PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with 118 118 Money held on Wednesday 30 July 2014

Background

1. 118 118 Money considered it was outside the scope of the investigation's terms of reference and the Financial Conduct Authority's (FCA's) proposals but thought that the findings of both the FCA and the Competition and Market Authority (CMA) would impact upon its business.

2. The service currently offered by payday lenders was more centred on speed, ease of credit and effective advertising and marketing rather than offering the best price because the necessary information had not previously been available.

3. 118 118 Money had launched its financial services on 30 September 2013 with an unsecured personal loan, with terms ranging from 12 to 24 months duration and monetary value from £1,000 to £5,000. Its 12 month minimum loan term optimised affordability for customers on that lending although they could settle their loans early. Around [✂]% of customers repaid their loans early.

4. 118 118 Money believed there was strong demand for a product sitting between that offered by the mainstream banks and the high-cost credit sector. It had aspirations for a broader product offering but had no existing lending history that it could use to build its lending processes. It had therefore taken a very deliberate strategy for the last year not to do anything proactive in terms of advertising. 118 118 Money operated through its own website and advertised through the internet, search engine marketing and also operated with a small number of affiliates such as MoneySuperMarket.com and money.co.uk. All its applications were made online. It had a team of underwriters who assessed the risk, affordability and capabilities of the customer to ensure it could offer where possible to the right customer for the right amount of money.

5. 118 118 Money had been pleasantly surprised with the level of demand thus far and was optimistic about the future of the business. Customers were meeting their payments and the default rates were not significant. Since

1 October 2013 it had received [✂] completed applications which had resulted in around [✂] loans. Its current expectation was that it would be providing approximately [✂] new loans per month [✂]. It intended to grow the business [✂].

6.   118 118 Money's goal was to try and find products that operated effectively for consumers in the market place. It was confident that it had entered the financial sector with a product that worked for consumers [✂].

7.   Some of the reputational issues identified in the CMA's Provisional Findings report had meant that 118 118 Money had tried to distinguish itself from payday lenders. [✂].

Price cap

8.   118 118 Money did not think that the price cap would have any material, direct impact on its business because none of its loans would be paying back more in interest than they would borrow. Its interest rates were lower than those quoted in the FCA's proposal and so it was already compliant. 118 118 Money did not know what impact this would have on payday lenders and whether they might need to change their products, services or operating model. However, there were already some early signs that payday lenders business models were evolving. There were some products such as QuickQuid and Pounds to Pocket which were high-cost products of a longer duration (up to 18 months) and others that appeared remarkably similar to those offered by 118 118 Money.

Measures to help customers assess their own credit worthiness

9.   118 118 Money currently requested data from Callcredit at the point a customer made an application. This [✂] reflected historic information Callcredit had received from previous applications. It showed the number of credit searches lenders had made with Callcredit but excluded quotation searches which were not visible on a customer's credit file. [✂].

10.   Where quotation searches had been used 118 118 Money could not see that a customer had applied for a loan. It was absolutely critical for 118 118 Money as a responsible lender to be able to understand what had happened to those applications. It was also important in terms of customer protection. 118 118 Money questioned whether lenders were using quotation and application searches appropriately. It did not want to be in a position of over indebting customers. It would benefit the industry if lenders could see whether or not an offer had been made to a customer but had not been accepted. In [✂]% of cases 118 118 Money only offered loans to its customers after receiving documentation from them (e.g. evidence of them living at their address,

identification documents, bank statements etc) in support of their application which could take time during which the customer could be making multiple applications.

11.   The utilisation of real-time data would be a key, critical component in allowing the payday lending market to operate in a more competitive and effective fashion. It would enable lenders to make better lending decisions and therefore, where appropriate, offer loans at lower rates.

12.   118 118 Money's accept rate [✂].

13.   [✂]

14.   The Callcredit Gauge score was a generic score card rather than one built specifically on lending to a typical customer profile [✂].

15.   Customers applying for a loan with 118 118 Money received the same application form regardless of the channel they used (i.e. 118 118 Money's website or MoneySupermarket). This was designed so that 118 118 Money could obtain a very clear view of the customers history and evidence of their ability to satisfy the loan going forward. There was appropriate wording at every touch point during the application process explaining that the customer was applying for a loan and that 118 118 Money would be conducting a credit search on them.

16.   Once the customer had pressed the submit button 118 118 Money then filtered applications based on the advertised eligibility criteria. If an applicant was not identified as ineligible 118 118 money would then use data from Callcredit. [✂]. 118 118 Money used this information in conjunction with that supplied by the customer during the application process to determine whether or not it should accept them for a loan or refer them to its underwriting team. It did not use quotation searches which provided exactly the same information as a full credit search, (but did not leave a visible foot print on the customer's credit file). 118 118 Money had a tool on its website which helped customers understand whether they would be eligible for a loan.

17.   118 118 Money was a new business and so considered [✂].

18.   Around [✂]% of the customers applying for credit with 118 118 Money were not subjected to credit reference agency (CRA) checks because 118 118 Money could clearly see that they would not lend to them, for example, either because they were unemployed or their expenditure was more than their income.

19. The APR 118 118 Money offered customers was a risk-based decision based on the information it received. When 118 118 Money informed the customer of the proposed APR it gave them as much information as possible to help them decide whether they wished to proceed. 118 118 Money published its representative APR, which at 99.9% was its highest APR, on its website. The number of customers receiving its lower rates varied across the channel a customer used. In some channels [✂]% of customers [✂]. 118 118 Money referred to the fact it offered lower rates and had two entries, one for the lower APR and one for the higher APR, on price comparison websites (PCWs).

Price comparison websites

20. Around [✂]% of 118 118 Money's lending was generated by the two PCWs it used, MoneySuperMarket.com and money.co.uk. The former generated around [✂]% of this business. 118 118 Money used MoneySuperMarket's SmartSearch which had a partnership with HD Decisions. 118 118 Money had shared [✂] with HD Decisions which enabled customers to understand the likelihood of them being offered a loan at each of its APRs. Customers using MoneySuperMarket had the option of stating that they wanted a loan and 118 118 Money's details would appear in their listings, or, they could go through the quotation search process which would provide a score for each loan.

Real-time data sharing

21. 118 118 Money considered itself as a responsible new entrant and for that reason was sharing data with a second CRA in addition to Callcredit, from which it purchased its credit data from. [✂]. It was a relatively simple process to supply data to multiple CRAs because they all accepted data in each other's file layouts.

22. 118 118 Money considered that the real-time data issue was particularly critical to the payday lending market given the short term nature of the products and the nature of the customers. The product that Callcredit provided was not real-time but was a daily or 24 hour update. To receive any real-time data, 118 118 Money was required to submit 90 days of lending history. [✂].118 118 Money thought that the cost would be prohibitive for new entrants but the unit cost rate for lenders such as Wonga who were dealing in significant volumes would be low.

23. Equifax had not yet launched its real-time product in the market. Experian was hoping to offer a product that would be real-time which would be used by the nine largest payday lenders [✂]. Experian was proposing to provide real-time credit data sharing but would not be offering a product that gave updates outside the traditional existing monthly updates and so this was only a partial

product. It would identify when an account had been opened and closed in as good as real-time but did not provide details about the ongoing management of that account. [✂].

24. The FCA was planning on relying on the industry to voluntarily provide credit data sharing on a real-time basis but 118 118 Money believed that regulation was the only way to ensure that CRAs provided suitable functionality and that the lenders were required to participate. Industry-led solutions suffered from substantial limitations when participation was voluntary.

25. Participation could be expensive and therefore be a limiting factor for lenders, particularly smaller ones. [✂]. There needed to be specific criteria applicable to the CRAs and all lenders should be required to participate otherwise it would not be possible to obtain a full understanding as to whether a customer was credit worthy. If some lenders decided to opt out of real-time data sharing this would create information gaps for those participating in the scheme. It would not be possible for a lender to make a responsible lending decision if it did not have data up to and including the last 30 days. 118 118 Money also considered that the debt management companies had an obligation to report real-time to the CRAs so that a lender would know when a customer had decided to seek debt management assistance. The lender would then know not to extend further lending that customer.

26. Ideally all CRAs should have a real-time reporting mechanism which would start to create competition and make entry easier although 118 118 Money did not think this was realistic in the short term. It believed that the three main CRAs should have what it regarded was a true, real-time, comprehensive system. It considered that it would not be practical for lenders to report to every single CRA but would support an obligation for them to report in real-time to two CRAs. 118 118 Money thought it would add further value to real-time data sharing if other providers of financial services such as credit card providers and banks offering loans or overdrafts were also reporting real-time.

27. 118 118 Money thought the CMA needed to design a remedy that focused on helping customers understand which loans were affordable which would encourage lenders to offer competitively priced loans. 118 118 Money did not believe that an increase in the number of credit searches would reduce competition by deterring shopping around and switching.