Over-Indebtedness by misjudgement:
Not waving but drowning

A new CSFI report by
Antony Elliott

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BANKER SAYS: “MAKE IT ILLEGAL KNOWINGLY TO OVER-INDEBT CUSTOMERS”

A report published today by the Centre for the Study of Financial Innovation (CSFI) calls for High Street banks and credit card companies to share data on customers, making it illegal knowingly to over-indebt them. The courts would determine when this had occurred.

Entitled ‘Over-indebtedness by misjudgement: not waving but drowning’, the report is written by Antony Elliott, for many years the group risk director at one of the UK’s biggest banking groups. In all, he makes 15 recommendations to ensure that borrowers do not exceed their affordable level of debt – whether by their own misjudgement or financial naiveté, or as a result of irresponsible temptation from lenders.

The Rt Hon John McFall MP, Chairman of the Treasury Select Committee has already said that he will seriously consider the report’s recommendations, which are based on 36 in-depth interviews conducted with individuals and families, all of whom had sought debt management help.

According to Elliott:

“Once, bankers could be compared to doctors in the way they attempted to provide finance to a customer in his or her best interest. Now, they are more like bartenders, knowingly serving alcohol to people who are already drunk. Countries such as France and Belgium have already tightened up their regulations in this area to help protect customers.”
“My report doesn’t absolve borrowers of blame – and nor do they themselves. One of my most intriguing findings is how many people who are over-indebted blame themselves for their situation. But I do believe that the industry’s sales practises and its reliance on automatic credit-scoring need urgent reform.”

Andrew Hilton, director of the CSFI, agrees:

“We believe this is potentially one of the most important papers we have published. Not everyone will agree with all its recommendations, but it is hard to see how the credit industry can continue to justify business as usual.”

This report is a profoundly shocking and dispiriting indictment of the lending practises of the major High Street banks and credit card companies operating in Britain. It reveals just how easy it is for a family to slip further and further into debt, and how little help one can expect from an industry in which decision-making has largely been automated and in which lenders seem to take little account of the damage they can do to social and family life – and indeed to the health of those they lend to. The recommendations are comprehensive and are bound to be controversial. Elliott’s main recommendations are:

- that no lender should increase a borrower’s credit limit (eg: on a credit card) without specific customer consent (at the moment, credit limits rise if even a minimum payment is made);
- that the industry should issue clear warnings (similar to those on cigarette packets) at the time of lending;
- that every lender must provide customers access to an independent credit helpdesk;
- that every lender must spell out the consequences of default at the time a loan is taken on (including the late fees and penalties that can devastate a family);
- that, if a lender lends to a borrower who is clearly over-indebted, that loan shall not be legally enforceable;
- that lenders must share information about debt (as in other countries) so that they have a total view of a potential borrower’s indebtedness; and
- that the government should consider support for a single body to oversee action to reduce over-indebtedness.

Andrew Hilton says:

“This is not a study of poverty. It is a study of over-indebtedness involving multiple creditors. While over-indebtedness is obviously most acute among the poor, it can affect the middle classes too, and it can be desperately corrosive of their values and standards.”

Many of the responses quoted in the report are poignant. They reveal a world in which decent people try to do good, in which the vulnerable are taken advantage of, and in which social and family pressures make it almost impossible to say No. As one elderly immigrant put it:

“The credit card is the most nasty, naughty, devilish idea…And the interest arrears is the most devilish, nasty, barbarian idea.”
For more information on this report, please contact:

- Deborah Bruce, MCIPR 01753 890791; or
- Andrew Hilton (direct line 0207 491 8666).

This report is available through Central Books, Tel 0845 458 9910 or www.centralbooks.co.uk, price £25/US $45/€40.

The CSFI is a charity, established in 1993, that looks at threats and opportunities in the financial services sector. The chairman of its Governing Council is Sir Brian Pearse.

Notes to Editors

1. Attached is a summary of the report.

2. Some of the over-indebted individuals who contributed to this report are available for interview. Please contact Deborah Bruce.

3. In his professional life, Antony Elliott has been responsible for handling portfolios that run into billions. He is an expert on the intricacies of the revised Basel Accord, on value-at-risk and derivatives.