The Money Charity Response to FCA CP18/35 on rent-to-own and alternatives to high-cost credit (Jan 2019)

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

The Money Charity (TMC) welcomes the opportunity to comment on the FCA's Consultation Paper CP18/35 on rent-to-own and alternatives to high-cost credit. We support the conclusions of the CP and the remedies proposed, and we agree in general with the FCA's programme of reviewing the entire high-cost credit sector and introducing appropriate remedies against exploitative pricing and misleading sales tactics where these exist. We would like to see the FCA extend this work to the credit card sector, where the use of credit has expanded well beyond its original stated purpose of providing short-term credit (one to three months) and an alternative to cash payment.[1] A significant part of credit card lending has become long-term lending, but at high short-term interest rates.

Context – Financial Education and Credit

The Money Charity approaches this consultation from its position as a leading provider of financial education to young people and adults. An important stream of our work is to enable people to learn about the different types of credit, their purposes, terms, positive aspects and pitfalls. These issues feature in our school and adult workshops and in our publications, such as the chapter "Credit without the crunch" in *The Money Manual*.[2] Our general view is that:

1. Prices for credit need to be fair and not exploitative, in relation to the service provided, which includes the time period for the loan and its associated services.

2. The terms of the credit need to be clear and easy to understand, with no hidden pitfalls, so that people can make wise decisions about their spending and not accidentally overcommit themselves.

It is easy for the market for credit to become unbalanced in favour of the credit provider, particularly where borrowers have immediate needs and are under pressure from an income shortfall or the breakdown of an essential household item. It is essential in a modern, developed society such as the UK's that the regulator keeps a close eye on the high-cost credit sector and intervenes to prevent exploitative credit practices that violate the social norms of fairness. This is particularly the case where those affected (as described in CP18/35) show multiple indicators of vulnerability.

In the case of the rent-to-own sector, we believe the sector addresses the needs of a considerable number of consumers, either through choice or necessity, but requires diligent regulation to ensure its terms of trade are fair and transparent.

[1] https://www.bbc.co.uk/news/business-36518248
[2] Available at: https://themoneycharity.org.uk/50014/

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

Yes, we agree that total prices which are three to five times the equivalent High Street retail purchase price are too high and that most people in the UK would see such a price differential as being unfair in terms of the social norms of fairness. We do not think that such a wide differential can be fully justified by differences in costs. This implies that there should be a successful business model for the rent-to-own sector at a lower price margin above the High Street retail purchase price.

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

Yes, we have followed the testing and discussion of 'sunlight' and other informational remedies over a number of years and we agree that such measures are unlikely to make a significant difference. This is because of the acuteness of the need the RTO sector addresses, as explained in the introduction to this response, and the likely predominance of short-term decision-making over long-term best interests in these situations. When people feel they 'have their back to the wall', they do things they would not otherwise do.

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

This seems like a reasonable approach. We suggest that the effectiveness of this measure be evaluated in practice. If it still enables excessive prices to be charged, a median based on a broader sample could be adopted.

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

Yes.

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

Yes, and we note paragraph 4.27 of the CP, "We will intervene further if this approach does not act as a suitable deterrent to increasing TAD prices."

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

Yes. We agree with the CP's observation that repeated arrears charges can lead to very high, effectively punitive, credit charges. If someone has fallen into financial difficulty then the priority should be to steer this person to responsible debt advice and put in place an affordable, realistic payment plan.

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

This seems realistic to us. The industry is dominated by two large players, with whom the FCA has no doubt consulted on the timetable, so we think the remedies should go forward as planned.

Q8: Do you agree with our initial assessments of the impacts of our proposals on the protected groups? Are there any others we should consider?

We agree with the FCA's analysis that there is likely to be a net positive effect on people from protected groups. We note in particular, in the context of recent publicity about rising child poverty in the UK,[3] that the majority of RTO customers are female, many are single parents and many have children. Reducing the weekly outgoings for RTO products will have a significant positive impact on young mothers' weekly budgets and put more food on the table for their children.

In general, we think that the FCA is trying to get the balance right between enabling the RTO sector to continue in business, while at the same time reducing excessive prices and credit charges. A significant part of the UK population has low incomes and zero or near-zero assets and, for this part of the population, acquiring consumer durables is always going to be difficult. Yet such durables are an expected part of the contemporary standard of living. For example, it is hard to imagine, in the contemporary UK context, having young children without having access to a washing machine.

For many decades, forms of credit such as hire purchase and appliance rental have existed to meet the needs of cash-strapped customers. One of the leading companies in the RTO sector, Brighthouse, was formerly associated (via the Thorn Group) with Radio Rentals, the UK's original appliance rental company.[4] The longevity of this industry suggests that it is meeting a genuine and longstanding need, so it is right that the regulator should not wish to terminate it. The key thing is to get the prices right, so the terms of trade meet the social norms of fairness.

(end)

[3] For example, https://www.independent.co.uk/news/uk/home-news/child-poverty-increase-children-family-benefit-households-a8268191.html

[4] https://www.gracesguide.co.uk/Radio_Rentals