

Mutual Clothing and Supply Company Limited's response to the CMA's Provisional decision on the Home Credit Order dated 12/07/2024

CMA review of Part 3, article 29 and Part 1 of Schedule 4 of the Home Credit Order relating to the 'lenderscompared' price comparison website.

Summary

Mutual agree with the provisional decision made by the CMA on the 12/07/2024 that the relevant parts of the Order relating to the price comparison website are no longer appropriate by reason of the change of circumstances.

Mutual also agree with the provisional decision made by the CMA that the appropriate outcome is to remove the relevant parts of the Order relating to the price comparison website because it can no longer be funded in the manner intended by the order and because the market contraction is such that it is of limited value in comparing home credit loans.

Although we agree with the removal of the price comparison site, we think that this removal weakens the price publication requirements as intended by the Competition Commission's final report to the extent that it could be detrimental to consumers and competition. There needs to be sufficient measures in place to ensure home credit loan price information remains easily accessible and transparent.

Mutual therefore think that the CMA should enact a requirement for home credit lenders to publish the prices of the home credit loans they offer on their own websites where they operate one.

In order for consumers to assess whether taking a loan is right for them and to enable competition to be effective, price information and transparency on loan prices is of critical importance and a key part of why the Order was made in 2006.

This would fit with the original intention of the order which was for Home Credit lenders to publish price information to improve competition.

Change in circumstances

We have observed the same change in market circumstances identified by the CMA, namely;

- The exit of all of the 'large' lenders (as defined by the Order) other than our firm
- A reduction in the number of smaller sized home credit firms
- A substantial reduction in the supply of home credit agreements
- A significant reduction in the usage of the price comparison website

Mutual comment on possible outcomes considered by the CMA in light of the change in circumstances

1) Maintain the price comparison website requirements

The CMA state that there may be some residual benefits from maintaining the price comparison website to allow consumers to compare remaining lenders and to verify whether a lender is regulated.

We acknowledge that there may be a benefit to a small number of consumers however we think that the point has been reached that the benefits are no longer proportionate to the requirements of the Order and in particular the funding requirements.

We note that the usage of the website has declined significantly and that even when there were two large lenders operating in the market in 2023, the monthly visits to the website had declined to 1,400. Since the latest available usage figure, the last large national lender (whose size was considerably larger than our firm) has exited so we think that price comparison website usage will have declined further. The downward trend in usage over recent years also shows that into future years, there will continue to be a decline in consumers using the price comparison website.

We agree that changing the funding mechanism of the website would go beyond the intentions of the original Order. This includes requiring the last remaining 'large' lender to solely fund the website when the original Order's intention was that the funding be shared among six 'large' lenders.

2) Replacing the price comparison website with a requirement on lenders to publish specified information

We think that transparent and easily accessible price information in a market is good for consumers and competition between firms.

We are concerned that if nothing is put in place to replace the price comparison website, the market will return to the state it was in before the Order was made where home credit loan price information was opaque and difficult to obtain without a direct application for a loan to a lender.

We think a requirement for lenders to publish their loan prices on their own website would have considerable benefits to the consumers remaining in the market in that they would be able to easily access price information.

A publication requirement would be simple and easy for firms to comply with and would meet with the intention of the Order regarding price information publication. It would be a cost-effective way of mitigating the removal of the price comparison website. If practical, a lender should also publish the areas they operate in.

Issues if nothing replaces the price comparison website

Prior to the Home Credit Order coming into effect, we found that price information on other lenders' prices was difficult to obtain even with our market knowledge and that price information was limited. It was difficult for us to produce comparative marketing because there was no reliable source of information which is important when making claims about the costs of a competitor's loan products. We also saw that consumers were insensitive to loan prices because they were choosing loans, not based on the price of the loan, but on the availability of credit and trust in their existing lender.

We do not think that relying on a lender having a 'representative example' on their website is sufficient to meet the Order's intention on price publication in the home credit market.

This is because the 'representative example' is not always triggered in a financial promotion. Lenders may also only have to show a more limited 'representative APR' if they avoid certain terms in their advertisement¹. As the Competition Commission found in 2006, APRs are not a good measure of cost for shorter duration credit.

The FCA's financial promotion rules mean a lender does not have to show a representative example when no 'rate of interest' or 'cost of credit' is shown (i.e. the price of their loans).

¹ <https://www.handbook.fca.org.uk/handbook/CONC/3/5.html> Content of financial promotions.

Where a lender does trigger the requirement to show a representative example, then they only have to display one loan in the representative example and not all their loan products of other durations. The representative example shows the loan which the lender expects to be taken up in at least 51% of agreements as a result of the financial promotion and therefore loans to existing customers may not be shown as they tend to apply directly to the agent whereas a website may typically attract new customers.

A lender could, if it wished, have a website saying that home credit loans were available but not have any price information about the loans on offer because the representative example was not triggered. They could also say that loans were available to individuals who might otherwise consider their access to credit restricted and only have to display a 'representative APR'² rather than a full 'representative example'. Because of the issues relating to APR being a poor measure of costs on shorter duration credit, an APR would not provide price information which is understandable or relevant to consumers.

We note that the CMA thinks that requiring lenders to publish their prices on their own website will make monetising online engagement difficult for an independent commercial price comparison website.

As identified by the CMA, in order to assess the creditworthiness of an applicant, our process involves one of our employed agents carrying out a home visit with the applicant in a face-to-face setting. This makes monetising 'leads' generated by a price comparison website difficult given the uncertainty of whether leads passed across to lenders will be accepted and because of the time taken in the process as a result of the home visit. This is one reason why our firm does not use credit brokers as a source of new business leads.

However, we think there may be other sources of revenue for a commercial firm (such as adverts not related to credit or other services) and it would not stop a price comparison website being created by a consumer body whose objectives were to inform consumers rather than generate revenue.

We agree that most lenders, including ourselves, are unlikely to be displayed in the results of a search engine when a general search term is used (for example a search for 'cash loans'). However, when the name of a lender is used as the search term, our experience is that the lender's website will be displayed as one of the top results. Home credit is a product where word of mouth recommendation is important when consumers are interested in finding a lender. This is the most common source of new customers for lenders. When a word-of-mouth recommendation takes place, the lender's name will be part of that recommendation. Price information available on a lender's website would aid consumers in making an informed choice.

There is evidence that home credit consumers find lenders online by searching for specific terms online as this is the route in which consumers are currently visiting the existing price comparison website. The overwhelming majority of visits to the price comparison website are arriving on the website by either a 'direct' route (entering in the price comparison website address they have seen on an advertisement or payment card) or by a 'referral' route (click through from a home credit lender's website). Users visiting the price comparison website by 'organic search'³ were just 10% of total users.

² CONC 3.5.7 R (1) (a) FCA financial promotions requiring a representative APR.

³ Comparison website provider's reporting pack Q3 2023 showed 'organic search' users were 308 out of 3,007 total users.

Intention of the Order and the Competition Commission's Final report

The Competition Commission's final report on the Home Credit market 2006 stated on page 10 paragraph 27:

Publication of prices

27. We will ensure that lenders publish the prices of their home credit loans. All home credit lenders will be required to provide specified information on the price and other terms of their loans to an independent website operator appointed by the CC, who will publish the information in a way which will enable users to compare the prices of loans in a certain geographical area, and provide information regarding customer rights. The costs of funding the website will be met by the largest home credit lenders. Home credit lenders will also be required to provide information, mirroring that on the website, about their home credit products on request, either orally or in writing, to the customer within one week of the request.

The publication of all home credit lender's prices was a clear intention in the Competition Commission's final report⁴ and subsequent Order.

We note that there is already a 'requirement on lenders to publish specified information' in place in Part 6 of the Home Credit Order 'Further information requirements' under article 32 'Duty to supply product information on request'.

Enhancing this requirement to include publication of prices on a lender's own website would fit with the intention of the order and mitigate the removal of the price comparison website.

Our understanding of the Competition Commission's final report into the home credit market published in 2006 is that the intention of the order was for the publication of home credit loan prices in general to aid competition of which the price comparison and information provision requirements were parts. We do not think that requiring lenders to publish their prices on their own website (recognising that technology and consumer behaviour has changed since 2006) would necessarily mean there is a change in the original intention of the order.

We do not think that a requirement to publish home credit loan prices on a lender's own website would be particularly burdensome or costly for lenders who already have a website. It would have minimal costs particularly where content management software is used to update the prices of loans on offer.

As with the current price comparison website requirements, a requirement to publish home credit loan prices on a lender's own website does not need to apply to lenders who enter into less than 100 agreements in the same class within the previous 12 months⁵. We recognise that not all home credit lenders have websites so we do not think that the requirement to publish should cover firms who are not large enough to run their own website. This would make the requirement proportional for smaller firms.

Requiring a home credit lender (who has their own website) to publish their loan prices would make it easier for consumers to compare the costs of home credit loans and be of benefit to competition in the market. This would future proof the intention of the Competition Commission's report and Order

⁴ <https://webarchive.nationalarchives.gov.uk/ukgwa/20140402164658/http://www.competition-commission.org.uk/our-work/directory-of-all-inquiries/home-credit> Final report page 10 paragraph 27.

⁵ Part 3 Article 16 Duty to publish section (b)

for lenders to 'publish prices of their home credit loans' for a reasonably foreseeable future period and guard against further changes in the home credit market (the size of the current participants changing or the entry of a new large lender).

The Order should be updated to require lenders to publish all their home credit loan products on their website and, if practical, require lenders to state the areas they operate in to make the information useful for consumers.

3) Removing the price comparison website requirements

We agree with the points made by the CMA in their assessment of the removal of the price comparison website requirements.

As noted above, we do not think that the representative example on lender's websites alone will ensure there is sufficient price information and transparency in the home credit market.

Respondent details

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