

Working-Age Money-Management Commissioning Plan: Call for Evidence

July 2018

The Financial Ombudsman Service welcomes the opportunity to respond to the Money Advice Service's call for evidence on its *Working-Age Money-Management Commissioning Plan*.

about the Financial Ombudsman Service

The Financial Ombudsman Service was set up by Parliament to resolve individual complaints between financial businesses and their consumers – fairly, reasonably, quickly and as informally as possible.

We handle complaints about all kinds of money matters – from insurance and mortgages to savings and payday loans. If a business and their customer can't resolve a problem themselves we can step in to sort things out.

We're independent and impartial. When we decide a complaint, we look carefully at both sides of the story and weigh up all the facts. If we decide the business has treated its customer fairly, we'll explain why. But if we decide the business should have done more, we can order it to put things right – and pay compensation of up to £150,000. Consumers don't have to accept any decision we make. But if they accept an ombudsman's decision, it's binding both on them and the business.

our response

We understand that the Money Advice Service is seeking submissions to support its proposed money-management commissioning plan for working-age people up to the age of 55. Whilst we are not in position to comment on the specific questions, we do feel that we have insight to share about consumer credit complaints which may be of some contextual value.

credit complaints

We note that one of the long-term impact measures is to see a fall in the proportion of 'financially struggling' and 'financially squeezed' adults who regularly use credit for everyday spending. Over recent years we've highlighted the rising volumes of people telling us they've had trouble after borrowing money. Complaints we received about consumer credit rose by 40% in 2017/2018, following an 89% rise in the previous year.

On the one hand, this reflects shifting preferences in how people choose to pay for things. However we're increasingly seeing that for some people, borrowing may be a necessity rather than a choice. And as we highlighted in our recent [annual review](#), when people are living on credit there can be a fine line between getting by and going under. Looking in particular at high-cost credit products, payday loans alone accounted for more than 17,000 new complaints last year, and we found in around six in ten cases that people hadn't been treated fairly by their lender. And based on the number of payday lending complaints we're currently seeing, we're on track to receive significantly more than we planned for in our plan and budget for 2018-2019.

A significant proportion of complaints from people using credit to buy everyday items – such as household appliances – have been about the quality of the goods in question, or about the administration of their account. But we have seen some examples, as set out below, where consumers have had to turn to a combination of credit agreements as a way to cover their everyday living costs. It is worth bearing in mind that where consumers have done this to help cover the cost of household appliances for example, the risk of losing essential items may put some people off asking for help.

Over the last couple of years, we've also seen an increasing number of complaints involving instalment loans. This year we've heard from many people who've taken out high-cost instalment loans as a way of refinancing unaffordable payday loans. In some situations we've seen, the lender has given someone several instalment loans at the same time which has led to mounting and unsustainable debt.

case studies

These case studies are illustrative and broadly based on real-life cases. They are provided as examples of cases we've seen where consumers had to borrow to pay for everyday expenses or where they were in particular financial difficulty. Although these are common problems we see, we can't precisely determine the proportion of consumer credit complaints that involve borrowing for everyday spending – we don't collect the information that would be required to report on that.

- Ms C had 13 cases with us covering payday loans, catalogue accounts, home credit and an instalment loan. On review of her documents, it was evident that she was relying on these loans to get by. As there was little evidence to suggest the various businesses checked her financial circumstances, we upheld all the complaints.
- Mr H, took out multiple rent-to-own agreements for everyday items including a television, computer and washing machine. He felt that it was clear he was in financial difficulty and this was not taken into account by the business. We found that although some of the earlier loans were affordable, the business did not carry out appropriate affordability checks on a number of the loans. Following our involvement the business offered to settle the complaint.

- Miss K took out a logbook loan to pay for Christmas. She struggled to repay the loan shortly after taking it out and felt she couldn't really afford it from the outset. We said the business should have seen from Miss K's credit file that she already had credit and store cards, a catalogue account and had only just repaid a payday loan. We felt it was reasonable for Miss K to repay the £1,000 she borrowed but told the business to waive the nearly £3,000 in interest she was charged.

credit complaints by age

In our *ombudsman news* [issue 139](#) (January/February 2017), we highlighted the top 10 complaints brought to us by people under 55 in 2016/2017. The most common complaints included packaged bank accounts, current accounts, mortgages and payday loans. We also noted that younger people were much more likely to have taken out a payday loan compared to older consumers.

Since then, we've seen a sharp increase in the number of consumer credit complaints brought to us – and a corresponding increase in the number people under 55 bringing those complaints. For example, for consumers in the 25-34 age bracket, consumer credit complaints did not feature in our top three most complained about products for 2016/2017, but in 2017/2018 it was the second most complained about product (after PPI).

10% of all complaints we received in 2017/2018 were from 25-34 year olds. However the proportion of consumer credit complaints we received from consumers of that age was much higher. As shown in the table on the next page, the majority of credit complaints for this age group were about payday loans. This is an on-going trend – our 2014 report on payday lending, [Payday lending: pieces of the picture](#), noted that consumers who brought a complaint about payday loans to us in 2013/2014 were considerably more likely to be from younger age groups than those complaining about other financial products.

Proportion of complaints about selected credit products brought by different age groups (1 April 2017-31 March 2018)*	18-24	25-34	34-44	45-54	55-64	65-74	75+
Rent-to-own**	5%	34%	30%	17%	10%	3%	1%
Catalogue shopping	5%	29%	25%	19%	12%	7%	3%
Guarantor loans	4%	34%	27%	17%	7%	10%	1%
Hire Purchase	9%	30%	24%	20%	10%	5%	1%
Hiring/Leasing/Renting	3%	22%	28%	24%	17%	6%	1%
Home Credit	2%	29%	29%	21%	12%	6%	1%
Instalment Loans	4%	46%	32%	14%	3%	1%	0%
Logbook Loans	0%	37%	33%	19%	8%	3%	0%
Pawnbroking	0%	17%	21%	37%	23%	2%	0%
Payday Loans	4%	51%	30%	12%	3%	0%	0%
Point of Sale Loans	4%	16%	20%	25%	18%	13%	4%
Store Card Accounts	1%	21%	24%	24%	14%	11%	4%
Credit Card Accounts	2%	18%	23%	23%	17%	12%	5%

* Source: Financial Ombudsman Service management information.

** We do not categorise rent-to-own as a separate product in our complaints data. The figures for rent-to-own complaints in the above table represent the complaints we have received about the three largest rent-to-own lenders.

Although we can't comment specifically on the relevant age groups and channels to target, our data shows that consumer credit complaints are on the rise – and based on current trends will continue to do so – and that most complaints about consumer credit come from consumers aged between 25-34, followed by those in the 34-44 bracket.

From the cases that come to us, it's not always the case that people couldn't afford to borrow the money in the first place. But from what we've seen, lenders still have a way to go in doing the right thing – both at the point they're deciding to lend money, and at the point their customers decide to complain, and particularly so where the people involved may be vulnerable. Equally, if people are struggling, it's essential they tell their lender as soon as possible.

We hope this information is useful and would of course be happy to discuss it in more detail.