

Additional Guidance for firms on Consumer Credit and Coronavirus and Overdrafts and Coronavirus

Money and Pensions Service response

1. The Money and Pensions Service welcomes the opportunity to provide feedback on these two pieces of proposed guidance for firms on how to support consumers at the end of the periods of payment deferrals on overdrafts and wider consumer credit. The guidance has clearly been carefully crafted to anticipate and address areas of potential consumer detriment and we commend the FCA on these proposals that, if fully implemented by firms, should provide significant further support for those consumers who will continue to be in financial difficulties after the end of October.
2. We believe that indefinite payment deferral is not a sustainable option for all consumers, and that those who will be in a position to resume payments should be enabled to do so, whilst tailored support as proposed by this guidance is the most appropriate approach for those who cannot.
3. We have previously discussed with FCA colleagues that in the development of the UK Strategy for Financial Wellbeing's Covid19 response recommendations, we had particular concern about those consumers who will be left with significant overdraft and credit card debt as a result of Covid19 financial difficulties and the impact of payment deferrals and additional borrowing. We discussed at length our concern that current persistent debt and forbearance provisions did not provide a sufficient safety net to allow consumers to repay these debts at a level and over a period that would be affordable and avoid consumers spiralling into debt.
4. Clause 5.6 of the overdraft guidance sets out that a firm should offer forbearance to consumers who continue to experience financial difficulties and that this could include waiving interest, refinancing or agreeing a repayment plan. This reflects what we have been strongly advocating and whilst an obligation on firms would be stronger, we welcome the subsequent clause 5.11 that states that: "Where a firm has not offered forbearance as outlined above, we would expect it to keep a record of why this is the case and why it deemed the chosen course of action appropriate." We believe that, in requiring firms to provide a rationale for their actions, this expectation will encourage firms to fully consider the support they can provide for consumers with ongoing financial difficulties, and oblige them to justify instances where forbearance was not deemed appropriate. We also welcome the recognition in the section on refinancing that this "will often be in the customer's best interest, as overdraft facilities are not an

appropriate means to manage long-term financial difficulty.” This is the view of our UK Strategy Use of Credit Challenge Group on this issue and it is good to see this reflected in this draft guidance

5. In the case of consumer credit, we welcome the requirement that customers be offered sustainable arrangements which give them reasonable time and opportunity to repay their debt, and that customers be protected from escalating balances under any forbearance arrangements put in place by firms. Our Challenge Group’s concern has also focused on those consumers who have built up significant credit card balances to deal with Covid19 related income shortfalls and who may now face unmanageable repayments and escalating debt. Whilst not prescribing a specific solution, the principles set out in the guidance should provide support for customers in that situation.
6. Our specific further points of feedback on the overdraft guidance are set out below:
 - a. We welcome the suggestion in clause 4.3 that where firms are unable to offer individual tailored support, they should offer temporary interest free, or reduced cost, overdraft facilities on request to customers until such a time as the firm is able to consider the customer’s individual circumstances.
 - b. The outcomes set out in clause 5.3 are excellent and reflect the needs of customers, including those in vulnerable circumstances, at this difficult time.
 - c. In both sets of guidance (5.4 for overdrafts and 2.11 for consumer credit), the FCA sets out how firms might wish to use automation and digital tools to support their engagement with consumers, and whilst this will work for many customers, we believe the guidance should ensure that firms also offer a telephony alternative contact for those who will find automated approaches difficult. This is particularly important at this time when we know that the mental health of many people has deteriorated as a result of the Covid19 crisis and some consumers will need additional support. Whilst the importance of an alternative to digital channels is set out later in the guidance, it would also merit inclusion at this point.
 - d. This impact of mental ill-health on customers’ capacity to engage is also why it is crucial that clause 5.30 sets out, that “it is important that firms enable case handlers to keep, and subsequently refer to, clear records of interactions with customers, including their individual circumstances and any judgements made, to give customers continuity and support.”
7. We would also add on the consumer credit guidance:
 - a. We support the requirement in clause 4.7 that firms should provide clarity about the credit file implications of any forms of support they offer to customers, but would suggest further emphasis on communicating this to consumers in as simple terms as possible.
 - b. In clause 5.17, we particularly welcome the recognition of the prevalent and ongoing economic uncertainty, and associated potential impact on customers’ financial

resilience, caused by Covid19, and the requirement that: “Firms should not pressurise a customer to commit to a longer-term arrangement if the customer’s circumstances may materially change in the short-term.” This is critical if we are to avoid consumers falling into more serious financial difficulties. Similarly, the next clause on halting repossession of goods if people are waiting for benefit payments reflects a good understanding of the challenges currently facing consumers.

- c. There is some significant overlap between the section on sustainable arrangements, which recommends that firms carry out income and expenditure assessments and starts to describe these, and the following section that develops the content further, and we would suggest that the first section should just allude to the requirement for such assessments and rely on the descriptions in the next.
 - d. We welcome the reference to the Standard Financial Assessment as an example of creditor good practice in establishing income and expenditure, and would emphasise that its use provides the additional advantage that a customer can port the information to other creditors, as you also refer to later in this section.
 - e. The guidance on supporting consumers in vulnerable circumstances is particularly welcome, and particularly supported by the requirement that: “Firms should offer to engage with customers in different ways including through a range of channels and, where possible, give them the ability to switch between them.” This is critical to ensuring that the most vulnerable consumers are able to engage effectively. The reference to the Money Advice Liaison Group’s good practice guidelines on mental health and debt also steers firms to meeting the needs of those whose mental health has been impacted by the crisis, as well as customers with pre existing poor mental health.
8. In both sets of guidance, we welcome the extensive section on supporting consumers to access debt advice and money guidance and agree that this can help customers to access help at the earliest opportunity and before financial difficulties become more complex and entrenched.
 9. We also particularly welcome the sections in both that reinforces the importance of training, competencies and staff incentives, in recognition of the fact that the introduction of new staff and call handlers will need careful preparation and management. We also support the suggestion that the more experienced agents should be deployed to support customers in presenting the most complex issues.
 10. Overall, the proposals in the guidance would provide significant support to meet the specific needs of customers who remain in payment difficulties at the end of the periods of payment deferral. The key will be the extent to which firms implement this guidance as intended, and ensuring that consumers are made aware of what they can expect. Both the FCA and the Money and Pension Service have a role in clearly communicating this to consumers, and it will be important for MaPS to have early sight of the final proposals to build our guidance around it.
 11. Finally, we would stress the importance of monitoring the implementation of this guidance and swift action being taken to investigate reports of firms who are failing to support customers as

intended.

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