



**Toynbee Hall**

Learning from local action  
developing national solutions

the national forum for financial inclusion  
**transact**

## **Consultation Response**

**Competition and Markets Authority**

**Payday Lending Market Investigation: Provisional Findings**

**July 2014**

## About Us

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Established in 1884, Toynbee Hall is an innovative and multi-purpose social welfare charity that aims to be the place where people come for excellent local services. It is a place where people can share ideas and experiences and gather information and knowledge that we can use together to take action to change lives and eradicate poverty in Britain.

We have been providing financial inclusion services at Toynbee Hall for over 15 years. Our frontline work to tackle financial exclusion includes promoting money management skills in our local community and further afield through training sessions, workshops and one-to-ones. We also work with organisations serving both the general population and excluded groups, supporting them to deliver more financially inclusive services and reduce the negative impact their business model has on customers' financial health.

We draw on our front line work and our work with organisations to inform policy matters concerning market failure and the gaps which occur between intended policy and real life practice.

Transact, a project of Toynbee Hall, is the National Forum for Financial Inclusion. Transact is a movement of over 1200 organisations and individuals dedicated to practicing and promoting financial inclusion for the benefit of individual people experiencing hardship and poverty as a result of financial exclusion.

Our members include advice agencies, housing providers, third sector lenders, other community and voluntary organisations, funders, central and local government, banks, social enterprises, and training and employment agencies. Many of our members work directly with clients/customers who have been affected by payday lending.

Transact serves the sector in many ways, specifically by: providing the latest financial inclusion news, information, events and jobs through our website; designing and holding regional and national events; creating and managing funding opportunities for members, and hosting the most comprehensive library of financial inclusion research and resources for people to access. We also regularly prepare consultation responses to ensure our members' interests are represented in policymaking circles.

## **Introduction**

Transact welcomes the in-depth review that the Competition and Markets Authority (CMA) is conducting into the payday lending market. It is an important addition to the work of the Financial Conduct Authority (FCA) on high-cost short-term credit. The CMA's Provisional Findings offer a detailed snapshot of how the UK payday market operates and how consumers interact with it. We maintain that the CMA's findings demonstrate the need for an ongoing emphasis on tight regulation of payday lending. Particular areas of concern for us are lead generators and customers borrowing from multiple lenders. This response develops our concerns in these areas. It also offers views on the CMA's proposed remedies to the consumer detriment it has found in its investigation.

## **The importance of regulation: CMA and FCA**

Transact supports the fact that the CMA's work is designed to complement the FCA's regulation; the consumer detriment caused by payday lending goes beyond a competition issue. The tougher regulatory steps that the FCA has taken are vital. There will be major changes to the payday market as these changes take effect, and the CMA's work should continue to play an important role in monitoring these changes. The feedback we received from our members reinforced the overriding importance of regulation. We are also supportive of the remedial measures that the CMA has proposed within its own regulatory remit.

## **The demand for credit**

Transact agrees with the CMA that there is a clear demand for short-term credit in the UK. We recognise that the payday sector is currently meeting this demand, although we support the ambition of increasing the supply of credit through affordable alternatives like credit unions and community development finance institutions (CDFIs). It is our view that the lack of adequate regulated supply can push people towards unregulated loan sharks and doorstep lenders, which cause significantly more detriment to consumers. Thus we value the work of the CMA in promoting better competition in the payday market and hope this translates into improved supply of affordable credit and better consumer outcomes.

We received feedback from our members which emphasised that the payday market is diverse, with varying standards of practice. For example one Transact member, who is Financial Inclusion Officer at emh Homes, said money advisors at a recent meeting he attended were "very supportive" of the way in which a particular lender had treated customers in financial difficulty. The work of the CMA and the FCA should aim to drag all lenders up to the highest standards.

## **Lead generators**

Lead generators' role in the payday lending market was exposed by the CMA's study. The fact that "40% of payday loan customers" taking out their first loan with an online lender apply via a lead generating website is concerning. This is because, as the report explained, lead generators sell loan applications to the highest bidding lender; the affordability of a loan to a customer is not a consideration for them.

Given the fact that customers are not shopping around for loans based on price, lenders are sometimes actually incentivised to keep prices high in order to bid more for loan applications. We welcome the CMA shining a light on this unacceptably damaging area of the industry and trust it will work with the FCA to develop a strict regulatory strategy towards lead generators.

### **Real-time data sharing**

The CMA's evidence reinforces the necessity of more concrete steps towards real-time data sharing in the payday lending market. The report revealed that "four in ten payday loan customers borrowed from more than one lender in 2012", and many of these customers used multiple lenders "concurrently". Moreover, evidence provided to us by Christians Against Poverty (CAP) further showed the extent of multiple borrowing in the payday market. Of CAP's clients who took out a payday loan in 2013, over 80% had taken more than one, with 12.9% taking out more than five and 15.6% losing count of the amount of loans they had taken out.

We maintain that the payday industry should be taking further steps to facilitate a system of real-time data sharing. This would allow lenders to see whether prospective borrowers are already in financial trouble due to other payday loans. The FCA should also have access to this information so it can assess whether firms are prioritising affordability in their lending decisions. We hope the detailed evidence provided by the CMA will encourage the FCA to be proactive on this issue.

### **Comments on the CMA's proposed remedies**

Transact broadly supports the range of remedies that the CMA published alongside its provisional findings. Brief comments on the most relevant proposed remedies to our organisation can be found below.

#### ***Price comparison website:***

We support the CMA's proposal to establish a price comparison website for payday lenders. This is particularly due to the aforementioned issues around lead generators and the CMA's conclusion that better competition in the payday market would save customers £5 to £10 per loan.

It is important that when a customer searches for a loan using the website they have access to information about fees and charges if they fail to pay the loan back in full and on time. The website should also include a link to the Money Advice Service help with payday lenders webpage.

It is our view that lead generators should be excluded from a comparison website.

#### ***Improve customer awareness of fees and charges***

A consistent criticism of the payday market is that customers are over-confident about their ability to repay their loan and fail to give sufficient attention to late payment and default fees. The CMA identified this in its provisional findings.

Hence we support the CMA's assertion that payday lenders must present information around fees and charges more prominently.

#### ***Measures to increase the transparency of the role of lead generators***

Transact agrees with the CMA that lead generators and other intermediaries should state explicitly the nature of their business and their commercial relationship with lenders. It was made clear in the CMA's provisional findings that lead generators are distorting effective competition in the payday market.

In view of the need to apply stricter regulation to this area of the market, we strongly support the issuing of a request to the CMA Board to consider amending the investigation's Terms of Reference to include credit brokers.

We also agree that the CMA should make a recommendation to the FCA to amend CONC so that guidelines around intermediaries are converted into rules. This would mean that intermediaries are forced to:

1. Make clear the service they are providing.
2. Indicate to the customer prominently the existence of a commercial relationship with a lender that might affect a lead generator's impartiality.

Further we hope that the FCA is consistently encouraged to monitor closely lead generators in its wider compliance activity to ensure they do not alter their business models to avoid regulations.