



RESPONSE

COMPETITION & MARKETS

AUTHORITY: MARKET INVESTIGATION

INTO PAYDAY LENDING

July 2014

About Money Advice Scotland

Money Advice Scotland is the national umbrella organisation in Scotland which promotes and champions the development of free, independent, impartial, confidential money advice and financial inclusion.

A registered charity, Money Advice Scotland was set up in 1989, and provides the following services to its members:

- Standards and quality framework development
- Qualifications
- Training
- Research and policy input
- Annual Conference
- Seminars and other events
- Publications
- Consultancy
- Organisational audits

In terms of standards and quality framework development, Money Advice Scotland has been at the forefront of raising standards in Scotland, and beyond. The organisation was involved in developing a framework which underpinned the Debt Arrangement Scheme Regulations, and gave assurance that the advice being given to clients was of quality. The framework which was in place until 2011, the casework of which was assessed by competent advisers who were also approved advisers under the Statutory Debt Arrangement scheme. Due to a change in government policy the scheme was changed.

Money Advice Scotland is an approved Centre for the delivery of Scottish Vocational Qualifications in Advice and Guidance. It is currently working with the Institute of Money Advisers in England and Wales to develop the Scottish version of the Certificate in Money Advice Practice, which is near completion. Money Advice Scotland is also working closely with the Money Advice Service in terms of the development of a national money advice quality framework.

With regard to training of money advisers, the organisation has been using standards to underpin its training for almost 20 years. In more recent times, the Scottish Government in conjunction with the advice sector has developed the Scottish National Standards in Information and Advice (SNS), and Money Advice Scotland was a pivotal player in their development. These standards are enshrined in current training and also help shape the Certificate in Money Advice Practice, together with the National Occupational Standards in Advice and Guidance, and Legal advice.

General comments

- Money Advice Scotland (MAS) welcomes the Competition and Markets Authority (CMA) investigation into competition in the payday loan market.
- MAS encourages CMA and the Financial Conduct Authority (FCA) to work as closely as possible on this work, particularly given FCA's competition remit.
- The lead generator and credit broker sector is again raised as issue in this investigation. It is fast becoming apparent this is a problem area and we encourage CMA and FCA to take stronger and more decisive action to tackle rogue firms in this sector, by introducing new rules if necessary.
- MAS welcomes the possible remedies proposed; however our view is that they will only go a small way to resolving problems in the payday loan market. Over the medium to long term, we call on government, regulators and all market participants to divert more resource to improve levels of financial capability within the public. In the shorter-term, we would welcome further efforts to increase the availability of alternatives to payday loans. We also call on government to do more to tackle the increasing cost of living by strengthening efforts to secure wage increases for those on low to middle incomes.

Views on provisional findings

MAS agrees that rather than competing on costs, lenders often compete on faster payment services. Additionally, it is our view that lenders also compete on limited credit checks, easy availability of credit and aggressive marketing.

MAS agrees that many consumers are often 'over-confident' about their ability to repay loans. As such, we encourage CMA and FCA to strengthen the 'risk warning' payday lenders have to display on their websites and marketing.

In paragraph 49 (b), CMA finds that the poor reputation of the payday sector reduces the prospect of new entrants into the market. MAS would dispute this; we believe this presents an opportunity for mainstream banks to step in and offer an enhanced service (re-building some trust in their own tarnished reputations in the process). We believe this is also an opportunity for the credit union sector and community development finance institutions (CDFIs) to develop further.

Views on possible remedies

MAS welcomes the proposal of a price comparison website for high-cost short-term credit providers. Our view is that this should highlight all associated fees and charges (at the point of search results being returned), including those levied if the loan is not repaid on time and in full. We also welcome the proposal to allow customers to review

the service provided by lenders as part of this tool. MAS would also raise the following points regarding the price comparison website:

- All authorised lenders should be required to participate
- Non payday lenders, such as credit unions, should be invited to participate if applicable
- Lead generator and other intermediaries should not be excluded from the website, provided improved conduct standards have been imposed on the firms in question
- We are open-minded about who specifically should maintain the website but take the view it should be a body independent from the authorised firms listed on the tool
- The tool should be funded by the authorised lenders featured on the site.
- We would welcome lenders being required to link to the tool from their own websites and a marketing campaign being undertaken to promote its use, again funded by the lenders featured on the site. MAS feels that paying a fee to ensure the tool appears at the top of internet search engine results would be of particular value.

With regard to the remedy to help customers assess their own creditworthiness, MAS would support the reference in the FCA handbook on the ability of a consumer to undertake a quotation search without affecting their ability to access credit being elevated from guidance to a rule.

In addition to earlier comments about lead generators and credit brokers, MAS would also like to raise the following points:

- Existing regulation is not sufficient to ensure clear information is provided to customers on the relationship between brokers and lenders. Credit brokers and lead generators should be directly regulated by the FCA.
- Lead generators, affiliates and brokers should be required to declare specifically the services they provide and the relationship they have with lenders.
- This declaration should be presented clearly on the landing page of a firm's website.