Financial Services Consumer Panel
AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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By email: public.enquiries@hmtreasury.gov.uk

Dear Sir / Madam

Financial Services Consumer Panel representation to Comprehensive Spending Review 2020

The Financial Services Consumer Panel is an independent statutory body. We represent the interests of individual and small business consumers in the development of policy and regulation of financial services in the UK. We welcome the opportunity to make representation to the Comprehensive Spending Review 2020.

The Covid-19 pandemic has already caused significant challenges in the financial lives of individual consumers and SMEs, and is likely to continue to do so for many months. The Government and financial services regulators have so far delivered a number of support packages which have helped individual consumers and SMEs to manage during the initial crisis period. As we continue to move beyond this period and towards a recovery, we believe further support will be required. Below we set out the areas of further support we encourage HM Treasury to consider as part of its Comprehensive Spending Review.

Ongoing support for SMEs

The Coronavirus Business Interruption Loan Scheme (CBILS) and the Bounce Back Loan Scheme (BBLS) have provided vital financial support for SMEs throughout the Covid-19 crisis. The crisis has had a profound impact on the SME community and the need for support is clear: research by the Money Advice Trust showed that more than half of SMEs contacting Business Debtline were citing Covid-19 as the main reason for their financial difficulty – compared to just 13% of individual consumers calling National Debtline[1]. However, the CBILS and BBLS are due to come to an end in the autumn of 2020[2] and we believe there should be a proactive exit strategy in place to avoid a cliff edge at the point of withdrawal. This strategy includes providing further support as well as doing more to increase take up of existing support measures.

In our view, SMEs are likely to need further financial support beyond the autumn. There are two reasons for this. Firstly, many SMEs will have made use of the furlough scheme and will therefore struggle to meet their staffing costs as their required contribution to staff wages increases. This situation will be exacerbated in areas under local lockdown where SMEs may be required to temporarily cease trading. Secondly, we have observed that some SMEs have found it too difficult to access the CBILS and may therefore have

[1]http://www.moneyadvicetrust.org/researchpolicy/research/Documents/At%20the%20business%20end%20briefing%20on%20the%20impact%20of%20Covid%2019%20on%20Business%20Debtline%20clients.pdf
[2] The deadline to apply for CBILS is in September. For BBLS, it is November.

applied for a lower amount of support via the BBLS, which is easier to obtain[3]. These businesses will be more likely to struggle in the future as the amount received under the BBLS was not enough to secure their survival and they remain ineligible for more funding via the CBILS.

There is currently a lack of clarity around what, if any, support will be in place when the business support loan schemes come to an end. HM Treasury should provide this clarity as soon as possible and engage in proactive communication with the SME community to ensure that businesses know where to go if they need help. This communication should not be limited to Covid-19 support measures, but should also cover existing channels of support, such as local authority funding, which are often underutilised.

We of course acknowledge that some firms will fail during this crisis and the resulting economic uncertainty. However, it is a key aim of the Comprehensive Spending Review to support the economic recovery from Covid-19 by prioritising jobs and skills, and we believe that continuing to support SMEs will help to achieve this.

Ongoing support for debt advice

We welcomed the additional £38m in funding for debt advice announced in June[4]. This will help to maintain and improve capacity in the free-to-consumer debt advice sector. We expect there to be a significant increase in demand for debt advice from the beginning of Q4 2020 as coronavirus forbearance measures are rolled back and government support schemes withdrawn. The risk is that the end of such time-limited support creates a cliff-edge when advice provision will have to be withdrawn, regardless of need. We therefore encourage the HM Treasury to consider ongoing public support for debt advice to help meet longer term demand.

Access to cash

During the Covid-19 pandemic, there has been a sharp acceleration in the decline of cash usage. Changes which were initially forecast to take several years, have occurred within a matter of months and the decline in cash usage may still continue at its accelerated pace[5]. Government policy to date, including encouraging the use of contactless payments wherever possible, is supporting the transition away from cash. Whilst this approach is helpful for consumers who are able to transition, there are some consumers – most likely vulnerable consumers - who will continue to rely on cash. We therefore believe that HM Treasury should continue to work with the PSR and the FCA to maintain access to cash for those who need it. HM Treasury should also consider the refusal to accept cash by an increasing number of venues and the impact this has on cash-reliant consumers.

In our response to the FCA's consultation on bank branch and ATM closures, we encouraged the FCA to consider wider financial and socioeconomic wellbeing when reviewing firms' notifications of ATM or branch closures, particularly in deprived and/or rural communities. This is because the closure of an ATM or branch may mean consumers have to travel to another area to use the services they need. These consumers may be more likely to spend the cash in the location they have travelled to, meaning their local economy suffers as a result of the closure[6]. We recognised that this was part of a broader issue which went beyond the remit of the FCA and interacted with future Government policy. We would therefore like to take this opportunity to encourage HM Treasury to

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[3] BBLS is a 100% guaranteed by the Government (compared to 80% for CBILS) and has less stringent acceptance criteria. HM Treasury data shows that 49% of CBILS applications have been approved, compared to 83% for BBLS (as at 16 August 2020).

[4] https://www.gov.uk/government/news/almost-38-million-support-package-for-debt-advice-providers-helping-people-affected-by-coronavirus

[5] https://www.telegraph.co.uk/news/2020/04/24/coronavirus-could-kill-cash-months-not-years-expert-warns/

[6] https://cpb-eu-w2.wpmucdn.com/blogs.bristol.ac.uk/dist/3/599/files/2020/01/2020-01-Geographies-of-Access-to-Cash.pdf

consider socioeconomic wellbeing in communities as part of its approach to maintaining access to cash.

Over-reliance on the Post Office

The Panel is concerned about the over-reliance of Government and regulators on the Post Office network to resolve issues around access to cash and other financial services for vulnerable consumers. Small Post Office branches are already under significant pressure and larger Crown Post Offices remain unprofitable which will likely lead to further closures. There is a risk that consumers are being directed to a channel which will be unable to meet the demand, resulting in delays and loss of service.

Transition to online financial services

The coronavirus pandemic has accelerated the transition of financial services to online channels. This poses challenges for consumers that don't have a good broadband or 4G connection, access to a smartphone or PC or the digital capability, confidence and trust to make use of the online solutions. The Lloyds Bank Consumer Digital Index 2020 shows that 22% of people do not have the digital skills needed for everyday life and 16% are unable to use the Internet without assistance[7]. HM Treasury should remain mindful of this and continue to fund building of digital skills for UK consumers so that they can manage the transition to online financial services.

Risk, Regulation and Consumer Protection

The Covid-19 crisis has highlighted a range of individual and societal risks and vulnerabilities, and Government intervention has re-shaped where those risks are borne. In the retail financial markets of concern to the Panel, the backdrop to this has been the progressive long-term transfer of risks to individuals, around retirement income and longevity, employment, health and care[8].

Faced with new risks, people may turn to regulated financial services markets for solutions. This puts the regulator of these markets in the position of having to weigh up social outcomes against its statutory remit of protecting consumers. The pandemic has highlighted that this can lead to poor outcomes:

- **The use of regulated credit to smooth and supplement incomes in the short term has been baked-in by the crisis.** The FCA has responded with bold and rapid measures to ensure that consumers are able to use existing credit on fair terms. However, their previous interventions have made it more difficult for firms to provide new credit to those consumers most in need of it, meaning that these consumers may have no choice but to turn to high-cost credit. This means that the FCA must now make some difficult judgements about unwinding or 'off-ramping' its interventions in a way that does not lead to a spike in problem debt. There are two issues here for HM Treasury to consider:
    - We would encourage a review of how households supported their incomes and managed their outgoings during the crisis, including exploring the relationship between use of credit and the social safety net. This review should lead to recommendations for improving access to necessary support - and what that support should look like - in future emergencies
    - We would encourage a separate review of how the FCA's interventions on consumer credit were coordinated with decisions in other spheres (e.g. housing/evictions, utilities provision). Throughout the crisis, the Panel has flagged that the effectiveness of the FCA's interventions is constrained when

[7] https://www.lloydsbank.com/assets/media/pdfs/banking_with_us/whats-happening/lb-consumer-digital-index-2020-report.pdf

[8] Institute and Faculty of Actuaries: "The Great Risk Transfer: Interim Report"

different parts of the system take uncoordinated decisions about the support offered to consumers[9].

- **The strains the crisis has put on the social care sector.** The Panel thinks it likely that there will be a radical change in the pattern of care in future, between residential and home settings, and between different kinds of social and clinical care. The Panel sees a significant risk that, without reform in this area, people will increasingly turn to financial products (e.g. insurance, equity release and later life mortgages) which are imperfect tools for funding care, and which rely on high quality, ongoing advice to individuals and families. The FCA has recently flagged concerns about the operation of the equity release market[10] and we see increasing risk if there is a post-pandemic rise in demand without regulator-led improvements and a sustained public policy settlement on the overall funding of care. To achieve this, the Panel recommends HM Treasury revisits the proposals of the Dilnot Commission[11] or considers a further independent review.

Yours faithfully,

Wanda Goldwag
Chair, Financial Services Consumer Panel

[9] For an example, see here: https://fs-cp.org.uk/sites/default/files/final_fscp_response_to_proposed_further_support_for_motor_finance_and_high-cost_credit_consumers.pdf
[10] https://www.fca.org.uk/news/press-releases/firms-must-do-more-ensure-they-are-always-giving-appropriate-equity-release-advice-fca-review-finds
[11] https://www.carehomeprofessional.com/sir-andrew-dilnot-on-social-care-reform-where-did-it-all-go-wrong/