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**INTERIM EVALUATION OF THE  
NATIONAL ILLEGAL MONEY  
LENDING PROJECTS – SUMMARY**

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## 1.0 Background

### 1.1 Introduction

1. This is the summary report on the interim evaluation of the Illegal Money Lending (IML) national project. Historically, illegal money lending, although widespread in deprived communities, had been a largely invisible and little understood crime in the UK with the law not enforced for decades, leaving victims isolated, vulnerable and with little means of redress.
2. A pilot Illegal Money Lending project was launched in 2004, as part of a wider strategy to tackle over-indebtedness and financial exclusion. Following the success of the pilot project<sup>1</sup> and research commissioned by the then-DTI which provided the first estimates of the scale and impact of the problem<sup>2</sup>, the national IML project was established in late 2007. The national project has been managed by BIS since its inception.
3. The total amount of funding committed to the national project from 2007/8 to March 2010 was £13.6m (cash terms). The bulk of the national project funding has been provided by BIS (£10.8m), augmented by a contribution of £2.8m from the Financial Inclusion Fund to assist with the national project start-up in 2007/8. When the pilot project funding (£2.1m) is included, total funding for the IML project over the period from 2004 through to end-March 2010 amounted to £15.7m.
4. The IML project was implemented on a decentralised basis. Seven regional teams were set up, with some common features but differences in delivery models, with teams of differing sizes, all of which were hosted by Trading Standards and local authorities.
5. CenTSA, the largest team, is based in Birmingham and covers a large swathe of central and southern England, including the North West, Yorkshire and Humberside, the West Midlands, East of England and the South East regions. The remaining English regions are each covered by a separate IML Team, i.e. the North East, the East Midlands, London and the South West. IML Teams also operate in Scotland and Wales.

### 1.2 Approach

6. The evaluation rests on a process and outcome evaluation. The process evaluation was based on qualitative interviews with the IML project teams, their partner agencies (88 interviews) and with victims of IML supported by the teams (60 interviews).
7. The outcome evaluation rested on a number of quantitative surveys, including victim surveys (a total of 162 interviews across 3 surveys sharing some common questions), saturation surveys in deprived communities (1,200 respondents), both in intervention areas where the project teams had arrested illegal lenders and control areas with similar characteristics but

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<sup>1</sup> Policis and the Personal Finance Research Centre for the Department of Trade and Industry (2007) *Evaluation of the illegal moneylending pilots*.

<sup>2</sup> Policis and the Personal Finance Research Centre for the Department of Trade and Industry,(2006) *Illegal Lending in the UK*.

where lenders had not been arrested, a nationally representative survey of low income households and credit users in the lowest 50% of household incomes (1,500 sample) and a telephone survey with high cost credit users (500 sample).

8. A full technical/methodological appendix is provided as part of the 'evidence base' report.

### 1.3 Structure of the report

9. The remainder of this report is structured as follows:
  - **Section 2** examines the need for the IML project. Commencing with an overview on the nature and scale of the UK illegal lending market, the section then considers the impacts on victims and communities and presents estimates. The section concludes by presenting estimates for the detriment and costs for individuals, communities and society arising from illegal money lending.
  - **Section 3** assesses progress against the objectives of the IML project. Four of the six project objectives related to enforcement actions against loan sharks and the gradual reduction of illegal lending and two to the promotion of financial inclusion for victims and the building of awareness of IML among partner agencies.
  - **Section 4** presents the estimates for the benefits of the IML project activities, in relation to victims, communities and wider society. The benefits are compared to the costs of funding the project, in order to draw conclusions on the value-for-money of the IML project.
  - **Section 5** reviews the implementation of the IML project, particularly the lessons to be learned for future delivery.
  - **Section 6** presents the conclusions and strategic recommendations for the way forward.

## 2.0 The need for the IML project

### Key points summary

- The project set out to address illegal money lending, common in the most deprived estates. IML is frequently underpinned by violence and intimidation and is deeply damaging to individuals and communities, entrenching poverty and disadvantage.
- The law had previously not been enforced for decades allowing loan sharks to operate with impunity.
- An estimated 310,000 individuals – representing 3% of households in the lowest income quartile and 6% of residents of the most deprived estates (bottom 5% on the indices of multiple deprivation) – borrow £120m p.a. from loan sharks on which they repay £450m p.a.
- Use of IML is concentrated on those on low incomes and particularly the over-indebted and those experiencing credit refusals in the legitimate market, 5% of whom have used an illegal lender in the last 12 months.
- The total cost of credit (TCC) is £280 per £100 borrowed – three and a half times the cost of the highest cost legal credit.
- IML is estimated to take a net £235 p.a. from low income households and some £63m p.a. from the economies of the most deprived communities.
- Taken together, income starvation and quality of life detriment associated with IML amounts to a net £330m p.a., largely suffered by the most disadvantaged. Consequential health service costs bring the total estimated detriment associated directly with IML to £373m p.a.
- Illegal lending is unlikely to go away, given the strength of demand. Two thirds (66%) of victims agree, most (54%) strongly, that as soon as one lender is removed, another lender takes their place.

10. The project set out to address the illegal money lending (IML) which is common on the most deprived estates and which is deeply damaging to both victims and communities, entrenching disadvantage and poverty and closely linked to anti-social behaviour and crime. There is significant detriment for those who become entrapped by loan sharks in the form of income deprivation and compromised quality of life arising from fear of – or actual – violence and intimidation.
11. Prior to the establishment of the project, loan sharks could previously operate with impunity – with legislation not having been enforced for decades. In the absence of enforcement, engaging in illegal lending activity has carried a low risk relative to the reward that can be extracted from victims. Consequently, the ‘supply’ of IML remained higher than would otherwise be the case in the absence of enforcement of the law against illegal lending.

## 2.1 The UK illegal lending market

12. On the basis of the survey evidence, it is estimated that the illegal lending market in the UK is used by approximately 310,000 individuals. Victims borrowed an estimated £120m in 2009 but repaid illegal lenders £450m.
13. The cost of borrowing from an illegal lender averages £280 per £100 borrowed and is thus about three and a half times that of the highest cost legal credit<sup>3</sup> in the market.

### Types of lender

14. There are a wide range of illegal lending models in the UK, from small lenders with a quasi-legitimate front lending on relatively clear terms, although at very high cost, all the way to the 'treasury' function of serious organised crime, prepared to torture and murder victims. The dominant lending model in the UK is however small-scale lending to the deeply disadvantaged in deprived estates. Lending within minority ethnic communities, especially small business lending, is also relatively common.
15. At the less damaging end of the spectrum, lenders may rely on peer and pester pressure and the holding of securities as means of collecting money from victims. More commonly however, lenders' modus operandi relies heavily on intimidation and threat, reinforced by occasional violence to those who fail to pay. Sexual exploitation of those struggling to pay is also a feature of some lenders' operations, with victims under pressure also drawn into crime.
16. Sums lent can range from a few tens of pounds to many tens of thousands of pounds. Typically however, estate-based lending will be in the low hundreds of pounds. Some "lending" is in fact closer to extortion, albeit victims are drawn in initially by means of a loan.

### IML users

17. Illegal lenders are lenders of last resort, with borrowers typically excluded from the legitimate market by credit delinquency or at the end of legal credit lines. In recent market conditions, some are high risk borrowers unable to obtain credit.
18. Use of loan sharks is concentrated in those on low and very low incomes. Loan sharks are used by circa 2% of households with incomes in the bottom 50%, rising to 3% in the lowest income quintile, 5% of those on low incomes refused credit in the last 12 months.. Use rises to 6% of residents on the most deprived estates (5% most deprived), 8% of families in such estates and 9% of Social Fund users.
19. To put IML in context of the nearest equivalent legal credit used by a similar demographic, 5% of households in the lowest 50% of household incomes use home credit with this rising to 20% of those living in the most deprived estates. The value of funds borrowed from IMLs in the most deprived communities (5% most deprived) is estimated to be equivalent to circa one

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<sup>3</sup> The comparison is with home credit on the basis of prices charged in 2010 by the leading home credit provider, Provident Financial, on its most commonly-sold home credit product.

sixth of the value of funds borrowed from home credit lenders in these communities.

20. Illegal lending appears to have grown in the recent recession<sup>4</sup>, primarily due to shrinkage of credit supply, particularly in the home credit and high risk sectors and within the most deprived communities. The most important perceived reason why IML is seen as having remained stable or increased in the last couple of years, cited by half (51%) of those in deprived communities and almost two thirds of victims of IML (63%), is that it has become more difficult to borrow from the home credit and other lenders.
21. Illegal lending is unlikely to go away, given the strength of demand. Two thirds (66%) of victims agree, most (54%) strongly, that as soon as one lender is removed, another lender takes their place.

### Reasons for using IML

22. The key driver is a perennial need to borrow to bridge cash flow emergencies or fund major purchases and an inability to borrow elsewhere. Eight out of ten (82%) of borrowers claim to use an illegal lender because they could not borrow elsewhere. Some 90% of users say that they would find it difficult or impossible to raise £200-300 in an emergency or to save the same amount for a special purpose. Distress/emergency borrowing accounts for 40% of loans. One in five borrowers (20%) use loans to fund day to day living expenses, with a similar proportion borrowing for Christmas and 10% to fund major purchases or repairs.
23. It is important to note however that the black credit market in the UK appears small by international standards<sup>5</sup>, in large part due to a regulatory environment that permits high cost credit and does not prevent those with adverse credit history from borrowing in the legitimate market.

## 2.2 The impact on victims

24. IML “hollows out” the finances of victims, creating income starvation and compromising quality of life. Two thirds (67%) of victims face difficulties affording essentials including food, fuel and rent, a quarter (25%) face debt / stress related mental or physical health problems. Affordability problems and debt-related stress and mental health effects are much higher among victims of IML than among both those using even the highest cost legal credit and the financially distressed and over-indebted on low incomes more widely.
25. Illegal lenders’ operations have historically been underpinned by the intimidation and violence used to enforce collection. Lenders had hitherto been protected by a climate of fear. Some 7 in 10 (68%) victims fear violence from the lender, 1 in 5 (20%) have been threatened with violence, 1 in 20 (5%) have been attacked, and 1 in 10 (13%) suffer sexual abuse.

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<sup>4</sup> By comparison with a 2006 study undertaken for DTI by Policis and the Personal Finance Research Centre *Illegal Lending in the UK*. A study undertaken for Circle Anglia also suggested an increase in illegal lending among those on low incomes *The Real Cost of Christmas 2010 [2009?]*.

<sup>5</sup> Previous research undertaken for DTI “*The effect of interest rate ceilings in other countries*” (2005) and based on consumer research with low income households in France, Germany and the UK suggested that the incidence of IML among the credit impaired and those refused credit was 2 and 3 times higher in France and Germany respectively than in the UK.

Some 7 in 10 (70%) of those unwilling to report lenders (the majority) cite it being “too dangerous” as the principal reason for their reluctance.

26. Comparing the incidence of a wide variety of financial and other stresses among users of illegal money lenders and similarly poor users of the highest cost legal credit in similarly disadvantaged areas, it is clear that significant numbers of individuals in deprived communities are suffering various forms of financial and other stress which arises directly from exposure to IML.
27. As a consequence of income deprivation due to IML, in comparison to users of the highest cost legal credit, an additional net 45,000 victims of IML are struggling to afford sufficient food to feed their family, 42,000 victims to afford fuel, 60,000 individuals to pay for shoes and clothing while an additional net 36,000 are unable to pay their rent, primarily to social landlords.
28. Perhaps unsurprisingly against this background, compared to similarly poor high cost credit users in deprived communities, an additional net 31,000 victims of IML are suffering debt-related physical or mental health problems, while an additional net 37,000 individuals experience tensions and arguments over money at home.
29. Use of illegal money lenders also exacts a toll on social relationships in the form of relationship breakdown and social isolation. Compared to users of high cost credit in equally poor communities, an additional net 53,000 individuals have suffered relationship breakdown and an additional net 69,000 have experienced social isolation through falling out with family and friends over debt and borrowing.

### **2.3 The impact on communities**

30. More than half (54%) of residents of deprived estates are aware of IML in their own community. Of these, 85% feel, most of them strongly, that IML exploits vulnerable individuals and damages communities. Some 76% of those aware of IML in their community scored the impact of IML in their community as “extremely damaging” with high scores also for association with anti-social behaviour and crime.

### **2.4 The detriment and costs for individuals, communities and society arising from illegal money lending**

31. The detriment arising from IML is significant in terms of financial cost to individuals and communities, human cost and quality of life effects and in terms of consequential costs to the state.
32. Compared to the cost of borrowing the same sums from the highest cost legal lenders, IML takes an additional net £235m p.a. from victims overall. On the same basis, a net £63m p.a. is estimated to be taken out of the economy of the most deprived communities<sup>6</sup> by illegal lenders.
33. None of the high cost home credit users in either the surveys in deprived communities or the nationally representative survey with low income households reported either violence or threats of violence. On this basis, given the incidence of reported threats and violence among users of IML

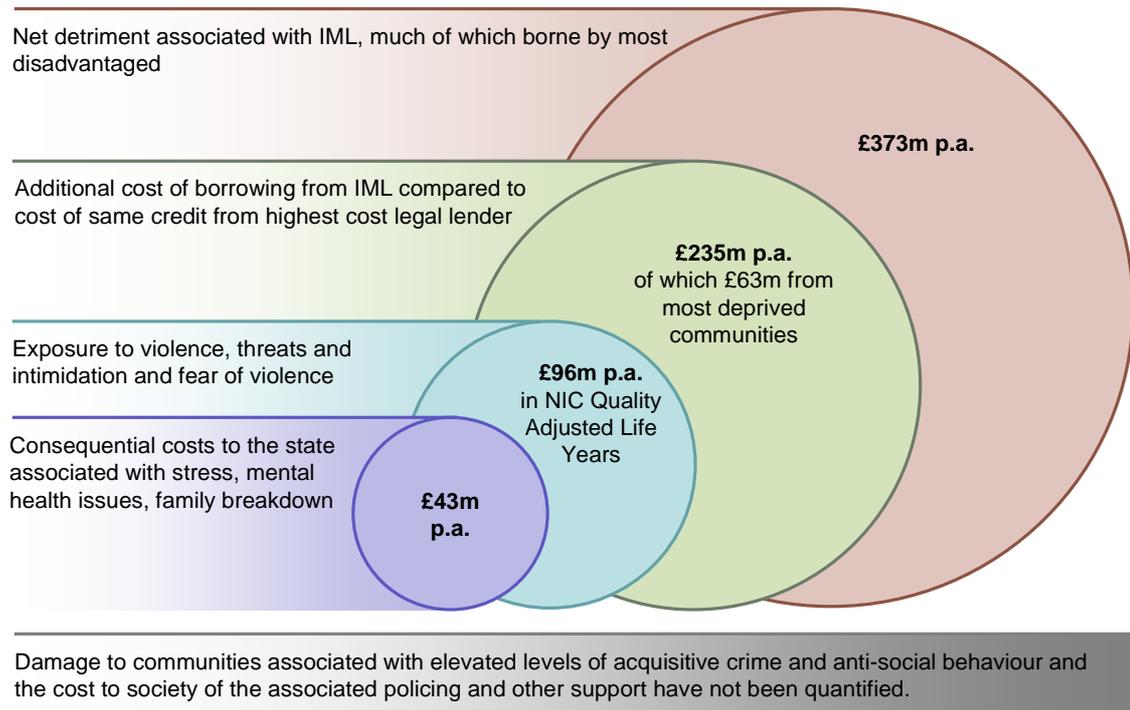
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<sup>6</sup> Most deprived 5% as measured by the indices of multiple deprivation

compared to home credit users, on an annualised basis, a net 16,000 IML victims suffer violent attacks from illegal lenders, 63,000 are threatened with violence and 91,000 experience aggressive collection of missed and late payments. Some 68%, or 212,000 victims, feel the fear of violence is always present when dealing with a loan shark. Measured on fear of crime values and the accepted NICE value of Quality-Adjusted Life Years (QALYs), the additional net value of the detriment associated with IML is estimated at £96.3m.

34. We have assumed that the financial stresses are covered by the net additional extraction of £235m p.a. from low income households and the economies of deprived communities compared to the highest cost legal credit, as earlier described. Similarly we have assumed that the mental health and quality of life effects are captured within the fear of crime encapsulated in the QALY measures associated with that fear. Taking the net additional costs of using illegal lenders and the quality of life effects together, this would imply a total net detriment to individuals associated with IML of circa £330m p.a., much of it borne by the most disadvantaged.
35. The detriment suffered by individuals as victims of IML can also be expected to result in additional costs to the state for treatment of increases in stress and mental health problems, the additional costs consequential on family breakdown under the pressure of IML and the policing and other costs associated with elevated levels of anti-social behaviour and crime in the wake of IML.
36. The consequential health service costs associated with the stress and mental health burden of being a victim of IML, along with the violence suffered by some victims of illegal money lenders, is estimated to be in the region of £43m per annum. This brings the total estimated detriment to £373m p.a., which, however, does not account for additional costs associated with policing and other costs linked to elevated levels of crime or anti-social behaviour.

**Figure 1. Estimated value of net detriment associated with illegal money lending by source of detriment**



Source: Policis estimates based on nationally representative survey of low income households and saturation surveys of deprived communities

### 3.0 Project objectives and progress against them

#### Key points summary

- The national IML project aimed to tackle illegal lending by taking action in pursuit of two main objectives:
  - To conduct enforcement actions that would remove loan sharks from the communities on which they preyed and ultimately reduce illegal lending.
  - To support victims of loan sharks in accessing debt advice to rebuild finances and making the transition to affordable, legal credit.
- The IML project has made considerable progress in meeting the enforcement objectives. As of March 2010, 880 investigations have commenced involving 870 lenders with 96 cases prosecuted, 28 of which have resulted in custodial sentences.
- The net reduction in the use of IML is estimated to be some 3% nationally, rising to between 5% and 8% in the most deprived communities.
- Significant progress has been made in building awareness that support and redress is available to victims of illegal lending.
- The survey found evidence of greater confidence among victims and communities that the authorities are willing to act and that lenders are no longer untouchable.
- Progress has been made on reducing the climate of fear but this remains very much in place and acts as a barrier to reporting.
- There has been a step change in awareness of IML among partner agencies such as debt advice agencies, and social lenders such as credit unions.
- Notwithstanding considerable efforts, however, only a handful of victims have been transitioned to sustainable alternative credit, largely for reasons beyond the control of the teams.
- Education work with partner agencies and in communities appears to have had some success in creating awareness of the risks of using illegal lenders and thus in building a preventative effect.
- For a number of teams the financial inclusion element of their remit has in practice been effectively reframed as witness and victim support, the former being a critical element in the effective prosecution of IML cases.

#### 3.1 The project objectives

37. The project was set up with the following core objectives against which success was to be measured:
  - **Enforcement.** The main objectives were to have an impact on IML, by investigating and prosecuting lenders, eventually reducing the incidence of IML, to create a climate where victims could come forward and to change the perception among loan sharks that their crimes are rarely prosecuted.

- **Financial inclusion.** The main objectives were to increase awareness of the problem among partner agencies and providers of affordable credit, to develop formal relationships and processes for referring victims to local sources of debt advice and affordable credit and to develop an understanding of victims' needs and what is required for a transition away from illegal lending.

38. The core objectives are reflected in the composition of the IML teams, as each regional team includes both an investigative arm, to meet the enforcement objective, and a financial inclusion/victim support element, for addressing the needs of victims and building partnerships with debt advice, providers of affordable credit and other agencies, with a view to supporting victims to make a sustainable transition away from illegal lending.

## 3.2 Progress against objectives

39. It should be borne in mind that four of the six core project objectives related to enforcement and two to financial inclusion.

### 3.2.1 Enforcement

40. The project has made considerable progress in meeting its enforcement objectives. There is significant awareness of the project, with the majority of residents (72%) believing the intervention has made a difference, with IML more likely to be seen to be reducing in intervention communities than in comparison areas.<sup>7</sup> Progress is being made on addressing the 'climate of fear', but there remains a long way to go. There is also greater confidence that the authorities are willing to act and a perception that lenders are no longer untouchable.
41. The IML teams are gathering an increasing pipeline of intelligence, improving in quality. The teams are identifying and investigating lenders, leading to arrests and prosecutions.

### Prosecutions

42. In the period since the establishment of the national project in late 2007 through to end-March 2010, a total of 1,435 actionable contacts have been received, leading to 880 investigations commenced, involving 870 lenders and 280 arrests. Some 163 proceedings have been taken forward, of which 96 have been prosecutions with 58 of these cases ultimately dealt with by way of caution. Of those cases taken forward for prosecution, 33 have resulted in non custodial sentences, with 28 resulting in a custodial sentence, together totalling some 56 years.
43. Since illegal money lending had not been subject to active and sustained enforcement prior to the national IML roll-out, the enforcement activity results can be considered fully additional i.e. they would not have materialised in the absence of the initiative.

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<sup>7</sup> The intervention areas included communities in Liverpool, Glasgow, Merthyr Tydfil, Swansea, Bangor, Bristol, Hartlepool, Leicester, Derby and Manchester where the project teams had arrested illegal lenders. Comparison areas included similarly deprived communities – on the basis of their score on the indices of multiple deprivation - in Liverpool, Glasgow, Nottingham and Sunderland, in which IML was suspected but in which no arrests had been made.

## **Awareness and impact**

44. Significant progress has been made on building awareness of the initiatives and of arrests, with more than a third of victims in intervention communities<sup>8</sup> aware that there is now help available. More than a quarter (27%) of those aware of IML in their own communities are aware of the IML project, rising to 34% among victims.
45. The teams are seen as having had a positive impact in deprived communities, with 70% of those aware of IML in intervention areas feeling that the team has made some difference to the impact of IML on the community.
46. Those in intervention areas where lenders have been removed are more than twice as likely to feel that IML is reducing (27%) as those in comparison communities (12%).
47. Progress is also being made on addressing the climate of fear. Willingness to come forward was significantly higher in the intervention areas (at 25%), and complete resistance to doing so less (at 45%), compared to 15% and 66% respectively in the comparison areas. However, the climate of fear remains very strong, with 70% of those who are unwilling to report fearing reprisals and feeling that it is too dangerous to do so.
48. There is evidence that the initiative is impacting lenders' previous sense of being "untouchable" and that this has increased the sense of risk associated with running an IML operation. Almost a third (32%) of those aware of IML in their community believe that the lenders know that they are no longer untouchable, with this perception highest among victims in the intervention areas (37%). However, a little over a half (rising to 6 in 10 in the intervention areas) think that lenders have not cut back their activities but are rather being more careful.

## **Displacement**

49. A minority of lenders reportedly continue operations by proxy even after the authorities have intervened. 1 in 5 victims (22%) continue to pay their lender or their representatives after arrest. Conversely, however, 8 in ten (78%) of victims of arrested lenders are relieved of the heavy financial burden of payments.
50. Nonetheless, demand is such that the vacuum left by the removal of one lender is quickly filled by another. Two thirds (66%) of those aware of a lender's arrest and more than 6 in 10 of victims (62%) said that while the specific lender had given up lending, other lenders were still active in the community.
51. There was high awareness of arrests made by the teams among those aware of IML in their own communities (45%). However, with the exception of those areas where the outcome of a high profile local case was a significant custodial sentence, sentencing is generally felt to be inadequate to the impact of the crime.

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<sup>8</sup> That is, communities in which the IML teams have been active.

### **3.2.2 Financial inclusion**

#### **Transition to alternative sources of credit**

52. The financial inclusion objectives are not being met in the sense that only a handful of victims have been transitioned to sustainable alternative sources of credit, largely for reasons beyond the control of the teams and notwithstanding their considerable efforts. Through September 2009, fewer than 50 victims had been referred to Credit Unions, very few of whom obtained credit or commenced saving with a Credit Union. Debt advice has been more successful, albeit still taken up by relatively few victims. Overall, an estimated 4% of victims have been referred to any sources of support.

#### **Financial education**

53. There is evidence that the prevention and education work in deprived communities has however significantly increased awareness of the risks of using IML. Some 28% of respondents in the community surveys agreed that people were more aware of the dangers of using a loan shark and the same proportion that people were now more reluctant to use a loan shark, while only 13% of victims admit that they have returned to IML. The net reduction in the use of IML, taking into account the proportion of victims who have stopped paying lenders and those who have not returned to IML, would imply a net reduction in IML of some 3% nationally. However, given that the majority of interventions have been in deprived communities, it would seem reasonable to assume that the reduction in IML in these communities has been higher. We would estimate likely reduction in these communities to lie in the 5 – 8% range.
54. There has been a step change in awareness of IML among partner agencies, with joint working on financial inclusion and awareness raising, involving a number of innovative events and campaigns. While agencies are supportive of the project, there have been very limited cross-referrals. The social lenders, while sympathetic to the needs of victims, have seen few referrals in practice, with many of those referred not seen to meet criteria for appropriate candidates for borrowing.
55. A small number of victims have received intensive support from the teams, primarily those who have been willing to act as witnesses, though the extent of the focus on witnesses varies between teams. Some of these interventions have clearly been transformational, albeit also cost and resource-intensive.

### **3.2.3 Performance against objectives**

56. There are a number of reasons for the contrast in performance against the enforcement and financial inclusion set of objectives:
- The success of the teams in meeting their enforcement objectives is in part explained by the fact that they are meeting a clear need in enforcing a law that has not been enforced for decades and addressing a widespread and damaging criminal activity which is widely regarded by residents as a plague on the communities in which it occurs.
  - However, many victims cannot be identified. In any case most have little interest in engaging with the authorities or debt advice, partly out of fear and

reluctance to get involved as witnesses, but equally because they have found freedom from oppression and the financial burden sufficient relief.

- Many victims are in any case unsuitable candidates for social lending, being either already deeply indebted or very high-risk, while social lending provision is itself patchy and has often been unavailable in areas where victims have been identified.
- Although care has been taken to observe appropriate distance between witness support and enforcement, the financial inclusion dimension has, in some cases at least, effectively been taken over by the enforcement objective.

## 4.0 Costs and benefits

### Key points summary

- At this interim stage, the IML project is on track to deliver value for money.
- Over the first three years of operations, net benefits are likely to be in excess of funding costs. The best estimate from the evaluation indicates a potential net benefit of £28m compared to £13.4m of funding (in constant 2009-10 prices) i.e. net benefits of £2.11 per £1 of project funding.
- The IML teams' enforcement activities have resulted in a range of benefits, both for victims and society as a whole, which would not otherwise have occurred.
- The main benefits are as follows:
  - The project has benefited over 14,000 victims on illegal money lenders' loan books.
  - In net terms, victims have saved an estimated £11.7m in income that would otherwise have gone to illegal lenders.
  - For those victims whose relationship with the lender was based on intimidation and violence, actual or threatened, the removal of a loan shark yields relief from fear and stress, leading to improved quality of life. That improvement is indicatively quantified at £5.7m.
  - Being in debt has negative health and wellbeing effects. Therefore, removing illegal lenders can also be expected to have consequential health services savings, indicatively estimated at £1.8m.
  - Potential POCA gains, which would accrue to society as a whole, amount to £9.1m.

## 4.1 Victims

57. When the law against illegal money-lending is effectively enforced, victims stand to gain in two major respects. First, and most directly, where a lender's book is closed, the savings to the victims result from not making further payments to the lender which they would otherwise have made. Victims are thereby afforded the opportunity to repair their finances, pay their bills and purchase goods that may have been foregone due to the overriding need to pay the lender (63% of victims agree that payments to the lender have to be prioritised before all other spending). Removing loan sharks also provides a direct platform to the financial inclusion objective of the IML initiative.
58. On a gross basis, an estimated 14,300 victims have been helped by the teams. On the basis of the victim survey, it is likely that the impact of the intervention and the national project will be that 700 of these victims will have been relieved from violent attacks and a further 2,800 from threats of violence.

59. On a gross basis, potential savings to victims from closing lenders' loan books are estimated at £17.8m.
60. However, not all victims will have realised these gains. First, some victims have continued paying their illegal lenders, even in the wake of enforcement action. In the community surveys undertaken for this evaluation, 22% of those who said they were aware of IML said that an associate of the lender continued the collections. Second, for some victims, the impact of the intervention may not be sustained and they may return to their original lender or an alternative supplier. This was the case for 13% of victims in the community surveys. This factor further reduces the estimated benefits accruing to victims.
61. After adjusting for victims continuing to pay their lender and returning to IML, the net savings to victims are estimated at £11.7m.
62. Victims also stand to gain in other more intangible respects. Removing the lender should serve to lift the fear which many victims feel when in the grip of a loan shark, thereby leading to reduced stress and improved quality of life.
63. It is clearly difficult to attribute a monetary value to such intangible benefits. For this evaluation, the model for monetising the effect of removing the fear of violence has been adopted from the literature on the economic costs of the fear of crime. In that literature, health losses (due to stress) are monetised by estimating quality-adjusted life years (QALYs) lost through fear of crime and converting the QALY loss into a monetary amount. It must, however, be emphasised that it is only possible to provide an indicative estimate from the information that is available. The estimated net QALY gains to victims is £5.7m.
64. In summary, the total net benefits to victims are estimated at £17.4m, as follows:
  - Savings to victims – £11.7m.
  - QALY gains – £5.7m.

## **4.2 Proceeds of crime**

65. Under the Proceeds of Crime Act (POCA) 2002, a convicted offender can be ordered by a court to repay a sum of money equivalent to the amount that the offender is adjudged to have gained from crime. Thus, when the law on illegal money lending is enforced, society stands to gain insofar as it is possible to recover the proceeds of their crimes from those illegal lenders against whom enforcement action has been taken.
66. Pursuing a lender's assets through POCA may also have the effect of deterring the individual money lender and others from further criminal activity. The deterrent effect directly addresses the risk and reward element in the rationale for the IML initiative and should contribute to the objective of reducing the incidence of IML in the community. Reducing the power and status of criminals in the community might also be anticipated to contribute to the objective of creating a climate in which victims can come forward.
67. The benefits that can potentially accrue through POCA can, in principle, be estimated from the Performance Monitoring information supplied by the teams in relation to the value of assets restrained or confiscated. In addition to cash seizures, the main POCA-related indicators reported on by the teams are as follows:

- Total Criminal Benefit of loan shark.
  - Estimate of value of assets Restrained under Section 41 POCA.
  - Amount awarded by Confiscation or Forfeiture Order.
68. The total gross value of the POCA indicators reported by the teams is £36m. However, this does not equate to the amount actually recoverable through the POCA process. In estimating the expected amounts recovered, it is necessary to take into account the attrition that occurs in the POCA process i.e. the amounts actually recovered will typically diverge from the assessed total criminal benefit as well as the value of assets restrained or confiscated<sup>9</sup>.
69. Taking attrition into account, the expected value of POCA recoveries due to the IML teams' enforcement activities from commencement in late-2007 to end-March 2010 are estimated at £9.1m.

### 4.3 Health cost savings

70. Relief from the financial burden and the oppression of intimidation brings enhanced health benefits to the victims and public benefits in cost savings. The relief from worry and oppression by the lender also has health cost savings in that victims helped by the IML teams can be expected to suffer reduced stress and enhanced mental health. Indicative health cost savings have been estimated by drawing on research into the impact of stress-related ill-health on the use of health services. The net health savings from the IML project are indicatively estimated at £1.8m.

### 4.4 Communities

71. A key enforcement objective for the IML initiative is to eventually reduce the incidence of IML. The potential benefits to local communities are two-fold. First, removing lenders should act to reduce the risk of a member of the community becoming a victim of loan sharking. Second, local communities suffer from the presence of illegal money lenders in a number of respects. Loan sharks prey on the vulnerable and they are associated with anti-social behaviour, drugs, theft and violence. Removing lenders can therefore be expected to reduce crime and thereby improve the quality of life of local residents. Savings to victims will to some extent be redirected into the local economy.
72. The evidence from the community surveys is that, while progress is being made, the initiative is still at an early stage in achieving the objective of a sustainable reduction in the incidence of IML in deprived communities. We have not therefore attempted at this stage to quantify this effect or to estimate a value for any reduction in crime impacts outside those relating immediately to victims.

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<sup>9</sup> For a detailed discussion, see Bullock, K., Mann, D., Street, R., and Coxon, C., 2009, *Examining Attrition in Confiscating the Proceeds of Crime*. Home Office Research and Development Statistics Report No 17. Available at <http://rds.homeoffice.gov.uk/rds/pdfs09/horr17c.pdf>.

#### **4.5 Associated criminal activity**

73. In the course of investigating and undertaking enforcement action against loan sharks, the IML teams have uncovered associated criminal activity that is of interest to other agencies. For example, controlled drugs or weapons found upon execution of a warrant will clearly be relevant to the police. Instances of benefit fraud come within the compass of the Department for Work and Pensions (DWP). Unpaid taxes fall within the remit of Her Majesty's Revenue & Customs (HMRC).
74. As indicated by the performance monitoring statistics, the teams have had some success in facilitating the detection of associated criminal activities. The main benefit is the leverage gained by the teams in underpinning more effective partnership working with other agencies. This is particularly true in securing the cooperation of the police.

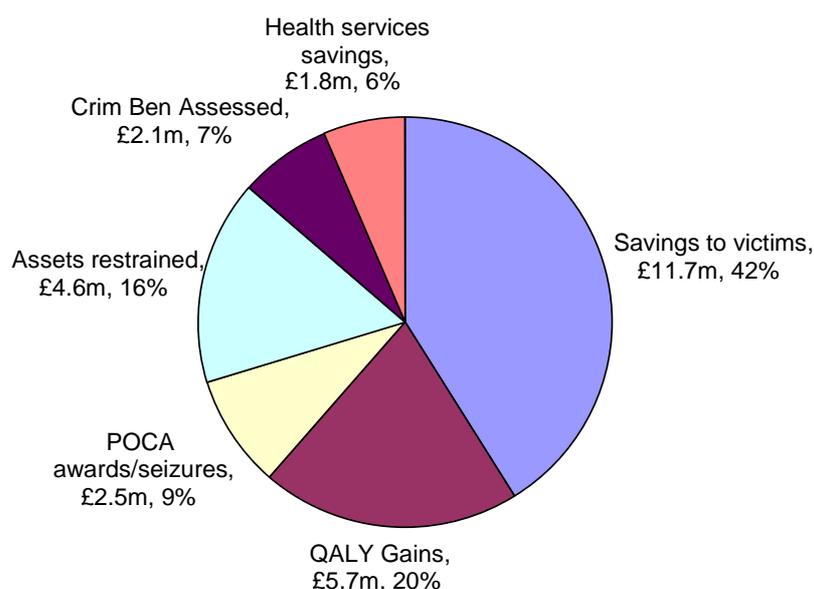
#### **4.6 Wider effects**

75. When victims are relieved of the requirement to pay an illegal money lender, this can have wider effects. For example, an improvement in capacity to meet obligations such as paying rent will clearly benefit social landlords. Based specifically on the additional detriment represented by use of illegal money lending, some 7,300 of the 14,000 victims helped would have been struggling to afford fuel, 4,900 would have been struggling to afford sufficient food and 3,500 will have been unable to pay rent, prior to the removal of the lenders. However, monetary estimates for such effects are not presented on the grounds that such benefits are already captured in the estimates for savings to victims.

#### **4.7 Total net benefits**

76. The total net benefits generated by the project are estimated to be some £28.3m, comprised of the following (Chart 1):
- Savings to victims – £11.7m.
  - Quality of Life (QALY) gains for victims – £5.7m.
  - Amounts recovered via POCA – £9.1m.
  - Health service savings – £1.8m.
  - Of the £28.3m net benefits some 62% accrue to the victims that the project set out primarily to relieve.

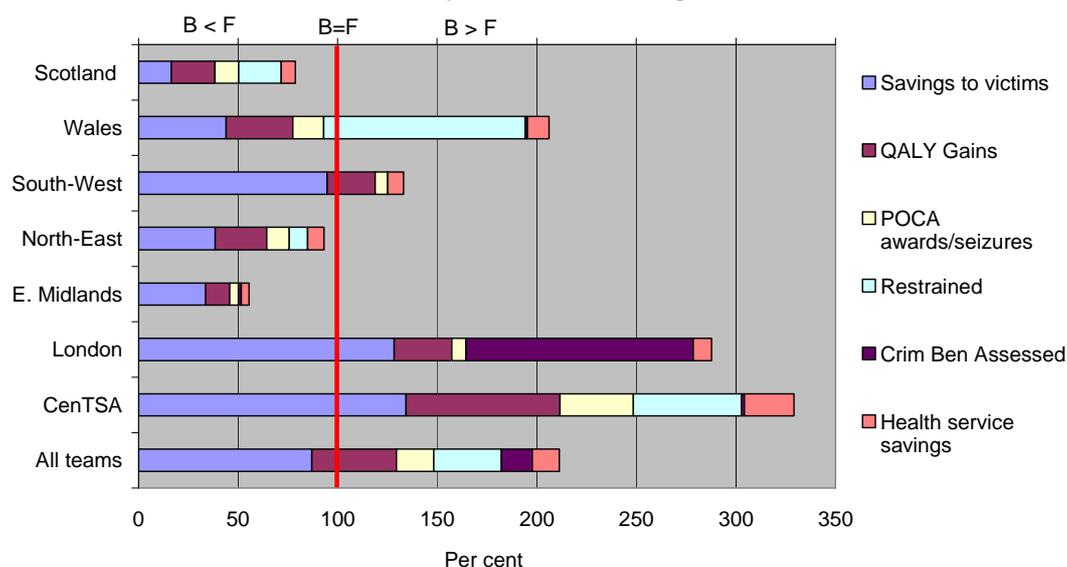
**Chart 1: Components of benefit estimates**



#### **4.8 Net benefits to costs**

77. The costs against which the foregoing net benefits are to be compared is comprised of the £13.6m funding provided to the seven IML teams over the period from commencement in 2007 to end-March 2010.
78. When the IML project costs are compared with the estimated net benefits, the main finding is that, from inception in 2007 through to end-March 2010, the project yielded £2.11 in benefits per £1 of funding.
79. The components of the net benefits to funding ratio are shown in Chart 2. Regarding the overall picture for all teams combined, the main points to note are as follows:
  - At £0.87 per £1 of funds, savings to victims make the largest contribution to the net benefits to costs ratio.
  - When the QALY gains are added to the savings estimates, the net benefits levered for victims of illegal money lending are in excess of the funding costs (£1.30 per £1 of funding).
  - The total estimated actual POCA recovery amounts to £0.68 per £100 of project funding.
80. On the POCA side, the expected recovery value depends mainly on elements that are furthest removed from actual recovery i.e. the combined value of assets restrained (£0.34 per £1 of funding) and criminal benefit assessed (£0.15).

**Chart 2: Net attributable benefits as per cent of funding**



81. Also shown in Chart 2 are the variations by IML Team in the ratio of net benefits to funding costs for the first three years of the project. A team is at the 'breakeven' level when net benefits exactly equal funding costs. A value in excess of 100 indicates that net benefits are in excess of funding costs. Similarly, a value below 100 indicates a shortfall between net benefits and funding costs.
82. Reflecting differences in scale, approach and the particular market context in which they operated, the ratio of benefits to costs has varied markedly across the different teams.
83. Some small teams are generating higher levels of activity per £ of funding than larger teams but are focusing on small lenders that are typical of deprived estates.
84. While they have been successful in generating high levels of enforcement activity, notably around investigations, arrests and prosecutions, many of the smaller teams have struggled to align benefits and costs. Nonetheless, the experience of the smaller teams also demonstrates the importance of a regionally-based presence in ensuring a spread of enforcement activity across a range of local communities.
85. Clearly, there is a balance to be struck between scaling up to achieve greater efficiencies, while maintaining the local focus that is essential to tackling and deterring IML, given its greater concentration in relatively small lenders operating in highly deprived communities.

## 5.0 Implementation and the lessons for future delivery

### Key points summary

- The national IML project has achieved much in a relatively short space of time.
- Some delivery models have been more effective and efficient than others. The need for each team to negotiate relationships and 'sell in' the IML concept to key agency partners in each region has resulted in uneven progress towards operational effectiveness and inconsistent levels of support and sponsorship.
- The large centralised team with a flexible investigation resource and a central body of specialist expertise has benefited from economies of scale and the concentration of specialist expertise. The flexibility of the delivery model has enabled the team to cover peaks of activity and large and complex cases wherever these have arisen.
- However, the success of some of the smaller teams in generating intelligence highlights the importance of maintaining a balance between the benefits of scale and the needs of local markets and the requirement to generate and respond to intelligence at local level.
- The teams have faced some constraints arising from the relatively limited nature of some aspects of Trading Standards enforcement agency powers and the need to obtain delegated authority from local authorities to undertake covert investigations, overcome to differing degrees and at different speeds.
- There have been long delays in bringing some cases to court, in part reflecting a lack of specialist legal expertise and understanding of IML within the courts.
- The teams now face capacity constraints due to the volume of need with which they are faced, with some teams now experiencing funding tensions with partners as the pipeline builds.
- A relatively passive approach to management from the centre has led to some teams struggling without support and guidance in the face of problems.
- While there is evidence of collaboration between teams, the project lacks national coherence and national level relationships with key agencies, constraining optimal efficiency, while the lack of central direction has worked against strategic focus.

86. The IML project was implemented through a range of more or less centralised and regionally-focused delivery models and teams of different sizes, each hosted by Trading Standards and local authorities. The CenTSA team, which covered a very large area stretching from the North West to the South East, and managed centrally from Birmingham, is to a degree a centralised model. The remaining six teams are focused on one single region.

87. The seven projects were able to move towards operational effectiveness at different speeds, with some teams encountering significant delays at set up. Delays arose in part because of the necessity to negotiate relationships and arrangements piecemeal. The various teams each had to sell in the concept

to regional stakeholders, with mixed results and varying degrees of buy-in. Some teams have gained higher level sponsorship and support than others.

88. With its much larger scale of operation and concomitant resource allocation, accounting for 34 per cent of total project funding, the CenTSA team has been able to benefit from the deployment of a flexible investigation resource and a central body of specialist expertise. Straddling five Government Office Regions, the CenTSA team achieved coverage of this large area by means of a model in which investigative resource was “parachuted” in and out, as required. This was combined with centralised specialist legal and financial investigation services.
89. The difference in scale has been important, as has the concentration of specialist expertise, with this large team securing a significantly high share of net benefit (52%) relative to share of funding (33%). This latter effect however also reflects a strategy within this team of focusing on more serious cases and those with larger numbers of victims and potential for significant POCA realisations. It is important to recognise however that many small but highly damaging operations, particularly in deprived communities, may have little potential for POCA realisations. The success of the CenTSA team also highlights the importance of effective management of relationships with police and media.
90. There are other features of the model and delivery which have been important in achieving results. The flexibility of the parachute-in-and-parachute-out model has also enabled coverage of both a relatively large area and peaks of activity and large cases as these arise.
91. The critical determiner of performance has been the scale and quality of incoming intelligence. A national loan shark “help-line” has been set up and has become an important source of direct intelligence for the teams. It is however insufficient on its own, providing rather a starting point for some investigations. Developing an investigation requires access to the police national computer and to police intelligence, covert investigation and, ultimately, police powers and facilities, to arrest, hold and interview suspects and progress prosecutions.
92. A number of the teams secured a seconded embedded police officer to enable access to police intelligence and facilities and police powers. Those teams that did not go down this route or were unable to secure police support or the necessary funding to do so have been less effective.
93. Those teams that have engaged the police sufficiently to have them routinely capture IML intelligence and refer it on to the teams appear best placed on intelligence.
94. On the intelligence front, media coverage of arrests has been the most important driver of awareness of the teams’ activities and willingness to come forward. A little over a third of those in intervention areas were aware of the arrest of lenders, rising to close to a half of victims. In that respect, the CenTSA team has also gained particularly from having the national media communications support function located within its team.
95. Effective intelligence allied to a structured process for prioritising efforts appears to result in a focus on operations creating the greatest detriment. There are differences between the teams in how they prioritise their activities and the extent to which the teams have been able to focus on operations creating the greatest detriment to victims, albeit that this also reflects the nature of local markets.

96. Clearly there is a balance to be struck between scaling up to achieve greater efficiencies and tackling larger and more damaging operations, while maintaining the local focus that is essential to tackling and deterring IML, given its greater concentration in relatively small lenders operating in highly deprived areas.
97. There appears to be some correlation between the teams which are most effective in generating intelligence and which have closest police relationships and the areas where there is high awareness of the teams and a more positive view within communities of the impact of the teams in addressing IML, indicating the operation of a 'virtuous circle' in these cases.
98. Clearly some individual police officers and some forces have engaged fully with the IML issue. There remains however some way to go in building awareness and understanding of illegal lending within the police and in making more explicit the link between IML and both harm to individuals and communities and other criminal activity.
99. The experience of the London team stands out as distinctive, reflecting the diversity of the capital and concentrations of criminal activity within it. This team appears to be dealing with a different market in that cases are typically more serious and have a higher degree of cross-over with other criminal activity, including serious organised crime and terrorism. Cases have tended also to be focused within ethnic minority communities and often on small business lending. The team has acted as an effective lead and national coordinator with a number of key national agency partners (such as SOCA and the FSA). Cases have been slower to develop than some other teams, reflecting the nature of the operations involved. However the forward pipeline, which includes potentially substantial POCA realisations, is significant.
100. All of the teams have faced challenges and constraints, primarily around the extent of their enforcement agency powers, notably that of arrest, and access to intelligence and, in some cases, a lack of high level commitment from the police. With the exception of Scotland, where high level support remains an issue, these difficulties have largely been overcome, albeit to different degrees and at differing speeds. Delegated authority to undertake covert investigations has been patchy across regions and has taken time to obtain, restricting some teams' ability to operate across their region at various times. National coverage for delegated authority remains incomplete.
101. Bringing illegal money lenders to justice requires not only effective enforcement but also effective prosecution. At this early stage there appears to be a lack of both specialist legal expertise and understanding of IML within the court system. The associated delays appear to be undermining community confidence in the authorities' ability to tackle the problem and to be making the effort to support witnesses more difficult and resource-intensive than it need be. The framing of the offence itself as "unlicensed lending" may also not be helpful in that it tends to underplay the seriousness of the crime and the associated damage to victims and communities.
102. These delays damage victims, compromise witness viability and undermine community confidence in the authorities' ability to prosecute lenders. The approach of the large team, which has utilised the services of the CPS and has experienced fewer such problems while building up a body of expertise, would appear to offer a better model, albeit that there is a clear need in any case to improve understanding of IML cases within the courts and judicial system.

103. Witness support appears critical to the effective prosecution of cases, with the most successful teams focusing heavily on this element of their remit.
104. Different approaches to financial inclusion have not met with any greater success in engaging victims or led to any more victims adopting sustainable alternatives to IML.
105. The client-led, time-limited approach adopted by the London team, which supported victims in defining their goals and working towards them over a clearly defined period of time, appears to have been an effective model for managing time and resource while optimising outcomes for the generality of victims who are not acting as witnesses.
106. The various teams have bedded in to the point where they now face capacity constraints due to the volume of need with which they are faced. The regional teams do not have the resources to pursue multiple covert investigations over an extended period.
107. For the most successful teams and those prosecuting larger and more complex cases there are also some funding tensions with partner agencies around accommodating unanticipated and unbudgeted expenditure associated with progressing larger IML cases. High-level commitment from key stakeholders and more formal partnership arrangements to support planning and budgeting might have avoided such issues.
108. There is some evidence of joint working and collaboration between teams. The teams have collaborated to resource some larger operations and project managers come together regularly prior to quarterly governance board meetings. However there is limited evidence of structured exchange of best practice or knowledge, which would have been particularly helpful at the outset. There is indeed some evidence of unhealthy competition and tensions between teams.
109. BIS and the governance board have played a relatively passive role and adopted a non-interventionist approach to managing the teams. This has led to some sense within some teams of a lack of strategic direction, partly arising from a perceived lack of feedback on performance. Some teams have thrived under this regime while others have struggled. This approach has also provided no mechanism for supporting struggling teams or for strategic intervention in the face of common challenges.
110. Taking these effects together, the project lacks coherence as a national project. It would seem likely to benefit greatly from national level sponsorship, commitment at national level from key stakeholders and co-ordination between them. The project would seem likely to benefit also from more pro-active direction from the centre and greater strategic focus.

## 6.0 Conclusions and strategic recommendations

### Key points summary

- There would appear to be a compelling rationale for the IML intervention based on social need and significant detriment.
- The project teams, BIS and Trading Standards have made an excellent start in working towards a reduction in illegal lending and in addressing the climate of fear surrounding it.
- The financial inclusion objectives have only been partly met. There has been a step change in awareness of IML among key partner agencies.
- Critically however, the effort to transition victims to sustainable sources of alternative lower cost credit has not been successful. Credit unions and CDFIs are extremely unlikely to be a sustainable alternative source of credit for more than a small minority of victims.
- However a substantial number of highly vulnerable victims have been afforded significant relief from a heavy financial burden and from oppression by lenders, with important quality of life and standard of living benefits also.
- There is also evidence of some protective effect from the financial education activities of the teams.
- Nevertheless, demand for IML among those unable to borrow in the legitimate market is such that IML is unlikely to go away any time soon, with the protective effect of financial education is unlikely to do more than moderate demand.
- Building on the project achievements and achieving more consistent success across project teams will require refocusing some objectives, restructuring the delivery model and placing greater emphasis on leadership.
- We recommend an approach in which a local presence is combined with central direction and management, with strategy set and relationships negotiated at national level. The model should be supported by centralisation of specialist expertise and representation of key stakeholders on the governance board.
- Strategically the financial inclusion objectives of the project should be recast as victim and witness support and preventative education.
- The national IML project illustrates the limits of both enforcement and financial education however. The supply of legal credit to high-risk borrowers is clearly a critical factor in the scale of illegal money lending.
- Against this background, and given the strength of the perennial demand for credit, a regulatory environment which maximises the availability of legal credit is likely to be the single most important factor in the ability of the authorities to contain illegal money lending

## 6.1 Conclusions

111. The project teams, BIS and Trading Standards have made an excellent start in building awareness of a previously all but invisible and highly damaging crime and in enforcing a law that has not been enforced for decades. A significant body of prosecutions has been achieved, with a substantial forward pipe-line in prospect.

112. A clear message has been sent to lenders, victims and communities that the authorities are now willing to act, that help and redress is available, and that illegal money lending will not remain a low-risk activity in which lenders can act with impunity.
113. The community surveys provide some encouraging evidence of progress across a series of fronts. There is also clear evidence of the beginnings of a 'virtuous circle' in which the effective removal and prosecution of lenders appears to be creating public confidence in the authorities' effectiveness and leading to an increase in reporting and enhancements in the quality of intelligence.
114. The community survey shows clearly that in intervention areas and among those who are aware of arrests, victims and informants are more willing to come forward. The project teams' experience also demonstrates a peak of intelligence following arrests and convictions. Effective media relations and media communications activity maximises this effect.
115. However, the project is still at an early stage in the effort to reduce the incidence and impact of illegal money lending and it is clear both that new lenders continue to fill the vacuum resulting from the removal of a lender and that the climate of fear remains in place. It can reasonably be anticipated that as lenders are increasingly prosecuted and removed from the community, that the climate of fear will continue to lessen and that witnesses and victims will become more confident to come forward.
116. Similarly, on the basis of the community survey it would seem likely that the perceived risks associated with operating an illegal money lending operation will increase as arrests, prosecutions and confiscation of assets continues.
117. The evidence is equally, however, that demand is unlikely to diminish and that illegal lending is unlikely to go away any time soon, albeit that enforcement activity will work to reduce its incidence.
118. A substantial number of victims have been afforded significant relief from a heavy financial burden and from oppression by illegal money lenders, with important quality of life as well as financial gains and consequent enhancements to standards of living for individuals and knock-on benefits for communities and for society more widely. It would seem that the savings to victims from the removal of lenders will have had a significant effect in stabilising finances and improving the viability of household budgets undermined by various degrees of income starvation.
119. There have been transformational financial inclusion outcomes for a small number of victims, primarily witnesses. However, the financial inclusion objectives of the project as envisaged have not been met, largely for reasons beyond the control of the project teams. Despite significant effort the teams have not been able to support more than a handful of victims to sustainable legal credit, predominantly because victims have been unsuitable candidates for credit union lending, though patchy provision has also played a role.
120. There has however been a step change in awareness of illegal lending and of the issues associated with it for victims and communities among partner agencies, which appears to have gone some way to support a preventative and educative effect.
121. Taken together, the experience of the various teams makes it clear that even with significant effort and support, it is unlikely that credit unions will be a

viable alternative to illegal money lending for more than a small proportion of victims. More victims have been successfully referred to debt advice than to credit unions, but take up has been low overall, with those victims that have been supported often having both long-standing, multiple debts and proving hard to help.

122. The financial inclusion effort also illustrates however both the power and the limits of financial education. The teams' experience and the community and victim research suggest that financial education will increase the understanding of the risks of using a loan shark. Equally, however, it illustrates that the strength of demand for credit is such that the impetus for illegal money lending supply is unlikely to go away any time soon and that the protective effect of financial education is unlikely to do more than moderate demand.

## 6.2 Strategic recommendations

123. **There remains a compelling rationale for the IML intervention based on social need and significant detriment.** There is a pressing and continuing social need afflicting some of the most disadvantaged members of society.

- There is clearly significant detriment for those who become entrapped by loan sharks in the form of income deprivation and compromised quality of life arising from fear of – or actual – violence and intimidation.
- Illegal lending is a widespread problem and, due to continuing demand, one that is unlikely to go away. Under current conditions, given the shrinking high-cost credit supply, the market is indeed likely to grow in the absence of sustained intervention.

124. **Building on the project achievements will require refocusing some objectives, restructuring the delivery model and placing a greater emphasis on leadership.**

- The teams have clearly made a significant start on addressing a highly damaging problem afflicting deprived communities and reinforcing disadvantage, poverty, high crime levels and anti-social behaviour. If the benefits of what has been achieved are to be built upon, a more strategic approach should be adopted within refocused objectives and a re-framed delivery model to address current weaknesses in project delivery and achieve a more consistent level of success across the national project.

125. **Strategically the financial inclusion objective should be re-cast as victim and witness support and preventative education within deprived communities.**

- It is clear that given the vulnerability of victims and their unreliability as witnesses, many cases could not be effectively prosecuted without victim support. Strategically, the victim support and financial inclusion dimensions of the project would be better recast as witness support with the financial inclusion component of the remit reframed as awareness-raising and education, focused on actual and potential victims within local communities and other agencies engaged with those communities.

**126. Some discrimination in approach to more or less damaging illegal lending would appear to be required and there is potentially a case for the development of a new offence.**

- A degree of discrimination is required between the more or less damaging ends of the IML spectrum, with more or less benign models requiring different approaches. Some types of relatively benign unlicensed lending may be better dealt with through facilitation of licensing and efforts on ensuring compliance. Other more damaging models clearly require a robust enforcement approach. There is an argument to be made for the development of a new offence of aggravated money lending which more effectively captures the damage inherent in the nature of the crime.

### **Options on enforcement**

**127. Options on enforcement range from project closure through to restructuring project delivery within a more strategically focused and centralised approach. The options to be considered for the enforcement element of the remit going forward would include:**

- Closing the project. The rationale would seem too strong to allow for this option. Also, the project overall is likely to lever an excess of benefits over costs.
- Maintaining the status quo. This will continue the current inefficiencies and will not maximise the effectiveness of the project.
- Moving to a completely national and centralised structure. This would run the risk of losing the benefits of a regional presence and would make it difficult to manage the early stages of investigations or to support witnesses effectively.
- A mixed approach with a local presence combined with central direction and management and strategy set at national level, supported by centralised specialist expertise (e.g. financial investigation, legal services, media communications) with additional investigative and operational capability on a parachute in:out model. Relationships and partnership arrangements to be negotiated centrally at national level with key stakeholders represented on the governance board.

### **A new structure for IML**

**128. We recommend a move towards a more centralised approach with national management and central services combined with a local presence.** The mixed approach is to be recommended on the basis that it offers an opportunity to:

- Realise scale efficiencies in enforcement, including the development of a critical mass of specialist expertise.
- Maintain a regional presence so that enforcement activity can gain from local knowledge and ensure a deterrent /supportive presence in at-risk communities.
- Achieve greater flexibility to deal with peaks of activity and large cases wherever these arise.

- Achieve a greater degree of coordination in addressing challenges common to all teams, promoting the exchange of knowledge and best practice and providing timely support to struggling teams.
- Inject greater leadership and strategic focus than is possible under the present model.
- Provide the opportunity to negotiate commitment from key stakeholders in government and partner agencies at national level.
- Restructure the governance board to place less emphasis on regional interests while achieving greater strategic focus and the engagement of key policy and external stakeholders.

129. The project has clearly made an excellent start under BIS and Trading Standards sponsorship. In the short to medium term, however, given some of the capacity and funding constraints and the background developments on new regulatory and consumer protection structures, there may be room to consider alternative funding mechanisms. Longer term there is potentially also a case for transition to alternative sponsorship as the project scales and develops further.

### **The regulatory context**

130. **Finally it is clear that there are limits to what can be achieved through either enforcement in reducing supply of illegal lending or financial education in reducing demand for it.** It is clear also that social lending, at least in the form of credit unions and Community Development Finance Institutions (CDFIs) which must function as sustainable social businesses, is unlikely to act as an alternative to illegal lending on any scale. It is also evident that the supply of legal credit to high risk borrowers is a critical factor in the scale of illegal money lending.

131. The high cost of certain types of sub prime and non standard lending products may not be a desirable feature of these models. However the modus operandi of legal, regulated lenders is surely less detrimental to the interests of disadvantaged consumers than that of unregulated illegal lenders. Resort to illegal lenders will be not only much higher cost than any form of legal credit but also deeply damaging in a number of other respects.

132. Clearly there are a range of consumer protection considerations in this context. However, against this background, perhaps the single most important element in containing illegal money lending and moderating the damage done to victims and communities arising from it, is the maintenance of a regulatory environment that maximises the availability of legal, regulated credit to high risk borrowers.

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