Banking Review – Submission by the Social Finance Foundation in respect of Credit Inclusion

1. CONTEXT FOR THIS SUBMISSION

This submission is made by Social Finance Foundation (SFF). SFF was established by Government in 2007, without the use of State funds and as a non-State organisation. There are three pillars to SFF's work, the first is as a wholesale lender to organisations such as Clann Credo and Community Finance Ireland that lend to community, social and voluntary projects all over Ireland that would typically be unable to obtain commercial bank finance. A previous submission to this review has been made by SFF in respect of this area. The second is as the parent of Microfinance Ireland but it has been agreed that such parentage will transfer to the Department of Enterprise, Trade and Employment in 2023. The final pillar concerns initiatives which utilise financial and project expertise in SFF for social good .

It is in respect of this third pillar that this submission is being made and specifically under Question 12, Part a).

Question 12: Consumer Access to Credit can play a pivotal role in the lives of consumers. It is therefore important that consumers have good access to credit, appropriate levels of consumer choice, whilst also being protected from over-indebtedness. In your opinion: a) Is there adequate access to and availability of credit from the retail banking sector (including appropriate product choice) to meet the needs of consumers? Yes/No.

Our response to this question is NO, access and availability to credit is not adequately addressed by the retail banking sector. This was the justification for the inception, and the continuing work, of the Personal Micro Credit (PMC) initiative to make affordable credit available to all.

2. PERSONAL MICRO CREDIT

In 2014, SFF commissioned research on the topic of the availability of credit. The UCD Geary Institute report, "Creating Credit, Not Debt" assessed the need for a personal loan scheme in Ireland, reviewed models elsewhere and put forward a number of recommendations. This work was used as a platform to coordinate several discussions on the area of credit inclusion that were taking place across other organisations, including NGOs and Government agencies.

In 2015, SFF and Citizens Information Board came together to agree a way forward. This resulted in SFF driving the co-ordination, design, and stakeholder management of what became the Personal Micro Credit (PMC) initiative.

The PMC initiative (PMC) is a response to the question "How is it that the most vulnerable in Irish society are finding it difficult to obtain small loans (up to €2,000) at reasonable cost to meet genuine needs?" The target audience is vulnerable borrowers whose options for accessing small personal loans are limited due to factors such as: poor credit history, lack of relationships with mainstream financial institutions, and typical reliance on high-cost credit alternatives, especially home collection moneylenders. Often these individuals are low income and/or welfare recipients and may currently access other state supports.

The initiative comprised two parts: the first was the development and rollout of a loan product aimed at vulnerable borrowers; and the second, which came later, was seeking to understand how excessively high-cost credit can be addressed more strategically. The basis for the latter was the UCC-commissioned research on "Interest Rate Restrictions on Credit for Low Income Borrowers".

Part 1 – It Makes Sense Loan (IMS)

PMC commenced Part 1 as a pilot initiative in November 2015 with 30 credit unions across the Republic of Ireland. Branded the 'It Makes Sense Loan' (IMS) loan, the aim was to prove that credit unions could offer a loan product that matched the convenience and ease of licensed moneylending organisations' offers. It addressed the extremely high rates charged by them, while remaining within prudential lending guidelines. The initiative targeted what was perceived to be a very high-risk customer group, i.e. those receiving social welfare support - in particular cash. The pilot proved the concept and as a result a national roll-out was approved in the summer of 2016.

In order for the IMS Loan to pass prudential lending standards and to be accepted by credit unions, a number of items needed to be put in place:

- Access was granted to the Household Budget (HB) Scheme which required legislative change by the Department of Social Protection. This mitigates the credit risk for credit unions with social welfare recipients as the loan deduction happens via the HB scheme before the person receives their welfare payment in An Post.
- Agreement on a specific credit policy with the Registry of Credit Unions in the Central Bank of Ireland (CBI) for IMS loans - which allowed for riskier lending, in particular to those who may have a credit default history
- A clear path to 'graduation' to standard lending for borrowers, based on the number of IMS loans received
- Clear criteria around the loan i.e. maximum amount €2,000 and maximum term 24 months. The interest rate charged was set by each credit union but within the sector cap of 12.68% APR
- Subsequent product enhancements included the ability for a borrower to retain the HB repayment method on graduating to standard lending; and to allow for a small savings element as part of the repayment.

A PMC Implementation Group oversaw the pilot and rollout, this group comprised stakeholders from the current PMC Task Force (see below) and also individual credit unions, MABS, St Vincent de Paul and An Post. The day-to-day management of IMS is overseen by the Social Finance Foundation and handled by Afanite.

Part 2 - Tackling High-Cost Credit

In 2017, SFF and CBI jointly funded research, undertaken by UCC, which examined the extent and variety of interest rate restrictions (IRR) within the EU and further afield, and assessed the appropriateness of introducing such restrictions in the Irish market. The report was published in 2018 and the writers made several recommendations, the key one being for *"the Government to adopt a policy that prohibits usurious rates of interest in the interests of fairness to the most vulnerable in Irish society by the introduction of a restriction on interest rates and charges."* It was agreed that the creation of the PMC Task Force was needed to implement the recommendations[1].

In May 2019, the Department of Finance issued a public consultation on capping moneylender rates, while a private Members Bill (Sinn Féin) sought to do address the matter. In July 2021 the Government issued details of their Bill and the Consumer Credit Amendment Bill 2022 was enacted in June 2022. This is welcomed and introduces a number of measures including an interest rate cap. There is also provision for the Minister to reduce the rate further in the future.

Throughout the discussions on capping rates and the availability of small value loans, the topic of unlicensed moneylenders arose. Work was commissioned in 2019 which culminated in a position paper in 2022 entitled, "Unlicensed Moneylending, A Position Paper". This was written by Dr. Stuart Stamp, and Paul Joyce. This paper has been discussed with the Department of Justice and there are plans by Social Finance Foundation to lead its circulation and any publicity around this topic.

Given the recent developments with the introduction of the Consumer Credit Amendment Bill, the PMC Task Force is currently taking the opportunity to review PMC and the way forward.

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[1] Members of the PMC Task Force include Dept. of Finance * 2 (Credit Union Policy and Banking Division), Dept. of Social Protection, Central Bank *2 (Consumer Protection and Registry of Credit Unions), Citizens Information Board (interim Chair), ILCU, CUDA, CUMA - and SFF oversees the initiative.

3. LEARNINGS FROM PMC ON CREDIT INCLUSION

Throughout the PMC initiative, the inclusion of Retail Financial institutions was not an option. An assessment of the availability of small loans from Retail Financial institutions shows that it is not possible to get a loan of €500. The minimum loan amount available from Bank of Ireland is €2,000, Permanent TSB is €1,500 while AIB is €1,000. Even the smallest loan that can be borrowed from An Post is €5,000. Credit Unions offer loans will no minimum.

The affordable credit delivery mechanism is recognised to sit with credit unions, albeit acknowledging that credit inclusion is not the problem for credit unions alone to solve.

The lessons from PMC and the IMS Loan initiatives have been:

- There needs to be a multi-stakeholder approach to addressing this complex area. In designing and enhancing IMS, it has required the various stakeholders to each contribute in their own way to achieving a common goal.
- In order to protect from indebtedness, it can also be the case where a loan is not the appropriate option for the individual. In these cases, the credit union will decline the loan but it is important that other supports are made available where the need for the loan purpose is essential. Schemes such as Exceptional Needs Payments are key in these circumstances.
- IMS has found that the success of a loan rests with the willingness and ability of the borrower to repay as fundamental factors. Loans should not be given unless these circumstances exist.
- The propensity for a borrower to save, even small amounts, is correlated to building successful financial habits.
- Small loan schemes such as IMS need a path to wider financial inclusion. IMS is structured so that the borrower 'graduates' to standard loans after two IMS loans.

4. CREDIT INCLUSION – RECOMMENDATIONS

SFF acknowledges that the broad topic of financial inclusion has been raised by numerous stakeholders with calls for an updated National Financial Inclusion strategy. We support the view that a revised financial inclusion strategy needs to be developed. This strategy will include many stakeholders. In the mix of solutions, Retail Financial Institutions will potentially feature in respect of basic bank accounts.

However, there are many strands to financial inclusion and SFF recommends that the area of credit inclusion for small value lending to vulnerable borrowers is recognised as a specific area and that the expertise and knowledge built in PMC is utilised. This is a multi-stakeholder issue and it is very unlikely that Retail Financial Institutions will be willing to serve this population or that borrowers would seek them to provide a small credit solution. Each stakeholder within the financial inclusion strategy needs to play to their strengths. Overall co-ordination is needed so that the burden does not disproportionately fall on certain providers. Where this is the case, Retail Banks should contribute their share. Their involvement could come from financially assisting the structures that are required to deliver on this requirement so that vulnerable customers that need to avail of small affordable loans can do so but not directly through the retail banks.

SFF is open to further discussion on this topic as needed.