

Response from a price comparison website to Notice of Possible Remedies; Market Investigation into Payday Lending - CMA 2014

This document is written in response to the above investigation. We wish to offer our thoughts on the development of a Payday Loan Price Comparison Website and respond to each 'Issue for Comment' individually.

Response to Remedies

Remedy 1 - Price Comparison Website

(a) What are the main challenges in establishing an effective price comparison website in this market and how might these be overcome?

With so many variables and scenarios to consider, being able to effectively display all of this information is going to be difficult, but it is achievable. Many lenders offer different loan products with some lenders offering multiple types of loan. Loan periods vary greatly from lender to lender from 7 days to up to 24 months.

A prioritisation exercise must be undertaken to determine the most important and relevant information to display when carrying out a comparison.

With so many different options to consider, you must be careful not to have too many filters for the user to use otherwise there is a risk of the tool becoming too complex to use.

Comparing payday loans is very different to comparing - for example - personal loans. Where personal loans are usually larger amounts taken in multiples of £1000 over a period of years, payday loans can be any amount from £50 up to £1500 and can increase in multiples of £1 and with some lenders charging interest daily and some not, the calculations for the repayable amounts can get extremely complex.

Defining time periods and total repayable amounts to complete a successful comparison is a very challenging task - especially when lender APR's are constantly changing.

As an example, if somebody needed to borrow £170 for just 11 days to pay an urgent bill and they visited the comparison site, you would need to have every possible amount that could be borrowed available in the filters from £50 to £1500. You would then need to cover every period from 1 day to 31 days then 2 months, 3 months, 4 months etc up to 24 months.

If you 'generalise' the filters and have amounts increasing in £100 increments and just choose some of the most popular loan periods (7 days, 14 days and 30 days for example) you may be pushing people to borrow more than they need for longer than they need.

Organising the sheer volume of data to create a fully comprehensive comparison table is very challenging.

(b) What features should a customer be able to specify when searching for a loan using the website?

i. The results of a comparison search **must** be driven from detailed user specific information. It's important not to ask the user to complete too much information to avoid them leaving the site, yet collect enough information to make an effective comparison. In order for the user to have the most relevant results returned, we believe the following criteria should determine the results shown:

Criteria:

- 1) Type of loan required (Payday, Instalment, Line of Credit, Personal Loan)
- 2) Amount of loan required
- 3) Duration the loan is required for
- 4) Self-Assessment of the borrowers own credit profile (poor/average/good/don't know)
- 5) Whether they require funding the same day or not

We believe that the above criteria would provide enough information to return results that would best suit the requirements of the user.

(c) What is the best way of providing a comparative cost of a loan and how should the price of payday loans be disclosed for any given scenario?

i. With such variance in the subsidiary costs of some payday loans (faster payment charges and application fees), we believe that it is essential to compare loans based on the total cost of a loan including all fees and charges. With some lenders charging up to £25 for faster payments, this can seriously affect the cost of a loan. The breakdown of the total cost of the loan should also be displayed.

(d) In what order should products be ranked?

If the purpose of a comparison site is for the consumer to get the best value loan, we believe that the loans should be ranked in order of the Total Amount Repayable.

Ranking by total cost of the loan may encourage lenders to price more competitively in order to increase their exposure on the comparison site by featuring higher up the list.

Additionally, there should be filters for consumers to be able to filter the loans alphabetically (to quickly find a particular lender), by total cost for the credit alone (excluding fees) and the APR on the loan.

(e) How should repayment scenarios in which a borrower does not repay the loan on the originally agreed date be treated?

This information would not be able to be displayed in full within the main comparison table. Due to the complex nature of some lenders default and rollover fees and webpage space limitations, this information would need to be displayed with the 'Lender Review' or 'More Information' section for each lender.

Within the More Information page for any particular lender, full details of the charges and fees associated with late payments/rollovers must be clearly displayed, with examples for some of the most popular loan amounts.

We would break the Fees and Charges section down to cover Rollover and Default separately. Firstly covering rollovers, a full explanation of what a rollover is would be closely followed by the risks associated with rolling a loan over. We would then provide several examples of how the cost of a loan can quickly escalate using rollovers using some of the most popular loan amounts.

We would then cover the default section, clearly explaining the lender default policy and fees and links to resources for consumers to use for money advice (moneyadvice.service).

(f) Which lenders and products should be included on the website?

i. In order to provide a true comparison service, ALL authorised lenders should participate. This also helps instill trust both for the website and for the lenders themselves. If there is 1 lender that offers exceptional rates/service that is not on the website, that would instantly devalue the website.

ii. We do not believe that credit unions should be included in the comparison table. We think that a separate section of the site should be created for Credit Unions as the 2 products are so different in both the speed of service and the rates. You would also then need to include the consumers postcode in the search criteria to avoid showing every union in the UK. If you include Credit Unions, all of the top positions within the table would be taken up by them because of the cheaper rates which may deter payday lenders from participating.

We believe that the loan comparison tool should cover 'high cost credit' loans up to a maximum of 2 years given lenders such as WageDay Advance (18 months) and Pounds 2 Pocket (24 months) offer products over 12 months.

There are many other loan comparison tools available from other providers for personal loans over 2 years and we do not think it necessary to include these products in the early stages. That could, however, be scheduled for a future update to the site to cover all loans and other credit products.

iii. Lead generators, brokers or other intermediaries should NOT be included in the comparison table. As they do not provide the credit themselves, you cannot provide a true comparison based on an assumed rate. Given the way credit brokers resell data (to other brokers, membership or fee charging brokers, debt consolidation companies etc), we think you would be exposing the consumer to an unnecessary risk.

(g) How should the website be operated and governed?

It is extremely important, in our opinion, that the website should be operated by an organisation that has had considerable exposure to the short term lending market and in particular in working with payday lenders. The company reputation must be considered and their current/past activities with the market.

i. The website should be maintained by the company operating it, with ongoing decisions about its future development taken in joint consultation with the FCA. The FCA should have final say over all content displayed within the website.

ii. In our opinion (after development costs which should be budgeted for) the day to day running of the website and its ongoing development should be totally funded by payday lenders and the operator of the website. From launch, we would suggest that the lenders on the website be charged a set amount for every click received from the site payable to the operator of the site. We believe that given the exposure the site would get, the lenders spend on external lead generators would decline considerably as more consumers would use a trusted, national website to find their loan. We believe that lenders would be happy to pay a reasonably priced Cost Per Click to fund the site especially if their external lead costs were declining.

We also believe that the operators of the website should give a proportion of the profits made from the site to debt charities such as Stepchange to help with the increasing debt support that is required.

(h) How should the website be promoted?

i. All lenders that are involved must provide a 'do follow' link to the comparison site on their website, whether this be via a 'badge or banner' on the homepage or by other means.

The website should also have some exposure nationally via press releases, television and radio commercials. We would suggest that this be an initial measure to gain exposure and not an ongoing practice.

ii. The website would need to make use of a .gov.uk or .org.uk extension to encourage search engines to rank the page. With exceptional content, national exposure and extremely strong links to the website from not only all of the lenders but other government websites and news websites, the website would rank organically without any issue. You would need to ensure that

the organisation running the website has proven success in gaining organic website traffic for payday loan customers (SEO).

Ranking a website organically (and without using any 'Black Hat' tactics) for any payday loan search term is very different to any other kind of search marketing due to the exceptionally spammy nature of the industry. A proven track record of SEO in Payday Loans should be a priority.

iii. It is our opinion that there should be a budget in place for promotion however we are unable to comment on amounts.

(i) What should the relationship between this site and other relevant websites be?

There should be direct links to other relevant websites where there would be a necessity to display one. For example when referring to payday loan debts a link to the moneyadvice service would be appropriate.

As per current FCA legislation a warning should also be placed on the homepage with a link to the moneyadvice service.

Remedy 2; Measures to improve customer awareness of additional charges and fees

34. (a) Should additional fees and charges for late payment and/or rolling over of loans be made more prominent?

Fees such as faster payments and application fees must be displayed in the total cost of borrowing on the home page when a comparison has been made. Full Default and Late Payment fees must be offered within a 'More Information' section where consumers can view more information about a lender. Rollover fees should also be made available within this section if the lender permits the use of them.

(b) How and when should charges be presented?

Once a loan comparison has taken place on the homepage, the user should only be given one option to action with each lender which would be a 'More Information' button. By forcing them through to the loan review/information page rather than linking directly to the lender's loan application page, the default/rollover charges and additional information would be available. This page would then include links for the consumer to click through and apply with the lender.

(c) Should fees and charges be demonstrated using one or more example scenarios?

Not for application or faster payment charges, we do not believe this is necessary as the information would be displayed during the comparison stage.

(d) Should information and fees on late payment and rolling over loans be displayed?

To encourage responsible borrowing we believe it would be prudent to allow the consumer to see the potential effects of not repaying on time.

Whilst many payday borrowers may believe that they can afford a loan, this is clearly not the case given the high default rates. If they are able to see the potential costs of not repaying the loan, they may think twice before applying and subsequently defaulting. Scenarios/examples for late repayment should be displayed using sliders and a selection of the most popular first time loan amounts. For rolling a loan over, this information can be displayed using a table.

All information must be specific to the particular lenders default policy and charges.

Remedy 3: Measures to help customers assess their own creditworthiness

As we do not issue loans we have chosen not to address each point within this section.

Remedy 4: Periodic statements of the cost of borrowing

As we do not issue loans we have chosen not to address each point within this section.

Remedy 5: Measures to increase the transparency of the role of lead generators

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(a) Is existing regulation sufficient to ensure the relationship between brokers and lenders is clear?

No. The fact that an organisation is operating a credit broker MUST be more prominent on broker websites. In many examples the information is either not supplied, provided in a small font at the bottom of the page or hidden deep within inner pages.

(b) Are there any additional compliance activities that the FCA should undertake?

The credit broking market for payday loans is a very aggressive yet profitable industry but **always** to the detriment of the consumer in the case of credit brokers. Peoples data is being

resold time and again to lenders who are sometimes credit checking the same customer several times per day without knowing it.

Many of the credit brokers operating in the UK are based overseas with little regard to protecting the citizens of the UK - their activities are driven entirely by profit. One lender we spoke with recently is seeing up to 150k leads per day with a duplication rate of over 80%. Data is being sold to debt consolidation companies, accident advice companies and other such organisations, resulting in the consumer being bombarded by unsolicited text messages and phone calls.

Many credit brokers are also selling leads to 'Membership or Fee Charging Brokers' for just a few pounds - the consumer is then often misled into paying a membership fee up to £70 to use their service to obtain a loan than often never materialises. These often make the situation of the borrower far worse and many never get their loan or their money back.

It is our opinion that the FCA take more interest in where credit brokers obtain their leads from and where the data is subsequently sold to and used.

(d) Which classes of credit broker or other intermediary should any additional requirements apply to?

We believe that the credit broking market needs much tighter regulation around where they obtain their leads from and where they sell them to - this is particularly important for the brokers that charge a fee or run a 'membership scheme' to find consumers loans, much tighter regulation is needed for this sector given many people that use these brokers do so without knowing and often end up in a far worse financial situation than they were in before.

To define credit brokers, we consider these to be companies that accept applications and collect personal data from consumers in order to source a suitable loan for the customer.

(e) Should lead generators, affiliates and brokers be required to make a declaration as to the service they provide?

Yes we believe this would help the consumer make an informed decision as to whether they would like to make use of a credit broking service or if they would prefer to source a loan directly with a lender.

(f) What content should the declaration include?

The declaration must include the nature of the website (credit broker/affiliate etc) and a full explanation of how the process will work. More information should be given to the customer about how their data is used and how the loan matching process works - no credit brokers disclose the number or name of any of the lenders that are searched to find a loan and it is rarely disclosed that data may be passed to other credit brokers or organisations. A statement should also be made that cheaper loans may be available from other lenders.

(g) How should any declaration be enforced?

Intermediaries should be required to display this declaration on the site homepage and it is my opinion that lenders should only use brokers that are willing to comply. We cannot see any reason why a company would not be willing to give more information about their services unless they were participating in an activity that would be looked upon unfavourably.

(h) How should the declaration be presented?

We believe the information should be clearly displayed on the homepage, in a font and size that matches the rest of the website.

(i) Should lenders be prohibited from selling or providing customer details to third parties?

We believe that lenders selling leads to other lenders doesn't pose as much of a problem as lenders selling declined leads to credit brokers. With every lender having different acceptance criteria, selling declined information to other lenders may help the borrower however selling to a broker will result in their data being resold to many other lead buyers including those that operate out of the payday sector. If a consumer explicitly did not want to use a broker it would not be right for a lender to sell their data to a broker after a decline.