Consumer Finance Association

Submission to the Joint Committee on Corporations and Financial Services

The Consumer Finance Association of the United Kingdom

The Consumer Finance Association represents around 70% of lending in the UK payday loan market by the hundreds of businesses that offer small sum, short term loans (often referred to as "payday" loans) from high street outlets or online.

This type of loan allows customers to borrow a relatively small amount of money (usually between £50 and £800) which they repay over a short period (typically one or two months). Loans are not designed for longer term borrowing, but to improve short term personal cashflow.

Request to appear before the Committee

John Lamidey MBE, the Chief Executive of the CFA, requests permission to appear before the Joint Committee via video conference. Unfortunately, he is unable to attend the Committee in person on October 24 this year.

Mr Lamidey is confident that the CFA can provide meaningful guidance to Committee members as they consider how to improve regulation of the short-term loan sector. In particular, the CFA would appreciate the opportunity to give Committee members an insight into legislative reform processes that have taken place in a different jurisdiction which has as many similarities as it has differences.

During his recent visit to Australia, Mr Lamidey provided background counsel to the National Financial Services Federation which shares a number of members with the CFA.

He also provided a number of broadcast media interviews (ABC Radio's AM programme, ABC Lateline Business, Sky Business) to explain the CFA's management of policy and industry relationships in the UK with the Government, regulators, and consumer advocacy groups.

Differences That Count – The UK Experience

- **The UK has got it right – legislation regulates the industry process, not the product**

UK legislation ensures there is total transparency with charges, allowing consumers to choose which product suits their needs with regulatory and commercial certainty.

Operators adhere to responsible practices with the provision of advice about education, financial products, debt management and welfare access.

Lenders operate within a strong regulatory regime such as the Consumer Credit Act 1974, European Consumer Credit Directive, UK Office of Fair Trading Irresponsible Lending guidance.)

- **Three UK payday industry inquiries over 10 years – price caps/controls rejected each time**

Irrespective of the jurisdiction – UK, Australia, the US, -- the realities are the same with a commercial acknowledgement that licensed operators cannot stay in business without making an adequate return.

The UK Office of Fair Trading High Cost Credit Review in 2010 noted that…"the markets for high-cost credit work reasonably well".

UK Minister Ed Davey said in mid-2011: "We know that intervening in the high cost credit market carries risks that we will make things worse for those we are trying to help."

UK and European research has found that caps on interest rates, particularly on small-sum short-term loans, do not make them cheaper, it makes them unavailable (source: Policis 2004, iff/ZEW 2010 for the European Commission).

- **UK payday industry forum discusses major issues and often finds common ground**

This CFA initiative (four trade associations, six consumer organisations and representatives from two Government departments) has relevance to the Australian market as well, potentially taking the heat out of the debate and allowing rational and considered views to be heard.

The UK forum has achieved tangible benefits, with input in the CFA's Lending Code for Small Cash Advances, along with an examination of data sharing and a lenders' comparison website.

- **No haste with UK reform process**

Independent research has been commissioned and evidence has been taken at considerable length to ensure there are no hasty/ill-conceived findings. For example, the OFT High Cost Credit Review (HCCR) was completed after a year-long market study.

- **Focusing on an APR is meaningless and unhelpful to UK consumers**

PWC, in its 'UK consumer credit in the eye of the storm: Precious Plastic 2011' report, stated: *"In the case of payday lending an APR is fundamentally misleading. Annualising the interest cost of a product that is only offered as a short-term facility confuses the purpose of the loan and misrepresents the true cost. It's similar to suggesting that the typical annual cost of a rental car might be close to £15,000, rather than a daily rate of £40. The total charge for credit may be a more beneficial measure for the consumer in this instance."*

- **Short-term loans are less costly than credit card default charges and fees for unauthorised bank overdrafts**

UK research (Policis) shows that people who are using unauthorised bank overdrafts are doing that six times a year. People who are paying default charges on credit cards are doing that 4.3 times a year.

Four million people in the UK use unauthorised bank overdrafts and they're significantly more expensive than payday loans.

- **Imposition of caps means the customer is the loser – it creates regulatory failure and there will be a vacuum**

Caps exist in various forms in 14 of the 27 European Union States, but where they exist availability of short term loans relevant to consumers' needs has been restricted, forcing them to take inappropriate products which can lead to greater indebtedness.

There are significant and potentially harmful unintended consequences with the rise of loan sharks.

Taking away choice does not help consumers, with research showing that consumers are harmed when payday lending is no longer an option.

There are three national Illegal Money Lending Teams dedicated to detecting and prosecuting illegal lenders, in England, Wales and Scotland, indicating the significant size of the illegal sector.

- **Most people manage credit without getting into hardship**

Research finds payday loans not the biggest problem for consumers in the UK and Europe.

In a six month period, the UK ombudsman that deals with consumers received about 10,000 complaints dealing with bank current accounts. By contrast the payday sector had less than 60 complaints.

- **We're certainly not a lender of last resort, UK customers are very savvy**

UK consumers know what they're doing and this idea that there is a mass of people who are unable to understand what's going on is just simply wrong.

The OFT HCCR report showed over 75% of payday customers earn more than £15,000 a year. All CFA members' customers must have a bank account and a job to be considered for a loan.

UK borrowers mix and match various forms of short term credit to meet their needs – payday lending accounts for £1 billion a year or 0.5% of all UK unsecured consumer credit. Only 20% of payday customers have this form of credit as their only option according to OFT HCCR

Research for a CFA member in 2010 showed that 30% of its customers had a mortgage, 13% had a vehicle loan, 53% had a credit card, 30% had a mainstream loan and 15% had a storecard.