Competition & Markets Authority

PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Equifax UK held on Monday 14 July 2014

Background

1. Equifax told us that credit reference agencies (CRAs) helped organisations make decisions about their customers by providing access to information which was typically updated on a monthly basis. There were two types of CRA, the three large mainstream companies, Callcredit, Experian and Equifax and a number of smaller niche CRAs such as LendingMetrics and Teletrack. Sometimes payday lenders would contact a niche CRA and then at an appropriate point call the mainstream CRA. Calls were not necessarily just about the credit worthiness of a customer and could sometimes relate to ID verification checks.

Data sharing

2. The main issue with data sharing was the reluctance of payday lenders to share their data widely. There was not any data sharing between individual CRAs unless there was a commercial agreement to do so. The industry was very fragmented and a payday lender would typically have a relationship with one or possibly two CRAs (a niche and a mainstream CRA). Payday lenders typically shared data to receive data, so unless a company contributed to a shared data base it could not access the data on that database. In the mainstream credit market probably 97 to 98% of credit agreements were shared with the three main CRAs. CRAs were moving towards real time data sharing to eliminate the situation where they were not given data because they were not providing the service that a payday lender required. Equifax thought it would benefit payday lenders if there was a one-stop shop for them to go to access real time data and all of the other CRA data that was held for mainstream credit rather than having relationships with two different CRAs for one transaction. All lenders should be required, if they would not do so voluntarily, to supply data to those CRAs operating in the market. Lenders reluctance to share their customer data stemmed from the fact that they thought their data might be abused or misused in some way or they might lose customers as a result. However, Equifax had strict rules about how data was shared and how it could be used by lenders. (These rules were those agreed across the credit sector via SCOR and not unique to Equifax.) Equifax

was concerned that the CRAs operating in the market would not be able to help lenders make responsible lending decisions unless they had sight of all the data.

3. Equifax had a [✂] number of high-cost short-term credit (HCSTC) customers ([✂]). To date its HCTSC data sharers tended to be relatively small lenders, although one of the top five lenders had recently committed to share data with Equifax and to use its services. Equifax had a joint relationship with LendingMetrics whereby Lending Metrics dealt with lenders real-time enquiries and Equifax conducted the ID verification and credit worthiness checks. It continued to be difficult to persuade lenders to share data if they did not use the services provided by the CRA. In contrast the rest of the mainstream credit market had voluntarily shared data across all three credit reference agencies for the last 10 to 15 years. Equifax also noted that there had been a lack of data sharing with CRAs in the home credit market until the Competition Commission required lenders to provide information to a minimum of two CRAs. This had not worked particularly well because home credit providers had typically just fulfilled the minimum requirement.

4. Equifax received all the data fields relating to a loan when that loan was completed but did not, because it was not currently offering real-time, see earlier search interactions with the niche CRAs which included other data (e.g. employment, income and bank details). Equifax received just the basic search information from the ID verification or credit search. It only received information relating to the actual loan agreement when it received its monthly update of completed loans.

5. Each lender could potentially request different data, although ID verification checks tended to use a suite of characteristics that were used throughout the industry. The data requested for a quotation or credit searches tended to vary. In the main, lenders typically sought credit risk related characteristics and possibly a credit score. Lenders did not request any of the raw data. They tended to take just that data in a summarised, aggregated form which they input into their own models. The raw data was only needed if a lender was going to create its own characteristics from that data. Only those lenders needing to refer a proportion of their applications to a manual underwriter for a review of a credit file sought raw data.

6. The generic score generated by CRAs was only part of the lenders decision making process in making underwriting decisions and acted as a further safety check in addition to the policy rules or credit scores lenders generated internally. Each lender had their own risk appetite and so therefore probably had a slightly different profile of risk and customer they were prepared to accept. Generic scorecards were not as effective as a product specifically

built for a lenders credit population and so Equifax had developed bespoke scorecards for lenders. However, generic scorecards were useful in giving consumers an indication of their credit rating and also for new entrants who did not have a great deal of information about their target audience.

Products

7. In addition to its credit risk score, Equifax would shortly be offering a true real-time product to the market which would be separately priced from its main stream data base. This would enable it to update its data base during the application process (when the application was made and at completion of the loan agreement) and during the lifecycle of the loan (i.e. with payment details). This data would be instantly available to any other lender using this Equifax service. Equifax hoped that this would enhance its presence in the market resulting in more lenders contributing information to Equifax's database. The move to real-time data sharing between the CRAs would enable them to make the best underwriting decisions. Equifax thought that the CRAs would still continue to compete. It would be looking to attract lenders that were using the niche CRAs to its real-time database. Equifax had different pricing agreements with each customer which was dependent on the volume of transactions.

8. An instant real-time database would probably be of interest to other credit sectors, particularly in relation to the retail market. Retailers offering their services online would probably want to use an instant, real-time data base because it would enable them to make better, more responsible lending decisions. Equifax thought that the whole CRA model of monthly updates would, over the course of the next few years, move to real-time data solutions.

9. There was an absolute need for CRAs to enhance their capabilities in terms of income verification, i.e. to try and help with verifying income online, and, also to develop better solutions for online affordability checks so that quick decisions could be made without their needing to be a slowing down of the process of making that final credit decision. Equifax was currently launching a series of solutions for income verification and would then be moving onto supporting new solutions for affordability checks.

10. With regard to income verification, Equifax obtained, from those banks operating in the personal current account market, a monthly snapshot of the credit amount paid into an account on a monthly basis. This data enabled Equifax to estimate the customer's income, details which would be provided to those lenders using Equifax's service. Equifax either supplied a comparison showing its estimate of the customer's income versus the income declared on

the application, or provided indication of how close the declared income was in relation to the actual income of the customer.

Quotation searches

11. Equifax offered quotation and full credit searches. Both types of search provided identical information and so there was no price differential between them. The only difference between the two was timing, as the quotation search was undertaken earlier in the application process. Equifax sent the lender as much information as it had available at the time of the search. If a lender required multiple searches Equifax worked with them to ensure that the lender did not pay more times than they needed for that data.

12. Equifax thought that some payday lenders might not issue a loan to a customer who had undergone a quotation search if that customer had made approaches to multiple lenders, or, if they thought another lender might be about to make an offer.

13. The problem with using quotation and full credit searches in the payday lending market was that there was no clear understanding of the differences between them. Until there was a clear demarcation between a quotation search, which should not be visible to other lenders, and a credit search, there would be problems in the industry. Equifax was aware of some instances where niche CRAs had not labelled quotation searches as such and was concerned that the traditional quotation and lender search model was not being followed throughout the payday sector. As far as the consumer was concerned there was a distinct lack of clarity regarding the interactions with, and the data held by, the CRA. Equifax thought it was essential that there was clarity regarding the information provided to customers. Quotation searches had been introduced to encourage consumers to shop around and select the best product for them. Equifax thought it was right that clarification of how quotation searches should be used should run parallel with the drive towards real-time data sharing.

14. There was a difference between an application made through a broker and one made directly to a lender. Equifax thought that lenders were probably better at explaining the CRA search process, whereas the customers of lead generators would most probably not really understand what was going on behind the scenes.

Price comparison websites

15. Those price comparison websites (PCW) supporting the mainstream credit market had, during the last few years, increased the sophistication of their decision making by working with CRAs, which often used a third party to do

the work for them. The Steering Committee on Reciprocity had, in the last year, introduced a new set of pre-application rules regarding the use of shared CRA data by third-party software providers to facilitate the decisions made by PCWs. Equifax supported credit worthiness assessments on behalf of the lenders on these PCWs by supplying generic credit score and characteristics, enabling PCWs to provide a traffic light approach for each product or giving the percentage likelihood of the acceptance of each product. The enquiry made against the consumer's credit file to help facilitate this credit worthiness assessment was visible only to the consumer (if they chose to access their credit file[1]) and did not leave a foot print on their credit file visible to lenders. The effectiveness of the decisions really depended upon the level of cooperation between the lenders, the PCWs and the third party provider. The system was working pretty well and was giving a greater insight to the consumer and Equifax could not see any reason why it could not be applied to the payday sector as the principles were pretty much the same. However, it might be more difficult if lenders were not prepared to cooperate with the PCW or third party provider to determine a good differentiator of credit, i.e. in terms of identifying customers they would accept and those they would reject.

16. Equifax noted that there was a split in the mainstream credit market between those lenders using PCWs and those preferring only to approach the customer directly. This had caused some concern in the data sharing community and explained why it had taken sometime to establish a set of rules lenders were happy with and put the necessary safeguards in place.

17. The traditional model whereby PCWs acted as credit broker for multiple lenders was not particularly widespread these days because lenders tended not to trust PCWs with too much information. There were one or two PCWs with a large number of lenders on their panel. These lenders were very much embedded in the PCW which understood the lenders lending criteria. The PCW might even have access to the lenders score cards and decisions. This allowed the PCW's to make very accurate decisions in respect of each of the lenders it was acting for.

18. It was possible to make very limited credit decisions without using a CRA, for example, by asking the customer for details of their credit history (e.g. bankruptcy or County Court Judgments) and then running some basic algorithms on the data. However, these very indicative decisions could not help customers to identify if they would be eligible for a given lender/product when there could be a number of lenders on a PCW's panel of lenders.

[1] Through a statutory credit report or a CRAs subscription based services.