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By email: cp18-35@fca.org.uk

Dear Ms Thomas,

CP18/35 Rent-to-own and alternatives to high-cost credit – feedback on CP18/12 and consultation on a price cap

The Financial Services Consumer Panel welcomes the opportunity to respond to the FCA's consultation on 'Rent-to-own and alternatives to high-cost credit – feedback on CP18/12 and consultation on a price cap'.

The Panel welcomes the FCA's thorough analysis into the RTO market and its evaluation of potential interventions. It supports the FCA's conclusions and proposals for the rent-to-own (RTO) market which it considers will deliver better outcomes for the consumers who rely on RTO to purchase household goods.

As the FCA points out, RTO customers are among the most financially vulnerable customers, yet they are often charged much more for essential household goods. In its [response to the FCA's High-Cost Credit Review](#), the Panel pointed out that relying on information disclosure to address consumer harm in the RTO market would not be effective with the target market, and that bolder action was required to deliver better outcomes for consumers. The Panel is pleased that the FCA has rejected information remedies and instead proposed a bespoke and skillfully designed price cap for the RTO market, limiting both the cost of the product and the charge for credit. This is the right approach. Similarly, the Panel applauds the FCA for the approach taken in its cost benefit analysis, and for concluding that benefits which will accrue to the most vulnerable consumers should be weighted more highly.

The Panel's responses to the questions posed are set out below.

Q1: Do you agree with our assessment of harm to consumers from high prices?

Yes. The Consumer Panel welcomes the FCA's comprehensive assessment of harm to consumers from high prices in the RTO market. The Panel is pleased that the FCA's analysis considered not just the financial situation of RTO customers but their financial literacy, their focus on weekly charges, and their ability to change their decision-making behaviour. Taken together, the Panel agrees that these factors limit RTO firms' inclination to restrict prices and establish the consequent need for FCA intervention.

Q2: Do you agree with our assessment that other measures will not be fully effective in reducing harm from high prices?

Yes. The Panel has for some time pointed out the limitations of information remedies in addressing consumer detriment¹. It therefore welcomes the FCA's conclusion that disclosure measures would not be effective in reducing harm and improving consumer outcomes in the RTO market, and that more decisive action is warranted.

Q3: Do you agree with our approach to benchmarking base price?

Yes. The Panel supports the FCA's proposal to benchmark the base price, in addition to introducing a cap on interest charges. This is an important element in ensuring that firms are not able to get around the cap on interest charges through increasing base prices.

The Panel accepts that even with benchmarking, RTO firms will be able to price within the upper range of genuine market prices to reflect additional costs and risks they face.

However, to ensure that the benchmark works as intended it will be important that the FCA's supervisory activities ensure that RTO firms keep accurate records setting out the other retailers and products against which they have benchmarked their products, and that such records are kept up to date. In addition, the FCA must be alive to the potential for RTO firms to game the rules on benchmarking, perhaps through setting-up, or establishing a relationship with a retailer, which offers products at a significantly higher cost than other retailers; or by substantially raising the price of second-hand goods which the FCA does not propose are benchmarked.

Q4: Do you agree with proposals for a total credit cap?

Yes, the Panel agrees with the proposals for a total credit cap which may not exceed 100% of the fixed allowable costs. While the level may appear high, it will significantly reduce the prices charged to RTO customers and is in line with the price cap successfully introduced for payday loans. However, the proposed RTO price cap should also allow existing RTO firms to continue to operate and make credit available to customers who may not have access to alternatives at present.

The Panel also supports the proposal that where a firm breaches the total credit cap, the obligation to pay all credit charges will be unenforceable against the borrower. This should form a strong deterrent to attempts to breach the cap.

Q5: Do you agree with our proposals on controlling the price of TAD cover?

Q6: Do you agree with our approach to controlling the price of arrears charges?

The Panel agrees with the FCA's proposals to control the price of TAD cover and arrears charges. It is important that the FCA closes any loopholes which might allow RTO firms to evade the proposed price cap, and its proposals should achieve this whilst allowing firms to increase charges where these can be justified by a demonstrable increase in costs.

Q7: Do you have any views on the implementation timetable?

The Panel welcomes the FCA's proposed timetable. It is important to move quickly to put an end to the consumer harm that the FCA's analysis has revealed.

¹ See, for example https://www.fs-cp.org.uk/sites/default/files/fscp_response_fca_mission.pdf and https://www.fs-cp.org.uk/sites/default/files/fscp_consumers_and_competition_position_paper.pdf

Q8: Do you agree with our assessment of the costs and benefits of these proposals?

Yes, the assessment of costs and benefits appears generally robust. The Panel would suggest, however, that in monitoring the effect of the price cap on consumers, the FCA should think holistically about not just the direct but also the indirect or less immediately obvious consequences of imposing the RTO price cap, for example whether affected consumers are forced to alter their behaviour.

Q9: Do you agree with our initial assessments of the impacts of our proposals on the protected groups? Are there any others we should consider?

The Panel welcomes the FCA's work in seeking to gain a fuller understanding of RTO consumers, principally through its consumer survey. The survey, combined with other sources, provides a useful assessment of the RTO market and provides a reasonable assessment of the likely impact of the proposals on consumers with protected characteristics.

Yours sincerely,

Mark Chidley
Interim Chair, Financial Services Consumer Panel