Rental or Hire Purchase

Buy As You View (BAYV), formerly Just Rental, has a forty year history working in the "Rent to Own" (RTO) market, offering customers affordable options for buying consumer electronics, furniture and related durable household products.

As such, we have expert insight into how the market has grown and evolved over the decades. The following is a brief overview of this history as well as what we perceive the future might possibly hold; namely a threat of returning to "pure rental", which is significantly less regulated with fewer benefits for consumers, compared to the continued use of Hire Purchase.

Executive summary

- The conditions that led to the decline of the "pure rental" market for consumer durables are changing which may be prompting companies to consider possibly moving back or new entrants to a pure rental model.

- The regulation of Hire Purchase and Pure Rental sectors is markedly different, with significantly fewer hurdles required for rental companies to offer their products to consumers.

- The majority of the customer base are going to be from low income groups who will encounter some issues or cash constraints over the duration of their loan.

- In recognition of the FCA's points on rates of failure to repay and forbearance measures, it is critically important to understand that we are serving a customer base which has limited access to finance.

- Hire Purchase contracts, as offered by BAYV, offer the best characteristics of both consumer credit (Ownership) and rental models (Forbearance & flexibility) but we are concerned that changes to legislation may potentially impact on businesses through overly burdensome regulations or the application of inappropriate measures.

- We believe that rather than look at forbearance and affordability as separate measures under the current FCA CONC rules, that there is a good case they should be considered in tandem and that ultimately the only true test of the company is that they provide fair consumer outcomes to their customers.

- As a Hire Purchase provider, BAYV believe that our prime responsibility is to investigate the income and expenditure of applicants to realistically establish that any repayment we seek will not take an unacceptable proportion of the net disposable income available and during periods of difficulty that we have appropriate forbearance tools that achieve positive outcomes for all consumers.

Growth and decline of the rental market

History tells us that, at any time, the rental market size is determined by;

- Net personal disposable income
- Availability of credit
- New product developments
- Consumer confidence levels

The rental of consumer goods in the UK can trace its origin back to the **1920/30s**. An early example was **Radio Rentals** which was formed in **1930** in Brighton, Sussex, UK to rent out radio sets by Percy Perring-Thoms. Rental was on a significant growth trajectory from the **1950s** right through to the late **80**s, driven by high cost of goods, low available credit, the changing pace of technology and the reliability of these new products.

In the UK, Granada and Radio Rentals dominated the market with over **5m** customers between them during the **mid-90s**. Many more customers rented through independent electrical retailers (many still in operation today) and it was estimated that there were over **4,000** stores in the UK in **1994** providing rental, with the number of consumers renting at this time estimated to be around **7-8m.**

However, during the **mid-1990s** the market entered into a steady decline as technology developments slowed, products became more reliable and cheaper, along with increasingly available credit. Critically, the "ownership" culture from the Thatcherite era also dramatically reduced the appeal of rental.

While the mass market was moving away from rental, a large number of low income families still required the provision of durable household products on an identical/similar basis. As a result, a number of these rental businesses are still in operation today (Please see BAYV earlier APPG submission).

Two of these remaining businesses, Brighthouse (Formally Crazy Georges of the Thorn EMI Group) est. **1994** and BAYV, modified their propositions from one of pure rental into one that provided the ability for the ownership of goods which would have a lifetime beyond the rental period. BAYV also made the decision to move from a store (High Street) model to an on-line operation.

FCA APPG Submission

Affordability

In the submission from the FCA, to the APPG inquiry into the rent to own sector, the FCA states that 'it is concerning that, across the firms we have looked at, the paid-in-full rates for products sold in **2010/11** suggest that around half of customers are failing to repay their agreements in full by the due date'.

Forbearance

In addition, the FCA goes on to raise concerns that, given up to **22%** of consumers may terminate their contract and return the goods (both voluntarily & firm-imposed) that the firm's forbearance measures may not be fully embedded in practice.

BAYV Response

In the case of BAYV the numbers are as follows:

- **4%** of customers cancel the contract within **30** days.
- **3%** of customers have early settlement offers and own the goods.
- **12%** return the goods during the contract and BAYV regard the contract as settled in full, waiving any legal rights we may have.
- **16%** default on their contract and do not return the goods but keep possession.
- **65%** reach full ownership.

Whilst these numbers may seem high in comparison to mainstream credit, it is critical to realise that BAYV and other RTO companies are serving a customer base which has limited access to finance. The sad but factual truth of this being that many of our customers will be in lower income households, yet we believe they nonetheless deserve the opportunity to buy basic essential durable household items on hire purchase as long as it is on a fair and affordable basis.

We believe that these numbers need to be considered in the round and that a fair assessment cannot be made without looking at customer outcomes. We believe the test that needs to be applied by regulators and legislators is the degree of resulting unacceptable customer outcomes. This can only be judged by considering the affordability assessments that are made when a contract is entered into, together with the forbearance, termination and other policies of the Company, including how these are operated in practice.

By definition, the majority of the customer base are going to be from low income groups who will encounter some issues or cash constraints over the duration of their loan. It is very difficult to predict when and if this will happen to an individual and is exactly the same issue faced by any lender in the non-standard sector.

An estimated **15** million people are struggling to match the rise in the cost of living, DWP figures show that around **40%** of UK households in the lowest **20%** income population group are unable to afford replacing or repairing electrical goods or furniture out of any savings.

In the past, this customer base may have been able to obtain credit from the Social Fund for essential purchases with a deduction made directly from their benefits ***(Note: we are unaware of what affordability checks were or are made by the Social Fund).*** However, in recent years the fund has significantly reduced the availability of such support.

As a RTO provider, we believe that our prime responsibility is to investigate the income and expenditure of applicants to realistically establish that any repayment we seek will not take an unacceptable proportion of the net disposable income available. The FCA refers to sustainability.

We believe we have a very good opportunity to establish at the outset that customers can afford the payments. As part of the assessment process, we do consider any foreseeable change in circumstances when evaluating a customer’s affordability, for example if there is going to be a change in income due to redundancy or retirement etc.

However, the consideration of changing circumstances can only go so far and sudden unavoidable expenses our customers face with the almost complete absence of savings and other cash resources means that inevitably even the very careful customers will enter into arrears during their contracts.

We have found no statistical way to establish at the outset for new customers who this will happen to, subsequent to our initial assessment, and what would be required to make a significant reduction in the levels of defaults. Once a customer has entered into a contract and established a track record with us then there is a better chance that they will complete subsequent contracts. But even here, default rates would be seen to be high in comparison to all mainstream credit.

If we could at the beginning establish, with much greater certainty, which of the **16%** of new customers we currently approve who do not pay us and who do not even return the goods, it would be hugely in our interest to do so and not to supply them, particularly as we never charge late fees (other than the nominal **£3.45** bounced DD charge).

When customers apply to us to date we have found little or no relevant external data to establish statistically which customers are likely to repay us. This, in our belief, is the experience of all the home collected credit businesses as well.

Judgements are instead made from interviews, checking income and expenditure, together with subjective views on whether we believe the hire purchase items will be secure in the property and so forth.

As we have recommended in our earlier submission, we would have no objection to sharing data on credit performance with others at the bureau, but the current way data is recorded would be of limited value in any assessment.

We are keen for the industry to share more data, however we believe one area that would need to be worked on by the sector with credit reference agencies is defining what exactly makes a “poor credit performer” for this consumer group, to identify intent to pay along with the ability to pay and how forbearance should be indicated.

For example, in our view, to penalise a customer with a poor file because they decided to return the goods would not be treating customers fairly. It is currently likely that the use of credit bureau data (including its absence) is more likely to exclude low income consumers from credit provision than to include them and may bear little relationship to affordability or intent to pay BAYV. In many cases customers want to pay BAYV as they know that we will be there for them in the future and hugely value the goods we have sold.

We control the exposure of consumers and ourselves by carefully limiting our initial advance based on affordability assessments. We note that our average repayments are the lowest in the sector by a considerable margin.

Our affordability assessments will not be perfect but we can only look at the individual circumstances of a borrower based upon their income and expenditure, together with evidence of meeting commitments from bank statements, repayment cards etc. However this is an incomplete picture.

Many of our customers are interdependent on family and other relationships where money is to some extent fungible and individuals support each other mutually through difficult patches. This is impossible to assess except in practice. Moreover, to some extent there is undeniably a cash economy which we cannot and do not take into account.

Consequences for consumers

For the **65%** of customers who pay us in full, we are proud that we have provided them with good quality items that will be of use to them long after the contract is repaid. We have many thousands of long term relationships with consumers in this sector who we have helped over many years and we stand by our strong reputation in communities for our service.

We do not accept that in our case the cash price of goods is 'significantly higher' than other retailers, as stated in the FCA submission, and we refer the inquiry to our previous submission on this.

For the **4%** who return goods to us within **30** days we do not regard this as particularly high risk or concerning. While the level of returns in any retailer must be a consideration, the consumer's right to return items is unquestionable and we even extend the time allowed, compared to normal high street stores, to **30** days.

For the **12%** of customers who return goods, we accept that in large part they regard this as, in effect, a rental contract. However, if they return goods to us there is no more to pay and arrears are waived.

No adverse credit reference is currently placed on any credit reference site. Clearly we carefully work within the law on repossessions. We are confident we will have worked hard with the consumers who wanted to pay and have simply had a temporary cash crisis to try to enable them to keep their goods.

For the **16%** of customers who default and do not return the goods, the only sanction we have in reality is to refuse to enter into any contract with them in the future. After a short period, we cease all collection activity as it is not financially viable. Inevitably there is a proportion of these consumers who clearly never intended to make any payment, with around **6%** of BAYV customers never doing so.

A proportion of these customers who have bought goods from us made some payments but we then accept they will simply be unable to pay the remainder. Where they have been good customers in the past, we will occasionally leave the goods with them, with no more to pay. In particular, we are very reluctant to ever return items such as beds and refrigerators.

Overall, given our assessment procedures and the consequences of non-payment, we contend that unacceptable consumer outcomes are unlikely despite the numbers of consumers who do not reach legal ownership. We have carefully designed our customer offer to be fair to consumers, in the granting of credit, our treatment of customers with payment difficulties and the consequences of any such difficulties.

Return to Pure Rental

We believe that some of the conditions that led to the decline of rental are changing. This is based on the following reasons:

Financial & Regulatory

- There is a reduction of available credit
- There is a well-documented tightening of consumer net disposable incomes
- Falling consumer confidence in financial institutions
- Potential increase in cumbersome regulation into RTO market (prompting companies to return to purely rental).

Social & Technological

- There is a cultural acceptance of rental - we are seeing an increasing trend towards rental propositions, particularly in property, car finance, and communication markets,
- There is falling consumer confidence and a lack of job/wage security
- We are seeing rapid technology developments in consumer products (Connected/SMART 3D etc.)

The regulation of Hire Purchase and Pure Rental sectors is markedly different, with significantly fewer hurdles required for rental companies to offer their products to consumers.

It is important to make the distinction that hire purchase contracts, as offered by BAYV, are a hybrid of consumer credit and rental - in our view, offering the best characteristics of both models. The contracts are regulated by the Consumer Credit Act **1974** and **2006** revisions strike a reasonable balance between providing the return element of the rental model, but the ownership benefit of the retail model. We are keen to see this distinction remain in any work carried out by the APPG and the FCA.

The **"product"** legislation applies equally to both however it is the **"financing"** legislation that requires significantly more disclosure on the hire purchase model than the rental.

A pure rental model does not require affordability checks, costs can be wrapped into a single weekly payment, no APR is required to be shown, no price comparison is required and the consumer never owns the goods in law. Moreover, the right of repossession is much stronger as assets never reach a "protected" status. We believe this is a considerably less acceptable outcome to this consumer group.

By comparison, BAYV is required to present detailed information on each product (the APR, representative example, cash price, number of weeks for repayment, total payment). The following highlights the difference in disclosure for an identical product but with one offered by a rental company, and the other by BAYV.

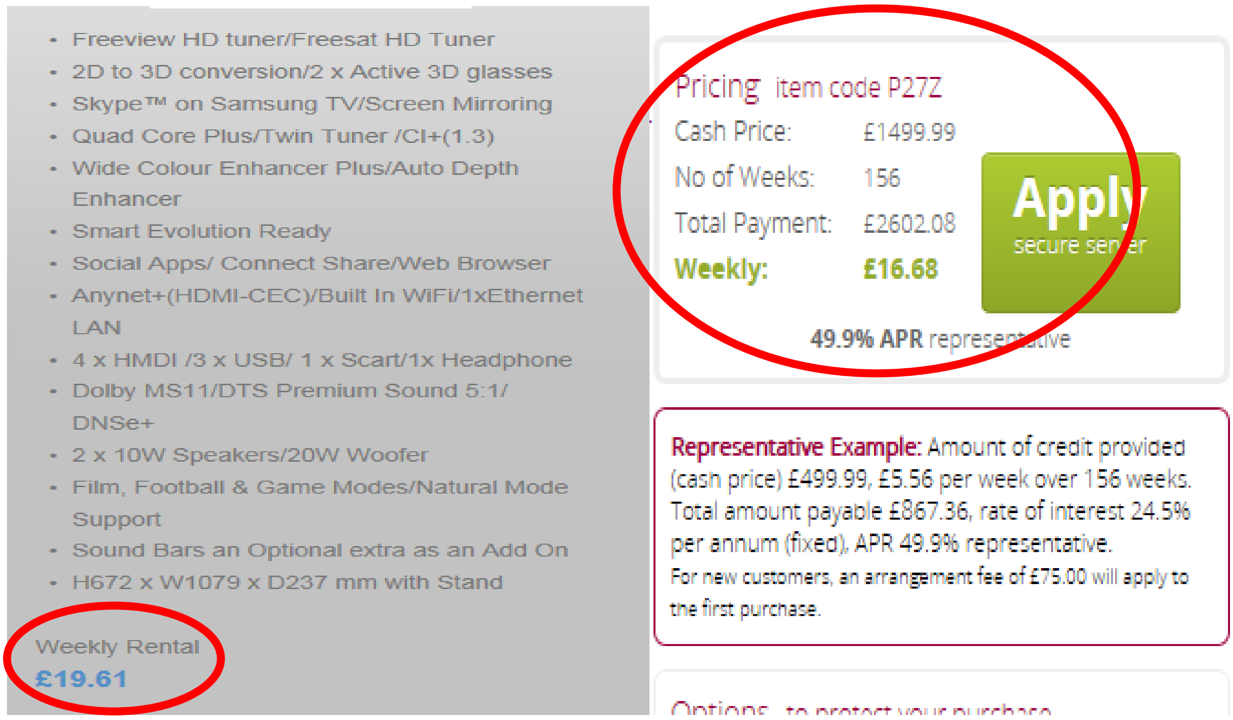
We have selected our top of the range product (Samsung 48" Curve 4k smart/3d TV - NB our product comes with a free 3d Blu-ray player) and compared how we advertise it on our website to a main rental company.

Samsung 48" Smart 3D Curved TV with FREE Samsung 3D Blu-ray Player
UE48H8000

- ✓ Smart
- ✓ Full HD
- ✓ Freeview HD
- ✓ Quad Core plus processor
- ✓ 3D with 2 pairs of glasses
- ✓ FREE Samsung 3D Blu-ray Player

Samsung's 48" Pay weekly TV with its curved screen creates an accurate picture with exceptional colour, without distorting the picture. Designed for immersive viewing which elevates the feeling of depth. Includes FREE Samsung 3D Blu-ray player.

Pure Rental Company | **BAYV**



It is clear to see that the fewer regulatory demands on pure rental can be attractive for businesses. The typical rental life of the durable household products BAYV sell is around 6 years, so under rental, where consumers would not eventually own the product, the business would have a significant advantage.

While BAYV has no strong objection to the conditions required of us by current regulations, we are concerned that their application without considering the complete business model, and continued pressure on further, more cumbersome regulation will encourage businesses to return to pure rental models for the provision of goods to consumers within this sector.

This would inevitably lead to a perverse outcome as regulation for the rental company would be significantly less than for the hire purchase company with consumers never reaching ownership of any products at any time.

We would suggest that rather than look at forbearance and affordability as separate measures under the current FCA CONC rules, that they should be considered in tandem and that ultimately the only true test of a company in this sector is that they provide fair consumer outcomes.

BAYV would also urge that the consumer protection is applied consistently across all businesses as currently consumers are able to buy identical products on credit, for example with mobile phone providers (often on fixed term loan agreements) or mail order businesses etc., that are not apparently subject to the same requirements, for example in the future BAYV's insurance sales will be regulated, but it is unlikely that the sales of similar insurance products by mobile phone companies will be regulated, at least based on FCA guidance.

This may or may not extend to the degree to which affordability checking is as rigorous. We can see no reason why BAYV should have greater levels of regulation than such companies, but rather that they too should be subject to the same regulations that we are in respect of credit granting and in particular insurance sales.