



ACCESS TO CREDIT: NEXT STEPS





Last year the FLA commissioned **Thinks Insight & Strategy** to survey consumers and hold joint discussions between consumers and our members on the future of credit. The [Future of Credit report](#) found that an improved relationship of trust between lenders and borrowers should be built on four themes: *personalisation, customer understanding, control, and flexibility*.

These themes have helped our members think about the application of the Consumer Duty. Over the course of 2023, our discussions led us to a particular question regarding access to credit. **Has borrowing become too difficult for too many?**

To help answer this question, we held **the Access to Credit Symposium** in Westminster on **12 October 2023**. It brought together stakeholders who have been actively working on access to credit issues, including researchers, consumer groups, lenders, FCA, HM Treasury, FOS, credit reference agencies, data suppliers and fintechs.

Financial exclusion is extensive. Only 25% of customers get approved. Now is the time to act. We challenged stakeholders to identify how we might restore inclusion and the supply of credit to those in marginal financial circumstances without it being unaffordable.

The FLA wants to take a convening and leadership role in addressing access to credit and financial inclusion. This involves defining the 'collective good' in what we are seeking to achieve and communicating it effectively to Government and regulators.

This work does not discount the range of research and initiatives already underway. We look to amplify these where possible. Ultimately, however, we need a plan of action to take forward that requires a pragmatic balancing of our objectives. We can't let perfect be the enemy of the good. Collaboration is the key to ensuring safe, sustainable access to credit.

This document summarises the key themes that emerged through discussion and sets out **four priorities** to test and refine. From this basis, we can define our shared vision for the 'collective good' in lending and develop a robust and collaborative plan across 2024.

FOUR PRIORITIES

1. REGULATORY CERTAINTY

The FCA has accepted that financial exclusion needs to be addressed but sees it as an issue squarely for [industry to address](#) with the aid of [technology](#).

However, delegates from both mainstream and community finance lenders suggested that the regulatory burden acts as a barrier to lending and constrains innovation. The high cost of compliance ends up being priced into credit agreements. The interaction between FCA rules and the decisions of the FOS, particularly in respect of affordability assessments, creates a risky environment for lenders and deters funders seeking a stable environment for investment. This situation has been exacerbated by the principles-based approach of the Consumer Duty.

- Is there a way to provide greater certainty in interpretation of FCA responsible lending rules?
- Could we advocate for changes to the current over-simplistic regulatory model that looks solely at avoidance of harm to one that also looks at promoting financial inclusion? How would this be measured and could it involve a more collaborative approach from the FCA?
- To what extent will members' attitude to risk in subprime lending change if the FOS risk lessens? Will this unlock lending on its own? Or is action by both FCA and FOS required?

Next Steps: The FLA will explore the potential for Responsible Lending Principles to deliver greater certainty in lending decisions following discussion with the FCA, FOS, community-based lenders and stakeholders.

2. CUSTOMER BEHAVIOUR AND UNDERSTANDING

A customer's attitude to borrowing forms a critical part of responsible lending. Some delegates suggested that affordability assessments, on which the FCA relies, are a blunt tool. Determining disposable income is not a greater predictor of ability to repay – rather, it's the customer's attitude and behaviour.

In turn, customer attitudes and behaviours are supported by a proper understanding of how credit products work, and which may be more suitable for a customer's needs.

Unlike an insurance policy, which can be voided, there is no strong disincentive for being dishonest on a credit application. If firms are bound by regulatory expectations for compliant and responsible lending, customers should understand the importance of accurate disclosures on applications, what their credit agreement requires, and where they are able to seek support.

Next Steps: The FLA will lead on developing a guide for borrowing (in collaboration with stakeholders), which clearly sets how credit works (simple-to-grasp 'rules of thumb') and expectations for lenders and customers. It will closely focus on where there are gaps in customer understanding, like credit scoring, and could include interactive tools to help customers understand which product is best suited to their needs.

This work could figure more broadly in an education campaign that focuses on assisting customers being 'borrowing ready'.

FOUR PRIORITIES

3. GOOD GOVERNANCE AROUND DATA COLLECTION/ USE OF OPEN BANKING

There is a paradox in that the market should be fighting fit to lend to broad groups due to the broadening of data collection, access to data, and initiatives like Open Banking – but access to credit has plummeted for some consumers.

Good governance around data is critical, as well as explaining the likely effects of more extensive data collection.

A key question is understanding the unintended consequences of more granular customer data. Having access to more data on which to base assessments may not be the answer. It may well result in more declines – for instance, by picking up data on everything a customer spends their money on, including any gambling transactions, on which a lender must make a judgement call.

Next Steps: The FLA will work with members and stakeholders in identifying where use of certain types of data could improve access to credit – particularly by those customers currently on the edge of eligibility.

4. COLLABORATION: A BLENDED APPROACH TO LENDING

Delegates noted that a significant increase in incremental products and alternative solutions for people in vulnerable circumstances/financially excluded circumstances is required.

Could we create a ‘blended approach’ for marginal groups through collaboration and information sharing between social lenders, credit unions and commercial lenders?

- **Could it take the form of a referral scheme between mainstream lenders and community finance providers and credit unions?**
- **Could this be positioned towards credit-building products that allow customers access to a wider variety of products over time or signposting where customers are turned down for credit?**
- **Is there a longer-term case for subsidies or guarantees for lending to subprime cohorts?**

Benefits uplift and household resilience

The rising cost-of-living is strongly impacting household resilience across all customer lending cohorts. In turn, this affects affordability due to the problems customer face in meeting their agreements. Some are pushed into unregulated lending.

Better awareness of benefits and entitlements is an important part of this response. A challenge remains in removing stigma about claiming benefits and entitlements. Including benefits calculators as part of money and debt advice referrals may help manage these impacts.

There are situations where benefits are not sufficient. Delegates posed the question on whether our access to credit work can also amplify the campaign for an 'Essentials Guarantee' to make sure the basic rate of Universal Credit at least covers essential outgoings.

Next Steps: The FLA will explore with members and community-based lenders opportunities for working together.

Work will be undertaken to identify how benefits calculators might be used at different stages of the customer journey, to support customers.





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