

# Quote request

**Research on benefit and payroll deduction lending**

July 2021

# Quote request: Research on benefit and payroll deduction lending

Fair4All Finance is seeking a provider to research the impact of benefit and payroll deduction lending.

## About Fair4All Finance

Fair4All Finance is a not for profit organisation founded in early 2019 to improve the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services. We have three main priority areas:

- Expanding provision of affordable credit through a scaled community finance sector
- Partnering with banks and financial services providers to support the delivery of products and services for customers in vulnerable circumstances
- New product and market development – developing and scaling products and services to address market gaps

You can find our full strategy [here](#).

## Introduction

We are seeking a research partner to:

- Document the impact of lending where repayments are taken at source by the lender from the customer's salary or benefit payments
- Establish good practice in the use of these lending models to maximise benefits and mitigate detriments

For decades former industrial credit unions with links to local authorities, the police, the NHS or other employers have linked lending to payrolls, allowing lenders to take repayments directly at source from workers' salaries. More recently a range of new 'profit with purpose' lenders have taken up this model and greatly expanded the payroll deduction lending market.

Some credit unions have also tied loans to a benefit, usually a non means tested benefit like child benefit. Benefits are deposited with the credit union and used to repay a small loan (usually < £500). The benefit payment acts as the trigger for the credit union to automate a loan repayment, a modest payment to the borrowers' savings and a residual balance is returned to the borrower.

Payroll and benefit deduction loans are unsecured, but the model acts as a mitigation against default and results in better loan performance, allowing lenders to approve lending they might otherwise decline.

Anecdotally, customers find that the automatic repayment makes these loans more manageable. We want to learn more about the benefits this has for lenders and customers in comparison with standard lending.

We also want to learn more about any risks associated with the model, including how it affects the relationship between lender and borrower and whether taking repayments automatically at source means that customers are less inclined to seek flexibility from the lender in order to prioritise more urgent costs that may occur, and/or less likely to change lenders.

We also want to look at good practice for employers in payroll deduction lending, understanding how lending affects the relationship between employers and employees, including the employee's propensity to change jobs and determining the most appropriate division of roles and responsibilities between employers and lenders.

## The specification

The purpose of the work is to understand and set out good practice on benefit and payroll deduction lending. It should consider:

### Customers

- Impact on customers, including but not limited to impact on financial wellbeing and resilience, ability to access and manage credit, how customers choose to prioritise different debt repayments and the impact of additional products delivered alongside or subsequent to the original loan
- Customers' use of flexibility and forbearance, and ease of accessing flexibility and forbearance when in debt or financial difficulty
- Customers' relationship with lenders, including any unintended 'lock-in' whereby customers or employees do not feel they can exit their relationship with the lender or employer
- How loan affordability for customers is assessed in practice and ought to be assessed, including ensuring that customers have adequate remaining income
- What wider support services maximise positive impacts on customers
- Assessment of which customers the models are appropriate or not appropriate for
- Good practice in managing transitions when employees leave their job and repayment of loans via payroll deduction is no longer possible, or when someone's eligibility for benefits changes

### Lenders

- Impact on lenders, including on financial sustainability, creditworthiness assessment, default rates and use of forbearance measures. This should consider the uptake of deduction lending schemes and the total lifetime value of the customer where the initial relationship related to a benefit or salary linked loan in contrast to loans originated through other channels
- Provide an overview and assess the size of the current payroll lending market, considering for-profit and not-for-profit players. Look at the potential size, viability and potential growth of the market

### Employers

- Impact on employers and good practice on their role in payroll deduction lending, including looking at how they can best attract customers and promote the scheme, the appropriate division of responsibilities between lenders and employers and how payroll deduction lending impacts borrowers' relationship with their employer
- Across all areas the research should determine how the models can be optimised to maximise the benefits and mitigate any potential downsides for customers and lenders
- It should additionally consider the role other parties might play in facilitating these arrangements including the involvement of DWP, payroll providers and employee benefit platforms

Whilst there are similarities between the benefit and payroll models, we expect that each will require discrete treatment as they are used in different ways and by different lenders and customers. The report should make comparisons between these lending models and also draw conclusions based on the differences between these models and more standard repayment mechanisms.

We welcome proposals from researchers on a robust methodology to achieve these aims described above. This research will require significant engagement with customers, lenders, employers and other stakeholders if it is to be able to gather the evidence base and address the points above.

Fair4All Finance will be able to assist researchers in making contact with lenders who utilise these lending models and hopefully facilitate access to their data on an appropriately anonymised basis. We would hope for this work to conclude around six months after commencement.

The research will be for an audience of affordable credit providers, mainstream credit providers, public policy makers and consumer researchers, and will be used to inform good practice in delivery of these lending models. Fair4All Finance will use the findings to inform the priorities of its Affordable Credit Scale Up Programme and its engagement with employers.

## Outputs/deliverables

- Participation in a research inception meeting
- Participation in regular catchups and progress meetings
- Monthly status reports detailing progress to date, next steps and any challenges or issues experienced
- An interim presentation, summarising key findings from the first phase of the research
- A draft final report for comment
- Final outputs will be:
  - A final report, produced in Fair4All Finance branding, setting out research findings and including a good practice guide for lenders and employers on optimising delivery of benefit and payroll deduction lending
  - A short separate key findings document in the same branding
  - Presentation of findings at a launch event

## Timings

Timetable for quote requests:

Stage	Dates
Quote request published	16 July 2021
Proposals due	13 August 2021
Assessment	Up to 20 August 2021
Interviews (up to the top 3 quotes)	If applicable up to 27 August 2021
Decisions made	By 2 September 2021

## Your response

To respond to this quote request, please provide a proposal for how you would deliver the required specification for the scope of services as outlined above. The proposal assessment criteria and requirements are set out below.

Clarification questions on this quote request may be addressed to [fionn@fair4allfinance.org.uk](mailto:fionn@fair4allfinance.org.uk) by 4 August 2021.

Any question responses which are relevant to all will be shared with all applying parties. If you intend to submit a quote please advise us at your earliest convenience so that question responses can be shared. Questions will be anonymised before responses are shared with respondents.

We would be pleased to receive joint proposals where providers believe they can better fulfil the specifications of this brief by working in partnership. In these cases, please specify a lead organisation in your proposal.

## 1 Budget and Pricing

- The total budget for this piece of work is £35,000, including VAT, travel and all other expenses
- Given the not for profit nature of Fair4All Finance, and our founding and funding through government, please indicate where you have given a discount on commercial rates
- We would welcome proposals which identify a way to deliver the requirements for under the identified budget on a fixed price basis
- Please outline any VAT and/or expenses which may be payable clearly and separately

## 2 Proposal submission and scoring criteria

Please email a proposal of no more than 6–9 pages to [fionn@fair4allfinance.org.uk](mailto:fionn@fair4allfinance.org.uk) by 13 August 2021.

Proposals submitted will be assessed by Fair4All Finance against the following questions:

<p><b>1 Understanding of requirements.</b> Please explain what you understand Fair4All Finance is aiming to achieve in commissioning this work.</p> <p><b>To what extent does the proposal demonstrate an understanding of the issues related to this brief?</b></p>	10%
<p><b>2 Please set out your proposed methodology by stage</b> Please set out your detailed research plan to achieve the aims described above. This can include research questions, partners, available data, approach to data collection (survey, interview, focus group), target population, analysis, and secondary data requirements.</p> <p>Set out how you will reach robust conclusions on</p> <ul style="list-style-type: none"> <li>• The impact of deduction lending models on consumers</li> <li>• The impact on and potential opportunities for lenders</li> <li>• What constitutes good practice in the delivery of these models</li> </ul> <p>Be as specific as possible, however we understand methodology can change depending on data sources available (ie relevant data from partners and other stakeholders).</p> <p><b>To what extent are the methodology and methods appropriate to the requirements set out in this brief?</b></p>	30%
<p><b>3 Relevant experience</b> Please set out your experience of conducting high-quality research and analysis into:</p> <ul style="list-style-type: none"> <li>• Consumer financial wellbeing, financial inclusion, and/or other relevant topics</li> <li>• Consumer credit provision, especially in the community finance sector, including analysis of lending and business models</li> </ul> <p>Please provide the name of two references we can contact in confidence, and at our sole discretion to confirm the work you undertook and its relevance.</p> <p><b>What degree of experience does the bidder demonstrate in order to successfully complete the work?</b></p>	20%

<p><b>4 Appropriate resourcing</b></p> <p>Please set out your resourcing plan and assumptions about the time commitments you plan to make by grade and resource type. Please make it explicitly clear who will be accountable for the work and who our day to day contact will be.</p> <p>Please provide CVs or pen portraits for team members who would lead the research.</p> <p><b>How well has the bidder structured a team in order to successfully manage the contract and deliver the required work to the budget and timetable required?</b></p>	15%
<p><b>5 Value for money</b></p> <p>Please review the budget and pricing details above and provide a breakdown of the cost of service.</p> <p><b>To what extent does the proposal represent good value for money?</b></p>	25%

## Notes

- Quote request responses not received by the deadline will not be considered
- Quotations shall be valid for 90 days
- All bidders are solely responsible for all their costs and expenses incurred in connection with this procurement process at all stage
- Fair4All Finance reserves the right to amend or cancel the procurement exercise at any point. Fair4All Finance will accept no liability for any losses caused by any change or cancellation of this procurement exercise nor any decision not to award a Contract
- Any information submitted to Fair4All Finance may need to be disclosed and/or published by Fair4All Finance. Fair4All Finance may disclose information in compliance with the Freedom of Information Act 2000, any other law, or, as a consequence of judicial order, or order by any court or tribunal with Fair4All Finance to order disclosure
- Data Protection Act 2018 - Any awarded Contract will be subject to the Data Protection Act (DPA) 2018. Fair4All Finance reserve the right to request additional evidence to undertake sufficient due diligence of any Tenderer to ensure they have implemented the appropriate technical and organisational measures to comply with the act
- Fair4All Finance is committed to greater transparency and may publish its tender documents, contracts and data from invoices received and may at its discretion redact all or part of such information prior to publication
- Bidders shall not (and shall procure that their subcontractors and representatives do not) do any of the following without obtaining the prior written consent of Fair4All Finance
  - make a public statement or communicate in any form with the media in connection with this procurement
  - use any trademarks, logos or other intellectual property rights associated with Fair4All Finance and/or its stakeholders
  - represent that the Bidder is directly or indirectly associated in any way with Fair4All Finance and/or its stakeholders or that its or their respective products and/or services are in any way endorsed by Fair4All Finance and/or its stakeholders
  - do anything or refrain from doing anything which would have an adverse effect on or embarrass Fair4All Finance and/or its stakeholders
- Tenders with abnormally low prices may be rejected by Fair4All Finance. Prices that are suspiciously low in the opinion of Fair4All Finance will be considered further before a decision is taken as to whether the price is abnormally low. This will include clarification with the relevant bidder
- Fair4All Finance will award the Contract to the bidder submitting the offer that best meets scoring criteria from the point of view of Fair4All Finance
- Subject to negotiation, Fair4All Finance is able to sign a contract provided by the research partner
- Fair4All Finance will notify all bidders of its contract award decision