COMPETITION COMMISSION MARKET INVESTIGATION INTO PAYDAY LENDING

CONSUMER FINANCE ASSOCIATION

SUPPLEMENTARY RESPONSE TO COMPETITION COMMISSION STATEMENT OF ISSUES

The Consumer Finance Association (CFA) is a trade association representing the interests of businesses offering short-term, unsecured personal loans, often referred to as payday loans, both online and through high-street stores. The CFA welcomes the opportunity to respond to the Competition Commission (the Commission) Statement of Issues (SOI) published on 14 August 2013.

In addition to our submission in September, we would be grateful if the Commission would consider the following supplementary points based on recent market development and other published submissions in respect of the market investigation onto payday lending.

Since the Commission published its Statement of Issues the Government has required the Financial Conduct Authority (FCA) to impose a cap on the total cost of credit in the short-term lending sector. We will be working with the regulator on the design of these controls and providing incidental evidence of capping in other markets. However, this is an intervention in the market that will have repercussions for the Commission's market investigation.

We would welcome further clarification on the role the Commission will play. In particular, given that the Commission's issues statement included an intention to investigate adverse effects on competition, will the Commission retain its statutory duty to draw its own conclusions on the basis of evidence received and to what extent will the Commission need to factor in anticipated changes to the market?

There have been other new developments, since our submission in September. As part of our response to the FCA consultation, CP13/10, on its rule book, the CFA provided new data on consumer experiences of loans. The research was commissioned by the CFA and conducted independently by YouGov using interviews with 2000 customers of CFA members. We have referred to the findings below and in the attached confidential graphs.

We also attach graphs showing the latest figures from a quarterly data set compiled by Shelley Stock Hutter, on behalf of the CFA. The data is provided to the CFA as an aggregate of responses and is indexed against a baseline. We provide this information on a strictly confidential basis to inform the Commission's understanding of market developments and ask this is redacted from any Commission publication.

We have set out below some specific responses to issues that have been raised in early submissions by other stakeholders, with the intention of bringing some balance to the evidence presented.

Speed of application

We note that a number of submissions have drawn the Commission's attention to the speed of application, with the suggestion that this is detrimental to consumers. The assumption is that an application which can be processed in seconds cannot be conducted with complete rigour. This concern is derived from the Office of Fair Trading's compliance review, which are bound to stress was conducted with CFA members 18 months ago and, as the Commission will be aware, is no longer an accurate assessment of the market.

As with most other credit providers, short-term lenders use highly sophisticated computer technology to assist their assessment of loan applications. Indeed, the investment by short-term lenders exceeds that of some providers of other credit products. This is because responsible lenders are committed to carrying out robust affordability assessments and it is more difficult to assess a borrower's likelihood to repay over a much shorter period than it is to assess a credit agreement over, say, three years.

Short-term lenders use cutting edge technology to churn thousands of pieces of data very quickly in order to 'score' loan applications, including checking employment, outstanding creditors and debt management plans, bank card validation and electoral roll entries. Reputable lenders are selective and one CFA member reports that it declines 9 out of 10 online loan applications. The decline rate tends to be much lower in high street stores where the application is a face to face transaction.

The speed of delivery does not equate to the speed of application. Most credit providers can approve loans, cards and finance agreements virtually instantaneously, indeed most high street banks advertise that they will give an "instant online decision" on loans. The difference is in the speed of delivery. Depending on the customer's banking facility, bank accounts can be credited within an hour or less from the time of approval. Whereas a credit card delivery may take several weeks to be delivered and activated.

CFA members' business models are based on front-loading the loan process with appropriate due diligence, including working with credit reference agencies, to make a sound assessment that a customer will pay back their debt on the due date. This reduces costs of collection and encourages a positive customer experience and possibly repeat business or word of mouth marketing.

Profit from rollovers

The Office of Fair Trading's compliance review concluded that half of lenders' profits were derived from rollovers. We believe that this is a flawed calculation, which involved some double counting.

The OFT included the initial fee from the loan as income from rollovers i.e. if a customer rolled over a £100 loan twice and paid 2 x £25 in fees/interest, the OFT included the initial £25 as "rollover" income – this would have been payable even if the customer didn't extend the loan.

Customer survey results

On 3 October, the Department for Business, Innovation & Skills (BIS) published a report Making Consumer Credit Markets Safer, which summarised the results of an online survey using Survey Monkey and the findings of a client/adviser survey from Citizens Advice.

The CFA made strong representations to BIS ahead of the survey launch and publication of results that both these surveys were self-selecting without validation. We therefore commissioned YouGov to conduct a survey of randomly-sampled CFA members' customers based on an online questionnaire and telephone interviews (attached separately).

We acknowledge that there were some parallels in the results. For example, when asked whether the lender clearly explained the total of the loan 97% of customers in the BIS, 80% of customers in the Citizens Advice survey and 92% of customers in the CFA/YouGov survey answered in the affirmative.

However, in contrast to the BIS and Citizens Advice survey conclusions, CFA members' customers gave a more favourable picture in general.

In the YouGov survey when asked 'how well, or not, would you say you understood the total cost of the loan?' 82% of respondents said they fully understood and 16% said they somewhat understood.

86% of respondents said that they were informed of the default charges that would they occur by failing to repay a loan.

65% of respondents had considered some other forms of borrowing, such as friends, family, unauthorized overdraft, etc. before taking a payday loan.

The BIS report suggested that affordability assessments were not being conducted by most lenders. In the CFA/YouGov survey 93% of respondents said that their lender asked for income, employment and other financial details during the application to check that the customer could afford the loan. In addition, 90% of respondents felt that they were offered a fair loan based on employment and financial information. It is also important to note that many of the sophisticated checks which lenders carry out are automated and would not be visible to customers, but as a matter of process would have taken place.

88% of respondents were approved for the loan amount they requested. Of those that were not approved, 90% said they were offered a lower amount than they had requested.

According to the BIS report, nearly a quarter of customers indicated that they were put under pressure to extent their loan, with this number rising to 39% for customers of smaller lenders. When asked by You Gov 'Did you feel your lender pressured you into rolling over/extending your loan or was it your choice?', 36% did not roll over the loan, 38% said it was their choice, 14% said they were not pressured at all and just 11% felt they were pressured to extend their loan.

Short-term lenders use continuous payment authority to collect payments from customers' bank accounts. One of the commitments set out in the Customer Charter was to ensure that consumers understood the method of payment. The CFA/YouGov research showed that 85% of customers fully understood how payments would be taken, when asked the question 'Did your lender clearly explain how it would use your bank details to withdraw your repayments from your account?'

In contrast, according to BIS only 42% of small lender customers and 71% of large lender customers said CPA was clearly explained to them.

We conclude from this that three surveys conducted under different circumstances yield varying results. We would argue that a survey of validated customers from CFA members' databases, who are independently surveyed with open questions is more accurate than non-validated (the BIS and Citizens Advice surveys were not validated against lenders' records), self-selecting surveys using somewhat leading questions.

We hope that this supplementary submission is helpful to the Commission's deliberations.

We feel that the Commission's investigation would be enhanced by a better understanding of the CFA and its relationship with its members. As you may have ascertained from our members, the CFA's work is integral to the business model of many of our members. We provide a self-regulatory regime, as well as playing a central role in the policy decisions that the industry operates within. We do not market on behalf of our members or defend poor practice. But we do provide a forum for policy debate. For example, the CFA will be instrumental in identifying areas of agreement between our members on the principles of a cap on credit products.

With a role that is central to the larger lenders' conduct, we are likely to have a part play in the Commission's remedies and recommendations. Therefore, we look forward to giving evidence to the Commissioners in the New Year.

Consumer Finance Association
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