Inside FCA Podcast: Interview with Sheldon Mills on the cost of living

OI: Hello, welcome to the Inside FCA Podcast. I’m Ozge Ibrahim and today I’m really pleased to say I'll be speaking with FCA Executive Director Sheldon Mills about the work the FCA is doing to help consumers tackle the pressures from the rising cost of living.

Welcome, Sheldon. It's great to have you on the podcast.

SM: Thank you. It's great to be on the podcast.

OI: The rise in the cost of living has affected us all over the past year. What concerns you the most and what is the FCA doing in this space?

SM: We know that rising bills mean many families and individuals across the UK are cutting back on their spending and might be worried about their future. And we've seen the rising inflation and we've seen the rise in energy bills and lots of everyday products and services and essentials that people have to pay for. And our research supports that, so that even in May last year, 7.8m people were heavily burdened by their domestic bills and credit commitments, and that was up by over 2m on our analysis since 2020. It's clear that some of those cost-of-living pressures are deepening. The OBR forecast historic falls in living standards through to 2024, and for many, this April will see further increases in energy, water and phone bills, and that's alongside council tax rises. So, those are concerns for us, our particular concern as a regulator is to ensure that the firms that we regulate, which are wide and varied, from some of the largest high street lenders to building societies right through to high-cost lenders, but also debt advice and debt collection organisations, that those firms are ready to support their customers, those families, as people face into this crisis.

OI: And what does that support look like?

SM: So, I think it's important that firms are able to ensure that their systems and the customer journeys that they have, have the right level of people and the right approach so that they're supporting customers, particularly those who are vulnerable or those who might struggle with debt. What that means in practice is that firms have the right support mechanisms in place, that they have the right numbers of staff who can answer the phones or work through webchat or however they provide support to their customers, that those approaches to customers and those journeys are clear and transparent; people can get the right sort of information. The best firms, particularly those who are lending, will proactively reach into their customer base and let them know of the support that they can access, and we'll guide them through what that support looks like. And where they can't provide the support we can refer them to other agencies, debt advice charities or even benefits advice charities so that people can get help and support and information.

OI: And what about mortgage customers, specifically thinking about people experiencing problems with repayments now or in the future?

SM: So, mortgage rates have been an area of concern for us throughout the current crisis. So, we saw mortgage rates go up and we've been looking at that with firms and ensuring that we understand how many people will face challenges in relation to mortgage rates. I think the starting point for us is that we've worked over many years to review the mortgage markets and to ensure that firms have the right processes in place for mortgages. And we have a vibrant and competitive market in mortgages here in the UK. So, there's lots of choice for customers. There's a confident and appropriate mortgage broker system, there's intermediaries that can help people find mortgages, and most of the largest lending institutions and the building societies have great products. So, the issue really is less about the products, the design of them and the service, and more about the rate and the impact that it has on some families who might struggle with that. What we've done is ensure that firms are looking at their customer base so they can proactively contact customers who might be coming to the end of a historically low rate. So that might be a fixed rate, which has been pretty low, or it could be a tracker rate.

Now, what firms are seeking to do there, different firms are approaching this differently, is to let customers know what offers are available for them with that particular lender. And I think that's important because it allows customers, mortgage borrowers to take a proactive approach to their finances and to understand what options there are there. For those customers who will still struggle with their mortgages, we've been working closely with the Chancellor in relation to and some of the largest lenders, in relation to how we can clarify our rules and guidance so that firms understand the sort of options that you can provide to customers to smooth their approach to their finances and to their mortgage borrowing. So, for example, can some customers go on to interest only mortgages for a short period, or can they extend the length of their mortgage to lower their payments? The other area, which is important and links to both mortgages and normal credit loans, credit cards, high-cost credit is forbearance. So, how do firms actually think about the approaches when people are struggling with payments, and what options can they give them in relation to forbearance?

OI: And can you explain forbearance for those who might not understand it?

SM: Yes. So what forbearance is it's the way in which you can provide opportunities for people to manage the way that they pay back. So, you might provide things such as deferring payments so people might not necessarily need to pay back immediately, and that can give a short-term bridge. Obviously, the consequences of that can be higher payments down the line and greater interest that one has to pay on a mortgage. So, it's not a solution for everyone. But, you know, those sort of payment deferrals might be able to help.

There can also be options to lower payments for a period. So, you might not completely stop the full payment, but you might be able to lower payments and smooth them over a longer period. There's lots of different mechanisms that you can have for forbearance when people are struggling with their finances.

OI: And so why has the FCA decided that firms should provide tailored support to borrowers in financial difficulty, rather than focusing on payment deferrals, as the FCA did at the start of the Covid pandemic?

SM: So, the pandemic situation was a particular point in time. So, if you recall, when we went into the pandemic, all of our lives were thrown up in the air and we didn't know effectively what was coming next. And if you remember, we did not know what the impact was going to be on people's livelihoods, their work. And there was a sense of concern as to what the economic activity would be in the country. So small businesses, if you had a sandwich shop, can you open your sandwich shop and buy the sandwiches? You know, you couldn't actually, because you might not have any customers and you might not be able to get to your sandwich shop because you couldn't actually leave your town to get to it. So, there were issues which would flow potentially through society and impact individuals. And people may well struggle with their ability to go through the day to day. And in that context of a widespread impact on everyone in different ways, it was appropriate to work with the financial industry and the banks, the lenders, they really showed there that they had their societal obligations at the forefront of their minds at that period.

And we had a package of different types of interventions which helped people such as in relation to overdrafts as well as mortgages and loans. That blanket type of approach to forbearance is not something that you can do in steady state for several reasons. At the heart of lending is affordability. So, can you afford to pay back the loan or can you afford to pay back your mortgage? It's really important that people are able to afford their lending. And when you start to give forbearance en masse, then you start to sort of mix up the purpose of credit. But the reality is there's a cost to lending. And it's important that that contract is there. So, the tailored support, what that seeks to do is to, is to say rather than have a blanket forbearance approach to everybody, you meet each customer and their needs. So, if an individual customer is struggling with debt, then you need to assess what it is that that customer needs and through the wide range of things that you could provide to them, it could be a payment deferral, it could be an interest only mortgage in the context of that, it could be extending the term. It could be a range of types of things that you can provide what's best for that customer as opposed to what's the blanket approach across all customers.

OI: You've mentioned loans there, and we know that more people are turning to buy now, pay later loans. Does that concern you?

SM: So, I mean, the government has recently announced a consultation on new buy now pay later legislation which would bring those products and services into the perimeter, so that we would regulate it. We've worked closely with the buy now, pay later industry in advance of this consultation in a number of areas, the way in which they promote their products and services.

So, financial promotions are regulated, and we've wanted to ensure that when they're promoting the products and services, they're doing so in a way which identifies that this is still the provision of some form of credit, that people are entering into a loan or they're taking on credit in some way and there are consequences if they don't, if they're unable to pay that. So, that's important. We've also worked with the industry on some of their terms and conditions under the Consumer Protection Act.

In terms of 'buy now pay later' as a vehicle for consumers to access some form of credit or to buy goods, at the end of the day, where we stand as a regulator is we're neutral on the type of product or service. What we want to ensure is that lending is done affordably, that that it's done with the right sort of purpose, that it's done at fair value. So, there's a good value exchange between the customer and the lender, and that at the heart of that, the customer knows that they will have to pay that back and that they're able, within reason, they're able to do so. And I think that's important. The other aspect of buy now pay later is we do need 'buy now pay later' to come into the system. So, if you think about the credit information systems you need to understand in order to provide lending to a customer, where do they already have existing loans or credit? And 'buy now pay later' providers haven't traditionally been submitting their information and data to the credit information agencies, and it's important that information gets into that dataset so that when anyone is lending to that individual, they know exactly how many debts they have and then they can undertake a sensible affordability assessment. So, I really welcome the Government's consultation. I think it's important that 'buy now pay later' providers do come within the perimeter and then we can take a view as to how they are complying with the regulations and hopefully help in terms of how that market progresses.

OI: And making sure that borrowers in financial difficulty are supported is a priority for the FCA. But what else is the FCA doing in this space?

SM: So, in terms of consumer credit and ensuring that borrowers are protected, we've just recently done our borrowers in financial difficulty report and what that did was it looked at a sort of selection of firms and how they approach borrowers in financial difficulty. I mean, some of the things that we found in that study was that at the heart of borrowing was that when people are approaching financial difficulty, it's always important to be proactive with your customer. And one of the reasons for that is that, if you think about it, if you're struggling with something, there's a degree of stigma sometimes or shame and sometimes people can put their heads in the sand with those things.

If you speak to any debt advice charity, they'll tell you that sometimes if people come in person with their worries, eventually when they come in, they might come in with a bag full of letters, unopened, you know, dozens of letters unopened. And that is, it's human. You know, when you feel like somebody is telling you you've done something wrong or something has got out of control and you don't know how to get on top of it, then rather than ask for help, you turn away from help. So I think it's really important and something which comes through the study that all firms need to recognise those behavioural aspects of customers and find mechanisms to reach into their customer base in a way which helps support them through their journey into financial difficulty. So, that's one area.

It's also important that firms understand the referral mechanisms that they can have to other advice. So, it's really important that firms are able to refer people who need it to free debt advice. So sometimes a firm, if they're lending to a customer, they don't know everything about what's happening with their customer. They have one contract or two loans or whatever with that customer, but that customer may have lots of other debts, council tax debts or etc. So, sometimes it's important if you're going to help that customer to say we need to refer you to X, and they can really support you holistically with all of your needs and try and help you through this challenge and through this journey. I think the other thing which we are concerned to ensure that the industry thinks about is, and we've issued a couple of years ago our Guidance on fair treatment of customers with vulnerable characteristics, really important that firms are able to identify and recognise people who might have vulnerabilities. And that isn't just about accessibility. It can also be about mental health challenges, which can sometimes go hand in hand with debt issues. And so, firms really need to ensure that they're looking out for vulnerable customers or customers with vulnerable characteristics and their journeys, their consumer journeys and how they treat those customers takes account of those individual needs.

OI: And obviously the area of scams is something that isn't new. But is that something that’s more acute in this specific cost of living pressure that we're under?

SM: Yeah. So I think in relation to scams, we always have campaigns to try and educate people in relation to the possibility of scams. And we know that across the country that there are pinch points in relation to financial services, which can mean that people are defrauded or subject to scams. In particular, we've warned firms about unsuitable promotions and then we've had a number of adverts which were unsuitable, amended or withdrawn. We've had about 8000 of those amended or withdrawn, and that helps protect consumers from being misled into products which might not meet their needs.

I think it's important to see that our ScamSmart campaign, which helps consumers spot the risk of investment and pension scams, we've stepped up that. And then in particular, a particular scam which you see sometimes during Christmas or when there are these events when people need a loan, Christmas or back to school month, etc.

In a cost-of-living crisis where the pressure comes on people, people might be more looking for, for lending or credit. So, we've run what's called a loan fee fraud campaign, given the greater risk of scams during Christmas. So, we are alert to the issues in relation to scams during this period. And the cost-of-living crisis can lead into the circumstances where people might be more prone to being defrauded or scammed because they are worried about how to make ends meet.

OI: And you spoke earlier about the importance of signposting. How is the FCA working with other organisations to help consumers with the costs of living and thinking about what other organisations can do in partnership with the FCA?

SM: Yeah, so we have significant work with other organisations, so we work with the Money and Pension service in relation to how best to communicate with people around their finances. Particularly at this time with the cost-of-living crisis, a lot of that is focussed on referring people to Money Helper, which can really help people to find information about how they can deal with their finances, particularly if they're struggling with debt. So, working with those institutions can be really helpful to get the right messages across to individuals.

In addition to that, we've also been working with the UK Regulators Network, so that's a network including major regulators for utilities such as Ofcom in relation to mobile and telecommunications or Ofgem for energy and Ofwat, but also trying to work with the Local Government association as well. And what we're trying to do there is to really see if there's a way of getting more consistency in relation to how we approach debt. So, one of the issues with debt is what do you pay off first? So, if you go to a debt advisor, they'll ask you about your journey, your credit history, what debts you have, and then there'll be a choice. If you have some money available, who do I pay and then who do I try to negotiate with and who do I not pay?

And one of the challenges is that evidently there should be a prioritisation of that. You need somewhere to live, you need energy, you need water, you might need your telephone if it, if it’s you know, to keep in contact with people. You might need your car to get to work potentially so, your car loan might be important. But prioritising that debt is important. And we think if you can get consistency across that, across the regulators, then that might help with supporting customers as they struggle with their finances. Lots of other areas there in terms of can you get consistency about how people collect debt, debt collection, but we’re working across regulators and taking advantage of the cost-of-living crisis to try and forge a bit of consistency in the space.

OI: We've just done a dedicated series of podcasts on the Consumer Duty where we've gone into detail about the four outcomes and what the rules and guidance will mean for both firms and consumers. Do you expect the Duty to tackle some of the issues affecting people struggling with the cost of living? Can you explain that relationship?

SM: Yeah. So, the Duty is not yet in force, it comes into force in July of this year. But firms, in their implementation and going through their programme of work, and we thank all the firms for all the work they're doing in relation to this, can really start to tackle some of the challenges in relation to the cost of living crisis through their implementation of the Duty. What do I mean by that in practice? In practice, at the heart of the cost-of-living crisis, to really support people through it, is clear and transparent information. I think that's a starting point. So, what are the good points of customer communications so that people can understand the choices that they have if they face into deficit budgets or if they are worried about struggling with their finances. So, that consumer understanding outcome within the Consumer Duty asks firms to look at their consumer journeys and ensure that the information that they give to their customers is clear. And obviously during the cost of living, if you take mortgages or lending, as firms improve that communication ability, that will help consumers understand what their choices are as they face into rising inflation.

The other area which the Duty asks firms to improve is customer support. So, how do I support customers? And that really will help, particularly in relation to the, what we've been discussing in relation to forbearance and when people start to struggle with firms improving the way in which they can support and their customer journeys through that. And I think the other area which I would be hopeful that it, that it would help but, you know, you can't always guarantee that this will be the case, because there are commercial choices to be made around this, is the fair value. So, this is around trying to get a sensible exchange between what the customer receives and what the firm provides and what the price effectively is for that. Not just price, but also the quality of that service. It's not just about price. And I think as firms start to think about the assessments they make of the value of their products and services, it's important to take the cost of living into account because if there's any time at which customers need the best value that they can get out of a product and service, the price at which it's there, it's now. So as firms think about the fair value element of the four outcomes, it is important to think about the lens of rising inflation and increasing prices as they think about the value of their products and services.

That said, it doesn't mean that prices won't go up and that's really important. And sometimes it's hard for, as a regulator for you to say that to people, your prices will go up. But rising inflation means rising inflation for businesses as well. So if you just take insurance as an example, take motor insurance. If your car or your vehicle, if you have a problem with it, if you need a repair or something happens to the car, the insurer needs to get the parts, needs to get a car repairer to fix it. The car repairer, the cost of repairing has gone up because those people's wages need to go up. The cost of getting the windscreen or getting a part from somewhere abroad has gone up because supply chain costs have gone up. That needs to go somewhere into the system, and the likelihood it means that some of that may lead to some increases in the premiums for people.

What we ask insurers to do when they think about passing through those costs is to ensure that they're providing as fair a value they can in the context of that cost-of-living crisis. Customers are struggling a bit; they're also struggling with the pass through of those costs. So, the framework of the Consumer Duty allows, we hope, to get to that fair exchange, given that context.

OI: Thank you for your time today, Sheldon. You can find out more about the areas discussed in this podcast on the FCA website. I’m Ozge Ibrahim, join us again soon on the Inside FCA Podcast.

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