PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Pingtree Ltd held on Friday 5 September 2014

Background

1. Pingtree Ltd (Pingtree) was established in 2007 and was purchased by Quintessential Finance Group Limited (Quintessential) in 2011. It currently operated in the payday and personal loan lead generation markets in Australia, the UK and the USA and had recently entered the life insurance lead generation market in the UK. Operating in these territories, it had found that pricing models and the way in which leads were bought and sold were similar, despite differences in the markets in terms of size and regulation (for example, the USA was the largest market (in particular with regards to high-street payday lending), and Australia was the most advanced in terms of regulation despite being a much newer and smaller market).

2. Pingtree considered itself a technology platform, which could be configured and used in a variety of ways. It was always looking to expand and its ultimate goal was to become a global online gateway to lenders. It operated an affiliate network within the UK as well as six of its own lead generator websites in short-term lending (the most well-known being www.purplepayday.co.uk). It considered each of its brands to essentially be affiliates of Pingtree.

3. It had recently launched a new service called Pingtree Direct. This service managed the lead generation process for lenders, eliminating the need for a lender to have a separate network of affiliates as all leads were purchased through Pingtree. It was however currently considering integrating Pingtree Direct with credit reference agencies and other third party service providers. It noted that the move towards real-time data did not change its plans because it did not believe it was competing with this and also believed it would prove difficult to make it work and be accurate.

4. Another service recently launched by Pingtree was UKloans.co.uk. Although this was not used for payday loans, it guaranteed applicants the lowest APR possible from its panel of lenders. When an application was received, it was reviewed for lender's criteria then offered to the relevant lender with the lowest APR. If the

lender declined the application, it was offered to the lender with the next lowest APR until the lead was purchased. This service used the same core technology as the payday loan pingtree., Although the same process could be applied to payday lending, it would be difficult to implement due to the way in which payday lead prices were tiered, and APR was not the best indicator of cost for a payday loan.

5. Loanmarketing Limited was purchased by Quintessential in 2013 and operates the website www.loanmarketing.co.uk. It operated as a fee charging broker but the business model was currently being changed to move it away from fee-charging, with the introduction of a credit reporting product and a reduction in fees from £69.99 to £5. It had noticed greater competition within the fee-charging broker space.

Affiliates

6. Pingtree had approximately 1,500 registered affiliates but on average only 30 were usually ‘live’ on any one day. All new affiliates went through a due diligence process, ensuring they had an interim permission number and a data protection licence.

7. Pingtree had several ways of interacting with affiliates, including banner advertising of its own brands, embedded application forms, or allowing those with their own application forms to post directly into Pingtree.

8. There were a large number of other pingtrees that used its services. Pingtree said that one reason for this was because it could be difficult for small operators to build relationships with larger lenders. It told us that lenders and other pingtrees were happy to use its services because its technology was robust and stable, and able to handle large volumes of data and deliver leads in a consistent way. Furthermore, it had a large amount of visibility within its technology that enabled it to cross-examine leads which in turn meant it was able to better understand the quality of the leads, reduce fraud and provide a better quality of customer to lenders. In addition, it had far more resources than any of its competitors (as far as it was aware) and, as a result of its lender relationship and compliance teams, had enhanced credibility.

9. It also worked with loan-brokers and debt businesses, but applications were only offered to these parties once they had been declined by all lenders. It told us it sold up to 30% 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.

10. Pingtree told us 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.

11. Pingtree used a small amount of SMS marketing for its own brands, and also had some SMS affiliates. It said SMS marketing became hugely popular about two or three years ago and was very effective – probably more so than email marketing given the number of emails people receive. It said that SMS marketing as a re-marketing or a re-engagement tool was widely used across the payday loan market, but generally produced a much lower quality of customer. It said customers often applied for a loan using a smart phone and had seen application numbers increase from about 25% to 50% across the market over the last 18 months/two years. There had therefore been a steep rise in the number of mobile-optimised sites.

12. The bulk of its income came from third parties using its services as opposed to its own direct marketing.

13. While it had not had issues advertising on Google, it had noticed a tendency for payday lenders to rank above lead generators in search results. It believed it currently sat at number ten on the Google search engine results page for the term "payday loans".

Customers' use of lead generators and the CMA's possible remedies

14. Pingtree agreed that across the market greater disclosure was required to ensure customers were aware they were using an intermediary website rather than a lender website. It said clear terms and conditions or a disclaimer should be displayed on the site to make this clear. However, a similar disclaimer should also be used across all mediums, not only the high-cost short-term lending / payday lending market(s), but also the mortgage market and the life and pensions markets.

15. It said customers should also be made aware that they may not be introduced to the cheapest lender on a lead generators panel or indeed in the market. It did not believe the panel of lenders used by a lead generator should be disclosed as this may be commercially sensitive information.

16. It did not believe customers used APR information to make informed decisions, and that it was a poor indicator of the total cost of a payday loan. Pingtree only used it because it was required to by the Financial Conduct Authority (FCA). In order to calculate the Representative APR (RAPR) on its websites it used a weighted average of the RAPRs of lenders purchasing leads. It told us it displayed a representative example and an RAPR on its direct-to-consumer sites and that the RAPR was determined by the rate at which an applicant would be introduced to a lender or provider that charged the rate (or less) in at least 51% of cases. It told us that this information was updated quarterly.

Regulation

17. Pingtree had not made any significant changes to its business practices since the introduction of the FCA rules in April 2014 because it had taken steps to comply with these eventualities when the FCA's consultation papers were published 12 months earlier. This included an audit of affiliates to ensure they were licenced. It believed more oversight was required by the FCA to ensure affiliates were licensed, and lenders should be responsible for monitoring the activities of the lead generators they use. However, it had noticed lenders taking more interest in the parties they worked with.

18. It was aiming to attain principal status under the new FCA regulations, which would allow it to appoint representatives and have full control of its affiliate network. Under this scheme affiliates would not need interim permission from the FCA as Pingtree would be responsible for compliance. It was hoping to achieve this by Q1 2015.

FCA's proposed price cap

19. Pingtree believed the introduction of the FCA's price cap (along with the other measures it was introducing) would further contract the UK payday lending market as revenues would fall and it would become more expensive to operate.

20. It told us that over the longer term it 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.

21. It believed new entrants would find it increasingly difficult to enter the payday lending space and that the market would shrink to around five to ten payday lenders and that about 90% of the market would be serviced by the five biggest lenders. It believed there was a possibility of mainstream banks entering the

market (citing Lloyds as one bank looking at the short-term lending market) and had already observed lenders making changes to their business models through greater diversification and new products. It had also seen an increase in the number of unpurchased leads, and lower prices.

22. Although it operated in Australia and the USA, which were both regulated, the markets were too different to form an expectation of how the UK market would react.