mortgages, consumer credit, and other debts such as council tax

[1] https://www.ons.gov.uk/peoplepopulationandcommunity/birthsdeathsandmarriages/deaths/bulletins/deathsinvolvingcovid19bylocalareasanddeprivation/deathsoccurringbetween1marchand17april

[2] https://www.ifs.org.uk/inequality/chapter/are-some-ethnic-groups-more-vulnerable-to-covid-19-than-others/

- Rebuilding household finances, and building future financial resilience by helping people to save and insure
- Improving consumer protection and regulation in financial services
- Protecting renters
- Closing the rights and protection deficits in other sectors

The proposals are split into three sections:

- Measures to close the gaps in the current set of government and regulatory protections
- More permanent measures needed to protect households during the survival and recovery phases when the current emergency protections are removed or phased out
- 'Greenfield' proposals to rebuild and restructure household finances, reform the financial system, and tackle major public policy crises

Social justice theory holds that the more vulnerable you are, the more protections and rights you should have. The crisis has revealed that principle has been inverted over the years and exposed a serious rights and protection deficit. The 'consumer' protection provided to private renters is woeful compared to that available to financial (mostly better-off) consumers. Similarly, for many of the poorest households, the primary financial relationship they have is with the state through the social security system. Yet, it is very difficult for them to hold the state to account for mistreatment or poor service unlike their better-off counterparts who can rely on well-resourced regulators and Ombudsmen schemes. Council taxpayers who are in financial difficulty have less protection than borrowers who are in arrears on their mortgage or credit card.

Even if we get through the emergency phase with financial damage minimised, the challenges will not end there. The crisis has laid bare the precarious nature of our economy and the lack of a decent safety net for those who lose their incomes or health. We will need to rethink the role of the state, employers, financial services, and individual citizens in protecting against catastrophic risks.

Nor can we forget that the existing financial-related challenges (such as funding long term care, affordable housing, pensions underprovision, reforming the financial system so that it is more socially useful) have not gone away. Therefore, we have proposed a series of 'greenfield' measures to help rebuild and protect household finances, and restructure the financial system.

It is not all about a more active role for the state or more regulation. Social entrepreneurship has a real chance to prove itself now. There will also be a greater sense of expectation on the financial sector itself to prove its social utility.

We can expect industry lobbies to push for reductions in consumer protection using spurious arguments that regulation is a costly burden and holds back economic recovery. Brexit will give this push further impetus. So, civil society will have a fight on its hands protecting the gains made over the years never mind campaigning for much needed further reforms. But, we can improve the efficiency of regulation without compromising consumer protection.

Some of the proposals outlined here are radical and others will have better ideas. But, we hope you will agree that extraordinary times need extraordinary measures and these measures are worth debating. We would welcome comments on these proposals. For further information please contact:

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SETTING THE SCENE

The shock to the economic and financial system resulting from the Covid19 pandemic has been brutal. The Office of Budget Responsibility (OBR) forecasts that UK economic output could fall by 35 percent in the second quarter of 2020 if the lockdown continues for three months.[3] More recently, the Bank of England warned that the UK was heading for the sharpest recession since records began with the economy contracting by 14 percent over 2020. The Bank even went as far to say that the looming recession would be the worst since 1706 – more than 300 years ago.[4] At a global level, we may see an economic depression closer in impact to the Great Depression in the 1930s.[5]

Recent data from the Office of National Statistics (ONS) shows the effect economic disruption has already had on households in Great Britain.[6] Over 1 in 4 adults (26.7 percent) surveyed said the coronavirus was affecting their household finances. This is equivalent to 13.9 million adults.[7] The main concern amongst this group was reduced incomes (72.9 percent), with 31.9 percent having needed to use savings to cover living costs and 22.1 percent saying they were struggling to pay bills.

When considering their future, just over half of all adults (50.1 percent) expected their financial position to get a little or a lot worse over the next 12 months. Nearly 14 percent (13.7 percent) said they expected it to get a lot worse. That is equivalent to around seven million households. A lower proportion (41 percent) expected to be able to save over this same time.[8]

Over 1 in 3 adults (35 percent) thought it would be between four and six months before their life would return to normal, with another third (32.9 percent) thinking it will be longer than six months.

An estimated six million people have already fallen behind on a household bill due to Covid19 impacts. Four million have fallen behind on bills such as rent, council tax or telecoms leaving them vulnerable when temporary consumer protections on enforcement end. Those in a shielded group with a health condition are four times as likely to have fallen behind on a bill compared to those not exposed to the same risk. Forty-three percent of those on zero hours contracts have fallen behind on a bill compared to 16 percent of the general workforce.[9]

Private renters are particularly vulnerable. In a recent survey, one in five renters said they expected to lose their jobs in the next three months due to Covid19. If this happens, this would equate to 1.7 million people. Almost one in four (24 percent) surveyed had already seen their incomes fall or had lost their job.[10]

The crisis is likely to exacerbate economic inequality and financial exclusion. Already, Bank of England data shows a significant increase in savings by households[11]. Households with disposable income are saving more. But, as the economic impact takes hold more financially vulnerable

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[3] UK economy faces 35% quarterly plunge if lockdown lasts, Financial Times, 14th April 2020 https://www.ft.com/content/2c4b2ad9-6b7f-44a7-87ca-64475365ad96

[4] https://www.bbc.co.uk/news/business-52566030

[5] See for example: https://www.theguardian.com/world/2020/apr/03/coronavirus-uk-business-activity-plunges-to-lowest-ebb-since-records-began

[6] ONS, Coronavirus and the social impacts on Great Britain: 16 April 2020

[7] Ibid, Table 2b: In which ways is Coronavirus (COVID-19) affecting your life?

[8] For many people reductions in spending on discretionary goods and services means that they will be able to put more money aside.

[9] https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/near-the-cliff-edge-how-to-protect-households-facing-debt-during-covid-19/?utm_medium=social&utm_source=twitter&utm_campaign=bills&utm_content=0105output

[10] https://england.shelter.org.uk/media/press_releases/articles/1.7_million_renters_expect_to_lose_their_job_in_the_next_three_months

[11] https://www.bankofengland.co.uk/statistics/money-and-credit/2020/march-2020

households will find it harder to make ends meet, will be unable to save, and will be at risk of overindebtedness.

UK households – in terms of levels of debt – are going into the crisis more vulnerable than households in other mature economies. In Q2 2019, UK household debt as a proportion of GDP was 83.4 percent compared to 72 percent for mature economies (57.5 percent for Euro area economies).[12]

There are interventions we can deploy to help many households build up their own protection and resilience against future shocks by promoting savings or taking out insurance. But, we need to be honest. Millions of vulnerable households will struggle to make ends meet never mind be able to afford to save or insure themselves against future shocks. Safeguarding these households against future shocks will require significant long term public resources.

Moreover, as well as building financial resilience against economic and financial shocks, there are other daunting structural crises which we failed as a society to address pre-Covid19. The obvious priorities are tackling financial exclusion, underprovision for retirement, funding decent social care, and lack of decent, affordable housing.

The failure to confront these public policy challenges when we had the chance left us in a much weaker position to absorb the economic and health shocks when Covid19 struck. Now the economic shocks created by Covid19 would appear to leave us in a much weaker position to tackle those public policy challenges.

There will be much debate about the ability of the state to 'afford' to support households during and after the crisis. Public debt as a proportion of GDP is expected to rise to around 100 percent. But, that ratio was much, much higher during other crisis periods. The ratio stood at around 245 percent as a result of the Second World War, around 180 percent due to the First World War, and 260 percent after the Napoleonic Wars.[13] It is also worth noting that the UK has one of the lowest debt-GDP ratios of the G7 economies – only Germany has lower.[14]

Moreover, if the state does not provide the resources it either means the issue is not addressed or we have to rely on private mechanisms to do so – which can cost society more. States can use their financial clout to raise funds directly from financial markets to fund critical social infrastructure such as housing. This is much more cost efficient than having to rely on private finance mechanisms (such as pension fund or insurance company investments).[15] Those are ultimately political decisions. But, if we are to have a meaningful debate about how to meet these structural crises, that debate needs to be informed.

There seems to be an expectation that the impact of the crisis means that society will demand a 'reordering' of the economic and financial system. The hope is that this will provide a real opportunity to seriously tackle the climate crisis by reforming the financial system and green the real economy. In doing so, the argument goes that this would help us create sustainable jobs and protect incomes.

[12] Table 2 Global Debt Monitor, http://files.clickdimensions.com/iifcom-ai7nn/files/globaldebtmonitor_november_vf.pdf
[13] https://en.wikipedia.org/wiki/United_Kingdom_national_debt
[14] https://jubileedebt.org.uk/countries-in-crisis/truth-uks-debt
[15] We have a bizarre situation where funds raised by government to fund critical services is treated as debt and characterised as a 'burden' on taxpayers. Whereas, private investment through pension funds and insurance companies is treated as an asset even though it is less efficient and consumers and citizens have to pay charges and fees to owners of the assets.

Similarly, there is talk that the pandemic has caused the general public (specifically, consumers and investors) to focus on the behaviour of firms towards customers and employees – the Social (S) component of ESG.[16] The expectation is that, post crisis, this will cause corporate UK to behave more responsibly towards employees and consumers, recognise their responsibilities to wider society, and move away from the over-emphasis on shareholder value and market short-termism.

But, this reordering of the economy and financial markets cannot be taken for granted. Without robust checks and balances in place (whether through tough regulation or civil society pressure), there will be an increased risk of misselling of financial products and services, aggressive collection of arrears by creditors and landlords, and lowering of environmental standards. The pressure to cut costs, rebuild profits and balance sheets after the crisis will be intense. Nor can we forget Brexit which is also likely to have an impact on revenues in key economic sectors. There will be pressure from industry lobbies to reduce consumer protection and other standards using spurious arguments that these standards are too costly and hold back recovery.

Our political leaders and commentators are fond of using wartime imagery when talking about the national spirit and effort that will be needed to deal with the crisis and recover. This may be hyperbole. But, there is no doubting the economic impact will be severe. Tackling the impact of Covid19 and the existing public policy crises will present a huge challenge.

However, we should remember that some of the greatest achievements in UK public policy such as the NHS, the extension of the state social security system to provide security 'from the cradle to the grave', and a nationwide housebuilding programme all happened in the aftermath of the Second World War.

Necessary reforms are eminently achievable. It is a question of political will, civil society organisations developing credible policies and making compelling cases for reforms, and social entrepreneurs making an impact.

[16] Environmental, Social, Governance. See, for example, Coronavirus forces investor rethink on social issues, Attracta Mooney, FT, April 30, 2020 https://amp.ft.com/content/bc988e0e-687c-4c72-98eb-ae2595e29bee?__twitter_impression=true

THE FOUR PHASES OF THE COVID19 ECONOMIC AND FINANCIAL CRISIS

We see the economic and financial aftershocks of the Covid19 pandemic playing out over four phases: the emergency response phase; survival phase; recovery phase; and rebuilding and restructuring phase.

Emergency response phase

This is where we are now as policymakers, regulators, businesses, civil society (eg. debt advice charities, consumer groups, think-tanks, and trades unions), and households work out how to respond to the emergency.

Government and regulators have announced a range of measures to preserve jobs and incomes, and protect consumers. They are indeed unprecedented even if they were unavoidable. The most significant measures are the furlough scheme, enhancements to social security, the grants given to eligible self-employed people, mortgage and credit payment holidays, and temporary protection from eviction for renters.

As it stands, these measures were intended to be in place until June. The government has since announced that it is extending the furlough scheme until the end of October. Employees on furlough will still see their wages paid at 80 percent. But, from July employers will be expected to pay part of that support although we do not know yet what that level will be. And government has said that it will support employers who want to bring employees back on a part-time basis.

We have yet to see whether the income protection measures for the self-employed, social security enhancements, or protection from eviction for renters will be extended.

Nor do we know whether the various consumer protection measures will be extended. But, given the scale of the economic shocks we expect some of the measures will be.

There are undoubtedly gaps in the coverage of the existing schemes. But, we are not expecting widespread detriment to occur in this first phase because of the scale of the protections in place. This is not to say there will be no detriment. So, what detriment is likely to occur during the emergency phase?

It is unlikely that we will see significant numbers of financial firms failing during this emergency phase given the temporary support provided to their clients (businesses and households). Similarly, we are unlikely to see large numbers of employers with defined benefit pension schemes go under during this phase. The real damage could occur during the survival and recovery phases. But now is the time to stress test the Financial Services Compensation Scheme (FSCS) and Pension Protection Fund (PPF).

In terms of consumer protection, the impact in the immediate term should be limited because of the current temporary measures in place. Of course, there will be some risks to consumers in the short term particularly:

- Vulnerable households without money coming in being targeted by unscrupulous lenders (regulated and illegal)
- Consumers being targeted by Covid19 related financial and investment scams
- Worried pension savers and investors will be vulnerable to making poor decisions which will compound losses to portfolios – they will also be vulnerable to being targeted by regulated and unregulated financial intermediaries offering ‘pension recovery’ schemes

- Insurance policyholders may find that their insurance does not provide the level of cover they expected, may lose insurance cover by having to stop premiums, or may end up paying premiums for insurance that is no longer needed
- Renters are also protected from eviction during the emergency phase. But the problem is that they are not given the same protection as homeowners with a mortgage during this phase. Failure to build in protections now means that, once the emergency phase has passed, we could see a large increase in evictions
- Similarly, we expect to see council tax arrears start to rise and weaknesses in the current protection measures will leave overindebted households vulnerable to aggressive collection practices once the emergency phase is over

The main risks will start to emerge once the current high level of protection begins to be phased out. Even though the furlough scheme will now be in place until the end of October, the fact that employers will have to cover more of the cost of the scheme is likely to put jobs at risk. And with employers being encouraged to bring more workers back on a part-time basis, we are likely to see an increase in people losing their jobs or seeing incomes reduced.

And, as mentioned, we have yet to see whether the self-employed will continue to receive the same income protection. If they do not, this vulnerable group will face serious financial problems.

This will be a critical moment in the crisis. We need to urgently assess the degree to which households and consumers are able to survive the phasing and eventual removal of the government and regulatory support. Even if there are some economic signs of life after, say, six months it is almost inconceivable that the economy will have recovered to such a degree as to avoid significant damage to the business sector and household finances.

Now is the time for policymakers, regulators, and civil society to collaborate on identifying:

- which households are most vulnerable to the phasing out and removal of support measures and, therefore, likely to see their finances hit;
- which groups of consumers are most vulnerable to detriment in financial services and other sectors; and
- what additional, more permanent interventions need to be introduced to protect vulnerable households?

Survival phase

Once the government and regulators remove or phase out the current set of emergency measures, households and the financial sector will have to survive what will be extremely difficult economic and financial conditions until the recovery comes. At this point, we just do not know when the economic recovery will come. Some economists are expecting that it could be 3rd quarter 2021 before the UK economy sees year on year growth.

There will be significant regional and local economy effects. We are likely to see previously viable sectors of the economy suffering permanent damage and the beginning of significant restructuring of the economy.

The financial resilience of households will be tested. Remember that we are going into this crisis with serious levels of problem debt, and record numbers of CCJs issued against consumers last year.[17] It is estimated that nearly 10 million (9.78 million) UK households have no savings, with a

[17] https://www.registry-trust.org.uk/blog/fy19-blog/

further 3.26 million having under £1,500[18] (less than one month's worth of median UK salaries). Millions of households are in no position to withstand even a short term income shock never mind a medium-long term crisis.

We are bound to see a rise in problem debt amongst financially vulnerable households and rent arrears. Indeed, the precarious nature of renters' finances has led some to warn against an 'avalanche of evictions'. Similarly, we will see an increase in council tax arrears.

During this phase lenders, other creditors, and landlords will start to try to rebuild balance sheets, recoup losses, and recover arrears built up during the crisis.

While many financial firms are responding admirably, SMEs and vulnerable consumers will be at risk of being exploited by unscrupulous financial firms – legal and illegal – keen to take advantage of their vulnerability. The media attention is likely to have moved on which means firms (and regulators) will come under less scrutiny.

And it will not just be financially vulnerable households facing overindebtedness or targeted by loan sharks who are at risk. Financial markets have been in turmoil. Pension savers and investors will continue to be vulnerable to being targeted by legal and illegal firms offering pension/ investment 'recovery plans'.

Consumers in the utilities sector, council taxpayers, and private renters who find themselves in financial difficulty will also be at risk. The protection given to vulnerable consumers in these sectors is much less well developed than in financial services. While this is not explicitly a financial services issue and outside FIC immediate remit, the behaviours of utilities, local authorities, and landlords could exacerbate overindebtedness and push up the need for debt advice.

During this phase, we could see a big rise in consumer complaints and legal challenges against financial services firms in all the major sectors affected by the crisis – banks, lenders, insurers, investment and pensions sectors. No doubt the claims management industry will gear up to take advantage of this. This will have an impact on firms and on the resources and capacity of the Financial Ombudsman Service (FOS).

In terms of prudential regulation, the focus of concern has been on niche or smaller non-bank lenders who rely on financial markets rather than deposits for funding. These institutions could find themselves in difficulty quite quickly. Firms such as guarantor lenders, car finance companies, and specialist mortgage lenders have been included in the FCA's temporary measures and are required to offer payment holidays to borrowers in difficulty. This could cause cash flow problems, but these lenders have been excluded from the Bank of England schemes designed to help banks maintain lending.[19]

Clearly, we need to be more concerned about the potential impact of the economic and financial crisis on larger and systemically important financial institutions. Robust prudential regulation measures were introduced after the 2008 financial crisis. So far, the Bank of England has produced reassuring analysis on the ability of our systemically important financial institutions to withstand the economic crisis.

But, it would be unwise to presume even the seemingly soundest financial institutions would be robust enough to withstand the financial shocks created in the event of the worst case economic

[18] The Money Charity, https://themoneycharity.org.uk/money-stats-almost-10m-with-no-savings/
[19] https://www.ft.com/content/55a136c0-05f1-39f4-b946-9e099dd05256

scenarios unfolding. Some of the assessments of the global economic impact of Covid19 are frankly scary. The International Monetary Fund (IMF) is forecasting that the global economic downturn will dwarf that caused by the 2008 financial crisis and will be the worst since the Great Depression in the 1930s. The baseline estimate of the global economic impact produced by the IMF is worse than that used in financial stress tests to model the impact of downturns on bank balance sheets.[20]

Even if the mainstream financial sector such as the largest banks survive relatively unscathed, concerns have been expressed about the impact of the crisis on the shadow banking sector.[21]

Large scale redress claims, legal actions, and hits to the balance sheets of financial firms could trigger defaults amongst firms. This will put pressure on the FSCS. If employers begin to fail, this could jeopardise the viability of pension schemes, putting pressure on the Pension Protection Fund (PPF). As mentioned above, it is to be hoped that policymakers and regulators will have properly stressed tested the main compensation schemes in case these worst case scenarios happen.

Recovery phase

Even when the recovery comes, the economic and financial crisis will be far from over for households (and self-employed and SMEs). Risks will not have disappeared. If anything, policymakers, regulators, and the third sector will need to be even more on their guard as the attention of the policymakers, regulators, and media is likely to have moved on.

Household incomes and finances will not have recovered. But, those households who are financially struggling will disappear under the radar again. We expect that there will pressure to reintroduce austerity to tackle what will be portrayed as unsustainable budget deficits and public borrowing. This could put further pressure on the finances of households relying on the social security safety net.

Without effective interventions, we will see a further rise in overindebtedness, and further increases in arrears on loans, household bills, and rents. Inequality will grow[22] as will financial exclusion.

During this phase lenders, other creditors, and landlords will increase efforts to rebuild balance sheets, recoup losses, and recover arrears built up during the emergency and survival phases. Local authority finances could be even more stretched and may be forced to step up efforts to recover council tax arrears. This could prompt more aggressive behaviours towards vulnerable households and businesses.

Consumers whose pensions have been hit by falls in financial markets will be at risk of making poor financial decisions which compound their retirement problems, and continue to be vulnerable to regulated and unregulated firms offering pension 'recovery plans'.

Consumers will continue to seek redress which will put pressure on firms and the Financial Ombudsman Service (FOS). Legal actions are likely to ensue as claimants will have taken some time to prepare cases and may have decided that launching actions during the emergency and survival phases was not worth it as defendants would not have been able to pay redress claims.

We may also see the FCA take enforcement action against financial firms in this phase for breaches of regulations that happened during the emergency and survival phases – it can take some time to gather evidence and build a case for enforcement.

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[20] IMF's grim forecasts show financial risks loom, Financial Times, 14th April 2020 https://www.ft.com/content/b8c72052-7e48-11ea-82f6-150830b3b99a

[21] Coronavirus crisis lays bare the risks of financial leverage, again, Martin Wolf, Financial Times, 28th April, 2020 See: https://www.ft.com/content/098dcd60-8880-11ea-a01c-a28a3e3fbd33

[22] See for example: https://www.ifs.org.uk/publications/14799

Financial firms will continue to fail which will test the existing Financial Services Compensation Schemes and, in the medium-long term have implications for effective competition.

If major businesses in the 'real economy' go under or fail to recover to pre crisis profitability levels, this could have further consequences for the employers' pension scheme sector – particularly the remaining defined benefit schemes. Further pressure could be put on the PPF or we could see closures of more of the remaining active defined benefit schemes.

Rebuild and restructure phase

Even if we get through the survival and recovery phases with economic damage minimised, the challenges will not end there. There will be a huge amount of work needed to rebuild household finances.

The current crisis has laid bare the precarious nature of our economy and the fact that our social security system does not provide much of a decent safety net. We will need to rethink the role of the state, employers, financial services, and individual citizens in providing protection against the catastrophic impact of losing incomes or health.

Moreover, the same big crises we faced before the emergency – lack of decent, affordable housing, pensions underprovision, funding social care, financial vulnerability and financial exclusion, low levels of savings and so on – will still be there when we come through the other side.

We need to be honest and admit that as a society (and specifically as civil society) we have made little progress on these crises even when times were 'good'. The damage done to the economy and household finances will make it even more difficult to tackle those crises.

Furthermore, the financial sector is still trying to rebuild consumer confidence and trust in the aftermath of a litany of misselling scandals and the 2008 financial crisis. The behaviour of some insurers and the crash in asset/ pension values will set back confidence and trust in financial services.

Despite sustainable finance (or ESG) rising up the agenda and receiving more media coverage, the proportion of total financial assets held by institutions and households in those assets remains very low. Similarly, the short termism prevalent in financial markets, and reliance on dividend payments and share buybacks, has undermined long term investment in the real economy.

There has been much talk about the need to re-order the financial system and the economy. Now would seem to be the ideal opportunity to promote policies to restructure the financial system so that it works for the real economy, and to reconfigure the financial system so it contributes to the greening of the economy and rebuilding social infrastructure. In doing so, this could help create the new sustainable employment we need to rebuild household finances.

PROPOSED INTERVENTIONS

As outlined above, we see the Covid19 crisis playing out in four distinct phases:

- Emergency phase (while temporary government and regulatory measures are in place)
- Survival phase (when the support measures are removed, and employers, businesses and households have to survive financially until a sustained recovery comes)
- Recovery phase (when the economy begins to recover – but it is critical to understand that it could be some time before household finances recover and unemployment falls)
- Rebuilding and recovery phase (a period when rebuilding and restructuring of economy, social protection measures, and households is needed).

In this section, we propose a range of measures to deal with the effects of Covid19. We also highlight the need for structural reforms to rebuild and restructure household finances and the financial system.

We group these proposals into:

- Emergency protection measures: to enhance the current temporary protections or to fill gaps
- Proposals to deal with the crises that will emerge during the survival and recovery periods when the emergency protection measures are removed or phased out
- Measures to address the long term, structural challenges we face in rebuilding and restructuring household finances and the financial system

I. EMERGENCY PHASE MEASURES

The priorities are:

- Enhancing emergency income support measures
- Enhancing social security measures
- Providing access to emergency loans
- Financial consumer protection measures
- Non-financial services consumer protection measures
- Private rented sector
- Council tax
- Advice on debt and rights
- Intelligence gathering, reporting, and accountability

INCOME SUPPORT MEASURES

FIC tends not to work on areas such income or social security levels *per se.* Our work is more concerned with the consequences of having a low income such as greater financial exclusion or low incomes compounding the effects of market failure. But, given the nature of this crisis, it would be remiss not to acknowledge the impact of Covid19 on incomes.

Proposal: It seems unfair that the 'furlough' scheme for employees has been extended until October without extending the same protections to the self-employed. Therefore, we propose the self-employed scheme should also be extended until October.

Proposal: A targeted *Basic State Income* linked to the Living Wage[23] should be introduced for the millions of citizens not covered by the current temporary income protection schemes.[24]

Proposal: The Discretionary Social Fund needs to be urgently restored at least for the emergency period to provide grants for citizens in receipt of social security.

SOCIAL SECURITY MEASURES

The existing temporary enhancements to social security are very welcome. But, they do not go far enough.

Proposal: A package of improvements are needed to protect citizens who rely on the social security system.[25] This should include: applying Universal Credit uplifts to all benefits; suspending benefit caps and claimant sanctions; current awards should be extended for 12 months; all disabled and seriously unwell people waiting for the outcome of a Mandatory Reconsideration (MR) of a disallowed ESA claim should be immediately given an assessment rate until the decision has been made; Housing Benefit levels should be temporarily raised to cover all rents; funding for Discretionary Housing Payments for those tenants still facing shortfalls should be increased; and during the emergency period, UC advance payments should be converted into grants.

Proposal: It is important to raise awareness amongst those new Universal Credit claimants that they may be eligible for local Council Tax Support. This could make a significant difference to their finances.

ACCESS TO EMERGENCY LOANS

Even with the current job and income protection measures and improvements to social security in place, many households will still need access to emergency loans to cover basic needs (as well as grants for those in most pressing need).

The non-profit lending sector does not have the capacity to help the most vulnerable households and SMEs who are at risk of being targeted by loan sharks smelling blood. This calls for quick, direct interventions to provide emergency loans.

We call for three interventions to help those in need. In addition to the restoration of the Discretionary Social Fund we propose the establishment of a National Support Fund (NSF) and National Self-employed Loan Scheme (NSLS).

National Support Fund (NSF)

Proposal: A National Support Fund (NSF) should be established immediately. A pool of funding should be provided by a consortium of the Bank of England, government, civil society funders and grantmakers, and contributions from industry.

This NSF would directly provide or facilitate access to grants, interest free and low cost bridging loans for eligible citizens. This should incorporate the proposed No-interest Loans Scheme (NILS) currently being considered by HM Treasury.[26] The NSF would also facilitate access to loans from credit unions.

[23] The UK Living Wage is set at £9.30 an hour - £10.75 an hour. This is not to be confused with the government's official National Living Wage or Minimum Wage. See: https://www.citizensuk.org/living_wage

[24] This would be in effect a targeted universal basic income – if that's not an oxymoron.

[25] For a more thorough set of Proposals on the social security system see Z2K website https://www.z2k.org/latest/z2k-covid-19-demands/

[26] This scheme has been shown to be feasible. See: https://londoneconomics.co.uk/wp-content/uploads/2020/03/NILS-feasibility-study-report.pdf But, given the scale of the problems facing us, it is unlikely NILS would be sufficient to meet the need.

In terms of eligibility, a temporary arrangement should be set up between the NSF and debt advice and other charities, social housing providers, and local authorities who would refer clients to the NSF.

Referring organisations would assess clients' income and expenditure and 'certify' clients based on three tiers:[27]

1: clients with negative budgets who need a grant as they will be in no position to repay a loan;

2: clients eligible for a no-interest bridging loan; and

3: clients eligible for a low cost loan from credit unions (these loans would be underwritten by the NSF).

Note that this is not a *credit* rating but a *needs* rating.

Alternatively, a central hub (rather than a funding pool) could be established with participating lenders/ grant makers signalling which tiers of clients they want to support. NSF could 'ping' clients to participating funders/ lenders or clients could choose an appropriate lender/ grantmaker.

We envisage most of the support provided by the NSF would be done via referrals from trusted intermediaries. But, the NSF could allow direct applications and use Open Banking technology to determine eligibility for support.

National Self-employed Loan Scheme (NSLS)

Tailored solutions are needed for the self-employed who are eligible for the Self-employment Income Support Scheme (SISS).[28] HMRC is proactively contacting those self-employed who are eligible for the SISS to invite them to apply for a grant to tide them over until the economy recovers. These grants will be helpful but the self-employed need longer term support. It is logical to make greater use of the established relationship between the state and the self-employed to reduce the administration and distribution costs involved in making loans to underserved groups.

Proposal: We propose the immediate establishment of a National Self-Employed Loan Scheme (NSLS). We propose the Bank of England should collaborate with HMRC by creating a NSLS to provide interest free loans to the self-employed.

It is difficult to say how much would be needed. But, a £15 billion fund could provide loans of up to £5,000 to 3 million self-employed. This is small beer in comparison to the cumulative £645 billion the Bank of England has created under the QE scheme.[29]

Unlike the grants, the loans would be repaid over three years and recycled. HMRC will have done the work identifying and verifying who is eligible, and it has access to the accounts of self-employed to determine how much they can apply for under the grants scheme. The existing relationship the self-employed have with HMRC means the Bank of England and government can ensure that those who can repay loans do so.

We doubt that, post crisis, the mainstream lending industry will have much appetite for lending to large parts of the self-employed sector on affordable terms. There is a strong case for expanding and extending the NSLS into a more permanent arrangement.

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[27] Further details on how this would work are available on request

[28] This scheme allows the self-employed to claim a taxable grant worth 80 percent of their trading profits up to a maximum of £2,500 a month. It will be available for 3 months, but may be extended.

[29] https://www.bankofengland.co.uk/monetary-policy/quantitative-easing

FINANCIAL CONSUMER PROTECTION MEASURES

The FCA has introduced a range of emergency measures to protect consumers from the financial impacts of Covid19. These mostly focus on mortgages and consumer credit products and are designed to ensure that lenders exercise forbearance by giving borrowers payment holidays if needed and consumers are protected from aggressive practices while they are financially vulnerable. Payment holidays should also not affect the credit score of the borrower.

There are also some measures on insurance and other areas which are not so well developed.

Statements on FCA expectations, consumer rights information

At times like this, financial markets and providers need to be left in no doubt as to the standards of behaviour expected of them. Consumers should also be confident that they have clear information and advice about their rights when things go wrong.

Proposal: The FCA should make clear public statements to the market about the standards of behaviours it expects with guidance and examples for ***each*** product sector.

Proposal: The FCA should make clear public statements that it will mercilessly enforce against firms and individuals under the Senior Managers and Certification Regime (SMCR) who breach regulations during the crisis.

Proposal: The FCA and Money and Pension Service (MAPS) should also issue clear advice and information to consumers about their ***rights*** during these difficult times.

Mortgages and credit

It is welcome that temporary protections introduced by the Financial Conduct Authority (FCA) for mortgage customers are being extended to other borrowers.[30] Full details of our response to FCA proposals can be found on our website.[31] Guarantor loans, logbook loans, home collected credit, a loan issued by Community Development Finance Institution and some loans issued by credit unions (where these are regulated) are covered. The guidance also applies to firms which have acquired such loans. The FCA has also extended these protections to high cost, short term credit and car finance plans.

But, the real problems are likely to emerge when the payment holidays come to an end. The FCA has reminded borrowers that if they take a payment holiday they will still pay interest on the amount owed and any outstanding amounts owed will have to be repaid. It will depend on the structure of any 'catch-up' agreement. If a catch-up agreement is too onerous then it could exacerbate the harm faced by those who are already financially vulnerable.

Similarly, borrowers who have found their finances *temporarily* affected by Covid19 are at risk of being penalised even if their finances are restored when the recovery begins. Even if payment holidays are not recorded on a person's credit file, lenders will still be aware of payment holidays being used. It would seem unfair if a borrower was required to move to more disadvantageous loan terms as a result of utilising a payment holiday period during what turned out to be a temporary disruption to their finances.

Proposal: Three months protection does not go far enough. The default should be to presume the measures will be in place for as long as it takes, until there is clear evidence that household finances

[30] https://www.fca.org.uk/coronavirus
[31] http://inclusioncentre.co.uk/wordpress29/our-work/consultation-responses/fca-temporary-proposals-for-financial-relief-for-customers-affected-by-coronavirus

have recovered, and the measures can be safely removed before then. The credit ratings of borrowers using the temporary protection measures should be left unaffected until then.

Proposal: For mortgages, the FCA should consult on extending the payment holiday scheme for 12 months. The government should urgently review and improve the current Support for Mortgage Interest (SMI) scheme. SMI provides limited support and those households in difficulty have to wait nine months to get the SMI loan.

Proposal: Charges on all forms of non-mortgage credit should be capped.

Proposal: FCA should issue clear guidance on the conditions attached to 'catch-up' agreements put in place to recoup missed payments from borrowers. Catch-up agreements should not be too onerous and put borrowers under undue strain. We discuss the possibility of debt relief and write-offs, below, under Survival and Recovery measures.

Proposal: Any temporary disruption to borrowers finances arising from Covid19 should not be used as an opportunity to impose more disadvantageous terms and conditions on the borrower. Nor should this be used to restrict access to more favourable deals that would have been available had the temporary disruption not occurred. Note, this is not expecting lenders to continue to offer the better deals to borrowers whose finances have clearly been permanently affected by economic disruption.

Illegal loan sharks

In the more extreme cases, vulnerable households will be at risk of being targeted by illegal loan sharks.

Proposal: The FCA should step up its work with partner organisations and Illegal Money Lending Teams working in this field to closely monitor activity and take necessary enforcement action.

Gaps in the Financial Services Compensation Scheme (FSCS)

There is a risk that niche or specialist lenders could very quickly get into financial difficulty and may fail. We need to avoid the repeat of the Wonga episode where customers entitled to redress for being inappropriately sold loans were unable to get that redress when the lender went bust.

Proposal: The FCA and HMT should urgently ensure that subprime lenders are part of the FSCS.

Insurance

The FCA has issued some welcome guidance for insurers.[32] But, again this do not go far enough.

Much clearer guidance is needed aimed at insurers who are considering suspending or withdrawing some insurance products on how to treat policyholders (including businesses) who rely on these products and may be left without critical cover.

There is a risk that large numbers of consumers could be affected by insurers withdrawing altogether from sections of the market. We do not yet know how many households or which communities might be affected.

Moreover, some policyholders may have temporary difficulties maintaining insurance premiums.

[32] https://www.fca.org.uk/firms/insurance-and-coronavirus-our-expectations

Proposal: The FCA should urgently assess the extent to which insurers might withdraw from markets, how many policyholders might be affected, and what the implications for policyholders might be if cover is withdrawn. The FCA should publish this assessment and, if necessary, work with HMT to ensure alternative insurance cover is available (learning from the lessons of FloodRe[33]).

Proposal: The FCA should issue clear guidance to insurers on what treating customers fairly (TCF) means in cases where consumers face temporary difficulties maintaining premiums. This might mean, for example, allowing token payments until the policyholder can afford to resume full payments and catch up on arrears.

Pensions and investments

Consumers saving for a pension – whether individually or through their employers' pension – are going to be exposed to a range of potential risks.

Consumers who have seen their pension pots hit by financial market turmoil will be vulnerable to outright scams, making poor decisions, and receiving poor advice - for example, on pension 'recovery' plans.

The FCA has issued some helpful guidance for firms on how to deal with consumers who might be worried about their pensions.[34] This is welcome. But, pension savers need reassurance that the FCA is monitoring these sectors very closely to ensure that regulated firms and intermediaries are not exploiting worried consumers by misselling costly and high risk pension recovery plans involving complex products, or conducting unnecessary pension reviews or transfers.

It is not just in the personal pensions sector where risks will increase. Employers' pensions will be at risk from adverse movements in financial markets, and employers facing difficulties maintaining contributions to pension schemes. Members of employers pension schemes will be vulnerable to the asset management industry and financial intermediaries selling costly pension recovery schemes which expose them to further risks.

The Personal Finance Society (PFS) says it has seen a rise in reports of parents being pressured into cashing in their valuable defined benefit (DB) pensions schemes by family members. This is worrying as most people are better off keeping their DB pension.[35] This requires urgent action from regulators.

The two main regulators overseeing pensions – the FCA and The Pensions Regulator (TPR) – have put on hold 30 consumer protection measures in the employers and individual pensions sectors.[36] It is understandable that regulators want to ease pressure of employers and the pensions industry during these difficult times. But, this leaves pension scheme members exposed. Furthermore, there will be a risk that some of these measures will never be implemented as pension providers and employers lobby for deregulation to cut costs as we come out of the crisis. Brexit will give a further boost to industry lobby attempts to deregulation.

Investment scams have wreaked havoc on the finances of many consumers. There was nearly £200 million of reported losses in 2018 alone.[37] The average reported loss was £29,000 which suggests there were some very large individual losses amongst that total. In the confusion and chaos caused by Covid19, there are understandable fears that consumers may be even more vulnerable to scams.

[33] https://www.floodre.co.uk/how-flood-re-works/
[34] https://www.fca.org.uk/firms/pensions-and-retirement-income-our-guidance-firms
[35] See tweet from Josephine Cumbo, 11:40 AM, 9th April 2020
[36] See: https://www.pensions-expert.com/Comment-Analysis/Pension-protections-must-not-be-victims-of-coronavirus
[37] https://www.fca.org.uk/news/press-releases/fca-warns-public-investment-scams-over-197-million-reported-losses-2018

Moreover, the sustained low interest rate environment makes consumers more vulnerable when looking for investments offering what seems to be a good return.

It has always been very difficult to protect consumers from scams. It is more so now in a world where we are connected via the internet and scamsters may operate more easily from jurisdictions outside the reach of the UK regulators.

The FCA has stepped up its warnings to consumers telling them to be more vigilant and to protect themselves against scams.[38] Consumers do have to take a degree of responsibility if they are victims of scams and part with large amounts of money in the hope of getting a high return at a time when rates on the safest investments are so obviously low. There have been plenty of warnings that '*if something seems to be too good to be true, then it is probably is'*. But, to be fair, the current environment does heighten the risk of scams and relying on consumer alerts or warnings has not been effective.

Proposal: FCA and TPR need to step up monitoring of their respective markets and commit to implementing suspended measures quickly if evidence of detriment emerges. FCA and TPR should issue a statement confirming their intention to implement the suspended measures, with a clear schedule for implementation, and report on progress made on implementation.

Proposal: FCA should issue a policy statement to explain how it is monitoring the pensions industry along with explicit guidance and warnings to the industry on what constitutes good practice and breaches of treating customers fairly and acting in the interests of consumers. TPR should do the same for the employers pension fund sector setting out clearly what constitutes good practice and fair treatment of pension scheme members. FCA and TPR particularly need to keep a close watch on the promotion of pension recovery strategies.

Proposal: There needs to be better ways of limiting the risk of consumers falling victim to scams – although we need to accept it is not possible to remove the risk altogether. The key is to make the process of scamming more difficult for those attempting to defraud, to require consumers to take active steps before parting with their money, and for regulated financial institutions who are releasing money to undertake more robust due diligence. Therefore, we propose that the FCA consult on requiring banks to include 'trigger warnings' and break points on online bank account transactions (and for telephone and branch banking) when customers are intending to transfer large sums of money above a certain limit (this level should be consulted on). This trigger warning should tell customers to check the FCA's Register of Authorised Firms to confirm that the firm they are considering transferring money to is authorised. This could be taken further by forcing banks to require customers to 'double-confirm' they have checked the FCA register before authorising a transaction. For telephone and branch based transactions, banks could be required to perform this check before authorising a transaction. We recognise that these measures could be seen as stepping on individual personal responsibility. But, it is difficult to see how scams could be stopped without interventionist measures.

Proposal: Employers should be required to provide enhanced warnings at each part of a pension transfer process to any scheme member who has requested a transfer. Similarly, any financial institution who is due to receive assets transferred from should be required to take extra steps to satisfy themselves that these assets are not being transferred under duress. When a financial adviser

[38] https://www.fca.org.uk/news/news-stories/avoid-coronavirus-scams

is being used to advise on a transfer, they should be required to provide enhanced warnings to the clients before agreeing to help with the transfer.

NON-FINANCIAL SERVICES DETRIMENT

There are worrying gaps in the protections available to consumers in other sectors of the economy and public sector including: utilities, telecoms, the rental market, and council tax.

Utilities and telecoms

All domestic energy suppliers have signed an agreement with the government to ensure that prepayment and pay-as-you-go customers (who may have to self-isolate) can still get supplied with energy during the crisis. For customers struggling with money problems or facing difficulty repaying debts, there are a range of options including: reviewing bill payments including debt repayment plans, payment breaks or reductions in how much is being paid, giving customers more time to repay, and in limited cases access to hardship funds. There is a commitment that no credit metres will be disconnected during the health crisis.

The utilities regulator, OFGEM, has provided some information for consumers but does not appear to have produced any explicit, clear guidance for firms on how they should treat consumers in financial difficulty or for consumers on their rights if they do get into difficulty paying their bills.

Water companies have said they will offer payment breaks or payment holidays for anyone in financial difficulties as a result of Covid-19, and will adjust payment plans urgently to help with sudden changes in household finances. They are also stopping new court applications on unpaid bills during the current restrictions, and enforcement visits. OFWAT appears to have provided limited clear guidance on consumer rights during this crisis period.

Nowadays, access to the internet and a mobile phone is an essential service. OFCOM, the telecoms regulator, is prioritising working with government and industry to keep critically important communications networks working. This is important work. But, it does not appear to have produced clear guidance or rules on how telecoms providers should treat customers who fall behind with their payments during the crisis and in the period after.

Proposal: Using the FCA approach for guidance, government and relevant regulators should introduce regulations urgently with explanatory guidance on how utility and telecom companies should treat households in financial difficulty. These measures should last until there is clear evidence of recovery in household finances.

PROTECTING RENTERS

There is a significant rights and protection deficit is in the housing sector. As outlined above, research suggests that private renters are already facing serious and prolonged financial difficulties.

The government has introduced some measures to help renters. Nearly £1 billion of support is being provided to increase housing benefit and Universal Credit so that Local Housing Allowance will cover at least 30 percent of market rents in local areas. The government has promised that evictions in social and private housing would be banned during the pandemic.

But these measures just extend the statutory notice period for eviction from 2 months to 3 months for the vast majority of renters. This means landlords can still serve notice and claim possession at the end of that period.

There appears to be no protection for residents who can be evicted without notice such as people in temporary housing or lodgers. In Scotland, devolved emergency legislation will include a 6 month ban on any evictions.

Furthermore, there appears to be no statutory provisions to deal with arrears that will be built up during this period. Instead the government has previously said that it would 'encourage' landlords and tenants to agree an 'affordable' repayment plan to payback arrears.

Even if evictions are suspended during the crisis, renters will still be vulnerable when landlords seek to recover rent arrears after the emergency protections are lifted. As private sector rents are high in certain parts of the country, allowing landlords to recover arrears too aggressively would make rents even more unaffordable and place too great a strain on household finances. Just providing tenants with a period of grace to repay arrears would provide limited protection given how badly household finances are expected to be hit.

As we have written elsewhere, renters already receive much lower statutory protection than other 'consumers'. These new measures offer limited protection during the emergency and there is little sign that the consumer protections available to mortgagees will be made available to renters once the emergency measures come to an end.

Renters need enhanced protections during the crisis and for as long as it takes until a sustained recovery has been established. We are facing what has been described as an 'avalanche of evictions'. Furthermore, a more fundamental overhaul of the consumer protections available to renters is needed – see below.

Of course, the position of landlords must also be considered. In 2015/16 there were 2.5 million private landlords in the UK, up from 1.97 million in 2011/12 – an increase of 27percent.[39] Eight percent landlords (by number) own 38 percent of all private rented properties.[40] The majority of landlords own just one property. Many of these will not have deep pockets to withstand a loss of rental income.

Proposal: What is intended to be a three month ban on evictions does not go far enough. Evictions should be suspended for as long as it takes to provide time for more permanent legal and consumer protections for renters to be put in place.

Proposal: Government should fast track legislation in the pipeline to protect renters from 'no fault' Section 21 evictions which leave renters in such a vulnerable position. Automatic evictions due to arrears built up as a result of Covid19 related financial difficulties should be banned. This could be done by amending Section 8 notices. These notices are issued by landlords as the first step in the eviction process. If a Section 8 notice is issued, tenants should be able to cite special circumstances to stop the eviction process until their case has been independently assessed – see below.

Proposal: Landlords should not be able to make tenants bankrupt as a result of rent arrears.

Proposal: A new, enforceable pre-action eviction protocol should be urgently agreed requiring landlords to treat tenants fairly, and cover the steps landlords and tenants must take before any attempt at eviction is made. Critically, tenants should be given the right to challenge whether a landlord has complied with the protocol and, if necessary, have this dispute ruled on by the Housing

[39] https://www.landlordtoday.co.uk/breaking-news/2018/4/number-of-uk-landlords-rises-to-1-75-million

[40] Source: CML RESEARCH, The profile of UK private landlords, Kath Scanlon and Christine Whitehead LSE London, December 2016, Fig 1: Distribution of PRS Portfolio size (2016)

Ombudsman Service. The Ombudsman should have emergency powers during the crisis to suspend rent payments in certain circumstances where tenants are in serious financial difficulties.

Proposal: New rules brought in by the FCA allows borrowers who are experiencing (or reasonably expect to experience) payment difficulties because of Covid19 to ask for a mortgage payment holiday from their lender. The FCA expects lenders to do this unless the lender can offer a better option. This measure should be extended to renters. Renters should be able to request a rent payment holiday and, if refused, take this to the Housing Ombudsman Service for a decision binding on landlords.

Proposal: A new pre-action protocol should ensure that any plan to recover arrears does not place undue strain on tenants' finances. Tenants should have the legal right to refer any proposed agreement to debt advice charities for arbitration and, if necessary, to the Housing Ombudsman Service. The Ombudsman should have the powers to impose a total payment cap consisting of the underlying rent plus any amount set aside for recouping arrears. In exceptional cases, the Ombudsman should be able to set aside accumulated arrears to allow the tenant to start with a clean slate.

Proposal: The position of smaller landlords must also be considered. Any decision by the Ombudsman should also take into account the financial position of landlords. If the landlord has a buy-to-let mortgage, and a plan recommended by the Housing Ombudsman causes financial difficulty for the landlord, the FCA should ensure that mortgage lenders offer payment holidays under the treating customer fairly rules. Government should also set up a special support fund for smaller landlords. Landlords subject to Housing Ombudsman decisions, and who do not have a buy-to-let mortgage, should be able to apply to this support fund for relief. Larger landlords should be required to absorb any loss of rent caused by Ombudsman decisions.

Proposal: The measures outlined above would provide a good level of protection for renters during the crisis and *assuming there is a sustained recovery*. But, we must be ready for the worst case scenario. As described in Setting the Scene, above, millions of private renters are already experiencing financial difficulty. If we do not see a sustained recovery in the economy, jobs, and incomes millions of renters will find it difficult to pay their rent. This will require extraordinary measures over and above requiring landlords to offer payment holidays. Remember, we are not dealing with just another consumer good/ service. This is about making sure people have somewhere to live. If the worst case scenario does unfold, rents will have to be reduced for those tenants who are facing prolonged financial difficulties connected to Covid19. This will involve landlords and, where relevant, buy-to-let mortgage lenders taking a 'haircut' on their rental and mortgage income, with the state also paying more towards the rent. How this is to be shared between landlords, mortgage lenders, and the state would depend on specific circumstances. But, the general principle should be that larger landlords and smaller landlords making significant profits from rented properties shoulder a greater share of reduced rent.

Proposal: Until comprehensive statutory protections for renters are introduced, local authorities should be given emergency powers to cap rents and limit increases if needed.

Proposal: We call for a statutory Renters Protection Agency to be established with similar powers and duties as the Financial Conduct Authority (FCA), and statutory rights for renters – see below. As an interim measure, the Housing Ombudsman Service should be given emergency resources and emergency powers (similar to the Financial Ombudsman Service) to deal with disputes between landlords and tenants such as those outlined above. As with the FOS, decisions by the Housing

Ombudsman should be binding on landlords. These measures would just provide renters with the same protection taken for granted by financial consumers.

Proposal: A register of approved landlords should be established to ensure the market is properly regulated and renters protected.

Proposal: The improved protections and rights outlined above should be rolled over if a landlord sells a property to another landlord.

COUNCIL TAXPAYERS

Council tax debts have moved up the agenda recently and are now seen as a major source of detriment for financially vulnerable households. Council tax is deemed a priority debt and if payments are missed this can escalate quickly into a serious problem. The Money Advice Trust found than more than 2.6 million debts were passed to bailiffs in 2018/19 by the 367 local authorities that responded to the charity's Freedom of Information requests.[41]

As it stands, if a council taxpayer misses a payment, a council writes to them after 14 days to ask for the missed payment to be paid within seven days. If the council taxpayer does this, they can continue paying in monthly instalments as normal. But, if they cannot pay the arrears, councils can demand (and most do) the full year's outstanding amount be paid in one go. This means that what can be relatively small debts can very quickly become large debts.[42]

The impact of Covid19 on jobs and household finances is clearly going to increase the number of households who find it difficult to pay their council tax. Moreover, if large numbers of people are unable to pay their council tax, this is going to have an impact on overstretched, underfunded local authorities already struggling to provide services such as social care.

A £500 million Hardship Fund created in the last Budget will allow local authorities to provide support to households in financial difficulty including, but not exclusively, council tax relief for those in receipt of Local Council Tax Support (LCTS). This applies to the financial year 2020/21. It is expected that this will further reduce council tax for those in receipt of LCTS by an average of £150 over the year. This is welcome but we do not know at this stage how many council taxpayers are going to get into financial difficulty and, therefore, whether the £500 million will be enough.

Proposal: Clearly the £500 million Hardship Fund is welcome. But, government should give a commitment that it will expand this amount if growing numbers of people require Local Council Tax Support (LCTS).

Proposal: Local authorities should be prohibited from demanding that the outstanding amount of council tax be paid in one go if a council taxpayer gets into arrears.

Proposal: Local authorities should be prohibited from using the threat of imprisonment to enforce council tax payments.

[41] https://www.stoptheknock.org/wp-content/uploads/2019/06/Money-Advice-Trust-Stop-The-Knock-2019-report-September-2019.pdf

[42] An example provided by Citizens' Advice shows how missing an average council tax payment of £167, in the first month of the financial year, can escalate to a debt of over £2,065 in just nine weeks. If a person falls behind on their council tax bill, they become liable for the outstanding amount of the bill after just two weeks. On top of this, two types of fees are added – court costs (typically £84) and bailiff fees (typically £310). See: https://www.citizensadvice.org.uk/about-us/how-citizens-advice-works/media/press-releases/harsh-collection-methods-adding-half-a-billion-in-fees-to-peoples-council-tax-debt-citizens-advice-reveals/

Proposal: A new, enforceable pre-action protocol should be urgently agreed requiring local authorities to treat citizens in arrears fairly. This should include the requirement to set up, where necessary, a manageable arrears repayment plan negotiated by appointed debt advice charities.[43] Critically, citizens should be given the right to challenge whether a local authority has complied with the pre action protocol and, if necessary, have this dispute ruled on by the Local Government Ombudsman. The Ombudsman should have the authority to require a local authority to comply with an arrears repayment plan negotiated by a debt advice charity.

Proposal: The Local Government Ombudsman should be given emergency resources and emergency powers (similar to the Financial Ombudsman Service) to deal with disputes between local authorities and council taxpayers. As with the FOS, decisions by the Ombudsman should be binding on local authorities.

IMPROVING DEBT ADVICE

According to government estimates, even before the Covid19 crisis hit, there was an estimated nine million overindebted people in the UK. Of those, only 1.1 million receive debt advice each year. Not all of those who are overindebted need debt advice. But, the government analysis concluded that an additional 650,000 to 2.9 million people would benefit from debt advice but do not seek it.[44] Too often, even those that do seek help do so at a late stage and sometimes take the quickest rather than most sustainable solution.

To address this, government is committed to introducing 'Breathing Space' in 2021.[45] This will provide a 60-day breathing space period for people with problem debt. During this period, enforcement action from creditors will be halted and interest frozen while individuals receive professional debt advice to find a long-term solution to their financial difficulties.

This is welcome. But, the number of households facing financial difficulty, and therefore needing debt advice, is almost certain to rise. The measures we outline above to protect renters and council taxpayers will require additional support from already hard pressed debt advice charities and charities who provide advice on social security. The debt advice process will also need to be more efficient.

Proposal: Additional resources should be provided to debt advice charities and charities who work in the front line of providing advice on social security.

Proposal: A new settlement for funding debt advice should be introduced urgently to ensure there is sufficient debt and rights advice capacity in the system and that the funding reflects better the source of debt problems. This means in practice requiring utilities, telecoms providers, large landlords, and local government[46] to contribute to funding debt advice – see Survival and Recovery Phase measures, below, for more details.

Proposal: The Breathing Space initiative should be fast tracked and introduce as soon as possible in 2020 rather than wait until 2021.

Proposal: Improving the efficiency of the debt advice system overall means improving basic processes such as collecting data on consumers' financial position. All creditors (including

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[43] This would be similar to the debt repayment plans negotiated by debt advice charities such as StepChange with banks and other consumer credit providers
[44] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/863869/Breathing_Space.pdf
[45] https://www.gov.uk/government/news/breathing-space-to-help-millions-in-debt
[46] Or central government on behalf of local authorities

government departments and agencies, and local authorities) should be required to use the Standard Financial Statement to ensure that data is processed in a consistent way.

INTELLIGENCE GATHERING, REPORTING, AND ACCOUNTABILITY

As is made clear in this report, the Covid19 pandemic will have a serious impact on household finances and will be a severe test of the government and regulators' ability to protect citizens and consumers. We will need comprehensive intelligence and data, and transparent reporting to allow us to:

- identify which households are (or likely to be) financially affected by the crisis;
- monitor how well various interventions are working; and
- hold government and regulators to account.

Proposal: Before the emergency measures are removed, policymakers, regulators, civil society should urgently establish intelligence gathering mechanisms to identify:

- which households are financially vulnerable to an ongoing crisis;
- why they are vulnerable; and
- the impact of the ongoing crisis on these groups so that more permanent measures can be made ready for the coming survival and recovery phases.

A central reporting facility should be established to gather intelligence and report on the impact of Covid19 on households (and categories of household), regional and local economies, and the effectiveness of government interventions.

Proposal: Transparency is critical if we are to understand how effective the temporary government and regulatory interventions are and to hold organisations to account. Until the crisis is over, regular monthly reports are needed from government (central and local), regulators, and financial services industry.

Coronavirus Job Retention Scheme

Proposal: Government should publish comprehensive data at aggregate, regional, and sectoral level, and by employment category on the effectiveness of the Coronavirus Job Retention Scheme[47] (known as 'Furlough') including:

i. how many employers applied for the scheme;
ii. how many employees have been supported by the scheme and how many employees are not being covered by the scheme;
iii. the amount of support provided;
iv. how efficient the application process is; and
v. an economic evaluation of the effectiveness of the scheme.

[47] If operations have been severely affected by coronavirus (COVID-19), employers can 'furlough' employees and apply for a grant that covers 80 percent of their usual monthly wage costs, up to £2,500 a month, plus the associated Employer National Insurance contributions and pension contributions (up to the level of the minimum automatic enrolment employer pension contribution) on that subsidised furlough pay.

Self-employment Income Support Scheme

Proposal: Government should publish comprehensive data at aggregate, regional, and sectoral level on the effectiveness of the Self-employment Income Support Scheme[48] including:

i. how many self-employed have applied and been successful, and how many self-employed are not covered by the scheme;
ii. how much has been paid out from the scheme;
iii. how long it takes for applications to be processed; and
iv. an economic evaluation of the effectiveness of the scheme.

Social security

Proposal: 1.4 million new universal credit claims were made from the middle of March to the middle of April - around seven times the usual volume.[49] Government should publish at aggregate, regional, and local level comprehensive data on:

i. how many citizens have applied for social security;
ii. profiles of types of households applying for social security; and
iii. how efficient the application process is – for example, a detailed breakdown of the length of time between applications being processed and payments actually received.

In addition, government statisticians should publish assessments of the 'income replacement ratio' for different households – that is, how much social security benefits replace pre-crisis household incomes.

Loan schemes

Lenders (mainly banks) regulated by the Prudential Regulation Authority (PRA) and FCA will play a key role in implementing the Coronavirus Business Interruption Loan Scheme[50] and the Coronavirus Large Business Interruption Loan Scheme.[51]

Proposal: Government, Bank of England, PRA, and FCA should agree a reporting framework to aid transparency and corporate accountability. These reports should include data at ***aggregate*** and ***individual*** lender level on:

i. how many loans have been facilitated due to the two schemes;
ii. the value of the loans made due to the schemes;
iii. the sectoral and regional breakdown of loans made; and
iv. revenues generated and margins made on loans.

[48] This scheme allows the self-employed to claim a taxable grant worth 80 percent of their trading profits up to a maximum of £2,500 a month. It will be available for 3 months, but may be extended.
[49] See: https://www.theguardian.com/politics/live/2020/apr/15/uk-coronavirus-live-government-lockdown-exit-strategy-covid-19-latest-updates?page=with:block-5e970c748f082c29014b1609#block-5e970c748f082c29014b1609
[50] To help small and medium-sized businesses affected by coronavirus (COVID-19) access finance of up to £5 million
[51] To help large businesses affected by coronavirus (COVID-19) access loans of up to £25 million

UK Regulators Network (UKRN)

Proposal: Regulators who are part of the UK Regulators Network (UKRN) should:

i. immediately establish a reporting facility to publish intelligence on consumer detriment in their respective areas of responsibility;
ii. publish reports on how effective government and regulatory interventions are at mitigating harm to consumers; and
iii. how well firms within their respective remits are complying with the objective of government and regulatory interventions.

Rented sector/ local authorities

For those areas not covered by statutory regulators – particularly the rental market and local authorities – government should produce this intelligence.

Proposal: Government and local authorities should collaborate to publish data on:

- rent arrears and numbers of evictions at local authority, regional, and national level; and
- council tax arrears and arrears enforcement by local authorities.

II. SURVIVAL AND RECOVERY PHASE MEASURES

At some stage the government and regulators will remove or phase out the temporary jobs, income, and consumer protection measures. Once this happens, households and the financial sector will have to survive what will be extremely difficult economic and financial conditions until the recovery comes. At this point, we just do not know when a ***sustained*** economic recovery will come – and, critically, when any recovery in GDP translates into a recovery in jobs and household finances.

To reiterate, we are likely to see significant rises in overindebtedness; arrears mounting and households on the receiving end of aggressive behaviours from lenders, other creditors, landlords, and local authorities; widespread consumer detriment and increased risk of misselling; growing financial exclusion; and financial firms failing.

Millions of households are already overindebted, are vulnerable to economic shocks because they have no or little savings to fall back and the reforms to the welfare system had a disproportionate effect on the poorest households.

A recent report from the ONS[52] found that levels of financial debt (that is non-mortgage debt) fell in the aftermath of the 2008 financial crisis to stand at £98 billion (in period 2012/14). But that rose to £119 billion in 2016/2018– an increase of 21 percent. The median level of financial debt rose by 29 percent over that period. Not surprisingly, lower income households are significantly more likely to have financial debt that better off households. Sixty one percent of the bottom income decile households have financial debt (2nd decile, 55 percent; 3rd decile 58 percent) compared to the top three decile income households where between 33-40 percent have financial debt.

Interestingly, the proportion of households who say that financial debt is a heavy burden or somewhat of a burden has fallen from 56 percent to 44 percent over the period 2010/12 to 2016/18.[53] The sustained period of low interest rates would have eased the burden particularly for those who have mortgage debt and financial debt.

Lower income households are, not surprisingly, more likely to have problem debt. Fifteen percent of the lowest decile income households have problem debt compared to five percent of the middle 40 percent (deciles 2-5), and two percent of the top 50 percent (deciles 6-10).[54] Renters are significantly more likely to have problem debt – of those with problem debt, two thirds are renters.[55]

But, even with the overall proportion of households with problem debt falling, it is worth noting that a record number of county court judgments (CCJs) were issued against consumers last year.[56]

As mentioned, the sustained low level of interest rates would have eased the burden of mortgage and financial debt. But, the problem households will face now is not high interest rates but reduced household incomes resulting from Covid19 – higher unemployment or reduced working hours. This is coming on the back of reforms to the welfare system which has disproportionately affected lower income households.

[52] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/householddebtingreatbritain/april2016tomarch2018

[53] Table 7.7, Level of financial debt burden for individuals with financial debt

[54] Table 7.17 Percentage of households with problem debt, by total wealth deciles

[55] Table 7.18 Distribution of all households and households with problem debt, by housing tenure

[56] https://www.registry-trust.org.uk/blog/fy19-blog/

It might not be so bad if households had savings to fall back on. But, it is estimated that nearly 10 million (9.78 million) UK households have no savings, with a further 3.26 million having under £1,500[57] (less than one month's worth of median UK salaries).

Interestingly, it may well be that the savings ratio rises certainly in the near term for better off households. The Covid19 lockdown means they will be spending less money on discretionary items such as leisure and entertainment. Households tend to save more when they are concerned about the future or are faced with major risks. It looks as this effect is already showing up in Bank of England data. Households repaid £3.8 billion net of consumer credit in March of this year, while deposits made by households rose by the biggest amount since records were published in 1963.

Nevertheless, we are likely to see levels of overindebtedness and arrears rise amongst households with no savings cushion, who are already financially struggling, and who are affected by the economic shock of Covid19.

High levels of overindebtedness and arrears, as well as putting an immediate strain on household finances, will also hold back their ability to recover to a position of financial resilience. At the macro level this will also act as a drag on economic recovery.

We appreciate that for many civil society organisations the priority at the moment is dealing with the emergency phase. But, civil society needs to be campaigning hard for measures to protect consumers (including SMEs) once the current set of temporary protections are withdrawn and to help rebuild household finances.

Many of the proposals we make above to protect consumers during the Emergency Phase should be carried over. We make a number of proposals to build on those including:

- extended income support measures;
- a new funding model for debt advice;
- longer term affordable credit options;
- rebuilding household finances, building financial resilience and savings; and
- the extension and enhancement of consumer protection measures.

EXTENDED INCOME SUPPORT MEASURES

Proposal: To cushion citizens from the shock of removing the emergency income support measures for employees and the self-employed, the government should expand the coverage of a targeted Basic State Income. A formal consultation on a fully fledged Universal Basic Income (UBI) should be launched along with a large scale pilot study to test its effectiveness in a UK setting.

EXPANDED ACCESS TO DEBT ADVICE, NEW FUNDING MODEL FOR DEBT ADVICE

Significant additional resources will still be needed for debt advice charities and charities who work in the front line of providing advice on social security.

Currently, we have a 'mixed-economy' model of funding debt and rights advice – that is, funded through a combination of public finances, levies on industry, industry partnership models (eg. the fair shares debt advice funding model supported by major UK lenders), and support from charitable and philanthropic funders.

[57] The Money Charity, https://themoneycharity.org.uk/money-stats-almost-10m-with-no-savings/

But, it is not clear that the balance of funding for debt advice reflects the source of the causes of debt problems. Increasingly, debts such as council tax and utility bills have caught up with, and for some households overtaken, consumer credit as the main source of overindebtedness.

This can be seen in a recent survey which asked people which bills they were already behind with/ expected to be behind with due to the Covid19 crisis. The most common bills households have/ expect to have fallen behind with are council tax, gas/ electricity, and water – all higher than financial services products such as credit cards, personal loans, overdrafts, and mortgages.[58] Indeed, non-financial products make up 64 percent of the total bills that are/ expected to be in arrears.

Proposal: Government and MAPS should restructure the funding of debt advice and social security to better reflect the source of problem debt.

Proposal: To aid this, Registry Trust (which operates the Register of judgments, orders, and fines for the Ministry of Justice) should be allowed to include the name of the claimant as well as the defendant on the Register.[59] Local authority council tax and business rate liability orders should be added to the claimant section of the Register with name of the claimant authority and bailiff or enforcement agent (not the defendant). This would allow MAPs and civil society campaigners to identify clearly and quickly which organisations and sectors are responsible for taking enforcement action against consumers and allow for a better allocation of resources for debt advice. Moreover, this would allow regulators such as the FCA, OFCOM, OFGEM, OFWAT to identify quickly which firms within their remit are most aggressive in terms of enforcement action and failing to treat customers fairly. It would also allow the Local Government Ombudsman and central government hold local authorities to account.

RECOVERY LOANS, LONGER TERM AFFORDABLE CREDIT OPTIONS

The economic and financial impact of Covid19 means that levels of longer term financial exclusion will increase. Ensuring access to affordable loans will be a priority.

Proposal: The Discretionary Social Fund should be maintained for most vulnerable households. The DWP should establish a formal referral relationship with debt advice and rights charities. Advisers should be able to certify that clients need a loan and quickly refer them to the DSF for fast track processing of loans.

Credit risk assessment post Covid19

As we recover from the immediate financial impact of Covid19, one of the most challenging issues relating to the availability of affordable credit will be the way credit risk is assessed.

There are great expectations about the potential for innovations such as fintech, Open Banking, and 'big data' to improve access for excluded, or poorly served households. And it is likely that the process of collecting, processing, and assessing data used in risk assessment will change as a result of technology.

But, fintech etc will ***not*** change the fundamental risk based nature of commercial lending – that is, commercial lenders in a market based system will charge higher prices to borrowers they consider to

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[58] Citizens Advice, Near the cliff-edge: how to protect households facing debt during COVID-19, https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/near-the-cliff-edge-how-to-protect-households-facing-debt-during-covid-19/

[59] Registry Trust can publish claimant data in Scotland and Northern Ireland but for historical reasons not in England and Wales where the vast bulk of judgments is registered. See: https://www.registry-trust.org.uk/ for data on judgments

be a higher risk. Indeed, there is every likelihood that fintech/ big data will result in greater exclusion as it leads to ever greater segmentation.[60] Commercial lenders will still use risk indicators and algorithms to segment consumers and make lending decisions. They may decide to use different risk indicators and the weights given to indicators in algorithms may change. However, the fundamental nature of risk-based lending will not change.

Covid19 will cause consumers who were already financially stressed and vulnerable to become even more so – they will be considered an even higher credit risk. Similarly, we will see large numbers of consumers who were previously considered to be a low credit risk (based on steady employment and historic payments data) begin to struggle financially. A key reason for this is that Covid19 has had - and will continue to have - a disproportionate effect on certain sectors of the economy.

Moreover, the convulsive effect of the economic shock is likely to call into question the utility of credit scoring and risk assessment models based on historic pre Covid19 data. Stress testing loan books (existing and prospective) based on pre Covid19 scenarios may be of limited validity in such an era of economic uncertainty.

Furthermore, FCA has said that borrowers who ask for a payment holiday on their loans should not see their credit file affected. This means that the conventional approaches for recording loan arrears and, ultimately, defaults are in a form of 'suspended animation' during the Covid19 emergency period. We do not yet know how credit referencing agencies (CRAs) will treat this temporary disruption of data once the forbearance measures are removed or phased out and how this will affect their credit scoring and risk rating models.

Overall, at this stage, we just do not know how CRAs and lenders will respond and use data during the recovery phase, and what this might mean for access to new credit, extending existing credit, and debt collections and enforcement for different segments of the market. But, the treatment of data will be central. New protocols for dealing with arrears built up during the crisis period will be needed.

Proposal: The FCA has announced that it is delaying the publication of the Interim Report on its Credit Information Market Study.[61] The FCA should use this opportunity to assess what the implications of Covid19 will be for risk rating and credit scoring models and how this might affect vulnerable borrowers.

Proposal: The FCA and other regulators, lenders, utilities and telecoms companies, CRAs, and civil society organisations should collaborate on developing new protocols for handling disruptions in data and treatment of arrears and collections.

Supporting the growth of the non-profit lending sector

Demand for high cost credit has already been estimated at £3 billion a year but so far affordable credit providers are only providing £250 million a year – or just £1 in £12 of demand.[62]

Growing numbers of households will become economically unviable/ unattractive for mainstream lenders and will either be forced to turn to high cost subprime lenders, or they will be denied access to credit altogether. The subprime market is likely to grow again after a period of retrenchment

[60] Fintech: Beware of geeks bearing gifts? Financial Inclusion Centre, http://inclusioncentre.co.uk/wordpress29/our-work/publications/fintech-beware-of-geeks-bearing-gifts

[61] https://www.fca.org.uk/publications/market-studies/ms19-1-credit-information-market-study
[62] https://fair4allfinance.org.uk/activities/

caused by the introduction of the payday lending price cap and tougher regulations for the consumer credit market.

As outlined above, a National Support Fund (NSF) should be established to provide no-interest/ low-cost loans for households who are need of emergency short term credit. But, renewed efforts will be needed to develop capacity in the alternative, non-profit lending sector to meet the long term need for affordable credit.

Unfortunately, the non-profit alternative lending sector, while doing sterling work, has made little progress on being a serious competitor for the mainstream for-profit lending sector. Previously, the resources available to commercial lenders such as payday lenders meant that non-profits were largely squeezed out of the market. But, even after the payday lending cap and tougher consumer credit regulation significantly reduced the size of the payday lending sector, non-profits have still not made serious inroads into extending their reach.

For the non-profit sector to make an impact in these more challenging times, requires a radically different approach. Our experience covering the non-profit alternative lending sector tells us that the main factors explaining the limited success of non-profit lenders are:

- limited available of long term capital (although credit unions are sitting on significant members' deposits the problem is lack of opportunities for utilising surplus credit union deposits);
- fragmentation of the non-profit, community based lending sector results in diseconomies of scale and limits the ability of the sector to extend its reach to underserved households; and
- limited opportunities for distribution and marketing loans to target markets.

Proposal: New mechanisms are needed to channel resources into the non-profit lending sector. We propose the creation of Social Lending Bonds, National Savings and Investment (NS&I) Social Lending Bonds, and Local Authority Community Lending Bonds. These bonds would allow social purpose savers and investors (institutional and retail) to provide longer term loan capital and equity investment to the non-profit lending sector.

Proposal: Distribution is critical to reducing unit cost and extending access. Social entrepreneurs should create the Affordable Lending Gateway. This would be a single on-line lending platform for non-profit lenders such as credit unions and CDFIs and operated on a nationwide 'white-label' basis.[63]

Proposal: Social entrepreneurs and funders should establish a single, ***commercially-minded*** entity focused on expanding the reach of the non-profit lending sector and providing realistic competition for the commercial lending sector. This entity should take the lead on: developing the Affordable Lending Gateway and other services such as ethical rent-to-own schemes (see below); setting up relationships with employers, social housing providers, local authorities and others who can extend distribution of loans and other products and services (for example, setting up payroll deduction schemes); and, more generally, promoting and marketing alternative lending and financial services. The new entity should also act as a broker or clearing house for attracting new, sustainable finance into the sector. Note, this new entity should not be seen as a competitor to existing providers such as credit unions and CDFIs, or to established trade bodies. The entity would exist to complement the activities of existing providers and to maximise the potential of the sector.

[63] Where each lender retains its own brand but the loan application process is powered by a single platform provided by an efficient single provider.

A National Loan Scheme

Even with the proposals outlined above designed to support non-profit lenders, there will be a limit in their capacity to provide loans to most underserved, financially vulnerable households. Non-profits such as credit unions might be run on a mutual basis but they are not charities.

Proposal: The National Support Fund (NSF) and National Self-employed Loan Scheme (NSLS), described above, should migrate into being a provider of low cost loans called The National Loan Scheme (NLS). The NLS should retain the relationship with referring organisations and be funded on the same basis as the NSF and NSLA. Funders should be paid a social return for providing funds for loans to the NSF. Eventually, the NLS could be operated by a new organisation called National Financial Services (NFS) which would sit alongside NS&I and offer low cost loans and insurance.

Ethical, responsible rent-to-own schemes

The rent-to-own (RTO) sector, although comparatively small, has been a source of serious detriment for many financially vulnerable households. As with the payday lending sector, campaigning by groups like the Financial Inclusion Centre has led to a very welcome clampdown on the commercial RTO sector.

As with short term lending, the problem is not with the RTO model *per se* rather than how these services are operated and delivered. Structured properly, RTO can be socially useful. The Financial Inclusion Centre has already set out models for providing responsible RTO services.[64]

Proposal: Local authorities, social housing providers, non-profit organisations, environmental charities, and social impact funders should collaborate on establishing a network of non-profit RTO schemes. This network would have a dual purpose of tackling economic exclusion *and* promoting circular economy activities to support environmental objectives.

REBUILDING HOUSEHOLD FINANCES, BUILDING FINANCIAL RESILIENCE

We need a clear road map for rebuilding household finances focusing on households who are:

- currently overindebted;
- financially vulnerable and at risk of overindebtedness; and
- struggling to build longer term financial security.

This involves a number of stages and interventions to:

- support overindebted households out of debt to a positive (or even neutral) financial position
- provide supporting mechanisms to prevent vulnerable households falling back into problem debt, building a savings cushion, helping households 'get financially fit' by repairing credit files, and facilitating access to affordable, socially useful credit options
- provide a platform to allow households build savings and longer term financial security – whether through savings or insurance

The proposals on debt advice, above, are designed to help households who are overindebted. The proposals on alternative, affordable lending options are intended to act as a support to help people avoid having to use high cost loans which can exacerbate financial difficulties.

[64] http://inclusioncentre.co.uk/wordpress29/our-work/publications/better-and-brighter-responsible-rent-to-own-alternatives

But, we will have to confront the problem of what to do about the amount of overindebtedness and arrears that will build up as a result of Covid19 financial shocks.

Now, we make a number of proposals to help households rebuild their finances, build a savings cushion, and move towards longer term financial security.

Proposal: The Money and Pensions Service (MAPS) has developed an ambitious and important UK Strategy for Financial Wellbeing with five priority areas.[65] The overarching long term goals of this strategy should not change. But, clearly the economic and financial impacts of Covid19 must trigger an urgent assessment of which groups of consumers are likely to be most affected and a reassessment of the short terms priorities for this strategy.

Debt relief and debt write-offs

One of the most difficult debates we are likely to encounter is what to do about unsustainable and unrecoverable debts accrued as a result of the Covid19 financial impacts. There are a range of existing legal and voluntary mechanisms designed to deal with serious debts accrued by individuals. The measures discussed in this paper would provide additional protection for individual households. But, some argue that there should be a wider programme of debt relief aimed at providing a more systemic solution and 'rebooting' of household finances.[66]

There is merit in this argument. Starting from a clean slate would: release large numbers of individuals from an overhang of debt; remove the need for an expensive infrastructure of debt collection and enforcement agents (which can exacerbate existing problems); and free up households to move more quickly to a position of financial resilience and security.

There is also the very valid point that after the 2008 financial crisis governments bailed out the banks and created 'bad banks' to deal with the overhang of bad debt created as a result of excessive lending pre crisis.

But, it is not as simple as that. There are unintended consequences and difficult administrative issues to overcome, never mind the tricky moral hazard issues to consider. For example, how would the eligibility and coverage of a debt relief programme be decided? What would the impact be on lenders' appetite for lending post Covid19 (access to credit will be critical if we want the economy to recover from the Covid19 shocks)? Should the programme extend to arrears on council tax and utility bills (remember, as we explain elsewhere, arrears on utilities and other bills now make up a larger share of problem debts than traditional bank or credit card debt)? Should only large creditors be expected to absorb losses and, if so, what determines a 'large' creditor? What does it mean for shareholders? What does it mean for those who had provided the funding for loans such as credit union savers, providers of capital in P2P lenders?

Nevertheless, none of these potential problems should preclude the exploration of a more systemic debt relief programme. If there is to be one, we suggest there should be three key principles that guide any such programme:

1. Creditors take a 'haircut' on bad debts/ arrears shared with the state
2. There should be a support mechanism for providing financial advice to those on the relief programme to help them rebuild their finances

[65] https://moneyandpensionsservice.org.uk/2020/01/21/uk-strategy-for-financial-wellbeing-sets-out-ten-year-vision-to-improve-millions-of-lives/
[66] See for example: https://www.theguardian.com/commentisfree/2020/mar/18/debt-relief-coronavirus-crash

3. Access to rescue/ bridging loans should be provided (see above for affordable loan proposals)

Proposal: Government, regulators, industry, and civil society should quickly establish an investigation into the feasibility of a debt relief programme. This investigation should assess: which categories of household/ SMEs in financial difficulty should be eligible for the programme; which creditors should the programme apply to; how would the losses be shared between state and creditors; how would a debt relief programme affect lenders' appetite for future lending amongst different households; and what issues of fairness might arise (for example, does a debt relief programme mean that individuals who have sought to repay debts are penalised)?

Repairing credit files

A record number of county court judgments (CCJs), 1.3 million, was issued in 2019.[67] CCJs stay on a consumer's file for six years and can affect their credit rating which, in turn, can make it more difficult to access affordable credit. Even before Covid19 struck, the record level of CCJs would have meant that more consumers would have found it harder to access affordable credit. The Covid19 financial shocks exacerbate this situation which mean that the alternative credit options outlined above are even more necessary.

It is important to note that CCJs are also used by employers, insurance companies, landlords, and telecoms companies to make financial decisions. So, it is important that records held are up to date and as much as possible is done to repair credit scores.

A major problem is that a low proportion of CCJs are marked as 'satisfied'. CCJs are marked as satisfied if the debt is repaid ***and*** proof of payment is supplied to the courts in England and Wales (and to Registry Trust for other jurisdictions).[68] But, the proportion of debts that are marked as satisfied has been falling. This can happen for a number of reasons such as people moving house and failing to notify the creditor, or just forgetting to do so (having to manage debts can cause anxiety). Whatever the reason, many consumers who have already repaid their outstanding debt could still be penalised if the CCJ has not been marked as satisfied.

Ensuring these CCJs are marked as satisfied is a small step that could have a big impact on consumers' financial health. It would help bring consumers back into the mainstream financial system. This could be done in a number of ways.

Relevant bodies such as MAPS, consumer groups, and creditors could raise awareness amongst consumers of the need to ensure that CCJs are marked as satisfied. Similarly, debt advice charities could include this information in their debt advice 'scripts' and encourage consumers to inform the courts.

But, the most effective way would be for the FCA and other regulators (OFGEM, OFWAT, OFCOM) to require creditor firms within their remit to notify the courts when a debt has been repaid as part of treating customers fairly obligations. For non-regulated firms, government would need to require this step.

Proposal: MAPS, consumer groups, and creditors should include information on how to ensure a CCJ is satisfied on websites and other forms of communication.

[67] https://www.registry-trust.org.uk/blog/fy19-blog/
[68] https://www.registry-trust.org.uk/blog/getsatisfaction/

Proposal: Debt advice charities should include the need to satisfy a CCJ in the scripts used when counselling clients.

Proposal: As part of treating customer fairly obligations, FCA and other regulators (OFGEM, OFWAT, OFCOM) should require creditor firms within their remit to notify the courts when a debt has been repaid. For non-regulated firms such as private parking firms, government would need to require this step.

Payroll deduction savings schemes, saving with rent schemes, debt to savings conversions

A priority is getting households to build up regular savings. Regular payroll deduction schemes build on the principle of inertia to help employees build up a savings cushion. Moreover, it also helps with the goal of helping people get access to affordable credit when they need it. Regular savers establish a relationship with a credit union which makes it easier and cheaper to provide loans. This encourages a virtuous cycle of savings and use of affordable loans for needs (which reduces the risk of overindebtedness). This form of saving also helps credit unions as it reduces administration costs and the costs of marketing services to potential customers.

These savings interventions would improve the efficacy of government initiatives such as Help to Save.[69] This is a good initiative but has had limited success. The scheme was launched in September 2018 and according to government data over 90,000 people have so far opened an account and £13 million has been saved.[70] This is equivalent to an average of £144 per person. But, the scheme allows for people to save up to £2,400 over four years with the government topping this up by 50 percent or £1,200. So, eligible citizens could build up a total of £3,600 over four years through this scheme. This scheme is not being used to its full potential.

Proposal: The Confederation of British Industries (CBI), Institute of Directors (IOD) and Chambers of Commerce should aim to persuade the 20 biggest employers in each of the regions of the UK to provide and promote credit union payroll deduction schemes to their employees.[71] This would also help credit unions expand access to affordable loans – see above.

Proposal: Social housing providers should establish savings with rent schemes to 'nudge' residents into regular savings when paying rent.

Proposal: Debt advice charities should establish *debt to savings conversion schemes*. This involves creating working relationships with credit unions so that clients coming off debt repayment plans are 'nudged' into regular savings plans. The idea is that if households, with the support of debt advice charities, have been disciplined enough to maintain a repayment plan then they should be encouraged to put money they had been using to repay debts into a regular savings plan (following checks that they can afford to do this).

Again, this would improve access to affordable loans hopefully breaking a vicious cycle of households having to turn to costly credit which undermines ability to save.

[69] https://www.gov.uk/get-help-savings-low-income
[70] HM Treasury, Department for Work and Pensions, Financial inclusion report 2018-19, para 1.24
[71] FIC is currently evaluating different approaches to encouraging payroll deduction including incentives and 'nudges'.

Access to insurance

Access to insurance is an important component of household financial resilience and financial inclusion. But, the evidence shows that we have made very little progress on this front.

A significant proportion of lower income households lack basic insurance such as contents insurance.[72] It is estimated that 7.5 million households lack contents insurance and £266 billion worth of possessions are left unprotected even though the cost of that insurance is just over £59 a year.[73] Lack of insurance can leave already financially vulnerable households having to find money to replace broken appliances or if they have been burgled, and can force them to take out high cost loans.

We have already set out ideas for ethical versions of rent-to-own schemes to help households access affordable household products – see above. But, what can we do about access to insurance? As with most issues relating to financial exclusion, it comes down to access and distribution, and the unit costs involved in reaching underserved groups. The problem remains that the commercial insurance industry is just unwilling or unable to provide insurance to excluded households.

Alternative means of reaching underserved groups will be needed. The best option remains utilising organisations that already have established relationships with hard to reach, lower income households to deliver economies of scale.

For example, this includes social housing providers who could use their financial clout to negotiate good deals with commercial insurers and promote take up with tenants

Similarly, government organisations such as the DWP and HMRC have established relationships with hard to reach groups. One option would be for government to establish a National Financial Service (NFS) which could refer households to participating insurers on a 'carousel' arrangement. This 'greenfield' option of an NFS is discussed further in the section on Rebuilding and Restructuring.

Alternatively, government could establish an initiative to share risk with the insurance industry similar to Flood Re.[74]

Similarly, the DWP should include information on affordable credit, savings, and insurance products on citizens' Universal Credit on-line accounts and on other relevant government websites.

Proposal: Government and FCA should consult on establishing a low cost affordable home insurance service. Insurers would be required to form part of a panel providing below-cost contents insurance. Qualifying, 'uninsurable' customers would be referred to the insurance panel. To avoid the free rider effect, an insurer on the panel would be automatically allocated a new customer, with the next customer then allocated to the next insurer on a 'carousel' system. Larger insurers would have more places on the carousel so ensuring that they receive their fair share of uninsurable customers and smaller insurers are not penalised. This could be taken further with the government establishing a National Financial Service (NFS) with the provision of insurance effectively outsourced to an insurance panel on the carousel basis. A version of Flood Re could be established to ensure that the underwriting risks are shared between the state and the insurance industry.

[72] http://inclusioncentre.co.uk/wordpress29/the-financial-inclusion-challenge/key-facts/insurance-and-protection
[73] https://www.moneyadviceservice.org.uk/blog/how-much-is-the-average-cost-of-home-and-contents-insurance
[74] https://www.floodre.co.uk/

FINANCIAL CONSUMER PROTECTION AND COMPETITION POST COVID19 AND POST BREXIT

There is much talk that post Covid19, corporate UK will be under pressure to behave more responsibly, develop a new purpose, and recognise the wider role it plays in society. This should not be taken for granted. Post Covid19, shareholders will put pressure on firms to rebuild revenues and profits. Without the appropriate checks and balances in place, this will increase the risk that consumers are missold products and services, prices of goods and services rise, and safety and quality standards on products and services are lowered.

Furthermore, the economic crisis is likely to drive many firms out of business which could reduce effective competition in key sectors.

Improving financial regulation and consumer protection

There has been a clear improvement in the conduct of business standards in the UK financial sector from the nadir of pensions, endowment, and PPI misselling. But, the regulatory system has been shown to be unresponsive to emerging scandals.

Moreover, the FCA has a limited role in ensuring the financial system is economically and socially useful – for example, tackling financial exclusion, greening the financial system, or ensuring that financial markets support the real economy.

There already has been pressure from industry lobbies to reduce regulatory standards in the UK post Brexit – under the guise of promoting financial sector competitiveness by 'lifting the burden' of regulation. It is likely that Brexit will reduce financial service industry revenues so the pressure to cut costs will been intense. Removing regulations and reducing consumer protection is an obvious target.

But, Covid19 further threatens financial services industry revenues. So, the pressure for deregulation will be even more intensified. Civil society will need to be alert to this and campaign to prevent deregulation and show that deregulation is a false economy.

However, the post Brexit environment provides opportunities, not just creates risks. Post Brexit, the UK will have more flexibility to recast and improve its own domestic regulation. It is possible to improve the efficiency of regulation without compromising on consumer protection. The current system of financial regulation is based on legal, corporate, and product specification. Firms, products, services, and activities have to be defined as being within the FCA's regulatory *perimeter*. This is a slow, unresponsive, system and encourages a 'silo' approach to regulation.

A system of ***purpose based*** regulation would be more efficient and responsive. Purpose based regulation works on the basis of regulating financial firms, products, services, and activities according to general purposes – transactional banking and payments, lending, savings and investment, insurance against risk, and supporting activities (such as financial advice, information provision, and risk rating).

In this system, all financial activities are presumed to fall within one of these general purposes and, therefore, within the perimeter of FCA regulation. FCA would have the power to clarify using fast tracked consultation that new products, services, and activities fall within its remit without primary legislation.

Legislation would define these broad purposes, the supervision and enforcement powers available to the FCA, and provide the FCA with the necessary powers to ensure financial services fall within the perimeter. FCA should adopt a precautionary approach to financial innovation and be given tougher product regulation powers.

Proposal: Taking advantage of the opportunity provided by Brexit, the current system of regulation should be replaced by purpose based regulation and the FCA provided with the discretionary powers to define which firms, products, services, and activities fall within which purpose and fast track regulation.

Proposal: FCA should adopt a precautionary approach to financial regulation and be given greater powers to act against and ban firms, individuals, products, and activities causing detriment.

Proposal: The FCA's objectives should be expanded to include a new objective to promote financial inclusion. Sectors and firms should be subject to financial inclusion audits. Performance against financial inclusion standards at a sectoral and firm level should be published.[75] FCA should be required to report to Parliament and HM Treasury on how well markets are meeting the needs of underserved, excluded households and make Proposals on how to remedy detriment.

Proposal: Transactional banking should be considered a utility and banking firms regulated by the Payment Services Regulator (PSR) subject to universal service obligations (USO). The PSR should be given an obligation to ensure that access to cash is maintained until there is proof that digital payment options are universally available – in other words 'back-stop'.

Proposal: Any reform to the system of financial regulation would clearly take some time to implement and would face significant resistance from the industry lobbies. This would leave consumers vulnerable to misselling of unregulated financial activities. The elements of legislation needed to provide the FCA with ability to bring new financial products, services, and activities within its remit without requiring primary legislation should be fast tracked.

Proposal: FCA and TPR should continue to monitor their respective sectors closely and identify pension scams and poor advice. The 30 consumer protection measures which have been suspended (see above) should now be implemented.

Proposal: More than 500 employers have suspended top up contributions designed to close pension scheme deficits.[76] This has been done with the permission of TPR which is trying to ease the pressure on employers. This is understandable but TPR needs to be proactive and closely monitor employers who have taken advantage of this permission. TPR must ensure that these contributions are switched back on as soon as it is clear that financial pressures have eased, and that any shortfalls are made up.

Proposal: Policymakers and regulators should undertake a more formal review of the funding of the FSCS and PPF schemes to ensure that they can meet a potentially large rise in ongoing claims and administer any claims efficiently.

FIXING THE RIGHTS AND PROTECTION DEFICITS IN OTHER SECTORS

In areas of the economy and public sector disproportionately used by the poorest and most vulnerable households, citizens have fewer rights and protections than financial consumers. In other words, there is a clear rights and protection deficit.

Yet, as we outline above, the most common bills households have/ expect to have fallen behind with are council tax, gas/ electricity, and water – all higher than financial services products such as credit

[75] Similar to the transparency measures available through the Community Reinvestment Act (CRA), and Homeowners Mortgage Disclosure Act (HMDA) in the USA.

[76] https://www.bbc.co.uk/news/business-52345229

cards, personal loans, overdrafts, and mortgages.[77] Indeed, non-financial products make up 64 percent of the total bills that are/ expected to be in arrears.

In the utilities and telecoms sectors there are statutory regulators, so it is more an issue of sub-par regulation and consumer protection. In other areas there are obvious rights and protection deficits namely:

- local authorities and council tax arrears;
- DWP and the administration of social security; and
- the rental sector.

It is fairly certain that the aftershocks of Covid19 will mean that more households will struggle to pay council tax, rents, and come to rely on the social security safety net. It will be even more imperative that vulnerable citizens can rely on similar levels of protection financial consumers have come to expect.

Financial consumers benefit from:

- a well-resourced statutory regulator which exists to protect consumers, make markets work for consumers and ensure they get a fair deal, and with powers to sanction providers;
- regulatory standards which determine the relationship between providers and consumers, with comparatively clear expectations on how providers are expected to treat consumers; and
- a free to use, easy to access Financial Ombudsman Service FOS) which means that consumers do not have to go to court to enforce their rights to redress in the event of being mistreated.

Utilities and telecoms
There are statutory regulators for the utilities and telecoms sectors. But, these regulators fall short compared to the FCA in terms of Treating Customers Fairly principles and rules, and conduct of business standards for regulated firms. This can be seen in the response of the respective regulators FCA, OFCOM, OFGEM, and OFWAT to the detriment arising from the Covid19 pandemic. The FCA has introduced robust temporary regulatory measures to protect consumers who are facing difficulty meeting payments on loans and issued guidance for firms on how to treat customers. The other regulators have not gone as far as the FCA – see above.

As we explain above, the main problems with arrears and overindebtedness are likely to emerge once we come out of the emergency phase and the temporary income and consumer protection measures are withdrawn.

Proposal: In addition to improving their response to the emergency, OFCOM, OFGEM, and OFWAT should fast track the introduction of permanent FCA style Treating Customers Fairly rules to protect consumers within their remit.

[77] Citizens Advice, Near the cliff-edge: how to protect households facing debt during COVID-19, https://www.citizensadvice.org.uk/about-us/policy/policy-research-topics/debt-and-money-policy-research/near-the-cliff-edge-how-to-protect-households-facing-debt-during-covid-19/

Local authorities/ council tax

Local authorities in England and Wales referred 2.6 million debts to bailiffs in 2018/19.[78] Council tax arrears is now the most common debt Citizens Advice deals with. There is a protocol developed by Citizens Advice and the Local Government Association (LGA). [79] While this is welcome, it is a protocol and not the same as statutory regulation and rights to redress. Moreover, the protocol covers just 22 percent of the population of England.

Government has introduced some temporary protections for citizens banning bailiffs from visiting homes to enforce debts during Covid-19 restrictions. While this is welcome, more permanent measures are needed to protect citizens who face difficulty paying their council tax – these difficulties will be exacerbated due to Covid19 financial shocks.

Proposal: Government should fast track the development and publication of permanent standards for local authorities on how to treat citizens having difficulty paying their council tax. These standards should be used by the Local Government Ombudsman to assess complaints about local authorities. Local authorities should be required to refer citizens in financial difficulty to debt advice charities before starting any collections or enforcement actions. Local authorities should be required to contribute to the funding of debt advice for example through a ***fair shares*** arrangement (see above). The bailiff industry needs to be independently regulated.

Department for Work and Pensions (DWP) and Social Security

DWP staff are doing an invaluable job responding to the massive increase in new applications for social security from people who have seen their jobs/ incomes affected by the Covid19 pandemic.

But, there have been serious concerns raised prior to Covid19 about the DWP's treatment of citizens who rely on social security. It is worth remembering that for many households their primary financial relationship is with the state through the social security system and DWP. The level of protection afforded 'customers' of the DWP compares very badly to that afforded financial consumers.

Citizens are being treated unfairly in the system particularly when being assessed for social security benefits.[80] When citizens have been unfairly treated, it is difficult for them (and their representatives) to challenge the state and rectify problems. To be precise, citizens can challenge social security decisions. Citizens can ask for a mandatory reconsideration of a decision on benefits and if s/he is not content can then appeal to an independent panel called a First Tier Tribunal and potentially to the Upper Tribunal (but this is only on basis that the First Tier Tribunal has made an error in law).[81] But, this is not the same as having a free well-resourced Ombudsman service of the type available to financial consumers. Moreover, there has been a ninety-nine (99) percent cut in legal aid grants for disability cases since 2012.

As well as rights to challenge decisions being limited, the evidence suggests the system generally is failing vulnerable citizens. Sixty-nine percent of Employment Support Allowance (ESA) and Personal Independence Payments (PIP) decisions made by DWP were overturned on appeal. Z2K, the anti-poverty charity, has won over 80 percent of its disability appeal cases.[82] Looking at FOS data on

[78] https://www.stoptheknock.org/ Not all of these would have been in relation to council tax. Parking fines, benefits overpayments, and business rates are included in this. But, council tax forms the bulk of these instructions.

[79] https://www.citizensadvice.org.uk/about-us/our-campaigns/all-our-current-campaigns/council-tax-protocol/

[80] See for example: Access Denied, Barriers to justice in the disability benefits system, Jen Durrant, Z2K, 2018, https://www.z2k.org/wp-content/uploads/2018/09/Z2K_disability_report_2018_Final_singlesheet.pdf

[81] In theory, even the decisions of the Upper Tribunal can be appealed to the Court of Appeal

[82] Access Denied, p7

consumer complaints upheld, it would appear that the DWP is performing worse than banks and insurance companies.

We argue that it is a fundamental social injustice that some of the most vulnerable citizens in society are treated as second class citizens when it comes to basic citizen-consumer rights. It is worth remembering that an adverse and unfair decision by the state can have a disproportionate financial and emotional impact on citizens who rely on social security. According to social justice theory, vulnerable citizens should be entitled to greater protection and rights – not just equivalent rights.

Proposal: We do not propose to remove the current appeals process to challenge decisions. But, we recommend the government establishes a series of standards that should determine how social security claimants are treated. This should be seen as playing the same role as the Treating Customers Fairly principles used by the FCA to police the behaviour of financial services firms.

Proposal: These standards should then form the basis for allowing citizens to take complaints against the DWP to Parliamentary and Health Service Ombudsman, with rights to redress for mistreatment.

Rented sector

The third major area where there is a significant rights and protection deficit is in the housing sector. Government has brought in temporary measures to protect renters from eviction during the crisis period. We have proposed a series of measures to protect renters in the short term. But, more permanent measures are needed.

Proposal: To make the rental market work better in the longer term, legislation is also needed to close the rights and protection deficit facing renters by introducing statutory protections similar to those available to financial consumers. A new system for protecting renters built along the lines of the FCA, FOS, and FSCS system of financial consumer protection should be established. This should have three pillars: a unified Renters Protection Authority (RPA); a Renters Ombudsman Service (ROS); and a Renters Compensation Scheme (RCS). As outlined above, until then, renters should be able to take complaints and disputes about private landlords to the Housing Ombudsman. Decisions would be binding on landlords. The RPA would have three main statutory objectives: to enforce the rights of renters, and protect renters from unfair practices; to raise renters' awareness of their rights; and to contribute to an improvement in access to: safe, quality, affordable, and value for money properties in the PRS. Note, this would not be a case of giving special treatment to renters, simply giving them the rights and protections well-off financial consumers take for granted.

III. GREEN FIELD MEASURES - REBUILDING AND RESTRUCTURING PHASE

In the previous sections, we proposed a range of measures to:

- tackle the immediate problems emerging as a result of the Covid19 economic and financial shocks; and
- help households survive financially and protect consumers once the temporary measures put in place by the government and regulators are removed.

Even before the Covid19 pandemic, we faced a range of economic and social justice, and market crises. These crises will be exacerbated by the Covid19 related economic and financial shocks.

Therefore, in this section, we discuss the longer term challenges ahead of us in the post Covid19 era, and propose more greenfield and radical measures.

The nature and sheer scale of the crises ahead of us will require concerted interventions from the state, civil society, the financial services industry, employers and, of course, households themselves. All of the crises we include here have been on the agenda of civil society (if not directly on the political agenda) for some time now. Yet, we must acknowledge that we have made little progress in tackling these crises.

Will Covid19 change attitudes? There has been much talk of the crisis leading to a reordering of the economy, with a new collective sense of purpose in politics, industry, and society to do things differently, to not go back to 'business as usual'. That remains to be seen. We heard the same talk in the aftermath of the 2008 financial crisis.

THE ROLE OF THE STATE

A key issue will be around the role of the state in a number of main areas:

- What role should the state play in ***organising***[83] the necessary resources to tackle issues such as: protecting people against the risk of economic shocks through a decent social security safety net[84]; funding social care; redressing pensions underprovision; providing decent, affordable housing; and funding the greening of the economy?
- How far should the state (or its agents) intervene to determine or influence: how corporate UK, the wider private sector, and public sector should treat their 'customers'?[85] How will the state balance the interests of firms, employees, and customers at a time when firms are struggling to survive and then recover and rebuild profits?
- What role should the state play in tackling problems such as financial exclusion and the rights deficit described above (we refer to this as economic and social justice)?

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[83] This can be through taxation of corporates and households, raising funds from markets (technically classified as borrowing but this is used pejoratively and misleads as to the nature and efficiency of the state raising finance), or enabling other forms of organising resources (eg. underwriting various forms of private resource allocation such as non-profit lending to underserved communities or insuring high risk households or economic activities).

[84] FIC tends not to cover directly issues around the nature and level of social security, or redistribution of incomes through the state. However, this is relevant for our work for two reasons. Firstly, the current crisis and paucity of social security clearly causes problems such as overindebtedness which is within our remit and given that the state is the is primary financial relationship many citizens have, we approach this in the same way we would approach financial services firms treating their 'customers' unfairly. Secondly, the private sector insurance industry continually pushes for the opportunity to promote income protection/ health insurance as a means of protecting citizens against the risk of losing their jobs/ livelihoods – despite the fact that this is a more expensive and inequitable mechanism for providing social insurance.

[85] We use the term 'consumer' broadly here to include renters, utility customers, council taxpayers etc. Clearly, how corporates treat employees is crucial to future debates but FIC does not cover labour market issues outside of financial services related issues such as pension provision or income protection (social security safety nets)

- How much does the state need to determine how financial markets behave to support the real economy or the scale of private financial resources channelled into sustainable, responsible, and social impact (SRI) activities?

Each of those issues deserve their own reports. But, we would very much welcome a debate about these issues.

ORGANISING THE RESOURCES TO TACKLE THE KEY PUBLIC POLICY CRISES

The scale of the Covid19 impact is expected by some economists to be on a par with the Great Depression – certainly in the near term. And the impact will be felt for some time.

Commentators have been using recovering from wars as an analogy for the current crisis. One of the big debates will be around the role of the state in helping the economy and households recover from the economic and financial shocks. We have already seen the government launching unheralded interventions to protect jobs and incomes which will push the level of public borrowing. The ratio of UK public debt to GDP currently stands at just over 85 percent having risen significantly in the aftermath of the financial crisis of 2008. It is forecast to rise to around 100 percent (or above) as result of the initial interventions announced by the government.

On top of dealing with the immediate Covid19 impacts, as a nation we face a range of economic and social justice challenges such as funding social care, pensions underprovision, creating a decent social security safety net, and building enough decent housing. And this is not to forget the other equally important priorities such as funding the NHS, public services, education, childcare, and so on.

Can the UK afford that? A debt-GDP ratio of 100 percent might seem high. But, it is worth noting that the ratio stood at around 245 percent as a result of the Second World War, around 180 percent due to the First World War, and 260 percent after the Napoleonic Wars.[86] It is also worth noting that the UK has one of the lowest debt-GDP ratios of the G7 economies – only Germany has lower.[87]

Moreover, if the state does not provide the resources (through taxation or borrowing) it either means the issue is not addressed or we have to rely on private mechanisms to do so – which can actually cost society more.

Part of the problem is that if the state funds something through borrowing or taxation it is presented as a burden. Yet if it is funded privately it is seen as a positive and treated as an investment or insurance. This is clearly illogical.

A few examples illustrate this. We need to tackle the crisis in long term care funding. We can do this by increasing the role of the state or require people to organise this privately.[88] If the state does not fund better care through higher taxation/ national insurance contributions then people will need to take out commercial insurance products (if they don't want to use up their savings). Yet, it would cost more to fund the necessary level of care using individualised private insurance than to collectively insure through the state.

Similarly, if we want to build more affordable housing or critical infrastructure, the state can use its financial clout to raise funds directly from financial markets. UK 10 year government bonds (gilts) are currently yielding 0.25 percent, while longer term 30 year gilts are yielding 0.45 percent. This means

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[86] https://en.wikipedia.org/wiki/United_Kingdom_national_debt
[87] https://jubileedebt.org.uk/countries-in-crisis/truth-uks-debt
[88] Or a combination

the UK government can borrow – even over the very long term – on historically low terms. Funding infrastructure through National Savings & Investment (NS&I) would be slightly more costly than government issuing gilts.

The alternative is to turn to private finance mechanisms such as pension funds, insurance companies, private equity funds, or hedge funds who will expect a return higher than that available on gilts.

By definition, funding critical infrastructure using private finance mechanisms will be more expensive than the state borrowing to invest. There is no cost saving. Costs are just transferred from the state 'balance sheet' to households who have to pay the costs in the form of higher rents or service charges.

So, not using government borrowing is actually a false economy. If public sector borrowing is considered to be a 'burden', then it follows that using private financing mechanisms must be a *greater* burden. Using private financing mechanisms is not actually prudent. This should be remembered when there is a debate about how to rebuild and restructure the economy and social fabric in the aftermath of Covid19 and commentators assert that the 'state can't afford it'.

Proposal: Part of the problem is that we just do not have transparency on the comparative costs of funding through the state and private finance mechanisms. Therefore, we urge government and civil society to collaborate on developing what we call 'whole of society' public finance accounting. This approach to public finance accounting would show:

- The expected public value benefit provided by government borrowing and taxation; and
- The additional cost of funding the same services and infrastructure provided by government (central and local) through private finance mechanisms.

GETTING REAL ABOUT FINANCIAL EXCLUSION

The two biggest factors that cause financial exclusion are:

- Low incomes (people cannot afford to buy financial services); and
- Commercial reality. In certain areas, commercial providers just cannot serve hard-to-reach households on terms that make economic sense for both parties. In other words, it is just not economically viable for commercial providers ***that operate to reasonable standards of behaviour*** to provide products and services to large sections of the population.[89] There is also the problem that key sectors of the financial services industry are oversupplied and inefficient.[90]

Leaving aside the question of raising incomes (which is generally outside our remit), tackling financial inclusion actually comes down to a few realistic options:

- The state and regulators imposing financial inclusion obligations on the market. This involves the need for cross-subsidies and the application of the mutuality principle – something that is not that common in the market-centric UK economy.
- Regulators trying to make the mainstream financial services industry more efficient so it can extend its reach and serve more consumers. This has not worked and there is no sign that

[89] Commercial providers will always be willing to provide products such as subprime lending to excluded households at a price or if consumer protection is weak. But, that price may not make sense for those households.

[90] The key competition problem in financial services is not lack of choice but too much choice and oversupply of providers which pushes up end-to-end costs and means that more households cannot be served profitably.

competition left to its own devices will deliver this. On a regular basis, the financial services industry argues that regulation is a burden and stifles its ability to serve hard-to-reach groups. This is a red-herring. Regulation just codifies the behaviours expected of well-run firms that behave with integrity. Reducing regulation in the vain hope that will encourage firms to serve excluded markets enables misselling. It all comes down to cost and economic viability – that is, certain groups cannot be served by mainstream financial services and reducing regulations will not change that fundamental problem.

- Improving the 'demand side'. That is, raising consumer awareness or using financial education initiatives so that they 'self-include' into financial services and make good autonomous financial decisions and choices. But, again, the evidence tells us that attempting to improve the demand side has not been effective. Consumers are primed to borrow but are vulnerable to aggressive marketing and selling of expensive credit and becoming overindebted. However, they have to be *persuaded* to save, invest, and insure which pushes up the costs of distribution and therefore the end-price of products (which then contributes to exclusion and so on). Large scale analysis of the impact of financial education interventions on consumer behaviour have not been encouraging.
- Putting serious resources into supporting the non-profit or alternative financial sector. The main barrier here is that non-profits/ alternatives struggle to reach underserved groups and distribute products on a viable, sustainable basis. The role of non-profits/ alternative providers can be expanded. The proposals we make in this paper would help that. But, again, we need to be honest and accept that the non-profit/ alternative sector needs a real shake up and even if it does become more efficient there will be a limit to its reach.
- Hopes are being pinned on technology to close the exclusion gap. The theory is that the application of fintech, 'big data', and Open Banking would allow innovative new entrants (who do not have the legacy costs of established financial services firms) to reach underserved or excluded groups more cost efficiently. But, so far, despite the early promise, the fintech sector has not made significant inroads into tackling exclusion. Moreover, fintech and big data could actually increase the risk of exclusion – it allows even more granular segmentation and segmentation is associated with exclusion and discrimination.[91]
- The state stepping in where the market (commercial and non-profit) cannot deliver. This is the least considered and most under-utilised option.

The bottom line is that financial inclusion comes to down to finding more efficient ways of accessing hard-to-reach groups, distribution costs, and economies of scale – and, in some cases, degrees of cross-subsidy and mutuality.

The one area where there has been progress on financial inclusion has been in basic banking which came about as a result of banks recognising the threat of legislation.[92] This involves a degree of cross-subsidy and mutuality.

In other critical areas such as access to affordable credit, promoting financial resilience through savings, or access to basic insurance it must be acknowledged there has been little progress. Well meaning, ethical providers such as credit unions have made little inroads into meeting the unmet need for affordable credit.

[91] See: http://inclusioncentre.co.uk/wordpress29/our-work/publications/fintech-beware-of-geeks-bearing-gifts

[92] Legislation did come in the form of the EU Payment Accounts Directive (PAD) which means that consumers have a legal right of access to a basic bank account. It is one of the few areas where access to core financial services is established as a right rather than as a privilege where the market determines who has access.

Yet, the institution that already has an established administrative relationship with and reaches underserved, lower income households is the state – whether centrally through the DWP and HMRC, or local authorities through housing and council tax.

We have seen during the Covid19 crisis how the state administrative systems can be used efficiently to implement interventions such as increases in social security payments and the self-employed support schemes. It would seem logical to build on that established relationship post crisis to tackle longer term challenges.

The state has the 'interface' with citizens, and it has the data. It is easy to envisage this interface and data being combined with selected savings, credit, and insurance providers (eg. on a tendered basis, platform arrangement[93], or carousel system[94] - there are a number of models).

This could be taken further, and a National Financial Services brand set up similar to National Savings and Investment (NS&I).

But, there is an antipathy against using the state in UK policymaking and civil society circles. The default is to 'encourage' the private sector to be more inclusive, to promote the use of non-profit solutions, or more recently to hope that technology (fintech/ Open Banking) will come to the rescue despite the evidence to the contrary. No doubt we will spend as much time and resource after the crisis as we did before avoiding the obvious solution of the state.

The other role the state (and its agents in the form of regulators) can play of course is to introduce financial inclusion regulation. As outlined above, there is a strong case for the FCA to be given an explicit financial inclusion objective.

National Financial Services
Proposal: The government should investigate establishing National Financial Services (NFS) to sit alongside NS&I to provide low cost loans and insurance. The NFS could work in partnership with The Post Office to deliver basic bank account services. With regards to the underprovision for retirement amongst certain groups (self-employed, carers, and women), we already have a highly effective national model in the form of NEST. We make additional proposals below on how to expand coverage of NEST to underserved groups.

National Financial Advice Services
Proposal: Government should build on the role of the Money and Pensions Service (MAPS) and investigate establishing a National Financial Advice Service (NFAS). MAPS provides very helpful and comprehensive information to financial consumers. But, consumers need more than information. They need explicit guidance and advice on what is the best course of action to take. The commercial financial advice market should not be expected to provide valuable advice services to households for no reward. This means there is a significant advice gap. We envisage the NFAS as playing a similar role to that once provided by NHS Direct in healthcare. A NFAS would complement commercial advice providers referring consumers onto approved independent financial advisers where it is clear that the advice need is complex, and the consumer can afford to pay for professional advice.

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[93] Where state directs to or offers choice of local providers
[94] Where providers are mandated to form part of panel of providers and customers are allocated on a neutral basis.

TACKLING MAJOR PUBLIC POLICY CRISES

As mentioned, even pre Covid19 we have made little progress on tackling key public policy challenges including: widening pension coverage to underserved groups; protecting citizens against the risk of losing their income; and funding long term care. These challenges will be even more difficult post Covid19.

Building on automatic enrolment, widening pension coverage

One of the few public policy successes of recent times has been the introduction of automatic enrolment in pensions and the establishment of NEST.[95] Automatic enrolment has significantly increased the number of employees saving for retirement. Nearly three-quarters of employees had an active workplace pension in 2017 compared to under 47 percent in 2012. More than 9.5 million employees have been automatically enrolled since the scheme started in 2012.[96]

The creation of NEST, a state scheme, has driven down the charges employees pay when saving for retirement. Remember, the higher the charge, the more people have to save to offset the effect of those charges.

But, more needs to be done. There are still significant gaps in pension coverage. Underprovision by the self-employed is a particular problem. Only 24 percent of the self-employed say they are currently contributing to a pension.[97] Zero hours contract workers with several jobs may not earn enough from a single employer to qualify for automatic enrolment. Another group who are left behind are carers. It is estimated that there could be 8.8 million people taking on a caring role.[98] In both groups, women are particularly badly provided for.

In 2017/18, an estimated £37.2 billion in tax relief was provided on contributions to approved pension schemes while £16.5 billion was spent on providing national insurance relief on employers contributions. These are huge sums and most of this relief goes to better off pension savers. Those earning over £50,000 accounted for under 12 percent of income taxpayers, but half of the private pension contributions attracting tax relief. The 1.2 percent of income taxpayers earning £150,000 and above accounted for 10 percent of pension contributions attracting tax relief. Conversely, those earning less than £20,000 per year are 38 percent of taxpayers but accounted for just 6 percent of personal pension contributions attracting tax relief.[99]

Proposal: Pension tax relief should be capped at a flat rate of, say, 30 percent. The savings made should be used to top up pension contributions of self-employed, lower paid employees, and to create individual pension accounts for carers so they do not miss out during the time they are caring.

Proposal: Government should use the principles of automatic enrolment and the tax system to increase pension coverage amongst the self-employed. Government should consult on automatically opting the self-employed into NEST using the annual system for self-assessment with pension top ups for the lowest earning self-employed who remain in NEST.

[95] https://www.nestpensions.org.uk/schemeweb/nest.html

[96] https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/workplacepensions/articles/pensionparticipationatrecordhighbutcontributionsclusteratminimumlevels/2018-05-04

[97] https://www.nestinsight.org.uk/research-projects/self-employed-pension-saving/

[98] https://www.carersuk.org/images/Facts_about_Carers_2019.pdf

[99] https://researchbriefings.files.parliament.uk/documents/CBP-7505/CBP-7505.pdf

Protecting incomes against economic shocks

In response to the emergency, the government has introduced unprecedented measures to give *temporary* protection to those who are at risk of losing their job or their livelihoods. As it stands, it is unclear how long these measures will be kept in place. But, they will come to an end, or more likely phased out, sometime soon. The question for the long term is what is the best way to protect workers (and families) from the risk of losing their incomes?

As the recent crisis highlighted, the level of state financial support normally provided to people who lose their job is not generous. The UK has one of the weakest employment safety nets amongst the world's advanced economies. UK employees who are out of work receive on average 34 percent of the income they received in their previous work. This is the third lowest amongst 35 advanced OECD economies. The main adult unemployment benefit is worth 15 percent of average earnings – the lowest it has been since the creation of the welfare state in 1948.[100] Although it is worth pointing out that for certain households, additional benefits such as housing benefit make the system more generous.

In 2010, spending on social security (excluding on pensioners – which has seen the greatest increase) was equivalent to 5.9 percent of GDP. That has fallen to around 4.5 percent. Overall, spending on welfare is estimated to be £34 billion lower in 2023-24 compared to 2010 when austerity was introduced.

The main question here is: how do we better protect people against the risk of losing their incomes or health? There are three broad options:

- Improving the level of social security paid to citizens out of current public spending on a pay-as-you-go (PAYG) basis. If this was not funded out of increased taxation, this would imply an increase in the level of state spending and public borrowing. But, as pointed out above, even though the public debt to GDP ratio will rise, it will still be at levels much lower than in previous times of crisis.
- Expand the use of private income protection type insurance. But, this faces significant issues with regards to: fairness and equity (would private insurers be willing to insure workers in precarious sectors for a reasonable price?); resilience (would insurers be able to pay out in the event of a serious economic downturn?); and efficiency (individual based provision involves the need for marketing costs, suffers from diseconomies of scale which reduces the value provided to policyholders). The inefficiencies would be even greater if monetary incentives were needed to encourage citizens to take out sufficient insurance.
- Pre-funding the risk through collective social insurance. In this case, the state would provide the enhanced social security payments from a dedicated fund. Contributions would be made to a social insurance fund and invested for the future to build up sufficient assets to meet social security payments. Alternatively, rather than have a fund dedicated to just social security, the sovereign (or social) wealth fund[101] model could be used to meet a number of public policy objectives – funding NHS and social care, social housing, and social security. A version of this would be to use a prefunded social insurance fund with a top-up available through the PAYG system if there was not sufficient assets in the fund. Whichever model was used, the collective approach would be a much more efficient, fairer way to prefund future liabilities than individual private insurance.

[100] NEF, Building a Minimum Income Guarantee for the UK, https://neweconomics.org/2020/03/building-a-minimum-income-protection
[101] A sovereign or social wealth fund is a state run fund which invests in real assets to prefund the costs of meeting public policy obligations – eg. healthcare, social security, and infrastructure.

The private insurance model is clearly the worst option. There is much to recommend about a collective social insurance model which aims to prefund future liabilities. But, it is not without risks.

Wrong decisions on how the investment assets are allocated could leave the fund exposed to financial market falls just at the wrong time.

There are transitional issues to consider. If the transition to a prefunded system is not designed properly, it could result in one generation paying twice – paying their share of taxes to fund social security on a PAYG basis and having to start making contributions to prefund/ insure their own potential liabilities.

Proposal: Notwithstanding these risks, government should consult on the establishment of a collective social insurance fund to meet future, enhanced social security payments.

Funding long term care

The other major public policy area in which we have made little progress is developing a plan to fund the growing need for long term care as the population ages. The issues are similar to those we face in relation to providing better income security.

Currently, 1.8 percent of GDP is spent on long term care in the UK. The population of the UK is getting older. In 2016, the ONS recorded that 18 percent of the population were aged 65 or over, whereas 2 percent were aged 85 and over. Over the next 30 years, it is predicted that by 2046 almost 25 percent of the population will be over 65.[102]

Unsurprisingly, this growing proportion of older people is expected to be matched by increased demand for long-term care. One in three women and one in four men aged 65 are expected to need long term care.

Care costs can either be paid for on a pay-as-you-go basis (out of current taxes), pre-funded in some way using insurance or equity release – or some combination.

Proponents of the insurance model argue that setting a cap on the amount people would pay towards certain aspects of care would encourage the insurance industry develop and offer new long term care insurance products. The theory is that people could insure themselves against that part of the costs which are predictable which would then limit insurers' costs. Introducing incentives to encourage people to take out long term care insurance has also been mooted.

But, this does not strike us as a very efficient method of prefunding long term care costs. This arrangement would mean the state still taking on the 'catastrophic' risk and picking up a large part of the care costs while insurers would receive premiums from 'lower risk' consumers. We know from the experience of personal pensions that the market based model involves insurance firms competing fiercely for new business which involves high marketing and distribution costs. This means consumers have to pay more to produce the same value. Moreover, using tax incentives ends up being eaten up by high costs – in other words, the taxpayer subsidises the insurance industry. The same inefficiencies would be evident if we relied on the private insurance model to fund long term care.

Expanding the use of equity release is an option. But, this seems inequitable. Of course, there is the argument that households who end up with significant amounts of equity in their homes are

[102] Incisive Health, An international comparison of long-term care funding and outcomes: insights for the social care green paper, p46

fortunate (and they are) and should be expected to use some of those unearned gains to pay for their care.

But, needing long term care is a lottery with a ghastly prize. It does not seem fair or equitable that those with significant housing assets, who do not need care, get to retain those assets. If housing assets are to be used to pay for care it would seem fairer to apply a fair tax on those assets across the board rather than penalise those individuals unlucky enough to need care.

Moreover, expanding the use of the private insurance or equity release scheme model also increases the risk of misselling.

So, if individual based models – whether through insurance or equity release – are inefficient, unfair, and inequitable what are the realistic options? As with enhancing income protection, there are two main options:

- Funding on a PAYG basis out of current public finances – whether through taxation or borrowing; or
- Prefunding in some way that does not entail having to use private insurance.

Improving the level of care costs funded out of current public spending on a pay-as-you-go (PAYG) would increase the level of state spending (and public borrowing if not funded out of increased taxation). But, as pointed out above, even though the public debt to GDP ratio will rise, it will still be at levels much lower than in previous times of crisis.

However, there is a staggering £5.1 trillion in net property wealth held by UK households – that is 35 percent of total net wealth and more than two and a half times the size of UK GDP (before Covid19 hit). Inequality in net property wealth and net financial wealth has increased.[103] It would seem reasonable to apply a small property or land tax to fund long term care. This would a fairer, and more cost effective way of funding long term care and sharing the risk between those who need care and those fortunate enough not to need it.

The second option is to pre-funding the risk through collective social insurance. As with protecting incomes against economic shocks, see above, contributions would be made to a dedicated long term care fund and invested for the future to build up sufficient assets to meet future liabilities. Alternatively, as mentioned, rather than dedicated funds, the sovereign wealth fund model could be used to meet a number of public policy objectives – funding NHS and social care, social housing, and social security. This could never replace PAYG funding for priority public services, but it could help insure against future costs.

There are risks to this collective prefunded approach – see above. But, all of these risks exist with the private insurance model – except private insurance has additional risks in the form of being more costly, more inequitable, and involves higher risks of misselling.

Proposal: Therefore, we recommend that government consults on the establishment of a collective insurance fund to meet future care cost liabilities.

Proposal: We also recommend that the government consults on establishing a ***Social Wealth Fund*** designed to contribute to prefunding the country's future public policy needs such health and social care, enhanced social security, housing, and infrastructure.

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[103] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/incomeandwealth/bulletins/totalwealthingreatbritain/april2016tomarch2018

GREENING THE FINANCIAL SYSTEM AND THE ECONOMY

Despite sustainable finance (or ESG) rising up the agenda, the proportion of total assets held by financial institutions and households in those assets is still very low – particularly seen against the amount invested in alternatives (such as hedge funds or private equity), banks have lent to other parts of the financial system or to the property market, and households have invested in the buy-to-let property market. On the retail investment side, just 1.4 percent of total assets under management are invested in ethical funds. The financial system is not yet making a significant contrition to greening the economy.

Similarly, the short termism that prevails in financial markets and practices such as paying high dividends and share buybacks undermined long term thinking and investment in R&D in the real economy.

The extent to which the financial system is failing to support the real economy and environmental goals is all set out in our reports entitled 'An Economic and Social Audit of the City[104] and 'Time for Action'.[105]

A large scale programme to reform the financial system so that it contributes to the greening of the real economy would have the additional benefit of creating new, sustainable jobs. These jobs will be much needed in the post Covid19 economy.

Proposal: The Bank of England should be given a new statutory objective to promote financial market behaviours that contribute to economic and environmental sustainability. The FCA and Prudential Regulation Authority (PRA) should be given new obligations to support and have regard to the impact of their policies on the Bank of England's sustainability objective. The FCA should be given responsibility for overseeing how financial institutions, listed companies and larger private companies disclose compliance with SRI criteria.[106]

Proposal: The PRA is establishing a Climate Financial Risk Forum co-chaired with the FCA to build intellectual capacity and share best practice on issues relating to climate related financial risks. This is welcome. But, it is not enough. Government and Bank of England should establish a Financial Sustainability Committee (FSC) along the lines of the Monetary Policy Committee (MPC) which sets interest rate policy. The new FSC should take responsibility for the Bank's new statutory objective described above and coordinate the work of all the regulators involved in managing climate related risks – the Bank of England, PRA, FCA, and The Pensions Regulator (TPR). The FSC should publish an annual report on its activities plus a wider triennial review on progress against its objectives. The FCA, PRA, and TPR should also publish an assessment in their annual reports on how their activities have contributed to the objective of the new FSC.

Proposal: Along with creating a new infrastructure and reforming financial regulation to support the development of SRI, we argue for a government led strategy to green the economy. Building on the work of the Committee on Climate Change (The CCC), government and relevant regulatory

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[104] The Economic and Social Audit report details the benefits the financial sector provides to the UK economy but also sets this against the huge costs imposed on society and households

[105] Time for Action details on how the various sources of private finance and investment have failed to channel sufficient resources into the green economy.

[106] See: Financial Inclusion Centre report Time for Action for details on our proposals for new statutory objectives for each of the main regulators http://inclusioncentre.co.uk/wordpress29/wp-content/uploads/2020/03/Time-for-Action-Greening-the-Financial-System-FIC-FPF-Report.pdf

authorities should undertake a 'transformation audit' of the main economic sectors to assess the contribution each sector has made to the greening of the economy; and develop a transformation action plan for each sector. Government should establish a single agency to coordinate this strategy – either give responsibility to the Environment Agency or expand the role, powers, and resources of the CCC. This new agency, along with the National Audit Office (NAO) should develop new metrics to judge the performance of each sector, and publish annual updates and a formal triennial review of progress made against the transformation strategy.

FUNDING SOCIAL HOUSING, REBUILDING THE ECONOMIC AND SOCIAL INFRASTRUCTURE

Post Covid19, we will need a concerted programme of investment to rebuild the economic and social infrastructure, and to aid sustainable economic recovery. Priorities for investment include: regional and local economic development and recovery; supporting affordable lending; expansion of social housing; and funding the greening of the economy (including research and development into green tech and green transformation programmes).

Proposal: We propose the government issues a series of dedicated National Recovery Government Bonds (gilts) to fund activities in core areas Regeneration, Social Housing, Social Lending, and Greening the Economy. Alternatively, government could just issue tranches of general purpose National Recovery Bonds with government deciding on how to allocate the proceeds in consultation with civil society and industry.

Proposal: In addition, to complement National Recovery Bonds, government should use National Savings & Investment (NS&I) to issue Regeneration, Social Housing, Social Lending Bonds, and Green Bonds. This would be slightly more expensive than government raising money directly (though still significantly cheaper than using pension fund and insurance company investments etc). But, the additional cost we think is worth it in terms of allowing ordinary savers to participate in this national programme of recovery and rebuilding.

Proposal: Similarly, government should allow metropolitan and local authority areas to issue bonds to meet specific needs.[107] Again, this would be slightly more costly than government directly raising money through the government bond markets. But, it would allow local communities to participate directly in the rebuilding programme.

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[107] Organisations such as Network Rail and Transport for London are able to finance development by issuing bonds at a fraction above gilt rates. It would be feasible for a new agency called Homes for London to issue bonds at similar pricing structures. Local authority bonds used to be the rated the second safest after gilts until the market was closed.

ABOUT THE FINANCIAL INCLUSION CENTRE

The Financial Inclusion Centre is an independent, not-for-profit policy and research group. Its mission is to promote a financial system and financial markets that work for society. The Centre works at two main levels.

Promoting system-level change We undertake research and develop policy to promote sustainable, resilient, economically and socially useful financial markets that: benefit the environment; encourage responsible corporate behaviours and create a positive social impact; and efficiently allocate long-term financial resources to the real economy.

Promoting economic and social justice We promote fair and inclusive, efficient, well-governed and accountable, properly regulated financial services that meet households' core financial needs. To do this, we undertake research into the causes of market failure in the sector, formulate policies to address that market failure, develop alternative solutions where the market cannot deliver, and campaign for market reform.

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