PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Experian held on Thursday 31 July 2014

Background

1. Experian said that its primary aim was to gather information about consumers and hold information about their credit facilities, in order to provide that information back to the credit industry in real-time for lenders to make assessments. Experian emphasised that it purely relayed the information, the underwriting and the decision-making process were undertaken at the credit lender level as each credit lender had a different credit policy.

2. Experian said that it had recently acquired a small business called HD Decisions. It was not a price comparison service, but rather plugged into them to provide the methodology to feedback quotation searches. Experian said that the market was moving towards quotation searches and this was one reason it had acquired HD Decisions. Experian did not see any difference between payday loans and lending.

3. When people applied for payday loans, Experian said that they applied in the same way that they applied for a credit card. Therefore Experian did fraud checks, identity checks and other checks that were more in-depth than those undertaken for a quotation search.

4. Experian said that it was nervous about what the effects of mandatory data sharing could be. The voluntary system was long-established and was working well, if people were forced to share their data, it thought the quality of the data may go down.

The role of CRAs in the market and real-time data

5. Experian said that like all credit reference agencies (CRAs) in the UK it had two relationships with the lending community. It had data supplied to it and then it used the data to provide services. However, the two were not linked as many organisations supplied data about their credit accounts to CRAs, regardless of whether they took any services back. The supply was done on a voluntary basis and the system worked under the principles of reciprocity, whereby in order to benefit from data, companies were supposed to supply it.

6. Traditionally the supply of data had been done on a monthly basis and there would be around 30 days between uploads. This worked if the products were not dynamic, but with the advent of payday loans, there was a perceived need for more rapid updates. Experian now have the capability to operate on a real time basis, so whenever money is transferred to a customer's account or handed over the counter, the loan could be the system.

7. Experian had been considering moving to real-time for a while as it had been thinking that data supplied on a monthly basis was not meeting the needs of consumers. However this had moved up the agenda following the emphasis placed on it by the Financial Conduct Authority (FCA).

8. Before the FCA encouraged the move to real-time data gathering, some of the lenders had not been sure that they had the technical ability to upload the data so quickly, especially if they were not undertaking any credit searches. The ones that were doing credit searches had been inclined to do it. Experian now had a large amount of clients who wanted to share in real-time.

9. Experian said that presently it had two options. In addition to real-time, there was also near-time which was done overnight on a daily basis. Whilst Experian provided the infrastructure for real-time uploads, it could not make lenders put their loans through in real-time and some lenders chose to store them up for a while and then sent them through in one go.

10. Some lenders had told Experian that they believed near-time was sufficient for the current rules and guidance, so Experian was finding it challenging to encourage them to go to real-time.

11. Experian thought that most lenders had embraced the loading of the data, but not necessarily the receiving of the data. It said that if lenders called a bureau that did not have the data, they would continue to lend in the same way as before.

12. The objective of real-time was to collect the data as quickly as possible and make it transparent to the entire industry as quickly as possible. Experian had not wanted to limit the user group in any way and so shared data not only with the payday lending sector, but with the wider industry as well. By doing this it sought to give transparency about any type of borrowing that a customer was undertaking, whether it was a payday loan or a credit card.

13. Presently no-one outside of the payday loan area was offering to put data in in real-time, but Experian had not asked them to do it. It said that it would provide a recommendation as to how the data should be shared depending on how dynamic a product was. Whilst the platform was open to all lenders, Experian was predominantly concerned with solving the data in connection

with the payday loan market and the feedback that it had had from people who would be using the data had been positive.

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15. Experian said that when a person went onto a lender's website and submitted an application form, this was flagged on their credit file. However, although a footprint was left, no-one was able to see if they had actually been offered credit.

16. For a single instalment/traditional payday loan, it would be possible to see the closure of the account in real-time. However, for an instalment loan it would be reported on a monthly basis. Experian said that checking this would form part of a lender's manual process i.e. they would phone the applicant and ask what stage the loan was at and if told it had been paid off, the lender would get evidence to confirm this.

17. For the payday loan market, the CMA had found that the top ten companies had around 90% coverage of the market. Of this, Experian had 80-90% of the data being supplied, both by the main lenders and also the smaller ones who supplied the data through a company called Teletrack. By using Teletrack, all the smaller organisations could book in real time as well, because by themselves they did not have the necessary technological sophistication. Teletrack collected the data almost in real time and then this was fed into Experian's bureau in real time.

18. Experian stated that it had decided to invest in the real-time system and hence the cost of reading data from its systems would remain the same and none of the commercial arrangements which it had in place with each of the payday lenders would change. It confirmed that it did not charge people to supply data to it as the data was shared freely.

19. Data was supplied because the industry recognised that the fuller the databases were, the more effective they were.

20. Experian said that with mainstream credit, the majority of the credit agreements were fed into all three major CRAs, whereas payday had been patchier in its coverage before the FCA had communicated its belief that the industry needed to change. Therefore Experian said that it was only over the last six months that it had found more of the market being shared with it. Over the past year Experian's coverage had increased by 30 to 40%.

21. Regarding the input of data where lenders were sharing with multiple CRAs, Experian said that it did not specify format and it accepted a Callcredit

template. The CAIS layout had become a national standard, not specifically by choice, but by evolution.

22. Regarding the differences between how the largest online credit card companies and the largest payday lenders used CRAs, Experian said that most of the big lenders would take data as part of their services, but it was not the case for the payday sector which was more economical in its use of searches. Experian thought some did not use its database as they had built relationships with other CRAs before Experian had entered the market.

Credit searches

23. Experian said that the market had only been undertaking quotation searches for a short period of time and it thought that advances in technology had allowed this to happen as now consumers could go to a site, or directly to a bank or a lender, and asses themselves to see what was available. A few years previously the data had been used predominantly to price risk. Therefore a site would tell consumers the type of APR they might get, but not whether they were likely to be accepted. The industry now wanted a lighter touch search to allow people to apply to see if they were likely to be successful, without damaging their credit file with a full search.

24. Experian said that it was in favour of more quotation searches being done as these were driven by convenience and consumer choice.

25. Experian said that there was a big difference between a quotation search and an application search as there was a vast different between searching around for credit and actually applying for it. The former left a visible footprint on a consumer’s credit report which is visible to the consumer but not to other lenders, but a full credit search (which does leave a full print that is visible to other lenders) was only left when the consumer decided to apply and additional data was pulled to make the credit decision.

26. A smaller segment of the data was used in the quotation search which meant that it could be supplied quickly. The full data was only used at the application stage. If CRAs were forced to do all the processing upfront for a quotation search, it would make the cost of it far more expensive to supply data in relation to people who were potentially just shopping around to see whether they had the best deal in the marketplace.

27. A quotation search was a way of encouraging people to shop around to find the best loan for them and also to get an indication of who may lend to them. However, Experian stated that there were not many aggregation sites that offered payday loans services on their sites.

28. Experian said that whilst it was happening more, people did not tend to go onto individual sites and do quotation searches.

29. By having to give limited information, like name and address, it made interacting easier. If too much information was requested, people would not be willing to go through the whole process and there was the concern that if they did, it would damage their credit rating. Therefore Experian said that it thought that lenders had created a service to show people how they would perform and emphasised that looking around would not do any damage to their rating. Experian also thought that individual lenders' sites were guiding people towards the products that were best suited to them so that they would not waste time filling out an application when it might not be suitable.

30. If a quotation turned into an application, the lender would have to pay for two searches because the data could have changed and the latter was a larger search.

Eligibility and credit worthiness

31. Experian said that payday lenders were definitely using data to inform their decision making process regarding people's creditworthiness. When they made a call for data, they requested everything and Experian suggested that they may then use their own technology to hone it down into the specific fields that they wanted to use.

32. Experian said that it did not have a different interface for the payday loan market, rather it had a standard interface that delivered all data on affordability, fraud, and ID. It did however have a product called a payday loan block that identified where a payday loan had been taken, the number of payday loans a particular person had etc. However it did not offer specific scoring for the payday market and each company tended to take the generic scores and then overlay their own analytics on top.

Setting up an aggregation site

33. Experian said that it was difficult for it to comment on the business model of an aggregation site as this was not its core business and it did not compete with people in the marketplace. It said that the cost of acquisition versus the costs of lending was prohibitive in setting up that kind of service and each aggregation site had to make its own decisions about what was commercially viable.

34. Experian stated that the size and dynamism of the product also had to be considered. If the average payday loan was around £400 to £500, a cost of £20 to do the search was quite high. The cost had to be borne in mind as this

could make it an unattractive route to go down. However, whilst the cost of setting up an aggregation site was not insignificant, the market was ripe with millions of people looking for credit, so a service would make sense.

35. Experian described the HD system as ‘plug and play’. Therefore if a customer went to Barclaycard and clicked on its website, it would actually be administered by HD, even though it was seemingly being done by a lender. It was the same for the aggregator sites, HD was purely the back end of the process. The different companies would make the decisions that it wanted to be deployed, so these would vary from user to user.

36. Experian said that each site had a panel and it had to agree with the lenders which products they wanted included. Experian would then do a risk banding against the products based on the decision logic. The lenders would not share their full lending policy, but rather some of their criteria and typically each lender had a different policy for the different products that they were offering. Therefore Experian used a filter, not a decision-making algorithm and it would look at a customer’s profile and decide which products met the profile. This could be multiple lenders and upon a quotation search being done, Experian would then list all the products that met the customer’s profile in an order determined by the lender’s risk criteria.

37. Experian said that it reviewed and updated the rules regarding what type of individual was going to get the loan on a regular basis so that the percentages giving the likelihood of acceptance were accurate.

38. Experian said that the smaller the panel the better for a website, but the narrower it was, the less consumer choice there was. The greater the consumer choice there was, the more difficult it would be to manage, but Experian did not think that it would be that much harder. In comparison with companies offering credit cards, there were more companies offering less products in the payday market.

39. Regarding the setting up of an aggregation website, the main decision for lenders was whether they wanted some of their business to be channelled through such a site. For example, some insurance companies made a logical decision not to appear on the sites because the cost of acquiring a customer through an aggregation site was far more expensive than if they acquired them directly. However, the aggregation site had the band width and the marketing power to try and push consumers through, so Experian though that organisations had recognised that aggregation sites had their place, even if they knew that they needed to boost their own direct business.

40. On the sites, people got to see all the loans that were possible, but they were ranked to show which are more probable for acceptance. Some organisations do not want their product for a certain type of customer, so it would still appear as an option, but not be a viable one.

41. The rules on products changed regularly, so while a customer might get accepted one day, the result could be different the next day. The dynamism of the lending policy was an important factor in the marketplace and Experian said that the criteria for acceptance with one brand might change overnight if the company had taken on all the risk that it was prepared to.

42. Experian said that if the aggregator site required people to put in their full details for a quotation search, the difficulty would be the cost in processing. Aggregation sites tended to want a light touch interaction with the consumer because otherwise the consumer would not engage with the site. Experian said that a quotation footprint would be left in the name of the aggregator site, but if the consumer then chose a certain lender from the options, they would be pushed through to the lender site and a full credit check would be done. This would then leave a credit footprint for that specific lender.

43. Experian said that whilst HD was the ‘plumbing’ for the search, it was not the organisation facilitating the search. Therefore the footprint would not be for HD. A hard footprint would be left in the lender’s name so the consumer would know the lender had used their data to assess whether or not they were going to get that credit.

44. As HD, Experian helped the aggregator sit down and go through the rules with individual lenders, but it was the aggregation site that created the panel.