BIS Department for Business Innovation & Skills

Report prepared by POLICIS for Department for Business, Innovation and Skills

INTERIM EVALUATION OF THE NATIONAL ILLEGAL MONEY LENDING PROJECTS

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OCTOBER 2010

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Executive summary

The need and project rationale

- Following successful IML pilot projects in Birmingham and Glasgow from 2004 – 2006, the National IML Projects were set up in 2007, funded by £10.8m funding from BIS, augmented by a contribution of £2.8m from the Financial Inclusion Fund.
- The project set out to address the illegal money lending which is common in deprived estates and which entrenches poverty and disadvantage, hollowing out the finances of victims and deeply compromising quality of life. The law had previously not been enforced for decades and lenders were able to act with impunity.
- The illegal lending market in the UK is estimated to be used by 0.31m individuals, 2% of those in the lowest 50% of household incomes and 6% of those in the most deprived communities.
- The black credit market has grown during the recession, with growth attributed by victims primarily to shrinking supply of high cost credit in deprived estates.
- Some £120m p.a. is borrowed from illegal lenders with £450m p.a. paid back, equivalent to a total cost of credit TCC of £280 per £100 borrowed, circa 3 and half times the cost of the highest cost legal credit. Some lending is in fact closer to extortion than lending.
- Consumer detriment arising from illegal money lending is significant and is estimated at in excess of £370m p.a. in total. This includes a net £235m taken out of the budgets of low income households (compared to the same borrowing from the highest cost legal credit) and a net £63m p.a. taken out of the economy of the most deprived communities.
- There is a further £96m p.a. in quality of life costs arising from the fear, intimidation and violence which typifies the modus operandi of loan sharks plus a further net £43m of health costs to the state associated with the resultant stress. Further costs arise but have not been quantified in terms of the levels of elevated crime and anti-social behaviour in deprived areas which communities see as directly linked to the prevalence of illegal money lending.

The project aims were to:

- Conduct enforcement actions that would remove loan sharks from the communities on which they preyed, gradually reduce the incidence of illegal lending and change the perception among lenders that lending is low risk.
- Support victims in accessing debt advice to rebuild their finances and make a sustainable transition to legal credit while increasing awareness of the issue among partner agencies and building processes for mutual referrals.

Progress against objectives

- In the first three years of operations, the IML project has made considerable progress towards meeting its objectives.
- The law against illegal money lending is now being proactively enforced, with 280 illegal lenders arrested and 163 proceedings instituted against 185 defendants.
- It is too early in the initiative to draw firm conclusions on the project's effectiveness in generating a sustainable reduction in illegal money lending.

However, the community surveys indicate that the teams are making progress in impacting illegal lending, are changing perceptions that lenders can operate with impunity and are beginning to address the climate of fear that sustains it.

- The teams have achieved a high degree of awareness among both victims (34%) and residents aware of IML within deprived communities (27%) that help is now available to victims and that the authorities are willing to act. The climate of fear remains very much in place however and acts as a significant barrier to reporting and giving evidence.
- Where lenders are arrested, four out of five victims are relieved of the payment burden, with one in five continuing to pay the lender or a representative at least for some time. Few (13%) have so far returned to the lender or gone to another loan shark.
- The community and victims surveys suggest however that demand for credit is such that as one lender is removed, others tend to quickly take their place.
- The teams can point to a range of benefits, for victims, communities and society as a whole:
  - The project has relieved over 14,000 victims:
    - Of these 700 will have previously suffered violent attack and 2,800 will have been subject to threats of violence.
  - For victims exposed to threats and violence, relief from stress, leading to improved quality of life is indicatively quantified at £5.7m.
  - In net terms, victims have saved an estimated £11.7m in income that would otherwise have gone to loan sharks:
    - Of these 7,300 victims will previously have been struggling to afford fuel and light, 4,900 to afford food and 3,500 will have been struggling to pay rent, primarily to social landlords.
  - The experience has negative health and wellbeing effects. Therefore, removing loan sharks can also be expected to have consequential health services savings, indicatively estimated at £1.8m.
  - Potential POCA gains, which would accrue to society as a whole, amount to £9.1m.
  - The overall total net benefit generated by the IML project is estimated at £28.3m
- The original financial inclusion objectives have not been achieved, largely for reasons beyond the control of the project teams:
  - Victims have been highly reluctant to engage with the authorities and only 4% of victims have been referred to any kind of support.
  - Take up of referrals to debt advice has been greater than to credit unions, with only a handful of victims successfully transitioned to affordable credit
  - Most victims are too indebted or unsuitable candidates for credit unions which do not have the capacity to manage the risk or support required.
  - The teams have achieved some transformational financial inclusion and quality of life outcomes but these have been relatively small in number and primarily focused on witnesses rather than the generality of victims
- In practice many of the teams have reframed the financial inclusion objectives as financial education and witness support and the evidence is that this has had some financial inclusion benefits:
    - The community surveys suggest that education is increasing awareness of the risks of using a loan shark

- The effective prosecution of cases requires witnesses be given intensive support over an extended period if they are to give evidence

- There has been a step-change in awareness of illegal lending in the financial inclusion community.

Efficiency and value for money

- For the project as a whole, the ratio of net benefits to project funding is estimated at 211%.
- The evaluation indicates an estimated net benefit of £28m compared to £13.4m of funding i.e. net benefits of £2.11 per £1 of project funding.
- The ratio of benefits to costs has varied markedly across the different teams. The highest ratios of benefits to costs, in the region of 300%, have been generated by the largest team (CenTSA) and that covering London.
- While they have often been successful in generating high levels of enforcement activity, notably around investigations, arrests and prosecutions, the smaller teams have generally found it more difficult to align benefits and costs, in part reflecting the nature of local markets and small scale lending within them.
- Nonetheless, the experience of the smaller teams also demonstrates the importance of a regionally based presence in ensuring a spread of enforcement activity across a range of local communities, especially the most disadvantaged.

Implementation

- BIS, Trading Standards and the national IML project have made an excellent start in addressing a formerly invisible, unprosecuted and highly damaging crime. There are nonetheless a number of lessons to be drawn for future delivery if effectiveness and efficiency is to be optimised.
- The project was implemented on a decentralised basis with seven regional teams hosted by Trading Standards, managed on a hands-off basis by BIS and with performance overseen by a governance board made up of regional heads of service and various central government stakeholders.
- The teams have operated with a high degree of autonomy, procuring their own solutions and negotiating partnerships and relationships at local level. This approach has led to unnecessary delays and replication of effort, mixed results across teams and a lack of national profile and stakeholder sponsorship at national level.
- The teams' enforcement agency powers are limited relative to those of the police. They have thus been critically dependent on the police not only for intelligence but also for operations. To a significant extent therefore, performance has hinged on achieving police engagement, with some teams more successful than others, generating better quality intelligence and able to move towards operational effectiveness more quickly.
- Some senior police officers have fully engaged with the illegal lending agenda and their sponsorship has been important to the success of some teams. For the generality of the police however, there remains a long way to go in building awareness and understanding of the associated criminality.
- The teams have also been further constrained by the need to negotiate piecemeal with individual local authorities to obtain delegated authority to undertake covert investigations, a process that remains incomplete.
- The teams are of differing sizes with one team covering a large swathe of central England from the South East to the North West, operating on a "parachute in :

parachute out" model. The same team has also tended to focus on larger cases and POCA realisations as a strategy. Other teams are much smaller and focused regionally. Taking the experience of the various teams together it is clear that the large team offers economies of scale and has the benefit of both greater flexibility and centralisation of services but that the smaller teams benefit and outperform in some respects as a result of essential local knowledge.

- The teams are now encountering capacity issues as the scale of the problem becomes more evident, the pipeline of cases builds with some of the cases becoming increasingly large and complex. This is true of both the enforcement and witness and victim support teams. Funding issues are also beginning to arise with the police and some local authorities as more large and complex cases arise.
- For several teams the prosecution of cases has been hampered by long delays arising primarily from a lack of experience of dealing with complex cases or significant criminality in local authority and Trading Standards legal services and because of a lack of understanding of illegal money lending within the court system.
- Overall the coherence and strategic focus of the national project has not been well served by a hands-off approach to performance management and direction from the centre. Some teams have thrived but others have struggled under this regime.

Strategic recommendations

- There remains a strong case for continued intervention based on social need and significant detriment.
- Building on the project achievements will require focusing some objectives, restructuring the delivery model and placing greater emphasis on leadership.
- Strategically the financial inclusion objectives should be recast as witness support and preventative education within deprived communities.
- Some discrimination in approach would seem to be required for more or less damaging illegal lending and that with a greater or lesser cross-over with criminal activity. Some relatively benign lending could be approached through an emphasis on licensing and compliance while other unequivocally criminal lending requires a robust enforcement approach. There is an argument to be made for the development of a new offence of aggravated money lending to reflect the damage and criminality of the modus operandi of many lenders.
- We recommend a move towards a more centralised approach to delivery with national management and central services combined with a local presence to realise scale efficiencies and develop a critical mass of specialist expertise while also gaining from local knowledge and a deterrent / supportive presence in communities.
- This model, supported by a "parachute in and out" capacity to deal with peaks of activity and large cases, and with central management and direction should facilitate both a more uniform result across teams and inject greater strategic focus. We suggest that agreements and partnerships should be built at national as well as regional level to build profile and commitment with key stakeholders.
- Given the capacity and funding issues and the scale of need, consideration may need to be given to alternative means of funding the service to achieve greater sustainability and scale.
- Further work will be required if the police are to be fully engaged with illegal money lending, with the project likely to benefit from both a police presence on

the governance board and greater effort to engage police leadership at national level.

- Overall, however, given the scale of demand, it is clear that there are limits to what can be achieved with either enforcement or education. It is clear also that social lending in the form of credit unions and CDFIs will not act as an alternative to illegal money lending for more than a small minority of users.
- Against that background, the regulatory environment is key to containing illegal money lending. A regulatory regime which facilitates the availability of legal regulated credit for high risk borrowers, albeit that such borrowers may borrow at a higher cost than is socially desirable, is by any standards preferable to one in which those desperate for credit resort to the unregulated and deeply damaging illegal market.

Acknowledgements

Policis and the research team would like to thank the members of the various illegal lending project teams, their partner agencies and, especially, the victims and witnesses who shared their experience and views with the research team. We would also like to thank Paul Jones of the Research Unit for Financial Inclusion at Liverpool John Moores University for his work in interviewing the various credit unions and debt advice agencies who participated in the research project and Sharon Collard of the Personal Finance Research Centre at Bristol University for her work in interviewing some project teams. Finally, we would like to thank Sharon Coe, Lorraine Phillips, Phil O'Donnell and Tord Johnsen of BIS for their support and advice in the development of this study. Any inadvertent errors that remain however are the responsibility of the research team.

Policis is a social and economic research consultancy specialising in evidence-based policy and service development. Policis have particular experience and expertise around credit use and financial management among those on low incomes and extensive research experience around black market lending, in the UK and internationally, including a number of projects undertaken for BIS.[1]

Members of the project team have collaborated on a number of major research projects. Recent work has included credit and financial inclusion related research projects on high cost credit, credit card debt, credit union lending, the dynamics of credit use among those on low incomes and banking inclusion - for HM Treasury and the Financial Inclusion Task Force, The Friends Provident Foundation, OFT, DWP and Santander, the Joseph Rowntree Foundation and ABCUL, among others.

Anna Ellison, research director of Policis, is a financial services specialist with a particular focus on credit markets and their regulation and a research interest in black market lending, both in the UK and internationally. Anna has led the research teams on a number of previous credit and illegal lending related projects undertaken for the Department and others, described above.

Claire Whyley is an independent consultant specialising in research, policy and strategy in relation to a wide range of consumer issues, and collaborating with Policis for this project. Claire has a long background in research on consumer disadvantage, finance services, credit use and indebtedness, and social and financial exclusion. She is a member of the Financial Inclusion Task Force, Chair of its Affordable Credit Sub Group and sits on the Financial Services Authority Consumer Panel and the Finance and Leasing Association's Lending Code Board.

Rob Forster, Policis lead economist, has some fifteen years economic research and consulting experience working across both the public and private sector, in the UK and internationally. Recent work has focused on the social and economic risks of credit market regulation, on credit provision to high risk consumers, appropriate target markets and business models for social lending and on black credit markets.

Tony Dignan, a senior economist and evaluation specialist with more than twenty years economic consulting and evaluation experience has worked on complex public sector impact analyses over many years, including many which have related to social disadvantage and deprived communities.

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[1] Policis has conducted a number of credit related projects for BIS, in its previous incarnations as DTI and BERR, including the DTI study of the impact of interest rate ceilings in other countries (2005), a scoping study of illegal lending in the UK, undertaken for BERR in 2006, the 2007 evaluation of the Illegal Money Lending pilot projects, with both of these latter projects undertaken in collaboration with the Personal Finance Research Centre at Bristol University. Policis has also undertaken a qualitative study for BERR focused on the challenges in transitioning high risk borrowers to affordable credit and debt advice, which included work with victims of illegal lending.

1 Chapter 1: Policy context, project rationale and aims

Policy context, project rationale and aims – key points summary

- The policy context has been the wider effort to address poverty, over-indebtedness and financial exclusion.
- Use of illegal money lending (IML) is concentrated on those on low incomes, particularly those experiencing credit refusals in the legitimate market or struggling with debt, and is most common in deprived estates.
- An estimated 310,000 individuals borrow £120m p.a. from illegal money lenders on which they repay £450m p.a. This represents some 2% of low income households and 6% of residents in the most deprived estates.
- IML is estimated to take a net £235m p.a. from low income households, some £63m of which is from the economies of the most deprived communities.
- The UK black credit market has grown in the recession as a result of shrinkage of legitimate credit supply to high risk borrowers, particularly of high cost credit in deprived estates.
- There is significant social detriment associated with IML. Taken together income starvation and quality of life effects amount to a net £330m p.a., largely suffered by the most disadvantaged. When estimated consequential health service costs are included, this brings the total estimated detriment to £373m p.a.
- Until 2004 the law on illegal money lending had not been enforced for decades and IML was not on the radar of police or local authorities. This enabled loan sharks to operate with impunity and left victims with no means of redress or support.
- Following successful IML pilot projects in Birmingham and Glasgow from 2004 – 2006, the National IML Projects were set up in 2007, funded by £10.8m funding from BIS, augmented by a contribution of £2.8m from the Financial Inclusion Fund. The project was implemented on a decentralised basis with seven regional teams hosted by local authorities and Trading Standards.
- The National project had both enforcement and financial inclusion objectives. It aimed to prosecute lenders, gradually reduce the incidence of IML and create a climate in which victims could come forward without fear. It aimed also to build awareness of IML among partner agencies and to refer victims to debt advice and alternative sources of legal, low cost credit.
- The interim evaluation of the projects described in this document set out to establish progress against these objectives and to understand lessons for future development. The evaluation rested on a process and outcome evaluation. It was supported by an extensive programme of interviews with the various teams and their partner agencies and research undertaken with victims, in deprived communities and in the wider population of low income households.

1.1 Policy background

The policy context is the effort to address over-indebtedness and financial exclusion

The establishment of the illegal money lending project occurred in the context of a range of policy actions to address over-indebtedness and financial exclusion. Historically illegal money lending, although widespread in deprived communities, had been a largely invisible and little understood crime in the UK with the law not enforced for decades, leaving victims isolated, vulnerable and with little means of redress.

A pilot Illegal Money Lending project was launched in 2004, as part of a policy commitment to tackle over-indebtedness and financial exclusion. Following the success of the pilot project[2] and research sponsored by the then Department for Trade and Industry (DTI) which provided the first estimates of the scale and impact of the problem[3], the national Illegal Money Lending project was established in late 2007, with some £13.6m of funding.

The national project has been managed by BIS. BIS has also provided the bulk of the funding, augmented by a contribution of £2.8m from the Financial Inclusion Fund to assist with the project start-up. Total funding for the IML project over the period from 2004 through to end-March 2010 is £15.7m.

The objective of the national project was to set up enforcement actions against loan sharks and to ensure that victims of loan sharks could get access to advice and support e.g. access to affordable credit.

The DTI's White Paper on credit published in 2003[4] set out a clear commitment to tackling over-indebtedness as '*integral to the development of an effective, inclusive and efficient credit market, and to the achievement of DTI's PSA objective to "place empowered consumers at the heart of an effective competition regime"'*[5]*.* The White Paper identified clear links between low income, financial and social exclusion and over-indebtedness. It also noted that the risk of over-indebtedness was exacerbated by factors including a lack of access to affordable credit and debt advice, low financial literacy, and irresponsible or illegal lending.

In its report to the Chancellor in advance of the 2009 budget[6], the Financial Inclusion Taskforce noted the increased risk of vulnerable people turning to illegal lenders in the wake of the credit crunch and emphasised the importance of the financial inclusion element of the IML projects.

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[2] Policis and the Personal Finance Research Centre for the Department of Trade and Industry (2007) *Evaluation of the illegal moneylending pilots.*

[3] Policis and the Personal Finance Research Centre for the Department of Trade and Industry, (2006) *Illegal Lending in the UK.*

[4] Department of Trade and Industry (2003) *Fair, Clear and Competitive: the consumer credit market in the 21st Century*.

[5] Department of Trade and Industry (2003) *Fair, Clear and Competitive: the consumer credit market in the 21st Century* page 74.

[6] HMT (2009) Financial Inclusion: more important than ever.

1.2 Project rationale – scale of need and consumer detriment

1.2.1 The social need and the scale of the black credit market

The black credit market in the UK is small by international standards[7], in large part due to a regulatory environment that permits high cost credit and does not prevent those with adverse credit history from borrowing in the legitimate market.

Illegal lenders are lenders of last resort, with borrowers typically excluded from the legitimate market by credit delinquency or at the end of legal credit lines. In recent market conditions, some are high risk borrowers unable to obtain credit.

Illegal lending has grown in the recent recession, primarily due to shrinkage of credit supply, particularly in the home credit and high risk sectors and within the most deprived communities. Based on the surveys undertaken for this evaluation, more than a half of those living in deprived communities (51%) and 63% of victims of illegal lenders who feel that IML is stable or increasing attribute the resilience or growth of IML to it having become more difficult to borrow from the home credit lenders in the last couple of years.

Since the onset of the credit crunch, the UK black credit market has expanded to circa 310,000 individuals in 2010. Victims borrowed £120m but paid illegal lenders £450m, with the average cost of such borrowing being circa three and a half times that of the highest cost legal credit in the market (total cost of credit (TCC) averages £280 per £100 borrowed).

Use of IML is concentrated on those on low incomes and particularly those experiencing credit refusals in the legitimate market or struggling with debt

Illegal lending is widespread in deprived communities, with more than half of all those living in the most deprived communities aware of lenders operating within the community. Among those aware of IML, 85% describe illegal lending as exploiting individuals and damaging communities. Chapter 3 contains detailed analysis of victims and the impact of illegal lending on individuals and communities.

Use of loan sharks is concentrated in those on low and very low incomes. Loan sharks are used by circa 2% of low income (lowest 50%) households, 5% of those on low incomes refused credit in the last 12 months and 10% of those on low incomes who have experienced serious financial distress. Use rises to 6% of residents on the most deprived estates (5% most deprived), 8% of families in such estates, 9% of low income home credit users and 9% of Social Fund users.

To put IML in context of the nearest equivalent legal credit used by a similar demographic, 5% of low income households and 20% of those on the most deprived estates are home credit users. The value of funds borrowed from IMLs in the most deprived communities is estimated to be equivalent to circa one sixth of the value of funds borrowed from home credit lenders in these communities.

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[7] Previous research undertaken for DTI "The effect of interest rate ceilings in other countries" (2005) and based on consumer research with low income households in France, Germany and the UK suggested that the incidence of IML among the credit impaired and those refused credit was 2 and 3 times higher in France and Germany respectively than in the UK.

A range of more or less damaging IML models with small-scale lending in deprived estates the dominant model

There are a wide range of illegal lending models in the UK, from small lenders with a quasi legitimate front lending on relatively clear terms, although at very high cost, all the way to the Treasury function of serious organised crime, prepared to torture and murder victims. The dominant model in the UK is however small-scale lending to the deeply disadvantaged in deprived estates, with lending within minority ethnic communities, especially small business lending, also relatively common. Chapter 2 describes the illegal lending market and the various illegal lending models operating in the UK.

1.2.2 The nature and scope of consumer detriment

The detriment arising from IML is significant in terms of financial cost to individuals and communities, human cost and quality of life effects and in terms of consequential costs to the state.

IML takes a net £235m p.a. out of the budgets of low income households and a net £63m out of the economies of the most deprived estates

Compared to the cost of borrowing the same sums from the highest cost legal lenders, IML takes an additional net £235m from victims overall. On the same basis, a net £63m p.a. is estimated to be taken out of the economy of the most deprived communities by illegal lenders.

Levels of stress across a wide range of financial and quality of life dimensions are much higher than among users of the highest cost legal credit

Comparing the incidence of a wide variety of financial and other stresses among users of illegal money lenders and similarly poor users of the highest cost legal credit in similarly disadvantaged areas, it is clear that significant numbers of individuals in deprived communities are suffering various forms of financial and other stress which arises directly from exposure to IML.

When compared with high cost credit users, an additional net 45,000 victims of IML are struggling to afford sufficient food to feed their family; 42,000 to afford fuel; 60,000 are unable to afford shoes and clothing; and, 36,000 are unable to pay their rent, primarily to social landlords.

Fear of lenders and the experience of intimidation and violence leads to a significant net increase in mental health problems and family breakdown

Perhaps unsurprisingly against this background, compared to similarly poor high cost credit users in deprived communities, an additional net 31,000 victims of IML are suffering debt-related physical or mental health problems, while an additional net 37,000 individuals experience tensions and arguments over money at home. Use of illegal money lenders also exacts a cost on social relationships in the form of relationship breakdown and social isolation. Compared to users of high cost credit in equally poor communities, an additional net 53,000 individuals have suffered relationship breakdown and an additional net 69,000 have experienced social isolation through falling out with family and friends over debt and borrowing.

Quality of life and fear of crime detriment, on standard NICE measures, is a net £96m p.a. directly attributable to use of loan sharks

No high cost home credit users report either violence or threats of violence. On this basis, compared to home credit users a net 16,000 IML victims p.a. suffer violent attacks from illegal lenders, a net 63,000 are threatened with violence and a net 91,000 experience aggressive collection of missed and late payments, with some 68% or 212,000 victims feeling that fear of violence is always at the back of your mind in dealing with a loan shark. Measured on fear of crime values and the accepted NICE value of Quality-Adjusted Life Years (QALY) this would imply an additional net value of the detriment inflicted by IML of £96.3m.

Taken together income starvation and quality of life detriment associated with IML amounts to a net £330m p.a., largely suffered by the most disadvantaged

Assuming that the financial stresses are covered by the net additional take out of £235m from low income households and deprived communities compared to the highest cost legal credit earlier described and that the mental health and quality of life effects are captured within the fear of crime encapsulated in the QALY measures associated with that fear, this would imply a total net detriment to individuals associated with IML of circa £330m p.a., much of it borne by the most disadvantaged.

When costs to the state attendant associated with elevated mental health problems of £43m are included, net detriment rises to £373m p.a.

The detriment suffered by individuals as victims of IML can also be expected to result in additional costs to the state for treatment of increases in stress and mental health problems8, the additional costs consequential on family breakdown under the pressure of IML and the policing and other costs associated with elevated levels of anti social behaviour and crime in the wake of IML. We estimate that the consequential health service costs associated with the stress and mental health burden of being a victim of IML, along with the violence suffered by some victims of illegal money lenders, is in the region of £43m per annum. This brings the total estimated detriment to £373m p.a., which, however, does not account for additional costs associated with policing and other costs linked to elevated levels of crime or anti social behaviour.

1.3 Evaluation approach, aims and objectives

1.3.1 Terms of reference

The overall aims of the evaluation are to:

- Understand the effectiveness of the IML national project since the 2007 roll out assessing:
  - The performance and effectiveness of individual teams and differing delivery models in meeting both enforcement and financial inclusion objectives.
  - The aggregate impact of the national project, in terms of cross-regional and partnership working and any associated strategic value-add.

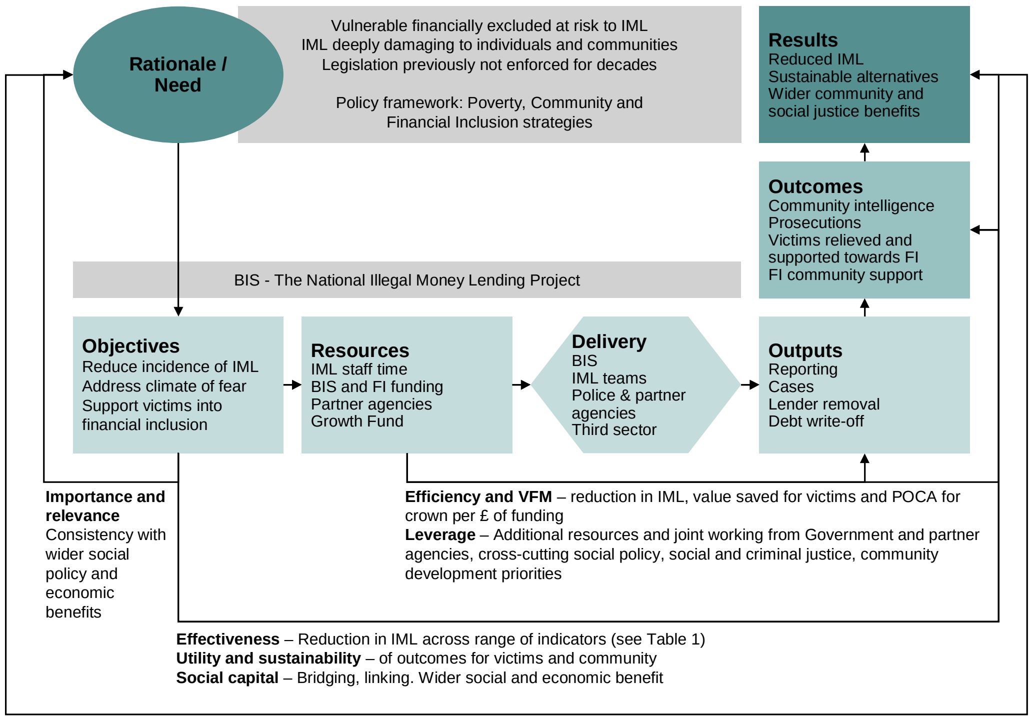
[8] There is a large literature on the health effects of indebtedness. See Mably and Jones (2007) and Williams (2004) for overviews, See also Kempson (2002).

- Identify replicable best practice and those aspects of delivery models which are most likely to deliver to objectives while also making most effective use of resource and funds.
- Assess the wider economic and social benefits that may be associated with the IML national projects.
- Obtain enhanced understanding of the challenges represented by IML and to inform the development of future policy approaches in this area.

1.3.2 Evaluation logic model

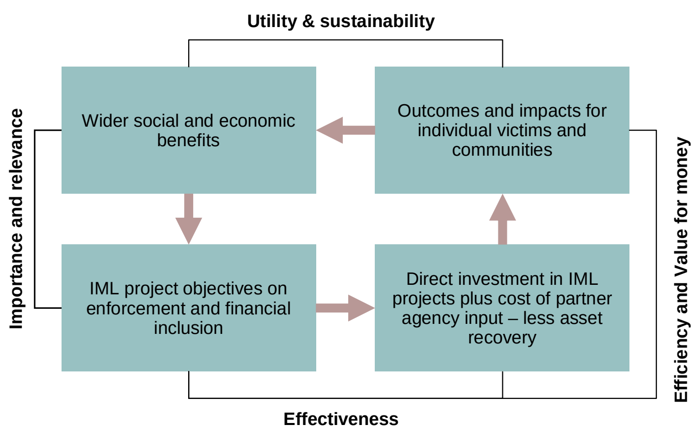
The Evaluation Logic Model and the structure of the evaluation framework are presented in Figures 1 and 2 below.

Figure 1. Evaluation Logic Model



Value added / additionality – IML reduced, financial inclusion realised, quality of life enhanced and community benefit as result of IML project intervention

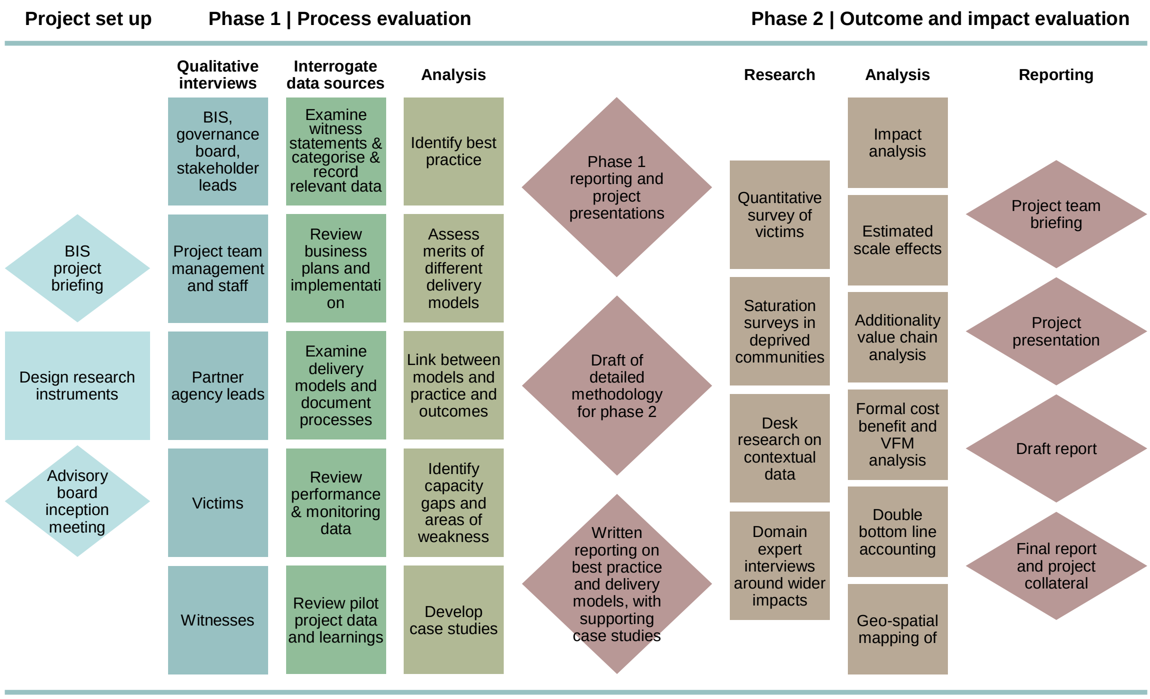
Figure 2. Structure of the IML project evaluation framework



1.3.3 Project methods

The project included both a process and outcome evaluation, resting on a multi-stage, multi-dimensional project structure with a number of parallel work-streams which together build to a detailed picture of both the supply and demand side perspectives on the project. We here describe the key components and refer readers seeking further detail to the technical appendix. The various components are described diagrammatically in Fig 3.

Figure 3: Project structure



Scaling illegal money lending and assessment of the detriment to victims and communities

The estimates of the national incidence of illegal money lending and the estimates of net detriment to victims and communities were estimated with reference to:

- A nationally representative survey of 1,875 low income households (the bottom 50% of household incomes) comprising a 1,500 nationally representative survey with boosted samples of excluded consumers and those experiencing financial difficulties. The research was undertaken face to face and in home by GFK NOP in December 2009 and January 2010.
- A telephone survey with a random representative sample of 500 high cost home credit users undertaken in December 2009 by Teamsearch Market Research.

These two surveys and the victim and community surveys described in the following paragraphs shared a number of common questions relating to demographics, credit use, spend on credit, indebtedness, household budgets, financial stress and quality of life (see questionnaires in the technical appendix for details).

Process evaluation

Understanding the effectiveness of the various delivery models and how these models and various aspects of process and practice relate to performance and outcomes requires both a qualitative perspective from the teams and those they have supported, examination of processes and approaches and analysis of performance and monitoring data. The qualitative work streams comprised:

- Research with the project teams and those responsible for their management (36 interviews), to generate an in-depth understanding of the dynamics of different models and approaches, the nature of the different challenges that have arisen and how these have been overcome.
- Research with partner agencies (52 interviews), such as the police, debt advice and affordable credit providers. The research with these partners provides insight into both the process and practice aspects of the evaluation and feed into the outcomes and impact analysis.
- Detailed examination of the process and practices of individual project teams, and of the documentation that supports a range of activities, such as staff training, responses to reporting, investigative practices, referrals to third party agencies and use of monitoring data.

These qualitative work-streams were underpinned by statistical analysis of the available monitoring and performance data from the project teams to inform both the process and outcome and impact evaluation.

- Qualitative research with victims and witnesses (60 interviews) to understand the experience of dealing with the teams and their partner agencies and the impact of the intervention on victims' finances, the sustainability of any move away from illegal money lending, quality of life and wider life-chances.

Outcome evaluation

Understanding outcomes for victims and the multiplying effects for communities and wider social policy goals requires the perspective of victims, witnesses and residents of the communities in which illegal lenders operate.

- The rich insights arising from the qualitative work with victims and witnesses was supplemented by a systematic examination of a representative sample of witness statements (250) to act as a counter to any bias that might arise from the profile of those willing to come forward for qualitative interview.
- Quantitative research with victims, with the various surveys each containing common questions to support some integrated analysis:
    - A telephone survey with victims (36) from a sample of victims identified by the teams.
    - Face to face survey with victims (68) as a sub-set of the saturation surveys in deprived communities (see below).
    - Analysis of quantitative data on victims (58) arising from the nationally representative survey of low income households earlier described.
- Community surveys; Saturation surveys of 1,200 residents of deprived communities, selected as intervention areas (750 interviews) where lenders had been arrested by the teams and in similarly deprived comparison areas (450 interviews) in which intelligence suggested that illegal lending was likely to be present but in which there had been no enforcement action. Surveys were undertaken in April 2010 in parts of Manchester, Liverpool, Glasgow, Bristol, Hartlepool, Nottingham, Leicester, Derby, Sunderland (insert rest of survey areas. Within the community survey 250 interviews were conducted in two communities (in Scotland and Liverpool) previously surveyed in 2006.
- Analysis of the performance monitoring data supplied by the teams. The performance monitoring statistics supplied by the teams include a range of

indicators related to intelligence, enforcement (arrests, proceedings instituted, sentences), the value of illegal lenders' loan books, value of assets seized and proceeds of crime, and victim support (referrals to sources of financial support, numbers requiring other support, etc). The performance monitoring statistics have provided a quantitative framework for the assessment of progress against objectives (Chapter 4) and the estimation of benefits from the IML project (Chapter 5). The indicators supplied by BIS for this evaluation relate to the period from inception through to March 2010.

- Cost : benefit and formal additionality analysis. The benefits of the IML initiative need to be considered in relation to three main groups: victims; local communities; wider society. Benefits to victims comprise two main components: the savings to victims, from no longer having to pay loan sharks; and, the intangible effects on victims' quality of life from removing the fear and intimidation that characterises relations with loan sharks. When the law on illegal money lending is enforced, society stands to gain insofar as it is possible to recover the proceeds of their crimes from those loan sharks against whom enforcement action has been taken. The performance monitoring statistics supplied by the teams provided the starting point for estimating gross benefits accruing to victims and society which are attributable to the initiative. The methodology for the estimation of benefits is presented in Appendix D in the Technical Appendix. Additionality adjustments are required to convert from gross to net benefit estimates, to provide a basis for assessing the effectiveness, efficiency and value-for-money of the initiative. The results are presented in Chapter 5.
- A review of the key findings, performance data and lessons from the pilot evaluations to enable comparison with the 2006/7 Pilot Evaluations.

A detailed technical appendix is provided as a separate document.

2 Chapter 2: Illegal money lenders – the lenders and the market

Illegal money lenders – key points summary

- Decades of no effective enforcement has made illegal money lending a relatively low risk but highly profitable activity.
- A range of lending models has developed, from the relatively less damaging to the ultra violent operation with a high degree of cross over with other criminality.
- The dominant model in the UK, typical of the experience of the regional teams, appears to be small scale lending focused on deprived estates.
- In London the experience has been of lending within ethnic minority communities with victims financially distressed but not excluded.
- The London and Birmingham teams have encountered a greater degree of cross-over between illegal money lending and serious organised crime.
- At the less damaging end of the spectrum lenders may present as quasi legitimate lenders albeit at very high cost. Other lenders may have a licence but have the modus operandi of a loan shark.
- The stereo-typical loan shark is often focused on a single estate or series of adjacent estates with business largely generated through social networking. In such communities, illegal money lending is deeply entrenched by lack of access to legitimate credit or alternative opportunities for the lenders.
- Illegal money lenders appear to be a feature of some minority ethnic communities, with lenders sometimes significant community figures. Some of the lending operations focused on minority ethnic communities are inherently criminal, deeply exploitative and can be ultra violent. At the extreme end such operations had a clear cross over with serious organised crime and even terrorism.
- The scale of lending encountered by the teams varied from a few pounds to business loans of several hundred thousand pounds. Loans in deprived estates were typically for a few hundred pounds.
- Illegal money lending is very high cost, averaging circa 3.5 times the cost of the highest cost legal credit in the market.
- There appears to be little transparency on either price or terms, with victims frequently subject to arbitrary and highly disproportionate penalty charges for missed payments. Typically pricing models were set up to extract a continuous income stream for the longest possible period of time. Some lending was in fact closer to extortion.
- Collections are ultimately sustained by a climate of fear and a modus operandi of intimidation and occasional violence.
- The degree of damage to victims associated with using an illegal money lender varies according to the criminality of the lender, ranging from stress and income starvation at one end of the spectrum to torture and murder at the other.

2.1 Lenders and the lending models

Interviews with the project teams and with victims and witnesses suggest that there is a range of lending models and lender types operating in the black credit market in the UK. Some lenders focus entirely on money lending while others have a high degree of cross over with other criminal activity. Lending models range from small scale, less damaging lenders which mimic many of the characteristics of legitimate lenders, but which are nonetheless unlicensed, all the way to operations targeting small business or those seeking to fund or launder the profits of criminal activity (most typically drug-dealing) run by serious organised crime and associated with extreme levels of violence, including kidnap, torture and murder. There are many shades of grey within this spectrum. However, it is true to say that illegal lenders typically are very high cost relative to the legitimate market. Also, they tend to sustain collections by a modus operandi that often involves, at best, continual pressure and, more typically, outright intimidation. Occasional violence is a feature of many illegal lending operations.

Decades of no enforcement have made money lending a relatively low-risk activity, increasing its appeal to criminals whose other criminal career options, such as drug dealing, running prostitution or armed robbery, require not only greater effort and physicality but also carry higher risk of getting caught and imprisonment.

> *"It's low risk you see. Because if you get caught with a large quantity of drugs you're probably going to go to prison for quite a long time and if you do an armed robbery you're going to do a lot of time but if you do illegal money lending you can arguably make more and we're still in that golden period when not many people have been had yet."*

> *"When they were younger they were maybe heavily involved in drug dealing and they've moved into it because there was less chance of getting caught so it is fairly low risk and fairly good returns and its fairly easy work."*

2.1.1 Lenders modus operandi

The nature of a lending operation in part reflects the segment of the market being served, the drivers of demand within it and the degree of threat or intimidation required to collect on lending. Supply side factors also come into play, such as the source and availability of lending capital and the alternative opportunities available to lenders. At one end of the spectrum, the lender might be serving twenty borrowers with chaotic life-styles borrowing very small sums primarily to buy drugs or alcohol, with money lending ancillary to small scale drug dealing or alcohol sales. Some lenders operate within tightly bounded, often deeply deprived communities in which they often live and might typically be serving between fifty and a hundred customers. Other lenders target deprived estates or financially distressed individuals but live in some luxury elsewhere, having built up substantial assets from a business that might have many hundred customers. Some illegal money lenders lend entirely within a specific ethnic minority community, often focusing on small- businesses, with such operations ranging from small family run operations to those with a more developed infrastructure of collectors and enforcers.

> *"We've had some of your stereotypical loan sharks, six foot three, hands like shovels, hits folks on the head with hammers, extreme violence, extreme threats. But our biggest success to date has been a seventy three year old man…He had collectors and an enforcer but there was no need for the old man to get his hands dirty."*

“In some cases you know that is going to be the treasury function of an organised crime group and in some instances it’s going to be a one man band.”

“Some of them are quite high level criminals. Others are just low level people who just take advantage of an opportunity to put a bit of money together…or a loan shark is given the licence to run a local area by criminal gang master…they could be running the whole area’s criminality or they could be lower in the food chain. We’ve got very different types of suspects.”

The various IML teams have encountered very different lending models. For the most part the regional teams are finding that illegal money lending tends to be concentrated in deprived estates, with victims typically, though not exclusively, poor and disadvantaged. Lenders lend often within their own communities, usually, but not exclusively, on a relatively small scale. This model is most typical of those communities in which there has been a very long tradition of small scale money lending, particularly in Scotland and parts of Wales.

“Wales I would say the standard victim a lot of course come from the valleys, Merthyr, deprived estates in Merthyr, Neath, Port Talbot, Swansea, you know…what we term the valleys where deprivation is quite strong…but it’s not just about deprivation, it’s about mentality…those communities sit on top of a mountain somewhere and it (IML) is very much the tradition, the way it has always been, will always be.”

“I think it is in all our major towns. There are some towns that we are getting intelligence from and some we are not. It’s in all of the big local authority residential estates.”

“I would say it (IML) is just an intrinsic part of life for most deprived areas in Scotland.”

In other parts of the country, notably London, cases have arisen less within geographically bounded locations as within minority ethnic communities.

Indeed the London team experience presents a contrast in many respects to that of the other regional teams, reflecting the greater diversity within the capital and the position of London as a transport, financial and employment hub, centre of wealth and economic activity and thus also of criminal activity. In cases encountered by the London team, lenders have been making larger loans to a generally credit impaired and financially distressed client base.

There has also been a greater cross over between illegal money lending and serious organised crime, with the London team particularly encountering a number of significant operations with a high degree of criminality involved and connections not only with organised crime but also terrorism. Despite pro-actively seeking to uncover it, the London team has come across little in the way of illegal money lending on deprived estates which has been the key feature for other regional teams.

The Birmingham team, with the longest experience and the largest, best resourced and most sophisticated investigative capacity has focused on larger lenders as a strategy (the differences between the various teams and their approaches are discussed in Chapter 8 following). Partly as a result, this team also has encountered a greater cross-over with criminal activity and with organised crime.

“I expected to be walking around housing estates following guys in donkey jackets every Wednesday…and then we started to realise that actually illegal money lenders have kidnapped, tortured, raped, stolen everything from people, turned people to prostitution, used them to run drugs and suddenly we realised that we weren’t dealing with what we thought we were going to be dealing with.”

The cases and lending models that the various teams have encountered have overwhelmingly been focused on lending in urban areas. One of the teams with a large rural catchment area reported some intelligence on a potential rural illegal lending model. Here it had been reported that hard pressed farmers had been asked to surrender farm machinery and licences facilitating the movement of cattle as security for loans. Little however appears to be known about such lending, its scale or impact.

Some illegal lending models are clearly deeply damaging to their victims, are run by ruthless criminals and feature a high degree of criminality. To some extent the degree of damage to the borrowers, including violence exerted, reflects the nature and inherent criminality of the individual lender and his / her operation, the extent to which the borrower has assets, the value of the lending involved and whether there is cross-over with other criminal activity. Lenders' responses to payment difficulties in cases encountered by the teams ranged from write off, pester-power and threats of legal action through fines, the taking of goods, pressure to surrender – and the taking of – valuable assets right through to extreme violence. At the extreme end, reprisals and punishment for non-payment encountered by the IML teams have included cases of rape, kidnap, torture and murder. In some cases borrowers were able to manage their borrowing, with varying degrees of difficulty and under more or less pressure. In others, day to day finances were severely compromised and in some cases all but entirely hollowed out, with some victims losing all their assets and facing financial breakdown. The following chapter 3 discusses the impact of lenders modus operandi on victims, their finances and quality of life in some detail.

At the relatively benign end of the spectrum, however, illegal lending may share few of the characteristics of the stereo-typical "loan shark" and may not be recognised as such either by the lender or borrowers. In some cases this may be because the lender presents as a legitimate business and seeks to mimic some of the features of a legitimate lender. In other cases, both lender and borrower are fully aware that the lending is taking place outside the context of the normal regulated market place but nonetheless regard the transaction as a much needed service to those unable to borrow elsewhere. It is perhaps worth emphasising however that even at this relatively benign end of the spectrum, the cost of credit could be very high and particularly so where borrowers were not in a position to repay their loan quickly or to agreed terms.

Such lenders may rely more on pester power than intimidation

Some such lenders may simply be legitimate lenders who have allowed their licence to lapse or informal lenders who lack the will, infrastructure or the necessary knowledge and understanding to comply with the standards required for a licence. Some traditional small money lenders once common in certain types of communities would fall into this latter category. Some of these lenders may exert minimal pressure and exhibit a fair degree of flexibility and tolerance of missed payments and payment difficulties. Such lenders could even be respected figures within their local communities, particular in the case of ethnic minority lenders lending within their own community. In these cases lenders might well have relatively good relations with their clients and employ pester power rather than violence and intimidation, with peer pressure an important factor in effective collection particularly within some minority ethnic communities.

Lenders may act through a trading company and require customers to sign credit agreements but rarely provide copies or statements

Some lenders may operate through the guise of a trading firm, with some degree of paperwork, requiring borrowers to sign credit agreements, for example. However very few such lenders provide customers with copies or statements of their account. In some cases lenders with such a trading front had successfully pursued unpaid "debt" through the courts, with neither borrower nor the courts apparently being aware that the loan was illegal and thus uncollectable. Other cases might involve, for example, a current or former employee of a legitimate lender lending on their own account or on the side of a legitimate book.

> *"One recent one who had worked for one of the credit companies and actually I think they sacked him because he was operating a parallel book. But he just carried on."*

> *"This guy we've just been looking at, for example, he never lends out much more than £500 and his interest rates aren't extortionate. Same as the VAT rate. If they miss a payment he just starts charging £10 or £20 on top."*

Other lenders may in fact have a licence but run their business in other respects in ways that most people would characterise as more typical of a loan shark, failing to provide paperwork or clear terms and conditions or sustaining collections with undue pressure, intimidation or violence. All of the teams reported that a significant proportion of intelligence arising from the hot line related to lenders who on enquiry turned out to have a licence.

Money lenders operating in deprived estates are perhaps most typical of the stereo-typical "loan shark" and appear to be the dominant model in the UK. In these cases lending operations were often concentrated in a single estate or series of adjacent estates with the lenders living in or working from premises within the community in which they operated. Other lenders, typically significantly better off and running larger operations, were not part of a local community but rather operated across a series of deprived estates clustered around motorway or transport access. Where lenders lived within the community they lent to, they were often part of a dominant or well known local family, in some cases also involved in a range of criminal activities. In other cases, the lenders focused solely on lending. Generally lenders on the estates were apparently well known within the community, with business largely generated through referrals, although some had advertised, in shop windows, local papers and the internet.

> *"Ours (loan sharks) are basically tribal and territorial. They (lenders and victims) all know each other. They know their mother. They know their father, they know their granny, they know their kids. There's a degree of relationship there…It's a hard family. They've all done loads of time. They have a reputation. It's pretty small loan books. There's no huge sums of money."*

> *"He had several hundred customers, fairly small loans, sort of in the hundreds as opposed to thousands. Massive interest rates and he had the reputation to back that up. And primarily preying on the less affluent members of the community…they were terrified of him."*

Many neighbourhoods appear to have a number of lenders active within the community

The teams reported cases both where the local money lender was well known and appeared to dominate lending in the community, often being the only source of credit available to borrowers and estates where multiple lenders were active.

> *"East end villains, you know. To give an example in the East of London next week, we are nicking five. These five loan sharks operate within a couple of square miles of each other."*

> *"Well there are definitely families that are involved…but of all of the lenders operating on that estate I'd say they are seem to operate individually not as a collective."*

The community survey suggested very high levels of activity with communities plagued by lenders with 67 % of those aware of IML within their own community describing the level of IML activity as either very or extremely active. The survey suggested an average of close to 6 lenders operating within each community.

Collection practice is sustained by collections being timed to coincide with benefit payments and a constant pressure to pay

Collection practice in many ways mirrored that of the legal lenders servicing this segment of the market in that it was usually based on weekly payments, collected in home and timed to coincide with the arrival of customers' income, maximising the likelihood that the lender will collect and in full. Where the lender lived in the community, borrowers might also go to the lenders' own address to pay. This was most typical of the smaller lenders. Larger lenders tended to operate through associate collectors, in some cases family members. Lenders often operated a system of pro-active "reminders" in advance of payments being collected – typically by text or mobile phone call – thus sustaining the pressure to pay.

Much of this pressure was relatively low key where customers were paying on time. However, the money lenders operating in disadvantaged estates and servicing low income borrowers, frequently on benefits, appear to rely heavily on a climate of fear to support collections and ensure that customers prioritise their payments to the lenders within budgets where there are always competing priorities. The climate of fear appears to be primarily sustained by a combination of reputation and insidious low level intimidation.

Some such intimidation rested on threats that were unspoken or implied – references to knowing family members' or children's routine for example – while others were explicit and extreme – threats to "knee-cap", kidnap or even kill victims or family members and set fire to homes. Lenders appear to seek to strike a balance between attracting unwelcome attention and straining the tolerance of the neighbourhood and being seen to be willing to extract payment by whatever means necessary.

> *"They're a business as well, aren't they? At the end of the day and they don't want to be losing money right left and centre because quite a lot of our victims would be the type you know that wouldn't pay and you know this is why the loan sharks have to resort to a certain type of behaviour. That's where it comes from. It's the climate of fear that makes them pay."*

> *"A lot of it is just reputation, a lot of criminal, gangster activity is reputation and reputation for violence, for ruthlessness…that's what makes it work."*

"A lot of our lenders because they've been established for such a long time, they don't have to go beating people up and things. It's just reputation. Obviously because all the lender wants is for the people to pay them every week. So sometimes they may need to make an example of somebody but you don't generally want to be doing that because otherwise people won't come and borrow money from you anyway."

This type of lending appears deeply entrenched in such communities, and particularly those where there is little legitimate credit supply, typically because the areas concerned are too dangerous for the high cost lenders to serve, or where many borrowers are simply too high risk to interest the high cost lenders. From the perspective of the lenders, money lending offers one of the only routes to a comfortable life-style at relatively low risk. Even where lenders are aware the risk of detection has increased, and indeed even when lenders have been removed from the community, fined or otherwise sanctioned, they may still return to illegal money lending where they can simply because they see no other viable options.

"We have several lenders who we suspect that we've prosecuted and they've just continued to go about their business. The fine for them is a business risk."

"I think the issue about moving lenders away from lending is that it has been their sole source of income and they have always done that and they've developed a lifestyle that they've become accustomed to which is supported by the illegal lending and to expect them to go back living off benefits or looking for a job is naïve."

The London team and those operating in areas, such as Leicester, with a high concentration of minority ethnic groups within the local population, had encountered illegal money lending within a number of minority ethnic communities, with lenders sometimes well known and embedded in the community. Such lenders may be lending to the relatively financially untroubled (to fund weddings or business cash flow, for example) as well as to the financially distressed and those without other sources of credit. Most of the ethnic minority lenders were lending in fairly mobile and closed communities where there was a degree of social pressure to repay and indeed not to report. In some cases such operations were relatively less damaging and presented as quasi legitimate operations. In these cases, securities, most typically passports but also jewellery and other high value items, underpinned the ability to collect on loans as did their customers' desire to keep open what may be their only credit line. In others there was a high degree of cross over with criminality, money-laundering and fraud.

"The ethnic communities – they don't think they are actually doing anything wrong. So they can be quite blatant about it and they have been running it as a business. Yeah they are respected…so a lot of them (victims) view it as providing a service…they don't mind the fact that so and so has had a couple of slaps or that their passport has been withheld."

"Now when you think of a loan shark they see a big guy with a baseball bat when normally what I've got is a sixty year old woman who has been doing it for twenty years. She doesn't say I'll knee-cap you. She says 'I'll tell the rest of the community you owe me money' and she works it that way."

Other lenders operating in minority ethnic communities were much more explicitly exploitative, threatening and violent. In some cases the lender had operated a money lending business in their country of origin and had imported the model and family capital to the UK, targeting the local ethnic community, including small business owners. In some cases, the lending business had been run as a family operation, with extended family members acting as collectors and enforcers. Others were quite large scale operations with a network of collectors and enforcers, and in some cases connections to organised crime and criminal funds.

> *"We've got one loan shark who is quite high up in the community. Quite feared, quite respected, you know, your Don Corleone type…but if you don't pay them they have got access to the Tamil Tigers and they will come and burn your house down."*

> *"I mean one guy (lender) we know there are 300 shops on the high street and he owns most of them through being a loan shark…You know they walk up and down the high street and they are faceless. The money lender has an enforcer and the money lender has a collector. A collector will come to your address and you will never know who the money lender is. You've got a mobile number and that's all."*

At the extreme end, there is some cross-over between illegal money lending with serious organised crime with illegal money lending being one aspect of both wider criminal activity and money laundering of the proceeds of crime. These cases tend to involve much larger sums and are more likely to be business lending, with enforcement likely to be at the extreme end of the spectrum of both violence and extortion. Borrowers, if not already criminals, may be pressured into participating in criminal activity and the laundering of criminal assets, carrying large quantities of drugs or committing frauds, particularly mortgage fraud.

> *"We go and have a meet with them in some dodgy café somewhere and they start telling us 'Oh yeah and by the way, with the consumer credit licence thing stringed to one side, this guy is bringing in 10 machine guns through Dover and 10 kilograms of cocaine every couple of weeks' or he is part of a Turkish crime mafia family, you know."*

> *"We have identified loan sharks that are not only giving out illegal loans but also dealing drugs and financing prostitution. Oh yeah…to them it is a form of money laundering. You know, they get their money from drugs which are then turned into a loan and that person gives you the money back so you have laundered your money in essence through that circle. It's like legitimising criminal property."*

> *"There were a number of lenders involved and it was a…direct link back to an organised crime group who is a major heroin trafficker and there was a degree of protection for the lenders that would seem unusual so that there is some kind of trade…the Class A side of it is funding the loan book he's been allowed to operate."*

In such cases victims unable to keep up payments could suffer not only financial ruin but also extreme violence, including torture and murder

Where victims had borrowed from such lenders, the consequences of any failure to keep up with payments demanded could be catastrophic for their finances and could lead to violent retribution. In several such cases, where borrowers had been unable to keep up payments serious threats had been made not only to individual borrowers in the UK but in relation to relatives still living in the country or origin. The teams dealing with such cases had encountered instances where victims had been forced into undertaking criminal activity, who had been forced to go into hiding leaving their families, businesses and assets behind and cases where victims had been kidnapped, tortured and murdered.

> *"When you're borrowing money (in the legitimate market) the collateral will be a fixed asset. Whatever, with these people, the collateral in illegal lending could well be your family or your kids or your legs, simple as that."*

"We had one guy that's disappeared…involved with a particularly nasty lender who is tied into a particularly nasty organised crime group."

2.1.2 Lending values and pricing models

The scale of lending encountered by the teams varies significantly between lenders and lending models. At one end of the spectrum, lenders focused on highly marginalised groups – the homeless, drug abusers – may be lending sums as small as £10 or £20. More commonly, lenders operating in deprived communities, typically social housing estates, where many of those seeking loans will be on benefits, will be lending between £100 and £1,000. Lenders focused on those with more regular income and paid work, perhaps those lending to fellow nationals within a specific ethnic community, may more typically be lending £2,000 – £5,000. Small business loans or loans to fund criminal activity will tend to be larger, in the £5,000 – £50,000 range, but can run to hundreds of thousands of pounds. The largest such loan encountered by the Illegal Money Lending teams was in the region of £380,000.

"Sometimes, I'm not kidding you. We're talking about £10 or £20 round here…Drug addicts would be going in on a Monday and he's borrowed £20 and when they got their benefits on a Thursday they'd pay him back £40."

"I would say the loans round here tend to be smallish. Hundred pounds maybe couple hundred pounds, low hundreds. No more."

"Across all our cases, I would say that the average is about £2,000."

"This woman I was telling you about, she would typically lend you £1000, £2000 something like that…but if you want to buy like, say, a take away business, then she will lend you £50,000 but you've got to give her £100,000 back."

"The smallest that I've come across is a couple of hundred pounds and the highest we've encountered is £380,000."

Pricing models also vary. In some models, borrowers were required to make a significant minimum payment, typically several hundred pounds on loans of a few thousand pounds, until such time as they were able to pay off the principal in full, with the principal remaining owing until that time regardless of the amount paid to the lender in the interim. This model was common in various of the ethnic minority cases. It appeared to generate a very high return for the lenders and a continuous income stream over a considerable period because so many of the borrowers, for the most part already deeply indebted and in financial distress, were never able to repay the capital.

"It's a case of here's £5,000. I want you to pay me £500 a month until you can give me the £5,000…so all you are doing is paying the interest and you can pay that for the rest of your life…"

"That £500 loan had gone to £10,000 and none of the principal has been repaid."

"We can identify a victim that's lost, you know, their house, their business and all for a £2,000 loan five years ago."

"The thing is you are paying interest until you can pay the total amount owed to them. Realistically, for a £2,000 loan you could pay back an average of maybe £10,000 back."

In some cases there was a clear understanding of price and even a set – albeit deeply punitive – tariff for late payments

Lack of transparency and deliberate obfuscation over costs and terms is frequently a feature of illegal lenders operations. Borrowers are unlikely to receive any paperwork on taking out their loan, though some may be required to sign loan agreements, particularly where lenders are presenting themselves as a legitimate operation. In some cases there is a clear understanding of costs and a pre-agreed term – as in “The double plus a £100 over 15 weeks” – and even a set tariff for penalty charges for missed or late payments – as in “That’s £20 a day added to your loan for every day you’re late”. (Both of the latter charging structures are typical of lending in estates in Glasgow, where there would seem also to be a degree of price competition in that lenders operating in the same neighbourhood appear to charge broadly similar prices and to operate to similar terms).

> *“One of my boys will come round every Tuesday. I expect £250 every Tuesday in a brown envelope and no receipts, no invoice, no contracts. And when you have got the £5,000 come back and see me and we will settle the debt…but if you’re late and you don’t pay me £250 on Tuesday next Tuesday you will have to pay me £500 plus another £500 for the inconvenience.”*

Other lenders obfuscate terms and use missed payments as an opportunity to escalate the debt and thus extend the payment stream

In other cases terms were deliberately obfuscated and missed payments seen as an opportunity to impose arbitrary penalty charges which escalated the debt and trapped the debtor, again with the aim of continually extending the loan term and thus the ongoing payment stream.

> *“I was recording a conversation the other day where this guy’s loan shark was basically saying ‘Look you’ve missed your payment. You normally pay me £250. Now next Monday when I see you I expect £1,700’. So they make these figures up off of the top of their head depending on what kind of day they’ve had.”*

> *“The only clear term is how much you’re going to have to pay back every week. And they (victims) don’t really take in the fact that nine, ten weeks later they’re still paying back and the loan doesn’t seem to be going down.”*

Some lenders simply extort the maximum possible from their victims by dint of continual pressure often over a period of years

Alternatively lenders may simply maximise their take through straightforward extortion by means of continual pressure and intimidation and constant extension of loan terms and amounts “owed”. This can continue in some cases over years with victims’ finances and quality of life greatly compromised as a result.

In these cases, lenders appear simply to collect as much as possible from their victims for as long as can possibly be sustained, with amounts paid to the lender ultimately bearing little relation to the sum initially advanced to the borrower. This may be achieved by a range of mechanisms such as arbitrary and disproportionate penalty charges, continually re-financed loans or extended loan terms so that the borrower is never able to understand how much they “owe”. In extreme cases, the amount paid to the lender can be many times the amount originally borrowed.

> *“For some lenders, you know they will very much vary, depending on the client and how much they think they can get out of them. A lot of it is very exploitative and it is very much a power relationship.”*

"We had a pensioner who borrowed no more than £3,000 and we estimate that she's paid back £66,000 before we got involved with her and she said that this is the first time I've had any money in my pocket for a very long time."

Lenders can seek to take over the assets of their victims as compensation for unpaid "debt"

In some cases lenders leverage their take from their victims by seeking to take over their assets. Where borrowers are unable to keep up payments, they may be pressured into assigning assets or "selling" assets to lenders at knock-down prices.

"We've seen a situation in North London where a guy borrowed I think was £4,000 five years ago. He's lost his house – which was sold at £100,000 below market value – and he's lost his business…and he's disappeared off the face of earth."

"The really nasty guy – two victims borrowed £13,000 from him and they've paid back in excess of £40,000 and he also wants a flat they own that's worth £70,000. They want that signing over."

Business lending was frequently structured to maximise the cash take from the business before it collapsed under the impact of the cash drain

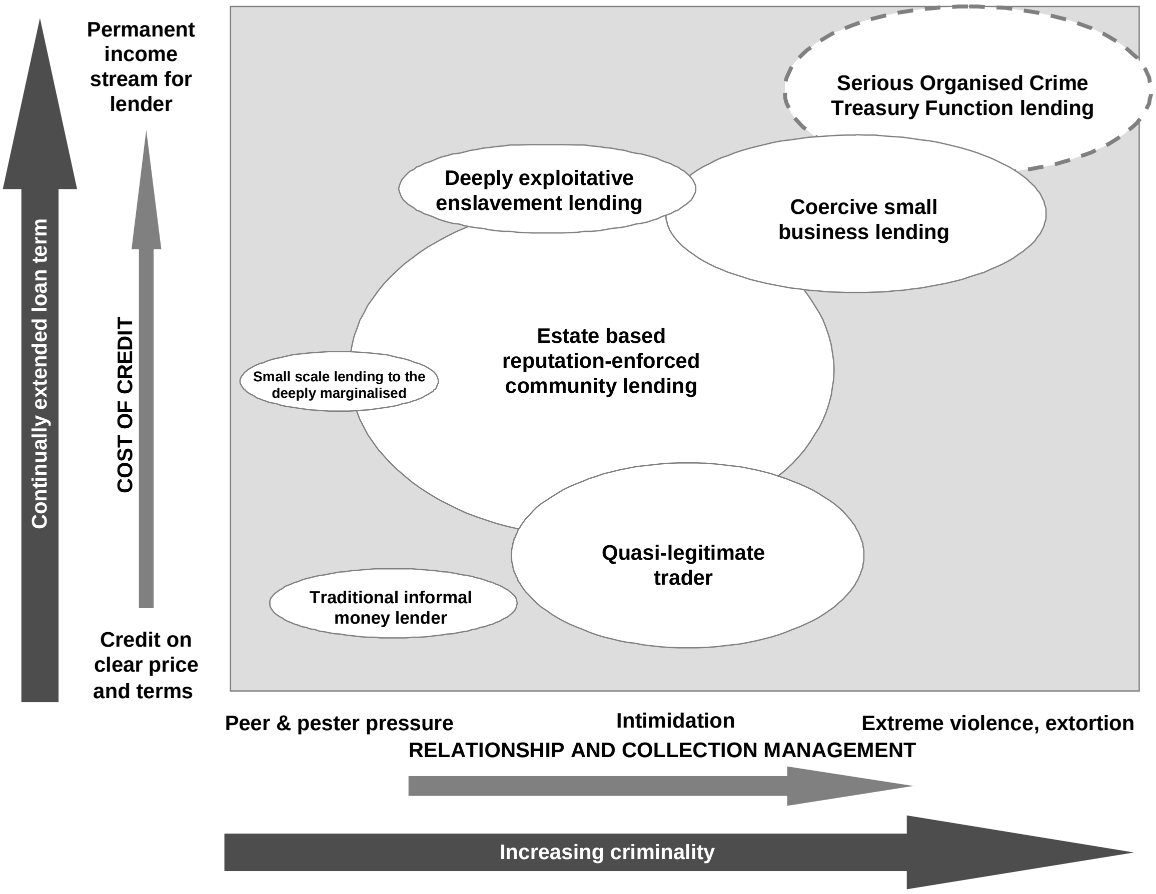
In other cases, the total amount repayable was simply divided into an equal number of payments to be made over an agreed terms. This might be as short as the following week or a period of years, but tended to be shorter rather than longer term. In these cases the lenders could collect very frequently, particularly where they were making loans to small or family run businesses where cash was taken daily. Here the aim appears to be to maximise the take from the business, in the awareness that hollowing the cash out of the business was likely to lead to its collapse in due course.

2.1.3 Lender typology

We pull together our description of these various lender types and present them visually in the diagram following which we present a lender typology. The various lender types are then described in more detail in the supplementary material appendix. There will be a degree of cross over between some lender types and within each type described there will be a spectrum of more or less exploitative and damaging lenders.

Figure 4 summarises the range of lender types encountered by the teams as described above. For a more detailed summary of each lender type, see Appendix A in the annexe of supplementary material which provides a detailed description of the various lender types.

Figure 4. Diagram of lender typologies



3 Chapter 3: Victims and communities

Victims and communities – key points summary

- Illegal money lending appears to be a highly visible feature of life in low income communities. Some 13% of low income households (lowest 50% of household incomes) are aware of illegal lending in their own communities, rising to more than half (53%) in the most deprived communities (most deprived 5%).
- IML is overwhelmingly seen as damaging to individuals and communities. 85% of those aware of IML in their own community agree that loan sharks damage the community and exploit vulnerable individuals while three quarters say IML is either very (26%) or extremely (50%) damaging to the community.
- Victims are primarily family households with a strong bias to women and social housing tenants, with a sub-set of more deeply marginalised users in the most deprived communities.
- Relationships with lenders are underpinned by a pervasive fear of violence. Eight in ten (83%) victims agree that the fear of violence is always in the back of their mind. One in twenty (5%) have experienced violent personal attacks by the lender or his/her representatives. A minority of female victims (13%) experience sexual abuse.
- The primary impact of using an illegal lender is income starvation. Intimidation and threat ensures that payments to the lender are prioritised over all other payments (63%). Two thirds (67%) say it is difficult to afford essentials when paying a lender and three quarters (75%) that using a loan shark leads to a spiral of debt that you cannot get out of.
- Difficulties in affording essentials, debt-related stress, mental health problems and relationship breakdown are much higher among users of IML than among either users of the highest cost legal credit or the low income population.
- The human cost can be devastating to individuals, with the research revealing examples of individuals experiencing extreme deprivation and social isolation, with some unable to feed their families and both men and women driven to the brink of suicide. In some cases pressure can last years.
- Victims make contact with the IML team primarily only in extremis, either because they fear or have experienced violence or because they have reached the end of their tether and can no longer pay the lender.
- For victims the major benefit to victims of enforcement action has been relief from oppression and income starvation. Relatively few however are willing to engage with the IML teams, largely because of the fear of lenders, themselves often embedded in communities.
- Whatever the beneficial impact of enforcement action or financial education. Illegal lending is unlikely to go away any time soon. Demand is such that 65% of victims agree that as soon as the authorities remove one lender another takes their place.
- The key to tackling IML is seen to be effective legal credit supply, particularly of social lending and affordable credit, alongside effective enforcement.

3.1 The impact of illegal money lending on communities

Illegal money lending is seen to be highly damaging to communities by residents and the majority of victims alike

Overall some 13% of those on low incomes[9] are aware of illegal lending in their own communities. This rises however to 53% in deprived communities. Loan sharks are something of a plague in deprived estates and a highly visible feature of life, evidenced by the high levels of awareness among residents, particularly those who are credit users. More than three quarters of both home credit users (75%) and Social Fund users (77%) and seven in ten credit union users (71%) in the community surveys undertaken on deprived estates were aware of illegal lending in their own community.

More than eight out of ten (85%) of residents aware of loan sharks in their community agree both that the loan sharks damage the community and exploit vulnerable individuals. More than three quarters describe the impact of loan sharks on the community as either very (26%) or extremely (50%) negative.

Users themselves are more ambivalent in that one in five feel that lenders provide a community service and one in twenty feel that they have a positive impact in the sense that they provide credit to those who cannot borrow elsewhere. Nonetheless more then two thirds (68%) of victims agree that loan sharks damage the community and exploit individuals and a similar proportion describe their impact on communities as either very (13%) or extremely (52%) negative.

IML is closely associated with crime and anti-social behaviour on estates

Illegal money lending is perceived as being closely tied in with a range of other negative aspects of life in such communities which work against quality of life and economic regeneration. A half of all residents (52%) say that IML is associated with anti social behaviour in their community, with more than six in ten saying that IML is associated with drug use and dealing. A third of residents see IML as associated with theft and violent crime. Among the close to three in ten residents who say that loan sharks are being used by those within their own immediate social circle of family and friends, perceived links to crime and anti social behaviour are higher still. Eight in ten of those with users among their immediate social circle see illegal money lending as linked to drug dealing and a half see it linked to both violent crime and theft in the community.

3.2 Victim profile

Victims are primarily low income family households with a strong bias to women and social housing tenants

As discussed in the earlier section on the scale of illegal money lending in the UK, the nationally representative survey of low income households suggests that 2% of low income households use illegal money lenders, rising to 5% of the credit impaired and some 6% of those in the most deprived communities. The survey suggests that users of IML appear to be among the most disadvantaged. Household income averages a little less than £950 p.m. There is a strong female bias, with more than two thirds

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[9] References to those on low income are to the lowest 50% of household incomes throughout.

(68%) of users women. Only a minority are in full time work – a little less than four in ten live in a household with at least one person in full time work. Six in ten (58%) are family households, with a little over a quarter (27%) single parents. Two thirds (66%) live in social housing. A little over half (52%) say that they have difficulties with filling in forms, and almost one in five (18%) that they have problems with reading and writing. One in ten admits to problems with drug or alcohol abuse.

In the most deprived communities where IML is most entrenched there appears additionally to be a sub-set of more deeply marginalised users

The community and victim surveys suggests a picture of even greater disadvantage in deprived communities, with more male borrowers and a minority sub-set of borrowers who appear much more marginalised. The community survey suggests that users of illegal lenders in deprived communities are also primarily households with children (71%), most likely to be women (59%) and overwhelmingly benefit dependent (87%). There is a high incidence of mental health problems (18%), one in ten (10%) have problems with drug or alcohol abuse and some 17% admit to having a criminal history.

Overall the profile of users of IML is similar to that of high cost credit users, albeit that IML users appear less capable and more disadvantaged

Overall, this profile is similar to that of high cost home credit users, the closest legal substitute for illegal lending in low income communities. By comparison to users of illegal lending, home credit users are, however, less likely to be in work, more likely to be family households and less likely to be drawn from an ethnic minority. Home credit users also have a much lower incidence of literacy and numeracy problems and are markedly more confident in dealing with officials and bureaucracy in the sense of filling in forms, dealing with staff or visiting unfamiliar premises. Home credit users are also much less likely than users of illegal lending to have chaotic lifestyles, with much lower incidence of drug and alcohol abuse.

3.3 The experience of using an illegal money lender

Victims are typically introduced to lenders by existing customers with many well known in their local community

Illegal lenders largely depend on social networking for introductions and referrals, with almost half of victims (47%) saying that they met their lender through an introduction from another customer and 37% that they knew the lender anyway. Almost a quarter describe the lender as “Well known within the community”. Four out of ten victims say that lenders live in their own community

Lenders can use personal relationships to target the most vulnerable, including families where a member is disabled and drawing additional benefits

There is some evidence that lenders in deprived communities tend to target those who are most vulnerable, particularly those with disabilities or families with children with learning or physical disabilities – because of the additional income stream associated with the disability. The teams report that social relationships and community networks can be exploited by the loan shark to offer such individuals loans and begin a cycle of dependency and extortion. Further evidence for this syndrome comes from the community and victims survey with the incidence of families with children with disabilities within the victim population appearing to be four times that of the wider community. In the high cost credit user population, by contrast, the incidence of families drawing Disability Living Allowance and having children with physical or learning disabilities is in line with that in the community.

> *"I would say that the sharks are quite careful and quite predatory, targeting carefully and pressuring people…a classic that we keep finding is the family who have got disability living allowance coming in…And the shark may not be very sharky. He may have been at school with them. It's very subtle but also very predatory."*

> *"Within communities it's a really squalid crime. I find it very dirty because it is all so personal. It's relying on misplaced loyalty to draw them in and to keep them paying." (Financial Inclusion Partnership Officers in IML teams)*

> *"In my younger days the law of the land was that you don't grass and this is the only time I've found myself doing this (resident informing the authorities of IML in own community)…I don't know if it's because I'm getting older or because he (money lender) sickens me that much…because it's older people, weak people that he persuades. They start and they've borrowed £60 and they've ended up paying back £1,300 – and he gave them a sore face."*

At the more benign end of the spectrum lenders' modus operandi is not necessarily exploitative nor does it always rest on intimidation

Much depends on the lender and the lending model, but there is a clearly a sub-set of users of illegal lender for whom the relationship is not necessarily oppressive and where the lender treats customers relatively well. Around four in ten users in the community survey agreed either strongly or to some extent that "Money lenders are ok with you as long as you pay them regularly". Given the dependence on social networking and referrals, it is clearly in the lenders' interests that relationships with customers are as good as can be managed and that customers are relatively comfortable in dealing with the lender and their collectors, particularly since the victim survey suggests that in nine out of ten cases payments are collected in the borrowers' home. Almost a quarter (24%) of users in the victim surveys describe the relationship with their lender as "friendly" and a little over a third (34%) as "business-like".

Lenders can be sympathetic and flexible with more than half of users describing the relationship with their lender as either friendly or business-like

At the less damaging end of the spectrum, some victims clearly felt a degree of loyalty to their lender and some had been long-time customers. There were also a number of instances arising in both the witness statements and victim interviews where lenders had shown a degree of flexibility and sympathy when borrowers had run into payment difficulties. Indeed close to half of the victims with payment difficulties described lenders as "sympathetic". There were examples, also, including some of the minority community lending cases, were victims had been grateful for the opportunity to borrow, albeit at a very high cost, and felt sorry for the lender following their arrest. In some cases where borrowers continued to pay their lender following intervention, the driver appeared to be loyalty to the lender rather than intimidation or fear.

> *"Oh. She's a very nice lady. If you've got no money and you tell her 'Please don't deposit this cheque because I've got a problem, she will hold it. No more interest. She's got your passport, you know, that's the big thing."*

"I am worried because first of all from the goodness of her heart she lent the money. I know she committed a crime because it is illegal and no licence…but everyone is only speaking good words about this person."

"If you were alright with him, he was OK with you. He was friendly, like. A good guy I would say. You know, tough but fair. He's in the lending business after all. He wants his money back."

"The way I see it is he lent me the money and I should be paying him back. He were OK with me, never said anything out of line, not to me any way."

Even where relationships with loan sharks are relatively friendly however they tend to be underpinned by a pervasive fear of violence

The relatively benign lender and the picture of relatively good customer relationships needs to be set against the much more damaging and dominant IML model in which relationships and collection are underpinned by fear and in which a significant minority of users are intimidated, threatened and even attacked. It is clear that even where relationships with the lenders are relatively good, for a large majority of those using illegal lenders the experience is stressful and frightening. Lenders appear to seek to strike a balance between maintaining relationships and ensuring that borrowers remain mindful of the potential consequences of not paying the lender what is demanded. More than a third of victims describe the relationship with their lender as "intimidating" and three in ten as "aggressive". Some eight out of ten (83%) victims, regardless of whether they had missed payments, agree that the fear of violence is always at the back of their mind in their dealings with the lender, with 60% feeling strongly that this was the case.

"Not that any threats were ever made to me or my family but even the threat of a threat is enough, do you know what I mean, because of who these people are, because of what they've done to other people in the past, there's nothing so terrifying as that, nothing at all."

"You just worried about it (violence) and kept on paying it. It's always there at the back of your mind what could happen."

"Nothing's happened and nothing's been said. No, but you pay that before anything else, you know what I mean, it's just bloody frightening, it's really scary….it's been one of the scariest experiences of my life."

One in five victims have been threatened with violence

Clearly much depends on whether victims are able to maintain payments. Issues arise, unsurprisingly, for the significant proportion of victims who struggle to keep up with the lenders' demands and what is often a punishing payment schedule. The victim survey suggests that seven in ten (70%) have at some time missed payments to lenders. As earlier described, lenders can be flexible and understanding around payment difficulties. However, among those who had missed payments, one in five victims agreed with a description of the lender as "unsympathetic and inflexible" and a third as "aggressive" in responding to missed payments and collecting debt. One in five had personally received threats when falling behind on payments. By contrast only 5% of those falling behind on payments on the highest cost legal credit, also collected weekly in home, described the collector as "aggressive" in collecting debt and some 10% as "unsympathetic and inflexible" in responding to missed payments.

"They just threaten you with the big men if you've missed them. They say they'll come and burn your house down with you and your child in it. I had my windows

popped through and I had to send my child to my mother-in-law – I had to live without my child for a few months."

"They come to my home and threaten me. They abuse me. It never stops…"

"He was really forceful as well. I remember one week I couldn't pay him and he said if I didn't have the money next week, he would send his son round to break my leg."

"He said, right. If you don't pay next week, you know you're going to end up in a hospital bed beside." (name – husband in hospital which is why victim can't pay)

Women may be subject to sexual abuse with sexual services required in lieu of payment

Where victims of lenders are women, they may be exposed to a range of additional or alternative pressures. Some lenders may offer or demand sexual services in lieu of payment. A little more than one in ten (13%) report that the relationship became sexually abusive and 10% that the lender had demanded sex in lieu of payment. In those communities where money lending had been a feature of the community for some generations (in Wales and Scotland for example), victims reported a history of lenders being willing to accept – or to extort – payment "in kindness", i.e. sex acts. In one of the cases prosecuted by the Birmingham team, a victim had been raped by the lender. Several of the qualitative victim interviews revealed instances of forced sexual activity, typically fellatio, or continual pressure to agree to undertake sex acts. In some cases where lenders were also involved in prostitution and other sex-related businesses, victims also reported pressure to get involved in sex work, massage and topless bar work.

Victims may themselves be drawn into crime

Some who found themselves unable to pay the lender had been pressured into participating in criminal activity. In one case, the owner of a small enterprise had been forced into transporting a large quantity of drugs. More commonly, those unable to pay might be drawn into providing alibis, delivering drugs or shoplifting. One victim told the research team of incidents where other victims unable to pay had been pressured by the lender into violent attacks on other customers who had fallen behind.

Violence to support lending on estates impacts one in twenty and can be ruthlessly administered to sustain the lenders' reputation

Actual violence appears to be relatively uncommon. The victim surveys indicate that for one in twenty victims, intimidation and threat has become actual violence, with 5% claiming to have been attacked violently by the lender or his associates.

In some cases warnings might not take the form of assault but rest rather on bricks being thrown through windows, damage to cars and similar. However where lenders judge a borrower to have become seriously out of line, violent assaults appear to be ruthlessly administered and to become progressively more damaging in the event that victims do not respond to an initial attack.

In some cases of illegal lending within minority ethnic communities threats were made to family members including those living in the country of origin

In the case of some of the small business lending within the minority ethnic communities, some of which was relatively large scale, both threats and violence could be extreme. For those victims who had fallen behind on payments, threats and violence could extend not only to themselves and their family in the UK, but also to relatives – most usually children or elderly parents – still living in their country of origin. Such threats powerfully reinforced victims' reluctance to deal with the authorities also unless they had reached the point of such desperation that they were willing to seek protection.

> *"If you're not paying for one week, they'll come to your house straightaway. They will threaten you with the gangs. A lot of things will happen."*

> *"My elder son. He was attacked as well in (named place) by seven people…and he was on life support… and he was so bad my husband had to identify him."*

> *"I've received threats to my life, to my kids' lives, my family's lives. To my family in India…They would kill me straight away. They threaten you. They come round to your house to threaten you."*

At the end of the spectrum where serious organised crime is involved victims may suffer extreme violence and have been killed

At the extreme end of the spectrum where illegal lending crosses over with the laundering of the proceeds of serious criminal activity, involving serious organised crime and large sums of criminal money, the consequences of being unable to repay or being drawn into criminal activity can be catastrophic for victims. The IML teams have come across cases where victims have been systematically deprived of their assets, drawn into criminal activity and been subject to kidnap, torture and even murder.

> *"Organised crime. They will lend in some cases quite large sums of money, one last year, of a quarter of a million pounds, and obviously with the level of money rising, so would be the level of threat, and this guy got quite badly tortured and eventually killed for his debt."*

> *"Basically to repay the debt, he then had to get involved in crime itself to pay it off. So, he basically started off a legit businessman, being loaned what started off as a small amount of money, a business investment, and then it got gobbled up, destroyed his entire business, led him to crime and he ended up doing two years in prison for money laundering."*

3.4 The impact of illegal lending on standards of living and quality of life

The overall quality of life impacts on individuals and families are deeply damaging, eviscerating finances and heavily compromising standard of living

The overall impact of dealing with a loan shark is clearly often a stressful experience. Eight out of ten victims in the victim and community surveys describe the impact of using a loan shark on their quality of life as "extremely negative". The primary impact is income starvation which can eviscerate the household finances of victims, particularly in those cases where lenders' modus operandi was essentially extortion and his or her aim primarily to take as much out of the household as possible for as long as was sustainable.

The most damaging impact associated with the more exploitative illegal lending models is income starvation

Intimidation and occasional violence sits alongside another key component of control – obfuscation and manipulation of the cost of credit and the terms on which it is advanced. The most damaging impact of the more exploitative lending models is the income starvation which results, as the take from the victim is constantly ratcheted up by means of additional – and often arbitrary – penalty charges. The qualitative research with victims revealed a number of cases where the lenders' take had increased to the point where it was effectively the whole of the victim's income.

> *"He's come and seen me and he's had my whole Monday money (i.e. victim's benefits collected Monday) and it's still not enough and that's just interest, do you know what I mean."*
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> *"Then they've added £10 and then £15 and if you miss the extra interest payment then it's £22 and then it's £30…and pretty quickly it becomes all of your money you're getting in just to stop them adding interest."*
>
> *"Basically everything I was earning was going to him. I was actually working from 6 – 9 in the morning, coming home and then going out to another job and then working 7 – 11 at night so I wasn't even seeing my kids."*
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> *"My next door neighbour…she's on disability living allowance, a one parent family, all of her money, her benefit goes in one hand and it's given straight to him, the whole lot. She lives on the bit of money her kids can give her because she's given everything to him."*

Payments to the lender are prioritised before all other spending making it difficult to afford essentials and undermining financial security

The modus operandi of the lender and the climate of fear ensure that in the majority of cases, payments to the lender are prioritised before everything else. Some 63% of victims agree that "payments to the lender have to come first". Almost three quarters of victims say that using an illegal money lender creates a spiral of debt that is impossible to get out of. More than two thirds (67%) say that it is difficult to afford essentials when paying a money lender, and 57% that it is difficult to keep up with bills and rent while paying a money lender. Some 53% agree that "paying a money lender means you never have enough money".

> *"You know because you hear stories about, you know, your knees bloody battered under a hammer or you know, no way. But then that has a knock on effect as well because if you've got to pay that then you just leave your rent or your electricity bill, or you leave something, you know what I mean."*
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> *"They're not nice people. I'm sat here and having to give our money away and we've got to go down to my mum's or her mum's to get us food. That's how bad it is. Just so that they nay put interest on it the following week. It's terrible."*
>
> *"There is nothing left of my cash flow (small business). There were times when I didn't even have the children's lunch money for school…He took all the cash every day."*
>
> *"She rang me (FIPO) one evening (witness continuing to pay lender) and she said "we're starving"…and they were…And I just thought 'Salvation Army". I explained the situation…and he said 'I will drop her round a food parcel and he did that every week actually."*

Difficulties in affording essentials are much higher among victims of IML than among high cost credit users or the poor more generally

The impact of paying the illegal money lender and the associated income starvation means that a range of essentials becomes increasingly difficult to afford. Almost a third (32%) of victims face difficulty in putting sufficient food on the table. More than four in ten (43%) have difficulty affording fuel and heating. More than half (52%) have faced difficulties in affording shoes and clothing while almost one in three are struggling to make rent and mortgage payments, with such payments being made primarily to social landlords. Clearly such difficulties are not exclusive to users of illegal money lenders but are a function of poverty per se. The extent to which these effects are attributable directly to use of illegal money lending however is provided by comparison with the experience of users of the nearest equivalent legal product – home credit, the highest cost legal product in the market – where similar sums are being borrowed and which is used largely by the same demographic, in the same communities and similarly supported by weekly in home collection. Users of illegal money lending are clearly suffering greater stress than home credit users across a series of financial dimensions, with concomitant impact on the welfare of children and child poverty and on the standards of living and quality of life of individuals and their families.

Levels of stress, mental and physical health problems and relationship break down are also higher among users of IML

Against this background, levels of debt-related stress, mental and physical health problems, relationship tensions and relationship breakdowns and social isolation are all significantly higher among users of illegal money lending than among users of high cost home credit while users of home credit are not any more likely than the low income population as a whole to suffer these stresses. Users of IML, as discussed earlier, will have a greater bias towards those with more complex problems than home credit users and will include more marginalised individuals and those with drug and alcohol abuse issues. Even against that background, users of illegal money lenders would seem significantly more stressed and to be suffering greater detriment than users of high cost credit. Some 25% of users of IML, compared to 15% of home credit users (and 14% of the low income population) suffer debt-related physical or mental health problems. Almost four in ten IML victims report debt-related tensions and arguments with partners compared to a little over a quarter of home credit users (and just short of three in ten of the low income population). A quarter of IML victims report relationship breakdown as a consequence of debt-related stress compared to one in ten of both home credit users and the low income population overall. Debt-related isolation from family and friends was reported by a quarter (25%) of IML victims compared to circa one in twenty of both home credit users and the wider low income population.

Social isolation appears to be a feature of many cases with many victims struggling with their burden alone

In a number of the interviews where victims had fallen behind with payments and were anxious about the potential consequences or where payments to the lenders had become an overwhelming financial burden, they described their sense of helplessness and social isolation. In some cases the situation had been kept secret from partners, family and friends. In others, relationships with family and friends had been compromised by constant borrowing which they had been unable to repay. Some simply did not have the funds to visit relatives, socialise or attend family events. Yet others were reluctant to go out because they feared running into the lender or his associates.

> *"I was really scared. You can't go anywhere or anything like that. You know you can't tell anyone. There's no-one to help you. You don't want to involve relatives and friends. You just have to pay him."*

> *"It just went on for so long and I couldn't sleep and I never told anybody about it, never told my partner about it."*

> *"I will be honest with you. Every time I go out of my house, I look around. It's like I'm not free. Every time I walk I have to watch my back. I have to watch my side. I have to watch my front. I daren't trust anyone. I have to keep moving."*

> *"I told my mum and dad a right pack of lies about why I needed money all the time. I just couldn't talk to anybody. I barely went out. It was horrible."*

> *"We're scared to go out of the house…we're scared to walk down the street but we need to go out to get food and that."*

The human cost of extended stress and income starvation can be devastating to individuals and their families

The human cost of this income starvation, mental health and quality of life effects can be devastating to victims and their families. The cases encountered by the project teams and in the evaluation team's research with victims have included individuals living in abject poverty with barely enough to eat and unable to afford heating and light, those suffering severe depression and living in constant fear, individuals experiencing extreme social isolation, women driven to the point where they had asked social services to take on children that they could not afford to feed and both men and women driven to the brink of suicide.

> *"One of our operations arose from a tip off from the social workers because the family had a disabled child among her five children and she had reached such a low ebb financially that she had asked the social workers to bring the kids into care. Quite literally she couldn't feed them. There was no money to go to the supermarket with."*

> *"I was that desperate, I had just got to the point where I could not go on any more. I just couldn't see a way out of it. I was thinking of killing myself. It sounds dramatic but I couldn't think what else to do."*

> *"I lost both jobs, through depression. I was working at (named firm) at night and then at (named organisation) during the day and so I got signed off with depression because I tried committing suicide because of all of the stress. He come round and punched me in the face because I couldn't pay him…It was 18, 19 years. Yeah all in all, I paid him around ninety grand."*

3.5 Victims and the national illegal money lending project

3.5.1 The route into the IML team

The teams have built a significant degree of awareness of the project and of the authorities' new willingness to act against loan sharks

The IML project teams have been successful in building awareness of the National Loan Shark Help-line and of a new willingness by the authorities to identify and prosecute illegal lenders and to tackle loan sharks in deprived communities (see discussion in chapter following on the progress of the teams against their objectives for a detailed discussion). Overall almost one in five (17%) of residents are aware of the initiative, rising to more than a quarter (27%) of those aware of illegal lending in their own community and more than a third (34%) of victims. Awareness has primarily been built through media and people talking within the community, but victims have picked up on the loan shark helpline number advertised in a wide range of public spaces and through leaflets distributed with local papers and similar.

> *"I know there's a lot of posters around and leaflets. In (named housing association) they publish a magazine and every couple of months they have leaflets in. So every household in the area will have one of them leaflets through their door."*

> *"The posters are up everywhere. They are in public places like the Council offices. Leaflets in the free papers. Then you can put it in your mobile without anyone seeing, you know."*

Victims tend to contact the authorities only in extremis either because they are in fear of attack or at the end of their tether

However, confidence in the authorities ability to protect witnesses remains low (albeit improving, see discussion in section following on progress against objectives) and the climate of fear remains very much in place (albeit reducing, again see section following). Victims remain too fearful to come forward, however, and often report lenders only on an anonymous basis. In many cases therefore victims only report to the teams when in extremis, either because they are at the end of their tether and no longer able to pay the lender or because they have been subject to, or fear, violence. In the deprived estates where lending is relatively common this may be following a beating or because lenders have damaged property or made threats of violence. At the extreme end of the spectrum, where large sums of money may be involved, violence may be extreme and threats may include torture, kidnap and murder.

> *"My MacMillan nurse turned round and said 'What's worrying you more, (named illegal lender) or the cancer? I said (named lender), more than the cancer because I can't go out without worrying about (named lender) coming near me and it would be my family he'll be talking about. And she said 'Please, I beg you. Do this for me. Get in touch with these people (IML team). So in the end I did."*

> *"I just couldn't pay out any more. I had got to the point where my life was not worth living and I thought 'What have I got to lose at this point?" Give them a go."*

> *"This concrete block came through the window and my baby was lying in the bed. And I thought 'I've had enough now. Ring the police…and they didn't come till the next day."*

“It were in the local paper and I saw it on the news. I were at such a low, low point. I were really, really scared. It were not long after (name) got proper beaten up and I thought ‘There is someone who can help’...I were so alone before.”

The teams are able to identify only a small proportion of victims but find most victims reluctant to engage with the authorities

Many victims cannot be identified for contact following the arrest of the lender, even where documentation can be recovered. Some victims are however contacted directly by the IML team following the removal of the lender, either through the lenders’ records or from mobile telephone numbers recorded in the lender or collectors’ phones. Alternatively, victims may be identified through securities held by the lender, typically passports, particularly in the case of minority ethnic communities, or bank or POCA cards. Many victims identified will then frequently deny knowing the lender or any knowledge of how their cards came into his or her possession and few are willing to make witness statements, with those that do make statements often unwilling to provide any substantive information. Regaining possession of passports and jewellery is a more powerful motivator for making contact with the teams. Having regained their goods and documents however, most victims remain reluctant to engage further with the teams.

3.5.2 Barriers to reporting

Victims are deterred from reporting or engaging with the authorities by fear of retaliation particularly where the lender lives in the same community

In most cases victims are reluctant to engage with the teams for a variety of reasons. The most powerful is fear of the lender and their families and associates, cited by more than seven out of ten victims (72%) and almost eight out of ten (77%) of those aware of lenders operating in the community. This is particularly the case where lenders are embedded in the communities in which they lend and where the extended family of the lender may also be living.

A culture of “not grassing” is far less important as a barrier to reporting than fear of reprisals and practical considerations about anonymity

Borrowers are also concerned that they do not become known within their own community as the source of information on the lender. There is also a deep-seated reluctance to be drawn into the prosecution process, not only in terms of providing witness statements but particularly in terms of being asked to give evidence in court. This appears to be less a moral stance on “grassing” or necessarily any reluctance to get involved with the authorities per se than about self-protection and a desire to avoid any personal or social consequences either for individual victims or their families. Less than one in ten victims (8%) say that they would never report lenders while almost half of victims (48%) say that they would only report the lender if they could be sure that no-one would find out that it was them. Four in ten (39%) say that they would be too worried that “people round here” would find out that they had been an informant. A little over a quarter (26%) say that they would be too worried about being required to give evidence to provide information to the authorities. There is also limited confidence that the authorities will be in a position to protect witnesses, a concern cited by one in five as a barrier to reporting lenders. This high level of fear and concern on anonymity and confidentiality compares to only 10% of victims and 4% of those aware of lenders operating in their own community who cite “it is just not right to grass” as a reason for not reporting illegal lenders.

Where the lender is from a local family with a hard reputation the fear of ongoing retaliation and harassment is simply too strong

The qualitative interviews suggested a spectrum of reluctance, from a simple disinclination to get involved or get drawn into anything that might have repercussions in the community to very real fear of violent reprisals. This was particularly the case where lenders were part of a high profile local family with a hard reputation.

> *"I think most people are a bit frightened…They are living so close to them I think they feel threatened and people are just going to be too scared."*

> *"If you was going to grass, it's not just a possibility, it's a certainty that you're going to get hurt. It wouldn't be him that done it. But he would get his. There are others out there who will do it and basically that's the bottom line."*

> *"I saw in the Evening Star. Somebody else had been found guilty of it (IML) and locked up for it and everything and then there was a number there and an email address but by the time they were contacting me I'd changed my mind because I was just too scared."*

3.5.3 Victims as witnesses

The fear of violence and harassment and of having to move away from the community is an insuperable barrier to giving evidence for most

There are even more significant barriers to coming forward to give evidence in court. For most potential witnesses there is no incentive to give evidence and considerable downside to doing so. Fear of violent reprisal was again the greatest barrier. Most of those interviewed took the view that, even if the authorities could provide protection, it would be very difficult to continue to live in the community if they were to give evidence, a huge issue where many had grown up in their area and had family and friends living nearby. The research interviews with reluctant witnesses also suggested that victims feared violent interference not only during the lead up to trial but also in the event that a conviction was not secured or the outcome was not a custodial sentence. These fears would appear justified. The teams have come across various instances of potential witnesses being intimidated and the witness interviews also threw up instances of witness intimidation.

> *"We would never have any faces left. That (giving evidence in court) would put us in a really, really bad position. His family would be a threat to us…I said to them (IML team trying to encourage him to go to court as a witness) 'I hear what you're saying but I'm frightened of him and we've got to live here."*

> *"It's like the loan shark people and their family would start…They're bad enough with all the threats that we've had and if we go to court it's going to be even worse."*

> *"They (IML team) did ask me and I told them 'No. I'm not willing to go to court. You know, after the court, she may go down. She might not. And if this person don't go down then than means we're just going to get more threats…They're a well known family as well."*

> *"See what worried us was when he (lender) was last in court, see the boy (member of local community who gave evidence against lender) that went up against him (to give evidence) he had to go away for his own protection after. So that is why we are a bit wary."*

Witnesses who have given evidence have clearly required intensive support over an extended period

Those victims who have acted as witnesses have clearly required constant and intensive support and it is evident also that without that support most would not have made it to court. The long delays between removal of the lender and court appearances further undermine potential witnesses' willingness to give evidence, with witnesses becoming less willing the longer the time that has elapsed since the lender's arrest. A number of witnesses in some high profile prosecutions have had to be provided with alternative accommodation and identities within a witness protection programme. The witnesses interviewed were overwhelmingly positive about the support they had received from the project teams, with many praising not only the support they received as witnesses but also the transformational effect of the various types of financial inclusion and other support provided.

> *"I mean he was just consistently reassured me on everything. He was on the end of the phone every day, every minute of the day. If it wasn't for that I wouldn't have done it. It was him that gave me the courage."*

> *"They were in contact with us every day telling us what was going on. All the time coming round to see us every day. I mean the effort they have put in is just unreal…schooling for the kids, money – sorting out my partner's disability benefits and things like that…Even now, they're helping us with doctors. He still phones me up and helps me out all the time now. He's just got my kids back into proper school. They sorted out all our tenancy agreements. Even when my car broke down they helped me sort it out so I didn't go lending again."*

> *"To be honest if it wasn't for them (the IML team), I would still have been scared all the time and hidden and not gone out or anything. They make you feel at ease and everything, telling you that these are bad people. Because we thought we were the bad people in the beginning because we'd borrowed the money."*

> *"Excellent. Excellent. They've looked after me 100%. I've never had felt concerned about anything. I've always had (name) looking after me, If I've had a worry, she's always been there…Come with me to go to see appointments, things like that."*

> *"They been with me every step of the way. They've been brilliant. Looked after me and helped me get my confidence back and get back on track. Kept in touch, sorted everything out. Really good. Really good."*

Those witnesses who had required protection were often unhappy and isolated, having lost their home, family and friends

Those witnesses who have given evidence and required witness protection have had their lives turned upside down and several had lost much of what little they possessed. All of those interviewed were deeply relieved to find themselves safe but equally all were unhappy and lonely as a result of being uprooted from their community, family and friends and losing their homes. Finances had largely been stabilised, with support from the teams, but remained very tight. Away from the support network of family and friends and familiar contacts, several had found it more difficult to work or to obtain childcare and all reported that they had become isolated to a degree.

> *"And I had to leave everything behind. I had to leave my kids' father, my home with everything in it, all my friends. I wasn't settled because I was here and there*

and everywhere and I was in a farm and then a caravan and a hotel before I went to my flat. I didn't have Christmas with my kids or anything. I've lost everything."

"I've lost everything. All my pictures of the babies when they were born and little sentimental things in my house and that. I'd just done the babies' bedroom up and I'd done it all on my own. Everything. I couldn't rescue anything from the house."

"Now I'm in a horrible position because I'm miles away from anybody. Don't know anybody. He's (partner) had to give up all of his mates that he's close with. He's lived there, like, all his life. And just get up and leave all his stuff, everything and start afresh."

"I want my mum and my aunties and my friends and my dogs and my life back basically…I miss my cousins and I haven't got no friends nor nothing. I don't know who to trust any more so I just keep myself to myself. "

3.6 The impact of the lender removal on victims standard of living and quality of life

Awareness of arrests spreads quickly as does the message that payments need no longer be made to the lender

News of arrests appears to spread very quickly, amplified by the media. Some four out of ten victims were aware that loan sharks have been arrested in the last couple of years, either within their own community or elsewhere. Those victims who can be contacted tend to register the key message that they are under no obligation to continue paying the lender following an arrest. The qualitative research suggests that a significant proportion of victims become aware of the arrest very quickly and are afforded relief from the payment burden even where they cannot be identified and contacted by the team. The victim surveys suggest that most victims (four in five) are relieved of the burden of payment following a lender's removal.

One in five continue to pay their lender for some time at least

The victims survey suggest that roughly one in five (22%) continue to pay their lender for some time at least, whether directly or to the lenders' representatives. The primary reason for continuing to pay is fear, but in some cases there is a degree of loyalty involved also.

Seven in ten victims feel that the removal of the lender was extremely beneficial for their quality of life

For victims the relief from both the stress of constant pressure and intimidation and from the financial burden results in a significant improvement to quality of life. Seven in ten victims describe the impact of the removal of the lender as extremely beneficial for their quality of life.

The key benefit is the relief from the financial burden of paying the loan shark

The qualitative research suggests that the key benefit for victims is the relief from the financial burden that has so compromised budgets and their ability to provide for themselves and their family. For those where the loan shark had been taking all or the lion's share of income, the relief was enormous and deeply felt. Most faced a considerable hangover of financial problems but were at least able to move towards a degree of financial stabilisation and gradually get on top of what were often considerable arrears.

> *"I can see the light. It's a lot better than it was. I can actually get to the point now where I know I've got a little bit of money left over at the end of the week and I can do something with the kids. I can take them swimming because I know my bills are dealt with."*

> *"The best is that the interest has stopped. The money has stopped. He was taking £200 every week and I mean, I'm only getting £200 every week."*

> *"I am paying my debts now and I am free now. I can buy food and everything and pay my debt little by little. No one is forcing me…And if I want I can go out."*

Improved mental health and quality of life arising from relief from stress, constant worry and oppression

Alongside the financial benefits, victims also reported that the removal of the lender had a positive effect on their quality of life. The most deeply felt benefit was the relief from constant worry and pressure. Individuals also spoke of mental health benefits and relief from depression and a greater sense of optimism and greater happiness. Those who were in relationships reported fewer arguments and reduced tension because they were less worried.

> *"I was really, really relieved not to be paying this man and to be safe and not to worry. We are really free now. We are happy again now both of us."*

> *"I was not living. I didn't have a life. I was depressed and my confidence was gone. I've got money in my pocket for the first time in years and I'm happy for the first time in years too."*

> *"To sleep again at night and not to worry. Go to the supermarket and buy food and budget like normal people and not arguing all the time just because you're stressed out. We're getting on better. I'm being a better mum because I can enjoy them more and not be guilty and worried all the time."*

> *"I was on tablets for my depression. I was a long way down really. I was having suicidal thoughts all the time. I didn't want to get out of bed. It was a horrible time and I still think about it but I'm not depressed, you know what I mean, I have my black days, doesn't everyone, but you know, I'm doing OK. Life's OK. Still don't have any f***ing money but I can put food on the table and do normal sort of things, which is more than I could do before."*

3.6.1 Engagement with financial inclusion

Very few of the generality of victims had engaged with financial inclusion support

Very few of those victims interviewed had engaged with the financial inclusion support that the teams had offered. For the most part this was because of a generalised reluctance to deal with the authorities, a lack of appreciation of the potential benefits and a sense that the financial relief afforded by the removal of the lender was sufficient.

Those that engaged with debt advice were primarily witnesses- with debt advice clearly transformational in a number of these cases

Those that had engaged with debt advice, and to a lesser extent, credit unions, were overwhelmingly individuals with whom the team had worked intensively, often witnesses therefore. The most important element of support had been debt advice. Where this had been taken up, debt advice was greatly valued, particularly crisis intervention to prevent repossessions and evictions, bankruptcy proceedings and similar. Both the project teams and their debt advice partners had clearly put a great deal of effort into stabilising the finances of the victims and witnesses they were supporting and hand-holding them through the various processes.

> *"They've really helped us out. Came up with appointments. Took the responsibility away and the weight off your shoulders. That was one of the first things they did with us, help us get our financial situation more stable so that we didn't have to worry about going back to someone like that."*

> *"She had contacts with the housing people, you know and she made phone calls to see if she could help out, put me in touch with the financial advisement officer from the council , she helped me to fill in all the forms out, housing benefit forms, those sorts of things, put me in touch with (named organisation) who do support for women in domestic situations. She's been excellent. Really, really good. She sort of rang me all the time to make sure I was OK, did I need anything, was there any problems. She was really good."*

A small number of witnesses had been successfully introduced to credit unions with this requiring a high degree of hand-holding and support

A handful of victims and witnesses had been successfully introduced to a credit union and there were a number of instances where the relationship was working well and the new members were clearly benefitting from both access to affordable credit and credit union current account facilities. These were relatively rare and isolated cases however and it was clear that setting up the relationship and making the transition to credit union membership had required a high degree of hand-holding and support, likely to be feasible on any scale only in the context of witness support.

> *"They (IML team) pointed us in the direction of (named) credit union. They've been fantastic. Absolutely fantastic. I actually get my child benefit and my child maintenance paid directly into my credit union account now and they deal with all my bills for me so I don't need to worry about any of that."*

> *"Instead of going to a loan shark they took us down to a proper loan company with reduced rates and things, the credit union. Yes, he got us in contact with them. He'd done all the leg work. He brought all the forms out, any forms that needed filling out and he was bringing them to the house and helping us with that."*

3.7 A longer term perspective on tackling illegal money lending

However effective financial education or enforcement, demand for credit is such that illegal lending is unlikely to go away any time soon

Overall, it would appear that the demand – indeed need – for credit in both deprived communities and among the credit impaired is such that, regardless of the effectiveness of enforcement or financial education, illegal lending is unlikely to go away any time soon. More than half of victims (54%) agree strongly and a further 11% agree slightly that as soon as the authorities take out one loan shark, another will fill the gap.

> *"People are just desperate for money. As long as people need money there's going to be money lenders out there giving it to them. That's just a fact of life."*

> *"It's human nature, isn't it? I'd like to say I'd never do it again. But if things were bad enough, in my heart of hearts, to be honest with you, I know I would. Even knowing what I know now."*

> *"It's like people can only get a certain amount of money off the social, so they can't live off the money what they get off the social so when someone says 'We'll give you some money', you know, 'Well all right then'. You get them people what are vulnerable and all that lot and you're desperate and anyone will take it."*

The Financial Inclusion Partnership Officers (FIPOs) who have been working with victims were confident that they were making a difference and that financial education was increasing understanding of the risks of getting involved with a loan shark (a view borne out by the community surveys – see the discussion in the chapter on progression against objectives following). They were also realistic, however, about the limits of what could be achieved by either enforcement or education. The view from these officers working in communities in which the money lenders operated was also that the level of demand was such that illegal money lending will tend to arise even as enforcement activity makes it a higher risk and less attractive option for the lenders.

> *"There's a certain level of poverty where you can be as financially literate as you want to be and you're going to grab anything that's offered if you're desperate."*

> *"Some of the levels of poverty and deprivation that we've seen here are absolutely horrendous. Some of these people are living on a marginalised level, really on the fringes of society. Some of it is financial capability education but some of it is you've just got these people who are desperate and if someone offers them something, they're going to take it."*

> *"I don't think this can be sorted out (i.e. IML) but I do think that we are definitely making a difference and a lot more people now know it is a crime and it's a crime something can be done about."*

> *"I think you've just got to live with the fact that some people are never going to be financially very astute…if the money is there to be had, they're going to take it." (Financial Inclusion Partnership Officers talking about the victims they have encountered)*

The key to tackling IML is seen to be effective legal credit supply, particularly of social lending and affordable credit, alongside effective enforcement

This view is reflected in the perspectives arising from the community survey.

When asked about measures that would make a difference in tackling illegal lending in the community, financial education in schools was thought important by a little over one in five victims (22%) with greater access to debt advice felt important by more than a third of victims (36%). The factors that were seen as more important however were effective enforcement and deterrent sentencing and, above all, increased legal credit supply. More than half of victims said that what would be needed would be the police dealing more effectively with loan sharks and a little under a third (32%) wanted both stiffer court sentences and to be able to report lenders anonymously. Above all, however, increased credit supply was seen to be key, especially social lending. Almost two thirds of victims (63%) said that more Social Fund loans and a third that greater access to a credit union offering instant access loans would make a difference. More than a third of victims said that more legal lenders operating in deprived communities would make a difference while only 4% felt that more banks operating locally would have an effect. Some 15% said that more home credit loans would make a difference. The pattern among those aware of illegal lending in their community was broadly similar. In those areas where lenders had been removed by the teams, however, there was greater emphasis on enforcement and sentencing as likely to make a difference, perhaps reflecting the greater confidence in the intervention areas, compared to the comparison areas, that the authorities were willing to tackle loan sharks.

4 Chapter 4: Progress against objectives

Progress against objectives – key points summary

- A solid start has been made in enforcing the law and in sending a clear message to lenders and communities that IML is now on the radar of the authorities and lenders can no longer operate with impunity.
- There is an increasing pipeline of intelligence on IML, improving in quality. The teams are identifying lenders, leading to arrests and prosecutions.
- Some 870 investigations have been commenced, resulting in 289 arrests and 96 prosecutions, 58 of which have been dealt with by way of caution. Of those cases taken forward for prosecution, 28 have resulted in custodial sentences, together totalling 56 years.
- Significant progress has been made in building awareness of the IML teams among victims and communities, with 27% of those aware of IML in their communities aware of the teams, rising to 34% among victims.
- The climate of fear remains in place, however, albeit that it appears to be reducing.
- Seven in ten (70%) of those aware of IML in their communities feel that the presence of the IML teams has made a difference. Those in intervention areas where lenders have been arrested are more than twice as likely to believe IML is reducing than those in comparison communities.
- Demand is such however that where one lender is removed, another rapidly takes their place, with two thirds of those aware of IML of this view. Almost one in five victims continue to pay the lender or a proxy following their arrest while 13% of victims relieved by the removal of one illegal lender have subsequently borrowed from another.
- There has been a significant increase in awareness and understanding of illegal money lending among a range of audiences, stakeholders and partner agencies.
- Efforts on victims support and transitioning victims to sustainable sources of alternative legal credit have been largely unsuccessful however, in large part for reasons outside the control of the project teams. Only a small number of victims, some 4% overall, have been referred to sources of support and advice.

4.1 An increase in the number of prosecutions and, eventually a reduction in illegal lending

Steady increase in intelligence and prosecutions including prosecutions of serious cases resulting in custodial sentences

Since the establishment of the national project in late 2007, a total of 1,434 actionable contacts have been received, leading to some 880 investigations commenced, involving some 870 lenders and some 280 arrests. Some 163 proceedings have been taken forward, of which 96 have been prosecutions with 58 of these cases ultimately dealt with by way of caution. Of those cases taken forward for prosecution, 33 have resulted in non custodial sentences, with 28 resulting in a custodial sentence, together totalling some 56 years.

Teams have succeeded in building awareness of initiative and LS helpline and presence of IML team, especially among victims, but climate of fear remains

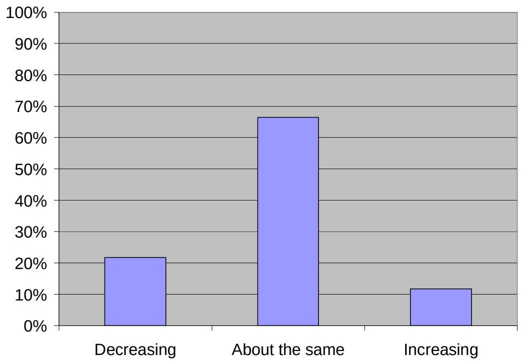
The impact of the teams in reducing IML needs to be understood in the context of the underlying trend increase arising from the recession. Overall, the dominant perception in deprived communities, cited by two thirds (67%) was that levels of IML were “about the same”.

However, against this background, the survey evidence suggests that in the “intervention” areas, where the teams have been active and made arrests, the perception that IML is decreasing was much higher at (27%) compared to that in the comparison areas, where lenders had not been removed, where only 12% of residents felt IML had fallen.

Moreover it was clear that increases or stability in IML was attributed primarily to market forces; where IML was seen to be stable or increasing this was attributed primarily to the decline in the availability of home credit and other lending and a lack of alternative opportunities for money lending. Significantly, however, decreases were attributed to enforcement action by the authorities and a greater willingness to act against loan sharks.

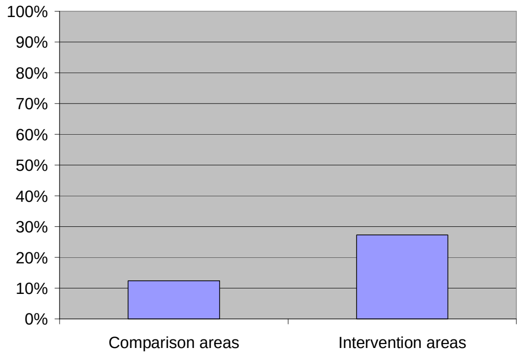
Residents in intervention areas more than twice as likely as those in comparison areas to believe IML decreasing

Chart 1: Whether perceive IML to have increased / decreased in last two years



Base: All residents

Chart 2: Perception that IML has decreased in last 2 years Intervention and Comparison areas %



Base: 1200 Residents of selected deprived communities

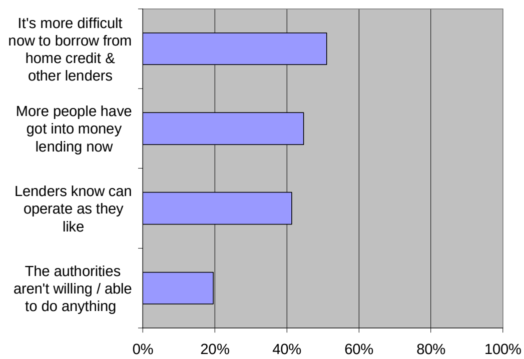
Significant awareness of loan shark helpline and increased perception that authorities willing to act against money lenders

The promotion of the national loan shark help-line and media coverage of both the projects' activities and arrests of high profile lenders has created a significant degree of awareness of the initiative and of authorities willingness to act, in the comparison as much as intervention areas, with those in the intervention areas most aware of the projects and most likely to believe that the authorities are having an impact. The evidence is moreover that awareness is greatest among those that are the key targets of the initiative.

Some 17% of those on deprived estates were aware of the project, rising to more than a quarter (27%) of those aware of loan sharks operating in their own community and a third of victims (34%) on these estates. Two thirds of those in the intervention areas who believed that IML was decreasing in their own community attributed this to action by the authorities, compared to slightly under half in the comparison areas.

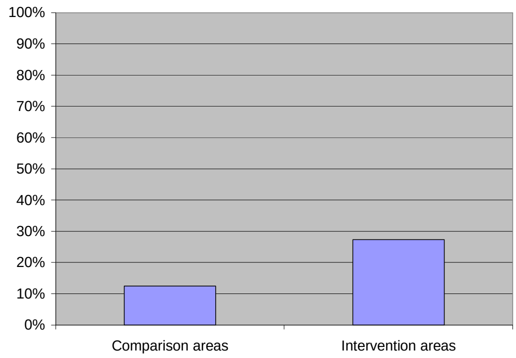
Increases or stability in IML attributed primarily to market forces while decreases attributed to authorities cracking down – most markedly in intervention areas

Chart 3: Perceived reasons why IML has been stable or increased



Base: All residents of deprived communities who believe IML has remained stable or increased

Chart 4: Perception that main reason that IML has decreased that authorities have been cracking down. Comparison and Intervention areas



Base: 260 Residents of deprived communities that believe IML decreasing

4.2 To create a climate where victims can come forward

The climate of fear remains in place albeit that it has been reduced particularly in intervention areas

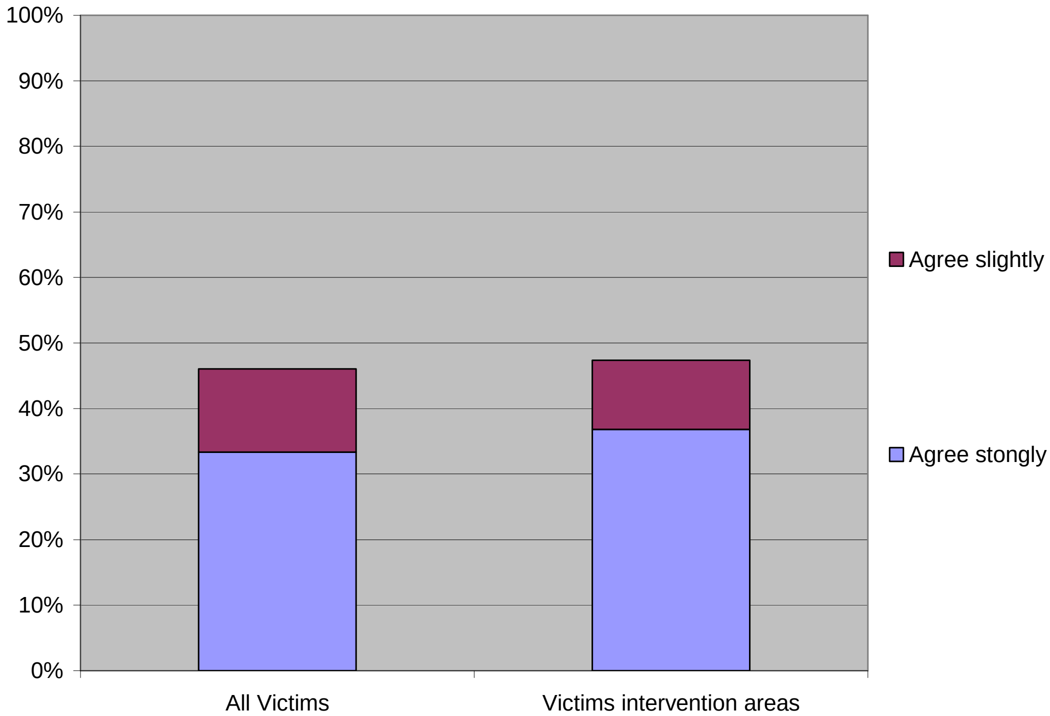
Despite the growing awareness of the authorities' willingness to act, given the modus operandi of the lenders and their frequently dominant position with the small and often tightly-knit communities in which lenders operate, both victims and potential witnesses remain reluctant to report lenders to the authorities. More than half (54%) of those aware of IML in their own communities were categorically unwilling to report, with two thirds of all aware and more than three in ten of victims saying it was simply too dangerous to do so.

There does appear however to have been some movement in willingness to come forward. A little less than a quarter were potentially willing to come forwards and a little over one in five said they would be willing to report. By comparison, some three quarters of residents in the 2006 survey undertaken prior to the project being established said that they would never report an illegal money lender[10].

Further evidence of the role of the project and success of the teams in changing perceptions is that willingness to come forward was significantly higher in the intervention areas (at 25%), and complete resistance to doing so less (at 45%), compared to 15% and 66% respectively in the comparison areas.

Teams have succeed in building awareness of initiative and LS helpline and presence of IML team, especially among victims, but climate of fear remains

Chart 5: Agreement with statement that "People know they can go to the illegal money lending team for help with IML". Victims overall and in intervention areas



Awareness especially among victims that they can go to the illegal money lending team for help

Significantly awareness of the initiatives and of the loan shark help-line and agreement with the statement that "people know they can go to the illegal money lending team for help" were highest among victims. More than a third (34%) of victims were aware of the "government initiative to identify and prosecute loan sharks" and almost half of those believed they could go to the team for help with almost four in ten (37%) believing strongly this was the case.

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[10] The questions were not asked however in a directly comparable way.

4.3 To change the perception among those lending that illegal money lending is rarely prosecuted

Lenders appear to be aware that they are no longer able to operate without fear of prosecution

Lenders have historically been able to operate pretty much with impunity with little fear of prosecution. There is evidence from the community survey however that the initiative is impacting lenders' previous sense of effectively being "untouchable" and that this has increased the sense of risk associated with running an IML operation. Almost a third (32%) of those aware of IML in their community believe that the lenders know that they are no longer untouchable with this perception highest among victims in the intervention areas (37%). A little over a half, rising to 6 in 10 in the intervention areas think that lenders have not cut back their activities but are rather being more careful.

But demand and lack of opportunity are such that new lenders continually fill vacuum when lender removed

Both the community surveys and the teams' experience suggest that illegal lending is unlikely to go away any time soon. More than eight out of ten of those aware of illegal lending in their own communities, but only two thirds of victims agree with the statement that as soon as the authorities remove one loan shark, another takes their place. Similarly, in relation to the removal of a loan shark in their own community, only 5% of those aware of illegal lending and the arrest and 7% of victims believe that the action put a stop to loan sharking in their community. Following the removal of the loan shark, 22% of those aware of IML and 14% of victims said that an associate of the lender continued to collect payments while two thirds of those aware of the arrest and more than 6 in 10 of victims said that while the specific lender had given up lending, other lenders were still active in the community.

4.4 To increase awareness of the problems of illegal money lending among partner agencies and providers of affordable credit

Step change in awareness among partner agencies

All of the teams have focused heavily on building awareness of IML among partner agencies within their region and most have achieved some degree of coverage of a high proportion of potential partner agencies in their region.

As a result they have achieved a step change in awareness of IML and of the problems associated with it, with joint working on financial inclusion and awareness raising involving a number of innovative events and campaigns. There have however, been only a very limited number of referrals to the units and little in the way of practical intelligence.

4.5 To develop formal relationships and processes for referring victims / enquires to local debt advice and sources of legal affordable credit

The effort to transition victims to affordable credit has not been successful, largely for reasons beyond the control of the teams

Although there are some isolated examples of transformational intervention, this element of the project has largely not been successful. This is in large part for reasons beyond the control of the teams and not withstanding their very considerable efforts to support both victims and witnesses in regaining control over their finances and accessing alternative sources of credit.

Most victims have not wanted to engage with the teams and have seen the relief from oppression and the financial burden as sufficient relief and have little interest in being provided with support in the form of debt advice or credit union lending.

Referrals to debt advice have been more productive than those to credit unions. Debt advice has often been transformational where taken up, although agencies have sometimes found victims unreliable as clients. Credit union referrals have been problematic and unsatisfactory. Many victims are in any case unsuitable candidates for credit union lending, being either deeply indebted or very high risk. Social lending provision is itself patchy and has often been unavailable in areas where victims have been identified.

The interviews undertaken with a wide range of partner agencies suggest that the social lenders, while sympathetic to the needs of victims, have seen few referrals in practice, with many of those referred are not seen to meet criteria for appropriate candidates for borrowing.

Overall, the proportion of victims referred to agencies has been very low, at less than 4% of the total.

4.6 To develop an understanding of what required to effect a sustainable transition away from illegal lending

Financial education appears to have increased awareness of the risks of using an illegal lender

The evidence is that those who have been subject to extreme intimidation or exploitation are unlikely to return to a loan shark. However, the victim survey suggests that some 13% have returned either to their original loan shark or an alternative lender, the same proportion as was revealed in the 2006 survey.

Prevention in the form of education as to the likely consequences of getting involved with a loan shark would thus seem key. In this respect it would seem that the team have been effective in communicating the risks of borrowing from an illegal lender. A third of those in the comparison areas and more than four in ten (42%) of those in the intervention areas agree with a statement that people are now more aware of the dangers of using a loan shark.

5 Chapter 5: Costs, benefits and value for money

Cost, benefits and value for money – key points summary

- The IML teams' enforcement activities have resulted in a range of benefits, both for victims and society as a whole, which would not otherwise have occurred. The benefits from the teams' enforcement activities include the following:
  - The project has benefited over 14,000 victims on illegal money lenders' loan books.
  - In net terms, victims have saved an estimated £11.7m in income that would otherwise have gone to loan sharks.
  - For those victims whose relationship with the lender was based on intimidation and violence, actual or threatened, the removal of a loan shark yields relief from fear and stress, leading to improved quality of life. That improvement is indicatively quantified at £5.7m.
  - Being in debt has negative health and wellbeing effects. Therefore, removing loan sharks can also be expected to have consequential health services savings, indicatively estimated at £1.8m.
  - Potential POCA gains, which would accrue to society as a whole, amount to £9.1m.
- Over the first three years of operations, net benefits are likely to be in excess of funding costs. The best estimate from the evaluation indicates a potential net benefit of £28m compared to £13.4m of funding (in constant 2009-10 prices) i.e. net benefits of £2.11 per £1 of project funding. At this interim stage, therefore, the IML project is on track to deliver value for money.
- Reflecting differences in scale, approach and the particular market context in which they operated, the ratio of benefits to costs has varied markedly across the different teams. The highest ratios of benefits to costs, in the region of 300%, have been generated by the two largest teams (CEnTSA and London). While they have often been successful in generating high levels of enforcement activity, notably around investigations, arrests and prosecutions, the smaller teams have found it more difficult to align benefits and costs.
- In the first year of funding (FY 2007-08), activity was primarily directed towards setting up the teams and there was little enforcement activity to report. Thus, the project has generated an excess of benefits over costs with effectively two years of operations.
- Reflecting difficulties in measuring benefits within the context of an illegal activity, the value-for-money estimate is inevitably subject to uncertainty. Nonetheless, under a range of alternative scenarios designed to reflect uncertainties in the benefit estimates, the ratio of net benefits to costs remained well in excess of 100%. This provides reassurance in drawing value-for-money conclusions.

5.1 Introduction

This chapter presents the findings from the assessment of the benefits relative to costs of the IML national roll-out, focusing on the period from 2007-08 through 2009-10. The benefits from the initiative are discussed in relation to victims, recovery of the proceeds of crime and communities.

5.1.1 Outputs

As described in chapters 6 and 7, the IML teams have sought to meet their objectives in the first instance by gathering intelligence and initiating enforcement action against illegal lenders. The gross outputs from the teams' enforcement activities from inception of the national roll-out in late-2007 through to end-March 2010 are shown in Table 1[11].

Since illegal money lending had not been subject to active and sustained enforcement prior to the national IML roll-out, all of the gross outputs shown in Table 1 can be considered fully additional in the sense that they would not have materialised in the absence of the initiative[12]. That is, in the case of the IML project, the net outputs can be considered equivalent to the gross outputs. This is an important consideration in assessing the net impacts of the initiative, or the benefits that would not otherwise have accrued if the initiative had not been implemented.

Table 1: Enforcement, 2007-08 to 2009-10: arrests, prosecutions and sentencing

	No.
Number of illegal money lenders (loan sharks) arrested	280
No. of proceedings instituted	163
Prosecutions	96
Other enforcement actions (cautions/letters of warnings)	58
No. of defendants	185
No. Prosecutions resulting in custodial sentences	28
No. Prosecutions resulting in non-custodial sentences	33
Total length of prison sentences (years)	56.1

Source: IML teams , Performance Monitoring Reports.

[11] Outputs for each team can be found in Table 4.1 in the accompanying Supplementary Material.
[12] Technically, there is zero deadweight in the gross outputs from the teams' efforts to enforce the law against loan sharking.

5.2 Benefits

Following enforcement activity against an illegal lender, the lenders' victims stand to gain in a number of respects. First, where a lender's book is closed, the savings to the victims result from not making further payments to the lender which they would otherwise have made. The victims are thereby afforded the opportunity to repair their finances, pay their bills and purchase goods that may have been foregone due to the overriding need to pay the lender. Removing loan sharks also provides a direct platform to the financial inclusion objective of the IML initiative.

Victims also stand to gain in other more intangible respects. As discussed in Chapter 3, a key element in the relationship between victim and lender is the climate of fear and intimidation that the lender creates in order to ensure a steady flow of payments from the victim[13]. Hence, closing a loan book should serve to lift the fear which many victims feel when in the grip of a loan shark, thereby leading to reduced stress and improved quality of life.

However, not all victims will realise these gains:

- Some may continue to pay the lender or an associate.
- Some may not sustain the relief offered and may subsequently borrow from another loan shark.

These factors need to be considered in adjusting gross savings to victims to produce a net benefit estimate.

Society also stands to gain from the removal of a lender, through recovering the proceeds of the illegal money lender's activities. As they represent actual criminal gains (where this can be evidenced and a conviction secured), amounts previously paid by victims provide a starting point for investigating the illegal money lender's financial affairs under the Proceeds of Crime Act 2002.

In addition, lifting the burden of illegal debt on victims may be expected to have consequential or knock-on benefits in terms of reduced public expenditure, mainly in relation to health costs.

Finally, local communities suffer from the presence of illegal money lenders in a number of respects. Loan sharks prey on the vulnerable and they are associated with issues such as anti-social behaviour, drugs, theft and violence. For individual members of the community, removing lenders can therefore be expected to reduce the risk of becoming a loan shark victim. This effect depends on the sustainable impact of the initiative on the incidence of IML within local communities.

The remainder of this chapter presents quantified estimates for the foregoing range of benefits. The methodology for quantifying the benefits due to the activities of the IML teams is described in detail in Appendix D in the Technical Appendix.

5.3 Victims

When the law against illegal money-lending is effectively enforced, victims stand to gain in two major respects:

- The money that they will no longer have to pay the loan shark i.e. the potential savings to victims.

[13] There is research evidence to suggest that fear of crime has adverse health effects, notably on a person's psychological health due to worry and anxiety (Dolan and Peasgood, 2007; Farrell and Gadd, 2004).

- An improvement in their quality of life e.g. a reduction in the stress associated with having to pay the loan shark. Such effects are, by their nature, more ‘intangible’ than the savings effect.

5.3.1 Savings

The potential savings to victims have been estimated from the loan book values supplied to BIS by the IML teams as part of their Performance Monitoring returns. The period covered by the estimates is from commencement of the national roll-out in late 2007 through to end-March 2010.

As discussed in Appendix D, which sets out the methodology for estimating benefits, this was not without difficulty. As they are engaged in an illegal activity, lenders’ loan books inevitably vary in quality and comprehensiveness. This inherent measurement difficulty should be borne in mind when interpreting the estimates. Further, the teams do not have a consistent approach to compiling the loan book values that they supply to BIS. Looking ahead, a more consistent approach would be very important for monitoring and evaluation purposes.

The estimated gross savings, before adjusting for factors that affect the realisation of benefits, are presented in Table 2. On a gross basis, an estimated 14,300 victims have been helped by the teams with savings to victims of £17.8m.

Table 2: Estimated gross savings to victims

	Gross savings	Victims
	£m	*No.*
Scotland	0.349	750
Wales	1.124	1,409
South-West	2.281	959
North-East	0.684	755
E. Midlands	0.712	420
London	3.357	1,237
CenTSA	9.342	8,761
All teams	**17.848**	**14,291**

Sources: Policis estimates from Performance Monitoring Reports submitted by IML teams.

Also shown in Table 2 are indicative estimates for the numbers of victims benefiting from enforcement action in each of the IML regions since the project commenced in 2007.

An important point to note in the interpretation of the savings to victims is that the estimates represent a forward-looking measure of the opportunity afforded to victims to repair their finances in the wake of the removal of the lender i.e. funds they will not pay to the lender. They are not actual cash values.

5.3.2 Quality of Life

The intangible costs of being a loan shark victim are difficult to monetise. Nonetheless, they are important to bring to account.

The model for monetising the effect of removing the fear of violence has been adopted from the literature on the economic costs of the fear of crime. In that literature, health losses (due to stress) are monetised by estimating quality-adjusted life years (QALYs) lost through fear of crime and converting the QALY loss into a monetary amount. It must, however, be emphasised that it is only possible to provide an indicative estimate from the information that is available.

Based on the methodology described in Appendix D, the estimated QALY gains per IML victim are shown in Table 3. The average gains per victim are then applied to the estimated numbers of victims shown in Table 2 above to derive the gross estimates for QALY gains from the removal of loan sharks. The QALY gains from relief from violence and intimidation and fear of the lender are estimated to average a little over £600 per victim.

Table 3: Victims' relationships with illegal money-lenders and estimated QALY gains

Relationship to lender:	% of victims[1]	QALY gains per victim[2]
No fear/intimidation	9.5%	£0.00
Always fear of violence at the back of your mind	61.9%	£369.48
Threats of violence	23.8%	£927.94
Violent	4.8%	£3,208.50
All	**100%**	**£602.45**

Sources:
[1] Policis survey.
[2] Derived from estimated QALY effects of fear of crime reported in Dolan and Peasgood, 2007.

The monetary value of the quality of life gains are a useful measure for accounting purposes. It is useful also to translate the impact of the teams and the quality of life effects into the numbers of victims saved from violence and the threat of violence. Of the 14,000 victims helped by the teams, on the basis of the victim survey, it is likely that the impact of the intervention and the national project will be that 700 of these victims will have been relieved from violent attacks and a further 2,800 from threats of violence

5.3.3 Net benefits

In order to derive the net benefits accruing to victims from the removal of illegal money lenders, the gross estimates must be adjusted for two factors.

First, some victims will have continued paying their illegal lenders, even in the wake of enforcement action. In the community surveys undertaken for this evaluation, 22% of those who said they were aware of IML said that an associate of the lender continued the collections. The gross savings to victims and the QALY gains have therefore been reduced by 22%[14].

Second, for some victims, the impact of the intervention may not be sustained and they may return to their original lender or an alternative supplier. This was the case for 13% of victims in the community surveys. The estimated gross benefits accruing to victims have therefore been further reduced by 13% in estimating the net benefits of the IML project.

When the foregoing adjustments are made, the total net benefits to victims are estimated at £17.4m, as follows (Table 4):

- Savings to victims – £11.7m[15].
- QALY gains – £5.7m.

Table 4: Victims: estimated net benefits

	Savings	QALY gains	Total
	£m	*£m*	*£m*
Scotland	0.228	0.299	0.527
Wales	0.735	0.560	1.295
South-West	1.491	0.378	1.869
North-East	0.447	0.300	0.747
E. Midlands	0.465	0.166	0.631
London	2.195	0.493	2.688
CenTSA	6.108	3.511	9.619
All teams	**11.669**	**5.707**	**17.376**

Source: IML teams , Performance Monitoring Reports.

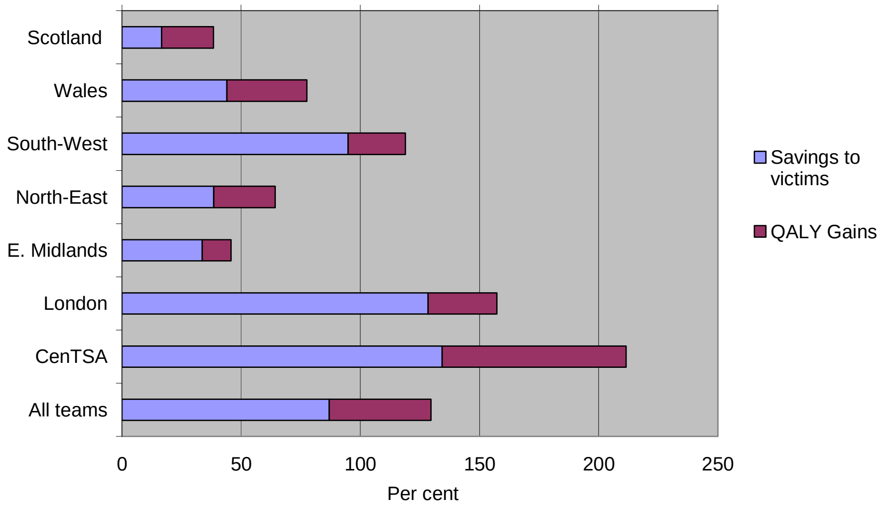
For the initiative as a whole, the estimated net benefits to victims amount to 126% of the total project funding of £13.4m (2009-10 prices, £13.6m in cash terms)[16]. That is, the estimated benefits to victims are in excess of the funding provided to date for the initiative. The ratio of benefits to victims relative to project funding has varied from one region to another, from under 50% in Scotland and the East Midlands to over 200% for the CenTSA team (Chart 6). In order to provide a fuller picture, the remaining components of the benefits produced by the IML initiative are presented prior to discussing the regional contrasts in more detail.

[14] This is the element of deadweight in the estimated savings to victims.

[15] That is, gross savings to victims (£17,848m) reduced by 34.6%, to reflect those continuing to pay the lender via an associate (22%) and those who return to IML (13%). A similar adjustment is made to the estimated gross QALY gains

[16] This is the amount of funding provided for the project from commencement of the national roll-out in 2007 through end-March 2010.

Chart 6: Victims: net benefits as per cent of funding



5.4 Proceeds of crime

5.4.1 POCA gains, assets seized and criminal benefit

When the law on illegal money lending is enforced, society stands to gain insofar as it is possible to recover the proceeds of their crimes from those loan sharks against whom enforcement action has been taken. Under the Proceeds of Crime Act (POCA) 2002, a convicted offender can be ordered by a court to repay a sum of money equivalent to the amount that the offender is adjudged to have gained from crime. The POCA legislation is based on the principle that crime should not pay and that criminals should not benefit from their criminal activities[17].

Including POCA amounts in calculating the benefits from the IML teams' activities is complementary to the estimation of savings to victims. In essence, savings to victims is a forward-looking benefit i.e. an estimate of what victims will not have to pay in the future. POCA looks back, seeking to recover the amounts that victims have already paid and from which illegal money lenders may have acquired assets derived from their criminal activity. Pursuing a lender's assets through POCA may also have the effect of deterring the individual money lender and others from further criminal activity. The deterrent effect directly addresses the risk and reward element in the rationale for the IML initiative and should contribute to the objective of reducing the incidence of IML in the community. Reducing the power and status of criminals in the community might also be anticipated to contribute to the objective of creating a climate in which victims can come forward.

The benefits that can potentially accrue through POCA can, in principle, be estimated from the Performance Monitoring information supplied by the teams in relation to the value of assets restrained or confiscated.

In addition to cash seizures, the main POCA-related indicators reported on by the teams are as follows:

- Total Criminal Benefit of loan shark.
- Estimate of value of assets Restrained under Section 41 POCA.

[17] Further detail on the operation of the POCA legislation with reference to the IML initiative can be found in Appendix D.

- Amount awarded by Confiscation or Forfeiture Order.

The total criminal benefit is the amount by which the defendant has benefited from crime. The POCA indicators on which the IML teams report are listed in Table 5, along with the gross values reported by the teams from inception through the financial year 2009-2010. The total value of the POCA indicators is circa £36m.

Table 5: Value of assets seized / Proceeds of Crime (POCA) compensation awarded to victims, 2007-08 to 2009-10: Gross amounts reported by IML teams

	£m
Amount of Cash seized	0.741
Estimate of value of assets Restrained under Section 41 POCA	8.146
Amount awarded by Confiscation or Forfeiture Order	1.902
Compensation awarded to victims	0.035
Total Criminal Benefit of loan shark	24.843
Total	**35.666**

Source: IML teams , Performance Monitoring Reports.

5.4.2 Attrition

The values shown for the POCA indicators do not, however, necessarily equate to the amounts that are actually recovered at the end of the process.

While recognising the putative benefits of the POCA process as outlined above, notably the deterrent effect, the main focus of interest in quantifying net benefits is the amount actually recovered. In estimating the expected amounts recovered, it is necessary to take into account the attrition that occurs in the POCA process i.e. the amounts actually recovered will typically diverge from the assessed total criminal benefit as well as the value of assets restrained or confiscated. Appendix D provides a detailed description of how attrition occurs at each of the various discrete stages of assessment of criminal benefit, assessment of the available assets, the making of confiscation orders and the resulting recovery.

As outlined in Appendix D and based on research conducted by the Home Office, the following assumptions have been adopted for attrition in the main POCA indicators reported by the IML teams:

- For every £1 of criminal benefit assessed (at the commencement of the POCA process), £0.13 will be recovered.
- For every £1 of assets restrained, £0.55 will ultimately be recovered.
- For every £1 of assets confiscated, £0.90 will be recovered.

It is also assumed that cash seizures are recovered at 100 per cent.

5.4.3 Estimated recoveries

Based on the attrition assumptions, the estimated actual recoveries accruing as net benefits to the IML initiative from proceeds of crime are shown in Table 6. Recoveries are estimated at £9.1m, representing one-third of the total gross figures brought to account for calculating net benefits. Incorporating attrition therefore has a large impact on the conversion from the gross POCA figures to estimated recoveries, particularly the figures for total criminal benefit assessed.

Table 6: Proceeds of crime: estimated recoveries

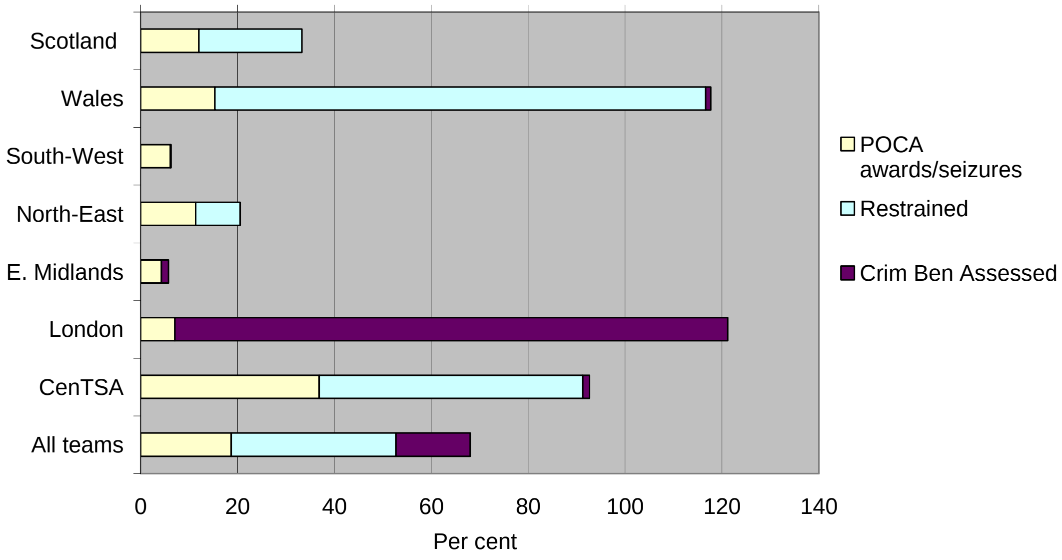
	£m	*% of gross*
POCA Awards / Seizures	2.506	93
Restrained	4.562	55
Criminal Benefit Assessed[1]	2.052	12
Total	**9.120**	**34**

[1] Including only 2009-2010 criminal benefit assessed (£16.221m).
Source: IML teams , Performance Monitoring Reports.

In calculating the estimated recoveries, the gross figures are only adjusted for attrition, as the gross enforcement outputs (Table 1 above) are viewed as fully additional to the activities of the teams. In addition, only criminal benefit assessed in 2009-2010 is included in the POCA values on which recoveries are estimated. This is because total criminal benefit is assessed at the commencement of the POCA process; assessments in years prior to 2009-2010 are assumed to be subsequently reflected in amounts confiscated or recovered.

For the initiative as a whole, the estimated net benefit from POCA recoveries amounts to a little over two-thirds (68%) of the total IML project funding from commencement of the national roll-out through end-March 2010 (Chart 7). It can also be seen that, as a per cent of project funding, the net benefit from proceeds of crime varies widely across the teams. The ratio of estimated recoveries to funding exceeds 100% in London (121%) and Wales (118%), followed by CEnTSA at 93%. At the lower end of the scale, estimated recoveries for the South West and East Midlands are both below 10%. In these regions, it would appear that the opportunity afforded by POCA to enhance effectiveness in meeting the enforcement objectives has not to date been availed of.

Chart 7: Proceeds of crime: net benefits as per cent of funding



5.5 Communities

5.4.1 Crime and anti-social behaviour in the community

A key enforcement objective for the IML initiative is to eventually reduce the incidence of IML. The potential benefits to local communities are two-fold. First, removing lenders should act to reduce the risk of a member of the community becoming a victim of loan sharking. As was discussed in Chapter 3 on victims and communities, local communities suffer from the presence of illegal money lenders in a number of respects. Loan sharks prey on the vulnerable and they are associated with anti-social behaviour, drugs, theft and violence. Removing lenders can therefore be expected to reduce crime and thereby improve the quality of life of local residents.

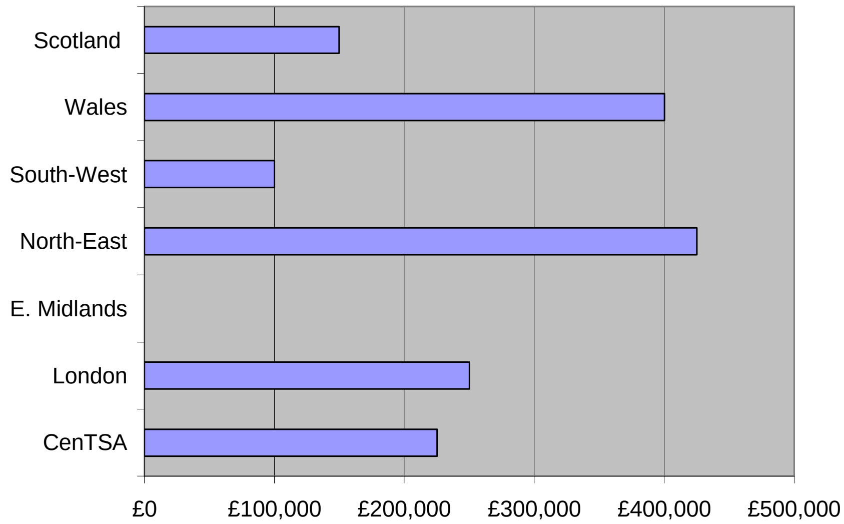
The evidence from the community surveys is that, while progress is being made, the initiative is still at an early stage in achieving the objective of a sustainable reduction in the incidence of IML in deprived communities. We have not therefore attempted at this stage to quantify this effect or to estimate a value for any reduction in crime impacts outside those relating immediately to victims.

5.5.1 Associated criminal activity

When the IML teams investigate and undertake enforcement action against loan sharks, they may uncover associated criminal activity that is of interest to other agencies. Controlled drugs or weapons found upon execution of a warrant will clearly be relevant to the police. Instances of benefit fraud come within the compass of the Department for Work and Pensions (DWP). Unpaid taxes fall within the remit of Her Majesty's Revenue and Customs (HMRC).

As indicated by the performance monitoring statistics, the teams have had some success in facilitating the detection of associated criminal activities. The North East and Wales have been especially prominent in that regard (Chart 8). The main benefit of uncovering associated criminal activity is the leverage that it provides to the teams in underpinning more effective partnership working with other agencies. This is particularly true in securing the cooperation of the police.

Chart 8: Associated criminal activity: monetary value



Viewed in that context, it would not be appropriate to count the value of associated criminal activity as a net benefit to the IML initiative. Where partner agencies become involved with the IML teams, those agencies will inevitably expend resources in securing a positive outcome from intelligence or other assistance provided to them by the IML teams. Those resources can be viewed as representing an opportunity cost since the partner agencies could have used those resources for some other purpose.

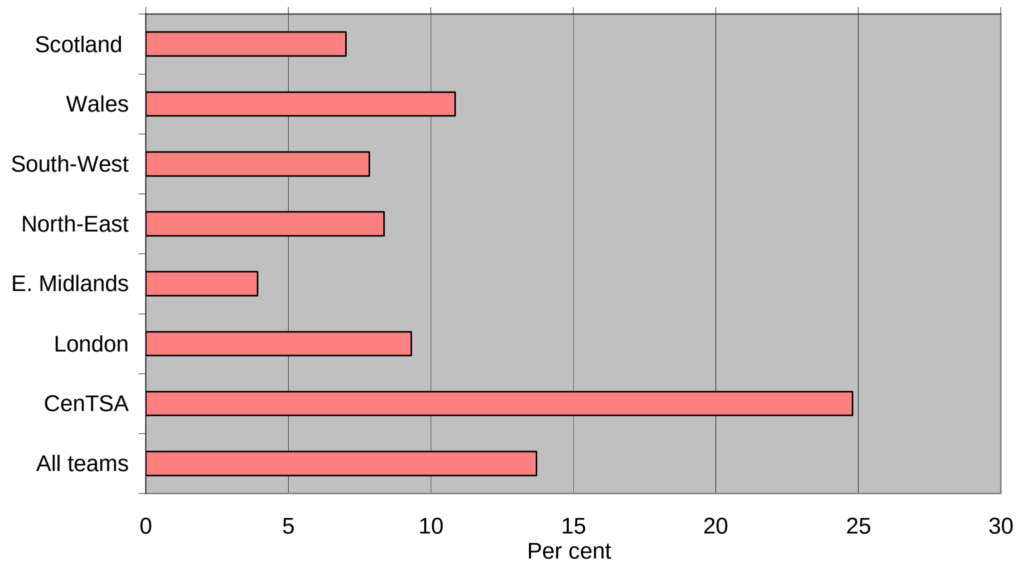
5.5.2 Health cost savings

Relief from the financial burden and the oppression of intimidation brings enhanced health benefits to the victims and public benefits in cost savings. The relief from worry and oppression by the lender also has health cost savings in that victims helped by the IML teams can be expected to suffer reduced stress and enhanced mental health. Indicative health cost savings have been estimated by drawing on research into the impact of stress-related ill-health on the use of health services.

For the IML project, the main drivers in the estimated health cost savings are the numbers of victims helped by the teams (Table 2 above) and the levels of fear and intimidation associated with being a loan shark victim (Table 3). From the public purse point of view, the cost savings are also driven by the extent to which the resulting stress results in costs to the health service. There is a large literature on the health costs of debt and a more detailed discussion of the methodology for compiling the economic costs of the health effects of crime is contained in the accompanying Appendix D. It should be emphasised that the resulting estimates should be viewed as indicative.

The gross health cost savings are estimated at £2.8m. Adjusting for those victims who continue paying the lender (22%) or turn to another loan shark (13%), the estimated net savings are £1.8m. The estimated net health service savings represent 14% of the total IML project funding. Based on the estimated numbers of victims helped by enforcement actions through 2009-2010, the savings range from 25% for the CenTSA team to 4% for the East Midlands (Chart 9). The median ratio of savings to funding is estimated at 8% (North East), with the remaining teams clustered around the median, within the range 7%-10%.

Chart 9: Health service savings: Net benefits as per cent of funding



5.5.3 Other effects

The remaining consequential effects of the IML project can be viewed as largely re-distributional. In that regard, it is important to have regard to the high risk of poverty which typifies the financial situation of loan shark victims. This issue is discussed in some length in Chapter 1 which describes the net detriment associated specifically with IML and contrasts this with levels of difficulty experienced by similarly poor high cost credit users.

When victims are relieved of the requirement to pay an illegal money lender, this can have wider effects. For example, an improvement in capacity to meet obligations such as paying rent will clearly benefit social landlords.

Based on the estimates of the specific detriment associated with use of illegal lending (as distinct from use of high cost credit or the impact of poverty more generally) discussed in Chapter 1, the impact of the national project on victims' ability to manage their household finances will have been considerable. Based specifically on the additional detriment represented by use of illegal money lending, some 7,300 of the 14,000 victims helped would have been struggling to afford fuel, 4,900 would have been struggling to afford sufficient food and 3,500 will have been unable to pay rent, prior to the removal of the lenders.

However, monetary estimates for such effects are not presented on the ground that such benefits are already captured in the estimates for savings to victims.

5.6 Net benefits and costs

5.6.1 Costs

The costs against which the foregoing net benefits are to be compared is comprised of the £13.6m funding provided to the seven IML teams over the period from commencement in 2007 to end-March 2010.

The main other cost that could be considered is the value of police resources that the teams need to call upon in support of their enforcement activities. For example, when the police assist a team in executing a search warrant, it could reasonably be expected that an opportunity cost would be incurred insofar as the police could be tackling crime elsewhere within the community.

However, the police inputs to the operations of the IML teams have not been monitored. Furthermore, it is not possible to circumvent that difficulty by using the standard Home Office statistics for the costs of crime, since these do not include illegal money lending as a specific type of crime for which estimates have been prepared.

Nonetheless, as discussed earlier, the police inputs have been implicitly recognised by excluding from the calculation of benefits the monitoring information supplied by the teams in relation to the value of associated criminal activity identified and reported. Insofar as such associated activity falls within the compass of local policing priorities, it can be assumed to offset the opportunity cost of the police resources that are deployed for the enforcement of the IML teams' activities.

Hence, the cost estimates used for this evaluation are entirely focused on the resources allocated to the specific IML objectives and, by the same token, the benefits side directly reflects what the teams have accomplished in seeking to meet those objectives.

5.6.2 Net benefits

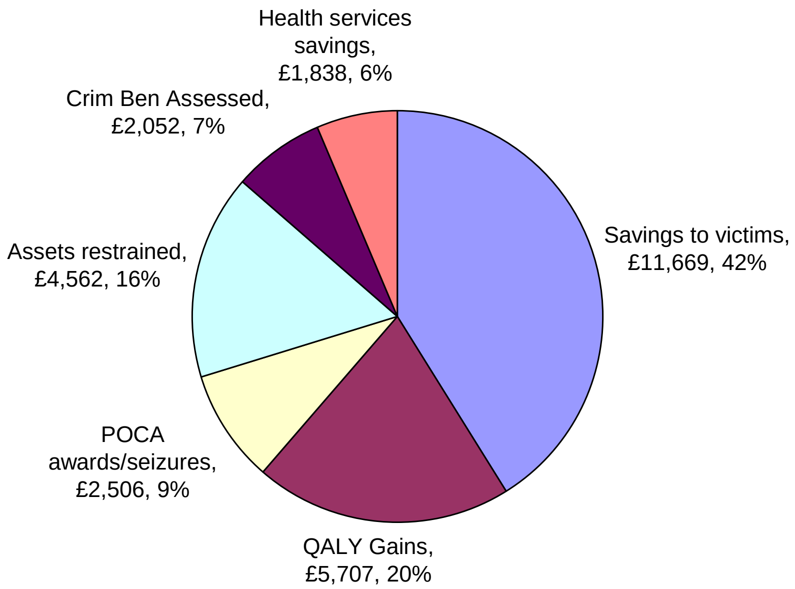
The total net benefits from the IML project are estimated to be some £28.3m, as follows (Chart 10):

- Savings to victims – £11.7m.
- QALY gains for victims – £5.7m.
- Amounts recovered via POCA – £9.1m.
- Health service savings – £1.8m.

Table 4.5 in the accompanying Supplementary Material presents the estimates separately for each Team.

Of the £28.3m net benefits some 62% accrue to the victims that the project set out primarily to relieve.

Chart 10: Components of benefit estimates



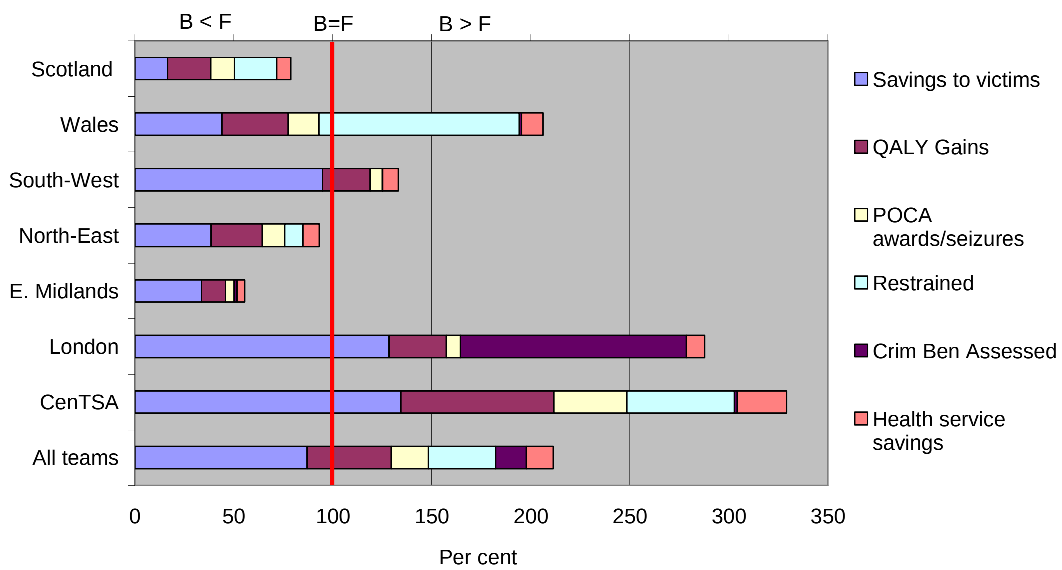
5.6.3 Net benefits to costs

When the IML team costs are compared with the estimated net benefits, the main finding is that, from inception in 2007 through to end-March 2010, the project yielded £2.11 in benefits per £1 of funding. This includes the first year of funding (FY 2007-08) when activity was primarily directed towards setting up the teams and there was little enforcement activity to report. In other words, the project has generated an excess of benefits over costs with effectively two years of operations.

The components of the net benefits to funding ratio are shown in Chart 11. Regarding the overall picture for all teams combined, the main points to note are as follows:

- At £0.87 per £1 of funds, savings to victims make the largest contribution to the net benefits to costs ratio.
- When the QALY gains are added to the savings estimates, the net benefits levered for victims of illegal money lending are in excess of the funding costs (£1.30 per £1 of funding).
- The total estimated actual POCA recovery amounts to £0.68 per £100 of project funding.
- On the POCA side, the expected recovery value depends mainly on elements that are furthest removed from actual recovery i.e. the combined value of assets restrained (£0.34 per £1 of funding) and criminal benefit assessed (£0.15).

Chart 11: Net attributable benefits as per cent of funding



Also shown in Chart 11 above are the variations by IML team in the ratio of net benefits to funding costs for the first three years of the project. A team is at the ‘breakeven’ level when net benefits exactly equal funding costs. A value in excess of 100 indicates that net benefits are in excess of funding costs. Similarly, a value below 100 indicates a shortfall between net benefits and funding costs.

Bearing in mind that the project is at an interim stage, the main point to note is the wide variation in the performances of the teams , ranging from £3.29 per £1 for CenTSA, followed by £2.88 for London, to £0.56 per £1 in the East Midlands. Furthermore, each of the three regions for which net benefits are estimated to exceed costs by a margin of £2:1 are also those in which POCA comprises a substantial proportion of total net benefits, particularly Wales.

The South West is the remaining region in which net benefits exceed costs at the interim stage. Over the period covered, the team closed six loan books but its performance hinged to a considerable degree on one large book, which the team estimated at £1.5m.

Scale effects in the efficiency of performance are most evident in the contrast between CenTSA and the smaller teams outside London. London would seem to be an exception insofar as its funding costs (£1.7m) are only 38% as large as CenTSA's (£4.6m). However, with its densely-populated, diverse and large-scale capitol city location, the London team has generated loan book recoveries that tend to have above-average values per victim (on a gross basis, close to £2,700 in savings per victim compared to the average for all teams of £1,400). That is, the scale effect emanates from the 'market' in which the London team is operating.

5.6.4 Uncertainties

It must be emphasised that the foregoing estimates are subject to uncertainty. In particular, due to the illegal nature of loan-sharking, there is no benchmark for assessing the accuracy of the estimates for victims' savings based on lenders' loan books.

Second, POCA values will be accurate at a particular stage in the process (e.g. the amount restrained or confiscated), but cases vary widely and the attrition rate cannot be predicted with certainty.

Third, the QALY and health service savings are subject to an unknown degree of measurement error.

Nonetheless, the approach to estimating net benefits has been deliberately conservative. This does not mean that the net benefit estimates shown above represent some lower bound for the initiative. Rather, a conservative approach has been adopted to manage the risk of over-stating the benefits from the IML project.

From an evaluation perspective, the major uncertainties centre on the sustainable effects of the teams' activities in helping victims and deterring illegal money lenders. For that reason, it is more useful to focus the assessment of uncertainties in the net benefit estimates on the assumptions adopted in adjusting from gross to net values.

The uncertainties associated with the net benefit estimates can be illustrated with the aid of a number of scenarios based on varying the additionality assumptions. Two sets of scenarios have been specified, to focus on risk factors that will tend to reduce the net benefit estimate and a converse set of scenarios to highlight possibilities for increased efficiency.

The scenarios designed to highlight risk factors are as follows:

- **Scenario A**: Lower POCA recovery. In this scenario, conversion from amounts awarded by the courts to actual recoveries is set at 38% rather than 90%[18]. This highlights an external risk, as the conversion from awards to recoveries depends on enforcement of POCA awards.
- **Scenario B**: More victims return to IML. In this scenario, the proportion of victims returning to IML following the closing of a loan book is doubled, from 13% to 26%. This risk is more internal to the IML initiative, as it will depend on the sustained effectiveness of enforcement actions and building awareness among victims of alternatives to IML.
- **Scenario C**: Combine scenarios A and B. This scenario is designed to test the robustness of the best estimate to risks posed to realising net benefits.

The scenarios designed to highlight possibilities for greater effectiveness and efficiency are as follows:

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[18] For the rationale underpinning this scenario, see the discussion of the Bullock et al attrition findings in Appendix D.

- **Scenario D**: No victims return to IML. This scenario illustrates the benefit of greater effectiveness in removing sources of supply of IML in deprived communities.
- **Scenario E**: No victims continue paying lender and/or return to IML. This is a stylised and, to that extent improbable scenario. It is designed to highlight the possible gains from enhanced effectiveness in meeting the objective to develop an understanding of victims' needs and what is required to develop a sustainable transition away from illegal lending[19].
- **Scenario F**: Widen the regional spread in POCA recoveries. As illustrated in Figure 3 above, there is considerable variation across the teams in expected POCA recoveries. In this scenario, the lowest POCA recovery rates (in the South West, the East Midlands and the North East) are raised to match the averages for all teams in respect of the POCA indicators.

The effects of the foregoing scenarios on the net benefit estimates are shown in Table 7. The effects on the ratio of net benefits to funding costs are shown in Table 8. The following points can be made.

First, the net benefit estimates are not unexpectedly sensitive to the assumptions adopted for adjusting from gross to net benefits, as the different specifications generate a range from +36% of the net benefit estimate (scenario D) to -29% (scenario C).

Second, none of the scenarios that reduce the net benefit estimates have the effect of lowering total net benefits to the point where the ratio of benefits to funding costs falls below 100%. Bearing in mind that the scenarios are not intended to indicate margins of error around the best estimate, the fact that the ratio of benefits to funding costs remains at around 150% even in the 'worst case' scenario C should provide reassurance in drawing value-for-money conclusions.

Third, the scenarios that increase the net benefit estimates would suggest that there are opportunities for increased effectiveness and efficiency in meeting the objectives of the IML initiative. The scenarios around changing the behaviour of victims and/or reducing the supply of IML are, by their nature, more difficult and longer term.

The scenario for widening the regional spread of POCA recoveries presents a possibility that is more within the control of the initiative. To that extent, the variations in estimated POCA recoveries would suggest the need for a broader and more coordinated approach to POCA recoveries, incorporating:

- Allocation and deployment of resources to pursue POCA recoveries.
- More systematic and strategic approach to the use of confiscation e.g. the sifting of cases to identify those where recoveries are most likely to be feasible.
- Ensuring a coordinated approach with other agencies to maximise recoveries.

[19] This scenario should not be viewed as an 'upper bound' on the net benefit estimates, since that would imply a benchmark for measuring the accuracy of the estimates. Rather, when compared with the best estimate, it highlights the effect of the assumptions for adjusting from gross to net benefits in relation to savings to victims, QALY gains and health service savings.

Table 7: Net benefit effects from alternative scenarios for additionality assumptions

Best estimate (£m)		**28.335**	
		Difference	
Scenario		*£m*	*%*
A	Lower POCA recovery	-4.815	-17.0
B	More victims return to IML	-3.527	-12.4
C	A & B combined	-8.342	-29.4
D	No victims return to IML	3.821	13.5
E	D + no victims continue paying lender	10.175	35.9
F	Widen regional spread in POCA	1.482	5.2

Source: Policis estimates.

Table 8: Benefit-to-Funding ratio effects from alternative scenarios for additionality assumptions

		B/F ratio	**Difference**
		%	*pps*
Best estimate (£m)		211	-
Scenario			
A	Lower POCA recovery	175	-36
B	More victims return to IML	185	-26
C	A & B combined	149	-62
D	No victims return to IML	240	+28
E	D + no victims continue paying lender	287	+76
F	Widen regional spread in POCA	222	+11

Source: Policis estimates.

6 Chapter 6: Implementation and lessons for future delivery

This chapter focuses on the implementation of the IML project. It examines the experience of the various teams, the challenges faced by the project the strengths and weaknesses of the delivery models and the lessons to optimise future delivery.

Implementations and lessons for future delivery – key points summary

- The national project was implemented on a de-centralised basis with each of the seven regional teams procuring their own solutions and negotiating their own relationships and agreements at local level.
- This piecemeal approach resulted in some replication of effort, with some teams both more successful in establishing critical relationships and able to move to operational effectiveness more quickly than others.
- The need to negotiate delegated authority to undertake covert observations with individual local authorities has been cumbersome and often slow, with national coverage still incomplete. This has been a significant constraint for some teams, particularly in the early stages.
- High level police sponsorship and the engagement of the local force appears a critical success factor, most especially in building intelligence. The teams with an embedded police officer have been more effective.
- Media communications appears to be more effective in building community awareness and willingness to provide intelligence than other marketing activity.
- The teams that have adopted the most structured approach to prioritising cases and to building the evidence case for prosecutions appear to have been the most successful.
- A lack of specialist expertise within both local legal services and the courts has resulted in long delays in bringing cases to court in some regions, with little evidence of effective knowledge transfer between regions.
- In the face of low take up of financial inclusion offers, the financial inclusion elements of the project have largely been reframed as victim and witness support, awareness building and community education. Witness support has been essential in bringing cases to court while work with awareness building has achieved a step change in awareness among partner agencies, appearing also to have some preventative effect in communities.
- The teams are already facing capacity constraints in the face of significant need. There are also some funding tensions with police and local authority partners arising from unbudgeted expenditure on large and complex cases.
- Despite some efforts on collaborative working, there appears to be little structured and effective knowledge sharing and some evidence of unhealthy competition between the teams.
- A hands off approach to performance management and direction from the centre has led to some sense of a lack of strategic direction and allowed weaker teams to struggle without sufficient support and guidance.

6.1 Delivery structure

The seven regional teams and their associated delivery models differ in a number of respects, with the range of models having both benefits and disadvantages. The differences between the teams are discussed in more detail in the Supplementary Material Appendix. However, the projects share a number of common features and have confronted similar issues and challenges. It is these common issues and challenges, and the success and relative failures in rising to them, rather than the differences between delivery models, which hold the most important lessons for optimising delivery going forward

The IML project was implemented on a decentralised basis. Seven regional teams were set up, with some common features but differences also in aspects of delivery models, with teams of differing sizes and covering very different geographical areas. All of the teams were hosted by Trading Standards and local authorities. Two of the teams had previously operated as pilot projects.

Each regional team included both an investigative arm, to meet the enforcement objective, and a financial inclusion / victim support element, for addressing the needs of victims and building partnerships with debt advice, providers of affordable credit and others.

Oversight has been by BIS, with a central governance board, including representatives of some of the host regional authorities and various stakeholders, including OFT and HMT. This oversight function aside, however, there is no central management function.

The remainder of this chapter describes in more detail the various challenges encountered by the teams and the lessons arising from them

6.2 Project set up

All of the various projects had recognised at bid stage that surveillance and intelligence expertise was going to be critical to success. All had therefore set out to recruit individuals with surveillance and intelligence skills, primarily from a police or army background, but also those from a background of investigating fraud and economic crime, including benefit fraud and financial investigation. The balance of skills and the emphasis varied between teams, with some teams being heavily weighted towards individuals with a police background and others having a broader mix. The larger project teams with bigger budgets, notably the CenTSA team based in Birmingham which covers a large geographical area, were able to include more specialist skills within their team while smaller teams set up with fewer and more generalist intelligence officers. The smaller teams therefore have relied to a greater extent on external expertise in specialist areas – such as financial investigation.

Recruitment for the financial inclusion and victim support posts was largely from individuals with a background in debt advice, financial inclusion or social services.

Strong sense of mission and commitment evident among all teams

All of the teams had come to the project with a strong sense of mission and commitment to what they saw as an innovative and important project. All had a clear sense of the project objectives and an appreciation of both the enforcement and victim support and financial inclusion elements of their remit. Each of the teams had clearly put in long hours and been outstandingly dedicated in pursuit of what most saw as a ground-breaking and important mission. Despite the very different backgrounds from which the enforcement and financial inclusion teams were drawn, and the occasional culture clash that arose as a result, there was a striking sense of common purpose and much evidence of integrated working between those working on the enforcement and financial inclusion elements of the project.

Solutions procured and relationships and agreements procured piecemeal

The new teams were set up completely from scratch, to a relatively tight time-table and with little in the way of templates, established procedures and practice to follow. The various teams all appear to have embraced this challenge, albeit that some teams were clearly able to move more quickly than others.

Many of those recruited to the new teams had clearly expected rather more in the way of established protocols and connections. For those coming from a police or military background, the relative lack of direction or reporting lines when setting up the project came as something of a cultural shock. In part this will reflect differences between the local authority culture and that of the police and military.

Several teams commented that they had anticipated rather more in the way of high level infrastructure and national / regional level agreements. They would have welcomed both more guidance and support from funders and a more structured exchange of knowledge and best practice with the existing teams. The perception that more direction from the centre would have been helpful in the early stages was common across the teams, however.

> *"Actually if we had had their (government) support, if they (specialist units in police force and other agencies) had been warned about that (the IML team requirement for support), it would have been a lot quicker and a lot cleaner."*

The teams appear to have had a mixed experience in terms of best practice learning from the pilot projects. In the early stages, the various new teams sought to learn from the experience of the pilot projects. This appears to have been primarily an ad hoc and informal process, with some teams appearing to benefit to a greater extent than others. For the most part however the various new teams have had to rely heavily on their own resources and initiative and to plan from the ground up.

The teams were all aware that the national illegal money lending project was a high profile project and so felt under some pressure to deliver as soon as possible. Given the perceived urgency with which they were tasked to produce results, some teams took the view that rather than adopt a relatively protracted set up period they would begin immediate investigations and work up the various intelligence protocols and processes as the team and caseload evolved, while learning the necessary skills on the job. Others rather concentrated on setting up the infrastructure before feeling able to move into operations.

Teams able to move towards operational effectiveness at differing speeds

Those teams taking the more aggressive approaches were also those, unsurprisingly perhaps, who generated the most rapid results. These were also those in which team members were drawn primarily from a police or military background. Their background was thus a more action-oriented, pragmatic "can-do" culture and better trained in risk management. In the teams where the orientation was towards a more Trading Standards culture, and in which the IML team was more closely integrated with the Scambusters and Trading Standards regional infrastructure, set up tended to be slower, with a greater focus on establishing infrastructure and process.

For those with a police background, the model tended to be established police protocols, for case and risk management, for example, with practice and process, including supporting forms, often imported wholesale from the police. Different teams established more or less formal or structured ways of managing and monitoring case loads and activities.

> *"Well, my thought was that what I was actually setting up here was a small police force…so we kind of set up everything along those lines, on that model if you like."*

6.2.1 Establishing the intelligence infrastructure

The first priority for all the teams was to establish an intelligence stream. Infrastructure, process and skills aside, the key intelligence issues for the new teams centred, on the one hand, around their relative lack of powers and, on the other, issues around their authority to undertake various kinds of covert observation.

At the outset of the national project, the Birmingham and Glasgow teams aside, many of the project teams were starting from a basis of little or no knowledge of their local illegal lending markets, no established intelligence infrastructure or information sharing protocols with other enforcement and intelligence agencies and comparatively little in the way of best practice experience and models around intelligence building on illegal money lending.

The challenges fell initially into three broad areas:

- Eliciting intelligence from the public through a marketing and media campaign to promote the presence of the teams and the "loan-shark hot-line"
- Establishing relationships with the police and seeking to generate intelligence from police resources
- Building internal investigative and intelligence capability, which required also obtaining permissions from local authorities to undertake covert investigations

6.2.1.1 The "Loan Shark Helpline" and community intelligence

The national loan shark help-line has been an important conduit for local intelligence but information tends to be incomplete

The teams share a common hotline telephone number – the "National Loan Shark Helpline", supported in each case by regional marketing activity, to elicit intelligence from the public on the activities of local loan sharks. This number was initially specific to each of the regional teams but has been replaced with a national hotline number, manned 24/7 and routed directly to the regional teams. The various teams expressed mixed views on this change, with some feeling that a local number was more impactful and accessible for victims. Some teams had developed their own branding and promotional material and were reluctant to replace it with the national branding, primarily on the grounds that the national loan shark logo lacked impact, a perception widely held within the teams more generally. All of the teams have invested considerable effort in promoting the national hotline number and building awareness of the IML team and the support that they can offer victims.

The importance of the help-line as a source of intelligence varies from team to team, with some teams heavily reliant on it and others more successful in generating additional or complementary intelligence from the police and other partners. The scale and quality of intelligence arising from the Loan Shark help-line has been variable, and against the background of the climate of fear, often anonymous, with witnesses and victims generally reluctant to come forward. Intelligence arising from the help-line typically requires extensive and painstaking triangulation from other sources, primarily police intelligence, and / or covert observation.

Marketing activity has included a wide range of media – television, radio and local press advertising, plus poster campaigns and distribution of a range of promotional vehicles (leaflets, cards, beer mats, piggy banks and mugs etc) in community and social centres, foyers and voluntary and community organisations, health centres and pubs. This has been further accompanied by door to door distribution of leaflets and cards bearing the national loan shark helpline number in deprived areas and neighbourhoods with high concentrations of ethnic communities felt likely to be the potential targets of illegal money lenders. Some teams have also promoted awareness through event-based marketing, largely in collaboration with partner agencies.

Media communications and local press coverage have been the most effective drivers of intelligence

Much effort has also focused on media relations and generating press coverage both for issues around illegal money lending and the presence of the illegal money lending team and the help-line number. The teams have indeed been successful in achieving wide-spread media coverage of the project and particularly around the arrests and successful prosecutions of various lenders. Media coverage has been a key driver of intelligence from the public.

All the teams report steadily growing numbers of calls to the hotline, with peaks following press coverage of lender arrests and convictions. It would appear however that at this stage in the evolution of the initiative, marketing activity has been more successful in stimulating awareness than in generating intelligence. The community survey undertaken to support the evaluation suggests that the marketing activity targeted at deprived estates has been successful in building awareness in these communities. Nonetheless, the teams report that the quality of intelligence arising has been disappointing and that, against the background of the climate of fear around illegal money lending, few people are prepared to come forward other than anonymously.

> *"We have run a number of campaigns…We've done shelters, buses television, radio, pubs, news-letters. We've covered pretty well the whole spectrum and spent loads of money and we've not been particularly successful."*

Many of the calls to the hot-line have been in relation to the legal home credit lenders, often from the deprived neighbourhoods in which the teams have suspected that illegal money lenders will be operating. However almost all the teams report that levels of intelligence from deprived estates about illegal money lenders has been disappointing, both in terms of incidence and the richness and detail of information. Callers typically have been prepared only to provide limited detail and to report anonymously.

The teams ascribe this primarily to a climate of fear and a culture of not "grassing" to the authorities, allied to a perception within some communities that money lenders are providing a much needed service. As was discussed in Chapter 3 covering victims, in fact the community and victims surveys suggests that a moral stance on grassing is relatively unimportant and that potential informants rather fear the consequences of engaging with the authorities.

If high profile advertising appears to have been relatively ineffective in eliciting calls, media coverage, especially television coverage, appears to have been more successful in generating calls to the hot-line. The most successful results appear to follow from a consistent focus on communications and media relations. A focus on media communications and press relations has been a key element in building public awareness and eliciting intelligence, with intelligence peaks following media coverage.

> *"One of the key things has been to keep the projects and the team in the public eye…because you die very quickly if you don't…you get massive publicity when you do a high profile arrest and that is one of the most important opportunities you have and you have to take full advantage of it."*

6.2.1.2 Building the intelligence relationship with the police

Engaging police has been the critical success factor but necessity to sell in concept at local level has met with mixed success

As Trading Standards officers, the investigating officers of the various teams have some enforcement agency powers and but these are limited relative to the police, as is back up and resources. Trading Standards officers have various rights of search and entry but no powers of arrest, for example. Developing an investigation requires access to the police national computer and to police intelligence, covert investigation and, ultimately, police powers and facilities, to arrest, hold and interview suspects and progress prosecutions. Against this background, and in the light of the experience of the pilots, it was clear from the outset that partnerships with other enforcement and intelligence agencies, particularly the police, were going to be absolutely key on a number of levels.

> *"It needs to be done from an intelligence-led approach…Realistically the first port of call is getting the intelligence sorted…and that means the Police"*

However, illegal money lending had been largely invisible to enforcement agencies prior to the establishment of the projects and was simply not on the radar of police or local authorities[20], with very little known about what was an almost entirely unreported and invisible crime.

> *"Very little (researcher has asked about awareness of IML within police prior to contact with IML team), I would say. It certainly wasn't on the police radar until very recently…it just wasn't a question that we would have asked whilst going about our duties."*

In addition, the various teams faced a number of barriers to establishing effective intelligence relationships with the police, ranging from the practical to cultural. Among the most critical was the cultural barrier within the police around dealing with Trading Standards and the widely held perception among the police at all levels that illegal money lending was not a crime, but essentially a "civil matter". Beyond this many police were inclined to take the view that Trading Standards remit was "car boot sales and counterfeit DVDs" as distinct from "real crime". As a result there was considerable cultural resistance both to taking Trading Standards seriously and to sharing intelligence with perceived "civilians".

> *"The police world can be very snobbish and my initial reaction (senior police intelligence officer) was 'It's Trading Standards. I don't do boot fairs on a Sunday morning. I thought 'I've got more important things to do'."*

This syndrome was evident at all levels and across a range of different police units but the barrier was greatest for those units dealing with more serious or specialist crime. This key barrier was made more difficult by a lack of sponsorship at senior

[20] DTI Evaluation of the illegal money lending pilot projects, Policis and PFRC, 2007.

level within the police and in the absence of any police commitment to the illegal money lending project at national level.

"The thing is that the government kind of committed the police to this project but omitted to actually tell anybody that mattered about it." (senior police officer)

"(The difficulty was) having them (police) understand that actually at a couple of levels Government really committed them to this project without them knowing…for example the decision that we must have a police officer in the team and that funding couldn't be used for anything else. Now to make that work you need a commitment by the police service."

"Just getting buy in has been the biggest hurdle…I don't think there's been any cross over at that national level…BIS did make a requirement that the police have to have an involvement but…having to find our own way into whatever specialist units we needed."

Those teams without buy in and sponsorship at senior level were clearly at a significant disadvantage compared to those teams where this support had been achieved, leading to reduced operational inefficiency across a series of fronts. This was a source of considerable frustration for managers.

"There's a lot more work to be done to engage with them (police). But I think it needs to be done on a much higher level than its being done at the moment."

The success of teams in generating effective intelligence and establishing intelligence partnerships rested to a large extent on the communication and relationship building skills, not to mention the tenacity, of the team leaders and their senior investigators. All of the teams ultimately reported developing good working and intelligence relationships with the police. Some teams were clearly more successful than others however and some relationships took perhaps an unduly long time to establish. Some teams clearly felt that they were better supported than others.

From the experience of the teams that were most successful in establishing active partnerships and a two way flow of intelligence, it was clear that communications and buy in at senior level has been the key to success. The most effective results have been obtained where senior police officers became enthusiastic supporters of the illegal money lending concept and acted as advocates of the project within the force. The key ingredient appears to have been recognition of a community of interest, and the relevance of illegal money lending to wider crime and police objectives. The verbatims following from senior police officers illustrate the thinking and degree of commitment where the teams were effective in engaging senior police officers.

"Anyway (name) gave me a presentation and I'm not joking, it took me about five minutes and I was hooked. So I've ended up a bit evangelical really…Can we have some of that? How do we get into this?"

"I just saw all these avenues open that I hadn't really thought through previously. You know if you were an organised crime group, if you had a treasury function, you'd be lending…why pay a commission to get it laundered when you can lend it and make a turn?"

"Part of our remit is reduction of harm. That's very key…And there is all the neighbourhood policing and all of that…But I got it. I got it straight away. It's a very good fit with all of that…interventions that might make a real difference."

High level advocacy and support from senior officers yielded a number of benefits, facilitating information sharing protocols, joint working and pro-active adoption of a collaborative approach to generating and utilising intelligence on illegal money lending, resulting in a more synergistic approach to tacking illegal money lending and other criminal activity.

> *"Previously it (intelligence and enforcement relationships with IML team) had been a bit of a grace and favour type thing. So when I got involved (senior police officer) I set up a further meeting with deputy directors…one step below the board to get that senior sponsorship, all round the table at the same time and bought in."*

> *"I (senior police officer) just approached someone here and we got that put on a proper formal footing in terms of a partnership agreement, an information sharing agreement…and I was able to make that happen pretty quickly."*

> *"Trust me there's a unit (in the Police) that deals with everything, so basically if a piece of info comes into the intelligence unit, you know there's a flagging system and it will go to that unit, the burglary unit or the robbery task force or the flying squad. At the moment we (senior police intelligence officer) get money lending and actually we don't have a box for that…so that is something I have been facilitating.*

A more strategic take on illegal lending and fit with wider neighbourhood policing issues where there is high level police sponsorship

Commitment from senior police officers resulted in a more strategic and co-ordinated approach to both intelligence and collaborative working and partnerships with key agencies more generally. Where a senior officer took a specific interest in the illegal money lending project, there was the potential for a significant step change in the quality and completeness of intelligence on money lending.

> *"I've sort of (senior police officer) you know, opened the door if you will to make things happen…Similarly because where I sit in strategic partnerships across other government departments, you know…I am putting together meetings around intelligence for a more strategic element."*

> *"I (senior police officer) don't have a full picture of the extent of money lending in our region and I am persuaded that that is a real intelligence gap as far as the police are concerned and we need to fill that gap. So I am drafting up an intelligence requirement that I will send out through our region and I will also send that out to all my equivalents… We have various sources open to us including what we call covert human intelligence sources and we can task those people to fill that gap."*

Strong relationships appeared to be most effectively cemented and promoted through a pragmatic approach of joint working on specific cases. This facilitated the development of both a degree of mutual respect and greater understanding of the practical issues and opportunities for each party arising from collaboration. Alternatively, where the team themselves pro-actively fed intelligence into the Police National Computer, which in turn established links to other police organisations, this also appears to have been successful in boosting the profile of IML within the police and bringing to the attention of different agencies within the force the potential connect between IML and wider criminal activity.

> *"We've (police) had a job together (with IML team) as proof of process, looking at setting up the processes nationally around sharing intelligence and looking to make national connections."*

The best outcomes in terms of intelligence appear to have been obtained where the team leadership focused consistently on building a relationship with police intelligence and then collaborated over time to create a pro-active approach to generating intelligence on illegal money lending from police resources.

> *"By raising awareness with them, they're (police) now collecting it (intelligence) now as well whereas previously they weren't or at least not officially…actually when you went into their intelligence boxes and you put in the word loan shark you'd get a lot of hits so people were recording 'he's a loan shark' but they weren't doing anything with it…Now we've worked with them and we've moulded the partnerships between us and the Police, Customs, Inland Revenue and other organisations, DWP, to such a fine extent that actually now they're picking out intel for us."*

For those of the teams where relationships had been established at lower level or where the team had been less successful in generating support for the illegal money lending concept, it appeared to take longer to secure information sharing agreements and police responsiveness to requests for information appeared to be slower. The police themselves appeared also less pro-active both in generating intelligence around illegal money lending and in activities to promote awareness of illegal money lending within the local force.

> *"You know I keep showing them (police) the (information sharing) documents and things like this and keep quoting from it and bits and pieces like that, but…They do realise now that there is a definite link again (between IML and crime more widely), you know, when we go to them but, you know…but it's been slow and to be honest it's not a priority. It doesn't fit with their KPIs."*

Conversely, where neither direct access to police intelligence nor high level police support was in place, the intelligence position could deteriorate rapidly. Where the intelligence position is not optimised both investigative and enforcement capacity will be undermined.

The teams with an embedded police officer have been more effective

The different teams adopted different approaches to the issue of whether or not to work with an embedded police officer as a member of the team. In one case this was a matter of funding and in another a decision by the team concerned on the way they opted to structure the team and their intelligence function. The speed with which the officer was secured and to some extent the calibre of the officer concerned was however also a function of the teams' relative success in raising the profile of the IML team with their local police and the degree of commitment to the project at senior level within the local force. In some cases the process of acquiring an embedded officer had been protracted. Some teams funded the costs of the embedded police officer from their own budget. In other cases the police officer was a seconded officer with the local police force bearing all associated costs. In yet other cases teams felt either that they were unable to fund an embedded police officer or took the view that they would prefer to work in partnership with the police rather than having an embedded officer.

The embedded police officer conferred a number of advantages for those teams that had an officer working within the team. From the perspective of intelligence, the key advantage lay with the ability to directly access the Police National Computer and search the intelligence database. This had a number of advantages. With direct access the teams were readily and quickly able to establish whether an individual of interest had previous form, the nature of the risks the household might represent – if there were markers for known violence for example – and whether the suspect was of interest to other enforcement agencies. All the teams reported good and collaborative working relationships with the police intelligence function. However where teams had to rely solely on partnership working with police intelligence officers, their access to information was less full or flexible and information and insight were slower to obtain. Most importantly those teams with embedded police officers were able to utilise the officer's powers in these cases, enabling these teams to be more responsive and flexible and, in some contexts, more effective and efficient.

> *"Oh. It has been huge. He has got access to the intelligence systems. He can get resources…It has been vital. If he left now we would be back to square one. Because we can't do things quickly, you know. Even now, we've only got limited access from our offices…he has opened up a massive network."*

By contrast those teams which opted not to have an embedded police officer appeared much more cut off from intelligence and less effective and responsive in utilising intelligence. For the most part teams progress cases through a process of corroboration of individual elements of intelligence, prioritising, progressing and risk assessing cases as a fuller picture of each case emerges. In the early stages of a case particularly this corroboration and risk assessment process is both difficult and more protracted without direct access to the Police National Computer.

6.2.1.3 Building the teams' internal intelligence and investigative capacity

A lack of training resource and back up have posed a series of challenges when undertaking covert investigations

The various teams also set out to build their own intelligence and investigative capacity. Indeed, given lack of community intelligence and the difficulties faced by some teams in developing effective intelligence relationships with the police, the teams have had to rely heavily on their own investigative and intelligence capacity and have had to rely to a greater extent than might have wished on covert activity.

The power to authorise the undertaking of covert intelligence gathering exercises lies with the local authorities, whose permission is required to "delegate" authority to the various Trading Standards teams. Hence, the necessary first step in the process was to obtain "delegated authority" to undertake such investigations from local authorities.

This authority has had to be sought and obtained separately for each individual authority in the various teams' catchment area. This in itself has been a time and resource intensive task, particularly for those teams which covered a large number of authorities (such as the London team responsible for addressing illegal money lending across 32 London boroughs) or where teams covered a large and disparate area (Wales or the South West, for example). Authority has been obtained only slowly and in a piecemeal fashion, with efforts to co-ordinate the actions of various authorities within a region on this point having met with mixed success.

Obtaining delegated authority to undertake covert observation on a piecemeal basis has been a cumbersome process

A significant minority of local authorities have been unwilling to relinquish control or remain determined to pursue a specific local policy on covert observation and intelligence, for whatever reasons. As a result delegation of authority coverage for the IML teams remains far from complete. This has resulted in somewhat patchy and inconsistent coverage in terms of powers across a catchment area. For those teams covering a large geographic area, inconsistent coverage could pose problems for operations which crossed the borders of different local authorities. At various points, some teams have found themselves unable to work at all in large swathes of the area for which they were responsible. While delegated authority coverage has improved even over the course of the evaluation, at various times this issue has undermined the teams' effectiveness and their intelligence gathering capacity.

> *"Trading Standards cannot go across borders where there's no authorisation [in that circumstance] you can't do cross–border work…and I have tried to gee them up about some co-ordinated action on this but it's frustrating. And there's no straight answer and it's one of those issues that has been around since we started."*

The new teams had to start from scratch in terms of equipment, whether vehicles or specialist communications or surveillance equipment. Procurement was again achieved by each team individually, each separately specifying their preferred configuration of equipment on the basis of their own research, the extent of funding available and their intelligence and evidence strategy.

Given the reluctance of victims and witnesses to come forward, the teams have had to place great emphasis on alternative forms of intelligence and evidence. They have had to rely to a large extent on evidence generated both from covert observation and from analysis of collateral evidence seized following execution of a warrant (lenders' loan books, mobile phones, bank records etc). The teams employ covert methods to gather intelligence and corroborate information gathered from a variety of sources – following and photographing lenders as they go about their business, for example, or listening in on phone conversations between lender and victim. Investigation of cases has also had to rely on painstaking financial investigation of the lender's finances, assets, cash-flows and sources of income. One team has chosen to concentrate almost exclusively on such evidence as an alternative to victim-based evidence.

> *"If you don't have witnesses, or if they are – well a lot of our witnesses are not very impressive, shall we say – it (intelligence obtained from covert or financial investigations) is very impactful on a jury…you know you can see him going to all these addresses, collecting, counting and putting it in his wallet. Here's him again going into a bank and cashing it in. I've got my A5s glossies with production orders on his bank account and on the day we took pictures of him paying this money into his account, you can see his bank account gets £4,000 paid in."*

At the outset of the project, many of the investigative team, while highly experienced and with a variety of skills, did not always have the necessary accreditation or training in essential or specialist skills, such as covert observation or financial investigation. In the early stages, much training was fairly informal and impromptu and much was by necessity self-taught. This appeared in part however to be a matter of budgetary constraints as much as time pressures. The teams benefitted from this approach in that they were able to handle cases from the outset. However the lack of process and protocol and formal training also carried a series of risks, for evidential purposes as well as the safety and security of both victims and investigators (see later discussion in the section on preparation and prosecution of cases).

In the early stages where the teams had little access to police back up or direct access to police intelligence and the Police National Computer, these constraints clearly posed a whole series of practical challenges for accessing intelligence, gathering evidence and ensuring the safety of victims and investigating officers. In the first instance they also made officers more cautious and risk averse than they might otherwise have been.

> *"Without access to criminal intelligence…we would not know the kind of person you are dealing with that we were doing surveillance on, do they have warnings for firearms or assault on police?…you don't want to put anyone at risk…so there*

are perhaps some things that we didn't do or which took a lot more time and setting up than was probably strictly necessary."

The various teams have clearly undertaken a large number of successful covert investigations. That said, investigative teams undertaking such operations have not had the back up enjoyed by the police in similar situations. In particular communications facilities have not been as complete or effective as would have been the case in the police in that the teams were reliant on limited technology. A number of teams reported that this potentially put officers at risk or constrained their ability to progress investigations effectively.

The challenges of Trading Standards officers undertaking covert operations have been further exacerbated by difficulties arising in relation to delegated authority and the teams' powers in relation to carrying out intrusive surveillance. In a number of cases, teams have not obtained permissions or have been instructed to stop undertaking activities such as tracking vehicles or installing cameras on targets' premises or in the communal areas of blocks of flats.

"We have further restrictions placed on us because, you know, we can't do intrusive surveillance. We are a proactive investigation unit…we're tackling serious criminals out there and it's a bit like having one hand tied behind our back…it would be easier to put a tracking device on his vehicle and follow him around and we can't get that information."

Box 1. Covert intelligence gathering and authorisation

Intrusive surveillance is covert surveillance carried out by an individual or a surveillance device in relation to anything taking place on residential premises or in any private vehicle. It also covers use of any device outside the premises or vehicle where it can give information of the same quality and detail as if the device were in the premises or vehicle. It does not cover location devices for vehicles (trackers).

Directed surveillance is covert, but not intrusive, surveillance which is likely to reveal private information about a person (even though that person may not be specifically identified in relation to the operation) and that is not an immediate response to circumstances or events.

Intrusive surveillance may be authorised only by the Home Secretary or one of a limited number of others, such as the Chief Constable of a police force. The grounds are narrower than for directed surveillance: first, it must be necessary for national security, prevention or detection of serious crime, or the economic well-being of the UK; secondly, its use must be proportionate to the end to be achieved, and the person considering authorisation must consider whether the information could reasonably be obtained using other means.

Directed surveillance requires only internal authorisation by a designated person who believes it is proportionate to what is sought to be achieved.

Source: Liberty. See http://www.yourrights.org.uk/yourrights/privacy/surveillance-and-undercover-human-intelligence-sources/index.html

A further constraint in terms of intelligence and one which has been instrumental in the teams' heavy reliance on covert observation, with all the attendant cost, time and resource implications, has been an inability to deploy informants. The teams have had neither the powers nor the infrastructure to support such covert human intelligence operations.

> *"They (informants) are worth their weight in gold because they can save you months of work, hundreds of hours of surveillance. And, for very good reasons we cannot deal with them. Only police officers can deal with them…it's a policy constraint. But if we were a police unit we would have access to a specialist unit. No – while we could still in theory refer them to those units, the truth is the chain of communication is not great."*

Capacity and resource issues are increasingly a constraint on the teams' ability to pursue covert investigations

The teams have undoubtedly had some significant successes in identifying illegal lenders and obtaining the intelligence and evidence to support their removal and prosecution using covert techniques and observation. However such activity is resource and time intensive for teams that are already over-stretched and reaching capacity. Covert operations pose a range of technical and logistical difficulties and are often highly challenging to achieve, particularly in small and tight communities where strangers are rare and conspicuous e.g. in the tower blocks which are still a feature of many social housing estates in Scotland. There are also risks for the teams who do not have the back up or communications available to the police.

Some teams have rather chosen therefore to avoid covert operations as far as possible, going rather to execute warrants as early as a case can be justified and then relying on generating sufficient evidence to support a case from the lenders records and other collateral found on the premises. For the present, lenders are not yet either surveillance or evidence aware, in the way that drug dealers are for example. Once they become so as the numbers of cases build, such an approach may yield diminishing returns. There is also the risk that if no evidence in the form of loan books, etc., is found on the premises and the lender is not willing to confess or maintains a no comment stance, the case is effectively damaged. Moreover, unless a loan book or other evidence of a victim's identity can be found (mobile phone numbers, passports, cash cards, title deeds and other securities) it is not easy to make contact with victims in order to afford them relief – through advising them for example that the lender has been removed and that they no longer have to pay the lender and should make no further payments

The longest established teams report some evidence that one effect of the activity of the team has been to make lenders more conscious of the risks attached to record keeping and therefore more careful about covering their tracks in terms of evidence that could potentially be used against them.

> *"They no longer have records and that is what we definitely have found. Because now they know how important evidentially records are."*

6.2.2 Case management and process

Processes have evolved on an ad hoc basis with those teams that have developed the most structured approach largely more effective

Having been thrown in at the deep end, processes and practice for the new teams evolved largely as operations developed and in response to the situations in which the various teams found themselves. This in part reflects also the nature of the various teams' operations as being necessarily reactive – each team responding to intelligence as it arose and the nature of the cases thrown up by calls to the Loan Shark hot-line.

As the teams' case-loads evolved, they developed processes for regular case oversight through team meetings, held more or less formally, at intervals varying from daily and weekly to fortnightly and monthly and involving different configurations of team members, with a greater or lesser degree of integration in the working practices of the victim support and financial inclusion and investigative teams.

Processes were developed within all the teams to support the management of case loads and the progression of individual cases. Practice varied considerably between teams in the extent to which the prioritisation of cases was formally structured and in the range of considerations used to drive prioritisation. However informal or informal the assessment, the key drivers were the potential degree of harm to the victim and the potential for success in prosecuting cases.

The most successful teams appeared to be those adopting the most structured processes, in part because these teams were also the most effective in generating intelligence and so were most likely to face capacity issues and a need to resolve competing pressures on their time and resource. Although all the teams operated on an essentially reactive basis (i.e. they responded to intelligence as it arose) the more structured teams were also those which took a more pro-active approach to flushing out intelligence and a more considered view of the potential scale of lenders' operations and of the harm to the economy and social environment of the community, prioritising those cases which were likely to have greatest impact in terms of the numbers of victims relieved and the degree of detriment lenders' operations were generating within communities. Other teams either did not have the same quality of intelligence or case pipeline, or were receiving intelligence primarily about less serious cases or simply took a pragmatic and more informal judgement on a case by case basis.

6.2.3 Working with the Police and other enforcement agencies on operations and prosecutions

Heavy dependence on the police for operational support which can be resource and cost intensive

The arrest of lenders and associates and the execution of warrants are undertaken in collaboration with local police forces. Some such exercises can be resource intensive, requiring in some cases the deployment of ten, twenty or even thirty police officers in the very largest cases where a number of different premises and a large number of defendants may be involved. Police resources – and powers – are required not only for the removal and arrest of the lender but also for the provision of specialist facilities such as custody suites and interviewing facilities. In Scotland, police officers indeed are required to undertake all interviews of suspects. The teams have also collaborated in resourcing such large cases, with investigators from different regional teams "parachuting in" to support their colleagues on a large operation.

As was discussed in the earlier chapter on loan sharks and their lending models, many lenders are also involved in other types of criminal activity such as fraud, importing counterfeit goods, running shoplifting gangs, sex work or drug dealing. From the perspective of the police therefore, there is some community of interest in working with the illegal money lending teams to pursue individuals undertaking a range of criminal activity, with prosecution for illegal money lending sometimes offering a route to removing criminals from the community where other offences may be difficult to prove. There does not appear to have been any serious "turf issues" in working with the police on cases where multiple crimes have been committed.

Indeed police forces appear to have taken the view that illegal money lending provides an additional route to prosecution of criminals involved in a variety of related criminal activities. In some cases the IML teams have led such investigation with the other enforcement agency providing back up and resource while in others cases have been handed over to the Police. Some team members commented however that the Police tended to be most keen on those cases where other offences had been difficult to prove.

> *"The illegal money lending teams can add real value to an investigation – if we're aware that Criminal A is a major heroin trafficker but we can't get anywhere near him because it's all franchised out and we can't draw a direct evidential chain but somewhere along the line we can evidence illegal lending, we now have that power as an additional tool in the tool box."*

Alternatively, criminality may be involved in the enforcement of collections or exploitation of victims – violence or sexual assault but also, in extreme cases, kidnap and threats to life. In these cases the teams have found themselves prosecuting illegal money lenders for a variety of serious offences in addition to illegal money lending, in that the modus operandi of the lender and his or her ability to enforce collections can be demonstrated to rest on activities – such as rape or blackmail – that are themselves criminal.

> *"Where there are issues around drug dealing and rape because these are traditionally police offences and whether or not we should or should not be giving that to the police because you can't really split up these offences, you know, if it shows method."*

At the most criminal end of the scale the teams have both collaborated with other agencies and passed on cases to the appropriate police agencies. In some such cases the level of criminality is such that it is beyond the capacity of the teams to deal with. Examples might include, for example, cases involving serious organised crime, kidnap and threats to life or even cross-over with terrorism or human trafficking. In these cases, the teams have contacted the relevant agency – the kidnap unit or SOCA for example – to progress the case, either in collaboration with the team or on a stand alone basis. Over time, as was discussed in the earlier section on intelligence and the Police, these relationships have developed and acquired a strategic dimension, with the teams collaborating on a number of cases involving both illegal money lending and other types of criminal activity. Interviews with specialist units suggest however that there is some risk that such cases may be handed over later than might be optimal either because the teams lack experience or because the degree of threat or criminality is not immediately apparent.

> *"They come across an event, where they've got a hot situation developing and it's clearly out of their league, and they're not able to manage it, and to be quite honest, there's no reason why they should, because what they're dealing with are criminal issues, should be handed onto the police. I kind of got the impression sometimes they fell into the trap where they would try to resolve things, or hold onto things a little bit longer than they should do."*

Some of the teams also work closely with other law enforcement agencies, particularly HMRC and DWP. Lenders will tend not to have declared earnings from illegal money lending and so will be of interest to HMRC from the perspective of unpaid taxes. A significant proportion of lenders operating in deprived estates, themselves sometimes far from affluent and with few other options for gainful employment, are frequently also involved in benefit fraud, typically claiming benefits while also earning from their lending operations. There has also been some cross over between major criminal fraud cases and the laundering of part of the proceeds through illegal money lending operations.

All the teams report that the police have been highly supportive and collaborative in providing this resource and working with the teams on the arrest of lenders, with only minor issues arising around timing and the availability of resource.

Some tensions now arising with partner agencies over the funding of larger cases

Nonetheless, and particularly as the teams' pipeline of cases has grown and the scale of cases encountered has got larger, issues have arisen around funding. There would appear to be insufficient clarity around which entity – the police or the illegal money lending teams – is responsible for funding such operations or, if the teams should bear part of the costs, around how the costs should be split.

> *"I can give you a current example. We've got a large job coming up and we need a dedicated custody suite for a large number of defendants…now there's money attached to that so we have the conversation about what was I prepared to pay for and what would the (named police force) be prepared to pay for…and it's kind of 'It's your job, you find the funds for it…so we're meant to be in a partnership, but my question is 'Do the partners know we're a partner?"*

6.2.4 Financial investigation and Proceeds of Crime

A range of approaches to working with the police on financial investigations and POCA recovery

Financial investigation has been playing an increasingly important role within the intelligence and evidence gathering activities of the teams. Financial investigation and the evidence arising are important not only in corroborating intelligence and providing evidence that an illegal money lending business is being run, but also in supporting estimates of the scale of the operation, the detriment to the victim and community, and, critically, the scale to which the lender has benefitted from his criminal activity. This latter element is key to the efforts to seize the lenders' assets through the proceeds of crime procedures and is above all the sanction that the lenders fear and are keen to avoid. The teams – or the Police collaborating with the team – obtain the necessary Production Orders to obtain access to the lender's bank account(s) and painstakingly construct a portfolio of evidence which links payments in and out to lending activity and estimates of criminal gains.

Different teams have taken differing approaches to the financial investigation component of their intelligence and evidence gathering. Different approaches are determined both by the resource and skills available to each team but also by the teams' stance on POCA funds. Where the team is more focused on generating POCA assets as a key performance metric and are keen both to maximise the POCA take and to secure as large as possible a share of such assets they will tend to focus on larger cases and higher value loans, often with a greater interface with wider criminality. They will also incline towards an in-house financial investigation function in order not to dilute their share of POCA monies by sharing monies with third parties.

Other teams have permanent arrangements with their local force whereby they undertake part of the background analysis and evidence, handing the operation over to the police to progress further and effect confiscation while others outsource all aspects of the financial investigation. Other teams have some financial investigation capability and tend to deal with POCA assets on a case by case basis, making arrangements to share POCA cash in varying proportions with the police reflecting the nature of each case.

> *"So there's always a degree of horse trading goes on. We've provided a financial investigation capability and part of that process will also include a sharing of the asset recovery, so for argument's sake, in that case the deal was a 50:50 split so if we confiscate £100,000 in this particular instance, we'll get fifty grand and the IML team will get fifty as well (senior police officer)."*

All of these arrangements appear to be working effectively, with different teams having made different trade-offs in terms of the benefit of POCA funds and the resource and cost of servicing specialist investigations. It would appear also that the prospect of gaining POCA funds serves to motivate police forces in collaborating with the teams more widely. For some teams, and particularly those where the relationship with the Police is not as close, Police appropriation of POCA funds can be a source of tension.

Where investigations have been undertaken in-house this has facilitated some POCA monies being re-directed to the community

However, those teams which have gained a greater share of POCA receipts appear better placed to utilise those funds for the benefit of the project and indeed for the benefit of victims and communities. One team, has, for example, used POCA funds to support both awareness-raising and education within communities – via community based "fun and finance days" and directly to support financial inclusion, by providing cash incentives to those who open savings accounts with credit unions, for example.

6.2.5 Preparing evidence and building the case for prosecution

The teams with the most closely specified and structured processes for preparation of cases appear to have been the most efficient

There are differences between the teams in the extent to which the process and practice for putting together cases is closely specified and structured, with those teams with a formal specification and structure appearing more efficient and better able to structure cases effectively. Those teams coming from a police background have benefitted both from their police training and a long history of preparing complex cases and have often simply imported police processes wholesale.

As with other aspects of the set up and implementation of the project, some teams have had to learn and develop processes around case building and the preparation of evidence for prosecution on the job. For some of the new teams the process has taken some time to refine.

The teams with the most closely specified and structured processes for preparation of cases appear to have been the most efficient

The teams also report that in a number of illegal money lending cases where the prosecution evidence was sufficiently strong as to be difficult to challenge, there have rather been a number of process challenges in the courts around the way in which evidence has been collected and the teams' rights of covert evidence gathering under delegation of local authority powers. The legal position has required clarification by Counsel.

These concerns around evidence and process have been the spur for some of the teams to clarify their practice, policies and risk assessment around evidence gathering. It has also been the trigger for some teams in moving from informal and on the job training to full accreditation in terms of covert skills. There is however considerable difference between the teams in the degree to which they have formalised and structured processes and training and qualifications. Those teams which have chosen the formal approach would seem less exposed to evidential risk and defence challenge around intelligence gathering.

Against this background illegal money lending is increasingly not being prosecuted in isolation but in combination with other crimes which relate more to the lenders' collection methods than to the lending offence.

> *"There's a lot of options. The violence and threats can be played a number of different ways. There's not just assault but there's also kidnap, there's threats to kill."*

There is a risk however that in the effort to ensure that both the framing of the prosecution and subsequent sentencing reflects the impact of the crime, prosecutors will be overly willing to attach more serious crimes to illegal money lending in cases where it might not always be appropriate to do so.

> *"They (lenders) say 'We'll plead to this and not that' and it just becomes very untidy. Whereas if the scale of the money lending were reflected in the legislation, that would be terribly helpful. If we could say we're going to charge you with aggravated loan-sharking as opposed to not having a licence."*

6.2.6 Legal services and the courts

Long delays in bringing cases to court have been a source of considerable frustration – arising largely from a lack of specialist legal expertise

If intelligence is critical to identifying and removing lenders from the community, effective prosecution is key to deterrence and confidence within communities plagued by IML. A number of teams have however experienced long delays in bringing cases to court.

Some of the teams ascribe the delays to the local authority and Trading Standards legal function which they see as lacking the skills and experience to tackle complex cases with a relatively high degree of criminality. The Birmingham team, on the other hand, appears to have built up substantial legal expertise and experience in this field. It appears, however, that the benefits of this experience and the associated learnings have not necessarily been effectively transferred to other regions. Where cases cross local authority boundaries some teams have also complained that turf issues arise and that there is unnecessary duplication of effort, resource and costs, again contributing to delays in prosecuting cases effectively. There are also issues with a corresponding lack of specialist private sector legal expertise.

> *"The trouble is we've got a Trading Standards department here prosecuting for drugs related offences, for sexual offences and for firearms so it's pushing the boundaries…they're not a law enforcement agency so they're not protected in the same way. It's new to the Counsel. It's new to the solicitors. It's all big new territory."*

Partly because prosecution of illegal money lending cases is an entirely new area, the teams have also suffered from a lack of established case precedent or an established body of legal expertise, whether within the prosecutor body or in private practice. A number of teams reported that they were beginning to build up a core roster of legal practitioners with experience of the area and thus a body of expertise, with this benefitting the effective prosecution of cases. Those teams which maintained control of the prosecution process centrally (as distinct from it being run by the individual local authorities where cases arose) appeared to be experiencing fewer delays and were better able to drive forward an efficient prosecution pipeline.

> *"What we haven't got is the centralised legal team who have the experience and expertise to be able to deal with these cases. Because it's all quite new to them, which is understandable, totally understandable. They (legal function) have just sat on them (cases) and sat on them and sat on them because they don't know what to do."*

> *"What we need is a core of barristers nationally who become familiar with this type of work. As with other types of police work, you will develop a core of barristers that you would want to represent you on this case or that case. That hasn't happened yet but it will."*

> *"What we need is a dedicated team of solicitors ready to go and prosecute these individuals…with the greatest respect to them most of the authorities don't know what they're talking about really…they know planning but this is totally different."*

The second major issue in bringing cases forward for prosecution appears to be delays with the court system. The teams attribute delays to a lack of understanding of illegal money lending within the system – and specifically of the seriousness and complexity of illegal money lending cases. This has been a source of considerable frustration for the teams and has made it more difficult to reassure victims and witnesses that the case is being progressed and that the lender will be brought to justice.

Delays impact victims and viability of cases resting on witness support and work against deterrence and confidence within community

This has implications for deterrence and confidence, but also for impact on victims, who may continue to pay the lender or his associates and to live in fear, but also for the viability of the case and the costs associated with it. Witnesses tend to require a high degree of resource-intensive support and become less willing to give evidence the longer the interval between arrest and prosecution. This problem is particularly acute in Scotland where cases cannot be prosecuted without at least two witnesses.

The other major frustration for some teams has been the sentences handed down to some money lenders in certain cases. Here the teams feel that the sentences handed down to the lenders are relatively light insofar as they do not adequately reflect the damage done either to victims or to the community. There is a perception that the courts continue to regard illegal money lending as a comparatively trivial offence – as unlicensed lending – and that it is not taken seriously as a crime. Sentences again are seen to reflect a lack of understanding of IML within the court system more generally.

> *"What frustrates me is when they give them suspended sentences…it's just ridiculous…It doesn't send out the right message to the community. You know. We will have to go back there and we are still working in that community."*

What are perceived as inappropriately light sentences are seen to undermine the effort to reassure victims that they are safe in coming forward and as compromising the message to lenders that loan sharking will not be tolerated and will be viewed seriously by the authorities.

6.2.7 Working with victims and witnesses

6.2.7.1 Financial inclusion

The teams' intended strategies on financial inclusion have largely been confounded by a lack of take up among victims

At the outset of the national project the teams envisaged that the role of the Financial Inclusion Officers would rest on a balance between education and awareness-building with partner agencies in the debt advice and social lending sectors and direct work with victims to effect a transition to financial sustainability and alternative forms of legal credit. This was anticipated as sitting alongside witness support, with work with victims expected to be the largest part of the role, albeit that different teams adopted different models – see Supplementary Material Appendix for detail.

In the event, the teams' original expectations have been largely confounded by a lack of take-up from clients. All the teams have encountered significant difficulties in engaging victims who remain deeply reluctant to get involved with the authorities. Those victims that they do engage often feel no need for debt advice and are largely either uninterested in, or are highly unsuitable candidates for, credit union borrowing. It has also become clear that many victims have complex, multiple problems, which often require intensive support across many fronts, so that relatively few victims can in any case be supported within the available resource.

> *"We've dealt with a large number of victims. And they don't want help. Simple as that…they don't want to be signposted or flagged or whatever. It's very difficult. The banks are reluctant. You can't force a person to take a bank account…there are many occasions when you will signpost and they will just walk away from you."*

Some team members have concluded that the financial inclusion goals are simply too ambitious for the largely deprived client group they are dealing with. The move into financial inclusion, especially into banking and away from cash management is seen as a step many clients are unlikely to make. There is also a strong degree of cynicism as to whether more than a small proportion of clients can be moved into sustainable use of affordable credit.

> *"I don't know that there is really the scope to financially include people in the way that the original aim was. You take them to the bank and then all of their income and their financial activity is supposedly going to be directed into the mainstream. That's never going to happen…there's a lower level we could maybe achieve where some people are getting credit through credit unions and other organisations like that."*

Financial inclusion objectives have in practice largely been re-framed as victim and witness support and community education

The teams have responded to these dilemmas in different ways. In the face of difficulties in both contacting and engaging victims, a number of the teams have largely moved away from direct work with clients on financial inclusions, except in the context of support for a small number of victims with whom they work intensively, primarily witnesses. Some teams have focused on witnesses while others have worked with a broader mix of victims and witnesses. While the teams have made great efforts to contact victims and to promote debt advice and credit unions, relatively few victims have wanted support. Most of the teams have effectively reframed the financial inclusion part of the project as "awareness building", concentrating primarily on financial inclusion and community and voluntary agencies, while providing sign-posting to services for those relatively few victims that can be contacted and who are willing to take up offers of support. Some teams have focused almost exclusively on witnesses, providing intensive support to those victims that are willing to go to court and give evidence. As was discussed in the previous chapter covering the experience of victims and witnesses, some of these efforts have been truly transformational but have benefitted relatively few individuals.

The teams have invested considerable effort in financial education and awareness-raising work with communities and schools, in some cases in collaboration with other partner agencies. A number of innovative community events have been held such as “Fun and Finance” days and community drama events, in which the highly recognisable inflatable shark has been a prominent feature. Family entertainment has been mixed with promotion of debt advice and credit unions, with in some cases, opportunities provided to open bank or credit union accounts and in some cases match funding being available for those opening credit union savings accounts.

> *“Yes, I guess there has been an impact because people are a lot more aware of it (illegal lending) now whereas they weren’t before. They were a lot more aware that it’s wrong and they didn’t have to pay these rates etc. So yes, the awareness of illegal money lending I find, is much greater now in this area, than it ever has been before.” (Debt adviser talking about the impact of the teams educational activities)*

The teams have also invested considerable effort in building awareness among third sector organisations, primarily debt advice, credit unions and CDFIs and social housing landlords. In some cases this awareness raising has taken the form of visits and presentations made to individual organisations. In others, particularly for small and more rural organisations, it has rested on phone calls and mailings. The research with partner agencies suggest that this has had mixed results.

There has, however, undoubtedly been a step change in awareness of illegal money lending and the potential problems for victims associated with it in larger credit unions and debt advice agencies. Interviews with large credit union and debt advice agencies in major conurbations where high profile IML cases had been prosecuted revealed a high degree of awareness of IML and of the team and support for what they were doing, with a number of meetings and joint training exercises having been undertaken.

> *“I think it has changed undoubtedly. It wasn’t something we would really have been conscious of before but now we do think about whether there might be a loan shark in the background. We were used to thinking about doorstep lenders of course but now we are more likely to probe on unexplained expenditure or a lot of debt there’s no obvious reason for, you know.”*

Partner agencies have been supportive but thin stream of referrals has been insufficient to support formal relationships and processes

Partner agencies have been broadly supportive of the work of the team and most see it as an important component of overall financial inclusion strategy. However few credit unions and debt advice agencies appear to have knowingly encountered victims. Some credit unions and debt advice agencies, typically the largest and most professional, have trained staff in awareness of indicators that potential new clients may be a victim of a loan shark and have developed procedures for referrals to the team and for advising clients where they can get help. In some cases this has been in response to the IML teams’ “Just Ask” initiative, pioneered in London and adopted by a number of other teams. Where they had been able to identify victims, they had done what they could to encourage individuals to make contact with the team, with mixed success, however.

For most partner agencies, however, the IML team is seen as somewhere that they can refer victims to should they encounter any rather than a potential source of client referrals to their own operations.

Conversely, for smaller and more volunteer-run organisations, after the initial contact with the teams, illegal lending appears to have fallen rapidly off the radar. In a number of areas where credit unions were contacted by the researchers – having previously been contacted by the teams – local officers had little awareness of IML, far less local knowledge and were not aware of any IML victims within their membership. There was also little recall of the IML team. This includes some credit unions in areas where the teams have been active and in which the community surveys confirm that there is widespread illegal lending activity in local social housing estates.

Overall, however, there have been very few referrals of victims to the team by either debt advice of credit unions. Similarly, there have only been a small number of referrals to partner agencies from the teams, with the majority of referrals being to debt advice rather than credit unions.

There appears to have been rather more referrals from those more closely involved with victims and in a better position to observe the impact on victims' finances, notably social workers and some social landlords.

At the outset of the national project a number of partner agencies including some of the largest and highest profile credit unions were willing to enter formal partnerships with the project and set up processes for referrals. However, given that the flow of referrals has not developed on the scale originally envisaged, formal relationships and referral processes have largely not been established.

Where victims have been successfully referred to debt advice, the teams report a number of issues arising in relation to victims and witnesses. Firstly, victims can be highly unreliable and may require a high degree of support in the transition to debt advice and the stabilisation of their finances, which is often time consuming and highly resource intensive.

Secondly, it is in the nature of the experience of using an illegal lender that victims will tend to be at an advanced stage of financial difficulty with problems tending to be very pressing. Debt Advice agencies are often however extremely busy. Some teams have been in a position to fast track their clients while others have not. Where they have the capability, the teams have therefore often had to undertake urgent debt advice and debt management activity themselves to avoid repossessions, evictions, bankruptcy or similar. Others have seen clients drift away or their financial position deteriorate significantly to the point where it can become very much more difficult to recover.

Increasingly however, the teams are facing capacity issues as the caseload and pipeline builds. They are reaching the point where they are no longer able to offer the degree of support that some clients require to stabilise their finances. Nor do they always have the time to undertake urgent debt management activity.

> *"When we started we didn't have any victims, now we've got thirty or forty. In another year's time it could be double. I think there are more knowledgeable and better agencies that can offer support than ourselves."*

The issues with credit unions have been different. One of the major issues has been coverage, with many areas, such as large parts of London, or rural areas, not having an appropriate credit union to which clients could be referred. Other smaller credit unions, often run by volunteers, are inconveniently located or have limited opening hours. Many credit unions are already close to capacity and are unable to see borrowers quickly in any case.

> *"It's just stupid to say to someone, you've got to get on a bus to there (to urban credit union from rural area). It's just not going to happen. You've get to be realistic about people's lives because that's what we're battling against. The loan sharks go to their door and make it easy to get the loan and that's maybe how the financial inclusion agencies need to operate."*

There is a perception among some FIPOs that some credit unions are reluctant to consider illegal money lending victims. Discussion with the credit unions, however, suggests that they are broadly supportive and are willing to consider lending, provided that they can be satisfied that the victim represents a reasonable risk. That said, many borrowers clearly will not meet lending criteria. Credit unions have been reluctant to take on a significant proportion of the illegal lending victims referred by the team on the grounds that individuals are too high risk. In some cases borrowers may already have defaulted on a loan from their local credit union.

> *"I would say that it's (the potential for partnership working with CUs) limited because for the needs of our clients, credit unions don't fit."*

The teams themselves are in fact often unable to make referrals where borrowers are already deeply indebted and clearly unsuitable candidates for further borrowing. The teams are also conscious that credit unions are concerned about rising bad debt and the sustainability of their lending.

For the more upscale working victims who typically have a history of credit impairment, credit unions were a poor fit for a different reason – that lenders were unable to offer large enough sums to interest their victims, who were typically looking for a loan in excess of £2,500. This was a particular issue for the London team where victims tended to have been better off.

6.2.7.2 Working with witnesses

Against the background of climate, there are significant barriers to providing evidence or acting as witnesses

The financial inclusion teams work closely with the investigative teams in the early stages of investigations in supporting potential witnesses and giving them the confidence to provide witness statements. Thereafter they provide intensive support and aftercare in an effort to ensure that witnesses are as comfortable as possible with the prospect of going to court and giving evidence.

Most victims are not prepared to make a formal witness statement, with victims often willing to talk to the team but not to provide a formal statement. Even fewer are prepared to give evidence in court (see Chapter 3).

> *"They just don't want anything to do with authority…it probably doesn't take a great leap of faith to think that if you live and socialise with an illegal lender and if you gave a statement against him it might not be good for your health."*

Intensive support is required if witnesses are to give evidence in court

Where victims are prepared to give evidence in court they appear to require intensive support, often over an extended period as many cases take a long time to come to trial, if there is to be any realistic possibility of the witness appearing in court. This is particularly the case where victims and their families have to be re-housed for their own protection and find themselves isolated and in an entirely unfamiliar environment. In these cases, the FIPOs are in constant contact with the witness and provide a wide range of both financial inclusion and wider support, from facilitating housing and schooling and financial arrangements to arranging access to emotional support, counselling, employment training etc.

"It can be a long time between a raid and court and if you're not careful that's where you lose people – so that is a key part of our role. So we have processes around keeping in contact with witnesses, keeping them informed of what's going on and building that rapport so when it comes to court…we've got that relationship with them to get them there."

Even where a victim is willing to give evidence they often change their mind as the hearing approaches. Intensive reassurance and support is required if the victim is to be confident that they will not need to confront either the lender or their family in court. The FIPOs facilitate visits to the court and work with the victims to ensure that they understand what will happen in court and what will be expected of them. Witnesses can require emotional support also as the court hearing approaches. Indeed witness support has become so resource intensive and yet so critical to the effective prosecution of cases where fear of the lender is such a huge barrier to giving evidence that some members of the teams have begun to question how far it can be sustained as the prosecution pipeline and case-load builds. Some of the police officers interviewed, while acknowledging that the teams had done an effective job in getting witnesses to court, also questioned whether the teams had the capacity to provide the extensive support required.

"It seems to me that Trading Standards are trying to reinvent the wheel, because we've already got that (witness support and protection) dealt with, in the police. We have the VST, which is the Victim Support Team, an independent organisation. They should really tap into them and they offer counselling and generic support around a whole, wide range of things and are very good at it. And then, when it comes to practical support, then obviously you know, with rehousing, they would have the Witness Mobility…we can move people, police have quite a lot of sway".

6.2.8 Joint working and knowledge sharing

Joint working appears limited and there is some evidence of competition between teams

The extent of joint working appears to be limited and there appears to be less structured joint working or knowledge exchange between the teams than might have been expected. The exception appears to be the financial inclusion officers, among whom there appears to be a more collaborative mode of working and far greater inclination to share knowledge, experience and best practice.

The teams work together on occasional joint operations to cover capacity constraints on raids. There is also some informal exchange between individuals and the evaluation revealed a number of instances of shared best practice. There is also a quarterly scheduled meeting between the project managers, held immediately prior to the governance board meetings. All of that said, however, there is a strong sense from a number of teams is that the project does not operate effectively as a national project and that some teams are protective of their knowledge and contacts and reluctant to share information and best practice.

"I'd say that (sharing best practice) was an issue. I think there is a bit of patch protection, face saving…so I'd say it's not as open, as sharing as it ought to be."

"They're not saying 'We won't tell you but no-one receives any information…and I think that is something that they (BIS) could easily have fixed at the beginning."

A number of the enforcement and intelligence officers and senior officers in important partner agencies felt that there was an unhealthy and unhelpful degree of competition between the various teams and that this stood in the way of effective knowledge sharing and was not in the interest of the project.

"I don't get the impression that they are (working together). I feel that there is a lot of not necessarily healthy competition…I hear comments at meetings that suggest that that competition is there and that it is not necessarily working to the advantage of the project."

6.2.9 Capacity and scale

The teams have now bedded in to the point where they are facing capacity issues given the significant demand for their services

It is clear from the outcome and the cost : benefit evaluation that the national project has made an excellent start on tackling what has been previously an all but entirely invisible and highly damaging problem. Equally, however, their very success has provided an indication of the sheer scale of the problem, the extent to which it is widespread in communities and among those shut out of the legitimate credit market and the depth of harm that is being done to individual victims and communities.

"There's a huge problem out there that hasn't been dealt with and it is being dealt with now."

The projects, and particularly those that are most successful and dealing with the most complex and damaging cases, are clearly also reaching the limits of their capacity. The sense from the project teams however is that they are barely scratching the surface. Already the projects are not necessarily able to handle their existing caseload or to fully resource larger cases. As noted earlier the financial inclusion and victim and witness support teams are also facing capacity issues.

"The scale and scope of what they could actually get involved in is very large and we're reaching a point now we're actually having to prioritise…because the demand out there is very big indeed."

"What we do know is that we're reaching our full capacity in terms of what we can deal with and we know that we are barely scratching the surface."

"We've already got a situation where we can't deal with all the cases that we've got…we need to be able to move cases along quicker. We need to spend more time on the cases that we have had to develop slowly, and some of them are potentially big cases."

"The FIPOs have plodded along as they have doing some really good work and we've got away with it so far because the volume hasn't been there. That's why so many of them have being doing partnership development. But as it builds up, it won't be viable."

6.2.10 Leadership, governance and project management

A hands-off approach to central management and governance has resulted in some sense that the project lacks strategic direction

The various teams report to BIS, to a common performance monitoring format designed to measure progress against core objectives. The BIS project management team also holds held regular meetings with the regional project managers. The teams feel however that there has been relatively little feedback on performance. This has left some teams feeling unsure of how their performance stacks up and with a strong sense that they lack sufficient direction and guidance.

> *"We give our performance data to BIS but there's never been any communication back in terms of whether or not that was adequate or discussion about how things are going."*

> *"In my mind there is a lack of clarity about what the role of central government is. Do they have a leadership role or is it a funding organisation that effectively lets you get on with it?"*

There is something of the same feeling arising from the teams around a lack of leadership and ongoing direction from the governance board on strategic issues. There is a sense that the role of the governance board has been unclear and that its structure has worked to promote the interests of some regions while leaving others unrepresented.

> *"The role of the governance board in moving things on hasn't always been as clear as it should have been…I've never been absolutely convinced that the communications from the governance board has even reached the three regions that aren't part of it."*

The absence of central direction and hands-off approach to performance management appears to have worked to reinforce the successful teams' autonomy and independent focus while leaving those teams that are struggling without support and falling further behind. The converse of the teams' autonomy and the lack of direction overall – other than that encapsulated in the objectives – is that there has been little guidance or facilitation in the face of difficulties. Similarly where teams have struggled with particular issues, or fallen some way behind others on achievements or the timing of deliverables, there has been no mechanism for intervention to support the struggling team or make adjustments to the delivery model.

As a result, while some teams have thrived, performance has in some cases been sub-optimal, particularly on intelligence and high level police sponsorship. Common problems faced by a number of teams (such as the delays and difficulties in progressing cases through the courts) continue to be addressed on a piecemeal basis region by region. Equally, the teams also respond individually and differently to major strategic issues for the national project (such as the framing of the financial inclusion element) than might have been the case if there had been a degree of high level sponsorship at the outset or if key stakeholders had been involved at national level.

These issues are compounded by the absence of a formal strategy and by the absence of a national profile and national level agreements. The teams feel that they operate essentially as seven regional projects without national coherence and without national level champions, leadership or support within national institutions.

"There is a need for an over-riding strategy document that does flesh out the objectives and gives clearer direction in terms of where the programme is actually going. But, for whatever reason, that has never been produced."

"Who is actually responsible for ensuring that we do develop the brand? Who is responsible for communicating…nationally what the IML team is doing and producing? And who is going to be responsible for doing what needs to be done to make the brand, the operation sustainable?"

6.3 Taking the project forward

A sense that a more coherent and strategic approach to IML and the cross over with other criminal activity and community policing issues is required

The teams' perspective on the need for greater strategic direction was reflected also in thinking around the cross-over between illegal money lending and other criminal activity. Intelligence specialists in the teams and those with a more strategic perspective within the police both raised the need for a better understanding of the scale and nature of the problem and the cross over with a range of criminal activity so that the teams and their police partners could ultimately take a more pro-active and strategic view of the crime and how to tackle it.

"You chip at bits of it, don't you…you have to deal with bite size bits so you don't have a feel for the whole "

"They need to get a strategic perspective and address this whole concept without all this stuff about the funding running out in eighteen months and losing the capability…to get illegal lending into a strategic context and then develop a strategy, properly funded and resourced, for addressing it and reducing the harm associated with it."

This issue was linked also to the issue of the nature of the offence as "unlicensed lending". Both the police officers and many of the investigative and enforcement teams felt that the definition of the offence underplayed – even trivialised – the seriousness of the offence, reinforced the idea of IML as a civil matter and made it difficult to communicate the nature of the problem and the associated damage and criminality to police and other third parties. This view sat alongside a perceived need to differentiate between the more or less damaging end of the lending spectrum and to capture this both within a redefinition of the offence and appropriate strategies to tackle both ends of the spectrum.

"Part of the problem of promoting this offence and the importance of it is the fact that you're talking section whatever of the consumer credit act and not having a credit licence – how does that capture the kind of harm inherent in this guys torching premises and setting people's hair on fire and how does it make sense that I charge him with the same offence as someone selling a few loans off the side of a home credit book?"

Finally the major issue was that of the coherence of the national project and the most effective utilisation of resource and capacity. Here there were mixed and conflicting views. Some of the regional projects felt strongly that it would not be possible to operate effectively without a regional presence and local knowledge and connections. However this sat alongside a desire for greater direction, more central procurement and national negotiation of stakeholder agreements. Others argued for a centralised and national operation as conferring both economies of scale and leadership and coherence.

> *"It (national structure) would give me economy of scale and I also believe that there should be an over-arching management structure that manages the lot. It's at the moment too fragmented, some of the models now need adjusting to get those working and I'd want to see more sharing of best practice."*

> *"The other big issue is in terms of actually trying to make sure that there is a coordinated way of moving on and developing the overall programme…a typical example of that is communications…For effectiveness and efficiency I think there should be a coordinated way of doing that. Birmingham have got a communications officer for example but as far as I can see at the moment, there's no additionality coming out of that for other regions."*

> *"Super regions don't work…It's too top heavy and parachuting people into areas of concern, where's the aftercare? You must never come away from the region. At the end of the day you could have a national head, national body even but you need to be close to the community, you've got to have people who know their area intimately."*

7 Chapter 7: Conclusions and strategic recommendations

Conclusions and strategic recommendations – key points summary

- There would appear to be a compelling rationale for the IML intervention based on social need and significant detriment.
- BIS, Trading Standards and the project teams have made an excellent start in working towards a reduction in illegal lending and in addressing the climate of fear.
- The financial inclusion objectives have only been partly met. There has been a step change in awareness of IML among key partner agencies.
- Critically however, the effort to transition victims to sustainable sources of alternative lower cost credit has not been successful. Credit unions and CDFIs are extremely unlikely to be a sustainable alternative source of credit for more than a small minority of victims.
- However a substantial number of highly vulnerable victims have been afforded significant relief from a heavy financial burden and from oppression by lenders, with important quality of life and standard of living benefits also.
- There is also evidence of some protective effect from the financial education activities of the teams. Nevertheless, demand for IML is likely to remain strong among those unable to borrow in the legitimate market.
- Building on the project achievements and achieving more consistent success across project teams will require refocusing some objectives, restructuring the delivery model and placing greater emphasis on leadership.
- We recommend an approach in which a local presence is combined with central direction and management, with strategy set and relationships negotiated at national level. The model should be supported by centralisation of specialist expertise and representation of key stakeholders on the governance board.
- Strategically the financial inclusion objectives of the project should be recast as victim and witness support and preventative education.
- The national IML project illustrates the limits of both enforcement and financial education however. The supply of legal credit to high risk borrowers is clearly a critical factor in the scale of illegal money lending.
- Against this background, and given the strength of the perennial demand for credit, a regulatory environment which maximises the availability of legal credit is likely to be the single most important factor in the ability of the authorities to contain illegal money lending

7.1 Conclusions

BIS, Trading Standards and the project teams have made an excellent start in building awareness of a previously all but invisible and highly damaging crime and in enforcing a law that has not been enforced for decades. A significant body of prosecutions has been achieved, with a substantial forward pipe-line in prospect.

A clear message has been sent to lenders, victims and communities that the authorities are now willing to act, that help and redress is available, and that illegal money lending will not remain a low risk activity in which lenders can act with impunity.

The community surveys provide some encouraging evidence of progress across a series of fronts. There is also clear evidence of the beginnings of a 'virtuous circle' in which the effective removal and prosecution of lenders appears to be creating public confidence in the authorities' effectiveness and leading to an increase in reporting and enhancements in the quality of intelligence.

The community survey shows clearly that in intervention areas and among those who are aware of arrests, victims and informants are more willing to come forward. The project teams' experience also demonstrates a peak of intelligence following arrests and convictions. Effective media relations and media communications activity maximises this effect.

However, the project is still at an early stage in the effort to reduce the incidence and impact of illegal money lending and it is clear both that new lenders continue to fill the vacuum resulting from the removal of a lender and that the climate of fear remains in place. It can reasonably be anticipated that as lenders are increasingly prosecuted and removed from the community, that the climate of fear will continue to lesson and that witnesses and victims will become more emboldened to come forward.

Similarly, on the basis of the community survey it would seem likely that the perceived risks associated with operating an illegal money lending operation will increase as arrests, prosecutions and confiscation of assets continues.

The evidence is equally, however, that demand is unlikely to diminish and that illegal lending is unlikely to go away any time soon, albeit that enforcement activity will work to reduce its incidence.

A substantial number of victims have been afforded significant relief from a heavy financial burden and from oppression by illegal money lenders, with important quality of life as well as financial and standard of living gains for individuals and knock-on benefits for communities and for society more widely. It would seem that the savings to victims from the removal of lenders will have had a significant effect in stabilising finances and improving the viability of household budgets undermined by various degrees of income starvation.

There have been transformational financial inclusion outcomes for a small number of victims, primarily witnesses. However, the financial inclusion objectives of the project as envisaged have not been met, largely for reasons beyond the control of the project teams. Despite significant effort the teams have not been able to support more than a handful of victims to sustainable legal credit.

There has however been a step change in awareness of illegal lending and of the issues associated with it for victims and communities among partner agencies, which appears to have gone some way to support a preventative and educative effect.

Taken together, the experience of the various teams makes it clear that even with significant effort and support, it is unlikely that credit unions will be a viable alternative to illegal money lending for more than a small proportion of victims. Debt advice also would appear particularly challenging in this context.

The financial inclusion effort also illustrates however both the power and the limits of financial education. The teams' experience and the community and victim research suggest that financial education will increase the understanding of the risks of using a loan shark. Equally, however, it illustrates that the strength of demand for credit is such that the impetus for illegal money lending supply is unlikely to go away any time soon and that the protective effect of financial education is unlikely to do more than moderate demand.

7.2 Strategic recommendations

There remains a compelling rationale for the IML intervention based on social need and significant detriment. There is a pressing and continuing social need afflicting some of the most disadvantaged members of society.

- There is clearly significant detriment for those who become entrapped by loan sharks in the form of income deprivation and compromised quality of life arising from fear of – or actual – violence and intimidation.
- Illegal lending is a widespread problem and, due to continuing demand, one that is unlikely to go away. Under current conditions, given the shrinking high cost credit supply, the market is indeed likely to grow in the absence of intervention.

Building on the project achievements will require refocusing some objectives, restructuring the delivery model and placing a greater emphasis on leadership.

- The teams have clearly made a significant start on addressing a highly damaging problem afflicting deprived communities and reinforcing disadvantage, poverty, high crime levels and anti social behaviour. If the benefits of what has been achieved are to be built upon, a more strategic approach should be adopted within refocused objectives and a re-framed delivery model to address current weaknesses in project delivery and achieve a more consistent level of success across the national project.

Strategically the financial inclusion objective should be re-cast as victim and witness support and preventative education within deprived communities.

- It is clear that given the vulnerability of victims and their unreliability as witnesses, many cases could not be effectively prosecuted without victim support. Strategically, the victim support and financial inclusion dimensions of the project would be better recast as witness support with the financial inclusion component of the remit reframed as awareness-raising and education, focused on actual and potential victims within local communities and other agencies engaged with those communities.

Some discrimination in approach to more or less damaging illegal lending would appear to be required and there is potentially a case for the development of a new offence. A degree of discrimination is required between the more or less damaging ends of the IML spectrum, with more or less damaging models requiring different approaches. Some types of relatively less damaging unlicensed lending may be better dealt with through facilitation of licensing and efforts on ensuring compliance. Other more damaging models clearly require a robust enforcement approach. There is an argument to be made for the development of a new offence of aggravated money lending which more effectively captures the damage inherent in the nature of the crime.

Options on enforcement

Options on enforcement range from project closure through to restructuring project delivery within a more strategically focused and centralised approach. The options to be considered for the enforcement element of the remit going forward would include:

- Closing the project. The rationale would seem too strong to allow for this option. Also, the project overall is likely to lever an excess of benefits over costs.
- Maintaining the status quo. This will continue the current inefficiencies and will not maximise the effectiveness of the project.
- Moving to a completely national and centralised structure. This would run the risk of losing the benefits of a regional presence and would make it difficult to manage the early stages of investigations or to support witnesses effectively.
- A mixed approach with a local presence combined with central direction and management and strategy set at national level, supported by centralised specialist expertise (e.g. financial investigation, legal services, media communications) with additional investigative and operational capability on a parachute in : out model. Relationships and partnership arrangements to be negotiated centrally at national level with key stakeholders represented on the governance board.

A new structure for IML

We recommend a move towards a more centralised approach with national management and central services combined with a local presence. The mixed approach is to be recommended on the basis that it offers an opportunity to:

- Realise scale efficiencies in enforcement, including the development of a critical mass of specialist expertise.
- Maintain a regional presence so that enforcement activity can gain from local knowledge and ensure a deterrent /supportive presence in at-risk communities.
- Achieve greater flexibility to deal with peaks of activity and large cases wherever these arise.
- Achieve a greater degree of coordination in addressing challenges common to all teams, promoting the exchange of knowledge and best practice and providing timely support to struggling teams.
- Inject greater leadership and strategic focus than is possible under the present model.
- Provide the opportunity to negotiate commitment from key stakeholders in government and partner agencies at national level.
- Restructure the governance board to place less emphasis on regional interests while achieving greater strategic focus and the engagement of key policy and external stakeholders.

The project has clearly made an excellent start under BIS and Trading Standards sponsorship. Longer term, however, given some of the capacity and funding constraints and the background developments on new regulatory and consumer protection structures, there is a case for the development of alternative funding mechanisms and potentially also for consideration of a transition to alternative sponsorship as the project scales and develops further.

The regulatory context

Finally **it is clear that there are limits to what can be achieved through either enforcement in reducing supply of illegal lending or financial education in reducing demand** for it. It is clear also that social lending, at least in the form of credit unions and CDFIs which must function as sustainable social businesses, is unlikely to act as an alternative to illegal lending on any scale. It is also evident that the supply of legal credit to high risk borrowers is a critical factor in the scale of illegal money lending.

The high cost of certain types of sub prime and non standard lending products may not be a socially desirable feature of these models. However the modus operandi of legal, regulated lenders is surely less detrimental to the interests of disadvantaged consumers than that of unregulated illegal lenders. Resort to illegal lenders will be not only much higher cost than any form of legal credit but also deeply damaging in a number of other respects.

Clearly there are a range of consumer protection considerations in this context. However, against this background, perhaps the single most important element in containing illegal money lending and moderating the damage done to victims and communities arising from it, is the maintenance of a regulatory environment that maximises the availability of legal, regulated credit, albeit that this may come at a high cost for some.

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URN 10/1186