



## **London Assembly Economy Committee – investigation into personal problem debt**

### **submission from the Financial Ombudsman Service**

7 November 2014

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The Financial Ombudsman Service welcomes the opportunity to contribute to the Committee's examination of personal problem debt. With reference to the Committee's interest in high-cost, short-term lending, we have enclosed with this submission a copy of the insight report the ombudsman published in August on payday loans, together with recent data that may be of contextual use to the Committee in establishing the scale of problem personal debt in London.

It is important to acknowledge that our statistics show the total number of enquiries the ombudsman service receives and the number of complaints it handles, not the personal circumstances of those contacting us. There may be a correlation between particular financial products and problem personal debt. But as other research on the short-term, high-cost lending market has demonstrated, payday loans and similar products are used by a diverse range of consumers.<sup>1</sup> While our data may be *indicative* of problem debt in London, it should not therefore be taken as *definitive evidence* of it. Nevertheless, we hope what insight we can share will helpfully complement the Committee's wider investigation.

#### **about the Financial Ombudsman Service**

The ombudsman service was set up by Parliament to sort out individual complaints that consumers and financial businesses aren't able to resolve themselves. It is an independent service for settling complaints fairly, reasonably, quickly and informally, which is free to consumers. The business must be given the chance to look into a problem first – and they have eight weeks to consider it. If the business does not respond within eight weeks, or does not respond to the consumer's satisfaction, the consumer can go to the ombudsman service.

In considering what is fair and reasonable, we are required to take into account the relevant law and regulations, rules and guidance as well as the provision of relevant documents and good practice in the industry.

#### **our submission**

##### *payday lending*

The ombudsman service is committed to seeking new ways to share the insight we gain from the hundreds of thousands of financial services complaints we tackle each year. In

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<sup>1</sup> See, for example, Competition Commission/TNS BMRB, *Research into the payday lending market. Report*, January 2014.

August, we published the results of a comprehensive review of the payday loan complaints we received in the 2013/14 financial year. We have enclosed a copy of the report, *payday lending: pieces of the picture*, with this submission for the Committee's interest. As figures 5 and 6 (pp. 12-13) illustrate, consumers in London accounted for a slightly higher proportion (18%) of complaints to the ombudsman about payday loans than suggested by the wider payday market (16%) or UK population figures (13%).

Chapter 4 of the report (pp. 22-24) sets out our findings on why consumers had brought complaints about payday loans to the ombudsman. Underpinning the report was a review of a sample of 353 payday loan complaints, in which we sought to identify both the main and subsidiary reasons for consumers bringing a complaint. The table below shows the most commonly observed features of complaints, taking all visible factors into account, and includes the results for London for comparison.

**Table 1: All features of consumers' complaints about payday loans, London-based consumers and total sample compared**

|   | Complaints from<br>London consumers<br>(60 complaints) | Total sample<br>(353 complaints) |
|---|--|----------------------------------|
| <b>Damage to credit record</b>  | 28% (17)   | 24% (85)                         |
| <b>Lender ignored/did not accept repayment plan</b>                                     | 28% (17)   | 18% (65)                         |
| <b>Poor administration (e.g. loan paid into wrong account, not registering payment)</b> | 22% (13)   | 20% (69)                         |
| <b>High charges</b>   | 20% (12)   | 16% (56)                         |
| <b>Allegation of fraud</b>  | 18% (11)   | 16% (58)                         |
| <b>Poor customer service (e.g. failure to return calls, rudeness)</b>                   | 18% (11)   | 21% (73)                         |
| <b>Lender aggressively chasing for debt</b>   | 15% (9)  | 18% (64)                         |
| <b>High interest rates</b>  | 15% (9)  | 12% (44)                         |
| <b>Unauthorised/unexpected taking of funds</b>  | 10% (6)  | 19% (68)                         |
| <b>Rollovers</b>  | 8% (5)   | 5% (17)                          |
| <b>Unaffordability (at the point loan was taken out, i.e. irresponsible lending)</b>    | 7% (4)   | 7% (26)                          |
| <b>Misleading information (including mis-sale)</b>                                      | 5% (3)   | 5% (18)                          |
| <b>Application for other credit rejected (e.g. mortgage, overdraft)</b>                 | 3% (2)   | 3% (10)                          |
| <b>Other</b>  | 10% (6)  | 12% (43)                         |

Source: Financial Ombudsman Service

### *credit broking*

The ombudsman service has seen a large increase in the number of calls from consumers who have been charged a fee by a payday loan broker.<sup>2</sup> Many consumers have looked online for a loan, often applying through a lead generator or credit broker without realising that this will not guarantee them a loan, or that they will pay a fee for the service. Between 1 January 2014 and 14 October 2014 we received 14,792 enquiries to our customer contact

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<sup>2</sup> We highlighted our concern about this issue when publishing our payday lending insight report in August 2014 (see: "ombudsman warns consumers about payday loan middlemen", Financial Ombudsman Service media release, 19 August 2014), and again on 3 November in the BBC's 'Moneybox' programme following the announcement by the Royal Bank of Scotland that it was receiving 640 complaints a day from its own customers about credit broking (see: <http://www.ft.com/cms/s/0/cee8bc2c-5f88-11e4-8c27-00144feabdc0.html#axzz3IO75ydc0>).

division about credit broking.<sup>3</sup> This is already three times the number of calls we received about credit broking in the whole of last year (4,726 enquiries). Of the 14,792 credit broking enquiries we have received to 14 October, 2,327 (16%) came from consumers based in London.

Common themes in the calls we have received from consumers about credit broking include:

- The consumer does not recognise the business that took the fee
- The consumer did not give permission for a fee to be taken
- The consumer thought the payment was being taken towards a loan, believing that the business was a provider of credit and not a credit broker or lead generator
- The unexpected fee has led to related bank charges because it caused the consumer to go overdrawn.

#### *our latest data – London compared*

The table below presents our latest statistics for new complaints opened at the ombudsman service between 1 January and 3 November 2014, comparing London with other regions of the UK. It incorporates data on payday loan and credit broking complaints, together with complaints about debt management and debt adjusting services. The statistics show the total number of new complaints, and cannot reflect the personal circumstances of the individual consumers. As noted at the top of our submission, while there may be a correlation between particular financial products and problem personal debt, our data can only be *indicative* of such a link.

**Table 2: New complaints by region, 1 January 2014 to 03 November 2014**

|                         | Debt adjusting  | Debt collecting  | Credit broking   | Payday lending   |
|-------------------------|-----------------|------------------|------------------|------------------|
| <b>London</b>           | <b>15% (60)</b> | <b>18% (123)</b> | <b>17% (133)</b> | <b>15% (109)</b> |
| East Midlands           | 4% (18)         | 8% (51)          | 4% (29)          | 6% (45)          |
| East of England         | 10% (42)        | 9% (58)          | 7% (55)          | 7% (52)          |
| North East              | 5% (21)         | 4% (30)          | 4% (34)          | 4% (33)          |
| North West              | 15% (63)        | 14% (98)         | 14% (109)        | 12% (86)         |
| South East              | 12% (50)        | 13% (87)         | 11% (86)         | 13% (95)         |
| South West              | 10% (40)        | 8% (52)          | 7% (50)          | 10% (77)         |
| West Midlands           | 10% (40)        | 9% (58)          | 11% (86)         | 8% (61)          |
| Yorkshire and Humber    | 6% (24)         | 6% (39)          | 9% (69)          | 9% (65)          |
| Northern Ireland        | 2% (7)          | 2% (11)          | 2% (14)          | 3% (20)          |
| Wales                   | 5% (21)         | 4% (27)          | 5% (37)          | 5% (38)          |
| Scotland                | 6% (26)         | 6% (44)          | 8% (63)          | 8% (56)          |
| <b>Total complaints</b> | <b>412</b>      | <b>678</b>       | <b>765</b>       | <b>737</b>       |

Source: Financial Ombudsman Service

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<sup>3</sup> While we have experienced a large increase in *enquiries* from consumers about credit broking, most of these calls do not convert into actual *complaints*: we have opened 727 credit broking complaints since 1 January 2014. The reason for the low ‘conversion rate’ is that the majority of businesses refund the broker fee following contact from the consumer or the ombudsman.

We hope you find the enclosed report, and accompanying data, useful. If we can be of any further help, please do not hesitate to contact us.

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