Research with Payday Lending Customers

Report

Competition & Markets Authority

TNS BMRB
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of listening
to Britain

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1. Introduction

This report includes findings from qualitative research conducted on behalf of the Competition and Markets Authority (CMA). The research was conducted between July and August 2014. This introductory chapter sets out the research objectives and provides background information on the research methodology and sample selection. Further sampling information and examples of the research materials used in the research are provided in the appendix.

The report is divided into six chapters, as follows:

- Chapter 1: Introduction
- Chapter 2: Executive Summary
- Chapter 3: Finding and choosing a loan
- Chapter 4: Key features of a price comparison site
- Chapter 5: Encouraging use of a price comparison site
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1.1 Context to the research

Following reference by the Office of Fair Trading, the payday lending market has been subject to investigation since July 2013, as to whether any feature or combination of features in the market prevents, restricts or distorts competition, thus constituting an **adverse effect on competition (AEC)**. The CMA's provisional findings [1] have highlighted a number of market features that limit customers' responsiveness to price, and barriers to new lenders entering the market. As a result of AEC, the CMA considers that customers are currently overpaying by about £5 - £10 per loan[2] than they would were competition more effective.

Based on these provisional findings, **several remedies** have been suggested, including:

- the creation of a **comprehensive and trusted price comparison website** (or websites)**;**
- measures to improve customer awareness of **additional charges and fees;**
- measures to help customers **assess their own creditworthiness;**
- **periodic statements** provided for customers to keep track of the costs of their borrowing activities; and
- measures to increase the transparency of the role of **lead generators.**

[1] Payday lending market investigation: Provisional findings report, CMA 2014
[2] This is relative to a typical loan of £260 taken out for just over three weeks, and with a total cost of credit for a customer that repays in full and on time of around £75.

Previous research[3] with payday loan customers revealed **low awareness and use of price comparison websites for payday loans currently**, and a **number of barriers preventing customers using them to identify best value deals.**

1.2 Aims and objectives

The overarching goal of the research was to understand customers' attitudes towards comparison sites and periodic statements for payday loans, in order to inform their design.

The specific research objectives were:

- Determining the **most valuable aspects of a comparison sites' design for customers**: information that should be included; how it should be presented; whether to indicate eligibility for credit; and whether features of comparison sites for other industries could be useful in this context.
- Understanding **how to encourage customers to both *seek out and use* the information on the site**:
  - what tools would allow customers to find the best value loan quickly and identifying key messages that counter customer propensity to rush the process;
  - exploring the most effective ways to advertise the site, and to build trust and confidence in the site;
  - mapping out the likely channels that would be used to access the site, and;
  - how to optimise the site's features for these channels.
- Exploring the **best ways of presenting information to customers about additional fees and charges, to maximise understanding and engagement**: understanding when they are most likely to be receptive; impact on customer engagement; impact on accessibility and use of example scenarios; how best to incorporate the information on price comparison sites.
- Exploring best ways to ensure **borrowers understand whether they are in contact with a lead generator**; and, understand the clearest way of presenting information and words to use.
- Testing the usefulness to customers of providing a **periodic statement of their borrowing** activity, and the information it should provide; its presentation; frequency; the method and channel of its delivery.

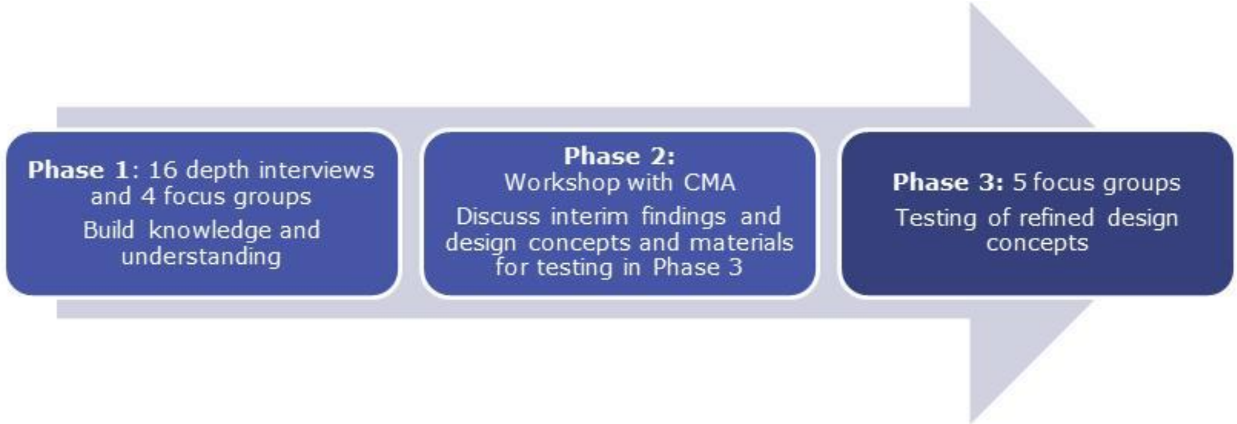
1.3 Research process

The research followed an iterative design over three phases. Phase 1 was exploratory, and employed a combination of qualitative group discussions and depth interviews to **explore how customers select a payday loan**, the **features most salient in their decision-making**, and **how information on a website might be presented**.

The findings were presented to the CMA in phase 2 at an interim collaborative workshop, which was used to inform the design of web concept materials to be tested in phase 3. These consisted of mocked-up websites, with different options for presenting information (see Appendix B for examples of materials used). These were used in phase 3 group discussions to

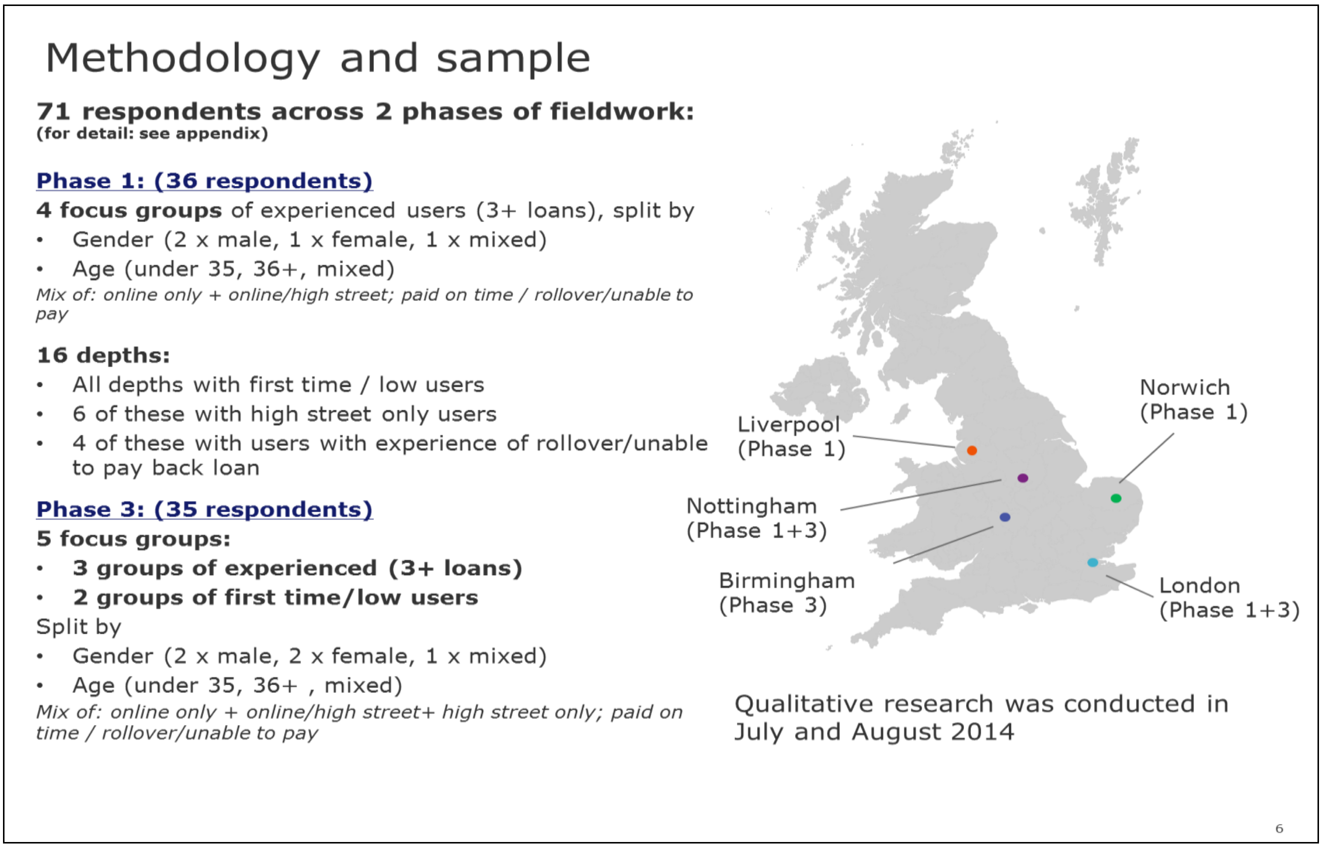
[3] Research into the payday lending market, TNS BMRB report for the Competition Commission, January 2014

explore further **potential design aspects** of a payday loan comparison website and periodic statement of borrowing, as well as **how customers might be encouraged to use the site.**



This report combines findings from all three phases, approaching topics thematically.

1.4 Methodology and sample



Qualitative research was undertaken in July and August 2014, in five locations in England. Aside from London, areas were chosen that had not been included in TNS BMRB's previous qualitative research on payday lending[4].

[4] Research into the payday lending market, TNS BMRB report for the Competition Commission, January 2014 – the qualitative strand of this work included various locations in the UK, including Edinburgh and Glasgow. The quantitative research involved customers across England, Scotland, Northern Ireland, and Wales.

In phase 1, depth interviews were conducted with customers with limited experience of payday loans (one or two in the past 12 months), to explore their early experiences in the market and their initial reactions to the idea of price comparison sites. Group discussions were conducted with more experienced users (those having taken out three or more loans in the last 12 months and who were more likely to have had different kinds of loans and a variety of experiences), to explore how customers compare, or want to compare, different payday loans.

In phase 3, group discussions were conducted with both limited experience and experienced customers, to test concepts with customers with varying levels of market knowledge and experience.

For more detail about the achieved sample, please see appendix A.

2. Executive Summary

Qualitative research was undertaken with 71 payday loan customers as a means of concept testing a payday loan comparison website and its potential features, as well as to understand the attitudes towards customers receiving a periodic statement of borrowing. The following summary highlights customer responses to the concept of a payday loan price comparison website, the features required to maximise usefulness, how to direct customers to the site and responses to the idea of a periodic statement of borrowing.

The most valuable aspects of a comparison sites' design for customers

It was important that a price comparison site would provide like-for-like comparisons, in a simple format. Customers wanted to be able to enter specific loan amounts and borrowing periods, and compare the total cost of repayment. Whilst the headline price remained the most important aspect customers wanted to compare, customers saw value in being able to sort by other variables, including: the time it took to access the money and any documentation required; information about late fees; and flexibility of repayment.

Although customers were generally unaware that being turned down for loans affected their credit history, learning this increased interest in providing an indication of loan eligibility on the site. Aside from this, customers felt that additional messages would encourage them to enter personal information into the site when searching for a loan: that it would not be shared with third parties; and that using the site to search for a loan would not impact their credit history. Once entered, customers wished to be given fairly definitive indications of eligibility. Ideally once they had chosen a loan, they wanted the information to transfer through to the lenders page, so avoiding entering it twice. Knowing this could help encourage customers to enter the information in the first place.

How to encourage customers to both *seek out and use* a payday loans comparison website

The desire for quick and easy access to a payday loan, and the perception that loans all cost a similar amount, are the two of the strongest barriers to customers using comparison sites.

Customers therefore need to be convinced that using a comparison site will result in concrete savings, and that additional fees and charges can make a significant difference to the relative cost of using different lenders.

The process of navigating to the site needs to be simple, meaning that a link from lenders' websites to a single, well-publicised, accredited site was generally preferred over linking to multiple sites.

As customer decision-making in relation to payday loans is strongly influenced by brand recognition, customer familiarity with the comparison site will be key to its success.

There are various ways to intercept customers as they search for payday loans, in order to encourage them to visit a comparison site. As the journey to a loan is very short, messages will need to stand out, be prominent and familiar.

When searching for ‘payday loans’ using a search engine, the link to the comparison site needs to be the top result (or in the top 2-3 results) – though not necessarily sponsored.

As many borrowers navigate directly to lender sites, particularly if they are repeat customers, they could be intercepted on the lender’s landing page. Any ‘pop-up’ message should underline potential savings, whilst stressing independence so as not to be read as a commercial offering.

Customers designed a full set of features that they would want to see on a desktop version of a payday loan comparison website.

On mobile devices there was less interest in being able to compare across multiple variables, with customers being satisfied with just the APR and total cost of repayment included, given the space limitations on a smaller screen. This was in part driven by the idea that price and comparison are perceived as being less important the more urgently the loan is needed, as customers would be increasingly willing to pay a premium for speed and convenience.

Awareness and understanding of lead generator sites was low, and it was strongly felt that the way in which these sites worked should be flagged more clearly to consumers. Customers could also be intercepted on lead generator sites with short, simple messages explaining the nature of lead generator sites - specifically that they sell customer details to lenders - and providing a hyperlink to a comparison website.

How to present information to customers about additional fees and charges

New and inexperienced customers expressed the most interest in seeing information on additional fees and charges, believing it would be an effective way of warning customers of the costs of paying late.

There was broad agreement that fees should be expressed as a cash amount, rather than as a percentage, which would be easier to understand at a glance.

Customers preferred to be shown one or two specific scenarios – e.g. the cost of paying a day late and a week late – or alternatively to be able to adjust the number of days they may pay late. Customers were clear that they were unlikely to click through to see further information – as this would complicate and slow down the process.

The usefulness of providing a periodic statement of their borrowing

Although initially hesitant, customers recognised the value of providing a statement of borrowing, both in terms of helping borrowers manage their finances and to flag some customers’ over-reliance on payday loans.

Customers wanted the statement to look like a bank statement, itemising each loan and the interest and fees paid, as well as a total cost.

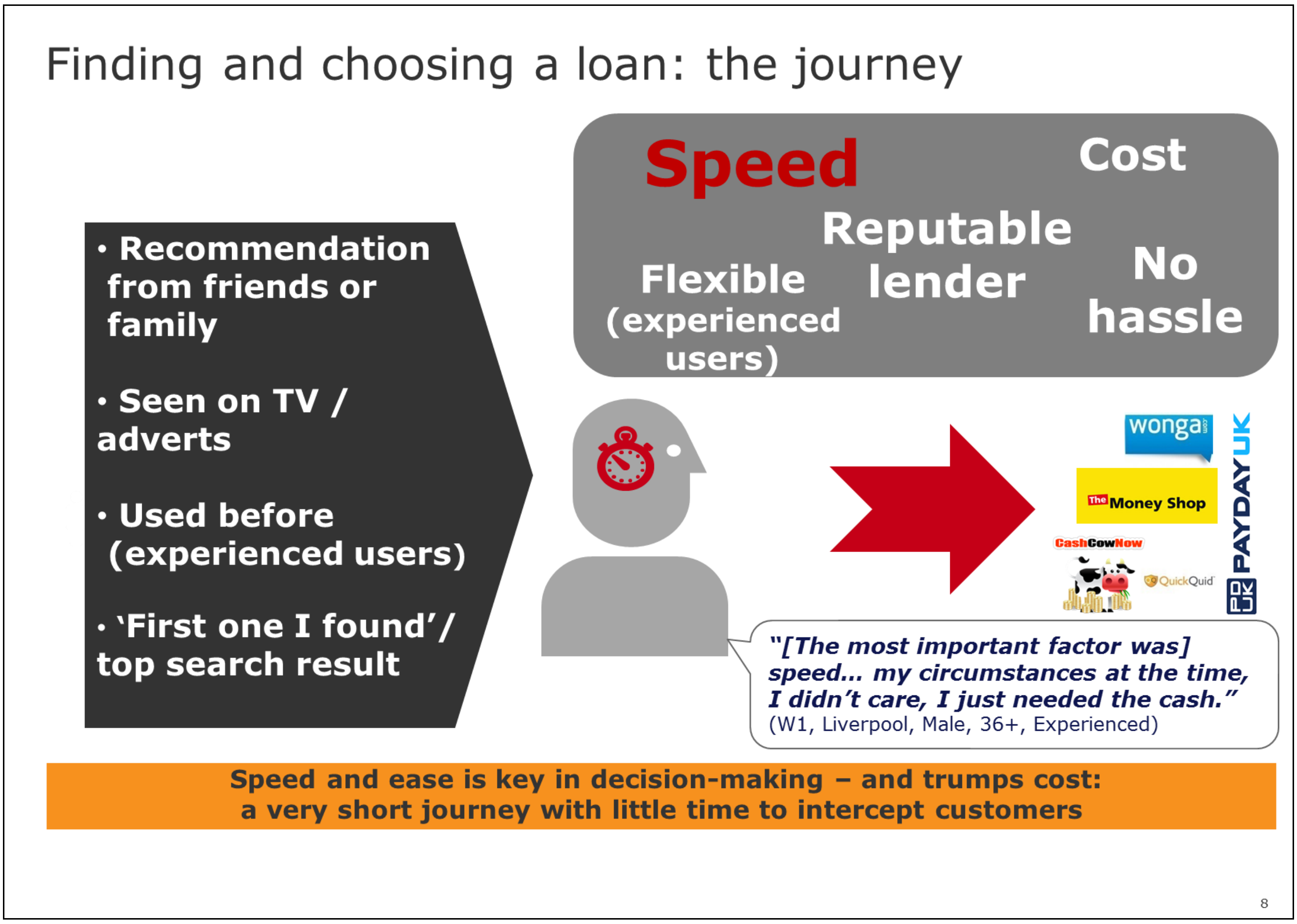
E-mail was preferred as the most suitable channel for the statement. Post and SMS were both rejected as delivery methods, as they were seen to compromise borrower privacy, or would be assumed to be spam and ignored.

Though acknowledging its usefulness in principle, customers felt they would be fairly easy to ignore. To encourage customers to read it, it was proposed that customers would need to access their online statement before being able to take out a new loan.

3. Finding and choosing a loan

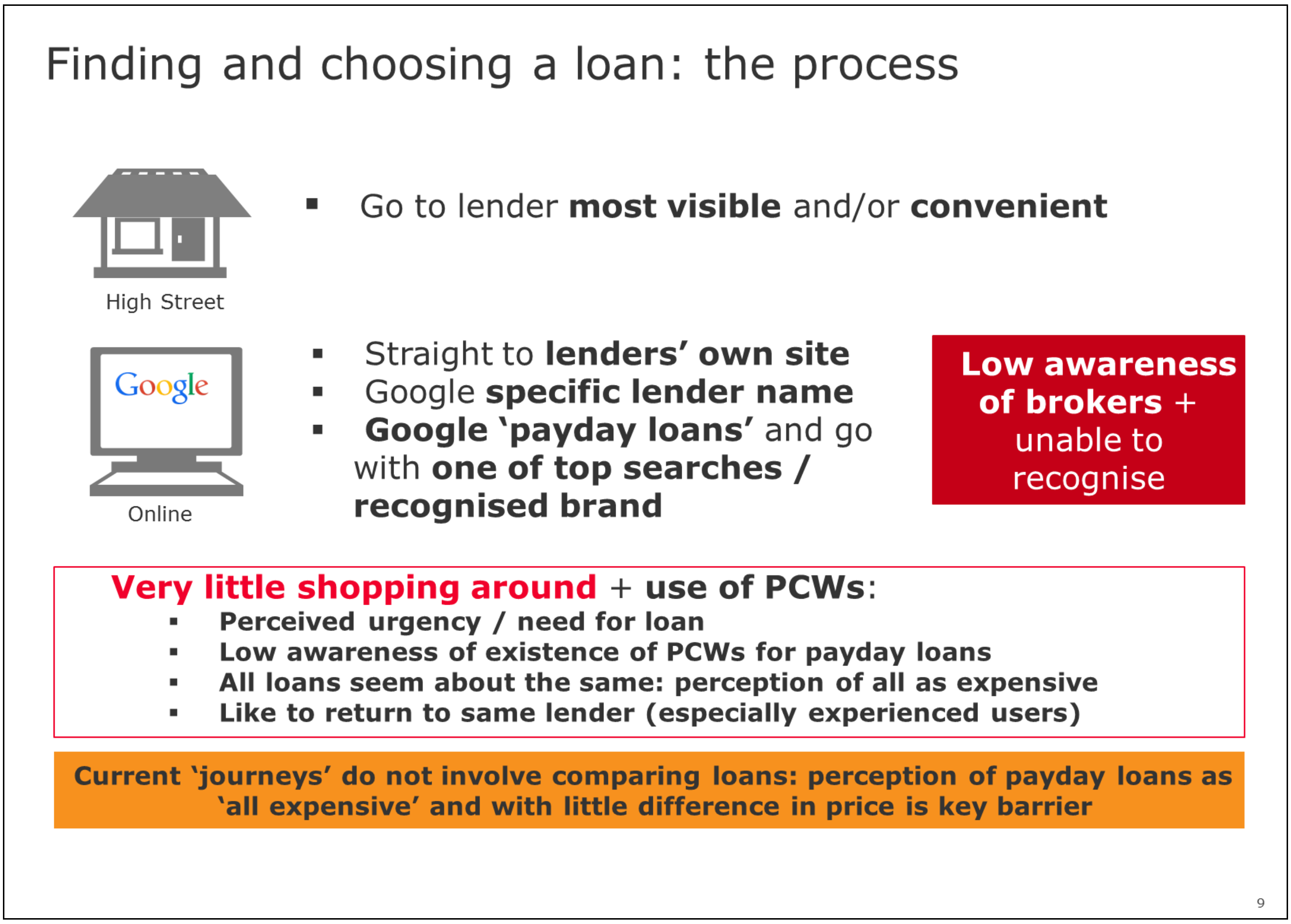
This section examines the process customers went through in order to find and choose a payday loan. It examines:

- the aspects of the loan that customers considered most important
- the process of searching for the loan
- the use of search engines to navigate to lender sites
- the extent to which different search results impact on customer decision-making.



Customers generally wanted a very fast service and consequently, the speed of the application process and the time it took to receive the money were the most important aspects in their decision-making. Following this were the reputation of the lender and whether they were a 'trusted brand'. Cost and flexibility were considered by some customers - generally those who had more experience of different lenders. In general, however, the importance placed on speed disproportionately outweighed considerations of cost.

The process of finding a loan was generally short; both in terms of the number of web pages visited and the time spent reading them. Some customers, particularly those who had taken out loans in the past, navigated directly to lender sites, or typed a particular lender's name into a search engine and clicked through to the lender without paying much attention to the other results. **Opportunities to intercept customers along their journey are thus limited**, as they generally wanted to access the credit as soon as possible.



The process of choosing a loan was relatively short and simple, and consisted of very little comparison of loans and lenders. High street customers did the least comparing between lenders, simply using the shop most conveniently located for them. Customers were often surprised by how quickly they were approved and given the money once they had made the decision to go into a high street lender.

"You go in and have it within half an hour or so." (W1, Norwich, Female, 18-35, 1 loan, Rollover)

As part of the depth interviews, customers were asked to demonstrate how they would look for a payday loan. Generally, online, customers navigated to Google in the first instance, and either searched for a specific lender or for '*payday loans*'. The next step was usually to select the lender that was most familiar to the customer – either due to recommendations, advertising, or previous use - or was high in the search results.

There was very little evidence of shopping around, and where it did occur it was fairly cursory. This was driven by a desire to access the money quickly, and a perception that all loans cost around the same amount, leading customers to conclude that the benefits of shopping around would be limited, as well as adding extra time to the 'journey'. Some customers had looked at more than one lender's site (two or three), in some cases to compare the total cost of the loan, but more often to identify the fastest approval and money-transfer time.

Amongst the sample of customers there were those who were accustomed to using comparison sites more generally and so looked for a payday loans comparison site. The sites they found were assumed to work in the same way as comparison sites for other products, providing 'like-for-like' comparisons.

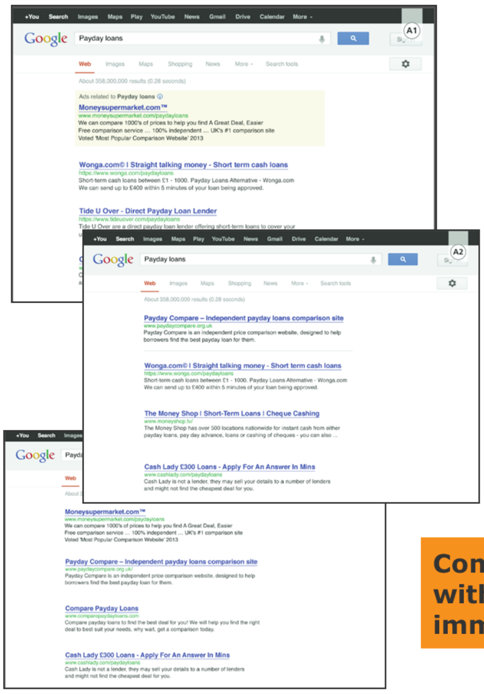
"I use it for everything else – home insurance; car insurance; holiday insurance. So, it was just the first thing that came to mind to have a look on." (W1, Liverpool, Female, 1 Loan)

Regular users of payday loans who used the same lender repeatedly were less likely to shop around. Familiarity or previous experience with a lender sometimes meant that customers would navigate directly to the lender's website. In some cases, repeat borrowers used an app on their smartphone in order to return directly to their previous lender.

Behaviour tended to be slightly different for customers with very low credit scores or a poor credit history. They applied for each loan on a search engine results page in turn, until they were approved. These customers were also likely to use high street lenders.

Finding and choosing a loan: online searches

STIMULUS A : A1-A3



- Many will not use a search but go directly to a well-known lender
- If using a search engine:
  - Tendency to mistrust paid-for adverts
  - Choose well-known brands
  - Avoid unknown brands
- General tendency to look only at top five entries (i.e. very little scrolling down the page)
- No mention of URLs .org.uk/.com

Comparison sites are of some interest, but compete with strongly advertised lender sites – needs to grab immediate attention as online search time is very fast

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In phase 3 of the research, different versions of mocked-up Google search results were used to explore whether and how different results would affect whether a customer would visit a price comparison site. It was also noted that most customers said they would not scroll very far down a results page, often only looking at the top five results.

The most influential drivers of choice reflected the selection process for payday loans generally, as customers were looking for both brand familiarity and results that were high up in the search results. Customers who tended to generally navigate quickly to their chosen lender said they would continue directly to the lender they knew or were most familiar with, without paying much attention to the other links.

"I'd go for Wonga because it says it can transfer within five minutes and obviously if you're looking for money instantly that's your best bet." (W2, London, Female, 18-35, Experienced)

Others expressed more interest in following a link to a comparison website, driven in part by the fact that they had been previously unaware of their existence, but would be interested in using one. When more than one comparison site was listed, choice was determined solely by position in the search results. Higher search results were assumed to be both more popular and more trustworthy. Customers did not notice any other differences between the two comparison sites – despite one being listed as 'independent'. No attention was paid to sites having different domain names (.org.uk and .com), and on discussion respondents did not know what the difference was.

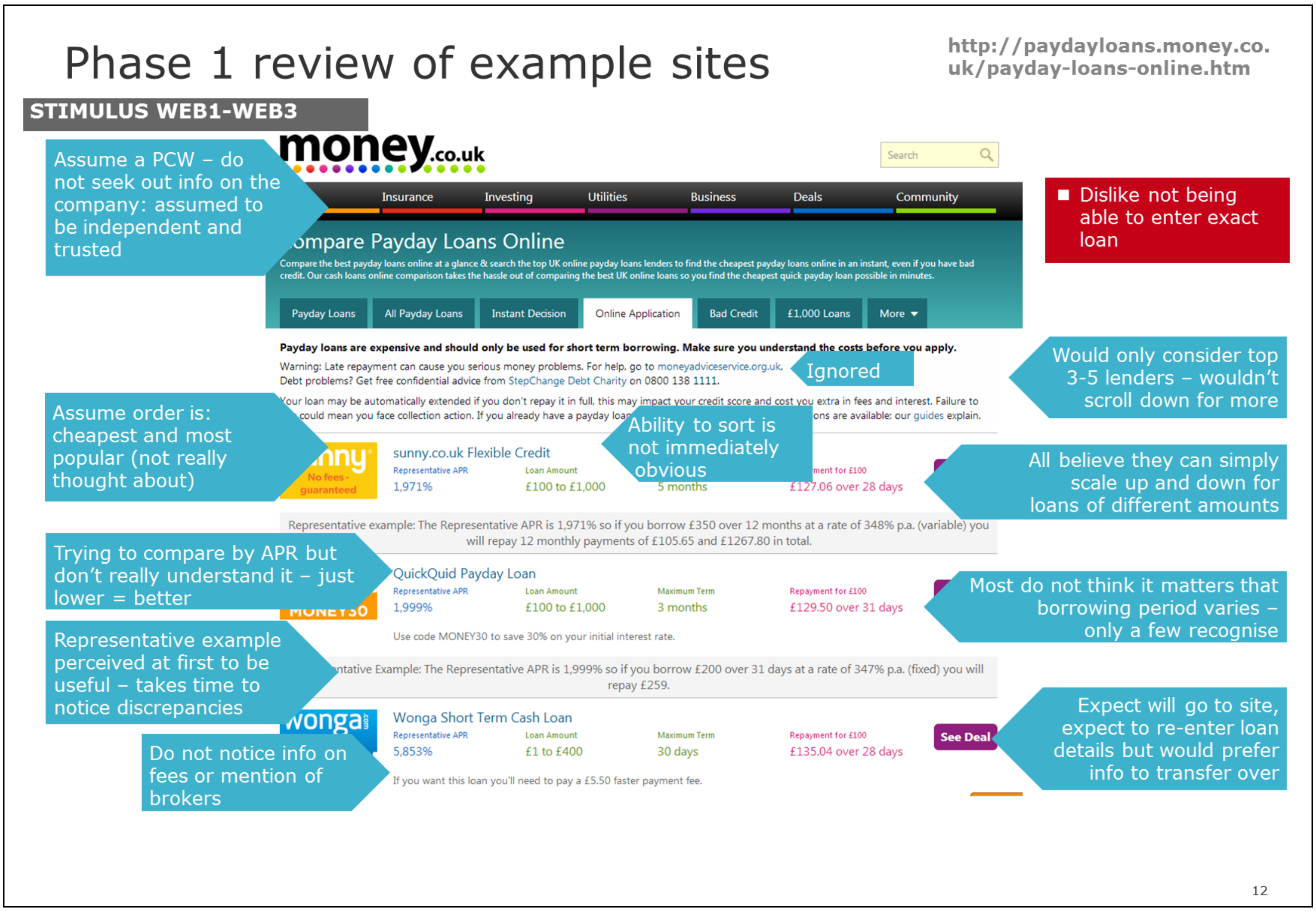
There were divergent views about the trustworthiness of sponsored results. Some customers automatically distrusted any advertised link, thinking it would not necessarily be the most relevant or appropriate site for them, whereas others felt advertisement conferred a sense of legitimacy to the site.

4. Key features of a price comparison site

As seen in the previous section, the most important aspect of a loan was the speed of getting access to the money and with minimal hassle (such as sending ID information, having to make telephone calls) involved.

This section explores the features that customers considered were important to enable comparison between payday loans on a price comparison website.

The section begins with a review of existing comparison sites from phase 1 of the research, including how customers would use them, the features they liked and disliked, and anything they considered missing from the design. Taking this information into consideration, customers in phase 3 were asked to help design a price comparison website enabling the research to explore the relative importance of different features and how they should be presented.



In phase 1, customers reviewed some existing payday loan comparison sites[5], exploring whether they matched up to their needs and expectations. Both sites were used as examples only – to see how customers would use existing sites to make comparisons between lenders and loans.

On the *Money.co.uk* website customers used a combination of the APR and total repayment amount, the branding and the position in the list to choose the loan. They did not spontaneously notice that they could sort by a single variable to re-order the list, nor did they question the order the loans were listed in.

Universally, respondents expected that the example repayment for a £100 loan could be simply scaled up or down for loans of different amounts, e.g. doubled for a loan of £200. Only a few respondents noticed that the borrowing period was not the same, and fewer still felt that this mattered or affected their ability to compare the costs.

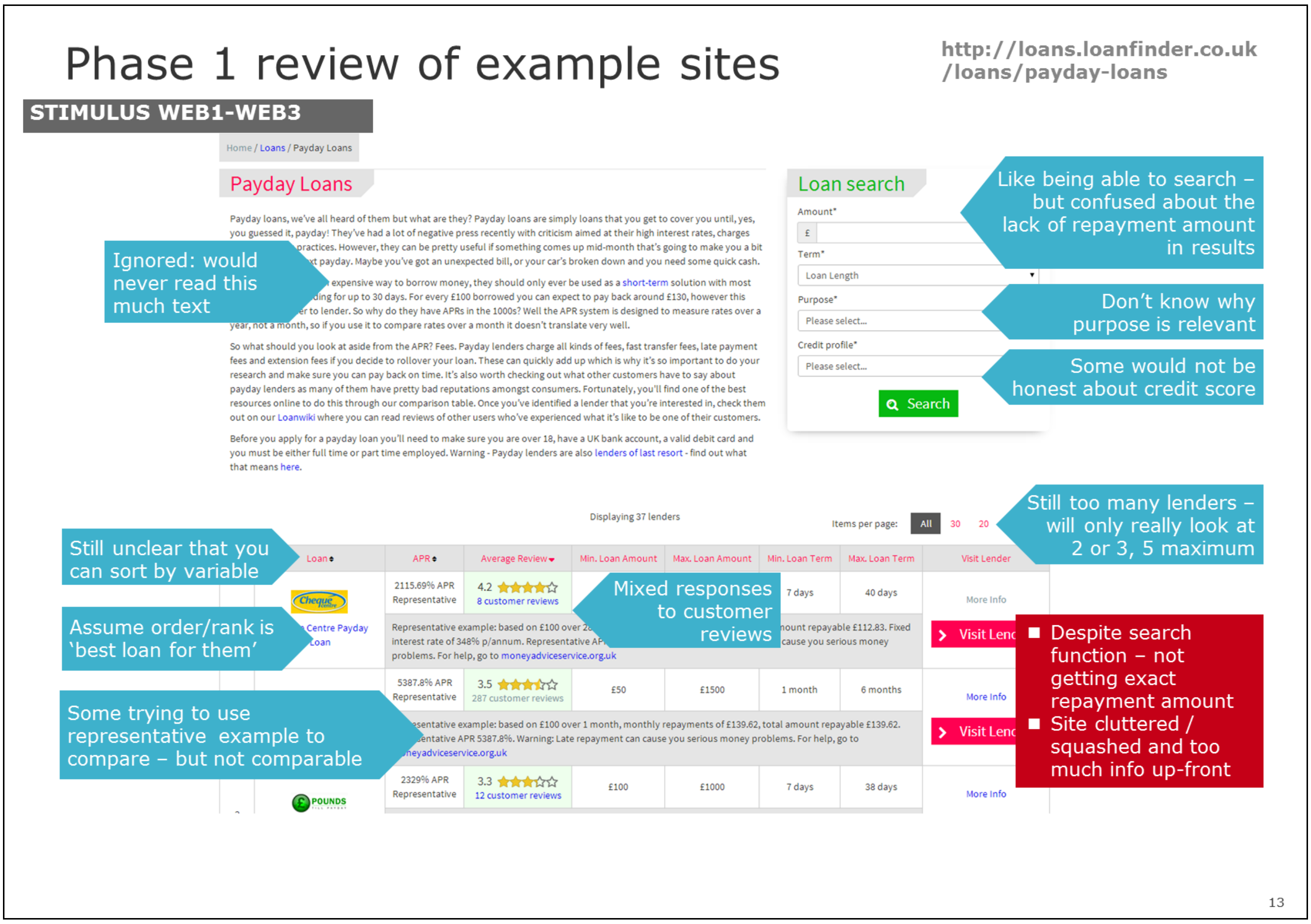
For customers with limited experience, the exercise was quite eye-opening: the existence of comparison sites for payday loans; the differences between different loans, which they had assumed to be minimal; or for some, the number of lenders that exist in the market. As a result their overall response to the site was fairly positive. However, they remained fairly uncritical of potential shortcomings of the site (e.g. difficulty in making a like-for-like comparison between loans).

"This is what I'd look for … the APR. … It's quite a difference, isn't it? See Wonga, oh my god … that is a lot of difference, isn't it? … If I'd have known, maybe I would have gone on this then.

[5] The two sites were http://paydayloans.money.co.uk/payday-loans-online.htm and http://loans.loanfinder.co.uk/loans/payday-loans

If I'd have known, I probably would never have used Wonga, because I honestly thought they were all about exactly the same, but they're not." (W1, Kent, female, 1 loan)

"I'm surprised at how many [lenders] there are … it's useful to know you're not confined to those advertised on TV." (W1, Nottingham, female, over 30, 2 loans)



On the *Loanfinder* site customers preferred the option of using the search function to look for a specific loan, but became confused when the results did not provide the repayment amount. In the absence of this information they resorted to using the APR as the main indication of cost, as well as relying on the ordering of the loans and their familiarity with the lender to help them make a decision.

"[This site] is different. It's not giving me a straightforward answer to my question. It's giving me choice, but it's not giving me my immediate response that I wanted. I would just want my answer." (W1, London, female, over 30, 1 loan)

Very little attention was paid to the information on the site about payday loans, or information about the site itself. Respondents thought there was too much information presented overall, making the site look cluttered and the information they wanted look squashed. As a consequence they were unlikely to scroll very far down the web-site and almost universally would miss the 'important information' at the bottom of the web page.

There was general support for the inclusion of customer reviews on the site, although respondents did not think it would strongly influence their decision. Rather, it would act as a check or deterrent, in case reviews were very limited in number, or on the other hand, suspiciously high (suggesting they did not come from genuine customers).

"If there's someone on there who actually says, 'don't use these, I've had bad experiences', that would put me off." (W1, Liverpool, female, 2 loans)

How the sites were used

Respondents compared the…

- **APR** (seen as easy to compare)
- **repayment amount** (somewhat easy to compare)
- checked against the **reputation** of the lender
- reading **representative example** (but unable to actually compare)

Some using to research, some for both finding and taking out the loan

- Though not having same deal on site separates this
- Some would research lenders separately or apply for loan directly (assume better deal direct)

Assumption that the website 'has done the hard work for you'

- Assumption that the top search results are the 'best'/most popular
- Only a few lenders considered – top 3
- Will never click 'More' – and explicitly want fewer listed

Assumption that the site is independent and inherently can be trusted

- Likened to *Which?*
- Can't see any reason not to trust the site
- *'Registered with FCA'* proves they can be trusted
- 'Broker' info is missed, and not understood if prompted to read

Very few respondents questioned the independence of comparison sites, assuming the 'hard work had been done for them' - they would spend little time on the site and compare 2-3 loans maximum

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The exercise demonstrated that comparisons between loans on existing sites were being made quickly, and were limited to just two or three loans, usually those at the top of the page. Whilst price was the primary tool for comparison, decisions were strongly influenced by whether or not the respondent had heard of the lender.

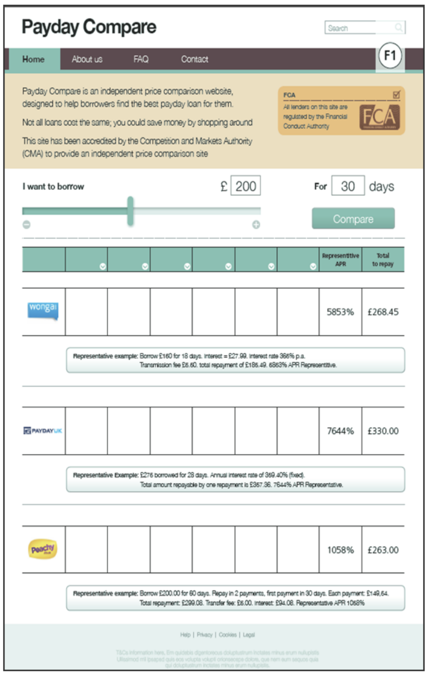
Loans were compared on both the total cost and the APR. APR, whilst generally not really understood, was perceived as being easy to compare, and acted as a proxy for price when the total repayment amount was not listed. Respondents tended to look briefly at the representative example, but were unable to use it to compare loans as the loan periods were often different.

Customers felt they would use the site in fairly distinct ways. Whilst some would compare on the site, and then simply click through to their chosen loan, others said they would use the site as a first point of reference, and then navigate separately to the lender site. The latter customers felt they may get a better deal by going directly to a lender, rather than through a third party. This was linked to higher knowledge and experience of broker sites, and suspicion of sites that looked like comparison sites.

A key finding from reviewing these sites was that in general, respondents trusted existing payday loan comparison sites and perceived them to be 'classic price comparison websites' even though they did not provide like-for-like comparisons. Loans were assumed to be listed in order of their popularity with customers or their price – customers automatically assumed that the site would be working in the consumer interest.

Using a price comparison site: valuable features

STIMULUS F: F1 – F2



Key requirements

Requirement	Reason
Total repayment + fees/charges	Essential to know how much will repay
Speed of processing	Require money urgently
Documents / phone call required?	Minimum hassle / no documents / phone calls
Warnings / links→ money management /advice	Serve as warning / help

Second tier requirements

Requirement	Reason
Late fees	Useful for light users /experienced users less interested
Rollover facility	If caught short and unable to repay on time
Maximum period	In case need to borrow for longer than expected
Maximum amount	Where consistently borrow large amounts

Nice to have

Feature	Reason
Minimum amount	High minimum amount may tempt to borrow more
Minimum period	No desire to borrow for longer than need
Eligibility	Useful for shopping around / not if wedded to brand
Discounts	Little awareness but seen as easy way to save money
Customer Reviews	Often used for other purchases / concerns about truthfulness

Essential to know total repayment including (up-front) fees - other variables depend on individual circumstances and priorities

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In phase 3, a generic website was designed and used with customers to explore in depth the key features they would want on a payday comparison site in order to make a true comparison. APR and the total to repay (based on a specific amount and borrowing period entered) were already part of the site design. Participants selected other columns that they would want to sort or compare by.

Respondents felt that it would be most important for them to be able to compare by cost, and for that to include all up-front fees and charges. There was also widespread support both for an indication of how quickly they would be able to access the money, and the level of documentation or interaction that would be required to be approved for the loan.

"If you need it [money] for something urgent … you want to know [the time taken to process]." (W2, Birmingham, Mixed Gender and Age, Experienced)

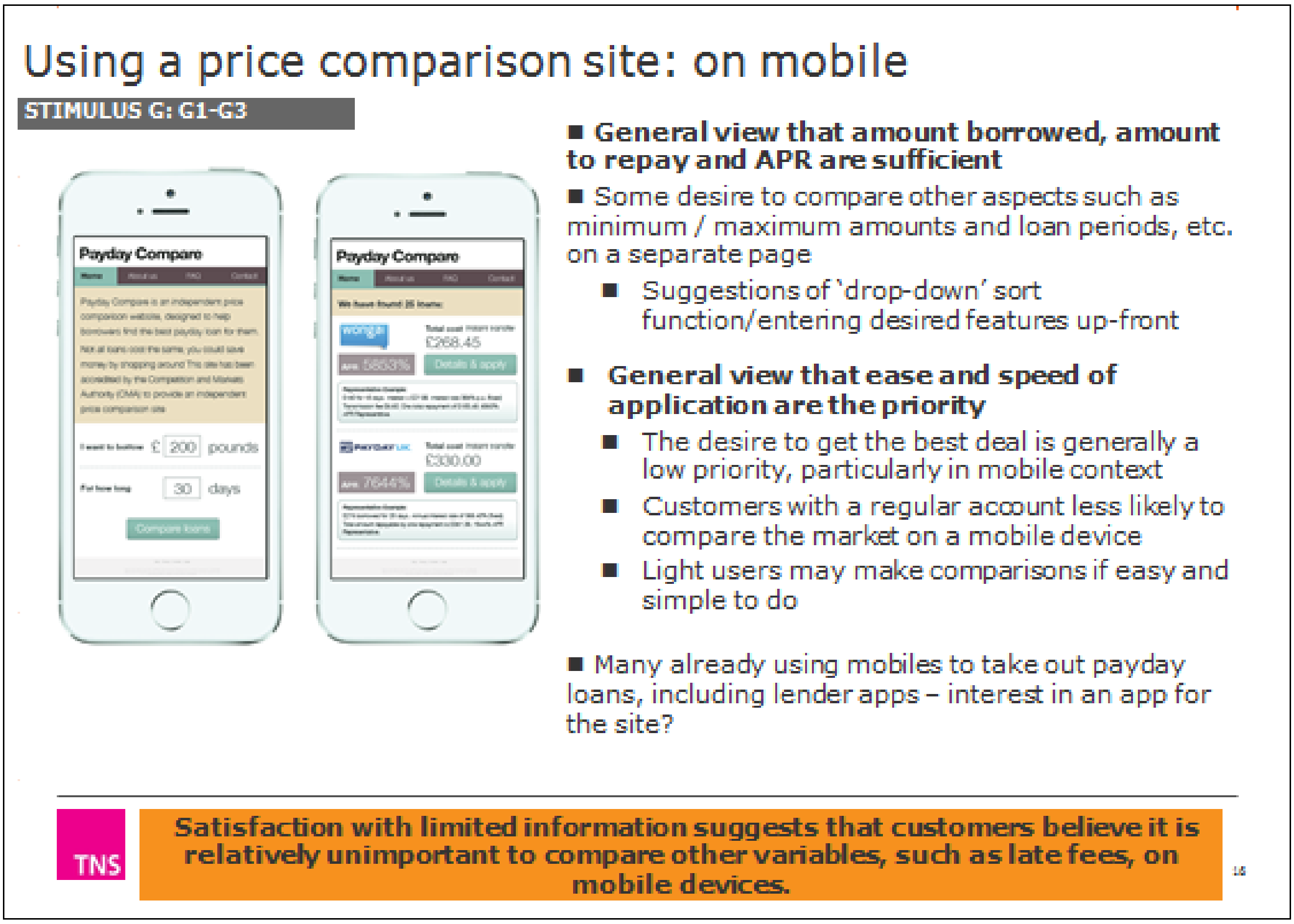
There was strong interest, particularly amongst less experienced users, to see information about late fees up-front. Respondents felt this would not only be useful as a differentiator between loans, but would also serve as a reminder that late fees could be incurred (as they did not have a high level of awareness of this).

Amongst women there was greater interest in flexibility of repayment, including whether the loan could be extended or whether there would be the option to pay in multiple instalments over a longer period. To some extent this drove interest in seeing the maximum borrowing period for a loan – as respondents thought it would be useful information should they be unable to repay. Others were interested in the maximum loan amount offered by a lender, which they thought would be useful knowledge in case they wanted to return to a particular lender for a subsequent loan.

"…next time, if you liked that company, then you want to choose them again but it was a higher amount, you'd think 'well, I know they go up to this amount, so I'll stick with the company I know'." (W2, London, female, 18-35, experienced users)

There were varying levels of interest among customers about whether there should be an indication of how eligible they would be for a payday loan, customer reviews and discounts, based on individual circumstances and past experiences. Customers with good credit scores felt eligibility was irrelevant to them, and often additionally thought payday lenders did not discriminate against who they lent to. Those with lower credit scores or experience of being turned down for loans in the past spontaneously raised eligibility as a useful feature. Discounts were appealing to some, particularly if they had been used in the past to enter the payday lending market. Customer reviews were thought to be a feature that would be a useful check, to flag rogue lenders or those with very bad customer service.

It is worth noting that for certain respondents, the total cost was the only information deemed worth including. Though they were able to identify variables that could be useful for *other* customers in certain circumstances, they viewed these as largely irrelevant for themselves. Though respondents were easily able to discuss the kinds of features they would imagine there to be on a comparison site, this did not necessarily constitute an interest in using them.



Once customers had designed their ideal price comparison site, they were asked to explore the features they would want on a mobile site, formatted to fit a smaller screen, such as a mobile phone. It was interesting to note that when space was limited customers were satisfied with very little information - just the loan amount, the total to repay and APR. This in part underlines their lack of conviction that other variables were worth comparing, or that this could make a significant difference to the total amount they repaid.

"How long; how much; what do I have to pay back – that's the bottom line, all I need to know." (W2, Nottingham, Male, 36+, Experienced)

Customers felt that should they need any more information, depending on their circumstances, they could click through on each loan individually. Alternatively it was suggested that consumers could enter information up-front about specific needs, such as quick approval, and get search results based on those restrictions, or there could be drop-down menus allowing them to select different features on which to make a comparison.

Further, customers felt that attempting to take out a loan on a mobile device was an indication of urgency and needing the money quickly. As such, they felt customers using mobile devices would be uninterested in comparing and far more willing to pay a premium for speed of approval, access to the funds, and convenience. Some experienced customers had applied for loans via their mobile phone, occasionally through lender apps, and suggested that a comparison site could similarly offer an app to encourage customers to compare.

"I think that's enough [APR and total cost], because personally I don't think anyone would be in a situation where they'd need to apply right there on their phone. I think everyone would want to wait to get home and read a bit more." (W2, London, Female, 18-35, Experienced)

Additional fees and charges

- Mixed views on including information on fees / charges
  - some see as a good idea (brought up spontaneously) : would **prompt thoughts about ability to pay** / the **possibility they may pay late**
  - seen as good for '**transparency**'
  - others **would not pay attention** to this: (over-) confident in repayment?
- Generally negative about idea of loans being offered for longer periods of time – with longer to pay back:
  - '**defeats point' of payday loan** which is a 'short term loan' : might deter from using them
  - could have **negative impact on financial management** (would be less 'strict' with self, if longer to pay back and could tempt people to borrow more)

"I think it will ruin their finances, because you think, 'oh, I have 2-3 months to pay £200 back', whereas if you were in a tighter spot, you'd be more strategic or stringent about, 'OK, I need to pay this back in 30 days." *(London, Under 35, Female)*

TNS

Fees and charges more useful to new / low level users.
Desire to retain short terms (such as 5 days) as meets needs: generally negative about longer terms and potential for greater indebtedness

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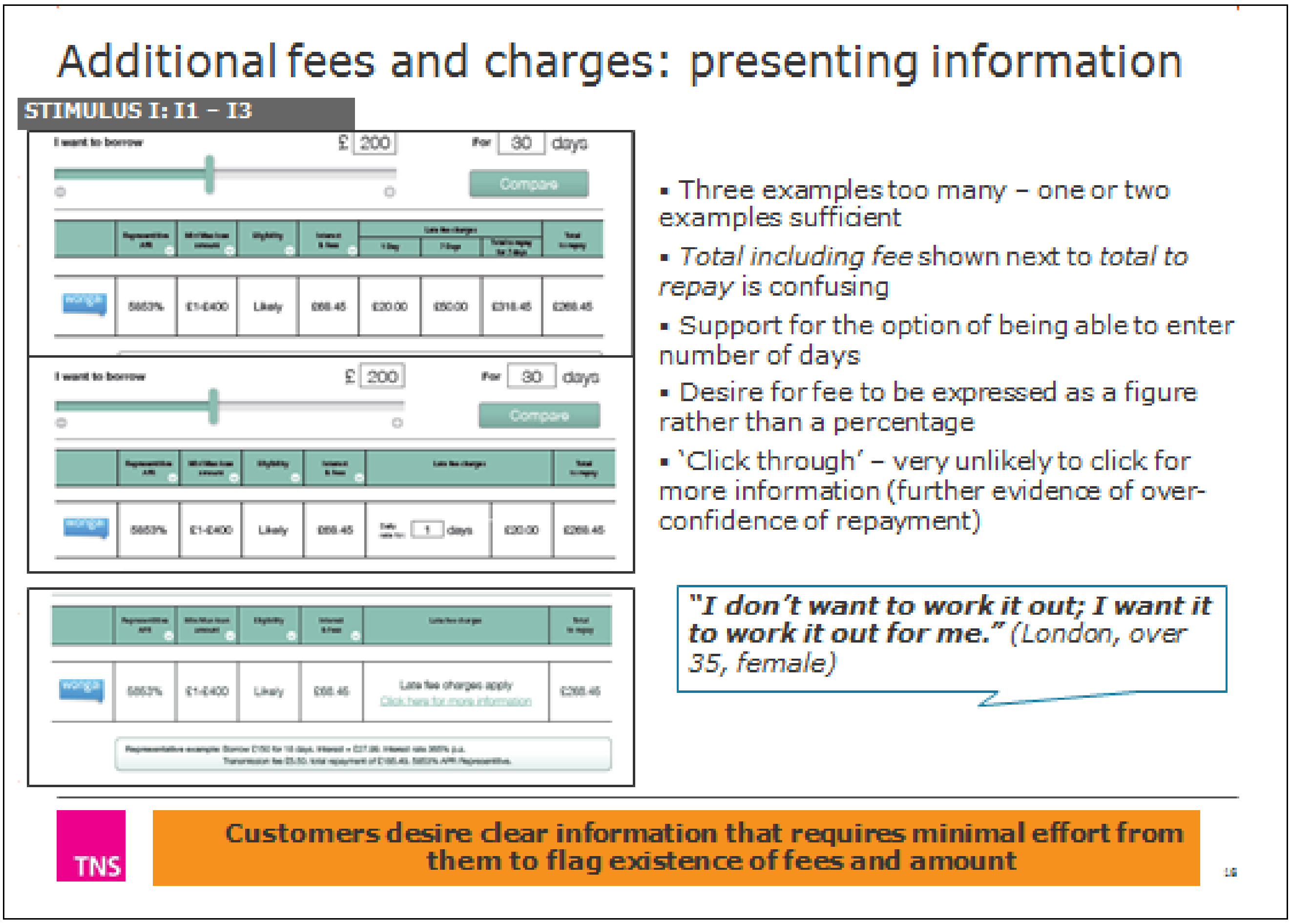
Views about the value of including information about late fees and other additional charges on a price comparison site were mixed, and linked to borrower experience. Younger users, who scheduled repayment to fall after their regular salary pay date, felt it was irrelevant to them, as they were always able to repay on time. Similarly, users who borrowed from a single lender were more likely to disregard information about additional fees on the basis that they were confident about the terms and conditions and their ability to repay on time. Despite this however, customers generally agreed that including additional fees could be beneficial at least to some users, and also provided greater transparency.

"You need to know how badly you're going to get stung if you can't afford that payment that month." (W1, Norwich, Mixed Gender and Age, Experienced)



Different options for presenting information on additional fees and charges were explored. As customers felt they may be likely to skim through information about additional fees, they stressed the importance of keeping the presentation clear and simple, with fees expressed as a stand-alone amount rather than a percentage.

There was support for showing one or two columns about additional fees and charges, such as the cost of being a day late fee in one column, and the cost of being a week late in the next. The idea of being able to enter a specific number of days was seen as flexible and potentially useful in certain circumstances. Adding more than one or two columns was thought to make the site cluttered and difficult to read.

All the customers in the final phase of the research said they would be very unlikely to click through for any more detailed information about fees or fee structure – reflecting the general principle that information should require minimal effort on their behalf. This reluctance to seek out detail or further information about fees reflects customers' attitudes at the time of taking out the loan: a desire to be able to make a quick decision, potentially underpinned by over-confidence in their ability to repay on time.

"It starts to look too busy then, you just think 'is it worth my time?'" (W2, Birmingham, Mixed Gender and Age, Experienced)

Eligibility

STIMULUS J: J1-J2

- **Some awareness of impact of rejection on credit history** (more among higher users): all would prefer to know before
- Seen as useful to include information on likelihood of approval (some raise spontaneously)
  - particularly important for unemployed / those previously turned down for loan
- Agreement by all that it **should be stated on site**

- **Most accept need to provide information**, but would prefer to have **option** to fill in or not
- **Most willing to fill out**, although would be **put off if very long** as perceived to be a 'hassle'
  - more likely to if information is then carried through into application
- Highlight that some **people will lie** about details in any case

Need to…
▪ **make impact on credit history clear** and **reassure about** the **purpose of information: for checking likelihood of approval**
▪ **reassure that filling out the profiler will in itself not impact credit rating** (some preconceptions that it will)

Customers need to be shown why eligibility information worth it and be reassured that details won't be shared / won't affect credit rating – and needs to be easy to do (would not request if substantially slows down the process / have to repeat information later)

19

The idea of including indications of loan eligibility emerged spontaneously in both waves of the research amongst customers who had greater financial knowledge (for example, because they worked in finance), had experience with brokers, or had been turned down for loans in the past. However, amongst inexperienced users in particular there was relatively low awareness of why eligibility might be useful, and the fact that being turned down for a loan affected credit history. Once learnt, there was a desire for this to be more widely publicised.

Once aware that applying for a loan (and also being refused) would be noted on their credit record, customers were mostly willing to trade off the hassle of entering personal information against securing an indication of the likelihood of approval. However, bad experiences with brokers – who were rarely recognised as such – fuelled discomfort with providing personal information on payday lending sites. This had led to the association of price comparison sites for payday loans with credit score deterioration, and lack of data security.

The following messages would need to be clearly communicated to customers in order to convince them of the value of checking loan eligibility, as well as assuage fears about any potential impact on their credit history or information sharing with lenders:

- That being turned down for a loan can affect their credit history;
- That using the search function on the independent site *would not* affect their credit history;
- That the information was being collected for credit checking purposes only, and would not be shared with any third parties.

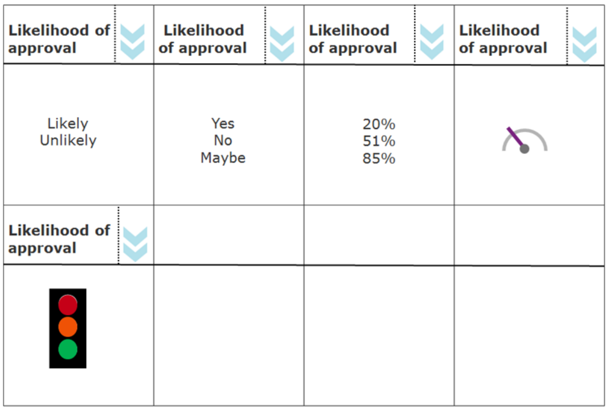
There was support for the idea of details, once entered, being transferred over to a lender site for application. This was in regards to personal information as well as the specific loan entered.

Whereas many felt this would encourage them to use the eligibility search function, others felt it was a ‘nice to have’ and that an indication of eligibility was an incentive in itself.

Given that speed was often of the essence, customers were quite clear that if information was not transferred from the comparison site to a lender of their choice they would be less likely to use the comparison site in the future. This was because customers were very reluctant to spend very much time taking out a loan.

Eligibility: presenting information

STIMULUS J3



- No clear winner for ways to present information
- Some preference to see information that is **easy to interpret:**
  - Clear cut: **yes / no** or **traffic light**: would prefer to know definitively
- Some wanted two indicators **coupled together**, e.g. Likelihood and **%** (for extra detail)
- Preference for **only eligible lenders to appear in the list**

If eligibility information presented, general desire for a definitive answer

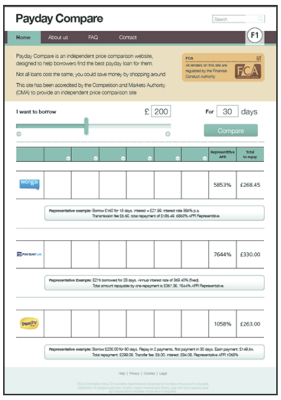
20

There was not a clear preference for the way in which eligibility information should be presented, although overall customers preferred clear and simple options that were easy to interpret. Ideally customers wanted definitive answers – 'yes' or' no' – potentially coupled with a traffic light system or percentages for extra detail.

A traffic light automatically tells you whether it's good or bad, but then you'd want to also know how good we're talking, because it could be good and yet it's 51%." (W2, Birmingham, Mixed Gender and Age, Experienced)

Customers were very clear that once they had entered personal information, only loans for which they were eligible should be included in the list of results returned.

Using a price comparison site: key needs



=

- **Clear and obvious 'sort' function**
- **Total repayment for <u>exact</u> amount / loan length clear; no need to make own calculations**
- **Uncluttered, simple layout and 'look and feel'**
- **Use of sliders liked because easy to use and familiar – although temptation to get more than you need?**
- **Like-for-like comparisons throughout**
- **Explanation of terms, e.g. APR (hover-over)**
- **Include money management tools / warnings about payday loans**

"It needs to be specific to your needs, rather than just giving you a general overview… if you fill it yourself, and just say 'look this is how much I want to borrow, this is how long for' it will give you specific data back." (W1, Norwich, Mixed Gender and Age)

Customers can identify key comparison variables - BUT, whether they will use a comparison site is a different matter

21

Customers fairly familiar with the concept of price comparison sites were able to identify the features they would want to see on a payday loan comparison site. In some respects these reflected the generic features offered on existing sites for mainstream credit, such as APR and the total cost of credit. They were also clear that they would want them to work in the same way as other price comparison sites, being able to search within specific parameters and see relevant search results presented as like-for-like comparisons, and to easily sort by different variables. **Being able to compare the total cost for a specific amount borrowed was central to making the site useful.**

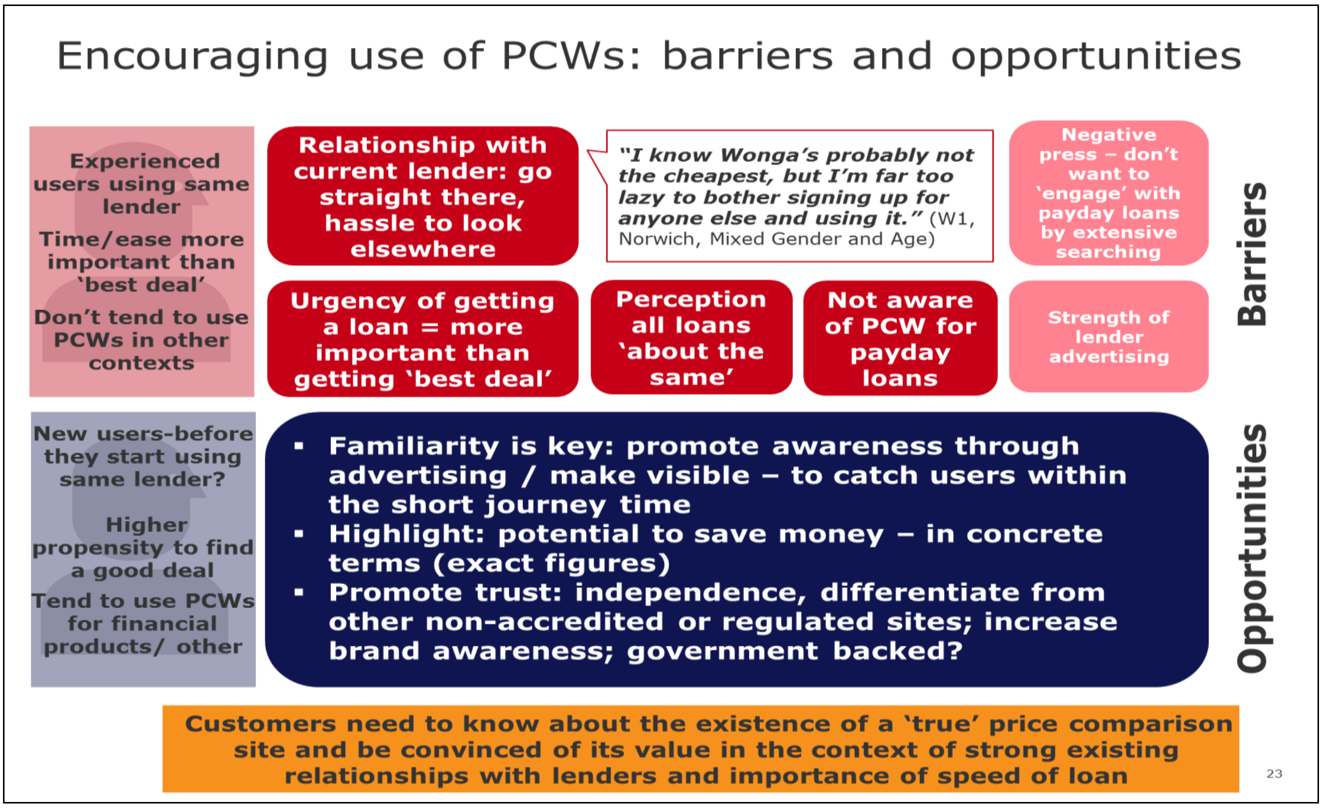
Customers also identified features specific to payday loans that they thought would be useful to include on the site, such as money management or reference to debt advice websites. They also thought that as some customers could struggle with financial information, simple explanations of terms could be made readily accessible – through hover-overs for example.

Whilst customers were readily able to think of the features that they would want and expect to see, there were mixed views regarding the utility of such a site. Some respondents felt they would be highly unlikely to use such a site in practice, even if it included all the desired features. This is in part because some customers are wedded to their existing lender and in part there continued to be a view that *'all lenders are the same'*. The challenge of encouraging customers to use such a site is explored in the next section.

5. Encouraging use of a price comparison site

Sections 3 and 4 outline some of the existing challenges around encouraging customers to compare payday loans. This section looks more closely at the barriers to getting customers to seek out and use such a site, and how to overcome them.

As seen in section 3, Google search results pages had somewhat limited impact on certain customers, who preferred to go directly to lender sites rather than use a comparison site. This section looks at the potential for linking an independent comparison site from both lender and broker sites. Different options for ‘pathways’ to a comparison site and the number of accredited comparison sites that should exist are explored, as well as the ideal affiliation for the site to secure customer trust.



The following barriers can discourage customers from seeking out and using comparison sites:

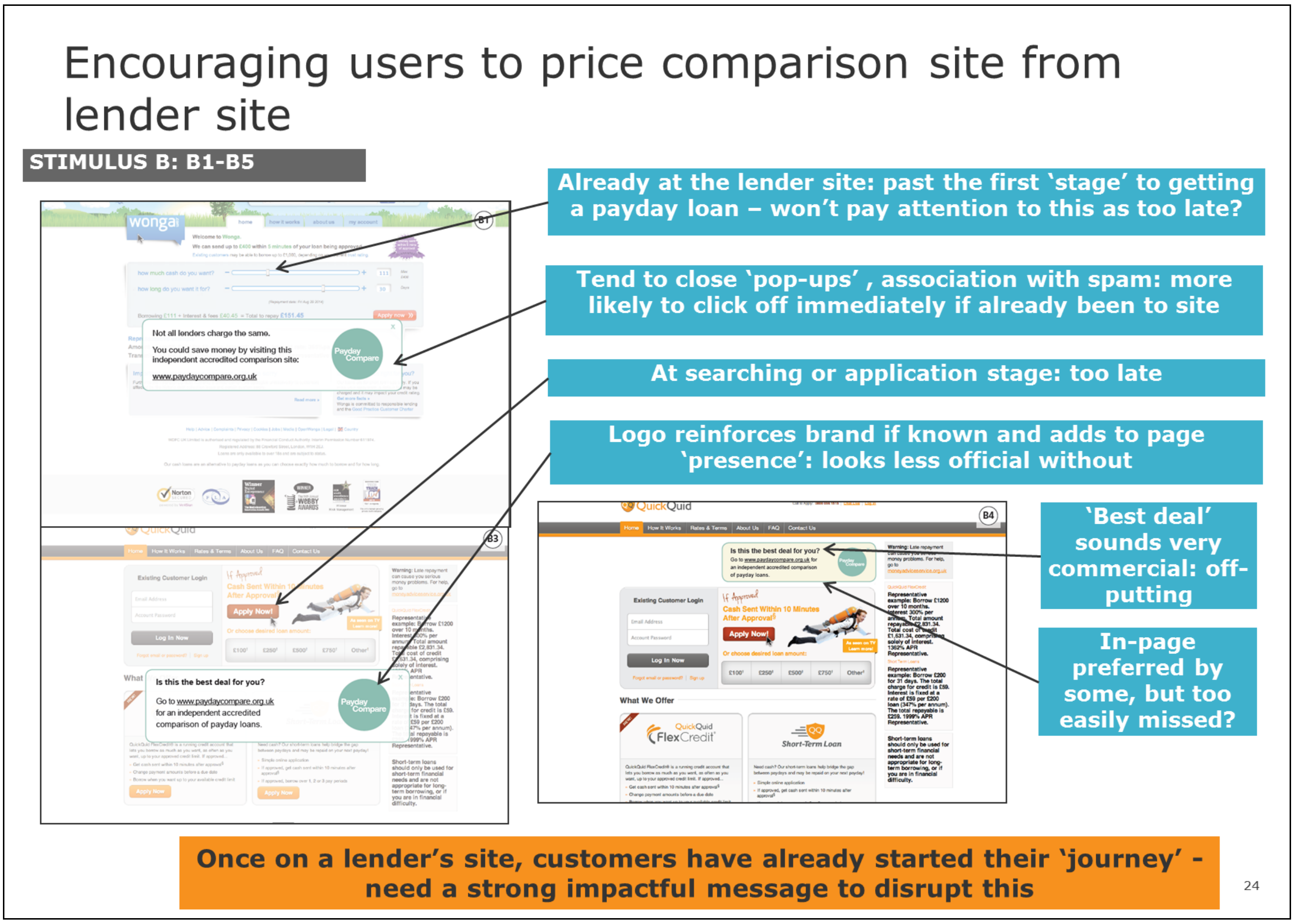
- The importance placed on speed: where speed is seen as more important than getting the best loan for a customer's needs. Customers want the money quickly and want the process of finding and applying for the loan to match this. The urgency – or the perception of urgency – inhibits the customer's ability and willingness to engage with the process.

- The perception that all lenders offer similar deals: as customers assume that all payday loans are expensive, and that there is very little difference between loans. The expectation is that any difference would only be a few pounds.

- A strong relationship with a single lender, buttressed by: the strength of advertising; a lack of awareness of other lenders; fear of using more than one lender; and the ease of securing repeat loans with an existing lender. This group, for whom convenience is key, represents the biggest challenge in terms of encouraging customers to compare loans – which is perceived as too much hassle for limited gain.

"I wasn't going to hunt round for say maybe £10, £20 cheaper if it was going to take me all day to do it, where I could have just got it there and then." (W1, Liverpool, Male, 36+, 1 Loan High St)

Newer customers, and those who tend to compare other products using comparison sites, were more interested in the idea of using a price comparison site. Repeat borrowers who have had a negative experience with a particular lender are also a key group who may then use a comparison site to seek out a better option. Opportunities for encouraging these customers lie in the visibility and familiarity of the site, the potential value expressed in concrete savings to the customer, and an emphasis on independence in a market where customers are wary of many companies.



Given that many customers navigate directly to lender websites, the potential for intercepting customers and signposting them directly to the comparison site was tested. Both QuickQuid and Wonga homepages were used in stimulus examples, with exploration of each site being rotated across the groups in order to remove any order effects.

For each site a variety of 'pop-ups' were tested. The impact of the pop up was tested at three stages of the journey: (1) on the landing page, (2) when the customer enters loan information, or (3) when the customer clicks 'Apply'.

By the time customers landed on the lender homepage, their loan 'journey' was already in progress – so it was already a challenge to disrupt them and draw their attention to another site. This increased the further they got along their journey on the site: at the stage of applying for the loan, it was deemed 'too late'.

"I would do as you land, because by the time people apply they just want to know if they've gotten it." (W2, London, Female, 18-35, Experienced)

Customers largely associated pop-ups with spam, and more experienced users especially felt they would automatically close one without reading it. If embedded in the page, rather than a pop-up, however, customers felt they would be unlikely to notice any messaging or links unless it really stood out visually.

Respondents agreed on a number of features that would be needed to prompt them to take notice of a pop-up:

- to distance it from spam, it would need to look official and professional and include an official logo (preferably one they were familiar with)

- it should cover a substantial part of the page, including any part of the site where a customer would enter loan information
- it would need to have a strong message to grab their attention, quickly convincing them of the value of using the site
- it would need to include clear examples of concrete savings, rather than generic messages, to maximise impact
- key messages would need to be in the first sentence or first few words in order to effectively grab attention, as respondents were likely to skim information
- mechanisms could be built in to slow customers down, by forcing them to interact or answer a question, or having a minimum time the pop-up remained on screen (as otherwise they would be likely to close the pop-up without reading it)
- the language used in any messaging should read as a warning, rather than suggesting anything commercial – as otherwise they would assume that it was attempting to sell them something.

Encouraging users to price comparison site from lead generator sites

- **Some experience** of lead generator sites (tended to be experienced users); generally **low awareness** and across all: **difficulty in identifying these sites**
- Feel that they **need to know** but recognised they are **highly likely to miss warning** – so message needs to **stand out and get to the point quickly**
- **Key messages seen as discouraging:** *"sell your details"; "pass on your details"; "may not be the cheapest or best loan for you"*
- **'Softer messages' do not resonate/are confusing** e.g. *"introduce you to lenders"* : sounds positive

- Initial feedback on how information should be presented:
  - **Short and succinct** e.g. in bullet points
  - **Bold and top of page and/or pop-up which you are forced to interact with** e.g. tick a box to confirm you have understood
  - **Key negative message up-front**

Well-crafted, impactful messages, are very likely to move customers away from lead generator sites

28

Lead generator sites were not widely known about or understood, with a few exceptions amongst those who had, sometimes inadvertently, used them. Customers were unable to identify lead generator sites and were surprised by how they worked, given their assumption that price comparison sites (or sites resembling them) worked in the consumer interest.

"Unless you go down and read the really tiny print at the bottom, you can't always tell." (W1, Norwich, Female, 36+, 2 Loans, Rollover)

Once lead generator sites had been explained to them[6], customers felt strongly that their existence – and how they worked – should be made very clear. This was driven by the view that lead generators appeared to be deliberately disguising themselves as lenders, and were not being transparent about the practice of sharing personal details with lenders.

"I don't like brokers, because they just pass your details on to loads of lenders, and then you get bombarded with emails, letters and phone calls." (W1, Norwich, Female, 36+, 2 Loans)

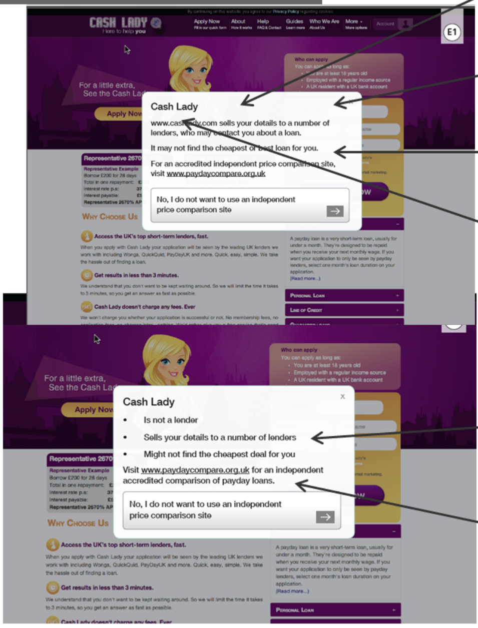
They supported blunt, unambiguous messages that could communicate the nature of the sites quickly and clearly. Messages which resonated most were those which said the site would '*sell your details*' and '*may not be the cheapest or best loan for you*'. Phrases which allowed any ambiguity about lead generator sites were felt to be inappropriate and misleading, for example *'the site introduces you to lenders'*.

"It should be made clear that [your] information will be shared with 3rd parities." (W1, Nottingham, Female, 18-35, 1 Loan)

[6] See Appendix B: 7 and 8 for the information presented about lead generators.

Encouraging users to price comparison site from lead generator sites

STIMULUS E: E1 – E3



Immediately off-putting: 'sells' your details – reads like a warning

Pop-up much more noticeable due to bigger size and background darker

Likely to read/engage as you have to click against the statement: forces interaction

Mixed views about link to PCW here: for some, encourages; but for others, concern that the PCW is also 'dodgy' and would not go to link and would leave site entirely

Bullet points preferred: clearer layout and easier to read what it says

No real difference if 'org.uk' or '.com' although '.com' sounds more commercial. 'gov.uk' would be preferred: sounds official

Broker messages well-received, especially when broken down; but potential for comparison site to be negatively associated

27

The most effective messages from phase 1 were taken forward into phase 3 and turned into pop up messages appearing on a mock-up of a lead generator site. The pop ups were testing the potential to intercept customers on lead generator sites, inform them about the way in which the site worked, and also signpost them to a price comparison site.

The unambiguous messages used on the lead generator sites were effective at encouraging customers to leave the site and go to the price comparison site instead. This was driven by widespread surprise about the existence of lead generators and those aspects of this business model that were perceived to be unattractive by customers.

As with any pop up, respondents knew they would be likely to only skim the text and would be put off by anything that looked too dense or complicated. As a result, they felt that the pop-up would need to stand out visually and look like a warning message. Text would need to be broken down into bullets, and the message that brokers 'sold customer details to lenders' would need to be in the first sentence, and in bold type.

"You can't help but notice it. … 'Sells your details' and 'it may not find the cheapest loan for you' … it comes across as very honest." (W2, Nottingham, Male, 36+, Experienced)

There were mixed responses to the idea of linking a price comparison site directly in the pop-up, as some respondents thought the comparison site could be 'tainted' by association with the lead generator. Ideally, in order to counter this, the link would be a gov.uk site, and would look official.

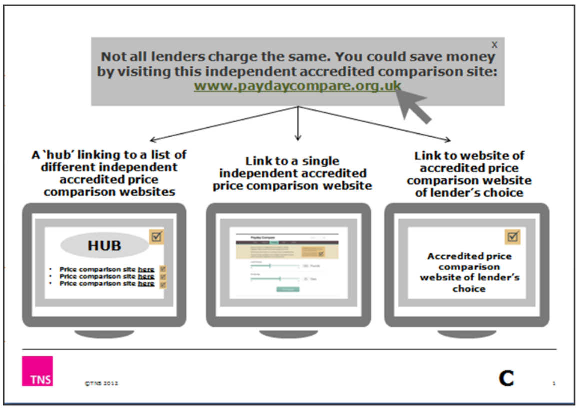
"If it's a government site, then there's going to be stronger legislation; they're going to be more answerable; they're going to be more responsible with how they use your details; with

how they lend you money; with how they chase up any money they need to chase up." (W2, Birmingham, Mixed Gender and Age, Experienced)

Encouraging users to price comparison site: options of ‘pathways’

STIMULUS C

"The first one ['hub'], I close things like that all the time. When you get a list of stuff, it's just 'ah, I can't be bothered with that, get rid of that'. That one [single independent accredited PCW] takes you straight to it. The third one [accredited PCW of lender's choice]; I'd be worried it's biased." (W2, London, Female, 18-35, Experienced)



(More choice) BUT too many click-throughs and too many options to choose from – not liked overall

Preferred option: clear and what you’d expect but needs to be trustworthy

Don’t trust lenders’ own choice: some assume it would have lenders’ deal as first on site

Essential to be directed to a single independent comparison site - ‘Hub’ seen as slowing down the process and much less likely to use

30

In Phase 3 of the research, three potential options were explored for ‘pathways’ to loans through comparison sites:

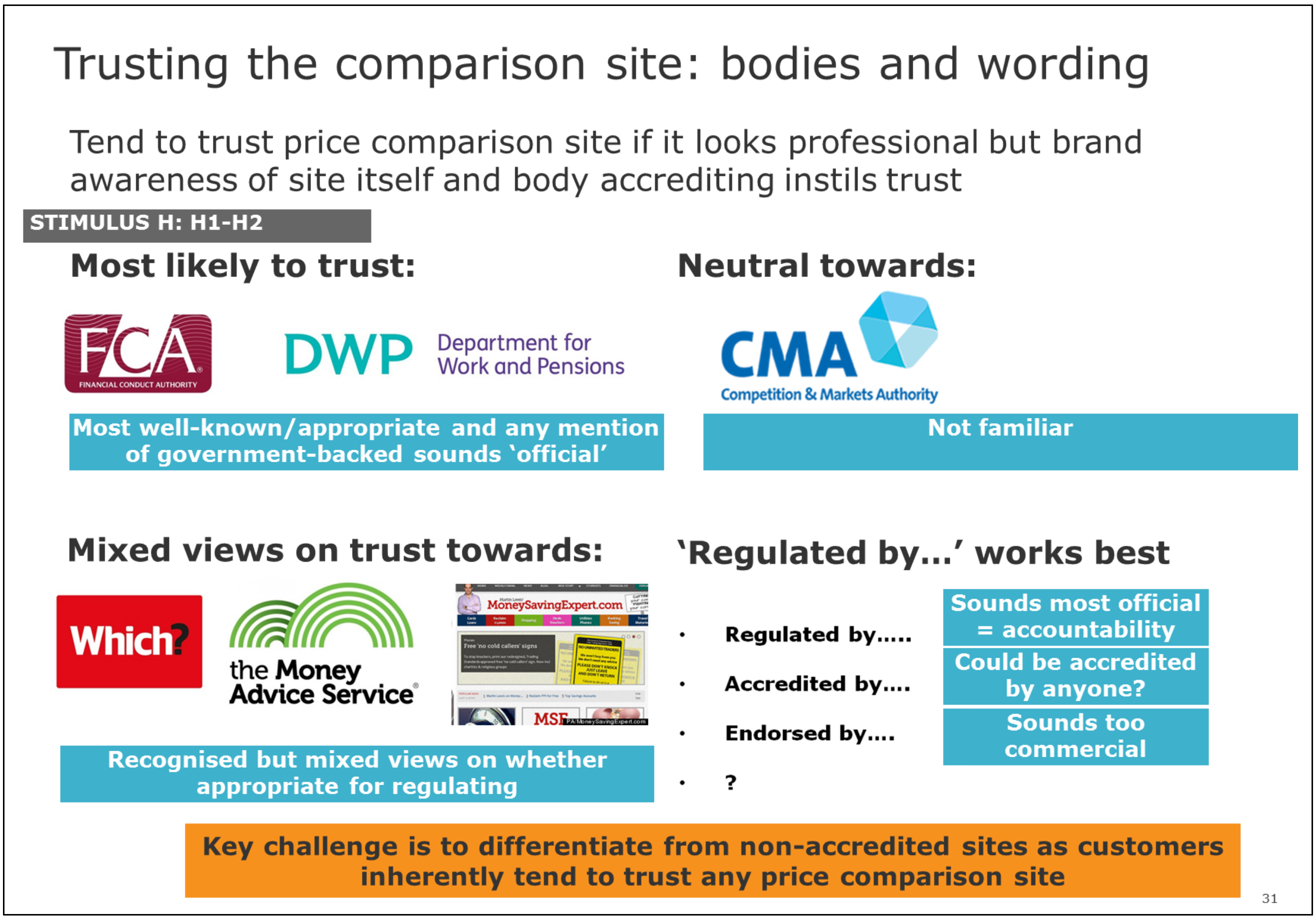
- A ‘hub’ site, linking to a list of different price comparison sites, all of which would be independent or accredited. Customers would be able to access the ‘hub’ site in order to select a comparison website.
- A single independent price comparison site.
- Multiple accredited comparison sites would exist, and lenders would be able to link customers to their chosen accredited price comparison site.

Given the importance of speed, respondents thought it would be essential to minimise the time and number of steps required to navigate to a comparison website. The idea of introducing an interim step – comparing list of different price comparison sites – struck them as counter-intuitive, and would potentially put them off using a comparison site at all. Their preferred option was to have a link to **a single accredited comparison site that they could trust**.

“I don’t want to see too many comparison websites; it’s making it too complicated for me.” (W2, Nottingham, Male, 18-35, New / Light)

Further, some respondents did not see the point of there being more than one price comparison site, as they assumed they would all contain the same information. Others felt it would be difficult and confusing for consumers to choose between comparison sites.

Respondents ruled out the third option – a comparison site selected by a lender - as any perceived independence would be undermined by lenders having a choice in the site.



As discussed in section 3, customers inherently trusted 'comparison' sites, including lead generator sites, generally assuming all such sites would be independent, regulated and providing a service in the interests of the consumer. As such, the specific branding of the price comparison site is arguably somewhat immaterial; given customers assume that they are protected and that the market is being regulated. However, respondents did express views about particular bodies who they felt were more or less appropriate in this context.

Government bodies they had heard of, or were slightly more familiar with, were most trusted, particularly if they were perceived to be linked to finance (e.g. the Financial Conduct Authority and the Department for Work and Pensions). The Competition and Markets Authority logo elicited a neutral response driven by a lack of awareness of the body. Other organisations, such as *Which?* or *MoneySavingExpert.com*, whilst often used and liked in other contexts were not necessarily recognised as being independent and felt more 'commercial', so were deemed less appropriate.

In terms of language, respondents were most reassured by knowing the site would be 'regulated', which suggested accountability and consumer protection. There was less support for 'accredited' or 'endorsed' – as they sounded less official.

6. Statement of borrowing

This section explores attitudes towards payday loan customers receiving a periodic statement of borrowing, the likely impact of receipt, and the way in which it should be delivered and presented.

Statement of borrowing

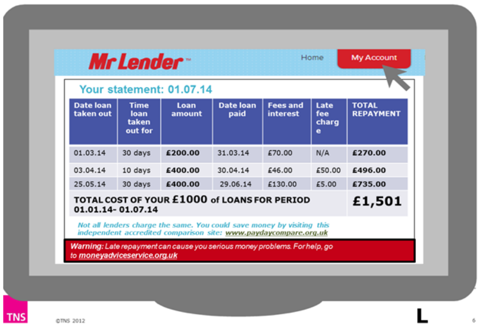
STIMULUS L

- **Positive / neutral reactions** to idea of statement of borrowing
  - Useful (especially for regular users) to:
    - 'keep track of finances'
    - see how much spent **: potential to deter** taking out payday loans due to 'reality check'
  - But for some, **'don't want to know' / 'too depressing'** and would ignore

- Envisage **layout** as similar to a **bank statement** with information of amount borrowed itemised: broken down with fees and interest and grand total
  - Want to see money management advice / warning

- **Frequency**: mixed between monthly to yearly (largely depending on level of usage) – for low users, could encourage use?

"I think that's probably a good thing because people don't want to know. You should probably realise that you're giving so much money to these companies." (W2, London, Female, 18-35, Experienced)



Statement of borrowing could help (frequent) borrowers re-evaluate use of payday loans; but easy to ignore

34

Initial reaction to the idea of receiving a statement of borrowing were negative or neutral, as customers recognised it could be uncomfortable or distressing to confront their spending. However, it was received as means of helping borrowers to 'keep on top of their finances', and potentially deter others who were relying too heavily on payday loans.

In phase 1 there was a clear preference for the information to be presented in a format similar to a bank statement, which was mocked-up in phase 3 for further testing. Respondents wanted each loan to be itemised so they could see the amount borrowed, any interest and late fees paid, and the total amount repaid. They would also want to see the grand total borrowed and the total interest charged, across multiple loans if applicable. There was an expectation that there would be signposting to both money management/debt advice as well as the independent price comparison site, included with the statement.

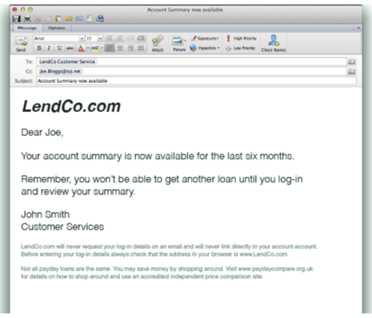
There were mixed views about the optimum frequency for delivery, linked to level of borrowing. It was thought that heavier borrowers could benefit from monthly to bi-annual statements. On the other hand, it was thought that frequent statements could potentially encourage lower-level users to borrow more, as it could serve as a reminder or prompt, perhaps normalising the usage of payday loans.

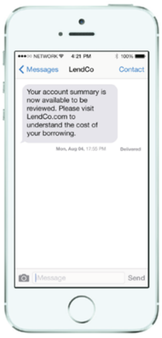
"It depends on your attitude towards borrowing. If you're the sort of person that wants to be really careful about it, OK you're going to take advantage of that sort of information. But, if you're the sort of person that needs money, then you're just going to have to take it, aren't you?" (W2, Birmingham, Mixed Gender and Age, Experienced)

Statement of borrowing: encouraging use

STIMULUS K: K1-K2

- **Mixed views about preferred channel (email / text):** would like options to choose from
  - For some, text associated with spam (already receive a lot of texts from PDL lenders); emails more likely to be read
- **Best communicated at point of taking out loan:**
  - Being unable to take another loan out until log-in seen as forcing engagement; however, some feel it should be optional (less interested in seeing information, 'don't want to know')
  - No impact if after taking out loan – too late / could be seen as 'marketing'





Customers recognise they would need to be forced to read the statement, though feel it could have value in keeping them 'on top' of their finances

35

Although the value of statements, particularly for heavier borrowers, was accepted in principle, customers felt they would be fairly easy to ignore. In phase 3 of the research the best ways to encourage customers to read their statements was discussed.

E-mail was the preferred delivery channel, as posted statements were felt to compromise borrower privacy, and SMS was strongly associated with spam from lenders, so would likely be automatically deleted. E-mails linking to the statement were viewed as most likely to be read.

In order to ensure customers looked at their statement, there was agreement that many would need to be forced to do so. Requiring customers to look at their statement at the point of taking out a new loan was envisaged as effective. On the other hand, linking to the statement after taking out a loan was seen as 'too late'; by this point in the journey customers did not want to further engage with payday loans and would be unlikely to read the statement.

A minority of more experienced borrowers felt annoyed at the idea that they would be forced to read their statement each time, particularly if they felt some customers (including themselves) 'had no choice' or no alternatives to payday loans.