



Resolution
Foundation
Financial Health Forum

13 January, 09.30-12.00
Chartered Insurance Institute,
EC2V 7HY

Financial Health Forum

Overview

Activity Update

1. The economic context
2. Financial health review
 - Financial inclusion
 - Financial capability
 - Financial services
3. Financial Services Bill

Economic context

- Recession and recovery
- Housing
- Unemployment
- Savings Index
- Latest NMG Survey
- Consumer borrowing

Recession and recovery

- **Signs of recovery:** GDP growth forecast for 2009 at -4.75%, a downward revision of the -3.5% presented in 2009 Budget.
- Growth of 1.25% is forecast from 2010 and 3.5% the following year.
- CPI annual inflation was 1.9 per cent in November, up from 1.5 per cent in October. In the year to November, RPI annual inflation was 0.3 per cent, compared with a fall of 0.8 per cent in October.
- Inflation expected to peak in early 2010 and then decline through 2010 and into 2011 to a position well below target.
- Over-optimistic? CBI predicted Britain's economy will make it out of recession in the last quarter of 2009 but followed by 2 more years of disappointing growth.

Pre-Budget Report Response

- Bank of England's base rate remains at 0.5% and asset purchase scheme will reach £200bn this month
- 1% increase in National Insurance rates in 2011 for those earning more than £20,000
- The point at which individuals start to pay higher rate of income tax will be frozen in 2012-13
- Sticking with an 8 yr plan for rebalancing the deficit: full details have been set out in the Government's Fiscal Responsibility Bill
- Darling been criticised for not setting out a public spending plan to tackle the deficit

Housing

Repossessions

- Increased by 2.8 per cent between the second and third quarter of the year, reaching 13,987. This is 5 per cent lower than at the start of the year.
- CML has cut its forecast for the number of repossessions last year to 48,000, down from 75,000.

Mortgages

- Gross mortgage lending totalled an estimated £12 billion in November, a 10% drop from £13.3 billion in October and down 14% from £13.9 billion in November of last year

“The underlying story is one of market conditions holding steady .. CML does not expect this to change much in the coming months.” (CML)

House prices

- Rose by 1.4% in November with the average house price up by 4.2% in the first 11 months of 2009. But predicted to fall in 2010

Housing

- Shelter, Citizens Advice and Advice UK survey of 450 advisors found that:
 - In a third of repossession cases the mortgage pre-action protocol had not been complied with
 - Sub-prime lenders were taking court action much earlier than high street lenders
 - Low income households were the most likely to lose their home
 - There appeared to be some under claiming of Support for Mortgage Interest, and many borrowers were paying higher monthly interest rates than would be covered by SMI payments
- Research for Money Advice Trust by Shelter found that 9/10 low-income private tenants (1.3m households) were falling behind with their household finances in the recession. A number of landlords were signposting to advice agencies.
- ConsultCIH predicts that as interest rates rise, those who have taken out mortgages in the last 4 yrs will be at increased risk of repossession.

Housing: the response

- FSA Mortgage Market Review open for discussion until end Jan, includes:
 - Imposing affordability tests for all mortgages and making lenders ultimately responsible for affordability assessments
 - Banning 'self-cert' mortgages through verification of borrowers' income
 - Banning the sale of products which contain certain 'toxic combinations' of characteristics that put borrowers at risk
 - Banning arrears charges when a borrower is already repaying and ensuring firms do not profit from people in arrears
 - Improving standards of fitness and propriety among individual advisers and cracking down on rogue individuals and mortgage fraud by expanding the FSA's Approved Person regime to cover mortgage intermediaries
 - FSA's scope to cover buy-to-let and all lending secured on a home.
- Support for Mortgage Interest maintained at 6.08% for further 6 months
- £150m for HomeBuy Direct, prioritising housing for first-time buyers
- DWP consultation on reform of Housing Benefit: includes delaying plans to scrap £15 HB excess payment
- A further £278m for an extra 5,000 affordable homes

Unemployment

- **Unemployment** been less than independent forecasts predicted - rose to 2.46 million in the 3 months to September 2009, compared with 1.83 million in the same quarter of 2008.
- **Claimant count** - increase has slowed in recent months: the average increase in the claimant count fell to 18,800 in the three months to Oct 2009, down from 93,400 in the first quarter of 2009.
- Attributed to surge in the number of women taking part-time jobs and 23,000 jobs being created in the NHS in the latest quarter (ONS)
- Unemployment will probably remain above 2 million for the first half of the next decade (Chartered Institute of Personnel and Development)

Unemployment: the response

Building Britain's Recovery: Achieving Full Employment

- Bringing forward of eligibility for a guaranteed job, work placement or training place for all 18-24 year olds on JSA from one year to six months
- Reduction in the threshold for Working Tax Credit eligibility among those aged 65 and over from 30 hours to 16 hour
- 'More tailored support' to over-50s' but continued calls for job guarantee to all unemployed
- Support for 10,000 low-income undergraduates to help them carry out internships

Savings Index

Increase in consumer confidence about future savings

- In November The Savings Index fell three points to 87
- Consumers believe government policy is not helping savers
- But confidence in future savings higher than ever: the Future Savings Index rose 5 points to 124
- And more people see the importance of saving: The importance of Saving Index rose 10 points to 98
- Consumers believe government policy is not helping savers
 - 16% of people (a decrease of 4% from October) believe that the Government encourages them to save
 - 45% (an increase of 2% from October) believe the Government discourages them from saving

Latest NMG Survey

Signs of improvement in household finances....

- The % of households who reported difficulties keeping up with bills and credit commitments has fallen since the previous year's study
- Partly reflects reduction in base rate: over half of all mortgagors reported a fall in monthly mortgage repayments.
- But large variations across households:
 - Unemployed experienced largest fall in available income over past year
 - Tighter lending practices hit high LTV mortgagors, renters and the unemployed greatest
 - Those with high LTV mortgages disadvantaged:
 - Fewer benefitting from the lower interest rates because of fixed rate deals
 - Higher proportion reported arrears problems than in the previous year's survey
 - A quarter of respondents reported they have increased or plan to increase the amount they save
- *<http://www.bankofengland.co.uk/publications/quarterlybulletin/index.htm>*

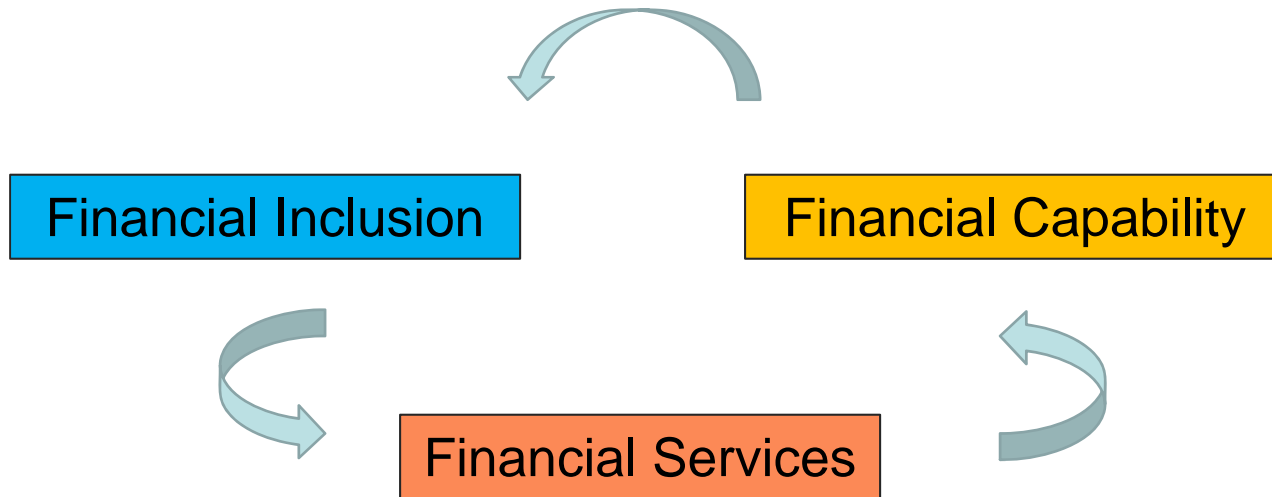
Consumer borrowing

Consumer borrowing falls by record amount

- Consumer borrowing has dropped by the highest amount since Bank of England records began in 1993
- £579 million of unsecured debt paid off during October
- Although credit card debt rose by £134 million in October other forms of consumer borrowing such as bank loans and hire purchase agreements fell by £713 million
- However these figures do not take into account mortgage borrowing which rose for the 11th month in a row in October

"The record net repayment in consumer credit in October is clearly the consequence of many consumers' desire to reduce their debt, low demand for credit, and a lack of availability of unsecured credit from banks." (Howard Archer, chief UK and European economist at IHS Global Insight)

Financial health review



Financial Inclusion

- BIS consultation on changes to credit and store cards
- ABI launches campaign to protect Britain's low-income households
- Proposed reforms to bankruptcy procedures
- PBR announcements
- OFT high cost consumer credit – emerging evidence from the review
- The Business Case for Financial Inclusion
- Wealth in Great Britain: Main results 2006/08
- Dickensian 'logbook loans' to be banned
- Centre for Responsible Credit launched
- Treasury Select Committee calls for investigation of credit market

BIS consultation on changes to credit and store cards

- **allocation of payments** – lower interest debts being paid off first
 - **minimum payments** – minimum payments only covering interest, not capital
 - **unsolicited credit limit increases** – card limits going up without consent
 - **re-pricing of existing debt** – increased interest rates without proper explanation
 - **simplicity and transparency** – making the costs of using a card simpler to understand and easier to compare alternatives
-
- Consultation closes on 19 January
<http://www.bis.gov.uk/creditconsultation>

Financial Inclusion

- **ABI national campaign** to help the UK's most vulnerable families in rented accommodation cope with a financial shock, such as a burglary or a flood.
- Urging more local authorities and housing associations to offer tenants' contents insurance schemes.
- These provide low-cost insurance protection - sometimes for less than a pound a week - against losses from risks such as burglary, fire, flooding and accidental damage.
- To spread the cost, premiums are usually paid at the same time as rent.
- See <http://www.abi.org.uk/>

Consultation on Reforming Debtor Petition Bankruptcy

- Research conducted in 2007 by The Insolvency Service and the courts found that in some parts of England and Wales, debtors faced delays of up to 3 months between first contacting the court to arrange an appointment to file their petition to the making of the bankruptcy order.
- The proposed changes will reduce this waiting period.
 - Instead of having to wait for available court time, a debtor will be able to file their petition directly to a decision-maker either online or via post
 - Decision-makers will consider petitions and will then provide the applicant with a decision on their petition.
- This administrative approach to debtors' petitions is already in place in Scotland, Australia, Canada and New Zealand
- Closes 4th February www.insolvency.gov.uk

PBR announcements

- **Basic State Pension** will increase by 2.5% to £2.40 a week next year. But experts say it's not enough to combat rising bills
- **Auto-enrolment** – launch will go ahead in 2012. PBR extended the implementation period.
- **Information available on services provided in deprived communities** - commitment to explore options with banks to help tackle financial exclusion
- **Social Investment Bank** will be created to lever in money for organisations working with a social impact e.g. CDFIs, Credit Unions
- **Utilities:** £150m for the Warm Front Scheme, which provides grants for those wanting to make their homes more energy efficient

The Business Case for Financial Inclusion

- Research for Leeds City Council has found that financial inclusion initiatives have benefitted the regional economy to the tune of almost £26 million and “for every £1 spent on financial inclusion in Leeds, £8.40 is generated for the local economy.”
- In particular the report found that the £312,000 invested in supporting the development of Leeds City Credit Union has benefitted the city’s economy by £3 million – a ten-fold return.
- Leeds City Council has Beacon status for financial inclusion from the Improvement and Development Agency (IDeA) for local government and represents a best-practice model for financial inclusion policy at local government level.

Financial Inclusion

The Wealth and Assets of 30,595 private households.

- Survey gathers information on:
 - level of assets
 - savings and debt
 - saving for retirement
 - how wealth is distributed among households and individuals
 - factors affecting financial planning
- Main results from the 2006/08 survey published Dec 09
- Findings include: only half actively saving, 77% had some form of non-mortgage borrowing but likelihood of arrears varied dramatically by tenure, gender and socioeconomic group
- http://www.statistics.gov.uk/downloads/theme_economy/wealth-assets-2006-2008/Wealth_in_GB_2006_2008.pdf

Dickensian logbook loans banned

- Properly known as bill-of-sale loans, “Logbook loans” are high-interest loans secured on cars and enable lenders to seize cars and other property from vulnerable borrowers without a court order
- About 40,000 people a year take out these loans, which are aggressively advertised on the internet to bankrupts and people with poor credit histories or county court judgments.
- After thousands of complaints to the OFT, Kevin Brennan, the Consumer Minister, has launched a consultation seeking view on the following options:
 - Banning the use of bills of sale for consumer lending
 - A voluntary code of practice or other non-statutory regulations
 - Targeted reform to bills of sale legislation
- Consultation closes 15th March 2010
- <http://www.berr.gov.uk/consultations/page54078.html>

OFT review of high-cost credit launched in July 09

- Aims to establish if high cost credit is working for consumers.

Emerging findings include:

- Consumers of high cost credit typically spend little time thinking about their options, show little inclination to search the market for other products, and choose high cost credit because the quick access it to money it gives them
- Strong correlation between users of these products and consumers who found it difficult to cope with modest income shocks i.e. finding £250 at short notice
- Between 29-36% would still take the product if interest rates were raised so that monthly repayments were 1/3 higher
- Consumers have reined in spending and borrowing following the recession
- Suppliers of credit have not sought to increase prices in the recession but restrict the amount they lend and who they lend to
- Final report to be published Spring 2010
- <http://www.ofc.gov.uk/>

Centre for Responsible Credit launched

- The Centre for Responsible Credit is an independent not for profit company established with the support of the Centre for Economic and Social Inclusion
- It will:
 - Monitor the development of credit markets and financial services
 - Research models of responsible provision
 - Promote policies to protect the long term interests of households and support sustainable economic growth
- Headed up by Damon Gibbons, founder of the Debt on our Doorstep campaign
- Currently looking at responsible lending indicators
- <http://www.responsible-credit.org.uk/index.html>

Treasury Select Committee calls for investigation of credit market

- Report , 'Credit Searches', follows an inquiry sparked by concerns that in shopping around for credit, in particular personal loans and credit cards, consumers were building up credit application searches on their credit reference files which would in fact make it harder for them to obtain further credit.
- Inquiry was not presented with :
 - unequivocal evidence that application search data is essential for loan providers
 - nor overwhelming evidence that it is a major source of direct consumer detriment,
- Report suggests that the Office of Fair Trading and the Information Commissioner's Office should assess whether the current rules are appropriate.
- http://www.parliament.uk/parliamentary_committees/treasury_committee.cfm

Financial Capability

- Rising financial capability levels among young people
- NS&I provides financial education on the high street
- Personal Finance Education Compulsory in Schools
- PBR announcements
- Canadian Financial Capability Survey

Rising financial capability levels among young people

- RBS 2nd annual MoneySense research report suggests rising financial capability levels among young people
 - 86% of young people keep track of their money, up from 79% in 2008
 - 82% reported learning about money at home or at school in 2008 with 77% looking to their parents for advice and money
 - Over two-thirds (68%) said they knew more about managing money than in 2008
 - There is more acceptance of debt as a reality in life (30% up from 26% in 2008)
 - Almost a quarter (23%) would consider the interest rate when thinking about borrowing money, up from 17% in 2008

NS&I provides financial education on the high street

- New range of NS&I consumer guides now available in 300 WHSmith stores across Britain.
- Topics covered include:
 - 'Kids and money',
 - 'Retirement',
 - 'Later life'
 - 'Bereavement'.
- The range of guides also covers NS&I's product range, managing money securely with NS&I when saving online and by phone, and Premium Bonds.

Personal Finance Education Compulsory in Schools

- In November Ed Balls MP, Secretary of State for Children, Schools and Families, announced that Personal, Social, Health and Economic Education (PSHE) is to be made compulsory for school children from 2011.
- The move follows recommendations by the MacDonald review stressing the importance of financial education and the work that credit unions are already doing in this area.

PBR announcements:

- Pledges £20 million in funding for the national roll-out of the Money Guidance service in 2010-11
- A further £5m in funds for Citizens Advice to meet increased consumer demand for help with debt.
- On 15 Dec John Healey announced a further £4m for free court desks to help those faced with repossession hearings.

Preliminary results from the Canadian Financial Capability Survey

- Human Resources and Skills Development Canada commissioned the CFCS in 2006
- Computer Assisted Telephone Interviews with the person most knowledgeable about household finances
- 5,519 respondents
- Includes information on children and seniors, families, and vulnerable populations such as low income earners, single-parents, recent immigrants, and aborigines
- Aims to collect information on degree of knowledge that Canadians have concerning financial decision-making including respondents' approaches to day-to-day money management and budgeting, longer term money management and general approaches to financial planning.

Financial Services

- Financial Services in the PBR
- New appointments
- Banks win battle over overdraft charges
- Text message loans service is a costly convenience
- BIS consultation on Post Office
- TheCityUK launched
- FSA regulation of retail banking code of business
- Future of banking Commission
- Virgin moves into retail banking

Financial Services in the PBR

- **Remuneration practices:** where banks and building society employees are awarded discretionary bonuses above £25,000, the banks paying these bonuses will pay an additional bank payroll tax of 50 per cent on the excess bonus over £25,000.
- **To maintain financial stability and promote flow of credit:**
 - explore ways of encouraging more sustainable mortgage-backed securities markets
 - consult on and promote the UK regulated covered bond markets
 - publish a discussion paper on developing non-bank lending
 - allow a short-term extension of the Credit Guarantee Scheme
- **To protect against future failure of investment banks:**
 - introduce a Code of Practice on taxation for banks;
 - set up an advisory group on professional and financial services;
 - produce a specific Governance Code for Building Societies and mutuals

New appointments

- FSA appoints Julian Edwards, formerly of Which?, as consumer senior adviser
- The FSA announced four new appointments to the Financial Services Consumer Panel (FSCP).
 - Kay Blair will take over from Adam Phillips as vice chair
 - Mike Dailly, a practising civil court solicitor in Scotland, protecting consumers' rights and tackling social disadvantage
 - Bill Martin, a macroeconomist and previously Chief Economist at the fund management arm of the Swiss bank UBS
 - Claire Whyley, a professional researcher, policy analyst and consumer champion.

Banks win battle over overdraft charges

- Supreme Court has ruled in favour of the banks in the long-running legal battle over £10 billion in overdraft charges arguing the charges were not unfair, under clause 6 of the Unfair Terms for Consumer Credit Regulations
- Ruling ends a test case brought jointly two years ago by the Office of Fair Trading (OFT), high street banks and Nationwide Building Society.
- The OFT had challenged the legality of banks charging up to £35 for a bounced cheque when the administrative cost could be as little as £2.50
- In the PBR the government announced that it would work with consumer groups, the OFT and banks to agree a new framework that will make bank charges fairer simpler and more transparent in the future.

TxtLoan - money in minutes

- Customers are credit-checked when they register for the service. If they are accepted they are given a pin number and can then apply for a loan by sending the company a text message containing this number. The money is then transferred to their account.
- But can be a costly convenience: £100 over a seven-day period with an APR of 994%
- There is also a £1 "handling fee" for each text the customer sends to request a loan, and a one-off £1 registration fee
- People who fail to repay the loan face steep charges
- The company insists it is a responsible lender: only about 10%-15% of people who apply will get a loan.

BIS consultation on Post Office

- Puts forward a number of proposals for new financial products that the Post Office could offer. These include:
 - a Post Office current account,
 - a Children's Savings account to encourage saving at the Post Office from an early age,
 - new services for small businesses including a Post Office business account,
 - a weekly budgeting account to allow those on low incomes to take advantage of direct debits and reduced bills.
- The Communication Workers Union has criticised the proposals, arguing that many already exist or are in the pipeline. Would rather see a directly-owned Post Bank which delivers trusted government-backed financial services through the Post Office.
- Consumer Focus calling for new simple-to-use bank account:
 - a million of the poorest people in the UK could be lifted out of financial exclusion if a new, simple-to-use bank account was launched at the Post Office.
 - high trust in PO but issues around limited functionality of POCA
 - have produced a blueprint banking product which would allow consumers to receive inward payments, access cash from any ATM and would have debit card functions
- Consultation ends 24th Feb 2010

TheCityUK launched

- New, independent organisation that will bring together, co-ordinate and lead the promotion of the financial and professional services industry from all corners of the UK.
- Its role includes:
 - **promoting the UK overseas as a world-class centre for financial services**
 - **acting as a source of information and advice and a primary point of contact** for overseas businesses and government delegations wishing to use or partner with financial services specialists in the UK.
 - **encouraging greater understanding of the UK financial services industry's role** in society, its contribution to the economy
 - **supporting industry efforts to work with government and regulators** to ensure that EU and international regulatory developments foster free and open markets for our financial services industry
- Chaired by Stuart Popham, Senior Partner at Clifford Chance

FSA regulation of retail banking code of business

- Since Nov 1st the FSA has been responsible for regulating the retail banking sector code of business
- Previously, the Banking Code Standards Board monitored and enforced the voluntary Banking Codes governing current accounts, personal loans and overdrafts, savings, card services and ATMs.
- This gives the regulator authority to take action against banks that are deemed to be failing to treat customers fairly and communicating information in a way that is clear and not misleading.

Future of Banking Commission launched

- Headed by Which?
- Members include David Davis MP (Chair), Rt. Hon John McFall MP, Dr Vince Cable MP, Philip Augar (formerly a Group Managing Director at Schroders'), Clare Spottiswoode (former DG of OFGAS), David Pitt-Watson (Chair, Hermes Focus Asset Management) and Roger Bootle (Managing Director Capital Economics).
- Will investigate reform of the banking industry. It's aims are to:
 - Listen to people's concerns about banking
 - Listen to the views and concerns of industry and regulators
 - Enable the restoration of rowing public trust and confidence in the banking system
- Activities include a Big Banking Debate to get consumer views, three further events in early 2010 and a report published later in the year.
- <http://www.which.co.uk/campaigns/banking-crisis/the-future-of-banking-commission/index.jsp>

Virgin moves into retail banking

- Virgin money has made a move into the retail banking sector by taking over a small private bank
- The £50m deal to take over Church House Trust was announced on 8th January
- Comes 2 years after Virgin Money failed to take control of Northern Rock.
- Expected that Virgin Money will be re-branded Virgin Bank this year, and make online banking a central part of its offering
- *“The crisis has tarnished the reputation of many UK banks. Our aim is to make everyone better off in the way we do business – by offering good value to customers, treating employees well, making a positive contribution to society and delivering a growing profit to shareholders”* (Jayne-Anne Gadhia, Executive Chairman, Virgin Money)

Financial Services Bill

Received its second reading on 23 November. Will amend the Financial Services and Markets Act 2000. Key features include:

- **Council for Financial Stability** – to co-ordinate the responsibilities and action of the Bank of England, Financial Services Authority and Treasury with respect to financial stability matters
- **Objectives of the FSA** - gives the FSA an explicit financial stability objective and removes the FSA's regulatory objective of promoting public understanding of the financial system.
- **New consumer financial education body** – requires the FSA to create a new body whose purpose is to raise the understanding and knowledge of members of the public of financial matters and improve their ability to manage their financial affairs. This body will implement the Money Guidance service.
- **Remuneration of executives of authorised persons** - requires the FSA to make general rules about remuneration policies of regulated firms
- **Recovery and resolution plan** -imposes a duty on the FSA to make rules requiring the production of recovery and resolution plans by authorised persons
- **Consumer protection measures** - make rules requiring firms to establish consumer redress schemes. Prohibits the issuance of unsolicited credit card cheques to individuals and limits the total number which can be issued in a year to three
- **Powers to require information** - enables the Financial Services Authority to increase its powers of information gathering and punishment as part of the supervisory enhancement programme

Money Guidance

- Currently at Pathfinder Stage in the North-East and North-West
- PRB announced that interim findings from the pathfinder show that it is proving effective in helping people deal with their finances
 - Take-up is expected to reach 500,000 – 750,000 in North-East and North-West.
 - 77% of face-to-face sessions have been with people vulnerable to the consequences of poor decision making.
- The Financial Services Bill contains a provision to establish a new body, the Consumer Financial Education Body (CFEB), to raise funds and run the national Money Guidance service.
- It will be able to raise funding via a variety of streams – a levy on consumer credit firms, government funding and dormant bank accounts. The use of the existing FSA levy and the OFT's licensing regime will mean no extra administrative burden for financial services.
- PBR announced £20m funding for MG in next financial year
- Currently at Committee Stage in the HoC and expecting debate on consumer clauses in early January.

Discussion

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