CONSUMER CREDIT TRADE ASSOCIATION [CCTA]

CC PAYDAY LENDING INQUIRY - 27 JUNE 2013

CCTA

Since 1891, the CCTA has represented Members who provide credit products to business, and consumers. The Association has always represented a broad church of Members, which currently ranges from small Banks, and Building Societies to SMEs, and includes a number of sole traders.

We have over 350+ Members, many of whom are concerned by the rush to new regulation with the implementation of the Financial Conduct Authority [FCA] on 1 April 2014. The CCTA worked closely with the Government bodies, consumer interest groups, the legal fraternity and the Crowther Committee from 1971 on the formulation of the 1974 CCA. We have since liaised with BIS [DTI/DBERR], on the recent changes to the 2006 CCA changes, and the implementation of the EUCCD in 2011. We are currently liaising with BIS on the payday lending Charter & Code of Practice. We have also been liaising with CCTA Members who were part of the OFT payday lending site review.

Many of our Members have a portfolio of business, and consumer credit products. Even more have a portfolio of several types of credit granting, ranging from HP, Personal Loans, Secured Loans, and payday lending. We have roughly 70 members, which is 20% of our total Membership who have been, or still remain, involved in payday lending. Many Members are currently exiting the payday lending sector, and serving the consumer through a traditional personal loan over a 3, 6, 9 or 12 month period.

We are looking forward to meeting with the CC Payday Lending Inquiry Team to discuss the ' market ', and our Members.

Payday Lending Market

Payday Lending is a facet of the consumer credit market, as is an overdraft from the Bank, and in many circumstances with the same need and overall cost. In certain cases the overdraft if it was expressed as an APR, would be significantly more expensive than a payday loan.

A payday loan, is a cash sum that is borrowed, with the consumer paying back the loan on the next payday, unless an arrangement is made to vary the agreement. It is a small cash loan that is required by the consumer to overcome a blip in their finances, where in a particular month they may have more month than money. Traditionally many consumers had authorised overdrafts from their Banks, or the ability to move into a ' pink zone ' where they would clear outstanding amounts by the next payday.

The high cost of living, low salary increases, and changes to council and tax treatments is causing more consumers to have problems with peaks and troughs, in their personal finances throughout the year. Alternatives to payday loans are few the most often used was overdraft facilities, as already stated many consumers are frozen out of that facility by the Banks. The populist consumer activist view is that payday lending consumers are vulnerable and low paid, when in reality the majority are from middle England, the squeezed middle, and strivers.

Payday lending is minute within the overall landscape of consumer credit, yet receives huge reputational press & media. There is a parallel between the referral of the Home Credit Market in 2004 to the Competition Commission when consumer activist lobbying was at a peak, and the current situation with payday lending press & media.

The CC Home Credit Inquiry consumer outcomes provided for price comparisons, sharing of data by the large lenders, and a restriction on rollovers, but allowed parallel loans if they were adjudged to be affordable and responsible. The consumer had more safeguards, more choice, more clarity and could access the product as before. Home credit was also a defined niche market, small cash sum loans collected from the home. There were thousands of agents that had good relationships with the constituents they served, and in many cases lived in that local community.

We believe that to proclaim payday lending as a market is flimsy in evidence, and we look forward to working with the CC to prove why we think that the product should be dealt with as a product, not a pseudo-market.

Most of the firms who offer payday loans, also offer other products so to badge them as payday lenders is to simplify a more complex situation. There are very large firms who benefit from reduced costs as a direct result of scalability, and therefore their payday offering is, or could be less expensive. There have been many new entrants who provide payday lending products which proves that there is true competition within the product sector in the wider consumer credit market.

One of the features of the overall market is that the high cost of customer acquisition by lead purchase from lead generators means that profit for smaller companies is difficult to achieve in the early years. The purchase of perceived quality leads via the ‘ ping-tree ‘ from the lead generators, can be well over £50 per lead. Firms advancing a £ 200 - £300 cash loan, or less, would find that the cost of acquisition, cost of money, setup costs, and compliance costs would limit profit. Any arrears, or collection activity would start to make any profit, marginal.

Lead generators, many of whom do not have a CCL, and flout advertising rules, have created much of the press & media fire-storm felt by the market. The Industry report the rogues to the OFT, and ASA. However action is slow, and in many cases a website being taken down is replaced in 48 hours.

There are many parts of the market that are offshore and online, the current proposed FCA regulation would not touch such organisations, if they do not have a bricks and mortar presence within the jurisdiction of the UK. Many of these organisations are at the forefront of providing good consumer outcomes already.

The CCTA believe that the OFT in it's swansong, had the toolkit to deal with the current issues, but are now lacking the personnel resources as the FCA moves to centre stage. We suspect that the CC Payday Lending Inquiry is being done for political expedience, as the OFT are struggling, and the FCA does not have it's full powers until April 2014.

We believe that other products such as Banks and overdrafts should be in scope, as it many cases it is the withdrawal of those facilities that have created the product sector. It is far too narrow an Inquiry to waste public, and firm's money on a product sector.

Much of the political argument surrounds vulnerable people. There is no official definition of vulnerable people, and as research has clearly spelt out, the majority of payday lending users are not deemed to be vulnerable. If vulnerability, which is really the domain of social policy, is being looked at then the Inquiry needs to be widened to include Illegal lending, Credit Unions, and perimeter lending that will not be regulated by the new FCA.

As well as payday lending being minute within the whole of consumer credit, overall levels of complaints are minimal against the overall number of loans granted. Whilst we agree that one consumer complaint is too many, a greater acknowledgement should be made the Industry has been collaborating with OFT, BIS, Consumer Groups, and all other stakeholder groups to provide better consumer outcomes.

There is a real danger that a small minority of complaints, will produce a knee jerk policy that will severely impact on the majority.

Data Sharing

The CCTA is working with SCOR and all other TA's on data sharing issues. There is no silver bullet available in the medium term to arrive at full real time data, and there will be hurdles to arrive at a standard practice for default data.

There are discussions ongoing at all CRA's to further the progress of real time data. There is still confusion in government departments about data, brought about by a distinct lack of understanding of how CRA data is compiled, and the use of credit scoring. Several large firms use their own compiled algorithms, which they allege provides for better credit scoring, and affordability testing.

Consumer outcomes

Firms are getting to grips with the new FCA principles, and looking at consumer outcomes measured against the 11 principles. There is a recognition across all consumer credit firms that they have to provide clear and compelling evidence that there is no consumer detriment involved with their product, processes, or protocols. The CC payday Lending Inquiry is ill-advised, ill-timed, and inappropriate in looking at a product rather than a true market. We sincerely hope that the CC will see within the scoping process that the FCA are best placed to deal with the product in April 2014, if consumer outcomes have not been addressed.

Expectations – Unintended Consequences

The undue haste, and perceived political inference before the scoping of the investigation, has genuinely concerned the consumer credit Industry that the CC is being pressurised to arrive at early conclusions, without going through the proper processes of an impartial Inquiry. The Industry, and consumer will be harmed if the required time, effort, and more importantly the research, and statistical evidence from all parties is verified as factually correct, and authentic.

There is a genuine concern that the consumer will lose a product choice as firms react to the deletion, or distortion of this part of the consumer credit market.

The CCTA welcome the opportunity of assisting the CC Payday Lending Inquiry to achieve the consumer outcomes of choice, flexibility, accessibility and transparency on all consumer credit products.

Greg Stevens
Chief Executive
CCTA