

PAYDAY LENDING MARKET INVESTIGATION

Addendum to the provisional findings – further evidence on lead generators

Summary

Introduction

1. Our provisional findings¹ identified the operation of the lead generator channel as contributing materially to the adverse effect on competition (AEC) that we provisionally found.
2. Following the publication of our provisional findings – and the subsequent variation to our terms of reference² – we have gathered further evidence about the operation of lead generators and their role in the UK payday lending market. This addendum sets out the further evidence and describes the role of lead generators in the payday loan market.
3. In this addendum we use the term ‘lead generator’ to refer to any party that acts as an intermediary between borrowers and lenders by collecting and passing to providers of payday loans details, including personal contact information, of individuals seeking loans.

Methodology and data gathering

4. We identified 130 lead generators offering services to UK payday lending customers as at July 2014. We selected around 40 lead generators from this group to receive a data request with the aim of gathering information from the ten largest and a representative sample of smaller lead generators. We sent the data request in August 2014 to the lead generators selected and received 32 replies. We identified 25 firms still operating as lead generators in the payday lending market, hereafter referred to as ‘our sample’. We held seven response hearings with lead generators in our sample and conducted two further meetings and teleconferences to gather further evidence and discuss potential remedies.

¹ [Provisional findings](#), paragraph 8.5.

² [Notice of a variation of the terms of reference](#).

5. Evidence set out here relates to our sample discussed above. This addendum also includes information gathered during desktop research, our customer research in August 2014,³ further analysis of transaction data⁴ and submissions from parties in response to our provisional findings and Notice of Possible Remedies (Remedies Notice).
6. Parties told us that the lead generation sector was ‘fluid’ and that the number of companies operating at any one time was variable. We considered our evidence base to be robust, however, because the companies included in our sample accounted for 85% of historical payments made by the major payday lenders to lead generators.

Overview of further evidence gathered

7. We identified two broad strategies operating in the payday lead generation sector. Lead generators either work to build online brands through which they attract potential applicants, or position their business to process borrower applications or ‘leads’ acquired from other lead generators, typically known as ‘affiliates’. Many lead generators operate an auction mechanism, known as a ‘pingtree’ to sell leads generated from the branded websites they own along with leads supplied by affiliates. The pingtree auction process used by lead generators to allocate customers to lenders willing to offer them credit is typically based on which lender bids the highest amount.
8. The lead generators in our sample dealt with more than 43 million leads in 2013 and sold more than 9 million of these applications to payday lenders for prices ranging from around £2 to more than £280 per lead.
9. There is often a lack of transparency in how the service that lead generators provide is described in their websites – particularly the basis on which applications are allocated to lenders. As at August 2014, the lead generators in our sample used 282 websites to collect application details from potential borrowers. Lead generators told us that 125 of these sites were the main portals used by applicants. Our review of these main websites indicated that only 3% stated clearly prior to the point at which a customer could enter their details that the service provided was that of a lead generator or broker rather than direct lender.⁵ Our customer research indicated that many customers are unaware of the nature of the service that they are being provided by lead generators.

³ TNS BMRB, August 2014.

⁴ Detailed transaction data collected from payday lenders, as described in our provisional findings, [Appendix 2.2](#).

⁵ One hundred and twenty-five websites, reviewed between 11 and 18 September 2014.

10. In the 12 months to July 2014, lead generators also sold more than 8.5 million leads to companies other than payday lenders. Some lead generators in our sample sold up to 30 to 40% of total leads to non-payday lenders, including fee-charging brokers and other businesses with an interest in leads such as those providing debt management products, debt consolidation services and credit scoring reports.
11. Information supplied on the search terms used to generate potential borrower traffic to lead generator websites indicated that the most important search terms related to general payday loan/lending terms rather than directly to the specific services of lead generators.
12. A majority of lead generators told us that applicants used lead generators knowingly to: (a) minimise the number of applications required; (b) maximise the chance of getting a loan; and/or (c) to minimise the effect that multiple searches might have on their credit score. Money Gap submitted data from a survey which indicated that a third of its customers cited 'ease of use' and 'speed' as the reason for using its service. No other supporting evidence was provided on why applicants use lead generators. Several lead generators told us that repeat customers were a feature of their business model and this demonstrated that applicants valued their services.⁶ A minority of lead generators, however, believed that applicants' use of lead generators was not necessarily an active choice, and that some borrowers would prefer to apply directly to lenders rather than lead generators.
13. Dollar⁷ told us that the drop-out rate of applicants who were offered loans through pingtrees indicated that customers used lead generators to shop around. No supporting data on this was available from either lenders or lead generators. We were told by one lead generator, however, that applicants might also drop out of the application process because they had not been offered a loan suitable for their purposes – in most cases because the principal amount offered was lower than they required. One lead generator told us that its customers had used larger branded payday lenders for their initial loans and used its service to increase the amount of borrowing or to repay existing payday loans. We also reviewed evidence from our transaction data set, which suggested that difficulties in finding a lender, and a consequent desire to apply to many lenders simultaneously, may not be the prime factor causing borrowers to use lead generators.

⁶ Money Gap told us that [X]% of its customers were repeat users.

⁷ Dollar's response to provisional findings, paragraph 2.7.1.

Implications for provisional AEC finding

14. Our provisional findings considered how the significant proportion of payday lending customers using lead generators affected the incentive of online payday lenders to compete on price (see Section 6). Based on the evidence presented in our provisional findings, in particular in paragraphs 6.96 to 6.107,⁸ and on the further evidence in this addendum we have provisionally found that, in conjunction with the other features set out in paragraph 8.5 of our provisional findings, the following aspects of the operation of the lead generator distribution channel limits the extent to which customer demand is responsive to the price of payday loans, and so reduces the pressure for lenders to compete to attract customers by lowering their prices:

- (a) Many online customers take out payday loans via a lead generator's website, and the value for money represented by different lenders' loan offerings is not relevant to the auction process which is used by these intermediaries, who instead typically sell customer applications to the highest bidder.
- (b) Furthermore, there is often a lack of transparency in how the service that lead generators provide is described in their websites – particularly the basis on which applications are matched with lenders – and many customers do not understand the nature of the service offered by lead generators.

Our further work has reinforced the finding in paragraph 8.5(d) of our provisional findings that lenders acquiring customers through lead generators are unlikely to have a strong incentive to lower their prices and, in some cases, the opposite may be true, in so far as lenders offering cheaper loans to customers may not be able to bid as much for leads.

15. In combination with the features set out in paragraph 8.6 of our provisional findings, we have provisionally found that these aspects of the operation of the lead generator distribution channel give rise to an AEC within the meaning of the Act.

Structure of the addendum

16. The remainder of this addendum is structured as follows. First, we discuss the different types of intermediary and distinguish between lead generators and other intermediaries including price comparison websites (PCWs) and voucher sites. We then summarise evidence gathered on the size and

⁸ See also paragraphs 2.199–2.145.

structure of the lead generation sector, before providing an overview of the role of lead generators in the payday lending market. We discuss the processes used by lead generators for collecting and selling leads, and differences in the role of pingtree operators, affiliates and fee-charging brokers. Finally, we set out the further evidence we have gathered regarding customers' use of lead generators and the transparency of lead generator websites.

Types of intermediary active in the payday lending market

17. We identified the following six types of credit broker/intermediary as being active in the payday lending market:
- (a) PCWs, which provide information about payday lenders and lead generators for comparison purposes, but are not active in the application process.
 - (b) Voucher code sites, such as www.dealshare.co.uk, or websites which carry banner advertising and a click-through facility transferring applicants to lenders or lead generators.
 - (c) Pingtree operators, which are lead generators providing technology platforms⁹ to auction the details of prospective borrowers applying for payday loans. Pingtree operators may operate websites themselves which collect details from applicants, or process applications submitted by marketing affiliates (see (e) below).
 - (d) Directory listings or database lead generators, which list payday loan lenders and lead generators in tabular format, or offer a search function, as a means to collect details of prospective borrowers searching for payday loans for onward sale to pingtree operators or processing in their own pingtree.
 - (e) Affiliates, which are generally marketing companies collecting customer data via a lead form (which is then passed to pingtree operators or lenders), or using lead forms on websites run by pingtree operators.
 - (f) Fee-charging brokers offering a service to manage an application for the user and potentially finding a payday lender for them for an upfront fee. Fee-charging brokers may contract separately with lenders for additional payment from the lender to the broker.

⁹ Technology platforms may work in conjunction with telephone call centres.

18. We defined lead generators as collectively (c) to (f) above. Whilst PCWs also direct customers to lenders (and in some cases lead generators), a borrower using a genuine price comparison site is choosing from a selection of loans using criteria that are important to the customer. In the case of voucher code sites, or websites carrying click-through advertising banners, no customer details are collected, and hence the intermediary is not involved in the credit application process.
19. We noted that some lead generators had started to develop models giving customers more input into the choice of lender or broker, such as Quiddicompare.co.uk (Quiddi), kwikcash.co.uk (Money Gap) and controlpayday.co.uk (Nouveau Finance). Money Gap told us that kwikcash.co.uk indicated to applicants details of any lenders which had pre-approved their application, thereby enabling the customer to choose a lender if there was more than one option available.¹⁰ Nouveau Finance told us that controlpayday.co.uk would allow customers to indicate preferred lenders and that the resulting lead would then be offered to preferred lenders first, before being shown to the general pingtree panel.
20. The majority of lead generators' business models we reviewed, however, were based on the model whereby a lead is sold to lenders according to the most favourable commercial terms for the lead generator, rather than determined by the borrower concerned, or on the basis of the lowest cost of credit.

Size and structure of lead generator channel

21. Many lead generators operate in the UK payday loan market. Our analysis of payments made by the major payday lenders to lead generators showed that 130 lead generators were operating in 2012. Most lead generators were very small – only 45 companies accounted for a share of greater than 0.05% of the total payments made by the major lenders to lead generators in 2012.
22. Table 1 shows information on the lead generators in our sample. Detailed company profiles are included in [Appendix 1](#). [X] was the largest lead generator in our sample and reported turnover of £[X] million from the sale of leads to payday lenders in 2013, almost [X] the size of [X] and [X], which generated turnover of £[X] million and £[X] million respectively. The three largest lead generators accounted for [50–60]% of our total sample's 2013 revenue. All three large lead generators operate pingtrees.

¹⁰ We noted, however, that Money Gap told us that very few applicants were using the new functionality on kwikcash.co.uk.

TABLE 1 Revenue of lead generators from sale of leads to payday lenders for the year ending 31 December 2013

Lead generator	Revenue (£m)
9Global	[X]
Cannon Finance	[X]
D&D/T3 Leads	[X]
EPL	[X]
Eudore	[X]
Interfinancial	[X]
Knight Creative	[X]
Lead Tree	[X]
Lending Metrics	[X]
Loan Machine	[X]
Loan Partners	[X]
Market Genomics	[X]
Money Gap	[X]
New Wisdom Solutions	[X]
Nouveau Finance	[X]
Pingtree Ltd	[X]
Quiddi	[X]
RevUp Media	[X]
Sandhurst Associates	[X]
Sigma	[X]
Stop Go Networks	[X]

Source: CMA analysis of lead generator template.

Note: Four lead generators did not provide revenue figures.

23. We identified two broad strategies operating in the payday lead generation sector. Some lead generators work to build online brands to attract applications from customers, for example: Beeloans.co.uk (operated by Knight Creative); paydaypig.co.uk, (operated by Stop Go); and purplepayday.co.uk, (operated by Pingtree). One lead generator, Money Gap, had advertised its Cash Lady brand on television to create customer awareness. Other lead generators seek to attract leads from affiliates (a type of lead generator themselves), for example D&D generates all its traffic from affiliates, and both Loan Machine and Quiddi told us that around 90% of total leads collected were generated by affiliates.
24. We were told that there were more than 1,500 affiliates operating in the payday lead generation channel in the UK. Many affiliates are very small companies and may use the services of an affiliate network such as The Affiliate People to pass leads to pingtree operators. We identified New Wisdom, Swift Money and Sandhurst Associates as three affiliate companies operating widely in the sector.

25. The lead generators in our sample dealt with more than 43 million leads¹¹ in 2013 and sold more than 9 million of these applications to payday lenders for prices ranging from around £2 to more than £280 per lead.¹²
26. In the 12 months to July 2014 lead generators also sold more than 8.5 million leads to companies other than payday lenders.¹³ There was evidence that some lead generators sold up to 30 to 40% of total leads to non-payday lenders, including fee-charging brokers and other businesses with an interest in leads such as those providing debt management products, debt consolidation services and credit scoring reports.
27. We also noted that pingtree operators regard affiliates as key suppliers but also competitors – for example, Pingtree Ltd told us that three of its top ten affiliate sites competed with its own consumer brands online. Lead generators also compete with their customers (lenders and other lead generators) in digital marketing including Paid and Organic search.
28. Our analysis indicated that the lead generators in our sample generated combined revenue of £[redacted] million in 2013 from UK payday lead generation activities. Aggregate 2013 net profit from all activities (including in some cases operations in overseas markets and non-payday markets), was £[redacted] million.
29. The revenue performance of the lead generators we analysed has been variable during the first six months of 2014: six operators experienced revenue declines of between 3% and around 60%; six lead generators increased revenue (by between 6% and more than 200%) on the comparable period in 2013. In our hearings, several lead generators told us that lenders had reduced their purchases from lead generators and that they expected the Financial Conduct Authority's (FCA's) price cap to lead to further declines in lead volumes in the short term. Two lead generators, Quiddi and Pingtree, told us that over the longer term they thought that there could be partial recovery in channel profitability as the price of pay-per-click advertising on search engines (itself an important part of a lead generator's cost base) dropped.

¹¹ Includes leads sold by pingtree operators and leads sold by lead generators directly to lenders only to avoid multiple counting of affiliate leads.

¹² Leads may not sell to payday lenders for reasons including: poor data integrity such as missing digits in mobile phone numbers; affiliates specifying a minimum commission which is too high for lenders; lead data not meeting the requirements of payday lenders such as the age of the applicant. Leads are also sold to non-payday lenders such as other lead generators including fee-charging brokers and marketing companies.

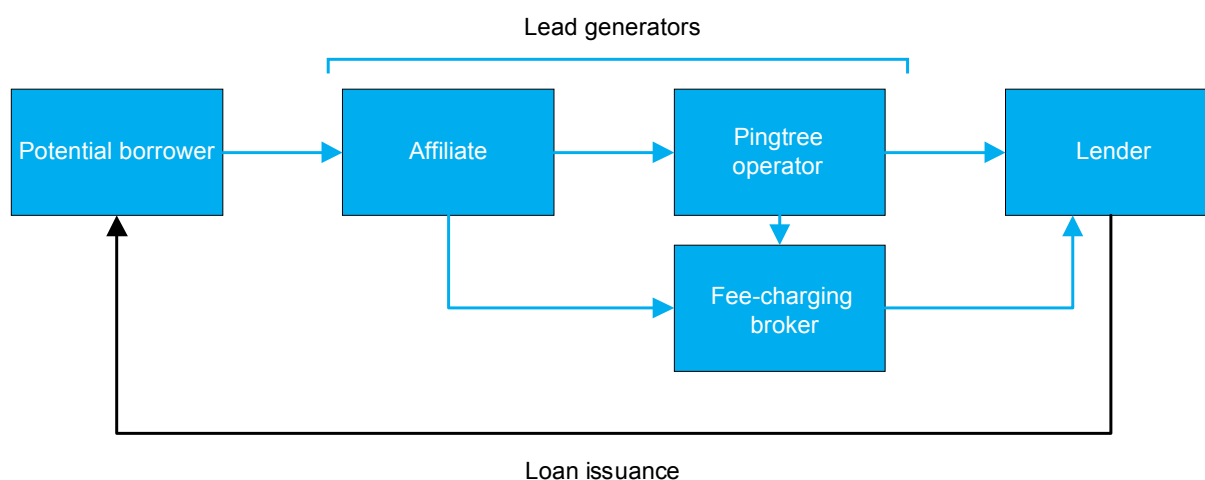
¹³ Data for Sigma relates to the period July 2013–August 2014.

The role of lead generators in the UK payday lending market

30. Figure 1 illustrates the role of lead generators in the payday lending market. In simple terms a potential borrower provides application details to a lead generator, creating a 'lead'. Where a lead generator supplies details to multiple lenders, customer details are then sold through an auction mechanism referred to as a pingtree.¹⁴ If a lead is accepted by a lender the customer is transferred to the lender's website where the customer's debit card details are taken.

FIGURE 1

Simple schematic of the role of lead generators in the payday lending market



Source: CMA analysis.

31. If no lender accepts the applicant's details, the lead may terminate and the applicant is shown either a termination message or details of non-payday loan products and/or services. Non-payday loan products and services which may be offered to applicants include: credit products (for example, guarantor loans, log book loans, credit cards); debt management products; debt consolidation services and/or products from credit reference agencies. Alternatively the lead may be sold on from the 'bottom of the pingtree' to fee-charging brokers or marketing companies. Our analysis indicated that in the 12 months to July 2014 lead generators sold a total of more than 7.5 million leads to fee-charging brokers and around 1 million leads to marketing companies.
32. Our analysis of lead generators indicated that the operation of the market was significantly more complicated once the interrelationships between operators were taken into account. We identified four interrelationships:

¹⁴ As discussed in our [provisional findings](#), paragraphs 2.123–2.127.

- (a) Some lead generators buy leads that have been sold by payday lenders.
 - (b) Some pingtree operators sell to other pingtree operators (a secondary pingtree) or to a secondary cascade.
 - (c) Some pingtrees allow both payday lenders and brokers to submit bids to buy leads.
 - (d) Some leads not sold in the pingtree may be sold to marketing companies operating as affiliates. Potential borrowers may receive further offers of loans from these affiliates if they had not specified an opt-out preference for future marketing.
33. Considering first the role of lead generators in processing declined leads from payday lenders,¹⁵ Money Gap submitted data which indicated that 36% of leads received in the last 12 months were 'lender declines'. Rev Up told us that 21% of leads collected in the last 12 months were applicants which had been declined by payday lenders.
 34. Considering next the role of secondary pingtrees and secondary cascades, Ratio told us that [50–60]% of leads collected in the last 12 months were from pingtrees. Quidi told us that [30–40]% of its affiliate traffic was derived from [X], itself a pingtree operator. Secondary pingtrees and cascades are used by pingtree operators which do not have relationships with the full spectrum of potential lenders. For example, leads from applicants looking for larger principal amounts, or longer loan durations, are passed from pingtrees based on single-payment payday loan lenders to those operating with instalment or guarantor lender relationships.
 35. We then considered evidence that some pingtree operators have both payday lenders and brokers bidding in the pingtree. [X], for example, told us that it had nine brokers on its pingtree, of which three were fee-charging brokers.
 36. Finally we considered the role of lead generators buying leads 'from the bottom of the pingtree'. There was evidence that some lead generators focused on monetising lead data with, we considered, little expectation that applicants would be offered a loan. Stop Go Networks, for example, told us that marketing companies would 'hoover up' leads at this level. Loan Partners Ltd told us that all customers using its system 'find a solution'. We were told that leads could be sold for as little as 20 pence at this level of the pingtree, which contrasts with a typical price of around £70 for cost per funded (CPF)

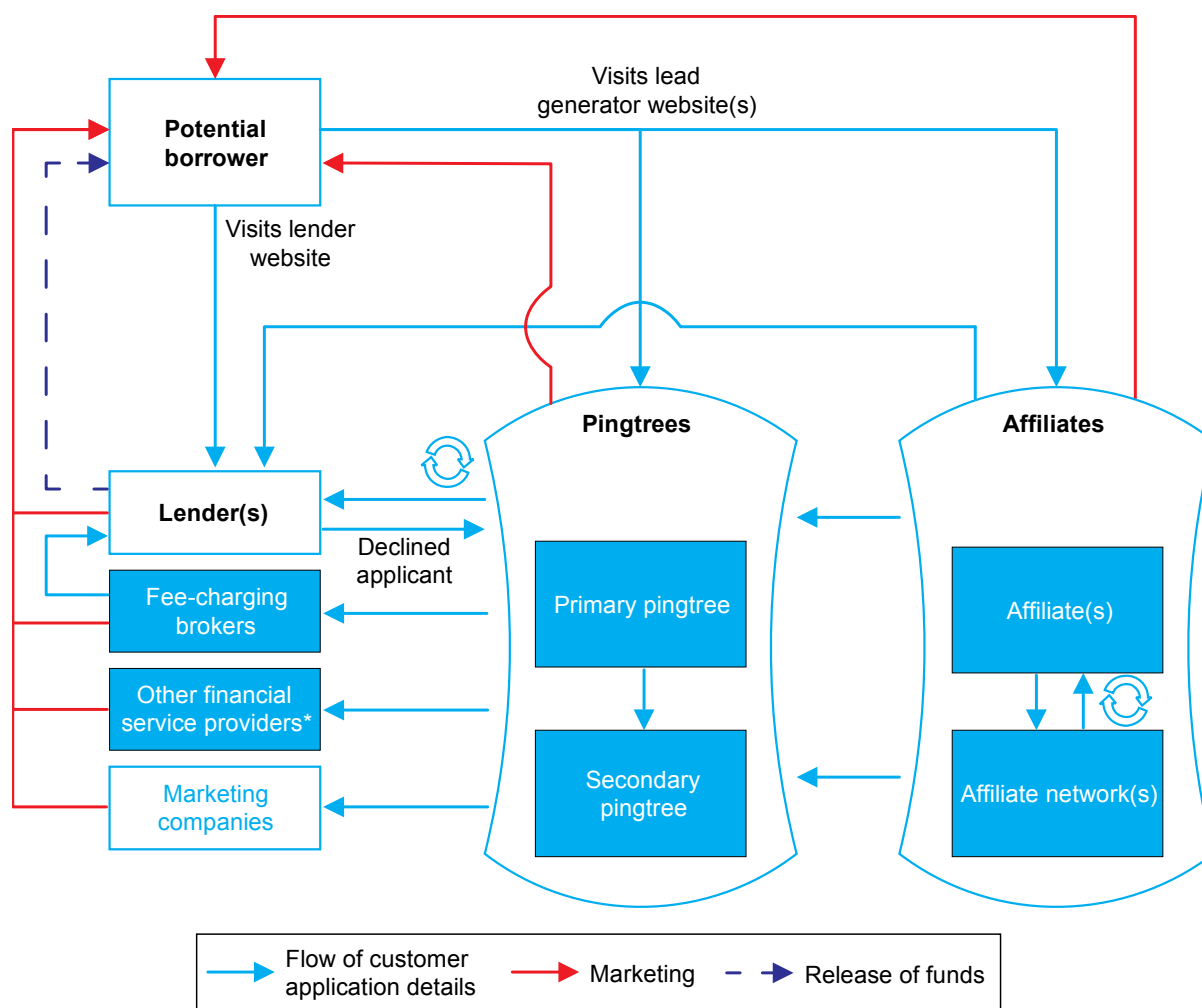
¹⁵ We also noted that one lead generator (Sandhurst Associates) told us that it also received declined loan applications from other brokers.

leads and £30 for cost per application (CPA) leads¹⁶ sold to lenders at the top of the pingtree in 2013. Lead prices are discussed further in paragraphs 59 to 62.

37. The more complex interrelationships of parties in the lead generation sector are illustrated in Figure 2.

FIGURE 2

Diagrammatic representation of the interaction between lead generators, lenders and potential borrowers



Source: CMA analysis.

*Including debt management and credit reporting services.

Note: Potential borrowers may also visit the websites of fee-charging brokers directly.

¹⁶ CPF leads are those for which the seller receives payment when the applicant takes out a loan. CPA leads are those for which the seller receives a payment when the lead is sold irrespective of whether the applicant takes out a loan.

Wider issues regarding the role of lead generators

38. We considered that the recycling of applicants' details through different elements of the lead generation channel discussed above was likely to contribute to the lack of transparency of the role of lead generators in the payday lending market that we had identified in our provisional findings.
39. There was evidence that complaints about the practices of some lead generators had increased. Citizens Advice told us that The Citizens Advice consumer service in England and Wales¹⁷ had seen a 148% increase in service calls relating to credit broking¹⁸ in Q1 2014/15 compared with the same quarter in the previous year. An analysis of Citizens Advice consumer service data of cases about credit brokerage for the period January 2014 to June 2014 indicated that in 4% of the cases it had reviewed, clients said that they had responded to unsolicited loans or texts, and in just under a quarter of cases (287), borrowers said that they had not contacted any credit brokers directly at all.
40. The Financial Ombudsman Service (FOS) has seen a significant increase in the volume of calls from consumers about problems they have experienced with credit broking services. In the period 6 April to 11 September 2014 the service received 12,980 enquiries about credit broking, exceeding the total for the previous financial year. Figures from the FOS relate to all types of credit broking enquiries, but a high proportion relate to broking services connected to payday loans. A common feature of calls to the FOS relate to consumers having paid a significant upfront fee to a broker, for example £70. In many of the enquiries that the FOS handled the consumer was not told about the fee and gave their bank details to the broker who requested them 'for verification'.^{19,20}
41. We also noted data collected by the Information Commissioner's Office which indicated that payday loans and debt management were two of the three most complained about topics in spam text messages;²¹ and the task force set up by Which? on nuisance calls and texts including a call for evidence regarding consent and lead generation in the direct marketing industry.^{22,23}

¹⁷ And in regions where the location of the client was not known.

¹⁸ Credit broking in general.

¹⁹ [Financial Ombudsman insight report – Payday lending: pieces of the picture](#).

²⁰ We noted that whilst the FOS has a clear consumer protection focus, the issues raised by the FOS also indicate that some users of lead generators are not being provided with the information they need to make rational, well-informed decisions.

²¹ <http://ico.org.uk/enforcement/action/texts>, see Spam texts by topic graphic.

²² www.which.co.uk/campaigns/nuisance-calls-and-texts/know-the-issue/.

²³ www.which.co.uk/documents/pdf/call-for-evidence-task-force-369454.pdf.

42. We were told that the actions of some lead generators were contributing to problems for customers:
- (a) Money Gap told us that there was a need to stop fee-charging brokers misleading customers into providing card details for loan confirmation when card details were instead used to charge customers a fee.²⁴
 - (b) Pingtree told us that it had concerns that there were instances in the lead generation sector of data manipulation, for example reducing the loan amount in lead forms on the expectation that a customer would be more likely to be accepted.
 - (c) Wonga told us that there should be a restriction on intermediaries such as lead generators from selling or providing customer details between themselves as this activity could result in customers receiving numerous unsolicited emails.²⁵
 - (d) MYJAR told us that action should be taken against lead generators which undertook unauthorised sale of customer data, spam marketing communications and introductions to fee-charging brokers which did not lead to the provision of a loan.²⁶
 - (e) Dominic Lindley told us that credit brokers should be prohibited from storing a consumer's details in their system and re-selling them to multiple lenders.²⁷

How lead generators gather payday loan leads

43. Lead generators market their services in various ways including: (a) purchasing key words on search engines; (b) hosting or operating websites (including landing pages, directory listings and lead forms); (c) placing traditional online banner advertisements, including for example, on PCWs such as money.co.uk;²⁸ (d) inserting advertising material into contextually relevant websites such as internet fora, blogs, social media and newsletters; (e) search engine optimisation techniques such as embedding metadata in webpages or designing webpages to rank highly on search engines; (f) email marketing campaigns;²⁹ and (g) SMS messages.

²⁴ Money Gap response to Remedies Notice, p2.

²⁵ Wonga Group Limited response to Remedies Notice, paragraph 7.17.

²⁶ MYJAR response to provisional findings and Remedies Notice, p10.

²⁷ Dominic Lindley response to Remedies Notice, p4.

²⁸ Including banner ads in comparison sites, for example [X] told us that it had generated [X]% of leads collected in the last 12 months from [X].

²⁹ For example, [X] told us that 15% of its leads were supplied by affiliates, most of which did not have websites but promoted by email marketing.

Online search

44. Online search is the main means by which most lead generators attract applicants to their websites. Swift Money, Market Genomics and Knight Creative told us that 100% of traffic to their websites was generated by search engine marketing. Pingtree told us that more than 50% of traffic to its own websites was generated by paid search and organic search marketing, with the remaining activity coming from a mix of display, email, returning customers and SMS marketing.
45. An analysis of Citizens Advice consumer service data about cases of credit brokerage for the period January 2014 to June 2014 indicated that most Consumer Service clients found a credit broker whilst searching for loans online (72% of the 1,208 cases where the case notes included information about how the client first came across the broker). In a further 4% of cases, clients said that they had responded to unsolicited loans or texts.

Search terms

46. Information supplied on the principal search terms used to generate potential borrower traffic to lead generator websites indicated that the main priority of applicants was likely to relate to the payday product itself. Our analysis indicated that 60% of search terms were for 'payday loan' or 'payday loans' and variations on these terms including speed, online application, 12-month duration and 'no-credit check payday loan' (see Table 2). A further 7% of search terms related to the brands of specific payday lenders. Combining this 7% with the search term 'direct lender' shows that 12% of search terms relate to applicants looking for a payday loan provider rather than a lead generator. 8% of search terms used by lead generators to attract applicants to their websites were for the brands of specific lead generators.
47. Of the 25 lead generators which replied to the questionnaire, 15 included their top five paid search terms. These have been grouped and ranked in Table 2.

TABLE 2 Principal search terms used by lead generators

<i>Nature of search terms</i>	<i>Examples of words included within search</i>	<i>Percentage of total search terms used (%)</i>
Payday loan and variations		60
Of which:		
Generic product	Pay day loan, Payday loans	38
Speed	Instant, Fast	12
Online	Online	8
Duration	12 month	1
Availability	No credit check	1
Payday brand	Wonga, Quick Quid, Pounds to Pocket	7
Direct lender	Direct lender	6
Specific lead generator	[X]	8
Loan	Cash advance, online loans, cash loans	19

Source: CMA analysis of lead generator questionnaire.

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48. There was evidence that some applicants used search terms to attempt to find lenders rather than lead generators. Knight Creative stated that it often saw requests, searches and questions relating to not wanting to use a 'broker'.
49. Pingtree Ltd told us that:
- (a) it did not believe the search term 'payday loan broker' was used by many customers and that this was not a term that it focused on; and
 - (b) the monthly average search volume for the term 'payday loan broker' on Google for the last 12 months was 40, which indicated that this was not a popular term used frequently by customers.
50. The amount that lead generators spent on Google AdWords was significant. Over the last 12 months the lead generators in our sample spent £[X] million on Google AdWords, equivalent to 21% of their total revenue. Individual lead generator expenditure is shown in Table 3.

TABLE 3 Lead generator spend on Google AdWords, 12 months to July 2013

Lead generator	Spend £m
9Global	[X]
Cannon Finance	[X]
D&D/T3 Leads	[X]
EPL	[X]
Eudore	[X]
Interfinancial	[X]
Knight Creative	[X]
Lead Tree	[X]
Lending Metrics	[X]
Loan Machine	[X]
Loan Partners	[X]
Market Genomics	[X]
Money Gap	[X]
New Wisdom Solutions	[X]
Nouveau Finance	[X]
PingTree	[X]
Quiddi	[X]
Ratio	[X]
RevUp Media	[X]
Sandhurst Associates	[X]
SGE Loans	[X]
Sigma	[X]
Stop Go Networks	[X]
Swift Money	[X]

Source: CMA analysis of lead generator questionnaire.

Notes:

1. Revenue figures provided in US\$ were converted at 0.612.
2. Data from Sigma relates to the period July 2013 to August 2014.

Lead form data capture

51. Having attracted a potential applicant to a website, most lead generators' websites ask customers to complete a form that generally captures all information needed by lenders to make a lending decision in principle.³⁰ Information includes personal details, details of income/expenditure, bank details and marketing opt in/out. We noted one exception, SGE Loans, where applicants enter a telephone number on an SGE Loans website and then receive a call back from an SGE Loans call centre employee who gathers information over the phone.
52. Lead forms typically fall into one of two categories:
 - (a) Pingtree operators can provide a hosted application form (known as an Iframe form) which affiliates can embed in their websites. The form allows applicants to submit loan applications to the pingtree operator to be sold.
 - (b) Affiliate websites can 'post' applications directly into a pingtree operator's Application Programming Interface (API). In this case the affiliate can

³⁰ Some lead generators are sometimes asked by lenders for additional information and lenders may make subsequent checks having accepted a lead.

attach various rules to a post to dictate which lenders the post/applicant is presented to.

53. Where a lead generator acts solely as an affiliate without operating a pingtree, leads are tracked using URL codes, a form of computer coding which indicates to the pingtree operator which affiliate provided the lead.
54. Many pingtree operators market their services to affiliates using affiliate programmes, an example of which is shown in Figure 3.

FIGURE 3

Screenshot of marketing to affiliates



Affiliate Kitchen provides access to a wide variety of straightforward and hassle free campaigns. We pride ourselves on being customer friendly and efficient and ensure all of our products reflect these values.

If you would like to partner with us in marketing to these campaigns we will reward you with industry leading commissions.

What we offer:

- Unlimited Commission
- Realtime online reporting system
- Extensive suite of marketing materials
- High conversion rates
- Post integration
- Dedicated affiliate team
- Data monetisation

Source: affiliatekitchen.com, accessed on 3/10/14.

How lead generators sell payday loan leads

55. Lead generators may sell some leads directly to lenders, for example SGE Loans told us it had direct relationships with [X] and [X].³¹ Leads not sold directly to lenders enter a pingtree.
56. At a high level, the pingtree operates as follows:
- (a) lenders specify the characteristics³² of potential customers which they wish to buy leads on (that is, have the opportunity to offer credit to directly) and the number of leads that they wish to purchase;
 - (b) the lender which bids the most for a certain type of customer will be offered matching leads first; and
 - (c) the lender then undertakes a risk assessment and must decide whether to purchase the lead at the bid price. If the lender chooses not to purchase the lead, the lender with the next highest bid is offered the lead.³³
57. The typical operation of a pingtree is shown diagrammatically (with three lenders, A, B and C³⁴) in Figure 4. When a lead is offered to a lender, the lender has a short window of a few seconds to undertake its initial risk assessment to decide whether to accept the lead. This restriction is imposed by the lead generator to ensure that a customer is passed to a lender before the customer decides to abort the process.

³¹ For further evidence on lenders' use of affiliates, see our [provisional findings](#), paragraphs 7.46 & 7.47.

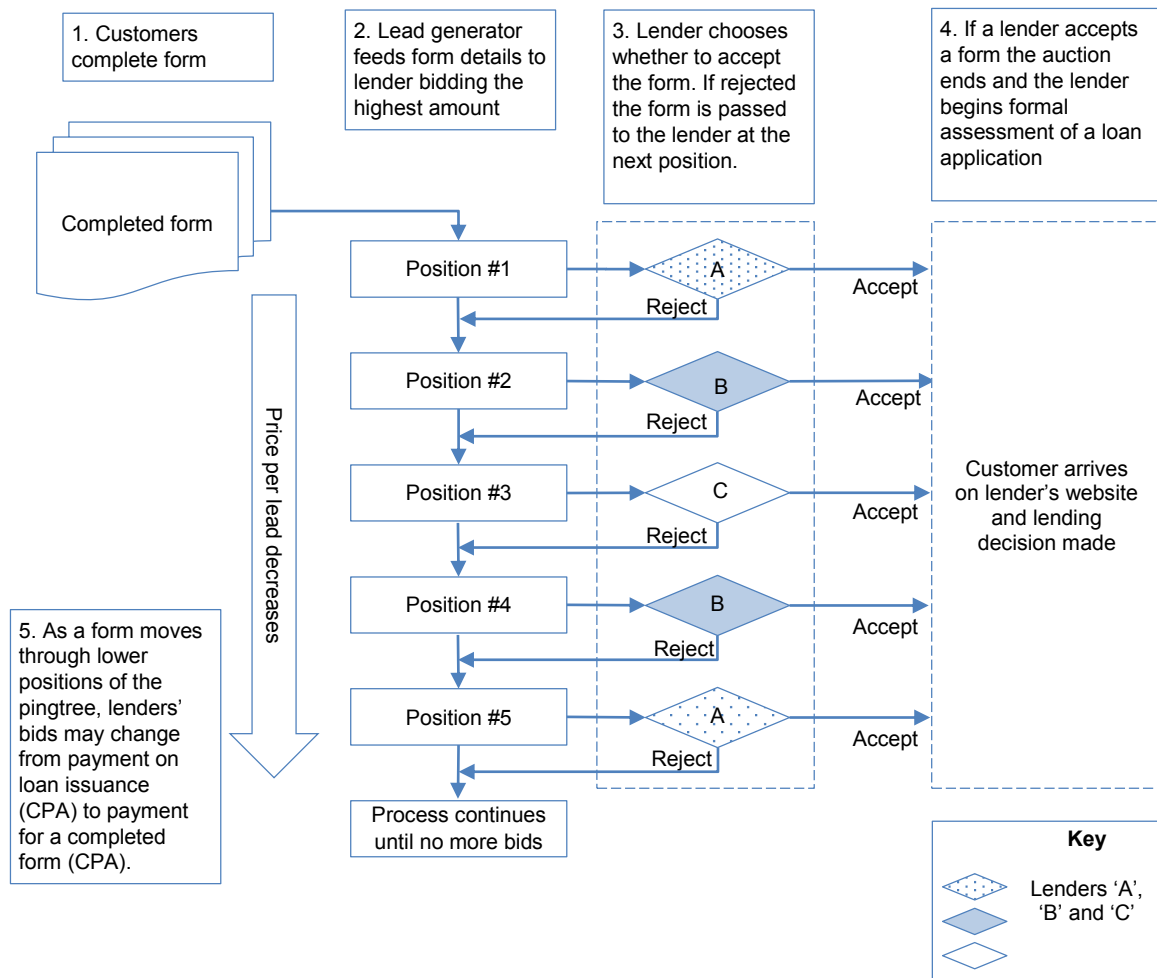
³² Also known as 'qualifying criteria'.

³³ Passing on leads in this way is known as going down towards the bottom of the pingtree.

³⁴ Our analysis indicated that pingtrees typically operate with between 20 and 40 payday lenders.

FIGURE 4

Diagrammatic representation of the pingtree



Source: CMA analysis.

Note: In this illustrative example there are three lenders: 'A', 'B' and 'C'. Both lenders 'A' and 'B' occupy two positions each and the placing of these positions is based on the bid price for that customer's form. Our analysis indicated that pingtrees typically operate with between 20 and 40 payday lenders.

58. Data provided by lead generators indicated that the number of lenders bidding in pingtrees ranged from 2 to 71, with many pingtrees operating with between 20 and 40 lenders submitting bids.

Lead prices

59. Leads are generally sold on the most favourable commercial terms for the lead generator. In most cases it appeared that leads are sold to the highest bidder in the auction process, although three parties submitted that there were circumstances in which this would not be the case: Credit Benefit Services indicated that a lender bidding for a higher volume of leads at a set price might be offered a lead in preference to a lender seeking a lower volume at a higher price. Stop Go Networks told us that it might choose to sell leads to a

lender rather than a broker bidding a higher price in order to maintain good relationships with lenders. SGE Loans told us that in cases where its call centre employees discussed a number of loan offers with borrowers, the product chosen by the customer might be the ‘best match’ for the borrower, as discussed with the call centre employee.³⁵

60. Our analysis of the price received by lead generators from payday lenders was consistent with evidence set out in our provisional findings.³⁶ CashEuroNet said that the price of the most expensive leads was close to £[redacted] in 2013.³⁷

TABLE 4 Lead prices, 2013

	£	
	<i>Cost per funded leads</i>	<i>Cost per application leads</i>
Range	2–280	0.35–70
Average maximum	70	30
Average	25	8

Source: CMA analysis of lead generator template.

61. Our analysis indicated that leads were predominantly sold on a CPA basis rather than a CPF basis. In 2013 lead generators in our sample sold around 90% of leads on a CPA basis.
62. Affiliates are typically paid a percentage representing the majority (generally ranging from 70 to 95%) of the amount that a pingtree operator receives from the party that purchases the lead. In some instances affiliates are paid on a ‘per lead’, ‘per application’ or ‘per click’ basis.

Fees

63. Fees charged to borrowers by lead generators can take several forms including: membership fees, administration fees, application processing fees, brokerage fees, and service fees. SGE Loans charges a £99.99 ‘Premium Service’ fee which gives borrowers access to a ‘VIP’ customer service telephone number and email address, vouchers and discount codes for retailers and restaurants. SGE Loans told us that [redacted]% of its customers chose to pay the premium service fee in addition to the administration fee of £5. Premier Net told us that it charged applicants a one-off fee of £69.99 for a

³⁵ See also paragraph 19 for changes planned to some lead generator models.

³⁶ [Provisional findings](#), paragraph 7.53.

³⁷ *ibid*, paragraph 7.53.

six-month period.³⁸ We noted that fees set out on the websites of other fee-charging brokers³⁹ ranged from around £45⁴⁰ to £70.⁴¹

64. We considered that the levying of fees was more likely to be clear to customers when details of fees were explained clearly to customers before proceeding with the use of a lead generator's services. Borrowers were generally less likely to understand the use of fees by lead generators where their details had been passed to fee-charging brokers from a pingtree. Evidence from Citizens Advice was consistent with this view.⁴²

Payday loan borrowers' use of lead generators

65. Our analysis of the patterns of borrowers' use of lead generators using transaction data⁴³ (see Appendix 4) showed that in total 41% of borrowers in our sample used a lead generator at least once and almost one-third of these borrowers (12% of the total) used a lead generator more than once.
66. Borrowers are relatively more likely to use a lead generator when moving between lenders as opposed to when they first enter the market. 28% of borrowers used a lead generator to find their very first online lender and around two-thirds of borrowers used a lead generator to find a subsequent online lender.⁴⁴ This effect appeared to be primarily driven by the fact that [X], are chosen more often by borrowers as their first lender on entering the market, combined with the relatively [X] online lenders on lead generators compared with other lenders.

Reasons why customers use lead generators

67. In our provisional findings we identified two main circumstances in which borrowers may use lead generators:
- (a) Because of a desire to apply to multiple lenders simultaneously, itself caused by the uncertainty that some customers face regarding whether they will find a lender willing to lend to them.

³⁸ Premier Net told us that it offered an auto loan facility that could be used to place further loans.

³⁹ Not included in our sample.

⁴⁰ Midlandcash.com.

⁴¹ Mymoneyfinder.co.uk.

⁴² For example, in an analysis of Citizens Advice consumer service data about cases of credit brokerage for the period January 2014–June 2014 in 41% of cases where the client had not contacted a credit broker directly, the client had no idea how the credit broker had got their debit card details.

⁴³ Around 1 million customers from the 11 major payday lenders, who only took out payday loans online and took out their first payday loan between June and August 2012.

⁴⁴ This is consistent with the results in our provisional findings where a borrower used a lead generator 40% of the time when finding any major online lender.

- (b) Because of a misunderstanding of the nature of the service offered by lead generators, or what is happening to their application details when they use a lead generator. In particular, payday lending customer may mistake lead generators for lenders, or think that lead generators are searching the market for the best deal available for them.
68. The evidence we presented in our provisional findings suggests that there is often a lack of transparency in how lead generators describe the service they provide. Lead generators' websites often look very similar to those of the lenders themselves and, although many lead generators inform customers somewhere on their site that they offer a brokerage service, the information about what they are and the nature of the service they offer is in many instances not clearly and prominently presented (see paragraphs 6.105 and 6.106).
69. As a result of this lack of transparency, the evidence suggests that a substantial proportion of customers that use lead generators do not understand the nature of the service that they are being provided, and/or whether a particular site is a lender or a lead generator. In particular, of those respondents to our customer survey who had applied through lead generators/brokers, two-thirds mistakenly told us that they applied directly to a lender (see paragraph 6.104).
70. We explored further evidence of the reasons why borrowers use lead generators by considering:
- (a) lead generators' and third parties' views provided in response to our information request, Remedies Notice and at hearings; and
- (b) analysis of our transaction data.

Lead generators' and third parties' views

71. The majority of lead generators told us that applicants used lead generators knowingly to: minimise the number of applications required; maximise the chance of getting a loan; or to minimise the effect that multiple searches might have on their credit score.
72. Money Gap submitted details of a customer survey (see Table 5), the results of which indicated that 22% of customers chose to use the company for 'ease

of use' and 7% for the speed of application. Only 2% of customers indicated that a higher acceptance rate was the reason for their choice.⁴⁵

TABLE 5 Details of Money Gap customer survey, 2012

	%	
	<i>Why did you choose us?</i>	<i>What could we improve?</i>
Ease of use	22	9
Quality of site	9	
Speed	7	7
No reason	7	
Reputation	6	
Received email	4	
Search engine	4	
Lower APR	4	2
Don't know	4	6
Recommended by a friend	3	
Higher acceptance rate	2	7
More information		3

Source: Money Gap.

-
73. Money Gap asked applicants how its service could be improved. Customer responses showed that the highest ranking factor was 'easier application' with 9% of customers citing this as the most important factor. We considered that the survey data was not particularly compelling evidence that customers were deliberately choosing Money Gap because it was a broker rather than a lender.
74. However, a number of other lead generators indicated that customers' use of lead generators was not always the result of an active and conscious search for a broker. Other lead generators indicated that some customers preferred to apply directly to payday lenders:
- (a) Ratio told us that, having spoken to customers, it did not appear that potential borrowers were approaching their loan application with a mindset seeking to minimise the time it took to apply for a selection of loans.
 - (b) RevUp Media said that it believed potential borrowers were still more comfortable applying with direct lenders.
 - (c) Knight Creative stated that there was an even split between those wishing to use a lead generator to search the market and those wishing to deal directly with a lender.
-

⁴⁵ Money Gap's survey was sent to around 1 million customers and results were based on 500 responses.

- (d) Swift Money told us that it considered applicants were looking for a loan rather than actively searching for a broker.
 - (e) Money Gap told us that there were instances when applicants terminated phone calls when it became apparent that the service offered by Money Gap was that of a lead generator. Money Gap considered that in many cases this was because customers feared being charged a fee.⁴⁶
75. money.co.uk, one of the major comparison websites in the payday loan market, submitted that further regulation would be beneficial because ping-trees and brokers were easily and frequently confused with direct lenders. money.co.uk added a disclosure in December 2013 on its site explaining when the supplier listed on its comparison table is not a lender. It said that this was done because, based on search results, potential borrowers seemed to be looking for direct lenders, rather than brokers (though it noted that some borrowers were more willing to go to a broker because they felt this increased their chance of getting a loan).
 76. Dollar told us that the drop-out rate of applicants who were offered loans through pingtrees indicated that customers used lead generators to shop around.⁴⁷ CashEuroNet told us that some customers shopped around and this view was supported by [X] for leads purchased from lead generators, which averaged less than [X]% for QuickQuid.⁴⁸ However, no evidence was provided as to whether borrowers who drop out of the application process went on to take out a payday loan from another lender, or if they stopped the search altogether. One lead generator (Quiddi) suggested an alternative explanation, namely that applicants dropped out of the application process because they had not been offered a loan suitable for their purposes after the principal amount was lower than they required.
 77. We also noted that applicants may be using pingtrees to access additional funds. Premier Net told us that it sat below the 'prime' payday lenders on the pingtree and that most leads it bought were from applicants who had previously used these lenders and were now looking for loans from other lenders to borrow additional sums, or repay existing loans.

Transaction data analysis

78. To gain some additional insight into the explanations for the observed extent of use of lead generators, we also looked at the borrowing behaviour of

⁴⁶ Money Gap is not a fee-charging broker.

⁴⁷ [DFC response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference](#), paragraph 2.7.1.

⁴⁸ [CashEuroNet's response to provisional findings](#), paragraph 3.9.

payday loan customers, and in particular the relationship between factors that could impact on a borrower's uncertainty about loan approval and their use of lead generators.

79. Our analysis of transaction data (see [Appendix 4](#)) indicated that the likelihood of borrowers using lead generators does not generally depend on whether a customer had experienced a repayment problem with their previous loan – a factor that is likely to increase uncertainty about approval of any future loan. This suggests that difficulties in finding a lender, and a consequent desire to apply to many lenders simultaneously, may not be the prime factor causing borrowers to use lead generators.

Conclusion on reasons why customers use lead generators

80. On balance, we concluded that while some borrowers may consciously use lead generators to minimise the number of applications required and/or maximise the chance of getting a loan, a significant proportion of borrowers are likely to confuse lead generators for lenders, and/or misunderstand the basis on which lead generators match them with lenders.
81. This finding is consistent with other evidence we discussed in our provisional findings:
- (a) A substantial proportion (two-thirds) of those customers in our survey who had applied through lead generators/brokers on their most recent loan mistakenly told us that they applied directly to a lender.⁴⁹
 - (b) Distinguishing between lenders and lead generators is far from straightforward as the web text accompanying the web search results for 'payday lending' or related terms, the product or company name, or the website title will very rarely identify the target website as belonging to a credit broker rather than a lender. In addition, credit broker websites are often very similar to those of the lenders themselves.⁵⁰

Transparency of lead generators' websites

82. We concluded in our provisional findings that the lack of transparency in the way lead generators present themselves was a major cause of borrowers' lack of understanding of the service provided by lead generators. Our provisional findings set out evidence of a review of ten lead generator

⁴⁹ [Provisional findings](#), paragraph 6.102.

⁵⁰ [Provisional findings](#), paragraph 6.103 and [Appendix 6.4](#), paragraphs 29 & 30.

websites, which we had identified by selecting providers which appeared most prominently in the pay-per-click advertisements and organic search results generated by a number of payday-related search terms.⁵¹ We reviewed the transparency of websites with respect to information on the price of a loan and how lead generators described the service provided.

83. As part of our additional evidence gathering following the publication of our provisional findings, we collected further views from various parties and reviewed a wider sample of lead generators' websites to extend and complete the sample we had previously examined. We also considered the results of our customer research in relation to borrowers' experiences of lead generators' websites and examined data on how customers interacted with a large lead generator's website.

Parties' views about transparency

84. Several parties submitted views on the transparency of lead generator websites:
- (a) The Consumer Finance Association told us that many customers were confused about whether they were dealing with a lender, broker or lead generator and that information provided should be improved.⁵²
 - (b) money.co.uk told us that lead generators were not transparent about their lending panel or the way in which leads were allocated; they were often unclear about cost before application; and they were also often unclear that they were brokers/lead generators rather than lenders.⁵³
 - (c) One lead generator (D&D Marketing) told us that it did not believe any lead generator described the background process of the sale of leads other than mentioning that the lead would be processed through a panel of lenders.⁵⁴
 - (d) One lead generator (Knight Creative) told us it was working on a model and software which would allow the customer to pick from a panel of lenders. Lenders would have already screened applicants and provisionally accepted the borrower and that they believed this would give the customer a fairer approach to the product.

⁵¹ [Appendix 6.4](#), paragraphs 22–34.

⁵² [Consumer Finance Association response to the Remedies Notice](#).

⁵³ [money.co.uk response to Remedies Notice](#), p2.

⁵⁴ This statement was provided by D&D in response to a question regarding whether the operation of its pingtree was made clear to customers who were using affiliate websites for loan applications.

- (e) One lead generator (Stop Go Networks) told us that it would not be in its interest to appear to be a lender because this would detract from the service offered to borrowers. We noted, however, that paydaypolarbear.co.uk⁵⁵ (one of Stop Go Network Limited's sites), included text referring to 'loads of benefits and advantages over other short term lenders'.
- (f) Money Gap told us that it did not see transparency as an issue because lenders charged similar interest so the financial impact of applying via a broker rather than direct was minimal.⁵⁶

Further review of lead generator websites

- 85. As at August 2014 the lead generators in our sample used 282 websites to collect application details from potential borrowers. Lead generators told us that 125 of these sites were the main portals used by applicants. Our review of these main websites indicated that only 3% stated clearly prior to the point at which a customer could enter their details that the service provided was that of lead generator or broker rather than direct lender.⁵⁷ Additionally our review indicated that 22% of the main websites did not state anywhere that the firm was a broker or lead generator.
- 86. We also looked qualitatively at the following aspects of the transparency of lead generator websites:
 - (a) how the role of lead generators is described to applicants; and
 - (b) pricing information.

How the role of lead generators is described to applicants

- 87. Our further review of lead generators' websites showed that very few lead generators set out in detail the nature of the basis on which applications are processed. Terminology included payday loan 'provider', 'applications service', 'loan matching service' and 'consumer application system', all of which are likely to be ambiguous to applicants.
- 88. This was consistent with the customer research undertaken following our provisional findings, which found that awareness and understanding of lead generator sites was low. Customers were in general unable to identify lead

⁵⁵ Accessed on 7 October 2014.

⁵⁶ [Money Gap response to Remedies Notice](#), p2.

⁵⁷ One hundred and twenty-five websites, reviewed between 11 and 18 September 2014.

generator sites and were surprised by how they worked, given their assumption that price comparison sites (or sites resembling them) worked in customers' interests.

89. Our customer research also indicated that customers felt 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.
90. We considered that the way customers interacted with lead generator sites could be contributing to the low levels of understanding identified by our customer research. Customer interaction data from one large lead generator ([redacted]) for its website ([redacted]) indicated that only 3% of customers visiting the site in the period 1 August to 31 August 2014 looked at the 'how it works' or 'frequently asked questions' pages. 31% of customers applied directly from the first page they visited on which the firm is described as a 'payday loan website'.⁵⁸ [redacted] states that it is a loan broker at the bottom of the home page; however, customers would need to scroll down to see this description.

Pricing information

91. Some lead generators told us that the representative APR (RAPR) on their websites was based on an average of the panel of lenders and in some cases specifically used the APR that at least 51% of applicants had been offered using their site.
92. Pingtree told us it displayed a representative example and an RAPR on its direct-to-consumer sites. Pingtree told us that the RAPR was determined by the rate that an applicant would be introduced to lender or provider that charges the rate or less in at least 51% of cases. Pingtree told us that this information was updated quarterly.
93. SGE Loans told us that the RAPR was that of the median product that applicants were offered and supplemented this information with a table setting out RAPRs for the different products such as payday loans, guarantor loans, secured loans.
94. Nouveau Finance told us that it used the RAPR of the lender purchasing the majority of leads and if there were two or more lenders purchasing high volumes, the lender with the highest APR was used.

⁵⁸ 71% of customers had applied after their first, second or third interaction with the website.

95. Loan Partners told us that its RAPR was based on the level at which 51% of applicants could expect to borrow.
96. Lead Tree told us that its RAPR was based on the average RAPR of 51% of short-term loans given to customers by its lending panel.
97. However, we considered that the prices displayed on websites operated by at least five lead generators did not necessarily reflect the weighted average of the panel of lenders to which leads were sold, for example:
- (a) Market Genomics told us that the RAPR on its websites was based on the mid-point of a regular survey of the RAPRs of the lenders to which leads were sold.
 - (b) Quiddi told us that it took a simple average of lenders' APRs and updated it on a monthly basis.
 - (c) D&D told us that its RAPR was based on the interest rates of all the lenders it worked with and that it was updated every six months or earlier if lenders changed.
 - (d) Loan Machine told us that the pricing information on its websites was a 'guide of around £25 per £100 borrowed'. We noted that Loan Machine collected 94% of its leads via affiliates and the firm was not able to provide the names of its top ten affiliates. It therefore seemed unlikely that its affiliates were using RAPR information that reflected the leads sold via Loan Machine's pingtree.
 - (e) Sandhurst Associates told us that the APR of 527% on its homepage was an average of all the products available via its pingtree (including unsecured loans, guarantor loans and payday loans), but was not weighted to take account of the relative volumes of leads sold by product. Sandhurst Associates told us that it generated more unsecured loan leads than payday leads and therefore estimated that the APR was higher than the weighted average offered to applicants.
98. We also considered instances where lead generators' websites indicated that the loan found by the lead generator was either the 'best value' or the 'best option' (see Bling Bling Loans, EPL and Nouveau Finance screenshots in [Appendix 3](#)). We noted that whilst it was possible that the highest-bidding lender did offer the best value or best option, this description would not be valid in all cases.

Provisional conclusion

99. Our provisional findings considered how the significant proportion of payday lending customers using lead generators affected the incentive of online payday lenders to compete on price (see Section 6). Based on the evidence presented in our provisional findings, in particular in paragraphs 6.96 to 6.107,⁵⁹ and on the further evidence in this addendum, we have provisionally found that, in conjunction with the other features set out in paragraph 8.5 of our provisional findings, the following aspects of the operation of the lead generator distribution channel limits the extent to which customer demand is responsive to the price of payday loans, and so reduces the pressure for lenders to compete to attract customers by lowering their prices:

- (a) Many online customers take out payday loans via a lead generator's website, and the value for money represented by different lenders' loan offerings is not relevant to the auction process which is used by these intermediaries, who instead typically sell customer applications to the highest bidder.
- (b) Furthermore, there is often a lack of transparency in how the service that lead generators provide is described in their websites – particularly the basis on which applications are matched with lenders – and many customers do not understand the nature of the service offered by lead generators.

Our further work reinforces the finding in paragraph 8.5(d) of our provisional findings that lenders acquiring customers through lead generators are unlikely to have a strong incentive to lower their prices and, in some cases, the opposite may be true, in so far as lenders offering cheaper loans to customers may not be able to bid as much for leads.

100. In combination with the features set out in paragraph 8.6 of our provisional findings, we have provisionally found that these aspects of the operation of the lead generator distribution channel give rise to an AEC within the meaning of the Act.

⁵⁹ See also paragraphs 2.199–2.145.

Lead generator companies: background

Introduction

1. This appendix provides a description of the main lead generator companies identified in our analysis. It draws on publicly available material and that provided in response to our information requests.
2. Included below are descriptions of the following lead generator companies:
 - (a) 9Global Inc
 - (b) Credit Benefit Services LLC
 - (c) D&D Marketing Ltd/T3 Leads
 - (d) Digitonomy Ltd
 - (e) EPL Web Solutions Ltd
 - (f) Eudore Ltd
 - (g) Interfinancial Ltd
 - (h) Knight Creative Ltd
 - (i) Lead Tree Global Ltd
 - (j) Loan Machine Ltd
 - (k) Loan Partners Ltd
 - (l) Market Genomics LLC
 - (m) Money Gap Group Ltd
 - (n) MSM Credit Ltd/Cannon Finance Ltd
 - (o) New Wisdom Solutions Ltd
 - (p) Nouveau Finance Ltd
 - (q) Perfect Data Solutions Ltd
 - (r) Pingtree Ltd

- (s) Premier Net Solutions Ltd
- (t) Quiddi Hub Ltd
- (u) Ratio Network Ltd
- (v) RevUp Media Ltd
- (w) Sandhurst Associates Ltd
- (x) SGE Loans Limited
- (y) Sigma Capital Solutions Ltd
- (z) Stop Go Networks Ltd
- (aa) Swift Money

9Global

Interim permission number: 620071

3. 9Global is a US-registered company with offices in California and London. It entered the UK market in 2008 and operates 30 lead generator websites and one non-payday site. In 2013 it made total revenue of £[REDACTED] million, of which £[REDACTED] million related to lead generation.

Credit Benefit Services LLC

Interim permission number: 613854

4. Credit Benefit Services LLC is based in Atlanta, Georgia and operates 18 payday lead generator websites in the UK as well as several credit card comparison sites. As at August 2014 it was ceasing operations within the UK payday lending industry.

D&D Marketing/T3 Leads

Interim permission number: 641556

5. D&D Marketing Inc. operates under the name of T3 Leads. The company is registered in California and offers payday lead generation products in the UK, Canada, Australia and the US. Within the US D&D also offers mortgage leads and insurance lead products.
6. Created in 2005 D&D entered the UK market in 2010 where it now operates nine lead-generating websites, including www.igotfunds.co.uk. Total revenue for the UK was US\$[REDACTED] million in 2013.

Digitonomy Ltd

Company number: 08385135

Interim permission number: 658817

7. Digitonomy is a private company and was established in 2013. It operates several websites including www.little-loans.com and www.minute-money.co.uk.

EPL Web Solutions Ltd

Company number: 07505998

Interim permission number: 643001

8. Incorporated in 2011 as Easy Payday Loans, the company was renamed EPL Web Solutions in 2012. Mark Bertola is the sole shareholder. The company operates 24 payday lead generator websites and one multi-product site. Total revenue for 2013 was £[REDACTED] million.

Eudore Ltd

Company number: 08598582

Interim permission number: 661016

9. Eudore was incorporated in 2013 and is owned and operated by one person. It has one website, www.searchpaydayloans.co.uk, which was purchased in 2013.

Interfinancial Ltd

Company number: 05448143

Interim permission number: 640077

10. Interfinancial was set up in 2004 and initially specialised in lead generation for loans greater than £5,000. It began working with payday loan leads in 2007 and began to generate payday leads in large numbers in 2012. [REDACTED] Total revenue from UK payday lead generation was £[REDACTED] million in 2013.

Knight Creative Ltd

Company number: 06200142

Interim permission number: 630129

11. Knight Creative, also operating as Leadspot and Payday Bubble, has been working in the financial lead generation industry since 2007 and moved into the payday market in 2012. The company primarily operates through two

websites and made total revenue of £[X] million, of which [X] was generated from payday lead generation activities.

Lead Tree Global Ltd

Company number: 08526321

Interim permission number: 662426

12. Lead Tree Global began operating in September 2013 and currently runs three payday lead generation websites. From its inception to July 2014 it has made total revenue of £[X] million. Lead Tree Global shares directors and shareholders with DJS (UK) Ltd, a technology company. DJS (UK) Ltd holds interim permission licence 651003.

Loan Machine Ltd

Company number: 05517368

Interim permission number: 576459

13. Loan Machine began operating lead generation websites in 2009 and is privately owned. The company trades as Lead Affinity and currently operates five payday loan websites in the UK, as well as similar sites for mortgages and instalment products. Total revenue for 2013 was £[X] million.

Loan Partners Ltd

Company number: 07844428

Interim permission number: 647985

14. Loan Partners was incorporated November 2011 and has been operating in the payday loan generation market since that time. It has 22 lead generation websites which made total revenue of £[X] million in 2013.

Market Genomics LLC

Interim permission number: 644697

15. An American company, Market Genomics is involved in lead generation and affiliate marketing for a range of financial services. It entered the UK payday lead generation market in 2010. Market Genomics operates ten payday lead generation websites¹ which generated revenue of £[X] million in 2013, [X]% of total revenue.

¹ Of which two websites actively generate leads.

Money Gap Group Ltd

Company number: 06617413

Interim permission number: 626678

16. The Money Gap Group Ltd was incorporated in 2008 and renamed from PDB UK Ltd in 2013. [X], making total revenue of £[X] million in the financial year ended June 2013. The Money Gap Group operates four payday lead generation websites including www.cashlady.com and www.kwikcash.co.uk. It is privately owned and has two shareholders, Avner and Michal Brodsky.

MSM Credit Ltd/Cannon Finance Ltd

Company number: 06877306/06955572

Interim permission number: 627569/629941

17. Incorporated in 2009, MSM Credit and Cannon Finance are owned by Simon Gilbert and Michael Valentine. Although both companies provide leads for the UK payday lending market, MSM Credit only works with lenders and affiliates within the UK, while Cannon Finance works with US and non-EU lenders. Our analysis also indicated that Reset Finance had common shareholders, however this company is now in liquidation.²
18. Cannon Finance and MSM Credit currently operate four lead generation websites in the UK. For the year ending March 2014 the companies made a combined total revenue of £[X] million from UK lead generation.

New Wisdom Solutions Ltd

Company number: 06608388

Interim permission number: 633626

19. New Wisdom Solutions is a subsidiary of Jaak International Holdings Ltd, a company registered in the Isle of Man. New Wisdom was established in 2008 and entered the payday loan lead generation market in 2010. New Wisdom does not operate its own pingtree but is an affiliate with 39 websites. Total lead generation revenue for 2013 was £[X] million.

² As per Companies House.

Nouveau Finance Ltd

Company number: 08470456

Interim permission number: 652989

20. Nouveau Finance was established in early 2013 and developed by its owner, Neil Griffiths. To the period 31 December 2013 the company was running six lead generation websites, as at 30 June 2014 this had increased to 15. Total revenue to April 2013 was £[REDACTED] million.

Perfect Data Solutions Ltd

Company number: 07407815

Interim permission number: 644422

21. Perfect Data Solutions is a credit reference agency which began trading in payday lead generation in 2013. The company has one website, www.epayday.co.uk, which generated revenue of £[REDACTED] in 2013; total company revenue was £[REDACTED].

Pingtree/Quintessential Finance Group Ltd

Company number: 6511354/06898873

Interim permission number: 620815/631178

22. Quintessential Finance Group Limited is an international company based in the USA. In the UK, it owns Pingtree Ltd, [REDACTED]. Pingtree was established in 2007³ and purchased by Quintessential in 2011.
23. Pingtree operates six of its own lead generator websites in short-term lending, the most well known being www.purplepayday.co.uk. Pingtree also operates in the USA and Australia and in life insurance and personal loans. In 2014 Pingtree Ltd made total revenue of £[REDACTED] million. Payments from payday lenders totalled £[REDACTED] million for the year ended 31 December 2013.
24. Quintessential also owns several other companies within the UK. Loanmarketing Limited (company number 07197002) was purchased in 2013⁴ and operates the website www.loanmarketing.co.uk. This is used for a variety of credit products, including loan brokerage. Total revenue for the financial year starting March 2012 was £[REDACTED] million.
25. Quintessential told us that of the remaining subsidiaries: Aegina Ltd (previously known as Enhance Financial Services) did not undertake

³ www.pingtree.co.uk.

⁴ Loanmarketing Ltd annual return.

regulatory activity, Claims Angel Ltd traded as a claims management company and that Myloan Ltd had never traded and had now been dissolved.

Premier Net Solutions Ltd

Company number: 08370412

Interim permission number: 657687

26. Premier Net Solutions was incorporated in 2013 and began selling leads in May 2014. Operating one website, www.loanrocket.com, it offers loans of up to £50,000 repayable over five years through payday loans, guarantor loans and credit cards. Premier Net Solutions is a fee-charging broker, with customers paying a fee of £69.99 to use its service.

Quiddi Hub Ltd

Company number: 07475476

Interim permission number: 645792/642188

27. Established in 2010 Quiddi Hub Ltd was known as Quiddi Ltd until 2014. Originally set up by three shareholders before growing to six, it was sold to private equity company ([REDACTED]) in 2013. Quiddi operates 18 payday lead generation websites in the UK including one comparison website, www.paydayloancompare.co.uk. It has also branched out into other credit products with www.quiddicompare.co.uk covering credit cards, bank accounts, mortgages, utilities and insurance. Total revenue for 2013 was £[REDACTED] million.

Ratio Network Limited

Company number: 07580462

Interim permission number: 649760

28. Ratio Network Limited was incorporated in 2011 and is privately owned by Marc Biles and Tara Mussell. Ratio is a software company which also operates a price comparison website www.choose-wisely.co.uk. The assets and intellectual property that comprise Ratio were previously owned by The Richmond Group and were subject to a management buyout in 2013. Choose-wisely also features bank accounts, credit cards, prepaid debit cards and life insurance.

RevUp Media

Interim permission number: 635748

29. RevUp Media is an American company operating as a lead generator in the USA, UK, Canada, Australia and Spain. Rev Up entered the UK market in

2009 and now operates eight payday lending websites and two for longer-term products. Total UK lead generation revenue for 2013 was £[REDACTED] million.

Sandhurst Associates Ltd

Company number: 06958589

Interim permission number: 641617

30. Sandhurst Associates began operations in 2009 and now runs over 130 affiliate websites, the majority of which (approximately 80) are used for company marketing, with the balance used by affiliates. The majority of these offer loans of up to £50,000 and therefore include multiple lending products as well as payday loans. Sandhurst participates in text marketing through several of these websites.⁵ In 2013 UK payday lead generation generated £[REDACTED] million in revenue, [REDACTED]% of total revenue for the company.

SGE Loans Limited

Company number: 07635446

Interim permission number: 633850, 645984

31. SGE Loans Limited (SGE Loans) is part of SGE Group which was incorporated in 2009 and operates a range of comparison websites including utilities, lending and gambling. It is privately held and made total revenue of £[REDACTED] million in 2013.
32. SGE operates one specific payday lead generation website, www.sgepayday.com, and five multi-product websites. These cover many products including guarantor loans, car finance, personal loans and logbook loans. Total revenue for the lead generation business was £[REDACTED] million in 2013.

Sigma Capital Solutions Ltd

Interim permission number: 651541

33. Registered in the British Virgin Islands, Sigma was established and began selling payday leads in 2012. It operates four lead generation websites, the most successful being www.cashub.co.uk. In 2013 it made total revenue of £[REDACTED].

⁵ Sandhurst owns Hypercross Ltd, company number 07720400, which holds Interim Permission 646815.

Stop Go Networks Ltd

Company number: SC380072

Interim permission number: 637235

34. Incorporated in 2010 as Payday Gap Ltd, the company's name was changed to Stop Go Networks Ltd in 2012. Stop Go currently has offices in Glasgow and New York, and is owned by Andrew Hynes and Martin Dixon.
35. The company currently operates 47 lead generator websites in the UK, with www.paydaypig.co.uk the most well known. It is also a marketing company, offering brand creation and website design, and made total revenue of £[§] million in 2014.

Swift Money Ltd

Company number: 07552504

Interim permission number: 648992

36. Swift Money was formed in 2011 and has been in the payday lending lead generation market since that time. It is an affiliate rather than a pingtree operator and only has one website, www.swiftmoney.com. Total revenue for the year ending March 2013 was £[§] million.

Methodology and approach

Introduction

1. On 11 June 2014 we consulted on a request for a variation of the terms of the reference so that the relevant activities of credit brokers such as lead generators could be brought clearly within the scope of the investigation.
2. The CMA received 19 responses to this consultation, six of which commented directly on the request for a variation of the terms of reference, and 13 supported aspects of our proposed remedy relating to lead generators. None of the responses disagreed with the request. Of the six direct responses received five supported the request and one said that the terms of reference were a matter for the CMA alone.
3. Having considered the representations received, the CMA varied the terms of reference pursuant to [section 135\(1\)](#) of the Act on 22 July 2014.¹ Therefore, for the purposes of this reference:

The definition of suppliers of payday loans and the associated definition of the market or markets shall also include credit-brokers² (and other intermediaries) such as lead generators who collect and pass on to providers of payday loans (generally for a fee) details, including personal contact information, of individuals seeking loans.

4. In view of the change to the terms of reference, on 22 July 2014 we invited around 50 lead generators, including pingtree operators, marketing affiliates and fee-charging brokers to comment on our provisional findings and Remedies Notice and therefore extended our deadline for comment to these parties. Non-confidential versions of responses can be found on our webpages.³
5. We identified 130 lead generators offering services to UK payday lending customers as at July 2014 using a combination of payday lender supplier list analysis and desktop research. In August 2014, we sent out a detailed questionnaire to around 40 lead generators requesting information about their

¹ www.gov.uk/cma-cases/payday-lending-market-investigation#variation-of-the-terms-of-reference.

² Credit brokers are persons who hold a permission under Part 4A of the Financial Services and Markets Act 2000 (FSMA) in respect of the regulated activity in article 36A(a) to (c) of the FSMA 2000 (Regulated Activities) Order 2001 (SI 2001/544) introducing potential borrowers to potential lenders.

³ www.gov.uk/cma-cases/payday-lending-market-investigation.

businesses and UK activities, customers, competition and the FCA's proposals to impose a price cap on the cost of high-cost short-term credit.

6. This specific information request was drafted in consultation with lead generators.⁴ In addition to the responses received to our provisional findings, Remedies Notice and detailed questionnaire, we held seven response hearings and two meetings with lead generators. Non-confidential versions of summaries of the hearings have been published on our website.
7. This addendum to our provisional findings report augments the analysis of this distribution channel as set out in our provisional findings.⁵

⁴ On 6 August 2014, lead generators were sent a draft data request for comment. A final data request for completion was sent to lead generators on 12 August 2014.


⁵ www.gov.uk/cma-cases/payday-lending-market-investigation#provisional-findings-and-possible-remedies.

Screenshots

- Figure 1 indicates that Bling Bling Loans states that it takes only seconds to find the 'best value' lender for your application.

FIGURE 1

Bling Bling Loans screenshot



Bling Bling Online Loans

Apply Now! Apply Now About Us How It Works FAQ Key Facts Contact Us

Fast Short Term Loans up to £1000

✓ Fast 1 Hour Payout* ✓ Quick & Easy Application ✓ Decision in 2 Minutes

APPLY NOW

How it works

To qualify with one of our lenders you must be 18 or over, live in the United Kingdom and have a regular income.

To apply you will need the following information:

- Your bank account number and sort code
- How often you are paid (weekly, monthly etc.)
- A mobile phone number
- A valid current email address
- Your postal address with full postcode.

After submitting your form online it takes only seconds for us to find the best value lender for your application. You may be required to enter further information with this lender before your loan application is approved.

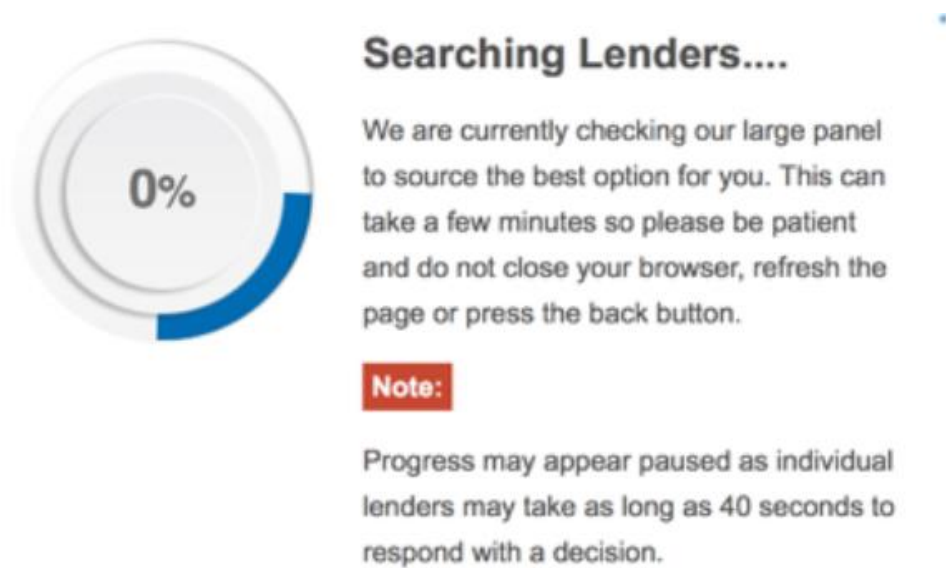
tative APR

Source: www.blingblingloan.co.uk, operated by Sandhurst Associates, accessed 10 September 2014.

- Figure 2 shows a screenshot from EPL stating that the website is checking for 'the best option' for you.

FIGURE 2

Screen shown to applicants, indicating 'best' option

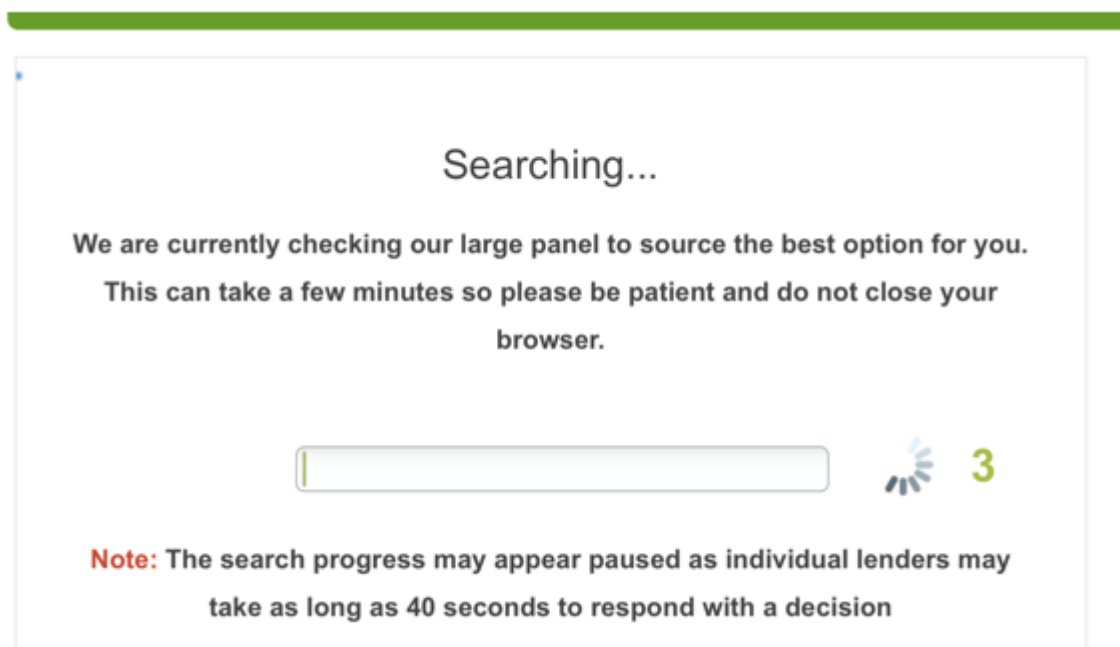


Source: EPL.

3. Figure 3 shows a screenshot from Nouveau Finance stating that a search for the 'best option' is taking place.

FIGURE 3

Screen shown to applicants, indicating 'best' option



Source: Nouveau Finance.

4. Figure 4 indicates that www.cubloans.co.uk describes itself as a good loan company.

FIGURE 4

Screenshot of Cub Loans home page

CUB LOANS The Unbearably good loan company!

**NEED A LOAN FROM
£100 TO £50,000?
ASK THE CUB...**

- ✓ Debt Consolidation
- ✓ Home Improvements
- ✓ Buying a new car
- ✓ Unexpected Bills
- ✓ Holiday
- ✓ Large Purchase

STEP 1. APPLY ONLINE > STEP 2. WE FIND YOUR LOAN > STEP 3. PAID IN 1 HOUR*

Source: www.cubloans.co.uk operated by Sandhurst. Accessed on 10 September 2014.

- Figure 5 shows the entire home page of www.quid-squid.co.uk with no mention of the nature of the service provided.

FIGURE 5

Screenshot of quidsquid.co.uk

quidSquid.co.uk
Borrow £100 to £750

APPLY NOW

A more hands on approach to getting you a loan
Complete our 2 minute application for a quote

Borrow up to £750 Any purpose loan
Easy application Safe & Secure

Home How It Works Rates & Terms FAQ's
Apply Now Contact Us Privacy Policy

Over here!

Representative APR: 2670%

Representative Example: Borrow £100 for 28 Days. The total charge for credit is £32.2. Interest is fixed at a rate of £32.2 per £100 loan. The total repayment is £132.2. Subject to approval times and lender's own policies. If that's correct, funds will be deposited the same working day. If approved by 14:30, Approval may take up to 30 minutes in most cases. Loan amounts are based on consumer's credit history and ability to repay loan. Not everyone may qualify for £750.

Warning: Late repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk

Website operated by quidsquid.co.uk Inc. Quidsquid is authorised and regulated by the Financial Conduct Authority.
Interim Permission Number: 620071. Data Protection Reg: 21478462.
Correspondence Address: Squidhead House, 47 King William Street, London, EC4R 9AF.
Should you have any questions, please feel free to contact us at 020 8144 5149

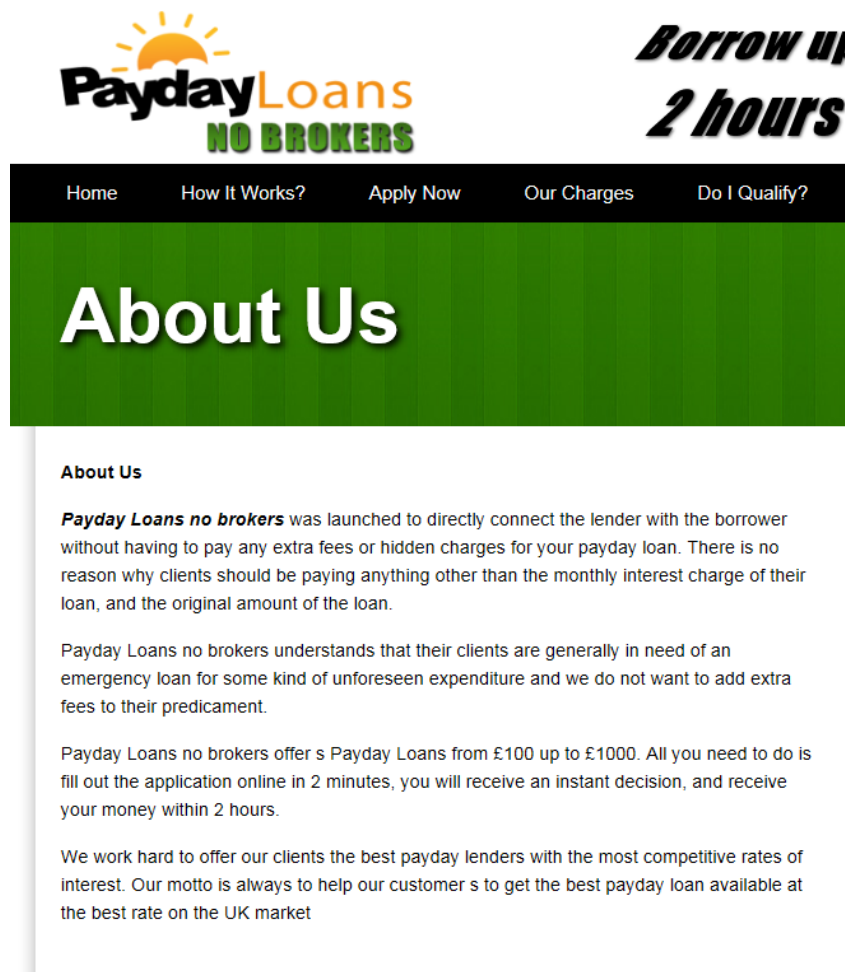
<https://www.quid-squid.co.uk/a>

Source: www.quid-squid.co.uk accessed on 4 July 2014.

6. Figure 6 shows the lead generator Payday Loans No Brokers.

FIGURE 6

Screenshot of homepage



Source: www.paydayloansnobrokers.co.uk, accessed July 2014. As at 17 September website suspended.

Further analysis of the use of lead generator

Summary

1. This appendix sets out some further analysis of payday loan borrowers' use of lead generators. In particular it provides extra insight into whether, or not, it is borrowers' uncertainty around payday loan approval or their misunderstanding of lead generator websites that drives lead generator use.
2. In this appendix we use information on around 200,000 customers from the 11 major payday lenders, who took out at least one online payday loan and took out their first payday loan between June and August 2012, in order to investigate patterns of lead generator use in greater detail. We find that:
 - (a) In total, 41% of borrowers in our sample used a lead generator at least once and almost one-third of these borrowers (12% of the total) used a lead generator more than once.
 - (b) Borrowers are relatively more likely to use a lead generator when moving between lenders as opposed to when they first enter the market. 28% of borrowers used a lead generator to find their very first online lender and around two-thirds of borrowers used a lead generator to find a subsequent online lender.¹ This effect appeared to be primarily driven by the fact that [redacted], are chosen more often by borrowers as their first lender on entering the market, combined with [redacted] online lenders on lead generators compared to other lenders.
3. We also considered some further evidence on the reasons why borrowers use lead generators. We find that there is only a small difference in the likelihood that a borrower came to their new lender via a lead generator or not depending on whether a borrower had experienced a repayment problem with their previous lender. This suggests that uncertainty about loan approval, and a consequent desire to apply to many lenders simultaneously, may not be the prime factor causing borrowers to use lead generators.
4. The appendix is organised as follows. The first section sets out some background information on the data used for our analysis. The second section sets out some descriptive statistics regarding the extent to which payday lending customers use lead generators to find lenders. The third section presents

¹ This is consistent with the results in our provisional findings where a borrower used a lead generator 40% of the time when finding any major online lender.

some further evidence relating to the reasons why customers use lead generators.

Data

5. Our analysis is based on detailed transaction data collected from the major payday lenders, as described in our provisional findings, Appendix 2.2. To provide a complete picture of individuals' borrowing behaviour across different suppliers, borrowers were matched across lenders' databases on the basis of their surname, date of birth and postcode (as described in our provisional findings, paragraph 2.48).
6. We focus our analysis on a single cohort of payday loan customers – those taking out their very first payday loan from one of the 11 major lenders between June and August 2012 who took out at least one loan from an online lender. We then analysed how many of the loans issued to these individuals in the subsequent year (ie up to June 2013) were taken out via a lead generator, and the characteristics of those loans. Our final sample covered 186,722 customers taking out 943,871 loans.
7. Note that our data does not allow us to determine exactly which lead generator a lender acquired a given lead from. Nevertheless, information provided by lenders confirms that the great majority of payday loans acquired by online lenders came via lead generators of the form described in paragraphs 2.122 to 2.127 and elsewhere in our provisional findings.
8. Our data set does not include:
 - (a) Loans issued by providers other than the 11 major lenders from which we collected transaction data. These lenders are likely to account for around 10% of all loans issued in the period.²
 - (b) Loans issued by [X], which was unable to provide information on whether or not a loan was issued via a lead generator.
 - (c) Loans issued by some lenders. [X] were unable to provide information on whether or not a loan was issued via a lead generator for some of its product types.³
9. We also excluded borrowers who took out multiple payday loans from a different lender on the same day during the period (6% of all borrowers in the

² See [provisional findings](#), paragraph 2.84.

³ Loans under (b) and (c) account together for around 11% of all loans in the period.

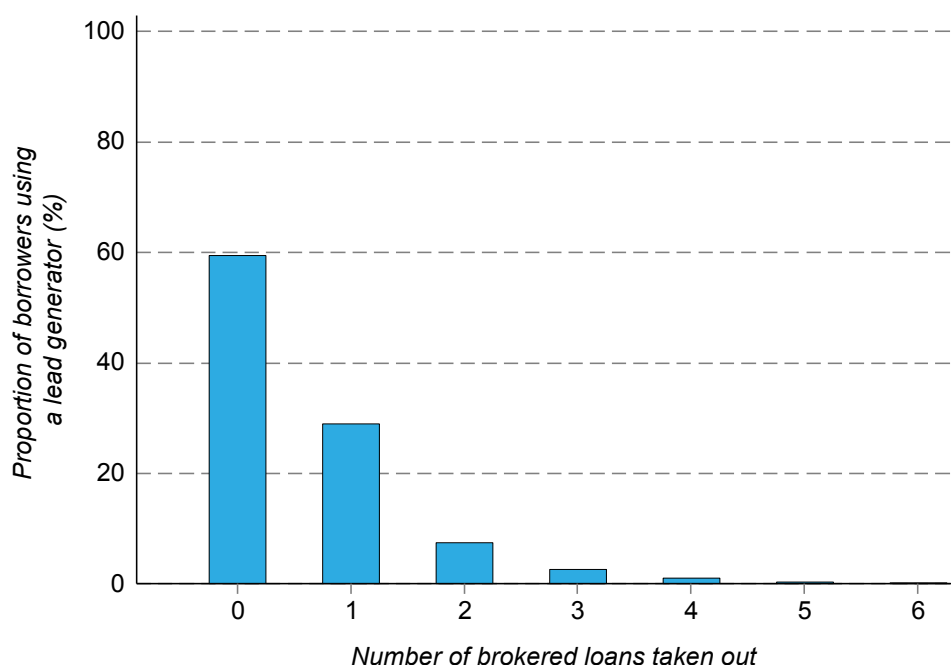
sample). This is because the order in which these borrowers took out their loans from lenders is undeterminable in the data set.⁴

The extent of lead generator usage among payday loan customers

10. A single individual will often be a customer of more than one lender, and may use lead generators on multiple occasions. In our sample, 41% acquired at least one loan via a lead generator. Of these individuals 29% used a lead generator to source just one loan, 7% used lead generators to source two loans and 4% used lead generators to source three or more loans (see Figure 1 below).

FIGURE 1

Number of times online borrowers found a lender through a lead generator in the period June 2012 to June 2013



Source: Transaction data of the 11 major payday lenders.

Note: This graph excludes borrowers who used lead generators for more than six loans, which account for under 0.001% of the sample.

11. In almost all cases where borrowers used a lead generator they used them to find a new lender. Looking just at the very first online payday loans taken out by the borrowers in our sample (ie a payday loan customer's first online loan from any of the 11 major lenders), we find that 28% of borrowers found their initial lender via a lead generator. A much higher proportion of payday loan customers, 68%, used a lead generator to find any subsequent online lender.

⁴ See paragraph 11 for further explanation of why we looked at the order in which borrowers took out loans with different lenders.

This effect appeared to be primarily driven by the fact that the larger branded online lenders are chosen more often by borrowers as their first lender on entering the market, combined with the relatively low reliance of larger branded online lenders on lead generators compared with other lenders.

12. Payday lending customers taking out their first online loan via a lead generator are shown to take out fewer loans but use a greater number of lenders in the subsequent year than other borrowers. On average, borrowers taking out their very first online loan via a lead generator went on to take out 2.67 further⁵ loans in the remainder of the period. 35% used more than one lender. Applicants who took out their first online loan directly from a lender went on to borrow a further 4.66 loans on average, and 26% used more than one lender in the period.
13. Borrowers who have applied to an online lender via a lead generator are also less likely to return to the *same* online lender for further loans than borrowers who have applied directly.⁶ Table 1 shows how many additional loans borrowers took out with their first online lender, depending on whether that first loan was taken via a lead generator or not, and split by the total number of loans taken out by the borrower.⁷ It shows that borrowers returned to the same lender less often when borrowers took out their first online loan via a lead generator than when they applied directly to the lender. For example, looking at borrowers who took out no more than five loans in the period, those individuals that sourced their very first online loan through a lead generator on average returned 0.64 times to the same lender for additional loans. In contrast, those borrowers that took out their first online loan directly from the lender returned for an additional 1.07 loans on average.

TABLE 1 **Average number of additional loans taken from the first lender when the first loan is taken out via a lead generator and when it is not, split by the total number of loans taken out by the borrower**

Total number of loans taken out	First loan	
	Through lead generator	Directly from lender
0–5 loans	0.64	1.07
6–10 loans	3.69	5.82
11+ loans)	7.57	11.34

Source: Transaction data of the 11 major payday lenders.

⁵ In addition to a first loan.

⁶ Note that, in contrast to when borrowers move between lenders, it is very rare for borrowers to use a lead generator when returning to a lender that they have already borrowed from, irrespective of whether the borrower first found that lender via a lead generator.

⁷ The total number of loans taken out with the lender providing the very first loan may also depend on the total number of loans a borrower ultimately took out in the period considered. We controlled for this by looking at average repeat use of the same lender within relatively homogenous groups of customers (that is borrowers who took out overall a roughly similar number of loans).

Reasons for using lead generators

14. In our provisional findings we identified two main circumstances in which borrowers may use lead generators:
 - (a) Because of a desire to apply to multiple lenders simultaneously, itself caused by the uncertainty that some customers face regarding whether they will find a lender willing to lend to them.
 - (b) Because of a misunderstanding of the nature of the service offered by lead generators or what is happening to their application details. In particular, payday lending customers may mistake lead generators for lenders, or think that lead generators are searching the market for the best deal available for them.
15. To gain some additional insight into the extent to which either of these explanations was likely to explain the observed extent of use of lead generators, we looked at the borrowing behaviour of individuals taking out their online loans via lead generators, and in particular the relationship between factors that could impact on a borrowers' uncertainty about loan approval and their use of lead generators.
16. The main factor we looked at is whether borrowers had experienced repayment problems with their previous loan, who as a consequence we would expect to perceive greater uncertainty about loan approval.⁸
17. Table 2 compares the difference in lead generator use on online⁹ payday loans between two groups: those borrowers who had a repayment problem¹⁰ on their previous loan¹¹ and those who had no repayment problem on their previous loan.
18. The first line in the table shows that those with repayment problems are slightly more likely to use a lead generator. 62% of borrowers with a repayment problem on their previous loan use a lead generator to find their second lender. This is somewhat higher than for borrowers who had not previously had a repayment problem, of whom 59% use a lead generator. The second, third and fourth lines show no substantive difference in lead generator usage

⁸ Past repayment problems are an imperfect indicator of the extent to which the use of lead generators is being driven by uncertainty about access to credit. The repayment profile of borrowers that find a lender via lead generators and those that go to a lender directly, will ultimately be a function of the lenders' credit-scoring procedures: the criteria used, and the positions in the pingtree that they take. This may lead to some convergence in the repayment profile of successful applicants that find their lender via a lead generator and those that apply directly.

⁹ For borrowers who use both online and high street lenders, we still record repayment problems on high street loans but we do not include lead generator usage on high street loans in our final results.

¹⁰ Here 'repayment problems' is defined as either never repaying a payday loan in full or repaying in full late – but not 'rolling' a loan over.

¹¹ Where their previous loan may have been taken out on either the high street or online.

between the two groups: when finding their third lender, around 72 to 73% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan; when finding their fourth lender, around 78 to 79% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan; and, when finding their fifth lender around 81 to 82% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan.

TABLE 2 Use of lead generators on online loans and repayment problem with the previous loan

<i>Lender used</i>	<i>No of Observations</i>	<i>% of borrowers using a lead generator for online loans</i>	
		<i>With no repayment problem on the previous loan</i>	<i>With repayment problem on the previous loan</i>
Second	24,294	59	62
Third	15,061	72	73
Fourth	7,071	78	79
Fifth	2,920	82	81

Source: Transaction data of the 11 major payday lenders.

19. Overall, these results suggest lead generator usage is only slightly more prevalent among borrowers who had past repayment problems than among borrowers who had had no repayment problems in the past. This indicates that the uncertainty borrowers' face around loan approval is not the main driver for lead generator usage.¹²
20. We considered that the entire repayment history of an individual, rather than just the performance of the previous loan, could affect the likelihood that a borrower would use a lead generator to find an online lender.¹³ This might be relevant, for example, if uncertainty about whether or not a customer is approved for a loan increases with the number of times that they have experienced repayment problems with previous loans. However, when we look at whether lead generator usage is greater for borrowers who had a

¹² While some borrowers' repeated use of lead generators suggests that they are consciously using them, we found that borrowers who had previously used lead generators did not use them to a much greater (or lesser) extent than those who had not used a lead generator before. This indicates that – even though borrowers are more likely to use a lead generator to find a lender when they have previously borrowed from other lenders – past experience with lead generators does not influence borrowers' propensity towards lead generators in the future. We also note that our consumer survey evidence (see [provisional findings](#), paragraph 6.102) suggests that borrowers are often unable to identify a lead generator even after they have used it. This confirms that the observed pattern (ie borrowers' greater use of lead generators when moving between lenders than when first entering the market) is driven by borrowers taking out their very first loan from established brands, which rely on lead generators to a very limited extent, and from other less well-known lenders, which rely more heavily on lead generators, when moving away from their first lender (see paragraph 11).

¹³ In particular, the uncertainty about approval may be expected to increase with the number of times a borrower defaults (or has some form of repayment problem) and this in turn may affect their propensity to use lead generator.

repayment problem with *any* previous lender¹⁴ we find a similar result: borrowers who had a repayment problem when using a previous lender are only slightly more likely to use a lead generator than those borrowers who had had no previous repayment problem.¹⁵

¹⁴ Any lender means any past lender used either online or on the high street.

¹⁵ When moving between lenders, borrowers who had repayment problems with a previous lender used a lead generator 70% of the time whereas those borrowers who had had no repayment problems used a lead generator 66% of the time.