PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Stop Go Networks held on Friday 29 August 2014

Background

1. Stop Go Networks started trading in 2010 as Payday Gap, a website focused on payday loan leads. It began generating leads and six months later started selling leads to lenders in the autumn of 2010. Over the course of a couple of years it developed other websites including Payday Pig, Payday Polar Bear and Cash Cow Now. The business grew reasonably well until late 2012 / early 2013, but had now contracted and was approximately a third of the size it was at its height.

2. It operated its own websites and did not follow an affiliate model. It marketed its different offers by email, SMS, pay-per-click, search engine optimisation (SEO) and repeat business. Customers completed an application form online and the information collected was offered through an application programming interface (API) to the lender. If lenders accepted the information the applicants were redirected to the lenders site. Stop Go Networks then received a pre-agreed amount for that lead.

3. It operated a pingtree, a type of auction where a list of lenders bid for a loan application. Each lender was given between 1–20 seconds to respond. When Stop Go Networks found a lender that could lend the customer the amount requested, the applicant was redirected to the lender. Its system logged the redirect and the lender was typically invoiced at the end of the month for the number of leads they received. Each lender had a standard rate they paid. Sometimes lenders, having conducted credit checks, would only take the lead at a lower price.

4. Stop Go Networks had used its in-house technical skills to develop its own sophisticated systems. These efficiently captured data from an application form, across multiple websites, enabling it to quickly match the lead to the borrower's requirements. A customer completed a single form which was sent to the best lenders in the market. All its leads were directed through a single pingtree. It did not operate multiple pingtrees. If a customer was not matched to a lender and ended up at the very bottom of the pingtree they were offered a page with links which gave them other options.

5. Stop Go Networks was only interested in dealing with reputable lenders. It consulted debt management companies and asked others in the industry about the reputation of lenders. It deliberately avoided companies which might be buying a large number of leads but which had a bad reputation in the industry. It was content to deal with selected fee-charging brokers it thought it could trust. All the companies it dealt with had Financial Conduct Authority (FCA) approval.

6. Stop Go Networks was compliant with FCA regulations and had taken guidance from the FCA in terms of how messages on its website were worded. The involvement of the FCA, together with negative media coverage and the appalling reputation of the payday lending industry had resulted in a significant drop in the number of leads it was capturing. Lenders were not buying as many leads and consumers were not looking for as many payday loans. The FCA had indirectly constricted the market. However the involvement of the FCA also meant that rogue lenders had exited the industry. Stop Go Networks had had to invest a lot of time and money in taking legal action against lead generators setting up websites masquerading as it and had submitted evidence to the Office of Fair Trading and the FCA. It wanted to reach a point where the industry had been cleaned up, there were proper systems in place for all the companies involved in the market, and the industry was properly monitored and regulated by the Competition and Markets Authority and FCA.

The price cap

7. Stop Go Networks noted the comments of large lenders such as Wonga and news articles which expected the overall payday lending market to shrink by 50% following the introduction of the FCA's price cap proposal. It noted that its lead generator business for the first six months of 2014 had declined to a third of its size for the same period in 2013. It thought that this could possibly be due to the fact it had not developed as many new sites and had not kept pace with competition in what was a highly competitive market. It was also in part due to the shrinking of the industry. Stop Go Networks expected the amount paid to a lender for a lead would fall as the lender would not make as much money from that lead. Additionally, payday lending was becoming less popular with consumers.

Websites

8. Stop Go Networks operated a number of websites, the most successful being Payday Pig, which had the highest application rate of all its sites. A customer applied once for a loan without having to go from one site to another. It was certainly not trying to appear like a lender because that would be

counterproductive to what it was trying to achieve. It tried different styles of sites that appealed to different consumers. Its blandest site was Fantastic Finance, which was not very successful. It had conducted marketing campaigns to determine which sites were the most effective and had changed the look, feel and wording on its sites accordingly. It had also used Google Analytics to gather information and had observed live sites to see what customers were looking at and how long they spent on a site. Lucky Orange enabled Stop Go Networks to interact with customers and ask them questions. Stop Go Networks developed the sites and made them more professional-looking with high quality graphics so customers felt confident in using the site. Around [✂]% of leads were generated by customers visiting its websites and completing forms. This figure included repeat business which was an important part of its business model.

9. Stop Go Networks made money from every customer who applied through its application page, even if the application was unsuccessful, by selling on the lead forms to other companies who presented other borrowing opportunities to the applicant. There were companies willing to hoover up all of the leads at around 50 pence a lead from the bottom of the pingtree. Stop Go Networks preferred to work directly with the lenders rather than sell to other brokers, even if a broker offered more for a lead, because it did not want to build the business of competitors and wanted to maintain good relationships with lenders.

The Financial Conduct Authority

10. The FCA wanted lead generators to be more customer focussed. As such, Stop Go Networks needed to have a documented customer handling process in place by October 2015. It had put in place a system for recording customer support queries and responses which allowed it to carry out more analysis and provide figures regularly to the FCA.

11. Prior to the introduction of the FCA's regulatory regime, Stop Go Networks had introduced a number of system changes and more data had been collected by lenders to assess affordability more accurately. It employed two software engineers to maintain its systems and keep them up to the latest specifications the lenders required. These specifications included, for example, data relating to the number of dependents, marital status, a breakdown of housing expenses, credit cards, food, and transport costs and they used this data to establish whether a customer could repay a loan. Lenders also conducted other credit checks and other cross-reference checks behind the scenes.

12. Stop Go Networks thought it was in the interest of lenders to ensure that the lead generators they were working with were compliant with FCA regulations, but considered that lead generators should be responsible for their own compliance. In the future lenders might only work with companies that had an FCA number. It was regularly audited by lenders who reviewed its site content and checked it was sending the correct data. Stop Go Networks thought that some lead generators had in the past probably manipulated lead data to obtain sales.

13. Stop Go Networks clearly stated on its website that it was paid commission from lenders. This was found by clicking on the 'What It Costs' page, present on all its sites which indicated that it had the top 10 UK loan providers on its panel. It always tried to place a loan with those lenders that did not charge an upfront fee. If Stop Go Networks was required to make the message it currently displayed on its home page more prominent it would do so. It did not think it would make a difference whether this was displayed on its landing page or as a pop-up. The main consideration was how it would appear on different devices as customers were increasingly using mobile phones and smartphones. Increasingly sites were required to display regulatory text demanded by the FCA. Stop Go Networks noted that sites were becoming more uniform which would make the differentiation of sites difficult.

14. The FCA involvement in the payday lending industry had been positive. The FCA had made a lot of changes for the benefit of the consumer. There was no need for any more rules. The outcome of the industry remained uncertain.

15. Stop Go Networks thought that an accredited price comparison website would work better than a government mandated website which it thought would be unsuccessful. It was considering offering non-payday loan products with more realistic APR's and developing the technology necessary to be able to present several lending options to the customer.