Payday lending and associated advertising through KCC media

Introduction

Payday lending has been a feature of the U.K. credit market for a considerable number of years. In recent years there has been aggressive marketing of this type of lending leading to a growth in the market sector and also a growth in the issues associated with it.

Payday lending, historically, has been a market aimed at providing a facility for monthly paid workers to borrow small sums of money for short periods of time to tide them over until they received their next salary payment. The original providers of this type of loan were pawn brokers, where the loan is secured against an item of property, but the market of unsecured lending has grown in recent years.

The current focus on this market, in terms of media and public interest, is on those businesses who offer unsecured loans at relatively high rates of interest.

Payday lending is a relatively small part of the U.K. credit market. The total market in 2011/12, excluding student loans, was some £176.2 Bn. Of that an estimated £2.2 Bn was payday lending, or some 1¼%. That said, this type of credit frequently attracts customers who are at the more vulnerable end of the financial inclusion spectrum.

The market and legal compliance

As with all credit offered to consumers, as opposed to businesses, the market is highly regulated by the Consumer Credit Act 1974 and various subordinate legislation.

In March 2013 the Office of Fair Trading published a detailed report following their study of compliance within the payday lending market.

Their conclusion is that the market is not working well and that evidence of widespread non-compliance with legislation was found. As a result they have required 50 lenders (who account for 90% of the market between them) to take immediate steps to address this non-compliance or risk losing their licence to provide credit.

The major issues include not following the OFT’s guidance on irresponsible lending, marketing speed and ease of access over cost and failure to properly assess affordability prior to lending, or increasing lending.

The OFT has referred the market to the Competition Commission who have begun a market investigation. This is not due to report until December 2014.

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The Financial Conduct Authority takes over responsibility for regulation of this market in 2014 and have indicated that this market will be an early focus for them.

Impact on the vulnerable

The majority of payday loans are paid off in full by the customer with no ill effect.

Around one third of loans, however, are repaid late or not at all with 28% being “rolled over”. This “rolled over” part of the market accounts for 50% of lenders’ revenue. 19% of revenue comes from the 5% of loans which are “rolled over” four or more times.

In the first quarter of 2009/10, the Citizens’ Advice Bureau stated that 1% of the debt casework clients had a payday loan. Three years later that number had increased to 10%. In the same period the Stepchange debt charity reported that the proportion of their clients with at least one payday loan had increased from 3.7% to 17%.

Payday loan customers

There have been a number of studies seeking to understand customers’ motivations in taking out payday loans.

Research suggests that these loans are taken out to pay for household expenses, including emergency expenses, or to fund special occasions like Christmas and birthdays.

Research suggests that speed, ease of access and the anonymity afforded by mainly internet based providers are significant factors in customer choice.

A large proportion of customers have reported that they use payday loans as they are less likely to get into financial trouble with these products than with credit cards or overdrafts. There is a suggestion that the availability of payday loans prevents a small number of people using illegal money lenders (loan sharks).

Media and public interest

There has been significant media interest in this market over recent months and notable intervention from the Archbishop of Canterbury.

Plymouth City Council, which is a Labour controlled unitary authority, has been the first, and so far only, local authority to prevent payday lenders advertising on any media it controls and also has blocked access to the websites of payday lenders on any of its computers, including those which are available for public use in libraries and the like.

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There are a number of other councils who are reported to be considering this type of approach, including Medway Council who are reported to be seeking advice on the legality of such a move.

Options for KCC action

Subject to legal advice, it is open to KCC to follow the Plymouth model and restrict advertising and access to this type of lending in relation to media within our control.

That said, this is a legal market (albeit with poor compliance) and it is therefore open to debate about whether it would be appropriate for KCC to take this course. The highest impact advertising of this type of lending is likely to be television advertising which this action by KCC would not impact upon.

There are other markets which would not be compatible with various KCC priorities but where we would not take similar action. Examples could include the tobacco, fast food and alcohol markets.

In terms of outcomes, there is, arguably, much more benefit to be gained by KCC developing and delivering a targeted advice, education and, where appropriate, enforcement campaign aimed at ensuring that the products available in the market are understood by consumers and that the alternatives are also understood, particularly the use of “Kent Savers” and other credit unions.

This campaign would, ideally, support the PHSCE curriculum in schools, starting in schools located in areas of identifiable deprivation, but also include elements targeted at vulnerable adults, young offenders and families at risk of financial exclusion.

To deliver positive outcomes would require medium to long term investment across all KCC directorates.

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