

PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Ratio Network Limited held on Wednesday 27 August 2014

Background

1. Ratio Network Limited (Ratio) considered itself to be a software company rather than a lead generator. It was created as a result of the purchase of assets and intellectual property from the Richmond Group.
2. Ratio had developed two software platforms. The first platform provided similar functionality to a 'pingtree' (though Ratio did not consider it to be a pingtree) which it referred to as a 'cascade'. The second platform (Ventura) was a tabular comparison engine to facilitate price comparison on websites by dynamically generating tables of comparative information.
3. Ratio operated a single customer facing website called Choose Wisely, which used the Ventura platform and was a price comparison website for a range of consumer credit and financial services products but generated only a small proportion of leads through its systems (approximately [x]%).

Operating a cascade

4. The nature of the service provided by Ratio meant that the lender or broker that purchased a borrower's details would pay Ratio for those details and Ratio in turn would share that revenue with the originating lead generator or affiliate. The proportion of any fee or commission retained by Ratio varied according to the commercial arrangements it had with both the originating lead generator or affiliate, and the lender or broker purchasing a customer lead from the cascade.
5. The great majority of borrowers' details that went through the Ratio 'cascade' were as a result of other lead generators and pingtree operators having failed to identify a lender willing to purchase the 'lead'. If no lender in Ratio's cascade purchased the borrower's details, they would be sold to a loan broker. Once a borrower's details had been purchased by a lender or broker, Ratio's software provided a URL for the originating lead generator or affiliate to redirect the borrower to.
6. The lenders featured in Ratio's cascade were largely instalment or guarantor lenders as well as some loan brokers (and thus were not generally present on

a payday loan pingtree). It did not include any lenders which offered payday loans (ie those offering 30 day loans or lenders lending less than £500).

7. Ratio noted that because the time window for a lender to decide whether or not to accept a lead was short it meant that there was limited opportunity to perform a comprehensive credit risk assessment.

Regulation

8. Ratio currently had interim permission from the FCA and was seeking full authorisation.
9. Ratio understood that lenders had a responsibility for the actions of the credit intermediaries with which they had direct contact, and each intermediary in turn was responsible for the parties they contracted with. Ratio thought that lenders were proactively seeking to identify and rectify issues that were giving rise to complaints.
10. Because of the chains of lead generators and affiliates that Ratio was linked to it would cease trading with parties where it could not be certain that their affiliates were behaving appropriately.
11. Whereas the operators of pingtrees frequently developed a network of affiliates that embedded the operator's own form on the affiliate's website¹ Ratio provided the software solution to allow credit intermediaries to interface with their systems directly.

Transparency

12. Ratio encouraged lenders to include an explanation of how the cascade had resulted in a borrower arriving on their page. The nature of the service provided by Ratio meant that it could not provide this explanation to borrowers itself.
13. Ratio thought that a statement explaining the commercial basis of the pingtree would be a step forward in helping borrowers understand the service they were being offered. The cost of implementing a pop-up or any form of disclaimer was negligible.
14. Because of the number of disclaimers and the regulatory prescriptions that standardised how information was presented to borrowers Ratio considered that borrowers might not respond to additional warnings but needed to be educated. Part of the problem was that all types of consumer credit and all

¹ Whilst to a user of the website it might appear that the form that they entered details into was part of that affiliate's site, it was hosted on the pingtree operator's website and embedded using HTML iframes.

participants in the consumer credit market were regulated within the same framework and there was not sufficient granularity in regulation to respond to the specific issues in a given aspect of credit markets.

Price comparison website

15. Choose Wisely included a number of high-cost short-term loans within its personal loan comparison table. Ratio considered that providing meaningful comparisons of the true costs of different types of credit products was difficult.
16. The site typically [✂].
17. Products were ordered initially on the basis of price and Ratio thought that neutrality of presentation was important and would not accept payment to promote certain products over others. [✂].
18. Ratio were typically informed of changes in price by lenders in advance to ensure their pricing was accurate.
19. The website was advertised through [✂].
20. [✂].
21. Ratio was unconvinced of the merit of price comparison websites (PCWs) which included brokers and lead generators in their comparison tables.
22. Ratio thought accreditation of PCWs could improve awareness of their availability. The ability to be accredited made Ratio consider including payday loans in its comparison tables but thought the current requirements on advertising (such as the need to display a representative example) were problematic and did not assist borrowers. In Ratio's experience, the more information that borrowers had to digest on a PCW the less able they were to make a comparison effectively. Making comparisons on anything other than price was difficult, particularly where products were structured differently such as on late fees. A regulatory requirement on how products were structured would make comparison easier.
23. Developing a PCW which was able to assess creditworthiness might be a challenge but Ratio considered any development of pingtrees to offer borrowers a choice of lenders that were willing to lend to the borrower would be a positive development. However, Ratio considered that the search terms that borrowers were using indicated that borrowers were looking for certainty of acceptance rather than shopping on price and that these borrowers might not want to be faced with having to make a choice.

Price cap

24. Ratio thought that the cap might result in lenders exiting the market [✂].