



Improving Practice in the Rent to Own Market

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Acknowledgements

The success of this project has depended on the positive contribution of many people – with participants from the consumer, regulatory, and industry sectors working constructively together in order to improve outcomes for low income consumers. I am grateful to all who have been involved. However, I would like to put on record my particular thanks to John Packer, Bishop of Ripon and Leeds, for chairing the project meetings and Mark Waters and Greg Brown from Thrive for initiating the work with residents in Stockton on Tees and for commissioning the Centre for Responsible Credit to support their work. The project would also not have progressed without the financial backing of Friends Provident Foundation, and I am particularly grateful for the participation of their Grants Manager, Andrew Thompson, whose comments on the draft working papers and the project report have been, as is customary in his case, extremely helpful.

However, the success of the project has rested predominantly on the nature of the engagement between local residents in Stockton on Tees and the industry.

The contribution of the residents: Kathleen Carter, Terry Carter, Maureen Hagan, Rae Oram, Amanda Bradshaw, and Carol Giles, cannot be overstated. Their determination to engage companies in this sector on the issues of concern set out in this report has been an inspiration, and this work has been recognised elsewhere, with Thrive winning the North East VCS "Most Inspiring Campaign" Award in 2011 and Kathleen Carter winning the Sheila McKechnie Award in the same year.

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Chapter One: Introduction

The Rent to Own (RTO) sector of the UK consumer credit market comprises firms providing household goods such as furniture, white goods, and electrical items on rental agreements to lower income households with an option for the consumer to purchase these at the end of the rental period. The households using firms in this sector, which are also sometimes referred to as 'weekly payment stores', would otherwise have difficulty paying the cash price for these types of goods and are also limited in their ability to obtain what would be a large amount of credit relative to their income to fund these purchases from other sources¹.

RTO agreements are attractive to low income households because they spread the purchase cost over a number of years, and therefore allow poorer consumers, including many in receipt of income related benefits, to obtain items without the prior necessity of saving over a lengthy period of time. Stores advertise that they are more likely to accept people with impaired credit records, and repayment options are also tailored to help households budget, with agreements typically repaid weekly. Purchasing items in this way can be helpful to low income households where the items are essentials such as cookers and beds¹, and where saving up for their purchase would mean 'going without' for a significant period.

However, the cost of RTO agreements has been a long standing cause for concern. Whilst weekly repayments are low, the length of agreements (typically 3 years) means that the overall cost can be considerable. For example, Mathers & Sharma (2011), find that consumers can pay up to £780 more when purchasing a washing machine on a RTO agreement than would be the case if they were able to buy in cash on the high street. The higher cost of RTO agreements has been found to arise as a consequence of:

- A cash mark up by some RTO firms on the high street price;
- Interest on the agreement; and
- Additional charges for optionalⁱⁱ insurances and service cover taken out at the time of entering the RTO agreement.

The fact that there are three separate elements to the total price can make it difficult for consumers to compare costs. For example, the APR on an agreement can be kept artificially low if the cash price for the item (i.e. the basic retail price for purchasing without the use of credit) is inflated.

¹ Not all of the items sold through the RTO sector are 'essentials'. For example the stores often stock a wide range of luxury electrical items including high spec TV's and entertainment systems.

There are also concerns that consumers using this sector have few other options available to themⁱⁱⁱ. In its review of the High Cost Credit sector, published in 2010, the Office of Fair Trading ('OFT') noted that there was both a lack of transparency in the pricing of RTO agreements^{iv} and a high degree of dependency on this source of credit amongst RTO customers. Research conducted as part of the review found that 17 per cent of RTO customers hold a number of agreements concurrently and 10 per cent of customers use these forms of agreement continuously, i.e. with no gap between agreements^v. When asked directly, some 36% of RTO customers identified themselves as being either fairly or very dependent on RTO as a form of credit.

The Office of Fair Trading ('OFT') has estimated^{vi} that the RTO sector made advances of between £250 million and £300 million in 2008. This compares to advances by mail order companies (the sector's closest substitute) of some £4 billion and total advances by high cost credit lenders, which includes pawnbrokers, payday lenders, and home collected (or door to door) moneylending of £7.5 billion in the same year.

Whilst the RTO sector is therefore much smaller than mail order, and accounted for only 4 per cent or so of the entire amount advanced by high cost consumer credit lenders in 2008, it is important to note that two of the largest firms (Brighthouse and PerfectHome) in this sector have been expanding their operations in the wake of the financial crisis in 2007/08 and the subsequent economic downturn (see table 1, below).

Table 1: The main three RTO brands

Brand	Size of operation
Brighthouse	Customer numbers have more than doubled since 2006/07 to just over 227,000 as at the end of 2011/12 and the company has embarked on an ambitious programme to increase its high street presence, opening over 100 new stores in the same period to take its total number to 253.
PerfectHome	Opened its first store in 2006 and now has 47 nationwide. It now employs 400 people. Assuming that the customer number to store ratio is similar to Brighthouse we estimate that PerfectHome has in the region of 42,000 customers.
Buy as you View	The oldest of the firms in the sector. Founded in 1972 and employing approximately 550 people. Operations are concentrated in South Wales, the Midlands and North of England and in Scotland. Based on the level of employment we estimate that it has in the region of 55,000 customers. The company's name comes from its method of collecting payments through the use of a coin meter fitted to the customer's TV ² .

² See <http://www.bayv.co.uk/help/faqs.ashx#2> for further details of the coin meter. BAYV then collects the contents of the meter from the customer's home every 8 weeks.

There are no publicly available datasets concerning the size of the RTO sector in the UK. However, we estimate that the largest three firms have a combined customer base of between 300,000 and 350,000 households. The market leader, Brighthouse, has just over 220,000 customers^{vii}.

In its most recent annual report Brighthouse indicates that the 'non conforming alterative credit market' is made up of some 5 million households and that the RTO 'market fundamentals' are 'attractive'. Specifically, Brighthouse identifies six key factors which make the market attractive for further investment. Specifically, these are:

- The market is resistant to the economic downturn;
- There is underlying growth in the credit impaired market;
- There is a focus on providing 'essential' consumer products;
- There are limited direct substitutes;
- The market is difficult to enter; and
- There is limited high street competition.

Whilst these features of the market make it attractive to existing providers, they also give rise to concerns that consumers may not be getting the best deal. In particular, that a lack of competition could give rise to high prices and poor service standards.

Over the past 18 months the Centre for Responsible Credit has been working with Thrive, a community organising project established by Church Action on Poverty and operating in Stockton on Tees, to identify issues of concern from the consumer perspective and to raise these with the industry^{viii}.

Genesis of the project

Thrive successfully managed to engage a group of residents in 2010 as part of their wider work in the area on financial exclusion issues in Stockton on Tees. This group discussed their use of RTO firms, and particularly Buy as You View ('BAYV'), which has a strong presence in the region.

Initially, the concerns of customers centred on pricing, particularly in respect of long term 'good payers' who felt that their payment records warranted a reduction in the cost of agreements as they posed little risk to the company in terms of likely default. However, over the course of discussions a number of other 'issues of concern' were also identified. These were:

- The often poor quality of account statements, which did not enable customers to identify the individual items subject to rental agreements and which therefore often caused confusion;
- The practice of modifying agreements, when additional goods are rented from the same company at a later stage, which had the effect of deferring the point at

which ownership of the initial goods obtained under the agreement transferred from the company to the customer;

- Problems with the repair of faulty goods, including a lack of information provided to consumers about their repair rights and clear customer service standards from firms to address faults or offer to replace goods within a defined period;
- The need for consumers to be given a range of payment options and to provide fair treatment for people who have missed payments including by providing accessible and timely opportunities for people to make payments towards their arrears.

Thrive proceeded to challenge BAYV through the use of a spoof TV advert highlighting some of these concerns, and a meeting was subsequently arranged with BAYV's senior management to discuss how to address these. This resulted in a number of positive commitments from the firm to:

- Work to reduce interest rates for customers who are regular payers;
- Introduce much more transparent statements to customers so that people are clear about their loan commitments; and
- Work with Thrive to lobby for industry-wide data sharing commitments to allow people to gain good credit references even when borrowing from non-mainstream lenders.

However, the meeting also recognised that the problems identified by Thrive were not restricted to BAYV alone, and that an industry-wide response would be beneficial. Thrive and BAYV therefore agreed to work together to bring other firms into the discussion and, with financial support from Friends Provident Foundation, Thrive brought the Centre for Responsible Credit into the project to help them progress matters at the national level.

Structure of the report

The remainder of this report details how the project was taken forwards and the achievements to date. It is structured as follows:

Chapter two provides further details of the consumer concerns; how these were taken forwards with the industry and how a set of 'asks' to address these were developed;

Chapter three details the industry response; and

Chapter four presents our conclusions from the project together with recommendations to help guide further work in this sector.

Chapter Two: The issues of concern

An initial meeting between representatives from Thrive, BAYV, the OFT, Centre for Responsible Credit, Citizens Advice, Consumer Focus and the credit reference agencies Experian and Equifax took place on 13th January 2011. This meeting agreed a list of seven 'issues of concern' on which the project would focus moving forwards. These are summarised in table 2, below.

Table 2: The seven key 'issues of concern'

Issue of concern	Summary details
1. A lack of transparency in the pricing of Rent to Buy agreements	<p>The OFT's High Cost Credit Review identified that RTO firms often advertise their agreements at a relatively low APR but this can be misleading since it does not take into account that the bundled price may already include a premium (compared to other high-street prices).</p> <p>Commenting on this the OFT noted that "The possibility for suppliers to allocate the cost of credit either (implicitly) to the retail price or (explicitly) to the APR figure may lead consumers to make a suboptimal choice, if they focus on the explicit cost of credit offered. This is particularly a risk for customers with high search costs, low levels of financial literacy, who are not aware of cheaper alternatives or who struggle to compare offers with different pricing structures."</p> <p>In addition to this, firms often sell linked insurance and service cover policies alongside the main agreement. Whilst these are optional, many firms require that the consumer either take out the firm's insurance policy to cover against fire and theft or have in place another home contents policy that protects the rented item. This is not in itself unreasonable, but there is a low take-up of home contents policies generally amongst poorer households and the cost of insurance by the RTO firms can be particularly high where multiple items are being rented. Issues relating to service cover are discussed in more detail in respect of issue number 6 (problems with the repair of items) below.</p>
2. A high degree of dependency amongst Rent to Buy borrowers	<p>The OFT's High Cost Credit Review (2010) had recommended that "Government works with credit reference agencies to explore ways in which...rent-to-buy suppliers could provide suitable information to credit reference agencies about the payment performance of their customers, in turn allowing those with good payment records to use mainstream lenders more easily in the future."</p>
3. The high cost of goods purchased using RTO agreements, including both the cash price mark-ups of goods and the cost of credit	<p>Thrive's work identified that this was a particular concern for 'good payers' who were resentful that they were being asked to pay the same prices as people who had no or poor repayment records. As above, it was felt that data sharing could have the potential for some 'good payers' to migrate to other forms of credit. However, there was also a need for firms within the RTO sector to examine how they could distinguish good payers and reward long term, good customers with reduced prices.</p>

<p>4. The poor quality of account statements, which are often unclear and cause confusion</p>	<p>The OFT's Irresponsible Lending Guidance indicates that lenders should "keep the borrower adequately informed of the state of his account via the provision of regular statements, in accordance with the requirements of section 77A or 78(4) of the Act [requirement to provide a statement of account on at least an annual basis]". Failure to do so is identified as an unsatisfactory business practice that could call into question the lenders' consumer credit licence.</p> <p>In addition, the Consumer Credit (Agreements) Regulations 2010 provide a right for consumers to request a statement of account for fixed sum credit agreements, which can be requested at any time during the lifetime of the agreement, but not more than once per month.</p> <p>However, there were also issues concerning the quality of account statements, particularly where customers had taken out a number of different agreements and were renting multiple items. The meeting identified the need to ensure that account statements were provided which identify the items being rented, the length of time remaining on each agreement, and the payment requirements.</p>
<p>5. The practice of modifying agreements can have the effect of deferring the point at which ownership of the initial goods obtained under the agreement transfers from the company to the customer</p>	<p>Thrive identified a possible consumer detriment caused by the modification of agreements. This occurs when a customer seeks to obtain an additional item and rather than run two agreements in parallel, a single, modified, agreement covering both items is provided. This can extend the period of the lifetime of the agreement and defers the point at which ownership of the initial rented item transfers to the customer.</p> <p>For example, a customer takes out a three year agreement to rent and ultimately purchase a washing machine. After two years, the consumer returns to the store in order to obtain a cooker. The original agreement concerning the washing machine is now modified to include the cooker but this new agreement will run for another three years. In this scenario payments will have to be made in respect of the washing machine for a total of five years before the consumer obtains ownership. It should be noted that this concern particularly related to BAYV.</p>
<p>6. Problems with the repair of faulty goods, including a lack of information provided to consumers about their repair rights and clear customer service commitments from firms to address faults or offer to replace goods</p>	<p>Customers entering into RTO agreements have the same rights under the Sale of Goods Act 1979 as other consumers to receive goods which are of satisfactory quality, including that goods are fit for purpose, safe, durable, and free from minor defects. Where problems occur, RTO customers will have a right of redress against the supplier of the goods and can either:</p> <ul style="list-style-type: none"> • Return the goods and claim a total refund, or • Obtain a repair or replacement, or failing this a partial or full refund <p>These rights are exercisable within a reasonable period of identifying the fault. However, customers are not entitled to redress where problems arise as a result of fair wear and tear, misuse or accidental damage, or simply because the customer no longer wants the item.</p> <p>The explanation of rights to repair, and where these are exercised, to obtain a prompt and effective customer service, are therefore</p>

	<p>extremely important for RTO customers who could otherwise be left with obligations to pay for goods which no longer work, although in these cases the customer has a right to terminate the agreement and may be able to reduce the total amount repayable by doing so.</p> <p>In addition, RTO firms also sell service cover policies designed to cover items against accidental damage. It is often not clear to consumers what level of additional protection is being provided over and above the statutory rights of repair or which are covered by the manufacturer's warranty (which generally runs for one year). Equally, consumers that have repaid half of the total amount payable under an agreement have the right at any time to return the goods without further liability. In the case of an item being damaged 18 months into a three year contract then this may be a preferable course of action in some circumstances than accepting a repair and continuing to pay for service cover for a further 18 month period.</p>
<p>7. Consumers need to be given a range of payment options and to provide fair treatment for people who have missed payments including by providing accessible and timely opportunities for people to make payments towards their arrears.</p>	<p>Some forms of payment (e.g. Direct Debit) are cheaper to administer and could be offered to customers at a lower price than in store payments or weekly collections from the customer's home. However, customers were not being provided with a choice of payment options.</p> <p>In some cases firms also appeared to reject partial payments from customers who were behind on their agreements, which accelerates arrears levels and leads to the levying of additional costs. In some cases, consumers also reported that they were only allowed to make payments on a specific day, and there were also questions as to whether or not additional charges made on default were reasonable.</p>

Further to identifying the issues of concern to be pursued within the project, the initial meeting also felt that it would be beneficial to progress these on an industry-wide basis, and through the possible development of a code of practice, rather than to raise them on an ongoing basis with individual companies.

This decision should not be taken to imply that all of the issues were of equal relevance to all of the firms or that practices within the industry are homogenous. For example Brighthouse has never modified agreements in a way that delayed the transfer of ownership of items to the customer, and BAYV is alone in collecting payments from customer's homes through the use of a coin meter linked to the TV.

Nevertheless, it was felt that getting some consistency of commitment across the industry on the issues of concern was important.

The next stage of the project therefore involved engagement with Brighthouse and PerfectHome as the other main RTO firms in the market, and:

- A review of the position of the main RTO firms with regard to their membership of Trade Associations;

- A review of the content of any existing codes of practice to which the main firms in this sector were already committed in order to determine how far these codes already addressed the issues of concern; and
- Consideration as to how any existing codes of practice could be improved. In this respect the meeting also commissioned a review of the OFT expectations for codes of practice (as set out in its Consumer Codes Approval Scheme^{ix}).

However, it should be noted that discussions during the project subsequently identified the need to progress the issues relating to pricing and the potential value of a **data sharing** solution to both the problems of dependency on RTO (issue number 2 in the table above) and the high prices charged to existing 'good payers' (issue number 3), separately from those relating to more general customer service standards.

This decision was informed by an assessment of the likely amount of work required to progress data sharing and the resources available to the project at the time. In particular it was felt that the group would need to obtain further information relating to data sharing protocols within the consumer credit industry (which are developed by the Standing Committee of Reciprocity) and better understanding of the outcomes from initiatives to support data sharing in other areas of the high cost credit market (specifically, learning from the imposition of a data sharing remedy on the home credit or door to door lending market following the Competition Commission inquiry into this sector completed in 2006).

A separate funding application was therefore submitted to the Friends Provident Foundation to resource this work and following agreement around the terms of reference an RTO data sharing project was established at the start of 2012. This is ongoing and the full outcomes from this will be reported later in the year, although we can report here that Brighthouse have now implemented the full use of credit bureau data in their credit checks and will be sharing reciprocal data such that in future Brighthouse customers will receive positive information on their credit file.

Towards an industry-wide code of practice?

By May 2011, the project had successfully engaged with BAYV, Brighthouse and PerfectHome and identified that BAYV and Brighthouse were members of the Consumer Credit Trade Association ('CCTA'). Following discussion it was confirmed that PerfectHome would also be willing to join the CCTA and that all three of the main RTO firms would be willing to discuss how the issues of concern could be addressed by further developing the CCTA's code of practice.

The starting point for this exercise was to conduct a review of the existing CCTA code to determine whether this adequately dealt with the issues of concern. This revealed that whilst the code placed its members under a number of high level obligations (for example to "Trade honestly, responsibly, ethically and treat

customers fairly') and contained specific sections dealing with specific practices in respect of credit cards, store cards, mortgages and business lending, there was nothing in the existing code which adequately dealt with the issues of concern identified in respect of the RTO sector.

In addition we also assessed the CCTA code against the OFT's Consumer Codes Approval Scheme³. This scheme provides some thirty five criteria designed to help trade associations develop codes of practice which go beyond adherence to legal requirements and are designed to provide consumer benefits in addition to the protection of the law. Whilst not expecting the CCTA to pursue full OFT approval for its code, as the process for doing so is lengthy, we felt that the OFT Scheme provided an important benchmark against which to assess the current CCTA code and that the exercise could identify areas where the code as it applied to RTO members could be strengthened.

This review process identified a set of 'asks' of the industry to improve the CCTA code. These were signed off by a meeting of the project group and submitted formally to the CCTA on 14th September 2011.

The 'asks' submitted to the CCTA

A general request was made to the CCTA that it work with its members operating in the RTO sector to **develop an addendum to the existing CCTA code of practice** which sets out how members in this sector would address the issues of concern identified within the project.

At the time of making this request the CCTA had recently introduced a sector specific addendum to its code for those members providing finance through the use of Bills of Sale ('logbook loans') and discussions were ongoing between the CCTA and Government concerning the introduction of sector specific commitments by payday lenders^x. Discussions held between the Centre for Responsible Credit and the CCTA therefore identified the development of an RTO sector specific addendum to the code as a possible means of taking forward the concerns and one which, in principle, the CCTA was prepared to consider.

In addition to the general request to develop a sector specific addendum the submission to the CCTA included a number of 'propositions' as to how the issues of concern could be dealt with by an addendum. These are detailed in turn below.

³ See Appendix 1 to this report for further details.

Issue 1: Price Transparency

That CCTA members should commit to ensuring that both websites and sales staff draw the attention of customers to the total cost of the good, and all of the elements which contribute to this, including the cash price; cost of credit; and any optional insurance cover, as well as to the level – and length - of repayments.

CCTA members should also consider using mystery shopping techniques to test out how well the total cost of using rent to own is explained to consumers and what additional training requirements are needed for sales staff. A commitment was also sought from CCTA members to engage consumer agencies in the development of mystery shopping procedures and sales staff training.

The CCTA was also asked to require RTO members to incorporate a clear statement on their advertising to encourage customers to carefully consider whether rent to own is the best option for them and signpost people to independent sources of information concerning how they could improve their credit rating.

Issue 2: Account Information

That CCTA members commit to responding to all reasonable customer requests for account information and provide a clear description of the item being purchased; the total costs of this; the amounts paid; the amounts outstanding; and the level and length of weekly repayment required. CCTA members should also commit to providing a clear annual summary of these items across all the accounts held by the customer.

CCTA members should commit to ensuring that the cost of any optional insurance is made clear for each of the items in the account statement and that where insurance is taken out in respect of more than one good that customers are alerted to the possibility that a single home contents insurance policy may be a cheaper option.

Issue 3: Modified agreements

Those CCTA members that offer to modify existing agreements to incorporate the cost of additional goods should commit to ensuring that this does not defer the transfer of ownership of the original items to the customer if this is to the detriment of the customer. CCTA members should consider setting a standard period of time within which the ownership of the original goods will be transferred to the customer even where agreements have subsequently been modified to take account of additional rentals.

Those CCTA members that offer to modify agreements in response to customer concerns about the affordability of repayments should monitor the number of times that these requests are made and use this information to pro-actively identify customers who may be in financial difficulty. Where customers are identified in this way then CCTA members should signpost people to sources of free money advice.

Issue 4: Repairs and replacements

CCTA members should provide customers with a clear statement concerning their rights to the repair and replacement of faulty goods, together with details of the manufacturer's warranty, at the point of sale. Both the consumer's statutory rights and the additional rights arising from any optional service cover offered to the consumer should be explained.

CCTA members should also provide customers with details of how can they report faults, and the customer service standards that can be expected from the firm to deal with these. For example CCTA members should commit to replace goods on a temporary basis pending a repair, and should have policies to provide compensation to the customer if these are not met. CCTA members should also commit to ensure that customers are kept informed of the progress of any repair.

Issue 5: Range of payment options

CCTA members should offer a range of payment options, including payment through Direct Debit, and should seek to ensure that customers are aware of the different costs associated with each payment type.

Issue 6: Default charges and forbearance

CCTA members should commit to ensuring that default charges represent the actual costs incurred by the firm and are not punitive.

CCTA members should also ensure that they have clear policies and procedures in place for extending forbearance to customers in financial difficulty. These should include the acceptance of partial payments for a temporary period and the signposting of customers to debt advice agencies. CCTA members should also ensure that payments from customers in arrears are accepted at times and locations which are convenient to the customer.

General requirements for the addendum

Drawing on the assessment of the existing CCTA code against the criteria set out in the OFT's Approved Codes Scheme, a number of general requirements for the addendum were also identified and submitted to the CCTA. These were for the addendum to:

- Be written in plain English, and preferably accredited as such
- Require members to publicise the fact that they are members of the CCTA and that they have signed up to both the CCTA's general code and a rent to own specific set of commitments in their advertising and at point of sale

- Commit the CCTA to effective compliance monitoring and set out how this will be undertaken, preferably including the use of mystery shopping techniques, independent research, and regular liaison with consumer agencies and regulatory authorities
- Provide details of the procedures which the CCTA will use where it has identified instances of non-compliance, including for example the use of warnings, fines, and expulsion from the trade association
- Commit the CCTA to engage on an ongoing basis with consumer agencies, regulatory authorities, and debt advice agencies to inform regular reviews of the addendum
- Include improved commitments for its members in respect of their complaints handling processes – for example by setting a standard time-frame for the handling of complaints across the association’s RTO members and including a commitment to co-operate with advice agencies and consumer bodies in respect of any complaints or instances where financial difficulty has been identified.

Chapter three: The industry response

The request made to the CCTA was put before its governing council^{xi} in December 2011. In its response to the project group of 26th January 2012, the CCTA agreed to “work with the companies that you have mentioned, and other companies including another Trade Association to arrive at a Code of Practice in this particular small sector” and to “keep [the group] apprised of the outcomes as we proceed.”

However, since that time there has been substantial delay on the part of the CCTA and further details of a sector specific addendum to the code of practice have not been forthcoming.

Nevertheless, in the period between the ‘asks’ being submitted to the CCTA and the receipt of the CCTA’s response the individual firms engaged by the project had taken action to review or put in place their own customer charters in order to respond to the issues of concern.

An assessment of the content of each of the firm’s charters against the ‘asks’ submitted to the CCTA is now provided in tables, on the following pages. Each table is then followed by a summary of the progress made within the project in respect of the individual ‘asks’. Conclusions are then drawn out in the following chapter and presented with a number of final recommendations.

Table 3: Responses to the Price Transparency 'asks'

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
<p>Ensure websites and sales staff alert customers to the total cost of the good and all the elements which contribute to this as well as to the level, and length, of repayments.</p>	<p>The charter commits Brighthouse to ensuring that customers are given a clear explanation of the key terms and cost of each of their agreements before they sign up to them.</p> <p>It also commits to "ensure that our prices are fully transparent, providing clear information on the full cost of ownership including optional insurances or warranties."</p>	<p>The charter commits BAYV to ensuring that all marketing material is clear, transparent and complies with all legislative requirements, and that the customer is provided with "a clear explanation of the terms of the agreement and also their rights and obligations under the agreement."</p>	<p>The PerfectHome charter commits to "provide the customer with a clear explanation of the terms of the agreement(s) and also explain their rights and obligations under the agreement(s)."</p> <p>The charter also commits the firm to "ensure that our prices are fully transparent, providing clear information on the full cost of ownership, including optional warranties and where appropriate our Theft and Accidental Damage Insurance."</p>
<p>Use mystery shopping to test how the cost is explained to consumers and what training requirements are needed for sales staff.</p> <p>Engage consumer agencies in the development of mystery shopping and</p>	<p>The Charter states that Brighthouse will employ mystery shoppers to test how well all elements of the proposition are explained.</p> <p>It does not, however, commit to engage consumer agencies in the development of mystery</p>	<p>The charter does not currently contain a commitment to the use of mystery shopping. However, BAYV are committed to "holding a customer board meeting every quarter, with customers from each area, to discuss areas of development relating to all customer interactions." ⁴</p>	<p>The charter commits the firm to "employ mystery shoppers to test how well all elements of our proposition are explained."</p> <p>As with the Brighthouse charter it does not, however, commit to engage with consumer agencies in the</p>

⁴ Further discussion with BAYV has also revealed that although there is no current commitment in the customer charter to conduct mystery shopping, the firm has regularly undertaken such exercises since 2009. BAYV is in the process of updating its charter to publicise this commitment.

sales staff training.	shopping or staff training exercises.		development of mystery shopping or staff training exercises.
Encourage customers to consider whether rent to own is the best option for them and signpost to independent sources of information concerning how they can improve their credit rating.	The charter contains a commitment to encourage customers to improve their credit rating and direct them to independent sources of information on how to do this.	The BAYV charter does not currently contain commitments of this nature.	The PerfectHome charter does not currently contain commitments of this nature.
Additional relevant commitments contained in the charters	In addition, the Brighthouse charter commits the company to "ensure our prices are competitive against comparable high street retailers."	In addition, the BAYV charter commits the firm to "ensure product pricing is comparable and competitive against other companies in the sector" and that "in any marketing material, for all products" the firm will "include the manufacturer's model number, the cash price, the weekly price when purchased on credit, the terms of the agreement and the representative APR."	The PerfectHome charter includes a commitment to "ensure our product pricing is competitive against other companies in the sector."

As can be seen from the table, the majority of asks in this area have been positively responded to by the main RTO firms. All three firms are committed to providing adequate explanations of the costs of the agreement, in line with their statutory obligations.

All three firms are now also committed to using mystery shopping exercises. Two of these (Brighthouse and PerfectHome) have put this commitment into their customer charters. Although a similar commitment is not currently included in the BAYV charter, the company has stated that it has undertaken mystery shopping exercises since 2009; remains committed to using this approach; and has also now established a customer board, which will meet quarterly, to discuss issues of concern.

All three firms have committed to ensuring that prices are competitive. There is a difference in the wording of these commitments that should be noted, with Brighthouse committing to ensure that their prices match those that can be found on the *high street* generally, whilst BAYV and PerfectHome commit to matching others *in the sector*. In practice, so long as one of the firms in the sector is competitive with the high street then the others will also need to follow suit. Although the specific details as to how these commitments to price competition are not set out in any of the charters, Brighthouse has informed us that it now checks its prices every week against four mainstream retailers and if prices are out of line with these then it changes them accordingly and updates these on the company website. This can mean that prices in its quarterly printed catalogue can be out of date, particularly towards the end of the period.

The additional commitment from BAYV to include the manufacturer's model number in all marketing material is worthy of note here as Brighthouse has previously been criticised for creating model numbers which are individual to its stores and which therefore prevent the easy comparison with cash prices available for the same items on the high street^{xii}. However, Brighthouse has informed us that it has now responded to this criticism and made changes in response so that they are now using the manufacturer's model on both the website and in its printed material.

It should also be noted that only Brighthouse has provided a commitment to encourage customers to independent sources of advice as to how they can improve their credit rating.

Table 4: Responses to the Account Information 'asks'

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
<p>Firms commit to responding to all reasonable customer requests for account information and provide a clear description of the item being purchased; the total costs of this; the amounts paid; the amounts outstanding; and the level and length of weekly repayment required.</p> <p>Firms also commit to providing a clear annual summary of these items across all the accounts held by the customer.</p>	<p>The charter commits Brighthouse to providing customers with an Annual Statement for each credit agreement, detailing payments, remaining balances and costs of insurance policies and warranties.</p> <p>In addition there is a commitment to respond to any reasonable request for additional information about agreements</p>	<p>In accordance with legislation, BAYV are committed to issuing annual statements detailing payments, outstanding balances and costs for any additional optional warranty and insurances</p>	<p>The charter contains a commitment to “provide customers with an Annual Statement for each credit agreement, detailing payments and outstanding balances.”</p>
<p>Firms commit to ensuring that the cost of any optional insurance is made clear for each of the items in the account statement and where insurance is taken out for more than one good that customers are alerted to the possibility that a single home contents insurance policy may be a cheaper option.</p>	<p>Whilst there is a commitment to ensuring that the costs of insurance policies is made clear in the annual statement, there is currently no commitment to alert customers with agreements covering a number of items to the possibility that a single home contents policy may be a cheaper option.</p>	<p>As above, there is a commitment to ensure that the costs of insurance policies are made clear in the annual statement. However, there is currently no commitment to alert customers with agreements covering a number of items to the possibility that a single home contents policy may be a cheaper option.</p>	<p>Again, there is no commitment in the charter to alert customers with agreements covering a number of items to the possibility that a single home contents policy may be a cheaper option.</p>

All three firms have made commitments in their charters to ensure that customers are provided with an annual statement, reflecting the legal requirement set out in section 6 of the Consumer Credit Act 2006, which came into

force in October 2008. Brighthouse has also included within its charter an explicit commitment to customers that it will respond to 'any reasonable request' for information about agreements. Whilst there is currently no similar specific commitment on this point in the BAYV's charter, the company has told us that it has recently created an on-line secure 'My Account' service whereby customers can access full details of their agreements and account via the company website and that it is committed to responding to all 'reasonable requests' for account information from its customers.

The response to other 'ask' in this area has, however, been poor with none of the three firms including a commitment within their charters that they will alert customers to the fact that a general home contents insurance policy may be a cheaper option than those provided by the firm⁵. Concerns remain that the optional insurance and service cover offered by RTO firms is poor value for money, especially for those customers that take out cover for more than one item at a time, and it is difficult to see how these customers can be alerted to the possibility of alternative, and more affordable, options.

⁵ A partial response on this point has been forthcoming from Brighthouse which does notify customers that there is no need to take out the company's insurance cover for damage and theft if there is an existing home contents policy in place. The company therefore advises that customers should bring in a copy of their existing home contents policy when they visit the store to enter into any new agreements. However, this does not meet the 'ask' in that it does not alert customers who do not already have cover in place that a general home contents policy is likely to work out cheaper.

Table 5: The Modified Agreement 'ask'

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
<p>Firms that offer to modify existing agreements to incorporate the cost of additional goods should ensure that this does not defer the transfer of ownership of the original items to the customer if this is to the detriment of the customer.</p> <p>Firms should also consider setting a standard period of time within which the ownership of the original goods will be transferred to the customer even where agreements have subsequently been modified to take account of additional rentals.</p>	<p>As indicated previously in this report, Brighthouse had never previously modified agreements in this way. They were therefore happy to provide a commitment in their charter that this would not be a practice that they would introduce in future.</p>	<p>There are currently no commitments relating to this issue in the BAYV charter.</p>	<p>The PerfectHome Charter includes a commitment to "keep existing agreements on the original terms when customers take out further agreements." However, as in the case of Brighthouse, this practice was not previously identified as an issue with this company and may be specific to BAYV.</p>

Whilst both Brighthouse and PerfectHome have included commitments to keep existing agreements on original terms when customers take out credit for new products, this appears to have simply codified their existing practice. It therefore remains an issue which BAYV need to address.

Table 6: The Repairs and Replacements 'asks'

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
<p>Firms should provide customers with a clear statement concerning their rights to the repair and replacement of faulty goods, together with details of the manufacturer's warranty, at the point of sale.</p> <p>Both the consumer's statutory rights and the additional rights arising from any optional service cover offered to the consumer should be explained.</p>	<p>The charter contains a commitments to:</p> <p>"Provide customers with clear information concerning their rights to repair and replacement of faulty goods"; and</p> <p>"Statutory rights and additional benefits arising under insurance policies or warranties will be fully explained."</p>	<p>The charter contains a commitment to ensure that "In any warranty or insurance material" the firm will "provide clear guidance on customers statutory rights." To fulfil this an additional leaflet setting these out is provided to customers at the point of sale and information is also published on the company website.</p>	<p>The charter contains commitment to:</p> <p>"Provide customers with clear information concerning their rights to repair and replacement of faulty goods"; and</p> <p>"In any warranty or insurance material provide clear guidance on customer statutory rights."</p>
<p>Firms should provide customers with details of how can they report faults, and the customer service standards that can be expected from the firm to deal with these.</p>	<p>However the Charter does not provide any details as to how they can report faults or the customer service standards that can be expected once this is done, including the circumstances under which compensation will be paid.</p>	<p>Whilst the BAYV charter does not provide any details the company does provide an additional information leaflet about their service standards in this respect, including that products will be fixed or repaired within 30 days.</p>	<p>However the Charter does not provide any details as to how they can report faults or the customer service standards that can be expected once this is done, including the circumstances under which compensation will be paid.</p>

Whilst there has been some progress made in response to the 'asks', this is limited to providing customers with information about their statutory rights to a repair and alerting them to the additional cover provided by the firm's own optional insurance policies. Only BAYV currently published a customer service standard for repairs to be completed (or a replacement provided), however this does not then go further and indicate the level of compensation that will be awarded if this standard is not met.

Table 7: The Range of Payment Options 'ask'

The 'Ask'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
Firms should offer a range of payment options, including payment through Direct Debit, and should seek to ensure that customers are aware of the different costs associated with each payment type.	The charter contains a commitment to "offer a range of payment options, including automatic recurring payments, and ensure that customers are aware of the different costs associated with each."	The charter commits BAYV to "provide multiple payment methods to suit, including in home collection, weekly or monthly direct debit and PayPoint."	The PerfectHome charter contains a commitment to "provide multiple payment methods including weekly, fortnightly, monthly. These can be by cash, direct debit or debit card."

Whilst all three of the customer charters commit the firms to providing a range of payment options only Brighthouse makes any explicit reference to different costs being charged in connection with the option selected by the customer.

Table 8: The Default Charges and Forbearance 'asks'

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
Firms should commit to ensuring that default charges represent the actual costs incurred by the firm and are not punitive.	The charter commits to "ensure that default charges do not exceed the actual costs incurred and are fully explained before the agreement is entered into."	BAYV have undertaken to "never charge late fees or penalty charges."	The charter commits the firm to 'ensure that default charges do not exceed the actual costs incurred' and to only making 'one charge per agreement during any continuous period of default'.
<p>Firms should also ensure that they have clear policies and procedures in place for extending forbearance to customers in financial difficulty. These should include the acceptance of partial payments for a temporary period and the signposting of customers to debt advice agencies.</p> <p>Firms should also ensure that payments from customers in arrears are accepted at times and locations which are convenient to the customer.</p>	Brighthouse have committed to putting in place "clear policies and procedures for providing help and extending forbearance to customers in financial difficulty"; and to "signposting customers in financial difficulty to independent free debt advice agencies."	<p>BAYV state that they will "treat all customers who fall into arrears with empathy and respect" and that they will "offer a number of options to assist customers including alternative payment schedules allowing them to clear arrears without extending the term of the agreement and reduced payments when required."</p> <p>BAYV will also "direct all customers requiring assistance to free organisations that can help, such as the Citizens Advice Bureau or the national debt line."</p>	PerfectHome are committed to "treating all customers who get into financial difficulty sympathetically and work with them to come up with solutions to the problem" and to "directing customers in financial difficulties to independent free debt advice agencies."

All three firms have responded positively to the 'asks'. However, further transparency is now required as to how default charges are calculated and ongoing work is needed to compare the actual amounts that customers pay across the three firms. This includes assessment of whether or not BAYV's policy means that 'good payers' are effectively cross subsidising those who default. In addition, more detail is now needed as to the specific policies and procedures that the firms are committed to putting in place to help people in financial difficulty and to refer customers in arrears to free, independent, debt advice agencies.

Table 9: The General Requirements

The 'Asks'	Brighthouse Charter	BAYV Charter	PerfectHome Charter
Be written in plain English, and preferably accredited as such	All of the charters appear to be written in plain English although none of them have been accredited as such		
Firms should publicise the fact that they are members of the CCTA and that they have signed up to both the CCTA's general code and a rent to own specific set of commitments in their advertising and at point of sale	As the CCTA has not yet progressed the development of a sector specific set of commitments it has been left to individual firms to respond to these concerns. The publication of their customer charters is a major step forwards. However, firms still need to publicise their membership of their trade associations. For example, BAYV do clearly state that they are CCTA members on their website, and it should be noted that Brighthouse has now joined the Finance and Leasing Association (FLA).		
Commit the CCTA to effective compliance monitoring and set out how this will be undertaken, preferably including the use of mystery shopping techniques, independent research, and regular liaison with consumer agencies and regulatory authorities	Brighthouse has committed to using mystery shopping, and has used an independent debt charity to review its processes and policies. Nevertheless clearer policies concerning the monitoring of the code could be put in place.	BAYV has committed to quarterly meetings with a consumer board made up of customer representatives, and uses mystery shoppers. Nevertheless a clear policy concerning the monitoring of the code could be put in place.	PerfectHome has committed to using mystery shopping. Nevertheless clearer policies concerning the monitoring of the code could be put in place
Provide details of the procedures which the CCTA will use where it has identified instances of non-compliance, including for example the use of warnings, fines, and expulsion from the trade association	The absence of progress from the CCTA means that this remains outstanding, and future action in this area will also need to take account of the fact that Brighthouse has now joined the FLA.		
Commit the CCTA to engage on an ongoing basis with consumer agencies, regulatory authorities, and debt advice agencies to inform regular reviews of the addendum	The absence of progress from the CCTA means that this remains outstanding, and future action in this area will also need to take account of the fact that Brighthouse has now joined the FLA.		

<p>Include improved commitments for CCTA members in respect of their complaints handling processes – for example by setting a standard time-frame for the handling of complaints across the association’s RTO members and including a commitment to co-operate with advice agencies and consumer bodies in respect of any complaints or instances where financial difficulty has been identified.</p>	<p>Brighthouse has committed to “provide a transparent and published complaints process including resolution timeframes. We will ensure that the customer is made aware of their right to complain to the FOS and also to our trade association.”</p>	<p>The BAYV charter contains a commitment to “inform customers of their right to contact the Financial Ombudsman service if they have a complaint that has not been resolved to their satisfaction.” Whilst the charter does not set out further details, information concerning the firm’s complaints process is included on its website.</p>	<p>PerfectHome has set out s commitment to “provide a published complaints process including resolution time scales. We will ensure the customer is aware of their right to complain to the Financial Ombudsman service if they have a complaint that has not been resolved to their satisfaction.”</p>
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A number of the general ‘asks’ pertain to the monitoring of compliance against the customer commitments being made. These remain outstanding as the CCTA has not progressed the development of a sector specific addendum to its code of practice and it is not therefore yet clear how the charters can be enforced. It should be noted that Brighthouse has now joined the FLA so there will also be a need to include them in any further work on these aspects. Nevertheless, it is notable that there has been some response from the individual firms with respect to the ‘ask’ around complaints handling procedures with all three firms agreeing to publish further details of their policies in this respect.

Chapter four: Conclusions and recommendations

It is clear from the preceding chapter that the project has been successful in obtaining positive responses from firms to a number of the issues of concern. This is both a tribute to the effectiveness of the community organising approach undertaken in this project by Thrive and to the willingness of the main firms in this industry to listen and respond constructively to criticism.

In particular we welcome the following commitments given by the firms engaged by this project:

From all three firms:

- to ensure that prices are competitive with others in the sector;
- to use mystery shopping exercises to evaluate how prices are explained to their customers;
- to provide a range of payment options;
- to limit default charges;
- to put in place policies and procedures to help people in financial difficulty and to refer customers in arrears to free, independent, debt advice agencies;
- to develop clear policies for future complaints handling, and
- to provide clear annual statements of account.

From Brighthouse and PerfectHome:

- to keep existing agreements on original terms when customers take out credit for new products. However, it should be noted this appears to have codified their prior practice in this respect and that *this remains a concern in respect of BAYV*.

From Brighthouse:

- to encourage customers to take up independent sources of advice as to how they can improve their credit rating, and
- to ensure that consumer's receive the benefit from using cheaper forms of payment options.

From BAYV:

- to establish a customer board, which will meet quarterly, to discuss issues of concern, and
- to put in place a clear customer service standard for the repair and replacement of broken items.

However, it is also clear that further details are required in a number of these areas. These include:

- the mechanisms that will be used by firms to ensure that prices are competitive;
- clarification from BAYV and PerfectHome that the customer will benefit if they select a payment option which reduces the collection costs for the company;
- greater transparency over the specific policies and procedures being put in place to identify and help people in financial difficulty;
- a need to ensure that mystery shopping exercises and customer consultation processes result in real changes in practice where problems are identified.

We therefore recommend that the firms provide further details of these aspects of their commitments as soon as possible either as part of their current charters or as separate, publicly available, policy documents.

We also remain concerned that there has been little progress in respect of two of the 'asks' that firms:

- agree to alert customers who take out insurance with their agreements that a home contents insurance policy may be a cheaper option, especially for those customers that take out cover for more than one item at a time; and
- set out clear service standards for the reporting and resolution of faults including target timescales for repairs to be conducted or for the replacement of goods where this is not possible. BAYV are the only firm to do so at present. However, even BAYV does not currently state what redress customers can expect in the event that this standard is not met. Firms should therefore also ensure that they have clear policies in place to provide compensation or suspend repayments in these cases.

We are also concerned that despite making a commitment to do so, the Consumer Credit Trade Association (CCTA) have not progressed the development of a sector specific addendum to its code of practice. This failure has meant that many of the general 'asks' relating to monitoring and compliance of commitments in this sector remain to be addressed.

It is apparent that the sector wide commitments achieved recently in respect of both Bills of Sale ('logbook loans') and payday lending followed significant pressure from Government. In the latter case, this included work between Government and a number of different trade associations representing the payday lending industry, including both the CCTA and the Finance and Leasing Association (FLA), and we note that over the course of this project Brighthouse has now become an FLA member.

We therefore recommend that the Department for Business, Innovation and Skills discuss the need for RTO specific addendums to the CCTA and FLA codes of practice in the light of this project.

In the interim, **we also recommend that the three main RTO firms come forwards with proposals to ensure that they are effectively monitoring the operation of their customer charters, including through the commissioning of independent reviews and inclusion of the main results from these in their annual reports.**

Finally, during the course of the project we became aware that there are currently no consumer credit trade associations that have yet obtained OFT approval for their codes of practice. As set out in Appendix 1 to this report we also found that the CCTA's existing code fell short of the standards needed to meet the criteria set out by the OFT for such approval to be provided. As part of its wider programme of changes to the provision of consumer information, advice, and enforcement, Government has recently invited the Trading Standards Institute to establish a successor to the Consumer Codes Approval Scheme from April 2013 on a self-funding basis. **We therefore recommend that Government and the Trading Standards Institute maintain the current high standards required for approval under any successor scheme and that they set out how they intend to encourage consumer credit trade associations to apply for code approval once the successor scheme is put in place.**

Appendix 1:

Assessment of the existing CCTA Code of Practice

A working paper provided to the project meeting of 6th May set out details of the OFT's Consumer Codes Approval Scheme. This provides some thirty five criteria designed to help trade associations to develop codes of practice which go beyond adherence to legal requirements and are designed to provide consumer benefits in addition to the protection of the law.

The meeting recognised that the OFT approval process is lengthy; would require a trade association to act as the code sponsor; and that the regulatory environment for consumer credit was currently being reviewed⁶. As a consequence, the meeting agreed that it was not essential to seek to obtain OFT approval for a code of practice for the rent to own sector at this stage, although it also considered that it would be useful to review the CCTA's current code against the OFT's criteria, as well as to consider how well the current code covers the sector specific issues raised thus far within the project.

The remainder of this appendix therefore provides a general overview of the CCTA code, and proceeds to give a more detailed assessment of the code against the OFT's criteria under the Consumer Codes Approval Scheme.

Overview of the CCTA code

The full text of the current CCTA code of practice (CCTA Code of Practice: A Commitment to Responsible Lending⁶) is available from <http://www.ccta.co.uk/CodeOfPractice.pdf>. It contains a set of high level 'general obligations' including requirements that member organisations:

- Conduct their business lawfully, comply with all relevant legislation, judicial decisions and general rulings of regulatory authorities (para 3.1)
- Trade honestly, responsibly, ethically and treat customers fairly (para 3.2)
- Behave at all times with integrity... (para 3.3)
- Act responsibly and with care in the day-to-day conduct of their business (para 3.4)
- Not knowingly misrepresent facts to a customer concerning any aspect of a credit, hire or lease transaction (para 3.5)
- Ensure that credit, hire or leasing documentation embodies all the express terms and conditions of the agreement which affect the customer's obligations (para 3.7)

⁶ Government is currently considering the transfer of responsibility for consumer credit regulation from the Office of Fair Trading to the proposed Financial Conduct Authority.

- Ensure that their agreements (and any related agreements), the manner in which they enforce their agreements, their dealings with individuals (whether consumers or business customers) and anything done or not done by or on behalf of the member (either before or after the making of the agreement or any related agreement), do not give rise to unfair relationships between the member, as creditor, and the individual, as debtor, under the Consumer Credit Act 1974 (para 3.13)

These are important principles, which are clearly relevant to the Thrive project, and which in our view provide a sound basis for further developing specific commitments concerning, for example, the fair treatment of rent to own customers.

The CCTA code also contains a number of more detailed sections of relevance to the project covering the obligations of its members with regard to:

- Advertising and marketing
- Responsible lending
- The entering into and conduct of credit and hire agreements, including provisions in respect of default and the provision of assistance to people in financial difficulties
- Sale of insurance policies

The code also has specific sections dealing with issues of concern in respect of certain *forms* of credit. However, these are currently limited to credit cards, store cards, mortgages and business lending and do not include rent to own.

The code contains (para 2.3) a clear commitment that the CCTA will monitor compliance, providing for action to be taken in the event of a breach:

"Such action may include visits, written warnings to the member, requests for written explanations and meetings to discuss the matter. The ultimate sanction which the Association may impose is the suspension or expulsion of a member from the Association."

Finally, the code also places requirements on CCTA members with regard to complaints handling ensuring that firms have clear complaints procedures in place and that customers are advised of their right to pursue complaints to the Financial Services Ombudsman. Customers should also be advised that they can, as an alternative to pursuing a complaint to the Ombudsman, seek the assistance of the CCTA which provides a conciliation service.

Assessment of the CCTA code against the OFT Consumer Codes Approval Scheme Criteria and specific issues of concern

Table 1, below, provides our assessment of the current CCTA code against the criteria provided by the OFT for the approval of consumer codes. For each of the criteria the table indicates whether we consider that this is 'not met'; 'partly met' but where some additional detail is required; or 'fully met'. Finally, some of the OFT criteria appear to only be relevant where a scheme obtains approval. These have been identified as 'not relevant to this exercise'.

Table 1: Assessment of the CCTA code against the OFT criteria and the issues of concern

OFT Consumer Codes criteria	Assessment of CCTA code
Codes are to be written in plain English and should be easily understood by customers	Partly met. The code is written in clear terms. However, it has not obtained a standard, such as that provided by the Plain English Campaign, in this respect.
Code sponsors should have a significant influence on the sector. However, this is not a 'market share' test, and the OFT has indicated that it will accept codes of practice which satisfy at least one of the following requirements <ul style="list-style-type: none"> • Membership that includes a majority of firms in their sector • A code that contains some of the more progressive elements in the industry • A code of practice in a sector where one does not already exist • A code of practice that provides more benefits for consumers than other codes in the same sector. 	Fully met. Rent to buy companies who are members of the CCTA include the market leader, BrightHouse (estimated to have 175,000 customers) and Buy As You View. Perfect Homes have also indicated a willingness to join. It is therefore likely that the code has a significant influence on the rent to own sector, although work will be required to encourage other firms to join (e.g. Homebuy).
Code sponsors must be able to demonstrate that members are prepared to observe the code's provisions, for example by providing written statements from organisations that they have signed up to the code.	Fully met, the code requires members to compile and submit an 'annual statement of compliance' to the CCTA's Council.
Code sponsors must have adequate resources and funding to undertake monitoring of the code and to fulfil any obligations set out within it.	Partly met. There is no comment within the code concerning this although there is a general commitment to monitor and take enforcement action in the event of a breach
Code sponsors shall be able to demonstrate that organisations representing consumers, enforcement bodies and advisory services have been adequately consulted throughout the	Partly met. The code itself does not reference consultation with consumer groups, enforcement bodies or advisory service. However, should an addendum be developed for the rent to own sector which addresses

preparation of the code	the issues raised by the Thrive project then this would satisfy this requirement.
To make sure the code remains relevant to consumer needs, code sponsors shall be able to demonstrate that organisations representing consumers, enforcement bodies and advisory services are being adequately consulted throughout the operation and monitoring of the code.	Not met. There are no clear procedures in the code concerning the ongoing involvement of these agencies in the monitoring of the code.
The code shall include measures directed at the removal or easing of consumer concerns and undesirable trade practices arising within the particular sector.	Not met. The code contains specific sections with regard to credit card, store card, and mortgage lending but does not contain a section relating to rent to own. However, an addendum would address this.
The code shall require that code members ensure that their relevant staff know about and meet the terms of the code as well as their legal responsibilities. Appropriate training is to be provided.	Fully met. Yes, the code contains a clear requirement for CCTA members to bring its provisions to the attention of staff and provide training.
The code shall address clear and truthful marketing and advertising as appropriate to the sector.	Not met. The code address the issue of truthful marketing and advertising in general terms but not specifically in respect of the rent to own sector, for example in relation to the issue of price transparency
The code shall address clear and accessible pre-contractual information as appropriate to the sector.	Not met. The code addresses this in general terms but not specifically in respect of the rent to own sector, for example in respect of rights to repair
The code shall address high-pressure selling as appropriate to the sector.	Partly met. The code addresses this in general terms but not specifically in respect of the rent to own sector. However, high pressure sales have not been identified as an issue within the project so it may not be appropriate at this stage to develop specific commitments in this respect.
The code shall address clear terms and conditions of supply and fair contracts as appropriate to the sector.	Not met. The code provides a general requirement for members not to include unfair contract terms within their agreements, but there is nothing specific to the rent to own sector. The issue of delayed transfer of ownership of goods where an agreement has been modified is not specifically addressed
The code shall address delivery and completion dates as appropriate to the sector.	Not met. There are no specific provisions in the code in this respect, although this has not

	been raised as an issue within the project thus far
The code shall address cancellation rights as appropriate to the sector.	Fully met. The code requires members to provide information on cancellation rights in accordance with the law but does not contain any rent to own sector specific requirements. However concerns over these have not been raised within the project
The code shall address guarantees and warranties as appropriate to the sector.	Not met. The code does not contain any specific information concerning warranties or repairing obligations which have been raised as an issue within the project
The code shall address protection of deposit or prepayments as appropriate to the sector.	Not met. The code does not cover these issues although they have not been raised within the current project
The code shall address customer service provisions as appropriate to the sector.	Not met. The code does not provide details of customer service standards – for example, timescales for the replacement of faulty goods – which have been raised within the project
The code shall address the additional effort/help to be provided to vulnerable consumers as appropriate to the sector.	Not met. The code includes a general section on helping people in financial difficulty, for example by referring people in multiple debt to sources of advice. However, specific commitments for rent to own customers such as accepting part payments are not covered.
The code shall include a requirement that code members shall have in place speedy, responsive, accessible and user friendly procedures for dealing with consumer complaints. A specific reasonable time limit for responding to complaints shall be prescribed.	Not met. The code requires that members have a complaints procedure in place. However, it does not comment on the content of this in relation to speed, responsiveness, accessibility or user friendliness nor set any time limits for responding to complaints.
The code shall include a requirement that code members will offer the same level of cooperation with local consumer advisers or any other intermediary acting on behalf of a consumer when making a complaint as they would to the complainant.	Not met. The code does not have such a requirement in place.
The code shall include procedures for dealing with complaints including the availability of conciliation services directed at arranging a decision acceptable to both parties.	Fully met, the code includes reference to the conciliation service provided by CCTA
The code shall include the availability of a low-cost, speedy, responsive, accessible and	Not met, the code makes no reference to such a redress scheme.

<p>user-friendly independent redress scheme to act as an alternative to seeking court action in the first instance.</p> <p>The scheme shall be binding in respect of code members who shall not be able to refuse to allow a complaint to go before the scheme if a customer so chooses.</p> <p>The code member shall be bound to accept a decision made under the scheme.</p> <p>Any such scheme shall be able to take into account possible breaches of the code where relevant to the complaint.</p>	
<p>The code sponsor shall develop performance indicators, e.g. mystery shopping exercises and independent compliance audits, to measure the effectiveness of the code.</p>	<p>Not met, the code makes no reference to performance indicators, mystery shopping or independent compliance audits</p>
<p>The code sponsor shall implement the performance indicators and make available the results of their monitoring procedures and satisfaction surveys to demonstrate the effectiveness of the code.</p>	<p>Not met, as above, there is no reference to performance indicators</p>
<p>The code sponsor shall provide a written report annually to the OFT on the operation of the code to include:</p> <ul style="list-style-type: none"> • changes to the code agreed with the OFT and implemented • numbers and types of complaints including information on outcomes from the conciliation process and the independent redress scheme • results from monitoring, satisfaction surveys and the disciplinary process. <p>It would be preferable if the report were compiled by an independent person or body with powers to recommend actions</p>	<p>Not relevant to this exercise.</p>
<p>The code sponsor shall regularly review the code and update its provisions in the light of changing circumstances and expectations</p>	<p>Partly met. The code provides for the Council to make changes as may be necessary but does not prescribe that reviews will be conducted on a regular basis</p>
<p>Consumer satisfaction shall be regularly</p>	<p>Not met. There is no reference to an assessment of consumer satisfaction</p>

assessed.	
Code sponsors shall establish a procedure for handling non-compliance by members with the code. The procedure shall include independent disciplinary procedures and reasonable timescales for action	Not met. There is no detailed procedure set out in the code.
The code sponsor shall also set out a range of sanctions, e.g. warning letters, fines, termination of membership, for dealing with non-compliance.	Fully met. The code sets out the range of sanctions, although these do not currently include fines
Code sponsors and members shall ensure that their customers are aware of the code.	Fully met. The code requires that the CCTA and its members publicise its existence (however, see next row)
Code members are to make clear, e.g. in advertising, point of sale, their adherence to a code of practice.	Not met. There is no requirement in the code for members to make customers aware of its existence in their advertising or at point of sale
Copies of codes shall be available without charge to customers, to members, to local consumer advisers and to others with a legitimate interest.	Fully met. Copies of the code are made available at no cost on the CCTA website
Copies of any code related publicity generated by the code sponsor shall be provided to the OFT in advance of publication.	Not relevant to this exercise
Code sponsors and members shall publicise the fact that the OFT has approved the code by using the CCAS logo in the prescribed manner	Not relevant to this exercise
Code sponsors shall comply with the terms of the standard copyright licence, disseminate the terms to their members and monitor their members use of the CCAS logo. Appropriate action shall be taken by the code sponsor against a member for non-compliance with the copyright licence.	Not relevant to this exercise

The exercise reveals that the current CCTA code does not adequately address the issues of concern raised within the project thus far and that an addendum setting out sector specific commitments on these would be beneficial. We suggest some wording for these in the following section as the basis for further discussion.

However, the assessment of the current CCTA code against the OFT criteria also indicates that any final addendum would be significantly strengthened if this also:

- Achieved a recognised plain English standard
- Required members to publicise the existence of the CCTA code and its sector specific addendum in their advertising and at point of sale

- Included details of the resources and funding that will be used to ensure effective compliance monitoring takes place
- Committed the CCTA to a programme of mystery shopping exercises and independent compliance audits as part of its compliance monitoring procedures
- Provided more details of the procedure for dealing with non compliance
- Set out a commitment to engage on an ongoing basis with consumer bodies, enforcement agencies, and advice services to inform the compliance monitoring of firms in this sector and seek input into regular reviews of the addendum
- Included improved commitments in respect of complaints handling for members in this sector, for example by setting clear timescales for complaints handling processes and requiring members to co-operate with advice agencies and consumer bodies concerning these and when dealing with customers in financial difficulty.

Notes

ⁱ Although there are a number of different credit products targeted to low income consumers (e.g. RTO, pawnbroking, payday loans, and home collected credit) the Office of Fair Trading (OFT, 2010, para 2.5) notes that there is limited substitutability between these due to (i) different lending criteria, resulting in different demographics of the population being catered for by each product and (ii) different inherent characteristics of the products such as the size and length of the loans.

For example, the Competition Commission (2006, para 2.3) finds that the average loan advanced by home collected credit lenders in 2004/05 was approximately £330, to be repaid over a period of around 43 weeks. In contrast, the cost of purchasing a range of essential household items to set up home is considerably higher. Based on figures used in the Minimum Income Standard developed by the University of Loughborough, we find (Gibbons et al, 2011, p.27) that the cost of purchasing essential items to set up home would be between £3,000 and £5,000 depending on family size.

As such, small loans as may be available from home collected lenders, pawnbrokers, and payday lenders are not adequate to help finance this level of outlay. As a consequence, even where people do have access to these other forms of credit, and are using these simultaneously, these other sources are more likely to be used to meet the everyday costs of living such as paying household bills or to meet the cost of Christmas than to fund the purchase of large items such as are provided by the RTO sector.

ⁱⁱ Whether insurances are truly optional is a moot point. For example, RTO firms require that the consumer covers the goods being rented against fire and theft but many traditional home contents policies do not cover items subject to hire purchase or rental agreements. Low income consumers are also less likely to have home contents policies in the first instance. The cost of insurance for this purpose can become high, particularly when households rent a number of different items at the same time. Additional service cover policies are also provided by RTO firms. These cover the items being rented against accidental damage and extend the warranty periods. However, as customers are usually covered by the manufacturer's warranty for the first year, taking out additional service cover for this period may not be beneficial.

ⁱⁱⁱ See note i, above.

^{iv} See Paras 7.34 and 7.35, Annex E 'Competition and Profitability' to the OFT's High Cost Credit Review available from <http://www.oft.gov.uk/OFTwork/credit/review-high-cost-consumer-credit/>

^v Results based on responses from approximately 300 customers (OFT, 2009, p.30)

^{vi} Office of Fair Trading (2010: Annexe E, para 7.21)

^{vii} Brighthouse Annual Report 2011/12

^{viii} To see a BBC documentary of Thrive's community organising work see <http://www.church-poverty.org.uk/what-we-do/whatwedo/thrive/insideout>

^{ix} For further information regarding the OFT's Consumer Codes Approval Scheme (CCAS) see: <http://www.oft.gov.uk/consumer-advice/approved-codes-explained/;jsessionid=15BE305BA92A9D729BEA3D75369F8EF6>

As part of the institutional changes proposed for the regulation of consumer credit and the future provision of consumer advice, Government has decided to ask the Trading Standards Institute to establish a successor to the CCAS from April 2013 on a self-funding basis. In the meantime, the OFT will continue to maintain the CCAS for the existing members and to progress well-advanced applications. Discussions with code sponsors are continuing on the development of the new scheme and the TSI will be consulting widely on a mechanism for self funding.

^x This work has since resulted in a set of commitments from the payday lending industry. For further details see <http://news.bis.gov.uk/Press-Releases/Payday-lenders-make-progress-protecting-vulnerable-borrowers-67d99.aspx>

^{xi} The CCTA is governed by a council, made up of representatives from the membership, which meets bi-monthly to discuss the development of the Association

^{xii} See Richard Dyson, 'Thinking of shopping at Brighthouse? Think Again', Financial Mail on Sunday, 17th February 2012 available at <http://blogs.thisismoney.co.uk/2012/02/thinking-of-shopping-at-brighthouse-stop-dont.html>

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