# Financial Services Impact of COVID-19
# The Consumer Council Proposals
# July 2020

## 1. Executive Summary

1.1. The COVID-19 pandemic has had a significant impact on consumers and The Consumer Council is concerned about the resilience of Northern Ireland consumers. There is a range of evidence outlined in this report that indicates Northern Ireland consumers were already ill equipped to deal with income shocks before the impact of COVID-19, with our levels of discretionary income lower than other UK regions and our level of savings the lowest across the UK.

1.2. The purpose of this report is to outline our key concerns and to seek agreement on the steps that need to be taken to support consumers to recover from this pandemic. In order to achieve this The Consumer Council believes the following three questions will need to be addressed:

- Which households are most vulnerable to the phasing out of support measures?
- Which groups of consumers are most vulnerable to detriment in financial services?
- What permanent or long term interventions need to be introduced to protect vulnerable consumers?

1.3. In terms of the steps that need to be taken to support consumers to recover from the impact of COVID-19, The Consumer Council believes the following actions need to be delivered:

- Access to Credit and Savings – as the availability of credit contracts and the creditworthiness of consumers is reduced, there will need to be new forms of affordable credit made available to consumers, particular those from low income households, young people, people with dependents and those in rented accommodation. Accessible savings schemes will also need to be brought forward.
- Consumer Protection – there needs to be clear statements to industry on the standards of support expected by the FCA and what it believes treating customers fairly looks like on an industry by industry basis.
- Non-Financial Services Commitments – a working group should be established with key stakeholders to assess the level of detriment for Northern Ireland consumers and share information on support measures and their effectiveness.
- Debt Write Off – Government, regulators, industry and consumer bodies should investigate the feasibility of a debt relief programme to help address unmanageable debt in the wake of COVID-19.

## 2. Background

2.1. The Consumer Council is a non-departmental public body (NDPB) established through the General Consumer Council (Northern Ireland) Order 1984. Our principal statutory duty is to promote and safeguard the interests of consumers in Northern Ireland. This includes consumers of financial services.

<u>Regional Differences Pre COVID-19</u>

2.1. Of the devolved UK nations, Northern Ireland had the lowest average weekly earnings for 2019[1] at £535 compared to the UK average of £585. There are a higher level of disability benefit claimants, a lower proportion of people with savings and higher levels of over-indebtedness as outlined in Figure 1.

[1] https://www.ons.gov.uk/surveys/informationforbusinesses/businesssurveys/annualsurveyofhoursandearningsashe Latest data available as at 2 June 2020

**Figure 1: Issues – Northern Ireland vs UK**

| Issue | NI | UK | Difference | Source |
|---|---|---|---|---|
| Disability claimants (DLA or PIP) | 11.6% | 5.7% | +103% | Calculated using DFC ONS and NISRA Statistics up to February 2020[2] |
| No cash savings or savings under £5,000 | 67% | 57% | +18% | FCA 2017 – Financial Lives Survey (published 2018) |
| No cash savings | 16% | 13% | +23% | FCA 2017 – Financial Lives Survey |
| Over-indebtedness | 20% | 15% | +33% | FCA 2017 – Financial Lives Survey |
| Low understanding of financial issues | 24% | 17% | +41% | FCA 2017 – Financial Lives Survey |

Post COVID-19

2.2. The Department for the Economy has published its report on "Rebuilding a stronger economy - the medium term recovery towards a more competitive, inclusive and greener economy[3]." The report contains a comprehensive summary of the economic landscape which summarises the key issues as follows:

- a decline in output in Northern Ireland that is more severe than in the rest of the UK;
- a higher share of food manufacturing, life sciences and public sector workers indicating the potential for future sheltering;
- six years of labour market progress being undone in a month, with expectations redundancies will increase sharply again in the near future;
- the distribution of claimants shows that areas that had relatively high numbers of claimants in March have seen further increases in claimant counts and that there has been an increase across a wide variety of electoral wards;
- falling retail sales and forecasts that social distancing measures, more precautionary consumer behaviours and subdued confidence levels will lead to further falls in consumer spending;
- the risk that these economic issues could be further compounded by the operation of the NI Protocol and EU Exit more generally;

[2] NB The statistics in the February 2020 publication (released 27 May 2020) do not cover the current COVID-19 emergency situation.

[3] https://www.economy-ni.gov.uk/publications/rebuilding-stronger-economy-medium-term-recovery

- EU Exit and Covid-19 combining to create a very difficult scenario for the traditional employment in our rural economy; and
- Foreign direct investment (FDI) likely to be greatly reduced, and decisions on available investment will be made in a highly competitive global environment.

2.3. According to research published by Ulster University[4] in June 2020, the negative impacts on the Northern Ireland economy caused by COVID-19 will be persistent beyond the lockdown phase, and there will be a lengthy recovery period. A survey by the Northern Ireland Chamber of Commerce highlighted the fragility of the local private sector, suggesting that two-fifths of businesses have either no, or less than one month, of cash reserves left[5]. The Purchasing Managers Index for April 2020 indicated that 45% of businesses have already reduced staffing levels[6]. The Ulster University report goes on to state that it estimates 258k people have been furloughed or laid off, representing 30% of employment in Northern Ireland[7].

2.4. The percentage monthly increase in the claimant count[8] for Northern Ireland increased by 89% compared to a UK average of 69% in April 2020.[9] According to Northern Ireland Statistics and Research Agency (NISRA), the number of people on the NI claimant count (experimental) increased by 26,500 to 56,200 over the month to April 2020, which makes it the highest monthly increase since records began and brings the claimant count to 2014 levels [10]. The same report for May 2020 states the number of people on the NI claimant count (experimental) increased over the month to 65,200[11].

2.5. According to household spending data published in June by The Office of National Statistics (ONS), Northern Ireland households spend the largest percentage of their income (35% - compared to UK average 32%) on non-discretionary items (e.g. food and energy payments) for which no payment holidays have been made available[12].

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[4] https://www.ulster.ac.uk/__data/assets/pdf_file/0004/578263/COVID-19-Worker-characteristics_08.06.2020.pdf

[5] Northern Ireland Chamber of Commerce (2020) NI Chamber & BDO survey: Cash flow crisis persists but business sees benefit from job furlough scheme. Wednesday 29th April. [Available via: https://www.northernirelandchamber.com/2020/04/29/ni-chamber-bdo-survey-cash-flow-crisis-persists-businesssees-benefit-job-furlough-scheme

[6] Ulster Bank (2020) Northern Ireland PMI – April 2020. [Available via: https://ulstereconomix.com/wpcontent/uploads/2020/05/NI-PMI-April-2020.pdf]

[7] https://www.ulster.ac.uk/__data/assets/pdf_file/0004/578263/COVID-19-Worker-characteristics_08.06.2020.pdf Point 6

[8] The Claimant Count is an experimental statistic that seeks to measure the number of people claiming benefit principally for the reason of being unemployed.

[9]https://www.ons.gov.uk/employmentandlabourmarket/peopleinwork/employmentandemployeetypes/bulletins/employmentintheuk/may2020. Figure 11

[10] https://www.nisra.gov.uk/system/files/statistics/labour-market-report-may-2020.pdf

[11] https://www.nisra.gov.uk/system/files/statistics/labour-market-report-june-2020.pdf

[12] https://www.ons.gov.uk/peoplepopulationandcommunity/personalandhouseholdfinances/expenditure/articles/morethanonefifthofusualhouseholdspendinghasbeenlargelypreventedduringlockdown/2020-06-11

2.6. The Trussell Trust reports that for April 2020 there has been a 142% increase in the number of all people fed from foodbanks in Northern Ireland and an increase of 128% in the number of children fed, compared to the UK average increases of 89% and 107% respectively [13].

**Figure 2 – Figures from the Trussell Trust June 2020 Briefing**

| | England | N Ireland | Scotland | Wales | UK |
|---|---|---|---|---|---|
| % increase in no. of all people fed | 95% | 142% | 47% | 89% | 89% |
| % increase in no. of children fed | 115% | 128% | 62% | 101% | 107% |

## 3. Consumer Council Research

Illegal Lending Research

3.1. In 2018, The Consumer Council received funding from HM Treasury to focus on the issues of illegal money lending in Northern Ireland. The role of The Consumer Council is to provide education and alternative solutions to those consumers that may be at risk of using illegal money lenders.

3.2. A key part of our role has been to carry out research to better understand the scope and scale of illegal lending. As part of this work The Consumer Council commissioned a number of research projects to increase our understanding of the underlying issues of illegal lending.

3.3. In 2019, Cognisance were commissioned to conduct a statistically significant quantitative research project to look at Northern Ireland consumers experiences of lending, savings and debt, including awareness and use of illegal lending. The project included a representative sample of over 1,000 consumers across Northern Ireland and booster samples undertaken in the eight areas identified by the "Fresh Start Agreement" as *Communities in Transition.* The key findings were:

- 35% of Northern Ireland consumers are aware of illegal lending in their local area;
- 50% of Northern Ireland consumers are aware of illegal lending outside of their local area;
- 1% of the Northern Ireland population admit to previously borrowing from an illegal lender (This rises to 3% for those aged 16-24; those in low income households; and those who reside in the booster sample areas[14]).

3.4. Groups identified as being at greatest risk of potentially using an illegal lender are those:

- Aged 16-24
- Aged over 65;
- In low income households; and
- In social housing.

[13] https://www.trusselltrust.org/wp-content/uploads/sites/2/2020/06/APRIL-Data-briefing_external.pdf
[14] Caution is expressed given the low sample size

3.5. The research also found significant differences in terms of access to credit and use of financial products for those consumers in social housing as outlined in Table 1.

**Table 1 – Research Responses for Social Housing Tenants.**

| Issue | Overall Sample n =1022 | Social Housing n =512 |
|---|---|---|
| Access to a current account | 91% | 82% |
| Cash – main payment method | 66% | 83% |
| Save Regularly | 54% | 43% |
| Have a credit card | 41% | 12% |
| Borrowed from a Bank/Building Society | 29% | 8% |
| Aware of Illegal Money Lending in local area | 35% | 50% |
| Aware of Illegal Money Lending outside local area | 50% | 59% |
| Use Illegal Money Lenders | 1% | 2% |
| Seek help from family and friends when in debt | 45% | 68% |
| Need of education in relation to borrowing money | 24% | 53% |

3.6. In 2019, The Consumer Council commissioned research from Advice NI and Christians against Poverty in Northern Ireland to consider the lived experiences of consumers that had used illegal lenders. The research provided a series of case studies to show the human impact of using illegal lenders and the reports concluded that:

- Illegal lending exists in Northern Ireland;
- Generally small amounts were borrowed for relatively short periods, often to pay for necessities (particularly for their children e.g. School Uniform), not for luxuries;
- Those borrowing were mainly on low incomes, or solely in receipt of benefits, and often felt they had no alternative;
- While exorbitant interest rates, and repayments, are often made very clear up front to borrowers, this is not always the case and, particularly in cases involving vulnerable borrowers who can be forced into perpetual payments, with the debt never decreasing; and
- The use of illegal money lending has a significant impact on the physical and mental well-being of those borrowing (and their families).

3.7. Ulster University were commissioned to conduct a two part research project, published in March 2020. The first part of the research was a literature review which concluded that although there is no single reason why people use illegal money lenders, some of the primary reasons suggested within the literature are as follows:

- Consumers have exhausted all available legal sources of credit (they are deemed too 'high risk' or the amount of money they require is too small to meet the threshold for a loan from a bank/building society);

- Consumers are unaware of their eligibility for accessing resources through legal money lending organisations;
- A sudden and unexpected change in circumstances necessitating quick and convenient money;
- A change in personal circumstances due to the death of a loved one, loss of earnings due to ill-health, addiction, or difficult/abusive domestic relationships;
- Individuals view using illegal money lenders as a relatively 'normal' interaction within their community;
- 'Vulnerable' individuals, usually on low incomes with few alternatives, are targeted and exploited by opportunistic illegal money lenders.

3.8. The literature review identified that illegal money lending is a significant problem in many communities across the UK and further afield. The report goes on to state *'It is perhaps its embeddedness as a sociocultural norm within communities, combined with persisting socio-economic inequalities, that significantly contributes to its prevalence as a community resource, and to the difficulty in combatting it from a criminal justice and policy perspective.'*

3.9. The second part of the Ulster University research was a series of interviews and focus groups with key stakeholders, such as community organisations, advice agencies, and enforcement bodies. The research states that Universal Credit was repeatedly identified as a driver for illegal lending, with the changeover from the previous benefits system of Income Support frequently creating problems for members of the public.

3.10. In particular, citizen advocacy groups spoke frequently about the harm caused by the four-to five-week waiting times and issues with short-term benefits loans that were then repaid from future benefits. This ensured that benefit claimants were always short of the funds they needed to support their household, obliging them to look to other means of getting money.

3.11. In 2019, The Consumer Council commissioned Wordnerds to conduct 'social media listening research' to enable us to gain an understanding of the landscape of money lending online and whether there was much reference to illegal lending. Initially the research looked for general conversation - people from Northern Ireland discussing their options for borrowing money. Whilst there was no discussion of illegal lending in public forums, the researchers identified a fully developed money-lending community, with many loans being requested from Northern Ireland via the online forum Reddit.

3.12. The research found that 235 loan requests were made from Northern Ireland consumers. The average amount borrowed was £193 over an average repayment period of 15 days, at an average interest rate of 130%. The highest amount borrowed was £3,000 and lowest was £10.

<u>Low Income Consumers Research</u>

3.13. The Consumer Council also commissioned the Centre for Economics and Business Research (CEBR) in February 2020 to look into discretionary income and living cost changes in Northern Ireland. Discretionary income refers to the amount of money left over after taxes, and paying for things that are essential such as food and housing. CEBR analysed household income to understand how cost increases might impact upon the discretionary income of households.

3.14. It found that the lowest quartile, i.e. the lowest earning 25% of people in Northern Ireland, have a discretionary amount of -£8.69 per week. This means that these households are having to borrow just to pay for essential goods and services. It is worth noting that this figure has been calculated, pre COVID-19.

3.15. Expenditure on food, in particular, can have a significant impact on the discretionary incomes of Northern Ireland households, because it makes up a very large component of essential spending.

3.16. The lowest earning quartile of households in Northern Ireland is very sensitive to price shocks which affect how much they have to spend on necessary items. As the bottom quartile of earners already have negative discretionary incomes, on average, any upward price shocks make the size of their weekly deficit larger.

3.17. In comparison, the average household in the lowest income quartile for the whole of the UK does have a few pounds left over at the end of each week, after taxes and essential spending.

## 4. Key Issues

Access to Credit

4.1. Our research outlined above, and that of the FCA, has identified that some of the most important reasons for using an illegal lender are that borrowers have exhausted all available resources and have a desperate and urgent need for money, they have often been tipped into using the illegal lender by a crisis or unexpected particular shortfall in income, that lending has been habitual and prevalent in communities for generations, and that there is a strong correlation between areas of high economic deprivation (particularly in social and rented housing estates) and the volume of illegal money lending (Financial Conduct Authority, 2017).

4.2. The Consumer Council is concerned that the availability of credit, particularly to the most vulnerable consumer groups as outlined in our research, is likely to be reduced given the impact of COVID-19.

4.3. The FCA Consumer credit — high-cost short-term credit (HCSTC) lending data[15] from January 2019 states for the year 1 July 2017 to 30 June 2018, the total value of high cost short term loans was just under £1.3 billion and the total amount payable was £2.1 billion.

4.4. In terms of insight into HCSTC borrowers, the FCA found:

- 37% of payday loan borrowers and 29% of short-term instalment borrowers are aged 25 to 34;
- 37% of HCSTC borrowers are tenants (including council tenants) and 26% are living with parents;
- payday loan borrowers (61%) and borrowers using short-term instalment loans (41%) have a lower level of confidence managing their money than the wider UK adult population (24%); and
- 67% of payday loan borrowers and 49% of short-term instalment borrowers are over-indebted compared with 15% of UK adults.

4.5. It is reasonable to assume that groups identified above will also be those most affected by the COVID-19 pandemic. Low income households and younger people are more likely to work in shut-down sectors and are more likely to have lost employment. Younger people and low income households were also less financially secure going into the crisis and will have a reduced level of resilience to be able to cope with the reduction or loss in income. It is also worth noting

[15] https://www.fca.org.uk/data/consumer-credit-high-cost-short-term-credit-lending-data-jan-2019

that these groups are also the same as those our research has identified as being the most at risk of using an illegal lender.

4.6. In its feedback statement on high cost credit in 2017, the FCA stated it *"found no evidence that consumers who have not been able to get HCSTC products since the cap have generally had negative consequences as a result. The majority (63%) of consumers turned down for HCSTC products since the cap was introduced believe that they are better off as a result. We have not seen a significant 'waterbed effect' with consumers increasing their use of other high cost credit products after failing to get a HCSTC loan. We also found no evidence that consumers who have been turned down for HCSTC are more likely to have subsequently used illegal money lenders[16]."*

4.7. The feedback statement also stated *"around 15% of declined consumers take out an alternative credit product after being declined HCSTC, while around 25% turn to informal forms of credit such as friends or family."*

4.8. Research published by Toynbee Hall which reported the lived experience of declined payday loan applicants[17] found that *"informal use of credit from friends or family is more complex. People do not feel this option is a long-term solution for them, often finding that they can do this type of borrowing only once. For this reason many of the people we spoke to would prefer to take an alternative credit product, or even continue to look for a payday loan, than ask friends or family."*

4.9. We know from our work with the advice sector and other illegal money lending teams that consumers that may have borrowed money from an illegal lender may refer to it as borrowing from a friend or family member.

4.10. Research produced for The Consumer Council by Ulster University stated that a number of groups interviewed suggested that illegal lenders, in many regards, were viewed by community members as an integral part of some communities and seen to provide a worthy and necessary service:

*"There is a general belief that lenders are providing a good service to impoverished community members. (Focus Group)"*

*"We need to be very cognisant of the environment in which we are operating within – there is a permissive environment around these behaviours – an acceptance, a normalisation. It is a bit like a bloke offering you a dodgy box for £200 that gets all the channels for life – people are not going to turn it down or see it as breaking the law. (Int. 1)"*

4.11. It was also suggested that members of some communities have been utilising the same illegal lending for generations:

*"'grandmothers, mothers, daughters have been going to the same lender for years' (Focus Group)."*

4.12. It was evident that the durability of these lenders was based upon the personal relationships that were established between the lender and the borrower 'on the doorstep' in working-class communities. Anecdotally, respondents to the Ulster University research suggested that these illegal lenders had become so close-knit within communities that they attended some of their

[16] https://www.fca.org.uk/publication/feedback/fs17-02.pdf
[17] https://www.toynbeehall.org.uk/wp-content/uploads/2018/11/Payday-Denied-Report.pdf

borrower's children's birthday parties and weddings. This was often based on the social nature of credit and the routine 'gifting patterns' that were based on reciprocity and trust. For example, it was suggested that lenders, during pressure points in the year – such as Christmas or the upcoming school year – would offer lenders more money as a sign of generosity.

4.13. Therefore, whilst the introduction of the interest rate cap may have reduced demand for HCSTC from some consumers, the idea that 25% of those refused HCSTC turned to informal forms of credit, such as borrowing from friends and family, may be masking a wider problem than can be evidenced. The research which identified on line peer to peer lending schemes could suggest that consumers are finding other routes to credit that may not provide the level of protection that regulated products do.

4.14. Even with the current job and income protection measures and improvements to social security in place, many households will still need access to emergency loans to cover basic needs (as well as grants for those in most pressing need). The non-profit lending sector does not currently have the capacity to help the most vulnerable households at risk of being targeted by illegal lenders. This calls for quick, direct interventions to provide emergency loans. Demand for high cost credit has already been estimated at £3 billion a year, but so far affordable credit providers are only providing £250 million a year – or just £1 in £12 of demand.[18]

4.15. Research published by StepChange[19] in June 2020 states that almost one million people have turned to high cost credit to make ends meet since the beginning of the COVID-19 crisis.

4.16. The findings of a London Economics study[20] suggest that establishing a no-interest loans scheme in the UK is feasible and that HM Treasury is committed to piloting such a scheme. However, the impact of the coronavirus has changed the economic environment and the demand for such a scheme is likely to have significantly increased.

4.17. We know that the dormant accounts scheme in England has been used to establish Fair 4 All Finance, which has been founded to support the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable and appropriate financial products and services.[21] However, it is our understanding that the remit for Fair 4 All does not fully extend to Northern Ireland.

4.18. The Dormant Accounts scheme that exists in Northern Ireland does not have the same requirement in legislation. The Dormant Bank and Building Society Accounts Act 2008[22] sets out the requirements for distribution of dormant account money by the various regions. Section 18 (1)(b) states distribution of dormant account money for meeting English expenditure must be made for meeting expenditure on or connected with;

(i) the development of individuals' ability to manage their finances, or
(ii) the improvement of access to personal financial services.

4.19. Section 21 of the legislation places no such requirement on the distribution of money for Northern Ireland expenditure and therefore, there is a significant risk that the extensive work being undertaken by Fair 4 All Finance and the millions in funding that will aim to have a

18 https://fair4allfinance.org.uk/activities/
19 https://www.stepchange.org/Portals/0/assets/pdf/coronavirus-policy-briefing-stepchange.pdf
20 https://londoneconomics.co.uk/wp-content/uploads/2020/03/NILS-feasibility-study-report.pdf
21 https://fair4allfinance.org.uk/about-fair4all/
22 http://www.legislation.gov.uk/ukpga/2008/31/part/2

significant benefit for consumers in England, will not be fully available for consumers in Northern Ireland.

4.20. It should also be noted that Northern Ireland has higher proportions of consumers with low or no savings, which further reduces consumer resilience to the types of impacts caused by the current crisis.

4.21. Growing numbers of households will become economically unviable/unattractive for mainstream lenders and will either be forced to turn to high cost subprime lenders, or they will be denied access to credit altogether. Unless accessible, affordable, alternative credit, (together with debt advice and money management guidance) is made available to Northern Ireland consumers, there is a significant risk that vulnerable consumers will face significant detriment and will have fewer options available to them compared to their UK counterparts.

Affordable Credit and Savings Pilots

4.22. The Consumer Council previously undertook some work in this area which was delivered through a pilot with a local credit union in Shantallow Derry/Londonderry, with the aim to make affordable credit accessible to those who might normally resort to high cost loans to pay for unexpected bills and essential purchases.

4.23. The main objectives were:

- to help consumers become more financially capable through managing their money better; and to help consumers to carefully consider the various credit options available to them and choose products which best suit their needs.

4.24. In order to reach consumers who, would have traditionally fallen outside of the usual lending criteria, lending rules were relaxed by the credit union. In most cases, applicants were female with children and in receipt of welfare benefits. The most common reasons cited for loans amongst applicants was to meet household costs (29%), Christmas expenses (29%) and to clear an existing debt such as a loan or store card (21%).

4.25. Of the 52 borrowers, 40 (77%) went on to have further successful loans and, in many cases, participants went further to become savers. Whilst borrowers were considered to be a higher risk, the findings of the pilot highlighted a write off rate for loans was just 6%.

4.26. In April 2018, the Illegal Money Lending Team in England launched a pilot project utilising money seized under the Proceeds of Crime Act, which provides a fund of £50,000 to each of the participating credit unions to offer loans to households who fall outside the typical lending criteria. Figures provided by the team for this report, reflecting on the performance and achievements to date, highlighted the following:

| | |
|---|---|
| **Total loans provided as part of the scheme in Year 1** | 1979 |
| **Total Lent by Credit Unions in Year 1**<br><br>***Note: Leeds CU lent considerably more than any of the other 5 credit unions (£880,848.57 or 63% of total lent)*** | £1,376,665.60 |
| **Average Loan Value** | £889.09 |
| **Default Rate (based on value of total amount loaned against value of loans defaulted)** | 9% |
| 21% of the loans to new members (three months or newer) 79% to existing members | |
| 22.9% of the 21% loans to new members are currently in distress (96 loans of 414 total) | |
| 10.8% of the 79% of loans to existing members are currently in distress (168 loans of 1556 total) | |

4.27. One area in which Northern Ireland does have an advantage is its credit union network. Figures indicate that 41.8% of adults in Northern Ireland are registered with a Credit Union compared to just 3.42% in the UK generally (Bank of England, 2020). However, it should be noted that the legislation in England permits credit union interest to be charged up to 3% per month compared with only 1% in Northern Ireland[23].

4.28. This is a potential barrier since the risk involved in providing loan funding from the deposits held by credit unions over and above any potential underwriting fund may be too high within the current legislative constraints.

4.29. In 2019, The Consumer Council set up The Responsible Lending Forum, with representatives from housing organisations, the finance industry, Credit Unions and the advice sector. The role of the forum has been to increase awareness of alternative sources of affordable credit. Increasing awareness of free debt advice and affordable credit is key to reducing financial exclusion and the risk of using illegal lenders. The forum is made up of a wide range of stakeholders that include voluntary and community sector organisations. This forum would be well placed to work in collaboration to deliver outcomes for financial inclusion projects that would not normally attract statutory funding.

4.30. A costed proposal for how affordable loans could be provided to low income consumers has been developed with a range of stakeholders that would require access to supportive funding not currently available through statutory funding in Northern Ireland.

[23] The Credit Unions (Northern Ireland) Order 1985

4.31. The facility, which was originally launched by London Mutual Credit Union and delivered over the last seven years, has enabled its evolutionary development as well as demonstrating the viability and huge, potentially, beneficial impact that could be achieved. It commenced its payday loan alternative in January 2012 and in the first five years approved 25,315 short-term loans with a total value of £7.01 million, to 4,912 individuals who collectively saved a minimum of at least £2.67 million in interest alone.

4.32. **Proposal –** The Consumer Council believes pilot lending schemes that provide access to credit for those excluded from mainstream credit need to be brought forward as a priority. Funding should be provided to enable a pilot scheme similar to that which has been outlined above. The scheme could be delivered in partnership with Credit Unions and take advantage of the extensive coverage the Credit Union movement already has in Northern Ireland. Access to savings could also be developed by ensuring part of the loan repayment be set aside in a regular savings scheme.

Consumer Protection Measures

4.33. The FCA has introduced a range of emergency measures to protect consumers from the financial impacts of COVID-19. These mostly focus on mortgages and consumer credit products and are designed to ensure that lenders exercise forbearance by giving borrowers payment holidays if needed, and consumers are protected from aggressive practices while they are financially vulnerable. Guidance from the FCA has been clear to firms that payment holidays should not affect the credit score of the borrower.

4.34. However, a picture is emerging that it may still affect people's ability to access credit. The Chief Executive of Nationwide Building Society is reported as saying a borrower's credit file should be marked if they take a further mortgage holiday. Lenders look at somebody's credit rating when deciding whether to agree to a fresh loan or contract and the interest rate they will charge, and an extension to the mortgage break may signal a borrower was "struggling"[24].

4.35. It is a concern that consumers forced to take advantage of the temporary support measures introduced by the FCA may now find their ability to access credit, or indeed to access better deals for existing credit, has been reduced. As we move into the period in which consumers make the transition from support products back to making repayments, there needs to be clear messages for consumers on what their rights are.

4.36. Lenders are required to treat customers fairly and there are a range of forbearance measures that are available to consumers. However, there will be a cohort of consumers that will need support through the difficult period of recovery, and it must be made clear to consumers what their rights are and clear to lenders that a hard line will be taken with any service provider that does not actively support all consumers through periods of financial difficulty.

4.37. There is also a role for the Financial Ombudsman Service (FOS) to play in ensuring that consumers are given the level of forbearance they are entitled to. Consumers may be in financial difficulty that could have been reduced or mitigated if they had been given adequate support from their financial service provider. We know that only two percent of complaints received by FOS come from Northern Ireland[25], the lowest of all the regions.

[24] https://www.bbc.co.uk/news/business-52847131

[25] https://annualreview.financial-ombudsman.org.uk/files/2242/annual-review-2018-2019-data.pdf

4.38. **Proposal -** The Consumer Council believes there needs to be clear statements to industry on the standards of support expected by the FCA and what it believes treating customers fairly looks like on an industry by industry basis. Impaired credit files will reduce access to credit, which will increase the number of consumers facing the issues outlined under the access to credit section of this report, resulting in access to credit issues outlined above. There also needs to be increased awareness of the role FOS can play in ensuring consumers get the protection and support they are entitled to.

<u>Non-Financial Service Commitments</u>

4.39. The impact of COVID-19 is much wider than consumers' ability to keep up with their financial commitments. There are other costs which also account for significant amounts of consumers' budgets. These include rent payments, rates payments, and energy costs. Public sector bodies, such as Land and Properties Service, Northern Ireland Housing Executive, Insolvency Service and Enforcement of Judgements Office, as well as utilities providers, industry regulators and the relevant government departments, will also have a key role to play in assessing the pace of recovery for consumers and identifying what support is needed to aid recovery.

4.40. **Proposal** – a working group should be established with the stakeholders outlined above to assess the level of detriment for Northern Ireland consumers, and share information on support measures and their effectiveness. The Consumer Council would provide secretariat for this group and input as the consumer representative.

<u>Debt Write Off</u>

4.41. One of the most difficult debates that needs to be had is what to do about unsustainable and unrecoverable debts accrued as a result of the COVID-19 financial impacts. There are a range of existing legal and voluntary mechanisms designed to deal with serious debts accrued by individuals. There is also arguments that there should be a wider programme of debt relief aimed at providing a more systemic solution and 'rebooting' of household finances[26].

4.42. The development and delivery of a more systemic debt relief programme is fraught with problems including administrative issues, establishing eligibility, potential unintended consequences and the morality/fairness issue of simply writing off someone's debts. However, given the scale of unmanageable debt that is likely to occur post COVID-19, the debate is one that needs to be had.

4.43. **Proposal** – Government, regulators, industry and consumer bodies should investigate the feasibility of a debt relief programme to help address unmanageable debt in the wake of COVID-19.

[26] https://www.theguardian.co+m/commentisfree/2020/mar/18/debt-relief-coronavirus-crash

## 5. Conclusion

5.1. Figures have been widely reported about the economic impact of COVID-19, the increase in benefit claimants, the downturn in the economy and the potential longer term impacts.

5.2. It is difficult to fully appreciate what all of this potentially means for consumers. However, it is clear that the level of government intervention, and that of the FCA and the finance industry, has cushioned the impact for many people.

5.3. As these support measures are removed or phased out, there will be a cohort of consumers that will face severe detriment. The Consumer Council believe that these impacts could be felt more severely in Northern Ireland as the figures outlined in this report show consumers were less resilient than their UK counter parts going into this crisis.

5.4. We believe that the interventions called for in this report will be required as a minimum to support those people most affected by COVID-19, and we are keen to work with Government and key stakeholders to support consumers through this crisis period and into a period of supported recovery.