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Financial Conduct Authority  
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1 December 2020

Dear Chris,

**SMALLER BUSINESS PRACTITIONER PANEL INPUT TO THE REVIEW INTO CHANGE AND INNOVATION IN THE UNSECURED CREDIT MARKET (THE WOOLARD REVIEW)**

The FCA Smaller Business Practitioner Panel is pleased to provide input to your review of change and innovation in the unsecured credit market. We have a number of observations on this sector.

There is no doubt the current landscape is confusing for some borrowers and standardisation of data, as well as standardisation and simplification of T&Cs would benefit those consumers that struggle to understand what they have signed up for.

**Responsible Lending**

This is an area that has provided challenge to the industry, particularly in relation to people with fewer financial choices. It is expected that more people will fall into debt because of the new types of lending which do not go far enough to ascertain affordability to repay. The prevalence of “buy now pay later” together with employer advance schemes (see further below), could see significant numbers of people end up with problem debt due to the lack of affordability testing.

Our specific observations about responsible lending are:

- There is an increasing concern over prevalence of fast, easy unsecured credit, particularly at point of sale. This is often associated with ‘fast fashion’ but links into other sectors, where credit is available at ‘checkout’ and accessed in less than a minute.
- This drives excessive consumptive behaviours, in the fast fashion sector during the acquisition of multiple items rather than one, linked to flexibility of returns policies by suppliers.
- There is a concern about the capacity of often young consumers to manage the accumulated debt over time.
- There is an additional concern that the debt drives excessive consumption, which in the context of wider climate change issues is potentially damaging.

**Advance pay**

The development of the advance pay sector is just a short step from payday loans. The issue here being that on occasional use it helps a material cashflow issue, but the regular availability through company payrolls can mean it becomes a feature and leads to a cycle of negative repeat processes. The availability and growth of these services masks the real problems that might in part be down to poor financial skills or more possibly low wages and high costs, especially for ‘generation rent’.

## **The role of regulation in unsecured credit markets**

In relation to Key theme 3, all firms operating in the regulated or unregulated market that have the potential for consumer detriment should be brought into scope of this review for the purposes of consistency and fairness.

## **CMCs and insolvency practitioners**

You are already aware that the SBPP has raised issues around the behaviours of both CMCs and Insolvency Practitioners and the consumer detriment that is obvious when an individual is "encouraged", through excessive marketing and sharp practice, to sign up to an IVA (PTD), and pay excessive fees, when this wasn't the best solution for them. There is evidence of a lack of understanding of what these solutions cost and mean in relation to access to future borrowing.

## **Overall**

It seems that the market works well for some demographics and it will be challenging to ensure that good practice remains, that the supply of credit is available to those who require it, and innovation that doesn't cause consumer detriment is encouraged. However, borrowing cannot be taken in isolation and forbearance (when people get into financial difficulties) and rebuilding (credit files) and related activities should not remain out of scope.

Lastly, we would encourage the review to consider the role of the FOS, again to ensure that there is consistency, and that if firms adhere to the regulation, and adopt best practice, they are not penalised.

We would be happy to discuss any of these points further.

Yours sincerely,

[signed]

Marlene Shiels  
*Chair, FCA Smaller Business Practitioner Panel*