ANNEXE C – BACKGROUND AND METHODOLOGY

Background

C.1 On 24 February 2012 the OFT launched a review of the payday lending sector to investigate the extent to which payday lenders comply with the Consumer Credit Act and other legislation and meet the standards set out in OFT guidance, in particular the Irresponsible Lending Guidance.¹

C.2 This review was prompted by concern that some payday lenders may be taking advantage of people in financial difficulty.

C.3 We published an Interim Report on 20 November 2012.² This identified concerns in particular about:

- the adequacy of the checks made by lenders on whether loans will be affordable for borrowers
- the proportion of loans that are not repaid on time
- the frequency with which loans are rolled over or refinanced and the circumstances in which this occurs
- the lack of forbearance shown by some lenders when borrowers get into financial difficulty
- debt collection practices.

C.4 The Interim Report made clear that lenders across the sector must do more to ensure that they comply with the letter and the spirit of relevant law and OFT guidance.

C.5 We also wrote on 20 November 2012 to 240 payday lenders highlighting our emerging concerns over poor practices in the sector and the areas where we were seeking improvements.

C.6 At the same time we published revised Debt Collection Guidance setting out the minimum standards we expect in relation to the use of continuous payment authority.³

C.7 We have since finalised our analysis of the evidence we have gathered during the compliance review. The Payday Lending Final Report, published on 6 March 2013, summarises our key findings and the standards we expect of lenders.⁴

Methodology

C.8 The findings are based on information and evidence from a wide range of sources. These include:

- Compliance inspections (Annexe D) – site inspection visits by OFT staff and/or officers of local authority trading standards services to 50 payday lenders, which together account for around 90 per cent of the payday market by turnover.

- Advertising sweep (Annexe E) – reviewing the websites of 50 payday lenders⁵ including large companies, new entrants and businesses which had been the subject of complaints or enforcement action (this initial sweep, conducted in November 2011, was supplemented through the compliance inspections and a brief review of television advertising).

- Questionnaires and submissions (Annexe F) – questionnaires were sent to 2576 stakeholders inviting views and evidence. A total of 1013 responses were received – 226 from payday


⁴ [www.oft.gov.uk/shared_oft/Credit/oft1481](http://www.oft.gov.uk/shared_oft/Credit/oft1481)

⁵ 37 of these received compliance inspections.
lenders, 425 from other licensees, six from trade bodies, 20 from local authority trading standards services and 336 from consumer organisations including debt advisers.

- **Mystery shopping** (Annexe G) – a survey by Ipsos MORI on the OFT’s behalf involving a total of 239 mystery shops to 156 payday lenders to improve our understanding of the consumer experience when looking for loans.

- **Consumer complaints** (Annexe H) – an analysis of complaint data, including 686 complaints received by the OFT between February and August 2012, and complaints to the Citizens Advice consumer service (formerly Consumer Direct) and the Financial Ombudsman Service.

- **Quantitative analysis** (Annexe A) – a detailed data request to 21 payday lenders (a mix of large, medium-sized and small lenders including both online and high-street lenders) and a short data request to all other payday lenders, to obtain information on number of loans, turnover, revenue sources and default rates (190 responses were received in total).

C.9   A glossary of terms is at Annexe I, and a copy of the Ipsos MORI mystery shopping report is at Annexe J.

C.10   Meetings were also held with a number of stakeholders including trade associations, consumer representative organisations and government departments.

C.11   We would like to thank all those who contributed to the review.