Market investigation into payday lending: possible remedies

Comments submitted by Debt Advice Foundation

Remedy 1: Price comparison website

Para 26 (a)

While a publicly available database of all licensed lenders in this market would be a useful resource, we believe that the factors that discourage current borrowers from shopping around would also discourage them from using a comparison website. The evidence shows that speed and convenience of access to cash is the prime driver, so any additional perceived barriers are likely to be rejected.

The cost of maintaining and promoting such a site would be extremely high and would be likely to attract adverse comment, as has been the experience with other publicly-funding information sites.

Reference is made to the lenderscompared.org.uk website. A search for terms that one might expect to bring up a link to it did not bring up either a normal link or an advertisement. This would suggest that significantly more promotion and optimisation of a payday loan comparison site would be needed if it were to be recognised, understood and used by borrowers.

Remedy 2: Measures to improved customer awareness of additional charges and fees

Para 34 (a)

We agree that lenders should provide clear, upfront disclosure. We would also urge that this remedy stipulates the position and size of the information. With so many people accessing payday loan sites via a smart phone or tablet, it is vital that this information is not relegated to the bottom of a long page through which customers will rarely scroll.

Remedy 3: Measures to help customers assess their own creditworthiness

Para 40 (a), (c)

We agree that the measures set out in section 39(c) would go some way to making things simpler for customers.

However, all the time there is no transparency within the industry on what factors they take into account when considering applicants, then the whole subject of creditworthiness will remain a quagmire. If a customer is to be tested for risk, then they are entitled to know what the tests are. It should be made clear that every lender has different criteria, and that those criteria may change depending on a range of factors.

Credit scoring is currently considering to be a dark art, with expertise limited to computer programmers and one or two media experts. This is unhelpful in the extreme; it encourages customers to feel that they are not in control of their own finances and stops them even trying to understand how credit works. Every effort should be made to ensure customers have access to full information without jeopardising any future decision about a loan.

Remedy 4: periodic statements of the cost of borrowing

Para 45 (a)

In our experience, borrowers do not plan to take out a series of payday loans in order to pay ongoing bills or to make a large purchase. Those who come to us tend to be living from month to month, attempting to deal with each bill or demand as it comes in. As is made clear in your findings, most borrowers hope to be able to fulfil the terms of a payday loan and settle it off by the date agreed, even when this hope is unrealistic.

Those who are borrowing on a Friday to cover social spending over the weekend are unlikely to be able (or want) to predict future shortfalls. And those who are borrowing either to pay off an outstanding payday loan or to pay a household bill are either a) hoping that they will somehow be in a stronger financial position in a month's time, or b) already under the impression that they will not be able to access credit elsewhere.

Clearly it is appropriate for a lender to give the borrower both detailed information on their current financial position and an overview of their dealings with the lender.

However to be frank, most people who are routinely seeing payday loans as their best option are likely to take little notice of this kind of information.

For those who are worried about their financial situation, such a statement, arriving with or without advice or support, will simply increase their anxiety and guilt about their outstanding debts and perceived poor money management.

For those who are borrowing to cover social spending, it will be seen as completely irrelevant – as your findings point out, the total cost of their loans is not a significant factor to them, only the speed and convenience of accessing cash.

Remedy 5: measures to increase the transparency of the role of lead generators

Para 57 (b)

We believe this remedy to be nowhere near strong enough to counteract the negative activity of many lead generators. We would urge a regulation regime in which the lenders are held responsible for the activity of the lead generators which supply them.

Many lead generators are not brokers (or even affiliates) in the accepted sense. They are marketing companies with expertise in online sales; they build targeted websites to generate traffic and sell leads, often from outside the UK. They need have no more than a cursory understanding of UK financial services or regulation, even when they say they are brokers and have an interim consumer credit licence.

We believe lenders should be forced to stop hiding behind these largely unregulated companies, and we would urge similar rules to those that were put in place to regulate the way in which a credit card company bears a responsibility for the actions of outsourced debt collectors.

Under *CONC 7.12, Lenders' responsibilities in relation to debt* , FCA regulations state: "CONC 1.2.2 R requires a firm to ensure its employees and agents comply with CONC and that it takes reasonable steps to ensure other persons who act on its behalf do so. This rule would apply where a debt collector acts as agent or on behalf of a lender."

We would urge that a similar rule be applied to lenders and all brokers, lead generators and affiliates that act as their agents insofar as they provide customers, complete with all necessary data and information, to the lenders.

Para 57 (e)

We do agree that declarations should be carried by lead generators and brokers, and we would urge that it is stipulated that that these should appear at the top of the home page of website and mobile application (ie that you should not have to scroll down to find the information).

Para 57 (g)

The declaration should be enforced by prohibiting lenders from using intermediaries that do not display an appropriate declaration.

Additional remedies

Para 58

The findings state at 49 a (i) that "The ability of new entrants to expand and establish themselves as effective competitors is likely to be obstructed by the difficulties associated with raising customers' awareness of their product in the face of the barriers to shopping around and switching summarised in paragraph 45, the strength of the well-established brands that already exist in the market and the costs associated with advertising on a sufficient scale to be effective in overcoming these obstacles."

We would urge consideration of a ban on all broadcast, print and outdoor display advertising of single loan products.

We are not seeking to ban, for example, motor or furniture companies from advertising the availability of credit, or financial services firms from promoting their brand.

But since the CMA investigation is seeking to level the playing field and encourage other companies to offer consumers small, short-term loans, it would seem logical to remove one of the most significant market-distorting factors that have been identified. This would also significantly reduce marketing costs for the major players, allowing the potential for product price reduction. Conservative estimates from marketing experts put Wonga's marketing spend in the region of £10million a year.

The CMA found that 83% of loans were transacted online; we would propose that advertising for short-term, high-interest online lending be restricted to online.

Debt Advice Foundation

3 July 2014

Submitted by
Linda Isted, communications manager

About Debt Advice Foundation

Debt Advice Foundation is a charity registered in England and Wales (1148498).

The charity's telephone helpline service is available six days a week on 0800 043 40 50. Lines are open 8am-8pm Mon-Fri and 9am-5pm on Saturdays.

Debt Advice Foundation's primary objects are:
The prevention or relief of poverty for the public benefit and, without prejudice to the generality of the foregoing, this may include:

- the provision of free, impartial and appropriate debt advice to people with unaffordable debt;
- to help people with debt problems to gain access to appropriate solutions that will help them;
- to promote education, for the public benefit, in financial capability and money management so as to reduce the likelihood of debt misuse;
- to undertake or fund research to understand why problem debt happens and its effect on individuals, families and the wider United Kingdom economy and to disseminate useful results.

The charity is a member of AdviceUK, the UK's largest support network for free, independent advice centres and all of the charity's advisers are associate members of the Institute of Money Advisers, a charitable body that aims to promote free money advice and develop professional standards

The charity is also a registered supporter of the All-Party Parliamentary Group on Financial Education for Young People and the All-Party Parliamentary Group on Debt and Personal Finance.