

**FINANCIAL HEALTH FORUM**  
**One Great George Street**  
**30 January 2008**

**Attended**

Adam Philips, Financial Services Consumer Panel  
Alison Cottrell, HM Treasury (observer)  
Cara Brown, Resolution Foundation  
Clive Cowdery, Resolution Foundation  
Danielle Walker-Palmour, Friends Provident Foundation  
Faith Reynolds, Toynbee Hall  
Helen Aynsley, Resolution Foundation  
Joanna Elson, Money Advice Trust  
Liz Barclay, Independent Consultant  
Mark Lyonette, Association of British Credit Unions Ltd.  
Michael Coogan, Council of Mortgage Lenders  
Phil Wynn Owen, Department for Work and Pensions (observer)  
Sue Regan, Resolution Foundation  
Wendy van der Hende, Personal Finance Education Group

**Apologies**

Amanda Bowe, Financial Services Authority  
Martin Lewis, Money Saving Expert  
Otto Thoresen, Thoresen Review of Generic Financial Advice  
Stephen Haddrill, Association of British Insurers  
Teresa Perchard, Citizens Advice  
Victoria Nye, Investment Management Association

**Summary**

- New members were welcomed and it was suggested that additional representation should be sought from financial services companies in addition to trade bodies.
- The activity update led to the following key points:
  - Considering the range of services available, it is not clear to the public where they should go for help
  - We know very little about what impact the fall in confidence in financial services is having – are people doing things differently?
- The presentations on Debt and Credit illustrated that:
  - Demand for debt advice services has increased rapidly in recent months and is out-stripping capacity within the money advice sector
  - Supply of affordable credit has contracted with the non-standard finance sector revealing a mixed picture in terms of resilience in current economic context
- It was agreed that a) there was scope to improve co-ordination between advice agencies and between advice agencies and financial service providers and b) there was an urgent need to increase capacity in the advice sector.

## **Minutes of meeting**

### **Welcome and introduction**

Chair of the Financial Health Forum, Clive Cowdery invited everyone to the second meeting of the Forum. For first time attendees he offered a brief overview of the challenges that the Forum seeks to overcome. Clive said that there are a lot of initiatives out there at various stages of their development, from conception (Money Guidance) to those which are now at full capacity and require further resources. The Forum will look at the overview of provision and examine which areas need joining up or greater focus. He also recapped on how the Forum meetings will work falling in to two halves. Part one will offer an update on the current financial situation and topical issues, part two will explore a specific issue in depth.

### **Activity update**

The Forums' Co-ordinator, Helen Aynsley, presented slides on the current economic situation and key developments of the last three months in the areas of financial inclusion, financial capability and financial services. At relevant points in the presentation, members were asked to contribute to the presentation, providing information on initiatives taking place at their organisation and updates on their sector as a whole. Specific points also prompted discussion.

#### *Discussion*

In response to the presentation there was a brief discussion on the role of the media in the current financial crisis. The point was made that there is often little distinction between the problems faced by big investment banks and the problems that high street banks face in the way news outlets report it to the public. It was suggested in the public's mind that the queue of people outside Northern Rock is a difficult image to shift. There were also comments that there is difficulty in getting positive financial stories in the press.

There was also a brief discussion on vulnerable consumers needing a one stop shop where they can go for help. The point was made that it might be possible to join up those losing their jobs in financial services with the increased need for financial advice and whether they could be retrained to fulfil this role. The potential issue for Money Guidance is that banks who in 2005 were reluctant to pay towards the service may now offer their own impartial advice and see this as a further reason not to contribute.

Other points:

- The Banking Code Standards Board is lobbying for the Banking Code to become a Credit Code (i.e. narrower focus with rest going to FSA) but with broader group of subscribers (i.e. beyond BBA and BSA members to FLA CCA, CCTA etc)
- Do we know what the impact of a fall in confidence is – are people doing things differently? Or are they still using banks?

### **Debt and debt advice: presentation by Joanna Elson, Money Advice Trust**

The full presentation can be viewed online.

Joanna began by illustrating how an over-supply and commitment of credit had led to an increased need for debt advice. Add to this unemployment which means people

have fewer options and a legacy of debt problems (repossessions, scarce credit) and you have a difficult mix.

She then gave an overview of the key role that money advice plays for a whole range of debt issues. She also illustrated that the supply of money advice isn't meeting demand with MAT seeing an increase of 100% demand on last January. The additional £15.85m investment by HMT in debt advice will help but not solve the problem.

#### *Discussion*

In response to the presentation there was discussion around where efficiency savings could be made. It was seen as crucial that providers work together so that people are directed to the right service. Previously, this would have helped share capacity out, however it was noted that currently all services are at capacity. It was suggested that there are ways to make efficiency savings once people are 'in the system'. Someone suggested that lenders could take action to spot when someone had missed more than one payment. For example, they could automatically send them the basic information that an advisor needs to kickstart negotiations on a repayment schedule (i.e. credit agreement, balance statements, etc.)

JE noted that the Common Financial Statement negotiated between advisers and creditors is useful here.

There was discussion over the problems with debt advice deserts and patchy provision. It was also suggested that banks could play a greater part in sign-posting people to self-help. Some thought there was a potential need for the costs of advice provision to be built into financial services operating costs, whilst others thought that if this became a levy, banks wouldn't be engaged in the issue.

Many people pointed to the issue of re-distributing services as the financial sector passes through this difficult economic context. Suggestions included rather than making redundancies people could be offered on secondment to debt and money advice services. The point was made that it is crucial to get to people as they are made unemployed and before they actually fall into debt. Get to people before the first payment is missed. However, it was noted that this kind of a shift during a recession would be difficult to enact and will also need to be part of a wider sea change over time.

What else needs to happen?

- Continue to build capacity to meet demand
- Build infrastructure to support
- Build public awareness
- Examination of free and fee paying advice
- Examine increased role of local authorities
- Join up lenders, advisers and government initiatives

#### **Credit and credit exclusion: presentation by Mark Lyonette, Association of British Credit Unions**

Full presentation available online.

Mark began by explaining why there is a problem in the credit market and offered an overview of the UK credit market:

- Total retail lending £1.4 trillion
- Of this consumer credit accounts for £233 billion

- Datamonitor estimate 10-12 million people in non-standard finance
- For the first time since 1965 mortgage lenders will collect more in repayments than will be lent to new lenders.

Mark then highlighted the position of some of the leading non standard lenders, Provident Financial and Cattles, pointing to some of the interesting developments in home credit, such as the ability to find 'higher quality' customers as traditional credit is restricted. He then highlighted some of the other players who had a growing role in the low income credit industry such as payday lenders and Brighthouse where goods can cost 3 x normal RRP plus 30% interest.

Mark then drew attention to some of the reasons why credit is getting more expensive despite falling base rates. For example, the knock on effect of increased applications for credit (because people are being turned down from mainstream credit) means that the 5% of those accepted bear the administrative cost of the 95% rejected.

Credit Unions have seen a steady growth with support from government initiatives such as the Growth Fund July 2006. However, there is still work to be done to increase their reach. Mark also raised issues surrounding current credit reference agency practice which currently work with monthly repayments and the measure of ability to pay. Mark highlighted that this excluded many forms of low income credit from your rating. There are also moves to consider looking at people's propensity to pay. He also noted that Post Offices and Credit Unions are considering working together. The Post Office has largely mainstream products with no small sum, short term credit and the credit unions need better coverage.

#### *Discussion*

The challenges presented with the Growth Fund were discussed whereby customers thought by right that they were entitled to the loan and could get violent and aggressive if they were told otherwise. There were also negative impacts on other customers wanting to put their savings in when customers may be perceived to be high risk borrowers. There was also concern that the Growth Fund does not create a sustainable model. However it has brought £36m of benefit by way of reduced lending costs for its 120,000 customers.

However, there was much support for the ability to deduct directly from people's benefits which makes loans much safer. The big challenge is that in order to help the more financially excluded, credit unions need more financially included people to invest their money in them.

The role of the Social Fund was discussed and how people are using home credit to fill the gap of the Social Fund and of course the Social Fund doesn't show up on credit ratings. It was suggested that there is an opportunity for a mixed economy approach on affordable credit. This needs to be led by the Government. It was asked whether there is a role for the traditional banking sector to move in and support the third sector?

An interesting point was made that subprime was invented in response to the 90s recession and that we will need a similar, but new answer in response to the current recession. Some discussion focused on the effects of lending and credit exclusion and whether new black markets will emerge and the fact that these might not be the traditional illegal lenders we know about. A final point was that primary attention should be keeping small businesses going as these in turn support jobs which support mortgage and debt repayments.

## **Conclusions**

Clive Cowdery summed up and concluded that the FHF meeting had raised the following points of action:

- Greater co-ordination of advice services and a more urgent response to capacity requirements in debt advice is needed
- This must be looked at alongside how to ensure affordable credit is more widely available

He then thanked everyone for their valuable time and input and said that an action note would be circulated shortly.

Clive Cowdery said the next meeting would focus on a) Pensions and b) Money Guidance.