

**Inquiry into the Rent-to-Own sector
APPG on Debt and Personal Finance**

Written evidence submitted by BrightHouse

I. Executive Summary

BrightHouse is the leading rent-to-own retailer in the UK. Over the last 20 years, we have grown to a business with 289 stores across the country, almost 3,000 colleagues and more than 270,000 customers.

Approximately twelve million adults⁽¹⁾ in the UK rely on alternative means of credit and finance. Lack of either sufficient funds or access to mainstream lenders leaves a large number of people in the UK excluded from credit, apart from the alternative credit market. This lack of access to credit hinders many of these people from acquiring the products they need in their home – products most families take for granted, such as washing machines and fridge-freezers. BrightHouse fills this gap.

Our customers are looking for an affordable solution which meets their needs and helps them to have a home of which they can be proud. We respond by providing market leading, high quality products through fixed weekly payments combined with inclusive after-sales service providing comprehensive cover against breakdowns, damage, accidents, fire and theft as standard.

We are a responsible lender which undertakes full credit checks and affordability assessments, to seek to ensure that the customer can afford the repayments. Our straightforward proposition assists our customers to budget and gives them peace of mind.

The customer rents the product, with full service cover included in the price, usually for 156 weeks, after which it is owned by them outright. If customers find themselves in difficulty, we have a range of ways in which we help including offering a lower cost product or a break from the agreement.

Our agreements are different to others in the alternative credit market in that the customer is always in a position to return the product, at any time and in any condition, owing nothing further. This puts our customer in control of the agreement and minimises any possibility of them entering a spiral of debt.

Our offer is competitive in its marketplace and resonates with our customers. We are proud to serve our customers and to enable them to obtain products in a way they can afford. More people are choosing to shop with us, driving company growth despite the most challenging retail environment in living memory.

(1) source Provident Financial research 2012

2. BrightHouse's Background

- 2.1 Our business was originally set-up by Thorn EMI as a sister company to Radio Rentals.
- 2.2 We are the leading rent-to-own retailer in the UK, providing high quality products under flexible agreements.
- 2.3 BrightHouse provides a differentiated offer on the high street and our stores are at the heart of the community. BrightHouse is an employer on, and generator of footfall to, many less prosperous high streets from which some other retailers have turned their backs.
- 2.4 Our philosophy is to be fair, transparent and flexible. We strive to add value to people's lives by providing customers with the means to access household goods. We continue to listen carefully to our customers and refine our business model accordingly, to reflect their changing needs and tastes.

3. Rent-to-own

- 3.1 Rent-to-own is not a new model. Over many decades it has become a well established way for consumers to obtain essential products. In the same way as many people will take out a hire purchase agreement to buy a car, it gives less well off consumers access to household products.
- 3.2 For those with limited access to mainstream credit providers, the alternative credit market has an essential role. In the midst of the economic downturn, and impacted by negligible wage growth and benefit squeezes, many such households have been faced with mounting pressure on their household budgets, yet still need access to household goods. The BrightHouse proposition fills that gap by providing a competitive and affordable solution.

4. Understanding Customers

- 4.1 Understanding our customers and their behaviour is a fundamental principle which underpins everything BrightHouse does. The majority of our customers are from lower-income households. This is a market which is under-served and often misunderstood.
- 4.2 Lower-income households will appreciate the limitations of their financial resources. They are careful shoppers who manage their restricted budgets. Affordability, and prioritisation of essentials, is important to them. They prefer to have a reliable washing machine in their kitchen, instead of spending money on frequent trips to the launderette. They take particular pride in their homes which are central to their social interactions, and want quality products which are reliable and attractive.
- 4.3 BDRC, a leading, independent research agency, conducts research with a fresh representative sample of 500 of our customers each month. This enables us to monitor, and react to, customer satisfaction with different aspects of our service including sales, application process, delivery, repairs and how we deal with late payments. We are proud of the results and their consistency.
- 4.4 Each week, more than a thousand new customers are introduced to BrightHouse by one of our existing customers, something they wouldn't do if they were unhappy with BrightHouse.

5. Conclusion

BrightHouse is a business built around its customers and our stores are at the heart of the community. Our growth and success has been achieved by consistently meeting their needs. Our product and services offer is competitive and easy to understand. Sometimes it is difficult for middle-class professionals to appreciate that lower-income families cannot access a credit card nor ask the bank for a loan. Some would seek to deny lower-income families the access to products that most people take for granted.

We are proud to serve our customers by delivering our corporate mission: “To provide customers with the means to access household goods to improve the quality of their lives”.

QUESTIONS POSED BY THE ALL PARTY PARLIMENTARY GROUP ON DEBT AND PERSONAL FINANCE

Q: What currently works well in the RTO sector and what does not work so well?

- Lack of either sufficient funds or access to mainstream credit inhibits lower-income families from obtaining the products they need for their homes, such as a washing machine. Our proposition fills that gap. For those people who can't afford to pay upfront, we offer quality products at affordable weekly payments, professional and courteous in-store attention and a comprehensive after-sale service to provide them with peace of mind. Our business ethos is to be fair, transparent and flexible. We clearly display not only the weekly payment but also the product price including the five star service proposition, the length of their commitment, the representative APR and the total payable, in store and online. If customers find themselves in difficulty, we have a range of forbearance options to help them.
- We believe the market works well. However, some commentators manifest a poor understanding of how it works. They also can fail to appreciate some of the substantial differences in operational practices across the alternative credit market. We hope this Inquiry will take the time to understand how we in BrightHouse operate our rent-to-own proposition. We also hope the Inquiry will understand the important measures we have in place to underpin our commitment to be a responsible lender.

Q: What do customers like/dislike about the products and services offered?

- Our customers value our high quality, competitively priced products, and also our courteous and professional service. They choose to shop with BrightHouse because they like the products and services we offer.
- They like that we:
 - give them access to the products they need for their home
 - have a straightforward offer and give them complete peace of mind throughout the agreement, with our five star service proposition
 - offer visibility of not only the weekly payment but also the product price including the five star service proposition, the length of their commitment, the representative APR and the total payable
 - offer flexibility in relation to them changing their mind
 - allow them to return the product, at any time and in any condition, with nothing further to pay. Thus minimising any risk of being caught in a spiral of debt.
- They dislike the lengthy sign-up process. However, we believe that it's important to take the time to ensure that the product is appropriate to the customer's needs, that they understand the agreement and that it is affordable to them.

Q: What evidence is there that customers value the 'bundling' of goods with insurance/repair services? Are these packages appropriate? Are these services priced competitively?

- Our offer is specifically designed to meet the needs of a group of customers who are expert at managing their weekly budget but whose greatest concern is an unexpected bill - from the installation charge for a washing machine when they move home or the excess on an insurance claim.

- In exchange for a fixed weekly payment, BrightHouse customers receive a service that includes: product delivery, comprehensive installation service, unlimited product repairs and loan product where appropriate, like-for-like product replacement, plus cover against fire, theft and accidental damage, with no excess to pay. Additionally, the customer has the right to return the product, at any time and in any condition, with nothing further to pay.
- This gives our customer peace of mind – protection from every eventuality in relation to the product and their long-term financial circumstances.
- Our products and services are competitively priced when compared on a like-for-like basis including the quality product, the comprehensive service cover and the flexibility included in our proposition. For price comparisons see the answer to the Question: *How do prices compare with other retail and online outlets?*

Q: What are the most popular or highest selling goods?

- In terms of volume of items, our highest selling items are;
 - Household white goods
 - TVs
 - Sofas and other upholstered products.

Q: What are the most typical payment time-scales and methods?

- Typical agreement lasts up to 156 weeks and comes in the form of a hire purchase agreement.
- Most of our customers choose to make payments either under a continuous payment authority or on a card payment made over the telephone. Some choose to pay in cash in-store each week whilst others prefer direct debit.

Q: What is the socio-economic profile of customers?

- Rent-to-own customers generally come from lower-income households. They are hardworking people who take pride in their homes. Some two thirds of our customers' income is derived from earnings, in many cases topped up with family benefits such as child tax credits and working tax credits.

Q: How well does competition work in the RTO market?

- Rent-to-own is an offer within the alternative credit market. Rent-to-own is one of a number of different ways in which consumers can obtain household goods. Shop Direct (formerly Littlewoods) with some five million customers is a major competitor. BrightHouse's market penetration percentage into the alternative credit market is in low single digits.
- There is strong competition within rent-to-own with many towns and cities having more than one business represented.
- Customer recommendation is an integral element of our growth and depends absolutely on remaining competitive and having a compelling proposition. The positive reputation which BrightHouse is earning in local communities throughout Britain helps to differentiate us from our rent-to-own competitors.

PRICING AND VALUE

Q: Are pricing structures for goods and related services clear?

- BrightHouse's pricing is clear. The weekly payment, the product price including the five star service proposition, the length of the commitment, the representative APR and the total payable are shown for every product, both in-store and online.
- This is all communicated to the customer. We always spend time with new customers to review the appropriateness of the product and to undertake an assessment of affordability, combined with robust credit screening and full credit reference checks.

Q: How do prices compare with other retail and online outlets?

- We offer a unique package combining quality products and comprehensive service. So the only fair comparison is between our cash price and the prices of other retailers including: the product itself; delivery and installation; unlimited repairs and like-for-like replacement if a product can't be fixed; loan products if appropriate; cover against fire, theft and accidental damage.
- Our customers would generally not be in a position to pay cash to buy the type of products BrightHouse sells. However, to ensure that our customers are receiving value-for-money, we regularly benchmark the price of our products against other retailers, on a like-for-like basis. These prices include all aspects of our five star service proposition, either provided by the retailer or, if they do not offer the service, from an independent supplier.

Examples, as at 20 October 2014:

	42" LG Smart TV	7.5kg Hotpoint Condenser Tumble Dryer	7.0kg Hotpoint Washing Machine
Currys	£979.64	£500.99 ⁽²⁾	£515.00
Littlewoods	£968.64	£516.00	£525.00 ⁽³⁾
John Lewis	£850.64	£374.00 ⁽²⁾	£391.00
Argos	£950.63	£479.94	£499.93
BrightHouse	£930.47	£406.40	£487.68
BrightHouse's ranking	Second	Second	Second

⁽²⁾ 8.0kg model

⁽³⁾ Same specification but different Brand

- Although difficult to put a value upon, none of the other retailers offer the same level of flexibility which is available from BrightHouse. This includes the ability to change your mind and return the product to us, at any time and in any condition, owing nothing more.

- The rate at which we lend to our customers is highly competitive within the alternative credit market. For context, here are some examples of representative APRs:
 - Littlewoods 39.9%
 - Credit Unions 42.6%
 - BrightHouse 64.7%
 - My Home Finance 69.5%
 - H&T Pawnbrokers 155.8%
 - Provident Financial 399.7%
 - Cash Converters personal loan 897.0%
- For those customers who might be unable to afford a new product, we offer “Quality Refurbished” products at a lower price. Some 30% of agreements are “Quality Refurbished”. These goods are refurbished by us having been returned by the customer either because they choose to end the agreement or they decided to change the product for one which is more appropriate for them.

Q: Are non-credit customers offered the same packages?

- Yes. Our cash price includes all elements of the five star service proposition for the standard length of the product agreement.

Q: Is it appropriate to charge interest on the costs of delivery, insurance and repair cover?

- The total amount being borrowed by the customer is the cash price including the five star service proposition, and interest is payable on this. This is not unusual – for instance, it is standard practice within the insurance industry to charge customers interest when they wish to pay their insurance in monthly instalments. Of the UK’s 40 largest car insurance brands, 34 allow you to pay in monthly instalments. With just one of these, First Direct, charging no interest for the privilege.⁽⁴⁾
- Our customers value having the five star service proposition included rather than a complex array of add-on services. This gives them peace of mind.
- If an individual decides they do not want these services, then BrightHouse is not right for them.

(4) source Fairer Finance July 2014

LENDING PRACTICES

Q: Are the circumstances when customers might lose goods clear?

- Our agreement is clear. We spend time with all customers going through a document called the Agreement Guide Presenter. This fully explains the rights and responsibilities of the customer, as well as our obligations to them, before they sign the agreement.
- Even where customers continue in arrears, we seek to find a mutually beneficial way of retaining the customer and the customer’s goodwill. It is relatively unusual for us to instigate formal recovery activity.

Q: What actions do firms take to identify and help customers at risk of financial difficulty?

- We contact customers after a missed payment. Early recognition of issues and a rapid, constructive response is a vital mechanism in helping customers. We want to assist them to retain the product and maintain payments to the end of the agreement.
- Where a customer initially has difficulty paying, the store team and our specialist contact centre aim to help the customer return to regular payments. Our colleagues are fully trained and closely monitored to ensure that they sympathetically deal with customers experiencing difficulties. Our managers have discretion to allow customers with short-term difficulties to delay payments, at no extra cost, and wave any late payment fees.
- Our flexible credit agreement allows our customers to take a break from the agreement, downgrade their product, or return it, at any time and in any condition, with nothing further to pay and no further obligations.
- We signpost our customers to impartial, free debt advice from organisations such as National Debtline.

Q: How often do customers have multiple agreements with RTO firms and when might this not be appropriate?

- Affordability is paramount and we will always review a customer's income and expenditure before undertaking any lending.
- We spend time with all new customers to ensure that they can both afford, and also that they understand, the agreement they are signing. We also utilise relevant data from credit reference agencies and bespoke credit scores.
- Payment data is notified to credit reference agencies to assist those who pay on time and to ensure that all lenders have access to data on which to make the most appropriate lending decisions. This ensures that all lenders who utilise the credit reference agencies make better lending decisions which benefits everyone.
- Some 64% of our customers choose to take out a second or subsequent agreement. When a customer wishes to take out another agreement, we seek to ensure that their payments remain affordable.

TREATMENT OF CUSTOMERS IN ARREARS

Q: How many customers fall behind on payments?

- As our customers pay weekly, for most that will be 156 payments. Almost a fifth of our customers will never be late with any payment by even a single day. For the rest they will be one or more days late at some time during their agreement. In the vast majority of cases this is because they are simply busy, and it is quickly resolved. If our customers do have short-term financial difficulties we will work hard to ensure that they are assisted and supported through our extensive range of forbearance options.
- 80% of our customers never fall one month behind with their payments throughout their agreement.

Q: How are customers who fall behind on payments treated?

- Where a customer has difficulty paying, the store team and our specialist contact centre aim to help the customer return to regular payments. Our managers have discretion to allow customers with short-term difficulties to delay payments, at no extra cost, and waive any late payment fees. Our Sheffield based contact centre is highly professional, with comprehensive training and close monitoring to ensure that colleagues deal sympathetically with customers experiencing difficulties.
- Our flexible credit agreement allows our customers to delay payments, downgrade their product, or return the product, at any time and in any condition, with nothing further to pay and no further obligations.
- We are working with the Money Advice Trust on client referrals and reviewing our forbearance options.

Q: Are debt collection practices in the sector appropriate?

- We can only speak for BrightHouse but we seek to comply with the letter, and the spirit, of all relevant rules and regulations.
- All colleagues who carry out debt collection activity, either face-to-face or over the phone, receive comprehensive training in debt collection practices and our range of forbearance options. Regular observation of colleagues is carried out by management to ensure that activity is undertaken in accordance with our procedures, and that it is handled sensitively.

Q: What proportion of goods are seized and resold?

- None, goods are never seized. Goods are only ever taken by us from a customer's home when they choose to voluntarily surrender items, and after all other options have been explored and exhausted.

COMPLIANCE AND SCOPE FOR FURTHER ACTION

Q: How effectively are firms and trade associations monitoring compliance with charters and codes of practice?

- Compliance is important to us, and we aim to comply with both the letter, and the spirit, of all relevant regulation. We have an experienced full time Director of Compliance and a compliance team of 11.
- We are regulated by the Financial Conduct Authority (FCA), and are a member of several relevant trade bodies such as the Finance and Leasing Association (FLA), the Consumer Credit Trade Association and the British Retail Consortium. We seek to comply with all relevant laws, charters and codes of practice.
- The FLA's Lending Code sets out best practice in consumer lending. Our compliance with the Code has been assessed this year by an independent review visit, and no issues were found.

Q: What actions could RTO firms and trade bodies take to improve the customer experience?

- We can only speak for BrightHouse but we believe our practices deliver a best-in-class customer experience. However, we never rest on our laurels and are always happy to work with any interested parties to improve the way we do business for the good of our customers. Where these are identified, we have made changes where appropriate – for instance introducing manufacturers’ product codes, as well as our own, to aid price comparison.

Q: What actions could the regulator take to improve practice in the RTO sector?

- We are required to work openly and transparently with the regulator, and we do. The regulator has clearly set-out the rules by which all lenders must operate – we seek to abide by all these rules.
- Rent-to-own is a competitive marketplace which works in the interests of customers, enabling them to make informed purchasing decisions.