

High-cost short-term credit Call for Input video transcript

Why high-cost credit matters

Andrew Bailey: Since I became chief executive I've started a programme of visits around the country. When I do those visits I always spend part of the day - either with Citizens Advice Bureau, Money Advice Trust, Advice UK, the organisations that are really on the frontline dealing with consumers who are affected by high levels of debt. And who, therefore, tend to be the users of high-cost credit.

And this is, for me, fascinating and very important. You meet the people who are really on the frontline helping. I have to say I am really hugely impressed by what they do in dealing with these difficult situations. And it also gives us very important intelligence.

What have we published?

We've published, today, the Call for Input on high-cost credit. This is a very important piece of work that we will be doing. There are really two origins to this piece of work:

- the first one is that we are approaching the second anniversary of the introduction of the measures that the FCA took on payday lending. It's very sensible at this point to review the effectiveness of those measures. So, that was a natural thing to do.
- secondly, and emerging partly out of the work that the Competition and Markets Authority (CMA) have done. And we've agreed with the Treasury Select Committee and Parliament that we will carry out a review of the whole range of high-cost credit, including unauthorised overdrafts, for instance, which is one of the particular points to come out of the CMA work.

Why is this an important step in our consumer credit regulation?

It is important because the history in recent years is that the FCA took on consumer credit from the OFT. My colleagues - because a lot of this happened before I arrived - have done a huge amount of work to assess the consumer credit sector. It's a very big sector. A lot of it is well founded but some parts of it have, when we've looked at it quite carefully, left us with a lot of questions and in some areas, frankly, activities which we don't think are appropriate.

Now, we've taken quite a bit of action already as part of the authorisation process because we've, in a sense, reauthorised firms and we're still in that process. But now is the right time to step back on this particular part of the consumer credit sector and say 'let's look at the whole thing in the round'.

Why are we expanding the review of the high-cost short-term credit cap?

People talk about the so called 'waterbed' effect here. You take action on one part of the high-cost credit world. So, imagine that you push down on one piece of the waterbed.

In our world, you run the risk that it pops up in another part. There's a reason for that. There's a very legitimate need for credit in this part of the consumer world. So, it makes a lot of sense that we now look at the whole market. The whole scope of this activity. To decide whether it fits with what we would regard as good practice.

What changes have we seen in the high-cost market?

To sum it up, there's certainly the evidence that there's been a reduction in the share of payday lending as a proportion of high-cost credit. Now, there's some evidence that's then appearing in other forms of high-cost credit.

There's also evidence that it's causing people to default on what you might call the primary debt. That's council tax, utilities and so on. Rather than going into refinancing. So, there's more of that and, of course, that's our remit but it's part of the whole story so we need to understand it.

I've also met with the national Illegal Money Lending Team because one of the concerns has been has the payday cap contributed to an increase in illegal lending. There the story is there's not great evidence that's the case but when we think about the actions and the review that we take of the whole sector we always have to have in mind that we do not want to do anything which will increase the usage and incentives to use illegal lenders because that would be a very bad outcome.

So, sum all of that up, we've got a lot of evidence. It's a fascinating story to understand and it puts us in a good position to do the next phase of the work.

How can stakeholders get involved?

We need all the evidence and all the expert views and opinions we can get. So please do participate in this work because it is very important.