The Financial Inclusion Centre

Financial markets that work for society

FCA PROPOSALS FOR TEMPORARY FINANCIAL RELIEF FOR CUSTOMERS IMPACTED BY CORONAVIRUS

FINANCIAL INCLUSION CENTRE RESPONSE

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By email

6th April 2020

Introduction

The FCA has proposed a series of measures to provide temporary relief for customers affected by the financial shocks caused by the Coronavirus.

The main proposals include:

- The FCA expects firms to offer a temporary payment freeze on loans and credit cards where consumers face difficulties with their finances as a result of coronavirus, for up to three months.
- Firms should ensure that for customers who have been hit financially by the coronavirus and already have an arranged overdraft on their main personal current account, up to £500 will be charged at zero interest for up to three months.
- Requiring firms to make sure that all overdraft customers are no worse off on price when compared to the prices they were charged before the recent overdraft changes came into force.
- Ensuring consumers using any of these temporary measures should not have their credit rating affected because of these measures.

We very much welcome the FCA's intention to extend protections available to mortgagees to borrowers. The FCA should be commended for producing a range of important measures so rapidly in what must be very difficult times for the regulator.

But, we are concerned that there are some gaps in the protection available to consumers and some of the proposed measures need to be more robust.

FIC response

Three month period

It is highly unlikely the economy and household finances will have recovered within three months. Rather than keep the emergency protection measures in place for three months followed by a review, the default should be to presume the measures will be in place for six months unless there is clear evidence that household finances have recovered and the measures can be safely removed before then.

£500 interest free buffer

The three month, £500 interest free buffer for pre- arranged overdrafts should provide many borrowers with a degree of protection and reassurance. But, this is unlikely to be enough for the most vulnerable borrowers.

As mentioned, it should be extended for six months. Moreover, it should not be restricted to already arranged overdrafts in place. It should also be made clear to lenders that as part of TCF if the circumstances of the borrower require it, the limit should be higher than £500.

Banks are receiving significant support from the state and should be expected to play their part in protecting the most vulnerable. Elsewhere, we are recommending the establishment of a lending reserve fund to provide loans/ backing for loans to vulnerable consumers.

Under our proposals, if it becomes clear that certain banks would be disproportionately hit (eg. if they have a greater proportion of lower income/ high risk overdraft customers), they would be able to apply to this lending reserve fund for support. We urge the FCA to work with HMT in developing such a reserve lending fund.

Pre overdraft reform benchmark

The FCA has said that firms should ensure that overdraft customers are no worse off on price when compared to the prices they were charged before the recent overdraft changes came into force. This is welcome.

But, it is worth noting that the FCA's seminal work on the overdraft market found that banks were exploiting what was, to all intents and purposes, a captive market of vulnerable overdraft customers by imposing unjustifiably high charges. These customers included those who lived in the most deprived areas of the country, disabled households, single parents, BAME households, and the unemployed. So, for these vulnerable households, the costs imposed pre the overdraft reforms are not a very helpful benchmark.

The FCA has made reference to charging a 'responsible rate of interest'. But, this will be hard to monitor and enforce. The FCA's overdraft reforms have failed to promote effective competition (there is clear evidence of price clustering). There already is a compelling case for a price cap on overdraft charges. But, the case for a price cap during the emergency is all the more urgent. We cannot rely on self-restraint by lenders – even if many lenders are behaving admirably. A price cap is the surest, most effective way of protecting vulnerable consumers.

Credit ratings
We support the FCA's proposals on credit ratings. But, this measure should be extended to six months.

Gaps in coverage
There are some worrying gaps in the coverage of the FCA's measures. In particular, high cost short term (HCST) credit, car finance, and debt management/ collection services. Mainstream lenders will be under the media spotlight and will be pressured to show restraint. As we know from experience, the subprime lending industry does not labour under the same reputational constraints. We urge the FCA to close these gaps immediately.

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

The need for public statements from FCA on standards of behaviour, enforcement, and consumer rights
On a more general point, it is obvious that during the emergency and survival phases many small businesses and households are going to face serious cash flow problems including those who have applied for social security and are waiting for claims to be processed. They will need to be treated with sympathy by regulated unsecured lenders and other creditors. They will be at risk from being targeted by unscrupulous regulated subprime lenders *and* unregulated loan sharks.

At times like this, the FCA should be making clear public statements to the market about the standards of behaviours it expects with guidance and examples. The FCA should also make clear public statements that it will mercilessly enforce against firms (and individuals under the SMCR) who breach regulations during the crisis.

The FCA and MAPS should also be issuing clear advice and information to consumers about their ***rights*** during these difficult times.

Planning for the next phases of the crisis
Finally, it is important to note that the economic and financial crisis caused by the Covid19 pandemic will play out over four phases:

- The current emergency;
- Survival phase;
- Recovery phase; and
- Rebuilding and restructuring phase.

It is critical that policymakers, regulators, and civil society recognise that the effects on households and financial consumers will be felt for some time after this emergency period. We need to understand *which* households/ consumers will be affected during these phases, *how* they are likely to be affected, *why* they are vulnerable, and develop appropriate *timely* responses.

We appreciate the FCA is focusing on the emergency phase. But, additional measures need to be developed now in readiness to protect consumers during the dangerous survival and recovery phases.

If we can be of any assistance and support to the FCA in developing a response to the ongoing crisis, please do not hesitate to contact us.

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