

# **Call for Input: Review into change and innovation in the unsecured credit market** (The Woolard Review)

November 2020

## How to respond

We are asking for comments on this Call for Input by **1 December 2020**. You do not have to answer all the questions, only the ones relevant to the information you have or the points you want to make.

You can send them to us using the form on our website at: [www.fca.org.uk/woolard-review-call-for-input-response-form](http://www.fca.org.uk/woolard-review-call-for-input-response-form)

### Or in writing to:

Wesley Ball  
Financial Conduct Authority  
12 Endeavour Square  
London E20 1JN

### Telephone:

020 7066 6608

### Email:

[woolardreview@fca.org.uk](mailto:woolardreview@fca.org.uk)

## Contents

<b>1</b>	Introduction from Christopher Woolard	3
<b>2</b>	Your thoughts on the unsecured credit market	5
	<b>Annex 1</b>	
	Terms of Reference	10

**Sign up** for our weekly  
**news and publications alerts**

See all our latest  
press releases,  
consultations  
and speeches.



# 1 Introduction from Christopher Woolard



In September 2020, the Board of the Financial Conduct Authority (FCA) asked me, as the outgoing interim chief executive, to conduct a review into change and innovation in the unsecured consumer credit market and how regulation can support a healthy unsecured lending market. The Board asked me to report to them in the New Year on how this market is changing, particularly in the light of coronavirus (Covid-19), the benefits and risks which this brings and for me to present recommendations on how regulation can meet the challenges and support the future opportunities these changes bring. I want to use this call for input to get views from key stakeholders, including consumer groups, regulated and unregulated providers of credit, retail businesses and employers on some of the main issues in the market.

Unsecured consumer credit, which includes credit cards, overdrafts and, increasingly, unregulated products such as some 'Buy-Now-Pay-Later' arrangements or lending through payroll, is part of many people's everyday lives. In the last year, around two thirds of UK adults have held a credit card, one in four adults went overdrawn and 6.3m people held a personal loan (Financial Lives Survey, 2020). In August 2020, there was over £200bn of consumer credit debt outstanding (Bank of England data). Credit plays a variety of roles, helping people manage their day-to-day spend, cover unexpected outgoings or to manage large payments by spreading them out over time. When it works well, a healthy credit market can help consumers to manage their finances and broaden their choices, which supports the wider economy. When it doesn't work well, consumers can end up losing control of their finances, with impacts on their health, relationships and employment.

The FCA took over regulation of consumer credit in April 2014, at a time when slow economic growth and high demand for credit were contributing to significant changes in the unsecured credit market. Since then, the FCA has taken significant steps to drive up standards in this market. Some of these steps, including the FCA's work on creditworthiness and the complex task of authorising most firms involved with consumer credit, have cut across the whole sector. Others have been focused on specific products, such as the persistent debt rules on credit cards and pricing interventions for high-cost short-term credit (HCSTC), overdrafts and rent-to-own. More recently, the FCA's response to Covid-19 has been focused on the actions needed to support consumers in payment difficulty as a result of the pandemic.

This review presents a timely opportunity to step back and take stock of the changes which have occurred in the market, and to look at how these may play out in the future, taking into account the specific circumstances which Covid-19 has created. To do this I will focus on four main themes: the drivers and use of credit; change and innovation in the supply of credit; the role of regulation; and the Covid-19 context.

I will be aided in this by an Advisory Panel who will bring a range of views on the issues involved and I will be seeking evidence through a series of roundtables, individual interviews and research as well as this call for input. I will present my report and recommendations to the FCA Board in the New Year. Thank you for taking the time to read and respond to this call for input.

**Christopher Woolard**

## 2 Your thoughts on the unsecured credit market

- 2.1** This section sets out the four themes this review will be focusing on and the questions and areas where we need your input. Where possible, please provide evidence to support your responses and detail on how your response applies to different parts of the unsecured market (including different consumer groups or credit products).
- 2.2** You do not have to answer all the questions, so please feel free to focus on those relevant to the information you have or the points you wish to make.

### Theme 1 – Drivers and use of credit

---

- 2.3** The regulated unsecured credit market covers a wide range of products for retail consumers, including credit cards, overdrafts, personal loans, home collected credit and HCSTC. Increasingly credit is also being provided by unregulated or partially regulated providers and via employers. The variety of ways that credit is provided reflects the range of people who use unsecured credit and their varied circumstances. There is no such thing as a 'typical' consumer credit customer and people use unsecured credit in different ways for different reasons.
- 2.4** The FCA has already undertaken extensive research into the market, including through its comprehensive Financial Lives work. We want to use this review to better illustrate how different groups of consumers engage with the unsecured market. This includes: the reasons for using credit; the way that credit is presented and marketed to different groups; and changes in how people interact with lenders, including the growth of digital and 'on demand' credit offerings and whether use of these is leading to consumers relying less on more traditional forms of credit (eg credit cards and overdrafts). We are also seeking information to understand the trends around consumers' use of credit and to identify where future pressures and challenges may lie.

**Q1: Please provide evidence and/or views on the current state of the market, as well as key changes and trends, around:**

- a.** who is using unsecured credit, and for what purposes
- b.** how unsecured credit is marketed by firms, and how it is viewed by consumers
- c.** the impact of big data and digital technology in this market

Please give a breakdown by product where possible.

**Q2: What are the main trends and challenges created by these changes?**

**Q3: What are the likely dynamic changes you expect in the market, and what might the biggest effect of these be?**

**2.5** Credit markets do not exist in isolation. Factors including employment, wages, wider economic conditions and the welfare system can all effect the demand for credit, as can consumer behaviours such as purchasing and spending habits. These drivers play a role in how credit markets, and the ways consumers use credit, evolve. We want to understand what the key drivers are, how they are changing and the challenges and opportunities this poses for the sector. Ultimately, we are aware that in a healthy credit market, not all consumers will be able to access credit, and that financial inclusion in this market may have a limit.

**Q4: What do you see as the main drivers of demand for credit? How do they affect consumer demand for credit, now and in the future?**

**Q5: Which consumer groups currently struggle to access the credit market, and why? How has this changed over time and how do you expect it to evolve?**

**Q6: Do you agree that in a healthy credit market, there will be people who will not be able to access credit? What are the characteristics of these people and what would the impact of not having access be on them?**

## **Theme 2 – Change and innovation in the supply of credit**

---

**2.6** Innovation is a key part of any healthy market, delivering services which meet changing consumer needs, in more efficient ways, and filling gaps in the market. But, rapid change and innovation can bring risks. The growth of HCSTC a decade ago is an important example. For many, the new availability of small loans available at short notice filled an important need. However, competition focused on speed, rather than price, and for a significant number of consumers the product was harmful, exacerbating existing financial issues. Since 2014 there has been a significant contraction in this market, raising questions around whether other products have been available, or needed, to fill the demand.

**2.7** We want to explore the ways unsecured lending is undergoing change and to look at how far innovation is acting in consumers' interests. This includes the recent growth in unregulated forms of credit, such as some 'Buy-Now-Pay-Later' arrangements which are currently exempt from FCA regulation, and services such as Employment Salary Advance Schemes, which can play a similar role to credit. While these products lie outside our perimeter, we want to understand the risks and benefits created by their growth and the effects of their use on regulated credit and the wider economy.

**Q7: Please provide evidence and/or views on:**

- a. the main areas of change, innovation and growth in the supply of unsecured credit
- b. the key pressures and challenges to the sustainability of firms supplying unsecured credit, including how these have changed over time and how they might develop in the future
- c. new and emerging business models, including those making use of behavioural biases and income from other sources than the end consumer (eg employers, retailers), and how existing models may be adapting to change

**Q8: Regarding unregulated credit or credit-like products:**

- a. What evidence can you provide of the increase in availability and uptake of these products?
- b. What impact has this had on the regulated credit market, and how might it play out in the future?
- c. What are the characteristics of customers of these products?
- d. What role do these products play in the wider economy?
- e. What benefits, risks and harms do these products create? Is there more the FCA or other authorities could do to preserve benefits or address harms and risks?

**2.8** We also want to explore where innovation and change may be needed. There has been a significant amount of work to encourage the growth of alternatives to high-cost credit. We want to understand how well this gap in the market is being filled, where other gaps may exist and what the key barriers are to a sustainable market developing in these areas.

**Q9: Please provide evidence and/or views on:**

- a. where the gaps are in the supply of unsecured credit, and where they are likely to be in the future
- b. the effect on consumers of any gaps in supply
- c. the main barriers to a sustainable market developing to fill these gaps
- d. what role the FCA, or others, could play in helping innovation and growth in these areas

## **Theme 3 – The role of regulation in unsecured credit markets**

---

**2.9** The FCA has been regulating consumer credit for the last six years and this review presents an opportunity to step back and take stock of the overall impact and approach taken to regulating the market. This does not mean an assessment of individual policies or previous reviews, but instead whether regulation is in the right place overall and core issues in the market are being dealt with effectively.

**2.10** In a healthy credit market, consumers should expect similar outcomes when using similar or substitutable forms of credit. Many of the new rules the FCA has made recently relate to individual products. While there has been good reason for developing the rules in this way to address harm while taking account of technical features of individual products, we are interested in whether the effect of regulation, particularly in terms of outcomes for consumers, is consistent across similar products.

**Q10: Do you think current regulation drives similar outcomes for consumers who use similar or substitutable unsecured credit products?**

**2.11** An important role of regulation is to try to align the incentives of firms with those of their customers. Business models which allow firms to profit from consumers who make mistakes, end up in arrears or get stuck in expensive repeat or persistent debt reduce incentives on firms to act in their customers' best interests. We are interested in how changes in the credit market could better align incentives for firms. Where there can be cross-subsidisation between customers within products and across a firm's books, we are interested in views on how this can be beneficial and where it can lead to harm. We are also interested in whether better data flows or more open banking models could lead to better regulatory outcomes.

**Q11: How have changes in regulation, or other changes in the market, affected firm incentives?**

**Q12: How could changes in the market drive incentives which do not align with consumer interests?**

**Q13: Please provide evidence and/or views on the current level of cross-subsidisation between different consumers in the unsecured credit market. What forms of cross-subsidisation are compatible with a healthy credit market?**

**Q14: Are there gaps in data or the way information flows in the current market that create problems for consumers or lenders? How might these be addressed?**

## **Theme 4 – The impact of Covid-19 and the FCA's response**

---

**2.12** The impact of Covid-19 is highly relevant to change in the unsecured credit market. The pandemic has had a significant and ongoing effect on many of the drivers of the credit market. In the first phase of the crisis we have seen many consumers reduce their reliance on credit and increase their personal saving. In April 2020, according to the Bank of England, consumers repaid over £5bn of credit card debts and FCA research from its Covid-19 consumer surveys indicates that around two thirds of UK adults have experienced no significant fall in earnings and/or job loss during the crisis (as of end of June 2020).

**2.13** However, for many people already struggling financially, the crisis has made circumstances worse and since February 2020 the [FCA](#) estimates an additional 2m people have low financial resilience. In addition, some households have been

protected, at least partly, from the initial economic impact of Covid-19 by a combination of government support schemes and the measures taken by the FCA and other authorities. Resolution Foundation research indicates that demand for credit is starting to rise and there are signs that those on low-to-middle incomes are most likely to have increased their use of credit as a result of the crisis. In some cases, the impact of Covid-19 may amplify existing trends in the credit market, and in others it could create new areas of demand for credit. We want to understand the way Covid-19 has impacted both supply and demand for credit, and how the current situation is likely to affect the market in the future.

**Q15: Please provide evidence and/or views on the impact of Covid-19, both now and as you expect it may play out in the future, on:**

- a. the demand for different types of unsecured credit
- b. the supply of credit, including impacts on sustainability of affordable lending and gaps in provision

**Q16: Do you think the impact of Covid-19 presents new or unique challenges for the unsecured credit market, or has it just emphasised or entrenched existing issues?**

**2.14** In response to the pandemic, the FCA introduced temporary guidance for the consumer credit market. The initial phases of this response focused on allowing customers to access payment deferrals, including 'masking' credit files to minimise the impact on the future credit prospects of customers able to get back on track at the end of a payment deferral. More recently, additional guidance was issued to help firms manage the process of helping consumers who were rolling off payment deferrals, potentially into a tailored forbearance solution, and at high volume. For consumer credit, this additional guidance included provisions around interest waiving and non-escalation of balances for consumers in forbearance.

**2.15** The FCA has committed to reviewing the ongoing relevance of its guidance within 6 months of it coming into effect, and it is not the intention of this review to attempt to do this. Instead, we want to explore whether some of the ideas raised as part of the FCA's policy response to Covid-19 may be relevant beyond the current crisis.

**Q17: Do you think any of the measures set out in the FCA's temporary guidance for consumer credit, including those related to credit information and forbearance, or the FCA's wider approach have broader relevance to customers in financial difficulty more generally?**

# Annex 1

## Terms of Reference

### Scope of the review

---

1. To examine the current state of the unsecured credit market in the UK including the component parts, recent changes in size and scale, whether in regulated or in adjacent unregulated products.
2. To examine changes in regulation, noting those areas that have been subject to regulatory oversight in recent years from a variety of bodies including the FCA (for example overdrafts or high-cost credit), and comparing likely harms or dynamic effects seen in those areas.
3. To examine the immediate effect of Covid-19 on demand for unsecured credit and on the role of credit information. To report on possible trends and potential future pressures.
4. To identify areas of growth in demand from consumers for credit, including from non-traditional providers of credit.
5. To present an assessment of the benefits and harms evident in the market and those which may be expected as the market develops.
6. To compare international approaches to these issues where relevant.
7. To make conclusions and recommendations to the FCA Board on management of harms in this sector; gaps in understanding or data; potential changes in regulation to be considered by the FCA; advice on potential changes to the overall system the FCA may wish to consider with other authorities or Government; and possible innovations to support a sustainable market.

### Advisory panel

---

The chair may appoint an advisory panel to assist him. These roles will be unremunerated, but reasonable expenses will be met by the FCA.

### Report

---

The chair will report to the FCA Board in New Year 2021. The recommendations will be for the FCA Board to consider and pursue.

### Secretariat

---

The FCA will provide a head of team and assistance to the Review.



## **Sign up** for our weekly **news and publications** alerts

We make all responses to formal consultation available for public inspection unless the respondent requests otherwise. We will not regard a standard confidentiality statement in an email message as a request for non-disclosure.

Despite this, we may be asked to disclose a confidential response under the Freedom of Information Act 2000. We may consult you if we receive such a request. Any decision we make not to disclose the response is reviewable by the Information Commissioner and the Information Rights Tribunal.

All our publications are available to download from [www.fca.org.uk](http://www.fca.org.uk). If you would like to receive this paper in an alternative format, please call 020 7066 7948 or email: [publications\\_graphics@fca.org.uk](mailto:publications_graphics@fca.org.uk) or write to: Editorial and Digital team, Financial Conduct Authority, 12 Endeavour Square, London, E20 1JN

