




The impact on business and consumers of a variable cap on the total cost of credit that can be charged in the short to medium term fixed rate high cost credit market

Progress Update

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BIS commissioned The Personal Finance Research Centre (University of Bristol) and TNS-BMRB to conduct this research into high-cost credit. The purpose of this progress update is to describe what we have achieved to date, summarised in the table below. In addition to the main study, BIS commissioned PFRC to conduct an analysis of high-cost credit use using the Wealth and Assets Survey (WAS) Wave 1 data.

Research method	Status
Evidence review	Completed
Business Survey	Fieldwork completed
Consumer Survey	Pilot survey completed Main stage survey underway, due to complete w/c 14 May Depth interviews underway
Analysis of WAS	Underway, first draft report due 30 April

1 Evidence review

BIS required a brief evidence review to inform the research. We drew on the nine research studies identified in the Invitation to Tender as well as 10 additional research studies that we identified. We carried out a targeted review of this evidence and mapped the key findings against the research objectives. Our main focus was to identify gaps in evidence that we could address in the Business and Consumer Surveys.

We have subsequently identified further evidence and information (e.g. through the Business Survey) that will be included in the final report where appropriate.

2 Business survey

A Business Survey was carried out which comprised qualitative in-depth telephone interviews with representatives from trade associations and lenders.

2.1 Trade associations

Interviews were conducted with representatives from five lender trade associations: British Cheque and Credit Association, Consumer Credit Association, Consumer Finance Association, Finance and Leasing Association, National Pawnbrokers Association. We did not interview the Consumer Credit Trade Association. The topics covered in the interviews were:

- Market size and trade association coverage
- The concept of a cap on the total cost of credit
- How a cap on the total cost of credit might be structured
- The level of a cap on the total cost of credit

- Profitability
- Problems said to be associated with these markets

The interview lengths ranged from 30 minutes (where the trade association submitted a written response prior to the interview) to over two hours. The interviews were voice recorded (with permission) and transcribed. We have conducted preliminary data analysis.

2.2 Lenders

Telephone depth interviews were conducted with 24 lenders, incorporating a total of 28 companies (one lender represented a group of five companies).¹ In the case of some larger lenders, the interview was conducted with more than one company representative to provide a range of expertise (e.g. chief executive, finance director, public affairs).

The lenders we interviewed were all members of one or more of the five trade associations mentioned above. They included a mix of large, medium and small lenders covering the following credit products:

- 9 home credit lenders
- 12 lenders that offered both pawnbroking and in-store payday loans
 - 2 also offered longer term instalment loans
- 6 online payday lenders
- 1 online instalment lender.

We did not identify any lenders that only offered in-store payday loans; these loans were always provided in combination with pawnbroking and often other services such as cheque cashing, money transfer and foreign currency. In cases where lenders offered pawnbroking and in-store payday loans, both products were discussed. With BIS's agreement, however, the interview focused more on payday loans than pawnbroking in relation to aspects of the business such as risk assessment and management.

The topics covered in the interviews were:

- Background information about the business
- Loan product details
- Customers
- Risk assessment and management
- Costs and profitability
- Capping the total cost of credit
- Default charges

¹ One lender submitted a written response to the questions in the topic guide.

The interview length ranged from 37 minutes to 2 hours 20 minutes; the average was 1 hour 30 minutes. This was considerably longer than the average 45 minutes we had anticipated. The interviews were voice recorded (with permission) and transcribed. Some lenders provided written information in advance of the interview; a number also sent further information after the interview. We have conducted preliminary data analysis.

3 Consumer survey

The Consumer Survey comprises telephone interviews (average length 20 minutes) which are being carried out by TNS-BMRB’s Telephone Unit using Computer Assisted Telephone Interviewing (CATI). A pilot survey of 88 interviews was carried out to test the questionnaire and survey methodology. Fieldwork for the mainstage survey is currently underway and we propose to conduct 1,500 interviews in total, broken down as follows:

Credit product	Target achieved interviews
Home credit	400
Pawnbroking	400
In-store PDL	350
Online PDL	350
	1,500

These sample sizes allow for some sub-group analysis within each of the four markets.

The customer sample for the survey was sourced from 14 lenders, including large, medium and small lenders. They were asked to provide samples of all customers who had had a loan in the two-year period 1st January 2010 to 31st December 2011. We decided on this reference period in discussion with BIS, in order to capture people’s experiences over time, in particular to give home credit customers the opportunity to have paid off a loan, as the typical loan period of 12 months is often extended due to occasional missed payments.

Running alongside the survey, we are conducting a small number of depth interviews (around 15) with customers, exploring their experiences in more detail.

3.1 Survey coverage

We have worked closely with BIS to develop a Consumer Survey questionnaire that will meet the objectives of the study. The Consumer Survey questionnaire covers the following topics:

- General views and attitudes towards the high-cost credit sector used
- Based on most recent loan taken out:
 - The decision to borrow

- Taking out the loan
- Shopping around
- Repaying the loan
- Satisfaction and self-reported impacts
- Other high-cost borrowing
- Financial circumstances and other borrowing
- Socio-demographic characteristics

3.2 Pilot survey

A pilot survey was conducted from 7 to 19 March 2012 to test (1) whether the customer details provided by lenders were accurate and up-to-date; (2) reactions to questionnaire content, length, and flow; (3) customer recall; (4) comprehension of individual questions. The customer samples for the pilot survey came from three of the 14 lenders who agreed to help with the survey.

The target number of achieved interviews for the pilot was 100; a total of 88 interviews were achieved. This shortfall was largely due to a smaller sample of pawnbroking customers than we had anticipated. The breakdown of the pilot interviews was:

Credit product	Total pilot sample	% of total	Target number of interviews	% of total	Achieved
Home credit	238	34	30	30	30
Pawnbroking	68	10	15	15	8
In-store PDL	197	28	27	27	27
Online PDL	198	28	28	28	23
TOTAL	701	100	100	100	88

The feedback from the pilot survey was largely positive, and the average interview length was 22 minutes. Following the pilot debriefing (attended by BIS) minor revisions were made to the survey questionnaire to improve the flow of questions and to reduce the average interview length. We also revised the two-year reference period, as we go on to discuss in the next section. The pilot interview data will be combined with the mainstage data wherever possible.

3.3 Mainstage survey

The mainstage survey fieldwork began on 3 April 2012 (as scheduled) and is due to finish on 18 May 2012.

The focus of the consumer questionnaire is their most recent use of the sampled high-cost credit product and use of other sources of credit over the past 12 months. In order to strike a balance between capturing experiences over time and accurate recall, and based on feedback from the pilot survey, we decided in discussion with BIS to restrict the mainstage survey to customers who have had a loan in the period from 1 November 2010 to 31 December 2011 (instead of 1 January 2010 to 31 December 2011). We chose 1 November as the start date to ensure that we capture customers who took out a loan in the run-up to Christmas, which we know to be a very common time to borrow.

Taking this into account, we have the final sample for the mainstage survey:

Credit product	Total sample	Number of lenders	Target achieved interviews
Home credit	2,695	6	400
Pawnbroking	2,600	4	400
In-store PDL	3,634	4	350
Online PDL	2,331	3	350
	11,260		1,500

Based on experience of similar studies, we calculate the number of achieved interviews to be in the region of 15% of the total issued to the TNS-BMRB Telephone Unit, which takes into account ineligible telephone numbers, non-contact and refusals. We are carefully monitoring the response rates for the mainstage survey and if necessary we can discuss with BIS the use of the remaining (older) sample to achieve the target number of interviews.

By close of play on 18 April, 569 interviews had been successfully completed. We will continue to provide BIS with regular updates on the number of achieved interviews.

3.4 Depth interviews

The quantitative data provided by the Consumer Survey will be supplemented by around 15 qualitative depth interviews with consumers who have used high-cost credit. The purpose of these interviews is to capture more detailed information about people's views and experiences of using high-cost credit, in particular the circumstances that lead them to use expensive forms of credit and the benefits and detriments that they experience as a result. In order to capture a range of views and experiences, some of these consumers (i.e. 7 or 8) will be identified through the Consumer Survey (we ask for consent to re-contact at the end of the survey interview) and some from CAB clients.

We have been working with two CAB in the South West of England to help us identify debt advice clients who have used home credit, payday lenders and pawnbrokers. We have so

far identified six eligible clients who are willing to participate in the research and are in the process of setting up face-to-face interviews with them. One interview (with a client who borrowed from an online payday lender) has been completed so far. The depth interviews with Consumer Survey respondents will be arranged in the next two weeks.

4 Wealth and Assets Survey (WAS) analysis

The aim of the WAS analysis is to identify the extent to which the use of high-cost credit impacts the financial well-being of individuals and households, a topic on which there is currently limited empirical evidence.

The financial well-being outcomes we are exploring in the analysis encompass financial difficulties (over-indebtedness and self-reported difficulties), levels of liquid saving and overall wealth. Although, implicitly, the analysis will test the hypothesis that high-cost credit is detrimental to customers in terms of those consumers' financial outcomes, the analysis is based on cross-sectional data only. As such, while it will indicate whether or not there is a relationship between high-cost credit use and financial well-being outcomes, it will not be possible to determine the direction of any effects (i.e. causal relationships) between high-cost credit use and financial well-being outcomes.

Permission to access and use the data was granted on 26 March 2012. We have undertaken the necessary data preparation and derived new variables to distinguish high-cost credit from the mainstream types of non-mortgage borrowing and construct a typology of borrowers based on these. Analysis for the first phase of the research has progressed well and preparation for the second phase is underway. Our initial analysis shows a spread of high cost credit use across the income distribution. As a result, we have concluded that the analyses are best conducted on the full sample (rather than limiting the analysis to individuals living in low income households). We will include income in our analysis as an additional explanatory variable that can be examined and controlled for alongside other socio-demographic characteristics.

PFRC and TNS-BMRB