

# Competition & Markets Authority- Payday lending market investigation Provisional decision on remedies – Money Advice Trust comments

MONEY  
ADVICE TRUST



## Introduction

We have commented on each of the proposed remedies identified by the CMA below. We have some concerns about the effectiveness of some of the proposed remedies. In particular:

- We would like to see a clamp down on excessive charges at point of sale, and throughout the lifetime of the loan, particularly those that are added when borrowers are in financial difficulty.
- We recognise that the CMA has stated that it will not duplicate the work of the FCA in considering a price cap. However, we would urge the CMA to revisit the issue of fees and charges if this is not fully covered by the price cap once in place.
- We would also call for further action in relation to the activities of credit brokers. We note that the Financial Ombudsman has issued a warning about the activities of credit brokers in relation to payday lending following a record number of cases in 2014.<sup>1</sup> The Ombudsman was particularly concerned about credit broking websites taking money from bank accounts on multiple occasions without warning, and passing banking details to other credit broking websites. Other reports have highlighted hidden fees, passing on personal details and refusal to offer refunds.<sup>2</sup>

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<sup>1</sup> <http://www.financial-ombudsman.org.uk/news/updates/payday-loan-middlemen-2014.html>

<sup>2</sup> <http://www.cas.org.uk/news/borrowers-beware-online-trap-will-fleece-you-you-even-take-out-loan>

## The CMA proposed package of remedies

### **(a) Measures to promote the use of effective PCWs, in particular a requirement for lenders to publish details of their loans on an accredited PCW combined with a recommendation to the FCA to establish an accreditation scheme for payday loan PCWs.**

We are pleased to see the package of remedies includes a requirement for lenders to publish loan details on an accredited price comparison website. However, if there is to be a price comparison website put in place then we would suggest that this should be seen as completely independent from the payday industry and seen as providing impartial, accurate information. We suggested that a single comparison site could be provided by a body such as the Money Advice Service (MAsE) as they are set up by Government and can demonstrate that they do not receive commission or any incentives for products.

We would suggest that this is particularly important given the recent concerns expressed over the lack of transparency regarding commercial arrangements by price comparison websites in the energy sector.<sup>3</sup> There are concerns that the best deals are not being displayed for all consumers on all sites.

It would appear that the price comparison website will be required to provide details of payday- type loans only. This would mean that the potential for consumers to access alternative sources of credit is restricted.

We would reiterate that any accredited websites should also clearly display a strong health warning about the risks of payday lending with the FCA payday warning as a minimum and include clear signposting to sources of free, independent debt advice.

### **(b) A recommendation to the FCA to take steps to improve the disclosure of late fees and other additional charges.**

We strongly support the idea that lenders should be required to provide a clear, upfront disclosure to customers of the total amount repayable if they fail to repay the loan in full and on time. It is vital that the additional fees and charges for late payment and/or rolling over of loans should be made more prominent. However, we are concerned that the proposals do not go far enough as there is no requirement on the FCA to ensure lenders present the information in a uniform way using prescribed terms and a similar format. We would urge the FCA to take steps to make this a requirement on lenders.

We would in addition suggest a requirement to display prominent cost warnings and sources of help and guidance for consumers contemplating taking out a payday loan.

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<sup>3</sup> <http://www.independent.co.uk/news/business/news/price-comparison-sites-accused-of-hiding-best-energy-deals-from-customers-9806517.html>

**(c) A recommendation to the FCA to take steps to help customers shop around without unduly affecting their ability to access credit.**

We would welcome changes to allow a consumer to shop around and to undertake a quotation search without affecting their ability to access credit. We are not convinced that the recommendation to ask the FCA to “encourage initiatives” by lenders, credit reference agencies and price comparison websites will be sufficient. If the FCA fails to do this, or if no initiatives are forthcoming, it is unclear what steps, if any, the CMA will take. We would therefore suggest this recommendation needs strengthening.

**(d) A recommendation to the FCA to take further steps to promote real-time data sharing between lenders.**

We also support a requirement on lenders to provide CRAs with a real-time update of any new credit facility granted. A real-time database is a vital tool in helping to address the failures of payday companies to conduct proper credit assessments of potential customers. We would expect to see a comprehensive real-time data sharing database in place shortly as the FCA has stated that it will take further action to ensure this happens, if this is not in place by November 2014.

**(e) A requirement for lenders to provide customers with a summary of the cost of borrowing.**

We would agree that the changes made by the CMA to the way in which this remedy will work is more likely to achieve the aim to better inform customers about the long-term costs of their borrowing. Instead of a requirement on lenders to send consumers periodic statements outlining the extent of their borrowing activity, these will be required for a full 12 month period at trigger points e.g. when a loan is paid off and before a new loan is taken out with that lender.

However, as we said in our response, unless there is information provided on alternative sources of credit such as credit unions, we are not convinced that this remedy will be particularly effective in dissuading people from taking out repeat payday type lending. The suggested remedy of requiring a link to a price comparison website within the summary will not be sufficient in our view. We suggest that it would be vital to include sources of free debt advice in the statements as finding an alternative source of credit is not usually the answer to dealing with an existing debt problem.

**(f) A recommendation to the FCA to take steps to increase transparency regarding the role of lead generators.**

We strongly support any measures that would require credit-brokers (and other intermediaries) such as lead generators to state explicitly the nature of their business and the commercial relationship that they have with lenders in the market.

We also support the call by the CMA for the FCA to conduct a review of the activities of lead generators and their compliance with CONC. We agree that the FCA should consider the role of fee-charging brokers and the use of customer data.