

9. Remedies

Overview

- 9.1 We now turn to consider measures to remedy, mitigate or prevent the adverse effect on competition (AEC), or resulting detrimental effects on customers, as set out in our findings and conclusions in Section 8 of this report. This section describes our consideration of evidence relating to each individual remedy and to remedies in general, and sets out our decisions on those remedies we have chosen. A summary of our decisions on remedies and points on implementation is also set out at the end of the section (from paragraph 9.151).
- 9.2 On 26 April 2006, we issued a Remedies Notice which invited comments on the actions that might be taken to remedy, mitigate or prevent the AEC, or resulting detrimental effects on customers, identified in our provisional findings of the same date. A copy of the Remedies Notice is published on our website.¹ In the following months, we received a large number of responses to the Remedies Notice, held further hearings and staff meetings with parties and undertook further analysis of possible remedies. In the light of this evidence, we published a Proposed Remedies Paper on 18 August 2006 (Remedies Paper) which set out our provisional decisions on remedies together with our supporting reasoning. We consulted further with parties on a number of more detailed issues relating to our proposed remedies. Following consultation on the Remedies Paper we also published Changes to remedies on 1 November 2006 (Further Proposals). Copies of both the Remedies Paper and our Further Proposals are on the CC's website. This section of the report takes account of the responses to the Remedies Notice, the Remedies Paper, Further Proposals and the other evidence on remedies that we received during the inquiry.

Framework for decisions on remedies

- 9.3 Under section 134(4) of the Act, if the CC has decided that there is an AEC, it should decide the following additional questions:
- (a) whether action should be taken by it for the purpose of remedying, mitigating or preventing the AEC concerned or any detrimental effect on customers so far as it has resulted, or may be expected to result, from the AEC;
 - (b) whether it should recommend the taking of action by others for the purpose outlined in (a) above; and
 - (c) in either case, if action should be taken, what action should be taken and what is to be remedied, mitigated or prevented.
- 9.4 In choosing appropriate remedial action, the CC has a statutory obligation to 'achieve as comprehensive a solution as is reasonable and practicable to the adverse effect on competition and any detrimental effect on customers so far as resulting from the adverse effect on competition'.²
- 9.5 It follows from the above that appropriate remedies should be effective in addressing, within a reasonable timescale, the feature or features giving rise to the AEC and/or

¹www.competition-commission.org.uk/inquiries/current/homecredit/index.htm.

²Section 134(6) of the Act.

the detrimental effects. Consideration of effectiveness includes considering the feasibility of implementation and the practicability of monitoring and enforcing compliance. As a general principle we have sought to find remedies which will encourage competition in the market for home collected credit, in the belief that an increase in competitive pressure will serve to remove the detriment of high prices. Only where we do not consider this likely to be effective have we considered tackling the detriment more directly through regulation of prices.

- 9.6 In seeking to achieve a solution that is reasonable, we have aimed to ensure that no remedy is disproportionate in relation to the AEC and any adverse effects on customers and in choosing between two remedies which we consider would be equally effective, we have chosen the remedy that imposes the least cost or that is least restrictive.³ In considering remedies for the AEC we have identified in this inquiry, we have been particularly careful to bear in mind potential unintended adverse consequences that remedies might have. In particular, we would be concerned if, by whatever mechanism, any remedy were substantially to increase the risk of financial exclusion for home credit customers by reducing their access to credit (and in particular if the effect of any remedy were to leave home credit customers with no access to legal credit). We would likewise be concerned if any remedy were to encourage irresponsible lending. We have been careful to consider these possible consequences alongside the impact of any proposed remedy on the AEC and on competition more broadly.
- 9.7 We also have regard to the effects of any remedial action on any relevant customer benefits within the meaning of section 134(8) of the Act arising from the adverse feature or features of the market concerned. Such benefits comprise lower prices, higher quality or greater choice of goods or services or greater innovation in relation to such goods and services. To qualify within the meaning of section 134(8), we should consider that the benefit would be unlikely to accrue without the relevant feature or features.
- 9.8 In considering the various issues identified in the course of this inquiry and, in particular, in considering any possible remedies as our investigations progressed, we have had regard not only to the UK's national legislation but also to the requirements and provisions of relevant EC legislation. The EC legislation with which we have been most concerned includes Articles 81 and 82 of the Treaty and their application in the context of, and also the provisions of, the EC Modernisation Regulation, Council Regulation 1/2003. Whilst it is the OFT that has been designated by the UK as the national authority responsible for the application of Articles 81 and 82 (by virtue of the provisions of Article 35 of Regulation 1/2003), we have had regard to the relevant requirements of that Regulation in considering and adopting appropriate remedies in the context of our findings and conclusions. In doing so, we have carefully considered the interrelation of Article 3 of Regulation 1/2003 and our duties under the Act. We are satisfied that the approach we have adopted and the conclusions we have reached on the remedies are in compliance with the applicable legislation and consistent with its objectives.

Consideration of specific remedies

- 9.9 We now consider each remedy in the Remedies Notice and the additional remedies that have been suggested to us during the course of the inquiry. The following paragraphs review remedies that we are pursuing, those remedies in the Remedies Notice that we are not pursuing and those that have been suggested to us during the

³CC3—Market Investigation References: Competition Commission Guidelines, June 2003—paragraph 4.10.

course of the inquiry. For each remedy we outline the proposal, how the proposal addresses the AEC or customer detriment, responses to the proposal (including any relevant customer benefits), the reasoning which has led us to our decision, and our decision.

Remedies the CC is pursuing

Data sharing

The proposal

9.10 In the Remedies Notice, we proposed a requirement that home credit companies supply data regarding their current customers to one or more CRA that are members of the Standing Committee on Reciprocity (SCOR). In the Remedies Paper we further proposed that any 'large home credit lender' (in the Remedies Paper we considered that the definition for a large home credit lender could be any company with over 50 agents) would be required to do the following:

- provide full data⁴ on all⁵ of their customers' new home credit loans (both cash and vouchers), and on all existing loans on which it has consent to share data, to at least two out of the three CRAs mentioned in the Principles of Reciprocity (POR) agreement (2006) (see Appendix 2.2);
- provide data using a single protocol approved by the CC; such a protocol would have to be acceptable to all the CRAs, SCOR, and the Information Commissioner. In addition we would require that home credit loans were defined in such a way by the CRA as to be recognizable as a distinct product and different from non-home-collected personal loans or credit cards. Also, though there would be no requirement relating to the use of credit searches⁶, any search made by a home credit company should be recognizable as such and thus could be interpreted appropriately by a user of the data;
- agree a protocol that would relate to all home credit lenders within a specified time frame. If no such protocol was agreed, then at a minimum, the data as defined by the current protocol used by LSB, but where the data was recognizable as home credit, should be adopted; and
- get consent to enter such data into a CRA from all customers for all home credit loan agreements from the time of the CC order or acceptance of the undertakings in order to make this remedy effective in the shortest possible time frame.

How the proposed remedy seeks to address the features contributing to the AEC and the detrimental effects expected to result from the AEC

9.11 The remedy addresses the AEC by reducing the information advantage enjoyed by incumbent lenders over other actual or potential lenders (home credit or otherwise) arising from preferential knowledge of their customers' loan repayment history with them. Such incumbency advantages are identified: as a factor reducing competition from mainstream credit (paragraph 4.72); as contributing to barriers to entry and

⁴As defined by the POR agreement (2006), ie 'positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio'.

⁵In practice, this would mean that no home credit loan could be provided to a customer unless the customer signed a consent to supply such information to a CRA.

⁶The DTI told us that it 'could see no reason why a home credit company would be obliged to do a credit check before providing credit simply because it had inputted data'.

expansion (paragraphs 5.27 to 5.35); and reducing competitive intensity between home credit suppliers (paragraphs 6.103 to 6.114).

- 9.12 Requiring lenders to share repayment information will mean that customers should find it easier to demonstrate their creditworthiness to new lenders. This would enable other home credit lenders to overcome some of the information advantages enjoyed by incumbent lenders, and hence to make more attractive offers to potential customers than they could in the absence of any creditworthiness information. It would thus stimulate competition within home credit. It would likewise lower one of the barriers for potential entrants to the market. It would also enable providers of other forms of credit to offer credit to more home credit customers (in particular those with good payment records) than would have occurred previously. This could be expected to increase the number and variety of credit offers to home credit customers and impose further competitive pressure on the prices charged by home credit lenders. Each of these processes could be expected to lead to customers with good payment records having access to a greater number of credit sources, and being able to pay a lower price for credit.

Responses to the proposal and the CC's considerations

- *Overview*

- 9.13 Nearly all parties favour data sharing as a way of increasing competition in the market. Third parties said that data sharing was an effective way of overcoming information shortfalls and hence an effective way of addressing the AEC.⁷ Many home credit lenders told us that once such data was available they would be able to lend more to new customers than they did currently when they used small loans to test a customer's creditworthiness. Some providers of mainstream credit products also considered that data sharing would facilitate their access to this customer base. Capital One, for example, said, 'the lack of availability—in usable form—of positive credit data on home credit customers is one of the major factors restricting their access to mainstream credit offerings, and thereby stopping competition that would otherwise lead to such customers securing more favourable lending terms'.

- *Scope*

- 9.14 Opinions were divided as to which home credit lenders should be required to share data and, if not all companies were required to share, what would be an appropriate cut-off point. Many third parties said that all home credit lenders should share. They argued that this would increase the effectiveness of the remedy and help customers of smaller providers who would not otherwise be able to build a credit record. Other parties said that home credit lenders should be required to share data only if they were over a certain size based on the number of customers or annual turnover. CRAs told us that smaller, less automated, suppliers were much more likely to have data quality issues, take more time to set up and cost more to audit (a cost that falls on to the CRA given their business model). Among home credit lenders, opinion as to

⁷The potential impact of data sharing on the efficiency of lending decisions was expressed by one non-home-credit lender as follows:

We assess applicants by credit scoring—statistically derived weights based on historical analysis. We use all the information that we have available. Where applicants have no credit account data there are other factors in our models such as age, geodemographic data, credit searches, electoral roll info etc that discriminate between them. Home credit data will provide additional discrimination and this means that we should be able to create more efficient models. We would improve our ability to discriminate between good and bad customers (e.g. what is the difference in risk between a customer with no data, a customer with a performing home credit loan and a customer with a delinquent home credit loan?) allowing us to accept additional customers.

Source: Response of Redcats (UK) Plc to provisional findings.

who should share data was divided. Some believed that the costs would be disproportionate for smaller providers while some believed that all providers should share to make the remedy comprehensive.

- 9.15 We considered the likely costs⁸ for entering data for smaller lenders and do not consider that such costs are disproportionate, particularly considering that many lenders may benefit from reductions in bad debt if they made use of the data available (see Appendix 2.1). CRAs do not charge lenders when they input data. The additional cost for a small provider with a central electronic record of customer repayments would be the cost of putting the data into a form usable by the CRA. We were told that if lenders were unable to do this, a third party processor could do so; we were told that the cost of this would be £500 or under to set up and have a monthly cost of between £40 and £200.
- 9.16 We do consider that the potential data quality issues, extra auditing costs and the quantity of extra sharers⁹ for CRAs is likely to make a requirement including all home credit lenders unworkable. However, we consider that the perceived benefit for smaller home credit companies of providing data (and thus gaining access to other home credit data) will increase substantially once the remedy comes into force. The information available is likely to facilitate better predictions of home credit customer behaviour as the data is for a similar product (see paragraph 2.15). This would imply that smaller home credit providers, particularly those interested in gaining new customers, might have an increased incentive to become data sharers without any requirement from the CC. In view of these factors, we consider that only large home credit lenders should be required to share data but consider that many smaller lenders may also choose to share data.
- 9.17 There is no perfect measure of size for a home credit company. The Trading Standards Institute (TSI) suggested that a cut-off point based on agents alone might cause companies to recruit sub-agents. Bristol Finance said that a cut-off point based on the number of agents discriminated against companies with part-time agents, though we note that the majority of agents are self-employed and hence there are no records as to the amount of hours they work.
- 9.18 We have considered these points and believe that a cut-off point based on agents and turnover would be more effective than one based on agents alone. We note that over 90 per cent of the home credit market is covered by firms with over 60 agents or with a home-credit-related turnover of more than £2 million. In addition, we note that no home credit lender that provided evidence to us has between 50 and 65 agents or between £1.6 million and £2.6 million in turnover, hence a cut-off at this point is unlikely to give rise to many lenders who might be bound by a requirement one year but not the next. Hence we consider that a cut-off of more than 60 agents or more than £2 million in home-credit-related turnover would be appropriate for requiring data sharing. However, as discussed in paragraph 9.16, we consider that other smaller home credit lenders are likely to input data on a voluntary basis, particularly if they are considering expanding their operations.

⁸[] said that this charge would be a set-up fee of £500 and a monthly charge of £105 while [] said that it could be 0 to £400 to set up (depending on the current software) and a monthly charge of £40 to £200. However, we note that these costs do not include the charges for having an IT system to record the data which would include the cost for a computer.

⁹SCOR told the CC that currently 300 parties data shared in the UK. If all home credit companies had to share data, this would add approximately 450 additional parties.

- *Type and supply of data*

- 9.19 Many parties had comments regarding the type of data that should be shared and how often the data should be input into the CRA. Nearly all parties said that full data as defined by the POR agreement (2006) should be shared, as default-only data would only allow for adverse decisions and as such would not address the AEC. For example, SCOR told us that full data gave a more complete picture and thus enabled data sharers to make better credit decisions. We agree with this.
- 9.20 Some home credit lenders believed that inputted data should result in a score which would reflect the percentage of payments made of payments due in the last 13 weeks (PP13), saying that this would increase relevance to home credit lenders. Other home credit lenders suggested that input data in the same form as other financial products, ie monthly, with a score based on cumulative monthly arrears (we refer to this as the LSB model) would make it easier for non-home-credit lenders to interpret and hence make the remedy more effective, and that it would not be any more difficult for home credit lenders to interpret. Provident said that a system based on cumulative monthly arrears could be used to generate much the same data for lending decisions as PP13, and has the benefit of being established, understood and standard in the credit industry. SCOR told us that its members would prefer that the basis of recording credit histories be consistent across all financial products. The CCA told us that PP13 would take 12 months to set up and agree.
- 9.21 Given the responses to the Remedies Paper and the Remedies Notice, we do not consider that there is any significant additional benefit to home credit lenders in using PP13. We consider that a system that is consistent with other financial products (ie based on monthly arrears) will be more transparent for non-home-credit companies and make the remedy more effective in a shorter time frame, particularly given the time that any new protocol would take to set up and agree. Therefore we consider that the recording of home credit repayment histories should be consistent with other financial products. We do not consider that PP13 as described meets this criterion. Given this conclusion, we consider that if home credit lenders have not devised a more effective protocol by the time required by the CC order/undertakings, then any such order/undertakings will require data to be inputted based on monthly arrears (the LSB model) but that the data should be recognizable as home credit. We also note that one CRA, [redacted], told the CC that a temporary solution might be to use a weekly payment status field, and thus allow lenders the ability to assess home credit differently, until such a specific account type was developed.
- 9.22 Cattles said that only data on loans over a certain size should be shared. This was not supported by any of the other home credit lenders who said that such a split would add cost to the remedy and that data on all loans had some predictive benefit. No lender questioned the requirement to supply data on voucher sales specifically, though Mutual told the CC that it was important to it that any remedies were restricted to its loan products and did not inadvertently encompass its retail or insurance-broking activities.
- 9.23 We consider that information on all agreements for home credit loans and vouchers should be inputted as they are relevant for home credit lenders. Smaller cash loans and vouchers are often used as introductory products; they are often the first step in 'step-up' lending. Information on payment performance on these products is therefore important for lenders assessing customers' creditworthiness. However, we do not consider that a lender who only supplied vouchers should be subject to this remedy.

- 9.24 The majority of parties believed that home credit loans (and searches) should be distinct and be recognizable as a separate product¹⁰ (sometimes described as flagging) so that the data could be analysed appropriately. Professor Elaine Kempson and Redcats said that a home credit 'credit search' should also be seen as such so that the correct weighting could be put on it. Provident said that the flagging of home credit data would allow the CRAs and others to produce sub-prime score cards, which could be used by all lenders who were interested in sub-prime lending. A couple of parties were concerned that some mainstream lenders would disregard such data, given the different product characteristics. Some mainstream lenders might even exclude all home credit customers. The CRAs said that if home credit data had different characteristics to other credit products, then it should be described differently so that lenders would be aware that it was different. They also said that lenders are not able to exclude customers for marketing purposes purely on the basis of having one particular product.
- 9.25 Some of the attributes of a home credit loan are different from other financial products, such as the lack of penalty for missed payments and the nature of the agent collection model. We consider that the risks associated with identifying home credit data—principally that lenders might draw unwarranted conclusions about a borrower's creditworthiness solely from his use of home credit—are outweighed by the benefits of identifying home credit data and thus enabling lenders to make better decisions based on an actual data rather than an assumption of what having a home credit loan might imply about a borrower. Hence we consider that home credit loans and searches should be recognizable as such.
- 9.26 CRAs said that they had processes for testing logic and consistency. These took place at the initial take-on stage and on an ongoing basis. In addition, a lender could be liable under the Data Protection Act 1998 if it sent inaccurate data to the CRA. We also note that a number of lenders currently use third parties to process and audit payment data before it is inputted into a CRA. No one suggested that any more was needed from home credit lenders in terms of auditing the data than from other CRA subscribers.
- 9.27 Given the evidence above, we do not consider that any extra auditing work is required for home credit data.
- 9.28 We have been told by mainstream lenders and the CRAs that lenders commonly have access to two CRAs when assessing the credit history of a potential lender, as this allows them to make sure that they have not missed a piece of information. We have also been told that the additional cost of supplying two CRAs with information, as opposed to one, was minimal as each CRA accepts the others' format and CRAs do not charge when lenders provide information to them.
- 9.29 We consider that supplying two CRAs will make the remedy effective, but that requiring the provision of data to all three would not increase effectiveness materially. Hence we consider that the provision of information to two CRAs should be required.
- *Customer consents*
- 9.30 We were told by mainstream providers and by the majority of home credit lenders that securing the agreement of customers to the sharing of data by home credit lenders with CRAs was not an issue. LSB told us that none of its customers had raised this as an issue, while other home credit lenders told us that their current

¹⁰One CRA, [REDACTED], told the Group that currently a credit search was flagged with the account type, so if home credit had a separate account type it would be flagged automatically.

agreements allowed for this data to be sent to a CRA. A few home credit lenders said that some of their customers might dislike sharing their data, though it could be argued that their customers generally signed agreements that enabled lenders to do this which would indicate that it was acceptable to them. Some home credit lenders told us that they would have to update their current agreement to allow for consent.

9.31 We consider that requiring home credit lenders to obtain customer consents to share their data will not have an adverse effect on home credit lenders or customers. However, we do not propose to require lenders to share data without the customer's consent and so in the early stages there may be a significant amount of customer data that will be exempt from data sharing. We thus consider that requiring lenders to gain consent from the date of the CC order or acceptance of the undertaking will increase the effectiveness of the remedy by maximizing the data that can be shared at the point the requirement to share data comes into force.

- *Relevant customer benefits*

9.32 The OFT and Citizens Advice suggested that the data-sharing remedy could result in a reduction in access to credit for some consumers, thus implying that the absence of data sharing could result in a customer benefit of greater availability or choice of credit for certain customers. The TSI indicated that data sharing could affect the financial inclusion of individuals but equally having no credit history can be just as disadvantageous. The OFT argued that data sharing could make it easier for mainstream lenders to 'cherry pick' the best home credit customers which could increase costs for home credit lenders and hence the price of home credit to remaining customers who would tend to be higher-risk and poorer payers.

9.33 We have considered these arguments (see Appendix 9.1, which considers the impact of remedy proposals on access to credit). We consider that data sharing reduces the risks associated with issuing loans by all lenders, reduces barriers to entry and expansion, enables customers with good repayment histories to communicate this and reduces bad debt (see Appendix 2.1) and hence overall costs. We expect data sharing, if properly implemented, to increase access to credit for the majority of home credit customers. TSI told us that the ability to get a larger loan up-front might result in fewer customers seeking credit from less attractive sources. In addition, many customers may be more likely to access cheaper credit either because they will now be registered on a CRA¹¹ or because they will have a positive repayment record. One lender ([REDACTED]) gave us evidence on the proportion of its customers who missed payments. Three-quarters of those who take their two most popular loans and do not default would never show a missed month on their CRA file; over 90 per cent would show no more than one missed monthly payment. Thus we might expect a significant proportion of home credit customers to have good CRA records (reflecting their good payment record on their home credit loans). It would be for other lenders to determine how to interpret that record when considering lending. It is of course possible that where a lender becomes aware, as a result of the sharing of home credit data, that a potential customer has more commitments or a worse payment record than that lender previously realized, that lender might decide not to lend in circumstances where the lender might previously have offered a loan. While that customer might be deprived of credit, we would regard this as an example of data sharing encouraging responsible lending. We do not consider it desirable that credit should be extended to

¹¹Around a quarter ([REDACTED] per cent) (see paragraph 2.115) of Provident's home credit customers did not appear on CRAs in 2004 (see paragraph 2.115). Such customers are very unlikely to be provided with credit by mainstream lenders or by some other home credit lenders, such as [REDACTED]. However, while the average collection performance of this cohort is [REDACTED] (with customers on average making [REDACTED] per cent of repayments), it represents a good payment performance by home credit standards.

those who, were their full circumstances understood, would not have qualified for a loan.

- *Implementation*

9.34 In the Remedies Paper we proposed to implement the data-sharing remedy by prohibiting, after a specified date, the making of further home credit agreements unless the lender has agreements in place with at least two CRAs in a form that meets specified requirements. The prohibition would apply only to the large lenders and there would be power to grant temporary exemptions. Cattles responded that given the need for cooperation by the CRAs in forming mutually acceptable and practical agreements, Cattles regards a prohibition as unjust, as the responsibility for forming such agreements does not lie solely with lenders. We have no reason to suppose that a CRA would not cooperate and consider that it is in their interest to do so. We consider it likely that a home credit lender would be able to ask for a temporary exemption from the requirements if faced with non-cooperation from a CRA.

Our decision

9.35 Our decision on the data-sharing remedy is set out below. Our reasoning is as set out in paragraphs 9.10 to 9.34.

9.36 Any home credit lender with over 60 agents or £2 million in annual home-credit-related turnover resulting from home credit loans will be required to do the following:

(a) provide full data¹² on all of their customers' new agreements for home credit loans and vouchers, and on all existing agreements for home credit loans and vouchers on which they have consent to share data, to at least two out of the three CRAs mentioned in the Principles of Reciprocity (POR) agreement (2006); and

(b) provide data using a single protocol approved by the CC; such a protocol would have to be acceptable to the CRAs, SCOR and the Information Commissioner and should be consistent with the requirements for other financial products. In addition, we will require that home credit loans are defined in such a way as to be recognizable as a distinct product and different from non-home-collected personal loans or credit cards. Also, though there would be no requirement relating to the use of credit searches,¹³ any search made by a home credit company will be recognizable as such and thus could be interpreted differently by a user of the data.

9.37 If no such protocol is agreed by the time set by the CC order, or acceptance of the undertakings, then the current protocol used by LSB (ie inputted monthly and a score based on cumulative monthly arrears), but where the data (and credit searches) are recognizable as home credit, should be adopted.

9.38 The above requirements would be implemented by an order or undertakings that would prohibit a home credit lender to whom the order or undertakings applied from

¹²As defined by the POR agreement (2006), ie 'positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio'. We understand that the POR agreements are periodically updated and we would expect that the CC decision regarding data sharing would relate to the most up-to-date version of the agreement that the members of SCOR had agreed.

¹³The DTI told us that it 'could see no reason why a home credit company would be obliged to do a credit check before providing credit simply because it had inputted data'.

entering into a home credit loan agreement unless there are agreements acceptable to the CC in force with at least two CRAs. The OFT would have power to grant temporary exemptions.

- 9.39 All home credit lenders covered by the requirement of the CC order or undertakings will be required to get consent to enter such data into a CRA from all customers for all new home credit loan agreements and vouchers from the date of the CC order or acceptance of the undertaking. In practice, this would mean that no home credit loan or voucher could be provided to a customer unless the customer signed a consent to supply such information to a CRA.
- 9.40 We consider that the agreements with two CRAs should be in place within six months, with data sharing beginning within nine months, of the date of the order or acceptance of the undertaking.

Price information

The proposal

- 9.41 The Remedies Notice outlined a requirement that home credit lenders publish indicative prices for some or all of their products. Further, the Remedies Paper proposed that all home credit companies should be required to publish, on a website, 'comparative information' to a centralized database for all their 'available home credit loans'.¹⁴
- 9.42 In addition we proposed in the Remedies Paper that:
- (a) The website operator should be independent and unrelated to the home credit sector, should provide a trusted source for customers and should be able to provide other information relevant to the customer at the same time.
 - (b) Only medium and large home credit lenders would be charged by the site operator; the amount it would charge would be sufficient to cover the cost of setting up and running the website. There would be a sliding scale of charges based on size.
 - (c) Home credit lenders would be able to enter data on any home-collected cash loan in addition to those required. In addition, home credit lenders and other lenders (such as credit unions) would be able to publish on the site details of any cash loan that could be repaid in cash to a central collection point, such as an office. The fact that these loans were not home collected would have to be stated alongside other loan details such as charges for missed payments.
 - (d) The website would enable users to compare the prices of loans in a certain area, and would provide information regarding customer rights and issues to bear in mind when choosing a loan.
 - (e) All home credit company websites, payment books (whenever these are given to customers), statements, flyers, and direct mail sent by home credit lenders to customers would be required to include a reference to the website.

¹⁴We considered the definition for an available home credit loan and suggested that one definition could be any loan of a description that was taken out more than 100 times in the last year, or could reasonably be expected to be taken out 100 times in the following year.

- (f) All home credit lenders would also have to provide their pricing information on all cash products on request (whether over the phone or in writing) and would have to provide a written quotation if requested within one week of a request.

How the proposed remedy seeks to address the features contributing to the AEC and the detrimental effects expected to result from the AEC

- 9.43 The remedy would address the AEC by increasing customers' awareness of differences in prices charged by home credit lenders (and others), reducing search costs and increasing lenders' incentives to compete on price, by making it more likely that offering lower prices would result in additional sales and by making it easier to produce comparative price advertisements. It would not be necessary for most home credit customers to use the website for this remedy to be effective, an increase in price sensitivity even among a relatively small group of customers might be expected to prompt a reaction from lenders.

Responses to the proposal and the CC's considerations

- *Overview*

- 9.44 There was general support for clearer price information and for a price database both from third parties and from home credit lenders. Third parties said that better price information would be beneficial to customers, particularly if that information could get to customers at the right time and in the right form. Some home credit lenders also expressed interest in using information from a price database for comparative advertising, and said that such a database would make it easier for them to market on price.

- *Provision of information*

- 9.45 Many of the responses we received related to how best to provide price information to home credit customers. DOOD and Which? said that a database could be put on to a website and customers and third parties could access it to get up-to-date information regarding their particular area. Other third parties pointed out that home credit customers mostly relied on word of mouth, and many did not have access to the Internet at home or did not use their access due to cost constraints. The OFT put to us that a better approach than a website would be for each home credit lender to produce a leaflet showing price information for its products, in a comparable format. The leaflet could be promoted via advertising material, and made available to consumers on request and prior to any sales visit. Others, including DOOD and the NCC, believed that leaflets could be used in addition to a website. Home credit lenders said that, given the way in which loans were issued, it was unclear as to when the relevant time for making the leaflet available would be. We were told by home credit lenders that the point of sale was too late for leaflets to be presented to the customer and a suitable point 'pre-sale' was difficult to determine. Home credit lenders were concerned that any leaflets might quickly become outdated, that any leaflets provided by an agent regarding comparative prices would not be viewed by customers as impartial and that ensuring their agents delivered them would be difficult.¹⁵
- 9.46 We consider that any comparative pricing tables or lists of local lenders would be most effective if the information was in a central form that was accessible when the

¹⁵If you were asking all the agents to distribute leaflets on competitive products at the point of sale and we were to agree to that, our job in trying to make sure our agents were complying would not be a straightforward one—Provident Financial.

customer wanted it and came from an independent, up-to-date and easy to monitor source. That would not preclude comparative information, once collected, being 'recycled' by third parties, to highlight credit options and compare prices. We consider that the best source for this information would be a website as its characteristics best fit the specifications above.

- 9.47 We are aware that not all customers will have access to the Internet in their own home. However, we consider that enough customers will have access, either in their home or elsewhere, and these, together with third parties who have the incentive to recycle the information, are sufficient to make the remedy effective. Analysing the home credit customer base indicates that a significant proportion have access to the Internet in their homes. Ofcom panel research suggests a figure of home Internet usage of approximately 40 per cent for lower-income consumers below 65 years and a higher-than-average use of the Internet outside the home if there is no home connection for these customers. The research also suggests that lower income groups below 65 years are just as likely as the average to search for information on the Internet.¹⁶ Provident told us that 30 per cent of its current customers often used the Internet at home either through a computer or through interactive television and that [] per cent of all direct applications (ie applications by telephone, coupon and the website) were applications via the website, and it believed that Internet use was likely to increase in the future.
- 9.48 We considered the OFT suggestion regarding standard leaflets provided by the lenders and given to all customers but did not consider that these could act as an effective alternative to a website, or would add significantly to the effectiveness of the website. We consider that leaflets would not be viewed as independent, particularly when delivered by the lender, and risk becoming out of date (though we did not find that prices changed frequently at present). In addition, it is difficult to specify the appropriate time for delivery for any compulsory leaflets (for example, the NCC suggested at the point of sale and the OFT suggested before the point of sale) and distribution would be difficult to monitor. However, we do consider that home credit companies should provide their own price information on request (see paragraphs 9.51 and 9.52).
- 9.49 The NCC, the TSI, DOOD and many of the home credit lenders stated that the OFT was best placed to monitor and collect any information, particularly given its regulatory role in the credit area. Furthermore Mutual said that it would be very keen that the price comparison website was run by an independent body—certainly not the CCA—and monitored by the OFT to increase the level of customer confidence.
- 9.50 We consider that the OFT, as an independent authority, would be seen as a trusted source by customers. However, the OFT told us that running or outsourcing such a website would be incompatible with its credit licensing role and that it might conflict with its role as a competition authority. Given these concerns expressed by the OFT, we propose ourselves to invite tenders for a website operator to run the website. We note that any successful website operator would have to be both independent of the home credit sector and have the appropriate expertise and resources for running such a website. The website operator would ensure that the website functioned in accordance with the tender mandate and complied with advertising and other relevant regulations. The website operator would accept instructions from the OFT or the CC in accordance with the terms of the mandate, but would not be permitted to accept instructions from the home credit lenders paying for the cost of the website.

¹⁶Source: Ofcom panel research August 2006 based on 2,698 interviews (756 respondents had a household income of under £11,500 a year and were less than 65 years old).

We would expect the OFT, in accordance with its statutory functions, to monitor the operation of this remedy.

- 9.51 All parties said that prices should be quoted by home credit lenders over the phone in addition to any information being provided on a website. Many home credit lenders said that they already provided this service, for example Provident said: 'If somebody phones up and asks our prices we tell them. If someone asks us to send out a written quotation, we do. Again, all our materials will say, full written quotation available on request.'
- 9.52 We nonetheless found that it is not always easy for customers to find out the prices of competing products (see paragraph 6.77) and as a result we consider that home credit companies should be required to provide information regarding their products on request either orally or in writing. We consider that such price information would be easier to compare, and thus more effective, if it provides certain minimum items of information in a common format. These items would include the items that would be displayed on the price information website; these would include the TCC, APR, weekly payment, term of the loan etc.

- *Scope*

- 9.53 Many respondents commented on the scope of the requirement regarding both who should pay for the set-up and operation of the website and which lenders should be required to provide information. The five largest home credit lenders and the NCC said that all home credit lenders should have to provide information on all their cash loans. In addition, the CCA said that 'every member should participate in this and geographical areas would be one of those inclusions. ... We think that, if all members participated, it would be a comprehensive record of all geographical areas and would be available for everyone to see'. Other lenders also said that if customers and lenders were able to search a database by area, then it would be unlikely that there would be so much information as to make it unworkable.
- 9.54 Most parties believed that the industry should fund such a system though there were divergent opinions regarding the cost. The OFT said that websites could be expensive to operate and to keep up to date while others including the CCA told us that the cost of a website would be relatively small. Evidence from [redacted] suggests a set-up cost of around £[redacted] and an annual running cost of around £[redacted]. Some home credit lenders we talked to believed that the cost should be split by volume of entries (by areas covered or number of products) or size of lender though some considered that all companies should pay the same.
- 9.55 We consider that all home credit lenders should provide information on all home credit loans that are generally available (we consider that this might exclude products that have been sold to less than 100 customers in the previous 12 months). We note that this could exclude a proportion of small home credit lenders. We also consider that the cost should be borne by the home credit sector. In order for the remedy to be most effective it is necessary that as many smaller companies provide their data as possible. In order to give them an incentive to do this, we consider that the cost of the provision of the data should be kept to a minimum. In addition, we do not consider that a lender that provides a large range of products should be penalized for doing so. Hence we consider that only lenders over a certain size should provide the funding and should do so in proportion to home credit turnover. In the Remedies Paper we suggested that all medium and large lenders should pay for the website. However, given the proportion of the cost which would be paid by medium or large lenders with less than 200 agents (approximately 3 per cent) we consider that it

would be more appropriate for only lenders with over 200 agents or £10 million in home-credit-related turnover to contribute to the cost of the website.

9.56 We consider that the cost of this remedy is reasonable and proportionate given the size of the detriment that we found. For example, using the above annual cost figures of £[redacted] and given annual interest income in the home credit sector of over £700 million, a price decrease of just 0.05 per cent (or a reduction of 3p on the average TCC of £55 per £100) would be needed as a result of the remedy for its benefits to exceed its costs.

- *What information*

9.57 Many third parties and most home credit lenders commented on what information should be included. All parties said that a database should make it possible for customers, third parties and lenders to search for products in their locality. There was, however, some disagreement as to the local extent of data, with some suggesting that the database should be searchable down to the postal district and some to the postal area (see Table 1). Provident said that lenders and customers should be free to provide full postcodes should they wish to do so.

TABLE 1 **Postcodes**

<i>Name</i>	<i>Location</i>	<i>Component format</i>	<i>Number (as at May 2005)</i>
Postal area	Out code	WC1B 4AD	124
Postal district	Out code	WC1B 4AD	3,064
Sector	In code	WC1B 4AD	11,598
Unit	In code	WC1B 4AD	1.78 million approx

Source: ONS.

9.58 We consider that the arguments regarding the provision of local information are finely balanced; many providers will be willing to serve a larger area than they currently do, and though there is a risk that some customers may be rejected due to the postcode area not being sufficiently defined, we note that many customers may be rejected for other reasons (such as having a bad credit score). We consider that the postal district should be used. However, we also note that the website will need to make clear that not all products listed will necessarily be available to all customers.

9.59 The OFT was concerned that publishing local prices might lead to increased co-ordination at the local level. In particular, it stated that 'the creation and maintenance of a fully comprehensive price information website could provide a facility for collusion, particularly at local level'.

9.60 We noted the OFT's concerns regarding coordination but on balance, given our other findings, we believe that the risk of coordination is unlikely to be increased in this market because of this publication of prices in the form specified by this remedy. We accept that there is always a possible risk that these measures might facilitate collusion by increasing transparency between suppliers. However, we consider that this risk needs to be balanced against the pro-competitive effects arising from reduced search costs and better-informed customers. We note that there is no general competition policy presumption against measures that increase the transparency of prices to customers and that the consensus view is that the pro-

competitive benefits will normally outweigh the risks of collusion.¹⁷ In particular, we found that suppliers in the home credit market are already sufficiently aware of each others' activities for collusion to arise, if the other conditions for collusion were met (see paragraphs 6.198 to 6.200) but that in practice we did not find any evidence of collusion or coordination. If this and other remedies are effective, we would expect the remedies package as a whole to reduce the sustainability of collusion by strengthening the competitive constraints posed by entry and expansion and from other forms of credit.

9.61 Most responses said that information relating to the TCC, weekly payments, the term, location and any additional charges should be included on the database. Money Advice Trust/National Debtline (MAT/NDL) and some home credit lenders also said that the APR should be published as it could be used to compare loans, and if the database was to be used for marketing, APRs would have to be quoted, so that the inclusion of an APR increased the utility of a database for lenders who wished to compete on price. Others, including the CCA and S&U, said that the APR should be excluded as it was of little help to the customer when comparing home credit loans, it did not accurately reflect the true cost of a home credit loan compared with other types of credit and it could confuse and mislead the customer.

9.62 We consider that in order to be effective, the information from the website would have to enable customers to compare and differentiate loans, understand their rights and search for relevant and accessible alternatives. In this context we consider that the TCC is relevant. TCC is in our view the most useful basis of value-for-money comparison for home credit loans given their short duration. We acknowledge that the information displayed on the website would need to comply with the advertising regulations including the requirement for an advertisement to display the typical APR.¹⁸ In addition, we consider it important, in order to facilitate price comparison and switching, that the website contain the following information:

(a) the weekly payment per £100 advanced;

(b) term in weeks; and

(c) the company's name, address and a contact telephone number.

We also consider it important to include any other information that was needed for the website to be effective, such as any restrictions on who the loan is normally issued to, such as if a customer has to save before having access to the loan. The website should not include any advertising apart from displaying the information required to be displayed under the tender document or authorized by the OFT or the CC.

9.63 Some third parties, specifically the CDFA and ABCUL, suggested that other local but non-home-collected lenders of weekly-paid, cash loans such as credit unions and CDFIs should also be able to add information to the database. Home credit lenders have said that they were concerned that including credit union data would be

¹⁷For example, the OFT's discussion of information sharing in the relevant competition law guideline starts with the statement that 'as a general principle, the more informed customers are, the more effective competition is likely to be and so making information publicly available to customers does not usually harm competition'. Source: *Competition Law guideline on Agreements and Concerted Practices*, OFT 401, December 2004, paragraph 3.17; and Massimo Motta concluded his discussion of price announcements as follows: 'Whereas announcements directed only to rivals should be forbidden, announcements about current and future prices which carry commitment value vis-à-vis consumers should be regarded as welfare enhancing'. Source: Massimo Motta, *Competition Policy, Theory and Practice*, p156.

¹⁸The 'typical APR' is defined in the advertising regulations as an APR at or below which an advertiser reasonably expects, at the date on which an advertisement is published, that credit would be provided under at least 66 per cent of the agreements he will enter into as a result of the advertisement.

confusing to customers as the loans would be difficult to compare given that credit union customers had to save before they could borrow and would not be offered a home collection service. Cattles also said that as we had found that these products were not in the same market they should not be on the website.

9.64 We consider that adding data from non-home-collected cash products would be useful and relevant for customers. Some home credit lenders also provide loans that are centrally collected (see paragraph 2.2). We consider that adding these products would increase the effectiveness of the remedy, in encouraging competition for home credit customers' business. However, we consider that it would be necessary to indicate differences in these loans from home credit, notably that they were not home collected and any penalties for late payment. We note that the differences between products are not as marked as suggested by some home credit lenders; for example, many credit union loans are now offered to customers without saving first at the credit union (see paragraph 4.25).

- *Advertising*

9.65 There was a range of views as to which advertisements and marketing material should contain references to a website. Provident said that any advertisements which showed a price should include a reference to a website, whereas Mutual said that a brief reference could be included in any marketing material. The TSI said that all advertising should contain a reference.

9.66 We consider that at a minimum, all home credit company websites, payment books (whenever these are given to customers), statements, flyers, and direct mail sent by home credit lenders to customers would be required to include a reference to the website. However, we do not consider that it would be appropriate for all advertising (eg billboards or other advertisements not directed at specific customers or citing price information) to be required also to contain a link to the website.

Our decision

9.67 Our decision on the price information remedy is set out below. Our reasoning is as set out in paragraphs 9.41 to 9.66.

9.68 All home credit lenders will be required to provide specified information (the specified information) for publication to a 'website operator' appointed by the CC for all home credit loans which are available and relevant to customers. There would be an exception where less than 100 loans of the same type had been made in the previous 12 months. At a minimum, the information will enable users to compare the prices of loans in a certain area, and provide information regarding customer rights. The specified information is likely to include the following:

- (a) TCC per £100 advanced;
- (b) the weekly payment per £100 advanced;
- (c) term in weeks;
- (d) typical APR;
- (e) postcode districts where the product is offered (ie the first half of the postcode);
- (f) the company's name, address and a contact telephone number; and

- (g) any other information that we regard as necessary for customers and others to make comparisons between loans, for example conditions relating to availability or other terms of the loan.
- 9.69 All lenders contributing to the website would also be required to provide such information that was needed to enable a website operator to carry out appropriate checks.
- 9.70 Any advertisement, for a home credit lender, that was required by the Consumer Credit (Advertisements) Regulations 2004 to include the typical APR will have to contain a reference to the location of the website containing the information. The font of the reference to the location of the website should be no smaller than the largest font size of the price material. In addition, all payment books (whenever these are given to customers), statements, flyers, and direct mail sent by home credit lenders to customers would be required to include a reference to the website on the first page of any such document with sufficient prominence.
- 9.71 The website operator will be independent of the home credit market and will have appropriate expertise and financial resources to enable effective operation of the website. The website will be set up for the purpose of price comparisons and not as a mechanism for purchasing. It will also provide other information for customers as listed in paragraph 9.62, such as information regarding customer rights, to enable customers to compare products.
- 9.72 Any lender will be able to contribute information regarding any loans that the lender would normally be expected to be paid in cash, in instalments whether it is home collected or repaid in cash at the lender's office or another specific location and as long as he contribute the specified information listed in paragraph 9.68.
- 9.73 Any home credit lender with over £10 million in home-credit-related turnover or more than 200 agents will be charged by the website operator an amount, calculated in proportion to turnover, that is sufficient to cover the cost of setting up and running the website, and processing the data, as well as ensuring that it was accessible and appropriately marketed as set out in the terms of the successful tender. Any additional cost resulting from the addition of non-home-credit data (see paragraph 9.64) will be paid by the lender adding such information to the website.
- 9.74 All home credit lenders will additionally be required to provide pricing information on any available home credit product on request (whether orally or in writing) and will have to provide written price information on their home credit products if requested within one week of a request. The price information will have to provide the same detail of information as available on the website for each product.
- 9.75 We propose to give effect to the requirements, by order, by prohibiting a lender from entering into a home credit loan agreement unless he has supplied the information about the product to the website operator in accordance the requirements outlined above and, in the case of the lenders referred to in paragraph 9.73, has an appropriate contract with the website operator.
- 9.76 Home credit lenders will be required by order to provide price information on request as set out in paragraph 9.68 and will publish references to the website as set out in paragraph 9.70.
- 9.77 We consider that it will take six to nine months from the date of the order or undertaking for any website to be operational, and we propose that home credit lenders will provide information as proposed above within one month of the website

being operational. The 'go live' date will be later to allow time for the information to be collated and made ready for publication.

Statements

The proposal

- 9.78 In the Remedies Notice, we proposed a requirement that statements should be provided to home credit customers in a form and at times that were most appropriate. The Remedies Notice suggested that these statements should be capable of conveying information regarding customers' creditworthiness to lenders with whom the customer did not currently have a relationship, and that they could provide details of the cost of loans in a form that would address the customer's lack of price sensitivity. We noted that home credit suppliers are required to comply with section 77 of the 1974 Act (under which customers can request a statement for the price of £1) and will be required to provide a statement, at least annually, for loans that are not settled within one year of the agreement, when the relevant provisions of the 2006 Act come into force. We proposed in the Remedies Paper that all statements provided under the current and new legislation on request and yearly would have to contain certain 'specified information'.
- 9.79 The Remedies Paper suggested that all home credit customers could request one free statement per quarter or one per loan (whichever allows for more requests). These requested statements would have to be posted to the customer within one week of the request being made (either to the agent, by email, to a central call number or in writing). The requested statement would include information on all home credit loans outstanding with the home credit lender at the time of the request; however, each loan would be presented separately and contain the specific information. A statement could be requested at any point during a loan and up to 12 weeks following the date on which the loan is settled.
- 9.80 Information regarding the ability to request, and how to request, statements would be provided in all payment books (where these are given to customers) and at the point of taking out a loan. In addition, any direct mail sent by home credit lenders to customers would be required to include a reference to the ability to request statements.

How the proposed remedy seeks to address the features contributing to the AEC and the detrimental effects expected to result from the AEC

- 9.81 We consider that the statements could be used as a conduit for information (on the price and non-price terms of the loan), as a record of the information recorded centrally by the home credit lender, and may in the form specified act as a better credit certificate than a payment book, particularly if the statement can be requested by a customer at the time that he or she is interested in switching. We consider that statements will address the informational asymmetries between incumbent lenders and other lenders and they will also increase the price awareness of customers. We also note that the only information currently required on a requested statement is (a) the total sum already paid, (b) the total sum currently owing and (c) the total sum which is to become payable, and the various amounts comprised in that total with the dates they become due.

Responses to the proposal and the CC's considerations

- *Overview*

- 9.82 All parties have stressed the need to make any such statements relevant and clear so that information is conveyed to the customer in the most effective manner.
- 9.83 Both RBS and Capital One noted that a statement might be a more effective credit certificate than a payment book. However, they believed that statements were unlikely to lead to greater access to mainstream loans as decisions for those loans would continue to be made remotely based on CRA data. All home credit lenders argued that statements would not be as effective as a credit record on a CRA as a means of conveying creditworthiness to other suppliers, and some suggested that doing both would be unnecessary.
- 9.84 We acknowledge that borrowers are likely to show potential lenders only those statements that indicate a good payment record and withhold others (see paragraph 5.31) and consider that CRA data will be more effective in addressing the informational asymmetries for those customers with a CRA record. However, we continue to consider that statements would be a valuable information conduit and would be useful for customers who wish to change credit suppliers, particularly if they were requested at a time when customers may wish to switch. They might also be helpful in cases where:
- (a) the potential lender does not share data and hence would be unable to access a customer's record regarding home credit on the CRA; and
 - (b) a customer's data has not been shared as his or her lender is not required and chooses not to share data.
- 9.85 Home credit lenders have said that a statement would not provide any additional benefits over a payment book (or card) in terms of providing a credible, portable record for customers among home credit providers; further, that the majority of customers had these payment books and that payment books were likely to be more up-to-date.
- 9.86 We note that payment books are not mandatory, and according to the NOP survey a significant minority (18 per cent) of customers did not have an up-to-date record in their possession of all their payments. We consider that a payment book could be used to convey information to the customer, if it was mandatory to give payment books to customers and to keep them up to date. However, it would not be feasible to require a lender to keep payment books up to date as customers are not always able to produce them at short notice. Hence, we continue to consider that such a book may not be sufficient for customers wanting to prove a credit history for the reasons set out in this report (paragraphs 4.72, 5.31 and 6.108) or wishing to establish basic information about their home credit loan, but that a statement provided in a common format could help a customer to do so.

- *Frequency and cost*

- 9.87 Many third parties are in favour of more frequent statements for customers than required under the Consumer Credit Act 2006 and favour the free provision of requested statements. The OFT suggested that a statement should be provided every three months (to give a record after 12 payments), whereas the NCC, MAT/NDL and Citizens Advice have all suggested that statements should be given to customers every four to eight weeks. The OFT said that more regular statements

would greatly improve the transparency of home credit. Citizens Advice said that statements should provide borrowers and prospective lenders with information on outstanding balances and that a number of their clients have been unable to establish basic information about their home credit loan such as the amount outstanding or the recent payment history. On the other hand, some third parties, in particular Professor Elaine Kempson, and many home credit lenders have suggested that most customers would not keep or read such statements, which would imply that they would be of little benefit to such customers.

- 9.88 Home credit lenders said that more frequent statements would be costly for providers (costing about 35p per statement based on estimates supplied by CLC). It is likely that larger lenders would be able to produce compulsory statements at a considerably lower cost than this, whereas smaller lenders might have higher costs. LSB told us that quarterly statements would cost it in the region of £170,000 which would equate to approximately 30p a statement while the CCA told us that statements would cost much more for smaller home credit lenders. Given these costs, some home credit lenders said that requiring more compulsory statements would be disproportionate.
- 9.89 We consider that there is some force in the argument against the provision of compulsory regular statements given that we expect only a minority of customers to use them, that statements may not be available at a helpful time and the significant cost of providing regular statements. We also consider that enabling customers to obtain statements on request will be more effective (see paragraph 9.91).
- 9.90 We heard conflicting views on charges for and frequency with which required statements should be given to the customer. We were told by home credit lenders that the £1 that could be charged for a requested statement was useful as it acted as a deterrent to customers requesting additional statements. However, home credit lenders also told us that it might cost more to collect the £1 for the additional statements than the £1 fee, and that it went against the view that the home credit product had no extra charges. In response to the Remedies Paper, many home credit lenders also suggested that requested statements, that were not paid for, should not be required as often as set out in paragraph 9.79 as this would be costly and burdensome. Provident suggested that the cost for requested statements might be higher than the cost for providing a statement to every customer every three months because demand would be less predictable and the deadlines referred to will not allow the home credit lenders to negotiate better rates with postal providers. LSB suggested that requested statements should only be provided once every six months and not beyond the end of the loan.
- 9.91 We do not see why customers should be deterred from requesting additional statements. Rather we believe that the remedy will be more effective if at least some customers request and use them. In addition, we do not consider that the cost for requested statements will be disproportionate, particularly given that if a customer has requested a statement then it is significantly more likely that it will be used effectively. There are no other costs that are a direct result of this remedy. We consider it unlikely that more than one statement a year will be requested in most cases and we expect that only a minority of customers will request statements.
- 9.92 Provident said that home credit lenders should be given 12 working days to respond to a request for an additional statement as this would reflect the current legislation in the Consumer Credit Act 1974. Provident also noted that the Consumer Credit Act 1974 would not require lenders to produce information on any loan that has been settled. Provident also stated that moving from the current legislation in the Consumer Credit Act 1974 would be an unnecessary burden and would lead to extra costs being incurred.

9.93 We consider that requested statements would be a substantially less effective credit certificate and less use to customers wanting to switch if they were limited to information on the current loans outstanding as required under the current legalization and if they took more than one week to be provided. We note that customers in this market often require loans at short notice and therefore a prompt response is desirable.

- *Implementation and content of statements*

9.94 The DTI is currently consulting on a draft statutory instrument (the draft SI) specifying the form and content of the periodic statements that are required at least annually under the Consumer Credit Act 2006 (annual statements) required. The DTI noted, as did a number of other parties, that if home credit lenders had to produce two separate but similar statements this would be an unnecessary administrative burden and potentially confusing to the customer. The DTI also noted that there were differences between our proposed specified information and the information required under the draft SI.

9.95 We accept that having two sets of statements, and two implementation timetables, or having the requested statement in a different form to the annual statement would be sub-optimal for the reasons given by the DTI and others. Hence we consider that requested statements as required by a CC order should be in the same form as annual statements, but should require information on each loan with the same lender.

9.96 We consider that some additions will have to be made to the draft SI in its application to home credit in order for the statements effectively to address the AEC. In particular, we consider the following would be needed:

(a) The addition of the total cost of credit for the loan. Most price comparison in the home credit market is made using the TCC, thus if statements show only the applicable interest rate and not the TCC then the customer is unlikely to be better informed as regards price.

(b) Alternative wording for ESRs. The current wording in the SI 'You are entitled to settle your credit agreement early. If you do so, you may be required to pay an additional sum for early settlement. Please contact [lender's name and address] for a final settlement figure' may not be appropriate for home credit customers as it could be interpreted that they would have to pay an additional sum to the TCC on the loan for settling early, when in fact all those settling more than 13 days before the end of the loan should get a rebate to the TCC.

(c) A reference to the price information website and details of how to request additional statements. We note that this information would be available elsewhere. However, we believe that it would increase the effectiveness of the remedies package as a whole if these were included.

9.97 The DTI told us that there was no obvious policy objection to them adding some requirements applicable only to home credit lenders to the more general requirements being imposed by the draft SI. However, the DTI also indicated that it would want to keep any such additions to a minimum. As regards the specific additions, the DTI indicated that adding the TCC and information regarding the price information website may be less problematic than changing the wording on the ESRs. However, the DTI also explained that it could not prejudge the outcome of the current consultation or guarantee how ministers would respond to recommendation by the CC.

Our decision

- 9.98 Our decision on the statements remedy is set out below. Our reasoning is as set out in paragraphs 9.78 to 9.97.
- 9.99 We recommend to the DTI the following changes to the draft SI referred to in paragraph 9.94 about form and content of the annual statement provisions of the 2006 Act in its application to home credit agreements:
- (a) the addition of the total cost of credit for the loan;
 - (b) alternative wording for ESRs, to the effect that 'you are entitled to settle your credit agreement early and can contact your lender for a settlement figure'; and
 - (c) a reference to the price information website and details of how to request additional statements.
- 9.100 All home credit lenders will be required by the CC to provide, upon request, one free statement per quarter or one per loan (whichever allows for more requests). In addition, statements could be requested up to 12 weeks following the date on which the loan is settled. These requested statements would have to be posted or given to the customer within one week of the request being made (orally or in writing).
- 9.101 All requested statements would have to comply with the same requirements about form and content as the annual statements provided by home credit suppliers under section 6 of the 2006 Act (including any of the additional specific requirements for home credit lenders that may be required by the regulations following our recommendations to the DTI). They would also have to include information on all home credit loans outstanding with the home credit lender at the time of the request and information on loans which have been settled up to 12 weeks previously. Each loan would be presented separately, and a summary page of the customer's current position would also be provided.
- 9.102 Information regarding the ability to request, and how to request, statements will be provided in all home credit lenders' payment books (where these are given to customers). In addition, any direct mail sent by home credit lenders to customers will be required to include a reference to their rights to request free statements.
- 9.103 We consider that the provision of statements to be provided on request would be required by an order of the CC. We also consider that the timing for the statement requirement, both the requested statements and yearly statements, will be dictated by the DTI timetable for bringing into force the requirement on lenders to provide annual statements under the 2006 Act (which we understand currently to be about April 2008).

Early settlement rebates

The proposal

- 9.104 The Remedies Notice considered measures aimed at ensuring that the home credit customer received an improved rebate. The Remedies Paper further proposed that home credit lenders would be required to give an ESR at least as generous as one based on the actuarial formula set out in the ESR regulations. In calculating a minimum rebate, lenders would not be allowed to defer the settlement date for more than 13 days or to use actual repayments.

How the proposed remedy seeks to address the features contributing to the AEC and the detrimental effects expected to result from the AEC

- 9.105 We have found that the detrimental effect on customers which has resulted from or may be expected to result from the AEC is that customers pay higher prices for home credit than would be expected in a competitive market (paragraph 8.11). We have also found that customers who exercise the right to settle early are receiving rebates which are not 'fair' in terms of what the lender would receive if rebates reflected cost savings (Appendices 3.4 and 9.2). We thus believe that all borrowers are paying higher overall prices than would be found in a competitive market and that, as those electing for early settlement are getting too low a rebate, they are contributing to the overall excess.
- 9.106 We said in paragraph 9.5 that in general we preferred remedies which enhance competition to those which bear directly on customer detriment, and our package of remedies reflects that preference. However, we do not think that anything else in our package of remedies would achieve an increase in the level of rebates. We consider that the low level of rebates is an aspect of price that requires direct remedial action to address the identified customer detriment.¹⁹
- 9.107 We also consider that requiring higher rebates will enhance the effectiveness of our other remedies. This is because price transparency overall would be increased by the combination of the ESR and price information remedies, as the higher price paid by those who settle early would no longer be concealed by the complex rebate formula, and the price of a home credit loan quoted at the outset would more closely reflect the maximum price that the customer would pay. It is also possible that incumbency advantages would lessen, as more generous rebates at early settlement would somewhat reduce switching costs.

Responses to the proposal and the CC's considerations

- *Overview*

- 9.108 The ESR regulations as they apply to home credit rebates are described in paragraphs 2.50, 2.51 and 3.50. These regulations state that lenders can have a deferment of up to 28 days on a loan that is less than a year and eight weeks on a loan that is over a year.
- 9.109 All customer groups said that they would support giving more money back to the customer and most agreed with our analysis that suggested that the current rebate appeared to offer poor value. Citizens Advice and the NCC further said that any method to calculate the rebate should reflect the fair indemnity for early settlement and as a result neither create an incentive to settle loans early nor create a disincentive for firms to offer early settlement when it is beneficial to the consumer.
- 9.110 Many lenders disagreed (see paragraph 3.53) with the CC's analysis of ESRs and with the conclusion that the rebate given to customers did not adequately reflect the costs avoided by lenders when customers settle early. Some also argued that it was inappropriate for the CC to intervene in this area when the regime governing it was relatively new and had not had time to bed down. We rejected both these arguments in paragraphs 3.54 and 3.56.

¹⁹We discuss in paragraph 9.140 how this compares with our approach to price caps more generally.

9.111 Some lenders argued that the implication of our reasoning in paragraph 6.179 was that lenders could never be expected to compete on rebate levels, so we could not regard the absence of competition on this dimension as a feature of the market. However, we have not identified the absence of competition in rebates as a feature of the market. We are imposing the remedy to mitigate a customer detriment resulting from those features of the market that we have identified as preventing, restricting or distorting competition.

- *Cost*

9.112 Home credit lenders suggested that any increases in the ESR would lead to an increase in prices for all customers, as there would be an increase in administrative costs and an increase in the rebate for some customers. Thus a likely response to the ESR remedy would be to raise their overall price to recoup their losses. We do not believe that this cost will necessarily be passed on to customers given that the size of the customer detriment we found indicates that there is some scope for price reductions.

9.113 The cost associated with redressing the customer detriment that the CC has provisionally found (ie the costs to lenders which translate directly into benefits for customers) could be in the region of £10 million to £15 million a year. We do not consider that the ongoing or set-up administration costs would be substantially greater than those under the current ESR regime as we have not changed the basis formula for calculation. The CC estimates that additional ongoing administrative costs associated with this remedy would be in the region of £200,000 to £300,000 a year for the industry and notes that the set-up costs are likely to be lower than the cost of implementing the ESR regulations, as the software for calculating the actuarial formula is now in place. Hence, transitional costs are likely to be lower than those due to the last change in ESRs, as the formula for calculating the rebate would not change but only the lenders' ability to retain extra weeks.

9.114 We consider that making the rebate more cost reflective increases the transparency of the overall price for customers as the headline price of the loan will better reflect the actual cost of the loan. In addition, we expect that this headline price will be subject to more competitive pressure as a result of our other remedies; this pressure (which currently does not exist) would serve to deter any move to raise headline prices. Even if headline charges were raised by some lenders, customers settling early might be no worse off and would no longer be subject to an additional detriment. Moreover, hidden charges would have been replaced by a visible one, which we would regard as beneficial.

- *The period of deferment*

9.115 When the DTI consulted on the ESR regulations the OFT argued for a 13-day deferment in the case of loans repayable weekly, with no additional deferment for loans of more than one year. No other party commented during this investigation on the length of the deferment, except for those home credit lenders who considered that the current deferment should remain.

9.116 Having considered the various views and the analysis of the relevant costs (see Appendix 9.2), we believe that a deferment period of no more than a maximum of 13 days is appropriate. We used three different methodologies to assess the fairness of the minimum rebate under the current regime and using contractual payments. All three indicate clearly that the current minimum ESR operates to the benefit of the lenders when loans settle early. It appears from our analysis that 13 days' deferment

gives rise in most circumstances to a level of rebate that is a fairer balance between the interests of the customers and the lenders.

9.117 The OFT further proposed that there should be no deferment where the borrower was refinancing with the same lender or where the borrower chose to settle immediately by sending the correct money or overpaying. In such cases, the relevant date for calculating the ESR should be the actual date on which settlement took place. We note that over three-quarters of home credit loans that settle early were renewed (see paragraph 3.47).

9.118 We consider that treating renewals and other early settlements differently would make the remedy more complex and difficult to monitor. Evidence from the Republic of Ireland suggests that lenders could seek to exploit any distinction in treatment between renewals and other early settlements. In addition, in our assessment we did not distinguish between the impact of rebates on renewals compared with other forms of early settlement. We therefore propose a common approach for all early settlements.

- *Fit with the current regulatory framework*

9.119 Home credit lenders did not see why home credit should be treated any differently from the rest of the consumer credit industry; to do so would create a competitive distortion. They also said that in the consultation between the DTI and industry with the aim of getting a fair balance between lender and consumer, the home credit sector had been considered extensively. Further, Provident told us that from the description of the DTI's position by the CC in its Proposed Remedies paper of 18 August 2006 (paragraph 102), the DTI's approval of the CC's proposal was contingent on the CC being able to show that the cost structure in home credit was different from other sectors. Provident has seen no evidence that the CC has examined the cost structures in other sectors to compare against home credit. Provident believes that its cost structures are consistent with those of credit providers in other sectors.

9.120 The DTI told us that in framing the current regulations relating to early settlement of loans, it had not examined, and had never claimed to examine in depth, the actual costs incurred by lenders by sector. If the cost structure in home credit now emerged as different from the generality of other sectors, it was appropriate and defensible to amend the regulations in respect of home credit alone. It would, however, be preferable for any CC order to take as its starting point the actuarial formula incorporated in the existing regulations and to provide a variant upon it, rather than to attempt to create an entirely fresh regime.

9.121 We do not consider it necessary to compare the cost structure of home credit with that of other financial products.

9.122 We have found that, as a result of the particular cost structure of home credit, the current minimum rebate arrangements are not fair and we consider it appropriate to remedy that. Moreover, we do not consider that the remedy is likely to distort competition between home credit and other financial products. The fact that we found that home credit is in a separate market (see Section 4) suggests that the competitive interaction between home credit and other credit products is limited at present. Were competition between different forms of credit for home credit customers' business to become more competitive as a result of our remedies, we consider it even more important that pricing is transparent in all respects and that the rebate regime is fair.

- *Contractual or actual payments*

9.123 Under the ESR regulations, lenders are permitted to choose whether to use actual or contractual repayments to calculate the ESR. Most home credit lenders currently use contractual repayments to calculate ESRs. We were told by the DTI that some lenders, including home credit lenders, had been in favour of the ability to use contractual payments as these were administratively easier. We were told by the CCA, in comments on the working paper on ESRs, that if lenders were not allowed to delay the settlement date, a common commercial response might be to calculate ESRs on the basis of actual repayments. It is difficult to assess the likelihood of this reaction by suppliers. If this were to happen, then there is a risk that the remedy would be ineffective, as many customers would not receive higher ESRs than at present (and some would receive less). It was also put to us that calculating ESRs using actual repayments was a fair approach, as customers who miss repayments impose a cost on lenders, which it is reasonable for them to recover by offering lower rebates.

9.124 We have found that the impact of calculating rebates using actual repayments for loans with high APRs is that a customer can face substantial reductions in rebate for missing a small number of repayments, particularly if these are missed early in the life of the loan. This does not appear to be consistent with the observation that occasional missed repayments are a common and accepted feature of home credit and do not have a charge associated with them. It is also not consistent with a model where not all missed payments are attributable to customers. For example, we have been told by Park that up to one in seven missed payments might be as a result of the agent not calling. The reductions in rebate implied by the actuarial formula are much larger than the extra funding costs associated with a missed repayment. Therefore we consider that, in home credit, a minimum ESR calculation based on contractual repayments is more appropriate, and fairer to customers, than one based on actual repayments.

- *Scope*

9.125 Many smaller home credit lenders put to us that the recent changes had affected their financial position and that they should be excluded from the remedy. In addition, LSB said that longer loans should not be covered by the change as this would lead to fewer longer loans being offered and hence less choice for the customer.

9.126 We consider that our assessment is robust to variations in either the size of the lender or the length of the loan (see Appendix 3.4), and therefore that the remedy is proportionate. We recognize that some home credit lenders may choose to increase their overall prices. We do not consider that the remedy is disproportionate for any lender or product as it fairly reflects the cost of early settlement.

Our decision

9.127 Our decision on the ESR remedy is set out below. Our reasoning is set out in paragraphs 9.104 to 9.126.

9.128 All home credit lenders will be required to give an ESR at least as generous as one based on the actuarial formula set out in the ESR regulations. In calculating a minimum rebate, no home credit lender will be allowed to defer the settlement date for more than 13 days or to use actual repayments rather than contractual repayments as the basis for the calculation.

9.129 We consider that the requirement to pay higher rebates will be implemented by an order prohibiting lenders from entering into a home credit loan agreement unless the agreement gives the customer the right to rebates on these terms. We consider that lenders will have no more than three months from the date of the order to comply this requirement.

Remedies the CC is not pursuing

Canvassing

9.130 In the Remedies Notice and the Remedies Paper we proposed a remedy regarding the modernization of the permission-to-call requirements. We noted that a modernization of the canvassing legislation, while of limited effectiveness in itself, could support the remedies on data sharing, ESRs and customer information. If more home credit customers took a proactive approach to choosing a supplier—for example, by phoning suppliers and requesting price details—and if non-incumbent suppliers were in a better position to offer credit, as a result of data sharing, then the current rules on canvassing could create an unnecessary obstacle to switching by preventing non-incumbent lenders from accessing customers as readily as incumbents could.

9.131 While some home credit lenders supported the proposal to modernize the restrictions, many others, including Citizens Advice and the NCC, have opposed any change in the regulation. Those parties that opposed the change said that though changing the permission-to-call legislation might increase competition in home credit, it could adversely affect customer protection, and on balance any relaxation of the current legislation would not appear to be in the customer's interest. The DTI also suggested that any proposal to remove or weaken the permission-to-call legislation would go against the grain of government policy.

9.132 We consider that from a purely theoretical perspective a restriction on canvassing will tend to restrict competition. However, we have noted that lenders have sought legitimately to circumvent that prohibition by offering vouchers (see paragraph 2.42). Ultimately, we did not consider the rules on canvassing to be a major impediment to the acquisition of new customers (see paragraph 7.32). Moreover, we are also aware of the countervailing consumer welfare issues which would have to be considered by the DTI were it minded to change the permission-to-call regulations. Given the strength of the welfare issues, we consider that any recommendation to the DTI to limit the current regulations would be likely to be rejected. In the circumstances we see no advantage in making any formal recommendation.

Comparable products

9.133 In the Remedies Notice we outlined a remedy which would have obliged lenders to quote prices for loans of specific terms, to facilitate comparison of prices on a like-for-like basis. This could have been achieved either by requiring lenders to offer only standard products or by requiring the lenders to offer standard products alongside their current range.

9.134 Following the initial consultation period we decided not to pursue this remedy. We consider that forcing home credit companies to issue only standard products would reduce consumer choice and may provide a focal point for prices. We also consider that having standard products alongside the current range was impractical to enforce as price and availability of a home credit loan, like all loans, depends upon the customer's creditworthiness and hence there appears to be no practical way to enforce standard advertised products to be actually offered to the customer. In

addition, the choice of standard products may restrict the development of new products.

- 9.135 In addition, we consider that the price information on the website and the provision of standardized price information in statements and written price information should give those customers who wish to do so the opportunity to compare prices.

Price caps

- 9.136 In the Remedies Notice, we said that we were minded to consider a price cap on home credit loans if it appeared likely that other less intrusive measures would not adequately address the AEC and the resulting customer detriment of high prices in a timely and effective manner. While a price cap would not address the features of the market, we found that it might appear to address the immediate customer detriment.

- 9.137 One home credit lender and the OFT suggested that, rather than an absolute cap, the CC could introduce a threshold and lenders that charged in excess of this level would have to tell customers that they were charging above the level. The NCC, though generally negative regarding price caps, suggested that a threshold could be set by the OFT and that lenders that charged in excess of this threshold would have to justify to the OFT why they were setting this rate and the OFT would be at liberty to publish this information. It added that such cap should include a financial inclusion test. Provident and DOOD suggested that any threshold would in effect become an absolute cap, as any lender charging above the threshold might be open to the allegation that it had provided credit at an unfair rate and open to challenge under the new 'unfair relationships' provisions of the 2006 Act.

- 9.138 The majority of responses received in relation to price caps, whether absolute or a threshold, from third parties such as the NCC and the home credit lenders were generally negative. Many parties stressed the effect that such caps could have on vulnerable customers if lenders chose to lend only to less risky customers as a result of forced reductions in price (see Appendix 9.1 on access to credit). Home credit lenders added that caps (whether based on TCC or APRs) would reduce choice as the supply of either long-term or short-term products would be curtailed. An APR cap would affect shorter-term products as these have higher APRs but conversely a TCC cap would affect long-term products as these have higher TCCs. Lenders considered that any form of cap (APR or TCC) could affect smaller loans as these may become less economical for the agents to collect and may result in increased financial exclusion. Many parties also said that price caps would decrease rather than increase competition, as some lenders would have to leave the market, prices would gravitate to the cap and prices would become less transparent as other charges would be introduced.

- 9.139 We consider that a general price cap might appear to address the immediate customer detriment in the home credit market. However, we consider that price caps would have significant disadvantages in this market given both the customer base and the home credit product. We consider that price caps could contribute to a reduction in access to credit for riskier customers (and a possible increase in financial exclusion) and that they might in practice act as a ceiling—particularly if customers and lenders consider these prices to be legitimized in some way—limiting price competition. We further noted that there would be considerable practical problems with the implementation of price caps. Unlike other industries there is no existing regulatory structure to administer price caps. Nor is it obvious that price caps would be effective as lenders may be able to circumvent them in a number of ways—such as charging for missed payments. Thus it seems unlikely to us that any general price cap in the home credit market could be implemented that achieved a significant

reduction in the customer detriment but did not at the same time have an adverse effect on a substantial number of customers which might outweigh its benefits.

9.140 We consider that our concerns regarding the effects of a general price cap do not apply to our proposals regarding ESRs. In general, we believe that our package of remedies designed to enhance competition will increase competitive pressure and thus serve to reduce prices. However, as we said in paragraph 9.114, we do not consider it likely that these remedies will give rise to higher rebates, so we have decided to act directly to address the detriment of high prices in this case. In doing so, we are mindful of the existence of a regulatory structure (the ESR regulations) which avoids some of the practical difficulties associated with directly addressing aspects of price through a wider general price cap which we identified in paragraph 9.139.

Other remedies

9.141 During the course of the remedies process the CC has had a number of proposals for additional remedies. These either related to variants of the remedies proposed in the Notice or were entirely new. Where parties have suggested variants to the remedies proposed in the Notice, we have addressed them in each remedy above (for example, we discussed price thresholds in paragraph 9.137 within the price cap section. Other proposals are discussed below.

9.142 We received submissions from third parties including the NCC which suggested that we consider remedies that regulated the customer/agent relationship. However, as noted in paragraphs 6.118 to 6.123, we received no evidence that led us to believe that inappropriate influence was exerted by agents on their customers. In the absence of such a finding we cannot consider a remedy.

9.143 We were asked by DOOD and the NCC and others to look at separating out the cost of collection from the total cost of the loan as a way of highlighting the cost of collection. We found it hard to define a definite 'cost of collection' as opposed to the cost of the loan with any reasonable precision. It is also unclear, even if costs of collection could be defined, whether this information would have a significant impact on the features of the market we have identified.

9.144 We had several measures, unrelated to home credit, suggested to us which might improve access to affordable credit for people on low incomes. These included increasing the size of the Social Fund and encouraging the development of credit unions and CDFIs. We recognize that, if implemented, these might have the effect intended and in the latter case might serve to increase a limited constraint on home credit currently provided by credit unions. But none directly address either the features of the market we have found or the customer detriment which results. We therefore have made no recommendations in this area and recognize that this domain is addressed by others, such as the Financial Inclusion Task Force.

General issues raised in response to proposed remedies

9.145 Home credit lenders told us that they were already moving towards data sharing and that a requirement to data share need not be imposed. We have considered the developments with respect to data sharing and discussed them with the relevant parties. Whilst we welcome movement towards data sharing and note SCOR's objection to the issue of compulsion (SCOR believes that data sharing should be done voluntarily by companies that want to use the data and are willing to commit to compliance with the Principles of Reciprocity), we believe that caution is appropriate in interpreting the significance of any recent developments. In particular, we consider

that following the conclusion of this inquiry, the stimulus for voluntary data sharing may be far less prominent and the impetus to further change subdued in the absence of remedies.

- 9.146 Several parties commented that we should not consider the impact of proposed remedies in isolation from changes in the broader regulatory framework applying to this market such as the impact of the 2006 Act. We are aware of the nature of these changes as set out in Section 2 of the report and have taken these into account in considering proposed remedies.
- 9.147 Certain parties expressed the view that remedial action, such as the requirement for free statements on request and the increased ESR requirements, should not be implemented beyond that which was current practice in comparable sectors, such as personal loans; otherwise there was a risk of creating market distortions. We note that we are under an obligation to remedy the AEC arising in the market that has been referred to us and do not feel constrained to conform to practices in other markets. Where we have found that the home credit product is different from other products, and where we have found features which prevent, restrict or distort competition, we consider that it is reasonable to implement or recommend different treatment. However, we have sought to minimize any potential distortions in considering remedial action.
- 9.148 More generally, it has been put to us by the CCA that smaller home credit companies should not be bound by certain remedies as the costs would be disproportionate. We have considered the question of proportionality both of individual remedies and of the package as a whole in line with our duty to do so. We do not consider that the proposed remedies are disproportionate for any lender. However, we do consider that certain of the remedies would be easier to enforce, quicker to implement and more useful to the customer, and thus more effective, if the requirements covered only certain home credit lenders or certain of their products, and we have acted accordingly (see earlier paragraphs on scope: 9.14 to 9.18, 9.53 to 9.56 and 9.125 and 9.126).
- 9.149 The view has been expressed by home credit lenders that the remedies proposed might result in less profitable home credit lenders exiting the market, due to loss of volume or increasing costs, with the result that competitive constraints in home credit might be reduced. We recognize that where remedies are implemented which seek to enhance transparency and competitive forces, then there is a possibility that marginally profitable providers might choose to exit. But we do not believe it follows that this will reduce competitive constraints in the provision of home credit. The customers of exiting lenders may move to other home credit lenders and the competitive constraints provided from outside the home credit market (from, for example, credit cards or credit unions) are likely to increase given greater transparency and information as a result of the remedial measures. Overall we expect competition to be enhanced and customers to benefit.
- 9.150 Many home credit lenders, and others such as Professor Elaine Kempson, put to us that the home credit industry was a declining industry and any analysis of excess profits or proposed remedies should take that decline into account. In particular, lenders have commented on demographic changes, increasing regulation, and declining customer payment performance. We have found that the industry appears to be slowly declining (see paragraphs 2.92 to 2.95) or at best stable. We have also noted that home credit is a product valued by many customers. As a result, we have pursued remedies which increase competition rather than more intrusive measures which could have a more immediate impact on the customer detriment but might also hasten the decline of the industry to the detriment of many customers.

Summary of decisions on remedies

- 9.151 Our analysis and decisions, issue by issue, on the proposals set out in our Remedies Notice and put to us subsequently have been set out in paragraphs 9.10 to 9.129. They give rise to a package of four remedies. Our formal decisions under section 134(4) of the Act are set out in paragraphs 9.35 to 9.40 (data sharing), 9.67 to 9.77 (price information), 9.98 to 9.103 (statements) and 9.127 and 9.128 (rebates). These are summarized in paragraphs 9.154 to 9.159.
- 9.152 We believe that taken together as a package, these remedies will increase price transparency, which will contribute to the development of greater price competition among lenders, and will decrease the information asymmetries between incumbent lenders and other lenders, which will increase competition for home credit customers. They will also ensure that one of the most obvious examples of a customer detriment from high prices—the price paid by customers who settle loans early—is significantly reduced. We consider that the combination of opening up the market to competition and directly addressing the detriment of high prices will address the AEC and detriment caused.
- 9.153 As with any set of competition-enhancing remedies, we cannot predict exactly how they will work; markets often evolve in unpredictable ways. Therefore we cannot be wholly confident that they will remedy all aspects of the features or eliminate all the customer detriment we have identified. However, we have not been able to identify any other remedies which would be more effective, and we consider that the other proposed remedies (including price caps) would be at least as uncertain and could risk causing an adverse effect on customers. We therefore consider that the remedies set out represent the most comprehensive solution which is both practical and reasonable and have thus fulfilled our duty as required by the Act.

Data sharing

- 9.154 Any home credit lender with over 60 agents or £2 million in annual turnover from home credit loans will be required to provide full data on all of their customers' new agreements for home credit loans and vouchers, and on all existing loans and voucher agreements of those types on which they have consent to share data, to at least two CRAs. The data must be provided using a single protocol acceptable to the CC, the CRAs, SCOR, and the Information Commissioner and should be consistent with the requirements for other financial products; if no other agreement is reached, the protocol currently used by LSB will be used. Home credit loans and vouchers will be recognizable as distinct from other loan products, and any search made by a home credit company will be recognizable as such.

Price information

- 9.155 All home credit lenders will be required to provide specified information on the price and other terms of their cash 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 area, and provide information regarding customer rights. The costs of funding the website will be met by the largest home credit lenders. Home credit companies will also be required to provide information mirroring that on the website on their home credit products on request, either orally or in writing, to the customer within one week of the request.

Statements

- 9.156 We recommend to the DTI that in implementing the annual statement provisions of the CCA 2006 in its application to home credit agreements, it ensures that for home credit loans the information included on statements includes: the total cost of credit for the loan; wording on ESRs to the effect that the customer is entitled to settle the credit agreement early and can contact the lender for a settlement figure; a reference to the price information website; and details of how to request additional statements.
- 9.157 All home credit lenders will also be required by the CC to provide, on request, one free statement per quarter or one per loan (whichever allows for more requests). These requested statements will have to be posted or given to the customer within one week of the request being made (orally or in writing) and would have to comply with the same requirements about form and content as annual statements provided by home credit lenders. Each loan will be presented separately, and a summary page of the customer's current position will also be provided.

Early settlement rebates

- 9.158 All home credit lenders will be required to give an ESR at least as generous as one based on the actuarial formula set out in the ESR regulations. In calculating a minimum rebate, no home credit lender will be allowed to defer the settlement date for more than 13 days or to use actual repayments rather than contractual repayments as the basis for the calculation.

Recommendations for action by others

- 9.159 The only recommendations we make for action by others are those we make to the DTI in respect of the statements remedy set out in paragraph 9.156.

Implementation

- 9.160 We consider that remedies which relate to the entire industry—such as the price information remedy—are likely to be implemented by means of an order, while those that relate to only a few parties—such as data sharing—may be implemented by order or undertakings based on what we consider will be most appropriate and what undertakings parties are willing to offer. Implementation by remedy is set out in paragraphs 9.38, 9.75, 9.103 and 9.129.
- 9.161 In addition, we recommend to others measures which relate to regulations that are currently being implemented where it is appropriate. We will recommend to the DTI that it change the statutory instrument regarding statements—see paragraph 9.99.
- 9.162 We expect that the whole package of remedies as proposed by us, with the exception of statements, will be in place within nine months from the date of the implementation of the CC's order or acceptance of undertakings. Proposed timings are set out by remedy in paragraphs 9.40, 9.77, 9.103 and 9.129.