Regulator Assessment: Qualifying Regulatory Provisions

Title of proposal: High-cost credit – home-collected credit, catalogue credit and store cards and Registered Social Landlords (CP 18/43)

Lead regulator: FCA

Date of assessment: 18 December 2018

Commencement date: Various – **Home Collected Credit –** guidance on s.49 CCA – 19 December 2018 and rules on comparative costs of borrowing – 19 March 2019. **Catalogue, credit and store cards –** intervention 1 – 19 March 2019, intervention 2 – 19 December 2018, intervention 3 and 4 19 June 2019. **Guidance for Registered Social Landlords –** 19 December 2018

Origin: Domestic

Does this include implementation of a Cutting Red Tape review? No

Which areas of the UK will be affected? Whole of UK

Brief outline of proposed new or amended regulatory activity

In CP 18/12, we proposed remedies to address various harms we identified in the home-collected credit, catalogue credit and store cards markets. We also published finalised guidance for Registered Social Landlords:

<u>Home collected credit</u>

- new guidance setting out our interpretation of Section 49 of the Consumer Credit Act 1974 (s.49 CCA) which prohibits the canvassing and soliciting of cash loans off trade premises where this is not done in response to a signed written request made on a previous occasion.
- new rules requiring firms to explain to customers the comparative costs of refinancing an existing loan versus taking out a new loan to enable them to make better informed decisions.

<u>Catalogue credit and store cards</u>

There are four key interventions which have been proposed:

- Intervention 1 – Credit Limit Increases: Extending rules (which already apply to credit and store cards) to catalogue firms, requiring firms to:

- Not give credit limit increases (CLI) to those at risk of financial difficulties
- Permit customers to reduce/decline CLI offers
- Provide a 30-day notification period prior to a CLI unless waived by the consumers
- Not increase interest to those at risk of financial difficulties

- Intervention 2- Buy Now Pay Later and similar offers: A remedy requiring firms to make clear in the pre-contractual information the consequences of failing to repay within the Buy Now Pay Later (BNPL) promotional period, and to prompt their customers that the BNPL offer is about to end.
- Intervention 3 - Earlier Intervention: A remedy to require firms to monitor customers' repayment records for signs of actual or potential financial difficulties (early intervention). Firms would be required to make reasonable efforts to contact customers identified and take appropriate action.
- Intervention 4 - Persistent Debt: A remedy to encourage both firms and customers to avoid store card or catalogue debt becoming persistent, and to help customers who cannot afford to repay more quickly.

Guidance for Registered Social Landlords

We also published guidance for Registered Social Landlords (RSLs) on the scope of regulation when they refer tenants to credit unions or CDFIs.

We confirmed these rules in CP18/43 which was published on 18 December 2018.

Which type of business will be affected? How many are estimated to be affected?

Home-collected credit

As of January 2018, there were 472 such firms. These are categorised into 1 large, 4 medium and 467 small firms on a FCA-wide basis ranking of all authorised firms according to their fee block data.

Catalogue credit and store cards

We identified up to 11 firms will be affected by the proposals. These are a mixture of traditional catalogue credit and store card providers (8 and 3 respectively).

Registered Social Landlords

There are also approximately 1,900 RSLs in the UK.

Price base year	Implementation date	Duration of policy (years)	Business Net Present Value	Net cost to business (EANDCB)	BIT score
2018	2019	10	-104.4	12.1	60.6

Please set out the impact to business clearly with a breakdown of costs and benefits

One-off implementation costs

<u>Home-collected credit</u>
Familiarisation costs

We anticipate that there will be approximately 10 pages of policy documentation that firms will need to familiarise themselves with. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take 30 minutes to read the document. It is further assumed that 20 compliance staff at large firms, 5 compliance staff at medium firms, and 2 compliance staff at small firms read the document. Finally, the hourly compliance staff salary is assumed to be £55 at large firms, £58 at medium firms, and £42 at small firms.

Under these assumptions, the one-off industry cost of familiarisation is estimated to be £0.02m.

Legal review

We also anticipate that firms will also have to conduct a review of approximately 10 pages of legal text.

It is assumed that 4 legal staff at large firms, 2 legal staff at medium firms, and 1 member of legal staff at small firms will review the legal text, implying a total of 5.6 hours at large firms, 4.2 hours at medium firms, and 1.4 hours at small firms for legal staff to conduct the review. Finally, the hourly legal staff salary is assumed to be £64 at large firms, £64 at medium firms, and £51 at small firms.

Under these assumptions, the one-off industry cost of legal review is estimated to be £0.04m.

Staff training

The approach to estimate industry-wide compliance costs arising from the training of staff is to estimate the costs that the respondents to our survey would incur. We then estimate the total industry cost by multiplying the cost to respondents by a scaling factor that reflects respondents' share of all loan originations in the industry. That is, we are assuming that firms' training costs are proportional to the number of loan originations.

In our survey, we asked respondents to indicate the number of customer-facing staff and firm representatives that would require training as a result of both proposed measures (ie the new rules and guidance). We also asked how long respondents expected the necessary training sessions to be.

To estimate respondents' cost of training, the opportunity cost of staff receiving the training is calculated based on the duration of the training and average salaries. To compute respondents' opportunity cost of sales staff time, the average hourly salary of large and medium firm sales staff are assumed to be £19 and £27, respectively.

To estimate respondents' cost of developing and delivering training, we assume that an HR training specialist spends 40 hours to prepare one hour of training, and that the training class size is 15 staff per trainer. We also assume that the average hourly salary of an HR training specialist is £43 at large firms, and £39 at medium firms.

Assuming that firms' training cost is proportional to their number of loan originations, the industry total one-off training cost is estimated to be between £0.8m and £1.0m[1].

IT changes

We estimate industry-wide compliance costs arising from IT changes by estimating the costs that the respondents to our survey would incur and then scaling by the respondents' share of all loan originations in the industry.

Using this methodology described above, the industry total one-off IT change cost is estimated to be between £2.9m and 3.5m

Sales process change

The proposed information requirement is expected to have an impact on an average sales transaction. Based on responses to our survey, we estimate the monetary impact of the additional time taken for each transaction. We also discuss why we anticipate no such impact to arise from the guidance in contrast to the information requirement.

In our survey, we asked firms how many minutes longer an average sales transaction would be as a result of this proposed rule. When weighting answers by each respondent's transaction volume, the weighted average increase in transaction time is estimated to be 2.7 minutes.

With an industry total number of transactions of 1.7m, this corresponds to an additional 4.5m minutes (75,000 hours) per year spent by firm representatives.

To compute the opportunity cost of this time, the average salary per minute of a large, medium, and small firm salesperson are assumed to be £0.32, £0.45, and £0.28, respectively. As the exact distribution of loan originations across large, medium, and small firms is not known, we use £0.28 per minute as lower bound and £0.45 as upper bound for our estimation.

Using these assumptions, we estimate the ongoing industry cost to be between £1.3m and £2.0m per year for the information requirement.

Some firms provided us with cost information arising from the guidance. This was because of the additional time required for firm representatives to depart the consumer's property with the written request and return at a later time to discuss further lending, or a "cooling-off period". However, under our proposed guidance firms will not have to do this in order to discuss further lending, where the firm representatives have not gone to a property to discuss further borrowing, but consumers have raised a question about further borrowing or requested further borrowing during the course of that visit.

Other compliance costs

Some respondents noted that they anticipate one-off costs arising from setting up a monitoring process to comply with the proposed guidance. When scaling to industry level, these one-off costs are estimated to be around £0.02m.

Some respondents also note that they expect ongoing costs relating to additional compliance time and the training of new firm representatives to arise from complying with the guidance.

When scaling to industry level, these ongoing costs are estimated to be between

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[1] A margin of error of +-10% is applied to reflect the fact that there may be limits to the representativeness of our survey and information request.

£0.05m and £0.06m.

Loss of interest

Costs to firms from new information requirements arise from lower interest payments from repeat borrowing through parallel loans.

The cost of repeat borrowing is estimated under the same assumptions for the cases of refinancing and taking out a parallel loan. The cost difference between those two options is then computed from these estimations. We estimate the cost of credit difference between refinancing and parallel borrowing by calculating the amortisation schedules. As the difference in cost of credit between the two options will depend on the loan term, we make these for four different maturities (7, 20, 39, and 52 weeks). Based on the weighted-average reported in our survey, we assume that each aggregate loan is refinanced when between 77% and 63% of the original loan is paid off.

The interest rates that home-collected loans carry for different maturities of the average loan size were collected from the websites of 4 out of 5 of the survey respondents in April 2018, and the weighted averages are displayed below with a 10% margin of error, generating a lower and upper bound.

We estimate the value of refinanced originations from the value of total originations and the share of the total number of loans that are refinanced originations.

We compute the difference in total cost of credit between the two scenarios. We anticipate that as a result of the new information requirement on refinancing and further borrowing more existing borrowers will borrow using parallel loans. That is because refinancing, while being an option to raise additional cash for those borrowers that cannot afford the temporarily increased weekly payments of a parallel loan, is a costly way of obtaining new credit.

We consider a range of values for the percentage of refinancing volume that shifts to new concurrent loan originations. We estimate the change in total cost of credit that would arise if between 5% and 25% of refinancing volume were to shift.

Using the methodology and assumptions stated above, we estimate the costs to firms from reduced interest revenue to be between £3.8m and £34.2m per year. The range reflects the degree of uncertainty around the behavioural response of consumers, and the margin of error around interest rates and refinancing timing. As these costs arise from changes in consumer behaviour, we have classified these costs as indirect.

We expect fewer consumers to engage in further borrowing as a result of the proposed guidance.

This is because existing borrowers would have to prompt firm representatives to engage in further borrowing, rather than being prompted by firm representatives. The extent of this cost reduction depends on a number of uncertain and unobservable factors, such as the behavioural response of consumers, and the purpose of funds currently raised through further borrowing. As such, we are of the view that these benefits cannot reasonably be estimated.

<u>Catalogue credit and store cards</u>
Familiarisation and legal review costs

We expect firms to incur one-off compliance costs through familiarising themselves with the new rules and identifying and assessing the activities within their business that need to be changed to become compliant with these. There are also one-off costs associated with conducting a legal review of the new rules.

We would expect firms to carefully consider rules and identify and assess the activities within their business that need to be changed to become compliant with our new rules. Neither of these activities is costless. We have estimated these costs for the firms affected using data we have collected from firms in conjunction with standard FCA assumptions.

There are approximately 19 pages of policy documentation that firms will need to familiarise themselves with. Assuming that there are 300 words per page and a reading speed of 100 words per minute, it would take 0.95 hours to read the document. It is further assumed that 20 compliance staff at large firms, 5 compliance staff at medium firms, and 2 compliance staff at small firms read the document. Finally, the hourly compliance staff salary is assumed to be £55 at large firms, £58 at medium firms, and £42 at small firms. Under these assumptions, the one-off industry cost of familiarisation is estimated to be £2,354.

Firms will also have to conduct a review of approximately 11 pages of legal text. It is assumed that 4 legal staff at large firms, 2 legal staff at medium firms, and 1 member of legal staff at small firms will review the legal text. It is further assumed that it will take each legal staff member 28 hours at large firms, 21 hours at medium firms, and 7 hours at small firms to conduct the review. Finally, the hourly legal staff salary is assumed to be £64 at large firms, £64 at medium firms, and £42 at small firms. Under these assumptions, the one-off industry cost of legal review is estimated to be £3,827.

Evidence base for estimating costs

We conducted a survey of 10 firms on the potential direct and indirect costs of implementing the proposed remedies, covering all the firms we think will be materially affected by the proposals. Therefore, our market wide estimates for the costs and the size of the market presented here are a simple sum of the individual firm responses.

This information is considered alongside account-level CRA data. The master dataset for this analysis is a representative sample of credit reference agency (CRA) data. We used anonymised extracts of individuals' running credit accounts over varying periods of time to inform our assessment of the level of harm and in the assessment of benefits for our interventions.

An overview of the further expected costs and benefits are broken down by each intervention:

Intervention 1 (Credit Limit Increases)– The direct impact of the proposed remedies on firms is an increase in compliance costs associated with monitoring consumers for financial difficulties. Additional compliance costs will arise from providing notifications to consumers in advance of a credit limit increase. Costs of the policy will also likely arise from firms changing their systems and data usage to identify at-risk customers to prevent credit limit increases, though most firms responding to our survey indicated that they already took steps to ensure that CLIs were not provided to consumers in danger of entering/already in financial difficulty. Finally, there will be system costs involved in informing customers in advance of credit limit increases; we expect that this notification will be part of a firms' usual communications with consumers.

Across the sector, we estimate that the one-off compliance costs relating to this proposed intervention is £1.0m with a per annum ongoing cost of £300k.

We expect the CLI proposals will reduce the administrative costs for firms of dealing with arrears and debt collection, which are charged off by reducing the probability of individuals in financial difficulties increasing the size of their debt. We also expect a reduction in the long-term costs associated with reduced late payments from individuals in financial difficulty and who currently might receive credit limit increases. This could be either through consumers limiting their own credit or for those at risk of financial difficulty.

Firms will also experience a reduction in interest payments on later charges/fees.

Our estimates focus on consumers that would take advantage of the opportunity to reduce or decline offers because they are aware of the temptation higher credit limits may provide to overspend, and want to avoid this temptation.

We estimate two elements of costs for firms from this element of the proposals. We first estimate the loss of interest revenue that firms lose on the additional purchases that they would otherwise make if given a credit limit increase. We then estimate the costs from not receiving late payment charges as a result of having lower amounts of debt.

There are approximately 600,000 new catalogue accounts opened each quarter. From analysis of CRA data, most credit limit changes are in the first year after opening. Most catalogue accounts received at least one credit limit increase and many had more than one. We use this data to estimate that there are at least 2.8 million credit limit increases a year for new consumers in the first two years.

Approximately 50% of credit limit increases were of £200. While we do not know the amount of a credit limit that will be utilised, we would expect some of this credit to be used. We assume that 25-50% of this additional credit is used and that these debts are paid off over a year.

We estimate that between 1 and 2% of consumers would request that they not be offered further credit limit increases, or alternatively that they can decline the increases. This would mean a reduction of around 28,000-57,000 catalogue credit limit increases per year.

Under these assumptions and analysis, we would expect firms to lose interest revenue of around £0.3-1.1m per year. As these costs arise from changes in consumer behaviour, we have classified these costs as indirect.

We know that over 30% of accounts go into arrears in the catalogue sector and will face late payment charges. Typically, these charges are £12.92. Consumers with higher credit limits are more likely to incur a late payment fee. Consequently, lower credit limits will reduce the number of late payment fees. To account for this, we assume consumers incur at least one late payment fee as a result of the additional debt that arises from credit limit increases.

Given these assumptions, overall, we estimate that consumers would avoid late payment fees of approximately £70-140k per year as a result of these proposals. As for the loss in interest revenue above, we have classified these costs as indirect.

Our rules also ensure that consumers at risk of financial difficulty are not offered CLI increases.

Using information from a credit reference agency database, we expect that consumers will avoid between £50k and £230k in interest payments on debt. Cost to firms arise as consumers avoid interest payments and late payment changes as a result of holding less debt.

Further, the consumers that do not default miss around 6,900 payments. We expect that at least some of these missed payments will be attributable to the higher amounts of debt consumers are holding. We assume that 10-20% of these missed payments are attributable to the credit limit increases. Typically, these charges are £12. We therefore estimate that consumers could save an additional £10-20k per year from avoiding missed payment charges.

We expect the credit limit increases proposals will reduce the administrative costs for firms of dealing with arrears and debt collection which are charged off by reducing the probability of individuals in financial difficulties increasing the size of their debt. We also expect a reduction in the long-term costs associated with reduced late payments from individuals in financial difficulty and who currently might receive credit limit increases. This could be either through consumers limiting their own credit or for those at risk of financial difficulty. Firms will experience a reduction in interest payments on later charges/fees. However, we expect the overall reduction in probability of customer defaults and the defaulted debt which is costs to recover (if at all), may mean there will be some benefits for firms.

Intervention 2 – Buy Now Pay Later and similar offers

The primary direct impact of implementing the Buy Now Pay Later (BNPL) remedies will be an increase in administrative costs associated with providing additional information relating to the interest charge from failing to fully repay during the repayment period, and a prompt to remind customers to pay by the end of a promotional period. The majority of firms surveyed indicated they did not engage in BNPL promotions, and as such would incur no cost from the proposed remedies. For the remaining firms, those which operate online will mainly have systems change costs, while those who also sell through retail premises will have to train staff. Further, purchases will take slightly more time to complete.

Across the sector, we estimate that the one-off cost relating to this proposed intervention is £300k with a per annum ongoing cost of £400k.

There will also be costs to firms from the lost revenue from consumers paying debt back more quickly (and within the interest free periods) or not making purchases at all. This will be partially offset by an increase in recoverable debt: provided consumers understand the additional disclosure and make an informed decision to purchase the product, those customers who are charged back-dated interest will be aware in advance, and may be more financially prepared to deal with this issue compared to the current population of borrowers.

In our survey of catalogue and store card firms, we asked firms a number of questions about the number of customers using deferred payment (or similar) options, the value of these purchases, and the length of time it takes consumers to fully pay off their balances

According to our survey of firms,

• there are 2.7m consumers who currently use these products.

• Of these, 1.2m fail to pay the balance back in full before the introductory period ends.

• The average balance they hold at the end of the introductory rate is £219 and they hold this debt an additional 8 months on average.

Providing additional information to customers on the cost implications of failing to repay within the offer period before an agreement is finalised

We estimate the interest costs for firms as consumers avoid making purchases because of the pre-contract disclosure.

We have estimated the proportion of consumers that respond to the proposals. Our experience of disclosure remedies suggests we would expect relatively low response rates. For simplicity, we assume a fixed proportion of consumers respond to each remedy, taking a lower and upper-bound of and 0% and 5% for non-backdated interest products and 1% and 10% for backdated products respectively.

We assume that the costs to firms are all the interest payments the consumers would otherwise have made on the purchase.

We estimate the revenue costs to firms to be between £0.3-3.0m focussed on backdated interest products. This cost arises from a consumer behaviour change and has therefore been classified as indirect.

Providing a specific prompt to customers to remind them of the need to repay before the expiry of a deferred repayment offer

We estimate the interest savings for those consumers that, as a result of the prompt prior to expiry, avoid unexpected interest payments due to repaying their debt in the offer period. We estimate the benefit as difference between the original value of the product (paying the product off in full before the end of the promotional period) and the estimated total amount paid absent the intervention (including interest payments after the interest-free period).

We assume that the prompt one month prior to the end of the interest-free period causes those who respond to pay off any remaining balance prior to the end of the interest-free period. For consistency with our earlier assumptions, our lower-bound estimates assume 1% of consumers alter their behaviour as a result of the disclosure, while our upper-bound assumes 10% of consumers change their repayment.

We estimate the revenue costs to firms to be between £0.4-4.0m focussed on backdated interest products. Again, this cost arises from a consumer behaviour change and has therefore been classified as indirect.

Intervention 3 – Early Intervention

We expect the direct impact of the earlier intervention remedies to be an increase in administrative costs to firms from monitoring customers for potential financial difficulties. As with credit cards, we found that the majority of firms already had systems in place to monitor borrowers at risk of defaulting, suggesting the industry cost of implementing the remedy will be low. Costs of the policy will likely arise from the costs firms face from changing their systems and data usage to identify at-risk customers at an earlier stage, as well as the costs of implementing potential actions to help alleviate financial stress on at-risk customers (e.g. freezes on late fees or interest payments).

Additionally, indirect costs may arise to firms through customer relationship damage, through intervening with a customer's credit via the early intervention mechanism when it may not have been necessary to do so. This will also partially fall on the customer if it results in a reduction in credit available.

Across the sector, we estimate that the one-off cost relating to this proposed intervention is £400k with a per annum ongoing cost of £1.0m.

We also expect there to be a lowering of costs associated with late payments and recovering late debt as a result of the policy. While interest revenue will decline, firms will have lower levels of outstanding lending, and should benefit from a lower probability of customer default.

There are many possible ways in which a firm could change the way they interact with consumers in financial difficulty. We would expect that firms would waive either fees or charges in most instances. Where a consumer is in financial difficulty, an obvious way to help consumers who cannot afford to pay their contractual payments is to waive missed-payment fees. We have therefore used freezing of missed payment fees as an example of a policy a firm could implement as part of the early intervention process, we have assumed the firm takes action by applying a fee freeze on missed payment fees that have been identified as suitable for early intervention.

To estimate the costs to firms from such a fee freeze, we identify consumers who have missed 2 or more payments on another product. This is an indicator of a consumer who might require early intervention. We note that approximately 60% of those identified as potential candidates for early intervention subsequently miss payments on their store card/ catalogue credit account within a 6-month window.

As with credit limit increases, we assume late fees are £12. We apply fee freezes to accounts for 6 months following being targeted for early intervention.

To account for the fact that firms will not be able to perfectly predict which individuals will require intervention based on the early intervention flag, we divide individuals into those who would have benefitted from early intervention, and of those who would not require intervention. We then take a random sample of each of these groups.

We assume 80%-90% of individuals requiring early intervention have the fee freeze applied. We also assume that 5-10% of those not requiring intervention receiving an accidental fee freeze. This enables us to create a range of the potential benefits. In our CBA we netted off the reduced fee for consumers not requiring an intervention. Here we present the full impact of lower fees on firms as this reflects the loss of revenue for firms.

We estimate the revenue costs to firms to be between £7.5-8.2m from lower fee revenue.

Intervention 4 – Persistent Debt

We expect firms to incur compliance costs from these proposals. Firms will incur costs from implementing a system to identify customers entering or already in persistent debt. This will include system costs involved in adapting pre-existing systems to identify individuals which fall under the definition of "persistent debt", as well as the costs of actually administering the firm's choice of intervention to those individuals.

Over time, we would expect to see fewer consumers in persistent debt. This change will arise from changes in both consumer and firm behaviour. We also note that the benefits to consumers in most instances are transfers from firms, since lower interest payments results in lower revenue for firms.

Across the sector, we estimate that the one-off cost relating to this proposed intervention is £1.3m with a per annum ongoing cost of £1.5m.

We note that more sustainable borrowing and debt is likely to deliver other benefits for consumers and firms. Firms will use fewer resources in collecting missed payments. They will also have lower financing costs and lower administration costs on accounts once an account is paid off.

Firms will earn lower interest revenue from the persistent debt rules. This is because consumers who are in persistent debt for 18 months can benefit from the persistent debt proposals in one of the following ways:

- Avoiding being in persistent debt at 36 months by paying down their debt and making interest savings.
- Setting up a repayment schedule at 36 months that repays their debt more quickly and therefore saving on interest payments
- Consumers who cannot afford higher repayments after 36 months of persistent debt will be given forbearance and therefore benefit from lower interest payments.

To estimate the existing stock of customers in persistent debt, in our survey of firms, we asked firms about the number of consumers in persistent debt as defined as a customer paying more in interest and charges than they have repaid of the principal, over an 18-month period and a 36-month period.

Using this data, we estimate that for Catalogue credit the number of accounts in persistent debt is around 330,000 at the 18-month mark. The number of accounts in persistent debt at 36 months is 180,000. For store card credit firms, the reported number of accounts in persistent debt is 290,000 at the 18-month mark and 180,000 at the 36-month mark.

We also need to estimate the number of new consumers entering persistent debt to estimate the benefits of the proposals for these consumers.

To estimate the number of consumers entering persistent debt each year we assume the number of consumers in persistent debt at 36 months would stay fairly constant absent our proposals. We also need to estimate the average length of time a consumer would stay in persistent debt.

If a consumer pays minimum repayments on their catalogue credit and continues to do so until the debt is paid off then on they would stay in debt for 6.6 years. If they pay 20% above the minimum payment, then they would repay their debt in 4.5 years. In contrast, for store cards, the time to repayment is 12 and 23 years respectively. This difference in repayment time is primarily driven by differences in minimum repayment rates; the weighted average rate is 2.5% for store cards, compared to 4.6% for catalogue firms.

We estimate that 16-23,000 consumers enter persistent debt each year for catalogue credit and 5,000-9,000 enter persistent debt for store cards.

To estimate the impact of the proposals on these consumers we assess the impact for three groups of consumers affected by our proposals:

Group 1: Consumers who are likely to respond to communications at 18 months and so exit persistent debt before the assessment at 36 months.

Group 2: Consumers who remain in persistent debt at 36 months and who are likely to agree a repayment schedule sufficient to repay the current balance within a reasonable period.

Group 3: Consumers who remain in persistent debt at 36 months and are likely to have affordability difficulties and thus require forbearance in order to repay their balance within a reasonable period.

For the first group of consumers, we assume that in response to the communication at 18 months consumers increase their payments enough to avoid being in persistent debt at 36 months.

The second group of consumers agree to a repayment schedule to repay the outstanding balance over a set period of time. We assume that catalogue credit consumers pay down the debt over a 2-year period. This is reasonable because if the period was more than 2 years the initial payment would be lower than the minimum payment in that first month. For store cards, the repayment schedule is longer to avoid a large increase in payments for consumers. We assume a 4-year repayment schedule.

Finally, for store card customers the last group is unable to meet the repayment schedule so requires some forbearance. We again assume that consumers pay off their debt in 24 months for catalogue credit but 48 months for store cards. However, we assume that consumers are unable to afford the repayments on such a schedule and forbearance is given for these consumers. We assume that a 25% reduction in interest is applied to the account. If we had a higher reduction in the interest rate, consumers would be required to pay less than the minimum payments they are already making on the debt.

From the survey of firms, we calculate a weighted (by number of accounts in persistent debt) average initial balance at 18 months.

We assume that between 0-30% of consumers do not engage with any of the communications or they default after spending 36 months in persistent debt.

We assume that all consumers pay the minimum repayment or 20% above the minimum payment until the debt is repaid. This is a reasonable assumption given that if the repayments are too high consumers no longer meet the persistent debt criteria.

In line with the credit cards CBA which we modelled using consumer level account information, we apply the following assumptions to the existing stock of consumers. We assume that of the consumers that respond to the communications, 11% are in a position such that a relatively small increase in repayments would lead the account to exit persistent debt before 36 months, 63% would agree to a repayment schedule and 26% are accounts with affordability difficulties.

For the new flow of consumers hitting the 18-month PD threshold, we again use assumptions in line with the credit cards CBA. We assume that 16% could exit persistent debt with a relatively small increase in repayment and so are expected to exit persistent debt before 36 months based on the data we received on customer response rates. 52% are in a position to agree to an affordable repayment schedule and 32% are in a position such that only a repayment schedule with interest rate forbearance is affordable.

We acknowledge that many of these consumers will be being offered forbearance in absence of the proposed remedy. We assume that 20-40% of these consumers meeting the persistent debt criteria will be receiving forbearance and hence not pay interest. Consequently, no interest revenue losses will accrue to firms from these consumers as a result of the persistent debt remedies. We use this range as around 30% of catalogue credit accounts eventually default.

Using these assumptions, we estimate that catalogue credit firms have lower interest revenue of £19m-£46m in the first year and £1.8m-£5.4m in subsequent years[2]. We also estimate the that store card firms have lower interest revenue of £48m-£113m in the first year and £1.7m-£3.6m in subsequent years.[3][4]

All of these costs arise from consumer behavioural change that arises from the communications that firms send to consumers. We have therefore classified these costs as indirect.

The costs of the guidance for Registered Social Landlords

There are unlikely to be significant costs from the guidance for RSLs. This is because the guidance is intended to help RSLS understand their regulatory obligations, and does not impose new ones. Our proposed guidance does not and cannot seek to change which activities require authorisation and which do not (the regulatory perimeter). It also does not impose new regulatory requirements on RSLs or any other persons. Instead, it points RSLs to the sorts of issues they should bear in mind when they want to help tenants find alternatives to high-cost credit.

Nonetheless, we might expect RSLs to have incurred costs reading the guidance.

A registered social landlord must be registered with either the Regulator of Social Housing (in England), the Scottish Housing Regulator, the Housing Division of the Welsh Government, or the Department for Communities (in Northern Ireland). Each of these four regulators publishes the numbers of RSLs on a regular basis. This data implies there are around 1,900 RSLs in the UK.

To estimate the familiarisation costs, we use data from the Current registered providers of social housing, 20% of providers are classified as large. We assume that these providers will incur more costs. We assume that providers review 12 pages of text and assume that 5 staff per provider reads this text at large providers and 2 staff review it at smaller providers.

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[2] See tables 16 and 17 of CBA on page 118 of CP18/12

[3] See tables 18 and 19 of CBA on page 119 of CP18/12.

[4] We note that interest revenue losses are discounted to the point when consumers enter the persistent debt remedy (not when the interest payments would have been made), even if the payments would have been paid sometime in the future.

Assuming it takes 36 minutes to read the 12 pages. We also assume hourly costs of £61 at large providers and £44 at smaller providers (including overheads)[5].

These assumptions, taken together, imply that the one-off familiarisation costs are around £140,000.

Note on use of revenue rather than profit.

Where consumers no longer purchase credit, or shorten the period over which credit is repaid, our revenue costs will overestimate the impact on profits. It is far from straightforward to allocate costs to individual sales (and often firms will not collect this information). We therefore did not burden firms with detailed questions about cost allocation in our survey and we are therefore unable to precisely estimate the effect on profits. However, we believe the effect on revenue and profit will be broadly similar for our changes.

Please provide any additional information (if required) that may assist the RPC to validate the BIT Score.

High-cost Credit Review:

- Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternatives to high-cost credit

- Discussion on rent-to-own pricing

(https://www.fca.org.uk/publication/consultation/cp18-12.pdf) - see chapters 3, 4 and 5 and associated CBA.

High-cost Credit Review: Feedback on CP18/12 with final rules and guidance and consultation on Buy Now Pay Later offers (see https://www.fca.org.uk/publication/consultation/cp18-43.pdf) – see chapters 2, 3 and 5 (the CBA published

Where any reference is made to salaries This is based on salaries for the relevant staff types affected in financial services firms (from Willis Towers Watson 2016 UK Financial Services Report). This assumption may overstate the costs for social housing providers. We also assume that there are 220 working days per year, 7 working hours per day and additional overheads of 30%

[5] This is based on salaries for compliance staff in financial services firms (from Willis Towers Watson 2016 UK Financial Services Report). This assumption may overstate the costs for social housing providers. We also assume that there are 220 working days per year, 7 working hours per day and additional overheads of 30%.