



## **FLA SUBMISSION TO THE CONSERVATIVE PARTY GROUP ON OVER-INDEBTEDNESS**

1. FLA (Finance & Leasing Association) is the main representative organisation for the UK consumer credit, motor finance and asset finance sectors. Our members comprise banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of independent firms. FLA members provided £57.9 billion worth of new finance to the consumer sector in 2005, which represented 25.6% of all unsecured lending in the UK. In the above total is £18.6 billion of finance provided to the motor sector. FLA members financed at least 50% of all new car registrations in the UK in 2005.
2. The facilities provided by FLA members include finance leasing, operating leasing, hire purchase, conditional sale, personal contract purchase plans, personal lease plans, secured and unsecured personal loans, credit cards and store cards. FLA members also include a number of major providers of “sub-prime” finance in the consumer credit sector. They are a useful source of credit facilities for those consumers who would otherwise be financially excluded. In addition, FLA members play an important role in helping individuals to start up businesses: the asset finance and credit they provide makes a vital contribution to funding sole traders, small partnerships and SME investment.
3. FLA is a member of, and actively participates in the Government’s Over-indebtedness Advisory Group, FSA’s Financial Capability Trade Associations Round Table and the OFT’s Consumer Education Planning Group, as well as other similar initiatives.
4. The FLA is a strong supporter of free and impartial money advice, has campaigned and supported the work of “National Debtline” and recently backed greater standardisation and efficiency in debt repayment proposals via the “Common Financial Statement” (CFS) initiative. FLA members providing consumer credit now use the CFS, and FLA participates in work to keep CFS up to date.



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Registered in England No.2651248

REGISTERED OFFICE: FLA, IMPERIAL HOUSE, 15-19 KINGSWAY, LONDON, WC2B 6UN  
Tel: 020 7836 6511 Fax: 0207 420 9600 E-mail: [info@fla.org.uk](mailto:info@fla.org.uk) Web: [www.fla.org.uk](http://www.fla.org.uk)

5. FLA welcomes the opportunity to contribute to the Conservative Party's review of over-indebtedness. This submission also enables us to highlight other broader market issues, including financial inclusion and financial capability.
6. By way of background, we gave evidence to the Griffiths' Commission on Debt in 2004. This year, we have participated in the roundtable meeting organised by Alan Duncan MP and his team and separately met Mark Prisk MP to provide him with an overview of FLA's activities.

### **Over-indebtedness**

7. FLA supports the analysis of and recommendations in the Government's Over-indebtedness Report. As participants in the Over-indebtedness Advisory Group (see paragraph 3), we broadly welcome the Government's strategy in this area, progress reports of which are available annually. Whilst global levels are sustainable, there are problems at an individual level. Evidence is primarily based on the bad debt figures reported by banks and the rise in individuals filing for bankruptcy. The latter can be explained in part by the unintended consequences of the Enterprise Act which sought to rehabilitate failed entrepreneurs, but seems to have resulted in an increasing number of individual debtors taking what could be regarded as an easier route than in the past. The Government committed to a review of the Enterprise Act once it had been in place for three years and the Insolvency Service is currently engaged in work to this end. FLA is also keenly interested in this area of policy, and plans to commission relevant research.
8. The vast majority of people use credit responsibly and as a means to manage the peaks and troughs in their expenditure. Research by Professor Elaine Kempson from the Personal Finance Research Centre at Bristol University, has found that debt problems are often caused by unforeseen circumstances such as divorce or the loss of one's job.
9. FLA welcomes many of the Consumer Credit Act 2006 reforms which were long overdue, particularly those around transparency enabling the consumer to make better informed decisions. That said, the lender is reliant on what information is provided by the consumer: it is in neither party's interest if the latter is unable to repay.

## **Access to business credit**

10. Access for business purposes to credit and asset finance products such as hire-purchase (HP) and leasing is in our view essential to promote economic prosperity. It can allow for a much greater degree of flexibility for that individual, encourage individuals to engage with their finances, create opportunities, access to employment and greatly support new or developing businesses. Credit is an essential element of a growing and healthy economy, and is often crucial for an individual who wants to become a sole proprietor or set up a small family business.
11. In moving the debate forward, there should be a better understanding, and empirical evidence on how financially excluded areas or groups develop. This would assist in targeting resources and also form the basis of measurement which could be used to identify improvements and encourage change.
12. Those who are financially excluded may currently find it difficult to obtain credit from mainstream lenders. This may be due to a lack of information about financially excluded groups and their needs and also a specific lack of information about individuals (or SMEs) in order to assess their ability to repay.

## **The Need for Information Sharing**

13. Mainstream lenders rely, and base their business models, on the information held publicly about an individual and the information they themselves share. If there is no, or only negative, information about an individual then this can lead to exclusion. At present much of the information is too general, anecdotal or qualitative.
14. To this end, lenders need to access more about the full range of financial commitments. FLA has led the calls for greater sharing of relevant data for many years and consequently welcomed moves late in 2005 by a number of credit card issuers to share customers' data on a more detailed basis. Similarly we gave qualified support to the announcement in March 2006 by four of the high street banks that they will share certain data about customers' income with Callcredit, a credit reference agency (our reservations stemmed from the fact that we would like relevant current account data also to be shared with lenders who do not offer

current accounts, strictly for responsible lending purposes). We are convinced that sharing this additional data will aid responsible lending and help prevent over-indebtedness.

15. For some time we have been working with Government and other trade associations to discharge the outstanding action tasking the Over-indebtedness Task Force to *'...[examine] the options for removing legislative barriers on 'historic' accounts opened without a fair processing notice...'*
16. We were disappointed that the Government was unable to commit to an amendment to what was the Consumer Credit Bill to enable relevant 'historic' data (i.e. data on accounts opened before fair processing notices mentioned data sharing) to be shared, though we look forward to its forthcoming consultation paper. Disappointingly this appears to be further delayed. We remain concerned that whatever the result of the consultation the lack of a primary legislative vehicle for a change may prevent progress.
17. Discussions continue with trade associations represented on the Steering Committee on Reciprocity (SCOR), on the future governance of data sharing with a view to greater transparency. The credit industry is well aware of the need to demonstrate the relevance and value of data-sharing, given the implications it has for personal privacy.

### **Students and young people**

18. One obvious gap in current shared data concerns the "hidden" debt of a student loan. At present, the Student Loans Company (SLC), which has been lending to students for fifteen years, is not allowed to share data on student loans with other lenders via credit reference agencies. The fuller the picture a potential commercial lender can piece together of a young person's credit record and outstanding commitments, the easier it is to take a responsible lending decision. This may mean refusing further credit, or offering less than the borrower would like, or seeking further details before taking a decision to lend. But in many cases student loan data would provide valuable evidence of a good repayment record, and would be a big help to graduates seeking to establish a good credit record and be seen as the responsible borrowers they are. It would be a mistake only to disclose bad repayment records.

19. Other 'missing' data includes that held by other commercial organisations such as home credit and small-scale niche lending. In addition, if data on, for example, gas and electricity payments and local authority housing rental payments were shared the financially excluded could be helped to build up a good credit history. In some cases there are statutory barriers to data sharing. In addition, of course, we believe greater data sharing also helps to prevent over-indebtedness and fraud.

20. A coordinated approach is required between a variety of Government departments and commercial and non-commercial organisations to remove these potential causes of exclusion.

### **Confidence**

21. FLA's primary role in this area is to encourage transparent information to consumers, promote best practice and target areas where we feel we have a specific mandate. We have campaigned to promote awareness of the credit granting process to build confidence and understanding amongst consumers. (In the US consumers have a much greater understanding and 'ownership' of their credit record which we believe is beneficial to a competitive marketplace). FLA has also published a number of consumer-oriented leaflets [*copies enclosed*], written in plain English, including 'Your Credit Decision Explained', 'Money Advice' and 'Repaying Your Loan Early'.

22. We continue to work with members to ensure that the information available to consumers about what they sign up to is clear and more transparent. For example, since March 2004 consumers now have upfront information about key features of store cards through the FLA's Summary Box.

23. There are also many other provisions within FLA's Lending Code [*also enclosed*] which aim to ensure that the information provided to customers is clear and transparent and that our members offer the highest standard of service and act responsibly in the marketplace. We continue to update and strengthen the consumer protection available under the Lending Code that all our members must sign up to as a condition of membership. A revised version came into force on 1 June 2006.

24. Confidence can also be built by ensuring that there is appropriate access to redress if things go wrong. FLA operates a complaints and arbitration service which is free to consumers and easily accessible. Our scheme seeks to assist where customers of our members are experiencing difficulties. We envisage that the scheme, which helps us monitor compliance with our Code, will continue to operate when the Consumer Credit Jurisdiction of the Financial Ombudsman Service assumes its responsibilities under the CCA.

### **Financial Exclusion**

25. There is a very strong linkage between the range of separate Government policy initiatives in the area of financial inclusion / exclusion and financial education. In our view this nexus of issues requires a strong coordinating lead within Government, which we believe should be HM Treasury.

26. In FLA's view, the only viable way for Government to tackle financial inclusion is in partnership with commercial providers. In tackling financial exclusion there should be a balanced approach between encouraging niche or social solutions and actively encouraging the development of commercial provision.

27. Various barriers to financial inclusion can arise, for example, through actual impediments in the marketplace or due to the operation of processes and institutions that can result in exclusion.

28. Institutional barriers may arise in the context of credit and financial services, for a variety of reasons. From a company's perspective, it may be due to a lack of access to or knowledge of a particular group or groups of individuals which makes it difficult to assess or understand that group. In turn, this can lead to difficulties in developing business models, products and assessing risk.

29. From a consumer's perspective financial exclusion can result from insufficient understanding or confidence in relation to the products available or simply a lack of products which suit their needs. Often the lack of flexibility in the products available or fears associated with managing financial commitments can lead to exclusion.

30. In FLA's view, financial inclusion must therefore be tackled on a variety of fronts, including:

- working to build *both* consumer and business confidence;
- consumer education;
- creative business models;
- open, transparent and competitive marketplace;
- flexible and straightforward products.

31. FLA supports a joined up approach to promote a wide access to financial products both between Government and other key stakeholders.

32. We very much welcome cross-Government action on reducing financial exclusion, particularly initiatives such as the Financial Inclusion Fund to improve access to affordable credit and to advice. We would however re-emphasise paragraph 25 above. A high level strategic approach is essential.

### **Money Advice and Education**

33. As a body, FLA works closely with money advice organisations. We also actively encourage our members to support and contribute to providing free and independent money advice.

34. This is an area of continuing work and improvement. The face of money advice is changing and the nature of the advice they give is also changing. Traditionally seen as tackling serious debt problems some money advice and other organisations now see their role in much more broad terms. This is a challenge to the advice sector but it is also an important for commercial providers to actively engage with advisers to ensure that they can develop better products and respond to concerns. A dialogue is essential and FLA has had a long-standing good relationship with the advice sector. We are members of the Money Advice Liaison Group (MALG) and its Steering Group as well as its Working Party on Mental Health. Furthermore, FLA's Director General, Martin Hall, is the present Chairman of the Money Advice Trust.

35. We encourage government departments and authorities to actively engage in these kinds of discussion fora.

36. We believe financial education is a key part of this debate. Education, should, in our view focus on a sound underpinning of the core skills of numeracy and literacy. In addition, the importance of financial planning including pensions and budgeting should be attained at the early opportunity. We would commend here the Government's commitment to include by 2009 some financial literacy skills in the national curriculum.

### **Mental Health**

37. FLA has also helped to promote the interests of vulnerable groups. We recently produced a film aimed at improving the advice and support offered by finance providers to those with mental health difficulties and debt problems. In partnership with Citizens Advice we produced a package of information, including a DVD (copies of which have been sent to all Members of the Treasury Committee), to highlight what lenders can do to ensure they respond sensitively, appropriately and fairly to those in financial difficulty and how best to raise awareness with front-line staff and those engaged in debt collection. More recently we have sponsored a booklet produced by the Royal College of Psychiatrists which advises psychiatric nurses how to help their patients in financial difficulty.

### **Summary**

38. FLA welcomes the opportunity to contribute to Conservative Party's consideration of over-indebtedness. Used correctly credit is an enabling tool for the consumer. As Griffiths recognised, debt is a problem for a small number of people. It is these sometimes desperate cases where credit is misused, that give us all cause for concern. We would be happy to give oral evidence if required.

7 July 2006