

Access to credit and illegal lending

**The shape of the market is as important as the size
May 2024**

Contents

Foreword	3
Acknowledgements	5
Executive summary	6
Introduction	10
The UK credit market	11
Filling the credit vacuum	27
Illegal lending in Great Britain	34
Conclusions	43
Research recommendations	45
Glossary	49
Methodology	51

Foreword



Sacha Romanovitch OBE, CEO of Fair4All Finance

The **shape** of the credit market ought to be as important as the **size** of the credit market.

Credit is a vital commodity for many households. Nearly four in every five adults - over 41 million people - hold some form of credit or loan regulated by the FCA. Around a third (35%) are living in a household where their income is under £30,000¹, down 2% since 2020².

Credit is seen by many to be essential to their lives, helping to smooth incomes and meet both expected and unexpected bills.

Those living on the **lowest incomes are more likely to use forms of non-mainstream credit**, often at a higher cost³.

For example, whilst **13% of all regulated loan products are held by people with household incomes under £15,000**, this percentage is significantly higher for certain higher cost regulated products.

23% of all high-cost loans and 41% of all pawnbroker advances are held by lowest income households, but only 10% of credit cards are.

In addition to this cost imbalance, there are now warning signs around the decreasing availability of credit, even higher cost options, to lower income households. Such credit was expensive but arguably, in many cases provided access to legal credit when other options for borrowers were limited.

A decade ago, three forms of high-cost credit (payday, home collected credit and rent to own) accounted for c4% of outstanding consumer credit issued. Now it is c0.3%⁴

In this report we ask, legitimately, what happens for people when they seek and are refused credit.

Where are the customers who used forms of high-cost credit now accessing the credit they still need?

¹ FCA (2023) [Financial Lives Survey 2022](#) - Product holding Appendix A

² FCA (2021) [Financial Lives Survey 2020](#) - Product Holding Appendix notes 37% of UK adults hold any regulated credit or loan

³ FCA (2023) [Financial Lives Survey 2022](#) - Product holding Appendix A details different customer characteristics per product

⁴ FCA (2017) [High-Cost Credit Review Technical Annex 1](#): CRA Data Analysis of UK personal debt and FCA (2023) PSD006 data release and FCA PSD006 and Apex Insight

This research is aligned with other recent findings, including commentary on the market by LEK⁵, ClearScore and EY⁶, and Apex Insight⁷, all indicating that access to credit for those with the least is reducing.

We see this in the figures for declined applications, and also for the stage prior to applications, enquiries, where offer rates have plummeted. In some cases this will be due to affordability, where other budget pressures make the credit unaffordable, in other cases lender risk appetite or availability may be the reason.

Credit demand among lower income households has not reduced, and it is worrying that supply may be changing to unregulated, potentially dangerous or exploitative lenders. This is an outcome which ought to be of concern to both policy makers and regulators.

This report, drawing on a 2,547-person, weighted Ipsos survey of 18-75 year olds in Great Britain, indicates the risks of a rise in criminal activity if access to credit becomes the preserve of wealthier households. **There are dangers if the credit market size and shape does not fit all.**

Credit is not the solution for everyone. Better wages and benefits, secure employment, thrift, rainy day savings, access to support structures and many other interventions can and would be alternatives to credit.

However, our interest in this report is primarily a functioning and regulated credit market that meets a range of borrowers' needs.

We need to be alert to what happens next to some of those seeking, but declined, credit. This can include going without food or energy, seeking alternatives from friends and family (and our research suggests some of that is not benign) and pawning and selling goods.

Until, for some borrowers either by choice or as a result of being duped, a potential route emerges toward illegal lenders - both in person and online - where the risk of financial and other data-related harms is much increased.

There are no easy answers to complex questions of access to credit. Of course, credit that leads to over indebtedness, negative budgets and bailiffs are bad outcomes, but so too are unregulated, exploitative loan sharks, and increased financial and data crime if legal, regulated credit is not available.

We see a significant need for greater access to affordable credit in our research.

We think the evidence presents a worrying picture - if not yet fully formed, but clearly emerging - that lack of access to credit can be very damaging.

Action involving multiple agencies is needed, as is more detailed research, to ensure safe access to fair credit, and support for those for whom access is not an option.



⁵ LEK Executive Insights (Nov 2023) [Improving access to lending for the financially vulnerable](#)

⁶ ClearScore and EY (March 2024) [Building a non-prime lending market that delivers for UK consumers](#)

⁷ APEX Insight (2023) [UK Non Prime Consumer Credit 2023 - Market Insight Report](#)

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Survey

Ipsos UK conducted an online survey amongst a sample of 2,547 adults aged 18-75 in Great Britain, recruited from online panels. The survey covered a variety of topics related to finances, borrowing and use of credit. Fieldwork was conducted online between 17 - 23 January 2023.

All those who took part in the survey provided explicit consent for data to be collected regarding any borrowing and credit products they may personally have and how they use them. Data have been weighted to the known representative proportions for age, gender, region, working status, social grade, education (graduate v non-graduate) and ethnicity (white v ethnic minorities) to reflect the offline population of GB adults age 18-75.

To facilitate subgroup analysis, boosts were conducted amongst those claiming to have experience of certain types of credit/debt - additional weighting was applied to ensure the size of these groups of interest remained in line with the original natural fall out.

Whilst weighting has been applied to align the demographic profile with the population, it is important to take the subject matter and methodology into account when interpreting results. Ipsos UK was responsible for data collection only, with Fair4AllFinance responsible for all analysis and interpretation. All polls are subject to potential sources of error. Where results do not sum to 100, this may be due to rounding

Executive summary

The UK credit market

The last decade has seen **significant shifts in the UK credit market**, with access to those on the lowest incomes increasingly difficult.

Outstanding consumer credit stands at £150bn⁸ (as of end 2023), having returned to pre-pandemic levels (£152bn as of end 2019) following a dip throughout 2020-2022 down to £140bn⁹.

High-cost short-term credit (HCSTC) loan values have declined from £2.5bn in 2013 to £244m in 2022¹⁰; home collected credit from £1.2bn to £200m¹¹; mainstream credit availability has moved upmarket.

From being 4% of the outstanding consumer credit loans market in 2013, forms of legal, high-cost credit reduced to under 0.3% by 2023, raising the legitimate question – where have these borrowers gone?

A significant driver in this reduction in supply has been **regulatory reform, generating welcome improvements in lending practices**. This has particularly benefited those with above average incomes with prime or near prime credit scores, who can still borrow but with better protections.

Reforms to improve lender practices, also ensured those who had been getting access to forms of high-cost credit that was unmanageable were further protected from accessing loans that would be unaffordable to them.

Balancing consumer protection with access is difficult. For many lower income households it has become harder to borrow. However, their need for occasional access to credit to smooth expenditure and manage their finances remains,

Filling the credit vacuum

In November 2023, LEK Consulting estimated a total financially underserved population of 16m - 17m adults. They estimated that there was an unmet credit need of circa £2 billion¹².

Community Finance lending, whilst growing at pace, cannot replace the decline elsewhere. Credit union lending in Great Britain has grown 101% between 2013 and 2022¹³ to £1.3billion. CDFIs doubled also to £60m.

Some people excluded from mainstream credit have turned to friends and family for loans.

⁸ Bank of England Monthly amounts outstanding of total sterling consumer credit lending to individuals seasonally adjusted (excluding Student Loans Company and credit card)

⁹ Bank of England Monthly amounts outstanding of total sterling consumer credit lending to individuals seasonally adjusted (excluding Student Loans Company and credit card)

¹⁰ FCA (2017) [High-Cost Credit Review Technical Annex 1: CRA Data Analysis of UK personal debt and FCA \(2023\) PSD006 data release](#)

¹¹ Ibid.

¹² LEK Executive Insights (Nov 2023) [Improving access to lending for the financially vulnerable](#)

¹³ Bank of England (2013) [Credit Union Annual Statistics](#) – GB value of loans outstanding at financial year end £0.640bn and Bank of England (2022) [Credit Union Annual Statistics](#) – GB value of loans outstanding at financial year end £1.288bn

In our online survey a figure equivalent to over 10m GB adults said they had borrowed from friends or family in the past 12 months¹⁴.

Yet there are signs this is also reaching the limit of what others are able and willing to lend. And our evidence suggests that not all friends and family lending is benign.

Buy Now Pay Later increased from 17% to 27% of UK adults from May 2022 to January 2023¹⁵.

Emerging with rapid growth, this also poses challenges given it is not currently within the perimeter of credit regulation.

With the range of credit options for many decreasing or unsuitable, this lack of access creates an environment in which illegal lending might flourish.

Illegal lending in Great Britain

With demand outstripping supply, it is regrettable yet unsurprising that **those on low incomes with urgent credit needs may be turning to illegal lenders.**

Fair4All Finance released qualitative research on experiences of illegal moneylending across Great Britain in June 2023¹⁶. New survey data covering Great Britain, commissioned for this report, estimates that in the past three years **3.3 million people used, or believe someone in their household used, illegal moneylenders,**

Conclusions

There has been welcome reform over a decade of some unsavoury lending practices, which was legitimately called for by media, consumer groups and wider society given the considerable harm these practices were causing.

The combination of regulatory reform and recent external factors has **impacted the credit market to the point that it is arguably not functioning properly for lower income consumers**, many of whom appear to have lost access to credit.

This is **not to downplay the incredibly detrimental impact debt can have** on people's lives. However, for some it has removed a vital option when financial pressures have only increased.

¹⁴ Ipsos survey June 2023 GB Adults (weighted) 18 – 75 years

¹⁵ FCA (2023) [Financial Lives Survey 2022](#) Spotlight 4.2 Deferred Payment Credit (p163)

¹⁶ Fair4All Finance (2023) [As one door closes: experiences of illegal money lending in an emerging cost of living crisis](#)

Research recommendations

Widening access to affordable credit

1 Greater capitalisation

Driving initiatives that scale up and support the provision of community finance was called for in the Woolard Review in 2021. It was needed then and it remains needed now.

The scaling up of affordable credit will also require significant investment in technology, marketing and product development, as well as forms of loan capital or financial instruments.

2 Regulatory adjustments

Alongside a clear framework enabling small sum lending, a **broader definition** of what constitutes good consumer outcomes that includes access to credit, consumer protection as well as its affordability is required.

There are also continued misunderstandings on pricing and APR which require further considerations on appropriateness of APR as the measure in defining value.

3 New product development

There is further potential for **mainstream providers to do more to enable the appropriate provision of credit** to those on lower incomes, left behind communities and other groups.

Specifically, we believe the small dollar loans initiative operating in the USA is worthy of greater examination to assess what is replicable in the UK.

A preventative approach to illegal lending growth

4 A decisive, coordinated strategy

Given our concerns around the potential environment that is being created for illegal lending, it is in everyone's interest to ensure a renewed national focus on this issue in light of current market conditions. Now is the window for **the UK to develop and enact a decisive and coordinated preventative strategy** on illegal lending led by the National Illegal Moneylending Teams across the nation and supported by HMT, particularly incorporating illegal digital providers and the associated financial and data harms.

5 Expanded remit for IML teams

The **National Illegal Money Lending Team's remit should be expanded to specifically reference digital illegal lending**, with an increase in resources required to develop the necessary skills and tools to tackle this.

Wider **authorities with specific understanding of fraud and data crime also need to be aware and alert** (where this is not already discreetly happening) to the potential danger from criminal operations using illegal online lending to intensify their cybercrime efforts.

6 Further research on digital harms

Our research shows the dangers associated with a growth of digital illegal lending, namely increased financial and data crime. **Further research** on this is required **with Fair4All Finance and a range of partners** to determine where there are the most significant concerns.

Introduction

The current financial services system isn't working for everyone. Millions of people are excluded.

At Fair4All Finance we are here to **transform the system** - through investment, research and partnerships - so that **everyone has access to the right products and services**, whenever they need them.

That's why we have been **investigating the high-cost credit market and the world of illegal money lenders**.

In 2023 we worked with We Fight Fraud to produce a report **exploring the experiences of people with limited access to legal credit** in the midst of the cost of living crisis: [As one door closes](#)¹⁷. This focused on the lived experiences of those turning to the illegal lending market, demonstrating the pervasiveness of the issue and the stark impacts on people's lives and wellbeing.

We committed to build on this empirically by **estimating the level of illegal money lending in Great Britain**, presented in this report drawing on new GB survey data.

We also wanted to learn more about:

- **how consumer access to credit has been affected** by market and regulatory developments
- **how the illegal lending market is developing**, both in the community and online

This research presents these latest findings and proposes actions to address the challenges.

The report draws on extensive analysis undertaken including qualitative interviews with lenders, aggregators and intermediaries, and original consumer research commissioned by Fair4All Finance and undertaken by Ipsos.

Two surveys have been examined in detail, both undertaken by Ipsos¹⁸. The first survey was undertaken in January 2023 with a weighted sample of 2,547 GB adults aged 18 -75. The second was undertaken in June 2023 with a weighted sample of 1, 859 GB adults aged 18 -75.¹⁹

¹⁷ Fair4All Finance (2023) [As one door closes: experiences of illegal money lending in an emerging cost of living crisis](#)

¹⁸ Ipsos undertook both surveys in accordance with the requirements of international quality standards for market research ISO 20252, and with the Ipsos Terms and Conditions

¹⁹ For more detailed methodology see Annex.

The UK credit market

Market retrospective

A decade ago the credit landscape looked very different. Overall outstanding consumer credit was c£101bn (2013) excluding credit cards. Outstanding high-cost short-term credit (HCSTC), Rent to Own and Home Credit collectively was £4.1bn (about 4%) of the outstanding consumer credit total.²⁰ Now the total amount outstanding is over £150bn. The same three products represent under 0.3%.

In 2013 as consumers were bombarded with television adverts promoting the ease and convenience of borrowing at very high rates, the **government identified the need for urgent intervention in the high-cost credit market**, in particular payday lending²¹. This coincided with the transfer of regulating consumer credit from the Office of Fair Trading²² to the Financial Conduct Authority.

‘Regulatory interventions that have **successfully protected some customer groups against damaging financial outcomes have also made some product categories difficult to supply** in a commercially viable way (eg HCSTC, rent-to-own), resulting in some of these falling away. Insufficient alternative affordable products have emerged to service the underlying credit needs previously addressed by these products.’²³

Regulatory reform

Responding to evidence of consumer detriment²⁴, the **government enacted FCA powers to regulate the HCSTC market**²⁵ and to create a new regime designed to offer stronger protection for consumers which included the introduction in January 2015 of a price cap where consumers knew they would never pay more than double the principal borrowed.

Tougher scrutiny of firms entering the market, new rules on lending and reporting, health warnings, advertising restrictions, and ensuring redress were things to go wrong were other aspects of reform.

‘The government is introducing a fundamentally new approach to regulating consumer credit, to ensure irresponsible firms and bad practice will have no place in the consumer credit marketplace.’

Economic Secretary to the Treasury,
Sajid Javid MP (2012 – 2013)

The emphasis was on making sure the culture among firms was ‘doing the right thing’, with good conduct including transparent communication, responsible lending based on proper affordability requirements, treating customers in difficulty with forbearance and providing suitable debt advice.²⁶

²⁰ Financial Conduct Authority (2017) [High-Cost Credit Review Technical Annex 1](#); HCSTC value of outstanding debt £2.5bn (2013) Home Credit £1.0bn (2013), RTO £0.6bn total £4.1bn. Bank of England Outstanding consumer credit Dec 2013 (excl. credit cards) was £101bn. By 2023 HCSTC, Home Credit and RTO was c£500m with outstanding consumer credit at Nov 2023 £152bn

²¹ HM Treasury (2013) [A new approach to financial regulation: transferring consumer credit regulation to the Financial Conduct Authority](#)

²² Predecessor body to Competition and Markets Authority

²³ LEK Executive Insights (Nov 2023) [Improving access to lending for the financially vulnerable](#)

²⁴ Office of Fair Trading (2013) [Payday Lending Compliance Review: Final Report](#) and Personal Finance Research Centre, University of Bristol (2013) [The impact on business and consumers of a cap on the total cost of credit](#)

²⁵ HM Treasury (2013) [Government takes action to tackle payday lending concerns](#)

²⁶ FCA (2014) [Speech to British Bankers Association Consumer Credit seminar](#)

Other reforms have **followed in recent years**, including new rules addressing persistent credit card debt and unauthorised overdraft charges, and **additional requirements around affordability**, treating customers fairly, and serving vulnerable customers or those in difficulty.

In 2023 **Consumer Duty was introduced**, setting higher standards of consumer protection.

Ensuing claims against unfair practices spiked from 2015 as customers sought compensation. Exits from the market may be linked to the volume of claims made and upheld.

As Joseph Rowntree Foundation noted in their 2024 UK Poverty report:

'While using credit to pay for your bills is not a financially desirable position, it has been an important lifeline to many. But with low income families finding it more difficult to access credit, it looks like this is a lifeline that is increasingly at risk of being cut off²⁷.

²⁷ Joseph Rowntree Foundation (2024) [UK Poverty 2024](#) (p104)

Figure 1: Timeline of changes to consumer credit regulation since 2014²⁸

 Changes to consumer credit regulation	
Jan 2015	Cap on payday lending introduced 0.8% max per day, max of 100% repaid
Jul 2017	FCA review of payday lending price cap shows the cap is working well for consumers
May 2018	FCA publishes proposals to tackle problems in home credit, overdrafts, catalogues and store cards
Nov 2018	FCA publishes proposals to address harms from Rent to Own
Apr 2019	Rent to Own price cap introduced
Jul 2019	FCA publish report on alternatives to high cost credit, with recommendations to improve availability and awareness
Apr 2020	New rules for overdraft pricing introduced
Feb 2021	Woolard Review on unsecured credit market published
Jul 2023	Consumer Duty comes into force

²⁸ For more details on timeline of policy interventions see FCA (2023) [High-cost credit and consumer credit](#)

Impact of reforms

These reforms to the credit market have **resulted in important consumer protection measures** and brought about significant positive outcomes.

The price cap for high-cost short-term credit has saved consumers around £150m per year, and new rules on credit cards are expected to save customers up to £1.3bn per year.²⁹

Nearly £1bn saving is estimated to have been made across all consumers because of changes in the overdraft market.³⁰

The breadth of reforms - across both mainstream credit and the smaller high-cost credit markets - means all borrowers stand to benefit from the measures as the **market practices are much improved on previous models**.

Low income households

Historically, consumers on low incomes have been most likely to be affected by exploitative lending business models, and in this sense lower income households should stand to benefit the most.

However, following the reforms and given the broader economic factors in recent years, including the pandemic and a cost of living crisis we are now seeing wider changes in terms of market structure and market participants.

This means **many people on low incomes or with impaired credit records find themselves unable to benefit from these improvements**

In this case, the **benefits of the reforms accrue more prominently to better off households** who remain able to borrow in the current market conditions, the profile of whom has moved decidedly and steadily more upmarket in recent years encompassing better off consumers, homeowners and those with prime or near prime credit records.

The outcome for lower income households is different.

In 2017, one in 50 (2%) households with an income under £15,000 used home credit. By 2022 it was one in 83 (1.2%),³¹ perhaps symptomatic of the withdrawal from the market of home credit lenders.

Similarly, in 2017 one in every twelve adults (8%) with an income under £15,000 borrowed from friends or family, by 2022 this figure was one in six (16%).³²

²⁹ FCA (2020) [High-cost credit and consumer credit](#)

³⁰ FCA (2023) [Millions of customers together save nearly £1 billion due to overdraft rule changes](#)

³¹ FCA (2018) [Financial Lives Survey 2017](#) and FCA (2023) [Financial Lives Survey 2022](#)

³² FCA (2018) [Financial Lives Survey 2017](#) - Product ownership and FCA (2023) [Financial Lives Survey 2022](#) - Product holding

Credit supply

For many years there has been a functioning credit market serving a range of prime, near prime and sub-prime³³ credit borrowers.

These borrowers would access, depending on their credit scores, standard markets (also called prime or mainstream), or non-standard (non-prime or non-mainstream) markets.

In recent months, however, experts and market participants are increasingly reporting changes to this norm.

'Prime lenders across the consumer credit market have tightened their creditworthiness and affordability rules further.

This has resulted in **some customers who previously could have obtained loans from prime lenders now having only non-prime lenders'**...hence the market is, to a very large extent, constrained by supply rather than demand.³⁴

Mainstream credit

A thriving **credit mainstream is moving further upmarket**, serving more prime and near prime borrowers, and growing strongly in recent years due to improved business models and lender conduct standards. The banks and other lenders have effectively **widened the gap for accessing credit**.

The mainstream market has become increasingly distinct and detached from the part of the market serving **low income consumers**. For these consumers, **the credit market does not appear to be functioning effectively, or at all**, at least not within the authorised space.

In our 2,547 person weighted GB survey, people with household incomes over £30,000 were more likely to be accepted for credit compared to those on lower incomes

(Fig 11). Banks have, mostly, not entered the space to lend to low income households, nor yet partnered with community finance lenders that operate in this space and need access to capital to grow their reach.

Credit cards follow a similar pattern. In 2022, largely unchanged since 2017, the most favoured product remains the credit card, held by two thirds of adults.

However, **only around two in five of those with income under £15,000 possess one, whereas four in five of those with income over £50,000 have one**³⁵. Only one in two renters hold a credit card, while three in four owners have access to a credit card.³⁶

³³ Lenders separate borrowers into these categories based on their credit scores and credit histories, with risk-based pricing offers and acceptance rates varying by whether the lender believes the borrower is prime, near prime or subprime.

³⁴ Apex Insight "UK Non Prime Consumer Credit 2023 - Market Insight report (March 2023)

³⁵ FCA (2018) [Financial Lives Survey 2017](#) - Product ownership and FCA (2023) [Financial Lives Survey 2022](#) - Product holding

³⁶ FCA (2023) [Financial Lives Survey 2022](#) - Product holding - Appendix

'Supply of credit will likely become more constrained as lenders become more conservative in their lending approach in times of economic uncertainty...**regulation and the response are well intended, aiming to avoid inappropriate lending that could lead to financial trouble for consumers, but there are also broader unintended consequences** in terms of the number of consumers receiving mainstream service.'³⁷

Non-mainstream credit

The **high-cost short-term credit (HCSTC) sector**, on which many lower income borrowers traditionally depend, **has reduced significantly**.

Our earlier report [As one door closes](#) captures the dramatic detail of this decline over the last decade. In 2013 HCSTC issued an estimated 10.3m loans to 1.7m borrowers. With market exit at scale there has been **a 90% reduction of high-cost short-term credit loans** from £2.5bn to c£250m between 2013 and 2022, with a 70% decline between 2019 and 2022 alone.³⁸

There is no obvious replacement for those lenders who traditionally served lower income, renting households.

In the home collected credit market, overwhelmingly used by lower income renting households, 1.8m loans were issued to 800,000 borrowers in 2013 with a value of £1.2billion, falling to only £200m³⁹ in 2022.

The HCSTC and home collected credit loans market has been wiped out with the withdrawal of Provident and other large lenders (Morses Club, Non Standard Finance and Skyline). This level of reduction, without any alternatives for the borrower, is **unlikely to have been intended** by the FCA, let alone rendering it 'effectively obsolete'.⁴⁰

The system is intended to be proportionate to the different types of firms in the market and ensure consumers continued to have access to the credit they need.

A collective perception that new entrants could emerge, unburdened by historic costs and observing better practice as defined by the current rules, **has also not materialised**.

It is unclear if potential lenders are finding their operations would not be viable, or whether there are challenges within the authorisation process impacting at least the partial replacement of the market by new entrants, with **no new players in home credit or high-cost short-term credit in a three year period**.⁴¹

Either way, from the current basis it is now difficult to see how a renewed high-cost short-term lending sector lending under the new regulations would begin to re-grow and reach significant capacity in the short term.

³⁷ LEK Executive Insights (Nov 2023) [Improving access to lending for the financially vulnerable](#)

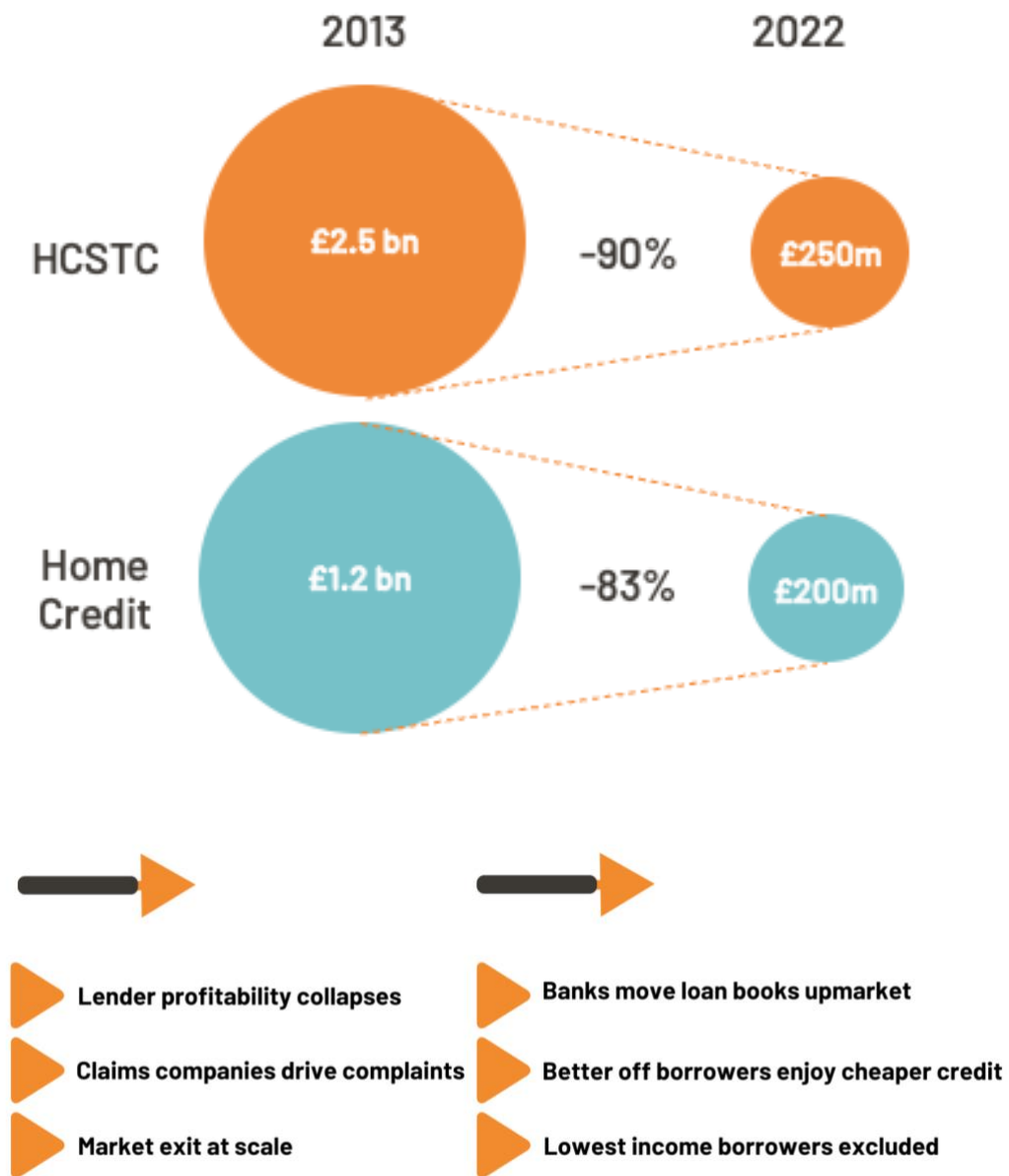
³⁸ Financial Conduct Authority (2017) [High-Cost Credit Review Technical Annex 1: CRA Data Analysis of UK personal debt](#) and FCA (2023) PSD006 data release

³⁹ *ibid.*

⁴⁰ LEK Executive Insights paper "Improving Access to lending for the financially vulnerable..." (Nov 2023) [Improving access to lending for the financially vulnerable](#)

⁴¹ Fair4All Finance (2023) [As one door closes: Experiences of illegal moneylending during an emerging cost of living crisis](#) - CCTA FOI request made to FCA in July 2022 showed none of the 24 potential new entrants applying for authorisation in high-cost short-term, home credit or guarantor loans categories between July 2019 - July 2022 had been approved.

Figure 2: A decade of decline in high-cost short-term credit supply⁴²



⁴² Financial Conduct Authority (2017) [High-Cost Credit Review Technical Annex 1](#): CRA Data Analysis of UK personal debt and FCA (2023) PSD006 data release

Credit demand

Credit can play a distinctive and critical role in the financial lives of many lower income households.⁴³

Lower income households often have insecure and unpredictable working and earning patterns. At least 4.4m people are estimated to work weekly in the gig economy, a figure that tripled between 2016 and 2021. Others place the figure of those in insecure work at nearly 7m.⁴⁴ Insecure work challenges a borrower's ability to demonstrate regular, steady income.

Arguably lower income households have greater need for credit than the more affluent, for whom credit primarily supports aspirational and discretionary spending.

The survey data within this report and in the data table appendix demonstrates **credit applications for essentials or distress borrowing (cash flow issues, covering bills, and everyday essentials) are much higher amongst households with lower incomes**, whilst applications for discretionary spending (special occasion, car purchase, holidays) are much lower (see figures 3 and 4).

The survey also identifies **repeated sub optimal outcomes for people who say they are declined for credit**. Those declined for credit, especially for essentials, are then faced with a decision on how to access the money they need or how they will find the money they need for

the purchase. Unsurprisingly, those with the least are facing the most difficult choices.

Lower income households (under £15,000) who had applied and been declined for credit in the last three years (or didn't apply as they assumed that they would be declined) were much more likely than the full declined cohort to **cut back on food (38% v 23%) and utilities, such as heating (43% v 24%) or missing a bill payment (29% v 17%)** as a means to meet their financial needs (see figures 7 and 8).

A number of externalities, including **the pandemic, stubborn inflation, interest rate rises and the cost of living crisis, have all exacerbated this dynamic**.

Whilst inflation has fallen throughout 2023, the unit price of gas in October 2023 was 60% higher than October 2021. The unit price of electricity was 40% higher⁴⁵ and the price of food 30% higher.⁴⁶

Those on low incomes or with poor credit scores are **increasingly unable to meet lenders tightened affordability assessments**. And it is **increasingly unlikely their credit needs will be met** within either the credit mainstream or the high-cost sector.

The current status quo for people in these circumstances does not appear to be working.

⁴³ Anonymous briefings from aggregators and credit brokers, Fair4All Finance briefings from industry specialists, APEX Insight and other reports.

⁴⁴ HR magazine (2023) [Is the gig up for the gig economy?](#) - NB others place the figure significantly higher still: StandOut CV website (March 2023) reported 7.25m people in the gig economy as of the end of 2022, whilst a March 2024 report from Lancaster

University "Zero Hours: Swapping zero-hour contracts for secure, flexible working (Alice Martin, George Williams, Asil Atay and Rebecca Florisson) (March 2024) identify 6.8m people in insecure work.

⁴⁵ ONS (2023) Cost of living insights: energy

⁴⁶ Consumer Scotland November 2023 Presentation 'Tackling the Cost of Living'

Figure 3: Applications for credit (P3Y) – essentials and distress borrowing by household income range⁴⁷

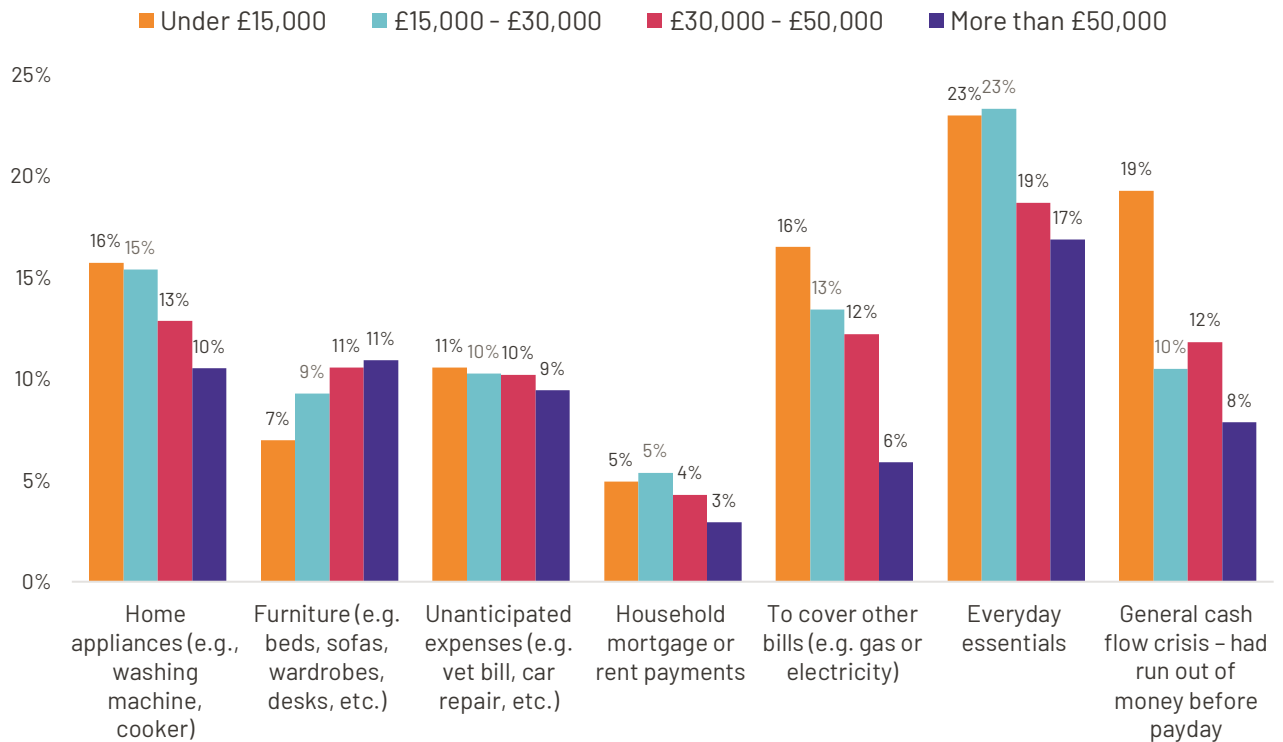
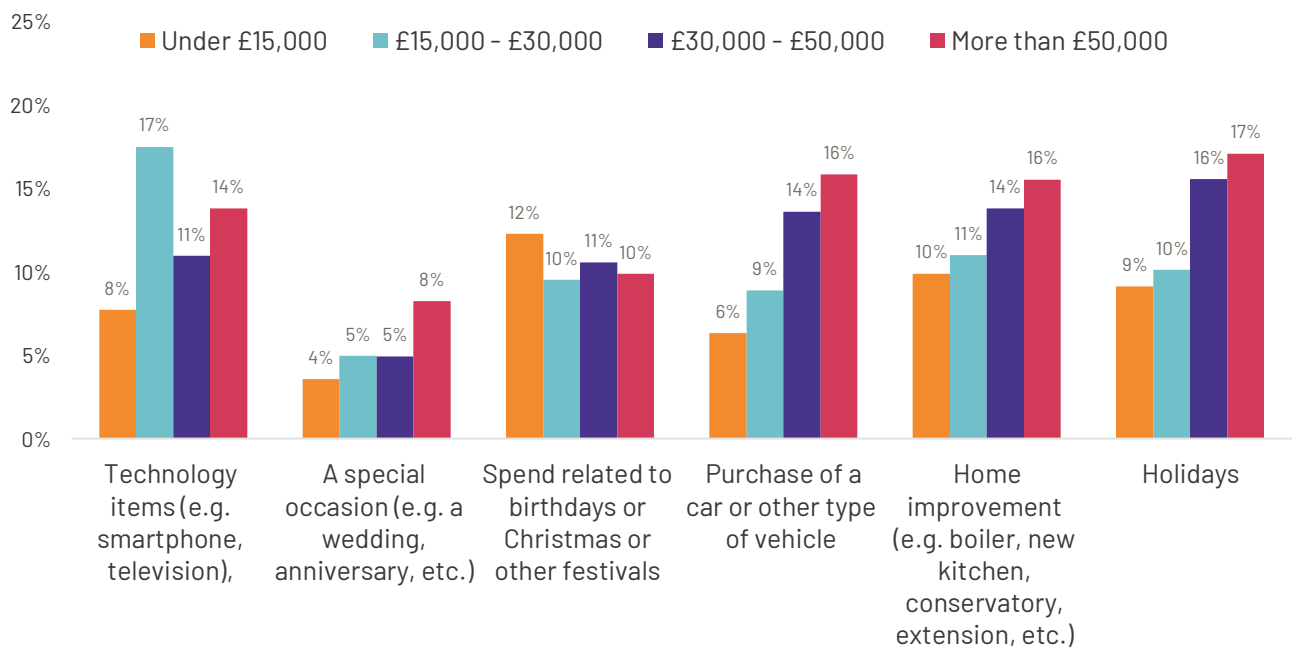


Figure 4: Applications for credit (P3Y) – discretionary spending by household income range⁴⁸



⁴⁷ Ipsos Jan 2023 Applications for credit in the last three years 1562. Household income under £15,000: 142, £15,000 - £30,000: 370, £30,000-£50,000: 432, more than £50,000: 529. Refused 50, Don't Know, 39.

⁴⁸ ibid.

Figure 5: Applications for credit (P3Y) by borrowing purpose: showing those accepted or declined for credit ⁴⁹

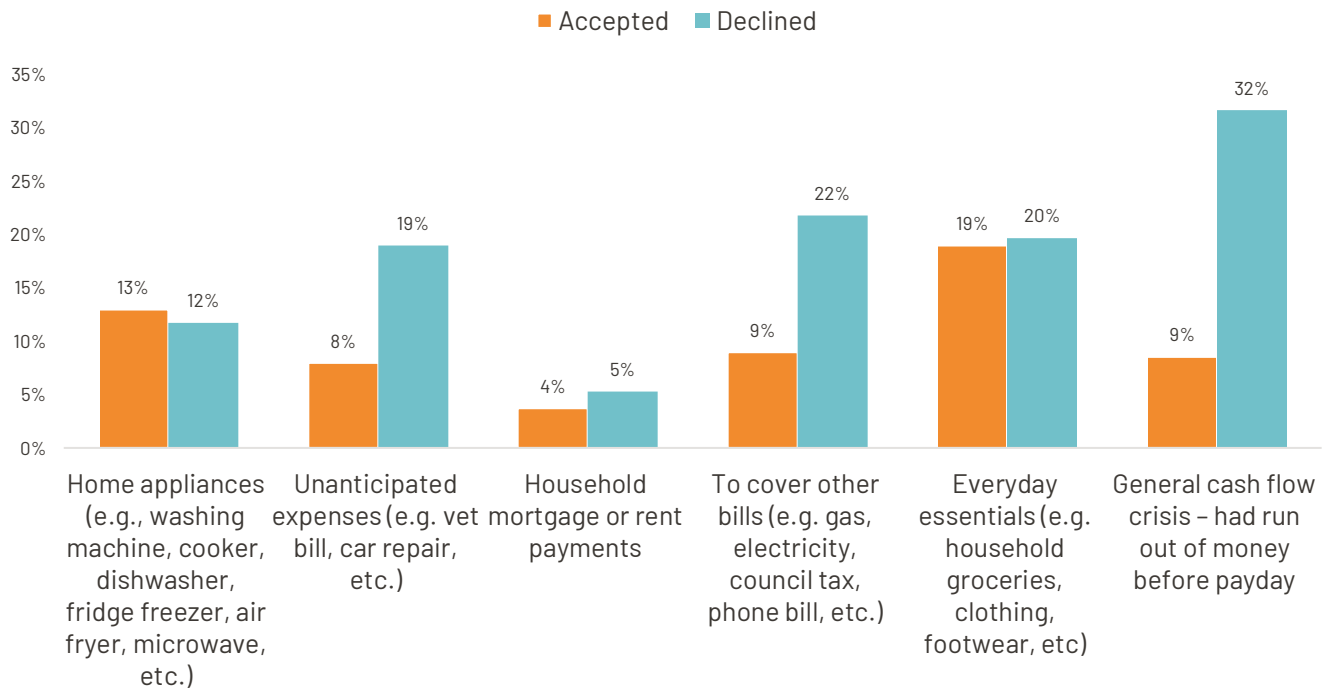
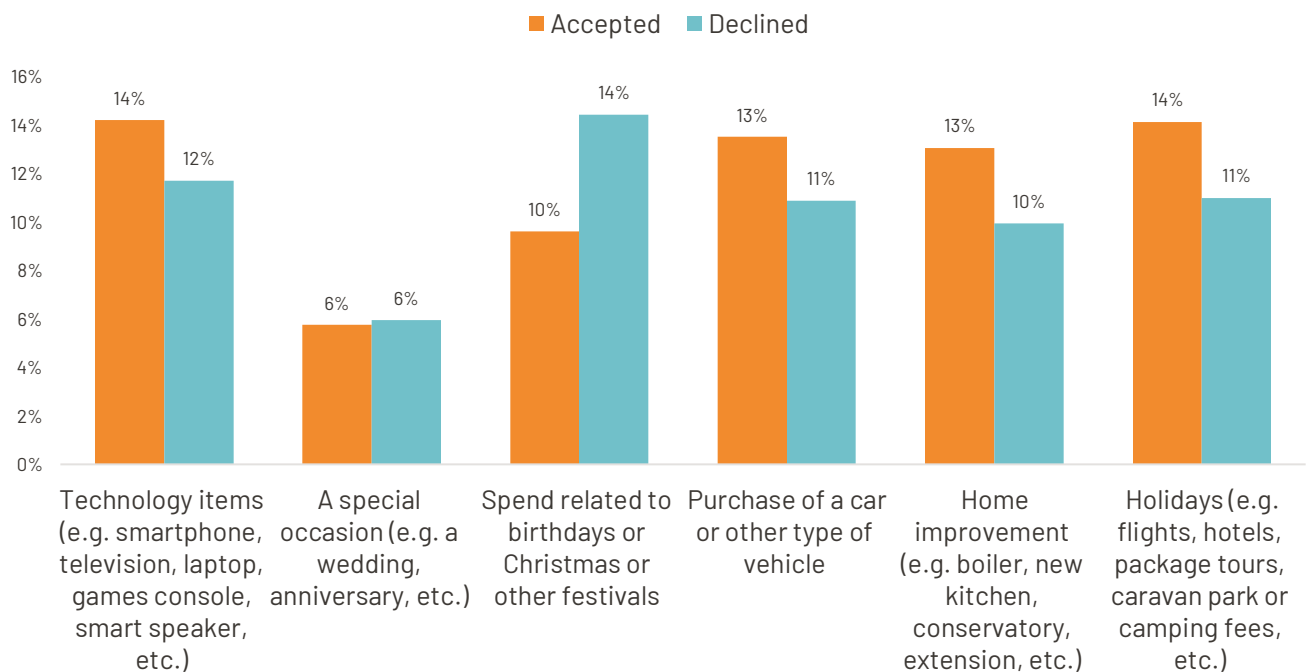


Figure 6: Applications for credit (P3Y) – showing those accepted or declined for credit ⁵⁰



⁴⁹ Ipsos Jan 2023 Base: Only those accepted for credit or declined for credit over the past three years. 1171 accepted, 83 declined.

⁵⁰ Ibid

Figure 7: Action taken amongst those declined for credit, or thought they wouldn't get credit, by income⁵¹

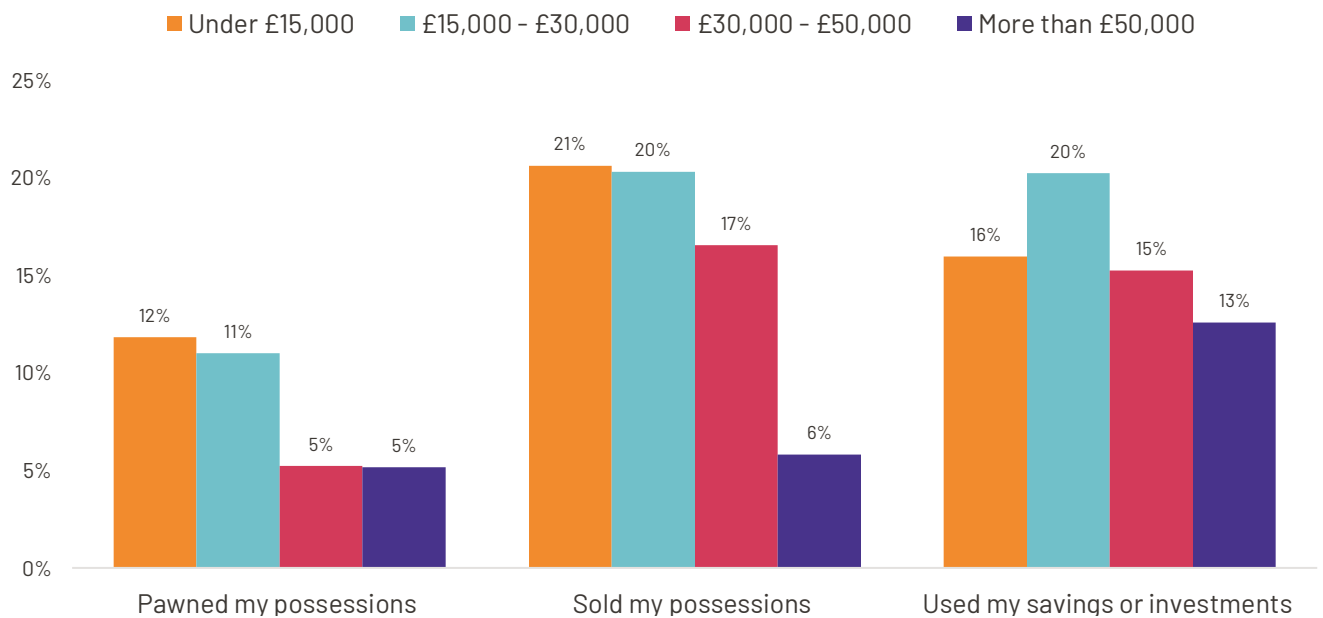
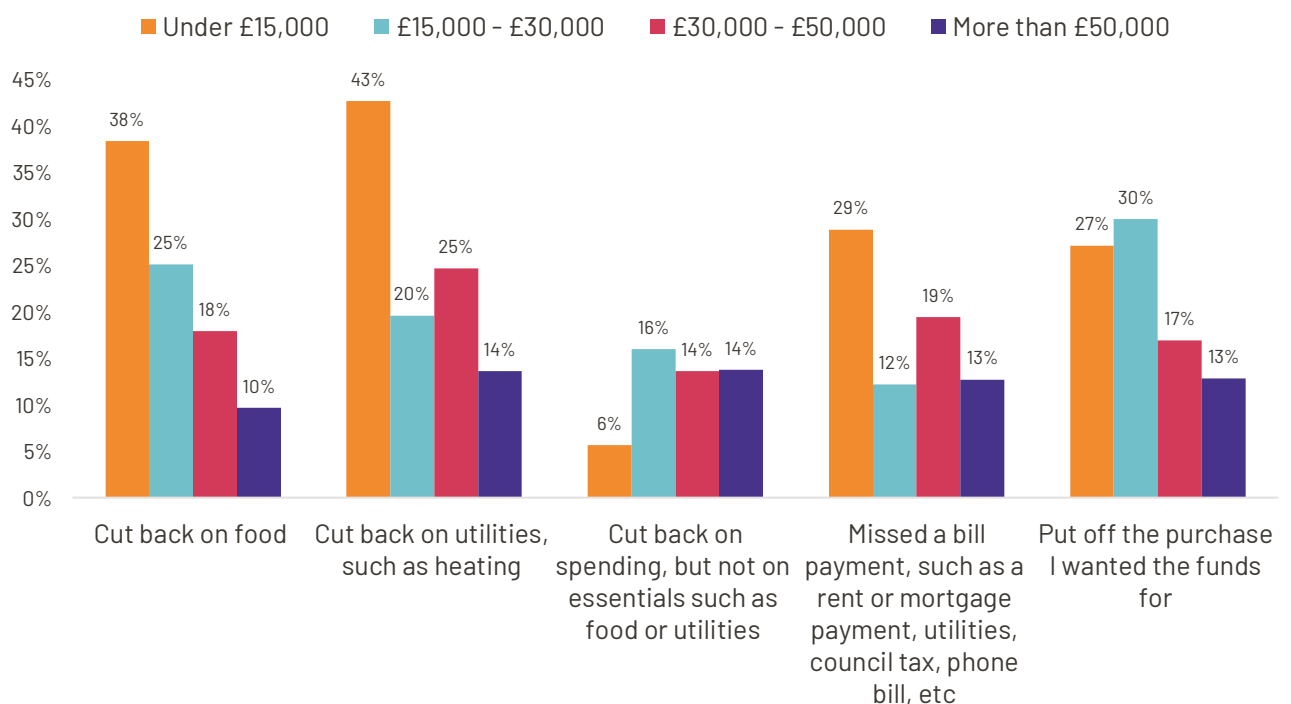


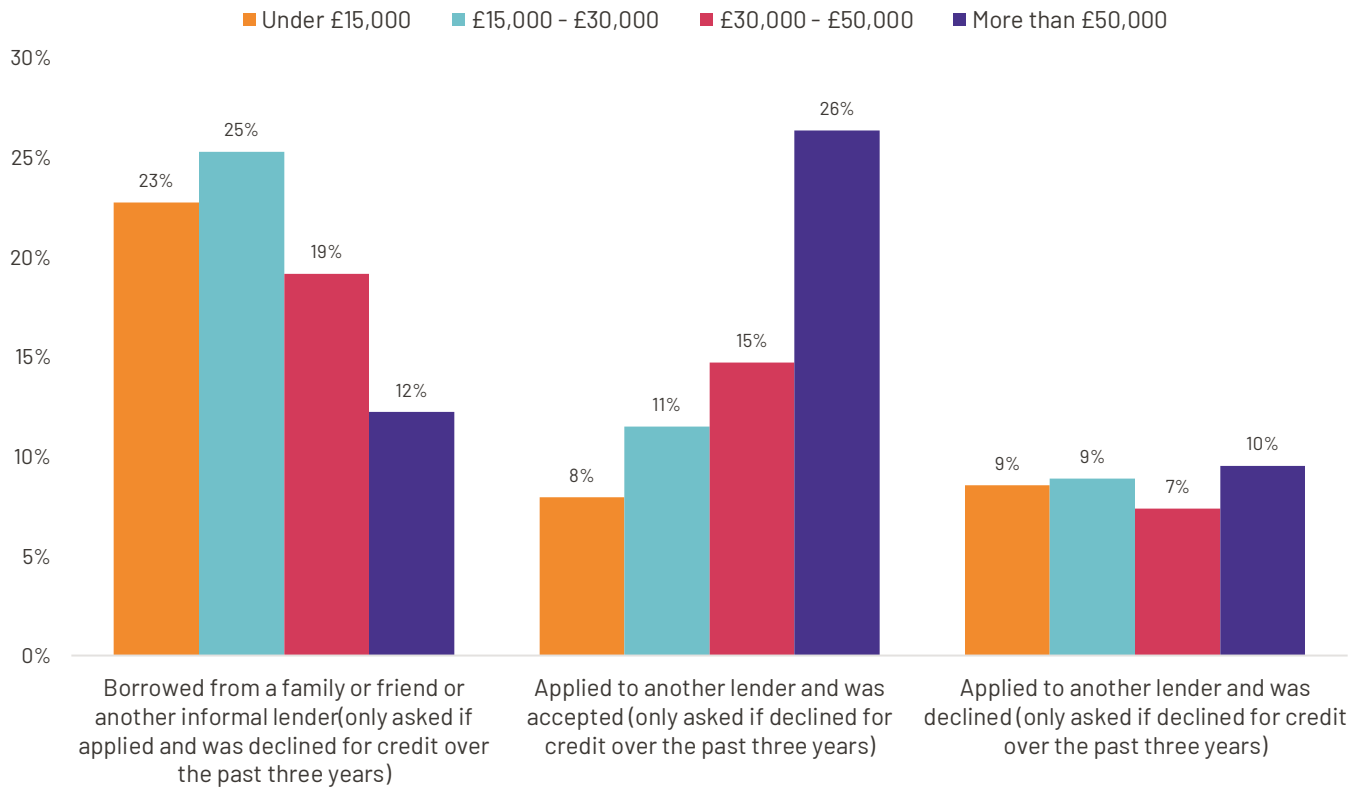
Figure 8: Alternatives used amongst those declined for credit, or thought they wouldn't get credit⁵²



⁵¹ Ipsos - January 2023. Base: Those declined for credit or thought they wouldn't get credit within past three years. Total: 400, under £15,000: 66, £15,000 - £30,000: 132, £30,000 - £50,000: 111, more than £50,000: 91

⁵² ibid.

Figure 9: Other borrowing of only those who were declined for credit over past three years (or didn't apply as assumed they would be declined)⁵³



⁵³ Ibid.

Rejections and refusals

The reduction in options for credit creates an environment where **rejection rates for risk-based, higher-cost credit increase**. This is what we are now seeing with **those on low incomes facing a rising tide of declines**.

Subject matter experts interviewed for this study, and who have sight across the sector, consistently reported that those on low incomes or with poor credit records will now find it very difficult to access credit.

One senior officer from a large aggregator website told us that pre pandemic on very similar and extremely large enquiry volumes, **the offer rate had been circa 25% and was now under 2%** for near /subprime applicants.

In 2024, ClearScore reported that 'in 2021 over 40% of subprime customers received loan offers. Since then, they have seen a steep decline'⁵⁴

Younger people, those on low incomes, minority ethnic groups, renters and those living in social housing are most likely to face refusals.

A recent Trans Union 'Consumer Pulse' (see figure 10) showed 78% of people believed having access to credit and lending products was important to achieve their financial goals. Yet only 48% believed they had sufficient access.

The differences between generations were stark. Only around half of Gen Z, Millennials and Gen X who overwhelmingly believed access to credit was important also believed they had sufficient access to credit.

Figure 10: Attitudes to access to credit

Source: TransUnion Consumer Pulse Q4 2023
Methodology: see footnote⁵⁵

	'Important to have access to credit'	'Have sufficient access to credit'
Overall	78%	48%
Gen Z	88%	38%
Millennial	91%	44%
Gen X	83%	44%
Baby Boomer	54%	62%

The survey indicates those living in social housing, or on the lowest incomes are less likely to be accepted for credit.

44% of all social housing is located in the most disadvantaged 20% of neighbourhoods.⁵⁶ Only 24% of social renters hold any savings (a third of that held by owners), and half (47%) were in the bottom income quintile.⁵⁷ Those on the lowest incomes are more than twice as likely as the population overall to have credit applications declined (see figures 11 and 12).

Of all those accepted for credit, our GB survey data indicated that in the past three years just 64% of those who had incomes of less than £15,000 per year, were accepted, while only 66% of social renters seeking credit were approved (see figures 11 and 12).

⁵⁴ ClearScore & EY (March 2023) Building a non-prime credit market that delivers for UK consumers

⁵⁵ TransUnion (Nov 2023) [Consumer Pulse Study 04, 2023](#) Question: 'Believe important to have access to credit and lending products to achieve financial goals' and 'Believe have sufficient access to credit and lending products'

⁵⁶ Department for Levelling Up, Housing and Communities (2023) [English Housing Survey data on stock profile](#)

⁵⁷ Department for Levelling Up, Housing and Communities (2022) [English Housing Survey 2021 to 2022](#)

Figure 11: Profile of those accepted for credit in past 3 years by income⁵⁸

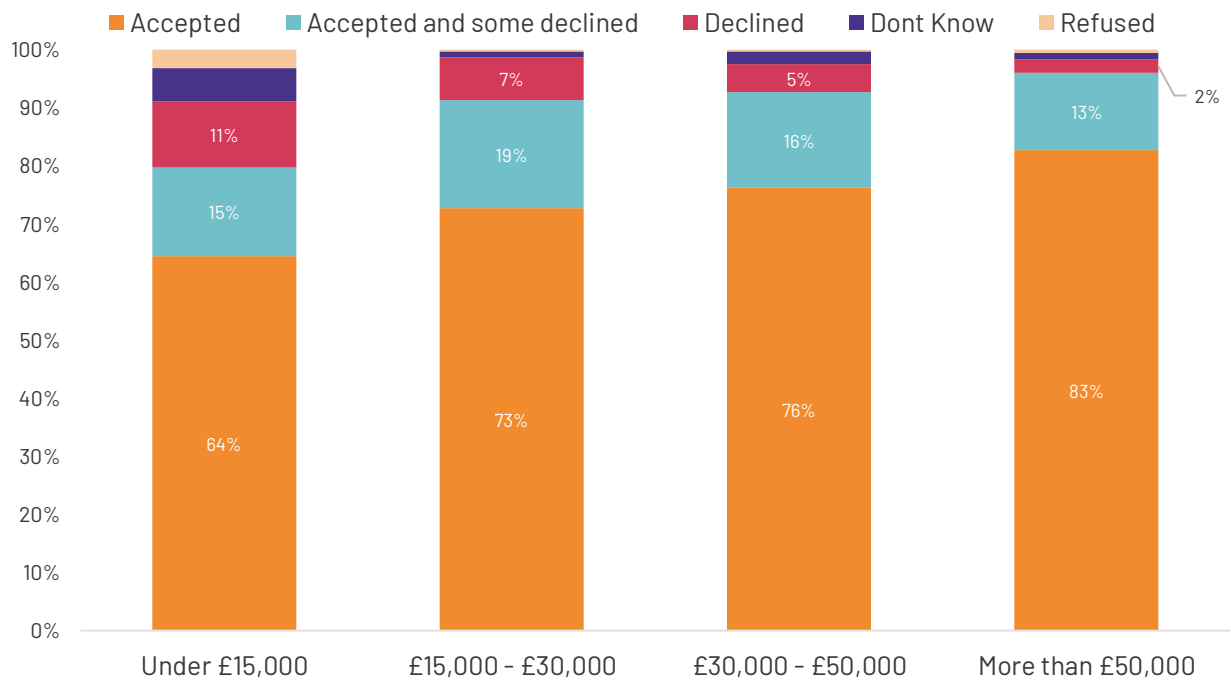
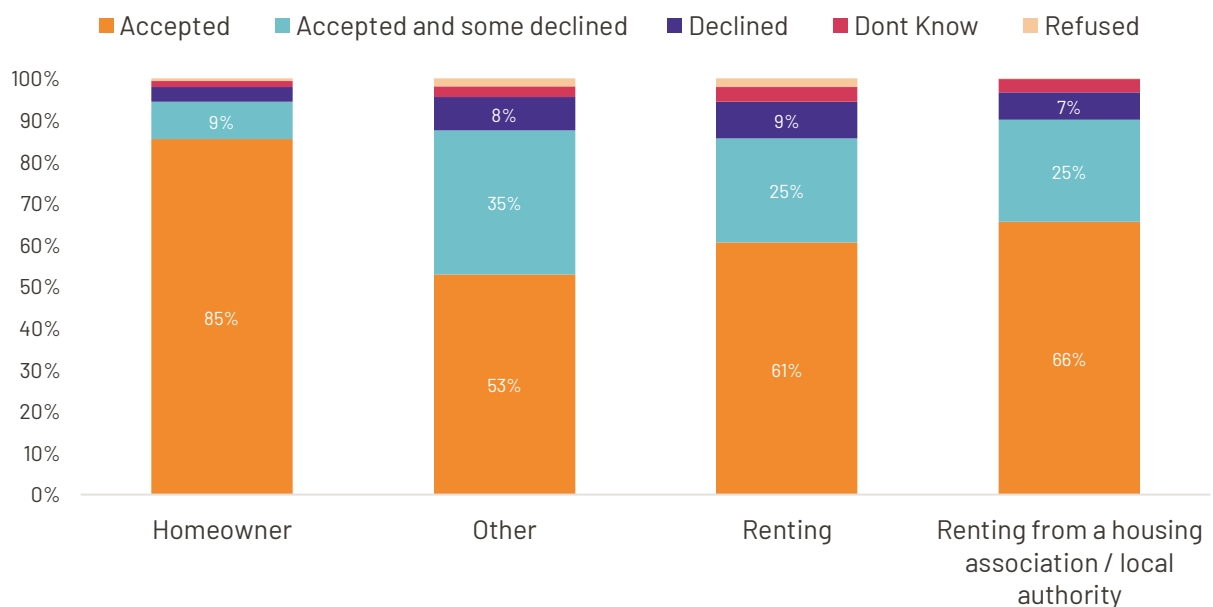


Figure 12: Profile of those accepted for credit in past 3 years by tenure⁵⁹



⁵⁸ Ipsos January 2023. Base: Those who applied for credit over the past three years. All: 1562, Under £15,000: 142, £15,000 - £30,000: 370, £30,000 - £50,000: 432, More than £50,000: 529, Don't know: 39, Refused: 50.

⁵⁹ Ipsos January 2023. Base: Those who applied for credit over the past three years. All: 1562, Homeowner: 994, Renting: 330, Social renter: 179, Other (e.g. sofa surfing, renting a room but not paying for it): 59.

Impact of lack of access to credit

Loss of access to credit is complex

It presents a dichotomy: is it better to take on debt, with associated interest costs to relieve an immediate issue (eg pay a bill, replace a damaged cooker or washer) and deal with potential indebtedness in the future if difficulties arise when you need to repay? Or is it better to not pay the bill or replace an item and face other immediate challenges?

Losing access to credit can **amplify the challenges associated with low paid and insecure work**, and lead to immediate financial difficulties as low and lower income households are frequently **borrowing to meet essential needs or unanticipated expenses** to prevent cashflow shortfalls becoming crises.

Those not able to access credit can **find themselves unable to balance their day to day finances** and competing needs effectively.

If unable to cover essentials and unexpected bills, people may need to sell or pawn possessions or run down meagre and finite savings, **undermining their financial welfare** with all the accompanying **mental and physical health stresses** this implies.

This also risks **increasing social inequality** as well as entrenching economic disadvantage.

For consumers no longer able to borrow, **debt may just be diverted to other parties**, such as housing or utility providers and local authorities.

This undermines housing and energy security, and often exposes individuals to more aggressive collection tactics than would be permitted for lenders.

It is a difficult unenviable choice, with all factors needing to be weighed.

Demand outstrips supply

Our analysis, our reading of other literature and research, and our access to community finance and industry professional insights and briefings, indicates that demand remains high and supply is reduced.

In some cases, not being able to borrow may prove to be the most beneficial outcome. Indeed, **reducing unsavoury practices around unaffordable credit was an anticipated policy goal** of the regulatory reforms.

When the FCA introduced a cap on high-cost short-term credit (aka payday lending), Credit Rating Agency (CRA) scores showed that more borrowers taking on certain high-cost credit products had – in a relatively short period of time – ended up in poorer financial positions, with increased indebtedness than those who had been declined or gone without credit. It is likely, although not certain, that the increase may have been caused by the type of credit products they had taken on.

In 2014 FCA concluded ‘removal of access to HCSTC would: reduce stress, mental health and welfare consequences associated with the risk of difficulties in paying back HCSTC loans; lead to consumers avoiding other forms of financial detriment caused by HCSTC loans; and in the longer run would not in aggregate cause negative well-being impacts’.⁶⁰

In 2022 the FCA acknowledged the reduced supply side, highlighting that **previously there had been far too much unaffordable lending ‘causing direct and significant harm to borrowers’**.⁶¹

However, given demand for credit, especially non-standard credit remains high⁶², and **the market has now shrunk by a larger extent than could reasonably have been anticipated**, a major subset of active credit users on lower incomes are increasingly shut out of the legitimate credit market.

Enhanced lender standards and market participants being better able to identify what good lending looks like has also not led to a re-emergence of improved lending models for low income households.

Ultimately, there are many circumstances whereby people excluded from the credit market still need to borrow money, but in a credit vacuum the legitimate channels are increasingly narrow or non-existent.

Credit solutions

The exclusion of millions of households from the credit market was not the aim of changes in the regulation and scrutiny of the market.

The challenge, however, is to find an approach which is fairer and more financially inclusive, balancing both access with affordability.

This is emphatically not a call to return to irresponsible lending, rather recognition that factors arising have changed the environment within which the reforms have taken place.

It is therefore a stimulus for updated consideration of the market in its present state and in current circumstances, and recognition that it is not functioning well for all consumers, especially those on low incomes.

⁶⁰ FCA (2014) [PS14/16 Detailed rules for the price cap on High Cost short term credit](#)

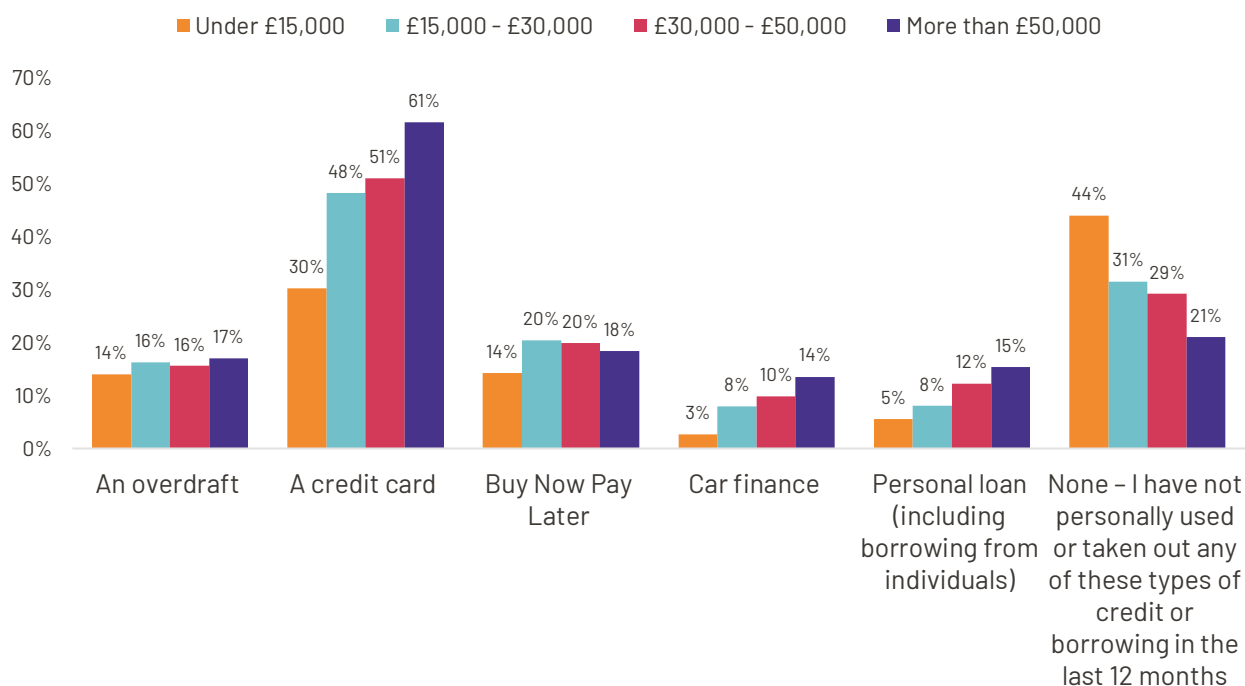
⁶¹ FCA (2022) [Supporting consumers through tough times](#)

⁶² As evidenced by commentators, lenders and external experts including Apex Insight, LEK Consulting and ClearScore

Filling the credit vacuum

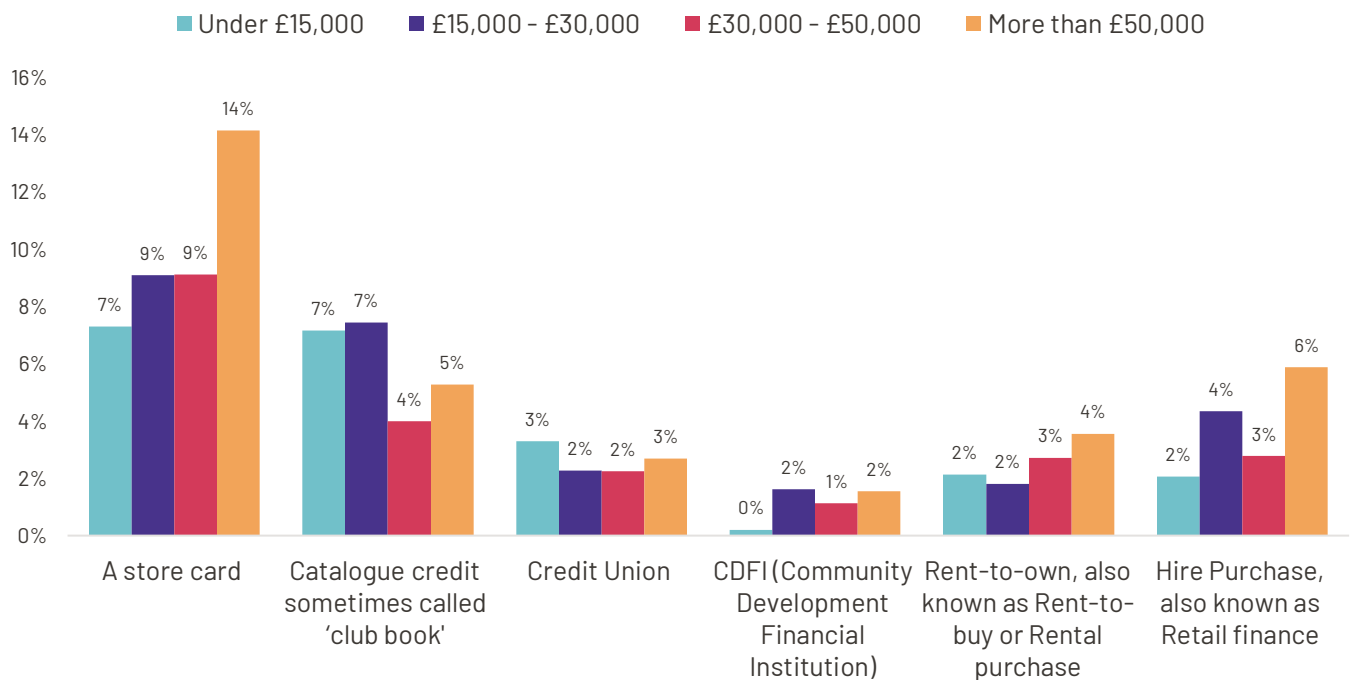
The loss of access to mainstream and high-cost credit has resulted in **shifts in product and lender types**. These include smaller scale regulated options such as forms of community finance (including a more than doubling of credit union loan books in a decade), CDFIs, informal lending from friends and family, and the rapid emergence of Buy Now Pay Later (BNPL).

Figure 13a: Lender type to which successful credit applications were made in the last 12 months⁶³



⁶³ Ipsos January 2023 Base: GB Adults 18 - 75. Under £15,000: 294, £15,000 - £30,000: 613, £30,000 - £50,000: 676, More than £50,000: 763
Multiple response question

Figure 13a: Lender type to which successful credit applications were made in the last 12 months⁶⁴



Regulated alternatives

Community Finance

The rise in credit union lending is significant and to be encouraged, **providing affordable credit to some of those now excluded** from other parts of the market.

The GB survey data showed over 2% of all respondents, (and 3% of respondents with incomes under £15,000) applying for credit had made successful applications to credit unions.

1% of all respondents had successfully applied to CDFIs during the past 12 months (although

our survey showed CDFIs less likely to be used successfully by respondents with incomes of under £15,000. (see figure 13)⁶⁵.

Credit union lending in Great Britain doubled between 2013 and 2022 from £640m to £1.3bn.⁶⁶ The number of loans issued rose from 350,000 annually to 425,000.⁶⁷ **Lending from Community Development Finance Institutions (CDFIs) also doubled** to £46m.⁶⁸

⁶⁴ Ipsos January 2023 Base: GB Adults 18 - 75. Under £15,000: 294, £15,000 - £30,000: 613, £30,000 - £50,000: 676, More than £50,000: 763
Multiple response question

⁶⁵ 0.2% of those who successfully applied earned under £15k. compared to 1.6% (£15K - £30K), 1.1% £30K - £50K. 1.6% over £50k

⁶⁶ Bank of England (2013) [Credit Union Annual Statistics](#) - GB value of loans outstanding at financial year end £0.640bn and Bank of England (2022) [Credit Union Annual Statistics](#) - GB value of loans outstanding at financial year end £1.288bn

⁶⁷ *ibid.*

⁶⁸ Responsible Finance (2023) [Impact report](#)

Much is often made around the APR comparison for loans in the higher cost space. There remains little doubt that it is a poor way to compare short term, small sum credit.

The maximum credit union loan in GB for example at 42.6% APR (it is 3 percent per calendar month on a reducing balance) can sound excessive to some, who misunderstand the mechanics of APR.

The maximum a borrower of a credit union will pay at the price of 42.6% APR on a £100 borrowed for twelve months just £20 interest.

Finding alternative ways to provide explanations on the true cost of credit will help community finance, banks and indeed higher cost credit firms explain their product better to potential borrowers. Regulator and policy maker support for this would be advantageous

The effort to scale the community lending sector is a critically important component of the drive for a fairer financial services market. It is a key part of Fair4All Finance's strategy.

For example, many credit unions offer deduction lending where the child benefit is lodged with the credit union and in return small family loans are advanced. Fair4All Finance has reported on the success of these previously⁶⁹.

Recent regulatory changes have unlocked the potential for credit unions to offer an increased range of products including entering into conditional sale agreements, hire purchase agreements, and insurance distribution activities.

Whilst welcome, the **scale and capacity is not enough to fill displacement** elsewhere.

Community lenders are also subject to the same obligations on lending affordability and consumer duty as other regulated lenders, meaning some are now also having to increasingly decline applications for loans.

At Fair4All Finance we have heard regular feedback on a general increase in declines across the community finance sector.

We have heard about declines rising from around 10% a few years ago typically to 25% to 33% now from credit unions, and significantly higher decline rates at CDFIs, where fewer than one in ten applications are being approved, and often significantly lower than this ratio.

Many customers are missing out on vital income. Community finance can help make it simpler and easier for customers to boost their income by bringing awareness to missing benefits and grants entitlement.

Many lenders are already embedding income maximisation tools within customer journeys, particularly within community finance. These calculators and grant finders identify the potential benefit entitlements, grants and other financial support that people can access.

This can mean the need for credit is reduced if people receive the entitlements or grants available to them for their purchases.

In 2023, 70% of 150,000 borrowers who accessed a benefit calculator were found to be eligible for £705 per month each from additional benefits or other grants⁷⁰

⁶⁹ [Fair4All Finance report, Research shows deduction lending adds up for borrowers, March 2023](#)

⁷⁰ Fair4All Finance

We believe embedding benefit calculators and grants finders within all digital customer journeys ought to be a prerequisite for any lending platform, mainstream and non-mainstream.

If the money people need can be identified, then the need for credit might be reduced.

There is an enormous sum identified in unclaimed benefits by the community finance providers Fair4All Finance work with, reuniting people with these funds is an essential element in future for good credit lenders.

With mainstream banks reluctant to lend either small sums (sub £1,000) or to higher risk (subprime) borrowers, **the specialists that do lend small sums to those the mainstream reject need assistance in the form of loan capital to achieve greater scale.**

There are some encouraging developments around mainstream lenders considering investments into community finance, and initiatives around banking referral schemes are always welcome too.

A real game changer would be bank engagement in lending directly to lower income households. Apart from TSB very recently⁷¹, no major bank in Great Britain appears to advertise or offer small loans under £1,000 as a financial product. Most websites offer loans from £1,000 upwards.

The example of developments in the USA of small sum lending demonstrates this can be achieved and is not out of reach.

⁷¹ TSB (2023) [Small personal loans application website](#)

Case study: small dollar loans

In the USA since 2020, **six of the eight largest banks⁷² entered the small dollar loan market.**

These banks and numerous smaller ones are now offering hundreds of millions of dollars of loans to customers that would have previously sought their credit solution from non-bank lenders.

According to the Pew Charitable Trusts in Washington DC, the welcome changes in the USA were driven by four regulators⁷³ with joint guidance issued in May 2020 which greenlit the subsequent banking engagement by giving regulatory approval and certainty⁷⁴. **The release of interagency lending principles for offering small dollar loans was the catalyst to secure mainstream lender engagement.**

The 'small dollar loans' as they are collectively known are offered to bank customers with a bank (aka checking) account (although it should be noted 4.5% of USA citizens do not possess one⁷⁵).

They are repaid over a few, usually three or four, monthly instalments, at an interest rate that is estimated to be 15 times lower than payday, typically in the 30s. On \$500 loans the estimated saving for borrowers against USA payday rates are between \$420 to \$581. The maximum bank offered loan is \$1,000.

According to Pew Charitable Trusts, **these loans meet the criteria of strong consumer safeguards, much lower prices, adequate time**

to repay, and repayments that consume only a small share of the borrowers' income.⁷⁶

Underwriting is automated by the bank, with credit bureaus rarely used - determinants are the checking account activity. This has resulted in better outcomes for people who would have been denied previously.

Pew Charitable Trusts estimate billions of dollars can be saved annually, the most likely beneficiaries of these loans are people traditionally underserved including Black, Hispanic, immigrant communities and those under 30 years old.

The regulators recognised that banks and credit unions are doing the right thing for customers. Reputational risk and ability to seek redress is reduced, and participating banks have been praised by regulators, which further encourages banks and credit unions to issue the loans.

The impact appears significant; Bank of America has announced over 1 million loans issued with a value of \$500m⁷⁷. Wells Fargo reported that they had issued 500,000 loans in the first year of their new product.

Small dollar loans are not a panacea, millions in the USA still cannot access them, but the engagement of major banks is a significant advancement. The loans are making a dent in the high cost regulated USA market, and presumably within the unregulated market too.

⁷² By bank branches US Bank, Bank of America, Huntington Bank, Regions, Truist and Wells Fargo

⁷³ The Board of Governors of the Federal Reserve System. The Federal Deposit Insurance Corporation. The National Credit Union Administration. Office of the Comptroller of the Currency

⁷⁴ In 2018 one regulator's guidance meant US Bank began small dollar loans then, followed by the other five in 2020 after the joint guidance was issued

⁷⁵ FDIC (2021) National Survey of Unbanked and Underbanked households

⁷⁶ Pew Research (May 2023) Affordable Credit Poised to save consumers billions

⁷⁷ "The Promise of Small Dollar Loans" Lois Aryee, Tahan Menon, Kate Rinehart-Smit, Evelyn Stark (March 2024) Ideas 42

Non-regulated lending

Informal lending

Some one in five of those declined for credit (or assuming they would be declined) in the survey in the past three years reported now relying on friends and family as their back up for borrowing.⁷⁸ (for split by income see figure 9).

The FCA Financial Lives survey reported an increase from 3.6m to 5.4m people between 2017 and 2020 and then a reduction to 4.6m (8.7% of UK adult population) in 2022⁷⁹.

However, as cited earlier (page 14), according to the FCA those on lower incomes are now resorting to friends and family on a 1 in 6 ratio in 2022, from 1 in 12 in 2017.

Resolution Foundation reported in 2023 that **14% of all age groups had reported receiving 'financial help' from friends or family in the past 12 months.**⁸⁰ The biggest age group receiving financial help were 25-34 year olds (25%), followed by 18-24 (22%) and 35-44 (22%).

In the June 2023 Ipsos survey, 1,859 adults were asked if they had borrowed a sum of money over or under £250 from a friend or family member⁸¹:

- 10% responded that they had borrowed under £250 in past 12 months
- 13% responded that they had borrowed £250 or more within past 12 months.

A total of 22%⁸² of adults borrowing from friends and family is a significant figure equivalent to more than 10 million adults.

Some may take the view that displacement to informal borrowing is a positive long term shift.

Genuine family support - where this is available - may eliminate exposure to high-cost or exploitative lending practices.

There are two important considerations before championing this conclusion.

Firstly, **friends and family borrowing may be finite if it can be sourced at all**, meaning there will be limitations to the extent it can be an adequate or sustainable alternative to formal credit.

There are already **signs that people may not be able to access the sums they need**. 20% of the Resolution Foundation study said they did not have friends or family that could assist, whilst 15% said they could not provide help when asked as they were not able to.

In our January 2023 survey, admittedly with small sample sizes, sentiment was similar.

Secondly, whilst a large majority of family and friends' lenders appear to be genuine, there is and was in our survey **a significant minority that may be operating an unauthorised lending business - particularly those identified as 'friends' rather than 'family'**.

The sample size was small but there was a notable distinction between people who said 'friends' were charging them interest, sometimes rising with penalties, against those that said 'family' were lending to them in this way.

⁷⁸ Ipsos Survey period: January 2023. Base: Those declined for credit or thought they wouldn't get credit. Total: 377

⁷⁹ FCA (2023) [FCA Financial Lives Survey 2022 Appendix](#)

⁸⁰ Resolution Foundation (2023) [Hoping and coping: How families were faring in March 2023](#)

⁸¹ Ipsos June 2023 weighted survey of 1859 GB adults aged 18-75

⁸² Note: rounding of <£250> percentages means total figure is not 23% but 22%

The National Illegal Money Lending Team have also voiced concerns that this kind of informal lending – particularly in relation to friends – can mask illegal activity.

The total of friends and family borrowing ranges; different sources and different reports quote different percentages. However, the total number – regardless of the source – is large, and ought to cause some level of concern.

The combination of limited capacity and the potential crossover with illegal lending suggests **in many cases informal lending is not a viable direct substitute for formal credit.**

Buy Now Pay Later

Another form of borrowing which **sits outside current regulatory lending perimeters** is Buy Now Pay Later (BNPL).⁸³

BNPL is typically offered online at the point of sale, enabling consumers to spread the cost of a purchase over several months without paying interest, provided payments are made on time.

Even if BNPL firms themselves are regulated by the FCA for some of the products and services they offer, the specific BNPL product is not regulated, and therefore **is not currently subject to the same protections concerning other credit agreements or affordability requirements.**

The FCA website says:

‘This means that firms, even if they are regulated by us for some of the products and services they offer, are not required to ensure that exempt BNPL products meet our rules,

such as checking that a customer can afford to repay the loan. These customers also have fewer rights and protections and for example, are unable to bring a complaint to the Financial Ombudsman Service if something goes wrong⁸⁴.

BNPL is an increasingly popular payment method with strong consumer demand.

Almost 1 in 5 (19%) of credit applications within the GB survey were made to BNPL, slightly higher than the 17% figure the FCA cited in the Financial Lives Survey 2022, although less than the additional FCA analysis which adjusted the 17% figure upward to 27% of the population, equivalent to over 14 million individuals.⁸⁵

The FCA CEO has indicated support that BNPL ought to be regulated⁸⁶, a decision for HM Treasury who indicated following the Woolard review that they would do so to address the potential risks presented by BNPL.

The absence of controls within BNPL can make it harder for other lenders to conduct accurate checks of an individual’s wider borrowing commitments.

If BNPL does not appear on a borrower’s credit file, or if borrowers take out multiple BNPL offers at the same time, there is a clear risk this could lead to over-indebtedness. There are also increasing concerns that some borrowers incur late fees with the FT reporting in 2024 that 22% of all UK BNPL users had incurred late fees, and of those people, ‘more than one quarter took a hit on their credit score as a result or were contacted by a debt collection agency.’⁸⁷

⁸³ BNPL firms must comply with consumer protection legislation but are not currently regulated by the FCA under consumer credit regulation due to the exemption in Article 60F (2) of the Regulated Activities Order (RAO).

For more details see FCA (2021) [The Woolard Review – A review of change and innovation in the unsecured credit market](#)

⁸⁴ FCA website Unregulated BNPL lenders becoming authorised 23/11/23

⁸⁵ FCA (2023) [Financial Lives Survey 2022](#)

⁸⁶ <https://www.independent.co.uk/money/regulator-is-ready-to-go-to-bring-buy-now-pay-later-firms-under-its-scope-b2378298.html>

⁸⁷ Quinio, Akila, One Quarter of UK BNPL users hit by late fees (FT) 2nd January 2024

Whilst these reforms progress, **some BNPL providers are voluntarily introducing new measures**, for example a soft credit check, starting with a low limit allowing consumers to increase based on their individual repayment behaviour, reporting to credit reference agencies.

Many community lenders have expressed concern to Fair4All Finance around the proportion of BNPL that they see on their applicants' open banking records.

The credit gap prevails

It is clear that these **alternative options will either struggle to meet the overall demands in the credit market or bring challenges of their own** in relation to consumer protections.

A final unregulated activity is a cause for greater concern, illegal moneylending.

Illegal lending in Great Britain

Community illegal lending

Interviews for our previous qualitative research **As one door closes** indicated **credit exclusion through credit refusal plays a significant trigger in people becoming clients of illegal lenders**. This may be because credit refusal does not eliminate the need for what is often short-term, lower value credit (under £1,000).

In these instances, **it remains possible that the solution for the borrower becomes illegal lending**. ‘As one door closes’ identified, among the hundreds of people interviewed, the exit of home collected credit in particular appeared to be the conduit for subsequent borrowing from illegal lenders.

Employment was also noted not to be as much of a protective factor against illegal lending as it has been in the past, indicating a **widening of the demographic using illegal lenders to now include more people in full or part time work**, with a higher household income above £20,000.

New survey data for this report looks to quantify the latest scale of illegal lending in GB and **supports the notion that those losing access to credit appear to be displaced to illegal lending on a significant scale**. Indeed illegal

lending appears to have become an increasingly embedded feature of community life in low income and more deprived communities.

The survey suggests 15% of the GB adult population (aged 18–75) admit to being aware of an unlicensed lender operating locally and some 10% to being aware that someone in their social circle had used an unlicensed lender (of course, awareness is not usage, it could be that awareness is associated with wariness).

The results also suggest some **7% of the GB adult population (aged 18–75) confirm they or someone in their household had used an illegal lender in the local community** (3% ‘informal unlicensed lender’, 4% ‘loan shark’ – figure 14).

This is supported by similar results in a further separate survey that Fair4All Finance commissioned in June 2023⁸⁸ which also indicated 7% (see Figure 15)

The results suggest awareness of unauthorised lending is such that those declined for credit and living in low income communities are unlikely to have much difficulty identifying and making contact with a loan shark, especially as awareness and use of loan sharks or illegal lending was greater for those declined for credit (see figure 16).⁸⁹

⁸⁸ Source: Ipsos. Survey period: June 2023. Base 1859 weighted adults 18 – 75 in GB responding to question “To the best of your knowledge, have you or someone in your household borrowed from an unlicensed or unauthorised informal money lender who charges interest (sometimes known as a loan shark) within the last 3 years, or not?” This survey produced a similar percentage to the January 2023 survey with 7% of respondents answering, ‘yes’. Yes: 127 No: 1658. Don’t know: 60. Refused: 14

⁸⁹ Source: Ipsos. Survey period: January 2023. Of the 2547 people asked in our survey 4% said they or someone in their household had used a loan shark, 3% an unlicensed money lender. These figures changed for those accepted for credit to 5% (loan shark) and 5% unlicensed lender, and for those declined credit elsewhere to 9% loan shark and 8% unlicensed money lender.

Figure 14: Awareness of and use of both unlicensed/unauthorised lenders and loan sharks⁹⁰

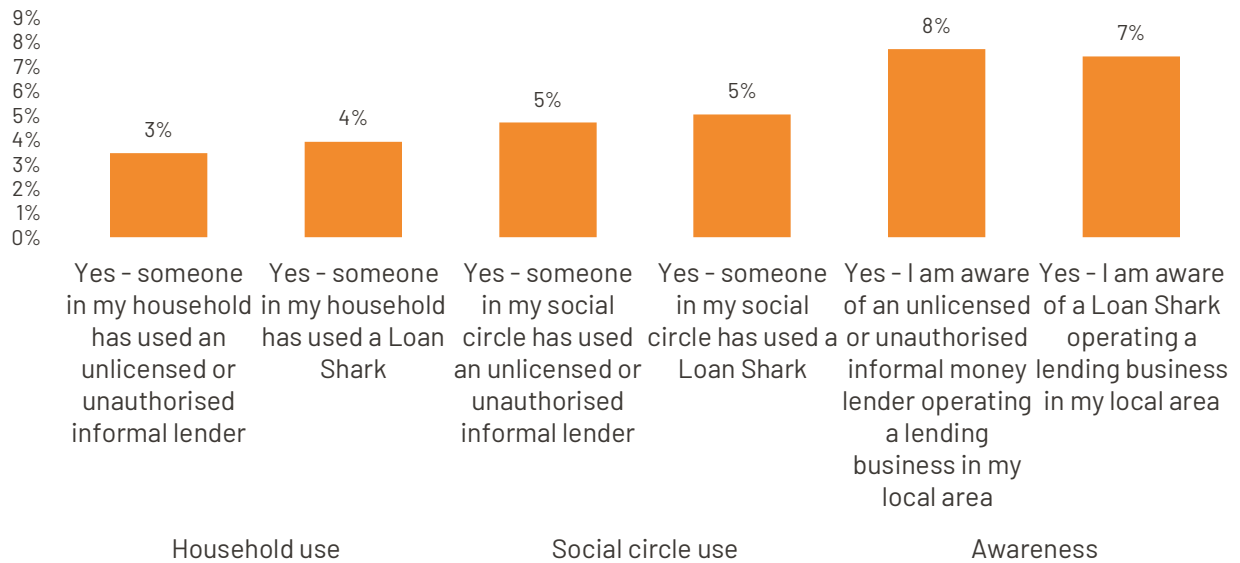
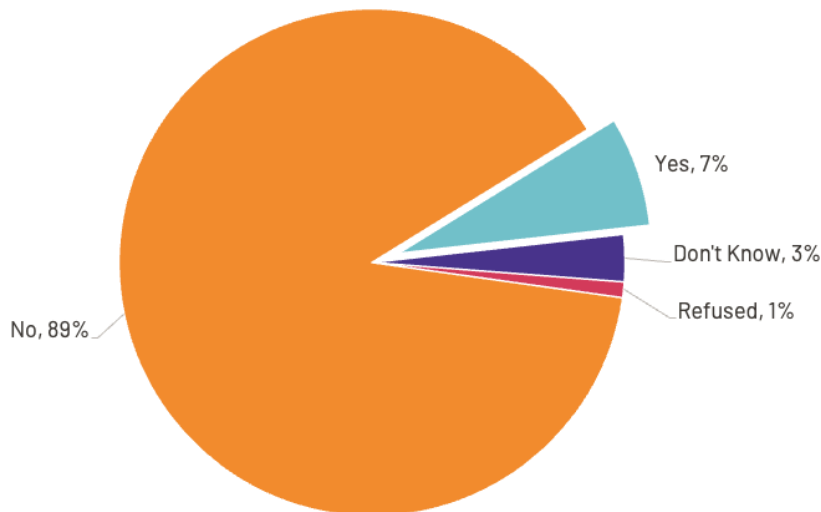


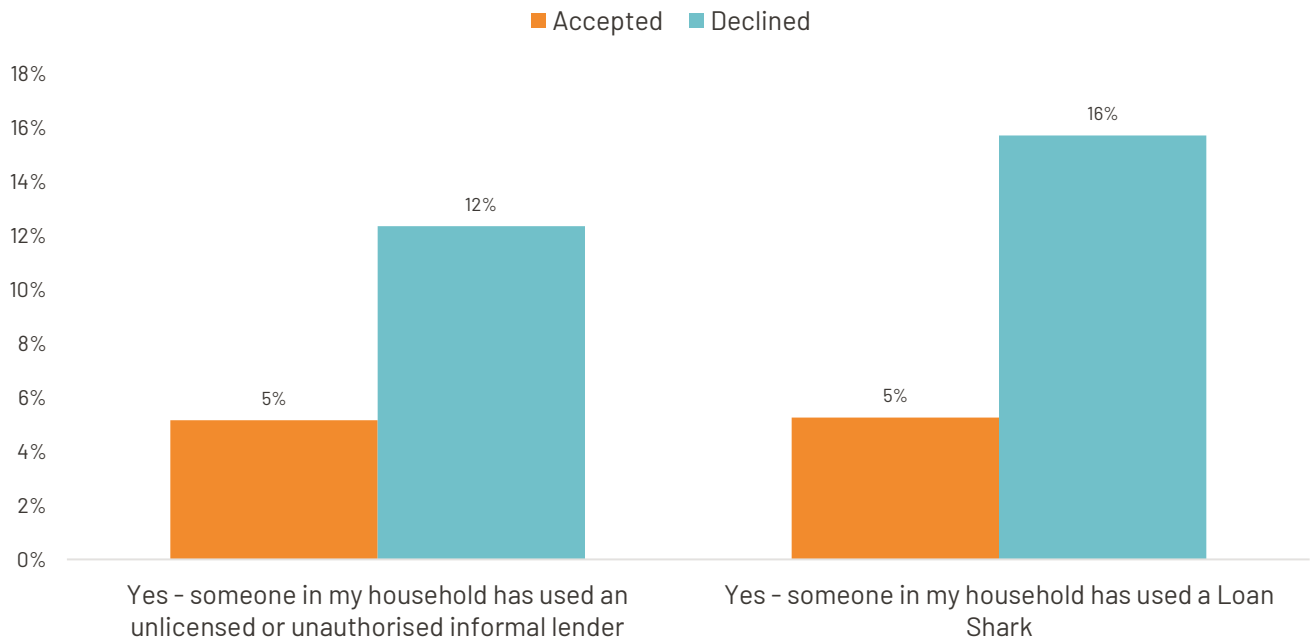
Figure 15: Use of an unlicensed unauthorised lender that charges you interest in the past three years (you or someone in your household)⁹¹



⁹⁰ Survey period: January 2023. Base: Adults 18 – 75. Total: 2547 GB adults

⁹¹ Survey period: June 2023. Base 1859 weighted adults 18 – 75 in GB responding to question “To the best of your knowledge, have you or someone in your household borrowed from an unlicensed or unauthorised informal money lender who charges interest (sometimes known as a loan shark) within the last 3 years, or not?”

Figure 16: Whether declined for credit and household use of loans sharks or illegal lenders⁹²



⁹² Source: Ipsos. Survey period: January 2023. Of the 2547 people asked in our survey 4% said they or someone in their household had used a loan shark, 3% an unlicensed money lender. These figures changed for those accepted for credit to 5% (loan shark) and 5% unlicensed lender, and for those declined credit elsewhere to 9% loan shark and 8% unlicensed money lender. Bases: Accepted (1171) Declined, including those who had some applications accepted (350)

Quantifying the scale of illegal lending

In two GB surveys a total of 7% of respondents said that they, or someone in their household had used an illegal lender within the past three years.

In January 2023, in a representative online quota survey of 2,547 GB adults aged 18-75 years old **3% of respondents** said they, or someone in their household **used 'informal, unauthorised lenders'**.

If scaled up to the GB adult population aged 18-75 years old, this is equivalent to 1.4 million individuals.

4% of respondents responded that they or someone in their household had **used a 'loan shark'**. Equivalent to 1.9 million individuals.

It is possible that **3.3 million people may be living in households in which someone is using or has used some form of illegal moneylender.**

In June 2023, in a representative online quota survey of 1,859 GB adults aged 18 – 75 years, **7% responded yes to a question that they or someone in their household had, to the best of their knowledge used an unlicensed or unauthorised lender or loan shark.**

Even with caveats,⁹³ there is significant margin to suggest that the number of people responding that they, or someone in their household uses illegal lenders, is higher than we might otherwise imagine.

Many other pieces of research are identifying responses to a variety of questions around use of illegal lenders significantly higher than those referenced by the FCA.⁹⁴

Extrapolation and scaling up always need to be used with caution, but given the responses to the survey, and to the question on interest charged by friends and family too, it is clearly cause for concern.

The very real possibility needs to be considered that, for some people, being excluded from borrowing and using illegal lenders is potentially more dangerous than any harms caused by access to credit.

⁹³ Caveats around constructing questions that people feel comfortable answering, ensuring that they don't misunderstand the question asked and confuse their responses with forms of legal lending, and any fear of bias or stigma or taboo that people have around acknowledging their own participation with an illegal activity.

⁹⁴ A number of other respected organisations including The Resolution Foundation, Joseph Rowntree Foundation, Centre for Social Justice, ABRN Financial Fairness Trust have also reported increases in illegal lending in the community. Whilst methodologies vary, all cite an incidence of at least 1 million users.

A note on methodology

There are always challenges when asking people about their use of illegal lenders. The term 'loan shark' is often used by media, politicians and commentators to describe legal, licenced, high-cost lenders. It is, of course, possible that people were confused in how they responded to particular questions.

We used the terms 'loan shark', 'unlicenced, or unauthorised informal lender' to allow people to respond (once) to the term that they were more familiar with. We were also aware of the issue of social desirability⁹⁵, where people may be inclined to not reveal things that they believe are frowned upon or taboo, hence extending the question to include other household members.

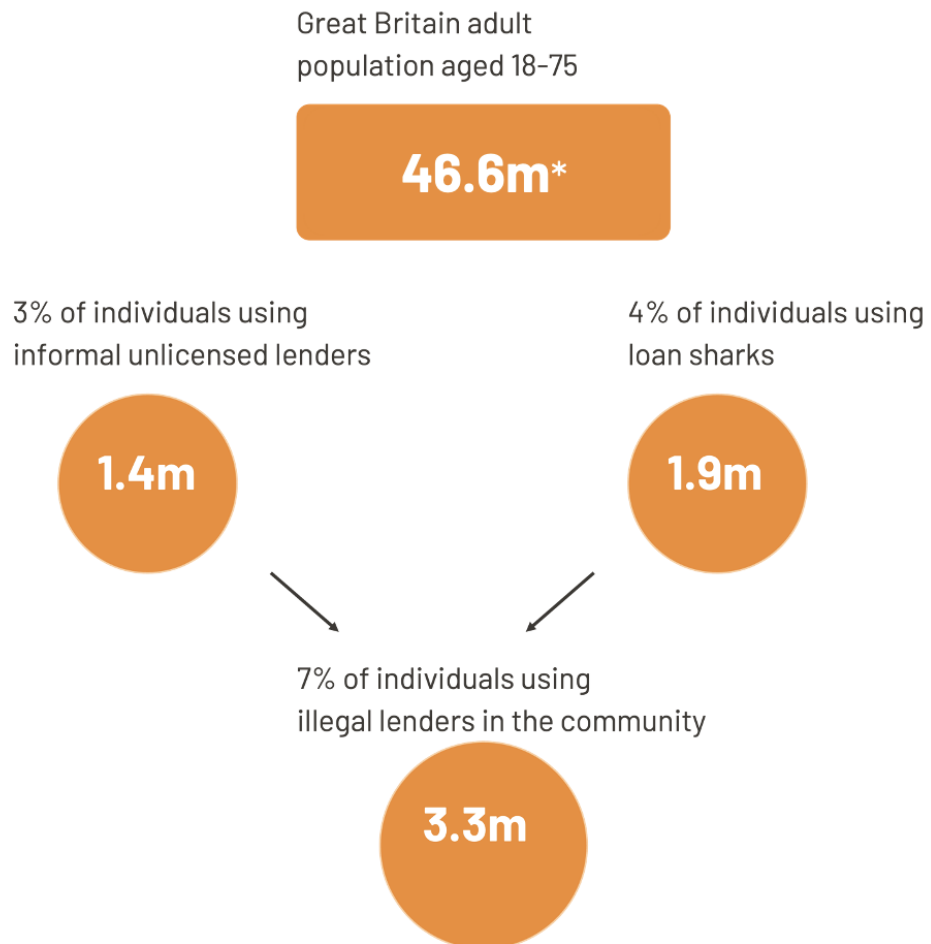
All the responses need to be viewed with a degree of caution, in part because of the terminology used and the potential for people to respond to 'loan shark' as a legitimate lender, or 'unlicenced' or 'unauthorised' as a friend or family member.

However, the responses reflect the claimed experiences and opinions of a representative online quota sample of 18 to 75 year olds, who throughout the survey were reminded of the distinctions we were placing on friends and family and legal and illegal lending.

⁹⁵ social-desirability bias is a type of response bias that is the tendency of survey respondents to answer questions in a manner that will be viewed favourably by others. It can take the form of over-reporting "good behaviour" or under-reporting "bad", or undesirable behaviour.

Figure 17: Quantifying the scale of illegal money lending in the community in Great Britain

Source: Ipsos June 2023 online survey among GB adults (18-75)



*ONS MYE2: Persons by single year of age and sex for local authorities in the UK, mid-2022

Digital illegal lending

Historically the phenomenon of credit exclusion creating displacement to the illegal sector has been seen mainly in community based unauthorised lenders, commonly referred to as loan sharks.

Anecdotally, we have been told numerous times in the research phase of former agents of legal home credit companies operating parallel, unlicensed lending activities.

However, the advent of digital channels has transformed the nature of this risk, with credit vacuums now also providing opportunity for illegal online lenders and underhand activity to flourish.

Financial crime and harms

It is not possible to ask consumers directly if they have used an illegal lender online, simply because they may not know that they have done so, may not check the credentials of the websites they are using, or may be taken in by clone websites claiming fake authorisations.

International research has therefore been **reliant on proxies of likely indicators of unauthorised online activity**: examples include cost of credit that was not compliant with the price cap or negative lender conduct.

One of the **most serious indicators is exposure to serious harms such as financial and data crime**, which includes thefts from their accounts, fraud or scams, as well as identify theft and the sale of their personal details to third parties without permission.

As a starting point, we asked those who had been both accepted and declined for credit if they had experienced issues such as **theft from their account, scams, fraud, sale of personal data or identify theft**.

Conversely, those who had been declined from credit had significantly worse experiences in each (see figures 18 and 19). They are also the group we could most expect to explore lending options from non-mainstream lenders, including online, given likely lack of access to mainstream credit.

The responses here suggest further research is warranted on the possibility that the frequency of online harms may be demonstrative of a growing digital illegal lender presence in Great Britain⁹⁶.

What next?

We think it is worth **highlighting the potential danger that may be in development from digital illegal lending** and that relevant authorities should be increasingly alert to the potential for widespread harm. Allowing this to scale risks serious consumer detriment.

We believe there is a significant enough concern to justify further, more detailed research in this area, alongside more detailed investigation from a range of agencies whose remits cover fraud, data and financial crime, and organised criminal behaviour.

Figure 18: (P3Y) Exposure to cost-related harms⁹⁷

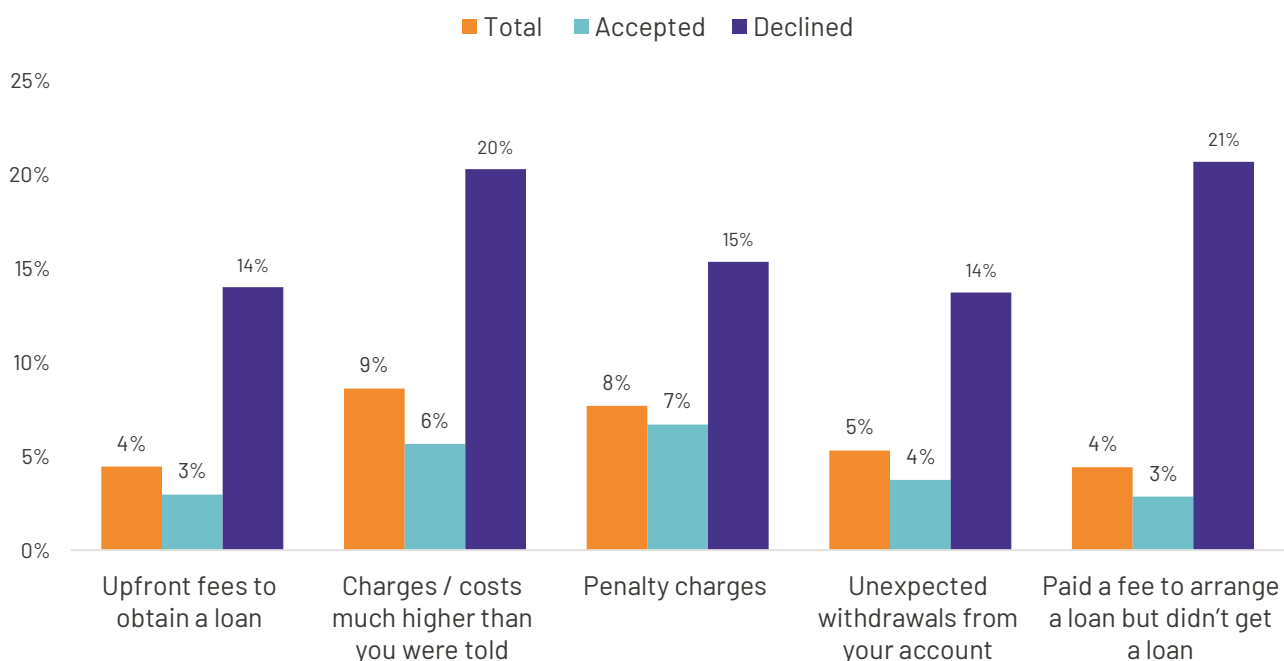
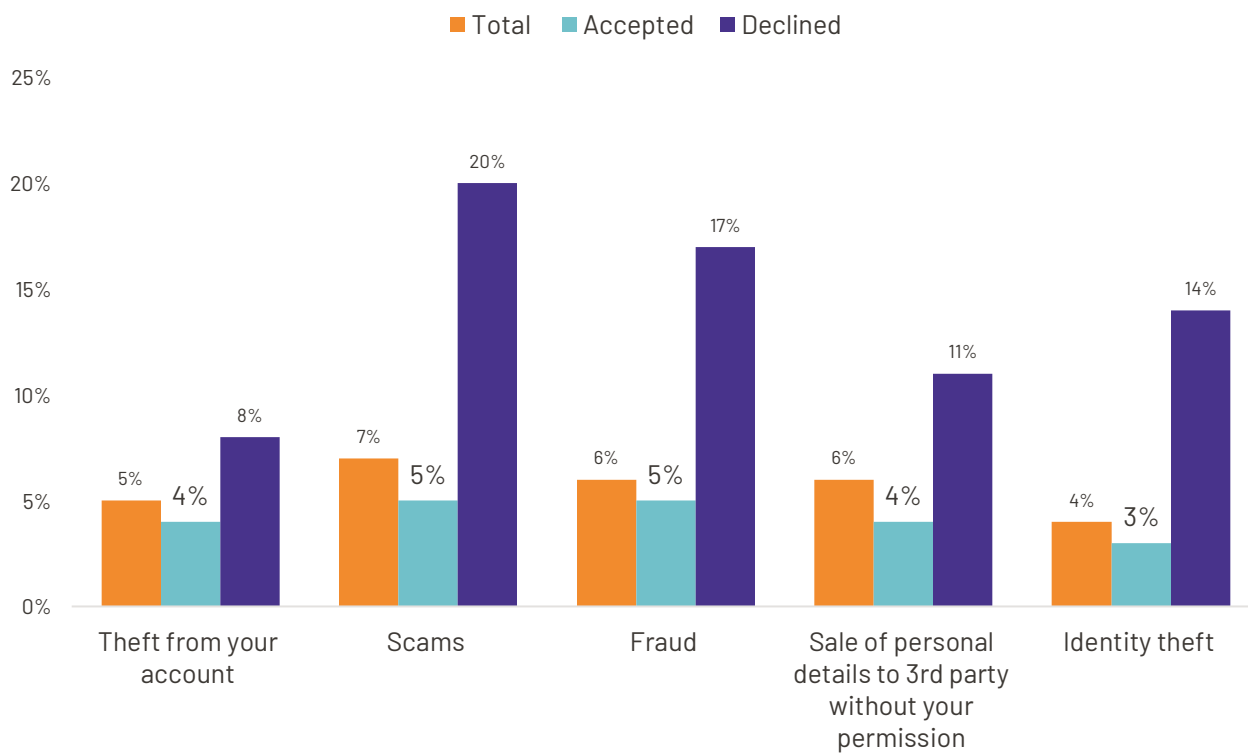


Figure 19: (P3Y) Exposure to financial and data crime⁹⁸



⁹⁷ Survey Period: January 2023 Applications for credit over the past three years 1562. Accepted, 1171 and declined 83.

⁹⁸ ibid

Conclusions

We find it difficult to escape the conclusion that the **UK credit market is not functioning properly for lower income households**, many of whom have lost access to credit. The significant challenge is **getting the balance right between consumer protection and consumer access to credit**. This is no easy task.

The analysis suggests:

- **a credit vacuum has developed** resulting in a lack of access for lower income households and **an inability for people in vulnerable circumstances to find affordable credit solutions** to meet their needs
- the growing use of **friends and family lending may be reaching capacity** and in some cases features characteristics more akin to illegal lending practices
- people seeking credit find themselves **unable to access legal solutions** but are aware, and increasingly making use of illegal solutions
- there is a need for a **wider range of credit options** including forms of higher cost credit and an increased role for mainstream credit as both a lender and as a provider of funds to scale community finance.

These findings are echoed across a broad range of commentary and research published on this topic in the last 6 – 12 months and referenced throughout this report.

Our findings do not downplay the incredibly detrimental impact debt can have on people's lives. However, for many credit exclusion means fewer choices at a time when financial pressures have risen. People on the lowest incomes and many in social housing appear increasingly unable to access regulated credit.

The findings from our two surveys undertaken in 2023 indicate **over 10 million people said they had borrowed from friends or family** in the previous 12 months, and potentially **3 million plus had used an unlicensed lender or loan shark**

Friends and family borrowing may be largely benign. However, we believe there is the possibility here too of unlicensed lending practices acting alongside a regular response that people could not access all the credit they required, a potential gateway to illegal moneylending.

These concerns are shared by the National Illegal Moneylending Teams. And our conversations with the remaining lenders operating legally in high-cost credit confirm **the presence of unlicensed parallel and front activity**.

Without legitimate access to credit in times of financial distress, **many are already turning, and will continue to turn, to illegal sources. Illegal money lending is a feature of lower income communities.** The evidence emerging from this research, as well as other recent sources, indicates potentially millions of people are using illegal lenders in their community.

In our survey it was **people who had been declined for credit that were more likely to acknowledge use of illegal lending** as their solution, alongside other sub optimal options.

As the credit vacuum is creating market opportunities for criminals, which the data shows are taking root, it should be examined further.

There is **an urgent need for more affordable credit, and a refreshed role for forms of higher cost credit along with a greater role for mainstream banks.** We stated at the outset that the shape of the market is as important as the size. People going without and making sub optimal choices cannot continue indefinitely.

Whilst better regulation and enforcement has led to an improvement in lending practices, there has been a reduction in credit options resulting in significant gaps in the market for large parts of the population. However, within this new regulatory framework we believe that there is now a place for higher cost credit options and that this can play an important role in closing the credit gap.

The scale of declines (at both enquiry and actual application stage) ought to cause legislators and regulators concern, as **organised crime could seize opportunities to lend where people are otherwise declined and have nowhere else to turn.**

The scale and nature of this issue **warrants immediate attention.** Nobody wants to see excluded borrowers and those declined for credit moving to illegal channels with no protections.

There is no downside to deeper investigation into both relationship based and digital illegal lending, to assess the damage or debunk the concerns.

We believe the regulator ought to consider and **reflect on how measures most constraining access to small sum credit might be appropriately mitigated or eliminated.** For example, a wider definition of what constitutes a good outcome, with greater emphasis in some circumstances on access as well as affordability, which appears to us to be the lynchpin of USA Small Dollar Loans, or a consideration for small sum lending being subject to alternative, simplified requirements, ie for loans of £500 and under.

Affordable credit provides an opportunity to support the credit needs of people in vulnerable circumstances. Many such lenders include income maximisation tools, such as benefit calculators and grant finders within their customer journeys, to identify whether alternatives – that do not involve borrowing – are available to the borrower.

In our opinion it should be part of the customer credit journey to help them access alternatives that may reduce their need to borrow at all.

The **challenge will be to retain the many benefits of reform to credit regulations, whilst recalibrating to avoid any unintended consequences** of such large scale credit exclusion.

Research recommendations

Action is needed to widen and deepen access to affordable credit. This will require a combination of new product development, regulatory adjustments, capital investment into community finance, a more prominent role played by mainstream banks including lending directly into the non-standard market as well as new forms of higher cost credit.

Critically, this requires a continued and renewed focus on developing a **preventative approach towards illegal money lending by regulators and a range of other agencies.**

Widening access to affordable credit

Greater
capitalisation

Regulatory
adjustment

New product
development

A preventative approach to impede illegal lending

A decisive,
coordinated
strategy

Expand remit for
Illegal Moneylending
Teams

Further research
on digital illegal
lending

Widening access to affordable credit

Greater capitalisation

Driving initiatives that scale up and support the provision of community finance was called for in the Woolard Review in 2021. It was needed then and it remains needed now.

The scaling up of affordable credit will also require significant investment in technology, marketing, product development, as well as forms of loan capital or financial instruments.

There is a critical role for those with capital to support community finance, if they are unwilling or unable to lend themselves, and to assist in the rehabilitation of higher cost credit lending.

For community finance to grow at the rate required, they need access to capital or other financial instruments. This ought to be given a high priority within the banking industry who should review their tolerance and risk appetite levels to realise the potential capital returns as well as the wider social return on any investment.

Regulatory adjustment

A **broader definition** of what constitutes good consumer outcomes that includes access to credit, consumer protection as well as its affordability is required. This should also include the examination of alternatives to APR as the way of defining product value.

In parallel, regulators and policymakers should encourage small sum lending by **reflecting on how legislative measures or guidance most constraining access to small sum credit might be appropriately mitigated or eliminated**. Including whether access to credit should sit alongside affordability as a policy driver and what learnings can be taken from the US small dollar loan model.

Consideration should also be given to whether **income maximisation tools** (such as benefit calculators and grant finders) **should be a mandatory part of the customer journey to help people access funds that may reduce their need to borrow at all**.

New product development

Mainstream finance must be more innovative and lead the development of new products to address the credit vacuum for those on lower incomes, left behind communities and other disadvantaged groups.

Working with organisations like Fair4All Finance mainstream finance should **co-design products which work for changing customer needs**, including revolving credit options and credit options which build scores gradually, to provide further buffers in the financial system to illegal money lending.

An example identified by this research is the potential to replicate the US small dollar loan model to deliver sub \$1,000 loans to lower income households. Six of the largest US banks (out of eight) are now following this model, whereas only one major bank in the UK currently offers small sum credit as a product on its website.

A preventative approach to impede illegal lending

A decisive, coordinated strategy

Authority should be given to the National Illegal Moneylending Teams across the nation **to develop and enact a decisive and coordinated preventative strategy** on illegal lending.

Delivered with HMT and other key government departments, agencies and industry working together to maintain an orderly credit market, the strategy should seek to combat financial and data crime, and address related threats to household prosperity, the wider economy and underlying social equity.

This will likely need to include the Department for Business, the Financial Conduct Authority, the National Economic Crime Centre and the National Crime Agency, as well as industry and consumer representatives such as UK Finance, the community finance sector and debt advice charities.

UK banks should **work with the illegal money lending teams to actively reach out to their current customers where they believe they may be at risk of borrowing from illegal lenders** to offer alternative legal credit options.

Expand remit for Illegal Moneylending Teams

The **National Illegal Money Lending Team's remit should be expanded to investigate digital illegal lending**, with an increase in resources required to develop the necessary skills and tools to tackle this.

Wider authorities with specific understanding of fraud and data crime also need to be aware and alert (where this is not already discreetly happening) to the potential danger from criminal operations using illegal online lending to intensify their cybercrime efforts.

Further research on digital illegal lending

Our research shows the dangers associated with a growth of digital illegal lending, namely increased financial and data crime.

Further research on this is required by the National Illegal Money Lending Teams, Fair4All Finance and **with a range of partners** to determine where there are the most significant concerns.

Glossary

Affordability

A formula for assessing whether a consumer can afford to make repayments on a loan set out by the regulator and which authorised lenders must give due consideration to when assessing whether to advance a loan, 'unaffordable lending' being not compliant with regulatory requirements of authorised lenders and which have been the main focus of consumer complaints to the Financial Ombudsman Service (FOS) in the high-cost short-term sector.

Buy Now Pay Later

Financial products sold at point of sale, typically online, which enable consumers to spread the cost of purchase over several months without paying interest provided payments are made on time.

Community finance/social lending

Lending by not for profit lenders focused on providing affordable credit such as credit unions and Community Development Finance Institutions (CDFIs).

Data crime

Identity theft and the buying and selling of consumers personal and financial data without their knowledge or permissions, often to criminal enterprise and over the dark web.

Digital illegal lending

Unauthorised lending online

FCA

Financial Conduct Authority

FOS

Financial Ombudsman Service

Financial Crime

Cybercrime including theft from bank accounts, fraud and scams, typically by criminal enterprise including serious organised crime.

High-cost short-term credit

High-cost small sum loans repaid over relatively short terms at high interest rates such as payday lending and high-cost term loans. Now overwhelmingly online.

Home credit

Also known as 'doorstep lending'. Small sum loans also with high interest rates and primarily serving those on low and modest incomes. Repayments collected weekly, originally in customers' homes, but now increasingly digitally. Loans sold face to face and collected by agents.

Illegal/Unauthorised lending

Lending by individuals or organisations not authorised to lend in the UK by the FCA.

Illegal lending in the community

Unauthorised lending by individuals typically in low income communities, but increasingly via social media.

Informal unlicensed lender

Unauthorised lender operating in the community. A description potentially easier for consumers to admit to using.

Loan shark

Unauthorised lender operating in the community. The phrase has implications of exploitation and potential intimidation.

Mainstream lenders

Banks and building societies and other lenders targeting prime and near prime borrowers.

Non-mainstream online lenders

Lenders such as high-cost short-term lenders, including payday lenders operating online.

Price cap

Limits on the cost of credit for authorised lenders and set by market regulators.

Value cap

Limits on the value of loans that can be advanced by authorised lenders and set by market regulators.

Vulnerability

A formula for assessing the potential vulnerability of a customer and having due regard for it set out by the regulator.

IPSOS UK

Methodology and full technical details

Ipsos UK conducted an online survey amongst a sample of 2,547 adults aged 18-75 in Great Britain, recruited from online panels.

The survey covered a variety of topics related to finances, borrowing and use of credit.

All those who took part in the survey provided explicit consent for data to be collected regarding any borrowing and credit products they may personally have and how they use them.

Data have been weighted to the known representative proportions for age, gender, region, working status, social grade, education (graduate v non-graduate) and ethnicity (white v ethnic minorities) to reflect the offline population of GB adults age 18-75.

To facilitate subgroup analysis, boosts were conducted amongst those claiming to have experience of certain types of credit/debt - additional weighting was applied to ensure the size of these groups of interest remained in line with the original natural fall out.

Whilst weighting has been applied to align the demographic profile with the population, it is important to take the subject matter and methodology into account when interpreting results.

Fieldwork was conducted online between 17 – 23 January 2023.

Ipsos UK was responsible for data collection only, with Fair4All Finance responsible for all analysis and interpretation, and early analysis of the data was undertaken by Anna Ellison and Martin Coates.

All polls are subject to potential sources of error.

Where results do not sum to 100, this may be due to rounding.

Ipsos UK conducted a further online survey amongst a quota sample of 1,859 adults aged 18-75 in Great Britain. All provided explicit consent for data to be collected regarding their household and personal finances. Field work was conducted online between 16-19 June 2023.

All polls are subject to potential sources of error.

Where results do not sum to 100, this may be due to rounding.

Data have been weighted to the known representative proportions for age, gender, region, working status, social grade, education (graduate v non-graduate) and ethnicity (white v ethnic minorities) to reflect the offline population of GB adults age 18-75.

Scaling up to population estimates

In view of the online panel methodology, scaling up to population estimates isn't strictly appropriate. However, if results were viewed as fully representative of the GB 18-75 population, this x% would equate to cY people stating Z (based on the ONS 2021 mid-year estimate of 46.6m for GB population aged 18-75)