

# HOME CREDIT MARKET INVESTIGATION

## Price comparison website—Tender Discussion Document

### Contents

	<i>Page</i>
Introduction .....	1
The tender process .....	2
Legal structure .....	2
The CC's framework for evaluation.....	3
Website operator requirements.....	3
Basic requirements .....	4
Technical.....	5
Service levels.....	5
Monitoring info .....	6
Legal .....	6
Industry background .....	6
The product.....	7
The companies .....	7

### Introduction

1. The Competition Commission's (CC's) report on its investigation into the home credit market, which was published on 30 November 2006,<sup>1</sup> set out a number of remedies for the home credit market. One remedy involves the publication of price information on a website for home credit and related products. The purpose of this document is to consult on the most appropriate basis and process for implementing this remedy.
2. The website will provide information to enable home credit customers and other interested parties (users) to make price comparisons but is not intended to be used as a mechanism for purchasing credit (CC report, paragraph 9.71). The website will also provide information for users as listed in the CC report (paragraph 9.68) and in paragraph 22 below, to enable users to compare and differentiate loans, understand their rights and assist their search for relevant and accessible alternatives.
3. The CC proposes to conduct a tender inviting bids for the set-up and ongoing operation of a price comparison website for home credit. The largest home credit companies will be required to pay for the set-up and ongoing operation of the website (see paragraph 9.73 of the report and paragraph 10 below). To be approved by the CC, the successful website operator will need to be independent of the home credit market and have the appropriate expertise and financial resources to run such a website effectively (see paragraphs 15 to 18).
4. All home credit lenders will be required to provide information for publication to the approved website operator regarding all their available home credit loans unless fewer than 100 loans of the sale type have been made within the previous 12 months, in which case there will be an exemption for this product. This exemption will

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<sup>1</sup>This report is on the CC website at [www.competition-commission.org.uk/rep\\_pub/reports/2006/517homecredit.htm](http://www.competition-commission.org.uk/rep_pub/reports/2006/517homecredit.htm).

have the effect of exempting some of the smallest home credit companies from providing any information to the website operator.

5. Advertisements, payment books, statements, flyers and direct mail sent or provided by home credit lenders in relation to home credit loans will be required to include a prominent reference to the website.
6. This paper outlines and invites views on the proposed tender process, the proposed arrangements between the website operator, the home credit companies and the CC/OFT (paragraphs 10 to 14), how the CC will evaluate bidders for the purpose of satisfying its requirements for approval (paragraphs 15 to 18), and the provisions which we are considering including in the invitation to tender for the website operator (paragraphs 19 to 41). In addition, this paper provides a summary of the home credit market for respondents not previously involved in this inquiry. However, there is significantly greater information regarding the home credit market contained in the CC's report.
7. Views are invited in response to this paper by **14 March 2007**. In particular, interested parties are requested to comment on the requirements for the website operator, the arrangements for website operation and parameters for website performance. Respondents should note that the requirements set out in the CC's report are not open to further debate. This consultation is concerned with the most appropriate basis and process for implementing these requirements.

## The tender process

8. Table 1 outlines the proposed stages in the tender process.

TABLE 1 The three-stage tender process

<i>Stage</i>	<i>Activity</i>	<i>What is involved</i>	<i>Timing</i>
1	Tender discussion document	CC publishes and parties respond to the tender discussion document	February/March 2007
2	Invitation to tender	CC assesses the responses to the tender discussion document and meets with relevant parties. CC prepares and publishes the invitation to tender	March/April 2007 March/April 2007
3	CC evaluation and approval	Website operators respond to the invitation to tender. CC evaluates and approves website operator	May–June 2007

9. Following responses to this paper and meetings with potential operators, home credit lenders and other relevant parties, an invitation to tender will be produced. In particular, we will expect to hear from and consult with the largest home credit lenders and other interested parties before we prepare the invitation to tender document.

## Legal structure

10. As stated in the CC report, the website operator will be approved by the CC and will be remunerated by the largest home credit companies (those companies with over £10 million in home credit turnover and over 200 agents). The website operator will have a contractual relationship with the largest home credit companies, who will be required to pay for the website. However, the operator will be required to be independent of, and free from influence by, the home credit companies.

11. The arrangements for ensuring that the details of available home credit loans are published and that the cost is met by the largest home credit lenders is subject to further discussion. Lenders will be required to supply information for publication to the approved website operator.
12. All home credit lenders will be required by order to provide information to the approved website operator for publication of details of all loans other than excluded products. There may be a requirement for this information to be confirmed every three months. We envisage that home credit lenders will update the information as the loan terms change and that the operator will remove details of a product from the website if any lender fails to confirm the accuracy of the details. If the home credit lender is offering relevant products that are not contained on the website or if the information provided to the website operator is inaccurate, then the home credit company will be considered to be in breach of the requirement. As explained in paragraph 4 above, there is an exemption for the obligation relating to products in the event that fewer than 100 loans of the same product were made in the previous 12 months will be excluded from this requirement.
13. The OFT and the CC will have monitoring and enforcement powers as well as the power to withdraw the approval of the website operator in certain specified circumstances.
14. We would expect the arrangement with the approved website operator to last for an initial period of five years with the possibility of renewal after the initial period, if required, subject to satisfactory performance.

### **The CC's framework for evaluation**

15. As stated in the CC report (paragraph 9.50), we consider it necessary that the successful website operator will be both independent of the home credit market and have access to appropriate expertise and financial resources to run such a website effectively. To this end, we will wish to satisfy ourselves that the website operator has a suitable business plan which will address the stated requirements of the website, before we approve that website operator, as discussed below.
16. Previous experience of running a price comparison website will be highly desirable.
17. As explained in paragraph 3, the costs of the website are to be reimbursed by the largest home credit lenders. The set-up cost for the website, ongoing operating costs and costs for data publication (both for home credit products and for other relevant products such as credit union loans which may be published on the website) will be key factors in the CC's evaluation. We would expect that any response to the invitation to tender document would provide an appropriate breakdown of these costs.
18. It will be expected that the website operator can deliver a fully functional website in six to nine months from approval by the CC.

### **Website operator requirements**

19. We currently consider that the requirements listed below will best allow the website to work for the benefit of users and address the AEC as discussed in the CC report (paragraph 9.43). We consider that the website will be most effective if it contains accurate and comprehensive information and is transparent and accessible for users.

## **Basic requirements**

20. The website operator will be expected to design, construct and operate a website as described below and should prepare its tender on that basis.
21. The website operator will confirm (and record) that any lender publishing information on the website is legally entitled to offer such credit to customers. For example, it will have a relevant consumer credit licence and may also be regulated by the FSA. We would expect that this would be confirmed on each occasion that the details provided by the lender are updated (see paragraph 31).
22. The specified information to be displayed on the website is likely to include the following for each relevant product:
  - (a) the TCC per £100 advanced;
  - (b) the weekly payment per £100 advanced;
  - (c) the term in weeks;
  - (d) the APR;
  - (e) the lender's name, principal address or principal telephone number; and
  - (f) other necessary information such as conditions of availability.

In addition, the website will include general information to enable users to make informed decisions regarding the relevant products such as customer rights and explanatory notes.

23. The website will be free to use. Thus there should be no charge for either viewing or downloading information from the website. No revenue will be gained by the website operator in relation to the website except from the home credit companies that have a contract with the operator and non-home-credit companies adding relevant product information to the site (who will be charged at cost as stated in paragraph 9.73 of the CC report).
24. We envisage that there will be a requirement that the operator displays a copyright notice on the website. The notice would give the public a licence to reproduce the information at no cost as long as specified conditions were met, for example those conditions would include those set out in paragraph 9.70 of the CC's report.
25. The website operator will have to record and appropriately archive any information and data provided by the lenders for at least two years.
26. Views are invited regarding appropriate arrangements to facilitate the smooth transfer of operations and data in the event of the termination of the operator's approval or other failures of the operator such as liquidation. Such arrangements would need to include an appropriate treatment of intellectual property required for the operation of the website. One means of facilitating such a transfer would be to require information held by the website operator and any intellectual property developed in setting up the website to be passed to a company jointly held by the large lenders. Another means might be an obligation to hold the information in a form suitable for transfer.
27. The website operator will not refuse any information for a relevant product from a home credit or non-home-credit provider unless authorized or directed to by the OFT

or the CC. We consider that relevant products would include home credit loans, all credit union loans that are available to customers without a qualifying saving period, and any cash loan as described in paragraph 9.72 of the CC report.

28. We would expect that the website operator will have an appropriate plan for promoting the website among home credit customers.

### **Technical**

29. The response time performance of the website and permitted website downtime will be in line with superior benchmarks within the financial services sector. If the website operator is not able to adhere to these requirements, then there may be financial penalties (written into the operator contract) and in specified circumstances the website operator could lose its approval. Views are particularly requested regarding appropriate performance parameters.
30. Data contained on the website will be updated for any changes at least once a week and the date of the last update will be shown on the website. Product information should be displayed on the website within one week of being provided in agreed form to the website operator by a lender.
31. The website operator will establish controls to ensure that information from the lender published on the website is current. For example, there may be a requirement for all home credit companies to confirm details of their products every three months, enabling outdated information to be removed from the site. Views are requested on the appropriate nature of information checks and audit procedures to be performed by the website operator. However, the website operator will not be required to warrant the accuracy of the information on the website.
32. There are particular criteria that would make the website a more effective tool for customers. For example, users should be able to rank TCC prices and search for products available in their area. Data could be ranked or searched by the following criteria:
  - (a) geographic location—postcode district where the product is available (as discussed in paragraph 9.58 of the CC report);
  - (b) term length—users should be able to search by a length of time, for example loans between 10 and 15 weeks;
  - (c) typical APR and TCC—users should be able to rank loans in terms of typical APR and TCC; and
  - (d) home collection only.
33. The website operator will, at a minimum, record the quantity of people visiting the website together with duration data. It may also be beneficial to understand the number of users who currently have home credit loans.

### **Service levels**

34. Service levels to providers of information (lenders) will be the same for all lenders, whether or not they are party to a contract with the website operator. In effect, there should be a non-discrimination clause in the contract with the larger home credit companies.

35. The website operator must be contactable by users and lenders, at least by email, to highlight any issues with the information contained on the website, such as the validity of the information.
36. The website operator will be required to have an appropriate system for dealing with enquiries from either users or lenders regarding the validity of information. Any such system will need to have an appropriate escalation procedure and a specified response time frame. All communications regarding such enquiries should be recorded and accessible to the OFT. Records of such communications should be maintained for a period of at least two years.
37. The website operator will allow lenders to provide pricing information via the Internet or electronic media or in the case of small lenders by hard copy (such as an input form). The website operator should have an appropriate system for the collection of data from the lenders and may have a system of reminders.

### ***Monitoring info***

38. The website operator will be required to provide to the OFT information to allow the OFT to monitor the site and its effectiveness. This information may include:
  - (a) queries regarding service levels, data validity and whether the information is understandable;
  - (b) information regarding validity checks and audit;
  - (c) website response times, downtime and usage data;
  - (d) a list of lenders in each postal area together with the prices charged by those operators; and
  - (e) any other information that from time to time may be required by the OFT to enable it to monitor the website effectively.

### ***Legal***

39. The invitation to tender will outline discontinuity provisions that are to have effect in the event of termination of the approval.
40. The website operator must be able to provide a full audit trail for all transactions pursuant to the contracts with the home credit lenders.
41. In addition to the criteria set out above, the website operator and any site would have to comply with existing legislation, including the Consumer Credit Act 1974, any advertising regulations and the Data Protection Act 1998.

### **Industry background**

42. Below is a summary from the CC report regarding the home credit market. Much more information is provided in the CC report which can be found on the CC website [www.competition-commission.org.uk/inquiries/current/homecredit/index.htm](http://www.competition-commission.org.uk/inquiries/current/homecredit/index.htm). Respondents might be particularly interested in sections 2 and 9 of the report.

## ***The product***

43. Most home credit loans are for relatively small sums paid in cash. 70 per cent are for less than £500. Most are repaid, over a period of around a year or less, in weekly instalments which are collected from the customer's home by the lender or an agent calling for the purpose, often at the same time each week.
44. The price of a home credit loan can be expressed in several different ways:
  - The *APR* is designed to be a standard measure of a loan's interest rate which allows a customer to compare, before taking out a loan, the costs of different types of loan with different terms.
  - The *TCC* indicates how much more than the amount borrowed is to be paid back to the lender.
  - The *weekly repayment* is the amount collected every week, and is generally cited alongside the *term of the loan* (in weeks).
45. Home credit lenders currently impose no default charges or additional interest for customers who miss payments. Prices are set nationally for the larger firms and currently there is an absence of differential pricing, hence the price for a loan is the same for all customers.
46. We observed few price changes over the last five years from large and medium firms. We also found that many small lenders changed their prices infrequently if at all. Two smaller lenders told us that they had not changed their prices in over ten years.
47. There is a highly seasonal pattern of home credit loan issued with peaks before Christmas, Easter, summer holidays and September. The largest peak is before Christmas.

## ***The companies***

48. The CC identified some 430 home credit lenders in the UK, most of them small enterprises. Of the largest lenders, Provident was by far the largest lender (with over 60 per cent of supply on most measures) across the country. Cattles was in second place (around 15 per cent). The other largest lenders between them account for a further 10 to 15 per cent, depending on the measure chosen.
49. We identified 16 medium-sized lenders (which we defined as those with 10 to 99 agents).
50. It was more difficult to determine the number of small lenders (ten agents or fewer). We wrote to all the UK members of the CCA and to those few non-members who came to our attention. We received 239 replies, of which 225 were small lenders with ten agents or fewer. We found that:
  - The medium-sized and small home credit lenders are more concentrated in some regions. They are most concentrated in the North-West and Yorkshire.
  - The average limited company is approximately five times the size of the average sole trader or partnership, as measured by a range of financial and personnel factors and numbers of loans.
51. We have been told that many smaller home credit lenders do not use computers or email.