Mutual Clothing and Supply Company Limited response to CMA invitation to comment on a review of Part 3, article 29 and Part 1 of Schedule 4 of the Home Credit Order (Lenderscompared)

Mutual are a family owned and run home collected credit lender operating in the east midlands. Following the market exit of other firms, Mutual are the sole remaining 'large lender' under the Order. Since 2021, four of the five 'large lenders' who were required to fund the lenderscompared website have exited the market.

We see clear evidence of a change in market circumstances which means an urgent review of the relevant parts of the Home Credit order by the CMA is required.

The collapse or exit of all other 'large' home collected credit firms has meant that:

1) The funding mechanisms contained in the Order to run the lenderscompared website are no longer appropriate or sustainable; and
2) Given the market collapse, we have concerns over whether the lenderscompared website still functioning effectively as a comparison tool for consumers

In our view, the relevant parts of the Order are no longer appropriate in dealing with the competition problem because there are now significant doubts as to whether the lenderscompared remains an effective tool for improving price competition.

The relevant parts of the Order concerning funding of the website are inappropriate because they will place an undue and disproportionate burden on our firm which goes far beyond the intentions of how the website would be funded in the original Order.

<u>Clear change in Circumstances</u>

The CMA is required to review the Order if there has been a change in circumstances such that the order is no longer appropriate.

In the invitation to comment, the CMA has outlined 3 possible changes of circumstances;

1) The reduction in 'large' lenders
2) The reduction in the number of home credit lenders overall
3) The lower levels of visits to the lenderscompared website

We agree that this is a correct assessment of what has occurred in the market and strongly agree that it indicates a change of circumstances. We provide further detail and evidence of our view on the change in circumstances below.

Change in Circumstances #1: Market exit of Home Credit firms

In 2018, the following four 'large' lenders (alongside our firm) were parties to the agreement with the 3rd party provider who runs the lenderscompared website. These four lenders have since exited the market.

Lender	Market exit
Morses Club PLC	Went into administration 17/11/2023
Naylors Finance Limited	Exited Home credit in 2022, Went into administration 18/09/2023
S.D. Taylor	Went into administration 15/03/2022

Provident Personal Credit Limited	Exited Home credit in 2021, winding up of company started 06/09/2023

Additionally, we have seen market exit of medium sized home credit firms who at one point were checked by the Office of Fair Trading as to whether they qualified as 'large' lenders.

Lender	Market exit
CLC Finance (Company Name: Hamsard 3225 limited)	Went into administration 08/08/2023
Short term Finance (holdings) limited	Voluntary liquidation 19/01/2023

As noted by the CMA in their invitation to comment, the number of home credit firms has reduced from 400 as recently as 2019 to around 165.

This market exit means the funding mechanisms in the order are no longer appropriate and there are now far fewer lenders on the lenderscompared website with no lender having a national footprint.

For a price comparison site to function there needs to be lenders on the site which consumers can find in their area to compare.

We have evidence to show that the market exit means that in large areas of the country, the price comparison site will show one or possibly no lenders. In 40% of the top 25 postcode districts (e.g. LE1 XXX), we are the only lender showing on the site for 3 different search terms[1].

This calls into question whether the website is functioning as intended and remains appropriate in addressing competition issues.

Change in Circumstances #2: Reduction in supply of home credit loans

There has been a substantial reduction in the supply of home credit loan agreements.

In July 2022, the FCA[2] released the following data on the number and value of home credit loan agreements being issued by firms. All home credit firms are required to report the number and value of loans issued in their 'product sales data' returns to the FCA.

Measure	April-19	April-20	April-21	April-22
Number of agreements outstanding	2,276,172	2,058,662	1,824,147	590,814
Value of agreements outstanding	£1,313,902,275	£1,236,099,951	£1,108,578,063	£280,997,228

The drop in value of over £1 billion of home credit is a reduction of 79% from April 2019 to April 2022.

[1] £100 loan search with 'up to 28 weeks', £500 loan search with '36 to 60 weeks', £500 loan search for '2 years or more'

[2] https://www.fca.org.uk/freedom-information/data-consumer-credit-loan-agreements-july-2022

With the market exit of large firms accelerating in 2023, the supply of home credit loans will have contracted even further.

According to their published accounts for the financial year ending 25 February 2023[3], Morses state they issued £60,800,000 worth of home credit loans (to Feb 2023) down from £108,000,000 in 2022. This supply of home credit loans has now also gone from the market.

If necessary, the FCA can provide the CMA with more up-to-date figures on the supply of credit in the home credit market from lenders' product sales data returns.

Home credit businesses rely on experienced and established local agent and manager networks to help and support the customers and manage their borrowings. The largest home credit lenders who operated in this market had developed these networks over many decades (or purchased already established businesses). For instance, we at Mutual have been in existence for over 100 years. With the market exit of these large firms these networks have disappeared. This means that large scale national supply of loans using a home credit model has gone forever as the costs involved in a national home credit lender re-establishing networks in a period of a few years would be exorbitant. Mutual are a modestly sized regional lender and we have no intention of expanding significantly.

This substantial reduction in home credit loan supply calls into question whether there are enough lenders remaining and providing home credit for the lenderscompared to be an effective price comparison tool.

Change in Circumstances #3: Effectiveness of a price comparison site

Increased internet use by both lenders and consumers since 2006 has diminished the need for a price comparison site to compare prices in the home credit market.

When the Competition Commission (CC) investigated Home Credit in 2006, one of the reasons the comparison website was setup was because consumers found it difficult to find the costs of the loan unless they made a direct loan application to their agent (at which point they were already too close to the point of borrowing). Firms also found it difficult to find the loan prices of competitors and so were unable to highlight differences in loan cost to consumers. This meant there was price insensitivity in the consumer base. The CC introduced the price comparison site measures to improve price transparency.

Nowadays, lenders make far more use of their own websites to publish their loan prices making comparison easier for consumers and other firms. Typically, we see home credit lenders who have a website using a loan slider which allows consumers to view the costs of different sized loans and different terms. Even without loans sliders, the advertising regulations generally require a lender to present a representative example on their website. At the time of the Competition commissions final report these loan sliders did not exist as they were developed first by the payday lending / HCSTC sector. Home credit lenders' websites were also underdeveloped.

Loan costs are now easier to find and more available for the consumers than in 2006.

[3] https://www.morsesclubplc.com/media/MC2023ARA/morsesclub_ar23_web.pdf (Table page 19)

Change in Circumstances #4: Reduction in consumer visits to the site

The CMA has highlighted that visits to the site have dropped by around 60% from 2017 levels in 2023. There has been a long period of decline in visits to the site which was likely to continue even without Morses' market exit.

We think that consumers find the site through lender's marketing (which requires a statement about lenderscompared) and possibly from the payment card statement rather than say a google search. This is evident from the high numbers of direct visits to the site and from referrals which are likely to be click throughs from lender's websites.

With Morses exit, there will inevitably be less visitors to the site because of lower levels of marketing and because of the reduction in issuance of loans. This will mean the number of visits will continue to drop[4].

There must come a point when the site is no longer viable because of the decline in visitors.

Mutual's view on a change in circumstances in the market

From the evidence above, we consider there has been a substantial change in market circumstances such that the appropriateness of a comparison website is called into question and the lenderscompared website can no longer be sustainably funded under its current funding mechanisms.

<u>The relevant parts of the home credit Order are no longer appropriate</u>

The clear change of circumstances outlined above means that the relevant parts of the order are no longer appropriate and are in urgent need of review and change.

The lenderscompared funding mechanism is no longer appropriate because:

a) Funding is not sustainable (having only one lender to fund the site is not a sustainable situation)
b) Inappropriate as it means Mutual will bear the cost for the market failure of others
c) Disproportionate, as it requires Mutual to fund a nationwide site when we only operate out of 16 towns and cities in the east midlands
d) Disproportionate, as it requires a modest regional lender who funded only 3% of the site's costs as recently as 2021 to fund 100% of running costs in the future
e) Inappropriate because it imposes a burden on the only remaining 'large' firm which goes far beyond the intention of the original Order which required funding of the site to be spread among 6 lenders.

The lenderscompared website may no longer be an appropriate tool for price comparison and improving price competition because:

a) Supply contraction and significant market exit of both large national firms and a vast reduction in the total number of home credit firms overall means the website may no longer be functioning as an effective comparison site because there are no lenders left to compare against
b) Declining number of consumers are using the site

[4] When assessing the number of visitors, the seasonal pattern of demand seen in Home Credit needs to be taken into consideration; where the number of applications for loans increase before Christmas and then decline in January and February.

c) Price information is available elsewhere

One of the purposes of the comparison website was to encourage lenders to compete on price and be able to do so with confidence. Over the many years since the lenderscompared site was setup, we have produced comparative marketing to show the substantial savings on loan costs which customers can gain when taking a loan out with Mutual compared with the main national firms. In recent years this has been a saving of over £200 in interest costs on a typical £500 loan.

The current reality is that we can no longer produce price comparison marketing because the home credit market collapse means there are large areas where we are the only lender. There is no one left to compare against.

We compete with other credit options available to our customers including credit cards such as Captial One and Vanquis (Provident's parent) as well as other loan products. Our analysis of data from credit files indicate that our customers hold and have access to these types of credit products.

Accordingly, the change of market circumstances means the relevant parts of the Order are no longer appropriate.

<u>Mutual Comment on the CMA's prioritisation criteria</u>

We agree with the points made by the CMA invitation to comment concerning whether a review would meet the CMA's prioritisation criteria. The review would reflect the CMA's statutory duty to keep under review orders and undertakings and a review focused only on the relevant parts of the order will involve a modest amount of the CMA resource. The issues involved are straightforward and there is clear evidence of a change of circumstances.

<u>On impact</u>

We would highlight that if the now inappropriate parts of the Order remain in force, this will have a substantially negative impact on our firm.

The site is used by fewer and fewer customers and given the reduction in supply and market exit; we think there will be further substantial contractions in the numbers of consumers using the site. At a certain point, the reduction in the number of users on the website will mean it is no longer viable.

It's likely that large areas may now have no home credit lenders appearing for comparison on the site so consumers will find the site of limited benefit and price information can be found elsewhere.

We therefore think the impact on consumers will be minimal and that there are important issues which need to be assessed.

<u>On Strategic Significance</u>

Firms need to have confidence in the regulatory systems and institutions in the UK. When an Order becomes obsolete or inappropriate because of a change of circumstances we strongly believe that the regulatory authority responsible should review and address the situation.

We appreciate that this market and our firm are considerably smaller than issues that the CMA usually deals with but smaller firms should have the same level playing field as issues affecting large multi-national firms. The same principles requiring a review should be applied.

Areas the CMA review should cover

In our view, there is significant evidence that the lenderscompared website may no longer be an effective tool for consumers. The CMA should review the relevant parts of the Home Credit order and establish whether the lenderscompared website is still functioning as an effective tool for consumers and meeting the purpose for which it was setup originally.

If the CMA finds there is still some benefit in the website remaining then the funding arrangements for the website need to be addressed as the current funding mechanism is no longer appropriate.

Respondent details

Mutual Clothing and Supply Co. Ltd.
39 Bedford Street South
Leicester
LE1 3JN