

## **Advice NI's response to Fair4All's No Interest Loans Scheme (NILS) Pilot market engagement.**

**Deadline:** 25<sup>th</sup> October 2021

Online Questionnaire

Responses to the consultation questions.

### **1.0. Customer journey**

#### **1.1. Do you agree with the customer routes?**

We have concerns regarding the common bond stipulation of current Credit Union (CU) and how this could potentially impact if they were successfully bid to provide the no-interest loan (NIL). This could lead to a disproportionate number of NILs only being offered in a particular area or to a particular section of the community. We understand the referral partnerships will somewhat mitigate this but the delivery model and successful bidder needs to operate fair, consistent and transparent access for all across NI. The paper mentions offering NILS in deprived areas, does this mean that only certain areas within NI will have access to this? We would like reassurance that any procurement process is inclusive and accessible to those who need it most.

We believe that Fair4all should assess a self-referral route during the life time of this pilot. To help understand the pros and cons of this going forward.

There are no delivery channels discussed in the paper and this will be important part of the delivery process. The vast majority of those expected to need a NIL are likely to be vulnerable. We recommend that access include face to face appointments, outreach or home visits where it is appropriate.

The criteria for referrals would need to be clear for partners, as some will not have access to the client's credit history or financial details. Also, to be able to manage the customers' expectations, if a partner refers for NIL and the customer ends up with an interest bearing credit product it could be damaging for their reputation. Some referrers who have access to the client's financial information may only want to refer for a NIL due to their circumstances. Is it possible to refer directly for a NIL without the client being considered for an interest bearing product?

### **1.2. Would these customer journey routes work in your delivery operation?**

There may be times that we could consider referring for a NIL as we provide advice across a number of key areas including welfare, personal debt, business debt, tax and immigration. We work closely with some of the most vulnerable in our society in terms of low income and access to credit. In order to aid us we would need clear criteria, processes and feedback from the lender. This would help us monitor outcomes to ensure the customer was not being mis-sold an interest bearing product. We have found that feedback is an essential part to building trust and meaningful relationships in referral partnerships. With our other referral partners we are in regular touch regarding our client's progress so if they fell into difficulty we would be able to quickly re-engage with them.

We recommend that Fair4all include referring out for advice in the NILS model. This could be for benefit checks, debt advice, housing advice and so on. This would make the model more holistic.

### **1.3. How would you plan to bring together a collaboration between a lender, co-funder and local referral partners into a compelling bid?**

We would not bid to administer the NILS, however we could support the lenders by providing holistic advice to potential customers. Advice NI and our members provide free, confidential, impartial and independent advice and we believe it would be imperative that advice is offered to all customers accessing NILS to ensure they are receiving all their entitlements, are making the best of their income and receiving debt advice where it is appropriate.

### **1.4. Would you be able to deliver a no-interest loan under your own brand, or under a separate brand which you would develop to differentiate it from your normal loan offering?**

No.

## **2.0. NILS product design**

### **2.1. Are there any questions raised from page 8, or the example case studies on pages 25 to 29?**

The examples discussed are clear, however we would not want a limited described list of reasons why someone should receive a NIL. Assessments should be based on the customer circumstances

and situation. During the pilot the design, output and outcome will need to be adaptable and fluid, as other outcomes may arise that no-one could have considered at the outset.

We agree that debt consolidation should be included as a reason for needing a NIL. There may be situations where a NIL could be used to consolidate smaller loans for those who are struggling to repay. It could be the difference in someone becoming insolvent as their interest rates and charges increase to unmanageable amounts. Also, in this situation, the outcome will be the client becomes debt free.

We recommend that data should be published on those referred for a NIL that ended up with an interest bearing loan along with reasons why. It should also include data on these particular customers' journeys to show if they were able to repay the loan or if they failed. This could provide valuable insight into the eligibility and affordable criteria.

For a NIL we would be unclear what other products could be offered to the customer that could add value at this stage except a referral for money coaching or advice. We would value more information on what could be offered. Anything added to a NIL should be captured, reviewed and published as part of the reporting and evaluation to show whether they actually added value.

We are interested in the affordability assessment for the NILS and how this will develop over the lifetime of the pilot. Also, how much will the customer be able to access and who will decide this? Will it be determined solely by the lender based on the suggested risk rating? We would welcome more clarity in this area.

We would be in support of financial coaching for customers. We advocate that this is incorporated into the pilot. Advice NI would be keen to get involved in this aspect. We recommend including strong referral links to advice agencies. This is not built into the current model as the described process only goes one way. If looking at longer term outcomes and wellbeing then other support needs to be provided to the customer. Without providing some form of education, coaching or advice the customer is not going to change their motivation, behaviour or habits towards money. Whilst, they may pay back the loan, their attitude and beliefs have not necessarily changed, having a negative impact on future behaviours as they repeat old pattern of spending.

**2.2. Would you expect a no-interest loan to require different terms to your standard loans, other than the interest rate?**

Yes. Affordability and customer care will be key and assessing a NILS client against current good practice may not be possible due to the very reason they are having to access NILS. Therefore, it would be good to develop a clear process that will have to be fluid and flexible depending on each customer's circumstance. These may be unique criteria, processes and approaches that will evolve throughout the process. Gleaning good practice from the lending providers across the UK will aid this development. It may not be a one size fits all approach as is the case with current standard loans. We also believe that there should be variance term applied and this will be fluid to the persons circumstance, this could be a holiday for several months, debt forgiveness/write off, allowing a third party to repay, sporadic payments if someone is self employed, uneven payments and long term reduced payments. In these cases, the lender should assign one or two key workers to the case so they can build the relationship and fully understand the situation of the customer.

**2.3. We are considering the importance of payment flexibility, such as repayments not starting until three months after the loan has been taken and payment holidays built into the terms and conditions. These ideas are not set in stone and we would appreciate input into how this could work in terms of customer need, your systems, affordability criteria and any other barriers.**

We believe these loans will need a form of variance and flexibility to repay term. There will have to be a tailored approach to NIL customers. It would be better to work with customers to ensure they repay rather than them falling into debt. We envisage these customers will have limited financial options and being flexible as income shocks occur, may save them from becoming insolvent. The request for a holiday, delayed or reduced repayments should be very straightforward.

Customers should not need to face unnecessary bureaucracy as it may be likely that this customer set will have increased social needs. It can be difficult for people to speak about their financial struggles therefore asking for help needs to be dignified, efficient and effective.

There is no detail on repayment time frames and including a flexible clause will protect those who need to extend this period in order to facilitate full repayment. Rigid terms and conditions will not work for a NIL due to the customer base.

Other considerations would be debt write off or forgiveness. For example a customer may experience a change in circumstance or income shock and genuinely will not be able to repay the remainder of the loan. We believe there will be instances where the outstanding balance should be

written off and no further action taken. Taking someone to court for such small amounts is not beneficial and will further compound the situation for the client.

We envisage many customers who need to access a NIL will have extra support needs, therefore we strongly recommend the lender has robust policy, procedures and protocol to deal with these customers.

There will need to be a flexible approach to how and the amount the customer may be able to pay back. This could include sporadic, uneven payments because someone has unstable income or because there has been an income shock.

**2.4. In addition to a no-interest loan, what additional services/products would you expect customers to receive alongside the loan to maximize good customer outcomes?**

Advice NI is a debt advice provider therefore we would advise caution when offering extra products to a customer that needs a NIL. The fact they will have been turned down or other credit is a sign they have limited resources or poor history of repayments. We would be interested to understand what other products could add value. If there are products identified then we recommend these are captured in the evaluation including what value they had.

Also, if there is a potential that other products will be added on to a NIL then this should be made known to potential referrers so they can alert the customer. This protects the reputation of the referring party, particularly if the customer was not aware and they were not happy later on.

**2.5. What other products do you feel are needed for this customer group (noting the pilot contracts can be extended in scope to test other unrelated products)?**

No comment.

**2.6. Our theory is that following a no-interest loan, a customer's next loan is likely to be a standard (interest-bearing) loan as they are in a stronger financial position, would you agree with this?**

This would be based on the customer's circumstances. The customer may need another NIL rather than an interest bearing loan. Are reoccurring NILs allowed in this pilot? If not why not? Allocation of NILS should not be seen as an exercise for a traditional lender to increase business to their usual credit markets. It is highly likely that the majority of these customers may have debt and therefore

are not suitable for other products. We recommend that anonymized customer profile information is captured, reviewed and published, including all referred customers and the outcomes.

**2.7. Are there any risk or regulator concern that will be difficult to overcome in this pilot?**

The findings of the pilot should be monitored, reviewed and evaluated throughout its lifetime to assess and address any risks. We are interested to know how will the loans be processed – f2f or online? This may impact who could access it.

Will the loans work to repair someone’s credit score going forward?

We advocate that customers are offered debt advice during this pilot. This will be essential if there are issues with debt.

If money coaching is a consideration, this should be offered to those who are struggling regardless of whether they are in a testing pilot. It would be unethical to not offer this to someone for the sake of research.

**3.0. Outcomes**

**3.1. What are your reflections on our assumptions about why of co-funders may contribute to NILS?**

No comment.

**3.2. For housing associations, local authorities and philanthropic organisations – what else, as a potential funder, would you need to know to decide to fund NILS?**

No comment.

**3.3. Do you agree that the outcomes we are seeking to measure in the draft evaluation framework (slide 12) are the appropriate things to be reviewing? What other aspects would you be interested in evidencing?**

Other considerations could be measuring wider circle well being, social and family improvements. We believe that people with debt will also want to access NIL. Therefore there should be a referral to other support including debt advice, counselling and other holistic support. This would make this offering truly beneficial for customers. Other data could capture those who avoided insolvency or getting further into debt and for those who became debt free.

Other evaluations should include data on:

- Those who were not granted a NIL, why and what support where they offered.

- Any add on services or products and what value they provided the customer.
- The journey of those who were referred including those offered an interest bearing loan and the outcome.
- Other socio economic factor could include improved financial capability skills, change in spending behaviours and motivations, debt prevention, debt freedom, increasing job opportunities or access to education.
- Anonymized client profile and outcome data.

**3.4. To enable those outcomes to be assessed we will want to capture data during and after the pilot to include where lenders have converted a NILS borrower into a customer for other (savings and loan) products. Do you have any comments on this?**

We believe this would be essential. We also believe that Fair4all should capture referrals out to other external agencies, e.g. Advice NI, our members, counselling support etc. The impact of money coaching should be captured also on what impact it had on someone.

**4.0. Pilot structure**

We have no comment for this range of questions as we will not be bidding as a provider for NILS.

**5.0. Cost to serve**

**5.1. We do not expect to pay for specific advertising/origination of NILS as customers will come via a referral or a declined route – do you agree with this?**

Yes we agree with this.

**5.2. We do not expect to pay for CRA costs for loans that do not convert, where the original loan application was for an interest bearing loan (i.e. the declines route) – do you agree with this?**

Yes, we believe this is fair. Lenders would normally carry the cost for this activity. The data could then be used towards the eligibility for a NIL, which would keep costs down and it would mean potentially more customers could access it.

**No comment on the rest of the questions as we are not a bidder.**

**6.0. Procurement, pricing model and delivery.**

General comment in this section

- If one provider gets it then they must be accessible in each local region. The customer should have access via all delivery channels including face to face, as a portion will have extra support needs and may need a person level of contact.
- If successful then we would be agreeable to NILS having annual extensions.
- There should be local steering groups established with key organisations to update on the progress of NILS locally, regionally and nationally.
- We agree that it would be sensible to integrate learning throughout. However, we would caution at ceasing providing access in regular intervals. What happens to potential urgent cases during these periods? There is potential for creating backlogs of work and pushing customers to other lenders, which would be in opposition to the ethos of NILS. We would ask that a more flexible approach is given rather than stopping access.

**7.0. Bid response requirements, scoring criteria and contracts.**

**No comment as we do not intend to bid.**