

CMA PAYDAY LENDING MARKET INVESTIGATION

PROVISIONAL FINDINGS AND POSSIBLE REMEDIES

Response from the Money Advice Service
04/07/2014

About us

The Money Advice Service is a UK-wide, independent service set up by government to improve people's financial well-being. Our free and impartial money advice is available online, and by phone, web-chat or face to face with one of our Money Advisers. We also work with the debt advice sector to improve the quality, consistency and availability of debt advice.

Our core statutory objectives, as set out in the Financial Services Act 2012, are to enhance the understanding and knowledge of members of the public about financial matters (including the UK financial system), and to enhance the ability of members of the public to manage their own financial affairs. We work closely with others to achieve this. The work of the Money Advice Service is funded by a statutory levy on financial services firms regulated by the Financial Conduct Authority.

We are responding to this consultation in light of our statutory role to work with partners to increase the availability, quality and consistency of debt advice as well as our wider role to ensure that consumers are well informed and empowered to take action across the existing and emerging retail financial services marketplace.

We welcome the opportunity to comment on the Competition and Markets Authority's provisional findings and possible remedies for the Payday Lending Market Investigation.

Summary

- We welcome the Competition and Markets Authority investigation into the payday lending market and agree with much of the analysis set out in the Provisional Findings
- We fully support the CMA's aim to increase effective competition in the payday loan market and bring prices down for consumers and broadly agree with four of the CMA's proposed remedies and look forward to seeing further detail.
- However we have concerns about the proposed payday loan price comparison site. In our view, a comparison site is unlikely to have a significant positive impact on driving more effective price competition in this market. Furthermore we are concerned that it could have some negative impacts, particularly on consumers in financial difficulty, if a site did not present payday loans in the context of wider alternatives
- The suggested remedies need to be seen in the context of wider reforms to the regulatory framework – particularly the planned cap on the total cost of credit. We are pleased that the CMA will consider the interaction between the proposed remedies and FCA's high cost credit regulations when making its final decisions.

Introduction

1. Our overarching position on payday loans is that:
 - Payday loans are one way of accessing short term credit and many people take them out and repay them on time. However, **payday loans do present risks and consumers should exercise caution.**
 - No one should take out a payday loan if they are not 100% confident that they can repay on time. And if they need to borrow, consumers should always compare payday loans with alternative credit products to ensure they are getting the best deal.
 - **Payday loans are not appropriate for everyone.** In circumstances where they are being used to pay priority bills such as gas, electricity or council tax there may be better courses of action. For example, agreeing a repayment plan with their utility provider or creditors can be a far less risky and cheaper alternative.
 - **Many payday loan customers – particularly habitual users of payday loans - are likely to be in financial difficulty.** Evidence demonstrates that many are taking out loans to repay existing credit commitments or to buy essentials. For these customers, the most appropriate course of action will often be to seek independent, free debt advice rather than further borrowing.
2. The Money Advice Service aims to help people make good decisions about short term credit by helping consumers to:
 - understand their options and alternative courses of action open to them
 - understand when a payday loan is an appropriate option
 - understand how to use them safely
3. We have developed a payday loan advice tool¹ to assess the underlying needs of consumers and provide advice on the most appropriate course of action for them. Customers are referred to the advice tool via the statutory risk warning for high cost credit promotions introduced by the FCA in April 2014.

Warning: Late repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk
4. We have shared customer information from our payday advice tool with CMA.

¹ <https://www.moneyadviceservice.org.uk/en/payday-loans>

Payday loan Price Comparison Website

General comments

5. Based on our understanding of the evidence and our own experience of working with payday loan customers, **we think that a price comparison website is unlikely to influence payday loan customers' behaviour and that it will have limited impact.** The CMA notes that the payday market is driven by competition on the basis of non-price factors, such as speed and ease of access to credit, with little consideration of price. Our expectation is that it will be very challenging to encourage consumers to change their behaviour and access and use a price comparison table when making product decisions. We expect that, based on the CMA's own evidence, few payday loan customers will be motivated to spend time comparing product costs, charges and features, even if the total cost is made more transparent and comparable. The low volumes will mean that the overall impact on price competition will be very limited.
6. Given the evidence on the level of detriment in the payday loan market and the financial circumstances of many payday customers, we are also concerned that a price comparison site could send unhelpful messages – detailed below - to those consumers in financial difficulties for whom a payday loan may be a risky choice.
7. **Firstly we are concerned that before deciding which payday loan to take out, consumers need access to information and possibly advice to understand whether a payday-type product is suitable and affordable for their circumstances.** We would recommend that any price comparison site includes an initial assessment of suitability and affordability to ensure that consumers with financial difficulties are identified and routed to independent, free debt advice or other more appropriate options. This is the approach that underpins our payday loan advice tool which takes consumers through a diagnostic tool before providing advice on the best course of action – including taking out a payday loan where suitable and affordable for the individual.
8. **Secondly we are concerned that a price comparison site risks presenting consumers with no alternative option to a payday loan.** In our view, the key message for consumers should be that there may be a cheaper and less risky alternative to taking out a payday loan and they should consider their options carefully. This might be an alternative product or an alternative course of action such as re-negotiating utility bill payments, reducing non-essential expenditure or seeking independent, free debt advice.
9. Our research with payday loan consumers has highlighted that there is little or no awareness of cheaper and possibly more suitable alternatives for the payday loan customer profile, for example 'credit builder' credit cards. However, when consumers are presented with alternatives they were typically surprised and responded positively.

10. We are concerned that CMA's proposed approach of a price comparison table may exclude more appropriate alternative products or courses of action from consumers' consideration. We suggest that CMA consider widening the scope of the comparison table considerably to include alternative products (eg: credit builder credit cards, credit union loans, authorised overdrafts etc) and alternative courses of action where appropriate.

i) What should be the relationship between the website and other relevant websites offering independent information or advice about short term loan products (eg: moneyadvice.service.org.uk)?

11. As stated above, we do not think that a payday loan price comparison website would fit well with the approach Money Advice Service is taking to supporting consumers. We would be happy to discuss the possibility of referring consumers to the comparison site who have used our payday loan advice tool and are identified as those for whom a credit product may be appropriate.

J) What are the likely costs of this measure and how do they vary with the design of the remedy?

12. We would be happy to discuss the costs of our existing price comparison websites in more detail with the CMA.

July 2014

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