

Financial Services Consumer Panel

AN INDEPENDENT VOICE FOR CONSUMERS OF FINANCIAL SERVICES

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Dear Anna,

CP15/33 Consumer credit: proposals in response to the CMA's recommendations on high-cost short-term credit

This is the Financial Services Consumer Panel's response to the proposals set out in CP15/33.

The Panel is broadly supportive of the overall direction of the proposals. Indeed, many of the proposals would benefit other borrowers, not just those using HCSTC. As we have argued before, other forms of credit can be more expensive than HCSTC, and cause more consumer detriment. Three-quarters of StepChange clients, for example, do not have an HCSTC product; their problem debt comes from other forms of credit.

If the FCA believes the proposed remedies will be effective for HCSTC then it seems irresponsible not to consider extending them to all other forms of credit.

The HCSTC market has changed markedly in wake of tighter regulation. The Panel is concerned that new products, created since the new regulations came into force and which therefore do not fall within the definition of HCSTC, may not be captured by these recommendations. This strengthens the case for including all forms of credit within the scope of the recommendations.

As we outlined in our response to CP13/10, the Panel is also concerned that some firms will circumvent the consumer credit rules by moving their operations overseas. The Panel would like to better understand what the FCA can do if price comparison websites (PCWs) or brokers make products available that are passported in from elsewhere in the EEA. We were encouraged by the warning the FCA issued to consumers yesterday about self-certificated mortgages passported in from the Czech Republic. We would suggest that, as a minimum, the FCA could require PCWs and credit brokers to highlight the loss of protection that may result from buying a credit product from overseas.

Finally, we believe the FCA should closely monitor whether applying higher standards to PCWs might have the unintended consequence of PCWs deciding not to include HCSTC lenders on their websites.

Answers to specific questions

Q1: Do you have any comments on the proposed application of our rules for PCWs comparing HCSTC products?

We support the proposals, and consider they should be applied to all PCWs listing any credit product.

Q2: Do you agree with our proposal to prevent PCWs from displaying information about HCSTC products or including search results on the basis of commercial relationships?

We agree, and consider this should be applied to all PCWs that list any credit product.

Q3: Do you have any comments on our proposed rule that a PCW for HCSTC should enable customers to search for a specified loan amount and duration?

We agree, and consider this should be applied to all PCWs that list any credit product.

Q4: Do you agree with our proposal to require HCSTC PCWs to rank the results of a consumer's search in ascending order of price according to the Total Amount Payable?

We agree with this proposal, particularly given that APR is accepted (including by lenders) to have limited value for comparing short-term loans of this kind.

Q5: Do you agree with our proposals on additional advertising on a PCW that compares HCSTC?

We agree, and consider this should be applied to all PCWs that list any credit product.

Q6: Do you agree with our proposed approach to clarify that PCWs must ensure that information concerning HCSTC products complies with the requirement to state prominently that they are a broker and not a lender?

We agree, and consider this approach should be applied to all PCWs that list any credit product.

Q7: Do you agree with our proposed approach to require PCWs to disclose the names of lenders they have on their website?

We agree. However, this approach does not give consumers information about the proportion of the market covered by these lenders unless they visit all the PCWs that include HCSTC and compare the lists of lenders (which seems highly unlikely). It may be more helpful to say 'this PCW includes details for 35 out of the 70 lenders that operate in this market. The names of these 35 lenders are:...'. For clarity, 'Lender' in this case would mean the trade name/brand under which the loan was issued.

Q8: Do you have any comments on the proposed start date?

We are concerned that, by the start date, the market may have shifted further and to such an extent that the new conditions might only apply to a very small number of lenders and consumers. We are concerned that new products falling outside the definition of HCSTC will not be captured, resulting in potential consumer detriment.

Q9: Do you have any comments on our proposed approach to lead generators?

We agree with the proposed approach. However, in line with our concerns outlined above, we would like the FCA to consider carrying out further work to extend the proposals to cover changes in business models and credit products.

Q10: In light of our findings, do you have any views on the effectiveness of disclosure about credit checks?

We consider that in the interests of Treating Customers Fairly, this additional disclosure is important in raising consumer awareness of the role of credit referencing in credit decisions even if it does not make a great deal of difference to consumer behaviour (at least in the short-term). We would welcome further investigation by the FCA of this proposal – particularly in light of parallel discussions in consumer credit and general insurance about the use of 'quotation searches' and their relevance in the HCSTC market.

Q11: Do you wish to comment on the value of quotation searches in addressing the issues raised by the CMA? Are there specific issues or risks with the use of quotation searches across consumer credit markets?

Given what we know about the behaviour of consumers in HCSTC markets, and the small sums of credit involved, it may be the case that consumers see little or no value in quotation searches. Research to explore this would be useful before the FCA takes further action here.

Q12: Do you have any comments on our approach to real-time data sharing?

No.

Q13: Do you have any comments on our proposed approach to disclosure of the cost of borrowing?

There is already a large body of evidence about the ineffectiveness of additional disclosure. Therefore we are sceptical about the likely effectiveness of the CMA order to make a summary of the cost of borrowing available to borrowers.

Q14: Do you have any comments on our cost benefit analysis?

No.

Q15: Do you agree with our assessment of the impacts of our proposals on the protected groups? Are there any other groups we should consider?

Agree.

Yours sincerely



Sue Lewis
Chair
Financial Services Consumer Panel