COMPETITION AND MARKETS AUTHORITY
PAYDAY LENDING MARKET INVESTIGATION

Notes of a joint response hearing with Trade Associations
held at Southampton Row, London WC1B 4AD
on Monday 21 July 2014

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

Simon Polito	- Chairman
Katherine Holmes	- Member
Ray King	- Member
Tim Tutton	- Member

FOR THE STAFF

Adam Land	- Project Director
Andy Toner	- Inquiry Co-ordinator
Daniela Dockerty	- Financial and Business Adviser
Paul Kellaway	- Financial and Business Adviser
Eithne McCarthy	- Legal Adviser
Charles Raikes	- Legal Adviser

FOR THE TRADE ASSOCIATIONS

Richard Fuller	- Chairman, BCCA
Greg Stevens	- CEO, Consumer and Credit Trade Association
Russell Hamblin-Boone	- CEO, Consumer Finance Association
Helen McCarthy	- Head of Policy, Consumer Finance Association
Rona Barr-Isaac	- Legal Adviser, Consumer Finance Association

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THE CHAIRMAN: Good morning and welcome to the CMA as we now are. Thank you very much for the help that you have provided to date and, in particular, we have had some responses to our provisional findings and remedies Notice so thank you very much for those. It would be helpful, not least for the transcript, if we start with some formal introductions. I will ask you all to introduce yourselves and then I am going to say just a few words about the procedures although given that you have all been here before, I suspect that the procedures are well known to you. I will then explain a little bit about where this particular hearing sits in our overall process. Then we have got some questions to ask you. I do not know whether you have got anything you want to say by way of opening but there will be an opportunity to say something if you want to, to start with.

Anyway, let me just start with the introductions on our side. I am Simon Polito and I am chairing this particular inquiry. I am going to pop across to the left and ask Charles to introduce himself and others to introduce themselves.

Q. (Mr Raikes) Charles Raikes, Legal Adviser.

Q. (Mr Kellaway) I am Paul Kellaway. I am on the remedies team.

Q. (Ms Holmes) Katherine Holmes, one of the panel members.

Q. (Mr Land) I am Adam Land. I am the Project Director.

Q. (Mr King) Ray King. I am a panel member.

Q. (Mr Tutton) Tim Tutton. I am a panel member

Q. (Mr Reeve) Graham Reeve, an Economist.

Q. (Mr Toner) Andy Toner, Inquiry Co-ordinator.

Q. (Ms Dockerty) Daniela Dockerty, Financial and Business Adviser.

Q. (Ms McCarthy) Eithne McCarthy, Legal Adviser.

THE CHAIRMAN: Thank you. Richard, do you want to start from your side?

A. (Mr Fuller) Sure. I am Richard Fuller, Chairman of BCCA and have been since May of 2014.

A. (Mr Stevens) Greg Stevens, Chief Executive of the Consumer and Credit Trade Association.

A. (Mr Hamblin-Boone) Russell Hamblin-Boone, Chief Executive of the Consumer Finance Association.

A. (Ms McCarthy) Helen McCarthy, Head of Policy at the Consumer Finance Association.

A. (Ms Barr-Isaac) Rhona Barr-Isaac, from Addleshaw Goddard, a Legal Adviser to the Consumer Finance Association.

Q. Thank you. As I said, I would just like to say a few very brief words about the procedures. I think we have actually sent you some information about the way in which we treat evidence around which these hearings are conducted. It is very much the same as it was last time and we have also explained to you the statutory considerations we have regard to before disclosing any evidence that you give to us.

As before, we are taking a transcript of today's proceedings and we will send that to you within a week or so. We would ask you to look at that and check it for accuracy. Please mark up any errors in transcription. If you would like to say anything else or clarify what you want to say, or, having seen what you did say, if you wished you had expressed it slightly differently, we would ask you please to do that in a separate document so we keep the transcript as an accurate record of what is said today.

It is our intention to publish the transcript on our website, as we did last time when you were with us. I think that is the most convenient way of doing it and I hope that that is acceptable to you again as it was last time. Obviously you will see the transcript and if there is anything you regard as confidential - hopefully there will not be anything you regard as very confidential given your representative role but if there is, obviously draw our attention to that at the time.

As far as the rest of the hearing is concerned, obviously you will have seen and read our provisional findings and our remedies notice on 11 June and will be aware that we provisionally concluded that price competition between payday lenders is weak and also not as cost effective as it might be. There is competition from other forms of credit which places only a weak constraint on payday lenders and the combination of other features of the market contribute to or help explain the lack of effective price from other competition as we see it in the market and this gives rise to what we call an adverse effect on competition, an AEC.

We have described a number of possible remedies in our remedies notice which we think might be effective in addressing the AEC that we have identified. As I say, thank you very much for those who have given us written responses. We are considering all responses, not just those you provided but those that everybody has provided to us and, of course, we are also seeing a number of other parties apart from yourselves, payday lenders and other interested parties and we will be taking all those into account before we come to any conclusions.

What we would like to do today is focus on the remedies notice that we issued and the remedies that we have contested are possibly effective in this area and seek your views on those.

I do not know whether, before we start with our questions, there is anything any of you want to say or any general comment that any of you wants to make either on our provisions findings or, indeed, generally in relation to the remedies notice or whether you are happy that we pick those comments up as we go through.

A. (Mr Stevens) We made some comments with regard to SMEs in particular and also the impact on the market. When we started this particular journey, there was a very clear focus from the OFT in terms of what payday lending was. When it came to the Competition Commission, there was a further broadening of the title “payday lending” and since it has been at the FCA, there has been even further broadening of the title with regard to high cost short-term credit.

I think the distortions already occurred in the market through many members not understanding where it sits and obviously with regard to the various situations we have on the remedies imposed by the FCA even before the Competition & Markets Authority has said what they see as potential remedies there has been market exits.

The FCA in their recent press release has stated that it expects the market to be no more than three large players and one high street lender, thereby suggesting that many of the small players and SMEs will disappear from the market. Which to my mind is market distortion at best.

I think where we currently are in the cycle and I can understand the Competition & Markets Authority -- it has been a very, very difficult ride for yourselves at the same time as another regulator is looking through the same kind of tasks. Whereas the strict objective the FCA does have markets in the title, looking at the market and consumers, we believe that there has been a poor outcome of the market and there will be an even poorer outcome for the consumer with regard to access to credit.

Q. Thank you for that. A lot of that is obviously focused on the FCA's proposals and the impact those will have on the market and indeed I wanted to start, rather than looking at the remedies, at that particular aspect. There are two aspects that I would like to start by considering. Before I do so, can I just remind you, as I remind all of those who come before us, that it is an offence to give false or misleading information to the CMA at this hearing or at any time. Just to get that formality over and done with.

Perhaps I could now move on to the two general issues that we wanted to discuss with you before we actually got onto the issue of remedies. The first is any perception or knowledge you have from your members about the way in which the market has developed. It has certainly been suggested to us that there has been a very significant downturn in the volume of business recently. We are very grateful to hear from you, based on the feedback that you get from your members, about where you think the market is at the moment relative to where it was, say, a year ago or 18 months ago.

Perhaps I could pose that question to start with and then I will develop a little on that. Then we will come to particular questions we have on remedies later.

A. (<u>Mr Hamblin-Boone</u>) Yes. Our latest figures show that our members are lending 50 per cent less in quarter 1 of 2014 compared to quarter 1 of 2013.

Q. Is that in terms of value of money lent?

A. (<u>Mr Hamblin-Boone</u>) In terms of loan volumes.

Q. Loan volumes rather than lending?

A. (<u>Mr Hamblin-Boone</u>) Loan approvals, yes.

Q. Okay, so I just want to be clear.

A. (<u>Mr Hamblin-Boone</u>) The numbers of loans.

Q. The numbers of approvals not necessarily the amount lent.

A. (Mr Hamblin-Boone) Not in the same way, no. Also as a result of FCA requirements and, in part, self-regulation that preceded it, they are rolling over 75 per cent less loans than they were doing a year ago. We have also seen some market exit, Cheque Centres, which includes Cash Generator in the same business has exited the market. Earlier in the year, I cannot remember, but I think Albermarle & Bond left since we last had a conversation. There has also been a tightening of the criteria by which lenders select their customers particularly in terms of what the FCA calls the affordability assessment, all in preparation for the regulations which took effect from 1 July. So, we started to see the impact then, as lenders started to introduce measures in anticipation of them formally taking effect.

I think we have also seen and we are starting to see the default levels reduce which is obviously one of the specific objectives that the FCA has in mind in implementing all the things that it is trying to implement here.

So, that is a general overview of how the market is. I have, consequently, lost some of my members, while others have become smaller. Obviously we have a recruitment strategy in place to try to rebuild that. But there has been a very significant impact on the market already. This has been significant since you began your inquiry.

Q. Do you have a sense of whether the value of loans is down by the same level as the volume of loans?

A. (Mr Hamblin-Boone) So, in broad figures, [✂].

Q. About the same. So there is not a big difference between --

A. (Mr Hamblin-Boone) No, it is about the same.

Q. Okay. Thank you very much. This is mainly driven in your view by anticipation of the new FCA regulations that came into force on 1 July.

A. (Mr Hamblin-Boone) Yes, absolutely, because during this period we also have to bear in mind that the -- what was the Office of Fair Trading's compliance review has been ongoing, so the response to that came to lenders somewhere around the end of November, beginning of December, so that period. And then as we started to see some announcements – just in the last few weeks – that is now coming to fruition and starting to …

Q. (Mr King) Would loan applications have followed a similar trend or would they have remained more constant? Of course, you know, if it is actioned by the companies that are tightening up credit criteria, et cetera, what about the demand, underlying demand from the marketplace?

A. (Mr Hamblin-Boone) I am not sure if I have got figures. Let me just check. No, I can only speak anecdotally that lenders are turning down more customers and I can speak anecdotally in as much as in some cases I am getting complaints from customers who previously had loans asking if, in some way, my members have breached what was the code of practice because they were previously able to get a loan and then a few months later are unable to get a loan but that is a reflection of the affordability criteria.

THE CHAIRMAN: Greg, do you have any observations from your perspective --

A. (Mr Stevens) I think the change has been moving profits away. So, in terms of looking at the sector, people move away from the products and brought other short-term products in but that is where there is still confusion with the FCA in terms of what is high-cost short-term credit and what are the rules that apply to those short-term products but in terms of the number of members we have had, it is probably half at the moment and that is -- we obviously had the last change on 1 July and my view would be that by the time those companies go through to authorisation they will not be doing payday lending.

Q. Sorry, which? You have lost a half already.

A. (<u>Mr Stevens</u>) In terms of people actually doing payday -- that is not exit from market, that is exiting the product. In terms of true payday lenders, we have probably lost about five members who were doing purely payday lending only but obviously many of the other ones would move to different product categories.

Q. (<u>Mr Land</u>) Just to be fair about language, are you saying that people who have exited payday lending have exited from the one-month products or --

A. (<u>Mr Stevens</u>) Traditional payday lending.

Q. (<u>Mr Land</u>) Right, so they are staying within our terms of reference but they are offering longer term products within that.

A. (<u>Mr Stevens</u>) Longer-term products within that of about 18 months. So, they are outside of the FCA scope in terms of high cost short-term products.

THE CHAIRMAN: But no indications as to volumes involved?

A. (<u>Mr Stevens</u>) Volumes are dropping because obviously there is the creditworthiness, affordability arena that is being looked at. There is a lot of uncertainty because the CONC rules talked about affordability and affordability has been defined, so it would ask an organisation if it has a business model saying do we think we are going to fit the new affordability. With regard to creditworthiness, they have put a lot of time into creditworthiness and also with regard to credit checks.

Q. Okay, thank you. Richard, do you want to add anything?

A. (<u>Mr Fuller</u>) We have seen similar trends with our BCCA members. I do not have any hard and fast numbers at this point but very similar. Certainly in terms of the affordability assessments, again to Greg's point, people are unsure how they should be applying their affordability assessments and tend to be over cautious, I suppose, resulting in considerably more refusals of loan applications.

Q. Thank you. Can we just move on to the price cap proposals of the FCA as well? I appreciate those only went public about a week ago but I suspect that you have been thinking about that for quite a long time before the consultation paper was issued and so I would like to think you have at least some initial thoughts on those and wonder whether you would like to share them with us. Obviously there are three elements to the price cap. I do not know, Russell do you want to start?

A. (Mr Hamblin-Boone) Let us start with the most positive. We absolutely support the cap on fees and charges and I think we may have already shared with you some infographics where we set out, as it were, the position that we took before the proposals were announced. But we do have some concerns that within those fees and charges are some costs for compliance which have not been fully worked through yet. We know, for example, that as a result of the OFT review, there will be some additional compliance costs for members aside from the FCA CONC rules we anticipate there may be some marketing restrictions with some of the political direction on marketing and advertising. We have to build in to that the costs of the real time database that most of our members are working with. And, of course, we are considering your own proposal for the price comparison website. There are some costs, I think, which -- and those costs mostly to some degree are within the control of the lenders broadly speaking. There are other costs around collection, charged by debt collection agencies which the FCA wants us to encapsulate within those costs and I think those are outside the control of lenders. So there is some work to be done there.

I think we will need to find the tipping point where a loan is profitable to provide and that you can still recover excessive costs. I think we have already started to see, as Greg has suggested, we are moving towards what we would call mini-personal loans. Having said that, looking at some of the specifics of the FCA's proposals, they suggest that the optimum and possibly the only point at which a loan is possible is between three and four months. So, we would have some concerns that a lot of our customers who just need a small amount of money for a very small period of time to get them through literally to payday will no longer be able to have those loans. We are equally worried about the 160,000 people who are financially excluded according to the FCA's estimates and we think that might be larger with an interest rate increase between now and Christmas. So, that is a very conservative estimate.

You would hope that the market would be able to help most people and that does not seem to be a priority. I think, in terms of the 100 per cent, I think the thing to say is the FCA has done a very vigorous piece of work. This has not been a finger in the air type of estimate that they have made and our members have co-operated with them, provided millions of pieces of data about their customers in order for them to examine this. I would not necessarily agree with all of the things in terms of the consumer survey but I think in terms of the data and the fact that they concluded that there should be 100 per cent cap in terms of a total charge is probably on the limits. I think if it were to come in any less, then it would be very difficult for members to offer a loan even within this optimum three to four-month period that the FCA is proposing.

Q. Just to round it off there is a £15 cap on the default charge?

A. (<u>Mr Hamblin-Boone</u>) Yes. I think that is fair. I think that the problem is that £15 over a three-month loan is probably reasonable. £15 over an 18-month loan where you would, ordinarily, perhaps look to recover more costs becomes more difficult and, therefore, it becomes less viable to offer a loan over that long a period of time. I think ultimately the lending criteria will be tightened further and lenders will be competing for a small pool of optimum customers who have a slightly better credit score. Those with the poorest credit score, many have already been, if you like, excluded from the market by the regulations and we have a price control on top of that and that moves the line further along towards people with better credit scores.

Q. You say for an optimal period.

A. (<u>Mr Hamblin-Boone</u>) Yes.

Q. Around three to four months and indeed, therefore, you envisage a greater proportion of loans being a greater duration than they currently are. The current level, is it, 22 days?

A. (<u>Mr Hamblin-Boone</u>) Around about that, yes.

Q. Do you actually see lending at that kind of level or below that level? 15-day loans …?

A. (<u>Mr Hamblin-Boone</u>) I think it becomes very difficult on 0.8 per cent a day to be able to make that viable.

Q. So, you would actually expect people to withdraw those sorts of products, would you?

A. (<u>Mr Hamblin-Boone</u>) Yes, yes. We have to – I'm playing back to you, the FCA sort of conclusion and my thoughts on that - it is too early for me to say categorically there will be no lenders doing daily loans if you like but I think, looking at the way the market is moving, how it was priced previously and how it is pricing itself now, I think it does become very difficult.

Q. (<u>Mr Land</u>) Do you see your members' initial response as repositioning themselves within the short-term loan area rather than leaving the market --

A. (<u>Mr Hamblin-Boone</u>) Yes --

Q. (<u>Mr Land</u>) So they will look at this and think where can I go given these constraints.

A. (<u>Mr Hamblin-Boone</u>) Yes. The initial canvassing of views over the past few days, nobody is saying that they think that is it, they are closing up shop. They are all saying we will need to find the point at which the loan becomes profitable in terms of the minimum length of time we can offer and also the maximum length of time we can offer before it becomes unprofitable because of trying to recover costs over that length of time.

Q. (<u>Mr Tutton</u>) Is the implication of that then, the sort of first round of adjustment to the changes … is exactly that to focus on a particular part of the market by implication as you also implied that part of the market is smaller than the total market and, therefore, not all of those people with a position in that market will find a profitable business in the market.

A. (<u>Mr Hamblin-Boone</u>) That is right, yes.

Q. (<u>Mr Tutton</u>) So there will be two stages at least to that process.

A. (<u>Mr Hamblin-Boone</u>) Yes, yes. And there are other costs and efficiencies that lenders can make and will look to make. Those are probably quite apparent when you are a store-based business and you have got fixed costs and bricks and mortar efficiencies. But the online businesses will need to make efficiencies as well and are anticipating that there will be some kind of slack that they can take up.

Q. (<u>Mr Tutton</u>) This is partly to anticipate what we will deal with later but will some of those costs, the cost of customer acquisition, for instance, will some of those tend at least to come down if the overall pool of money is going to be less?

A. (Mr Hamblin-Boone) That is a good question. I think the costs of lead generation are likely to come down because that is how the market dictates it and lenders, frankly, cannot afford to offer any higher prices and markets will have to adjust to that. In terms of advertising the marketing cost, we could end up with further regulations specific to this market which might make it more difficult and, therefore, increase costs.

THE CHAIRMAN: You indicated a moment ago that there will be some difference between online and retail. I expect most of your comments have been directed to the online business. Do you have particular comments regarding your retail lenders given the observations in the consultation paper?

A. (Mr Hamblin-Boone) You mean store-based?

Q. Yes. Store-based lenders on the basis of the comments in the consultation paper that obviously they look as if they maybe, especially seriously --

A. (Mr Hamblin-Boone) They have already indicated that there will be store closures, yes.

Q. But they would expect to stay in business but they would have to rationalise by closing the number of stores that they currently have?

A. (Mr Hamblin-Boone) Yes, yes. Obviously that restricts choice in some areas but they would maybe look to be staying in those areas where they have the best business.

Q. Because presumably in a number of outlets, where they actually have a number of different products, not all of them being payday lending, payday lending is making at least a useful contribution towards overheads and the viability of the overall business.

A. (Mr Hamblin-Boone) For some of them it is a significant proportion and for others it is a very small proportion.

Q. Yes. That will depend really on …

A. (Mr Hamblin-Boone) But even for those that for which it is only a small part of their retail offer, there is no indication that they are looking to withdraw the product.

Q. (Ms Holmes) You said a moment ago that there might be further regulation on advertising and marketing.

A. (Mr Hamblin-Boone) Yes.

Q. (Ms Holmes) Do you have an inkling of what those further regulations might be?

A. (Mr Hamblin-Boone) We have seen that there is a private members' Bill by a Labour peer to introduce a watershed so you cannot advertise before 9 o'clock in the evening. We have also seen some comments from Martin Wheatley that adverts during the day, where they could be construed as being directed at children, are inappropriate. So, there is a -- there are always lots of potential targets for opponents of our industry criticising it and that is one that is starting to come to the fore. If you are playing Whack-a-Mole lots of the things that people wanted to be addressed have already been addressed, the rollovers, for example, affordability, use of CPA, price comparison websites - all of these things - and so we need to look at what are the things that are left outside of the huge range of things that we are already doing and changing in the market. I think that is a specific one that we have half an eye on.

Q. (Ms Holmes) Thank you.

THE CHAIRMAN: Greg, would you like to speak a little bit about the perspective from your members and whether it is the same or different?

A. (Mr Stevens) For a start, I agree with Russell's comments regarding larger members. We have got one or two large members who are facing the same kind of difficulty. The difficulty which faces the SMEs is far greater because they have not got scaleability. Looking at scaleability, the larger members have obviously got far more customers with the room to actually make profits. The smaller members are looking in terms of high compliance costs and that is not just in terms of potential remedies from the Competition and Markets Authority, it is from the changes to the market already by the FCA. They have got additional or they have got acquisition costs that have always been higher the lower down the pingtree that you are taking leads from.

I think there are assigned acquisition costs forming at the top end but it has not worked through the system. Obviously we are waiting to see what kind of action, if any, the FCA look to deal with lead generators and how they actually take the majority of the top space in Google.

So, I think there are areas in the marketplace where if things start to ease down, they could be compensating in terms of cutting costs. Our feeling is that once everything is washed through, and that includes affordability which I think is the last twist of the regulation, that could take even the smaller members out because they will be really struggling to say, "How we deal with the affordability angle unless we are doing a face-to-face?" So, it is moving more and more things into the compliance area on a face-to-face basis, for them rather than online.

Q. Do you have any particular take on bricks and mortar?

A. (Mr Stevens) Bricks and mortar, we have got one or two bricks and mortar and, again, they have got such a myriad of different products, it is not the same sort of a problem because you are just losing a sector rather than losing a whole business, so the constraint …

Q. Okay. Richard.

A. (Mr Fuller) Because we represent a larger number of smaller players, we have similar concerns to what Greg just mentioned. We do have one member who is currently offering an instalment loan product that is priced below the cap currently. That member sees no incentive to keep the price low and would naturally come up to the cap because the difference between what they are charging now and what others on the high street are charging, it makes it worthwhile to try to compete on cost but as soon as that comes down there is no incentive. The big concern is there will be virtually zero competition on price which is a bit ironic, I think, concerning a lot of your concerns and certainly the increase of costs of compliance and so on.

Again to Greg's point, luckily we do not really have any members who rely particularly on that product but I suppose the concern is that if the FCA is considering that only a small number of larger players stay in the market and a couple of those larger players have already had to give money back to customers and have not necessarily the greatest track record, again it is a bit of an irony and we have some smaller players who are operating well within the guidelines who might ultimately not be around because it is just not worthwhile.

Q. When you say there is not going to be price competition, obviously, if people increase their lower rates to the cap level that will eliminate a certain amount of competition. Are we talking about bricks and mortar now or are you talking about online and what length duration of loan are we talking about?

A. (Mr Fuller) Certainly -- well, I think it applies everywhere. I think if most of the online players are around the £30, the 1 per cent and that comes down to point 8, I do not see anybody trying to go below that, the drop that they would have to make from where they are now to where they would be to be competitive on price would be significant.

Likewise on the high street, again if £30 per £100 is the number, that has to come down to a proposed number of £24. If you have a couple of players around the 20 to 22 per cent number, that difference between 22½ and 30, there is certainly some competition on price there but between 22 and 24 there is not. So, those members who have 22 might as well go up to 24. Does that make sense?

Q. Yes.

A. (Mr Fuller) Online and the high street.

Q. (Mr Land) A slightly different question. I am just trying to take the position of a bricks and mortar company with a smaller number of outlets then, who would be doing other things alongside. So the decision that people would be making in that sort of section with all of this in the background is really about you are looking at the incremental contribution of payday lending to your overall profitability.

A. (Mr Fuller) Exactly.

Q. (Mr Land) You will be squeezed on the revenues and then you are looking at some of the overhead costs going up because of the regulation and you are just looking at whether the contribution you are getting is worthwhile for the additional people that you need to -- or the additional work that you need to put in place to make sure you are a compliant business and that you are not, sort of, exposing differences. Is that the thing?

A. (Mr Fuller) Yes, yes. That is basically it. I think there is still a level of uncertainty around what is involved with some of our smaller members in terms of applying for authorisation. They have to weigh up whether it makes sense if a much smaller piece of the pie is worthwhile going after in the context of everything.

THE CHAIRMAN: I only have one further question on this aspect which is something you just mentioned, which is the FCA's suggestion that there may be a very, very small number of payday lenders left in the market and maybe one bricks and mortar, is the way they put it. I think what I am hearing from you is that actually you are expecting your members to reposition themselves and that, therefore, the FCA's assessment, which I think, in fairness, I think that is what they call the static situation rather than a dynamic one, but that may be overly pessimistic. Would that be fair?

A. (Mr Hamblin-Boone) I certainly hope so! I think that it is probably overly pessimistic. I think that the market -- provided the market drivers are allowed to operate in the way they should, particularly around cost efficiencies and things like that without compromising product or customer experience, then lenders will continue to find a way to thrive in the market. I think probably while we see a reduction, I do not think there is much opportunity for new entrants to come into the market on two levels: one in terms of bringing a product that is able to compete with those that already exist and, secondly, and probably more importantly in terms of getting investment from new entrants to get into the market.

I would just say one thing if I may, Richard mentioned the average price of a loan being £30 and I think we took a lot from your suggestion that there was an over charge of £5 to £10 on a £260 loan. I would say that is equivalent to

4 per cent maximum. It has puzzled us that the FCA -- is suggesting a £6 reduction on a £100 loan is commensurate with your findings. We think that probably had we gone to that 4 per cent you proposed then perhaps they would have understood what the implications of that 4 per cent were, which would have been significant, we might have been able to give a more positive story in terms of the opportunities for lenders to remain in the market and that reduction …

A. (Mr Stevens) Can I make a final point about the market and market exit? We have ten members who have actually left the market, for a reputational problem, not because wholly how they see their reputation but their funders just kept saying if we are going to remain in the market, we need to fund correctly. So, there are other factors that have been distorting the market at the same time.

Q. (Mr Tutton) And that was happening regardless of the FCA's recent proposals?

A. (Mr Stevens) I think it was but it has heightened since 2012. To be a payday lender, you are sitting next to the devil, so you want to be there if you choose to. It is one of the situations -- I suppose - and we are obviously sitting with yourselves - is looking at the banking and unauthorised overdrafts because it is always going to be expensive; it has never been through more pressing or political to actually compare the two. I think we now get a comparison if that is starting to take on more a sense of direction.

A. (Mr Hamblin-Boone) I think having said that, there is still -- it is an uncomfortable and inconvenient truth. The customer profiles that you published and the factual information you gave about the market, people frankly did not want to believe, so they continue to have their own definition and their own interpretation. So, even when the facts have been entered in working papers that are purely non-partisan, that has not been reflected by the press. There has not been, for example, a revelation to anybody that is not in the market that actually the customer profile is going to be different. Therefore, we should be adapting our market and focus very much on those people who get into trouble. Instead, we must reduce default fees at whatever cost and, therefore, we regulate for the minority, which is important but at the expense of the majority.

Q. (Mr King) We have talked about market exits and what is happening. Are you aware of anybody who is studying the market from an entry point of view just to complete the picture?

A. (Mr Stevens) You mean start up? We are looking at payday lending as part of their client base, not the whole of their client base. They are starting from a position of compliance to say we are doing things in the most compliant way, can we succeed? One has been running for three weeks and they have managed to write three loans.

I think there is a difficulty and whether they will perfect it or whether they will stay the course -- because I think it is the situation -- they are reading the situation, analysts are reading the situation that it is not the intent to kill the market, it is trying to find the right kind of products which deals with that or a series of products which deals with that. The one thing that is not going to go away, which is what was said in the Select Committee, is people are still going to need that money. If it is not going to come from a source, which is a regulated source, they will go to an unregulated source.

A. (Mr Hamblin-Boone) The most recent entrants, the larger new lenders, if you like, have indicated – even anticipating the FCA regulation and building a business around that – being able to compete with existing larger incumbents would be very difficult.

The funding issue, which we mentioned last time, means there is a conflict of interest in the banks who provide payment services and other services for lenders. I think lenders have shared with you some of the challenges they have in ensuring long-term relationships with those banks. We will be hearing this weekend that those banks might be bringing an equivalent to a high cost credit product to the market, so arguably there is a conflict. It is not in their interest to fund it, as it were, a competitor. We need to be conscious of this.

Q. (Ms Holmes) Thank you. You described your members, currently, effectively re-considering their product offering in the market where the regulations are coming from. What do you think the main parameters of competition are going to be?

A. (Mr Hamblin-Boone) It is unlikely to be price, so I am not entirely sure what there is left to compete on. The FCA does not appear to be very favourable to non-price competition and I think -- until firms have been able to assess what the optimum loan is they can provide in terms of value and length – it is very difficult to look at what the add-ons might be that they can offer. I suppose one thing that is accepted is that lenders compete on speed in response to consumers demand, and again that is another one of those uncomfortable truths that is a fact for this type of credit, people want it quickly. It is not really very different to how we have one click buying on Amazon, in many respects. The speed, which traditionally regulators are nervous about that is the way the modern markets need to function.

A. (Mr Fuller) If I could just add from a bricks and mortar perspective and I think it ties in, feedback from our members is that from an operational perspective and the amount of time it takes when a customer walks in and when they walk out with their cash is extremely onerous. I may have mentioned this last time, that bricks and mortar operators are at a competitive disadvantage from an assessing affordability perspective because they have no excuse not to ask for physical proof. If you are asking for physical proof then you have no excuse not to examine those and compare what the customer has written on their affordability assessment to what it says on their wage slips and bank statements. To do that properly, even with a repeat customer of course, it does not matter if they are not a repeat, it is at least a 30 to 40- minute transaction, sometimes longer.

So, you have customers coming in and you have got to manage the expectation that this could take quite a while which they are not happy with. "I only want a couple of hundred pounds. Why is it taking an hour for me to get it?" We have got staff who, when they see customers come in with reams of paper, they roll their eyes and go "oh no not another one of these applications" and probably will have to refuse many.

These are all dynamics that are considered. All it takes is for two people applying for a loan, and your pawn broking customer, or your cheque cashing customer, could walk out of the door and if that is your bread and butter and your lobby is being clogged up by payday loan customers -- it is a consideration.

THE CHAIRMAN: Interesting, thank you. I think it is probably time to move on. Thank you for that overview. We would now like to look at the particular remedies we have proposed and we have got a number of questions on those. I am going to ask Katherine to lead off.

Q. (<u>Ms Holmes</u>) Thank you. I will start by looking at comparison websites and I know there is, certainly, it has been suggested that a price comparison website will undoubtedly help consumers shop around. You will see that in our provisional findings we indicated a number of shortcomings with existing price comparison websites. Just in broad terms, did you generally agree with the shortcomings that we had identified?

A. (Mr Hamblin-Boone) Yes, I think so. We had no particular concerns about price comparison websites or the principle of shopping around. We support that and think that is good. I think as we made the point to you, we would like customers to be able to have high-cost credit product options, and that becomes more important when we will see a limited number of lenders all working around a similar price ceiling.

I think also standardisation of products is probably a sensible way to go in order for consumers to be able to compare like for like. We agree that a price comparison website, as you suggest, needs to have a price duration and all of the charges associated. But again, with the price control in place that would be a requirement anyway.

I think there were some challenges around marketing the price comparison website.

Q. (Ms Holmes) We will come on to that in a moment.

A. (Mr Hamblin-Boone) Yes, okay.

Q. (Ms Holmes) But, first of all, if we think about a price comparison website and if we are able to establish one, by whatever route, and we will come on to that in a minute too, what impact do you think, having a stronger independent comprehensive website, would have on behaviour in the market?

A. (Mr Stevens) I sat here in 2004 and 2006 to help develop the home credit website. In reality, you can compare, it works well for the people who use comparison websites, it has not got the fast usage. I think in terms of short-term credit, people might think, well I would not go down that route because it is a small piece of money or a small cash amount. I think in terms of comparison websites that work well on products and cash -- and most people see it as a neighbour, so what they are looking at is a product that goes behind them and not necessarily part of that option. If they have got credit cards, they will use a credit card. I think it is looking at what can I use, what is available? That is available. If it is on a high street, they have got far more chance of looking down the high street than going online. A lot of people do not use online for anything in terms of comparison. I have not seen statistics on that and maybe you have. Certainly in terms of the people in terms of the lower socio-economic, they tend not to use one.

Q. (Ms Holmes) There will clearly be a process of education, information, encouraging more people to use comparison websites.

But let us just assume that we could establish a strong, independent comparison website, how do you think it will play into the market in terms of how the lenders behave, how they compete, would it open up more opportunity for new entry because new entrants would very quickly be able to have their offer right up on that website?

A. (Mr Stevens) If it is going to take place, it will take place under the FCA because they will be working very closely with the need to get financial -- because I think it goes back to financial awareness for consumers to do these kind of things on small cash sums, which they have not done in the past. If that is increased, I am sure it will be under the FCA, you will have far more chance of making it a viable and a long-lasting structured site and be able to give guidance.

I think going back to will it make for a more dynamic market, I think it will if people are more aware.

A. (Mr Fuller) I would agree with Greg. It is getting the awareness and changing how people access information. My initial thought was, to our understanding, price comparison websites are not widely used currently and there would have to be a substantial campaign around the benefits of using it. Then, I think if there is enough traffic being driven through, it would certainly have an impact on who is on there and what they are offering.

A. (Mr Hamblin-Boone) I think it would offer some comfort to consumers as well if you had to be authorised in order to participate on a website and I think that is really important.

Q. (Ms Holmes) It could reduce the cost of customer acquisition for a new entrant.

A. (Mr Hamblin-Boone) Yes. We will come on to marketing, but I think we would need to make a judgment as to whether there should be a dedicated budget to promote the site or, for example, advertising restrictions might mean that lenders are able to promote their brand but not their product. Could the promotion of their brand drive customers to the price comparison website?

Q. (Ms Holmes) Yes. In terms of outcomes.

A. (Mr Hamblin-Boone) Yes, yes. So, rather than saying come to our website and look at our APR and everything else, you would actually say this is our brand, this is what we do and if you want to know more -- look at the price comparison website. It is a slightly different way of the market working. I do not think it works like that in any other sector but we tend to be quite unique in that way.

Q. (Ms Holmes) Thank you. If we talk about the best way of setting up a price comparison website - you have mentioned the money by sector and the FCA - we could go the route of the lenders compared which is effectively to sponsor our own; we could look to a credit - one or more of the existing price comparison websites; or we could encourage, as we discussed a moment ago, of having a public sector body.

I think your preference, it seems, is to do something through the money by sector.

A. (Mr Stevens) Yes.

Q. (Ms Holmes) Why do you think that would be better than accrediting existing sites which obviously would have some quite clear criteria about the way in which the order of the results are displayed.

A. (Mr Stevens) I think that you would need more prompt -- I think it is a public awareness prompt it is not an advertising prompt. Lenders compared has worked to a degree but that tends to be the people who tend to go to those comparison sites already. What we are looking at is a lot of people probably do not use it and have not used it in the past or might use it for a mortgage. Again it goes back to the size of the loan they are looking for in terms of "What am I going to get?" On a small loan, "What is a cost per £100? Am I willing to pay that?" So, they are not going to say, "I can save £5 if I go down there" when it is convenient for using the one at the moment. There are things to be considered in terms of the size of the loan on that type of comparison website compared to larger amounts.

A. (Mr Hamblin-Boone) I am afraid I disagree with the Money Advice Service being where the comparison website should sit for a number of reasons. I think that people running the site have limited commercial understanding of the purpose of the site. Their job is about preventing and helping people to address debt. There is almost, if you like, a conflict of interest on the site that promotes people getting into debt, whether that is affordable or unaffordable debt. We would, I think, have some concerns given the information that is already provided on the Money Advice Service website. We are working with the Money Advice Service to ensure that information is as non-biased as possible. It is evident that our industry is not completely favoured by everybody who works in Money Advice Service.

Q. (Ms Holmes) If we pursued the route of accrediting existing sites, what do you think should be among the key criteria for accreditation?

A. (Mr Hamblin-Boone) FCA authorisation. That would offer the greatest comfort to customers whether they are working legally, as fully regulated businesses. I have already explained, I think, in terms of the criteria that should be included in there in terms of the value and length of the loan and all of the charges. But I think with the FCA announcement last week, that would be statutory anyway.

I think one of the things that customers may not see but still remains a competitive feature of the market is in the assessment of whether to approve a loan in the first place. You will know from the detail you have had from our members and I explained the last time I was here, the lending process is very much frontloaded and there is a strong degree of competition in being the best at making a risk assessment of that customer and anticipating what the outcome might be if you lend to them. That is very difficult to incorporate within the price comparison site, but it might be something that lenders can do to demonstrate that they have made the best modelling in terms of who is likely to be approved.

Q. (Ms Holmes) That is almost suggesting a kind of “we approve 90 per cent of applicants" which raises its own problems.

A. (Mr Hamblin-Boone) Yes. It sort of does or maybe it is more about "if you are worried that you will not be able to pay your loan, we are accurate in x number of cases".

Q. (Ms Holmes) In quite a number of areas we have seen pay-per-click resulting in orders based on the price paid by the lender rather than -- which is not transparent to the consumer. So to make price comparison websites work effectively, presumably the results would have to be ordered absolutely according to price and on whatever criteria that consumers put in, then you try and take results.

A. (Mr Hamblin-Boone) Yes.

Q. (Ms Holmes) Do you have any views about governance on accredited sites? Should it be left entirely to the commercial operator or should there be some input on …?

A. (Mr Hamblin-Boone) No. I think if you were to look at the Lenders Compared model for example, there is a degree of independence there. The trade association has been heavily involved in that site and I think that is probably the appropriate way so you have got that industry representation but I think the directors, if you like, the board should be drawn from all different areas of expertise and we would support that.

Q. (Mr Land) Can I just ask one question that both Greg and I know about which is the establishment of Lenders Compared. So that is a slightly different model in that there was not a price comparison site to consider accrediting, so collectively between what was the Competition Commission and the home credit industry and other stakeholders we had to build something new which was, as Greg will tell you, quite a time consuming complex process and it definitely needed a lot of input and support from the industry and the trade associations and quite a lot of, what we call, the right sort of co-operation. It involved a lot of input from us as well.

Do you see -- if we were to go down that model, if we felt that accrediting a private site was not an option or if we felt that the Money Advice Service was focussed on other things, do you see yourselves in the industry as capable of working together to develop a new site and work through all the -- what are quite tricky both commercial and technical operations and getting enough consensus across the industry to build something like that.

A. (Mr Stevens) Can I pick that one up? I think with home credit, it is a single sector -- high cost short-term credit which we are talking about rather than payday lending which is a very diverse sector and comes back to how we look at that diversity and express that. I suppose it goes back to what we suggested right at the very start of the home credit competition which should have been done on the total cost of credit which gives you a great comparator. But when you have got various other products, I would struggle to see how you would have this kind of pick and mix for the consumer to look at across all the products which would fit under the category of payday lending high cost short-term product.

I agree with you that there is an added dimension to what was a simple market and what perhaps is a more diverse market.

A. (Mr Hamblin-Boone) Yes, we might have to look at some standardisation in order to achieve that. In terms of trade associations working together and trade associations working in the industry, I do not think there would be any problem with that. The trade associations have worked with members on a code of practice. We have worked with other trade associations on the charter collectively. It is not unprecedented and it could certainly be done. I think we might have some challenges on the commercial level. As you know there was a prominent comparison website that came into some issues which meant that commercially it was forced to withdraw its payday product. I do not think those barriers have been removed and we might come up against them as well in terms of the way search engines operate.

Q. (Mr Land) One thought on that would be whether, a process of accreditation might be able to address some of those commercial issues that are there.

A. (Mr Hamblin-Boone) Possibly they may be able to, but there remains the emotive issue which, as I have said, the CMA put proposal papers and you have people still …

Q. (Ms Holmes) Presumably there could be scope for more than one accredited price comparison website.

A. (Mr Hamblin-Boone) Yes but I think high cost short-term credit providers would have to be mandated to work with one -- possibly even mandated to work with both of those sites to serve that purpose.

Q. (Ms Holmes) Thank you. We have talked already about the best way of increasing customer usage of such sites and customer awareness. Your general view seemed to be a fair amount of high profile media advertising to get it going and the cost for that presumably will be shared among the lenders?

A. (Mr Hamblin-Boone) Yes.

Q. (Ms Holmes) Would you imagine there would have to be an ongoing marketing budget because regularly new people are coming to the market. We have seen the average life of a payday customer is about 18 months to 2 years, so that would have to be an ongoing process wouldn't it?

A. (Mr Hamblin-Boone) You would hope that the market – and particularly this section of the market, as we start to see all of the things that have been put in place over the last 6 to 12 months and going forward over the next 6 months – it starts to come to fruition and we start seeing a change in perception and that alternative finance becomes more mainstream along with the lenders promoting, as I said, their brand rather than specific products, which encourages customers to explore and we continue to make them aware of the alternative options.

Q. (Ms Holmes) And that might, in fact, also mean that people who are currently operating comparison websites in other sectors might be drawn into offering payday as we discussed earlier.

A. (Mr Hamblin-Boone) In terms of becoming acceptable to offer a payday loan, yes, I think so. Although you have to bear in mind that there is a price control and probably a comparison site would be reluctant to move into a market from which you cannot make money.

Q. (Ms Holmes) And to make a price comparison website as comprehensive as possible, presumably it would have to include all online lenders but also all high street lenders as well.

A. (Mr Hamblin-Boone) Yes.

Q. (Ms Holmes) Should lenders be compelled -- we touched on this earlier -- should lenders be compelled to provide data to whatever number of sites are accredited if that is the route we go down?

A. (Mr Hamblin-Boone) Yes, I think it should be mandatory that they take part in a price comparison website as part of their licence.

Q. (Mr Tutton) Presumably that could, in principle, partly deal with the continuing advertising issue because one option is for it to be simply a requirement on a lender website to advertise the price comparison website which would mean that rather than necessarily a financial commitment.

A. (Mr Hamblin-Boone) Yes, potentially, but I suspect then you are just going to have to drive people to the lender's website.

Q. (Mr Tutton) Yes.

Q. (Mr Kellaway) Just a quick question on the information that is actually presented on a price comparison site. So in addition to the requirements of the APR, the total cost of credit, is there anything else that needs to be displayed that customers would benefit from seeing?

A. (Mr Hamblin-Boone) So total cost of credit, so that incorporates charges and anything else. We have talked about the fact that there might be some, even if it is small. In fact, there will be a variation in lengths if you are working with other credit products rather than just a payday product that falls within the price cap. So, potentially, people will have a new loan if they want.

Q. (Mr Kellaway) Is there any relative quality of information about products where, in addition to the price factor, whether or not there are any aspects of loans that customers will benefit from being made aware of and they will get a comparison between identically priced loans.

A. (Mr Hamblin-Boone) Apparently, none. Just compete on speed but I think that appears to be frowned upon. It would probably not be encouraged if they said we will process this for -- it will take 24 hours. The other thing is that some consumers might be comforted by the fact that it takes 24 hours. They can do it quicker but I think in the current climate, suggesting we go faster than your competitor, even though you are charging the same price, would be criticised.

Q. (Mr Land) Some people suggested TripAdvisor-style reviews of your lender or your loan or the quality of your service -- do you see that as being feasible in this market?

A. (Mr Hamblin-Boone) Yes, I think because consumer feedback is probably -- we would probably all agree where you would get the most honest response, provided people had to, in some way, had to confirm or verify that they were a genuine customer and it was not just hijacked by everybody who is a --

Q. (Mr Land) So following up with people who had actually taken out a loan?

A. (Mr Hamblin-Boone) You could do that, yes. Or you just had to submit what your invoice number was, or order number or whatever it was because I think there is a risk that it just becomes a political tool to --

Q. (Mr Land) It becomes a blog or whatever.

A. (Mr Hamblin-Boone) It becomes a blog, exactly. But I think customer feedback, is if you like, that is the Holy Grail; that is what we are all searching for and even when we do manage to mine that information, presenting it is difficult for people to take a fair view of it. But I think that would be -- I would support that.

Q. (Mr Kellaway) One final question. How important is it for a price comparison site to allow a customer to put in the amount they want to take it out and the length they want to take it out for? At the moment, lots of websites are very static, example loans.

A. (Mr Fuller) I think, given the multiple options that are out there, whether it is a single repayment loan or an instalment loan, the whole point is you may have to consider the front end user and what their needs are. By needs, or £200, do I want to be able to borrow it over three months, then I need to be able to put that in and the results need to filter out loans that are not right for them. I think ultimately that needs to be the key driver.

Q. (Mr Kellaway) Thank you.

Q. (Ms Holmes) I would like to move on to what we call remedy 2 which is to address customer awareness or, as we found, lack of awareness of fees and charges. So, in our provisional findings we took the view that customers were generally not aware of late fees and other charges if they do not pay their loans back on time. Did you generally agree with that assessment?

A. (Mr Fuller) No, from the point of -- well, to a degree. I think that certainly if you look at high cost short-term credit in July 2014, fees and charges are a lot more transparent. It is stated on the websites. I think that people selectively, particularly if you are applying online, selectively decide what they have and have not read and simply acknowledge they have read the terms and conditions, whether they have or have not. Certainly if you are taking a loan out from the high street, you are told verbally and also in writing what the potential charges are.

Q. (Mr Kellaway) Is there different types of transparency about fees and charges. So, you might be presenting that information but the point at which on sites that information appears or you have to scroll down to is, do you think there is consistency there in how transparent those fees and charges are?

A. (Mr Fuller) I could not answer that honestly. Probably not. I think there are varying degrees of transparency given the operators but the key, obviously, is to standardise communication of those obviously.

Q. (Ms Holmes) But certainly the data we have from our surveys was that only a minority of customers found out about default fees and charges. And a number of times that when they paid late, the amount they had to pay was more than they had expected and we can speculate about whether that is because they had not taken the late fees into account.

So, the concern we have got is how on earth can we improve customer awareness of late fees and charges and when would customers be most receptive to take on board that information, bearing in mind that quite a number a rather confident about their ability to repay and, therefore, default is not at the top of their minds.

In the Consumer Finance Association response, you said that simply providing more information is not the answer. I just wondered what you meant by that.

A. (Mr Hamblin-Boone) We support the use of sliders and we think that now, with the price control -- well, the sliders are going to be the same for everybody – but it needs to explain what the difference is in outcomes of people, you know if they do not pay or they default on their loan or even if going the other way, they pay the loan early, people need to be able to understand exactly what is involved in that. But I think that the primary purpose of a customer looking is to find out whether they are likely to be eligible for a loan. So, providing them with -- they can have a lot of information anyway as part of the credit directive. As with any other credit product, they are presenting with a whole lot of terms and conditions and there are various regulatory requirements in terms of the information you need to provide, as I am sure you are aware of. I think giving people additional information is just going to make what is a simple product unnecessarily complicated.

Q. (Ms Holmes) For a significant number of people who do not pay their loans back on time, there is a significant charge that they may incur in the case of some lenders. It is possible, when you are looking at websites, not to go onto the page that tells you what the rate charge is; you can go straight to the

"Apply Now" page. Do you think there should be an element of compulsion so that when the customer goes to the page to apply, there is somewhere on that page and in that same field of vision an indication of what the late fee is?

A. (Mr Hamblin-Boone) Well lenders will now be able to state explicitly the £15 charge, that they cannot charge more than double the amount that they lend to you. And perhaps you can look at them in the way that some products with additional insurance are charged. That you can have, here is the price of paying on time and here is the maximum you are going to incur if you do not pay on time, so that you have got a clear understanding of the same, if you like, PPI. This is the price of the loan for your repayments monthly. If you do not have PPI, this is the price that you can pay and insure with it. So, I think we can make it very explicit to customers like that.

Q. (Ms Holmes) Presumably, those elements could also be included --

A. (Mr Hamblin-Boone) Yes.

Q. (Ms Holmes) There is a view that perversely increasing the provenance of late fees could encourage customers to select loans on the assumptions that they will not pay back on time and, therefore, they choose a loan according to, for them, the best value default fee. Do you think there is any credibility in that theory?

A. (Mr Hamblin-Boone) That is asking me to second guess customers.

A. (Mr Stevens) A little, I would say a little.

A. (Mr Fuller) Yes, not much.

Q. (Ms Holmes) Lastly on late fees, what is your view about the level at which the cap has been set by the FCA. I know we covered that very briefly at the beginning but £2 per 0.8 per cent a day, what is your view on the level of that?

A. (Mr Hamblin-Boone) I think if it were £15 for a single payment product, then that is reasonable. But they are suggesting that that £15 is stretched over whatever the length of the term of the loan is. So, perhaps it should have been £15 per instalment rather than -- and that would be carried to lenders then to offer a range of -- different lengths of loans.

Q. (Ms Holmes) But also they could be encouraged to offer different sizes of default fees, so you have some element in competition in that aspect to.

A. (Mr Hamblin-Boone) That is right. I think that probably if it is following the model of credit card companies where you have to prove -- in the case of credit card companies, it is £12 and you have to justify that that £12 is necessary. Then in the same way, you could make the £15, it is a limit not a target and, therefore, as you said some customers might be charged less than the £15.

A. (Mr Stevens) I think it should be uniform across the market. That is one of the problems that the consumers have. Is there a variance with regards to fees. It is like looking at an overdraft. An overdraft is at a fixed charge or another charge and I think another area is getting that clarity so -- the loan in terms of a cost per £100, what is the cost of the fees. So, I think in that way we will get clarity and everybody will be looking for it -- there are different types of fees and charges being made as across the whole.

Q. (Ms Holmes) Is the implication of what you are saying that the FCA's cap should actually become a standard fee across the industry?

A. (Mr Stevens) No. I think the approach should be a standard across industry not looking at different ways of expressing fees and charges.

Q. (Ms Holmes) I see. Thank you very much.

A. (Mr Fuller) I think I struggle also with – you'll have customers who default and your credit control department pick up the phone and make one phone call, that customer will pay what they owe plus the £15. Meanwhile, similar to Russell's point, a customer who has borrowed over six months and missed the first repayment. Calls, letters, second repayment. Calls, letters, third repayment. Calls, letters. You ultimately finally collect the money and you are charging £15 to that customer.

So, you have got on one customer, if you will a "better debtor", that is being charged the same amount as an extremely poor debtor who requires a lot more intensive work. And I think there needs to be, like Greg said, some balance. I do not have any answer at this stage but it is certainly something that we are going to respond to.

A. (Mr Hamblin-Boone) As we understand it, any lenders that revert to debt collection agencies where the costs are outside of their control, they are incorporated in that £15. So, effectively there would be no debt collection agencies which charge a percentage of the loan they have recovered because that would actually wipe out the £15 before you get into costs incurred.

Q. (Mr Land) There is also this daily rate, I guess, in terms of what people are offering. Do you see that …?

A. (Mr Hamblin-Boone) The interest.

Q. (Mr Land) The interest., yes Do you see that being picked up on? I mean, some people do not currently have a, sort of, interest charge.

A. (Mr Hamblin-Boone) I think potentially and again we have a member who had not charged daily interest after a customer went into default and in future probably would. Again, it is with a view to there is a cap and now we know what the parameters are, let us operate well within that and not ultimately to the customers' benefit, certainly. I think the 100 per cent figure is in the context of the type of loan that it is, it is probably right but I think there needs to be some movements from an interest perspective for the lender and also from a default notice. So, you have got your three components. I think the lender needs to be able to have a bit more flexibility in how the lender uses those parameters as long as they fall within the 100 per cent.

THE CHAIRMAN: Thank you. I am going to now pass the baton on to Ray who is going to ask some questions.

Q. (Mr King) Okay. Well, the next section what we want to discuss is assessing creditworthiness and also credit files and credit scoring. As you know in our remedies notice to aid shopping around, we made proposals relating to the disclosure of when credit checks take place and how they are used, and also regarding the nature of the credit searches that are carried out, obviously quotation searches and application searches being the things in point. Then flowing on from that, we want to talk about how we get pricing into a comparison website. Then finally, to just touch on the CRAs, the real-time data issue and where we are on that and information sharing.

So, if I could kick off by going back to basics on credit, could you tell us generally at what point in the application process a credit check takes place and is that normally an application search with the CRA or is it a quotation search and, indeed, what is the difference between the two from your perspective?

A. (Mr Fuller) Certainly from -- I can talk about high street bricks and mortar, it is a very defined process and fairly consistent. I think that first and foremost you have to assess somebody's affordability. If you think about it in terms of the logical process, the customer has to be able to afford the loan first and foremost. So, affordability is whether the customer can pay it back and creditworthiness is will they pay it back. So, once it has been established that the customer can afford the loan, then a credit search is done and typically it is a whole search that provides insight data that will give a fairly full --

Q. (Mr King) Is that one that will provide a footprint at the CRA, so-called application search?

A. (Mr Fuller) Yes.

Q. (Mr King) Are quotation searches used much in your experience and if not, why not; a quotation search not leaving a footprint for other applicants?

A. (Mr Stevens) The quotation search is used by the larger lenders. The process is to look to see who we would be willing to offer a loan which means that there is a communal, formulaic approach that goes behind that and then using another engine to do that work for you and that is not done by smaller lenders.

Q. (Mr King) Okay. Are there any circumstances when firms do not use a credit search at all, a formal credit search and do they base lending purely on internal data?

A. (Mr Fuller) I would not know of any offhand. Certainly in the past, that probably was the case. I think since the OFT review, it has changed.

A. (Mr Stevens) There is a distinction between members who if we go back to small members. Small members could be using default rating and, therefore, they share default data back to the CRA, to get full information about the sharing of keys or any of the other main scoring systems with other agencies. So, it does differ which is one of the reasons why, again, referring back to the home credit inquiry in 2004 and 2006, when we arrived at sharing information, the sharing of information was done with the large and medium-sized companies because many people would not share information.

A. (Mr Hamblin-Boone) I would need to check whether there has been a change in the market recently but at least one of the high street lenders does not use, does not do credit checks. They look at bank statements and look at all the relevant information and make an assessment that way. Some of the online lenders would argue that the mainstream credit scores are of limited value in assessing short-term customers' loans for a short-term customer and the information from the CRA would be only part of the data that they would need to look at. So, credit scores at the moment in this market probably will be improved and we will come on to talk about the new databases. But at the moment, the lenders have to do the affordability assessment. As Richard said, creditworthiness is something that is part of that but not the only part of it.

Q. (Mr King) And when it comes to actually doing the credit checking and using the CRA and to aid shopping around, would you be supportive of an initial search being done on a quotation basis so that the individual has got the opportunity to go elsewhere and not leave a footprint and not damage their credit assessment.

A. (Mr Hamblin-Boone) I think quotation searches should be used across all the products. There is a cost associated with it each time lenders, if you like, touch the CRAs, so that cost would need to be built into the overall costs of assessing affordability.

Q. (Mr King) Typically what would that be? What sort of range are we talking about here?

A. (Mr Hamblin-Boone) I would need to come back to you on that but we have to take into account the price control here as well which, in many ways, mitigates the need for customers to have a quotation because the price would be pretty much the same for everybody.

Q. (Mr King) I just want to be clear here that in our remedies - there has been a little bit of confusion - where we made reference to we wanted to help the consumer by not making credit searches visible, we were talking about specifically quotation searches not application searches.

Moving forward then into taking credit checking into a price comparison website, how do you see the technical challenges of getting the probability that a customer is going to be accepted built into a price comparison website? You can imagine a spectrum where the individual puts in a limited amount of information and you get some form of indication process coming from that which might have a probability which we referred to earlier, or you could have complete information being sent in up front, it going out to everybody which sounds like a lot of data sharing. And then, pretty firm prices coming through which could be ranked. What is your perspective in terms of these technological difficulties and the best ways to address them?

A. (Mr Stevens) It is ten years since I was a lender and at that stage I think the problems that we had and probably still have is that when you are looking at credit finance a good customer looks exactly like a bad customer. So, you really need far more depth of information and, again, based on the file rather than a thick blue file or a thick file. Again, the more information you have got aids the final underwriting that you have to do. If you are bricks and mortar, I think it is easier because you have got far more information. I cannot see how you could have that kind of feasibility very quickly in terms of saying right this is what we are going to lend and then lend the money. My experience again is more with terms of higher purchase where we would actually get multi copying over a variety of deals where the dealer is looking at it. They would then be going through the same kind of process.

I think it is almost like a thumbnail sketch if you like. We would not get a definite, positive from the compare websites and say this lender will actually --

Q. (Mr King) Could you get a reasonably reliable probability on which a site could meaningfully be able to operate or do you think it is so flawed that you need complete information to make it work at all?

A. (Mr Fuller) So, you mean if I am applying -- sorry, if I am a price comparison website and want to get an indication of a likelihood of qualifying for a loan, I think unless it can be 100 per cent it is flawed because you will have customers who will be disgruntled by the fact that they were led to believe they could get a loan and now they cannot get a loan. I do not see it working in that context.

Q. (Mr King) So, is that saying that you think for the individual to get a reliable quote they need to go through the full application process up front which presumably could be made the same for all companies? It is a fairly standard thing, I guess.

A. (Mr Hamblin-Boone) I do not think you can come up with an outcome until you have gone through the full affordability assessment in line with the FCA's requirements.

Q. (Mr Kellaway) Are you familiar with the smart search functionality on MoneySuperMarket.com?

A. (Mr Hamblin-Boone) No.

Q. (Mr Kellaway) That is the only question.

A. (Mr Hamblin-Boone) I thought you were going to explain it to us. Just leave us intrigued.

Q. (Mr Kellaway) That uses a company called HD Decisions, I believe they are owned by Experian and a customer puts in their details to gain a greater level of precision on what they want and their own personal circumstances, and then goes through the price comparison sites. Then that does give you an indicative score currently available on personal loan products. So, we are just trying to explore whether or not there are any challenges for payday lending products that are not present in personal loan products.

A. (Ms Barr-Isaac) I suppose the only thing, I am thinking in my head and correct me if I am wrong, there is relatively limited risk-based pricing in payday at the moment and I guess your expectation is there will not be much more. So, in quotation terms that risk information does not add much in terms of outcome of what price will I pay for the product; you are going to get the same answer.

The bit that it makes a difference to, is will I be lent to or not and I think that, on the basis of what everybody is saying, is actually quite different.

Q. (Mr King) From a customer viewpoint, to make it meaningful, you need to put in your full data upfront really if you want to get something out of it in terms of pricing; is that what you are saying?

A. (Mr Hamblin-Boone) Because each application is on an individual basis, yes. I know --

A. (Ms Baar-Isaac) You will get an accurate price but you will not get an accurate view on whether you will get a loan.

A. (Mr Hamblin-Boone) Yes.

Q. (Mr Land) I guess what we are thinking, we are exploring whether you can see price comparison sites working at two ends of the spectrum, so you can have something which may take lenders' willingness to lend into account that is a good matrix of the prices that are out there in the market and then if you want to find out more, you then have to click through and approach one of the lenders. That is how Lenders Compared works really in the home credit area. It is fairly static. This is who is out there now. If you want to take it further, you go to a lender.

At the other end of the spectrum, there is something which is almost like a lead generator in terms of the interface between the lenders and the thing in the centre. So, if you put in all of your details, you fill in a form, that will ping out to the lenders and it would ping back but the difference with the lead generator would be that what would come back would be a schedule of people who would be willing to take it further and the prices and the customer will still be in the driving seat, but that is quite a complex thing to set up for all of the lenders.

And then we are trying to explore whether there is anything in between something static and something fully integrated and at the moment we are kind of hearing that there is not -- does that make sense?

A. (Mr Hamblin-Boone) Yes. It does make sense and as you know, the regulator requires there to be affordability assessments. The process, the procedure for the loan application has been, and will be going forward, exactly the same for any other credit product except that on top of that you have got this tight and defined affordability assessment that lenders have to do.

So, there has not been any, if you like, skimping up to now in terms of going through the credit application process but now we have got extra cost and complication built onto it. Probably the customer will not see it but the lender is definitely having to incorporate it.

Q. (Mr King) I was just going back to one of the earlier responses, Russell. I thought you were edging towards saying you could see a price comparison website based on a probability factor for each lender on the site in terms of if you put in enough information for a CRA to do a relevant credit checking or whatever, that somehow or other lenders could come back and actually say well typically it is just a 60 or 70 per cent or whatever it happens to be, and then the borrower could decide which one he wants to go to.

A. (Mr Hamblin-Boone) I was thinking more about lenders could compete on their accuracy record not for any specific customer but they could say in nine out of ten cases, we predict our customers pay back and they do, something like that. So, if a customer wanted to ensure that the lender was accurately assessing their ability and they did not want to get into default, which we presume most customers --

Q. (Mr King) I see. So, it is a different thing really?

A. (Mr Hamblin-Boone) Yes. But this customer invested in affordability assessments …

Q. (Mr King) Could we move on then to talking about the CRAs. At the moment, there is not a great deal, as I understand it, of data sharing that takes place. I know there is a lot of change that is being proposed but in comparison with other credit markets, our understanding is there is much more sharing of credit information among CRAs than there is in payday lending currently.

Do you agree with that and what is the reason for it?

A. (Mr Stevens) I suppose payday lending has been such a small sector, it is not going to appear on their agenda, being high enough on their agenda for the changes it is going to require. And I suppose what is being spoken about and why is it at the top of the agenda is real-time data. They are still trying to define what real-time data is.

So, you have got probably three different iterations for real-time data at the moment. At best, what you will get is 24-hour batching. So, during the course of the week, you will get very good information, stagger it over the weekend and it will be there on the Monday. I think in terms of real-time data, I have not seen yet a complete definition from either of the CRAs how much information that will provide. I think it goes back to the era where obviously the FCA wanted to consider how quickly could you look at people who are looking at a variety of lenders and that has yet to be proven in that model. But I think it has not been a question of desire; it has been a question in terms of the costs that the CRAs are going to have to put into the system and what is the return back.

Q. (Mr King) They are going to get from it.

A. (Mr Stevens) Indeed. Because obviously the payday lending sector is a shrinking sector and yet there would be an increase in costs …

Q. (Mr King) Typically do members share data with more than one CRA at the moment?

A. (Mr Stevens) It is going to vary company by company. The change that the FCA advises is that it has to be two or more. In terms of the -- what was happening was there was a real-time data provider allegedly which was smaller than the large three - the large three are obviously Equifax, Experian and Callcredit. Each of those have now got a reel which is attached to them providing them with a payday lending timetable.

It is entirely possible, yes. Traditionally it has been organisations and the organisation I was lending at, our prime CRA was Experian and we took some data from Equifax just to do a double check with regard to default information. Because most CRAs who sell information will be a little bit better in certain areas. So, if you are going to --

Q. (Mr King) To get a rounded view.

Q. (Mr Land) You mentioned Teletrack. Where do they fit in?

A. (Mr Stevens) I did not mention Teletrack. It is a small member, yes. CoreLogic Teletrack obviously is still there. Loan Protectors is an organisation that does the same kind of work but it is the large three which dominate the market.

Q. (Mr King) On these real-time products that they are developing, you are happy they have got the right structure? They all generally have a 24-hour window, have they not? It is not instantaneous real-time information.

A. (Mr Stevens) It is 24-hour batching. Really the onus is on the provider to send the tape in for 24-hour batching. If there are any kind of gremlins in the system, you have to clean the tape before it goes in. But yes, that is the whole idea behind 24-hour batching but I am sure you will be seeing the CRAs yourself anyway.

A. (Mr Hamblin-Boone) The larger lenders will use more than one CRA as part of the whole process but my members specifically are working with the Callcredit MODA near real-time data product which does daily batch updates and their rationale, or as Greg said, for not moving to immediate real-time is there is an additional cost associated with it given that there are so few customers, less than one per cent of customers are actually the sort or people who are borrowing more than once per day does not justify the cost.

Again, if we go back to perception, there is a perception that there are lots of people trying to take out as many loans as possible and beat the system. The lenders' experience of that, as justified by the fact that they went to daily batch updates, is that is not the case and most people are not trying to do that. They are not going down the high street taking out as many loans as they can or hitting as many websites as they can.

So, they are using more than one CRA but in terms of sharing data, because the MODA model is a closed user group, they are not sharing data with other CRAs at the moment.

Q. (Mr King) Presumably the quotation search and the application search will be charged twice? Are these things done on a per unit basis, or on a per transaction basis?

A. (Mr Hamblin-Boone) Double charge or reduced charge? If we can come back to you on that.

Q. (Mr Land) Could you just explain the additional cost then. If your members are content with a daily batch process, what makes real-time more expensive in their perspective than the daily batch process to help us understand the additional costs associated with going towards real-time --

A. (Mr Hamblin-Boone) I think there are practical costs in terms of depending on whether you are an online business or you are a store-based business. Obviously, if you are an online business everything comes to one place. If you are a store-based business you have to ensure that information is disseminated and there is additional cost in terms of bringing forward a daily, as I understand it, a daily batch update is effectively using exactly the same technology as a day-to-day batch update. Bringing something into real-time, where you are constantly churning data, constantly exchanging information.

Q. (Mr King) It is technology change.

A. (Mr Hamblin-Boone) Yes, it is technology change, yes.

Q. (Mr King) If you are using two CRAs and you have got a quotation search and an application search, does that mean you have got effectively four transactions that are taking place for each potentially? I am just interested from a cost point of view.

A. (Mr Hamblin-Boone) They are drawing information from two CRAs, not necessarily putting information back to CRAs. So, there is one, two. Then information that they are sharing backwards and forwards with the closed user group makes three, four.

Q. (Mr King) What do you think the impact of real-time data exchange is going to be for new entrants looking at the market?

A. (Mr Hamblin-Boone) I think that we are probably moving towards a point where it has to be mandated. Whether we are able to convince the FCA that mandating the use of two CRAs which, sort of, invalidates a closed user group and, therefore, we have already got costings on top of that. So, you can assume that if we go down that mandatory route, there is going to be a cost to existing lenders, that is going to be an additional cost to new entrants. I think that is very difficult.

Q. (Mr King) Do you think it is going to impact significantly on getting them up the learning curve in terms of credit management or not?

A. (Mr Hamblin-Boone) It depends how you mean in terms of credit management. In terms of affordability and all those types of things, they will not get their licence unless they have gone through that process. I think they probably will have to have gone through that before they even get to that stage.

Q. (Mr Land) I guess what we are looking at when we are thinking about barriers to entry in the investigation, one of the big issues is that lenders have tended to make more loans that go bad in their early period partly because they are building their models and partly because they do not have a customer base established of people they know have paid them back and I suppose what we are looking to understand is whether these sorts of developments, in terms of the CRA space, make it likely that that sort of learning curve, in terms of improving your credit performance, might work a bit quicker because you are able to filter out a few people who are taking out a lot of loans over a short period of time.

A. (Mr Hamblin-Boone) In terms of costs, as Greg said, if you are an SME trying to meet these costs, it is huge and your customer base is very small in which to draw the revenue to fund that. I think in terms of the learning process, as you say you will have to prove that your default levels are going to be low to the FCA before you can even start trading. So, I do not think there is that, I do not think the FCA allows that tolerance of you can get it wrong for a bit of time and then you start to get it right.

A. (Mr Stevens) There is no formal availability in terms of saying this is a credit score. Under that credit score this is what we lend. It is a fallacy and large companies and small companies are changing their credit model all the time by the reviewing that is taking place quarter by quarter and sometimes for larger companies month by month.

It would provide far more information in that you have got further information. Certainly, once the banking information is provided on top of it, you have got far more of a nearing effect of all transactions. I think it will get better over a given time. It would be wrong to suggest that that is a solution it is part of a solution not the solution.

Q. (Mr King) Do you think this credit information should be shared among all CRAs or do you think that would –do you think there is a competition issue there and CRAs need to be able to develop an edge in some areas?

A. (Mr Stevens) CRAs over a period of time have obviously built their own commercial models and that if you like are sort of separate parts of it which they sell separately to the overall creditworthiness. They will lose revenue if they have to share all the information but in terms of CRAs under a regulator. I am sure the regulator will look into what is best for the consumer for CRAs.

Q. (Mr King) Finally, can you see any costs or risks for the consumer in terms of real-time data sharing? Are there any real downsides here for the consumer?

A. (Mr Stevens) I think the one thing that is being looked at obviously by yourselves and the FCA is nobody is suggesting that costs which are incurred should be passed on to the consumer. The capping means that many of these costs will not be passed on to the consumer because these absorbed costs -- it is still viable after absorbing the costs.

A. (Mr Hamblin-Boone) Yes and I suppose there is potentially a risk that we are being pushed into pre-profiling customers if you like and making some assumptions about some customers and in this market it is about individuals.

Q. (Mr Land) Can I ask just one question about this. It is really about the debate about data sharing. Some people have said to us that historically some of the larger players might have been averse to the concept of data sharing saying it is their data really, why should we be giving everyone a leg up in the market. Is that still the debate within the industry or has that argument moved on?

A. (Mr Hamblin-Boone) I think there are two answers to that. One, you have seen the speed at which the market and the lenders that I represent have not only helped to design the pilot and bring to market so that by the end of the year, I think the majority, over 90 per cent of the market will be using at least one of the databases. I think in terms of intent, they have clearly demonstrated it and proved it.

I am just thinking about how I was going to respond to the second part. I do not know if you have any thoughts. Just tell me the question again.

Q. (Mr Land) It is really whether any larger lenders are still opposed to the concept of data sharing because they would see it as giving away a competitive advantage.

A. (Mr Hamblin-Boone) That is implied by the fact that they want to work with the closed user group; in other words you can only access our data if you are prepared to make a contribution of your own data.

Q. (Mr Kellaway) As a coda to that, one of the mainstream CRAs has told us that 95 per cent of longer term credit agreements are shared with all three of the mainstream CRAs. Do you have any views on why other lenders are happy to share more widely than some lenders that you represent are not.

A. (Mr Hamblin-Boone) Having been stitched up earlier, I will defer to the former chairman of the SCOR committee.

A. (Mr Stevens) It goes back to commerciality, the CRAs -- now they are in a situation where they have nothing and banking, to a certain degree, it has been difficult getting hold of a current account because that was outside their consent. What we are now seeing is a new period of them looking at how do they comply, how do they agree to do these things. I think we should be looking in terms of what is going to happen in the future rather than the past.

THE CHAIRMAN: Okay. We will move on to our last two proposed remedies. I am going to ask Tim to lead on those.

Q. (Mr Tutton) The fourth remedy was about periodic statement on the cost of borrowing. The rationale being -- partly the notional rationale again just to confront customers with the extent to which they are shelling out - in the same way that cigarettes or other sort of nudges have been used or proposed.

The first question is if one was to go down this route, what would be the most effective way of communicating to borrowers what their historic cumulative cost of borrowing has been?

A. (Mr Hamblin-Boone) So you are talking about the medium of communication?

A. (Mr Tutton) Medium and -- it could be the medium, it could be the frequency or it could be whether it should be triggered by, for instance, an existing borrower who has got a track record with that lender coming back for a new loan, so it could be triggered by that.

A. (Mr Hamblin-Boone) I think maybe there are a number of points to make. In terms of the medium, I think it should be available in the medium that the customer requires it. If there is an online borrower, then clearly that is the medium with which they operate and if it is somebody who comes in store, then just a telephone call or text or whatever it might be would be the appropriate thing -- SMS as they call it.

I think there are some things we need to try to consider in order to make it useful to a customer which is that the statement was of the customer's total pay day status, not necessarily just their status with one lender if they have more than -- if they have other credit commitments then presumably, we are telling them this is your state of play and you may potentially not be able to make thyoure payments or you are at risk of getting into unaffordable debt, something like that.

In some way, we would have to co-ordinate a point in time for that customer to say this is your status as at this point in time. You are halfway through paying off a loan there. You are about to finish paying off that loan or your due date is about to come up then in order that they understand all of their commitments to the short-term high-cost credit provider at the same time. I think that is one of the challenges.

I think it is also worth bearing in mind that lenders do not look for an ongoing relationship with the customer like you would with revolving credit. As we move towards longer loans, that might be something that becomes more valid. But if we take the FCA's assessment that we are all going to be providing three to four-month loans, then you are offering someone a statement at six months or 12 months seems to be inappropriate.

I think the other thing is in terms of the information that we provide, if there is no such thing as an average loan or an average customer or even an average lender, it is very difficult to present some benchmarks, if you like.

So if we take the energy industry which provides annual statements and they do it based on perhaps you live in a two-bedroomed bungalow with this number of people and therefore on average you are likely to be using this much energy and it is over and above, we can draw a line and say you could be saving more or you are doing very well in your energy saving.

This is all very arbitrary to make those judgments when we are saying it is all about individual customers. I do not think that we could really be as presumptive as to make suggestions to people that we understand all of your financial circumstances and, on that basis, we are offering you a warning that you might be going into unaffordable debt or something like that. It is a really difficult thing to do in this market.

A. (Mr Fuller) Is the intention to highlight to a customer --

Q. (Mr Tutton) I think that was more the point. The underlying objective here was probably a bit more limited than that because your point links over more to the previous points to some extent, to the customer getting a feel for the affordability and whether it is a good idea to take out a loan.

This is more about simply saying look, you have taken out five loans over the last year. Cumulatively that has cost you £600 in interest over that period. So, even though an individual loan may be a small amount and you are not going to be spending a whole lot of time searching out whether this is a good value loan or a bad value loan. Over time, this could be quite a major part of your outgoings and maybe you should take it a bit more seriously. That was part of the rationale.

A. (Mr Fuller) I think it is how customers would use that information necessarily. I think they have a fairly high level of awareness to their own personal financial situation. I think that the reality is for a lot of people who live pay check to pay check, this type of credit or a pawn broking transaction or a buy back transaction is very much the norm for them. I see no reason not to provide the information. I do not think it would be difficult to provide the information --

Q. (Mr Tutton) Would that affect their behaviour?

A. (Mr Fuller) That is the question. Honestly, not significantly, I do not think – but I am happy to give it but I am not sure it would be significant.

A. (Mr Land) So, one thought would be to interact this with other remedies. So one idea would be if you get some information coming through, that reminds you that you spent a sum of money on payday loans over a period. It would be then one of the things that gets past the "so what" is to then direct customers in the direction of accredited websites to say that the next time I am taking one out I have got choices and these may involve -- in the case where I could find out more, would that enhance the impact of this in terms of giving customers something to do with this piece of paper, this communication.

A. (Mr Fuller) I suppose if you are saying what I think you are saying that when a member has a regular, repeat customer who accesses this type of credit, we are saying this is how much it costs you, go look to see if you can get it cheaper somewhere else. I am not sure if that is the -- it is counter-intuitive to your commercial …

A. (Mr Hamblin-Boone) I have not seen any other market at the moment where you have to refer someone to your competitors but by referring to some sort of price comparison website, might prompt some competition but again we have to do this all in the context of the price control that we have got in place and it means that we will be ripping up an awful lot of flexibility on that side of things, and also I'm not sure that we fully understand the impact of nudge and whether it is entirely relevant to this customer market given that people who are taking high cost credit, as new credit as has been identified by yourselves, do not have many options and then this is driven by need more than want in most cases.

The FCA suggesting that 60 per cent of people would not bother and if they had a loan would be worse off. I do not necessarily think that that is the case. I think that is an incorrect interpretation. So, I do not think that borrowers are going to act any differently knowing that they have racked up an amount of debt any more than getting a credit card statement showing them how much they are overdrawn. I think it is one of those things they probably more resent than it is a good way to point them to taking debt advice or sorting out their finances.

Q. (Mr Land) That is partly trying to understand how borrowers would react to any disclosure and whether that would be a trigger to change the behaviour.

A. (Mr Hamblin-Boone) My view is that in a small number of cases it might be but in the volumes we are talking about, given the costs associated with it, I think it is a disproportion of costs but I would like to think we can do something. I am not sure that following the formal -- what the banks do and things and credit card companies do is the right way.

Q. (Mr Tutton) You said that in terms of the medium, well whatever is appropriate for that particular borrower. Frequency, again -- you have all said "well you can do it. If it is not a problem in a sense to do it, question mark over whether it would have much of an impact" but unlike some of the other remedies which are being talked about, could there be, depending on what was required if anything, could there be a significant cost? What aspect of this sort of remedy would significantly potentially add to costs?

A. (Mr Hamblin-Boone) It depends how we define significant but I would say that lenders have an ongoing relationship with their customer, whether it is online or by telephone or whatever. So, for example, when they contact customers three days in advance of the due date to remind them that they are going to be executing a CPA in order to take out their loan. So those types of ongoing contact -- they probably have better or more regular engagement with borrowers than many other creditors. So, I do not think it would be a significant cost to say can you continue to have an ongoing dialogue with a customer. One of the things we might have to build in is, if we are looking at longer loans, we do not know, how much people will move around in this market so we need to look at that and make sure people need to keep us informed of their -- contact details do not change and things.

Q. (Mr Land) So you are sort of saying that if you can build on the existing way that lenders communicate with their customers, then the incremental cost is going to be relatively low compared to if you are acquiring online lenders to send out letters to people who they never write to other than online.

A. (Mr Hamblin-Boone) Yes. That is right. Well, why would you do that? You can probably live chat or something.

Q. (Mr Land) Do you have any view about frequency other than about whether if we went for something like this, whether it would be quarterly, annually, every six months? What the pros and cons are with different periods?

A. (Mr Stevens) Looking at the market and the way the market is developing, I would say six months.

Q. (Mr Land) On the grounds that that would cover a loan and --

A. (Mr Hamblin-Boone) Yes. The chances are that is somebody who has borrowed more money from that same lender as well.

Q. (Mr Tutton) Final one: lead generators. I suppose the first question, linking back to the price cap again, and you covered this a bit in your opening comments about impacts on the pingtree and so on, how do you see the business model of lead generators holding up or evolving in a world with the price cap?

A. (Mr Stevens) I think lead generators, if somebody gave you something, the FCA, many of those lead generators do not belong to associations. There is no leverage that we could apply on their conduct. Obviously we hope that our members are very careful who they choose but at the moment, as you know, one of the prime places where leads come from is lead generators. It does provide large members -- when we say “large” and medium-sized members it provides them with a good source. It is not the only source but it is a very good source.

I think it is difficult to see how small members, and I can see it in your report as well, how would people get a branding off the ground certainly in terms of new members to market when you are having to -- you have got that way of driving business through to large members or to the pingtree where you are going to buy off the pingtree.

So, it would mean a fundamental change to the market if there was controlled exercising. Whether it would actually decrease the costs that has been raised before. I think it is doing it in some circumstances but not all circumstances and that it will actually create a decay if lead generators moved to different markets taking their resources and technology.

Q. (Mr Tutton) We have talked about it before and, in fact, when you came here before, the reason why lead generators make a lot of sense to lenders especially when they are starting up, what about from the borrowers' point of view? We talked about this before and we have talked a bit more of it over the time. What drives borrowers to go to a lead generator website rather than go direct to a lender's website?

A. (Mr Stevens) You go onto the website and normally the first few pages are lead generators rather than the members. So, it is the prime position.

Q. (Mr Tutton) Do borrowers realise? Are they aware of (a) that they are going onto a lead generator website rather than a lender and (b) do they realise what the difference is between a lead generator and a lender?

A. (Mr Fuller) I think that if somebody did a Google search for payday loans, what they may not realise is that the top ten that come up are most likely lead generators. They have to click through and access the site and I guess it would depend on how clearly and how transparent that site itself is that would say that they are not the lender we act on behalf of lenders.

A. (Mr Hamblin-Boone) I do not think they currently know the difference but I think under statutory regulation we will see lead generators obviously being regulated by the FCA so that their conduct will be better. I think, because of the price controls, they will need to lower their prices and also as a competitive element they would need to offer better quality leads, if you like, to the lenders. So, I think the consumers will potentially benefit from all of those things but I think there is a piece of work to do before people understand what a lead generator is and also understand the difference between the lead generator as a broker if you like, compared to a mortgage broker who looks for the best deal; a lead generator is looking for the best price regardless of deal. That might be something the FCA brings into part of its regulation in time as well. I think that it will become increasingly -- the technology is being developed and it means lenders are going to be able to track better -- the lead generators and the quality of their leads.

Q. (Mr Tutton) You responded to this in part to the remedies but one of the things would be an obligation on lead generators to state what their relationship is with lenders, what the commercial relationship is and the question is how blunt that might be. Would your view be that it should be pretty blunt? Coming back to your point you just made, we will sell you to the highest bidder.

A. (Mr Hamblin-Boone) Yes and we all get commission for it, yes. I think it does need to be transparent because they also need to know there might be a cost associated -- if we end up getting some sort of price competition they need to know there might be an additional -- it might be more expensive to get a loan than going direct to a lender. I think there is also bringing into the advertising point I was making before about the potential risk to advertising. People who choose to go to well-known brands would be prompted by advertising. People who go to lead generators, who do not advertise online, will be prompted to go to them by search engines.

Q. (Mr Tutton) Apart from the ones you have already implied, are there any specific concerns you have about the activities of lead generators? Are there particular practise of lead generators which are a problem?

A. (Mr Stevens) I think in the past there have been lead generators who have taken an upfront fees are in large gone from the market but again they were not members of the associations. I think, as Russell has said, if they are obliged to have a code of practice they will adopt a best practice and have to be regulated and that will take care of lead generators in the market.

A. (Mr Hamblin-Boone) It is not difficult to do a quick search and find that there are lots of lead generators who are quoting a price that they can get a loan for you for, which is actually lower than the lenders are actually offering. I do not know how they are doing that. I do not know what costs they might be excluding from that. I suspect they are excluding a number of costs because we have done that search and our members have said to us --

Q. (Mr Tutton) There is no one there.

A. (Mr Hamblin-Boone) -- we do not do that price so I do not know how they could possibly be quoting this amount.

Q. (Mr Tutton) Again, Greg, you implied that there was not much apart from exercising due concern in choosing the lead generators but is there anything more that lenders themselves could do in terms of effectively regulating the behaviour of lead generators?

A. (Mr Hamblin-Boone) They already do. It is already in their interests to have, if you like, within their commercial contracts that there is certain conduct that they would expect from their lead generators and I think that will be enhanced through FCA regulation.

Q. (Mr Tutton) Should lenders be prohibited from selling on leads?

A. (Mr Fuller) So, if the customer does not meet their criteria?

Q. (Mr Tutton) So, some have come direct -- unless they are direct, in the simplest case, to a lender does not meet that lender's criteria, lender could pass it on, could sell it on.

Q. (Mr Fuller) I think that becomes more an ethical issue than anything.

A. (Mr Stevens) I am not aware of the practice with our smaller members. I am not saying it is not there. I am just not aware of the practice. I can certainly find out.

Q. (Mr Tutton) I think one of the things which is striking is although we can talk about price comparison websites, we can talk about lead generators, there is a lot of spilling over in terms of the roles and functions which different people do in the market and one revenue stream available potentially at least and apparently actually it is for some lenders to sell on.

A. (Mr Hamblin-Boone) I have canvassed the views of my members and they do not sell the leads.

Q. (Mr Tutton) So, if there was a ban on it, it would not be an issue.

A. (Mr Stevens) I think as far as the -- again, I do not specifically know but I would have thought that the lead generator who was on the pingtree, would just fall further down the pingtree, so it is almost like a selection that takes place that was not being taken up at a certain time it would drop down …

Q. (Mr Tutton) Sure. If it is going that route. I was thinking more of where someone has simply gone on the website of a particular lender specifically for that lender, the lender does not want them, the lender …

A. (Mr Fuller) Well I suppose different lenders have different levels of risks that they apply and if you are a lender that had very low risk thresholds, you might feel more comfortable referring applicants and probably would not have as much of an issue with that concept and certainly not -- you are, I suppose, giving that customer an option. They can obtain a loan from somebody who could, quite conceivably, be lending responsibly to them.

A. (Mr Hamblin-Boone) If you have got more than one business and this does happen, if you have got more than one brand or a trading name under your business, then you might pass it on to the other part of the business which might have a different profile; so for example you might be a store-based business that passes leads on to the online business or vice versa , I think that can happen.

Q. (Mr Land) I guess part of the issue with all of this and in some sense it is partly a consumer protection issue more than a competition issue, is just the customer actually knowing where and with whom they end up.

A. (Mr Hamblin-Boone) Yes and that has to be absolutely transparent and that is what happens. We cannot lend to you but we do have a sister business.

Q. (Mr Land) Yes and if each lender is regulated themselves, then that sets a baseline for how a customer is going to be treated. But then as soon as it goes outside your area, then either you need to vet the people that you are passing things on or where you are losing control over and that is your personal responsibility, a corporate responsibility.

A. (Mr Hamblin-Boone) Yes. There is none of that that goes on where you pass on …

Q. (Mr Land) Within the family.

A. (Mr Hamblin-Boone) Yes. Thinking that someone -- you might within your business have different brands but in terms of passing them outside your business to wherever …

Q. (Mr King) Is there much of an issue with lead generators based offshore potentially avoiding FCA regulation? And if so, what should be done about it?

A. (Mr Hamblin-Boone) I think we have wondered whether that is both an issue for both lead generators and lenders, the way the market is being pushed. It is inevitable that is going to happen and I know the FCA suggested only a very small percentage of people will go to an illegal lender. It may be that either they have not interpreted illegal lender correctly because someone operating offshore outside the FCA regulation is also illegal. Or that they have not even considered it and maybe will not even know that that is what is happening when it comes to it but I think evidence from other international jurisdictions – and I know this is a contested point, but we stand by it – there is a very profitable grey market operating. Grey market because it is not criminal in the sense that is understood but it is not regulated either.

Q. (Mr King) Presumably lenders should only be allowed to deal with FCA-authorised businesses.

A. (Mr Hamblin-Boone) Absolutely, yes.

THE CHAIRMAN: Okay. Well I think we have probably exhausted all of our questions. Can I just see whether anyone wants to ask any further questions. No? Okay. I do not know if there is anything further you want to say to us that we have not covered in our questions. No? In which case thank you very much for coming and sharing your thoughts with us. Very grateful for that. You might be interested to know how the process is going to go from here on in. We are seeing a number of interested parties at the moment. We expect these to last until mid-August. The next stage in the process is to issue our provisional decision on remedies and we are intending to do that in late September or early October and obviously that is something that you will have the opportunity to respond to in writing and we would be very pleased for you to do so. And then our long stop date for publication of our final report is the end of the year or beginning of next year. And that is where we are at the moment. So thank you all very much for coming in this morning and sharing your very interesting views.

A. (<u>Mr Hamblin-Boone</u>) Thank you.

A. (<u>Mr Stevens</u>) Thank you.

A. (<u>Mr Fuller</u>) Thank you.