Request for proposals

The current scale and trajectory of Illegal moneylending in the United Kingdom (UK)

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Request for proposals: Understanding the current scale and trajectory of Illegal Moneylending in the United Kingdom (UK)

Fair4All Finance is seeking to commission a comprehensive research report into the current scale and trajectory of illegal moneylending (IML) in the UK.

We want the research to establish, as precisely as possible, the current volume and value associated with IML in the UK. This will include physical, face to face interactions, and more recent developments in online introductions and transactions conducted digitally. In these scenarios, customers may be duped into thinking the website or introducer is legitimate or preyed upon where they may know or suspect the lender is unauthorised but believe their choices are so limited that they proceed with transactions.

Insights from this work, especially understanding the volume and value of illegal moneylending, will be used by Fair4All Finance and partners to inform regulators and the wider financial services sector on how to reduce customers in financially vulnerable circumstances needing to turn to illegal money lenders.

About Fair4All Finance

Fair4All Finance is a not-for-profit organisation founded in early 2019 to increase the financial wellbeing of people in vulnerable circumstances by increasing access to fair, affordable, and appropriate financial products and services.

- 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

For customers struggling to access mainstream credit fair and affordable lenders like credit unions and CDFIs provide a vital service. Responsible credit can help customers to meet unexpected costs, smooth incomes or make essential purchases that are otherwise unaffordable upfront, as well as saving hundreds or thousands of pounds a year compared with high-cost credit.

Yet responsible lending makes up only a fraction of short-term lending in the UK. Each year, community finance providers make around £300million of loans to low(er) income households, invariably short term, and small sum credit. High-cost short-term credit (HCSTC) providers lend substantially more with an estimate in 2017 of £3bn.

Recently, the high-cost credit market has been in flux, with lenders leaving the market before and during the pandemic; a substantial increase in friends and family borrowing has been noted by the FCA from 3.6m (2017) to 5.9m (2020), and some unregulated new credit entrants like buy now pay later (BNPL) potentially lending to more vulnerable households, with the Woolard Review (2021) calling for quick regulatory action on BNPL.

Fair4All Finance is particularly interested in the impact to lower income households (which we define as those in the bottom two income quintiles, roughly <£25,000) when there is a lack of access to fair financial products.

There is limited evidence detailing the impact on consumers of the significant amount of regulation and scrutiny in relation to high-cost credit providers since 2014 when the FCA took over regulatory control. There is also limited evidence of the impact of the reduction of certain high-cost (home credit, payday, rent to own) and mainstream products (unarranged overdrafts and certain credit card debt) on lower income, credit declined, households.

It seems that some lower income households, that previously had access to products, are likely to be denied access now, assuming that they are still applying to a diminishing number of lenders. We want to examine the impact on the credit declined, previously credit approved, specifically as it relates to unregulated borrowing activity.

There is a concern that without adequate legal credit provision a potential danger exists of credit-seeking yet declined households obtaining credit via illegal, criminal gang/organised crime led activity, where households are either duped, targeted, or preyed upon. Such activity might be either through traditional face to face means, or through digital platforms. There is anecdotal evidence of certain online forums being used in this way and we know from the FCA of an increased number of illegal websites being reported.

The high-cost, short-term credit sector in the UK has been shrinking in recent years. At its peak, in 2013, HCSTC issued £2,500million in loan values. In 2017, this had reduced to a figure of £1,200million and in 2020 it had reduced to just over £200million.[1] From a peak in 2013 of roughly 2.6million[2] loan originations per quarter, the figures for Q3, 2017 had dropped to 1.23million and by Q3, 2020 had reduced to just 141,000. There are now fewer than 40 HCSTC lenders[3].

The home credit market, rent to own and guarantor lending markets have all struggled to continue trading. Many firms, often the market leading firm at the time, have withdrawn from the market or entered administration. Other changes in the commercial credit market to persistent credit card and overdraft debt have resulted in more limited product availability for lower income households.

This is partly caused by:

- increased and tighter regulation and scrutiny by the regulator, the FCA
- the impact of the pandemic on business models and a sharp reduction in consumption, potentially for a limited period, caused by lockdown
- a reduced appetite among investors to capitalise lenders
- a range of other circumstances including increased claims against high-cost lenders that led to firms like Amigo and Provident among other citing the rise in claim management company (CMC) led complaints against historic lending to be dangerous for the future trading prospects

HCSTC and other high-cost products are within a sector more likely to leave than stay and simply do not have that capacity to lend as before. Those lenders that do remain, appear to be altering their credit criteria toward a different demographic where the borrowers may increasingly be classified as near-prime, not sub-prime; people on nearer to average incomes than lower incomes.

[1] FCA Product Sales Data
[2] Extrapolated from 10.3million total loan origination figure reported in FCA High Cost Credit technical annex (2017)
[3] FOI request obtained from FCA (2021)

The average borrower income has been creeping upward since the Competition and Markets Authority (CMA) first identified problems in the market around 2014; then the median net individual income of a payday loan borrower was reported as £15,600. It rose to £20,000 (reported in the 2017 FCA report into high-cost credit) and PwC (for FCA) reported in March 2020 that half of all payday borrowers reported a household income above £24,000. A household income around £24,000 according to the ONS would place the individual in the fourth from bottom decile. It is – it appears - no longer a loan for the bottom quintile.

The FCA over the same period confirm an increase in borrowing from friends and family, in 2017 they cited 3.6million adults accessing funds this way, increasing this figure to 5.9million by October 2020[4] with a forecast that the number could rise further to nearly 10million. Of course, some of this lending is benign, some of it is not.

Research by Carnegie UK in 2020 found that the FCA had reported a rise in illegal or cloned high-cost credit websites from 38 in 2019, to 81 in 2020. We believe this figure is also likely to be under-reported. People often do not realise their loan is illegal, or they are scared to report it or talk about it.

Carnegie UK Trust along with the University of Salford surveyed community lenders (Credit Unions and CDFIs) twice during the period of the pandemic, in May and December 2020. The survey findings along with evidence collected during the pandemic from a range of excellent sources including ONS, IFS and Resolution Foundation add to the total picture of a pandemic that resulted in a detrimental impact on the finances, resilience and wellbeing of certain household types, and that these outcomes were largely determined by tenure, ethnicity, household composition or income.

However, with rising financial vulnerability due to the pandemic, there is debate around whether borrowers deemed unprofitable to serve because of market reforms will be forced to access other exploitative sources of credit, like illegal moneylenders.

In 2020, the FCA reported that half of all credit applications were denied. It was estimated that customers excluded from other forms of consumer credit turn to informal sources like friends and family rather than illegal lenders. Relying on informal sources of credit is not without consequence, and the English Illegal Moneylending Team routinely maintain that many victims of loan sharks believe they are borrowing from family and friends.

The scale and depth of illegal lending has not been monitored over time. The most recent estimate on the size of the illegal lending market comes from a 2010 report.[5] This report estimated the number of people victimised by loan sharks using a nationally representative quantitative survey. This survey examined the proportion of people who admitted to using illegal moneylenders and the proportion of respondents who said they were aware of others using illegal money lenders in the UK. Both indicators estimated 0.31m loan shark victims borrowing £120m from illegal lenders.

Covid has accentuated the difficulties facing particular groups in accessing credit. According to the FCA:

'In 2020, 6% of UK adults (3.1m) were refused one or more financial products or services in the previous two years. Women are marginally more likely to have been refused a financial product or service in this period than men (6% compared with 5%, respectively). By age, refusal rates are higher for adults aged 25-44 (10%) and lower for adults aged 55+ (2%). Refusal rates are over twice as high for renters (14%) as for adults with a mortgage (5%)'.[6]

There is strong evidence that exclusion rates vary by household income and tenure, and with loans increasingly transactional, through a screen needing a Wi-Fi or internet connection and some level of tech

[4] FCA Financial Lives Survey 2021
[5] https://assets.publishing.service.gov.uk/government/uploads/system/uploads/attachment_data/file/31888/10-1186-interim-evaluation-illegal-money-lending.pdf
[6] https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

awareness there are additional barriers for those households experiencing 'data poverty,' a term that is increasingly used and refers to unaffordable connectivity options. Here, the FCA survey shows that 20% of adults with a household income of less than £15,000 are digitally excluded, versus just 1% of those with an income of £50,000+.

There is also a link between data poverty and deprivation, as 11% of adults in the most deprived areas are digitally excluded compared with less 7% in the least deprived. [7]

Together, the loss of one substantial credit market and the inability of a better option to replace it, alongside the challenges facing lenders and borrowers, particularly those facing data poverty, means a market opportunity exists for the criminal to meet borrower's needs.

The Specification

We seek both a **qualitative and quantitative** assessment of the current illegal moneylending situation across the UK drawn from but not limited to:

- individual interviews and/or focus groups or surveys
- desk research and mystery shopping/website monitoring
- comprehensive analysis of relevant datasets or a suitable dataset proxy that informs a figure of current levels of both illegal lending volume and value

We are open to proposals that include deductive reasoning to calculate a figure of illegal lending where datasets cannot be secured, however our strong preference is to work with a partner who can obtain, analyse and interpret data to extract the scale of illegal moneylending as it is currently configured.

In any event this research must provide an estimate of the volume and value of current illegal moneylending across the UK.

We therefore seek an assessment of the status of illegal moneylending encompassing the urban criminal gang operations that have existed across many towns and cities for decades, and new forms of illegal moneylending that may be using offshore residency, and/or unregulated fintech.

We want to test whether the vacuum created by the demise of certain high-cost products and the tighter credit criteria imposed by certain lenders has:

- Resulted in an uptake of alternative, legal, regulated products secured from other lenders
- Whether it has resulted in less demand (including going without) from people who may have previously applied and been accepted being able to manage without the credit they might otherwise have sought
- Whether previous 'credit accepts' and subsequent 'credit declines' are using unregulated forms of credit
- Combination of factors

Resources

Data on illegal moneylending is by its nature scarce. We welcome proposals from researchers on a robust methodology using a combination of customer lived experience analysis, case study analysis of new online lenders, sampling of large transaction datasets and deductive reasoning.

Fair4All Finance is in discussion with other parties to support the bidder in securing one or both below datasets that would support the analysis:

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[7] https://www.fca.org.uk/publication/research/financial-lives-survey-2020.pdf

- Through a credit reference agency (CRA), significant anonymised datasets to allow the successful bidder the opportunity to analyse data to assess the level of credit exclusion that may have developed over the past decade to inform the research
- Thousands of pieces of Open Banking data from applicants who fit an income profile between £18,000 and £25,000, which may be analysed to determine the instances of illegal money lending in transaction history eg where regular, credit-like payments are being made to a non-regulated lender

We also welcome applications from those who have access to comparable datasets already or from bidders who may be able to use another methodology, to reach an estimate of the size of illegal lending currently. Please make this clear in your proposal.

Outputs/deliverables

- Participation in a research inception meeting
- Participation in monthly catchups and progress meetings outlining current status, progress to date, next steps and challenges or issues experienced
- An 'Emerging Themes' interim presentation summarising emerging findings to date with Fair4All Finance and sounding board covering:
  - the lived experience
  - International evidence phases; along with some
  - Preliminary findings from exploratory discussions with (some or all) informed parties
  - Early feedback from evidence gathered during the exploration on current methods and traits bring used by illegal lenders
- Attend up to three sessions with Fair4All Finance and sounding board to review progress on establishing final volume and value figures from datasets
- A draft final report to Fair4All Finance and sounding board for comment
- Final outputs will be:
  - A final report, produced in Fair4All Finance branding, setting out comprehensive research findings and what that means for the volume and value of current illegal moneylending across the UK with separate findings for each nation documented within the final report. Please see below what the components of the final report should be
  - A short separate key findings document in the same branding
  - A set of research data, to be stored in a readily accessible electronic format such as excel
  - Presentation of findings at a launch event

Dates and timings of above outputs/deliverables to be discussed with research partner. We expect this work will take 8-9 months in total and aim to commence as soon as possible after the appointment of a research partner. However, we are open to suggestions about the planned timetable.

We expect four elements to be explored and/or delivered as specified in the overview. We have given an indication of the percentage of the research that we anticipate needs devoted to each component. This is intended to aid bidders pricing and focus their resources within the overall financial envelope. These figures are for guidance and bidders are welcome to adjust these and indicate their ratio.

The final report should include:

1 **Lived experience** understanding drawn from focus groups across the UK or individual meetings with low(er) income householders across the UK, detailing citizens' interactions with physical and digital forms of illegal moneylending (approx. 15% of the total research)

2 An exploration and assessment of the **depth and breadth of both physical and digital illegal moneylending** methods being utilised by illegal lenders (approx. 50% of the total research), including:

- an immersive exploration around methods and traits used to solicit customers and the routes to market utilised online by illegal lenders, including the use of forums and chat rooms as well as search engine optimisation engagement with informed parties including the National Crime Agency, England's Illegal Moneylending Team, the devolved administration equivalent illegal moneylending teams, Trading Standards, and the National Economic Crime Centre
- an evidence-based assessment of the volume and value of both physical and digital illegal moneylending utilizing datasets, or the researchers selected method to establish the figures.

We expect this element of the research to produce a **figure of the impact (volume and value) of illegal moneylending activity in UK**

3 An assessment of **international experiences** that are informative and relatable to the legislative changes introduced by the FCA since 2014 around consumer credit and consumer protection, and any implications or lessons that can be learned from other nations on both credit demand and supply and consequences (if evidenced) on subsequent illegal moneylending activity (approx. 10% of the total research)

4 A **report and presentation** which details your logic to reach a figure on the number of individuals using forms of illegal moneylending and the loan values (approx. 25% of the total research)

Timings

Timetable for request for proposals:

Stage	**Dates**
Request for proposals published	13 December 2021
Clarification questions due	19 January 2022
Proposals due	6pm 28 January 2022
Assessment	Up to 2 February 2022
Interviews (up to the top 3 proposals)	If applicable from 7 February 2022
Decisions made	By 14 February 2022

Your response

To respond to this request for proposals, 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 request for proposals may be addressed to niall@fair4allfinance.org.uk **by 19 January 2022.**

Any question responses which are relevant to all will be shared with all applying parties. If you intend to submit a proposal, 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 and it would be Fair4All Finance's preference to contract the lead organisation only.

Budget and Pricing

The total budget for the piece of work is £100,000, including VAT, travel and all other expenses. If there are any elements of the research that would not be able to be delivered within the research budget envelope, please detail this along with associated pricing. Please also detail any costs associated to accessing datasets and whether that is captured within the budget.

- 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
- Please also attach a proposed payment schedule connected to your proposed methodology and milestones. This can be agreed and finalised prior to project commencement. Fair4All Finance would not typically pay more than a 20% upfront fee

Proposal submission and scoring criteria

Please email a proposal of no more than 15 A4 pages long to niall@fair4allfinance.org.uk **by 6pm on Friday 28 January 2022. This should cover experience, methodology, timeline and costs.**

In a separate appendix please provide:

- Examples of two reports/papers undertaken that have relevance to this work
- Detailed CVs of the personnel conducting the work and research, their skills and abilities, qualifications, time commitment and day rates
- Proof of professional indemnity and public liability
- Most recent full year audited accounts
- Two references from individuals who have commissioned work

Scoring is based on how well the proposal addresses the criteria in the table below, plus the cost of service.

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

1 **Understanding of requirements.** Please explain what you understand Fair4All finance is aiming to achieve in commissioning this work. **To what extent does the proposal demonstrate an understanding of the issues related to this brief?**	15%
2 **Please set out your proposed methodology by stage** 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. Be as specific as possible, however we understand methodology can change depending on data sources available (ie relevant data from partners and other stakeholders). **To what extent are the methodology and methods appropriate to the requirements set out in this brief?**	25%

3 **Relevant experience** Please set out your experience of delivering analysis of complex landscapes in the financial services or social sectors. 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. **What degree of experience does the bidder demonstrate in order to successfully complete the work?**	30%
4 **Appropriate resourcing** 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. **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?**	15%
5 **Value for money** **To what extent does the proposal represent good value for money?**	15%

Additional Notes

- Request for proposals 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 stages
- 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
- The successful bidder would be expected to agree and sign a Contract provided by Fair4All Finance
- 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
- Fair4All Finance will notify all bidders of its contract award decision