Institution: University of Birmingham		
Unit of Assessment: UoA 20, Social Work and Social Policy		
Title of case study: Tackling Problem Debt and Financial Exclusion		
Period when the underpinning research was undertaken: 2013-2016		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	**Role(s) (e.g. job title):**	**Period(s) employed by submitting HEI:**
Karen Rowlingson	Professor of Social Policy	2007–present
Lindsey Appleyard	Research Fellow	2010–2015
Jodi Gardner	Research Fellow	2013–2014
Stephen McKay	Professor of Social Research	2007–2013
Period when the claimed impact occurred: 2014-2020		
Is this case study continued from a case study submitted in 2014? No		

1. Summary of the impact

The work of Karen Rowlingson and colleagues at the University of Birmingham's Centre on Household Assets and Savings Management (CHASM) on poverty and problem debt has influenced **changes in UK public policy and regulation**, **including the introduction of new price caps on payday lending and rent-to-own products**. Through these changes, **social welfare of low-income consumers has improved**, as evidenced by data from the Financial Conduct Authority, according to which 760,000 people have saved a total of £150m per year.

CHASM's work has also **shaped UK financial inclusion policy** by providing advice to the House of Lords Select Committee on Financial Exclusion, HM Treasury, the Cabinet Office and the Department for Digital, Culture, Media & Sport. Policy changes introduced in line with CHASM's recommendations include the **removal of the 7-day waiting period for Universal Credit** from autumn 2017; **fundamental reforms of the way banks charge for overdrafts** from April 2020 and the **launch of the Help to Save scheme**, which has seen more than 220,000 accounts opened and more than £70m saved by people on low incomes.

2. Underpinning research

Context

Access to credit is a vital lifeline to many people, especially those on low incomes. However, those on the lowest incomes often pay the most to borrow money even when they are borrowing for essentials. For some, this leads to a cycle of debt with negative consequences for material wellbeing, mental health and personal relationships. This has been a growing problem in the UK as uniquely documented by Rowlingson and colleagues at CHASM through both their research exploring the nature of 'responsible' lending in the UK and CHASM's Financial Inclusion Annual Monitoring Reports [R1]. The latter, published since 2013, have particularly helped to fill the evidence vacuum left when HM Treasury's Financial Inclusion Taskforce was disbanded in 2011.

Key Research Findings

As part of their AHRC-funded research [EF1] on 'responsible' lending, Rowlingson and colleagues explored why people borrowed from high-cost lenders, sometimes charging in excess of 4,000% APR, the nature of the problems this caused and what needed to change to tackle these problems [R2–R4]. This project involved close engagement with key UK stakeholders; in-depth interviews with low-income borrowers in the UK and analysis of relevant recent reforms in Australia, including interviews with key stakeholders in Melbourne, Sydney and Brisbane. The research found that:

- The growth of high-cost credit was closely linked to poverty and insecurity for people both in and out of work, as they increasingly had little alternative but to borrow from high-cost lenders to try to make ends meet given austerity and precarity.
- In many cases, high-cost credit led to debt spirals and so compounded the problems people faced. But in *some* cases, and contrary to much received wisdom, high-cost credit actually played a *positive* role in bridging gaps in income.
- Credit unions provided affordable alternatives for some borrowers, but awareness levels were low. Where they were used, they had a very beneficial impact.
- Australia provided important lessons on how to reform high-cost credit, including different caps for different sized loans, and how to provide affordable alternatives through a No Interest Loan Scheme.

CHASM has also produced a series of annual financial inclusion monitoring reports from 2013 onwards, funded by the Friends Provident Foundation and Barrow Cadbury Trust [EF2], which uniquely gather together evidence from large datasets with national coverage including the Wealth and Assets Survey, the Family Resources Survey, the British Household Panel Survey and the Labour Force Survey [R1]. Covering trends on income, poverty, savings, credit, problem debt, pensions and insurance, a few of the key findings include:

- The proportion of people who found their unsecured credit commitments ‘a heavy burden’ increased from 16% in 2006–2008 to 18% in 2008–2010.
- Only two in five of the public in 2013 said they would be able to find £200 at short notice without cutting back on essentials or dipping into savings.
- In 2010–2011, 12% of households were finding it either very or quite difficult to manage, financially, and a further 27% were ‘just about getting by’ (a combined total of 39%).
- Levels of consumer borrowing increased dramatically from 2010, reaching levels by 2015 last seen just before the 2008 recession.
- Progress on widening access to bank accounts stalled from 2012–2016. Around 1.5 million adults in 2015/16 did not have a bank account in their own names, with around 700,000 of these having no access to a bank account in their household. Those without a bank account are the most financially excluded.

Working with key stakeholders, and drawing on all of this research, CHASM researchers identified key policy recommendations, including the need to:

- **Rec 1:** Increase leadership from government on financial inclusion, which had become dormant since the demise of the Financial Inclusion Taskforce in 2011 [R1];
- **Rec 2:** Increase levels and security of incomes (as the fundamental cause of financial exclusion and problem debt) [R1–R4];
- **Rec 3:** Introduce and enforce stronger regulation of high-cost credit to ensure affordability checks and more responsible advertising and lending [R2, R4];
- **Rec 4:** Introduce a price cap on credit at a level which reduces the price considerably while maintaining access to borrowing for some on low incomes where it can help [R1–R3];
- **Rec 5:** Reform ‘mainstream’ credit (e.g., overdrafts and credit cards) as well as ‘subprime’ forms of credit (e.g., payday lending and rent-to-own) [R1–R4];
- **Rec 6:** Support credit unions and other alternatives to high-cost credit [R1–R4];
- **Rec 7:** Introduce a version of the Australian No Interest Loan Scheme (NILS) [R2–R4];
- **Rec 8:** Support initiatives to help those on low incomes to save (e.g., through a matched saving scheme and prize-linked savings schemes) [R1–R4].

3. References to the research

R1. Rowlingson, K. and McKay, S. (2013) Financial Inclusion Annual Monitoring Report 2013, Birmingham: University of Birmingham. Available on University of Birmingham website

R2. Rowlingson, K. Appleyard, L. and Gardner, J. (2016) ‘Payday lending in the UK: the regul(aris)ation of a necessary evil?’, *Journal of Social Policy*, 45, 3, 527–543, CJO 2016. DOI:10.1017/S0047279416000015

R3. Appleyard, L., Rowlingson, K. and Gardner, J. (2016) 'The variegated financialization of sub-prime credit markets', *Competition & Change*, 20, 5, 297–313.
DOI: 10.1177/1024529416657488
R4. Rowlingson, K., Gardner, J. and Appleyard, L. (2016) 'Responsible Lending in the UK: What Role Does the State Play?' In Ferretti, F. (ed.). *Comparative Perspectives of Consumer Over-Indebtedness: A view from the UK, Germany, Greece, and Italy*. Eleven International Publishing.

External research funding:
EF1: ***Responsible lending and borrowing***, grant from Arts and Humanities Research Council (AH/J001252/1), £908,000 total funding from 2012–2015, Rowlingson Co-I.
EF2: ***Monitoring Financial Inclusion***, grants from Friends Provident Foundation and Barrow Cadbury Trust, £250,000 total funding from 2013–2022, Rowlingson PI.

4. Details of the impact

CHASM has helped to **shape regulatory and policy change in the field of financial inclusion and short-term credit**, contributing to improvement in social welfare, material wellbeing, mental health and personal relationships. CHASM has influenced new regulations on responsible lending and price caps on payday lending and rent-to-own products, and further shaped new reforms on financial inclusion policies.

1. **Regulation of High-Cost Short-Term Credit (HCSTC)**

CHASM **informed the Financial Conduct Authority's (FCA) reforms to HCSTC** (including payday lending) [R2, R4]. The 2014 reforms **required lenders to check borrowers could repay loans, allow for a maximum of two rollovers of the loan amount and include financial warnings in advertisements**. The 2015 reforms included the **introduction of price caps on HCSTC, particularly payday lending and rent-to-own** [R1]. For example, in January 2015, the FCA introduced a cap on the initial cost of payday lending at 0.8% per day, with an annualised percentage rate of 1,270%; default fees were also limited to £15. A 100% repayment cap also meant that borrowers would never have to repay more than double the amount they borrowed [C1a–c]. And in 2019, **a cap on the cost of rent-to-own** was also introduced, setting a total credit cap of 100% and introducing requirements on firms to benchmark base prices of goods.

The **FCA cited CHASM in their Feedback and Policy Statements outlining the rules of the initial price cap** [C1a, C2a], and several recommendations in the report reflected those submitted in CHASM's consultation response [C2b–c]. These included considerations of potential harm for those who might no longer be able to access HCSTC if the cap was set too low, as well as using estimates based on Australian data [R1]. CHASM's research also influenced these reforms through direct stakeholder engagement during the AHRC-funded project, including various meetings, briefing papers and blogs [C3]. For example, a key stakeholder workshop was held in London in January 2013, including representatives from government, regulators, consumer groups and industry representatives; this was followed by another workshop in June 2014, with CHASM leading a roundtable on the potential impact of a payday lending cap, hosted by the Centre for the Study of Financial Innovation and the Archbishop of Canterbury's Taskforce of Responsible Credit and Saving. Members of the FCA were present and consulted directly with the researchers after this event.

The introduction of the payday lending cap in 2014/15 has had a **significant impact on the welfare of low-income consumers**. The FCA [C1a–c], using CHASM's research recommendations [Recs 3-5] as part of a combination of qualitative and quantitative research and industry data, found that, as a result of these changes: **HCSTC loans were significantly cheaper** — the cost of a typical loan falling from over £100 to around £60, saving 760,000 borrowers a total of £150m per year; the default rates had dropped by a third between 2014 and 2016 and firms' revenue from late payment interest and charges was about half of what it was prior to the cap. Furthermore, **800,000 fewer people took out payday loans** on an 18-month period, and 85% of those who had been declined loans chose not to take out an alternative loan.

Across all consumer credit sectors, around £900m of redress for consumers, in the form of write-downs and re-payments, was also secured for around 1.6 million consumers. The conclusion was that **the reforms had been effective and the payday cap set at the right level**. This conclusion was supported by consumer organisations including Citizens Advice, who reported a 45% reduction in clients accessing advice about payday loan issues since the introduction of the price cap in January 2015, in contrast to the trend with all debt advice which had remained stable [C4a]. They also reported an 86% reduction in clients contacting their consumer service regarding payday loans between 2013 and 2016. StepChange Debt Charity also saw a significant (30%) drop in clients with HCSTC debt problems from 2013–2016 [C4b]. The collapse of Wonga, the payday lending giant, in August 2018 due to the cap and a wave of compensation claims, was another high-profile example of the later impact of the reforms. The FCA have also estimated that the 2019 cap on rent-to-own products will save consumers in the UK up to £22.7m a year [C5].

2. **CHASM shaped financial inclusion policy by providing key advice to parliamentarians and policy-makers in government**

In 2016, Rowlingson was appointed as the sole Specialist Advisor to the House of Lords Select Committee on Financial Exclusion (September 2016–March 2017), helping **to shape the questions asked, the witnesses consulted and the Committee's final report** [C6a]. Rowlingson's contribution was recognised by the Committee Chair, who was quoted in Hansard as saying, "We were hugely assisted by […] the very high-quality advice that we received from Professor Karen Rowlingson" [C6b]. A number of important policy changes have occurred in direct response to the recommendations made by the Committee. These include: **the appointment, by the Prime Minister, of two new government leads on financial inclusion in June 2017** [Rec 1], the Economic Secretary to the Treasury and the Minister for Pensions and Financial Inclusion in the Department for Work and Pensions; **the removal of the 7-day waiting period for Universal Credit from autumn 2017** [Rec 2]; various **reforms by the FCA** including their decision to retain the price cap [Rec 4]; and the introduction of fundamental **reforms of the way banks charge for overdrafts** from April 2020 [Rec 5].

Following her work with the House of Lords Committee, Rowlingson also advised key government departments in this field, including:

- Influencing **the Cabinet Office on the new Help to Save scheme**, launched September 2018 [Rec 8]. Two years later, more than 220,000 accounts had been opened, with more than £70m saved by people on low incomes [C7]. Influence was achieved through a member of the Cabinet Office attending CHASM's December 2016 workshop on 'Savings for All' and then following up with one-to-one discussions with Rowlingson in 2017–2018.
- Advising the Department for Digital, Culture, Media & Sport in spring 2018 on the use of approximately £55m from dormant bank accounts to help increase financial inclusion. This work **contributed to the government's Civil Society Strategy** (August 2018), which stated that [C8]: "the government will direct funds for the establishment of a new Financial Inclusion organisation [...] It will work with providers of affordable credit to develop approaches to helping customers save money alongside taking out credit." [Rec 6]. This new organisation, 'Fair4All Finance', was launched in March 2019 and began distributing funds via its Scale-Up and Covid-resilience programmes, including £3.1m in its first month to support 23 responsible lenders.
- Advising HM Treasury on financial inclusion through a series of emails, face-to-face meetings, telephone calls and virtual meetings from September 2018 to September 2020, particularly around the role of savings, credit unions and alternatives to high-cost credit [C9a]. In 2019, **HM Treasury/DWP published the government's first financial inclusion policy report**. The only research cited was CHASM's financial inclusion monitor [C10]. The Chair of UK Government's Financial Inclusion Taskforce until it was disbanded in 2011 stated, in 2020, that "this report, alongside CHASM's other research work, has become a vital resource with which to help promote, and assess progress towards, a more financially inclusive society." [C9b]. In 2018/19, the Treasury took specific advice on piloting a Prize Linked Saving Scheme to help support credit unions

[Rec 7, Rec 8]. The pilot went live in 2019 and the first £5,000 winner in the 'PrizeSaver' scheme was announced in December 2019, with the pilot running until 2021.

5. Sources to corroborate the impact

C1. Evidence of influence on FCA:

- **a.** FCA Feedback Statement FS17/2 'High-cost credit and review of the high-cost short-term credit price cap', July 2017 [Available as PDF]
- **b.** FCA Infographic 'Changes in payday lending since we took over consumer credit regulation', November 2016 [Available as PDF]
- **c.** 'FCA regulation of high-cost short-term credit (HCSTC)' July 2017 [Available as PDF]

C2. Evidence of response to consultations:

- **a.** FCA Policy Statement PS14/16, Detailed Rules for the price cap on high-cost short-term credit, November 2014 [Available as PDF]
- **b.** Rowlingson, K., Appleyard, L. and Gardner, J. (2014) 'Response to the Financial Conduct Authority Consultation on Payday Lending', Birmingham: University of Birmingham [Available as PDF]
- **c.** Gardner, J., Rowlingson, K., and Appleyard, L. (2017) 'Response to Call for Input: High-cost credit, including review of the high-cost short-term credit price cap', Birmingham: University of Birmingham [Available as PDF]

C3. 'Policy briefing: where now for financial inclusion?', *Discover Society*, 1 October 2013 [Available as PDF]

C4. Evidence of impact of changes to payday loans:

- **a.** Citizens Advice (2016) 'Payday loans: An improved market?' Part 1 - Overview of the trends in the Payday Loans market [Available as PDF]
- **b.** StepChange (2016) Payday loans: The next generation. Changes to the high-cost short-term credit market since the introduction of the price cap [Available as PDF]

C5. FCA Press release 'FCA confirms introduction of rent-to-own price cap', March 2019 [Available as PDF]

C6. Evidence of Parliamentary influence:

- **a.** House of Lords Select Committee on Financial Exclusion Report. 'Tackling financial exclusion: a country that works for everyone?', March 2017 [Available as PDF]
- **b.** Quote in Hansard from Baroness Claire Tyler, House of Lords Select Committee on Financial Exclusion, December 2017 [Available as PDF]

C7. HM Revenue and Customs (2020) Help to Save Statistics [Available as PDF]

C8. HM Government, 'Civil Society Strategy: Building a Future that Works for Everyone' (pp.100–101) [Available as PDF]

C9. Testimonials

- **a.** HM Treasury's Senior Policy Advisor for Financial Inclusion (17th August 2020) [Available as PDF]
- **b.** Chair of UK Government's Financial Inclusion Taskforce (16th September 2020) [Available as PDF]

C10. HMT/DWP *Financial inclusion report 2018–19*, London: HMT [Available as PDF]