

## Money and Mental Health submission to the FCA's Consultation on rent-to-own, home-collected credit, catalogue credit and store cards, and alternative to high-cost credit (CP18/12)

### Introduction

The Money and Mental Health Policy Institute is a research charity, established in 2016 by Martin Lewis to break the link between financial difficulty and mental health problems. The Institute's research and policy work is informed by our Research Community, a group of 5,000 people with lived experience of mental health problems or of caring for someone who does. This consultation response has been informed by this powerful lived experience testimony, as well as our wider body of research. Unless otherwise specified, all quotes in this response are drawn directly from our Research Community.

This response addresses consultation questions 3, 5, 9, 11, 12, 13, 16, 18, 21, 22 and 24.

### Rent-to-own

#### Q3: Do you agree with our proposals for a point of sale ban on extended warranties?

Yes, Money and Mental Health support the FCA's proposals for a point of sale ban on extended warranties. Mental health problems can make understanding and processing complex information significantly more difficult,<sup>1</sup> and this in turn can make understanding complicated financial products like rent-to-own, together with associated add-ons, warranties and insurance, harder, meaning customers are less likely to receive good value and more likely to take out unsuitable products. Some mental health problems are also associated with increased impulsivity. Consumers experiencing these symptoms may be substantially less likely to be price sensitive to these add-ons, particularly when their impulse is focused on obtaining the good in question, which can create an opportunity for providers to exploit them. Mental health problems, particularly if these are associated with social anxiety, can also make it difficult to say no to offers made at the point-of-sale, and some Research Community members report taking on additional products or credit because they do not feel able to say no in the sales situation. Although extended warranties can be cancelled at any time by RTO customers, our research suggests that some people can find making contact with firms to return items or cancel contracts highly distressing and avoid doing so even if they cannot afford to make payments.<sup>2</sup> Making it easier to avoid entering into these contracts will thus offer a protective benefit to some vulnerable consumers.

*"With serious anxiety issues it's difficult to concentrate on what's being said. I want to sort of get away as quickly as possible. I say yes, yes, yes to make it be over quicker."*

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<sup>1</sup> Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.

<sup>2</sup> Evans K. Responsible Retail: How retailers can help vulnerable consumers to control 'crisis spending'. Money and Mental Health Policy Institute. 2017.

Given the specific issues that this group of vulnerable customers may face when extended warranties are sold at the point of sale, the substantial additional costs of these warranties, and the dubious value to consumers, when some faults may be covered by existing manufacturers' warranties or existing consumer law, we believe this ban would be proportional to the harm caused.

**Q5: Do you have any comments on the proposal to provide adequate explanations to enable the consumer to make an informed decision?**

Money and Mental Health welcome the proposals to provide 'adequate explanations' around extended warranties so that consumers can make an informed decision. Providing customers with the pricing of extended warranties in terms of the weekly, annual and total cost over the length of the RTO is likely to offer particular benefit to people with mental health problems, who may struggle to calculate these costs themselves, as common symptoms of mental health problems can make it difficult to compare and process complex information.<sup>3</sup>

The list of information suggested by the FCA (paragraph 2.73), however, is still relatively long, and we have some concerns that this sort of information remedy could easily just leave consumers swamped with more information which they struggle to understand. The design of this information, and provision of summary boxes with the key points is essential if it is to benefit the consumers who most need support to understand and make informed decisions about these complex products.

### Home-collected Credit

**Q9: Do you agree with our proposed new rules explaining the costs of refinancing compared with a concurrent loan?**

We believe the proposed new rules represent an improvement on current practices around refinancing, but do not think they are sufficient to prevent harm in these situations. Many customers experiencing mental health problems may struggle to process complex information, which could make comparing the costs of refinancing or taking out a concurrent loan difficult. The proposed changes could address these difficulties to an extent, but still expect consumers to be able to assess complicated alternatives. The fact that it takes the FCA a 12-line table to explain the different cost profiles of refinancing and taking out concurrent loans, to a relatively expert audience, in Table 3.1 should illustrate the scale of the task expected of consumers.

In addition to presenting information more clearly, we would suggest that firms should offer calculators to customers, making these products easier to compare and helping them to understand the different costs over time. Without this, we consider that simply having this complex information presented, even if the customer is given a copy in a durable medium, is

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<sup>3</sup> Holkar M. Seeing through the fog. Money and Mental Health Policy Institute. 2017.

unlikely to help customers make more informed decisions, and will continue to place vulnerable customers, including those experiencing mental health problems, at a significant disadvantage.

### Catalogue Credit and Store Cards

**Q11: Do you agree with our proposals for new rules clarifying that firms must explain clearly upfront how interest will be charged if the customer does not repay within the BNPL offer period?**

New rules requiring firms to explain clearly upfront how interest will be charged if the customer does not repay within the BNPL period represent a clear improvement, however we do not believe this action alone will be sufficient to prevent harm associated with these products. Given that around half of consumers do not repay within the offer period, there are considerable problems around optimism bias and myopia when consumers make decisions in this market. These problems are likely to be aggravated for people experiencing mental health problems, which can affect a person's ability to process information, and increase impulsivity. When a person is focused on obtaining an object in these circumstances, the impact of providing additional information is likely to be of limited benefit.

*"I don't have a credit card, loans or an overdraft but do have an Argos card I owe money on. Got this with all the good intentions of making use of the 'buy now, pay later' but never worked out as I planned so now owe interest also. Spending or 'treating myself' as I tell myself makes me feel better but when it comes to paying and the plan I had to pay doesn't work out this makes my mental health ten times worse. It's a vicious circle I can't seem to breakaway from."*

These problems may be partially addressed by requiring firms to publish the proportion of customers who repay credit completely within the BNPL period, to help increase the salience of information about charges to consumers and encourage them to engage with it.

**Q12: Do you agree with our proposals to require firms to prompt customers to repay before the expiry of a BNPL or similar offer period?**

Mental health problems, and some treatments for them, often affect a person's short-term memory. This can lead to difficulties remembering when payments are due, or when contracts or offer periods end. We agree that a the proposed rule requiring firms to prompt customers before the expiry of the BNPL period would be an improvement.

Many people experiencing mental health problems, however, struggle to engage with financial services providers. Some people, during periods of acute illness, may find it difficult to open post. Others may struggle to use the internet, or a mobile phone. But challenges communicating with essential services providers are not limited to people experiencing mental health problems - recent national polling shows that six in ten people (59%) have serious difficulties with at least one communication channel (e.g. telephone calls, in-person, letters, mobile apps, text messages or websites), either struggling to engage in this way or finding it

distressing. Among people who have experienced mental health problems this rises to 75%.<sup>4</sup> Commonly, messages sent by a single channel simply will not reach customers, who are then unable to act on them. To maximise the effectiveness of prompts, and ensure they reach those who would most benefit from them, we would argue that firms should send the message in at least two different ways, for example, in a written monthly statement and in a text message.

**Q13: Do you agree the rules should not include a specific time or period to issue the prompt? If not, what should it be?**

We understand that the length of BNPL arrangements can vary, and that this may make it difficult to determine when prompts should be sent (particularly, for example, for novel products offering BNPL for short time periods like 14 days). However, as there is some evidence that BNPL contracts cluster at 12 months, we believe it is worth giving some consideration and potentially guidance about what constitutes timely notice in these circumstances. Given that a relatively high proportion of people who use BNPL products may be experiencing a mental health problem, which could make acting on a prompt more difficult, it is important to ensure that sufficient notice is given so the prompt does not require immediate action to avoid harm. We believe that eight weeks' notice, in this case, would be preferable to the four weeks' or 28 days which firms may choose. If, as recommended above, prompts are to be sent through multiple channels, this would also provide a sufficiently long period for two prompts to be sent in a range of ways without causing undue stress or anxiety for the customer.

**Q16: Do you have any comments on our proposals to extend the existing rules for credit cards and store cards regarding credit limit increases to catalogue credit?**

Money and Mental Health welcomes the FCA's recognition of the challenges unwanted increases in credit limits can cause for consumers, particularly those experiencing mental health problems which can impair decision making or increase impulsivity.

*"Keep buying from catalogues to 'cheer myself up' and they keep raising the amount of credit available and now I am really struggling to pay them."*

We are pleased that the FCA plan to extend existing rules for credit and store cards to catalogue credit, and believe this will reduce harm experienced by consumers with mental health problems who find themselves in financial difficulty as a result of excessive spending prompted by catalogue credit increases. We believe that the proposed rules to be extended to catalogue credit would offer substantial benefit to consumers experiencing mental health problems, however would note that these still rely on input from a customer to decline an increase in credit. Mental health problems can make communicating with firms, particularly where this requires a phone call,<sup>5</sup> much more difficult, which can make it hard for people to decline increases. Equally, if customers are notified of limit increases by post when they are too

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<sup>4</sup> Holkar M, Evans K and Langston K. Access essentials: Giving people with mental health problems equal access to vital services. Money and Mental Health Policy Institute. 2018.

<sup>5</sup> Ibid.

unwell to open it, they may not be able to opt-out. The stronger protections offered by a voluntary industry agreement, including a move to offering credit limit increases only on an opt-in basis, would offer significantly stronger protection to vulnerable consumers, and we would urge the FCA to take this approach.

**Q18: Do you have any comments on our proposals to extend the existing rules for credit cards and store cards to not increase credit limits or interest rates for customers at risk of financial difficulties to catalogue credit?**

We welcome the FCA's proposals to extend existing rules around extending credit limits and increasing interest rates for customers at risk of financial difficulties to catalogue credit. Our research shows that catalogue credit can be particularly tempting for people experiencing mental health problems, who may be compelled to spend to boost their mood even when they are already in financial difficulty. Ensuring that more credit is not made available to people in this situation will help to protect them against both financial and psychological harm.

**Q21: Do you have any comments on our proposals to extend the existing rules for credit cards on earlier intervention to catalogue credit and store cards?**

We welcome the FCA's proposals to extend rules around earlier intervention to catalogue credit and store cards. Mental health problems can make it difficult for people to reach out to creditors and ask for help, and proactive intervention has an important role to play in ensuring customers who may be experiencing difficulties are offered support at an early stage before problems escalate causing greater financial difficulties, and potentially mental health problems too.

**Q22: Do you consider that there are any particular aspects of data that is particular to catalogue credit and store cards which firms in these markets should also monitor?**

Unlike credit card providers, catalogue credit and store card providers have access to information about the purchases being made on credit. These could provide additional indications of vulnerability. Some mental health problems, for example, are associated with sudden changes in purchasing behaviour, particularly dramatic increases in spending. People may buy multiples of the same item, or make choices which are not in line with their usual behaviour. Firms should be encouraged to use this information to reach out to customers whose spending may indicate that they are unwell, and to offer proactive support in a non-stigmatising way.

**Q24: Do you agree with our proposals to extend the existing rules for credit cards on persistent debt to catalogue credit and store cards?**

Money and Mental Health research participants report persistent catalogue debt with worrying frequency. These debts can lead to feelings of hopelessness and shame, and people experiencing mental health problems can find it enormously difficult to reach out to providers

and seek help. We are pleased that the FCA will extend the rules on persistent debt that currently apply to credit cards to store cards and catalogue credit.

We note that part of the prompt sent by firms to customers in persistent debt would include the contact details of sources of debt advice. While this may be helpful for some customers, given that half of people in problem debt<sup>6</sup> are experiencing a mental health problem which can make seeking help difficult, we would suggest that particularly for customers who have been in persistent debt for a long period (27-28 months) this signposting is not sufficient, and customers should be offered a warm referral to a debt advice organisation by their creditor.

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<sup>6</sup> Jenkins R et al. Mental disorder in people with debt in the general population. *Public Health Medicine* 2009; 6, 3: 88-92.