Response to Department for Culture, Media & Sport Consultation:

TV Licence Enforcement Review

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Introduction

This document provides a response from Callcredit Information Group ("CIG") to the Department for Culture, Media & Sport consultation paper, *"TV Licence Enforcement Review"*

CIG comprises a number of companies including Callcredit, a UK credit reference agency, which facilitates the sharing of data on how people manage their repayment commitments.

We note that the paper states that

> *We are particularly interested in any evidence that could help us make an assessment of the competitive and commercial impact of each option. We would also welcome any additional wider views relevant to the issues raised in this consultation.*

Our response provides evidence to inform the Review's consideration of the option to decriminalise and enforce as a civil debt. We respond only to the relevant question. CIG does not express a preference for any of the policy options presented.

We are available to discuss this response or provide any additional assistance or clarification as may be required.

Question 34: Under a civil system of enforcement, a civil debt may impact upon an individual's credit rating, which is not the case under a criminal system. We would welcome views and evidence on whether this is more or less appropriate than the penalties under the current system of enforcement.

Companies look at credit reports to make decisions from approving a mortgage application to providing a mobile phone contract. Individuals have increasingly come to recognise the importance of their credit information and how it is used.

In 2012, Callcredit launched Noddle, the first and only free for life credit report in the UK. This service quickly grew to serve over a million customers. We aim not only to provide people with access to the information held about them, but also to help them understand its impact.

The purpose of 'credit ratings'

When considering whether it is appropriate that non-payment of a TV licence should be reflected as part of an individual's 'credit rating', it may be helpful to look at what a 'credit rating' is and what the actual effects are of any impact on it.

The original purpose of credit referencing is to protect lenders from unexpected levels of bad debt. There will always be some borrowers who do not repay. By looking at the past financial history of a group of borrowers, it is possible to predict with some confidence the proportion who will not repay. This knowledge allows lenders to determine the rates at which they can offer credit, and identify the characteristics of the borrowers they are prepared to offer these rates to. The decision on whether to lend to an individual borrower is then made according to the evidence of their personal financial history – sometimes described as their 'credit rating'.

In recent years, an increased focus on responsible lending has created a binary purpose for credit referencing. As the availability of consumer credit grew, so too did the ability of individuals to potentially over-borrow, and take on more debts than they could realistically afford. Over-borrowing leads to poor outcomes for the individual, who may find themselves struggling financially or considering insolvency as a consequence.

Lenders are now required by rules imposed by the Financial Conduct Authority ("FCA") to take steps to protect aspiring borrowers from these poor outcomes. When deciding whether to grant credit, lenders must look for warning signals that an individual may face financial difficulty, and take these into account. The non-payment of previous debts can be one warning signal, indicating that an applicant cannot meet the commitments that they already have, and so this must be considered as part of the decision process.

Any 'impact on a credit rating' which would be created by recording a county court judgment ("CCJ") for failure to pay a decriminalised civil debt is not, in itself, a negative event. Recording CCJs in credit profiles assists lenders to assess not only the risk of loss in lending to the borrower, but also the risk that it could be inappropriate to lend to the borrower and result in financial difficulty for them.

Under the heading *"Fairness considerations"*, the consultation paper states that:

> *7.2 Under certain civil regimes (where outstanding amounts are treated as a civil debt) there may be an impact on an individual's credit rating if the court judgement is registered in the Register of Judgements, Orders and Fines. This may then affect an individual's future ability to obtain credit.*

If a consumer can afford to pay a legitimate civil debt, it is right that they should do so. If they cannot afford to pay, then it is not inappropriate, nor unfair, that it could be more difficult for them to get credit in the future. Not lending money to consumers who cannot afford to repay it is a protective step which avoids them facing more difficulty in the future, and not a punitive measure.

Repayments data sharing

Credit reference agencies, do not, of course, only record CCJs. On behalf of lenders and account providers, we process and record repayments data on a very wide range of civil debts. The FCA encourages the sharing of data about account performance and debt settlement to help inform credit assessments.[1] Yet it is not necessary that a civil debt should be classed as 'consumer credit' within the FCA definition for it to be shared with credit reference agencies. Information is also shared about mortgages, mobile phones, utilities, and insurance instalment payments.

Almost all payment information sharing with credit reference agencies now takes the form of 'positive data sharing'. This means that a record is shared each month to update on the status of an account, not only when payments have been missed but also confirming whenever a payment has been made on time.

[1] CONC 5.3.1 G

Financial inclusion and access to services

Positive data sharing of wider types of account plays a vital role in increasing financial inclusion – the ability of all citizens to access appropriate and reasonably priced banking and credit facilities. It also provides electronic identity evidence that can help citizens to access other services.

Positive credit records provide evidence that a person exists, is resident at the address, and is meeting their commitments, so creating a solid basis for lending. Without such records, lenders can find it very difficult to satisfy fraud concerns and to confirm that an applicant is a genuine lending prospect. This may force them to decline the applicant. Applicants with little or no shared evidence of financial history can also find that when they do obtain facilities, these are only available at a higher price, charged to reflect the increased risk that they present to lenders.

In March 2015, the Financial Inclusion Commission published its report, *Improving the financial health of the nation* [2]. A key recommendation of this report is that Government should enable the use of public sector and non-traditional data in credit scoring, with safeguards, to make access to financial services easier for excluded groups.

If TV licence non-payment were decriminalised, this could present an opportunity to consider a route to sharing positive data on TV licence payments. Such a step would offer material benefit to licence payers, by improving the strength of their credit files. It could enable people who may now have difficulty obtaining financial services at a reasonable price to substantiate their residence and their track record in meeting a regular commitment.

In addition to providing evidence of creditworthiness, positive data sharing provides electronic identity evidence. Some groups, such as older people, frequently have difficulty with proving their identity electronically. The record of a payment account linking an individual to an address over a period of time can be very helpful in such circumstances. Electronic identity verification is increasingly used, not only by the private sector but also in the provision of key public services, such as through the Identity Assurance initiative led by the Government Digital Service.

We strongly recommend that the potential benefits of sharing TV licence payment data should be considered as part of this Review. Engagement with both the Financial Inclusion Commission and the Government Digital Service may prove helpful to you in evaluating this recommendation.

Understanding the licence payer's financial situation

Data sharing through credit reference agencies operates on a reciprocal basis. Lenders who contribute payment data are then entitled to view other payment data about an applicant to assess the risk presented by them. This is used when extending credit to make a decision to lend or set the initial price for credit.

In a utilities environment, payment account histories provide a general understanding of a customer's financial situation which can help inform future steps. The information can also be accessed throughout the life of the payment account. This means that it is possible to distinguish between people who can and should pay, in which case civil action may be appropriate to enforce a debt, and people who are in financial difficulty, where civil action may not be appropriate.

[2] http://www.financialinclusioncommission.org.uk/pdfs/fic_report_2015.pdf

TV licence payment as a civil debt

Callcredit does not comment on whether it would be more appropriate for TV licence obligations to constitute a civil debt, rather than non-payment being enforced through the criminal system. However, we would make the following observations which may be helpful:

- The impact of a civil debt on an individual's credit rating is an appropriate response to the inability of a person to pay a debt. It is not a penalty, as suggested by the question.

- A person who consistently fails to pay a debt is at increased risk of long term financial difficulty, and of failing to repay any further money borrowed. These factors should be taken into consideration when a decision to extend further credit is to be made, as recognised - and required - by the FCA.

- The registration of solely negative data, by obtaining CCJs against defaulters, is not the only option that is available to reflect non-payment of debt. Instalment payments on utilities such as energy and water are increasingly recorded through the long-established credit reference agency data sharing system.

- The Government has been called upon by the Financial Inclusion Committee to enable the use of non-traditional data in credit scoring, in order to improve access to financial services by people that often have difficulty providing evidence of their residence and ability to repay.

- If TV licence obligations become classed as civil debt, the positive data sharing of payments with credit reference agencies must be considered.
    - Enabling TV licence data sharing would provide significant societal benefit, assisting people who currently pay their TV licences as required, yet find it difficult to secure mainstream and lower cost credit and banking facilities.
    - It would also contribute towards electronic proof of identity, which is increasingly needed for the provision of key services.