Consumer Credit Association (Republic of Ireland)

Response to request for input for Central Bank of Ireland Consumer Protection Review 2017

October 25th 2017

Executive Summary

This document is a submission to the Central Bank of Ireland Consumer Protection Code Review for Licensed Moneylenders from the Consumer Credit Association Republic of Ireland (CCA ROI) which represents the home credit (licensed moneylending) sector in the republic of Ireland.

The home credit sector in Ireland comprises of 40 firms, ranging from single person operations and small family businesses (the majority of CCA members), through a handful of medium-sized firms, and one large firm (Provident). Some of these businesses have operated for the best part of half a century. These firms serve an estimated 120,000 home credit customers.

Home Credit products are straightforward. These are fixed-sum, fixed-term loans, with a fixed, all-in charge. If the customer misses a repayment, no extra charges are imposed for that miss. The fixed charge covers funding costs, the costs of arrears, the costs of documenting and processing the loan, regulatory and compliance costs, and the costs of the weekly agent visit.

UK research has shown that home credit customers and informed experts/opinion leaders differ significantly in what they consider to be important when considering home credit.

Home credit customers rankings (most important to least important) were:

(a) affordable

(b) home collection; convenience; easy to use; weekly payment

(c) quick/easy access

(d) fixed amount to pay

(e) cost (APR).

The informed expert/opinion leader rankings were

(a) APR

(b) affordable

(c) transparent

(d) quick access

(e) easy access

(f) home collection.

Before any additional regulation is considered for this sector we believe it is important to understand the views of these consumers and the reasons why they hold these views, including the rationality of their choice of home credit products, and their need to stay in control of their finances. These areas are discussed in detail throughout this document. CCA

ROI would like to reiterate our invitation to CBI staff to visit our customers with an agent to help in this regard.

Trust is a word used regularly by financial institutions in their marketing material. How these institutions treat their customers (consider the tracker mortgage scandal which is ongoing) suggests the term is overused. In the home credit sector trust is earned – customers earn the trust of their agent over time and agents earn the trust of their customers over time – based on how they behave. Agents tend to know the circumstances of their customers and provide recommendations based on those circumstances and on the trust that has developed. This helps to explain why home credit customers reported a satisfaction rating of 83% in the most recent CBI customer satisfaction survey (2013).

APR is used by many critics of home credit to show home credit products are too expensive. The cost of home credit is a factor of the relatively small loan size and the high service level required to administer and collect it. APR does not convey any information on loan size or service level. It is therefore not a suitable measure for home credit and can be misleading to the consumer.

All of the above is supported by academic research, independent reports and UK government reviews which are referenced in the main body of this document. This research provides results that are contrary to the generally negative assumptions and misleading commentary that impact moneylending in Ireland.

Based on the CCA ROI analysis we make the following recommendations:

- **Address illegal moneylending**
- **Reduce misinformation in the marketplace**
- **Eliminate the use of APR to measure home credit**
- **Scrutinise underlying data**
- **Educate MABS**
- **Reduce regulatory overhead**

Each of these recommendations, and the reasons they are important for consumer protection are detailed later in this document.

Background on Home Credit

General Description

Home credit is a system for providing small, short-term cash loans to consumers, many with average or lower-than-average incomes.

A typical loan is likely to be between €300 to €600, with initial loans being less than €500, repayable over somewhere between 21 and 52 weeks. The system is defined by the weekly visit by the agent to the customer's home. During this call, the agent will collect any repayment due and, if required, arrange to issue further credit.

The product is straightforward. These are fixed-sum, fixed-term loans, with a fixed, all-in charge. If the customer misses a repayment, no extra charges are imposed for that miss. The fixed charge covers funding costs, the costs of arrears, the costs of documenting and processing the loan and the costs of the weekly agent visit.

Although these are ostensibly fixed-instalment contracts, the system is, in practice, operated very flexibly. If the customer has a problem repaying, the agent can informally agree - on the spot, or with agreement from the office - to either allow a missed payment or allow a reduced payment. When any loan is rescheduled in this way, there is nothing extra for the customer to pay. Missed instalments are often paid at the end of the contract term, effectively stretching the overall repayment period. Some customers prefer not to leave things this long and suggest paying a little extra each week to get their account back on track so debt does not build up. The technical effect of allowing misses (and reduced payments) without charging for them is that the real cost of the credit falls.

Estimates suggest that the Irish moneylending sector regularly serves up to 120,000 customers in the home credit market with up to 230,000 catalogue customers.

Home credit complies with the information requirements of Irish credit law. These stipulate key disclosures in a set form for every loan. These include a pre-contract notice (the Standard European Consumer Credit Information form) which sets out APR, the sum borrowed and the cash amount of charges. Customers must also sign a written contract, again including APR, and amount of loan and cash charges. Agreements also include various statutory warnings.

It is normal for home credit firms to also provide each customer with a payment card or book. The details of the loan are entered in this, and as payments are made, the agent will record them in the payment book/card.

Customers have very good relationships with their agents and also like the certainty and control that the home credit system provides. In particular, because charges are fixed, customers always know how much they have to repay. UK Home Credit operates in the same way as in Ireland and in her written evidence to the UK Competition Commission in 2005, Professor Elaine Kempson noted that:

'Just about every home credit customer we have ever interviewed knows the total cost of borrowing - unlike the generality of credit users. They do not know the APR on their loan and nor can they easily compare costs from different lenders. But work we are currently undertaking for the <UK> Financial Services Authority for a base-line survey of financial capability shows that this is true of the great majority of credit users too. They have repayment books that contain terms and conditions and details of how much they have repaid. Many other borrowers do not receive regular statements on fixed rate fixed term loans and terms and conditions tend to be lost over the lifetime of the loan'.

Professor Kempson was a member of the Central Bank of Ireland Consumer Advisory Group until November 2016 (source: CBI Website, advisory groups page, https://www.centralbank.ie/regulation/consumer-protection/advisory-groups).

It is important to distinguish Home Credit from Payday lending. For instance, repayments on internet-based payday (the main form) are all made electronically. And if a payment is missed, the payday customer will incur an extra interest charge plus a default charge. Payday lending operates in the UK but is not licensed in Ireland.

Appropriate evaluation of high-cost (lower-income) markets should begin with in-depth focus on customer needs and preferences and detriment should be assessed against the countervailing value of those needs and preferences

It is important to understand what 'good' looks like for consumers. Focusing exclusively on the apparent problems of a product - and on how to regulate against them - can cause policy thinking to overlook the valid and important reasons why consumers chose that product in the first place.

A 2011 UK Consumer Focus study, '*Making ends meet': the costs and implications of money-management for low-income consumers'*, Page 5 showed that consumers do know products have downsides (which can include higher prices) but choose to trade these off against the other advantages those products offer:

'A consistent feature of our research findings is that low-income consumers' choices are based on an active weighing up of the costs and benefits of the products they consider available to them. Often this means having to make difficult trade-offs between cost and other priorities, given the limited choices on offer. By choosing sound financial management with the aim of avoiding debt, low-income consumers' priorities can result in expensive choices.'

We therefore consider that the reasons why consumers choose some products over others constitute important markers in establishing what good looks like for consumers.

'Good' should be defined primarily by whether consumers can access products that meet their needs and preferences in ways they find helpful and useful

Research over the last two decades shows that lower-income consumers have clear, strikingly consistent views on what they look for in a credit product. These include, for instance, aspects such as accessibility, straightforwardness, flexibility and trust. There is a strong case for saying that if large groups of consumers express the same clear preferences, those preferences must, to some degree, indicate what 'good' should look like. The case is even more compelling when those preferences chime strongly with accepted, long-standing regulatory positions on matters such as the need for forbearance, clarity and so on.

The 2011 UK Consumer Focus study reinforced the existence of these types of preference across a range of products, including not just credit, but also broadband, telephony and energy.

UK Consumer Focus found that lower-income consumers actively weigh up costs and benefits and make conscious trade-offs between cost (a detriment) and other priorities as a way of keeping their household finances under control:

> ***'The precariousness of low-income consumers' finances and personal circumstances means that they often have to prioritise control (predictability, without hidden fees or penalty charges), clarity (easy to understand terms and conditions) and convenience (easy access and limited barriers) over long-term cost. Unlike more affluent consumers, they cannot afford to take the risk of the fees and penalty charges for missed payments that come with more mainstream products. Instead, many low-income consumers rely on more expensive payment methods and financial products, such as cash, certain types of credit (e.g. home-collected credit, payday loans) and prepayment meters (PPMs), which are better suited to their priorities for day-to-day money management.'***

Regulation which disrupts the supply of a product, or interferes with the way a product works, even though well-intentioned, may therefore nevertheless operate against the interests of lower-income consumers.

This all runs counter to conventional wisdom on these matters. Historically, this has tended to assume that lower-income consumers have to be protected from themselves and that these types of intervention are the correct way to do that.

In contrast to this view, serious researchers in the field have routinely reported on the nous and resourcefulness of this group of consumers, praising their money management skills, which the researchers consider to be much superior to the skills of consumers on middle incomes.

A problem, therefore, may be in visualising the issues that are truly of concern. Without first-hand experience of living on a low income for a long period, it can be very difficult to fully grasp the altered budgeting priorities that apply and the radically different approach to money management that is called for.

In 1999, Opinion Leader Research, commissioned by Provident in the UK, conducted some twin-track research. As an element of this, the researchers asked 1,000 customers about their view of the relative importance of the various home credit product features. The same question was also asked of 100 informed experts (i.e. people with a professional interest in home credit or in lower-income credit systems) and 105 opinion leaders (e.g. from politics, think tanks, the City and the media).

The customer rankings (most important to least important) were:

(a) affordable

(b) home collection; convenience; easy to use; weekly payment

(c) quick/easy access

(d) fixed amount to pay

(e) cost (APR).

The informed expert/opinion leader rankings were:

(a) APR

(b) affordable

(c) transparent

(d) quick access

(e) easy access

(f) home collection.

In their 2005 study, Meeting the Credit Needs of Low-Income Groups: credit unions -v- moneylenders, Byrne, McCarthy and Ward reference Kempson et al., who agree consumers are attracted to moneylenders because of the weekly manageable repayments, quick non-bureaucratic access, simple and easily understood products, no hidden charges, a flexible and sympathetic approach to repayments, and a close relationship with the lender.

The upshot is that, in considering whether or not to intervene in lower-income credit markets, policy makers need to have accurate, well-informed perceptions of what is likely to work for consumers and what is not.

Problems of terminology

Terminology can be a problem in the policy debate. Words used by commentators and policy makers can carry a quite different meaning when used by lower-income consumers. The risk is that misunderstandings over meaning interfere with accurate policy analysis.

'Trust' is one such word. In the world of middle-income credit, over-use of this phrase (by lenders) has tended to devalue it and it would be rare to hear a customer use it.

But to a home credit customer, 'trust' carries a detailed, intensely-felt meaning. Customers insist, for instance, that trust is earned. They also have very clear ideas about what it involves. Can the agent be trusted to look favourably on any future request for credit? Can the agent be trusted not to pressure or overload me? Can the agent be trusted to be sympathetic and helpful if I struggle to repay?

Another important term is 'affordable'. Commentators usually take this to mean credit that carries a moderate APR.

But for lower-income consumers, 'affordable' denotes credit that is manageable, in the sense that they can handle the instalments as they fall due. Manageability can therefore be a function not only of the amount borrowed, but also of the periodicity of instalments (a more frequent instalment will be a smaller instalment).

In its 2010 report 'Mainstreaming financial inclusion: planning for the future and coping with financial pressure: access to affordable credit', the UK Financial Inclusion Taskforce said:

> *27. Effective credit control procedures are also essential, and even some high cost lenders have failed for this reason. Furthermore, decisions will need to be taken on where exactly the limit of the definition of 'affordable' should be when providing credit opportunities to low-income households.*
>
> *28. Affordability in this context is not based on overall price. It is inherently expensive to lend to this market, and the question is over how that cost is met and by whom. In looking at any product which seeks to extend provision beyond the current reach of Growth Fund, careful consideration should be given to how well the features of the proposed product match the features that low-income households want.*

Behavioural bias

The long-standing criticism of lower-income consumers has been that their credit choices are so expensive that their behaviour must be irrational.

A steadily-growing body of comment suggests that, in fact, those choices are probably more rational and more informed than most commentators have tended to assume.

For example (from 'Home credit Market Investigation - Final Report', Competition Commission, November 2006):

> *3.27. In our Emerging Thinking we said that 'the price of home credit, whether expressed by APR or TCC, appears to be high in comparison to other forms of credit'. None of the evidence we have seen has significantly altered that view. We therefore continue to believe that home credit is more expensive than other credit products.*
>
> *3.28. However, this does not mean that where the customer has the choice of other products it would always be rational to take the lower-priced product. The characteristics of home credit (notably home collection, the facility to miss payments*

without penalty and the absence of hidden charges) are very different from those of any other credit product, and may be of considerable value to some customers. For example, we consider that it would be rational for a customer who expects to have an uneven repayment record not to choose a product which imposes charges for missed or irregular payments. A customer who does so and suffers unexpected penalty charges is unlikely to do so more than once, given alternative options.

And (from UK 'FCA Occasional Paper No.8 - Consumer Vulnerability', FCA, March 2015):

'The research found that the streamlined systems approach of many firms do not respond well to the fact that vulnerability can affect us all, and we may all experience challenging life events and circumstances. Many financial products, services and systems seem not to be designed to respond to inevitable vulnerability. The research found that many consumers in vulnerable circumstances feel that services have become streamlined, designed for the 'perfect customer', and do not meet the needs of non-standard consumers who do not fit the mould or whose personal circumstances may have changed. Indeed, many of the negative outcomes uncovered by the research appear to be unintended consequences of this streamlining, which cannot flex when put to the test. The vast majority of consumers approach firms in good faith, not expecting charity, but needing support and flexibility, or a greater degree of sophistication and willingness to engage. In fact they find that they struggle to make services and products 'work' for them

Staying in control

The strong human impulse to remain in control of one's life sits at the core of this debate. Feeling in control helps emotional well-being; conversely, loss of control can be distressing and harmful.

Credit products and simple deposit savings products can assist consumers in achieving this control. This is because each of these products can cushion a consumer against financial shocks or unanticipated expenditure.

However, the less affluent you are, and the tighter your budget, the fewer the products you can safely use in this way.

The contrast can be striking. Someone on a middle income might typically have savings, an overdraft facility and hold at least one credit card. By creating a financial cushion, each of these products can help insulate that consumer from unforeseen financial shocks. In the case of the overdraft and credit card, this cushion (as an undrawn balance) is semi-permanent.

Home credit users are in a different position. Drawn mainly from socio-economic groups C, D and E in roughly equal proportions, most are on average or lower-than-average incomes. Only a minority use credit cards and overdrafts; most quite rationally reject these products as too tricky to control on a tight budget.

So while the urge to remain in control is just as strong for home credit users, in practice there are likely to be far fewer routes for them to achieve that control.

Control and the long-term availability and use of home credit

This is why, for this group of consumers, long-term availability - and use - of home credit is a rational choice. Maintaining a 'line' of home credit is a logical and straightforward way to help them stay in control. In effect, our customers deploy home credit as a hybrid. For them, this is fixed-sum credit (with all the discipline and control that entails) with the possibility of long-term use.

This excerpt from the 2011 UK Consumer Focus report 'Making Ends Meet'- which looked at various services including credit - reinforces this point:

> *'Coming through our research are clear and consistent priorities that inform low-income consumers' choice of financial products and services. These are control, predictability, convenience and clarity…'*

As mentioned above, long-term availability of home credit does not necessarily imply that a loan must be outstanding at all times. Many customers dip in and out, just as some people only borrow on their credit cards from time to time. But they want to keep a relationship with their agent, so that if they do need to access credit, the process is much more straightforward.

'Home credit customer research' by NOP World for the UK Competition Commission in 2005 offered some quantitative insights. Multiple choice questions were asked of the two thirds of home credit users who said they would only go back to their current - or most recent - lender to borrow again.

The second and third most frequent reasons were:

> *'It saves you having to find another lender you can trust' [87%] and*
>
> *'It saves you having to build up a good credit record with another lender' [74%].*

The most frequent reason, at 97%, was: '*You are satisfied with the service you get from them'.*

Alternatives to home credit unlikely to offer sufficient control

Some critics say that, because of its cost, home credit can never be part of the solution and that this is why it should not be used long term.

This thinking does not delve sufficiently deeply. A fully-developed analysis would consider why less well-off consumers place a higher priority on security of supply than on cost of supply.

The interests of consumers are not served by pushing them towards low-APR products (in the name of saving them money) if - because of the way those products are structured and operated - they quickly fall into default (i.e. lose control).

2011 UK Consumer Focus report 'Making Ends Meet' described the policy analysis dilemma between affluent and lower-income consumers in this way:

> *'Unlike more affluent consumers, they cannot afford to take the risk of the fees and penalty charges for missed payments that come with more mainstream products. Instead, many low-income consumers rely on more expensive payment methods and financial products, such as cash, certain types of credit (e.g. home-collected credit…) and prepayment meters …which are better suited to their priorities for day-to-day money management.'*

Commentators often assume that low-cost, viable alternatives do already exist and that it is simply a matter of home credit users moving across to those products.

The UK Financial Inclusion Taskforce, chaired by Sir Brian Pomeroy, was more circumspect. The Taskforce had been studying these issues for five years when it said in its 2010 report *'Mainstreaming Financial Inclusion'*:

> *'…care should be taken to learn from past experiences of what [has] and has not worked. In particular, attempts to create sustainable lending initiatives without taking into account the well-evidenced costs of serving this market, or the product features that are important to the target borrowers should be viewed with caution…'*

Understanding the language of control and the importance of the word 'trust'

Customers rarely talk directly about their need to remain in control. They instead convey this powerful preference through words and phrases that describe aspects of control. These include *'trust'*, *'easy access'*, *'easy availability'*, *'affordable'*, *'not pressuring people to borrow more than they can afford'* and *'sympathy and flexibility'.*

'Trust' warrants closer scrutiny because it usually carries the simple meaning of being able to rely on or have confidence in a person.

Many types of business use the word 'trust' in their marketing: *'quality you can trust'*; *'information you can trust'*; *'banking you can trust'*. However, these are often empty claims. This over-use has tended to devalue and hollow out the original sense of the term 'trust'.

By contrast, in home credit 'trust' carries a more detailed, more intensely-felt meaning and it helps to explain how relationships can build and continue over the longer term.

Customers insist trust is earned. They also have very clear ideas about what it involves. Can the agent be trusted to look favourably on any future request for credit? Can the agent be trusted not to pressure or overload me? Can the agent be trusted to be sympathetic and helpful if I struggle to repay?

Customers evaluate whether they can trust the agent as they get to know him/her during the weekly home visits. As the UK Competition Commission observed in its 2006 *'Home credit market investigation'* Final Report. Just as the agent is assessing the customer's 'character', the customer is also assessing the agent:

> *'…agents not already known to a customer [were unable] to convey their reliability to that customer (see paragraph 7.31 - this is significant because of the importance which customers attach to a relationship of trust with an agent)'*

So when a home credit customer says that he or she 'trusts' an agent, this is shorthand for saying that 'this agent has demonstrated to me that she is reliable in terms of (a) future access to credit (b) not pressuring or overloading me and (c) being sympathetic and helpful if things go wrong'.

Researchers have noted that customers tend to stop using agents they do not trust:

> *'There were a few callers [agents] that people did not like because they were pushy. By and large, they soon stopped using them in preference to more pleasant and less pushy callers. This seems to be confirmed by other research which shows that most people who are unhappy with their collectors generally stop using them (Kempson et al 1994)'*

'Moneylenders and their Customers' Rowlingson, Policy Studies Institute, 1994. The researchers went on rounds with 8 home credit agents (from 6 firms) and observed around 500 customer interactions. Qualitative interviews were conducted with 31 customers.

The UK Competition Commission's 2006 'Home credit market investigation' final report includes further key insights into what home credit users mean when they talk about trusting agents and the impact trust can have on building a relationship that runs over the longer term:

> *'7.31. The second factor is home credit customers' requirement for a home collection service operated by an agent they can trust. It is the defining characteristic of home credit that agents visit regularly (see paragraph 2.19) to make collections. We consider that it is rational for them to seek to establish good relationships with their customers and to use the regular contact to assess those customers' circumstances and creditworthiness. But the development of this relationship has competitive consequences. It is important to customers that agents call regularly and can be trusted to treat the customer sympathetically (for example, when payments are missed or when new credit is needed—see paragraph 6.115). A lender or agent cannot communicate trustworthiness to a customer without a track record.'*

And:

> *'6.115. By taking a loan from an incumbent lender, a customer is continuing with an established relationship of trust. We were told that it was important to customers to be able to trust their agent to call regularly every week, to ensure the discipline of weekly payment. Another dimension of this trust was the expectation on the part of*

> *the customer that the agent would respond in a reasonable fashion, if the customer missed an occasional repayment due to unforeseen circumstances. The NOP report found that, of customers who said that in future they were likely only to take a loan from their current lender, 87 per cent cited as a reason that doing so saved them from having to build up a relationship of trust with someone else (see Figure 6.9).'*

'A lender with a longer-standing relationship - which may also mean a record of larger loans to the customer - can be expected to have better knowledge of the customer's circumstances and creditworthiness, and may have a longer and deeper relationship of trust. In some cases, therefore, one incumbent lender may be in a position to offer more credit than the other, which may be a significant advantage.'

The UK Competition Commission has, by UK law, to view matters through a competition prism. This means that it tends in practice to focus more on price and on mechanisms such as switching that can influence price. So even though the UK Competition Commission understands non-price preferences (see the analyses above and immediately below) its inquiry process can often underplay them, as this excerpt shows:

> *'We do not believe that customers' observed lack of price sensitivity necessarily means that they are irrational in the choices they make. If other features of a particular lender's home credit product - for example, immediate availability, weekly affordability or trust in the agent - are more important than price for many customers, it is rational not to choose a different product which, in the absence of these considerations, might appear to offer better value for money.'*

APR and its use for short-term lending

As already noted, some critics perceive home credit as too costly to be used long-term. Many of these critics form their views on relative cost by simply comparing the APRs for home credit with those for mainstream credit.

When it comes to relative cost (and relative value for money) this approach may not be valid. This is because a true economic comparison must factor for relative average loan size and relative product service levels. APR conveys no information on either aspect. APR therefore cannot signal that - relative to mainstream credit - home credit loans are very small, often below the minimum amount a mainstream lender would lend, and service levels (which include weekly home collection) are very high.

APR sends no signals on default charges either, since these are excluded from the calculation. Most mainstream lenders charge for missed payments; home credit does not.

The UK Competition Commission was aware of the shortcomings of APR and had this to say:

> *'…They require the use in advertisements of APR, which appears high for many home credit products, but is a poor measure of the cost of a home credit loan…'*

It is not disputed that Moneylending loans are more expensive than some other forms of credit (this is examined in the next section) but we do wish to highlight the use of APR as a comparator for credit whose terms are less than one year is extremely misleading. In their 2005 study, Meeting the Credit Needs of Low-Income Groups: credit unions -v- moneylenders, Byrne, McCarthy and Ward identified (on page 27) this was even accepted by IFSRA:

> *"While the Irish Financial Services Regulatory Authority (IFSRA) stated that APR may not be a good measure of the cost of a moneylending loan, moneylending loans prove to be very expensive when compared to loans from other financial institutions."*

The price of lower-income credit

Lower-income cash credit has drawn criticism over the years for what many see as its unacceptably high charges.

The costs of small-sum credit are, however, not dictated by profiteering. Instead, they are largely driven by simple economics, as these remarks by Professor Phelps (in 'The social control of consumer credit costs: a case study' Clyde William Phelps University of Southern California, 1951) explain:

> *'…The social agencies which took the initiative in developing the Uniform Small Loan Law, as well as the legislators who enacted it into state legislation, realized the unavoidable cause and effect relationship between size of loan and percentage rate of charge. Now, as then, very small loans and very high rates inevitably go together. So do small loans and moderate rates. And so do large loans and low rates.*
>
> *This relationship is inescapably true no matter who is the lender - whether commercial bank, industrial or Morris Plan bank, industrial loan company, credit union, or consumer finance company. The smaller the average loan made, the higher must be the percentage rate charged to cover expenses because many of these expenses are the same in dollar amount regardless of the size of the loan...'*

Most lower-income 'high-cost' credit is sold in small quantities because that is the unit size that customers demand and can handle.

It is possible therefore to argue that these credit systems are only 'high-cost' in the sense that a three-pack of 225g tin of beans is 'high-cost' relative to, say, a pack of 4 standard 420g cans. The per-kilogram price of the three-pack of small tins is €3.84 whereas the four-pack is €1.67 (Prices from Tesco Ireland website www.testco.ie, September 2017).

Since credit is essentially about deferring payment, some further complications do also apply. For instance, repayment frequency and method of repayment affect price because they have an impact on the lender's costs.

So, for instance, a weekly-repaid loan carries a higher processing cost than a monthly-repaid credit. And a home-collected loan carries higher costs than a remotely-repaid credit. However, in both instances, the higher cost delivers the customer a higher measure of control and manageability, which feeds through into lower risk. Weekly repayment and home collection both make the loan easier for the consumer to handle, combining smaller instalments with a regular routine and discipline imposed by the weekly call

The important economic point is that these are all relatively small-sum products. The comparative cost (i.e. cost per kilo or cost per € borrowed) of any product sold in small quantities will always be higher because fixed costs do not vary.

CCA Recommendations

The following sections detail the CCA ROI recommendations to improve consumer protection related to home credit in Ireland.

RECOMMENDATION 1: Address illegal moneylending

Many items are conspiring to provide more favourable conditions for illegal moneylenders to operate in. These include:

- The costs of running a licensed moneylending firm are increasing rapidly due to the level of regulation, especially the introduction of the CCR. These costs will have to be passed to the customer, helping to drive them towards illegal moneylenders who can offer lower rates, because they do not adhere to the law.
- Regulations require licensed moneylenders to request and store specific documents from customers. Apart from the administrative overhead our customers are increasingly unhappy to provide so much information. As a result they are turning to illegal moneylenders who do not demand these documents, because they do not adhere to the law.
- Introduction of the CCR will force some small licensed moneylenders out of business because they cannot comply with the technical requirements of the systems. This opens the door for illegal moneylenders.

Even though the Central Bank of Ireland regulates moneylending in Ireland, the bank does not address any issues related to illegal moneylenders.

The Garda Siochana are responsible for upholding the law. However, whenever an illegal moneylender is reported to them they do nothing about it. They have stated that the sums involved are not large enough for their fraud squad to become involved.

As people who adhere to the law and the regulations, we cannot understand that people who ignore the law and the regulations are in turn ignored by the regulator and the Garda Siochana.

The people losing out are the customers as there is no control over what an illegal moneylender will charge, or what they will do if they are not repaid.

We recommend the Central Bank works with the Garda Siochana to set up an illegal moneylending task force to identify and prosecute illegal moneylenders. The funds seized from these illegal moneylenders could be used to fund the operation, as it does in the UK.

RECOMMENDATION 2: Reduce Misinformation.

Competitors who issue inaccurate and misleading statements be taken to task by the Central Bank of Ireland Consumer Protection Section.

The Central Bank of Ireland report on the licensed moneylending industry published in November 2013 identified some key statistics related to customers of licensed moneylenders:

- 83% were satisfied with the service provided
- 83% trusted their agent to give them good advice about borrowing money
- 90% said they were treated fairly when payments were missed
- 84% knew the cost of credit and 72% knew the APR being paid

Even with these strong customer satisfaction measures from a reputable source, and the fact that a previous survey in 1997 had similar findings, the Irish public is faced with misinformation relating to moneylending.

For example: On November 25th 2015 the Irish League of Credit Unions published its 2015 Moneylender Research. This research was all from Northern Ireland with no data from the Republic. The report highlighted 84% of moneylender customers who were "unaware of the interest rate/APR being charged" and Interest rates as high as 885% on "moneylender payday loans".

As we can see from the CBI report on moneylending these figures do not represent the Republic of Ireland however at the conclusion of the report, Brian McCrory President of the Irish League of Credit Unions comments on moneylenders in general. This statement is shown below.

"Moneylenders and pay day loans companies are predators to those struggling financially. They offer almost immediate access to quick credit, but lurking in the small print are staggering interest rates that often result in those who can least afford it paying back nearly twice what they borrow, or worse still, getting caught in a cycle of debt that they cannot get out of. It is very worrying to see that 84% of respondents with experience in borrowing from a moneylender reported that they did not know the APR they paid on their loan."

Unfortunately every part of this statement is inaccurate and misleading, as the facts below highlight.

STATEMENT	FACT
Moneylenders and pay day loans companies	Pay day loans are not available in Ireland
are predators	Licensed moneylenders run legitimate businesses under strict regulation from CBI. If a customer wants a loan they can contact us to request one but we do not pursue them to take out loans
to those struggling financially	Any person who contacts us for a loan will be checked and either accepted or refused based on their credit circumstances – we do not discriminate and we do not target people who are struggling financially
They offer almost immediate access to quick credit,	This is a feature of the service which we note is something being advertised by Credit Unions now when they state "immediately consider your application for the *"It Makes Sense" loan*" and "loans can be granted quickly"
but lurking in the small print	Moneylenders are legally required to present their interest rates and APRs in a simple and obvious way on all documentation
are staggering interest rates that often result in those who can least afford it paying back nearly twice what they borrow,	Payday APR rates are referenced which do not represent the cost of Irish moneylending credit. The highest cost of credit charged by a moneylender in Ireland for a 52 week loan is 56%.
or worse still, getting caught in a cycle of debt that they cannot get out of.	Unlike Credit Unions, moneylenders in Ireland do not provide loan top-ups.
It is very worrying to see that 84% of respondents with experience in borrowing from a moneylender reported that they did not know the APR they paid on their loan	According to 2013 CBI report 72% of respondents in Ireland know the APR.

RECOMMENDATION 3: Eliminate the use of APR for short term credit.

We recommend the use of APR be replaced with the actual interest rate and Total Cost of Credit as these are more meaningful and representative of the reality of moneylending. They are also much more easily understood by the consumer.

APR are quoted in newspaper articles and other publications with the term "Interest Rate" when describing moneylending rates. Although the APRs quoted are accurate, they do not represent the interest rate. These quotes are misleading to the public.

As an example, Charlie Weston, Irish Independent November 17, 2016: "Licensed moneylenders are allowed to charge up to 188pc interest".

It has been made clear by the "Home credit market investigation", <UK> Competition Commission, Final Report, 30 November 2006, that APR is not a valid measure of moneylending rates:

> *"…They require the use in advertisements of APR, which appears high for many home credit products, but is a poor measure of the cost of a home credit loan and not generally one which customers understand or value…"*

And

> *"6.72. Moreover, there are specific issues related to home credit which make price comparisons difficult. We were told, and the AIA research confirmed, that when considering the price of a loan customers preferred to look at weekly repayments (in order to assess affordability) or TCC. Where loans are for different periods, comparisons based on these measures may not tell the whole story. The APR is designed to enable fair comparison between loans of different lengths and payment profiles. However, lenders have told us, and we agree, that the APR has significant limitations not only for comparing different credit products but also for comparing home credit loans of different lengths (see Appendix 3.1). APRs, especially for shorter-term home credit loans, can be very high. We do not consider that the APR is a useful comparator for customers, when it is at such high levels. With APRs above 100%, customers may be able to tell that a particular APR is greater than another, but the APR conveys little further useful information".*

And

> *"We found that assessing the price of a home credit loan was complicated by the absence of a single measure of price and by the weakness of the annual percentage rate (APR) as a measure of price for home credit loans. We considered the total charge for credit (TCC) to be a better price measure for home credit loans than the APR, especially for loans of less than a year…"*

If it is not possible to replace APR with more appropriate measures, we recommend the Central should publish a consumer guide to help consumers to understand how to properly compare products and to understand how much they will repay. This could also be useful for the media to understand the difference between APR and actual interest rates.

RECOMMENDATION 4: Scrutinise underlying data.

When reports are published or statements are made the CBI should examine the underlying data on which they are based to better protect consumers. It is too easy to take statements at face value and produce policy based on this even when the results may not serve the consumers. The Credit Union report above is a perfect example of this.

Various bodies make statements and publish reports without releasing the underlying data on which these statements and reports are based, or the methods for gathering or calculating such data.

RECOMMENDATION 5: Educate MABS

Moneylenders provide unsecured loans to consumers. This means the risk lies with the lender so moneylenders do their utmost to confirm the information provided to them relating to affordability.

However, some customers provide inaccurate information on applications and receive a loan because facilities in Ireland for checking credit ratings are deficient. Some customers simply refuse to pay their loans, sometimes without making any repayments at all.

Some customers borrow funds and then approach MABS to ensure their debts repayments are reduced to almost nothing or eliminated altogether. In these cases we consider the loan application to be fraudulent as the customer obviously never intended to pay anything. In these cases MABS appears to not scrutinise the behaviour of the customer or their obligation to repay their loans.

We recommend MABS staff be properly trained to scrutinise the behaviour of their customers so they can provide better advice on their obligations to other service providers. If MABS does not do this they are misleading the consumer into bad debt and a poor credit record.

RECOMMENDATION 6: Reduce Regulatory Overhead

The rates charged by almost all licensed moneylenders in Ireland have not changed in many years. Unfortunately due to the increasing administrative costs being incurred as a result of ever-increasing regulatory demands many Moneylenders will be increasing their rates in the coming year. This will adversely impact our customers. The following recommendations would help to reduce the administrative overhead on moneylenders, therefore helping to avoid price increases to consumers.

Recommendation 6a: Eliminate the need for loans of less than €2000 to be registered in the Central Credit Register

The following is an extract from a 2017 letter to CBI from CCA regarding the central credit register, which explains this recommendation:

Home Credit Customers will face increased charges due to the massive upward pressure on overheads in order for member firms to comply with the administration of the CCR. Significant increases in recurring technical and personnel costs which cannot be avoided, are inevitably going to have be passed onto the consumer. These added overheads particularly affect smaller member firms who do not have the operational base to absorb cost increases.

While all member firms are loath to have to apply for justifiable increases in charges that effect their customers, they would like to point to the fact that the vast majority of increased costs in the last 5 years, and expected recurring costs going forward, are directly attributable to compliance and regulation.

A section of members will be forced out of business, causing them to lose their livelihood, due to the level of computerisation necessary to manage the requirements.

In addition to the costs, our customers and members stance on payments missed is very different to other sectors. This will not be reflected in the current format of the CCR. The home credit industry protects customers, based on their changing circumstances at the time, through informal arrangements such as reduced payments and loan restructuring. Because of the CCR such customer accommodations may lead to a customer's "credit rating" being adversely affected. We strongly believe this will be detrimental to our customers.

Recommendation 6b: Extend the moneylending license period from 1 year to 5 years.

The annual effort to apply for a license takes significant time, increasing overheads. As the information presented during the license application changes very little each year it would be possible to extend this period with little or no adverse impact. If the period of the license was increased this overhead would be reduced, and the necessity to increase costs to the consumer would be reduced.