



Mr. Matthew Weighill
Inquiry Manager
Payday lending market investigation
Competition Commission
Victoria House
Southampton Row
London
WC1B 4AD

Sent via email on 12th July 2013

12 July 2013

Dear Mr Weighill,

Payday lending market investigation and better affordability assessments

I am writing in response to the initial call for a summary of views following the launch of the Competition Commission's inquiry into the payday lending market on 27th June 2013.

Equifax is one of the UK's credit reference agencies (CRAs). Alongside Experian and Callcredit, we provide thousands of credit files each year to UK consumers, and facilitate the sharing and provision of credit data across the financial services sector. This work helps support the effective flow of affordable credit in the UK economy, amongst a number of other consumer services. We share the widespread concerns that insufficient safeguards are in place for consumers in the payday lending market including inadequate affordability assessments. Improved affordability assessments are an essential part of ensuring the protection of consumers and the credit reference industry is uniquely positioned to deliver this solution.

This letter sets out our interpretation of the current situation in the payday lending market and our proposed solution to help reduce consumer detriment.

Overview

We firmly believe that assessing affordability by sharing and using credit data, through the CRAs, is critical to making responsible lending decisions. Not only does data sharing support responsible lending, these assessments also help tackle fraud and lift people out of financial exclusion.

Existing frameworks for credit data sharing, delivered by the UK's CRAs, support banks and other lenders who undertake these assessments as standard. However, the payday lending sector is yet to embed affordability assessments into its standard practices. This therefore restricts payday lenders' ability to make responsible lending decisions, increases the potential for fraud and maintains levels of financial exclusion.

The UK's CRAs have a unique and proven track record of working with other sectors to help them share data securely and consistently, and introduce effective assessments before lending or providing services.

We are therefore calling for payday lenders to work with all the CRAs to share data and introduce best practice affordability assessments which will help protect consumers.

Current situation and impacts on consumers

Risk based and proportionate affordability assessments are a regulatory requirement for all lenders under the Consumer Credit Act. The Office of Fair Trading made clear in its final report of the 'Payday Lending Compliance Review' that credit reference data should be used to help inform

improved affordability assessments. And consumer groups including Which? and Citizens Advice are also calling for the introduction of these assessments.

In practice this means introducing reciprocal sharing of data across the payday lending sector and ensuring regular use of credit data as part of the lending decision making process.

Without these systems, the following consequences are being seen:

- Short term lenders are unable to make proper affordability assessments as there is often no available history of credit worthiness;
- It is impossible to assess or understand levels of indebtedness;
- The lack of up to date credit data sharing means consumers can take out multiple loans over a short period of time;
- Consumers with good records of repayment are not rewarded with a positive credit file, and are often likely to remain financially excluded;
- The likelihood of fraud and identity fraud increases without the data to verify identity.

Our solution

A practical solution is to allow the UK's CRAs to facilitate the sharing and use of credit data across the payday lending sector. This approach should form part of a wider code of conduct for the payday lending industry that we believe should be drawn up in order to prevent some of the consumer detriment being experienced.

Established principles and standards, approved by the Information Commissioner, are already in place to govern the secure and consistent sharing of data across the financial services sector, and wider consumer industries. Governed by the Steering Committee on Reciprocity (SCOR), these principles provide a framework for extending secure, consistent credit data sharing to the payday lending sector.

Equifax, Experian and Callcredit are unique in providing this support to the UK's financial services industry and have a proven ability to introduce these ways of working in wider sectors such as telecommunications and utilities. In addition, when new forms of credit have been introduced in the past, for example in the Energy and Water sectors, the CRAs have shown that they are able to adapt to new scenarios and provide a bespoke solution.

In summary, ensuring data is shared consistently across all three CRAs will allow payday lenders to perform affordability assessments, meet their regulatory requirement to reduce consumer detriment and maintain a competitive market for consumers and the industry.

Additional considerations

Introducing robust data sharing into the payday lending sector would represent a step change for the industry and would therefore require careful implementation. There are a number of important factors to consider to ensure credit data is shared securely, consistently and effectively across the payday sector:

Consistency

- It is vitally important that data is shared in a consistent format across the sector, and with all three CRAs. At present, this is not the case
- Inconsistent sharing of this data is leading to an incomplete picture of individual consumer behaviour, making accurate affordability assessments impossible.
- In addition, the inconsistent provision of data means that it cannot currently be utilised by other lenders and the wider financial services sector. This reduces the opportunity for those consumers



who are using payday lenders responsibly to build a positive credit profile and subsequently become more able to access lower cost credit.

- Consistency can be achieved by following the proven standards and principles already in place to govern the secure sharing and use of credit data, via the CRAs, across the wider financial services sector.

Experience

- We understand that the payday lending sector presents different challenges to the wider financial services sector.
- As an industry we are actively working to enhance and develop the infrastructure required to support data sharing and use across this sector.
- The CRAs have a proven track record of developing new systems to help different industries share and utilise data effectively. This has included innovative and effective work to support data sharing and use across the telecommunications, home credit and utilities sectors.

I hope our submission is helpful as you begin this important inquiry. I would be very happy to meet with you to discuss this issue in greater detail. In the meantime, please do not hesitate to contact me if you should need any further information.

Yours sincerely,

Neil Munroe
Director, External Affairs and Communications, Equifax Ltd