Centre for Responsible Credit submission to the Treasury Committee Inquiry concerning the Financial Inclusion Strategy

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Executive Summary

This response to the Treasury Committee's Call for Evidence on the Government's *Financial Inclusion Strategy* argues that current proposals fall significantly short of ensuring safe, affordable, and responsible credit for low- to middle-income (LMI) households. Drawing on extensive research, evaluations, and analysis, the submission demonstrates that rising living costs, insecure and inadequate incomes, and weaknesses in credit regulation are driving millions into harmful credit use, severe debt burdens, and related social and economic harms. Addressing these systemic issues requires a far more ambitious and coordinated strategy.

1. The drivers and consequences of credit dependency

LMI households are widely included in the commercial credit market, yet this "inclusion" is neither safe nor affordable for many. High proportions of LMI borrowers rely on credit to cover structural budget deficits, including essential expenses such as food, bills, and transport. Debt servicing burdens are severe, and the resulting stress, hardship, and reduced living standards create wider social costs—from deteriorating health to reduced employment stability.

2. Systemic problems require systemic reform

Credit dependency is driven by inadequate and insecure income and exacerbated by irresponsible lending practices. Ambiguous affordability rules enable lenders to "game" assessments, exploiting borrower vulnerability. Evidence from Financial Ombudsman Service (FOS) decisions highlights persistent failures in affordability checks across sub-prime lenders. Strengthened regulation and enforcement are essential to address these practices.

3. Buy Now Pay Later (BNPL) and ongoing risks

Upcoming FCA regulation of BNPL is welcome, but current affordability frameworks are unlikely to offer adequate protection. The Strategy's emphasis on "balance" between inclusion and protection overlooks the systemic vulnerability of borrowers who rely on credit out of necessity.

4. Improving complaint transparency and lender accountability

Current FOS case fee structures incentivise lenders to settle complaints early. Although beneficial for complainants, this obscures the true scale of irresponsible lending. FCA complaints data is similarly limited, lacking customer-base figures and thematic breakdowns. Greater transparency is needed to enable effective scrutiny and to track irresponsible lending across the market.

5. Reforming harmful credit reporting and scoring systems

Credit reporting and scoring practices exacerbate financial distress, encouraging borrowers to prioritise credit scores over essential needs. Consumer-facing credit dashboards often nudge vulnerable users towards taking on more credit, while Open Banking data is increasingly used in ways that risk exploitation. Fundamental reform is required to embed borrower context and lender behaviour into credit files, redesign dashboards, limit harmful prompts, and prevent misuse of behavioural data.

6. Strengthening the affordable credit sector

Affordable lenders, particularly those offering interest-free credit, show strong potential for improving outcomes. The Community Development Finance Institution, Fair for You has developed products that demonstrate measurable reductions in arrears, food bank use, and financial stress. However, affordability challenges persist even with interest-free credit, and some CDFI lenders charge high costs approaching payday-loan levels. Publicly funded high-cost lenders must be subject to greater scrutiny and transparent evaluation.

7. Reforming Budgeting Loans and Budgeting Advances

Interest-free Budgeting Loans and Advances provide an important mechanism for essential expenditure support, but rigid repayment structures and high deductions impose unsustainable burdens on claimants with inadequate incomes. More flexible repayment periods, payment holidays, and a redesign of deductions are necessary to ensure these schemes alleviate—rather than exacerbate—financial hardship.

8. Scaling credit unions and strengthening mainstream bank obligations

Despite welcome investment in credit union modernisation, the sector remains comparatively small. The proposed pilot for small-value loans risks weakening consumer protections and shifting responsibility from banks to the public sector. A Fair Banking Act—modelled on the US Community Reinvestment Act—is required to ensure banks deliver equitable access to affordable credit or partner with responsible community finance providers to achieve this.

9. Illegal lending: a symptom of legal debt stress

Illegal lending is primarily driven by accumulated legal debts, low income, and acute financial distress—not by lack of access to legal forms of credit. Improving legal lending practices, expanding interest-free credit, and ensuring access to high-quality debt advice are the critical steps required to tackle loan sharks.

10. Tackling problem debt, strengthening advice services, and improving use of resources

The need for debt advice is underestimated, with many households outside MaPS criteria still facing serious financial problems requiring case-level support. This results in an inadequate level of funding for services. Debt advice commissioning should also better integrate with the broader support ecosystem needed by many LMI households. Our *Financial Shield* project shows that coordinated financial and health support reduces enforcement actions and improves wellbeing.

MaPS also uses resources inefficiently, directing too much FCA levy funding toward admin and infrastructure instead of direct services, which limits frontline capacity. Excessive bureaucracy and quality-assurance requirements further reduce time advisers can spend helping clients, even as cases grow more complex due to budget deficits and the cost-of-living crisis. To improve outcomes, the Strategy should prioritise sustainable, long-term funding focused on frontline advice, enhance integration with local health systems, and introduce statutory duties for local authorities to provide social welfare advice, supported by adequate funding.

10. Reforming personal insolvency

The current insolvency framework is fragmented, outdated, and often fails to provide a genuine fresh start. A single, streamlined personal insolvency procedure is required—eliminating upfront fees, protecting homes and essential assets, shortening credit reporting periods, revising income benchmarks, and capping repayment durations. These reforms would better protect households in financial difficulty and contribute to wider economic resilience.

Overall Recommendation

The Financial Inclusion Strategy must move beyond incremental reforms and address the systemic economic and regulatory drivers of harmful credit use. The Government should adopt a more ambitious agenda focused on:

- strengthening affordability regulation and enforcement
- redesigning credit reporting to reduce harm and improve transparency
- expanding access to flexible, low-cost and interest-free credit
- ensuring access to high-quality, integrated debt advice
- modernising personal insolvency frameworks
- holding mainstream banks accountable for providing equitable access to affordable credit

Without such measures, LMI households will remain reliant on harmful credit, perpetuating cycles of hardship and broader societal cost.

About us

The Centre for Responsible Credit (CfRC) is a UK charity working to improve how credit is provided to lower income households, and to create better support and solutions for people struggling with debt. We undertake research and design, test, and evaluate interventions to improve policy, services and support.

Our work advances both policy and practice with a focus on systemic impact. We engage with a broad range of issues—from responsible lending and affordability assessment to effective debt remedies—and have a strong reputation for delivering impactful research, advocacy, and innovation. We have contributed to significant policy reforms, such as cost caps on payday lending (2015) and rent-to-own stores (2019). In 2022, we also successfully campaigned with the We are Debt Advisers (WADA) network to prevent around £16 million of proposed cuts to community-based debt advice services. Further information concerning our work is available at https://www.responsible-credit.org.uk/

For further information concerning this response please contact our External Affairs Lead, Mark Haslam: mark.haslam@responsible-credit.org.uk

About our response

This response to the Treasury Committee's Call for Evidence on the Financial Inclusion Strategy focuses exclusively on our areas of expertise: consumer credit and problem debt. The evidence informing our submission is drawn from a wide range of our recent projects and research activities, including:

- Analysis of national datasets**:** We have analysed Bank of England household debt survey data and conducted secondary analysis of the Money and Pensions Service's (MaPS) Debt Need Survey and the Financial Conduct Authority's (FCA) Financial Lives Survey to identify the severity of debt burdens, need for debt advice and the drivers of illegal moneylending.
- Primary research projects: Our *Good Score, Empty Cupboard* research has combined survey and interview data to show how credit score mechanics force households to cut essentials.
- Evaluations of innovative solutions: We draw on our ten-year social impact evaluation of the affordable lender Fair for You and delivery reports from our Financial Shield project, which integrates support for people with both long-term health and financial problems.
- Complaints data, case analysis, and Freedom of Information requests: We have examined FCA complaints data about four sub-prime credit card lenders and analysed approximately 250 recent Financial Ombudsman Service (FOS)

decisions related to irresponsible lending by one of these, NewDay Ltd. Additionally, we used information obtained through freedom of information requests made to both FOS and, regarding debt advice funding, to MaPs.

Credit 'inclusion' and its societal costs

Evidence suggests that the measures outlined in the Financial Inclusion Strategy will be insufficient to meet its aim (p.4) for people to be "able to access safe, affordable and responsible credit" and protect these "from unaffordable or illegal lending".

Most LMI households have access to consumer credit. Our recent survey of over 3,400 consumers in the lower half of the income distribution in Great Britain finds that around three-quarters (74%) are using consumer credit products: either credit cards (56%), overdrafts (22%), Buy Now Pay Later (21%), or personal loans (10%), often in combination. This compares to the Financial Conduct Authority's (FCA) finding that 79% of all adults had access to some form of regulated credit in 2024.

However, the widespread inclusion of LMI households in the consumer credit market, should be taken not be taken as a sign of financial health. For millions, credit use is a necessity to cover structural budget deficits: significant and long-lasting shortfalls between income and essential expenditure.

More than one in four (28%) LMI adults—around 7.5 million people aged 18 and older—are unable to cover their basic daily expenses every month. Additionally, 44% (about 11.7 million adults) seldom have any money remaining at the end of each month.

These financial pressures have rendered credit use unaffordable for millions. As the debt advice provider StepChange reported last year[1]:

"4 in 10 UK adults—almost 22 million people—would need to borrow to meet an unexpected £1,000 expense. However, 4 in 10 of those who would need to borrow—equivalent to almost 8 million people—could not actually afford to take out a loan because they are not able to make any additional repayments after meeting their essential costs. A further 3 in 10 could not afford to repay more than £50 each month, meaning they could not afford to borrow enough to cover a significant cost."

The 'affordability crisis' both forces many to use credit to pay for food, transport, and bills while also demanding huge sacrifices and contributing to an escalation of debt problems. Among the LMI population unable to meet their basic needs, 45%—3.4 million

[1] 'Somewhere safe to turn', StepChange, 2025 available at https://www.stepchange.org/policy-and-research/somewhere-safe.aspx

people—are using credit to pay for food and bills, while 18% are borrowing to pay previous debts.

This considerable use of unaffordable credit has led to the build-up of severe debt servicing burdens, with the poorest households using consumer credit (i.e., those with gross annual incomes below £17,500) typically spending a fifth of their monthly income on credit repayments, while a quarter spend over 60%.

Inclusion in the commercial consumer credit market, where risk-based pricing leads to the poorest paying the highest interest rates, is therefore neither safe nor affordable for many LMI borrowers. The debt burdens these experience create considerable stress and anxiety and feed into a wide range of associated problems, including deteriorating physical and mental health, relationship breakdown, arrears on household bills including rent, Council Tax and utilities, poorer performance in employment and less effective job seeking.

These all create wider costs for society. Baker Tilly research for StepChange in 2014 estimated these to be more than £8 billion per annum, and this figure will inevitably have risen in the years since.

Systemic problems need systemic solutions

In our view, the Financial Inclusion Strategy fundamentally fails to address the drivers forcing LMI households into debt or provide them with sufficient alternatives and solutions.

The problems people face are twofold: a systemic pressure that forces harmful choices and irresponsible lending that exploits this vulnerability.

The primary driver for credit use among LMI households is the inadequacy and insecurity of income. Real wages have stagnated, and the rise of insecure work, such as zero-hours contracts, means many cannot rely on a stable income. Simultaneously, social security support has fallen well below the minimum income standard, creating a fundamental gap between what people have and what they need for a basic quality of life. The recent cost-of-living crisis has intensified this, as the price of essentials has risen much faster than incomes. Consequently, borrowing is no longer a choice but a necessity for survival.

Our report '*Good Score, Empty Cupboard*' details the stark coping mechanisms households employ in the face of severe financial pressure. Initially, people adopt stringent budgeting strategies, such as changing shopping habits to focus only on essentials, switching to cheaper stores, comparing prices, and eliminating so-called 'discretionary' expenditure, including on rudimentary social activities, and clothing. Many also reduce their use of gas and electricity to save money. However, for a significant number, these measures prove insufficient. They are then forced into more extreme sacrifices, including cutting back on food and heating.

When even these drastic cutbacks are not enough, credit becomes a tool for basic survival. As one interviewee told us:

"The thing is, you're assuming I have a choice. If I was to not use credit, then we don't have any food to eat. There's no choice."

Desperation and vulnerability are exploited by irresponsible lending practices. LMI borrowers are vulnerable to exploitation due to their increasing dependence on credit for basic needs. Their financial desperation creates a situation where lenders can maximise profitability at the expense of consumer welfare.

While it may be commonly thought that lenders have little incentive to advance credit to those who will struggle to repay it, business models over the past three decades have shifted from minimising default rates to maximising profit. The profitability from LMI borrowers does not come from seamless repayment, but by maximising the revenue generated through interest and late payment charges as borrowers struggle to repay over lengthy periods prior to 'complete default' events.

Many borrowers facing financial difficulties make tough choices—such as drastically cutting essential spending—to avoid defaulting on their credit arrangements, since this could harm their ability to obtain future credit. This 'credit dependency' traps individuals in a cycle where they often miss or postpone payments and sometimes take on more debt solely to pay off previous obligations, all while continuing to make harsh reductions to their living standards.

The FCA acknowledged this dynamic when it introduced rules and guidance requiring lenders to assess affordability alongside 'creditworthiness' in 2018. Without requirements to assess affordability the FCA recognised[2] that lenders did not have sufficient incentives "to assess the risk that the credit will impact negatively on the customer's wider financial situation in particular where these customers will still be profitable for the firm."

However, the rules lack sufficient clarity, which creates a loophole for lenders. They require lenders to ensure customers can afford repayments and other essential outgoings while maintaining a "basic quality of life".[3] This critical phrase is not defined, providing lenders with considerable discretion and the ambiguity allows some lenders, in their quest for profitability, to 'game' the assessments and push the concept of

[2] 'Assessing creditworthiness in consumer credit – Feedback on CP17/27 and final rules and guidance', FCA, 2018, para 1.7.

[3] FCA Consumer Credit Sourcebook ('CONC') 5.2A.18.

affordability to an unacceptable extreme. They can thus, and despite the current rules, continue to offer unaffordable credit to vulnerable but profitable customers.

Irresponsible lending practices

Evidence that some lenders are failing to adequately assess affordability is available from recent decisions made by the Financial Ombudsman Service (FOS). We have, for example, recently assessed around 250 FOS decisions made in the latter half of 2025 regarding the sub-prime credit card lender, NewDay Ltd. This provides cards under several different brand names including Aqua, Fluid, and Marbles. Our analysis indicates that NewDay repeatedly fails to conduct adequate affordability checks, with around one in three of complaints regarding irresponsible lending practices upheld by the Ombudsman during the period.

Examples of irresponsible lending in these cases included NewDay hiking up credit limits despite clear warning signs of financial distress, such as evidence of credit being used to fund gambling habits or borrowers being constantly overdrawn. Consistent failures included:

- Granting credit to applicants whose existing unsecured debt was already exceptionally high compared to their annual income, sometimes more than double.
- Flawed affordability assessments that failed to account for fundamental outgoings such as rent or mortgage payments, leading to a significant overestimation of the applicant's disposable income.
- Ignoring evidence that the applicant's declared monthly outgoings for existing debts already exceeded or consumed nearly all their stated income, leaving an insufficient amount for living expenses and new repayments.

Submitting complaints to the Financial Ombudsman Service (FOS) offers some consumers a way to address these practices, and widespread complaints contributed to the collapse of payday lenders like Wonga and the closure of door-to-door lending operations such as those of Provident Financial. However, relying on consumers to file complaints is not an effective solution for business models that are built around taking advantage of LMI borrowers' vulnerabilities and reliance on credit to pay for essentials.

A Financial Inclusion Strategy aimed at guaranteeing access to safe, responsible, and affordable credit needs to include the strengthening of the FCA's affordability assessment regulations and greater efforts to enforce these.

Buy Now Pay Later and the balance between inclusion and protection

We appreciate and welcome the fact that Buy Now Pay Later (BNPL) will soon come under FCA regulation in July. However, we remain concerned that the consumer harms linked to this product—which are acknowledged in the Financial Inclusion Strategy (p.25)—may persist even after regulation takes effect. Although the government hopes BNPL regulation will "balance financial inclusion and consumer protection," it is highly doubtful that the existing affordability rules will offer consumers adequate protection and many will inevitably have to pursue complaints to FOS as a result.

We also contend that the Financial Inclusion Strategy's reference to achieving "balance" between financial inclusion and consumer protection more generally overlooks the inherent systemic vulnerability faced LMI borrowers who enter the consumer credit market out of financial necessity.

Consumer complaints

The number of cases that end up requiring an Ombudsman decision at FOS represents just a small visible portion of all complaints because:

- Before an Ombudsman is involved, a consumer must first raise their issue with the lender and remain unsatisfied with the outcome.
- If they then submit their complaint to FOS, it initially goes to an investigator who suggests how the matter could be resolved.
- A case only moves on to an Ombudsman if the recommendations made by the investigator are not accepted by either the consumer or the lender, at which point the final Ombudsman decision is recorded in the, publicly accessible, FOS database.

We have recently received a response from FOS to a Freedom of Information request regarding the volume of complaints managed at each stage of its process. According to the data, during the latter half of 2025, NewDay Ltd had 1,276 complaints resolved by an adjudicator and another 359 cases decided by the Ombudsman. This means that only about one-fifth of the firm's cases have publicly available decisions from FOS. To improve future transparency, it is recommended that FOS publishes details not just on final Ombudsman decisions, but also on complaints that are resolved earlier in the process by investigators.

It's important to note that lenders have a financial incentive to address consumer complaints about irresponsible lending before those complaints reach FOS. This is because FOS charges a case fee—usually £650—for each complaint it handles. For example, if someone believes their credit limit was irresponsibly raised from £500 to £1,000 and the extra interest they've paid since then is less than £650, lenders are likely to try to resolve the issue themselves by refunding (at least some of) the interest and fees. By doing so, they avoid paying the case fee and reduce the reputational risk of having many adverse Ombudsman decisions put into the public domain. As a result, these FOS case fees encourage quicker resolution of complaints. Although this is beneficial to complainants it also means that the full scale of irresponsible lending remains hidden from view.

One way of addressing this would be for the FCA to provide greater transparency of its own, separately collected, complaints data. The FCA currently requires regular reports from lenders regarding the volume of consumer complaints they have received and it publishes this information, together with the percentage of complaints that have been upheld by lenders on its website.[4] Table 1, below, provides the latest data for selected sub-prime lenders, covering the first six months of 2025.

Table 1: FCA complaints data, 1st January to 30th June 2025, selected sub-prime lenders

Firm and brand names	Complaints opened	Complaints closed	Number upheld	% upheld
Capital One	24,847	24,529	8,207	33.46
Shop Direct Finance Ltd (Very, Littlewoods)	25,350	27,652	6,811	24.63
NewDay (Aqua, Fluid, Marbles)	20,091	19,163	4,059	21.18
Vanquis Bank	22,086	23,062	3,814	16.54
Total	**92,374**	**94,406**	**22,891**	**24.24**

The volume of complaints being submitted to these four lenders is significant, likely close to 200,000 for a full year period. However, the FCA does not provide details of the number of customers that these firms have, nor any thematic breakdown relating to these complaints. It is therefore not possible to determine what percentage of customers have raised complaints nor how many of the complaints relate to irresponsible lending practice or administrative problems, for example.

We would therefore welcome a more comprehensive release of the FCA's complaints data, including total customer numbers and a thematic breakdown. Additionally, we believe the Financial Inclusion Strategy should not only track but also aim to reduce complaints about irresponsible lending practices, as this is a key indicator of how safe the consumer credit market is—especially for LMI borrowers.

Credit reporting and scoring

Credit reporting and scoring systems play a critical, and often harmful, role. Far from being neutral arbiters of risk, they act as a powerful disciplinary mechanism that exacerbates the vulnerability of LMI borrowers: the fear of a poor credit score (a proxy for their ability to access future credit) often compels borrowers to prioritise debt repayments over their own wellbeing. Our research shows a third of LMI borrowers—6.4 million adults—are cutting back on essentials like food and heating specifically to preserve their scores.

[4] See https://www.fca.org.uk/data/complaints-data/firm-level

Furthermore, these systems are not passive. Consumer-facing dashboards and apps, such as those provided by ClearScore, Credit Karma, and Experian, function as powerful marketing platforms that can amplify financial distress. They encourage frequent score checking and actively market additional credit to financially vulnerable users via their lending panels, from which they make commissions.

The platforms use push notifications and emails to prompt frequent score checks. As a result, one-third of LMI borrowers check their score more than once a month, and 18% (3.5 million adults) do so at least weekly.

The platforms also use subtle messaging, such as highlighting the importance of maintaining low 'credit limit utilisation rates',[5] to suggest taking on more credit can improve a user's score. Our study found that more than half (55%) of LMI borrowers receive offers for additional credit products when checking their scores. Of these, nearly half (49%) feel they are being encouraged them to take on more credit than they can afford.

Nearly half (43%) of all LMI borrowers report that they have acted on the suggestions made to them by their score providers. After doing so, many see a short-term increase in their scores. However, within six months, there are often negative consequences, including increased overall debt (21%), struggling to make repayments (18%), and being forced to cut back on essentials (18%).

We are therefore concerned that the Financial Inclusion Strategy adopts a largely uncritical view of the credit reporting and scoring system. While it recognises (p.32) the work of the FCA to "improve the coverage and quality of credit information", which we support, it fails to identify the systemic role that our credit reporting architecture plays in causing harm.

Crucially, the system also deters people from seeking help. Nearly half of LMI borrowers fear that seeking independent debt advice will harm their credit score or are unsure of the impact. This creates a dangerous barrier, trapping individuals in debt cycles by discouraging them from accessing the very support that could provide a solution.

Reforms are needed to mitigate the worst effects, and we would like to see the FCA and the newly created Credit Information Governance Body (CIGB) work with credit reference agencies and credit score dashboard providers to ethically re-design, test, and set standards for credit score dashboards and their marketing by:

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[5] The ratio of outstanding balances to available credit limits. For example, a borrower with a £2,000 credit card limit and an outstanding balance of £1,000 would have a 'credit limit utilisation rate' of 50%. Dashboards encourage borrowers to keep their utilisation rates low, but this can either be done by paying down debt or taking out an additional credit card. Borrowers in our study told us that they were often encouraged to take out additional cards to reduce their utilisation rates by the credit scores dashboards that they used.

- Reviewing messaging about ‘credit limit utilisation rates’, so that providers don’t promote credit to people already showing signs of financial difficulties.
- Making it clear that maintaining credit scores should not come at the expense of meeting basic needs.
- Encouraging forbearance requests and debt advice seeking by ensuring dashboards proactively identify borrowers in financial difficulties and link these to advice and support.
- Limiting push notifications and dashboard marketing, to prevent borrowers from focusing on marginal score changes, and only allowing notifications when the underlying credit report information in a consumer’s file has significantly changed.

Open Banking and ‘alternative data’

Worryingly, the Financial Inclusion Strategy (p.29) supports the use of Open Banking data by sub-prime credit card lenders as a means of improving “access to credit for those with thin or impaired” credit files. Citing an initiative by Capital One, the strategy notes that this enables the lender to:

“...identify and evidence affordability and creditworthiness for consumers who would be declined a credit card, based on credit bureau data alone. Customers in certain risk brackets who would have been declined at the outset, are now given the option to link their Open Banking data to determine if they can be pre-approved on the basis of the additional insight this gives the lender.”

While Open Banking and the use of alternative data sources (e.g., rent balances) are often promoted as tools for financial inclusion, they pose wider and significant dangers of exploitation that the Financial Inclusion Strategy fails to recognise.

The primary risk is that this data will be used to identify behavioural biases that can be used to exploit vulnerable borrowers in future product design and marketing strategies.

Transaction data can also be used to justify lending to financially distressed individuals who would otherwise fail reasonable affordability tests, effectively masking their hardship. For example, Experian's 'BOOST' product appears to selectively report only positive payment data, providing lenders with a curated view of the consumer that may conceal financial difficulty. Knowing that certain transactional data (which now includes payments for streaming services) is linked to their ability to obtain credit also encourages a ‘gamification’ of creditworthiness: it pressures borrowers to share sensitive data and prioritise visible payments over essentials simply to meet algorithmic expectations.

Finally, the way in which Open Banking is used by lenders can be selective. We provide, examples of this with respect to recent FOS decisions concerning the high-cost CDFI lender, Fair Finance, below. Many LMI customers have several different bank accounts and frequently transfer money between these. Despite being able to identify multiple bank accounts from credit reports, some lenders fail to establish a complete picture of their borrowers' financial position prior to lending.

Safeguards are therefore needed, including a clear and enforceable affordability boundary to delineate the market's reach and prevent lenders from extending credit where it will predictably worsen a borrower's financial hardship, even if the consumer's behaviours appear profitable. Information provided by a borrower for a specific credit application should also not be repurposed for marketing or behavioural profiling, without fresh, informed consent.

Situational context, lender behaviours, and decision-making transparency

Incorporating alternative data like rental or utility payments also exposes borrowers to risks from factors beyond their control, such as changes in public policy (e.g. Bedroom Tax and the freezing of Local Housing Allowance) or rigid institutional collection practices (e.g. with respect to Council Tax). By embedding new sources of data into credit decisioning, lenders are reaching far beyond individual financial choices—into the structural conditions of where people live, how they interact with social security systems, who provides their services, and how payments are collected.

For example, rent account balances can be inflated by delays to housing benefits or because of administrative errors by the landlord. In such circumstances, their incorporation into creditworthiness assessments is likely to be of detriment to many LMI borrowers. With respect to utilities, Ofgem's recently proposed fuel debt write-down scheme will benefit some customers but not others, impacting creditworthiness assessments positively for those who are eligible but negatively (in relative terms) for those who are not. Similarly, local authorities can have very different Council Tax Support and discretionary assistance schemes.

While structural conditions clearly impact LMI borrowers' ability to repay credit, our reporting system doesn't allow these to explain the wider circumstances, such as delayed benefits, that often lie behind missed payments. When borrowers are late with payments due to these problems, or default because of temporary job loss or illness, penalising them in credit reports can reduce future credit access or raise the cost of available credit options for periods that often extend well beyond the duration of the underlying issue. The system therefore excessively penalises borrowers for shocks beyond their control, creating a mismatch between actual repayment capacity and perceived creditworthiness.

Addressing this requires the credit file to be reimagined. The Financial Inclusion Strategy recognises this, but unfortunately only in one limited respect (p.31) – regarding victims of credit abuse. While we welcome the initiative by credit reference agencies and third sector lenders to improve the way coerced debt is reflected on victim-survivors credit files, there is a need to go much further and ensure that all borrowers can record details of wider contexts in their credit files and have these considered in future lending decisions.

There is also a need to include details of lender behaviour in the files. Lender behaviours, including whether they engage in the irresponsible hiking of credit limits, and how they respond to requests for forbearance and complaints are currently hidden view. Yet, these are often key to whether the consumer defaults. Credit scores are inherently a reflection of *both* borrower and lender behaviour, but the reporting system is one-directional: reporting the behaviours of borrowers in increasing detail while ignoring those of lenders.

According to FCA research[6], lender responses to forbearance requests show significant room for improvement. Between May 2022 and May 2024, one-third of consumer credit borrowers facing financial challenges had contact with their lenders about these. But only two-thirds of these received any assistance, and of those fewer than half—about four in ten—felt their financial situation had improved as a result.

Transforming the credit report into a genuinely relational and dynamic document, containing both the context for borrower decisions and details of lender behaviours would empower consumers to influence outcomes, and support better lending decisions and more responsible practice. It would also give regulators more effective oversight of emerging risks.

The technology to support this shift exists. While previous technologies required highly structured data inputs (e.g., whether a payment has been missed or not), AI and Large Language Models can make sense of unstructured information, such as borrower explanations for missed payments. We would therefore welcome a commitment from the FCA and CIGB to encourage innovation in the sector and to test how new technologies could be used to rebalance our credit reporting architecture and improve outcomes for borrowers and lenders alike.

Ultimately, however, borrowers seek relationships with lenders not with credit reference agencies. Yet, the decline decisions that lenders make are rarely explained in detail. When borrowers are declined credit, they are frequently directed to their credit scores and files despite these containing only part of the information that lender decision-making engines consider. Directing borrowers to generic credit scores, is therefore a distraction that allows lenders to avoid explaining their reasoning and maintain an opaque process.

[6] See Financial Lives Survey, 2024 (p.60). Also, 'Financial Lives 2024 Survey: Forbearance & debt advice, selected findings, 2025.

Lenders, not credit reference agencies, hold the power to grant credit and it is lenders who should therefore be responsible for explaining their decisions in ways that help applicants understand why they have been declined. This requires providing meaningful information that is understandable and actionable, not just data disclosures. A transparent explanation should detail what information was used, how it was interpreted, what thresholds were applied, and why certain factors mattered more than others.

Borrowers should be empowered to respond as part of the decision-making process: to provide context, correct errors, and request reconsideration, including with respect to the terms of the credit offer. These inputs should be treated as part of the decision, not optional extras. Lenders should be required to show how borrower-supplied information was considered; what impact it had, and why.

Borrower-supplied context is a significant, yet under-used resource that could improve the credit system for both lenders and borrowers. Current automated decision engines are typically not designed to interpret the complexities of a person's circumstances. By creating channels for borrowers to provide this information, lenders could make fairer and more precise assessments. For instance, a borrower could explain that a past income drop was due to a temporary situation, such as a job change that will ultimately lead to higher earnings, prompting a reassessment of their application.

Context can also reveal future financial improvements. A loan for a new car might, for example, reduce a borrower's future fuel and repair costs, and those projected savings could be factored into the affordability assessment. This approach appears to be permitted by the FCA’s rules but has been more explicitly supported in some other jurisdictions, such as by the Australian regulator.[7]

Enabling borrowers to provide lenders with valuable forward-looking information would not only enable more accurate affordability assessments but would also support better product design and help lenders offer the tailored support that often underpins long-term, profitable, relationships with customers.

Again, there are no technological barriers to creating these communication channels. Experian, for example, has already developed a ‘Support Hub’ for consumers to report details of changes in their personal and financial circumstances (e.g., when diagnosed with long-term health conditions, suffering a bereavement, or experiencing a relationship breakdown). This information is then shared with participating lenders, and consumers are provided with a personal dashboard that keeps track of the information that has been shared and with whom.

[7] Australian Securities and Investments Commission (ASIC) (2019) Regulatory Guide 209: Credit licensing: Responsible lending conduct. Updated March 2025. Para RG 209.200.

However, this information is currently managed separately from credit histories and scores, with participating lenders expressly prohibited from using it for "marketing or deciding about whether to provide…a product or service." This makes little sense, in that the support needs being disclosed are likely, in many cases, to impact the ability of consumers to repay and should trigger consideration of forbearance.

By maintaining separate systems for credit histories and support needs and by prohibiting the use of support need information in lending decisions, credit reporting agencies are masking the true level of hardship that borrowers face. We need to reverse this and make borrower contexts visible on credit files. Borrowers must have a right to provide context or correct information before a lender makes an adverse decision based on their data and lenders should be required to explain their decision logic in plain terms.

The 'affordable credit' sector

Our recent social impact evaluation of the not-for-profit, CDFI, lender Fair for You, illustrates the transformative potential of the affordable credit sector. Over the past ten years, Fair for You has developed products to meet the growing credit needs of around 90,000, predominantly LMI, customers across the UK. These include low-cost loans to purchase essential household items including white goods and furniture, and an innovative 'Food Club' in partnership with Iceland Foods that provides small-sum, interest-free credit for grocery shopping.

Our report highlights how Fair for You has primarily engaged with borrowers who were already 'included' within the consumer credit market, but for whom outcomes were previously poor. Amongst users of its Food Club product, 85% had used commercial consumer credit lenders in the six months before joining, and one in five used interest-bearing credit specifically to purchase food.

Advancing interest-free credit has considerable, positive, impacts for financial health.

- 46% of customers reported being better able to handle cost-of-living pressures.
- 29% stopped using interest-bearing credit altogether.
- Nearly 5,000 customers who had previously been in rent or mortgage arrears were able to clear these.
- Use of food banks decreased significantly, with 18% of customers stopping their use completely and another 26% reducing it.
- 71% of customers reported an improvement in their household's diet.
- The scheme also led to a reduction in stress, anxiety, and depression for 41% of users.

Many of these positive outcomes are quantifiable in monetary terms. To evaluate the overall impact of Fair for You's lending portfolio—including all products, not solely the Food Club—we employed HACT's social value toolkit. Our analysis estimates that Fair for You has generated nearly £800 million in social value over the past ten years, equating to approximately £8 of social return for every £1 lent. As loan repayments enable capital reinvestment, the actual return on investment is further enhanced, with an estimated £46 returned for every £1 of capital invested. Given these results, ongoing support for effective community finance initiatives such as Fair for You should be regarded as a priority by Fair4All Finance when allocating its dormant assets funding.

We would like to Fair4All Finance particularly expand access to interest-free credit and welcome its pilot of a No Interest Loans Scheme (NILS). We understand that a full evaluation is due to be published later this year[8], which will "show whether a permanent nationwide NILS can be delivered in a sustainable way" through the community finance sector. Unfortunately, this scheme was not mentioned in the Financial Inclusion Strategy, and no commitment has yet been made to create a nationwide NILS if the evaluation supports this.

Budgeting Loans and Advances

The Financial Inclusion Strategy also omitted to mention that alternative mechanisms to deliver interest-free credit exist, and to consider how these could be made more effective.

Interest-free 'Crisis Loans' from the Social Fund were discontinued in 2013, when their budget was transferred to local authority welfare programs along with that for Community Care Grants. However, interest-free Budgeting Loans and Budgeting Advances are still offered by the Department for Work and Pensions to recipients of Income-based Employment and Support Allowance, Pension Credit and Universal Credit (UC). These can help cover various essential or unexpected costs, such as for furniture, household appliances, clothing, footwear, travel expenses, and rental deposits. In 2024/25 the Department for Work and Pensions advanced more than £190 million in Budgeting Loans alone.[9]

Taking out these interest-free loans can impose a significant repayment burden on claimants. The maximum loan is based on 15% of the Universal Credit 'standard allowance,' reduced from 25% in April 2025. For single claimants over 25, this equates to £60 per month, or £720 over the standard one-year repayment period. Additional deductions for sanctions or advances further reduce this figure. Given that many recipients already face financial hardship and other debts, a 15% repayment rate is likely

[8] See https://fair4allfinance.org.uk/our-strategy/no-interest-loan-scheme/
[9] See https://www.gov.uk/government/publications/social-fund-account-2024-to-2025/

unaffordable, highlighting the need for longer repayment periods and greater flexibility, such as payment holidays—options not currently available under the system.

Indeed, the experience of Fair for You indicates that even where credit is interest-free many borrowers will struggle with repayments if there is inadequate flexibility over these. Our evaluation of the Food Club found that that more than half (58%) of all customers pay irregularly at some point, meaning they are late with one or more payments, even though these are set at just £10 per week.

Importantly, **many Food Club customers attributed their missed payments to structural issues, such as problems with the administration of their benefits, inadequate incomes, and difficulties with claiming sickness and disability benefits. These issues impact the ability of many LMI borrowers to make repayments and result in them incurring additional costs in the commercial credit sector**.

While Fair for You does not impose late payment charges on its customers, commercial lenders do. We would therefore like to see further research conducted into the role that benefit administration problems play in contributing to missed credit repayments and defaults and create additional costs for LMI borrowers.

High-cost CDFI lending

In the current climate, even interest-free products pose affordability challenges for many LMI borrowers, and **we are therefore extremely concerned with the costs of credit being charged by some CDFI lenders**. For example, Fair Finance currently charges £425 in interest and fees for a £500 loan repayable over 12 months: only marginally less than the 100% total cost of credit cap that applies to payday lenders.

While the Financial Inclusion Strategy cites (p.30) Fair Finance's referral partnership with the sub-prime credit card lender Vanquis Bank as an example of "community finance and mainstream firms" working "together to meet consumer needs", such arrangements pose a significant risk of harm to LMI consumers. If applicants have been rejected on affordability grounds by Vanquis for sub-prime credit cards with typical APRs of between 33.9% and 42.9%, it is hard for us to see how they can afford and benefit from loans with representative APRs of 280%.

There is also some emerging evidence of poor affordability assessment practices at Fair Finance, which was subject to five FOS decisions in 2025, four of which were upheld.

In one of those cases[10], a borrower whose only income was from Universal Credit and child maintenance payments was lent £500. After fees and interest, the total repayable amount was £910.68, scheduled in monthly instalments of £73.39 over 12 months.

[10] Reference DRN-5422659 and available on the FOS website at https://www.financial-ombudsman.org.uk/decision/DRN-5422659.pdf

According to the credit report obtained by Fair Finance she was also already around £7,000 in debt.

Fair Finance verified the borrower's monthly income of £1,465 using Open Banking and analysed the borrower's bank transactions. They then used Office of National Statistics (ONS) data to estimate her expenditure: calculating she would have a disposable income of around £185 per month (i.e. just £6 per day) after the new loan repayment was accounted for.

While Fair Finance used Open Banking to analyse the borrower's bank account information it viewed transactions in only one account despite knowing from the credit report that the borrower held others. The Open Banking report provided to the Ombudsman was also analysed and 'labelled' by Fair Finance in a way that the Ombudsman found difficult to understand.

The Ombudsman therefore looked at the borrower's bank statements, which revealed they had taken out another loan from a credit union just a month earlier, repayable at £155 per month. They concluded the remaining surplus was inadequate to meet food, car costs, and family needs sustainably over a 12-month term.

This, and the other Ombudsman cases that we have reviewed raise questions as to whether Fair Finance is lending to 'excluded' or 'underserved' individuals or to people who are already have significant levels of debt and who are in clear financial difficulties. If the latter is true, then considerable harm could be being caused.

Fair Finance has received funding in recent years from Fair4All Finance, including a £3.3 million investment "in the form of equity, debt and a grant" from the "Affordable Credit Scale Up Programme" in September 2022, but there has been no independent evaluation of the outcomes being achieved for customers since.

We would therefore like to see Fair4All Finance undertake greater scrutiny of the business models of the high-cost CDFI lenders such as Fair Finance. Future funding for these should be contingent on their demonstrating positive outcomes.

Social Impact?

Fair4All Finance could also take further steps to build confidence and strengthen the case for investment in the affordable credit sector. While evaluating the social impact of Fair for You's lending we looked at how other lenders in the sector had approached these assessments. This identified several problems with current practices, specifically:

- Survey response bias: unweighted survey responses can produce misleading results. For example, customers who are more engaged or have not had payment difficulties are more likely to respond, skewing the data positively. Yet, we found many examples of community finance providers relying on unweighted surveys as the basis for their social impact calculations.

- Inconsistent methodologies: over time, evaluations have used a wide range of varying methods, making it difficult to compare results.
- Flawed assumptions: many community finance providers presuming that all of their customers would otherwise have chosen expensive door-to-door lenders—despite their significant decline in recent years—which leads to an overestimation of savings.

To address these, we would like to see social investors—led by Fair4All Finance—convene a working group to develop more rigorous and consistent standards for impact measurement. These should include best practices for survey design, response weighting, and valuation methods to enhance transparency and help the sector advocate more effectively for funding.

Importantly, this work would also make it easier for potential investors, including Fair4All Finance itself, to reliably compare lenders and make better informed decisions about future capital allocation.

Credit unions

Despite the reservations expressed above, we nevertheless welcome the commitments in the Financial Inclusion Strategy (p.7) to increase the size of the community finance sector: including by channelling a further £132.5 million of dormant assets funding into this via Fair4All Finance.

We also support the decision to allocate £30 million of this funding to help modernise the credit union sector with respect to its use of technology and make investments in its digital infrastructure, and we welcome the commitment to reforming the credit union common bond requirements. However, we do not believe these commitments will be sufficient in themselves.

While recognising that UK credit unions have grown in recent years, now serving about 2.1 million adults according to Bank of England data, the sector nevertheless remains smaller, per capita, than in the U.S., Canada, and Australia. This is despite repeated governmental efforts, investments, and regulatory changes aimed at increasing their scale. **We believe more radical approaches are required to scale up genuinely affordable lending to LMI households.**

While the Financial Inclusion Strategy (p.29) proposes the development of a pilot with a mainstream lender to test "the offer of small value, short term instalment loans to support people's financial resilience", we have concerns that dormant assets funding will be used to subsidise this scheme, which reverses the responsibility for the development of inclusive products and places this on the public or quasi-public sector (i.e., via Fair4All Finance) rather than on the banks themselves.

We also have concerns that the pilot will take place within the FCA's regulatory sandbox arrangements, potentially with a lower level of consumer protections regarding affordability than would otherwise be the case.

We believe that the type of approach followed in the U.S, through its Community Reinvestment Act provisions, would be far more effective and therefore support the calls being made for a Fair Banking Act in the UK. This should require the FCA to:

- Analyse the performance of mainstream banking institutions - according to asset size - on providing equitable, and genuinely affordable access to credit for LMI consumers.
- Create a published rating system that shows which banks are doing well and which need to improve.[11]
- Use its range of existing regulatory tools to drive change amongst institutions that are not taking sufficient action to improve access to affordable credit.

Banks should also be enabled to improve their ratings by either expanding their own provision of affordable and ethical lending to LMI households or by creating partnerships with credit unions and genuinely responsible CDFIs.

Illegal lending

We recognise illegal lending as a significant problem, although estimates of its prevalence vary considerably, reflecting different survey methodologies and timeframes.

The most recent official figure, from the FCA's 2024 Financial Lives Survey, estimates that 0.6% of UK adults (300,000 people) borrowed from an unlicensed lender in the last 12 months, a slight increase from 0.5% (200,000 people) in 2022. Our own analysis of the 2023 MaPS Debt Need Survey provides a higher estimate, suggesting approximately 450,000 people (0.75%) used illegal lenders in the 12 months prior, and that 1.2 million (2.3%) did so over the three years before the survey.

Among specific vulnerable groups, the prevalence of illegal lending use is higher than average. For example, our analysis of the FCA's Financial Lives Survey for 2020 found statistically significant associations with having low or no qualifications and/or having a long-term health condition. However, the strongest predictors of illegal lending were the prior use of certain legal high-cost credit products, particularly 'home credit' (legal door-

[11] Most of the data needed to reach rating decisions can be collected by the FCA through its consumer credit Product Sales Data reporting framework.

to-door lending) and payday loans. Other significant drivers included acute financial distress, such as having missed three or more payments in the last six months.

We obtained similar findings when analysing the MaPS Debt Needs Survey. This revealed illegal lending users are typically 'maxed out' on legal credit. 92% of those who used an illegal lender still had access to credit cards or overdrafts, and 70% had also recently used other legal non-mainstream credit like payday loans. Forty-one percent had borrowed from a payday or other short-term credit lender, and a third had used Buy Now Pay Later. A quarter reported borrowing using an unauthorised overdraft.

The main drivers of illegal lending are therefore debt accumulation from legal credit use and having a low income. However, we also found associations with gambling addictions, and experiencing a loss of, or reduction in, benefits or tax credits.

Our findings challenge claims that illegal lending growth is due to reduced access to legal high-cost credit. Arguments blaming regulatory interventions, such as payday loan restrictions and cost caps, overlook the broader exit of door-to-door lenders not subject to these rules and the increasing financial pressures on LMI households since 2014, when the FCA took over responsibility for the regulation of consumer credit from the, largely ineffective, Office for Fair Trading. The rapid increase in legal but unregulated Buy Now Pay Later schemes in the recent period also goes unconsidered.

Illegal lending is driven mainly by financial hardship rather than exclusion from legal credit, with legal lending practices sometimes worsening the situation. Improving legal lending, offering easier access to debt advice and effective solutions, and expanding interest-free loans are the critical steps that the Financial Inclusion Strategy should focus on. For example, 2.3% of Fair for You's Food Club customers reported using illegal lenders in the 12 months prior to joining. After joining the use of illegal lenders fell to just 0.6%.

Tackling problem debt

We welcome the fact that Government has increased the FCA levy on financial services firms to provide MaPS with a 10% increase in its funding for debt advice services in 2025/26. However, we have concerns that both Government and MaPS are under-estimating the need for this advice and consider more is needed to ensure that over-indebted households can access the support they urgently require.

Our secondary data analysis of the MaPS Debt Need Survey 2023, finds that the MaPS model for assessing debt advice need is overly restrictive: excluding 9.4% of the population who would benefit from advice, such as those missing non-priority payments or struggling to make ends meet.

Consequently, we estimate that 24.4% of UK adults (13.2 million people) need debt advice, significantly higher than the 15% (8.1 million) identified by MaPS. The need for advice is highest among younger, low-income households, renters, and those with children or long-term health conditions and the cost-of-living crisis has led to an increase in case complexity, with many of those in need of advice faced with structural budget deficits.

In our view, this calls for both a more significant increase in funding to expand the capacity of the debt advice sector, and for resources to be shifted away provide ‘money guidance’ services and towards casework.

There is a current MaPS commissioning process taking place for community-based debt advice services, but we are concerned that this appears somewhat divorced from Government’s agenda to better integrate debt advice at the local level with health services. There is also a need to ensure debt advice and income maximisation services operate effectively together, but these are separately commissioned with MaPS responsible for debt advice and most social welfare advice services reliant on local authority funding.

Our Financial Shield Project provides a working model of this integrated approach. Piloted in South-East London, it embeds dedicated ‘Financial Support Link Workers’ directly within primary care settings, creating a multi-agency partnership between 34 GP practices, local councils, housing associations, and advice agencies. This structure facilitates proactive support for working-age residents with long-term health conditions, using referral pathways like direct GP referrals and targeted SMS campaigns.

The project demonstrates significant positive outcomes. It has delivered £1.67 million in recorded financial gains to over 1,100 residents, achieving a return of £3.79 for every £1 invested. A key innovation is a localised ‘breathing space’ scheme, created in partnership with councils and housing associations, which has leveraged effective data sharing to pause enforcement on rent and Council Tax arrears for around 350 people, allowing them to stabilise their finances.

Crucially, the model shows clear health benefits. A third of service users reported making fewer GP visits, and clinical reviews indicate that alleviating financial stress allows doctors to focus more effectively on managing patients' underlying health conditions. The project thus offers a proven, scalable template for integrating financial and health support, directly informing the development of Neighbourhood Health Centres envisaged in the government’s 10-Year Health Plan.

However, securing sustainable funding for such initiatives remains difficult. Although the 10-Year Health Plan commits to integrating debt advice, and other voluntary sector support, with local health services, it does not provide Integrated Care Boards with additional resources to enable this, nor does it provide clarity as to when, over the next

10 years, they need to achieve this by. As a result, successor plans for Financial Shield, which has to date been funded by the charity Impact on Urban Health, are now highly contingent on local authority partners utilising elements of their new Crisis and Resilience Funding allocations.

It is also important to recognise that although many local authorities continue to support social welfare advice in their areas, their overall financial position – combined with the fact that they have few statutory responsibilities to fund social welfare advice – means this has been reducing and is under considerable threat of further cuts. We therefore support calls, such as have been made by the National Association for Welfare Rights Advisers to place local authorities under a statutory duty and provide them with sufficient funding to provide social welfare advice, available equally to all who need it and free at the point of delivery.

Effective use of existing resources?

We also believe that better use could be made of existing resources with respect to debt advice.

According to a recent Freedom of Information response from MaPS, £103 million is anticipated to be received from the FCA's levy to support debt advice in 2025/26. Of this total, frontline providers are expected to receive £84.9 million, representing 82%. An additional allocation of approximately £3 million will be directed towards sector modernisation initiatives. Notably, £19.4 million, accounting for 18% of the total levy, will be allocated by MaPS to activities such as insight and evaluation, finance, human resources, information technology, service commissioning, and sector engagement—including technology and innovation forums and adviser forums—as well as business intelligence, programme management, research, delivery management, and maintenance and development of sector infrastructure. The significant cost of these overheads diverts resources from the front-line, where they are urgently needed.

Quality assurance requirements for debt advice services may also be diverting resources from direct client support. Advisers in our 'We are Debt Advisers' network report frustration with MaPS quality standards, feeling they hinder meeting client demand. FCA rules also require lengthy client care letters after advice sessions that clients rarely read or find helpful. As a result, advisers' valuable time is spent on administrative tasks rather than improving outcomes for clients.

Personal Insolvency Review

Although the Financial Inclusion Strategy references the ongoing Personal Insolvency Review, it does not make any commitments to improving this nor give any indications when it will be completed. The review has, thus far, taken nearly four years. Nevertheless, we welcome the direction of travel signalled in the Insolvency Service's most recent update (July 2025), with the review team indicating that ‘significant structural reform’ is needed to tackle the current problems in the insolvency system. We agree. In our view the current insolvency framework is fragmented, outdated, and failing to meet its stated objectives of providing a “fresh start” for debtors while ensuring fair treatment of creditors. Rising household debt, economic downturn, and structural weaknesses in insolvency procedures risk prolonging the UK’s debt overhang, constraining economic recovery.

- Multiple procedures (Bankruptcy, Debt Relief Orders, IVAs) create complexity, gaps, and poor outcomes.
- Debtors also face considerable barriers to access, with fees, eligibility criteria and asset rules deterring many of those in need, while IVAs have high failure rates and their fee structures are often harmful.
- The objective of providing debtors with a ‘fresh start’ following insolvency is frustrated by our credit reporting system, which retains information of insolvencies for six years post-discharge.
- Income thresholds for Debt Relief Orders are calculated using the Standard Financial Statement and its ‘trigger figures’ based on spending patterns from the lowest income quintile. These figures are not subject to public debate or parliamentary scrutiny. Debtors and advisers often find them arbitrary and disconnected from actual living costs, and this leads to people with slightly higher, but still modest incomes, being excluded from DROs.
- The current framework also fails to sufficiently safeguard the homes of debtors, deterring those with mortgages from seeking relief and leads to them either entering very long-term debt management plans or relatively long-term, and high-cost, IVAs.
- Finally, the framework’s emphasis on delivering returns to creditors is out-dated in an era when default risk has already been priced into the original agreements, and most consumer credit debt that has been defaulted upon has subsequently been sold onto third party debt purchasers at a fraction of its nominal value.

Reforming the insolvency system requires new legislation, and this should be brought forwards with urgency. The recommended approach is replacing complex processes with a single, streamlined personal insolvency procedure that eliminates upfront fees for debtors but allows recovery of administrative costs if needed. This change would curb issues found with some IVA providers and create consistent standards for assessing repayment capacity and asset liquidation, including public debate and annual updates to living standards benchmarks.

International examples highlight best practices: the Netherlands uses transparent minimum income standards, and US procedures like Chapter 13 protect homes. The new UK procedure should similarly safeguard homes and essential assets, raising the vehicle exemption to £5,000. Forced home sales are unfair and create broader social costs.

Debtors would be assigned either to a rapid discharge track for those with limited resources or a repayment track capped at three years, with flexibility to switch tracks if circumstances change. Strict limitations would apply to returns on debts bought cheaply by third parties, and credit file records should only last for the procedure's duration to prevent long-term penalties.

The only exception to the above process would be for those small number of cases where the insolvent has deliberately sought to use the procedure to evade their payment of debts when able to do so, as is currently the case with Bankruptcy Restriction Orders.

In practice, we believe that this 'two-track' framework could be achieved relatively quickly by abolishing IVAs, and by providing a single point of access to the existing Bankruptcy and DRO procedures, with these also being amended to protect debtors' homes and assets to reasonable value. Other reforms such as abolishing up-front fees and including debts owed to DWP and other government departments could be taken forwards at the same time.

A single point of access via debt advice?

It should be noted that there are differing viewpoints among debt advisers regarding their potential role as a single point of access to insolvency procedures. Some believe this responsibility could be integrated effectively with their current duties under the administration of the national Breathing Space scheme and may help lessen the stigma associated with insolvency.

However, others emphasise the need for additional resources to support this function and call for clearer guidelines on handling complex or high-value cases. Additionally, some note that the introduction of the Breathing Space scheme has blurred lines between advisory and administrative responsibilities, which can adversely affect adviser-client relationships.

Should the Insolvency Service pursue reforms in this area, further investigation—actively involving debt advisers—will be crucial.