www.debthacker.co.uk

Debt Hacker response to the Call for Evidence by the APPG Personal Banking and Fairer Financial Services.

1. Please tell us about yourself and outline, just briefly to begin with, how you came to interact with the Financial Conduct Authority?
    a. Debt Hacker is a not-for-profit consumer campaigner focused on high-cost credit providers of unaffordable loans.

    b. Debt Hacker has campaigned successfully against abuse by high-cost credit providers; over 20,000 complaints covering over £10m of claims.

    c. Debt Hacker has assisted thousands of consumers to make claims against lenders, but unlike CMCs it is a not for profit and does not charge to assist with unaffordable loans complaints. Accordingly, the FCA has confirmed Debt Hacker's activities are not required to be licenced.

    d. The founder of Debt Hacker is Alan Campbell. In preparing this submission to the APPG, Debt Hacker has drawn upon the expertise of retired solicitor Hock Chan who has over 25 years' experience practising financial services law with senior roles in financial institutions and private practice. Hock Chan has also been controller of a financial licence holder himself and a successful entrepreneur.

    e. Alan Campbell is also the founder of Salad Money[1], a FCA licenced debt provider which was established in October 2017. Alan Campbell is not a member of the board of Salad Money and has no executive responsibility for the business which is independently managed by its board and executive. This submission is entirely independent of Salad Money which has not been consulted.

    f. Salad Money is focused upon providing affordable credit initially to NHS workers. Salad is a "for profit social enterprise" (as defined by Big Society Capital) with a high degree of independent supervision involving a Public

[1] www.saladmoney.co.uk

Oversight Body. Salad Money also provides a free financial education tool called Money Mind to supplement the provision of loans to help users break the toxic cycle of high-cost debt.

g. In August 2020, Debt Hacker was alerted to certain FOS decisions about SafetyNet Credit where the actual cost of credit experienced by the customer was several times SafetyNet's advertised representative APR of 68.7%. In one FOS decision, a customer borrowed an average of £600 over 3 years but paid £3883.44 in interest, and unsurprisingly was unable to repay the £675 principal at the end. Debt Hacker estimates this to be equivalent to an APR of 942%.[2] Upon further investigation, which included liaison with both the FOS and the FCA, several red flags appeared and were reported to the FCA with assistance from Lord McNicol for urgent investigation and enforcement action. As Lord McNicol's correspondence had been passed by a FCA director to the FCA's enforcement teams, Debt Hacker expected the FCA to investigate and take appropriate action. However, no regulatory action has been apparent, and SafetyNet has since posted its best ever financial results.

h. When SafetyNet was advised of Debt Hacker's intention to publish details of its investigation in December 2020, it instructed a Magic Circle City litigation firm to threaten Debt Hacker and Alan Campbell with proceedings for defamation and conspiracy to commercially injure. After weeks of correspondence, including requests by Debt Hacker for pre-action disclosure of key financial data and counsel's examination of their claimed legal basis for advertising a Representative APR of 68.7%, SafetyNet has after 10 months failed to issue any proceedings, and has made no attempt to take down the Debt Hacker website which identifies SafetyNet.

i. Representative APR is the industry standard used across the credit marketplace for borrowers to compare the cost and competitiveness of alternative product offerings. It has developed over two decades, and today representative APR means that whenever the rate is communicated (i.e., to the public) or approved (by the regulator) 51% or more of borrowers must get that rate or better. It is a simple and easy to understand standard that borrowers are entitled to take at face value.

j. SafetyNet's lawyers, Herbert Smith Freehills, argue that their client continues to comply with CONC regulations because as part of their application for authorisation which was granted in August 2016 the FCA raised no concerns regarding the assumptions underlying or the calculation of the representative APR. As such they are under no duty to

[2] [2] FOS Adjudication: DRN7551121 In that case, SafetyNet argued that it had advanced over a 30 month period principal sums totalling £37,497.11 and received repayments totalling £41,380.55. This was from the mathematical effect of the monthly debt churn via automatic repayment and re-drawing of new monies (which were not interest free but charged at 0.8% per day). FOS rejected the SafetyNet's arguments, because Mr P never had access to £37,000. Instead, Mr P had an average loan balance of £600 and a maximum at one stage of £800. Over a three-year period, Mr P paid £3,883.44 in interest on an average loan balance of £600, and still owed £675 at the end. That is annual interest of £1,294 on a loan balance of £600; which equates to an actual APR of 942.4%.

take account of the APR charged and experienced by borrowers following the FCA license authorisation in 2016. Strikingly HSF comment, *"Whether or not that makes [representative APR] a useful tool for comparing loan products generally is a matter that you will need to take up with those making the relevant rules."*

k. Debt Hacker disagrees with SafetyNet's legal arguments. If Debt Hacker is correct, the regulations on representative APR are sufficient but are simply not enforced by the FCA. If SafetyNet is correct, the regulations have been inadequately drafted by the FCA because SafetyNet has found and is exploiting a massive loophole. Either way, the result is massive harm suffered by financially vulnerable consumers.

l. Debt Hacker estimates that since 2013, SafetyNet's filed audited accounts disclose it has earned excess aggregate income of approximately ***£240 million*** on its net loan book compared with its expected income had it merely charged customers a representative APR of 68.7%". When it's filed accounts regularly report income equivalent to over 400% APR (and nearly 500% APR to 30 August 2020) across its entire net loan book, it is almost mathematically impossible for 51% of SafetyNet customers to have received an APR of 68.7% or less; unless of course the remaining 49% of loans were at rates many times higher than those permitted by regulated high-cost lenders.

m. If SafetyNet is correct in its interpretation of the representative APR regulations, and it is actually legally entitled to earn significantly in excess of the earnings based on a representative APR of 68.7%, then there is a loophole which negates the entire purpose of having an industry standard representative APR. Debt Hacker would then, ironically, agree wholeheartedly with HSF on this one point; namely the FCA should revise its CONC regulations on calculating representative APR. The APPG and Parliament should be concerned if this key consumer tool is not affording the protection that was intended in its design. The FCA must urgently act to change the definition of "representative APR" so that it reflects what borrowers actual experience.

n. On the 2 November 2021 the Interim Director of Retail Lending at the FCA responded to Lord McNicol who had sent Debt Hacker's concerns to the FCA. The FCA set out "*an outline of our general supervisory approach and expectations around Representative APR".*

o. The Interim Director of Retail Lending at the FCA stated that *"As a Regulator, it is not for us to periodically check the calculation of Representative APRs. It is a firm's responsibility to have systems and processes in place to make sure they meet all regulatory responsibilities and treat customers fairly."* In other words, firms will be the final arbiter, judge, and jury as to what is the *"fair treatment of customers*" because the

FCA as a matter of regulatory policy shall make no periodic independent supervisory checks whatsoever.

p. This statement by the Interim Director of Retail Lending at the FCA on checking representative APR is impossible to reconcile with the FCA's core supervision function of protecting consumers as described on its website, "*Firms must continue to meet these standards after we've authorised them, and we supervise how they work to make sure they do. If we find that firms aren't following our rules, we act. This may mean imposing fines, stopping them from trading or securing compensation for consumers."* [3]

q. As a direct result of the FCA's "*general supervisory approach*", SafetyNet acting on legal advice are definitely the final arbiter, judge, and jury to conclude their treatment of customers is fair by confining matters to the moment when the product was first approved in 2016. SafetyNet can then ignore with absolute impunity all subsequent actual APRs being experienced by its borrowers which in a FOS case was equivalent to 942%.

r. The FCA's "*general supervisory approach"* has created the environment where firms in pursuing their own self-interest can exploit highly technical legal loopholes sure in the knowledge the FCA regulatory policy is never to make any periodic checks on representative APRs. Consequentially, the FCA has no ability to discover how many other firms are exploiting these loopholes, or how many customers actually receive the advertised representative APRs.

s. It would be almost impossible for even the most financially sophisticated, astute and lawyered up customer to establish whether an advertised representative APR is correct, because each customer will only ever see a limited subjective view of his/her individual loan and has no means of access to data on the rate other customers are receiving. So what chance is there for the customer whom the FCA *"describes [these consumers of high-cost credit] as typically having relatively low levels of financial literacy"*[4]. The FCA, on its own legal submissions, is fully cognisant that these customers are incapable of independently checking or policing the correctness of representative APRs. Therefore, the FCA's supervision policy excluding ongoing checks on representative APRs is irrational because that abdicates its primary statutory purpose of protecting consumers who it knows are in no position to adequately protect themselves. An outcome which Parliament could never have intended.

t. The public have the right to expect that at the very least the FCA's *"general supervisory approach"* results in a representative APR that anticipates and

[3] https://www.fca.org.uk/about/protecting-consumers

[4] The FCA submission to Mr Justice Miles in the Amigo Loans restructuring scheme case https://www.amigoscheme.co.uk/docs/AllSchemeltdJudgement.pdf In re All Scheme Limited [2021] EWHC 1401 (Ch) para 105

reflects the APR's which they are likely to experience; not the present reality of paying many times the advertised representative APR.

u. This evidence submission extends beyond Debt Hacker's concerns regarding the manipulation of "*representative APRs*". The FCA have been presented with an independent academic study by the University of Edinburgh that proves that high-cost lenders are advancing unaffordable loans exploiting consumers with multiple layers of unaffordable and unsustainable credit at interest rates of up to 1,333% APR. This study was based on an analysis of the anonymised open banking data of some 10,000 bank accounts from exclusively NHS workers.

v. This independent analysis by the University of Edinburgh proves conclusively that the FCA's *"general supervisory approach"* is hopelessly flawed and patently inadequate to *"protect consumers from the harm that can be caused by bad conduct in the financial services industry"*[5].

2. What is your interest in, or connection with, the FCA?
   a) Debt Hacker has identified and has already published on its website substantive concerns regarding a SafetyNet, supported by Counsel opinion, affecting over 631,000 consumers[6].

   b) Debt Hacker raised its concerns with the FCA regarding SafetyNet's "*representative APR*".

   c) Debt Hacker delivered a copy of the independent academic study from the University of Edinburgh setting out its concerns about unaffordable high-cost lending to NHS workers.

   d) Despite providing the FCA with all the relevant information and correspondence regarding SafetyNet's "*representative APR of 68.7%*", including a legal opinion from a specialist legal counsel with whom the FCA is very familiar, no enforcement action appears to have taken place.

   e) The FCA have not raised a single question of the University of Edinburgh on the data or the findings and conclusions reach in their independent academic study.

3. Briefly describe the interactions you have personally had with the FCA.
   a) Debt Hacker commenced its correspondence with the FCA and the FOS in September 2020. Eventually the case was taken over by the Executive Casework Unit following Lord McNicol's correspondence.

4. In broad terms, what have your dealings with the FCA been like?
   a) Debt Hacker's dealing with FCA have been entirely one way. Debt Hacker delivered copious documentation setting out its concerns and evidential

[5] https://www.fca.org.uk/about/protecting-consumers
[6] Indigo Michael (t/a Safetynet Credit) Financial Statements

basis for those concerns together with detailed Counsel's opinion. Other than the acknowledgment of the receipt of the documents the FCA has been silent. Not one question or clarification has been sought on the documents, evidence, or detailed Counsel's opinion.

b) But now the FCA's "general supervisory approach" is understood then the lack of response comes as no surprise as the FCA considers firms to be the final arbiter, judge and jury on what is the "fair treatment of consumers".

c) As far back as 1900 a Companies Act was passed that required financial statements to be subject to an independent audit. So, for over 120 years there has been a requirement for an independent auditor as companies, which includes FCA licensed firms, have proven time and time again that they cannot be relied upon to follow the rules without the independent checks of an auditor.

d) In the light of those 120 years of experience it is illogical for the FCA to argue that periodic independent checks of their regulations are unnecessary.

e) It is important to stress that an auditor's responsibility does not extend to auditing the FCA regulations; merely that the financial statements have been prepared in accordance with the Companies Act. Therefore, the auditors are not required to make any checks that the lending is affordable or that the representative APR is fairly stated. This explains why over 30 pay lenders traded for years on unaffordable business models; and every one received unqualified audit opinions, until the moment they were overwhelmed with customer complaints.

f) It is plainly obvious that the FCA's general supervisory approach has failed the pubic and is not fit for purpose.

5. Have you ever witnessed any actions or conduct that, in your reasonable belief, breached any law, regulatory code or applicable or relevant policy? If so, please explain which law, code or policy you believe was breached.

Calculating the APR under CONC 1.2.6[7] and effect of the auto repayment feature

a) Debt Hacker has published on its website[8] and reported SafetyNet to the FCA who has advertised loans as "cheaper than an overdraft" and at "representative APR of 68.7%". Since Debt Hacker's challenge, SafetyNet has removed the "cheaper than an overdraft" claim from its promotional material. However, it maintains the representative APR of 68.7% is correct, was approved by the FCA when it was first licenced in 2016/2017 and it consequentially, and forever thereafter, complies with all applicable regulations.

[7] FCA's Consumer Credit Sourcebook
[8] www.debthacker.co.uk

b) The FCA Handbook states:
"representative APR" an APR at or below which the firm communicating or approving the financial promotion reasonably expects, at the date on which the promotion is communicated _or_ approved[9]*, that credit would be provided under at least 51% of the credit agreements which will be entered into as a result of the promotion."*

Representative APR means that on each day that rate is advertised to the public (for example by a hit on its website), 51% or more of customers receive that rate or better.

c) Since 2013, SafetyNet's filed audited accounts disclose it has earned excess aggregate income of approximately *_£240 million_* on its net loan book compared with its expected income had it merely charged customers a representative APR of 68.7%.[10] Debt Hacker has calculated, based on the filed accounts, that the actual APR earned on SafetyNet's net loan book has exceeded 400% in each of the past 5 years and in the latest year is almost 500% based on the information presented in the financial statements.

d) So how can SafetyNet advertise a representative APR of 68.7% in its primary brand (based on 0.8% per day for up to 40 day and interest free thereafter) when the annual interest stated on the website is 292% per annum. To achieve an advertised representative APR rate *less* than the flat annual interest rate is such a remarkable feat of financial gymnastics; and it should be obvious to any casual observer, let alone the FCA, as a clear "red flag".

e) SafetyNet has claimed that it has to use a statutory formula to calculate its APR, and that the formula obliges it to apply certain assumptions. One such assumption[11] used is that credit is provided for a period of one year, i.e. every customer benefits from interest free debt for 325 days after paying interest up to a maximum of 40 days. The product is designed and operated such that no borrower can possibly benefit from *_any_* interest free period; let alone the fantasy assumption of 325 days interest free.

f) The loan scheme has been designed with a default auto-repayment feature which allows SafetyNet to view the customers bank account balance and withdraw repayment monies as soon as funds are available in the account.

[9] For the significance of these highlighted words, please see Counsel's opinion section below
[10] Although the SafeyNet disputes the method of calculation used by Debt Hacker (even though no method was actually ever given), it has not responded to Debt Hacker's repeated requests (responding under threats of litigation) for more detail beyond the audited financial statements to facilitate an exact calculation.
[11] See mathematical calculation required by CONC 1.2.6 using the assumption in CONC App 1.2.5(k). The latter is an assumption to be applied "where necessary", but SafetyNet's known usage data cannot now be "not certain". The real usage data should be deployed to assess accuracy of the representative APR whenever the representative APR is communicated (see CONC 3.5). Tellingly the literal interpretation of CONC App 1.2.5(k) as it says it is required to do, ignores the equal legal basis for application of 1.2.5(d) which provides, "where different rates of interest and charges are to be offered for limited periods or amounts during the regulated credit agreement, the rate of interest and the charge shall, where necessary, be assumed to be at the highest level for the duration of the agreement." The result would be assuming the interest rate for the entire year would be charged at 0.8% per day without allowance for any zero interest days. A more accurate reflection of the commercial reality in this case.

SafetyNet is unwilling to disclose to Debt Hacker what proportion of customers (if any) have actually disabled this feature, or indeed how many customers have actually received the APR of 68.7% on their loans. This is telling, because the effect of this auto-repayment feature is the customer (who typically is paid weekly or monthly) has the entire or substantial portion of the debt repaid on or after each payday, with the natural consequence that he/she has to re-borrow new money in the month to get by. The original advance is thus never out for a year, and the customer never receives the benefit of the assumed or advertised interest free period, either as fallaciously assumed in the CONC. calculation or otherwise. As the default auto-repayment feature works advances are repaid either from credits paid into the account during the month or from salary credits. The 40-day interest cap is never reached for any advance as the loan is repaid by auto-repayment with the cycle starting again with an immediate further drawdown advance.

g) The loan is in effect rolled each month, with the consequence that interest is again charged at the 0.8% per day for the entire duration of the loan relationship.[12]

h) To place this in context, in 2015 the FCA introduced a price cap on high-cost short term credit[13]. The maximum rate is 0.8% per day interest, on a loan which can only be rolled once, with a total charge for credit not to exceed 100% of the amount borrowed including all interest fees and charges. However, this product has all the characteristics of a perpetual pay day loan. Debt Hacker has reviewed FOS adjudications where this cap by SafetyNet (not required to be authorised by the FCA to provide high-cost short-term credit (payday loans)) exceeded the payday loans cap multiple times.[14]

i) It is this self-serving (albeit deviously ingenious but ultimately legally incorrect) slavishness to a convenient CONC regulation which then enables SafetyNet to manipulate its advertised representative APR to fit any particular desired promotion criteria based on the number of interest free days that it selects as an assumption. By adjusting the fallacious and abstract interest free period (which the FCA must now be aware that no customer ever benefits from due to the auto-repayment feature) within the loan period of 1 year, any desired headline representative APR can be calculated. We include a sample APR table below simply to illustrate how easy this is to manipulate. Please note that Tappily is secondary brand promoted where the assumptions are a maximum of 290 days interest free at an interest rate of 0.34% per day and 124% per annum annual interest. This table illustrates the flexibility SafetyNet has in generating the

[12] The University of Edinburgh Report examined 2,215 users whose length of time reborrowing this product was a mean of 198 days.
[13] https://www.fca.org.uk/firms/high-cost-credit-consumer-credit/high-cost-short-term-credit
[14] FOS Adjudication: DRN7551121 already noted above.

advertised rate of representative APR simply by changing the assumed interest free days.

Selected Interest free days	Tappily Representative APR	SafetynetCredit Representative APR
325 days	28.1%	68.7%
290 days	49.7%	126.6%
183 days	111.7%	339.6%
0 days	*209.3%*	*1058.5%*

As a consequence of the interest free days[15] assumption chosen in respect of an interest free period, then the advertised representative APR's for Tappily and SafetyNet Credit brands are 49.7% and 68.7% respectively.

j) However, the interest free period is merely an assumption grasped by SafetyNet for the purposes of CONC. 1.2.6[16] at the time SafetyNet received its approval from the FCA. It is totally devoid of connection to the reality of the cost of the loans which customers pay. Debt Hacker argues that upon the first regular review of actual interest paid by is customers, SafetyNet should revise its advertised representative APRs to what 51% or more of its customers receive, namely 209.3% and 1,058.5% respectively; based on what the borrowers is likely to experience.

k) The natural consequence would be that SafetyNet is providing high-cost short term credit without FCA authorisation for that category of business. The similarity and danger to the public from the FCA turning a Nelsonian eye to the unauthorised business conducted in the London Capital & Finance disaster could not be more acute. Such flexibility in designing a representative APR rate and avoiding being licensed as high-cost credit provider makes a mockery of everything the FCA and most importantly Parliament were seeking to achieve in regulating high-cost credit providers. Indeed although SafetyNet charges at the maximum daily rate allowed under the high-cost credit regulation, 0.8% per day, it is not authorised as a high-cost credit provider as its advertised representative APR of 68.7% is less than 100%. This Kafkaesque interpretation of the legalisation relying on finely argued legal points by sophisticated financiers, supported by highly qualified city lawyers and eminent Counsel is obscene and grotesque. When the complexity of the legal gymnastics is so obscure, such that it is devoid of any relation to ordinary usage, and it is facilitated by the FCA's inaction, then the man in the street has absolutely no chance. This is brutal and unrestrained exploitation of 631,000 ordinary people who are surely entitled to take financial advertisements at their face value.

[15] On account of the auto repayment feature designed into the product.
[16] Legally incorrect according to specialist consumer credit counsel's opinion.

l) This is particularly pertinent as this sector's target consumers are typically those with limited financial sophistication and literacy of the constituency of [Redress Creditors] as described by Mr Justice Miles in the 2021 Amigo Loans restructuring judgment[17]. He described the consumers as follows:

"I have reached the following conclusions about the class of Redress Creditors and their ability to understand the Scheme and the alternatives available to them when voting. The first concerns the nature of the customers. [Amigo's] customers are often financially vulnerable people who do not have access to mainstream credit. They are unlikely to be financially experienced or sophisticated. The FCA (which has expertise through its regulation of the sector) describes them as typically having relatively low levels of financial literacy. I accept this description….They are also unlikely to have much understanding of corporate insolvencies
Although the FCA "*describes [these consumers] as typically having relatively low levels of financial literacy"*, it is an incredible dereliction of duty for the FCA to have made scant effort to afford them protection, even though that is its very core statutory purpose.

Lord McNicol has been advised by the Interim Director of Retail Lending at the the FCA that *"As a Regulator, it is not for us to periodically check the calculation of Representative APRs."* Thus, the FCA does not regard itself as responsible for policing these rules. The consequence is SafetyNet continues to exploit a loophole and others in the high-cost credit market continue to trade uncontrolled and unsupervised by the FCA.

Counsel's opinion

a) Debt Hacker put all the correspondence with the SafetyNet's City lawyers to specialist consumer credit counsel who is Consultant Editor of Consumer Credit, Halsbury's Laws. Counsel concluded that the SafetyNet was wrong in law in its approach to advertising its representative APR.

b) We are unable to share with the APPG the exact wording of the legal arguments made by HSF on behalf of SafetyNet as HSF have unilaterally and without the agreement of Debt Hacker marked the correspondence" PRIVATE AND CONFIDENTIAL NOT FOR PUBLICATION OR ONWARD DISSEMINATION". Out of an abundance of caution we can only provide a summary of their position. That as part of their application for authorisation which was granted in August 2016 the FCA raised no concerns regarding the assumptions underlying or the calculation of the representative APR. As such they argue that SafetyNet, and on advice from their lawyers, is under no duty to take account of the APR actually charged and experienced by borrowers following the FCA license authorisation. Counsel acting for Debt Hacker reviewed the detailed arguments and concluded that:

[17] https://www.amigoscheme.co.uk/docs/AllSchemeltdJudgement.pdf In re All Scheme Limited [2021] EWHC 1401 (Ch) para 105

*"I consider that HSF's approach, confining matters to the date when the product was "*approved*" and ignoring the actual APR being charged to borrowers for four or five years after that, is contrary to the principle of treating customers fairly."*

c) If it is the case that the FCA approved the calculation once only at the time of first authorisation, then this is evidence of the consequences of the FCA policy that *"it is not for us to periodically check the calculation of representative APRs."* According to SafetyNet's legal argument, approval by the FCA of the calculation once at authorisation, is sufficient to fix it in stone for ever thereafter.

d) However, Debt Hacker takes the view that despite whatever legal loophole SafetyNet and its lawyers have relied upon, all firms are under an overarching obligation to treat borrowers fairly and at the very least to follow the spirit of the FCA rules and objectives to treat customers fairly. Counsel has confirmed that the representative APR must mean that on each day that rate is advertised to the public (for example by a hit on its website), 51% or more of customers receive that rate or better.

e) Debt Hacker hopes that this is now plainly obvious to any reader of this evidence submission that the FCA's *"general supervisory approach"* is not fit for purpose. This is not an isolated failure by the FCA. After the litany of deficiencies highlighted by Dame Elizabeth Gloster in the LCF report, it is sadly unsurprising the FCA has chosen to trust a discredited self-serving high-cost lending industry to determine what constitutes fair treatment of customers.

f) Representative APR is the industry standard/key tool that consumers use to differentiate between product offerings from lenders. Where FCA as a matter of policy are making no independent checks on the representative APRs and it does not fall within the remit of the firms' auditors, then this key consumer protection is clearly open to manipulation across the entire high-cost credit industry. Debt Hacker's focus on SafetyNet arose as their representative APR is egregious. How many other firms as using advertised representative APRs which fail to meet the firm's responsibility to treat consumers fairly? Debt Hacker has no idea but more importantly, and shockingly, neither does the FCA.

g) This should be of grave and obvious concern to Parliament, the APPG and the Public. The FCA as a matter of policy is not independently verifying that high-cost lenders are advertising representative APRs in accordance "*to the principle of treating customers fairly."*

The University of Edinburgh Report - The Financial Health of NHS workers – impact of high-cost credit products

a) Salad Projects, the parent of Salad Money, commissioned the University of Edinburgh to independently report into the financial health of NHS workers who had applied for a loan from Salad Money. A copy of the University of Edinburgh report is appended to this submission which was published in January 2021.18

b) The University of Edinburgh Report is unique in that it was the first time the historic banking records of consumers had been analysed by independent academics applying the latest data science techniques to the open banking data of some 10,000 applicants to Salad Money. The University of Edinburgh concluded that the data shows that the level of credit of these NHS staff, who rank amongst the least well off in society, is not sustainable; and fundamentally for the purposes of this submission, that high-cost lenders are exploiting these consumers with multiple layers of unaffordable and unsustainable credit at interest rates of up to 1,333% APR.

"It is evident that there is considerable use of multiple loan providers across the sample: 58% are using up to three loan providers and over two-thirds (68%) are using up to 4 loan providers with over one-third (36%) using 5 or more loan providers over an average period of one and a half to two years. With a few exceptions, the majority are high-cost lenders, a number of which are charging APRs as high as 1,333% (e.g. Lending Stream)."

c) The University of Edinburgh Report utilised the anonymised open banking data of some 10,000 individuals encompassing over 15 million individual banking transactions over a 2-year period to assess the financial health of NHS workers. These were typically NHS grades 1-5 with 33% having take-home incomes of less than £15,000 per annum and 31% having incomes of £15-20,000.

d) The University of Edinburgh Report identifies information arising from the data which should give any reader serious concerns about the financial resilience of a significant proportion of these NHS workers and the adverse impact an unrestrained high-cost lending industry is having. This independent empirical analysis by the University of Edinburgh illustrates that for high-cost borrowers the existence of new and more extensive consumer protections written into FCA regulations is demonstrably not changing the behaviour of high cost pay day lenders and giving little practical benefit to consumers.

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18 See the University of Edinburgh Report 2021. https://static1.squarespace.com/static/5b9a99d8b98a78772c0d4ed6/t/601d6570f2af482b08fbcc98/1612539255770/uoe_report.pdf

e) Users of high-cost credit products are typically those who are already struggling financially, namely those 'in difficulty'. According to the FCA Financial Lives Survey, 65% of all UK adults are defined as 'financially resilient', 27% are defined as 'surviving financially' and 8% are defined as 'in difficultly'. Financially resilient individuals are those who are not in the 'surviving financially' or 'in difficulty' groups, identified by a small number of indicators. The University of Edinburgh Report raises serious concerns about the financial resilience of the individuals in the study.

"Around one quarter of individuals are identified as 'in difficulty' and at least half may struggle to cover an unexpected expenditure of £100 within a month without going into overdraft or further into overdraft. With only 4% showing evidence of saving, many would appear to have a very limited savings buffer.

Use of credit and loans is particularly prevalent, in particular multiple use of non-traditional and high-cost loan providers. Traditional 'high street' banks account for less than 10% of the loans used by these individuals. At the same time, individuals are making persistent use of overdraft from high street banks."

The data shows a chronic reliance on multiple high-cost credit products as a means to survive. The data analysis revealed evidence of multiple and overlapping loan use: more than half (58%) have up to three loans and over two-thirds (68%) have up to 4 loans with over one-third (36%) using 5 or more loans.

This should be a loud wake up call to the APPG and Parliament that the FCA's light touch supervisory approach is not working, and needs urgent radical change.

Over-indebtedness crisis

a. On the 18 July 2018 the House of Commons Treasury Select Committee reported on Household Finances.

b. When the committee enquired why there were 8.3 million overindebted UK Finance, representing the voice of the UK banking and finance industry, responded in its written submission that the 8.3 million overindebted, representing 26% of the working population, had arisen due changes in the borrowers' circumstances. In other words, at time the loan was advanced it was affordable but there was then a subsequent change in the personal circumstances of 8.3 million borrowers, so the loans then became unaffordable. It is worth noting that in 2018 there was no mass unemployment or an economic crisis which materially affected 26% of the working population.

c. The University of Edinburgh report proves that NHS workers are being overindebted at the very point the loan is advanced; with more than half

(58%) have up to three loans and over two-thirds (68%) have up to 4 loans with over one-third (36%) using 5 or more loans. It is shockingly imaginable that any person might be desperate enough to use 5 or more loan providers at APRs of over 1000%; but that is the reality for 36% of the sample analysed by The University of Edinburgh.

d. UK Finance, were allowed to make a patently false and misleading statement which should not have been left unchallenged by the FCA. As a result of the FCA's complicity by silence the Treasury Select Committee were allowed to fall hook, line and sinker for a statement that does not stand the test of open banking data scrutiny.

e. With over 9 million consumers now over indebted with crippling multiple unaffordable loans, some 30% of the working population, the FCA should be obliged to provide their independent and evidence-based explanation of the causes of the over-indebtedness crisis. The FCA should not be permitted to accept the risible explanation proffered from a partisan UK finance, representing the very firms profiting from the overindebted crisis. The FCA should instead critically analyse the actions of those who have created the over-indebtedness crisis by advancing repeated unaffordable loans.

University of Edinburgh interim report specific to this SafetyNet

a. The University of Edinburgh noted from the available open banking data that 19% (2,215) of all NHS staff applicants to Salad Money were already customers of the SafetyNet. The University of Edinburgh had open banking data for these customers for a mean of 20.5 months during which time the number of months with a transaction with this SafetyNet was a mean 6.7 months, ie a mean 35% of the months observed.

b. The University of Edinburgh observed over 53,000 transactions from between SafetyNet and these NHS customers. So, there was a very high usage of this product at representative APR of 68.7% by junior NHS staff.

c. The University of Edinburgh highlighted to Salad a number of online Trustpilot commentary of this particular SafetyNet.

d. The positive comments tended to emphasise the following traits: quick and easy to apply, application process straightforward, accepted for loan when turned down by others, money goes into account quickly, and option to re-borrow.

e. The negative comments were grouped by The University of Edinburgh into the following: irresponsible lending, debt dependency, impact of unscheduled repayments (ie auto-repayment feature), high cost credit, lack of transparency and customer warnings.

f. To briefly illustrate customer concerns, we have set out some examples of Trust Pilot reviews reported by the University of Edinburgh.

“Stay away if possible, increased my limit nearly every month and despite having access to my online banking and could see that my increased lending and starting to borrow off other lenders just to pay back interest to barely survive and put food on the table, even having to resort to local food banks, they only done one initial credit check at the beginning and let me continue to borrow despite seeing the difficulty I am in, in an absolute debt spiral at the moment which has placed massive strains on my mental health also, I was advised to put in a complaint about irresponsible lending to them which I have done.”

“Lending constantly for over a year to me put me in a spiral of debt. Minute I'm paid money taken out account having to reborrow and constantly in debt spiral other pay day loans and loads of debt but according to them affordable and rejected my complaint! Avoid!! Also stated my earnings wrong In final response and even had the audacity to say it was affordable cause I received additional payments!!! These were payments from a family member to help me pay bills and debt due to the mess this company put me in with debt!! Now they say they have done nothing wrong and affordable!!!”

“Just seem to take payments from my bank whenever and for however much they want despite me never having agreed to pay the loan in full in one go. Essentially they want you to stay in debt so you have to loan more from them.”

“DON'T USE THIS LOAN COMPANY!! I borrowed £1000 almost 4 weeks ago, they have already taken money out of my bank twice. The first time they took £500 then 3 days ago they took £1100. Out of the £1100 I could only get £900 back. Overall they've had £200 off me, but I still owe the original amount I borrowed. Don't borrow off these as you will get ripped off. Go elsewhere where you can pay a fixed monthly payment. These think it's ok to take whatever they want out of your bank without notifying you beforehand.”

“This company scam you. They automatically send you money into your account and hit you with interest every time they do it. I have been charged extortionate [sic] interest 26 times in 2 months!! They are not responsible lenders. I regret signing up to them. Call queues are so high and no option to remove the automatic payment on the app. Disgusting company!!”

“It was unclear that they would take all the money at once which puts you in the loop of having to borrow again, to make a payment plan could affect your credit and future lending, so it can and can’t help you.”

"Be very careful when lending from these!!! They offer to increase your lending amount regularly, the interest is extortionate, and they take the whole amount back as soon as you have any money in your bank........Yes they are brilliant at lending, but will leave you with nothing to get their money back, borrow at your own risk!!!"

6. Have you experienced situations where interacting with the FCA has been helpful to either yourself or others? If so, please explain what made the interaction(s) helpful.

7. What are your thoughts on whether the FCA lacks the powers that it needs; or conversely, that it doesn't make good use of the powers it already has?

8. Have you experienced any difficulties or shortcomings in your interactions with the FCA?

9. Have you experienced the FCA being reluctant to give clear answers to questions?

10. What is your perception of the culture of the FCA, and what do you think of it?
    a) Our perception is that the FCA is passive, as if disinterested, to the protection of consumers; lending legitimacy through authorisations whilst consumers are mercilessly exploited by unrestrained bad actors. The FCA behaves in practice as if its mission omits to protect consumers, and in particular the most vulnerable in society. It does not confront bad actors which engenders a permissive environment enabling bad actors to profit from dubious practices. From a structural perspective this gives the competitive advantage to the bad actors because affordable lenders such as CDFI's and Credit Unions are unable to compete. Without intervention from the FCA it is simply more profitable to advance unaffordable loans as evidenced by the University of Edinburgh report. If the regulation was operating as intended, the data would not demonstrate such high, and systemic, levels of over indebtedness arising from multiple unaffordable loans within such a substantial portion of the UK population.

    b) The lack of ostensible enforcement action regarding SafetyNet by the FCA following the reports by Debt Hacker is all the more shocking given the excoriating report by Dame Elizabeth Gloster on the LCF scandal in November 2020 where repeated warnings and red flags were ignored by the FCA.

c) If the regulations were operating as intended and the FCA was performing its core statutory purpose in protecting consumers, then the FCA would know that the 30% of the UK working population over-indebted has arisen due to the advancing of loans that were unaffordable at the point they were taken out; and not by a subsequent change in circumstances.

d) By its behaviour, the FCA has facilitated the exploitation of millions of consumers, contrary to its core statutory purpose. Debt Hacker wants that to change such that the protection of the consumer is put at the heart of the FCA's mission statement.

11. Have you ever complained officially about the FCA; if so to whom? What happened, and how do you feel about what happened? What feedback, if any, have you had about your complaint? How helpful was the feedback? How long has it taken for your complaint to be processed?

12. What do you think about the possibility of conflict of interest issues at the FCA?

13. Do you believe there should be spot checks by the FCA on regulated and/or unregulated entities, perhaps similar to the spot-checks by VAT inspectors

14. What positives are there about the FCA that you would like to comment on?

15. If you could change three things about the FCA, what would they be?

a) Simplify and enforce. Regulations should become simple, be easily comprehensible using plain language within the over-arching Principles. The benefit of any doubt should always be decided in favour of the consumer with needing to adhere to the rules and as importantly the spirit of those rules. The SafetyNet case illustrates the advantage gained by those who secure the services of eminent lawyers adept at finding and arguing questionable and lucrative loopholes whilst ignoring the overall objective of treating customers fairly and placing that at the heart of their business model.

b) Regulations should be actively enforced and seen to have been enforced by the FCA. It should make independent periodic checks to ensure that customers are being treated fairly in all respects. That is what is crucially missing from its "*general regulatory approach*". Simply this means putting enforcement at the heart of the FCA mission statement. Without proper enforcement resulting in the systematic removal of bad actors, regulation is voluntary for affordable lenders and simply a pretence for those unaffordable lenders as illustrated in the University of Edinburgh report. All the while, the victims are millions of consumers.

c) The requirement that auditors, or the FCA, make periodic checks to the confirm that advertised representative APRs are in indeed representative; *that 51% or more of customers receive that rate or better.* This is major regulatory failure which unscrupulous lenders will be taking advantage to the detriment of the public at large.

16. The FCA is undertaking a Transformation Project. Do you have any comments to make about that?

17. Are there any other comments that you would like to make?

a) Supervision of the high-cost credit market is broken and needs an urgent root and branch re-boot. On its own admission the high-cost credit industry has been left to self-regulate by the FCA, an open-goal for the litany of bad actors who exploit the financially vulnerable on an industrial scale. The FCA has demonstrably failed to protect consumers despite it being the FCA's core statutory duty.

b) The number of consumers who have been exploited by un-affordable loans from FCA authorised lenders runs into the millions. Many of these lenders[19] have collapsed into insolvency under the weight of compensation claims made by consumers; all of whom had valid claims for reimbursement of interest and charges paid for unaffordable loans. Most of the consumers (of similar profile to those the University of Edinburgh reported could not withstand a financial shock of £100 without falling further into overdraft) never saw the compensation to which they were legally entitled having been sold unaffordable loans.

c) Despite this, there is has been a distinct lack of personal accountability for the individuals responsible for inflicting the financial harm suffered by consumers; Debt Hacker is unable to identify any directors of insolvent high-cost lenders who have been disqualified by the FCA under the Company Directors Disqualification Act 1986[20]. There are statutory information and enforcement powers and a MOU between the FCA and the Insolvency Service[21] (and in particular paragraph 49 which permits

[19] Cash Genie (cashgenie.co.uk), Txt Me Cash (txtmecash.co.uk), Payday Is Everyday (paydayiseveryday.co.uk) , Wonga (wonga.com), Wageday Advance (wagedayadvance.co.uk), Juo Loans (juoloans.co.uk), Trusted Quid (trustedquid.co.uk),PaydayUK (paydayuk.co.uk), Payday Express (paydayexpress.co.uk), The Money Shop (themoneyshop.com), Ladder Loans (ladderloans.co.uk), Quick Quid (quickquid.co.uk), Onstride (onstride.co.uk), Pounds to Pocket (poundstopocket.co.uk), 247 Moneybox (247moneybox.com), Piggybank (piggy-bank.co.uk), Aeroplane Loans (aeroplaneloans.co.uk), Swift Sterling (swiftsterling.co.uk), My Money Partner (mymoneypartner.co.uk), Pounds Till Payday (poundstillpayday.co.uk), Peachy (peachy.co.uk), Uploan (uploan.co.uk), Uncle Buck (unclebuck.co.uk), Sunny (sunny.co.uk), Myjar (myjar.com), Provident (providentpersonalcredit.com), Satsuma (satsuma.co.uk), Glo (glo.co.uk), and guarantor lender Amigo Loans (amigoloans.co.uk) among others.

[20] As an example, the former finance director of Wonga currently holds 28 directorships, including companies authorised by the FCA.

[21] See Insolvency Act 1986 and FSMA. MOU is at https://www.fca.org.uk/publication/mou/mou-insolvency-service.pdf

exchange of information for the direct exercise of enforcement powers). The absence of disqualifications where lenders have become insolvent as a direct result of overwhelming consumer compensation claims for selling unaffordable loans (contrary to FCA Principles) is striking. Paragraph 52 specifically provides:

"52. *Where, from information obtained following the exercise of its statutory powers of investigation, the FCA considers that the conduct of a person acting as a director (or a shadow director, or someone instructing an unfit director) of a limited company falls below the standard required, or it appears to the FCA that the management, operation or business of a limited company is such that it should be wound up in the public interest, it may refer information to the IS to consider whether to seek the disqualification of that person as a director or the winding–up of that company in the public interest*."

The FCA has not sought the disqualification of any directors of the numerous failed payday lenders which collapsed for lending in breach of FCA regulations. None. Can the APPG really believe that every one of those directors profiting from industrial scale unaffordable lending practices behaved impeccably such that not a single one is unfit as director? Clearly the FCA thinks so because it has not only taken no disqualification steps, but has approved those individuals as directors of other authorised firms. Consequentially, the FCA simply does not regard removing bad actors as a function falling within its "*general regulatory approach*". Again, this cannot be a result intended by Parliament when it conferred those powers upon the FCA.

d) None of these high-cost lenders collapsed due to enforcement or mandatory compensation action instigated by the FCA. Instead, it was the claims management companies and consumer action entities (such as Debt Hacker) which informed customers of their rights and mobilised the public to bring claims which triggered the collapses.

e) The University of Edinburgh Report should be a sharp wake up call to APPG and Parliament as the ongoing harms as a direct consequence of FCA's failure to regulate an unbridled high-cost credit industry. The latest independent data analysis of the open banking data of high-cost credit customers blows away any comfortable notion that the high-cost lending industry is adhering to the rules. When the open banking data *independently proves* NHS workers are regularly taking multiple high-cost loans in desperation for cash to pay off prior high-cost loans, alarm bells should be ringing at the FCA. Yet the FCA has failed to ask a single question on the University of Edinburgh Report; which suggests to Debt Hacker that it has merely filed the Report as "intelligence" not requiring any response. The fact that the University of Edinburgh report was sent by Lord McNicol through the Treasury to senior officials at the FCA makes this failure to react all the more egregious.

f) I would ask the APPG, Parliament and the Public to imagine themselves in the shoes of the millions of consumers who have been victims of the high-cost lending industry. These people are often desperate, low paid, struggle to survive paying day to day bills with limited access to normal credit[22] (ie in the credit desert), have paid exorbitant interest and fees to lenders which they cannot afford, live in constant fear of non-payment markers being placed on their credit histories, and are not financially sophisticated. The high-cost lending industry traps this demographic group in a vicious circle of ever more unaffordable loans from companies authorised but unbridled by the FCA.

g) Despite the positive and to be encouraged initiatives undertaken by the FCA to curb the exploitation of consumers such as the implementation of the Principles, introduction of overall price cap, the obligation to advance only affordable loans, and put the consumer at the heart of the business model, the behavioural culture of licenced high-cost lenders remains unchanged as demonstrated by the University of Edinburgh report.

h) Yet despite this shocking independent report, based upon cutting edge data science analysis of open banking records demonstrating chronic unaffordable lending to our "NHS Heroes", the FCA have ignored its findings. After 2 years of pandemic when Prime Minister Boris Johnson has praised the "NHS Heroes", I thought these workers had earned a privileged position in the nation's social structure. Plainly that message has not got through to the FCA. As far as Debt Hacker is aware, the FCA has made no approach to the University of Edinburgh or Salad Projects who commissioned the report, having received a copy via Lord McNicol. This report is the independent evidenced based indictment on the entire high-cost credit industry and their unaffordable lending practices and evidence of the failure of the FCA's "*general supervisory approach* ". It is now matter for the APPG and Parliament to examine the case in detail.

i) Whilst we applaud the introduction of increasingly consumer friendly rules by the FCA, these will be of little practical benefit to victims of unaffordable lending unless and until the FCA substantially enhances the effectiveness of its enforcement. It must now be obvious when the "general supervisory approach" taken by the FCA is understood in it proper context that these consumer friendly rules amount to pointless window-dressing as they are in the abstract to the torturous lived experiences of consumers.

j) In the absence of enhanced enforcement, high-cost lenders are exploiting consumers unrestrained, continuing non- compliant highly lucrative business practices with little fear of FCA sanction or financial penalty. In colloquial terms, high-cost lenders have been left alone to "make hay whilst the sun shines". Until that is the insurmountable tsunami of

[22] University of Edinburgh found that only 10% of the sample had obtained loans from high street lenders.

unaffordable loan complaints arises leaving little, if any, compensation available for borrowers in the corporate insolvency. With the directors of those failed unaffordable lenders being considered "fit and proper" by the FCA for other roles within FCA licensed firms; the merry go round continues ad infinitum with zero personal accountability.

k) Debt Hacker submitted a response to the FCA consultation of a Private Right of Action (PROA) on 22 July 2021.23 This submission made reference to the Woolard Report24 and also the ACCA 25. A number of the points are relevant to this submission and are as follows:

34. *The University of Edinburgh data analysis supports Woolard's concerns that "a sustainable market needs more alternatives to high-cost credit.". Debt Hacker is concerned that the reason these alternatives are not being adopted by consumers is simply down to the lack of a competitive playing field when it comes to creating a sustainable market in alternatives to high-cost credit.*

35. *Woolard states at page 8,*
"Despite positive efforts to encourage more alternatives to high-cost credit, the market has not delivered at scale, and further reform is needed. This includes liberalisation of the approach taken to regulating credit unions and to encourage more mainstream lenders to participate at lower costs in this part of the market."

36. *The University of Edinburgh report illustrates the high levels of market penetration of unaffordable lending achieved by certain high-cost lenders. Credit Unions, CDFI's and others simply cannot compete with the high-cost lenders, even though the high-cost credit is often unaffordable. This is evident by the independent analysis of University of Edinburgh proving that consumers are not borrowing from affordable lenders. Only 10% of loans to the sample came from "high-street" banks, with the other 90% from high-cost credit providers.*

37. *FOS statistics suggest that affordable lenders generally comply with the obligation not to advance credit to levels which the borrowers will find unsustainable. The high FOS adjudication rates against high-cost credit providers indicate that the bad actors have disregarded this as a mere frictional cost to lending. Furthermore, the high economic returns generated provides the bad actors with financial bandwidth to outspend Credit Unions, CDFIs and others in marketing and broker introduction fees. High-cost lenders fund very significant customer acquisition costs leaving Credit Unions, CDFI's and other affordable lenders unable to compete.*

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23 put a weblink to the submission
24 https://www.fca.org.uk/publication/corporate/woolard-review-report.pdf
25 ACCA - Payday lending: fixing a broken market by Sarah Beddows and Mick McAteer https://www.accaglobal.com/content/dam/acca/global/PDF-technical/other-PDFs/pol-tp-pdlfab-payday-lending.pdf - at page 9

38. The structural un-competitive nature of the market was identified in May 2014 by the ACCA . Section 5 of its report explained in depth the massive spend by high-cost credit providers, and in particular online firms, on customer acquisition costs (introducing broker fees, advertising, sponsorship etc). It also stated

"We also argue that existing regulation may allow 'bad' behaviours to be more profitable than 'good' ones and that this can lead to the crowding out of responsible lenders." It is not possible for an affordable mid-cost credit market, as called for by Woolard, to develop where bad actors have this structural advantage where there is no threat to them being brought to account as the consumer and CMCs have no PROA or rights of direct action. It is, as evidenced by the University of Edinburgh report, a charter for unaffordable lending on an industrial scale.

39. The University of Edinburgh report demonstrates that customers with little financial resilience are being sold harmful financial products. In comparison when compared with the behaviour of compliant firms, it is little surprise the University of Edinburgh identified zero penetration of community credit providers usage within a data set of some 10,000 applicants. This may explain why the affordable credit and CDFI personal lending sectors have been unable to scale up. The competitive landscape is fundamentally structurally imbalanced in favour of the unaffordable lenders currently, to this day, lending unaffordably with relative impunity.

40. The PROA will contribute to correcting the structural imbalance which has allowed high-cost credit providers to thrive whilst stifling the growth of a mid-cost market and inhibiting participation by high-street banks. The PROA will allow the market to expose the bad actors to risk of litigation if they fail to "place the interest of the consumer at the heart of their business models". In addition, any adverse PROA litigation will expose lack of compliance by a bad actor to the insurance market, again driving up the cost of conducting a non-compliant business. Therefore, the current commercial advantage of being an unaffordable lender will become a distinct disadvantage creating a level playing field for affordable lenders, which must be a beneficial outcome for consumers. Additional benefit will accrue from the creation of the environment for the development of a mid-cost credit market called for by Woolard and others.

24 November 2021
Debt Hacker.

APPENDIX 1
The Financial Health of NHS Workers – University of Edinburgh report

The Financial Health of NHS Workers

Final Report

Prepared for Salad Projects by

Professor Tina Harrison and Dr Galina Andreeva[i]

January, 2021

Foreword by Salad Projects Founder

Frustrated by the lack of affordable credit available, and with 8.5 million over-indebted and 5.8 million credit score invisible individuals in the UK, Salad Projects was established with a mission to democratise access to affordable credit.

Open Banking technology (with no reference to credit scores as the basis for determining the affordability of a loan) has the potential to democratise credit to millions by lending solely on what is affordable based on the income and expenditure showing in the applicants banking data for up to two years previously.

Salad Money, which lends exclusively to NHS workers using Open Banking data (lending between £500 and £1,000 at an APR of 34.9% when sponsored by NHS Trusts) has a unique data set for each and every applicant, providing the opportunity for unparalleled and granular insight into the financial lives of NHS workers covering some 20,000 plus applicants.

Salad Projects can legitimately use this information and has democratised this data, on an anonymised basis, to give civil society an independent analysis of the many factors giving rise to a lack of financial resilience for those NHS workers who then become reliant on persistent overdrafts and high-cost credit. Salad Projects commissioned the University of Edinburgh to independently report on the financial lives of NHS workers using the anonymised Open Banking data collected by Salad Money.

This independent report from the University of Edinburgh makes for very difficult reading for all of us concerned about the financial welfare of NHS workers. It confirms that NHS workers are heavily reliant on persistent overdrafts and high-cost credit, where the APR on those loans is as high as 1,333%.

All lenders have a responsibility to advance only affordable loans and demonstrate that fair treatment of customers is at the heart of their business model. As a result of these independent academic findings, it should now be a matter of urgent concern for the FCA as to whether lenders are meeting those responsibilities and communicating with consumers in a fair, clear and not misleading way.

However, NHS workers have a real desire to become less reliant on persistent overdrafts and high-cost credit. In response to this demand, Salad Projects has built and developed Money Mind - a unique, and free online financial tool exclusively for all NHS workers.

Harnessing the power of up to two years' worth of Open Banking data, Money Mind offers NHS workers a review of their spending patterns in a simple and easy to understand format. Money Mind also allows NHS workers to compare and monitor their spending versus the anonymised data of their NHS colleagues in a unique feature. This enables NHS workers to identify and make the changes in their spending to avoid persistent overdrafts and high-cost credit.

The report from the University of Edinburgh also highlights the importance and reliance on benefit income for NHS workers. Despite this need, there is approximately £16 billion of unclaimed benefits annually in the UK. To ensure that NHS workers receive all of the benefits they are entitled to, Money Mind also includes a benefits tool. This tool compares the actual benefits received as seen in the Open Banking data, with the entitled benefits based on the NHS worker's specific circumstances. Money Mind then advises users of which additional benefits may be claimed.

In democratising Salad Money's anonymised applicant data, Money Mind has the capability to ensure that all NHS workers get all the benefits to which they are entitled. Money Mind can enable NHS workers to understand and monitor discretionary spending against anonymised colleagues, deliver affordable credit, and shine a light on the practice of lenders. Salad Projects believes with the support of NHS Trusts it will assist in building much needed financial resilience for NHS workers.

This ground-breaking annual report will give a unique insight into the financial lives of NHS workers, allowing NHS Trust employers the opportunity to take an annual litmus test on their financial resilience. It is our hope that the report will subsequently allow NHS Trust employers to implement interventions necessary to alleviate the emotional distress arising from a reliance on persistent overdrafts and high-cost credit.

Alan Campbell
Founder
Salad Projects

20th January 2021

Salad Projects Limited is registered in England 10988702. Registered Office: 49 Greek Street, London, W1D 4EG.

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Executive summary

Salad Projects commissioned researchers from the University of Edinburgh Business School to conduct analysis of the financial health of NHS workers. This report provides a unique insight into the financial lives of a significant number of NHS workers. The analysis is based on 15,303,444 banking transactions of 9,516 individuals all of whom have applied to Salad Money for a loan and have made their data available via Open Banking. Of the 9,516 individuals that made an application to Salad Money, 32% (3,068) were approved for a loan.

For 90% of individuals, we are able to observe at least 12 months of transaction data. Some limitations with the data set must be noted. The observed accounts may not give a complete picture of an individual's or household's financial situation; they provide a snap-shot in time and we may not see the full extent of an individual's relationship with a particular financial product; the categorisation engines used in Open Banking may not perfectly categorise all transactions. Hence, we may miss or under-report certain information as a result.

The sample comprises a significant sub-set of NHS workers with a profile consistent with those employed in NHS Bands 1-5. Band 5 includes many newly qualified clinical professionals, such as nurses. It should be noted that the sub-set is not a random or representative sample of NHS workers, there is a self-selection bias; individuals applying for short-term loans are more likely to be experiencing financial problems already.

Low financial resilience

The report raises serious concerns about the financial resilience of a good proportion of these individuals. Almost two-thirds (60%) have evidence of returned direct debit payments at some point, with one-quarter (26%) having evidence of returned direct debits in at least three out the last six months of data available. According to the FCA's Financial Lives Survey, this is a key indicator of individuals 'in difficulty' and is more than double the proportion (11%) 'in difficulty' in the wider UK population with a similar age profile.

The analysis also shows that despite being 'in difficulty' a significant proportion have evidence of credit and loan use, many are using multiple (especially high-cost) loan providers and a significant proportion are in persistent overdraft.

There is further evidence to suggest that at least half would struggle to sustain an unexpected expenditure of £100 in a month without causing their bank account to go into overdraft, or to go further into overdraft. With only 4% showing evidence of payments into savings and investments, it may be safe to assume that the majority of individuals do not have significant savings to fall back on.

Reliance on benefits

Half (50%) are receiving benefits which make up a significant proportion of income for many. Universal Credit and Working Tax Credit are contributing the most to incomes, each on average contributing 13% to total annual income for those that receive them. For one-quarter, Universal Credit is making up 18% or more of total annual income, and Working Tax Credit is making up 20% or more of total annual income.

There is evidence that benefit payments are smoothing incomes and boosting end-of-month bank balances on average by 50%. For over half (52%), benefits are improving end-of-month account balances by 75% or more and contributing to reducing already overstretched monthly bank balances.

High use of credit and loans

Use of credit and loan products is extremely high with 93% using one or more type of credit or loan, compared with 75% in the wider UK population (according to the Financial Lives Survey). Loans are being used by 91%, with traditional 'high street' banks accounting for less than 10% of loan providers. More than 100 other lenders are being used, with a significant number of high-cost lenders among them where the APRs can be as high as 1,333%.

There is significant evidence of use of multiple loan providers: more than half (58%) are using up to three loan providers and over two-thirds (68%) are using up to 4 loan providers, with over one-third (36%) using 5 or more loan providers.

Loans and repayments make up on average 7% of total outgoings. For the heaviest 25% of loan users, repayments account for 10% or more of total outgoings. To put this into context, individuals are spending on average 8% of outgoings on housing and 10% on groceries and housekeeping, with the heaviest 25% of spenders in those categories spending at least 12% and 14% respectively.

Persistent overdraft use

A significant proportion (80%) of individuals' accounts are in overdraft for at least some of the time. On average, these individuals' accounts went into overdraft 65% of months or at least six out of every 10 months. For the heaviest 25% of overdraft users, their accounts went into overdraft almost every month (96% of months).

Almost two-thirds (63%) of all individuals (or 80% of all overdraft users) have at least three consecutive months where the account was in negative balance on at least one occasion.

On average, accounts are in overdraft for about 6 days per month. Around one fifth of individuals (21%) spent 10 or more days in overdraft per month, and 52% (64%) were in overdraft for 5 days or less per month. Only 19% did not go into overdraft at all.

On average, it is costing £23 per month for individuals to maintain their overdrafts and £29 or more per month for the heaviest 25% of overdraft users (i.e. those spending 10 or more days in overdraft per month).

Gambling

Just over two-thirds of individuals (68%) have at least one gambling transaction in their account history, skewed towards a small number of heavy gamblers.

On average, individuals show evidence of gambling activity two days per month, with half gambling at most one day per month, and the heaviest 25% gambling more than 2 days per month.

The average amount spent on gambling per month is £10; 40% are spending on average £20 or less per month on gambling and one quarter of heaviest gamblers (25%) are spending £100 or more per month on gambling. Only 4% (363 individuals) have spent more than 25% or more of their annual outgoings on gambling.

Despite some individuals showing evidence of significant income from gambling, overall the net gains from gambling on average are negligible or negative.

1. Introduction

This report provides an analysis of the financial lives and behaviour of 9,516 NHS workers that have applied to Salad Money for a loan, of which 32% were accepted. Our analysis is based on all individuals, including those whose applications were unsuccessful. Salad Money uses Open Banking data and not credit reference scores to make lending decisions, and lends exclusively to NHS staff. Through Open Banking Salad Money collects, where available, every transaction going through an applicant's bank account for up to a maximum of two years. It is a rich and powerful dataset providing a detailed insight into the financial lives of individuals.

Our analysis is based on 15,303,444 transactions collected from 9,516 unique applicants to Salad Money. While the number of applications received by Salad Money is far greater, a significant minority of individuals have made more than one application for a loan; duplicate data have therefore been removed. A small number of individuals also have more than one bank account linked to the applications. We have based our analysis on the bank account which we consider to be the primary account, the account into which salary/earnings is paid and/or which contains the fullest or most recent transaction record.

For almost 90% of individuals, we have at least one year of transaction data to observe. However, there are some limitations to the data set that need to be acknowledged and taken into account in reading the results. First, the observed accounts may not give a complete picture of an individual's financial situation. These data capture financial transactions typically from a bank/current account and may not capture other financial behaviours outside of a bank account (for example, payments made towards loan repayments or into savings via payroll deduction would not be captured). Second, the data gives a snap-shot in time and we may not see the full extent of an individual's relationship with a particular financial product. For example, in many cases we can observe loan repayments, but for some we do not know the value of the loan advanced to the individual because this was received outside the period observed, hence, we may miss certain information as a result.

Further, the data categorisation engines may not be perfect, moreover, there is no standard categorisation and the algorithms used to categorise financial transactions vary. The data in this dataset were supplied via two Open Banking categorisation engines: Yapily primarily, with a smaller proportion of transactions from Credit Kudos. Some categories exist in Yapily that do not exist in Credit Kudos, for example, and some categories are more inclusive than others. In some cases, where possible, we have referred to the transaction reference. However, for some transactions it is not obvious from the transaction reference what the transaction is. The purpose of this report is not to improve the categorisation engine. We simply note these inconsistencies. Our analysis is therefore somewhat constrained by the accuracy and comparability of the categorisation and we may have missed and under-reported on some behaviours as a result. We note these limitations where they may affect interpretation of the results we present.

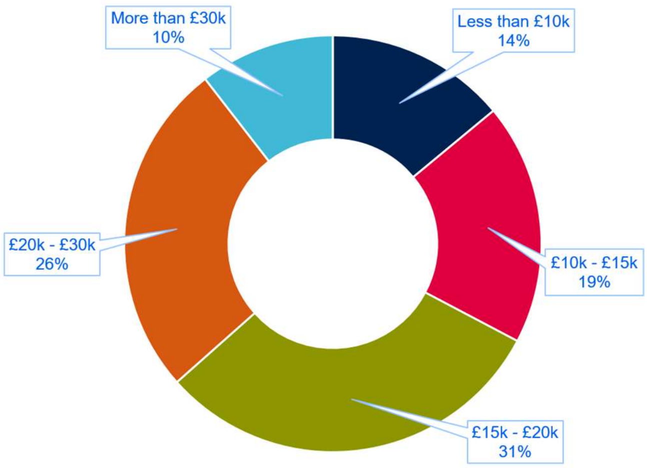
Finally, it should be noted that this sub-set of NHS workers is not a random or representative sample of NHS workers, there is a self-selection bias: individuals that are applying for short-term loans are likely to be experiencing financial problems already,

2. Sample characteristics

The sample on which this report and analysis is based comprises 9,516 individuals, all of whom are employees of the NHS. It is important to note that the sample is not a representative sample of all NHS workers; it is a self-selecting sample of individuals who have applied to Salad Money for a loan, rather than a random sample. Notwithstanding, the sample comprises a significant number of NHS workers and provides an important and unique insight into a sub-set of the wider NHS population and their financial lives and health. To put the sample into context, we provide an analysis of the composition of the sample and, where possible, make comparison to the characteristics of the wider NHS population.

An analysis of take-home income (based on NHS earnings paid into individuals' accounts) indicates that the sample is skewed towards the lower NHS pay grades. Figure 1 shows that one-third (33%) of the sample is taking home an annual income of less than £15,000. Just under one-third (31%) are taking home an annual amount of between £15,000 and £20,000. Assuming full-time pay and allowing for income tax and on-costs this equates in the main to NHS salary Bands 5 and lower. The mean annual basic pay per person in NHS England in the 12 months to the end of June 2020 was £29,146, and mean annual earnings (including overtime etc.) was £33,834.[1]

Figure 1: Take-home earnings (n=9,516)



NHS staff in grades 1-5 make up over half of the NHS workforce (56%), totalling in excess of 700,000 staff by headcount.[2] Newly qualified nurses enter the workforce at Band 5. As of April 2020, a newly qualified Band 5 nurse earns £24,907. The Royal College of Nursing estimates that the average salary of a nurse is somewhere between £33,000 and £35,000. This sample of NHS staff is therefore significant, although may not be entirely representative of all NHS workers within salary Bands 1-5.

[1] Agenda for change - pay rates | Health Careers
[2] https://digital.nhs.uk/data-and-information/supplementary-information/2020/all-staff-by-grade_ah3436

Figures 2 and 3 show that the sample comprises a high proportion of women, which mirrors the breakdown in NHS Bands 1-5. For 22% of the sample the gender is unknown. Of those where gender is known, 81% are female and 19% are male. In NHS Bands 1-4, 80% are women, 20% are men and in Bands 5-7, 82% are women and 18% are men. Within the total NHS workforce, 77% are women and 23% are men.[3]

Figure 2: Gender (n=9,516)

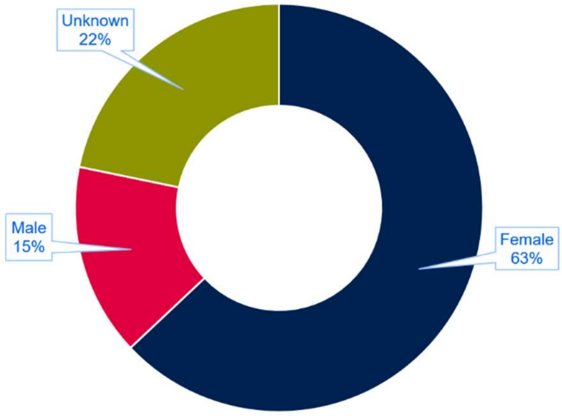


Figure 3: Gender (n=7,444)

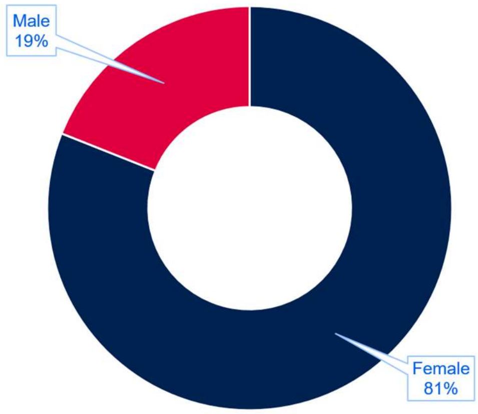


Figure 4: Age (n=9,516)

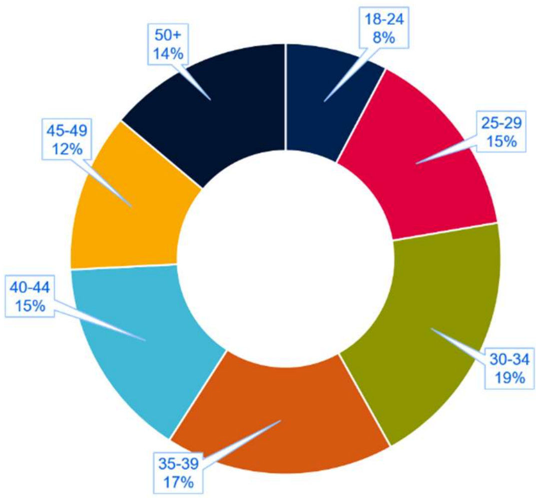


Figure 4 shows the age distribution within the sample and Figure 5 shows the age distribution in the total NHS workforce and Bands 1-4 and 5-7 for comparison. The sample comprises a higher proportion of younger individuals compared with both the total NHS workforce and those employed in Bands 1-4 and Bands 5-7. The average age for both men and women in the NHS workforce is 43. Almost three-quarters (74%) of the sample is under the age of 45 compared with 53% in the total NHS workforce, 46% in Bands 1-4 and 58% in Bands 5-7.[3]

[3] https://www.nhsemployers.org/-/media/Employers/Documents/Plan/DIVERSITY-AND-INCLUSION/EQW19/Gender-in-the-NHS-infographic.pdf

Figure 5: Age distribution of NHS workers[4]

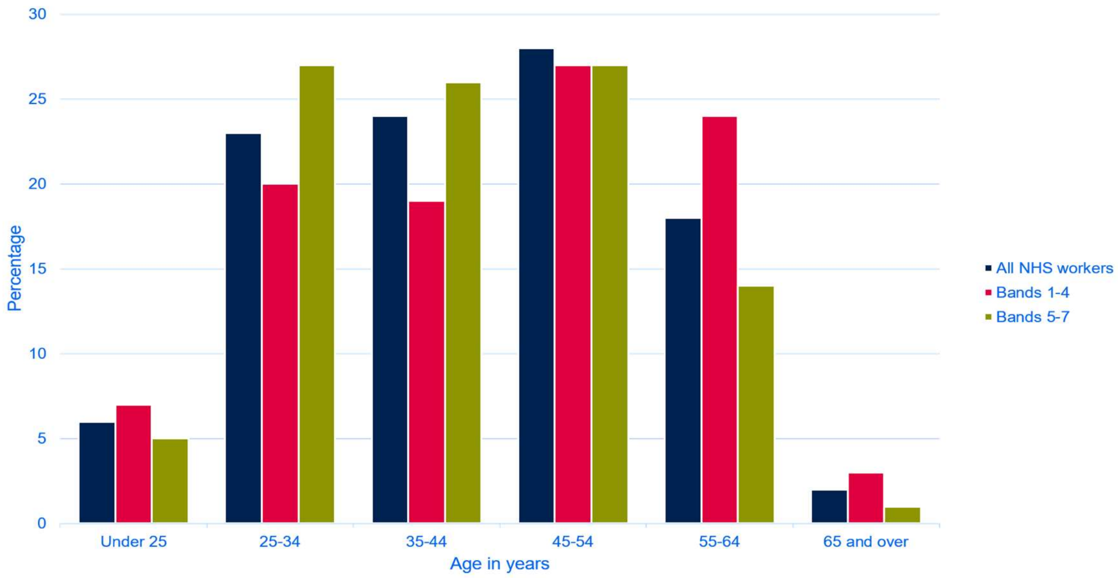
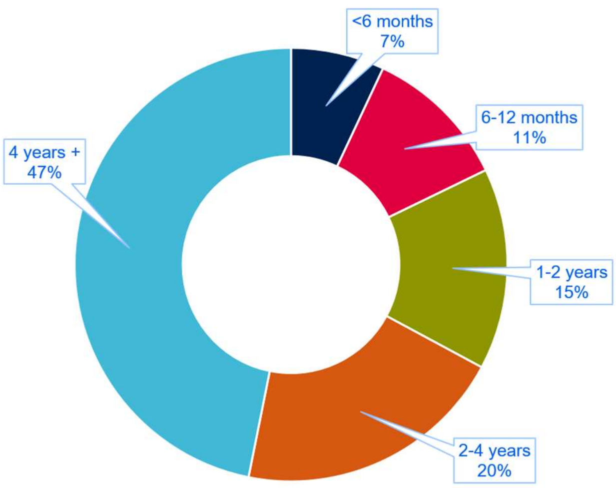


Figure 6: Employment length

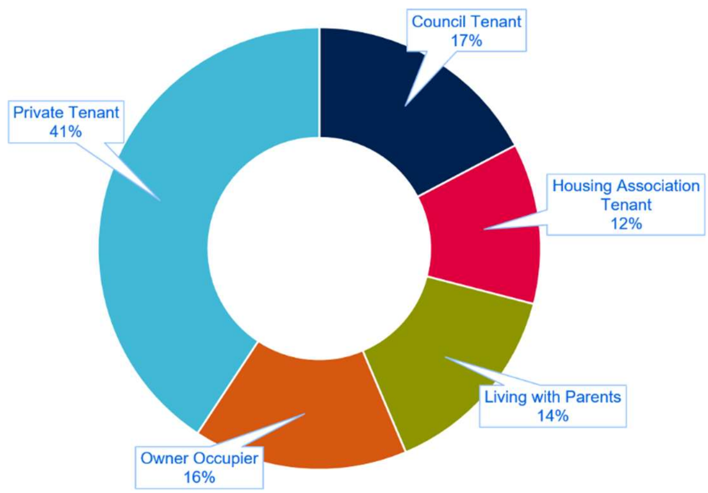


In terms of employment length, Figure 6 indicates that just under half the individuals in the sample (47%) have been in employment for more than 4 years, and one-third (33%) have been employed for 2 years or less.

Regarding residential status, 70% are living in rented accommodation, the majority of which are living in private rented accommodation. Only 16% of the sample comprises owner-occupiers, and 14% live with parents.

[4] Adapted from : https://www.nhsemployers.org/-/media/Employers/Documents/Plan/DIVERSITY-AND-INCLUSION/EQW19/Age-in-the-NHS-infographic.pdf

Figure 7: Residential status



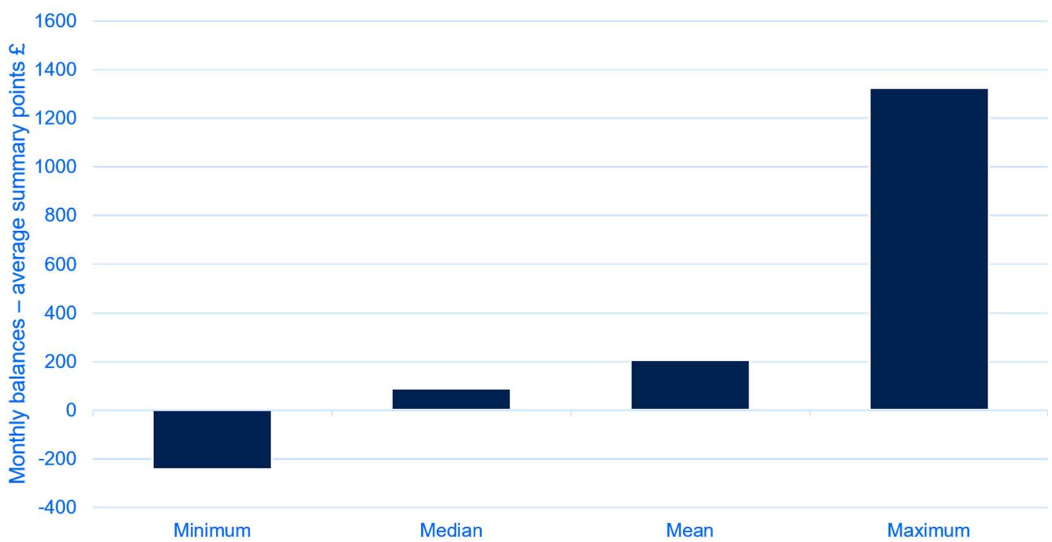
In summary, the sample comprises a sub-set of NHS workers with earnings consistent with those employed in Bands 1-5. Band 5 includes many newly qualified clinical professionals, such as nurses.

The gender profile of the sample is consistent with that in comparable earnings' Bands in the NHS, but the sample comprises a younger age profile. The majority of individuals in the sample have been in employment for a relatively short time (less than four years) and a significant proportion are renters with only a small proportion of homeowners.

3. Financial resilience

Financial resilience generally is defined as the ability to cope with a sudden income shock or unexpected increase in expenditure. It can also include the ability to meet regular bills and credit demands. To provide a broad understanding of the financial health and resilience of this sample of NHS workers, we start by providing an analysis of account balances. Figure 8 shows the average (mean) of all monthly minimum, median, mean and maximum account balances per individual.

Figure 8: Average of summary points for monthly account balances



The average of all individuals' mean monthly account balances is £208, the average median (mid-point) monthly account balance is £91 (meaning that half have an average monthly account balance below this figure and half above it). The average minimum monthly account balance is -£243 and the average maximum account balance is £1,327. Maximum account balances are likely to be at their highest when salary and other significant income payments are made into the account each month.

Within these averages there is considerable variation. For example, the bottom 25% of average median monthly account balances are below or equal to zero, while the highest 25% of average monthly balances are £284 or greater. In terms of the range of minimum and maximum monthly account balances, the bottom 25% of average minimum monthly account balances are -£247 or lower; three-quarters (75%) of average minimum monthly account balances are at or below zero, suggesting that most months individuals are experiencing zero or negative account balances. In terms of the maximum monthly account balance, the lowest 25% of average maximum monthly account balances are £560 or less, and the highest 25% are £1,710 or more.

Overall, this suggests that for most individuals their account balance is at its highest when salary and other significant income payments are made into the account. At least half of all individuals experience at least one day, when the account balance is either zero or in overdraft during the month, most likely before the next salary payment. Average monthly incomes from earnings amount to £944, rising to £1,939 taking into account benefits and pensions.

Figures 9, 10 and 11 show examples of individual account balances to give a sense of the varying patterns.

Figure 9: Individual account balance example 1

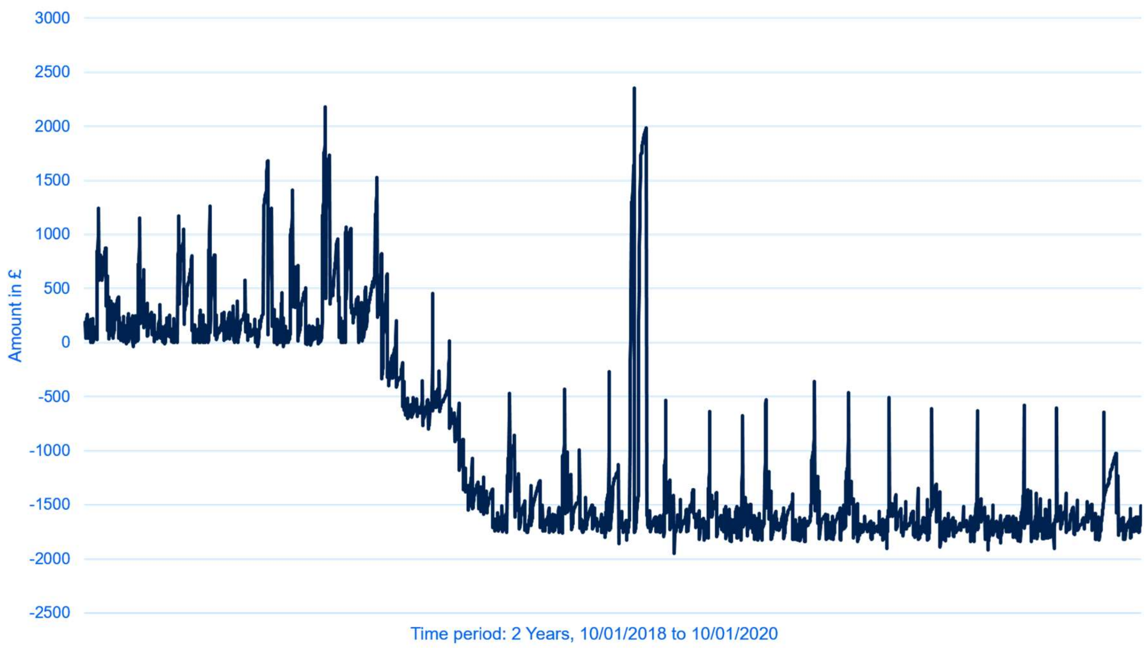


Figure 9 shows an account with a steep decline into overdraft. Despite a significant injection of funds at one point, the regular salary is not sufficient to enable this individual to recover from the overdraft over the two years observed. Figure 10 shows an account in continual overdraft. Over the 14 months observed, the account only goes out of overdraft on four occasions. Figure 11 never goes into overdraft, but the minimum balance hovers just above zero or very close to zero by the end of each month. On closer inspection, this account balance remains positive by regular borrowing from other sources.

Figure 10: Individual account balance example 2

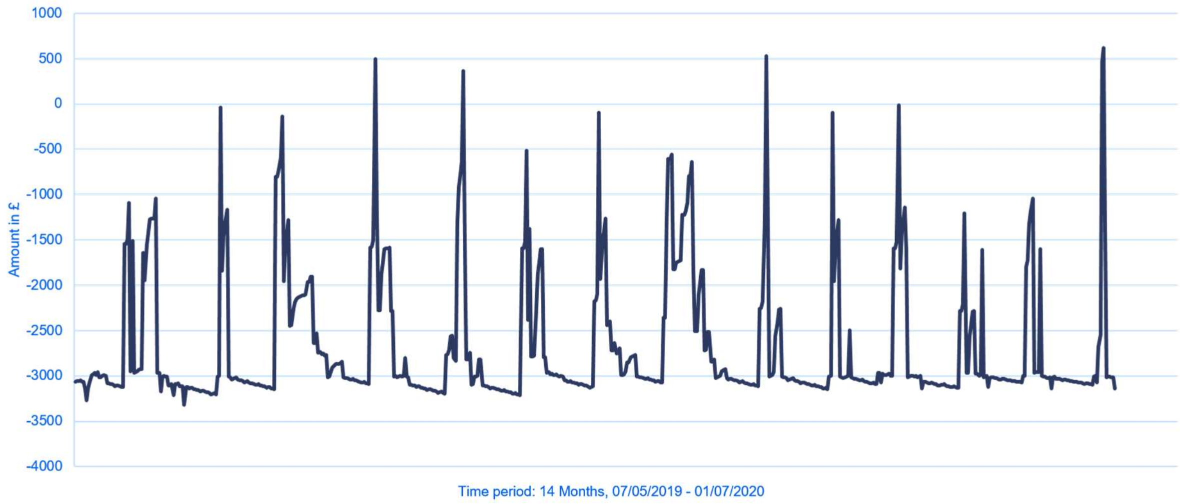
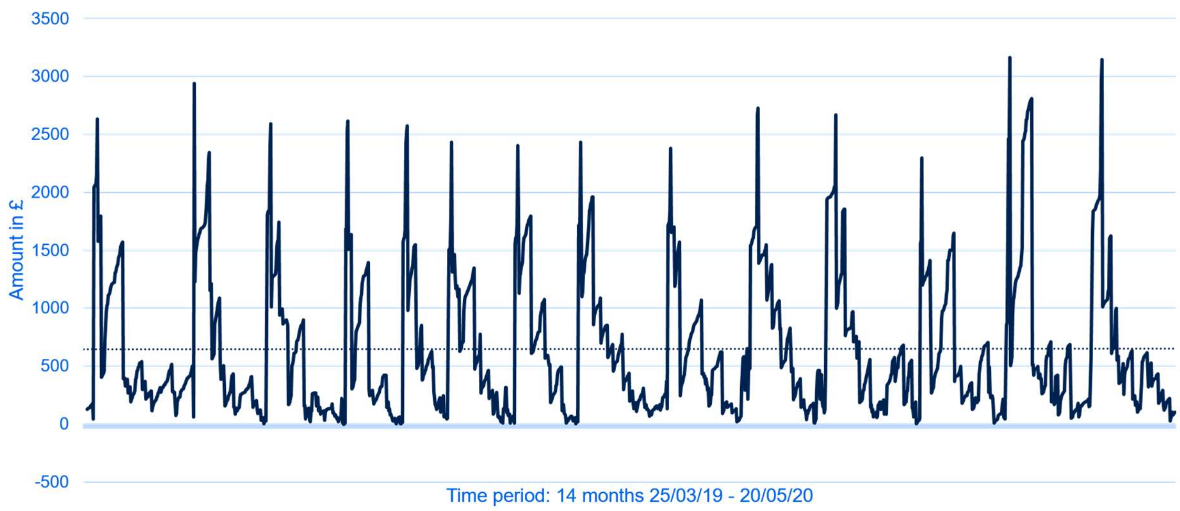


Figure 11: Individual account balance example 3



According to the FCA Financial Lives Survey,[5] 65% of all UK adults are defined as 'financially resilient', 27% are defined as 'surviving financially' and 8% are defined as 'in difficultly'. Financially resilient individuals are those who are not in the 'surviving financially' or 'in difficulty' groups, identified by a small number of indicators. We are not able to replicate all the measures used by the Financial Lives Survey from the available data, but we can provide an approximation to the key indicators.

A key indicator of those 'in difficulty' is whether individuals in at least three of the last six months have missed paying domestic bills or meeting credit commitments. We use returned direct debits as a measure of missed bills. It is not a perfect indicator since we do not know whether the direct debits are for domestic bills or credit commitments, but it is nonetheless an important indicator of the state of an individual's bank balance. Returned direct debits occur when a company attempts to take money from an account (in accordance with an agreed direct debit mandate), but there not sufficient funds in the account to cover the amount requested.

We examined the incidence of returned direct debits for all individuals across all months of data available, and specifically within the last six months of data for each individual. Almost two-thirds of the sample (60%) had evidence of returned direct debit payments in their accounts. Just over one-quarter (26%) had evidence of returned direct debits in at least three out the last six months of data available, suggesting that potentially up to one-quarter of these individuals could be defined as 'in difficulty'. This is considerably higher than 8% identified by the Financial Lives Survey in the wider UK population and 11% on average for under 45 year olds (who make up three-quarters of this sample).

A key indicator of those who are 'financially surviving' is whether mortgage and/or rent increases of less than £100 per month would be a struggle to meet (and individuals do not have investable assets of £50,000 or more). Since we only have access to bank account data, we do not know what savings individuals may have to draw on, but it is likely that savings might be limited. Only 4% of the sample have evidence of outgoing transactions categorised as 'savings or investments'. Given the number of homeowners (and therefore mortgage payers) in the sample is very small (at 16%), we considered instead the impact of an unexpected expenditure of £100 on the account, which has broadly the same effect.

We used the average of the user-monthly median (mid-point) account balance as the reference point, which is £91 (see Figure 8). This means that half of the individuals on average have a monthly account balance above £91 and half have an average monthly balance below this. This suggests that at least half the individuals would struggle to meet an unexpected expenditure of £100 in a month and would be forced into overdraft unless they had savings to fall back on.

Combined with the insight (in sections 5 and 6) showing the high use of credit and loans and persistent overdraft use, as well as limited evidence of saving activity, it may be safe to assume that many individuals do not have significant savings to fall back on. Taken together, this suggests a significant concern for the financial resilience of these individuals.

[5] https://www.fca.org.uk/publication/research/financial-lives-consumers-across-uk.pdf

4. Income

Income is derived from a number of sources. We categorise income into five different types:

- All income – which take into account all incomings into the bank account;
- Earnings – income derived from NHS salaries primarily;
- Earnings, benefits or pension – salary payments plus benefits and/or pension;
- Benefits – income from benefits on their own;
- Other inflows – captures other incomings not defined as earnings, benefits or pension and which make up the rest of total incomings.

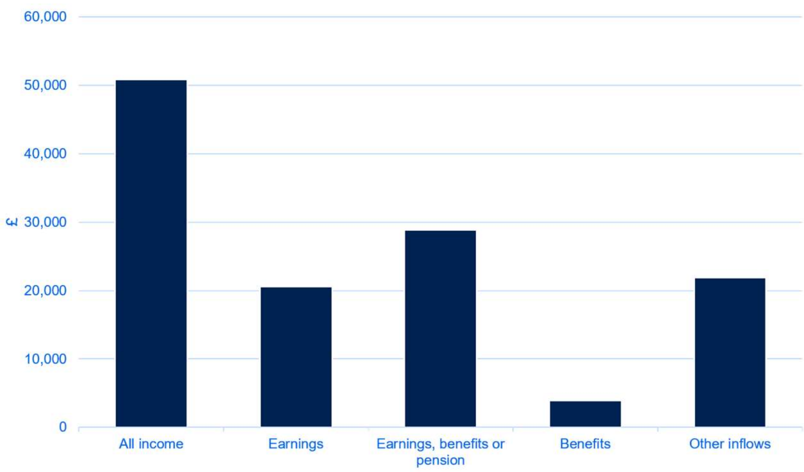
Figure 12 shows that average total annual incomings amount to just over £50,000, income from earnings alone averages £20,600, including income from benefits and/or pensions the figure increases to just under £29,000. Benefits alone contribute on average just under £4,000 to annual incomes. Other inflows amount to an annual average of £21,000 and include, amongst other things, bank transfers and credit and loan payments into accounts.

Average total monthly incomings amount to £1,939. Average monthly earnings come to £944, with income from benefits and/or pensions this increases to £1,095. Average income from benefits alone comes to £131, and average monthly income from other inflows amounts to £843.

Figure 13 shows annual average incomes by residential status. Income from earnings is similar for council and housing association tenants and those living with parents (over £18,000), but higher for owner occupiers (just under £25,000) and private tenants (£21,000). Income from benefits is higher for all renters, particularly council and housing association tenants, where average annual benefits amount to more than £5,500 compared to those either living with parents (£1,700) or owner occupiers (£2,500).

Figure 14 shows that all incomes increase with age and level off around age 40, with the exception of income from earnings which shows a gradual upward trend with age.

Figure 12: Mean annual income by income type



Half the sample (50%) are receiving benefits, which make up a substantial component of total income for many individuals. Females derive more income from benefits than males: this is largely due to benefits related to children.

Table 1 shows the range of benefits received and the number and proportion of individuals from the total sample of 9,516 who are receiving them. A number of individuals will be receiving more than one type of benefit. The benefits most widely received are Child Benefit (received by 35% of individuals), Universal Credit (received by 22%), Child Tax Credit (received by 13%) and Working Tax Credit (received by 13%).

In terms of the impact of the value of benefits on total income, Universal Credit and Working Tax Credit have the greatest impact, each contributing on average 13% to total annual income for those that receive it. For one-quarter of individuals (at the 75th percentile), Universal Credit is making up 18% or more of their total annual income, and Working Tax Credit is making up 20% or more of total annual income. For any individual, the maximum proportion of total annual income from Universal Credit is 92% and from Working Tax Credit it is 62%. Child Benefit, although widely received, contributes relatively less toward total annual incomes on average.

Figure 13: Mean annual income categories by residential status

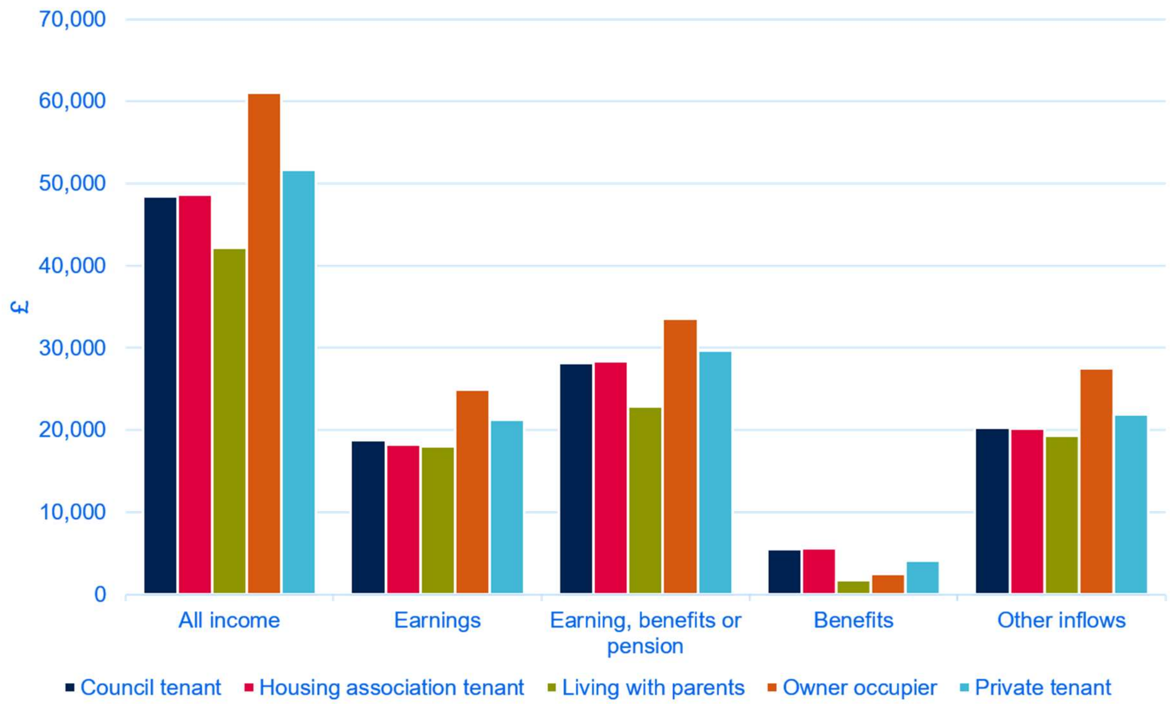


Figure 14: Mean annual income categories by age

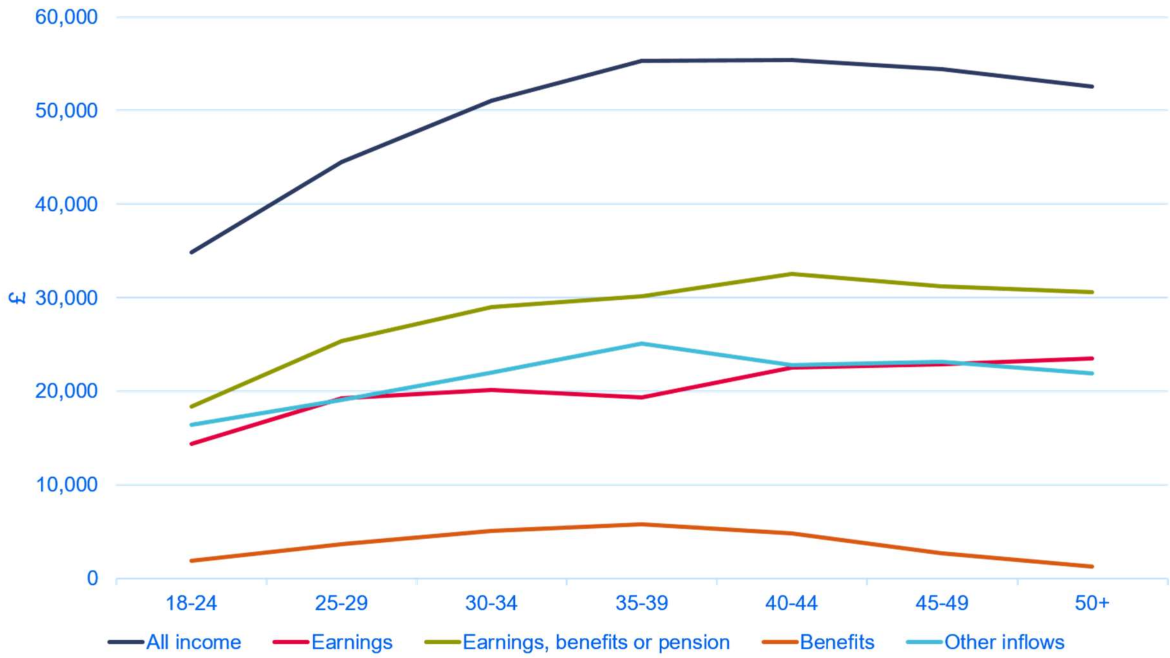


Table 1: Benefits as a proportion of total income

Benefit type	N in receipt	% in receipt	Benefits as a proportion of total annual income				
			Mean	25th Percentile	Median	75th Percentile	Max
Carer allowance	150	1.58%	6%	3%	5%	7%	23%
Child benefit	3,335	35.05%	4%	2%	4%	5%	100%
Child tax credit	1,277	13.42%	7%	1%	4%	10%	44%
Disability benefit	610	6.41%	9%	5%	8%	12%	75%
Employment support allowance	137	1.44%	10%	2%	7%	13%	61%
Housing benefit	9	0.09%	6%	2%	3%	7%	16%
Income support	74	0.78%	4%	1%	2%	4%	39%
Jobseekers allowance	66	0.69%	2%	0%	1%	2%	15%
Pension credit	10	0.11%	7%	1%	6%	11%	16%
Universal credit	2,125	22.33%	13%	3%	8%	18%	92%
Working tax credit	1,241	13.04%	13%	4%	10%	20%	62%
Other benefits	667	7.01%	2%	0%	1%	2%	40%

In addition to understanding the overall contribution of benefits to total income, we also attempted to understand the extent to which benefits are potentially smoothing total incomes. Without knowledge of the exact dates on which individuals' incomes and benefits are paid, it is very challenging to do this accurately. As an alternative approach, we examined the extent to which benefits are boosting individual monthly account balances. Specifically we examined the impact of all benefits received in a month on the account balance at the end of the month, calculated as the percentage improvement in the end-of-month account balance.

Using this approach, it seems that benefit payments are boosting end-of-month account balances on average by 50%. For over half (52%) of all individuals in receipt of benefits, the benefits are improving their end-of-month account balances by 75% or more. Bearing in mind that the average minimum monthly account balance is -£243 (Figure 8) benefits are contributing to reducing already overstretched account balances.

5. Credit and loan use

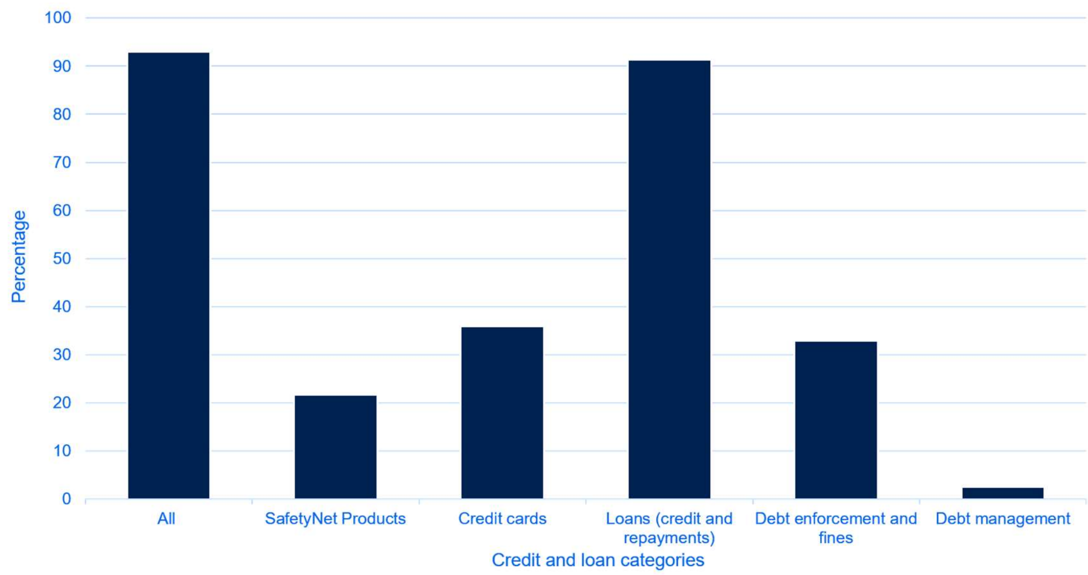
Credit users are defined as all individuals with transactions in the following categories: 'credit card payments', 'credit loans', 'debt-enforcement and fines', 'debt management', 'loans and repayments', plus SafetyNet customers (i.e. those with the term 'SafetyNet' in the transaction reference).

Almost all individuals in the sample (93%) are using one or more type of credit or loan. Only 7% do not have evidence of credit use in their bank account transactions. These individuals may still be credit users, but we have not been able to determine this from the available data.

The FCA Financial Lives Survey reports that 75% of UK adults hold at least one FCA regulated credit or loan product (or they have done so in the last 12 months). By comparison, the incidence of credit and loan use in this sample is noticeably higher than in the broader UK population.

Figure 15 shows the breakdown of credit use by type of credit or loan product category. The largest category of use (91%) is loans (comprising both credit received and repayments). Over one-third (36%) are making payments to credit cards, and a similar proportion making payments to debt enforcement and fines. Just over 20% are using SafetyNet products, which are from a single provider.

Figure 15: Credit use by type of credit/loan



Analysis of total credit and loan use by gender, age and residential status (see Figures 16 to 18) shows that use is consistently high across all groups. Younger individuals and males have a slightly higher proportion of non-users of credit, but overall the proportion of users within all groups is higher than the UK average of 75%, as defined by the FCA Financial Lives Survey.

Figure 16: Credit use by gender

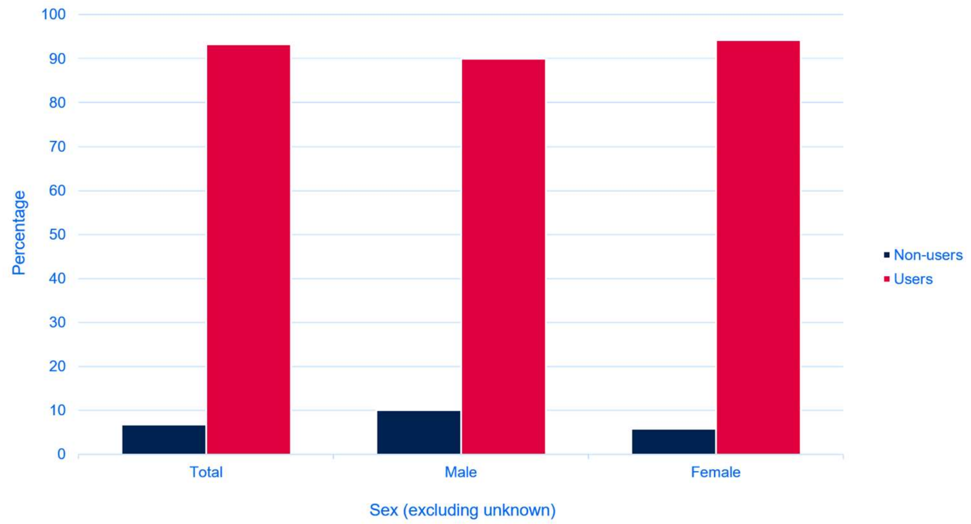


Figure 17: Credit use by age

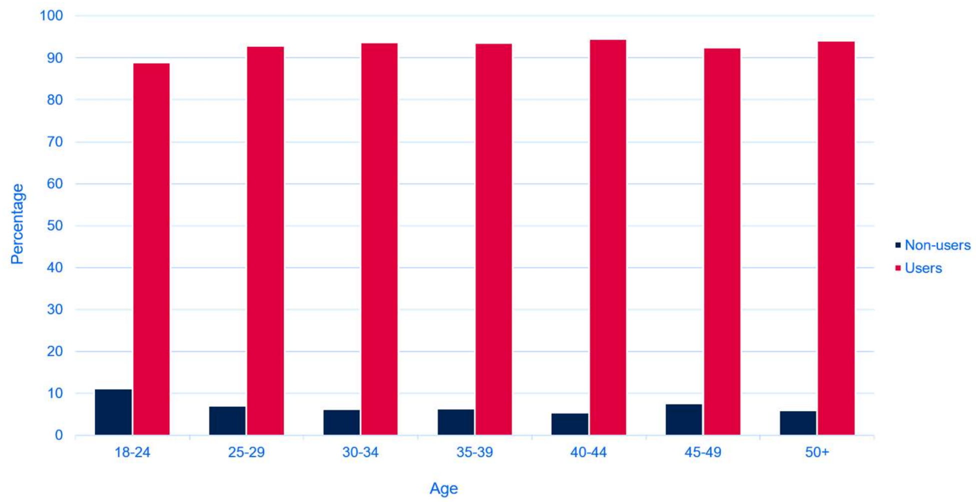
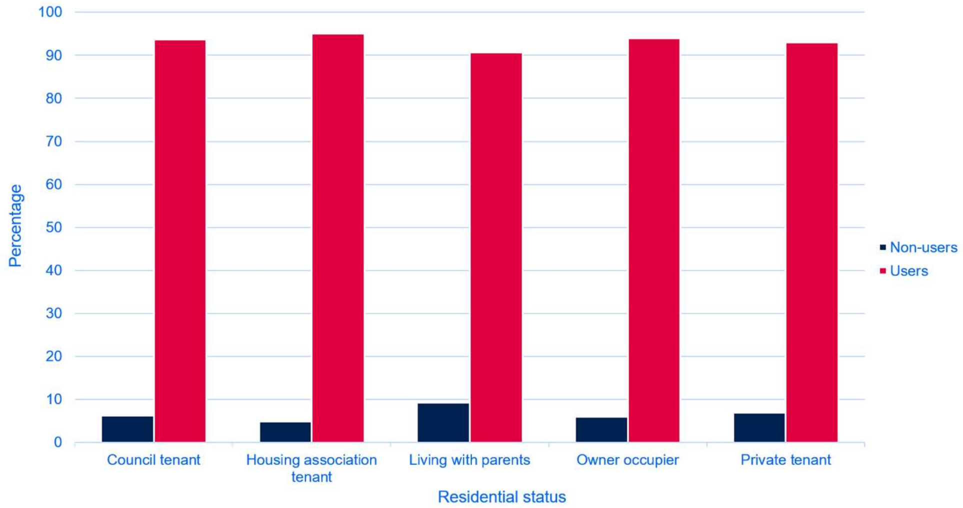


Figure 18: Credit use by residential status



Looking at credit use by bank, Figure 19 shows that customers of challenger banks Monzo and Starling have a much higher proportion of non-users of credit than other 'traditional' bank customers: 16% of Monzo and 20% of Starling customers in this sample do not have evidence of credit use, compared with an average of 7% across the total sample. It is not possible to know from this analysis why Monzo and Starling customers make less use of credit. These numbers may not be representative of the total population of Monzo and Starling customers. If they are, it would be interesting to know whether it has anything to do with the features of their banking apps that facilitate more personalised money management than other banking apps.

NatWest customers comprise the highest proportion of credit users; only 4% of NatWest customers in this sample are not using credit. It should be noted, however, that individuals may or may not be using credit from the bank they bank with. This does not indicate that individuals are making high use of credit from NatWest, for example. Indeed, further analysis below shows that use of credit and loans from traditional banks is low compared to credit and loans from non-traditional providers and high-cost credit providers.

Figure 19: Credit use by 'banks with'

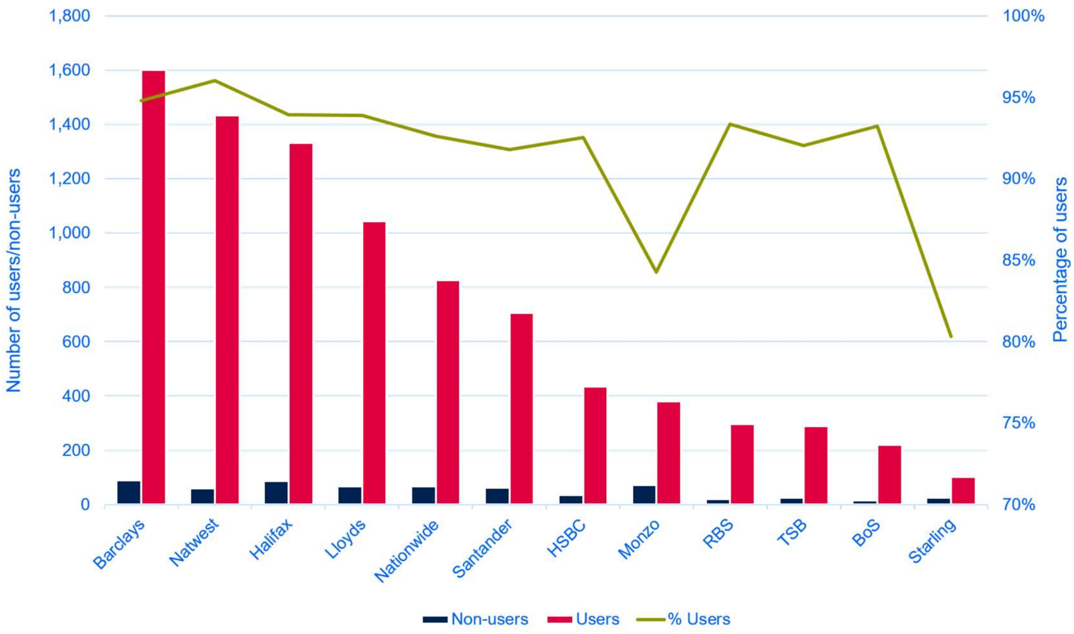


Table 2 shows the proportion of total annual outgoings spent on credit and loans. Loans and repayments as a total group make up on average 7% of total outgoings for the 90% of users followed by SafetyNet products accounting for 6% of total outgoings for the 22% that use it. SafetyNet products is a single credit provider, whereas loans and repayments includes more than 100 individual lenders. For the heaviest 25% of loans users, repayments account for 10% or more of total outgoings and 9% or more for the 25% heaviest users of SafetyNet products. Credit card payments make up a much smaller proportion of total outgoings at 4% on average, but individuals may be making minimum payments rather than repaying balances in full. To put this into context, individuals are spending on average 8% of outgoings on housing and 10% on groceries and housekeeping, with the heaviest 25% of spenders in those categories spending at least 12% and 14% respectively.

Table 2: Proportion of total outgoings on credit and loans

Credit type	N users	% users	Credit payments as a proportion of total annual outgoings				
			Mean	25th Percentile	Median	75th Percentile	Max
Credit card payments	3,427	36%	3%	0%	1%	4%	100%
Debt enforcement and fines	2,797	29%	1%	0%	1%	1%	33%
Debt management	254	3%	3%	1%	2%	4%	33%
Fees and charges	6,491	68%	1%	0%	0%	1%	95%
Insolvency provider	133	1%	2%	1%	2%	3%	12%
Loans and repayments	8,525	90%	7%	2%	5%	10%	72%
Safetynet products	2,074	22%	6%	1%	3%	9%	46%

5.1 Credit card use

Just over one-third (36%) of individuals in the sample are credit card users. This compares with 62% in the wider UK population, according to the FCA Financial Lives Survey, although the figure is 19% when transactors are excluded (those that pay off their credit card in full every or most months). It is not possible to know from the credit card transactions in this dataset whether individuals are paying the minimum amount or settling credit card balances in full each month. However, based on the high amount of other credit and loan use within the sample, it may be safe to assume that many are not paying balances in full each month.

Individual credit card providers were identified by means of Natural Language Processing (NLP) analysis of the transaction reference.[6] In total, there were 74,106 transactions within the category of 'credit card payments' from 3,427 users. Traditional (High Street) banks account for 35,449 transactions or 48% of these transactions. Table 3 shows the frequencies and percentages of transactions by traditional providers. The two most frequently used cards from traditional providers are Barclaycard and Capital One, used by 26% and 10% of all users respectively. Table 3 also shows the number of cards held by each individual from traditional providers. Most users (47%) have just one card from a traditional provider with less than 10% having two or more cards.

Table 3: Credit card use by traditional provider

Provider	# Transactions	Percent
CAPITAL ONE	19558	26.39%
BARCLAYCARD	7675	10.36%
HSBC	1962	2.65%
HALIFAX	1625	2.19%
AMERICAN EXPRESS	1020	1.38%
VIRGIN MONEY	928	1.25%
TESCO	768	1.04%
MBNA	631	0.85%
LLOYDS	528	0.71%
NATWEST	420	0.57%
SANTANDER	211	0.28%
M&S	112	0.15%
RBS	11	0.01%
TOTAL	35449	47.84%

(Base = 74,106 credit card transactions)

# Card providers	Frequency	Percent
0	1487	43.39%
1	1611	47.01%
2	277	8.08%
3	40	1.17%
4	6	0.18%
5	5	0.15%
6	1	0.03%

(Base = 3,427 credit card users)

Newer (or non-traditional) credit card providers account for 33,970 credit card transactions or 46%. Table 4 shows the frequency of transactions and number of cards held with new providers. Of the newer providers, Vanquis and Aqua credit cards account for the highest number of transactions at 19% and 17% of all credit card transactions respectively, with

[6] After normalising, all the words were parsed into n-grams (words) with n=1,2,3, and their frequencies were calculated. The combination of words (n-grams) with higher frequencies were inspected manually for the incidence of the lender/bank names (e.g. VIRGIN MONEY or HSBC).

Marbles accounting for 8% of transactions. The majority of users (49%) are using just one newer credit card provider (a similar proportion to those using traditional credit card providers) but there is a higher proportion of individuals using two newer credit card providers (14%). Table 5 shows the total number of credit card providers used per individual across all providers. Over half (57%) of all credit card users are using just one credit card provider, 23% are using two credit card providers and 10% three credit card providers.

Table 4: Credit card use by new provider

Provider	# Transactions	Percent
VANQUIS	14098	19.02%
AQUA	12599	17.00%
MARBLES	5978	8.07%
NEWDAY	930	1.25%
FLUID	271	0.37%
TANDEM	94	0.13%
TOTAL	33970	45.84%

(Base = 74,106 credit card transactions. 6.32% of credit card transactions could not be attributed to a provider due to imprecise transaction reference)

# Card providers	Frequency	Percent
0	1234	36.01%
1	1670	48.73%
2	467	13.63%
3	53	1.55%
4	3	0.09%

(Base = 3,427 credit card users)

Table 5: Number of credit card providers used (all providers)

# all card providers	Frequency	Percent
-	223	6.51
1	1942	56.67
2	793	23.14
3	342	9.98
4	90	2.63
5	26	0.76
6	7	0.2
7	3	0.09
8	1	0.03

(Base = 3,427 credit card users; for 6.51% of users the provider could not be identified for their credit card transactions)

5.2 Loans

Within the categories ‘credit loans’ and ‘loans and repayments’, 557,416 transactions were identified from 8,693 users or 91% of the total sample. The loan providers were identified by means of Natural Language Processing (NLP) analysis of transaction references as before.

Traditional lenders account for 52,840 transactions or 9.48% of all loans. New lenders account for 408,777 transactions or 73.33% of all 'loans'. For 17.19% of loan transactions it was not possible to attribute them to a loan provider due to vague/imprecise transaction references. Figure 20 shows the number of traditional lenders used per individual, and Table 6 shows the number and proportion of transactions by each lender. Capital One accounts for the largest proportion of transactions at 6%, with the other providers accounting individually for less than 1% of transactions each.

Figure 20: Number of traditional lenders used per user

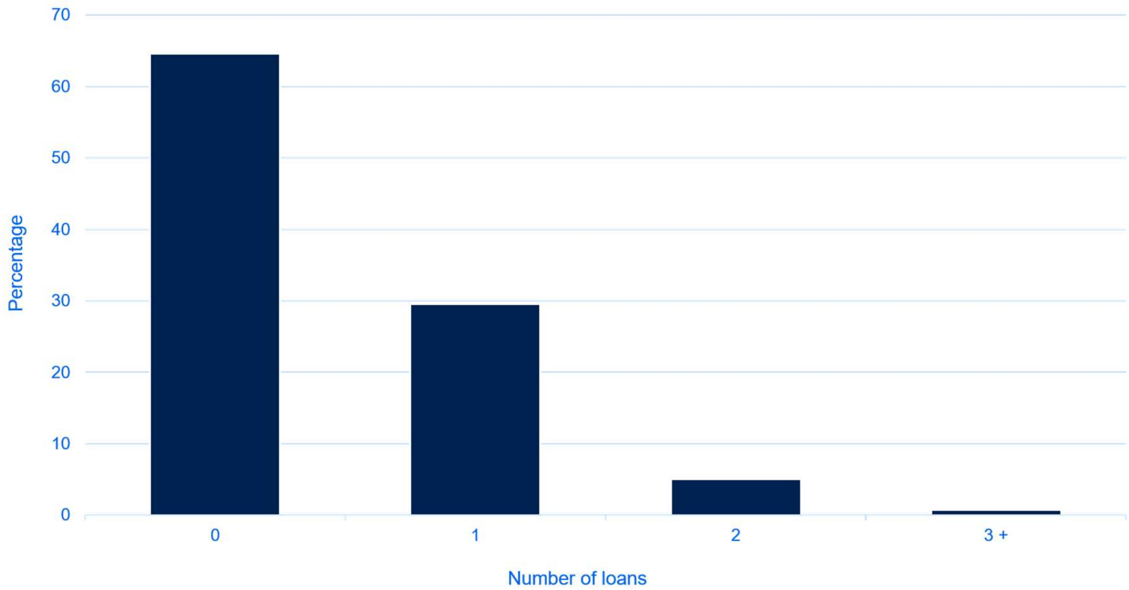


Table 6: Credit/loan transactions with traditional lenders

Provider	# transactions	%
CAPITAL ONE	34196	6.13%
TESCO	5451	0.98%
NATWEST	2939	0.53%
RAC	2939	0.53%
BARCLAYS	2526	0.45%
HSBC	1685	0.30%
MBNA	944	0.17%
SANTANDER	878	0.16%
VAUXHALL FINANCE	394	0.07%
NATIONWIDE	365	0.07%
RBS	359	0.06%
AA	109	0.02%
LLOYDS	50	0.01%
BMW FINANCE	4	0.00%
VIRGIN	1	0.00%
TOTAL	52840	9.48%

In addition to the traditional lenders, more than 100 other providers were identifiable. Figure 21 shows the number of loan providers used per individual from these lenders. It is evident that there is considerable use of multiple loan providers across the sample: 58% are using up to three loan providers and over two-thirds (68%) are using up to 4 loan providers with over one-third (36%) using 5 or more loan providers over an average period of one and a half to two years. With a few exceptions, the majority are high-cost lenders, a number of which are charging APRs as high as 1,333% (e.g. LendingStream).

Some of the companies specialise in facilitating retail purchases and help to spread the purchase repayment over a small number of payments (e.g., Clearpay, Klarna). They claim they do not charge any interest, if repayments are made on time, but they do charge for late repayments. We cannot determine from this dataset whether individuals that use such products are using them interest-free or not.

Figure 21: Number of new lenders used per user

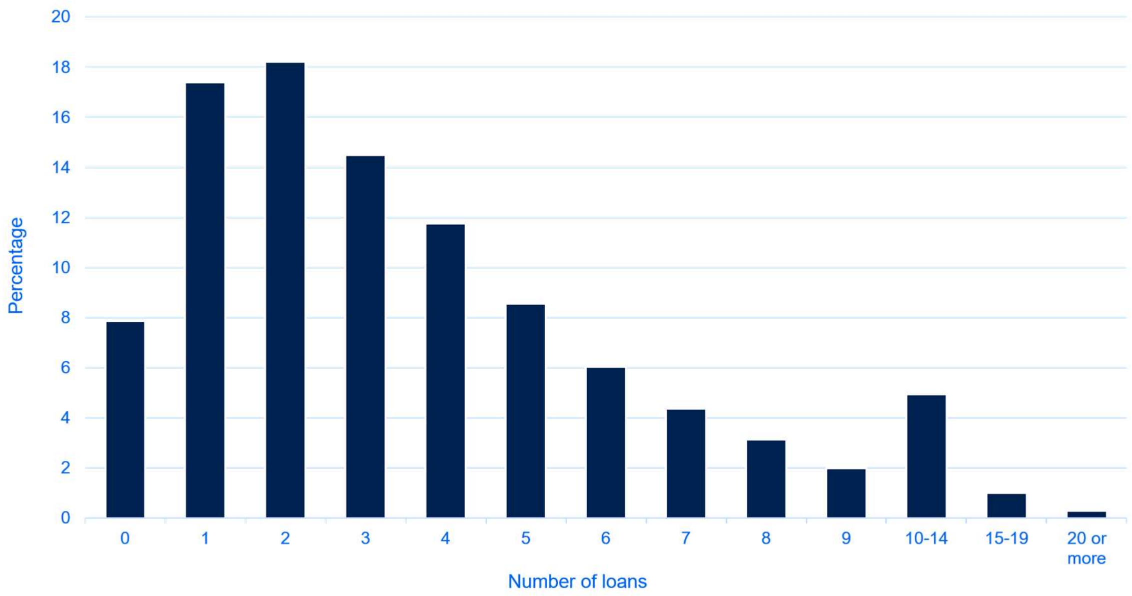


Table 7 gives a breakdown of the proportion of transactions accounted for by each lender. Clearpay (a service that enables retailer customers to purchase and pay in instalments) accounts for 12% of all transactions, followed by SafetyNet (a revolving credit facility) that accounts for over 9% of all transactions, and used by 22% of individuals in the sample. The other lenders individually account for less than 5% of all loan transactions.

Table 7: Credit/loan transactions with newer lenders

Provider	# trans	%	Provider	# trans	%
CLEARPAY	68070	12.21%	PIGGYBANK	1878	0.34%
SAFETYNET	51348	9.21%	MONEYBOAT	1838	0.33%
LOWELL	25591	4.59%	FIRST RESPONSE	1592	0.29%
KLARNA	22527	4.04%	CASH4UNOW	1585	0.28%
VANQUIS	15930	2.86%	FERRATUM	1567	0.28%
AMIGO	13597	2.44%	CREDITSPRING	1353	0.24%
LENDINGSTREAM	13335	2.39%	CAPQUEST	1336	0.24%
SUNNY	12760	2.29%	LENDABLE	1272	0.23%
BRIGHTHOUSE	12540	2.25%	TAPPILY	1243	0.22%
LAYBUY	11295	2.03%	1PLUS1	1222	0.22%
118 118	10299	1.85%	LOANSDIRECT	1191	0.21%
MORSES CLUB	8741	1.57%	HARVEY & THOMPSON	1156	0.21%
PROVIDENT	8592	1.54%	FREDRICKSON	1065	0.19%
SATSUMA	8339	1.50%	WAGEDAY	1031	0.18%
CABOT	5401	0.97%	PREMIUM CREDIT	1018	0.18%
247 MONEYBOX	5040	0.90%	EQUITA	995	0.18%
DRAFTY	4908	0.88%	WONGA	926	0.17%
LOANS2GO	4852	0.87%	DOT DOT	913	0.16%
VERY	4685	0.84%	RATESETTER	897	0.16%
EVERYDAY	4671	0.84%	ELDERBRIDGE	895	0.16%
LIKELY	4510	0.81%	CASHPLUS	882	0.16%
MRLENDER	4315	0.77%	STEPCHANGE	853	0.15%
CREATION	4098	0.74%	BUDDY	846	0.15%
MYJAR	3915	0.70%	ROSSENDALES	834	0.15%
NEWDAY	3583	0.64%	PAYPLAN	802	0.14%
MONEYBARN	3148	0.56%	ZOPA	776	0.14%
MOORCROFT	3012	0.54%	QUIDIE	774	0.14%
BAMBOO	3006	0.54%	FERNOVO	756	0.14%
UNCLEBUCK	2793	0.50%	MONEYLINE	729	0.13%
OAKAM	2706	0.49%	CASHFLOAT	707	0.13%
LOANSATHOME	2648	0.48%	POUNDSTO POCKET	618	0.11%
WESCOTT	2620	0.47%	AKINIKA	588	0.11%
SNAP	2522	0.45%	AVANT	539	0.10%
ADVANTAGE	2438	0.44%	QUIDMARKET	538	0.10%
PEACHY	2286	0.41%	GRANITEFINANCE	509	0.09%
ZILCH	2246	0.40%	SWIFTSTERLING	493	0.09%
QUICK QUID	2144	0.38%	NOVALOANS	477	0.09%
NAYLORS	2105	0.38%	BWLEGAL	457	0.08%

Table 7 continued

Provider	# trans	%	Provider	# trans	%
ONSTRIDE	445	0.08%	SCOTCASH	89	0.02%
CLOSEBROSMOTFIN	373	0.07%	HARTLEY	76	0.01%
KABAYAN	343	0.06%	SKYE	73	0.01%
MONEYWAY	340	0.06%	MYMONEYPART-NER	72	0.01%
ANICO	334	0.06%	INSTANT	56	0.01%
DIVIDEBUY	328	0.06%	BUFFA	44	0.01%
CREDITFIX	322	0.06%	ORBITDEBT COLLECT	40	0.01%
LIVELEND	288	0.05%	QUICKLOANS EXPRESS	38	0.01%
RAMSDEN	283	0.05%	LOANMARKETING	19	0.00%
QUIDCO	282	0.05%	AQUA	16	0.00%
UTOPIA	251	0.05%	PAYDAYLOANS NET	16	0.00%
MOTORMILE	199	0.04%	VALOUR	16	0.00%
GUARANTORMYLOAN	161	0.03%	UPLOAN	11	0.00%
SALARYFINANCE	157	0.03%	CREDITPERFECT	8	0.00%
BLACKHORSE	135	0.02%	LOANHUB	7	0.00%
PERALOANS	95	0.02%			
MAKABAGO	93	0.02%	New Total	408777	73.33%

The number and the share of loans from new providers are noticeably higher compared to traditional banks. There might be many different explanations for this and we cannot deduce them from the data. We do not observe the credit applications or credit history therefore cannot tell whether individuals have applied to traditional banks for loans. They may not meet the criteria for creditworthiness or affordability as set by traditional lenders. Alternatively, they may not believe that they are eligible for traditional loans, or simply respond to marketing campaigns that are more visible. We do not observe many credit union transaction which may be connected to the (lack of) visibility of affordable lending.

Tables 8 and 9 provide an indication of the multiple use of credit and loans from non-traditional providers from two individual case examples.

Table 8: Case 1 - Example of multiple credit and loan use

Period observed	**24 months, from 10/01/2018 to 10/01/2020**
Gender	**Male**
Age	**35 Years**
Annual take home income	**£18,130**
Total loans/credit received	**£9,505.38**
Total loans/credit repaid	**£12,793**
The account shows a regular monthly take-home income of around £1,200 to £1,500. For the first 9 months observed, the account is healthy; it does not go into overdraft. The account first goes into overdraft early September 2018. Within two months, the account is fluctuating between £1,500 to £1,700 negative balance and remains at this level for the following 14 months observed. There is one brief moment, in January 2019, when a payment of £4,000 is made into the account. This is not from a formal lender and is possibly an informal loan from a family member or friend. Immediately after, roughly the equivalent total value is paid out in multiple loan repayments to 12 different companies, the largest single payment of £672 to SafetyNet Credit.	

Table 9: Case 2 - Example of multiple credit and loan use

Period observed	**14 months, from 03/12/2019 to 20/05/2020**
Gender	**Female**
Age	**43 years old**
Annual take home income	**£31,420**
Total loans/credit received	**£6,017**
Total loans/credit repayed	**£10,688**
The account shows a a regular monthly income of around £2,500-£3,000. Based on the account balance the account looks healthy; over the 14-month period observed the account never goes into overdraft. Over the 14-month period, she receives £6,017 in credit from loans, the majority of this, £4,638, was received from one lender, SafetyNet, and the remaining £1,379 from several other loan providers, none of them traditional banks. She made £10,688 total payments towards loans and repayments: £4,727 was repaid to SafetyNet and £5,960 to a number of other loan companies (mainly Lendingstream). During the first 6-8 months observed, she appears to have been paying back loans from other organisations, hence the higher proportion repaid to other lenders, mostly Lendingstream. The first SafetyNet transaction observed was on 3rd December 2019, and heavy SafetyNet use followed with multiple transactions per month over the next 6 months. In total, there are 31 incoming transactions from SafetyNet and 17 repayments occurring in very short succession with many of the repayments occurring within a few days of funds being received; some credits/repayments occured on the same day.	

6. Overdraft use

Over the period observed, 80% of individuals' accounts were in overdraft for at least some of the time. Our definition of overdraft is any instance of a negative balance irrespective of its magnitude.

Figures 22, 23 and 24 compare overdraft users in the sample with non-users by gender, age and residential status. Females show a slightly higher tendency to be overdraft users. In terms of age, those aged 18-24 years old show a slightly lower tendency to be overdraft users, whereas those aged 40-44 show a slightly higher tendency to be overdraft users. In terms of residential status, those living with parents show a slightly lower tendency to be overdraft users, consistent with the lower use among the younger age group.

Figure 22: Overdraft use by gender

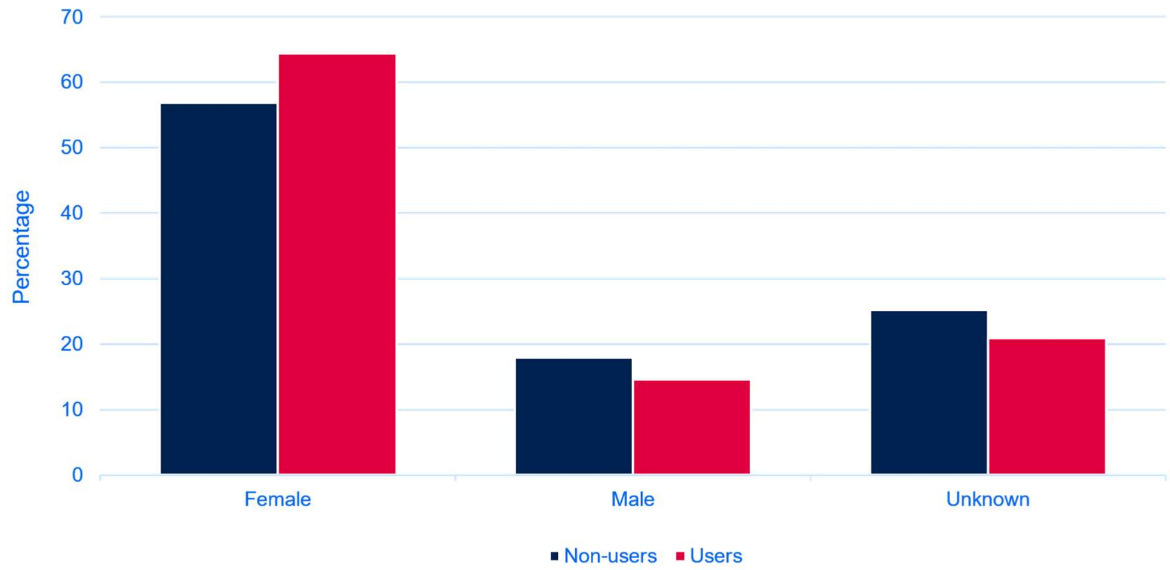


Figure 23: Overdraft use by age

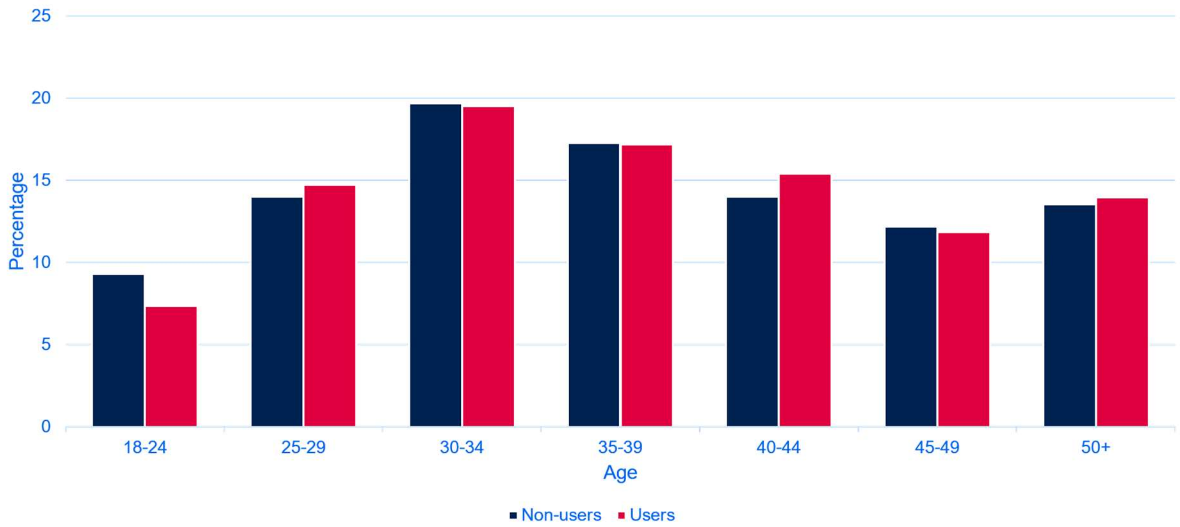


Figure 24: Overdraft use by residential status

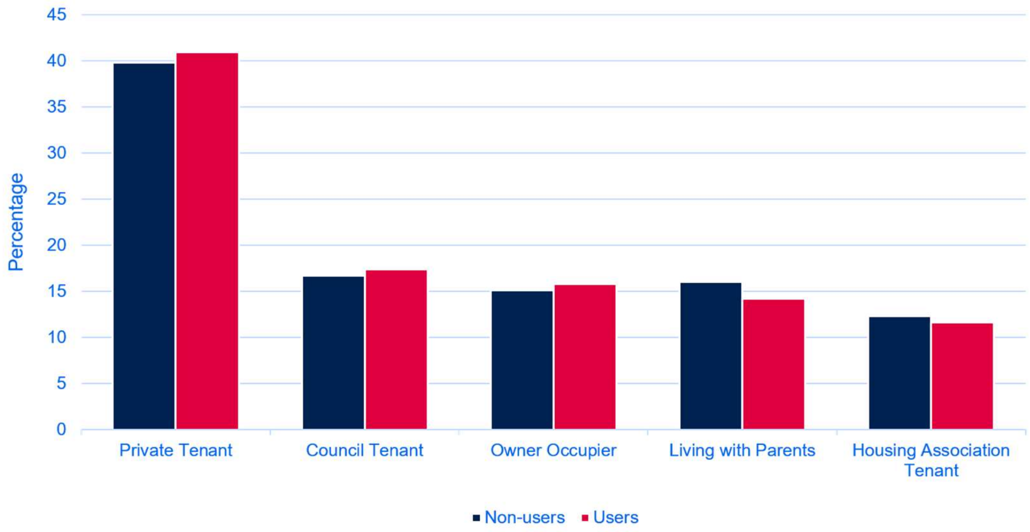


Table 10 shows overdraft use according to the bank individuals bank with. The table includes only banks with 100 or more customers (in this sample). There is some variation in the banks used, with Barclays, NatWest, Halifax and Lloyds showing the higher number of customers in the sample and consequently the higher number of overdraft users. For example, there are 1,690 Barclays customers in the sample of which 1,556 have used an overdraft, accounting for 20% of all overdraft users in the sample.

Within each bank's customers, the proportion using an overdraft, however, varies by bank. The proportion of overdraft users among TSB, Monzo and Starling customers is considerably lower than for the other banks (at 30%, 20% and 5% respectively). Customers of Barclays, Halifax, Lloyds and Bank of Scotland show the highest proportion of overdraft use (at 92%, 91%, 91% and 89% respectively).

There is also variation by bank in terms of the average number of days per month that overdraft users spend in overdraft. For example, overdraft users at HSBC, Royal Bank of Scotland and Bank of Scotland on average spend over 7 days per month in overdraft. Some of these numbers (especially for Starling Bank) are very small and hence unlikely to be reliable. Although Barclays accounts for the largest number of customers and overdraft users within the sample, the average number of days per month in overdraft are among the lowest at less than 5 days per month.

Table 10: Overdraft use by 'banks with'

Banks with	# customers	# with overdraft	% with overdraft	% of all overdraft users	Average # days per month in overdraft
Barclays	1690	1556	92	20.24	4.6
Natwest	1492	1250	84	16.26	6.6
Halifax	1418	1287	91	16.74	6.6
Lloyds	1111	1008	91	13.11	6.5
Nationwide	893	763	85	9.93	3.4
Santander	768	624	81	9.93	6.9
HSBC	470	344	73	4.48	7.8
Monzo	452	90	20	1.17	3.1
RBS	317	265	84	3.45	7.3
TSB	314	93	30	1.21	6.0
Bank of Scotland	237	212	89	2.76	7.2
Starling	127	6	5	0.08	7.3

Out of all 15,303,444 transactions observed in our sample almost 22% were with negative account balances. We refer to these transactions as 'transactions in overdraft'. Subsequent analysis refers to the users for whom negative balances were observed ('overdraft users').

On average, one quarter (24%) of total transactions for overdraft users were with negative balances. For 25% of overdraft users, less than 1% of their total transactions were in overdraft. For the heaviest 25% of overdraft users, 46% or more of their observed total transactions were in overdraft.

To provide an indication of the persistency of overdraft use, we examined both the monthly ratio of transactions in overdraft and the number of months where accounts were in overdraft. On average, the proportion of transactions in overdraft from all transactions in a given month was 26% of all months for overdraft users. For the heaviest 25% of months with overdraft use, just over half (52%) of the monthly transactions were in overdraft.

From the total number of months observed for each individual, on average individuals' accounts went into overdraft 65% of months, roughly six in every 10 months. For the heaviest 25% of overdraft users, their accounts went into overdraft almost every month (96% of months).

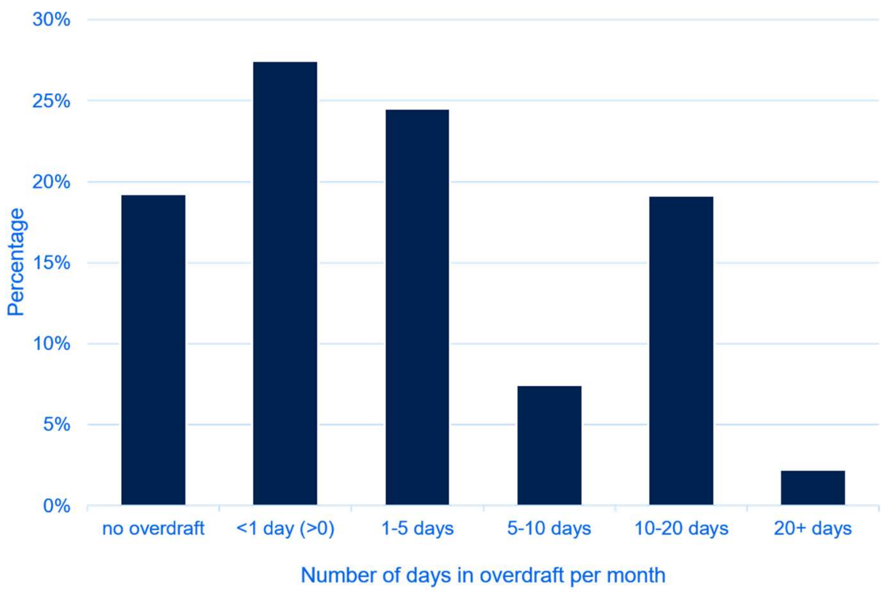
On average, individuals' accounts are in overdraft 6 days per month.

21% spent 10 or more days per month in overdraft.

Almost two-thirds (63%) of all individuals (or 80% of all overdraft users) have at least three consecutive months where the account was in negative balance on at least one occasion.

Looking at the number of days per month that accounts were in overdraft, Figure 25 shows that over half (52%) were in overdraft for 5 days or less per month, and one fifth (21%) spent 10 or more days in overdraft per month. Only 19% did not go into overdraft at all. The average number of days per month in overdraft across all overdraft users was six.

Figure 25: Number of days per month in overdraft



On average, three-quarters of overdraft users have a minimum monthly balance of 15 pence or less.

One-quarter have an average minimum monthly balance of -£299 or lower.

In addition to analysing the amount of time spent in overdraft it is also important to assess the amount or value by which the account was overdrawn. To understand this we analysed the average, minimum and maximum monthly balances per individual (see Figure 26). The average of all overdraft users' mean monthly account balances is £164, the average median monthly account balance is £38 (meaning that half of individuals' average monthly account balances are above this amount and half are below it). The average minimum monthly account balance is -£312 and the average maximum account balance is £1,365. Maximum account balances are likely to coincide with salary payments.

Within these averages there is considerable variation: the bottom 25% of average median monthly account balances are -£17 or less, while the highest 25% are £271 or greater. In terms of the minimum and maximum monthly account balances of overdraft users, the bottom 25% of average minimum monthly account balances are -£299 or lower; 75% of average minimum monthly account balances are 15p or less, suggesting that most months individuals are experiencing zero or negative account balances. In terms of the maximum monthly account balance, the lowest 25% of average maximum monthly account balances are £689 or less, and the highest 25% are £1,724 or more.

Figure 26: Average median, mean and minimum monthly account balances

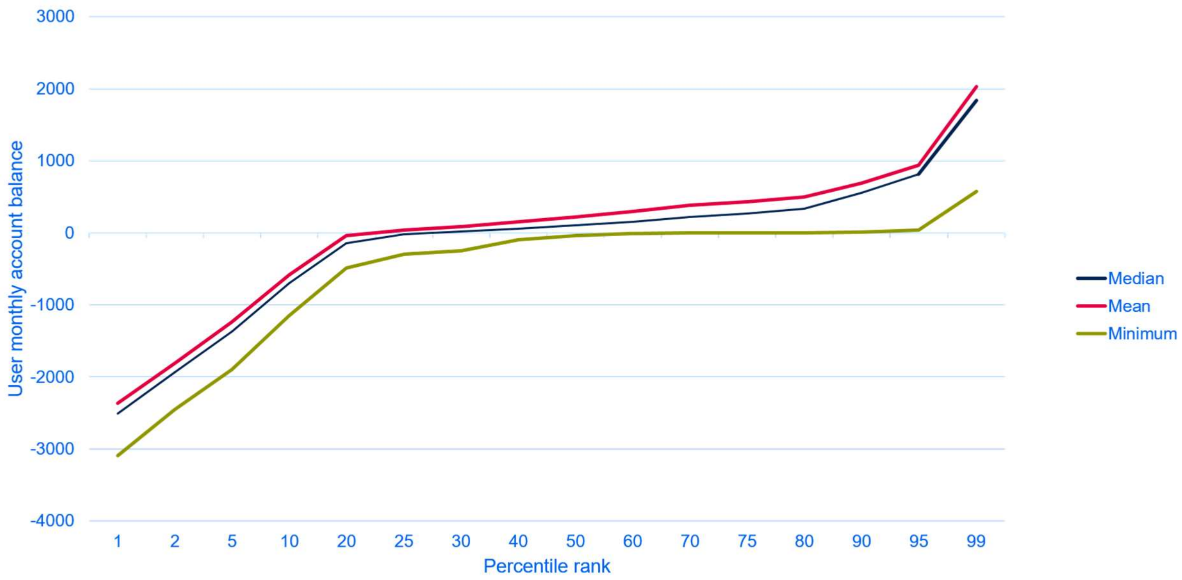
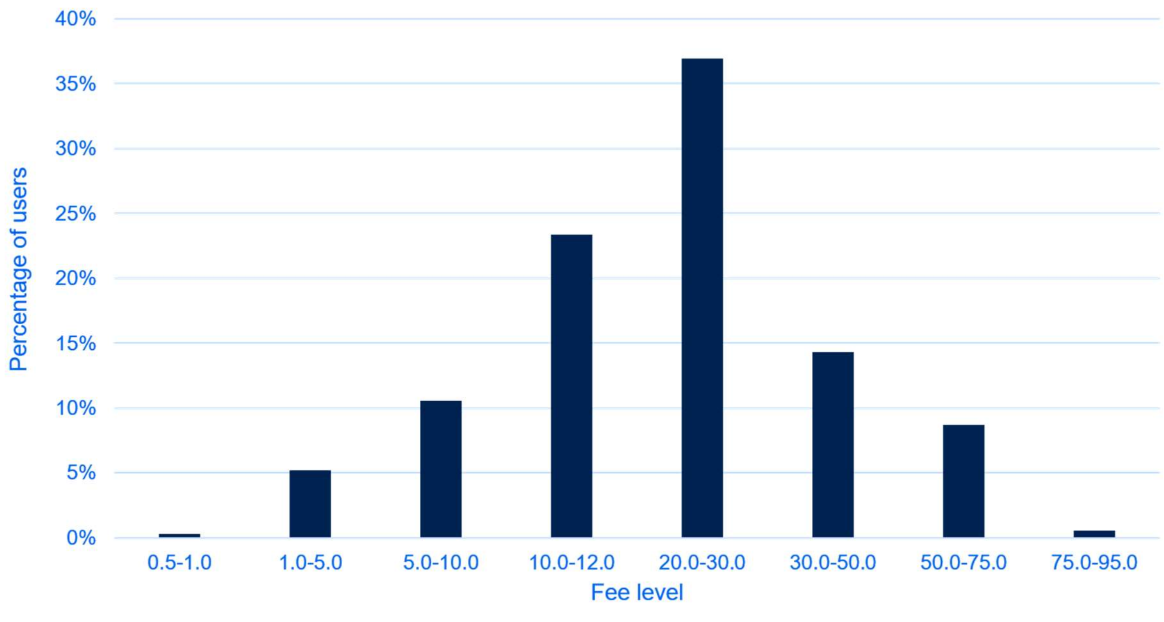


Figure 27: Monthly overdraft fee levels per user



Finally, we examined the overall cost to individuals of maintaining these overdraft levels (see Figure 27). On average, it is costing overdraft users £23 per month in overdraft fees. The bottom 25% of overdraft users are paying £15 or less per month in overdraft fees and for the heaviest 25% of overdraft users the cost of using the overdraft is £29 or more per month.

7. Gambling

Just over two-thirds of individuals in the sample (68%) have at least one gambling transaction in their account history, comprising either money spent on gambling or income from gambling. The data do not capture cash transactions on gambling and may therefore under-represent the extent of gambling activity.

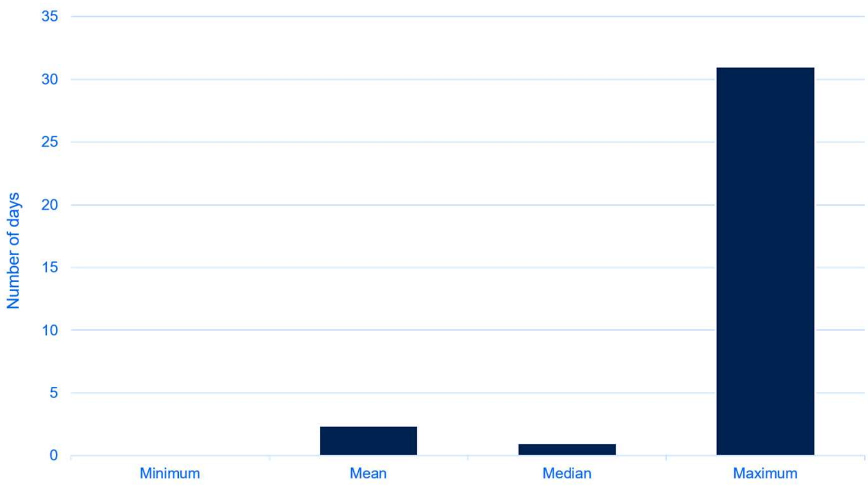
Based on 6,451 individuals with gambling transactions, the mean total number of gambling transactions per individual is 140, skewed towards a very small number of high gambling users.

Overall, the minimum total number of gambling transactions observed per individual was one and the maximum total was 7,479. Half of gambling users had 18 or fewer gambling transactions in total; the lowest 25% of gambling users had four or fewer gambling transactions in total, and the top 25% of gambling users had a total of 83 or more gambling transactions.

Due to the varying numbers of months' of data per individual, a more meaningful analysis is the proportion of gambling transactions relative to all transactions. On average, 6% of all transactions per individual were on gambling. For 50% of individuals, no more than 1% of transactions were on gambling. For the heaviest 25% of gambling users, 5% of all transactions were on gambling. The maximum proportion of transactions on gambling by any individual was 86%.

Looking at the average number of gambling transactions per month, the mean number of gambling transactions per user per month is 8. Half of all gambling users have less than one gambling transaction per month (i.e. these individuals are not gambling every month). The heaviest 25% of gambling users have four or more gambling transactions per month.

Figure 28: No of days of gambling per month



The average number of days of gambling activity per month is two. Half of all gambling users have evidence of gambling activity on one day per month or less (i.e. they are gambling at most one day per month). The highest 25% have evidence of gambling transactions on two or more days in a month with the maximum number of days for any individual at 31 (i.e. they were gambling every day in a month).

Figure 29 shows the average amount per month spent on gambling: 40% are spending on average £20 or less per month on gambling and one quarter (25%) are spending £100 or more per month on gambling.

Figure 29: Average monthly amount spent on gambling

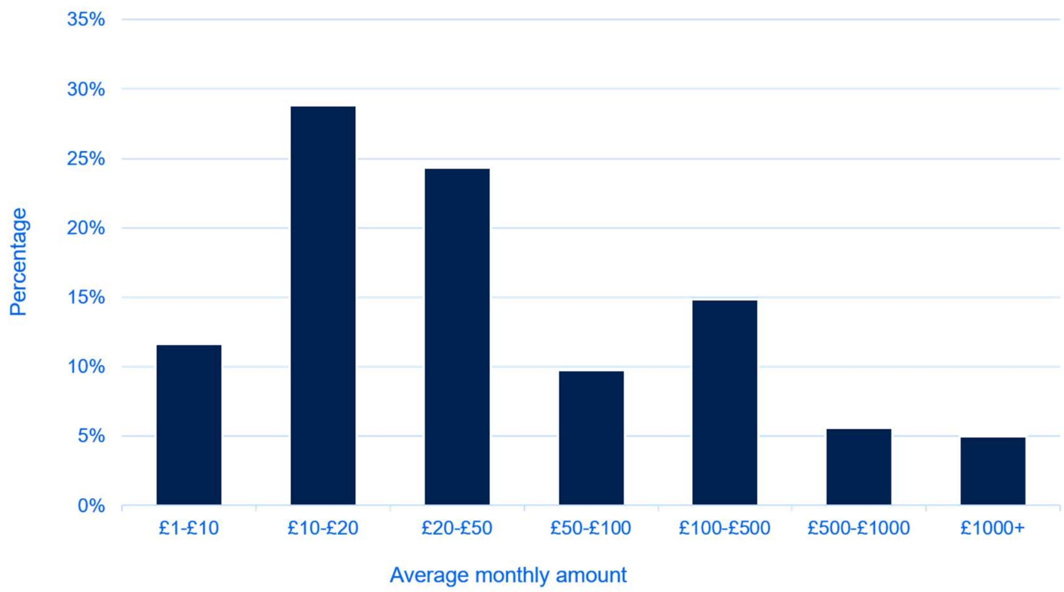
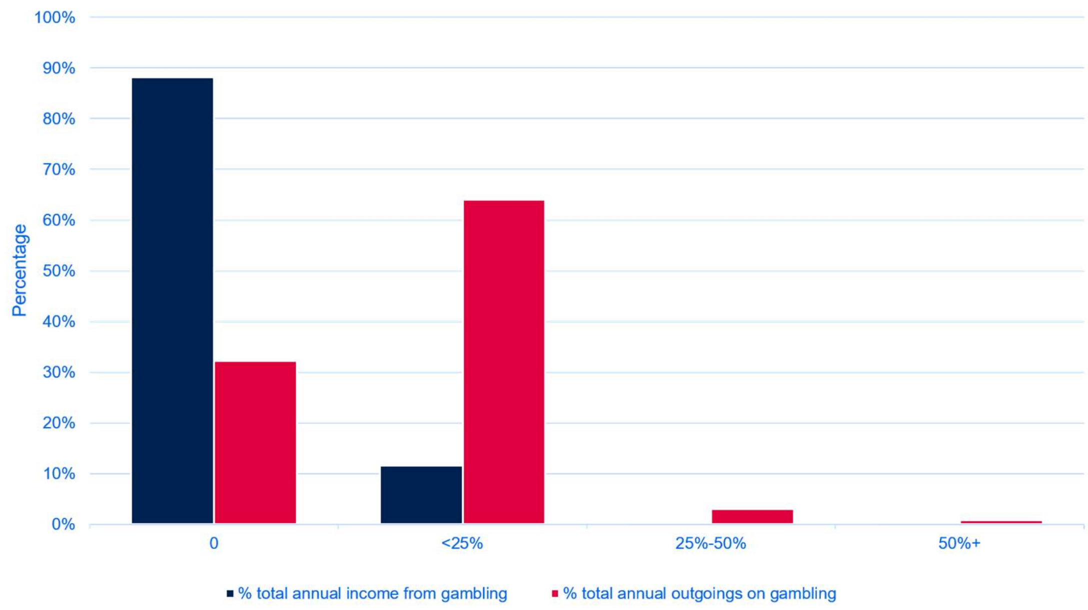


Figure 30 shows total annual expenditure on gambling as a proportion of total annual outgoings. Just under one-third (32%) of individuals have not spent anything on gambling over the account periods observed. Just under two-thirds (64%) have spent less than 25% of their total annual outgoings on gambling. Only 4% (363 individuals) have spent more than 25% or more of their annual outgoings on gambling. On average individuals spent 5% of their total expenditure on gambling. Males spent more of their total outgoings on gambling than females; 8% compared to 4%.

Figure 30 also shows annual income from gambling as a proportion of total annual income. The vast majority (88%) have not made any money from gambling. Discounting those that have not spent any money on gambling, 17% of those who have spent money on gambling have not made any money. This needs to be read with some caution as individuals may elect to have gambling winnings paid into a different bank account. 12% of individuals have made less than 25% of total annual income from gambling. Less than 0.5% have made more than 25% of total annual income from gambling.

On average 3% of total annual income was derived from gambling with the maximum proportion of total income any user derived from gambling at 60%. Males on average were more likely to derive more income from gambling than females: on average, 5% versus 2% of total annual income.

Figure 30: Gambling expenditure/income as a % of total annual outgoings/income



The top 10 most frequently used gambling companies among the sample are (in rank order): Skybet, Bet365, Tombola, Jackpotjoy, National Lottery, Mecca, William Hill, Paddy Power, Gala Bingo, Heartgames.

8. Conclusion

This report analyses the banking transaction data of 9,516 individuals, all of whom have applied to Salad Money for a loan. The sample comprises a significant sub-set of NHS workers with a profile consistent with those employed in NHS Bands 1-5. This sub-set is not a random or representative sample of NHS workers, there is a self-selection bias: individuals applying for short-term loans are more likely to be experiencing financial problems already.

The report raises some serious concerns about the financial resilience of individuals. Around one quarter of individuals are identified as ‘in difficulty’ and at least half may struggle to cover an unexpected expenditure of £100 within a month without going into overdraft or further into overdraft. With only 4% showing evidence of saving, many would appear to have a very limited savings buffer.

Use of credit and loans is particularly prevalent, in particular multiple use of non-traditional and high-cost loan providers. Traditional ‘high street’ banks account for less than 10% of the loans used by these individuals. At the same time, individuals are making persistent use of overdraft from high street banks.

It is not possible to know from this analysis why high street banks feature less prominently in the loan providers used by these individuals. Individuals may or may not have applied to the high street banks, they may have been refused a loan, they may not meet the lending/affordability criteria for these institutions, or it may be that other (high-cost) options are more accessible and marketed more readily. For whatever reason, a significant proportion of individuals, many of whom show signs of low financial resilience, are using multiple high-cost credit options and are also paying regular charges to maintain costly overdrafts.

The high use of credit and loans and overdraft use observed is not sustainable. More credit may not be the answer or the best solution for individuals who are already overindebted. Individuals need more support and financial education to enable them to better manage their financial situations, to make better (and more affordable) choices, and reduce their reliance on costly short-term credit. The lower incidence of credit and loan use among Monzo and Starling customers is interesting and raises questions about whether the digital tools/apps used by these banks are in any way helping individuals to manage their money better and understand their financial situations better.

Increasingly, lenders are making use of Open Banking data to make lending decisions. We suggest these lenders should also continue to use the data to monitor the impact of their lending decisions on individuals' financial circumstances. Banks have had the same data for a long time already. All financial providers that have access to the kind of data observed in this report cannot and must not ignore the financial difficulties of individuals and should proactively seek to help their customers who are showing signs of financial vulnerability. The launch of Salad Project's Money Mind tool is a welcome development to enable these NHS workers to understand and manage their financial situations, to make the changes in their spending to avoid persistent overdrafts and reliance on high-cost credit.

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