

## Young Foundation

Our submission is based on our Credit where Credit's Due research <https://youngfoundation.org/wp-content/uploads/2016/05/Summary-Report-VFinal3.pdf> outlined below. It covers elements of all the questions in the inquiry so please refer to the information below for a summary of this research.

Credit Where Credit's Due our year-long mixed-methods study on understanding experiences of high cost credit in Wales in 2016, funded by the Economic and Social Research Council found that almost two thirds of people (65%) turned straight to such forms of credit. Characterized by high-pressure sales tactics, poor affordability checks, and aggressive repayment collections these practices led to borrowers stuck with unmanageable debts. More than 70% of these customers reported that this type of borrowing was normal because they had no other choice.

We found that other factors such as brand familiarity and loyalty, perceptions that certain lenders are not for 'people like me' and low financial capability impeded the propensity for customers to shop around for the best deal. For example buying a microwave in a rent-to-own store will mean paying 52% more than at a high street retailer. This is a gross example of the poverty premium.

The impact is pernicious. Half of those taking out the loans we explored in our study in Wales reported experiencing anxiety and stress as a result of this debt. Many people told us about times when their repayments had to take precedence over activities like holidays and trips out with their children, adversely affecting their wellbeing. Whilst there is no silver bullet which can transform this form of the poverty premium, our report called for appropriate steps towards expanding the affordable finance market, with new consumer credit and savings products.

There are encouraging signs of this happening across the sector. The Financial Conduct Authority's (FCA) Project Innovate and regulatory sandbox is helping to lower the barriers to entry and innovation, particularly for smaller charitable or social enterprise operations. Our Credit Where Credit's Due research influenced the Finance Innovation Lab recent Fellowship programme which supports innovations working to improve financial health and new initiatives such as the Fair by Design venture fund are helping to support the development of new markets. We also very much welcome the work of the Inclusive Economy Partnership addressing access to affordable credit as one of their areas of focus. The End High Cost Credit Alliance and the Fair By Design Campaign will also be targeting lenders themselves, policy makers and regulators as guidance, legislation and regulation are crucial to tackling this issue. But to create a more sustainable and inclusive economy, our research showed that we should not underestimate the power of people; the importance of local networks and peer influence in people's financial decision-making. We found that family and friends' recommendations are the top cited reason for choice of credit. We believe we must therefore also engage more deeply with how people make decisions about where and when they seek credit, and trial interventions which can most effectively enable them to choose the solutions that are likely to serve them best.