

Vulnerability to Unmanageable Debt: Very Rapid Review Update

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Date: November 2017



Collaboration for Leadership
in Applied Health Research
and Care North West Coast

NHS
National Institute for
Health Research

All of the authors are funded/part funded by the National Institute for Health Research, Collaboration for Leadership in Applied Health Research and Care North West Coast (NIHR CLAHRC NWC). The views expressed are those of the author(s) and not necessarily those of the NHS, the NIHR or the Department of Health.

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Introduction

This report presents an update of the original CLAHRC NWC Public Health Theme's *Vulnerability to Debt* evidence review, which took place during 2015. This review was undertaken jointly by a team of academics and local authority staff.

The original literature trawl was undertaken using the key themes of: 'payday loans/lending', 'illegal lending', 'short-term credit' and 'financial education/literacy' for the years July 2015 onwards. Grey policy literature searches were also completed during October and November 2015 and included subjects such as 'credit unions' and 'financial education/literacy'.

The purpose of this updated review is to identify and review any new literature that has been published in the *13-months* since the last evidence *Vulnerability to Debt* review was conducted.

Method

This short update review used the Web of Science as the search tool, which covers multiple databases or indexes of the academic literature. In practice, this involved searching for specific terms or keywords/phrases in the "topic" field of the database. The following search terms were employed based on the previous evidence review conducted in 2015:

1. "Payday loan" OR "Payday lend*" OR "Short term loan" OR "Short term lend*" OR "high interest loan" OR "high interest lend*" OR "loan shark" OR "short term credit" OR "credogenic"
2. "Financial education" OR "Financial* litera*" OR "Financial* Aware*"

'Quick' literature searches on these topics were conducted on the 24/01/17 and 03/02/17.

The results were:

1. "Payday loan" OR "Payday lend*" search = 10 returns, 4 relevant papers.
2. "Short term loan" OR "Short term lend*" = 2 returns, no relevant papers.
3. "high interest loan" OR "high interest lend*" = no returns. However, the search terms: *high interest loan* OR *high interest lending* = 114. None relevant.
4. "loan shark" OR "short term credit" = 2 returns, no relevant papers.
5. "credogenic" = no returns.
6. "Financial education" OR "Financial* litera*" = 183 returns, 12 relevant.
7. "Financial* Aware*": no returns.

Google Scholar searches were also conducted using the following keywords/phrases:

1. Payday Loan (2016-17 dated) = 3 relevant papers.
2. Payday Lending (2016-17 dated) = 1 relevant paper.
3. High interest loan and lending (2016-17 dated) = no relevant papers.
4. Loan sharks and short-term credit (2016-17 dated) = no relevant papers
5. Credogenic (2016-17 dates) = no relevant papers.
6. Financial education (2016-17 dated) = 1 relevant paper.

The returns were initially sifted and those academic papers that appeared to have the potential to provide new information to update the earlier Vulnerability to Debt evidence review were identified. Relevant abstracts¹ were extracted and copied into a file, and these were read again and assessed for relevance, with a very small number being discarded at this point.

It is important to note that the significant bulk of the literature unearthed did not relate to the United Kingdom so care must be taken when drawing conclusions and applying lessons to a UK context.

Brief analysis of updated review findings

The findings of this updated very rapid review largely confirm the findings of the previous evidence review of 2015. Findings from the 2016-17 literature are presented below.

Payday lending/access to affordable finance

One interesting finding from the rapid review relates to the pros and cons of payday lending, where there is evidence that this form of lending, somewhat counter-intuitively, is welcomed by some low-income and vulnerable borrowers residing in certain communities. Imposition of new laws or tighter regulatory regimes on this form of lending could be counter-productive in the sense that some borrowers and communities would no longer have access to short-term high cost credit (or access to it would be made more difficult). It is important to note that this usually involves consumers borrowing relatively small sums, known in the USA as small dollar credit (Rowlingson, Appleyard and Gardner, 2016). Tighter controls and regulations over the payday loan industry/market could be particularly detrimental and harmful to those borrowers who have no other immediate borrowing options (Servon, 2016a/b), which in turn could conceivably lead to these individuals turning to other forms of lending such as illegal money lenders.

Other reasons why some consumers may prefer lending from payday lenders are identified in the literature. The complexity of consumer rationale and behaviours is highlighted in one research article, which shows that some borrowers prefer using payday loan companies rather than credit unions, ostensibly because they are wary that their credit scores could be damaged if they make late payments (Lee and Brierly, 2016).

The literature identified in the rapid review emphasizes that research to date presents mixed evidence on whether payday lending is either harmful or helpful to consumers (Servon, 2016a; Horowitz, 2016b). Overall, the prevailing view is that payday lending as it is currently constituted is generally harmful in most cases, especially when extortionate rates of interest are levied but this form of lending can assist some people financially with short term cash flow problems.

However, almost universally the literature is clear that reform of the payday loan market and industry is a necessary and urgent policy priority, especially in terms of facilitating access to affordable credit for marginalised individuals and addressing the spiralling levels of personal debt. Some of the US focused literature suggests that 'well-designed' payday loan reform that seeks to maintain the

¹ The abstracts are available in a separate report.

availability of credit - allied to both lower borrowing rates and affordable instalment payments - would in fact enhance financial security (Horowitz, 2016a/b).

Financial education and literacy

There is a vigorous debate in the literature over the effectiveness of financial literacy and education programmes per se. Xiao and O'Neill (2016) found that financial education produced beneficial impacts for young people and adults alike, whether delivered through formal educational routes, within workplaces or via other modes of delivery. Alternatively, Friedline and West (2016) argue that interventions focused exclusively on financial education or inclusion may be insufficient for facilitating improved financial behaviours among so-called millennials (young adults between the ages of 18 and 34). In relation to using financial literacy as a tool to address the challenges of people experiencing financial exclusion, there is little evidence to suggest it can alleviate this problem according to Lamb (2016).

The impact and efficacy of financial education and literacy may also vary depending on which groups or cohorts are targeted and reached by these programmes. For instance, in relation to school aged children and teens, there is an almost universally accepted view in the literature that financial education is an important life skill that needs to be taught to young people, although once again the evidence of its effectiveness is mixed. Educational programmes targeted at this cohort have produced both positive and negative results. For instance, research by Bruhn, Leao and Legovini (2016) on a comprehensive financial education programme delivered in Brazilian high schools indicated an increase in pupils' financial proficiency (and interestingly, positive 'spill-over' effects to parents), whilst both positive and negative impacts were identified on their short-term financial behaviours.

There is evidence in the literature of gender differences in financial literacy. Driva, Lührmann and Winter (2016) found that female teenagers had lower financial knowledge than their male peers. This may be related to 'gender-specific risk attitudes, numeracy, and self-confidence' (p. 144).

What is more, the different components of financial education and literacy programmes appear to have greater or lesser effects on personal financial behaviours according to some research evidence. A study by Brown, Grigsby and Van Der Klaauw (2016) found that in general both mathematics and financial education decreased reliance on non-student debt and also led to an improvement in repayment behaviour among some young people. In contrast however, the same study found that economics training had the effect of increasing both the likelihood of holding outstanding debt and the prevalence of repayment difficulties.

As an intervention, there is some evidence that the efficacy of financial education and literacy programmes on the individual is time limited, often lasting only a few months, and with its impacts overall disappearing after a maximum of six months (Barcellos, Carvalho and Smith, 2016 - this research focused on the efficacy of financial education on immigrants and their children in the USA). To remain effective and relevant, further research is required to assess whether financial education and literacy needs to be repeated, possibly at regular intervals, to enhance retention of financial knowledge that will lead to positive behavioural change (Barcellos, Carvalho and Smith, 2016).

To add to the complex evidential picture in relation to understanding the effectiveness of financial education and literacy, there is some indication that the psychology of individuals can also potentially influence financial behaviour. Research by Allgood and Walstad (2016) shows that both actual and

perceived financial literacy appear to influence peoples' financial behaviours and significantly, that perceived financial literacy may be as important as actual financial literacy.

While there is an accepted wisdom that financial education and literacy provides positive benefits, especially in terms of it being an essential life skill for individuals (which in turn is also beneficial to society as a whole), its effectiveness and capacity to induce long-term behavioural change is a point of considerable debate and dispute in the literature. A more effective approach to improving financial behaviours could be to combine financial education and literacy with other programmes such as interventions that aim to develop a person's 'financial capability' (Friedline and West, 2016), which involves a combination of financial education and financial inclusion measures.²

² In this case financial education was combined with financial inclusion in the form of a savings account, which provided an opportunity to translate knowledge into practice.

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