Response to FCA proposals on temporary financial relief for customers impacted by coronavirus

This submission brings together the combined responses of the following organisations (in alphabetical order):

- Carl Packman, Head of Corporate Engagement, Fair By Design
- Dominic Lindley, Director of Policy, New City Agenda
- Faith Reynolds, Independent Consumer Expert
- Sian Williams, Director of Policy and Innovation, Toynbee Hall

To begin, six general reflections on the FCA's proposals for temporary financial relief for customers impacted by coronavirus are:

1. We welcome the speed at which the FCA has brought together a package of remedies concerning consumer credit contracts, including payment freezes, zero interest arranged overdrafts for sums up to £500, no negative impacts on customer's credit rating, and a requirement for firms to make sure overdraft customers are no worse off on price than they were before recent overdraft changes came into force.

2. We welcome reviewing the guidance after three months in light of developments regarding Covid-19 – though this should not replace regular monitoring for consumer harm and detriment, especially that relating to supplier behaviour and interpretation of this guidance

3. We would like to see further clarity from the FCA on what constitutes a fair price for credit, during this period of change (including the costs to administer credit to customers)

4. We would like to see further guidance from the FCA on how providers should be proactively using customer data to identify potential harm and financial distress during this time, and making efforts to communicate to customers to offer appropriate remedies. There is evidence in abundance to show that during times of financial distress, an individual's behaviour will change significantly increasing their risk of exposure to harm (e.g. not contacting suppliers to negotiate payment deferrals, but instead borrowing from the commercial credit market to manage existing debts). In the interests of achieving good customer outcomes, and Treating Customers Fairly, every effort by suppliers to reach out to at-risk customers ought to be made.

5. While firms are not prevented from continuing to charge interest during the three month period, firms should seriously consider whether it is fair to charge interest on consumer credit products to someone who is facing financial difficulty through no fault of their own. The FCA should also reconsider their guidance in relation to this, since

many people facing financial difficulties at this time will have maybe experienced an unexpected significant drop in their income or income loss altogether.

6. We would welcome clarity on consumer credit products not mentioned in this guidance, including high-cost short term credit agreements, buy now pay later agreements, and hire purchase agreement (including motor finance)

Credit cards

The FCA has suggested guidance for where a customer is already experiencing or expects to experience temporary payment difficulties as a result of circumstances relating to coronavirus, and wishes to receive a payment deferral. They suggest that a firm should "grant the customer a payment deferral for 3 months (for example, in a situation in which a payment deferral may be appropriate is where there is or will be a reduction in household income that would have otherwise been used to make their credit payments).

While we would welcome this remedy in principle, we feel that this places the onus solely on the customer to contact their provider. We must recognise the real-life circumstances that this customer may be in. These might include periods of significant stress, which reduces the amount of time they can allocate to the activity of contacting their supplier. We are also aware that even where consumers are trying to contact suppliers, they are struggling to get through. Therefore we would like to see suppliers be more proactive in communicating with customers who they feel could be at risk of falling into financially vulnerable circumstances. This would also reduce pressure on their call centres.

In respect of FCA plans to suspend 'persistent debt' remedies for customers who are deferring payments for the duration set by the FCA, we don't see any reason for why providers cannot actively correspond with customers in a way that will be useful in helping that customer avoid persistent debt during this period.

Correspondence with customers who are deferring payments, but in persistent debt, should be made in accordance with providing a long-term remedy for avoiding prolonged periods of problem debt.

In respect of guidance to firms to review their prices "to consider whether they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of Covid-19 in order to ensure that they do not pose unjustifiable burdens on these consumers who may be experiencing payment difficulties."

The FCA needs to be more explicit on what a fair price is, and how this will be different from the ways firms are obliged to treat customers fairly on price during unexceptional circumstances. Should this be consistent with a break-even rate for administration of the credit card provision? Should this be consistent with how much it costs for banks to borrow money at this time? Providers will need a stronger steer in respect of what constitutes a fair price during this time.

Overdrafts

First, we welcome the part in the guidance that says it “is intended to provide relief to those who might be having difficulties due to a loss of or reduction in their income (or income of other members of their household).” This will provide relief for those whose household will fall into financial uncertainty during this period, even if they as individuals do not experience changed circumstances.

We welcome the move to ensure no interest is “payable in respect of up to £500 of the balance of the arranged overdraft for a period of no less than three months, when requested. If the arranged overdraft limit is lower than £500, no interest should accrue on the overdraft balance up to that limit for three months.”

However we would welcome clarity over this particular remedy in respect of customers that use an overdraft facility without prior arrangement. PS19/16 rules are principally concerned with stopping firms from charging higher prices for unarranged overdrafts than for arranged overdrafts. If there is no interest payable on arranged overdraft usage up to £500, is this the same for unarranged overdrafts? We would argue that it should be, and guidance to firms should make that clear.

In respect of some firms having recently increased their overdraft prices, and subsequent FCA guidance that they must “review their prices to ensure they are consistent with the obligation to treat customers fairly in the light of the exceptional circumstances arising out of Covid-19”, we would argue that the FCA must be more explicit on what a fair price is, and how this will be different from the ways firms are obliged to treat customers fairly on price during unexceptional circumstances.

In respect of the FCA’s ‘repeat use’ rules, which apply to any customers who are showing signs of financial strain or are in financial difficulty (for example, one bank’s repeat use rule states that if over a period of 3 months you use an overdraft more than 50% of the time, then this is called 'overdraft repeat use'), this shows how credit providers are already able to use customer information to identify and intervene in instances of financial difficulty. We would recommend that firms make better use of these strategies to ensure that customers experiencing difficulty are given the appropriate support – even if those customers are not forthcoming in approaching their providers themselves.

Furthermore, the FCA should provide guidance on how providers approach customers, to ensure uniformity in this time, and to make sure the communication doesn’t increase pressure on that individual customer.

Personal loans

In respect of firms engaging with customers who are or may soon experience temporary payment difficulties, we would recommend that firms take proactive measures to ensure that customers experiencing difficulty are given the appropriate support – even if those customers are not forthcoming in approaching their providers themselves. The FCA should provide guidance on how firms approach customers, to ensure uniformity in this time among providers, and to make sure the communication doesn't increase pressure on that individual customer.

While firms are not prevented from continuing to charge interest during the three month period, firms should seriously consider whether it is fair to charge interest on a personal loan to someone who is facing financial difficulty through no fault of their own. The FCA should also reconsider their guidance in relation to this, since many people facing financial difficulties at this time will have maybe experienced an unexpected significant drop in their income or income loss altogether.

FSCS and high cost credit

In addition to the above, we support an immediate expansion of FSCS coverage to high-cost credit, including rent-to-own, guarantor loans, catalogue credit and Buy-Now-Pay-Later and further protections for customers of these firms.

We believe that the FCA should:

- Expand the coverage of the FSCS to consumer credit, including high-cost credit, rent-to-own, guarantor loans, catalogue credit and Buy-Now-Pay-Later firms
- Enable customers of all of these firms including guarantors to benefit from a 3-month payment holiday
- Ensure that firms communicate the availability of payment holidays clearly on their websites and in other communications
- Restrict the level of interest which can be charged during this payment holiday by setting a cap in the guidance
- Prohibit the recording of payment holidays as defaults and damaging consumers credit files
- Introduce protections for customers of firms in administration, preventing them from being subject to aggressive collections activity
- Ensure that all consumers who have suffered from misconduct receive redress

Timing

We welcome the FCA's interventions but ask that consideration is given to how such a three month payment deferral may be requested by consumers at different points during the Covid crisis. While there is a cliff-edge now for many consumers, some will be using savings and credit to smooth their situation. Others may still be in work. However, these groups of people may find themselves falling into debt later as employer resilience weakens over time and savings fall. It would be helpful for the FCA to consider how consumers can get access to a three month payment holiday when they need it.

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We are aware of work being done by the University of Edinburgh, FDATA and Fintech Scotland to provide insights from fintechs to government about consumer and SME cashflow. We support these efforts but recognise they could be significantly bolstered were the banks to provide insights of the same kind from their transaction data. This could help firms and government alike provide more targeted help more quickly. We think the FCA could work with banks to encourage these efforts more.