CMA Finalises Proposals to Lower Payday Loan Costs

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The measures follow the conclusion of a 20-month investigation into the market by a group of independent Competition and Markets Authority (CMA) panel members. The group published its provisional findings in June 2014 and then consulted on its intended proposals the following October.

Online payday lenders will be ordered by the CMA to publish details of their products on at least one price comparison website (PCW) which is authorised by the Financial Conduct Authority (FCA). To ensure that they operate to appropriate standards, the CMA has recommended to the FCAthat authorised PCWs should provide customers with clear, objective and comparable information on all potential loan costs, in particular the total amount payable, and have the ability for customers to compare different loans by searching easily on the most relevant features such as loan amount and duration. The CMA believes that one or more commercial PCWs will emerge and be authorised by the FCA, but if this does not happen, lenders will be obliged to set up an FCA authorised PCW.

The CMA has also made recommendations to the FCA to take steps to:

- improve the disclosure of late fees and other additional charges
- help customers to shop around without unduly affecting their ability to access credit
- improve real-time data sharing between lenders and credit reference agencies
- ensure that lead generators – websites which sell potential borrowers' details to lenders and through which 40% of first-time online borrowers access their loans – explain how they operate much more clearly to customers

Finally, online and high street payday lenders will be ordered by the CMA to provide existing customers with a summary of their cost of borrowing. The summary will tell borrowers what the total cost of their most recent loan was, as well as the cumulative cost of their borrowing with that lender over the previous 12 months and how late repayment affected their cost of borrowing.

The measures are designed to tackle problems identified in the final report, where the CMA found that a lack of price competition between lenders has led to higher costs for borrowers. Most borrowers do not shop around – partly because of the difficulties in accessing clear and comparable information on the cost of borrowing and a lack of awareness of late fees and additional charges. Without the pressure to drive down costs, lenders have tended to price their loans at similar levels whilst competing on other factors such as speed – often the initial priority for borrowers.

The CMA also found that many borrowers believe that lead generators are themselves lenders, rather than simply intermediaries. Even where they understand this, most customers are unaware that, rather than matching borrowers with the most suitable or cheapest loan on offer, lead generators sell borrowers' details to lenders based on how much lenders are prepared to pay for the details, generally selling them to the highest bidder. As a result the CMA does not consider that lead generators have been effective in promoting price competition between lenders even though they have helped to promote the entry into the market of additional lenders.

The CMA's remedies follow the FCA's introduction of a price cap for the sector which came into force on 2 January 2015, which is in addition to a number of other FCA measures to increase customer protection that theFCA has introduced over the past year.

Simon Polito, Chair of the CMA's Payday Lending Investigation Group, said:

"The payday lending market is undergoing substantial change as a result of FCA initiatives to eradicate unacceptable practices. Our actions complement the FCA's measures and are aimed at making the market more competitive and further driving down costs for borrowers."

"We expect that millions of customers will continue to rely on payday loans. Most customers take out several loans a year and the total cost of paying too much for payday loans can build up over time. During our investigation, we found that there was often a substantial difference in this market between the most expensive and cheapest deals."

"The FCA's price cap will reduce the overall level of prices and the scale of the price differentials but we want to ensure more competition so that the cap does not simply become the benchmark price set by lenders for payday loans. We think costs can be driven lower and want to ensure that customers are able

to take advantage of price competition to further reduce the cost of their loans. Only price competition will incentivise lenders to reduce the cost borrowers pay for their loans."

"Even where borrowers do shop around at present, it is difficult for them to compare prices between short-term loans given the differences between products and the limited usefulness of the APR in making comparisons. Few customers find their lender via existing price comparison websites, which suffer from a number of limitations."

"To help them, we are requiring lenders to be listed on price comparison websites authorised by the FCA and have recommended to the FCA that these websites should carry all the information customers need to compare easily the total cost of different lenders' loans. This will promote competition and provide the incentive for new and existing lenders to compete to offer lower cost loans and win borrowers' business. It will also make it easier for new entrants that offer lower cost loans to access customers."

"We have worked closely with the FCA throughout the investigation and are pleased that the FCA is fully supportive of the remedies in our final report."

In developing these measures the CMA has carried out customer research to inform the design of its remedy package and has consulted extensively with consumer groups and debt charities, lenders, intermediaries, trade associations and a range of other market participants, as well as with theFCA. The CMA will publish an order within 6 months putting in place its requirements in relation to PCWs and borrowing summaries. The FCA will consult in the summer of 2015 on the measures to be introduced in response to the recommendations. The CMA will work closely with the FCAto implement the recommendations.

The final report and all other information on the investigation are available on the payday lending case page.

Notes for editors 1.The CMA is the UK's primary competition and consumer authority. It is an independent non-ministerial government department with responsibility for carrying out investigations into mergers, markets and the regulated industries and enforcing competition and consumer law. From 1 April 2014 it took over the functions of the Competition Commission (CC) and the competition and certain consumer functions of the Office of Fair Trading (OFT), as amended by the Enterprise and Regulatory Reform Act 2013.

2. The members of the Payday Lending Investigation Group are: Simon Polito (Chairman of the group), Katherine Holmes, Ray King and Tim Tutton. Read more on how market investigations are conducted. The OFTreferred the payday lending market to the CC on 27 June 2013.

3. All the CMA's functions in market investigations are performed by inquiry groups chosen from the CMA's panel members. In such investigations, the appointed inquiry group are the decision-makers.

4. The CMA's panel members come from a variety of backgrounds, including economics, law, accountancy and/or business. The membership of an inquiry group usually reflects a mix of expertise and experience (including industry experience).

5. Following a market investigation the CMA may take action itself, by making an order or accepting undertakings from parties. The CMA may also recommend that action be taken by others such as government, regulators and public authorities. Where the CMA makes such a recommendation, it will be for the person to whom the recommendation is addressed to decide whether to take the recommended course of action.

6. The FCA assumed responsibility for consumer credit regulation from 1 April 2014, having announced its proposals for regulating consumer credit in October 2013 and confirming additional rules for payday lenders in July 2014. Measures by the FCA to strengthen consumer protection have meant closer regulation of lenders over issues such as limiting rollovers, restrictions on the use of Continuous Payment Authorities to recover debt from a borrower's bank account, the carrying out of proper affordability checks and sensitive treatment of debt problems. In November 2014, the FCAconfirmed details of the price cap which was subsequently introduced on 2 January 2015. On the same day the FCA also introduced rules to address some of the concerns around lead generators identified in the final report which were first highlighted by the CMA in its provisional findings.

7. Enquiries should be directed to Rory Taylor, (rory.taylor@cma.gsi.gov.uk) or Siobhan Allen, (siobhan.allen@cma.gsi.gov.uk) or by ringing 020 3738 6798 or 020 3738 6460.

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