



Payday Lending Market Investigation

CAP's formal response to the CMA's consultation
on amendments to the price comparison website
and the statement of borrowing remedies

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CAP

Lifting people out of debt and poverty

Executive summary

Christians Against Poverty (CAP) is pleased to share the experience we've gained over the last 18 years as a free debt management charity into the Competition and Markets Authority (CMA)'s consultation on amendments to the price comparison website (PCW) remedies. It is clear from the CMA's findings that competition is not working well within the market and across credit products. The proposed remedies will undoubtedly help equip customers to compare products and select the most appropriate one for their needs. CAP would especially like to commend the CMA on their determination to promote effective competition and the consumer benefits associated with this.



The incorporation of PCWs into the Financial Conduct Authority (FCA)'s regulation of credit brokers and the product ranking criteria on PCWs are particularly promising amendments to the remedies. These changes will certainly improve the quality of PCWs and customer understanding of products. However, CAP would urge the CMA to keep sight of the other competition barriers identified in the provisional findings report that suggest that the degree of price competition that will be promoted by these remedies may be limited. More consideration needs to be given to how to increase PCW usage, especially amongst the most vulnerable customers, whose circumstances make rational decision making a struggle or who may lack Internet access. CAP would also encourage the CMA to reconsider the remedies surrounding advertising on PCWs and the non-mandatory inclusion of high-street lenders.

The payday loan industry has gained a bad reputation over the past few years. Yet recently the industry and FCA have both taken some notable actions to clean up much of the bad practice. CAP welcomes the FCA's further involvement and looks forward to the improvement these remedies will make. Finally, CAP would like to take this opportunity to encourage PCWs to include details of free debt advice as part of the changes they'll be making to their websites.

Matt Barlow
UK Chief Executive

Christians Against Poverty (CAP) helps thousands of individuals and families struggling with unmanageable debt each year. Through our network of 270 CAP Debt Centres based in local churches, CAP offers a free face-to-face debt management service, with advice and on-going support provided from head office. In 2013 CAP worked with 11,996 households, with 2,122 of these clients becoming debt free in the year.

In addition to this, CAP is the largest provider of face-to-face adult financial education in the UK. There are currently 879 CAP Money Churches providing a three-week money management course, equipping over 12,000 people each year to budget, save and spend wisely. CAP has also recently expanded to tackle the causes of poverty. To this end, CAP now operates 101 CAP Job Clubs and is piloting 26 CAP Release Groups to tackle unemployment and dependencies.

Revised PCW remedy

The proposed remedies will substantially improve the quality of PCWs and the ease of comparison between lenders. The relevant information that payday lenders will be required to provide to at least one PCW is comprehensive and will provide a good basis for customers to understand payday loan products. CAP is delighted with the proposed use of the total amount payable as the basis for comparison and the inclusion of late fees, both of which enable the customer to clearly understand the actual cost of the product.

Despite the CMA's intentions, CAP is concerned that price competition will be constrained for three reasons. Firstly it seems that following the recent implementation of the FCA's payday loan price cap, payday lenders are seeking stability and have in most cases already substantially reduced interest rates. Therefore, it seems unlikely that lenders will further reduce prices to compete, especially in the short term. However, undoubtedly competition will come in time and these remedies are a positive step in the right direction.

Furthermore, the CMA's provisional findings identified that more than half of payday loan customers do not shop around at all prior to taking out a loan and that customer demand is not responsive to the price of payday loans.¹ In light of this, without increased use of PCWs, price competition will not be promoted. To encourage greater use of PCWs there needs to be wider advertising. The requirement that payday lenders must display a hyperlink to an authorised PCW that they are listed on will help to this end, but customers also need to be made aware of the quality improvements following the implementation of these remedies and the benefits of shopping around, to improve usage. Additionally, it would be beneficial for the web portal of hyperlinks to all FCA authorised PCWs to be hosted by an independent body.

Thirdly, as stated in the CMA's notice of provisional findings, the context in which payday loans tend to be taken out is not conducive to shopping around.² Of the 22% of clients who reported taking out a payday loan in CAP's 2013 client survey, 77% reported using it to pay for food, 52% to pay gas or electricity bills and 36% to pay their rent or mortgage.³ As the client story below illustrates, the urgency felt by many payday loan customers when taking out a loan, especially in times of crisis or to meet priority bills, means they do not have the capacity to consider shopping around. The speed which funds can be accessed when using a payday loan is the main attraction for many customers. Debt is often a secondary problem compared to the other difficulties going on in peoples' lives, such as long-term illness or relationship breakdown. Therefore, CAP would appeal to the CMA to consider the particular vulnerability of many payday loan customers and note that improving the quality of PCWs is not necessarily a quick fix to the competition issues in the payday lending market.

Further comment on the amendments made following the FCA's input is included below.

Katie's story:

Katie fell into debt due to a period of unemployment. Her experience with payday loans is typical for many clients before contacting CAP for debt help. Katie's story is included at various points throughout this response to demonstrate the real-life context of the issues discussed.

"I didn't have enough money to live on. I'd paid everything but did not have enough money for food and the bus to work. I walked into the first one [payday lender] and they [...]"

[...] immediately said, "Yes you can have £700". I was so relieved to get cash!

I used loans to pay bills. I was watching the meter go down; it's horrible knowing there's only 30p left on electricity. Light goes out; you can't cook, you light a candle. Looking to see what is the cheapest food, not eating healthily. I walked an hour and a half [to get to work] once because I didn't have enough money. You don't want to tell colleagues that you only have two slices of bread and a Cuppa Soup for lunch."

Implementation through FCA Consumer Credit authorisation standards

CAP supports the proposed amendments to bring the authorisation of PCWs under the FCA's mandatory authorisation and regulation of credit brokers. Combining this with the requirement for payday loan companies to publish details on at least one accredited PCW will not only ensure quality standards are high, but also create a clear and robust system for price comparison within the industry. Authorisation by the FCA gives extra credibility to these remedies and the actions taken by the FCA so far in regulating other areas of the credit industry instils confidence that the remedy will be enforced effectively. Therefore, CAP is confident that allowing the FCA discretion will permit them to effectively realise the CMA's desired customer outcomes.

Further to the amendments, to maximise competition between lenders CAP would also recommend that PCWs highlight that only FCA authorised and regulated payday lenders are listed on their website. This would promote more effective price competition by instilling consumer confidence in using the product that best fits their needs, even if the lender is unknown to them. Furthermore, it would support smaller companies that may offer a better deal to customers but be struggling to break into the market.

Online lenders only

According to the CMA's provisional findings, the proportion of payday lending customers who have only taken out a payday loan on the high street is 17%, whereas 71% have only used online lenders.⁴ While the majority of the payday loan market consists of online lending, high street lending is not insignificant. While CAP appreciates the constraints faced by PCWs in proving comparison of high-street lenders, especially in agreeing commercial terms, it is important that the customers of such products also benefit from competitive pressures. CAP is not convinced that the proposed remedy, that high street lenders will also face competitive pressures associated with customers using PCWs to compare online options before using a high street lender and that more high street lenders may choose to be displayed on PCWs as their usage increases, will achieve the outcomes predicted in the consultation document. If high street lenders are not obligated to have the details of their loans published on an authorised PCW, there needs to be strong encouragement from the FCA for them to do so.

Additionally, the provisional findings also found that the median net income of a high-street lender payday loan customer is significantly lower than that for an online customer: £13,400 compared to £16,500.⁵ CAP's main concern is that high street lending customers are already less likely to shopping around, plus due to lower income are also less likely to have Internet access at home and may be more vulnerable to financial difficulty. Therefore, CAP would

encourage the CMA and FCA to consider how to incite high street lending customers to shop around, especially those without Internet access.

Katie's story:

"There are too many little shops everywhere, especially in poor areas; they pop up like mushrooms. Where I work, I see people going in on lunch times. You see instant cash and grab it as a lifeline. You are aware in the back of your mind at the end of the month money has to be paid back but you need to have food and need to get to work and that's where they get you. They get you in your vulnerability because you need it."

Advertising

The advertising proposals are a welcome improvement on current practice. Nevertheless, the amendment to allow advertising on PCWs that is 'fair, clear and not misleading' and 'clearly differentiated from the objectively ranked table of payday loan products', rather than a blanket ban, weakens protection offered to customers by the proposed remedies. The FCA's concerns about the ability to require PCWs to ban banner advertisements is understandable, as an external provider controls the advertisement that is displayed. However, the amendments seem to ignore that these are different to advertisements a payday lender would pay the PCW to feature on their website. Such adverts often appear as 'featured products' and are placed at top of the webpage, requiring the customer to scroll down for their objectively ranked table. CAP believes it would be possible to exclusively ban advertisements commissioned directly by a payday lender to the PCW, rather than all advertising space on the page. This would place the remedy in the middle group between the two proposals and would be extremely beneficial in terms of reducing customer misunderstanding.

Exclusion of lenders

The proposal that PCWs cannot 'unreasonably exclude any lenders from their site' is welcome and fair to payday lenders. CAP believes it is appropriate for the FCA to consider how best this can be achieved, and is confident in their ability to do so.

Total amount payable

It is extremely encouraging that APR will not be used as the headline measure for comparison. For PCWs to maximise customer interests, customers need to fully understand the implications of taking out a payday loan product. The proposed remedy will facilitate customers' understanding of their options. CAP accepts the amendment to use the total amount payable rather than the total cost of credit (TCC), as these are effectively equivalent measures. Using the total amount repayable will not only increase transparency about the cost of the product, but will also encourage customers to be more forward thinking, especially in times of crisis when customers may not be thinking rationally about the implications of their choices.

Katie's story:

"The interest was horrendous. It's on the paperwork in black and white but the relief you get means you think you can do it. They mumbled and asked, "Can you repay?" but if you are desperate you say, "Yes!" Then you have to roll it over and that's the big problem, just paying interest."

Secondary sort criteria

In light of the current price convergence within the payday loan market post FCA price cap, the secondary sort criterion is likely to be an important ranking principle. The CMA's clarification that this will be 'independent of any commercial relationship with the PCW operator' is helpful and reassuring. Further to this, it would be clearer if the CMA or FCA gave some guidance on what best practice for this might be. CAP would recommend the most useful secondary sort criteria for customers to be some sort of customer service rating to facilitate non-price competition or perhaps implications of late payment.

Fallback Position

The CMA's findings strongly suggest it is unlikely that the Fallback Position will be required, however the measures proposed by the CMA in such circumstances appear suitable.

Stating the number of lenders compared

CAP agrees that the FCA's suggestion to display the number of payday lenders compared will encourage PCWs to strive for a 'whole market comparison'. By simply communicating how extensive a comparison has been provided, this measure will also increase transparency for customers. However, to make this more effective, it would be helpful to also display the total number of FCA authorised payday lenders in the market to give customers a benchmark for this figure.

Other comments

Hyperlinks to FCA authorised PCWs

It would instil greater consumer confidence in the authorisation system if the web portal of hyperlinks to all FCA authorised PCWs were to be hosted by an independent body.

Credit checks

If more customers are to be encouraged to use PCWs, it is important that the FCA ensures that they will not suffer any detriment as a result. It is CAP's understanding that currently PCWs may carry out 'soft' credit checks to verify identity, that show on a customer's credit report as an 'enquiry'. A lender at the point of application then carries a full credit check. However, in CAP's experience, clients can be reluctant to shop around for fear that their enquires or being turned down for a loan will damage their credit rating. Customers need to be reassured that using PCWs will not damage their credit rating. This would be most effective coupled with a guarantee that when passed to a lender's website the customer is

explicitly informed about the point which the lender will carry out a full credit check. This will also ensure that customers understand the difference between comparing products using the lender's website for more detail and applying, and the potential implications for their credit file.

Debt advice

Payday loan use is often a symptom of wider financial difficulty. Many customers will have other outstanding debts and will be unaware of the availability of free debt advice. These customers would benefit from signposting to free debt advice. CAP would like to see information about free debt advice sources prominently displayed on payday lending pages of PCWs. Customers should be encouraged to consider whether they should seek help with their existing debts rather than taking out a further loan. Currently moneysupermarket.com has a great information page for users who are seeking information on payday loans⁶ and CAP would like to see this practice spread throughout the industry.

Katie's story:

"I had the first loan, struggled to pay it off but paid it off. Then they said, "You can have a bigger amount". Then I struggled to pay it off and rolled it over. In between I was paying off the debt collectors for my Council tax. When they threatened me that I must pay £700, I took out a second loan and it snowballed. £700 was what I was earning, so I took other loans. I had 8 payday loans.

Having an organisation like CAP behind you is such a relief. The psychological relief is enormous. You get the courage to sort out paperwork and bills. To know there is money in my purse and I am saving towards new spectacles. Now my life is more organised, happier and I have reduced the medication I am on. I am able to sleep at night."

¹CMA (2014) Payday Lending Market Investigation: Notice of provisional findings made under Rule 11.3 of the Competition and Markets Authority Rules of Procedure (CMA 17). Accessed: https://assets.digital.cabinet-office.gov.uk/media/5397ef5ed915d1069000003/Notice_of_provisional_Findings.pdf

²ibid.

³CAP's Client Report 2013. Accessed: https://capuk.org/downloads/cap_debt_help/client_report_2013.pdf
Please contact Rachel Gregory (rachelgregory@capuk.org) to request a paper copy.

⁴CMA (2014) Payday Lending Market Investigation: Summary of provisional findings report, 11th June 2014. Accessed: https://assets.digital.cabinet-office.gov.uk/media/5397ef3c40f0b6101d000003/Summary_of_provisional_findings_report.pdf

⁵ibid.

⁶<http://www.moneysupermarket.com/loans/hubs/payday-loans/>

Requests for further information

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