



News Release

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CC OPENS UP HOME CREDIT MARKET TO COMPETITION

The Competition Commission (CC) is to introduce measures to increase competition in the home credit market and lower prices for customers.

The measures are detailed in the CC's final report, published today, into the home credit market and include a requirement for home credit companies to share data on their existing customers' payment records to open up the market to greater competition from other lenders and make it easier for these customers to access other forms of credit.

Other measures will require companies to provide clearer information on the cost of loans, making it easier for customers to shop around and compare offers and to change the early settlement rebate so that customers who settle loans early receive a better deal.

Peter Freeman, Chairman of the CC and the inquiry group:

These measures are designed to open up the market to greater competition so that customers will get more choice and lower prices. We have focused on the obstacles that restrict competition and raise prices in this market, such as the advantage existing lenders have in knowing their customers' creditworthiness.

Data sharing will enable other lenders to make better lending decisions and compete more effectively. Customers with good repayment records with home credit companies will also benefit from this when applying for other forms of credit.

Better and clearer price information will help customers choose between providers; customers who settle early, about a third of all borrowers, will also now receive a better deal.

This inquiry was asked to look only at home credit and not at other forms of credit or at any wider issues. We are very aware of the difficulties people on lower incomes can face in this area. We have directed actions towards increasing customers' options rather than reducing their access to a necessary source of credit. Despite its high cost, home credit is much valued by many customers and we would not be helping these people if we made home credit less available.

This is why we have not imposed price caps. We thought they could have reduced the availability of home credit to the most vulnerable customers, specifically those with no access to alternative sources of credit. We also felt that price caps could prove to be extremely difficult to apply and enforce in this industry.

The proposed package of remedies will:

- require lenders to share data on customers' payment records (to overcome the information disadvantages faced by lenders attempting to compete for customers' business);
- require lenders to publish prices on a website where customers can compare the prices of loans on offer;
- ensure that the statements lenders will be required to provide under the new Consumer Credit Act contain information relevant to home credit customers; and
- ensure that those customers who repay loans early (around a third of all customers) get a fair rebate.

The CC has concluded that the lack of competition in the home credit market from other credit products, new entrants, or among the home credit providers themselves, means that customers pay higher prices for their loans than would be expected in a competitive market. It believes that the lack of competition may have led to customers being charged something like £20 more for the average loan than could be expected in a competitive market. It also states that over the last five years home credit providers have been making profits of over £75 million a year in excess of that which could be expected in a more competitive market.

The CC has discussed the possible remedies with home credit companies and other lenders as well as consumer bodies, credit reference agencies and other arms of government.

It is expected that these remedies will be in operation by the end of next year, with the exception of the statement remedy which will come into force in April 2008 in line with the expected legislative timetable for the Consumer Credit Act.

The final report is available at www.competition-commission.org.uk.

Notes for editors

1. Home credit refers to the supply of small loans, repayments for which are then collected in instalments (often weekly or fortnightly) from the customer's home.
2. The inquiry was referred by the Office of Fair Trading (OFT) on 20 December 2004, following a 'supercomplaint' from the National Consumer Council. The CC was required to publish its final report by 19 December 2006.
3. Under the Enterprise Act 2002, the OFT can make a market investigation reference to the CC if it has reasonable grounds for suspecting that competition is not working effectively in that market.
4. The members of the inquiry group are: Peter Freeman (Group Chairman), Sarah Brown, Professor Jonathan Haskel, Charles Henderson and Professor Peter Moizer.
5. Market investigation references are intended to focus upon the function of a market as a whole, rather than the conduct of a single firm in a market.
6. Enquiries to Rory Taylor on 020 7271 0242 or rory.taylor@cc.gsi.gov.uk.