PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Teletrack UK Ltd held on Wednesday 16 July 2014

Background

1. Teletrack is a subsidiary of a US company and entered the UK market in 2007. It is a credit reference agency (CRA) that specialises in providing credit information to (and receiving data from) short-term lenders (typically unsecured loans under one year in duration).

2. Teletrack offers a real-time product to lenders based on its database of around 80 million records relating to three million individuals. It estimated that it had records for around 80% of all customers searched for. In addition to its own database it has a commercial arrangement with Experian to resell Experian's data and verification services. It saw scope to expand its business to provide credit data to other markets, such as mail-order businesses and mobile phone companies.

3. Teletrack at one point had around 60 payday lending customers but presently has around 30. This reduction was due to a number of customers merging, some exiting the market and others where Teletrack had terminated the arrangement due to lenders failing to comply with the principles of reciprocity on data sharing. Teletrack had previously contacted Wonga to outline its services but Wonga considered its own historic lending data to have greater predictive ability than CRA credit risk scorecards.

Use of CRA data

4. The use of CRA data by payday lenders was increasing had been in part driven by the move to the provision of loans online and the desire to offer a quick lending decision, especially in response to the importance of providing a quick decision to lead generators operating ping trees. Previously lenders had operated from retail premises and could request a borrower to provide documentary evidence to support an application.

5. When lenders used CRA data they would often draw down blocks of data sequentially as an application was processed. Data was not drawn down as a

single block as applications would be filtered out with each additional set of data purchased.

6. At present lenders would use the presence of multiple searches on a credit file as an indication that someone had been rejected for credit multiple times. Teletrack told us that at present borrowers did not look for quotations but went straight to an application and if offered credit, accepted it (and a customer would not undertake any additional searches).

7. Teletrack offered some volume discounts to customers. [✂]. Where customers also wanted data provided by Experian there would be an additional £[✂] charge. If a lender wanted all possible products there would be a charge of around £[✂].

8. Teletrack differed from a number of other CRAs in that it charged for searches on a ‘per customer’ basis, whereas other CRAs charged on the basis of each postal address searched which would potentially be an issue for applications from borrowers who moved home relatively frequently.

9. Teletrack did not offer its own quotation search to its customers but would be implementing them through its relationship with Experian and were considering how to begin to respond to the CMA’s desire to increase shopping around. There had not been any demand from lenders for this functionality. Teletrack had since the publication of the CMA remedies notice received contact from a client interested in using quotation searches, and Teletrack thought the existence of a PCW and the increase in shopping around would further encourage the development and use of quotation searches.

10. In Teletrack’s experience of the payday lending market, many customers are ‘thin-file, no-file’ and have little pre-existing credit history. Analysis of its data suggested that less than half of all credit searches resulted in a loan being issued.

11. The most important data for credit risk assessment were records covering the past three years of a borrower’s credit history, but the accumulation of records by a CRA would allow it to develop its own credit scorecards through data-mining to identify patterns to improve the predictive value of recent data.

12. Teletrack told us that the barrier to the widespread adoption risk-based pricing in payday lending was that the need to use a payday loan was often a specific financial event and that CRA data could not predict the likelihood of that (or another) event reoccurring during the loan period, preventing the borrower from repaying on time.

Real-time data

13. Teletrack's AWARE database was a near-instant real-time system which offered high speed data transfer to CRAs.

14. Teletrack believed the demand for real-time credit data developed with the expansion of online payday lending. Initially high street lending had been a secondary activity for businesses offering loans and assessment had been based on assessment of customer documents. As online lenders developed there was a need to protect lenders from fraudulent applications.

15. Teletrack were monitoring the development of real-time solutions by other CRAs. It saw the barriers to CRAs of developing real-time systems as being caused by the need to upgrade or develop legacy systems which had been developed around nightly or monthly batch updating of records. Teletrack thought that some of the solutions that had been announced by other CRAs did not offer as great a level of functionality as its own products.

16. Teletrack thought that the largest lenders had been reluctant to embrace genuine real-time data sharing.

17. Teletrack considered that the development of overnight batch updates which some CRAs marketed as real-time was a much simpler process than near-instant updates that Teletrack offered. Teletrack understood that Experian's near-instant real-time data product would record when a loan was issued in real time and when it was repaid, but no other credit events would be in real-time.

Data sharing by lenders and use of multiple CRAs

18. Sharing of credit data in the payday lending market was much less common than in other credit markets. Teletrack had discussed greater sharing with lenders but there was a tendency in the industry to see this data as the intellectual property of lenders and that any sharing would offer rivals a competitive advantage. As a result of a reluctance to share data with multiple CRAs it meant that the credit information held by any given CRA on an individual was unlikely to be complete.

19. Because lenders were generally sharing data with only one CRA it meant that there was a danger that the credit risk assessments that lenders were performing would not necessarily be based on complete data.

20. When promoting its products some lenders such as DFC told Teletrack that they considered mainstream CRA data was more predictive than niche sub-prime CRA data.

21. Teletrack was unaware of any lenders using more than one CRA for the same credit information, but might use one CRA such as Teletrack to obtain genuine real-time credit information and use another CRA to obtain identity or bank account verification data. Teletrack sought to obtain additional business by acting as a supplementary CRA to provide data if a lender's principal CRA didn't have a record of an individual.

22. Teletrack saw merit in establishing a regulatory credit database and was something that CoreLogic operated in the USA but identified that would be issues around the scope of the lenders included and also whether it affected the competitive dynamic of CRAs.

Lead generators

23. Teletrack had made a conscious decision not to provide credit data to lead generators as it did not have sufficient confidence on how lead generators would use the data to ensure that customer details would not be abused. It thought that some other CRAs might be developing an interface that lead generators might be able to use.

Views on possible remedies

24. Teletrack thought it inappropriate for any credit intermediary to be included on a price comparison site. Any PCW would require cooperation of lenders to provide data, but Teletrack did not see a reason why a lender would not want to be listed on a PCW.

25. Teletrack thought that creating an accreditation scheme would be a practical way of encouraging a commercial PCW to operate in the payday market.

26. Teletrack noted the Competition Commission's remedy in the Home Credit market to require lenders to provide data to two CRAs. It was Teletrack's understanding that there were diminishing benefits of requiring sharing with more than two CRAs, with respect of improving coverage. However, if the number was increased to more than three this would ensure that at least one CRA that was not one of the three mainstream CRAs would have this data.

27. Teletrack would be able and willing to operate a central database of credit information if the CMA or FCA required a database to be developed.

28. Teletrack thought that it was possible to identify the patterns of multiple credit searches as a result of a customer using a lead generator, but customers shopping around for credit, rather than those hunting credit might be more difficult to identify. Teletrack did not offer quotation searches to its customers as there had never been any request for this functionality. However, it was actively developing this. They did not envisage that a quotation search would offer any less information than an application search, and from their knowledge of the market there was no difference in the information provided by the two types of search provided by other CRAs. However, if a credit file is updated between the quotation search and the application search, there might be cause for an application to be rejected even if the quotation search had indicated loan eligibility. However, this would be dependent on the nature of the change to the credit file.