COMPETITION AND MARKETS AUTHORITY

PAYDAY LENDING MARKET INVESTIGATION

Notes of a joint response hearing with consumer groups held at Victoria House, Southampton Row, London on Tuesday, 22 July 2014

PRESENT:

FOR THE COMPETITION AND MARKETS AUTHORITY

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

Adam Land	-	Project Director
Paul Kellaway	-	Assistant Director of Remedies, Business and Financial Analysis
Charles Raikes	-	Legal Adviser
Eithne McCarthy	-	Legal Adviser
Andy Toner	-	Inquiry Co-ordinator

FOR CONSUMER GROUPS

Adrian Harvey	-	Citizens Advice
Christie Silk	-	Citizens Advice
Linda Isted	-	Debt Advice Foundation
Peter Tutton	-	Step Change Debt Charity
Ashleye Gunn	-	Which?

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THE CHAIRMAN: Good afternoon. Welcome to CMA, as we now are. Thank you very much for coming here this afternoon and for helping us thus far in this inquiry and we will obviously be interested to hear what you have to say this afternoon. I think that it would be helpful that before we start we have some introductions, then I am going to say a few words about the procedures and then a little bit about the context of this hearing. There will be a number of questions that we want to ask you and to get your views on, both from us and most likely from amongst the members of staff, too.

To start with the introductions, I am Simon Polito. I am the chair of this particular inquiry. I will then ask individuals at the table to kindly identify themselves.

MR KELLAWAY: I am Paul Kellaway. I am a staff member on the remedies team.

MS HOLMES: Katherine Holmes, a panel member.

MR LAND: Adam Land, I am the Project Director.

MR KING: Ray King, a panel member.

MR TUTTON: Tim Tutton, panel member.

MR TONER: Andy Toner, Inquiry Co-ordinator.

MR RAIKES: Charles Rakes, Legal Adviser.

MS McCARTHY: Eithne McCarthy, Legal Adviser.

THE CHAIRMAN: Thank you. Linda, I do not know whether you would like to start by introducing yourself and then we will go along in the same way.

A. (Ms Isted) Linda Isted, Debt Advice Foundation. I handle communications and public affairs for them.

A. (Mr Tutton) I am Peter Tutton from Step Change Debt Charity.

A. (Ms Gunn) Ashleye Gunn, policy programme director at *Which*?.

A. (Mr Harvey) Adrian Harvey from Citizens Advice.

A. (Ms Silk) Christie Silk, policy researcher at Citizens Advice.

THE CHAIRMAN: Very good, thank you. Thank you very much for that. There are just a few words, as I said, about this afternoon's procedures. I think that we sent you a note about appearing at hearings and they are the same as they were last time for those of you who were here for the earlier round of discussions. They set out the obligations under which we operate in terms of disclosing what you say to us.

As you will see, we are having a transcript taken and we will aim to get you a copy of that within seven days and we would ask you to correct any errors in the transcription. If when you read it you want to add anything or indeed feel that you might be able to express it slightly better than it is in the transcript, then we would ask you to do that in a separate document rather than in the transcript, so we keep the transcript as an accurate record of what was said today. In due course, in the interests of transparency, as we did at our last hearing, it will be our intention to put that transcript on the website. Obviously, if there is anything especially confidential - and I suspect there will not be, but if there is there will be an opportunity for you to make representations to identify that to see if it can bet excised. We will obviously take your views into account on that.

As far as the purpose of the hearing is concerned, we are seeing a number of parties. This is quite a heavy week for us, in fact. This is our fourth since Monday, so it is day two today. There will be three tomorrow. It will continue in much the same vein for the rest of this month and in the first half of August. It really all comes about, of course, because of our provisional findings that we issued and also the notice of possible remedies. As you know, in our provisional findings, we provisionally concluded that price competition between payday lenders is weak or not as effective as it might be. Competition from other forms of credit did not seem to us to impose an adequate constraint on them and that there are a number of other features of the payday lending market in the UK that either contribute to or help to explain the observed shortage or absence of competition, as we see it, in this market and give rise to an adverse effect on competition, as well call it, an AEC. We issued our notice of remedies, as you are aware, suggesting a number of possible ways in which the AEC that we have identified might be addressed. We are very keen to hear from you this afternoon your views on those.

At the same time, of course, the big issue, probably, even bigger than our issue, is that we have to recognise what the FCA is doing in this space and, obviously, they issued their consultation paper last Tuesday, with the price cap, and on 1 July they also introduced a whole range of regulations. It may be helpful for you to understand, as I am sure you do, that we are operating, in a sense, along parallel tracks and they are looking very much at the regulatory aspects here in terms of consumer protection and affordability. Our remit really is to look at how competition in the marketplace is operating. As I say, we have provisionally concluded that it could be more effective. Of course, there is quite an interaction between our provisional conclusions and their proposals in relation to, firstly, the new regulations that have come to force already, but also there is the question of a price cap and hearing how that is going to alter the space here. Obviously, I am sure you will be pleased to hear, there is a degree of liaison and communication between us, not least, of course, if we remain of the view that we wish to impose some sort of remedy at the end of the day, we will then have to consider how we should best do that and whether we should be doing it or we should be recommending that they do it and that they will do it as we would so recommend. We are very keen to understand your take on our remedies.

We are probably going to start more with how you see the most recent regulations that have been introduced, whether there is any visibility of those having some sort of impact on the consumer reaction from people who are coming to you about payday loans. Then we will have a look at the way in which you see the price cap operating, if it is introduced in its current form, and also the relationship between that and what we are recommending and views that you may have on what we are recommending.

That is all that I have to say by way of introduction, other than my usual end of introduction, a reminder, as we remind everyone who comes before us, that it is a criminal offence under the Enterprise Act to give false or misleading information to the CMA. Those are the happy words on which to end my start to the hearing. You will have become used to them since I said them last time and they will not come as a surprise to you.

We have a raft of things from the FCA and the things that are currently in place, as of 1 July, are, obviously, the reduction in the number of rollovers, the reduction in the number of occasions when people can make use of the CPAs and also prohibition on using the partial payments, you know, sort of more stringent affordability tests. I will come on to the cap in a moment. I know that it is early days, 1 July, but our understanding is that at least some of the lenders have, actually, been implementing these ahead of the change on 1 July. I just wondered whether you have any evidence as yet in terms of the kind of feedback you are getting from consumers - the complaints that you are

seeing - as to whether those changes themselves have had any notable impact in the marketplace yet. I throw it open to any of you to pick up that ball.
A. (<u>Mr Harvey</u>) I am not aware of anything coming through yet.
A. (<u>Ms Silk</u>) No numbers, but we did run a survey of clients who took out a payday loan and we have been running that for the past several years now to monitor how payday lenders, which had signed up to the Good Practice Charter which was in place before the FCA regulations, were complying. I think that over the past year following the announcement of the FCA's regulations, we have noticed - we would probably call it a glacial improvement in lenders' behaviour, so very marginal in terms of what we could infer from our clients responding to the survey.
THE CHAIRMAN: “Glacial” in terms of pace rather than temperature.
A. (<u>Ms Silk</u>) Yes, pace.
A. (<u>Mr Harvey</u>) That is from a very low base, obviously. There is also the fact that people have left the market and that might actually in itself be explanation for this slight improvement. Some of the worst players are leaving the market in anticipation of the rule change. That is inference from a survey rather than real data from our clients.
THE CHAIRMAN: Do you have any picture of what is happening?
A. (<u>Mr Tutton</u>) Looking at our data, we do not have anything explicitly rich on number of rollovers or the use of sort of repeated CPA. We would only occasionally see examples of what we would call siphoning CPA. I had a quick look at our data before I came out and we are still seeing cases of abuse of CPA, alongside the practice of repeated requests for CPA. There are two things with that: (a) it would obviously keep taking money out of people's accounts when clearly they are in financial difficulty and (b) the practice of some lenders charging for each time they have made a CPA use. We could not see any recent evidence of that, but we would see occasional cases, whereas previously you would see a number of cases. Then the practice of CPA still is being used where people, say, had come to us for help and had requested that the lender did not take CPA, because lenders were still taking them. There is still abuse of CPA going on as a form of debt collection. The firm is aware that a person is in financial difficulty but they are

still dipping in there and taking money which is leaving people unable to pay their rent and things like that. That is still going on. In terms of some of the practice around siphoning and fee charging, there is no explicit evidence, but we are still seeing cases of debts inflating quite rapidly. Since the rules have come in it has made a difference, but lenders with whom £200 becomes £800 or whatever, we are still seeing those kind of cases, which will be about high interest on default and other charges being put on. Certainly, there are changes in the market going on. A lot of lenders are moving to slightly longer-term products or leaving the market, often as a result of regulatory action, but some of the kind of problems that we have been seeing for a long time we are still seeing.

In terms of stats, I had a quick look at stats for the first quarter, we carved some out. The average payday loan debt of our clients per debt has actually grown a little bit. It is now a little bit over £600. To put it into perspective, the average income of our clients who are payday loan users is about £1,300. It is almost 50% of net income, a single payday loan on average. These people in financial difficulties are a sort of low-and-grow model, so what they are borrowing is rather above the market average. I seem to remember - and I may have this wrong - going back to Kempson indicators, something like 25% of gross income being an indicator of financial difficulty, so one of the payday loans that some of our clients have would be 50% of their net income, which gives you an idea of the fundamental problem with these products is still there. They are lending amounts that people cannot afford to pay back. The average total payday loan debt of our clients with payday loans is still above £1,600, so higher than their monthly income. There is some movement in the market and maybe something around the edges, but the core problems are still in place.

A. (<u>Ms Isted</u>) I asked people for a qualitative gut reaction to whether things had changed, whether they were hearing different things from clients and they said that nothing had changed whatsoever except that where people were talking about their payday loans they were far more embarrassed about them now than they used to be, because they feel that they should not have those, that they should have known better. They will talk with no trouble at all about 5,000, 10,000 15,000, £20,000 worth of debt built up over personal loans, overdrafts, credit cards, because that is normal credit and then they will apologise for the 500 or £600 for payday loans at the end.

THE CHAIRMAN: It is something that they are more open about now, they realise that they are not the only people in that situation. I suppose that brings us on naturally to what do you see the impact being of the FCA's most recent price cap proposals. Let us assume for present purposes they are going to be implemented in the end, which is suggested in the consultation paper. I do not know what your view is on those. Clearly, we are assuming they come into force on 2 January, which they will, it is going to take some time to wash through the system before you actually see the level of debt and everything being capped by the 100% charge and all those sorts of things, but perhaps you would like to share with us your views on what you see the likely impact being of the price cap at the end. I will leave it to you to decide who takes the lead.

A. (Ms Gunn) I have said nothing because we do not have that on-the-ground information, so I will start. We have been broadly welcoming of what the FCA has done. It is an incredibly difficult task setting that price cap; I think, wherever they had come out, they were going to get criticism one way or the other. We think, after real thorough research, they have done as much pre-market testing as they can and it needs to be kept under review. We do need to see how it plays out in practice, but broadly we are welcoming of the cap. We are welcoming of the cap on default charges, because those have been, as we all know now, having examined the market closely, a big part of the business models, profit side of the business models, for many of these companies and has been a real problem and is a real incentive to keep escalating those. When you start to think about price competition and bringing pressure to bear on prices - consumers bringing pressure to bear - default charges are absolutely an area where people will either not manage to do the maths and take them into account or they will suffer from that optimism bias, which we see when people are thinking about bank accounts and overdrafts. They that, well, that looks really good, this cash back on the Santander's current account and I am going to be better about my overdraft, so I am not going to worry about the overdraft rate. If that is somebody who has been in overdraft consistently for the last couple of years, they have got good intentions, but they are not necessarily going to manage that. Also our figures show high levels of surprise, when people get hit with default charges showing that they have not been taken those into account and also not, particularly surprisingly, going to Linda's point, there is remorse as well, I took this out and actually where I have ended up I am really unhappy about that and it was a bad decision. We think that capping the default charge is a vital part of getting that cap right, so we are pleased to see they have gone on both parts of that.

THE CHAIRMAN: Do you have any particular thoughts on the 100% cap as well or on their ability to continue to demand interest payments following a default?

A. (Ms Gunn) We can see that the FCA was testing down from 50% up to the 200% cap. They have come out there. On balance, we thought that that seemed like a sensible starting place. We do think that it is important that it is kept under review and see how this operates. I think that what the FCA is very careful to say, and I think that you have been as well, is that, actually, there is a gap in the market for these products - when I say a “gap in the market”, I do not mean a kind of nice gap in the market, I mean there is actually some need for this, but at the moment they are not so in the consumers who need them. There is that need for some firms to be able to operate, but they need to be operating in a way that is fair to their customers as well as themselves. We will see whether they have it about right, but it felt like the right kind of starting point.

A. (Mr Tutton) On that I agree, I think they have done a concrete piece of analysis and it is always going to be a tricky business setting rates. For us, Step Change, we have never been big trumpet blowers for rate caps. There are many things that can be done and should be done to deal with detriment in the payday lending market, not all of which are about directly-regulated products, some of it is about dealing with the demand for the products, which is a big part of the problem, we think. Rate caps are only one of those. We never had any expectation of a silver bullet. What they have done is 100%. The problem that I think that I have with 100% is that the way that it is set out in the consultation paper is that, if you borrow 100, you will never have to pay back more than 200. That seems quite reasonable. It is certainly a big step forward on what we are seeing at the moment where we are seeing people borrowing 200 and it becomes 1,000 or more, so you get huge escalations in debt. That is a welcome step forward. But the average loan of our clients, as I said, is about 600 quid. If you think 600 quid escalating to 1,200 quid, that looks quite punchy. That is another 600 quid, which is another 50% of one of our client's net income. We wonder whether they might think more about where loans are getting larger and whether they need to start thinking about scaling down that maximum interest rate cap.

MR KING: The 600 that you mentioned earlier, that is the principal, it is not principal plus interest?

A. (Mr Tutton) That is what people are saying when they are coming in, that is the outstanding balance. It could be the principal, but what people will then do is they are borrowing and borrowing and borrowing, so it is quite easy to see that people will be taking out loans of 500 to 600 in principal and that could escalate up to... I guess there is a problem there as well in that, if you have 24 per 100 and you are allowing two rollovers, how will they stop firms saying, well, some of this is only rollover, we will roll over, so that gets you up to what... If you put your £15 on, you have another 40 or 50 quid to roll default interest. Will firms think, “Oh, hang on a second, we are being allowed to get around the rollover cap here by just charging default interest until we get to the 100%”? There are going to be some real tough supervision questions there to ensure that firms do not see this as a kind of licence to get up to doubling your money rather than being an absolute backstop. It is kind of welcome. We are not sure it is quite right as of yet.

I guess another point on the business model, the point on the rate cap is, is it going to fundamentally change aspects of the business model and the bits of work that the FCA and other people have highlighted - and yourselves have highlighted - how the business model relies on repeat borrowing? From our point of view, it relies on people being trapped in a cycle of very expensive borrowing and does the rate cap change that? I think that the FCA estimate that about 10% of borrowers will not be able to get loans. They say that is about 160,000; they talk about 1.6 million customers, so that is about 10%.

MR KING: Do you think that that is about right?

A. (Mr Tutton) I would not know, but it is not far off, I guess, what you said was your 1.8 million. There is no way of knowing, really, but, given that they have a big squad of economists, I guess they have modelled that right. The point is that they also say that their work found that 50% of people who took out a payday loan suffered financial distress as a result of taking it out, so at least half of the market - and that is 800,000 borrowers - so the payday loan you could argue is a consumer bad and not a consumer good. It is causing financial distress which is not what any financial product should do. From that point of view, if they are saying that, well, we are reducing the market by 10%, actually, is there another 40% that still needs to be addressed where consumers are entering a market that is doing them harm rather than good? There is another point there that suggests that, if the idea of the cap is to change the business model and make payday lenders less inclined to cause consumer detriment from the outset, it does not seem to have fully succeeded in doing that.

MR TUTTON: One thing that I think you said in the previous meeting was - I think that it was you - that there are no angels in this market, but the really egregious behaviour is typically the smaller players. If the FCA is right, in answering the question, on the impact of the price cap on exit from the market, one of the indirect effects will be to take out smaller players and, possibly, have an indirect impact on behaviour that way.

A. (Mr Tutton) I think that that is right. When we talk about people borrowing 200 and it going up to 1,000, it tends to be some of the smaller players who have charging practices, like charging £5 every time you do a CPA and making two requests a day for a month. That would inflate your balance pretty quickly. The cap is a backstop, that 100% is much better than what we had before. You are right, I imagine that some of those smaller players - and the FCA seem quite clear that it is the smaller players - will not be able to stay in the market. We might guess that a number of those smaller players may not get through authorisation when the FCA start looking at their past practices and that is what we have seen already. We have seen a couple of firms, effectively, leaving the market as a result of enforcement intervention by the FCA. I think that you are right. I think that that is what will happen.

A. (Ms Isted) Just taking up the very last point, our view is that this is all going to be about enforcement. The rules are strong, they look in theory to be effective, but, as we have seen up until now with these and all sorts of other internet operators, people will be looking for ways around and for ways to flex their own business models in order to take advantage of the regulations as they are. The point about finding ways to reach the 100% level as quickly as possible I am sure are already in place. It will all be about policing these regulations and being seen to be policing swiftly and with vigour, I think.

MR KING: Has the number of cases that you are dealing with levelled off since last year or what has the trend been?

A. (Ms Isted) It has not changed. Our people are seeing the same level of involvement with payday lenders. As I say it is just this thing that people feel that they should have known better. We are not quite sure how this would work, but we worry that as soon as people get embarrassed about some aspect of their finances that somehow it starts going underground. Once it starts going underground, it is easier for the less scrupulous operators in the market to somehow spot that underground demand and to respond to it in a way which is difficult and harmful.

MR LAND: I remember that, when the Ombudsman put their stuff out, on the sort of front bit, there were complaints in this area, which is your message as well. It is not a shameful thing to take out the loan, but...

A. (Ms Isted) But people who are at that level... As I say, we are dealing with people with a complete spectrum of debts usually and complaining to the Ombudsman, I am sorry, is the last thing that is on their mind.

MR LAND: Yes. It is more the message.

A. (Ms Isted) Yes.

A. (Mr Harvey) To go back to the initial point about the cap, from our point of view the total cost cap, which has been proposed rather than an interest rate cap, is a good part of the armoury that goes alongside the rest of the rules, but that deals with the worst excesses of an industry which creates a lot of bounce. There are two other parts to that. What do you do with the other 40% that Linda has already mentioned, people who will still be getting into debt that they cannot afford unless the affordability measures are particularly strong? Then what do you do about diversifying the supply of affordable short-term credit. The cap and the FCA rules should get rid of those worst elements of the industry and, if it is properly and rigorously enforced, then it will do even more. I think that you are absolutely right, there is a huge policing issue here. One thing that we would say to the FCA about the cap is that a review after two years is all well and good, but an interim one would be better to just see how that is going in a year's time. As to the impact on the business model of these companies, I have no idea what that will be. I do not know what the structure is to get to 100% as quickly as possible or to find other ways of tracking people. I do not know how it is going to pan out. It will do something to the business model of that industry and I think that something sooner than two years is necessary to just see what has happened in the industry. We have just had the new rules which are already starting to reshape things. The cap in January will reshape things further. I do not know what the payday lending industry is going to look like by this time next year. I have no idea what the business model is going to be.

THE CHAIRMAN: Certainly some people have suggested to us that what is likely to happen is that we will see fewer short-term loans and people will start to move to - I think the phrase is longer and larger, and we will see loans made over three or five months or whatever of larger amounts, maybe instalment loans or whatever they may be. You will see people moving away from what are the current very short-term loans. For the very biggest operator in the market, their average loan is 17 days or something like that. There is a suggestion that that is the way that it is going to be. Do you think that that is a reasonable assessment?

A. (Mr Harvey) I think that some of the market will move that way.

THE CHAIRMAN: Leaving aside the 40%, obviously, that you are worried about, there is then a 50%, which might be quite capable of taking on that kind of commitment. The question will be whether that kind of short-term loan will still exist. Do you have concerns about continuing access to credit and the number of suppliers in the market?

A. (Mr Tutton) It is a difficult one. Again, something that was striking in the FCA findings was that they said on average payday borrowers have declining credit scores. We tend to be talking about the average picture of a payday borrower is someone who is starting to fall into financial difficulty. One of the things that we repeatedly see, as a debt charity, is when people hit an income shock they are using credit to cope; that might work okay for a very short period, but, once it starts going on, we find that you use credit to cope, you fill a hole in this month's budget using credit, but that creates a bigger hole in next month's budget and that hole gets bigger and bigger and bigger until people eventually fall over. That can go on for quite a long time so 50% of our clients have been worrying about their debts for about a year, with their debts getting bigger, they are getting stressed, all sorts of consequences, health, relationship breakdown, all the kind of bad stuff that debt brings. In a sense, that kind of demand for payday loans, if they are saying the average customer with declining credit scores, that urge for really short-term money, the question is, is that largely being driven by the onset of financial difficulties and people using credit? What we would say, as a debt charity, is that credit is nearly always a bad option for dealing with financial difficulties, because we see this journey getting worse and worse and worse. There are some questions there. That is why the other bit is the demand. You are thinking about will people be worse off if there is less payday lending. Well, possibly, but not if we do other things. Where people are using payday loans to pay their fuel bills, we want the fuel companies working harder to give them time to pay. We have just done a survey of our clients and we asked, when you started to struggle, did you ask your creditors for help? They said that, yes, but a high proportion of the creditors did not help. So, “I am in financial difficulty, creditors continued collection activity, adding interest and charges.” Around 30% of those people have experienced that so would take more credit on their existing loans. 22% said that they would take out new credit and 21% said that they would take out a payday loan. There is a thing here about how big should this market actually be. Even after that 40% who are suffering immediate financial distress, if the average kind of credit scores are declining, this is so closely associated with kind of trying to deal with financial difficulties and we need to find better ways to deal with financial difficulties, in the sense that any credit is likely to be dangerous for people in those circumstances. If you think about what payday loans are for it should be for a very small market, kind of niche emergency cash. In that sense, I am not too worried about a declining supply, because what we see is, for a large proportion of the payday lending out there, it is hard to see actually is it really doing consumers any good. You can broaden out the debate into all sorts of places if payday is where people do need credit, that lengthening of repayment periods may not be a bad thing. Payday is not the only credit product that has caused people problems before. It is very similar to what we saw with credit cards in the 2000s, people building up large multiple balances and getting in difficulty. Payday has this acute payment difficulty, so what you find is that you get into trouble paying it back very, very quickly. I think there was a paper recently published by ACCA entitled "Payday Lending: Fixing a broken market" that talked about payday loans creating their own demand, because that hole in your budget gets bigger and bigger and only payday will fill it. In a sense, if the market migrates to longer-term loans, that may not be a bad thing. Taking Adrian's point, the challenge there is what are the alternatives to longer-term loans with similar pricing structures to payday loans and what are the alternatives to using credit in the first place for people who are financially distressed, who actually need help to deal with their debts, not ways to make their debts bigger. They are two sort of broader challenges that we have in front of us.

A. (Mr Harvey) I would agree entirely with everything that Peter has just said.

A. (Ms Gunn) I think that the FCA have acknowledged this, have they not? They have said that this will lead to a proportion of people who get payday loans at the moment not being able to get them anymore. They have said very explicitly, as Peter has just said, that, actually, that causes an amount of short-term pain, but their overall financial situation will be better for this.

THE CHAIRMAN: In not being able to take out another loan, basically.

A. (Ms Gunn) Yes. I think that the mix of measures that they have come up with, things such as the wealth warning coming into force now, actually, putting it front and centre, that, if you default on this, (a) you could be in real trouble and (b) there is actually help available. It will be interesting to see how visible that becomes and whether that is taken on board. I think that there are interesting interactions - obviously, we will be coming on to this when we start going through your proposed measures - interesting interactions with the package of what they have proposed and the package of what you have proposed. There is potential for it all to end up in a significantly better place with better awareness among individuals about where this kind of thing can take them and a more rigorously competitive marketplace that providers are operating in, so you actually get better innovation rather than this ghastly race to the bottom that has actually been really damaging for many people's lives.

THE CHAIRMAN: You say a “race to the bottom”, I am not quite sure what you mean by that, because one of the points that has been put to us, of course, is when you introduce a cap, actually, you are going to reduce the price differential and reduce the scope of competition. That is our particular focus, obviously, ensuring that so far as there is scope for competition, that it is effective. Quite a key point made to us by some parties is that, actually, the introduction of a price cap is going to eliminate or at least substantially reduce the scope of competition in the marketplace. I do not know whether you have a view on that. Linda, I see you do.

A. (Ms Isted) I was just going to say that you need to differentiate, as we all do, between the people who take out payday loans in the state of utter panic because they do not know what else to do and people who are genuinely looking for a short-term loan. I have to say that in the interests of fairness we once sat and tried to conjure up a typical case of an individual whose best option was a payday loan. I am afraid to say that the one that we came up with was the person who is in a bar on a Friday night and who then decides they want to spend more than they have got in their current account with their debit card and so they can whistle up an extra couple of hundred pounds to buy a few more £15 large gins and tonic or whatever and, frankly, we do not care about those people. Good luck to them, but that kind of social spending was the only area that we could see where people might have a genuine recourse to a payday loan. And let them compete away for that market. Why not? For everybody else there has to be...

MR LAND: Someone waiting for payday. That seems to be the area that you seem to be saying is quite hard to offer economically.

A. (Ms Gunn) I think that we do need to see what happens, because I think there will always be a kick against the price cap. There have been all sorts of debate over the last ten years and more about price caps, should there be one, should there not be one. By the way, my race to the bottom was more about dubious factors in things like multiple CPA and all the rest of it. You actually hit on one of the things that I think that is really interesting about the two parallel pieces of work, your work and the FCA's work, which is to some extent you have got a good 50% of payday customers just not doing anything to bring any sort of competitive pressure to bear in this market whatsoever and, actually, they probably need the price cap. I think that the people that you are targeting are the rest of those. It could be some of that 50% as well, potentially coming in if things are made easier for them to bring that pressure to bear. What we were finding, in terms of people looking on line for information about credit products, was that, actually, payday loan users were completely in line with all credit users. It was around 50%, looking on line. That seemed like one area. In terms of, is price important to you, we had almost 90% in both groups saying that, yes, price is an important factor. What was interesting was that it was only 56% of payday loan users saying that it was very important as a factor, price; it was 70% of all credit users. It absolutely is a factor. As you identified, when they do try to compare they struggle a bit with it. If we end up with a package of measures that makes it much easier for payday loan users to (a) understand the price properly and (b) compare it, it seems to us that there is potential for competitive pressure to be brought to bear below the cap, not that there will just be this float up in interest rates and payday loan companies will get away, perhaps, with the risk that we have already discussed, of everybody racing to find a way to hit the cap in terms of your charges and double your money as quickly as possible.

A. (Mr Harvey) I do not see how the cap will affect that very short-term no-default market, because most of that cap will be taken up with your charges at the moment. If you then switch it away from charges just to interest rates for debts that do not go bad, that creates a space within which you can compete and, with the transparency of the cap, I think that that means that there might be some signals there. I think there are other people than people in a bar who might want to use that kind of credit, but, if the affordability checks are right and the companies are lending to people who they have a really strong belief can pay the money back, then they will start competing on the basis of the price of lending the money and getting it back rather than basing their business around "we will assume that this will go wrong and then we can hit them with trapping them with debt for a long time."

MR LAND: That might work for repeat customers or people with whom you have an existing relationship who have occasional liquidity issues.

A. (Mr Harvey) Yes.

MR LAND: That might still be cost effective to target that group, especially.

A. (Mr Harvey) Yes. For myself, and this is personal, but it may be useful. If at the end of the month my boiler blows, I will go overdrawn and that is how I will deal with it. If overdraft fees and charges and the interest there is higher than a payday loan, I might conceivably go to a payday firm to do that. I think that in that sort of space there is a proper competitive market to be had.

THE CHAIRMAN: Peter, do you have anything to add?

A. (Mr Tutton) No, I think that that covers it. Also, looking at the cap, I have struck at one of the response that one of the stronger cap advocates put out, which is the bit of the cap that is kind of relevant to, if we assume that affordability checking was good, and so we were not talking about escalating debts and default charges, because they were lending to people who on the whole were going to pay back and were not going to hit default charges, then we are looking at the 0.8% as the main operating bit. Someone commented that 24 per 100. The OFT a while ago said 25 per 100 was a market average. In that sense, to what extent is a cap really that different from what the market average will be doing anyway? It seems to be quite conservative where they have set it. So will that bit of it make that much difference is an interesting question, which goes back to the business model being so dependent on the default charges and is that what is going to make the difference. I know that you guys will probably have better views than us, but it seemed that that part of it, the sort of upfront charge - again, they talked about a spread, they talked about some people charging 4% per day, with an average around 1%, so they are looking at does that leave room? There are people who charge less than 1% a day. I do not know whether that is low headline price, big default prices, and it is a sort of very misleading pricing structure or whether firms actually can come in at that price. It is an interesting one. In other jurisdictions it seems that lower interest rates than 24 per 100 exist. There may be room for competition underneath this. Adrian's point and the point that Ashleye made is that, in a sense, the challenge for the regulators is how do you create a market which is selling good things and not bad things to consumers in the first place. You have such a dysfunctional market with such distressed consumers that you are a long way off from price competition being the key issue.

THE CHAIRMAN: That is probably all I had to ask about the FCA and the cap. We are going to move now to the remedies and I am going to ask Katherine to start with price comparison websites.

MS HOLMES: Thank you. It was interesting your observation that it may well be possible below the cap to have some level of price competition. One of the reasons we were thinking about developing our price comparison website was to facilitate that element of competition and to develop a website that was objective so that the ranking was not based on who paid what, but on the order of the results and all the parameters that the consumer chose. I did notice that in some of your written submissions there was some doubt cast on whether a price comparison website would be effective or would be helpful at all. It would be interesting to know whether you have further reflections on the benefits of the price comparison website in the context of stimulating price competition.

A. (Ms Gunn) We did not do a written submission, but I can give you our reflections on it. I think that we thought it was part of the answer. As I mentioned earlier, there is a reasonable level of around 5% of people looking for information about these products on line. I think that our learning from other initiatives in these areas - some of you may remember the FSA's comparison tables, which were very good actually. They were a very good quality of data. They were able as regulators to force companies to offer the data. They were completely out spent and out shouted by the commercial comparison sites, who actually mostly do not offer any sort of whole-of-market offer and there have been various issues around the order in which results are shown and all that kind of thing. If you are going to do this, it is really essential that it actually is properly promoted and visible. That is one part of it.

I guess that the other part was, okay, you have 50% of people, if it is properly promoted and visible, particularly in the Google search rankings, looking on line, you have a good chance of them, perhaps, going to have a look at it, so that might be the start. Then obviously it needs to be, as you say, impartial and easy to use, etc, etc. But what we were thinking about as well was the people who are not really shopping around very actively and not really grasping the price of these products, even when they try, we think that quite a lot more needs to be done there in advertising. There is a far higher proportion we were finding in our research of payday loan users choosing their product from an ad. Only 15% still directly choosing a product from an ad versus 5% of all credit users was quite a difference. Of course, going along the high street, you get a lot of point of sale going on. One of the proposals that we had is actually - because APR has become so meaningless in this context, they are just massive, people do not understand them - showing the total cost of credit per £100 over 30 days in pounds, so people can actually see that and, hopefully, have more chance of starting to have that logged in their head around the upfront cost and starting to compare that. We thought that a price comparison website could be helpful, but it is not going to be universally used. You must get the promotion right and you will need more on top of it is where we came out.

THE CHAIRMAN: It is part of the education process, is it not, also, perhaps?

A. (Ms Gunn) Yes, and again that interacts with some of it. I think that you recommended the statements, have you not, and we will talk about that a bit more later. It is actually making sure that not only is it good on the search ranking, but it is on things like that that it is mentioned and referred to and those kind of things, so you start to see it in places, because there is no one magic bullet for creating awareness and use of this.

MR LAND: Can I ask one question which is slightly auto-biographical? I was involved in setting up the website in home credit, Lenders Compared, and I was speaking to Nick Lord, who chairs that and I asked him what he would do differently. One thing that he said was that it was incredibly difficult to get consumer groups or consumer bodies to mention that as a product as a way to find out a better deal, because they all go to home credit. It was quite frustrating for him not being in a position to get some referrals coming from volume searches. How would you see how to make a website like this a success, how would you see that as being something that you would be prepared to mention or advocate yourselves?

A. (Ms Gunn) I do not think that we would be anti it. In *Which?* a lot of our financial services comparison is in front of the subscription barrier so it is available to everyone. I think that, in terms of the spend by these companies, and I am sure that all of us in the course of all this have Googled payday loans on line and you just get absolutely bombarded with things. I do not think that the search that people go through - in fact, they are not really searching - is via consumer groups and organisations.

MR LAND: I think that part of it is actually the halo effect of having links to respective organisations --

A. (Ms Gunn) To help ramp up.

MR LAND: -- to put you up the rankings. I know that it was definitely hard in that area, so it is something that we are thinking of in this context to make it more of a success.

A. (Ms Gunn) I did wonder if this was a kind of social issue given the kind of social problems that result from this market, where, actually, there is some sort of conversation with Google that needs to go on, and with the big search engines, around the social side of this rather than purely trying to work with the natural commercial advertising search rankings of Google.

MR TUTTON: Can I come back to your point about the £100 for 30 days as the sort of metric. I am wondering whether the price cap has really moved that debate on in several ways. One is that it probably will encourage more longer-term loans and, therefore, the 30-day loan may become less relevant as the sort of choice; partly, in principle, they will likely choose whatever meets their requirements and partly, in a sense, the FCA's proposals, like the 0.8% a day, as being the sort of core. In a sense, whereas APR most people accept is not particularly relevant in this sort of market, I am just wondering whether you feel that in that sort of environment - well, who know what it is going to involve – it may involve whether it is still the total cost of credit for 30 days of a £100 loan is a relevant metric.

A. (Ms Gunn) I think that we are not absolutely wedded to it and I think that it is a very fair challenge. I think that the thing we think is extremely important is that it is shown in pounds. If you are getting into percentages, it is really hard for people to work out whether it is a small percentage or a large percentage of the kind of crazy APRs that exist here. It is very, very difficult. The £100 is that nice round figure, basically, which is why we ended up there and an awful lot of payday loans have been around the 30-day mark, it is around the month mark, and it is trying to make this calculation relevant and real world for people, really, which is why we ended up with the £100, the month and the amount in pounds. I think that it is a completely fair challenge and I think that, if this route was going to be pursued, there is certainly some testing that would need to go on. A really interesting thing that we have seen from the FCA across several financial sectors has been their behavioural economics led consumer testing in various markets, savings and insurance, they are all going on at the moment. This is the kind of things where we can put this forward but we have not been able to run...

MR TUTTON: But your point about it being pounds has clearly a lot going for it, although in a sense the technology now, in principle, allows or hopefully will allow the borrower or the potential borrower to specify what they want for how long and then...

A. (Ms Gunn) Absolutely, on a price comparison website, completely. We are talking really about advertising in point of sale. Yes, this would be very much a headline to just cede in and bed this idea of there is a cost, you can understand it and, if you can understand it, think about comparing it and looking around. That is where we were coming from with this. We completely agree on the comparison site, making that as personalised to the situation as possible is absolutely essential.

A. (Mr Harvey) A price comparison website, we have not been as enthusiastic about this as we might have been, mainly because there is this wider issue of the 50% who need other remedies and the alternative provision of affordable credit. From our point of view, if the price comparison side were simply to put on products of companies that fall within payday lending companies at the moment, that would be not particularly helpful in aiding competition. If you could include in there alternative providers, so from credit unions through to banks, medium-term credit products, that would then create some visibility for those alternatives, which would create an incentive for those people to come into that market and start to compete on price. As Ashleye said, whilst price is an important factor in making a choice to take a payday loan, speed, convenience and the fact that you think that you have no other alternative route to credit, because you do not expect a bank to give you a loan, is as an important driver as the relative price. If the price comparison site is actually a product comparison site, which brings in other products other than payday loan companies, I think that there is some value in it, because it has the additional consumer education stimulating competition in the short-term/medium-term credit market rather than the payday loan market, which would add some real value. Then you could start comparing on price, because the speed, the conversions, and, importantly, the eligibility factors would be diminished and you would be able to think that all of these things are available to me, this is cheaper, rather than...

MR KING: Does that lead you towards having to get a commercial rate if you were to run a comparison site?

A. (Mr Harvey) It might do. I do not know.

MS HOLMES: One thought along those lines for us is that, if a website for payday loans was operated by one of the existing commercial sites, it would have the advantage that there is already a branding process, there is already a name known to the market, so consumers might feel a little more confident and use it. There may be other products on that site as well, so, even if you might not be able to cross-market between them, you would still be able to access them. There would have to be some rules to satisfy us about the way that results were presented that might meet your aspirations.

A. (Mr Harvey) I suppose for Citizens Advice greater competition between the current providers in this market is of limited value if it does not change the business model of those providers. The easiest way of doing that is by bringing new entrants into that market. The only way you can do that with the kind of advertising spend that they have is to provide an equal platform for those providers to come in. Why not talk to some of the credit unions who are doing some interesting work here, which do not have the money for the marketing, to put them on an equal platform with the Sunnys and the Wongas of the world. That would have some real value.

A. (Mr Tutton) There is a good idea here, but you have real challenges. With Lenders Compared you know what the challenges are. It has never picked up huge amounts of traffic. Our preference would be to get the credit unions to get on board, probably for similar reasons, because they just thought that we do not want to be on the same web page as this lot. Whereas the credit unions and the CDFIs may well want some kind of single route in to getting at them, whether they would want to share that space with the payday lenders is a different question.

Your brand point is an interesting one, the visibility point, I had a quick look today, let's put payday loan in Google and... as you would expect. When we hear of the auctions of the amount that they are spending on client acquisition and lead generator auctions and the amount of cash that is going into that and SEO (search engine optimisation), that is going to be quite hard to compete with, either you mandate the payday lenders to redirect their advertising spend into your price comparison so you almost say that, you know what, we have a single online advertising platform for payday loans, because you make them pay for it, or you could try going through an existing brand, but it is going to be a real and big challenge, I think. From our point of view, echoing what has been said, there would be something about how would that platform also direct consumers to other things? Would it be a straight payday loan that charges you 24 per 100 rather than one that charges you 23.50 or would there be stuff about actually do you need a loan at all, here is other help, or what if you went and used your overdraft would that be cheaper or more expensive or credit unions and so on. There is a lot of challenges. There is an idea in there that could work, but I think that it is fair to say Lenders Compared has not worked that well. It has probably worked a bit, you may come back and say "no", but my understanding is that it has not worked fabulously well, it has not generated a lot of traffic. We have certainly not managed to get the alternative lenders involved as they might have done. You have challenges ahead of you. There may be things that you need to do to make it work. Something in there may be if you changed the game of the way that the payday client acquisition works; particularly, I know on your agenda you have lead generators. We have stuff in the press today about unsolicited calls. That whole unsolicited marketing where people go to a lead generator and they auction it and people get bombarded by lots and lots of different lenders. Maybe if you curtail some of that, working with the FCA, that starts to create a space whereby your website starts to look more like the thing that consumers will go to, because they are not being bombarded by lenders' own...

MS HOLMES: It is conceivable that, if there was a successful price comparison website, that the role of the generators may decline.

A. (Mr Tutton) Yes.
THE CHAIRMAN: And the cost of customer acquisition will fall, too.
MR TUTTON: I suppose one difference between credit is that payday lending is over a one million online market, so these are people who are already interfacing online. If, for instance, there was a requirement before you actually sign on to the loan to have a page which does various things, which could show your past borrowing history - we will come back to that later - could give a link to the website we are talking about in question, so there are various way you could, in principle, counter the advertising spend available to the other operators.
A. (Mr Tutton) There is an idea there, it is a good idea, it can make a difference, I think, if you have a price comparison website, but you are going to have to work at it to make it make a difference. It is not going to be easy. You are probably to have to trial and error and you are going to have to chuck some cash at it.
MR TUTTON: Someone's cash.
A. (Mr Tutton) Someone's cash, not your own personal cash.
THE CHAIRMAN: Another point that has been made is that, once we have a price cap, people may be less inclined to look around, anyway, because there is a price cap.
A. (Mr Tutton) Yes, that is possible.
THE CHAIRMAN: You have then to work even harder, in a sense, to encourage them to look around.
A. (Mr Tutton) Yes.
A. (Ms Isted) I think that it would follow all the other things that we have talked about. You are right, the marketing issues are such that they really need to be addressed, and, if they are addressed, then your price comparison site will be clearer. We tried very hard, but it was going to be hugely expensive and we could not see how it was going to work as the first thing that you were looking to do.
MS HOLMES: Just on the converse of that, and for completeness, I suppose, would there be any unintended consequences of setting up a price comparison website of the kind that we have discussed, and taking into account all that you have said about marketing, encouraging consumers to use it before

selecting a loan?

A. (Mr Tutton) I suppose that it could help entrench the idea, if there was sort of official backing for the payday industry, as it were, that payday loans are a good idea in circumstances where they are not a good idea. So there is that sense of more advertising of a product that has still core problems that need to be resolved first. In other words, you are helping to grow a market that actually needs to shrink rather than grow at the moment.

A. (Ms Isted) I think that that is right. That is what we are struggling with.

A. (Ms Silk) I did wonder, just on that point, actually, this would be based on having a lot of cash thrown at it, but if there was some way in which, given the affordability criteria are going to be tightened and there are concerns, as we have discussed that people will be turned down for credit and either they are eligible for further credit from their banks or they really should just not have access to any credit at that time, they need debt advice, whether there could be, if you did have some sort of comparison site, which tracked the application process through to the lender, whether upon rejection you could then be referred or at least signposted or just kind of alerted to the fact that debt advice or money advice and what generally is available...

A. (Mr Harvey) There is a danger I suppose that, if you get to the end of this journey of going through the site and there is no credit for you, what do you do then? If the site then does not use that intelligence that is gathered to refer people on to more positive outcomes, then people might take other actions which will take them to other places to get credit.

MS HOLMES: Currently all lenders have to have a warning on their web page anyway of the risk and seeking money advice as well.

A. (Mr Harvey) Yes.

A. (Ms Silk) But this would be an opportunity to really reinforce that journey as to where and how to get advice and the fact that they probably do need to get it rather than just a warning which is obviously going to be helpful, but there could be more.

A. (Ms Gunn) Thank you. I think just one more on unintended consequential risk, it is just copycat websites. Whether it is hosted independently or, as you suggested as one idea, part of one of the big comparison sites, if this is something that proves popular, particularly given the amounts that lenders have been prepared to pay to lead generators and all the rest of it, you could get copycat sites which could be a good thing if they all have to abide by a particular set of rules or it could be a really bad thing, if they do not. I think, considering that possibility and whether you would want it to be allowed to happen and how you would want to be allowed to happen if it does happen would be really important to consider. I think at least in the press, everybody probably has seen the FCA's recent publication on insurance comparison sites. They should be a fantastic thing for the insurance market, but, actually, there have been really very poor consequences for consumers, a real race to the bottom in terms of policy quality, a lack of clarity about what you are signing up to, and all kinds of things going on. They are far from whole-of-market as well. Learning from those outcomes would be important here.

A. (Mr Tutton) On that point there is also how you set your price on a price comparison website, so you might get headline pricing, equivalent to the policy point, headline price prominent, but then that kind of pushing up the default interest and so on, that kind of practice of people getting into difficulties, so the policy points of what lenders are doing. You get people in and they say that, you know, it looks competitive, but then they treat you really badly if you fall into difficulties. There are still all those questions around would lenders, if they could not offer, sell that data on to someone else? There are all of those kind of questions as well. You would have to set some criteria on what they did with the leads that were generated through the website.

A. (Ms Silk) On that we have actually seen some evidence recently of lenders apparently selling on data to brokers.

MR TUTTON: By big lenders?

A. (Ms Silk) I could not say, I do not know, I have just been told “lenders” and no more detail. It might be something that we can provide you with.

THE CHAIRMAN: I have one more question and I cannot remember whether it was you, Ashleye, who said you had no idea what the market was going to look like.

A. (Mr Harvey) It was me. I will own up to it.

THE CHAIRMAN: What the market was going to look like in 12 months' time, you had no idea.

A. (Mr Harvey) Yes.
THE CHAIRMAN: Does that suggest that it may be the thought of having a price comparison website at the moment trying to get that up and running in six months is premature.
A. (Mr Harvey) Maybe, if my lack of idea is more because of my own ignorance, then I think that might be premature, yes. I think that at least seeing how the cat bites or the run towards the cat bites through the latter stages of this year would be interesting. I can guess what the market might look like, but I do not know. I think coming up with an intervention of this scale, which we have all discussed, is going to take quite a lot of resource for somebody's money. I think being a little bit more certain about what you are introducing a comparison of might be a better idea.
A. (Mr Tutton) A more prosaic way until they have all been through authorisation.
A. (Mr Harvey) Of course, yes.
A. (Mr Tutton) So they are going to go through an authorisation process. We will have to see who is left at the end. That is probably going to have as much as a significant effect in terms of the number of players in the market potentially as the cap, because the FCA may just say that you are too dodgy, you are too dodgy, you are too dodgy.
THE CHAIRMAN: If one was going to take some of their comments on the consultation paper at face value, which I do not entirely, based on the static assessment, they seem to be suggesting that it will be left to the market. I think that that is probably over pessimistic. It seems to us that it is based very much on a static assessment and it does not build into that assessment how lenders might react and how the market is going to develop in future.
A. (Mr Tutton) What we have seen so far from the few case that have been publicised of enforcement action following from OFT, is, like, [✂], saying we are leaving the market. They were quite a large player. They were not one of the complete minnows. They were not one of the big three, but relatively... According to the FCA press release, they said that they are leaving the single instalment payday loan market.
THE CHAIRMAN: Are they actually leaving or have they just suspended?
A. (Mr Tutton) I think they said they were not leaving the payday, the short-term

market. It maybe suspended, but...

THE CHAIRMAN: They certainly had to put their house in order, did they not?

A. (Mr Tutton) Yes.

THE CHAIRMAN: I am not quite sure of the details of that.

A. (Mr Tutton) It could be that the FCA are right that their standards will be such that it is just one of the things that the market as it was grew too big to be safe market for consumers. It might be worth waiting until after we know the position.

A. (Ms Gunn) But bearing in mind that your price comparison website could be it is a force in the market in itself. You are not just drawing together a market, but it could be an influence on what the market actually looks like.

MS HOLMES: A number of points have already been made about the fact that borrowers are not necessarily aware of default charges if they do not pay it back. I just wondered if you had any views on customer awareness of the default charges could be improved.

A. (Ms Gunn) It is really difficult, I think, because you can improve the communication of it, you can improve what is there to be read and taken into account, but getting people to take them on board is really, really tough, because of what the psychologists and the economists have been looking at which is this optimism, that it will not apply to me. The best we got at was, if you end up rolling over and incurring these charges, that you get some sort of statement that at least says that, right, here is your new cost for comparison, going back to the cost per £100, in pounds so that you can see how much it is all totalling up to, but that is more helpful for the future because it brings it home to you what you have got into as opposed to upfront, really understanding the impact that these charges can have. I think that other people here will be way better placed than us, because they have that on-the-ground experience, but even on our research we have got that a quarter of payday loan customers saying that they took out a loan which it turned out they could not afford to repay, which is a pretty grim statistic around people really understanding what they can afford to take on or not.

MS HOLMES: There are a number of things that could be done presumably, one would be to include, leaving aside the charge that is going to be capped by the FCA, the default charge; if there was price comparison website, it could be on there. You could think about the position in the information about default charges on the website, where it is on the website, where it is on the customer journey and issues such as that. Do you think that might help?

A. (<u>Ms Gunn</u>) I think that we thought trialing - I will start talking about it. I think that we thought trialing of some of this would be really important to actually see what happens when people are faced with the different kinds of ways of doing it, because it is a really tough nut to crack.

A. (<u>Mr Harvey</u>) I think there is absolutely no harm in increasing the transparency and it would probably be beneficial but it is not a sufficient answer, because, exactly as Ashleye said, we have clients who come in who have no idea how their debt has quadrupled. They do not understand the structure of that. That cannot be entirely because the lender is hiding that information from them. They just do not understand the way that it works, because they are complex products and they are put together in a way ...

MR TUTTON: But in the post-cap world, hopefully, it will rather simpler.

A. (<u>Mr Harvey</u>) Hopefully, yes.

A. (<u>Mr Tutton</u>) And there is a problem here because these are contingent, once people start experiencing these additional costs they are not necessarily in a position to do very much about it other than to take out another payday loan, which is going to push their costs up even more. I think that it is absolutely right, I agree, that, if you can do something which expresses - so, if a lender says what its price is, but actually X percentage of its customers end up paying more than that through rollover fees, default fees, extra interest, I think that it would be good in the interests of transparency for consumers to be made aware of that at the start. That may even help them, looking at different firms, you may understand how different firms may treat you if you get into financial difficulties. That could have another benefit. That would be a useful matrix for the regulator. If you were looking at firms and you were looking at the difference between their headline prices and what people actually end up paying, it may give some indication of firms that were worse at dealing with financial difficulties and some that were better. I agree trialing that and see how it works cannot do any harm.

MR TUTTON: Building on that, you could have a requirement - I am not saying this is a good idea - as part of the upfront pricing information, the notional cost, you pay back on time, whatever is actually average cost which has been paid by our borrowers over the last year or something like that. Even though they will be restricted in the new world, hopefully, there would still be difficulties. That, in principle, could still be stressed in the simple parameters. It could still say that, okay, in principle you can get away with paying back 24, on average, our borrowers have paid back 56.

MS HOLMES: Thank you.

THE CHAIRMAN: The next section now is about the possibility of improving customer awareness of their own creditworthiness. I am going to hand over to Ray, if I may, to lead that section of questions.

MR KING: What is your perspective on customers' awareness of their credit standing when they go to, let's say, a payday website and what is actually going to happen when they interact with that site, and the role of the CRAs, etc? What do you perceive is the level of understanding that a customer has as to what is going to happen when and footprints being created, etc, how much knowledge do you think they have when they come to the market?

A. (Ms Isted) I will leap in. I think precious little is the honest answer. I was thinking about this quite hard and I was trying to remember when I first became aware of the principle of credit scoring and credit reference agencies. My feeling, others will correct me here, is ten years ago I do not think that any of us really paid a lot of attention to these things or heard too much about them. This is a new industry, it feels like. I am immediately suspicious about this. Forgive me if my role on this panel here seems to be that of a suspicious person. I do think that, while they are positioned as trying to help people get credit when they should be able to, in fact, they are there to support the loan companies, because they are there to help them get the right people, get the people who will have the best chance of paying back, because that is what a credit score is. I think that, if you stop most people on the street and ask them about being creditworthy, they will think that that is a person who does not have much credit. This is the standard belief, whereas, as we all know, it is actually a person who has taken out quite a bit of credit in the past and has paid exactly what they were supposed to pay on time every month until it was all paid off and then have taken out another loan. This is what they are interested in, good customers who borrow money and pay back on time.

They are not interested in people like me who have credit cards, pay them back every month and never pay any interest or have current accounts they do not do terribly much with and do not pay any charges on. They are a drain on the financial structure and they do not want that. I think that the vast majority of people do not understand any of that. And why should they? They should not have to. They have other things in their lives to worry about than these things. I think that it is an absolute closed book to most people.

MR KING: So they do not understand at any time that they go borrowing they are creating a footprint somewhere in terms of their credit records?

A. (Ms Isted) I think that a lot of people do not. I take your point about personal examples, but I am sorry I am going to give you one. I have a young relative, he is about 30, a graduate, good job, single, rents, never had a credit card, had the same phone he has had for 15 years, went to get a new telephone, he discovered that he could not get a new contract for a new telephone, because he had moved recently, had not got around to changing his address with the local authority, did not tick any of the other boxes for credit, had never had a personal loan. He was turned down for new telephone. He was appalled and outraged and rang me up and I patiently gave him the spill about what you need to do to be able to take out credit. This was an intelligent young man and he did not know.

A. (Mr Tutton) I think that that sort of highlights it. There is a complexity to your question here. What we know is that 60 something per cent of payday borrowers have got other credit and that other credit is fairly maxed out. They are not necessarily going to be completely naive consumers in terms of credit and they are probably going to have a reasonably good idea in their head that their creditworthiness with mainstream lenders is shot or that they are getting near the margins of overdraft charges or payday loan charges, so there will be some mental arithmetic going on. However, in terms of how the mechanics of are you creditworthy or not with a particular lender, how they do that is a black box. Not that long ago, I say not that long ago, but go back eight years, you could get a mortgage if you were recently insolvent, exercising your right to buy. You would be homeless within three months of taking it out, but you could get that mortgage. Over the last sort of ten or 12 years when I have been prattling on about credit, every three or four years we would get invited to go down to Bis (Business, Innovation and Skills select committee) when they were doing credit and they asked us actually that question, how do we make this more transparent for consumers. We never really got anywhere, because it always comes up against the black box. There is that. The third thing is the other side of that coin is one of the things that people have been saying a lot recently that we have just tried to test with some of our clients, which is to what extent is fear of getting a bad credit rating driving people to take out credit to pay off other credit and we estimate something like over 3 million people at the moment in the UK are using credit to pay off other credit. It has been suggested that one of the things that happens is that people are so worried about why do people keep paying minimum payments on their credit cards and why do people use credit cards, because they are worried about defaulting on payments, (a) because they do not want to default on payments, they want to meet their commitments, but also they are worried about their credit score. We asked why people had not looked for debt advice earlier: 22% said they were worried that getting debt advice would badly affect their credit file or reduce access to credit. Sample was around 800 of our clients. It was certainly a significant percentage of people that said they were worried about their credit score and that was one of the things that induced them to keep using credit. There is a box of stuff in there. I think that consumers are aware of how credit and missing payments can affect their creditworthiness, they will not understand things on mass like the footprint issue, I do not think that is well understood, but also there is some behaviour being motivated by trying to keep a good credit score.

MR KING: The things in the box and that footprint issue that we were bringing about in our remedies was to help potential customers in terms of shopping around and not leaving a footprint, to have available quotation searches, where, if a transaction is then completed, it is converted into an application search. Is that something that you are familiar with? Would your customers be aware of that?

A. (<u>Ms Isted</u>) This question of the credit footnote, I think that you are absolutely right, people know that it exists but I would contend that they do not know what it means. I think there is a difference because people will suddenly hear of something. They will become aware of it. It is something else to worry about but they do not actually know what it means. I think that you are absolutely right people will not understand how it works. They will just know that it is something else that they have to worry about.

A. (Ms Gunn) We have been recommending for some considerable time that quotation searches happen by default right across the entire credit sector, because what goes on at the moment is ridiculous. You are prevented or shopping around actually makes your situation worse at the moment. That is an absolutely ridiculous situation, particularly when in so many areas lenders will not tell you their actual rate until you apply and then it is going on your credit score. So you cannot find it out and then, if you are not happy and you go somewhere else, your credit score is actually worse, because you have already applied once, even though you have turned it down, it has a negative effect. What we would like to see here as in the rest of the credit sector is rather than having lenders state what kind of credit check they are doing and whether it affects your record or not just making it mandatory that quotation searches are done, end of story. We strongly agree with you on requiring lenders to provide the credit reference agencies with the real-time updates and we will be responding to the FCA and saying that we would really like them to get that to 100% not 90%. We can understand where they are going at the moment, but it needs to be 100%. It needs to be universal, because there are people being given credit who just should not actually have it. I do not say that in a kind of nanny-state way, but just because, as the FCA has looked at very carefully, it makes their financial situation ultimately worse and we need to get to a point where lenders are distinguishing and can distinguish, which at the moment they cannot distinguish between customers who should be getting credit and customers who actually really cannot afford it. Certainly, our research on this, and again we do not have that on-the-ground intelligence, has been that people who are using high-cost credit, so unauthorised overdrafts and payday loans, started off in the mainstream and took on for whatever reason, often being offered it, more and more credit that it turned out that they started to struggle with and they were not getting it from those mainstream sources and they ended up over here. There is that sense of I know that those mainstream lenders are not going to give me credit, so I am over here, but, yes, those others have said they don't get the system at all,

they don't understand it.
MR KING: Do you think more can be done so the customers are aware of their eligibility for credit on websites or whatever?
A. (Ms Gunn) It is tricky because lenders keep that quite close to their chest. I am talking about lenders across the whole credit sector. They keep it quite close to their chest because they want to decide, so what they are telling us is there is no universal thing that you can do. There is information out there, certainly, on certain things, like being on the electoral role. It is quite uneasy to uncover what can help your rating and get you to a point where you will be offered credit.
A. (Ms Isted) And their criteria will change on a month-to-month basis according to their quota requirements for any particular product. We find that that is a very hard thing to explain to people, that the fact that you were not able to get a loan this month does not mean to say that you would not next month. It is not a reflection on you. Do not take these things personally. It is true. They will change these things and, as you say, they claim competitive pressure, they will not even give a broad spectrum of a range of things which they take into consideration at any one point. We cannot advise on that. Nobody could, because we do not know and they do not tell us.
MR KING: Thank you.
THE CHAIRMAN: Do you have anything else on real-time data sharing. We have seen that you all share the view about the importance of real time.
A. (Mr Tutton) Yes, and that links back to the point actually that real-time data sharing is important, but then there is a point here about, data sharing again, the sub-prime mortgage sector had data sharing, but they did not use it, because it was about their risk model. It was your point about being for the lenders. Payday lenders have got the data in real time, good, we still have to ensure that they use it responsibly is the key point there, which again is a regulatory and monitoring enforcement challenge to make sure that they are not cutting it to their own business models rather than avoiding consumer detriments.
MR KELLAWAY: And should lenders in this sector be required to provide that real-time data to multiple CRAs?
A. (Ms Gunn) Definitely.

MR KELLAWAY: Is there a number of CRAs that is optimal?

A. (Ms Gunn) What we are seeing is that different lenders are using different CRAs so it has to go to all of them and the big three in particular.

MR KING: The FCA is looking for the sharing of two CRAs.

A. (Ms Gunn) Our impression is that that would not be sufficient.

THE CHAIRMAN: Are there any more questions on that? [No] Can we move then to our next section there, the possible remedy of issuing periodic statements about borrowing. Tim Tutton will lead on that.

MR TUTTON: The rationale here - it may not be the biggest thing taken by itself, although it has potential links to other remedies - is that one of the reasons put to us is that at different times people not being more actively interested in the relative costs of different loans was that it was a small loan, you know, £200. It may not be trivial to them, but these are still relatively small sums. Whereas, if they have it rammed down their throat in a sense at a particular point in the application process or on a routine basis, here is your history with the particular lender, in a sense it is at least an impression of, well, actually I have spent in interest over the last year quite a lot of money and therefore it is a sort of nudge at least to think about the cost of that. You could in principle - and this is something that has only occurred to us while we have been talking about it - alongside that have a link to the price comparison website, which says that, look, this is what you have been paying, if you are interested in looking at how you might get a better deal, then here is the link. The question was is it worth pursuing? Would you expect it to have a significant impact; is it still worth doing even if the impact is not transformation?

A. (Ms Gunn) Do you want to go?

A. (Mr Harvey) Is it worth doing? We had a number of - concerns is too strong a word, but we were perplexed a little bit by some of this, because, if you have I think eight or nine loans - was that the figure?

A. (Ms Silk) Yes.

A. (Mr Harvey) People come to us seeking debt advice with payday loans, they have on average nine other debts. I don’t know how many of these other debts are from payday but I think we can assume that some will be. The FCA estimated that on average, a HCSTC customer takes out six HCSTC loans per year. If you are getting six plus feeds of information, then how you aggregate that is going to be quite tricky. The idea would be that you get the sum total of all of your credit. Managing that by collecting that data and putting it together is nightmarish. Mydata, on the other hand, could probably do that. If you wanted the Mydata project - which Government is trying to run - to work so that everything you are spending is collected in one place automatically and you own that data unit, then that could do it, but that is icing on a cake which has yet to be baked, I think.

MR KING: What if that is just a straight communication from the one payday lender or the multiple payday lenders that you are using?

A. (Mr Harvey) I do not think that it necessarily hurts, but I do not think that it is going to do what Tim hoped it would do.

MR TUTTON: I suppose that it is partly a question of which borrowers one is talking about. In a sense, you rightly and necessarily have focused on the ones that have got into problems and who have multiple sources of loans, whereas there is still a large chunk of the market which, in a sense, may be the better informed part of the market, the less desperate part of the market, who could actually have more of a function in driving the market. Part of the OFT's original allegation was that the market worked so that bad drove out good and one of the ways of good to some extent driving out bad is to provide more information and more incentive, in a sense, not just information, it is really a question of saying that, well, maybe it is worth doing something here.

A. (Mr Harvey) That is a very good point that I always need to be reminded of. Our clients are our clients rather than the whole market. Let me preface everything I said before with “for our clients”, I am not sure that it would produce an awful lot of value.

A. (Ms Silk) I think that as well, if the lenders themselves were tasked with sending out these letters, again there would need to be a lot of supervision and guidance as to what the content and the tone of the letters should consist of, because they could get conflated with debt collection letters, particularly in the mind of a client who is particularly distressed and it could just add up to more and more paper on the floor.

A. (Mr Harvey) Yes.

MR TUTTON: It would probably be electronic largely, but the same point holds.

A. (Ms Silk) Yes.

A. (Ms Isted) I think that this would be a hugely useful service that one's bank could provide to you. We will say this in another context, but, if one's bank, which has access to who you are paying and how much you are paying and when you are paying it, and, therefore, by extension what interest rates you are paying on that money, if your bank could set out for you on a monthly basis what your credit costs are, they could set that out so that your priority payments were over here and your non-priority payments were over here and your interest rates were carefully compared, that would be hugely useful.

A. (Mr Harvey) That goes back to the Mydata point.

A. (Ms Isted) Exactly.

A. (Ms Gunn) I think that our concern is that at a qualitative level our research did find a number of people who just were ignoring all communications from any of their FS providers, because they were in a mess, but, actually, what you have said is that you are not so much talking about that group, you are talking about the people who are managing with...

MR TUTTON: I think we are talking not so much about that group, but we are looking at the market as a whole.

A. (Ms Gunn) Yes, looking at the market as a whole, then, perhaps, if they do read it, it might not be at that particular time, anyway, at least. I think that we thought that it could be a small nudge in the right direction. Again, I know I have said this on a few other points, but it is absolutely one to trial on the format and frequency to see what worked, monthly could be the right frequency. I know you have suggested several different frequencies. It could even be as kind as infrequent as annually, which would fit with other statements that people are getting through, for example, on their current accounts. There are different ways of doing this and I guess that what you are saying is that you want this information to get into people's heads, being understood and, if they are going for other payday loans, actually to shop around and get the best value out of the market, so it is a nudge in that kind of direction.

MR TUTTON: I suppose part of the thinking is that at least, leaving aside David's point about aggregating it, if it was still coming from the individual lenders, it is a relatively cheap thing for them to do. The information is there. It is often accessible fairly easily to the borrower, in fact. This was more a question of saying more to shove it in your face sort of thing.

A. (<u>Ms Gunn</u>) Yes. I guess that it relates back to one of the points that I was making earlier about when you roll over the loan, getting a new cost of per £100, how much is this going to cost you. It sort of relates to that. Yes, for the people that open it, it could be helpful. I am not saying that it would be damning, I just think that there is that issue of people just not wanting to know.

A. (<u>Ms Isted</u>) I think also that one has to remember that people who are taking out payday loans did not actually set out to do it at the beginning of the month. I do not think that anybody actually plans to run their credit over the year by a series of payday loans. That is not how it works. I think that, when one received that piece of information, one would say, flipping heck, I am not going to do that again, rather like we all do every time we let our children eat McDonald or whatever. It is not something that you intend to keep doing, but, when you then get to the next point, where you decide that, actually, a payday loan is going to get you over the particular hump, then I do not think that you are necessarily going to remember that good intention from previously.

A. (<u>Ms Gunn</u>) I would just add on that we did find in our segmentation of credit users a group of people who actually had had real problems with credit and had come back out of it; they were low income, but extremely good at managing their money. If we are accepting on the one hand that there is this need for certain people to take out these loans at certain times, but I think that what everybody, including the FCA, think about this market is that we do not really want to see people constantly in this situation, and what we are probably talking about is probably moving more people over into that group where actually they have come out of it and are now really successfully managing their money, probably in large part due to efforts of people sitting at this table as well today and helping people through that. I guess we should see some of these interventions as interventions in that direction as well.

A. (<u>Mr Tutton</u>) I think to an extent is a sort of statement a little bit behind the curve, when we go and talk to the banks and they talk about what they are doing with nudging the people who are exhibiting signs of kind of financial difficulty to get them to sort of think about their behaviour, avoid bank charges, there are text alerts and all sorts of different things that they are looking out for. Do the payday lenders need to a bit more proactive than sending out computer driven sort of pipeline statements in terms of activity monitoring, so, once the have got their real-time data, if they can see that application is the third payday loan application straight for three months, hang on, what more do we need to be doing here? I just wonder the kind of idea of just disclosure statements on price, a bit like the kind of annual bank account statements, how much difference have they made as opposed to the kind of more active interventions, like text alerts and things like that. That would be the question back. Are there a range of more active interventions that you could require payday lenders to do that would have a better nudging effect.

MR TUTTON: Thank you.

THE CHAIRMAN: This brings us to the last section of remedies, which is the appalling problem of lead generators. Tim, that is for you, too.

MR TUTTON: As you know, the core of what we are suggesting is really two things, one is about the role of lead generators and the ambiguity which attaches to that and the other is the nature of the commercial relationship between the lead generators and the lenders. There are clearly lots of things that may or may not happen in the future in terms of regulating that, but in the first instance what we were suggesting was at least - and how this is done is up for grabs in a sense - an obligation on lead generators to make it very clear that they are what they are, they are not lenders, and, secondly, in its most brutal, it will be a message which says, look, we will sell you to the highest bidder, which is the nature of the relationship. In a sense that does not stop it happening. In a sense, an intermediary's function is a useful part of all sorts of our markets, in principle. It is arguable that one of the most competitive bits of the market is actually the ping tree which is actually driving up costs. That is an adverse effect of competition. But by effectively saying that these are not lenders and we are also not a price comparison website, we are not a friendly broker who is going to get me the best deal or whatever, that would be useful in itself, in terms of potentially at least - well, it might do a variety of things, it might make more people more reluctant to use lead generators and do a bit of shopping around on their own account. At the very least they would not have the illusion, if they have it, and, as I say, the motives for using the lead generators may be all sorts of motives, some of it might be just ignorance, some may think that they are lenders, some may think that they are getting advice on the best deal or whatever. The core of the remedy, essentially, is to increase clarity both about the role and the relationship.

A. (Mr Harvey) Absolute clarity is necessary. I will let Christie talk about some of it. What we see is that the main problem is that people have no idea that they are dealing with a broker instead of a lender. They think they are dealing with a lender.

A. (Ms Silk) That is a good point. We see a lot of problems with brokers or lead generators. In the last year 2013/2014 we have had a 30% increase in calls to our consumer help line about brokers on the year previously. It is either the market has grown or is increasing or they have become more problematic. It is certainly something that we are very concerned about. My impression is that a lot of those concerns are from people who just really do not know that they are dealing with a broker and then have had money siphoned - “siphoned” is a bit too emotive a word, but taken from their account in upfront fees. Then, when you go on some of these websites, if you do look around, you can see that they have said we are a broker, we do not lend directly, but it is not necessarily that clear and their websites do look, to all intents and purposes, very similar to lenders' websites. I think that clear disclosure would certainly help, but I think that there needs to be some sort of requirement for the consumer to actively recognise that they are dealing with a broker. A tick box sounds a bit weak, but, even if they do have to tick, “I understand that I am entering into a contract with you to sell me to the highest bidder” something a bit more human than that ...

MR TUTTON: Or maybe not.

A. (Ms Silk) Maybe not. I think there is a real need to do something. I am going to make this point even though I am aware it is very much a conduct issue, and it is possibly very tied in - we are not quite sure - with scams, and that is a separate point, actually, the very business model of brokers, unsolicited calls, upfront fees, online, it is just ripe for scams to exploit that and we do see completely unauthorised companies pretending to be brokers and then taking large amounts of money from clients.

MR TUTTON: We talked before about unintended consequences of the price cap, but in so far as the price cap is to reduce access to what we can now call mainstream payday lending or whatever you want to call it, it is a bit like when there is rationing in any market, I mean, if you think back to the days when mortgages were more actively rationed, what did that do? It led to a huge growth in market intermediaries, in terms of brokers who said that we will get you a loan. So one of the things that the price cap could do is increase the market for upfront fees and lead generators.

A. (Ms Silk) Yes. This is actually something which maybe somebody in the room will be able to explain to me. In the FCA's consultation paper when it explains what would be included in the cap, I think that it does suggest that broker fees or intermediary fees will be included in the total cost but only if the lender takes a part from that.

MR KING: I think they are in the same group.

A. (Ms Silk) They are in the same group but is there also something about if they take a charge from the broker, but I am not quite sure how that works.

A. (Mr Tutton) That is going to be an anti-avoidance kind of measure. Crikey, lead generation, you are absolutely right a bare minimum is the need for some transparency so consumers know who and what they are dealing with. We got some press out on this today. We did a thing last year, we did some surveying and we estimate that something like 26 million people have had cold calls, unsolicited calls for high-cost credit. This is a gigantic thing that is going on. Amongst, our clients who are people who are in severe financial difficulty, about a third said that they had received unsolicited marketing calls offering a payday loan and the average was ten calls per week. This is bombardment. It is bombardment. That is some of the case studies in this thing. That is how people describe the experience with being bombarded. They put their details in something that is either a lead generator or even, in some cases, firms, who say we are not going to give you a loan, but we are going to make some jam by selling your details to someone else. One lender at least I think in the Business, Innovation and Skills select committee report on payday lending said that they did that. Of those who were getting all these calls, about 5% of those ended up actually taking out credit. On average, it resulted in them getting over 900 quid with all the adds on, pushing their debts by over 900 quid. There is something here about people under pressure being bombarded by calls,. They are all under enormous pressure. We know that people who are under debt suffer extreme stress, mental health difficulties, look for any port in the storm and you have got this unsolicited marketing which is not competitive, people are not getting time to decide what the best option is, they are not shopping around, they are being sold on. At the same time we still have the problem with some of the brokers that, yes, we can get you a loan, pay us £60, or whatever the fee is. That was something that Citizens Advice super complained about three or four years ago and it still have not been sorted. That problem is still in the market. The Government were invited to think about banning upfront fees. That still has not happened. We think that there actually needs to be quite a hard line on this; we think the FCA should ban upfront fees for these kind of brokers, so you do not pay a fee as a consumer until you actually get a suitable loan. We would ask the FCA to consider the lead generator constrained - really, there are two sides to this, there is a kind of data protection side, that when you give consent for your data to be shared – *Which?* are heavily involved in this at the moment - there is no limit on how that works and maybe there needs to be some constraints and a better set of rules and consent so that consumers know, if you go on to a lead generator and you say, okay, they should tell you who they are going to share with and share with no one else, that is one thing. The second thing is this kind of bombardment. The FCA have at the moment a rule on mortgages - you cited mortgages - that real-time unsolicited financial promotions are prohibited. Perhaps for payday they need a similar rule. This is a product that is so high risk and we are seeing people getting bombarded and making their credit worse. I completely agree with you guys that something needs to be done. I guess I would say that that kind of better transparency of who is a broker and who is a lender, bearing in mind that some lenders are also selling the data on and, actually, we are also seeing lenders doing things like, we will not get you a loan, but we see you are in financial difficulty, we will pass you on to this debt management firm, which is in the same group. Then they are taking another fee from that. There is this whole load of practices about unsolicited marketing activities which drive consumers to detriment. I would advocate, actually, taking a tougher line and saying to the FCA that you are not going to get to the bottom of this unless you set some really quite tough conduct standards, given that this is a high-risk market looking at people who are, as your research shows, unlikely to shop around at best of times and are vulnerable to being aggressively sold and maybe you should stop that aggressive selling. That would be my take.

MR LAND: In a funny way we have stumbled across this part of the market looking at quite a narrow question which focuses both on the nature of price competition and the essence of that in your mind space in comparison to other online markets and what you are saying is that there is a much wider agenda around here which may or may not be our business but which, when you come to making changes in this sector, as we are suggesting...

A. (Mr Tutton) In a sort of better world, you would have a nice safe price comparison site where only firms went on it that had been through an authorisation process and were not dodgy, they were proper traders and their business models were not exploiting the system, consumers would look and choose and be able to choose the one that was the best value. You can see how unsolicited warm calls, cold calls, call it what you like, but unsolicited real-time promotions are corrosive of that. If the most financially vulnerable are being directly marketed to, that is going to undermine your efforts to get people to shop around.

MR LAND: There is all this noise, there is reputation which kind of dampens the signal of competition. We do see the connection between that and the regulatory side and then having competition in terms of making...

A. (Mr Tutton) If you can go a bit further in your remedies.

MR LAND: Yes.

MS HOLMES: Just going back to Christie's point, the FCA does say that the price cap would apply to brokerage charges where the lenders' fees are all part of it, as well as when the broker is part of the same group. I would read that as being part of an anti-avoidance measure.

A. (Ms Silk) Yes.

MS HOLMES: But, when we are talking about lead generators, in general, the money transfer is from the lender to the lead generator. There are brokers as well, but they...

A. (Ms Silk) I guess it is how the cap could affect the use of lead generators.

MR RAIKES: Lead generators come 2015 will need to be authorised. Do you see many of them getting through the FCA authorisation process?

A. (Mr Tutton) That is a really good question and it depends on what the criteria for that will be. At the moment most of what they are probably doing, if I was a lead generator, I would say that what I am doing is complying with - unless they are caught doing things like sending unsolicited texts, which are prohibited by PECR (Privacy and Electronic Communication Regulations), they might say that, well, I am complying with data protection legislation, if I am on my website saying clearly I am a broker, what are they doing wrong in so much that - because they are sort of auctioning, they are creating... They might say what am I doing that is in breach of... It is hard to say. I would like to say that, yes, but I do not know if that is what will happen.

MR RAIKES: Introducing someone to buy credit in a regulated activity is what lead generators do. They are going to have to get authorised for that regulated activity. The thing that is buzzing around in my head is that there is a valid activity there. The question is how much of the naughty end of that activity will continue to exist and how much, actually, is being addressed at the moment by the current regulation.

A. (Mr Tutton) That is a good question. I guess that past experience would suggest that unless they made specific conduct rules and probably we get some changes to data protection law as well, that bad end of the market, how far that goes I do not know, but those practices can continue. I think that the sectors that have come into authorisation under FCA, for instances, that came in in 2004, so that whole sub-prime thing, some really egregious practices built up and then the FCA realised that authorisation was not enough, they needed to almost work out a kind of framework of rules of how you want the firms to behave and then use that to do your authorisations. I guess what I am trying to say is that it will depend on how the FCA approaches what they think is good and bad conduct in lead generation and a broader set of public policy points about what we think about unsolicited marketing of high-cost credit products. You are right they could do some stuff in their rules already. They could stop firms from doing unsolicited calls, they could set some conditions on when they do do warm calling, they can do a lot more than they are doing now.

A. (Ms Gunn) Peter mentioned *Which?* has been doing some work around the whole nuisance calls space which includes but is not limited to high cost credit unsolicited calls. We kicked that off, because we were being contacted by so many people whose lives were literally being made a misery by all these calls. It was a lot of people who were at home all the time and were just getting all this, never mind all the unsolicited emails and all the rest of it. What we found early on in that is that, because responsibility was spread across various Government and Government authorised departments, it was not that people were passing the buck, but it was often a sense of it is not quite in my area, so we have been doing a lot of work, particularly via Biz, to start to get things to move there. There is certainly a lot of goodwill there and we are finding there is a desire to change things. That will take a bit of time but we do hope that things will improve around that area, too.

THE CHAIRMAN: Is there anything else on lead generators? [No] I am going to conclude that by mentioning that apparently the notices are up on our website this afternoon so our terms of reference have been extended to cover lead generators. The CMA Board has approved that. I think that that is probably all the questions that we have from out side. I do not know whether any of you has anything further that you are minded to share with us, on our PFs as well if you want to. I did not start by asking if you want to say anything about our PFs. As long as it is entirely confidential, we will be very pleased to hear it. Is there anything further that you would like to say?

A. (Mr Tutton) No.

A. (Ms Gunn) No.

THE CHAIRMAN: In which case I will just let you know where we are in terms of timetabling, which will be helpful for you. I mentioned at the outset that we are in the process of having hearings with a variety of interested parties and they are going on through the rest of this month and in August as well. Then as you may know the next stage in our process is to issue a provisional decision on remedies. We are intending to do that at the end of September or early October. Obviously, we will be inviting comments on that. Then there will be a final cut off date for any submissions which will be the end of November. Our intention is still to publish our final report by the end of this year or in January of next year. That is our timetable. And so it just remains for me to say thank you very much for coming this afternoon and sharing your thoughts with us. It has been very useful. Thank you.

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person's speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and didn't finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?