

CAP Summary: Forgive us our debts...



CHURCH ACTION
ON POVERTY

“People are still trapped in debt and poverty. When will change come?”

Debt and financial exclusion continue to blight the lives of over six million people on low incomes in the UK. Over the past 18 months, a series of Church Action on Poverty National Policy Forums have brought together people with first-hand experience of debt and financial exclusion, policy makers, politicians and civil servants to help identify appropriate policy solutions. In spite of some progress, the Government has a long way to go in developing a fully coordinated and coherent anti-debt strategy.

Debt is a serious issue with serious consequences for many. The evidence provided in this report is a testimony to the consequences when debt and poverty together wreak havoc on the finances of those living in poverty. Debt and poverty combine to form a cycle in which those on a low income swiftly descend into a long hard struggle with few opportunities to escape.

The report acknowledges many of the initiatives and actions taken to tackle the issue of debt, and in particular overindebtedness. However, while much has been done, there is much that remains to be done.

The report points to the need for a cross-governmental approach to tackling debt as part of the anti-poverty strategy and identifies six key challenges and policy recommendations:

- ◆ A flexible benefits system which will enable people to shift easily from benefits to work without risk of going further into debt.
- ◆ The need for much better provision of financial advice, both to those experiencing debt problems and to those considering taking out a loan before accepting a loan contract.
- ◆ The need for a much wider range of financial services to be tailored to the needs of people on low incomes.
- ◆ The use of domestic bailiffs should be abolished as ineffective, inefficient and draconian. However, if they are to continue they should be subject, alongside lenders, to increased regulation to protect vulnerable consumers.
- ◆ The legal definition of extortionate credit needs to be redefined in order to provide effective protection against creditors who charge extortionate rates or operate oppressive practices or terms.
- ◆ The Social Exclusion Unit needs to undertake a thorough cross-cutting review of Government anti-debt policy, and develop proposals for coordinating policy across government.

Copies of the full report can be ordered from Church Action on Poverty, Central Buildings, Oldham Street, Manchester M1 1JT. Tel: 0161 236 9321 Email: info@church-poverty.org.uk Price: £5 (plus £1 p&p).



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While the Government have begun to tackle financial exclusion and loan sharks, their activities amount to little more than tinkering with the edges of the problem. This report takes a broad approach to the problem of debt among people living on a low income.

The report concentrates on exploring two dominant themes:

1. Tackling the distinction between the alternative credit market and mainstream financial inclusion.
2. Tackling the injustice that means that people living on a low income pay more for their credit, and promoting affordable alternatives.

Introduction

Church Action on Poverty's (CAP) interest in debt arose through the experiences of people living on low incomes in the North East of England. This led CAP to help launch the Debt on the Doorstep network in 1999. As a contribution to the wider campaign, CAP has sought to give voice to the experiences and understanding of those living with debt and poverty, and to bring these contributions to the table alongside those of policy influencers and policy makers. This process has resulted in five National Policy Forums hosted by Church Action on Poverty, which helped to give shape to the ambitions of those living in poverty and debt to tackle these issues, producing policy grounded in the vested interests of stakeholder groups.

The faith reflection at the end of the fifth National Policy Forum focused on the words Jesus taught us which may be translated as, *'forgive us our debts, as we forgive those who debt against us'*. This was used to call for interdependence and partnership as the basis for financial inclusion. 'Interdependence' can be found between a lender and a borrower who form an effective relationship involving the provision of suitable financial services and effective debt

repayment. 'Partnership' between rich and poor customers who together are able to support local financial services such as the growth of their local credit union. Whilst Church Action on Poverty strives to engage in the lives of people living in poverty without discrimination, where appropriate we also encourage the involvement of the experience and understanding of the Christian tradition as we highlight the existence and affects of poverty in this country. With this in mind we remember the specific context in which good use of credit, and therefore debt, should be used in the promotion of life in all its fullness.

"From September to Christmas you try to pay off as much as you can in those few months, otherwise you can't get them anything for Christmas."

National Policy Forum participant – 9 July 2001

The report

The report maps out the perspective of those living in poverty and debt - caught between low income and high cost credit. They are in poverty primarily because they don't have enough money. A lack of money forces many into debt, into the hands of extortionate moneylenders and further reduces their income. In this report, those who experience this situation present their analysis of that experience, the lessons they have learnt and their recommendations for transforming the problems they face.

The report presents the situation facing those in poverty, caught in a cycle of low income and high cost. This cycle moves through five stages, examining the squeeze between reviewing a low income and paying a high cost for credit.

"Once you start borrowing you are in a cycle, you just keep going."

National Policy Forum participant – 9 July 2001

Threats to personal financial viability

Key barriers to financial exclusion, as identified by the National Policy Forum in January 2002:

- ◆ Unemployment and lack of income.
- ◆ Inappropriate requirements for proof of identity.
- ◆ A lack of access to financial services (mainly caused by the reduction of bank and Post Office branches).
- ◆ Postcode stigma – higher than normal prices, particularly of insurance, due to where people live.
- ◆ Charging for financial services.
- ◆ Strict payment deadlines.
- ◆ Money management – the absence of cash or control.
- ◆ A lack of creditworthiness.

Low income

The situation facing those on a low income is the most appropriate context in which to formulate joined-up policy solutions. Policy development is best based both in the context of limited opportunity and relating to those for whom many policies are intended. This may be achieved through the involvement of those living in poverty. It is precisely because of their low income that any strategy to tackle debt or financial exclusion should begin with those on a low income. This report focuses on what may be done to increase the financial citizenship of those in receipt of a low income.

Big idea 1: flexible benefits

The key recommendation in the first section, which concentrates on the context of debt in low-income households, is on the need for a flexible benefit system. The Government are supportive of the provision of opportunity for work as the best route out of poverty. In many cases employment will lead directly to an increase in income. However, the benefits system can be obstructive in enabling people to move into work. A flexible benefits system will enable people to move easily from benefits to work.

Tackling grey areas of the law

The debt of those living in poverty is an issue that is given little mainstream attention precisely because it affects those who are financially excluded. As a result, there is little attention or regulation given to the activities of the alternative credit market. The rights of low-income consumers of financial services are not sufficiently supported or enforced and little is done to promote consumer power and confidence. The report calls on others to dispel the ignorance surrounding credit lending to low-income customers and provide transparent information and customer empowerment.

Big idea 2: increased advice services

The provision of available and personal financial advice is needed to enable those considering taking out a loan to seek advice before accepting a loan contract. We welcome the recommendation in the Performance and Innovation Unit's report on the Government's Use of Loans for a cross-cutting review of financial advice, however, this review must be conducted within broader context of debt and financial exclusion demonstrated in this report.

"Sufficient income is being able to save up for things, like repaying your debts, and having a little to spare – not asking for a great deal, but at the moment basic necessities cost too much."

National Policy Forum participant – 31 Jan 01

Flexible finance – financial services that help people on low incomes

Many of those living on a low income are financially adept precisely because of their circumstances and limited resources. This report calls for financial strategies that are accessible and affordable for those on a low income, enabling them to adapt to meet their varied needs and circumstances, and tackle financial exclusion.

Big idea 3: multiple and complementary financial services

There is no one dominant provider of affordable credit. The Universal Bank, due to be introduced in April 2003, and basic bank accounts are a welcome and important part of developing multiple financial services. The potential of the Universal Bank will fail to be realised if it is not linked to other financial initiatives that involve the provision of credit. The Government need to promote joined-up solutions in the provision of financial services.

Protecting vulnerable consumers

Without sufficient consumer protection, customers are vulnerable to inappropriate practices of lending companies and debt recovery companies, in addition to costs that exceed what is normal for those with access to mainstream financial services. This report calls for protection to be given to vulnerable consumers so that they may not be unfairly discriminated against in terms of both practice and price.

Big idea 4: abolish bailiffs and regulate relationships

The use of domestic bailiffs should be abolished. Their use is ineffective, inefficient and draconian. However, if the use of bailiffs is to continue they should be subject, alongside credit lenders, to increased regulation to identify and protect vulnerable consumers. The Government needs to act to promote effective financial partnerships and interdependence between the lender and borrower.

High cost credit

Without tackling the high cost demanded for credit of those on a low income those living in poverty will continue to pay more to adapt to their financial circumstances. Without promoting affordable credit solutions customers on a low income will continue to be financially excluded. How long can this continue?

Big idea 5: tackling extortionate credit

The legal definition of extortionate credit needs to be redefined in order to provide effective protection against creditors who charge extortionate prices or operate oppressive practices or terms. Importantly with the progression towards electronic transactions, repayments to credit lenders should be made through bank accounts as part of the choice of service given to low income customers.

“I don’t think anyone can understand properly just how it feels, to dread letters coming through the letter box. When they did come you’d feel so ill you’d put the letters behind the mantelpiece – never even open them sometimes.”

A coordinated approach to debt and financial exclusion

The Government, since the work of Policy Action Team 14, have not pursued these recommendations with sufficient urgency to meet the demands of the situation currently facing those in poverty and debt. Neither has the additional work in various departments given sufficient attention to the opportunities to further the Government’s priorities of eradicating child poverty and promoting neighbourhood regeneration in a society in which people will not be penalised due to where they live. A coordinated anti-poverty strategy must tackle the problem of debt and financial exclusion.

Church Action on Poverty works with church and community groups across the United Kingdom to make poverty a priority. Our work involves: educating churches about poverty in the UK; enabling people in poverty to speak for themselves; working for policies to eradicate poverty in the UK; promoting reflection and action for social justice. If you would like to become a member of CAP or send a donation, please complete this form and send it to the address below:

- £3 Unwaged individual
- £15 Individual
- £30 Group
- Please send details of how I can support CAP by standing order.

The third part of the report looks specifically at the involvement of the Government in tackling poverty and debt. The report considers the responses given so far by the Government and gives recommendations for cross-departmental cooperation and further delivery of solutions that will alleviate the burden of debt specifically for the poorest.

The report focuses on the problem of debt through the situation of those who live with poverty. It places debt at the heart of financial exclusion. It targets the areas most in need of action and presents a strategy to enable effective reduction of poverty through tackling the problem of debt. It also provides a platform of joined-up solutions upon which a coalition may be built to deliver fair finance for all.

Big idea 6: a debt and financial inclusion unit

At present, responsibility for tackling the various aspects of debt and financial exclusion are scattered throughout government. The Social Exclusion Unit needs to undertake a thorough cross-cutting review of Government anti-debt policy, and develop proposals for coordinating policy across government.

“People get into debt over Christmas presents, clothes... Not cars and luxuries”.
National Policy Forum participant – 9 July 2001

We would like to thank those people living in poverty who worked with us throughout the process of National Policy Forums that developed the policy presented in this report:. Thanks too to the MPs, civil servants, academics, and representatives from other voluntary organisations and the financial institutions. Special thanks go to Stephen Matthews for facilitating the process, and producing this report.



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