Market Context

Home collected credit is a relatively resilient part of the non-standard finance market.

Regulated by the Financial Conduct Authority (FCA), non-standard consumer finance is a large segment of the UK's financial services market. Licensed lenders provide secured and unsecured credit to the estimated 20% of borrowers that fail to meet the lending requirements of mainstream financial institutions. These customers may be deemed 'non-standard' on account of being over-indebted, young or first-time borrowers with little or no credit history, or having impaired credit history.

NON-STANDARD FINANCE CUSTOMERS

c.10m

HOME COLLECTED CREDIT CUSTOMERS

1.6m

Since the financial crisis, there have been significant changes to the market environment:

- **UK regulation has become more stringent.**
  The FCA adopted a proactive stance, scrutinising areas such as product suitability, Treating Customers Fairly (TCF), affordability, forbearance, and interest rate caps. This has had far-reaching implications for some segments, notably payday lenders.

- **The supply of non-standard credit altered markedly.**
  Constraints on wholesale funding led to the exit of high street and other lenders from the segment. Non-standard customers are now served by specialist providers that typically focus on a very narrow proposition, although collectively they offer a much more diverse range of credit products compared with what 'standard' customers are offered.

- **There has been an increase in the pace of innovation.**
  Enabled by technology, there have been significant developments in relation to products as well as distribution channels, with the shift from traditional brokers to online an inexorable trend. Product innovations include the introduction of guarantor loans and the use of starter interrupt devices in motor finance. Technology and data analytics have also transformed underwriting and operational processes.

Within the non-standard finance market is the home collected credit (HCC) segment. Loans are typically small, unsecured cash loans, often taken out to finance events such as birthdays and Christmas. These are delivered to customers' homes by self-employed agents, and repayments of fixed amounts are collected in person during weekly follow-up visits. For these customers on low incomes and tight budgets, face-to-face relationships with agents are crucial both for assessment of affordability and application of forbearance measures. UK HCC demand is considered to be stable. Approximately 3 million people use the services of UK HCC lenders, of which between 1.5 million and 2 million are regular borrowers.

There are three sizeable providers of home credit, with Morses Club holding the second largest share. Aside from the three larger operators, the market is fragmented, with over 375 home collect credit lenders registered with the Consumer Credit Association.

In an adjacent segment of the HCC market, providers offer online small-sum, short-term credit that is repaid in instalments. Payday lenders are among the companies operating in this part of the market, although regulation around payday lending, including the interest rate cap introduced by the FCA in 2015, resulted in a shake-out of participants.

Demand for credit is unlikely to wane in light of the squeeze on incomes from rising inflation, taxes and falling real wages and the lack of savings of many consumers. A 2016 study by the Money Advice Service found that more than 16m people have savings of less than £100, and that in five areas of the country more than half the adults have savings below that level. Data from the Office of National shows that the level of savings as a percentage of disposable income has reduced significantly since 2017 and is now below 2008 levels (see chart 1).

Bank of England data indicates that unsecured consumer credit – through credit cards, store cards, loans and overdrafts – grew from £193bn to £207bn between December 2016 and December 2017, driven by factors including low wage growth, government cutbacks on welfare and public services which has forced millions to borrow to buy essentials (see chart 2).

Chart 1 – Household savings ratio (% of disposable income)

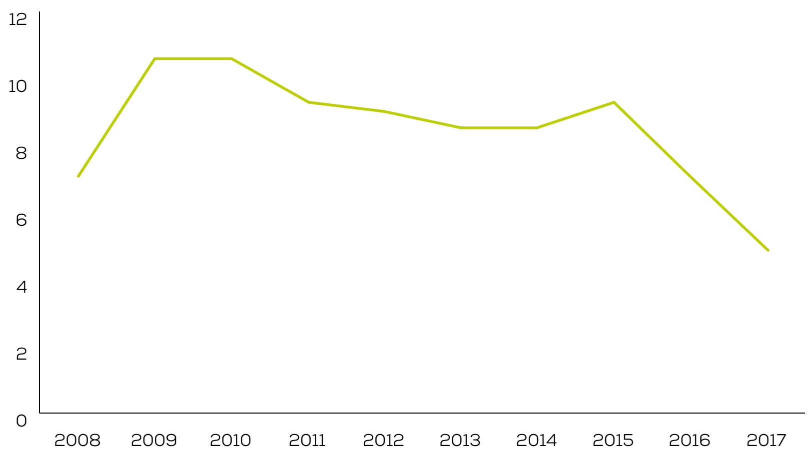

Chart 2 – Bank of England Unsecured Consumer Credit