# Responsible personal finance: Three fundamental questions

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**Responsible Personal Finance: Three Fundamental Questions**

Our interdisciplinary research on responsible personal finance is developing a new, mixed methods research agenda to explore the 'lived experience' of financialisation, an area that is broadly neglected by the academic literature. This body of work will lead to new conceptual and theoretical understandings of responsible personal finance from a consumer perspective. The research advances the academic and policy debates by considering several fundamental questions: Question 1: What is responsible personal finance? Question 2: How can finance be responsible? and Question 3: With whom does financial responsible lie? Through addressing these questions and considering how finance impacts upon individuals' everyday lives, the broader implications for financialisation can be better understood. Moreover, this research is designed to encourage greater responsibility within financial organisations for their operations and practices for the benefit of society.

**Keywords: financialisation, finance, debt, financial capability, financial inclusion, responsibility**

## Responsible Personal Finance: Three Fundamental Questions

In this thought piece, we put forward three fundamental questions which have emerged from our research and which are designed to stimulate academic debate. Our interest stems from an interdisciplinary team working on several responsible personal finance projects and reflects the paradoxical nature of 'responsible finance'. The paper is in three parts. The first part sets out the context around financialisation and responsible personal finance. The second part outlines our empirical research and impact projects that examine three fundamental questions: Question 1: What is responsible personal finance? Question 2: How can finance be responsible? Question 3: With whom does financial responsibility lie? Finally, we conclude the paper by setting out a research agenda.

## Financialisation and (responsible) personal finance

Since the liberalisation of consumer credit in the 1980s, the growth of credit has been dramatic, fuelling the concept of financialisation[1]. Financialisation is simply defined here as the extension of finance into everyday life. The financialisation of household assets such as property, pensions, was exposed by the 2008 financial crisis. In an era of austerity, governments are further driving a neoliberal responsibility agenda for individuals to be financially included. The aim is to develop citizens who are capable of managing their personal finances and making appropriate decisions to ensure their short and long-term financial security, thereby relieving responsibility on the welfare state.

[1] For a detailed analysis of financialisation see van der Zwan, 2013.

The financialisation of everyday life is shaping financial subjects each of whom is: '*a self-disciplined borrower as a consumer who is at once both responsible and entrepreneurial'* (Langley, 2008: 186). On the one hand, individuals have been encouraged to become financial subjects and to use readily available credit responsibly to invest in their homes for example. On the other hand, they have used credit to bridge the income gap caused by wage stagnation and real term falling incomes (Soederberg, 2013). Financialisation is therefore driven both by supply and demand pressures (Appleyard, Rowlingson and Gardner, 2016). However, the over-indebtedness that can result could have significant implications on the stability of the banks if, but more likely when, there is another financial crisis (Inman, 2017). Yet the banks also have a responsibility to avoid over-indebtedness in their role as providers of financial products and services.  For example, they are responsible for making credit available through securitization, risk pricing of products, and deciding who is included and excluded from the system. This leads to the critical question, where does financial responsibility lie? To unpack this question, we examine the first of our questions about the nature of responsible personal finance.

**Question 1: What is responsible personal finance?**

In the UK, the Financial Conduct Authority (FCA) is responsible for ensuring that financial markets work fairly for consumers. In 2015, the FCA tightened the regulations around high-cost unsecured lending to improve the lending standards of High-Cost, Short-Term Credit (HCSTC) and protect borrowers from the harm that these products could cause. These measures aim to reduce the risk of over-indebtedness and the financial difficulties facing borrowers as a result of irresponsible lending practices (Rowlingson, Gardner and Appleyard, 2016). The 'rolling over' of loans when they could not be paid on-time and in full is one of the bad practices the regulations are designed to tackle, as was the desire to control access to high-cost loans without sufficient affordability checks. Responsible lending remains highly topical because of the FCA review of the price cap on HCSTC, which is widely known as payday lending.

Our impact focused project on 'responsible lending'[2] responds to these debates by examining how alternative financial institutions operate in practice, and considers how responsible lending is defined. We are working with colleagues at the Universities of Birmingham and Warwick in collaboration with Credit Unions (not-for-profit, financial cooperatives) to review their lending policies and practices. The aim is to examine what responsible lending from an alternative lender with a double bottom line of social and financial objectives looks like.

The research has identified several key characteristics of responsible lending as being significant throughout the lending process (pre-loan, application, post-loan):

- the product and whether this is appropriate for the borrower,
- transparency (to ensure that borrowers understand the product, the repayments and implications of taking out credit),
- affordability (over the lifetime of the product),

[2] *'How can we ensure responsible borrowing?'* AHRC follow on funding for impact and engagement with Prof Karen Rowlingson (University of Birmingham), Dr Lindsey Appleyard (Coventry University) and Prof Tom Sorell (University of Warwick) (January to September 2017).

- flexibility (if the product becomes unaffordable then borrowers need to reschedule repayment terms), and
- support for those that are experiencing financial difficulties.

Through this project we are influencing debates around what are acceptable lending (and borrowing) practices for both mainstream and alternative financial institutions and by highlighting the mutual responsibilities shared between the lender and borrower.

**Question 2: How can finance be responsible?**

In the UK, the numbers of those estimated to be 'near-prime' and underbanked who lie between the prime and sub-prime market is growing. Current figures suggest between 10 and 14 million people or 20-25% of the population is in this group[3]. These figures indicate that the prime/sub-prime dichotomy is too simplistic and fails to reflect the complexity and variegation of financial subjects and markets. In its place, a spectrum of inclusion has been suggested as a more appropriate mechanism (Appleyard, Rowlingson and Gardner, 2016). This spectrum illustrates that as well as being influenced by contextual and individual factors, financial inclusion/exclusion is a process that evolves over time both for the person and the financial market.

The 'Payday Futures'[4] project examines the impact of the regulation of HCSTC on lenders, and how this regulation is reshaping credit markets for borrowers. The

[3] http://www.pwc.co.uk/industries/financial-services/insights/uk-consumer-credit-outlook/banking-the-underbanked-the-near-prime-segment.html

[4] *'Payday futures: sub-prime credit markets in transition?'* Barrow Cadbury/Carnegie UK Trust, Dr Lindsey Appleyard (Coventry University) and Carl Packman (Toynbee Hall) (January 2017 to April 2018)

project seeks to understand how consumers in these markets now access finance and the implications for financial inclusion, well-being and welfare. This research is the first independent, academic assessment of how sub-prime consumer credit markets have changed since the regulatory cap on the cost of UK payday loans, following the high-profile debate on the role of payday loans as a form of HCSTC in UK society. The project takes a mixed-methods approach to investigate the impact on both lenders and borrowers of the cap on the cost of HCSTC since January 2015. It also examines the subsequent impact of these regulatory changes to protect consumers against irresponsible lending and high interest rates on the broader credit market.

The changes have left a clear gap in the market for those now unable to access HCSTC. Through our research we respond to questions around what type of financial subject are payday borrowers and to what extent are they responsible and entrepreneurial in finding credit that suits their needs. By mapping the subprime credit landscape and borrower behaviour, we explore the consequences for whether and where people are accessing credit since the regulatory changes were introduced. The aim is to build a richer understanding of the near-prime and sub-prime groups in order to influence public and policy debates and responsible lending practices. In so doing, we are addressing the emerging gap between policy and practice. For example, following the regulation of HCSTC, lenders have developed new, longer-term products to avoid the cap. However, whilst consumers have longer to repay the loans (over 12 months) the cost of the loan is significant (e.g. APRs between 99-1200%). This behaviour means that regulators must continually respond to changing market dynamics, with the consequence that borrowers are often paying the price. Changing consumer behaviour therefore has an important role to play in ensuring that borrowers use responsible, affordable forms of credit such as that offered by Credit Unions and Community Development Finance Institutions (CDFIs). Our research shows that exploring the space between policy, practice and the consumer is crucial to understanding the extent to which financial services firms are operating responsibly.

**Question 3: With whom does financially responsibility lie?**

As explored earlier, responsible financial subjects are often considered to be ‘prime’. For example, they have a good credit history, are wealthy or have moderate to high levels of income, are in secure employment, access to mainstream financial products and services such as mortgages, insurance, and can access credit at low rates of interest. However, we know that a growing number of people are marginalised by, or excluded from the mainstream. These individuals are viewed as less financially responsible, forming part of the ‘near’ and ‘sub-prime’ markets.

Often referred to as the fringe/shadow/secondary banking system, this market offers financial products and services at higher rates of interest due to the perceived higher risks associated with lending. People considered to be ‘near’ or ‘sub-prime’ may have a short or poor credit history due to credit scoring which highlights individual factors such as their age, lack of experience, low to moderate incomes, and/or in insecure employment, often associated with temporary, part-time, and zero-hours contracts, or self-employment.

The Money Advice Service (MAS) is an independent body created by the UK government to provide financial education, promote financial capability and develop responsible financial citizens. MAS proactively navigates consumers through the maze of financial services and provides advice on budgeting, saving and other money issues to help them avoid financial difficulties.

Through a MAS-funded project in collaboration with the Open University[5], we are seeking to understand what kind of financial education work best for those who are financially struggling and squeezed[6]. Using an education-based approach that draws on ideas from social marketing, we explore the appropriate format and delivery mechanisms for consumers in these groups. Social marketing uses a variety of behaviour change approaches, ranging from nudge style interventions to educational programmes, to address social, health and other challenges in order to support positive social change (Dibb, 2014; French, 2011; Kotler & Lee, 2007). Although social marketing draws on ideas and tools used in commercial marketing, rather than pursuing brand sales or market share, social marketers are concerned with

[5] 'What works?' Money Advice Service with Prof Sally Dibb, Dr Lindsey Appleyard, Dr Helen Roby (C oventry University) and led by the Open University (February 2017 to April 2018).
[6] Money Advice Service (2016) Market Segmentation: An overview. https://www.moneyadviceservice.org.uk/en/corporate/research

improving wellbeing and supporting positive social change. Developing financial capability and improving financial wellbeing falls within this social marketing remit.

The particular focus of the MAS project is to explore the potential for interventions to increase individuals' financial motivation and generate more positive financial behaviours. Using a mixed-methods approach that combines longitudinal qualitative data gathering with a randomised control trial, we are engaging with participants before, during and after the intervention takes place. The behaviour-change outcomes that are measured include whether participants start to save more, reduce their debts, or cut their household expenditure, such as by switching to a cheaper utility provider.

The intervention we have designed relies on understanding the specific needs of the struggling and squeezed segment. Although market segmentation has been widely used for many years in commercial marketing to identify and target consumer segments, it is now increasingly used to target behaviour-change programmes (Darnton, 2008). Unfortunately, the application of segmentation has generally been less sophisticated in social marketing settings than in the commercial domain (Dibb, 2013). The complex relationship between social marketing and mainstream marketing is at the heart of the problem, with some critics arguing that social marketing is tainted by its association with commercial marketing (Hastings, 2012; Peattie and Peattie, 2003). This debate has obscured the common ground between social and commercial marketing (Dibb, 2014), with the result that the application of marketing tools in social contexts is less well developed than it otherwise might be (Andreasen, 2012).

Among the problems facing social marketing segmentation are a shortfall in resources, a lack of appropriate data, or personnel without the necessary skills (Gummesson, 1991; Neiger, Thackeray, Barnes & McKenzie, 2003; Tapp & Spotswood, 2013). The MAS project puts the necessary resources in place to enable the application of a segmentation approach in a setting where these issues have been addressed. From an appropriate, targeted intervention with financially precarious groups we will be able to relay to policymakers the key issues to consider around providing appropriate support, what kind of support is needed (if any), who should provide it and how.

**Conclusions**

In this thought piece we have introduced a research agenda around responsible personal finance and posed three key questions which we are unpacking through our research: Question 1: What is responsible personal finance? Question 2: How can finance be responsible? Question 3: With whom does financial responsible lie? In posing these questions our key contributions are twofold: first, to undertake in-depth research, to provide a nuanced insight into the 'lived experience' of financialisation (Martin, 2002), financial inclusion and financial capability; to question whether finance can be responsible or whether the notion of responsible finance is inherently paradoxical. Second, we reveal our intentions to create positive impact on society through policy and practice through disseminating our research in different ways to different audiences. This paper has provided an explanation of the challenges we are exploring and has shown how they are being addressed through an ongoing, collaborative research agenda.

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