PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Quiddi Hub Ltd held on Thursday 28 August 2014

Background

1. Quiddi Hub Ltd (QuiddiHub) had been acquired by a private equity firm in October 2013. It saw its technology as creating marketplaces between lenders/other lead-buyers and affiliates. Lenders had expertise in developing loan products and affiliates had expertise in marketing and QuiddiHub's pingtree brought them together.

Affiliate marketing and the advent of pingtree's

2. Affiliates were able to create an internet presence at a comparatively low cost (and without the need to develop specific brand awareness) and operated with a focus of keeping costs to a minimum and using various internet marketing techniques. They were typically small operations with only a small number of staff. Pingtree's arose as a way of lenders accessing the leads that affiliates were generating. More generally lead generation facilitated new entrants to the market by eliminating the need to develop their own brand to obtain customers or deploy a substantial advertising budget.

3. Affiliates were active in a variety of product markets and could use their databases of customer details to target previous users of their sites with other products.

4. The pingtree's that had developed within the payday lending market were more advanced than many of the models for selling leads in other markets that predated online payday lending. However they were still at a relatively early stage of development and QuiddiHub thought that other markets would adopt the technology.

QuiddiHub's operations

5. QuiddiHub operated around five consumer-facing lead generation websites, a pingtree for payday lenders and term loan providers and a price comparison website (PCW). [✄]. Relatively little of its revenue was generated from its own websites (which in effect were affiliate marketing websites) or from

providing affiliates with sites that allowed the user to be transferred to a lender.

6. For affiliates to gain access to its pingtree they were subjected to review by QuiddiHub on their compliance in a number of areas. Affiliates had held consumer credit licences under the Office of Fair Trading and were in the process of applying for full authorisation under the Financial Conduct Authority (FCA).

7. It had up to 1,000 active and inactive affiliates when the company was acquiredwhich it worked with previously, though the number active at a given point varied significantly. Broadly, [✂]% of its affiliates were responsible for generating [✂]% of its revenue.

Borrower understanding and use of pingtree's

8. QuiddiHub thought that borrowers were aware that affiliates were not lenders because borrowers were familiar with the brands of lenders, however first time borrowers might benefit from a transparent statement of the pingtree process. It had considered placing wording on the home page of its website stating that it was a broker, not a lender and that it had a panel of lenders to which it passed customer information and who made the final decision on a loan offer.

9. It thought that applicants used lead generators to access new lenders and because it was a convenient way to apply to multiple lenders without filling in more than one lead form.

10. It observed that perhaps 60-70% of all prospective borrowers that were offered a loan through a pingtree did not accept the offer of credit. If the prospective borrower resubmitted their details to the pingtree, its system would detect that individual as a returning applicant and their lead would not be offered to the lender that first bought the lead. It considered that the reasons why borrowers did not accept offers of credit were likely to include the price of the loan offered, the speed of access to funds offered and that the value of the loan offered was lower than the customer required.

11. A number of borrowers were now repeatedly going through the pingtree because lenders that previously had lent to them were no longer prepared to do so as a result of tightening lending criteria. These customers no longer had access to credit from regulated lenders.

12. It thought that borrowers were more price sensitive with successive loans. Many customers would be willing to pay a greater price for a loan if they perceived customer service would be better.

13. [✄].

Impact of regulation

14. Although consumer demand for payday loans had not declined, the number of affiliates had, as a result of the shift in responsibility for regulation of consumer credit to the FCA. QuiddiHub had increased the level of scrutiny it subjected its affiliates to and had introduced monthly audits of affiliates. It had also embarked on a process of informing its staff and its affiliates of their regulatory responsibilities.

15. It displayed a representative APR which was an average of the APRs charged by lenders included on its sites. It updated its APR on a monthly basis. Because of the increase in the number of longer-term lenders the average APR was falling.

16. Lenders of a variety of sizes bought leads through its pingtree's. It had observed a reduction in the number of lenders active in the market. This was as a result of increased regulation. It saw a move in lenders towards offering longer term and instalment loans rather than single instalment one-month or shorter loans. It had observed that there had been an extra 10-20% of applications that had not been approved by lenders which it took to indicate lenders were tightening their lending criteria.

17. It did not think that it would be practical for lenders to monitor the activities of the lead generators that they used because of the number of entities active in the market.

Price comparison websites

18. QuiddiHub saw several flaws with the general price comparison website (PCW) model. One problem was that borrowers could see a range of products being offered but that they were not certain to receive an offer of credit from those providers, or at what price.

19. The second issue was the nature of the relationship between the prospective borrower and the lender; in the pingtree model the lender had proactively decided to acquire that customer, and thus the affiliate supplying the lead was able to be confident that revenue would be generated (as lenders only bought leads they were likely to lend to), whereas in the PCW model it was the borrower that chose the lender and it was much less certain that a loan would be issued as a result of the borrower clicking from a PCW to the lender.

20. It operated a PCW (www.quiddicompare.co.uk) and any borrowers which were not offered a loan through the pingtree were redirected to its PCW. The

site included a range of products beyond just payday loans. It was seeking to develop the functionality of the site to display only those lenders that would be prepared to offer a loan to the borrower (based on the borrower completing a standard application form).

21. Its PCW generated revenue either as a result of a prospective borrower clicking onto a lender's site, or on the issuance of a loan to the borrower. The arrangements varied by lender.

22. It currently paid £[✄] per-click on Google and it charged lenders £[✄] for each lead sold on.

23. It noted that Google was particularly restrictive on how affiliates could optimise payday lending related websites for search engines. Practices that were permitted (or were effective) outside of the payday loan market were not so in payday lending. Google had also increased the prices that payday loan companies had to pay for a variety of paid search terms.

24. The PCW (essentially acting as an affiliate) would not necessarily receive payment for a customer that clicked through to a lender but was ultimately unsuccessful in being offered a loan. In the pingtree model the affiliate website (ie the website the borrower first arrived at) would know at the point that a lead was purchased that they would be paid, rather than a potentially uncertain amount of time when a borrower completed an application and awaited a lending decision). By removing the uncertainty of revenue, affiliates working through a pingtree could commit to generating additional leads (and incurring the cost of doing so) in the knowledge they had generated revenue from the pingtree.

Remedy issues

25. QuiddiHub noted that optimising websites for mobile traffic was important as a large number of borrowers expected to use smartphones to access loans.

26. It told us that in order for a disclosure to customers to have an impact it would need to be placed in a prominent location. It was important to consider carefully how to encourage a user to understand what a disclosure was telling them.

27. It told us that it thought that consumers did not engage with pop-ups,[1] as at the point at which a pop-up appeared a customer was likely to have made

[1] It gave the example of the EU requirement for websites to provide disclosure on the use of cookies on websites that almost all internet users ignored without engaging with the message.

their mind up on a course of action. It also told us that one of the ways in which there was human interaction with a message was via a modal window.[2]

28. It thought that pop-ups on mobile platforms were potentially more difficult to implement, but were potentially ineffective as customers would dismiss them without consideration and would still attract a cost.

29. It thought that any declaration of the nature of an affiliate's service to a borrower would need to be brief. It thought that any attempt to educate a user at the point they had already chosen to take out a payday loan was too late. It would be necessary to test such a disclosure to understand its impact. If a pop-up was not effective in achieving its aim then it would simply be another expense for participants in the payday loan market. Ultimately such requirements could force affiliates from the market.

[2] A modal window requires a user to confirm they have read a message before they can interact with the main website.