High-cost credit: home-collected credit, catalogue credit and store cards; and registered social landlords

Financial Conduct Authority

RPC rating: validated

The Regulatory Policy Committee (RPC) is now able to validate the equivalent annual net direct cost to business (EANDCB) as a result of the Financial Conduct Authority's (FCA) response to the initial review. As first submitted, it was not able to validate the EANDCB.

Description of proposals

The measures aim to address various harms identified in relation to three sectors: 1) home-collected credit; 2) catalogue credit and store cards; and 3) registered social landlords (RSLs). The following measures will:

1) prevent firms from selling cash loans to customers during home visits, without a previous written request from the customer, and require firms to communicate to customers the different financial impacts of refinancing and taking out a new loan;
2) introduce four interventions: i) to extend existing restrictions on credit limit increases (CLIs), such as requirements to monitor customers and provide notifications in advance of CLIs, to include catalogue firms; ii) to require affected firms to provide customers with adequate information about buy now, pay later (BNPL) schemes at the point of sale and prompts before the end of the promotional period; iii) to require firms to monitor customer repayment records for signs of financial difficulty and to take appropriate action through early intervention; and iv) to require firms to identify customers in "persistent debt" and put in place intervention to assist them; and
3) provide guidance for RSLs to assist them to help tenants find alternative options to high-cost credit.

The rules were initially proposed in consultation paper 18/12 in May 2018 and, following business feedback, the final rules and guidance were published in consultation paper 18/43 in December 2018 for implementation between 19 December 2018 and 19 June 2019.

Impacts of proposals

Costs

1) Home-collected credit measures

Familiarisation and legal review costs

The home-collected credit measures will have an impact on 472 small firms, as well as one large and four medium firms. The FCA estimates total one-off industry costs of £20,000 for familiarisation and £40,000 for legal review.

Implementation costs

The FCA estimates one-off industry costs of between £0.8 million and £1 million for staff training, between £2.9 million and £3.5 million for IT changes and £20,000 for setting up a monitoring process. Respondents to the FCA's consultation indicated that firms would need additional compliance time and would be required to train new firm representatives. The FCA estimates the ongoing industry cost of this to be between £50,000 and £60,000 per year.

Sales process changes

The measures require firms to explain to customers the comparative costs of refinancing an existing loan versus taking out a new loan. In order to estimate costs, the FCA surveyed all affected firms to estimate the impact of the additional time taken for each transaction. The FCA estimates the ongoing industry cost to be between £1.3 million and £2.0 million per year.

2) Catalogue credit and store card measures

Familiarisation and legal review costs

The catalogue credit and store cards measures will have an impact on eight catalogue credit firms and three store card providers. The FCA estimates one-off industry costs for all four measures to be £2,354 for familiarisation and £3,827 for legal review.

Credit Limit Increases (CLIs)

The CLI remedies (intervention i) will have an impact on firms through an increase in compliance costs from monitoring customers, identifying at-risk customers and providing notifications in advance of CLIs. Respondents to the FCA's survey found that most firms already took steps to ensure that CLIs were not offered to customers who were either in, or at risk of, financial difficulty. The FCA estimates the one-off industry compliance cost to be £1 million and the ongoing industry cost to be £0.3 million per year.

Buy now, pay later (BNPL) and similar offers

The BNPL remedies (intervention ii) will require firms that engage in BNPL promotions to provide customers with additional information and a prompt at the end of the promotional period. These remedies would require additional administrative costs, system change costs and, for those who also sell through retail premises, increased time for each transaction and time for training staff. The FCA estimates the one-off industry cost to be £0.3 million and the ongoing industry cost to be £0.4 million per year.

Early intervention

The early intervention remedies (intervention iii) will have an impact on firms through an increase in administrative costs from monitoring customers and implementing potential actions. Whilst most firms already monitor borrowers, some firms may have to change their systems and data usage. The FCA estimates the one-off industry administrative costs of early intervention to be £0.4 million and the ongoing industry cost to be £1 million per year.

The FCA has costed the implementation of potential actions by using a fee freeze to illustrate the cost to firms. The FCA estimates the ongoing industry cost to be between £7.5 million and £8.2 million per year.

Persistent debt

The persistent debt measure (intervention iv) requires firms to identify customers entering, or already in, persistent debt and to intervene. The FCA expects firms to incur compliance costs from adapting existing systems and administering the intervention. The FCA estimates the one-off industry cost to be £1.3 million and the ongoing industry cost to be £1.5 million per year.

3) The registered social landlords (RSLs) measure

Familiarisation

The RSLs measure will have an impact on approximately 1,900 RSLs through the familiarisation cost of reading the guidance. This is estimated to be a one-off cost of £140,000. There are no ongoing costs.

Indirect costs

The FCA estimates that consumer behavioural change, resulting from the measures, will result in indirect costs to firms: the home-collected credit measures will cost firms between £3.8 million and £34.2 million per year from reduced interest revenue; the CLI remedies (intervention i) will cost firms between £0.43 million and £1.49 million per year from lost interest revenue, lost interest payments and avoided fees; the BNPL remedies (intervention ii) will cost firms between £0.7 million and £7.0 million per year from lost revenue; the persistent debt measures (intervention iv) will cost catalogue credit and store card firms between £67 million and £159 million in the first year and, subsequently, between £3.5 million and £9.0 million per year from fewer customers in persistent debt, savings on interest payments and lower interest payments as a result of forbearance.

Benefits

The FCA expects the catalogue credit and store card measures to provide some benefit to firms: the CLI remedies (intervention i) may reduce administrative costs when dealing with arrears and debt collection, as well as leading to fewer late payments from individuals in financial difficulty; the BNPL remedies (intervention ii) may increase recoverable debt; and the early intervention measures (intervention iii) may lower costs associated with late payments and recovering debt, as well as providing a lower level of outstanding lending and a lower probability of customer default. These benefits to firms are unmonetised.

Quality of submission

Issues addressed following RPC's initial review

Following the RPC's initial review, the FCA submitted a revised business impact target (BIT) assessment that responds to the points below.

As originally submitted, the BIT assessment was not fit for purpose for three reasons:

1) Indirect costs, resulting from a change in consumer behaviour, were treated as direct. The costs require an additional step of consumers choosing to act on the information provided and, therefore, as noted in the RPC guidance on direct and indirect impacts[1], are not first-round effects.

[1] RPC direct and indirect impacts guidance. Available at: https://www.gov.uk/government/publications/rpc-case-histories-direct-and-indirect-impacts-march-2019

2) Figures in the assessment did not always align with those used to calculate the EANDCB.
3) Calculations informing the EANDCB in relation to early intervention (intervention iii) were based solely on one of a number of possible methods.

The FCA has now:

1) reclassified significant costs to business as indirect costs. These costs are second round impacts and are correctly classed as indirect in the revised assessment;
2) addressed inconsistency in the figures used to calculate the EANDCB; and
3) provided clarity on the use of a single early intervention remedy to estimate the cost.

Other comments

The BIT assessment would be improved by addressing the following additional comments:

1. **Calculations informing the EANDCB:** The FCA states that the CLI remedies (intervention i) will cost firms in two additional ways: from customers avoiding interest payments as a result of holding less debt (costing between £50,000 and £230,000 per year); and from customers avoiding missed payment charges (costing between £10,000 and £20,000 per year). The FCA does not account for these costs in the EANDCB, which would suggest that the regulator believes these costs to be indirect. However, the FCA does not state in the assessment whether it considers these costs to be direct or indirect, and thus it is not clear that the exclusion of the costs from the EANDCB is correct. The RPC believes these costs to be direct. The assessment would benefit from clarity and justifying whether these costs have been correctly excluded from the EANDCB.

2. **Revenue:** The FCA has monetised the revenue losses to firms from the interest backdating rule. It suggests in paragraph 62 of the cost benefit analysis (CBA) that the revenue losses overestimate the profit losses. The assessment would benefit from a more detailed explanation of why the FCA decided to use the revenue losses to estimate the impact of the measures.

3. **Impact of the measures on small and micros:** The assessment would benefit from an estimation of the impact on such businesses and whether any of these businesses might face any disproportionate burdens.

4. **Insufficient evidence to support costs:** The assessment would benefit from providing sufficient evidence of calculations to support the compliance and familiarisation figures for the catalogue credit and store card interventions.

5. **Unmonetised benefits:** In relation to the home-collected credit measures, the FCA presents a clear justification for why the benefits to consumers cannot be monetised. The assessment would be improved by ensuring that unmonetised benefits to firms are equally well justified. The FCA states that the persistent debt measure will provide a benefit to business through the use of fewer resources collecting missed payments, lower financing costs and lower administration costs. However, these benefits appear to arise as a result of fewer customers and therefore the FCA should provide adequate justification for their categorisation as benefits in the assessment.

6. **Market impact:** The FCA does not assess the competitive effects of the measures. The FCA should assess the effects that these measures could have on firms exiting, or seeking to enter, the market.

7. **Clarity of drafting and referencing:** The assessment provides a well-written account of the impacts of the measures. In certain areas, however, it would benefit from consistency and clarity in its drafting and referencing. The FCA should reference clearly specific sections of the CBA that are relevant to the narrative in the assessment to help clarify the costs and benefits.

FCA assessment

Classification	Qualifying regulatory provision (IN)
Equivalent annual net cost to business (EANDCB)	£53.6 million (initial estimate) £12.1 million (final estimate)
Business net present value	-£104.4 million
Overall net present value	-£104.4 million

RPC assessment

Classification	Qualifying regulatory provision (IN)
EANDCB – RPC validated[2]	£12.1 million
Business impact target score	£60.6 million
RPC rating (of initial submission)	Not fit for purpose

Regulatory Policy Committee

[2] For reporting purposes, the RPC validates EANDCB and BIT score figures to the nearest £100,000.