Who is responsible?
Martin Hagerty, Director of Banking and Financial Institutions at Equifax, talks to **Perspective** about where responsibilities lie when it comes to lending... and borrowing too.

The issue of lenders behaving irresponsibly with their borrowers has been on the political and regulatory agendas for well over a decade. Much of the debate comes from a long-held assumption by regulators, politicians, charities, citizen protection groups and, increasingly, the public at large. There’s a view that lenders’ overriding objectives are to maximise lending – at all costs and at times even recklessly – to grow revenues and profits. This seems to be supported by research conducted by Ipsos MORI in April 2013 that stated: “75% of consumers do not trust bankers to tell the truth.”

It has to be said that some of the more lurid stories emerging from the last decade of PPI sales, LIBOR fixing, property repossessions and massive bank loan losses have done nothing but reinforce this view. In addition, the large bonus culture in UK banks also continues to be a regular focus in the news. In April of this year, Sir David Walker, the Chairman of Barclays, had to defend accusations of greed from the bank’s shareholders, as it awarded nearly 500 bankers more than £1 million in bonuses. With stories like this in our continual media cycle, it’s hardly surprising that lenders have become the default “whipping-boys” for any slow news day!

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But is this a fair assessment of the lending environment today? Are lenders simply an easy target and convenient collective to blame for many of the ills of the country and consumers alike? Or should we instead be looking more closely to the wider community of consumers, regulators and government – as well as the bankers and lenders – to see where the ‘responsible’ in responsible lending should lie?

**Whose side are you on?**

It’s probably fair to say that the answer to that question very much depends on which side you feel more closely aligned to. For most, however, lenders should and must bear the ultimate responsibility.

Pre-2008 financial incentives, such as commission-based bonuses for selling products to customers, did not always encourage the correct behaviours and there were too many examples of inappropriate lending.

Stories about bankers’ bonuses, city workers’ alleged excessive behaviours, rogue traders and eye-watering-sized bank bail-outs – which in the UK alone, at approximately £50 billion, is roughly the GDP of Lithuania, Latvia and Estonia combined – have only added weight to such views.

However, while we must acknowledge that lenders have made errors in their processes and behaviours, it’s still hard to imagine any providing a loan to someone they knew was unable to repay it.

So my point is: surely the time has come for the whole picture to be looked at, if our industry is to avoid a repeat of past excesses?

**Doing good business**

Less than a decade ago, lenders would have been driven to sell more products, increase opportunities to cross-sell, use large bonus schemes to incentivise staff and lower their costs by shifting consumer services off-shore. Much of this was seen as benefiting the organisation but wasn’t always in the best interest of the consumer. Is this still true? I believe that with the overwhelming majority of lenders... today, it’s probably not.

Now we are seeing a real desire for lenders to regain customer trust. They want to improve their reputation, win back customers and be seen to be doing the right thing: behaving responsibly and treating their customers fairly.

Without question, the FCA has acted as a catalyst for changing attitudes amongst lenders through the development of the concept of conduct risk, alongside treating customers fairly. But there has also been a shift in focus from lenders. There is now a better understanding of the need to improve customer service, building long-term profitable customer relationships based on value, reducing conduct and reputational risk, and rebuilding customer trust.

This almost redefinition of ‘doing good business’ also addresses the challenge of responsible lending. And while this must, of course, start with the lender, in my view, to work, this responsibility – the responsible part of ‘responsible lending’ – must be shared.

**Read the small-print**

An average retail customer will enter into approximately five unsecured loans in their lifetime. And while many will grasp the basics of the terms and conditions, it’s likely that the majority will spend less time researching and understanding a significant medium-term financial commitment – like a three-year unsecured loan – than they will researching which TV or new smartphone to buy.

In most walks of life, ignorance is not a defence. But this apparently doesn’t hold true for borrowing money. Yet why do borrowers seem to behave as though they can absolve themselves of any responsibility for their own personal financial situation? Surely it’s not too much to expect that there is a responsibility for consumers to undertake their own due diligence? Philip Hammond, the Secretary of State for Defence, also raised this question when he stated: “People feel, in a sense, that someone else is responsible for the decisions they made.”
“Of course, if banks don’t offer credit, people can’t take it. [But] there were two consenting adults in all these transactions, a borrower and a lender, and they may both have made wrong calls. Some people are unwilling to accept responsibility for the consequences of their own choices.”

It may seem not. But how far can we blame them for not wanting – or being able – to spend the time doing so? How many could honestly trust themselves to read and understand all the legal terms and conditions that come with any financial product when lenders are making it so difficult for them? For example, recent research shows that the small print on some car insurance policies have a higher word count – at more than 30,000 words – than George Orwell’s novel Animal Farm.

So who is responsible?

On the whole, it is still seen as the responsibility of the lenders to make things clearer, so that people can borrow responsibly. And, faced with such a surfeit of information, it makes some sense that consumers are going to look to and rely on the lender for expert, impartial advice. Like it or not, borrowers need to be able to trust their lenders to provide this.

But it’s too easy to simply expect lenders to shoulder the liability for this alone. Borrowers themselves must still have a responsibility to only enter into longer-term commitments that they understand and believe that, in the normal course of events, they can meet. Expecting them to undertake their own research and due diligence to a level equal to or above that expended on choosing a foreign holiday, for example, does not, to me, feel too onerous, or unreasonable. Many of us who have worked in the industry for some time have used the phrase “responsible borrowing”. Maybe it is now time for this description to become part of the accepted vocabulary.

Martin Wheatley, Chief Executive of the FCA, has raised the idea of consumer responsibility when it comes to borrowing. In a speech at Credit Today’s Credit Summit in April, he stated: “Are issues like consumer inertia, irrationality or lack of willpower (as economists describe them) significant factors in poor decision-making and indebtedness? And, if so, who is responsible for moving things forward?”

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He goes on to question whether it’s “…the product’s presentation and design… so, a self-side issue [or] is it a buy-side issue, related to a lack of self-control over expenditure, or understanding of the product?” In conclusion, he seems to propose that regulation will demonstrate that responsibility does lie with both the lender and the consumer and that regulation “…should always be a non-zero sum game – where all sides benefit.”

It’s not just ‘us and them’

Whilst I believe that the responsibility in responsible lending should lie with both lenders and consumers, it’s also clear that it’s actually wider than that: regulators and government also have a significant part to play. It needs more than these parties to simply create frameworks and regulation but also requires the creation of the best environment for lenders and borrowers to have their objectives converge: that the lender gets to lend and the borrower gets the money they want.

In addition, the industry would benefit from a consistent government policy. When consumer lending was felt to be in short supply, the noises from government and pressure groups alike were for the need for the “lending taps” to be opened. But the counter argument was that the lacklustre economy was, in part, due to people clearing debts rather than spending, something David Cameron appeared to encourage at the Conservative Party Conference in 2012 when he looked to call on people to pay off their credit cards. At the same time, the government was supporting Bank of England and European Union calls for lenders to hold more capital, which had the effect of restricting lending.

This is not an isolated example. The industry needs a clear, consistent, long-term, sustainable strategy so that lenders can plan and develop their businesses. Sadly, the prospects for such an approach appear remote: government terms are perceived to be too short to implement long-term change without the threat of the next government changing things back again. The real deal-breaker might simply be that a government being perceived to make things easier for the banks isn’t going be a vote winner.

Borrowing is good

Ultimately, borrowing is good. It is good for the country and the economy and – while perhaps rather saccharine – can help people realise their dreams. It’s to be encouraged. But there is a caveat; and that is that borrowing needs to be done properly. And to do that we all need to be responsible.

At Equifax we try to understand the lending industry and how this works for consumers. We also look ahead to the changing regulatory landscape to recognise how we can develop products that help lenders comply with changes and requirements.

We realise how important these products are in making it an easier experience for creditworthy customers to get the loans they need.

One such example is Equifax Income Verification. With the introduction of the Mortgage Market Review (MMR) on 26th April 2014, lenders must now demonstrate that they have verified the income declared by a customer in order to receive a mortgage.
This will eventually be necessary to all consumer credit lending under CONC.

High street mortgage lenders anticipate that compliance with MMR will require around 200 additional people undertaking document checks, and extend the approved process from less than one to more than three days. Equifax Income Verification will verify income to within + or – 10% in 50% of cases from both sole and joint applicants, dramatically reducing the cost of processing mortgage applications and thereby keeping mortgage rates low for customers. It will also improve the whole customer experience through shorter delays and less need for documentation.

For more information on our work with the mortgage lending sector, including details of our new Equifax Income Verification solution, please contact Martin at martin.hagerty@equifax.com or call him on 020 7298 3000.

¹ http://www.telegraph.co.uk/finance/newsbysector/banksandfinance/9244414/Families-must-accept-share-of-blame-for-Britains-woes.html


³ http://www.fca.org.uk/news/speeches/uk-credit-card-market-growth

Report: Making consumer credit markets fairer

“Their (consumers’) primary concern before taking a loan was to establish the relevant total cost of credit; websites which made this easy to do were strongly advocated.”

“Most (consumers) were aware that payday loans typically had a much higher interest rate than bank loans but, for many customers, high interest rates were a trade-off for the speed, privacy and control they offered, as well as the option of credit for those who had no alternatives.”

“Customers who had found themselves in difficulties in repaying payday loans saw themselves as personally responsible for their difficulties. This was because participants tended to feel that the risks and costs around payday lending were implicit, and believed themselves to be suitably informed when taking out the loan.”

“However, customers were less concerned at using websites to investigate the risks around using a lender, including the consequences of delaying or renewing repayment. This was because they typically believed that these scenarios would not apply to them, and they would not be facing a situation where they might default on the loan.”

“Typically, most customers had not investigated what would happen if they could not repay the loan, as they did not feel this was a situation which applied to them.”

Ipsos MORI research for the Department of Business Innovation & Skills, October 2013