



Treasury Committee

Oral evidence: [Treatment of Financial Services Consumers](#),
HC 631

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Members present: Mr Andrew Tyrie (Chair); Mark Garnier, Stewart Hosie, Mr Andrew Love, John Mann, Alok Sharma, John Thurso

Questions 233 - 449

Witnesses: **Joanna Elson OBE**, Chief Executive, Money Advice Trust, **Professor John Gathergood**, Associate Professor in Economics, University of Nottingham, **Richard Lloyd**, Executive Director, Which?, and **Francis McGee**, Director of External Affairs, StepChange Debt Charity, gave evidence.

Q233 Chair: I'd like to begin with Mr or Professor Gathergood. I notice in my brief that you are listed as a doctor, so perhaps you are a doctor, a professor and a mister. What did you mean when you said that there may be no high street payday lenders left as a consequence of the cap being imposed by the regulators, and do you think the FCA has the right approach?

Professor Gathergood: The point about high street lenders is that we know that the costs associated with lending are typically high on the high street compared with online, so any price cap imposed is going to hit high street firms harder, in the sense that the capacity for them to deliver their products profitably will be lower compared with online firms.

The particular issue with the FCA price cap is whether one or more high street firms survive. When the FCA looked at the management accounts of online and high street firms it was unclear why, even in the current period before the cap, high street lenders were in operation, because on paper they appeared to be unprofitable, but nevertheless they are in the market. There might be reasons why a firm is in the market despite being unprofitable at the current time. There might be some future expectations, say, of revenue growth.

Starting from the position of it being unclear why there are high street firms in the market today, the price cap only makes things worse for those firms, because it further depresses their revenues and puts them at even greater risk of exit. When we look at the sectors that are most at risk from the price cap, it is clear that an online market can survive unambiguously. It is less clear with the high street market. That is where the particular issue arises with high street lending.

Q234 Chair: Has the FCA got it right?

Professor Gathergood: The FCA has been deliberately conservative in its judgments with regard to the modelling and has argued that on paper it looks like these firms are unprofitable, but we know this is an industry that is very adaptive, where efficiency gains can be made. So they are forecasting that, nevertheless, there will be at least one high street lender in operation after the price cap is introduced in 2015. I do not think that is an unreasonable position, but it is clear that the high street is at greater risk of not serving consumers, compared with the online market.

Q235 Chair: So, overall, is what the FCA has done good or bad for consumers?

Professor Gathergood: The FCA has made a balanced judgment, which I think works in the interests of consumers. The question the FCA has to face is, does it impose a tighter cap? In that case, consumers who continue to be served in the market receive lower prices, which is good for those consumers who are served. However, a tighter cap necessarily excludes more consumers because it is no longer profitable to lend to them when the potential revenue from that group of consumers is lower in this risky credit market. You are trading off lower prices for those who are served, with no access to credit for those who are excluded.

The way the cap level is configured depresses the price of payday loans to customers in the market to a large extent—about one third on the headline price—while excluding only a small number of customers overall: about 7% of customers currently served under the revised projections that the FCA has in its policy statement. That is a position where the benefits to consumers are weighed against the issue of consumers no longer being served, or indeed the market being driven down to very few choices available to consumers.

Chair: My question is whether they are getting that judgment right. I think it's clear that is the judgment we have to make.

Professor Gathergood: From the perspective of an economist, I think that is a good judgment to make. If the alternative is essentially financially excluding people—denying them any access to credit—that has welfare consequences. We know that there are welfare consequences.

Q236 Chair: Okay. Just tell us what the welfare consequences are.

Professor Gathergood: If you are completely excluded from credit, you lose the ability to smooth consumption over time. There is evidence that people have fewer other options available to them.

Q237 Chair: Is there not another concern—that people are swept up in a type of lending that is extremely unpleasant?

Professor Gathergood: Yes.

Chair: It is a huge welfare loss, in economic language.

Professor Gathergood: Right. So, as there are few or no mainstream lenders available, there is the potential that consumers substitute towards unlicensed or illegal forms of credit, which can have much more severe welfare consequences.

Q238 Chair: In simple layman's language, they've had to strike a balance; and you're saying they've struck it in roughly the right place. Is that correct?

Professor Gathergood: Yes.

Q239 Chair: Joanna Elson, do you agree with that judgment?

Joanna Elson: Yes, I do. The FCA has worked hard to set it in the right place. We will not know for some time whether it has got that right. It needs to keep close to the issue. It has taken a lot of evidence from people sitting at this table and elsewhere; it has looked at what happens elsewhere in the world. We think the FCA will need to review the issue pretty quickly, so we will be telling it quite quickly what we see. It certainly should not wait two years, which I think is the proposal, before reviewing this. If it is clear that the cap has not been set at the right place, that needs to be looked at pretty smartly.

Q240 Chair: What about the exemption of doorstep lenders and community finance organisations—are they a good idea?

Joanna Elson: Well, it is starting with payday, which is where the bulk of the evidence has been. I think one could debate whether the public debate around that has been as nuanced as it might have been. Nevertheless, as I have said, it will need to look to make sure that it makes a quick adjustment, if it is not right. It needs to look at the other credit markets around. As well as the ones we have mentioned, perhaps we should mention credit brokers and lead generators, which are two areas that we do not think are sufficiently regulated and where there is serious consumer detriment linked to payday lending.

Q241 Chair: Mr Lloyd, from your perspective, have you heard anything yet this morning that you disagree with?

Richard Lloyd: I agree that, specifically on payday lending, the judgment appears to have been got right. I agree with Joanna that there needs to be an early review of whether the cap has been set at the right place. In terms of the bigger picture, I am concerned about the fact that the FCA has not yet taken a system-wide review of consumer credit—that is, the behaviour of more mainstream providers as well as the potential risk of people potentially going to the criminal end of the market. That part of its judgment, and the context in which it located that judgment, are lacking. For some people it can be better in the short term to take an unauthorised overdraft rather than a payday loan.

Q242 Chair: So the people who were getting credit before, who now are no longer going to get credit, should never have had it in the beginning?

Richard Lloyd: There is an argument that much of the lending has been irresponsible. We found in our surveys that many people—I think more than 50%—who had taken out a payday loan found that they were unable to repay that loan very quickly after taking it out. There has been a significant welfare problem in terms of that existing stock of loans.

Q243 Chair: Is that your view, Mr McGee?

Francis McGee: Broadly speaking, yes it is. We are seeing that more and more problem debt is with people trying to pay for day-to-day essentials. Among our clients, those who have payday loans are more likely to be in rent and council tax arrears and more likely than anyone else to have other forms of debt. These products have been sold as a substitute for welfare.

Q244 Chair: It sounds as though there is unanimity from quite a diverse panel on a major reform to an unusual but extremely important and sensitive part of the consumer debt market. Does anybody disagree with that? No?

Q245 John Thurso: May I come to you first, Joanna Elson, and ask about financial firms' internal complaints procedures? How well do you think banks, insurance companies and other financial firms handle complaints within themselves?

Joanna Elson: I don't think we have a lot of evidence on that. We run National Debtline, so we see where things go wrong but very often our clients don't complain. I think it's often true that some of the most vulnerable people don't exercise those rights to complain. Therefore, I could tell you what my view is as a consumer, but I don't think we have the evidence base to answer that question.

Q246 John Thurso: So your evidence would be broadly that the people who come to you probably come straight to you, having never complained.

Joanna Elson: Yes, that is right.

Q247 John Thurso: Do you see that as a weakness in the complaints structure within financial firms?

Joanna Elson: I think there is always more that can be done, but the people who are really up against it, as Francis said, are asking how are they going to feed their children and find money for their heating, so complaints is not high on their list of worries.

Q248 John Thurso: Perhaps I can come to you, Richard Lloyd, and ask the same question.

Richard Lloyd: We think that the way in which financial services providers in general and banks in particular handle complaints is a shambles. Too often, it is made extremely hard for people to find out how to complain. It is often impossible to complain online.

We have had a history of very high-cost phone lines for people to complain, which is now being tackled, and people passed from pillar to post and not given early resolution of their problems. That is why so many people are forced to turn to the Financial Ombudsman Service. We have had seen some announcements lately, but there is an enormous job to be done to get the basics right: how you quickly resolve complaints, handle them properly and make it easier for consumers to make their views known.

Q249 John Thurso: You use the word “shambles”. Is that because they are very bad at handling complaints, or have they deliberately constructed an edifice that the consumer cannot penetrate?

Richard Lloyd: A good example is on PPI complaints, where I and colleagues at Which? spent months and months with the main banks, trying to get them to improve PPI complaints handling, for example, as I have said, to enable people to find quickly a route through to complaining online, to give people a much clearer explanation of their rights, and to respond in a more timely fashion. It took the best part of two years even to get agreement on a simple leaflet that would go into letters to complainants about what the next steps were and how they should look at the offer that had been made—if they had been made an offer.

I think it has been a mixture of incompetence at times and, at worst, a culture of obstructing complaints. Although we are starting to see signs of this in some of the major banks now, it is certainly not the kind of complaints-handling culture that looks at complaints through a positive lens to see how you can improve your customer service. It has been pretty shocking.

Q250 John Thurso: Many big organisations are very defensive in their complaint handling, the purpose of it being to explain to the consumer why they were wrong to have complained, whereas many well-run service organisations view it as a critical part of the internal audit of their service provision. Are you saying the banks are in the former category? If you are, do you think they are getting better and learning and changing, or are they just staying the same?

Richard Lloyd: They have been in the former. What we have been encouraging them to do at board level is to scrutinise complaints very hard and to treat them as valuable feedback on how they are performing. But I think in particular in the very largest of banks, that apparent renewed appetite for improving complaints handling at the top has not got through enough to the front line. As I have said, it has been very slow for commitments that we have heard from senior bankers about complaints-handling improvements to filter through to some of the practicalities—the way that customer service advisers treat complaints.

Q251 John Thurso: I want to move on to the Financial Ombudsman Service, but, Mr McGee and Professor Gathergood, do either of you wish to add to, subtract from or comment on what you have just heard?

Francis McGee: Only to say that, like National Debtline, the people who we deal with are in trouble with their finances. I cannot comment on the banks' internal systems, but what we do see is that, when they bring a problem to us, there are persistent themes and we regularly find ourselves advising people either to complain to their bank where they have not already, or, where they already have, to go on to the ombudsman. I can't comment on whether it is good policies badly executed or faulty systems or whatever; I can only describe what I see, which is the same themes coming through month in, month out.

Professor Gathergood: Just to add two points, in a competitive market, if firms are facing lots of complaints and the perception is that they are not dealing with them very well, they should go out of business, because in competitive markets, firms are competing over price and quality. So that gives you some indication of the state of the market and also, the consumer credit market in particular is a market where one's power in the market is heavily dependent on the information that you hold. Often, lenders are better informed about consumers and do not act to inform consumers well about, say, their rights or the recourse that they might have, and so you see lenders using, essentially, an information advantage to the detriment of consumers, especially when consumers have grievances.

Q252 John Thurso: Okay, thank you for that. Can I come back to you, Richard Lloyd, and ask you what your experience is of working with the Financial Ombudsman Service and is there anything that it could improve on?

Richard Lloyd: Everyone, and the service has acknowledged this itself, has been concerned about its ability to cope with the huge backlog of PPI claims. It has been completely swamped. It was struggling to keep pace with that, and it still is. That said, the culture of the Financial Ombudsman Service—its pro-consumer mindset, its transparency and publication of complaints data, and its expertise in dispute resolution other than through the courts—is a good example and one that we have pointed to for other ombudsman services in other markets to follow. I think there are problems of capacity, but its operating principles and culture, in terms of their consumer-centricity is admirable, and we have worked closely with it, using its data to spot problems in the market that need to be escalated to providers or the regulator. That has been helpful.

Q253 John Thurso: If we look at the way it has behaved on tailored business loans and those kinds of things—that is not so much about the consumer, but small business—it seems to have worked very hard to try and resolve issues, possibly even going to the extent of the remit we have given it, which begs the question of whether policy makers should be looking to reinforce FOS and give it more powers or a wider remit.

Richard Lloyd: I think policy makers should, at the very least, be supportive of FOS and the way it does its work. There is more that regulators could do to mine the data and the

understanding of the market that it has. Efforts by some of the banks, for example, to impose limits, and lobbying that has gone on around imposing limits on the FOS and on the scope of its work have been really unhelpful, and that should be resisted.

Q254 John Thurso: That has subsided though, hasn't it? That was about three years ago.

Richard Lloyd: It comes and goes. I have heard it again just lately, and I think that providing FOS with a stable policy environment, the funding that it needs and support from policy makers, as a good model of dispute resolution that keeps problems out of the court, is absolutely right.

Q255 John Thurso: Can I ask the others the same question on FOS?

Chair: Brief replies, please.

Francis McGee: The only thing I would also welcome is signs of a move by FOS, so that where it suspects that a sector of the market is not doing a good job systematically in complaints handling, it is not waiting for that to be sorted out, but is doing more to promote itself directly to consumers. I think that is to be welcomed.

Joanna Elson: Nothing to add, thanks.

Q256 Stewart Hosie: Mr Lloyd, the Parliamentary Commission on Banking Standards wanted the major banks to come to a voluntary arrangement that set the minimum standards for the provision of basic bank accounts within a year, or face a statutory intervention. Seventeen months on, we are not really there yet. Are we seeing any progress on that?

Richard Lloyd: I think my general answer on PCBS recommendations is that too much of it has been left undone, and is still undone—the efforts to professionalise banking standards, for example, are still woefully slow in train. On the banks' responsibility to the unbanked, such as the provision of basic bank accounts and the provision of ATMs in areas where otherwise people have to turn to expensive machines, and the “last bank in town” agreement—all of those things are still up in the air to a certain extent and I do not think enough progress has been made. I would like to see much more and faster efforts by the major banks to ensure that basic bank accounts are available, that they do not impose restrictions on the functionality of basic bank accounts unnecessarily and that they reach into communities that need those services, not withdraw from them.

Q257 Stewart Hosie: That is helpful. You are not giving me an awful lot of confidence that you have faith that the industry will develop its own standards of its own accord. Has the time come for statutory intervention in some of this stuff?

Richard Lloyd: I think it probably has. We have spent a lot of time over the last few years while I have been at Which? engaging with very senior bankers, boards and chief executives. We have heard a lot of positive attitudes and noise about some of these issues, but this is taking an awfully long time to filter through into the way customers are being treated and the unbanked and financially excluded communities are being served. I think we are now getting to the time when, reluctantly, I start to conclude that we will have to see a more interventionist approach, as we are seeing in the consumer credit market, to get some of these things sorted out.

Q258 Stewart Hosie: In which case—I am asking you personally—where would you start with the intervention? Which is the area that needs most attention to make things happen?

Richard Lloyd: Across the board in banking?

Stewart Hosie: Yes.

Richard Lloyd: I would say that we need to see, as we have seen in payday lending, the FCA taking action on complexity and on fees and charges that are excessive and disproportionate. Why have we had the crackdown on payday lenders, when so many people are using unauthorised overdrafts that can be as expensive, as hard to compare and as uncompetitive as some of those other unsecured credit products? I would like to see much tougher rules on providers in terms of reaching the unbanked communities. I could list many other issues in between those two.

Q259 Stewart Hosie: But that's where your starting point would be.

Richard Lloyd: That's where I would be today.

Q260 Stewart Hosie: Ms Elson, can I turn to you on the unbanked, which is a horrible expression, but there we are? In April, the European Parliament passed a directive guaranteeing access to basic bank accounts to anyone legally resident in the EU and so on. The directive included among other measures the creation of an independent website comparing the interest rates and fees charged by banks. What is your view on that?

Joanna Elson: On the interest rates charged.

Stewart Hosie: On the EU directive generally and the part of it that said there should be access to easy comparability.

Joanna Elson: Easy comparability has got to be a sensible way forward. As we have heard from the payday debate, people do not understand about APRs and it is not easy to get them to understand these issues, so that is to be welcomed. Of course, that directive also calls for access to basic bank accounts and that may move this debate on helpfully.

One area that we are particularly interested in is people who are undischarged bankrupts where there is still only one bank providing an account—Barclays. Co-op used to be in this market but has now withdrawn. There has been a long-standing discussion about why that cannot happen and the legal protections for the banks. Something needs to move on that. It involves a relatively small number of people, but for them it is very difficult.

Q261 Chair: Very concerning for that group.

Joanna Elson: That's right.

Q262 Stewart Hosie: You seem to welcome the directive. Other people would make a different case. Are you confident that it will help rather than hinder the banks in providing basic accounts in the UK?

Joanna Elson: Like all these things, it is about how it is implemented. I know there has been a lot of work on the basic bank account stuff and Richard alluded to some of that work. I sit on the BBA's consumer panel which Gillian Guy chairs. You talked to her recently. That panel has been looking at and pushing the banks on where we are on this stuff. I know there is a lot of work going on. We are very hopeful that this directive, the interest of this Committee and the push from Government will all come together and move this on, because there are well rehearsed arguments for why this group of people need these products.

Q263 Stewart Hosie: Finally, Mr McGee and Professor Gathergood, is there is anything you want to add either on intervention now to improve standards or the directive or its associated setting up of basic bank accounts in any circumstances?

Professor Gathergood: So I think, at a basic level, it is about financial exclusion. It comes back, really, to the same issue that you are presented with in the payday lending case as to whether a market equilibrium in which individuals are excluded from some forms of finance is the market equilibrium we should be looking for. At a fundamental level, a basic bank account is almost as important as having the Post Office deliver to your address. If you are not eligible for that, you are excluded from some very important and valuable economic circumstances. I want you to think about it in those terms.

Just to pick up on your point about price comparison, I think that in the consumer credit market there is a fundamentally anti-competitive convention that is stopping effective price comparison. In some markets, price comparison is rife. Take the car insurance market. There are comparison websites out there, and you can go online and in a few clicks make 100 comparisons of different insurance providers. What we see in the consumer credit market is the absence of effective price comparison. The only price comparison that is available to you is headline price comparison of the representative rate. Why can't you go on to MoneySuperMarket or GoCompare, input your details and get lots of offers from lenders in the same way as you do from insurers?

The reason for that is because the credit scoring convention is inherently anti-competitive—this convention whereby if you apply for a loan, it is recorded on your credit

file, so lenders can see your applications and infer your rejections. Lenders say that they interpret lots of applications as indicative that an individual is being credit hungry and is high risk, but lots of applications could simply be because the individual is shopping around and trying to get the best deal. It is notable that if you go on to MoneySavingExpert, Martin Lewis's website, it recommends that you go through five different price comparison websites for your car insurance. When it comes to credit cards, however, the advice from the website is that you should minimise your credit card applications. That seems completely counterintuitive in a competitive market.

Stewart Hosie: Professor Gathergood, I know that we are slightly pressed for time, but I think that this is an area that we might want to take a bit more information on. To have it put like that is really helpful—that the difference between maximising the comparison and minimising it is the impact on the credit record. That is extremely helpful and probably useful for the outside world as well.

Q264 Chair: Do you think that the algorithms used to establish the credit rating should be available to individual customers?

Professor Gathergood: In the credit market that we are in today, firms are using their own algorithms. Twenty years ago, say, the credit reference agencies were providing credit scores that were used extensively by lenders. Now, firms tend to put together their own credit scores. I think that they would claim that they have lots of privileged information that should not be disseminated.

Q265 Chair: They do. I am asking you whether you think, none the less, that customers, on request, should be able to obtain that information.

Professor Gathergood: I think that that would be an excellent idea, if consumers can have the tools to know how to interpret those scores.

Q266 Chair: Would it increase or decrease competition? That is the question.

Professor Gathergood: It could only act to increase competition in the market.

Q267 Chair: Might it not lead banks to use other, non-disclosed means of deciding which customers to lend to?

Professor Gathergood: Banks have limited opportunity to use non-disclosed means. Of course, the consumer has the right to obtain all the information that the bank is using about them.

Q268 Chair: This seems to me to be an absolutely crucial area for the establishment of credit at the bottom end of the market, and I agree with what Stewart has said.

Professor Gathergood: I should also say that I have written on this a bit more extensively recently in a report with the think-tank ResPublica, which I think you have.

Chair: Come back to us with some thoughts, if you have them; it is just that we are very short of time. If you will forgive me, whoever was trying to catch my eye a moment ago—

Richard Lloyd: It was me.

Chair: If you will forgive me, I am going to move on to Mark Garnier, purely because of time.

Q269 Mark Garnier: Professor Gathergood, can you give us an idea of just how big the consumer credit market is, and what proportion of that is held by payday lenders?

Professor Gathergood: So the consumer credit market is around £150 billion-plus. Towards the latter 2000s, it was getting up to nearly £200 billion, and then there was a decrease in lending after the financial crisis. The market is around £160 billion or £170 billion of outstanding credit at any point in time. The payday lending market is a very small chunk of that in terms of the financial size of the market. It is a few billion—£4 billion or £5 billion of outstanding credit at any point in time. The significance of the payday lending market is probably not in the size of the market financially, but in the large number of consumers who use these loans. That is around 1.5 million. There are about 4 million people applying for one of these loans each year. The costs and charges also mean that a small amount of lending up front to the individual consumer can become a very large debt on their individual balance sheet. The market is bigger in its significance than would purely be accounted for by its accounting size.

Q270 Mark Garnier: I was interested in what Francis McGee and Joanna Elson said about the people they help. We heard from Professor Gathergood that the payday lending market is, in the most simplistic terms, about 3% of the total value but is much more significant. What proportion of the people who you help need that help as a result of payday lending, compared with other consumer credit products?

Joanna Elson: One in 10 of the calls we currently receive at National Debtline are people who have a payday loan. They may very well have other credit, too.

Francis McGee: It is about one in four for us.

Q271 Mark Garnier: A quarter?

Francis McGee: Yes.

Q272 Mark Garnier: So you are essentially saying that, although it is 4%, it is disproportionate by five times. Out of interest, what has happened over the last year or so in

terms of the proportion of payday lending complaints that you are helping with? Has that gone up or down, or has it stayed the same?

Francis McGee: The number of people coming to us who have a payday loan among their problems is going up.

Q273 Mark Garnier: Is it among their problems, or is the payday loan the cause of their problems?

Francis McGee: I can't tell you which among them is the primary problem, but the number of people who have a payday loan among their problem debts is continuing to rise.

Joanna Elson: Whereas ours looks like it has peaked, actually. Back in 2007, when there was hardly any market, 465 people called. Last year, 23,000 had a payday complaint. This year, it will be about 20,000. It looks like it has peaked.

Q274 Mark Garnier: What do you think is going on to drive that decline?

Joanna Elson: I think that the FCA has taken early action. They are getting people help earlier and the debate around the issues has made people think more carefully about whether they want an expensive loan that may get them into more difficulty. Certainly, when we talked to people and looked at their income and expenditure—are you claiming all the credits and benefits you are entitled to? Can we get you cheaper utilities? Can we help you to renegotiate with your creditors? You would often be much better to take that sort of approach than to take an expensive payday loan that you will struggle to repay.

Q275 Mark Garnier: Mr McGee, I am very interested in what you are saying. It sounds like the payday element of this is mixed up with a much bigger problem that you are looking at in terms of giving people better advice. I am trying to understand what is going on behind this data that you are collecting. Is payday lending the cause of the problem or a symptom of a wider problem that we have not quite identified?

Francis McGee: The picture we see is that the people who come to us with problem debts have, on average, five or six unsecured debts out of a total £16,000 or so of problem debt. Where there is a payday element, people very often have multiple payday loans. The people who have payday loans have an average of three. The average payday loan debt is around £1,500 or £1,600. The average monthly income of these clients, incidentally, is about £1,300. We think we are seeing people who are starting to run the course with other sources of credit, who then turn to the high-cost, short-term credit late in their credit journey because it might still be available. It has this acceleration effect because of the way that the products are designed and because it seems to us that the products are often not being used for the purpose for which they are designed. They are being used to smooth consumption, certainly, but in the sense of getting people through to the end of the month rather than to smooth out the lumpier, more irregular expenses that life brings. In that situation, you find that this month's loan, plus the interest on last month's loan, plus the interest and charges on the loan

before that—you end up with more and more of a bite taken out of next month's income in order to make ends meet.

Q276 Mark Garnier: Richard Lloyd, having just heard that answer—clearly, the problem is much wider than just payday lending—do you think that the way the regulators are approaching the payday lending space is too payday-lending specific? Do you think that we should be looking at the far wider consumer credit market and should treat it all as one, rather than zoning in on payday lenders specifically?

Richard Lloyd: We do completely agree with that, for the reason that Francis pointed to: the FCA needs to look at the customer journey. If people are misled into thinking that a 0% balance transfer credit card is an extremely good deal and they then find that the terms for them aren't so good and they get drawn further and further into unmanageable debt, that is where people start moving through the wider consumer credit system into the most extreme forms, the most expensive forms of debt, so I think the FCA must start looking right across the board at consumer credit. It must look at it as a system and look at the way consumers behave in that system, and address the very early steps of difficulty that people are often encountering—for example, through unclear pricing in relation to authorised and unauthorised overdrafts and through credit cards and the way the credit card market is operating. The FCA is studying it now. There are all sorts of ways in which consumers are misled into thinking that credit cards are a better deal than they really are for them. It must then look at other dimensions of the consumer credit market—logbook loans and catalogue credit even. So there is a complicated ecosystem here that, yes, payday lending is an extreme exemplar of, but it is the journey that people take through to turning to a payday loan that needs to be addressed.

Q277 Mark Garnier: Coming back to Joanna Elson and Mr McGee, I have two questions together. Clearly, the way to resolve a lot of this problem is through earlier intervention, so the first question is: how do you get in there earlier with the consumer? The second question arises given that you don't get in there that early. If you over-regulate the final part of the credit journey and you reduce it in size, where else does the unmet demand go and wouldn't that necessarily cause greater problems if it was going into the unregulated space?

Joanna Elson: Okay, so the first question was about early intervention. Absolutely. We did a piece of work with Barclays two or three years ago that looked at how you could get people to the help they needed almost before they needed it. That turns on who you trust if you're a consumer. It turns on whether Barclays or whoever it is—whatever the lender is—can phrase the question in a way that is non-judgmental: "We see lots of people like you who are struggling. There is free independent help out there. Can we get you to it?" I could go into a lot more detail, but that is essentially how you get people there. In terms of what additional pressure you can put on creditors to make that happen, it is in the lending code. The FCA is on the case with it, including for payday lenders. It is requiring payday lenders to refer to free debt advice where applications are declined and so on.

That was the early intervention question. On the question of where people go if payday lending is no longer available, clearly we don't want them to go to the illegal moneylenders. That is the absolute worst option. We think that there needs to be a publicity campaign, whether that is organised by the FCA, the Money Advice Service or whoever. There needs to be some way of ensuring that people who are in this position know that the best thing they can do is seek free independent advice from someone who is not going to judge them, but is going to help them, as I was saying earlier, to look at their income and expenditure and see whether they can avoid taking the credit. A campaign alerting people to the availability of that would seem sensible to us.

Another place people could go is credit unions. That is not a panacea for all ills. They don't offer quite the same thing. They are not looking to, nor would it be sensible for them to, offer payday loans, but they are certainly looking to use more digital channels and give quicker lending decisions. Probably the loans would be over a longer period than payday people would be looking for—six months or 12 months. Nevertheless, the work that many people—the Government, the Archbishop of Canterbury and others—are doing in boosting what credit unions are doing is welcome. I sit on the Credit Union Foundation grants committee, which your former Chair, Lord McFall, also sits on. It is Lloyds Bank giving £4 million to credit unions to do exactly that—to see whether they can make sure that provision is available for people who need it. So a lot is going on. The main thing is that we have to make sure that people don't end up in the arms of the illegal moneylenders.

Q278 Mark Garnier: Just on the subject of credit unions, as we approach the general election we are in super-intense policy making mode. Various policies are being circulated on how better to pay for the help that credit unions offer. Ideas are coming up from all sorts of different parties about how a levy can be placed on the payday lending sector in order to subsidise the credit unions. It is a good idea to pick on one sector to pay for another, particularly when it is a relatively small part of the overall marketplace? If you want to favour one sector, such as the credit unions, would a tiny levy on everyone else be better?

Joanna Elson: That is not an easy one to answer. To pick on particular sectors sounds like a bit of a blunt instrument, doesn't it? Of course, the FCA has levy-raising powers that are used to fund various things, so it might be better to look at it in the round and then look at where money should be disbursed.

Francis McGee: I would associate myself with everything that Joanna has just said, and the only thing that I would add is that although I am a fan of credit unions—don't get me wrong—there is a risk of jumping to solutions. If you look at why people are using credit—this goes back to Joanna's earlier point—they are using it for new reasons. They are using credit because there is too much month left at the end of the money.

There are credit products that are there to help people to do the lifetime income smoothing, such as the house purchases and whatnot, and there are credit products that are designed to do shorter-term smoothing than that to deal with life's big, lumpy expenditures. What credit product is there to provide income support that can be repaid out of the very tight incomes that people are living with in these parts of the market?

I would prefer to start with the need and work out the solution to that and how the risk should be shared out between the public and private sectors, because otherwise there is a transfer of risk on to vulnerable consumers, which puts them into a market that does not have products that are designed to meet their actual needs. I would prefer the debate to start with the need rather than a particular set of institutions. Having said that, one must choose some institutions, and you could do a lot worse than credit unions.

Chair: And above all, as we have found over decades since time immemorial, as you were pointing out, Joanna, people simply mustn't end up in the hands of the sharks, which is the ever-present risk of heavy-handed regulation of this market.

Q279 Alok Sharma: May I start with a question for you, Richard Lloyd? Andy Haste, who has recently become the chairman of Wonga, is on record as having said: "We want to ensure we only lend to those who can reasonably afford the loan in question and during my review, it became clear to me that this has unfortunately not always been the case." Do you think that Mr Haste should win a prize for understatement of the year?

Richard Lloyd: I think he should. Questions should be asked of his predecessor, who came into Which?—and probably sat in front of this Committee—and assured everyone that that was precisely what was going on over the past several years. Mr Haste's words are fine, but the business practice has been closely examined by the FCA, and in so many areas about which many of us have been raising the alarm, those words have been found not to be the case, so we remain to be convinced that Wonga has changed.

Q280 Alok Sharma: Do you think that the voluntary agreement that Wonga has reached with the FCA is good for consumers? Could the FCA have pushed further?

Richard Lloyd: They could have pushed further. On balance, it was the right thing to do at the time. There was an inherent unfairness in the support given to people who had defaulted relative to those who had managed to pay off their debts, but a line had to be drawn, and I think that the FCA's judgment in this case was about right. We now need to see the FCA all over Wonga and the other payday lenders, ensuring that they are complying with the agreements that they have made.

Q281 Alok Sharma: Joanna Elson, going back to the point that we touched on earlier about a contraction in the market, Wonga has said that its new lending practices will mean that it will be accepting significantly fewer loans. Does that worry you, or do you think it is good?

Joanna Elson: I think I've already said that very often people make the wrong choice when they go for a payday loan. I should preface that by saying that we see things that go wrong, so I have to be careful that I do not extrapolate from that that everything always goes wrong. Certainly, we see situations where things go wrong. Therefore, a contraction in the market is probably the right thing. We do not want those people to take loans that they just cannot repay.

Q282 Alok Sharma: So, your view is that the fact that they are reigning it in is good for consumers.

Joanna Elson: I think so; yes.

Q283 Alok Sharma: Francis, are there any payday lenders other than Wonga that are still using practices that might result in loans going to vulnerable people who cannot afford to repay?

Francis McGee: I can't comment on individual lenders. I simply return to my earlier point that we are still seeing a rise in the number of people coming to us, as Joanna said, where things have gone wrong—more people still with payday loans.

Q284 Alok Sharma: Does anybody want to name any particular payday lenders that are getting it right or still getting it wrong?

Professor Gathergood: My understanding is that the affordability rules that are applied to Wonga, under this voluntary requirement at least, are being applied to other firms under supervision. Firms are getting it right versus getting it wrong on the issue of whether they offer a product that allows consumers to progress in some way. It is not just about the affordability of the first loan that you take, but what happens with subsequent loans. The typical consumer who uses payday loans has around 6 or 7 per year. Mainstream firms charge a very high price for the first loan, which remains that price for subsequent loans. When consumers go back the second, third or fourth time, they are showing that they are lower risk and able to repay, yet they are still getting loans at the same high price. What we want to see is more like a credit ladder, where the first loan may be expensive but, given that the individuals have shown that they can repay and it is affordable to them, subsequent loans should be cheaper. If there is anything usurious about the market, it is the failure to reprice.

Q285 Alok Sharma: You raise an interesting point. Is that something that the FCA should be acting on?

Professor Gathergood: The FCA said that it would look at repeat lending. There are models where firms have introduced risk-based pricing. I have said recently with ResPublica that the whole industry should move to risk-based pricing and the FCA should investigate some kind of convention, or potentially rules, such that firms, allowing for some time-varying risk premiums, have to demonstrate that consumers who can afford the loans and show ability to repay get cheaper or more favourable loan terms for subsequent loans. If there is a usurious aspect of this market, it is what happens with users who repeatedly borrow and repay, and continually face very high prices.

Q286 Alok Sharma: And I see Joanna Elson nodding. If I understand it correctly, you are saying that in the case of Wonga, the FCA has made some good progress, but there is

a lot further to go to ensure that the market works and is regulated and that the right people are getting the right loans at the right rates.

Professor Gathergood: Absolutely.

Chair: Andy Love has a quick question.

Q287 Mr Love: Yes, it was on Richard Lloyd's comment about drawing a line. There will be many people who kept up with their payments to Wonga, who would have taken out a loan with another payday loan company but suffered from inadequate affordability assessments. Should they receive compensation?

Richard Lloyd: Well, this is where the unfinished business of the FCA and the approach that it has taken with Wonga must be applied with other lenders. If people have taken out loans elsewhere to repay a Wonga loan and suffered the same detriment, the logic is that the FCA would take similar enforcement action. That is precisely why it may have got the balance right in the case of Wonga, but there is much more it needs to do to ensure that people who have suffered because of Wonga—perhaps with another lender—have fair treatment as well.

Mr Love: Does anybody differ from that? No.

Chair: Thank you very much indeed for coming to give evidence to us this morning. I am sorry it has been somewhat curtailed; all of you will go away thinking you would rather have said at least twice as much as you did say. If you have thoughts you want to put down on paper, we will be pleased to receive them as part of this inquiry.

We will move straight on to the next panel, as we are very pressed for time this morning.

Examination of Witness

Witness: **Nick Brookes**, Chief Credit Officer, Wonga, gave evidence.

Chair: Thank you very much for coming to give evidence, Mr Brookes. I begin with a letter that came into my office just before the weekend, which said that you may be restricted in the evidence that you can give with respect to the letters sent by solicitors purporting to be independent who are in fact partners connected with Wonga. It said that this might restrict your ability to be full and frank on this issue. We have discussed this with the police and as a Committee, and we feel that while it may not be an important issue at this stage, it may become so, and it is certainly for your judgment, not ours, how you answer questions. With that in mind, one colleague does want to ask questions in this field. I will hand the questioning over to Stewart Hosie.

Q288 Stewart Hosie: Mr Brookes, how far are Wonga through implementing the consumer redress scheme they have to put in place for their unfair debt collection practices?

Nick Brookes: Let me just start by covering a couple of points. First, the letters that went out purporting to be from solicitors or debt collection agencies were wrong. That should not have happened. Similarly, as our recent announcement on affordability said, we were not adequately making sure that people could afford to repay the debt that they were making, and that was wrong as well. These are decisions which have impacts on real customers, and we deeply regret that that happened. I will personally apologise to all our customers for that. It is not something that we envisaged happening, and we are very sorry for that. The other thing I would say to our customers and to this Committee is that we are working very hard to fix those situations and make sure we put it right for those customers in terms of the redress for the letters and the affordability piece, which we are looking at as well.

Q289 Stewart Hosie: So how far through the process are you in terms of real compensation and redress to your customers?

Nick Brookes: At the moment, we have sent out just in excess of 27,000 letters. Originally, 45,000 customers were impacted. We have had responses from around 5,000 customers. We need an active response from those customers; they have to accept the offer that has gone out to them. So far, around 99% of the customers who have responded have accepted that offer.

Q290 Stewart Hosie: That is a very high number. Are you surprised that so many—99%—have said, “Yes, we will accept this”?

Nick Brookes: We are not surprised by the acceptance rate. We are working through ensuring that we communicate with each of those customers. We still have some way to go to make sure that we send out all the other letters to customers offering that compensation. Those who are responding, as I said, are responding positively; 99% of them are accepting, and only a very small percentage want to have it looked at independently, case by case.

Q291 Stewart Hosie: You say that 43,000 customers were affected and 27,000 have been contacted so far. How easy was it for Wonga to identify detriment, loss or damage among your customer base?

Nick Brookes: This is something which occurred many years ago. It happened in 2008 to 2010, and it was stopped at the end of 2010, so we had to go back a substantial way to identify those customers and then contact them. Quite often their details may have changed. A lot of our applications are online and it has been challenging to ensure that we are able to reach, identify and contact those customers to make the offer to them. That is why we are about 60% of the way through that.

Q292 Stewart Hsieh: In previous financial mis-selling episodes, the number of customers affected seems to have grown exponentially. Are you convinced that the 43,000 is the sum total or is it likely to creep up over time?

Nick Brookes: No, that's the figure. We have been working with a skilled person in relation to this activity. That is somebody who is appointed jointly with the FCA to oversee the process we are going through. We have been going through that process and keeping them informed of how that has progressed. They review and agree all the details that we are sending out, as well as the methodology we have used, both from an identification perspective as well as ensuring that we are carrying out the right action for those customers.

Q293 Stewart Hsieh: Finally, you are very new to the company; you arrived very recently.

Nick Brookes: Yes.

Q294 Stewart Hsieh: So it is slightly unfair to probe too deeply with you on some of the historical stuff. How do you ensure going forward that you do not end up back in a similar place with similar flaws causing similar distress and damage? What should you or the company now do to ensure that cannot happen?

Nick Brookes: The company is making a lot of changes to the organisation. We are at a crossroads both for the company and the industry. We recently had a chairman appointed who has come out with a number of priorities for how we should look at our business. From a cultural perspective, we are looking to focus far more on the customer and ensure we are doing the right thing for the customer. There is a big programme of change going on in Wonga at the moment, as part of the priorities set out by the chairman when he joined in July.

Q295 Stewart Hsieh: Can you give us an example of what you mean by that?

Nick Brookes: There are a great number of things. As soon as the chairman joined he immediately said that he would take the puppets off air and our advertising was under review. That was done that day in the UK. We also went completely off air in the UK; no TV advertising took place at that time. We have recently announced, again in the marketing area, that we are having the Wonga logos and the branding removed from the children's replica shirts at Newcastle United.

So we have made a number of changes there in terms of marketing. Matters were raised, we took note, reviewed them and made changes. Other things include changing the perception of how fair the product is. A good example would be if a customer gets into difficulty, we will immediately set up a repayment arrangement with them. That stops all interest and charges; there are no further fees added to that. They can set that up before the payment is due. In terms of customers getting into a spiral of continuing debt, we can stop that immediately.

Even if a customer does not contact us, we give them a grace period of three days. If your payment is due on Monday, we will attempt to take that payment on a Monday. If it is not made, we will contact you and let you know that it has not been taken. You will get Tuesday and Wednesday and it will not be until Thursday that any further fees are added. That is pretty unique and quite favourable when you look at it in comparison with credit cards, where those things are normally added the same day.

We have made a number of changes in how the product works to ensure it works better for the customer. If the customer still does not contact us—and we will make further contact—we will charge interest for only 30 days. The maximum it can go to is 30 days, which we think is fair. We are always trying to create a product that is fair to the customer, and those are just some of the changes that have been made.

There are also a lot of changes of people. As you mentioned, I recently joined the organisation and have been there about two months now. I have got 20 years of history working in banking and financial services, particularly in the credit risk area. I am part of a new group of people there to reform it and ensure that Wonga is focusing on the right aspects as we move forward as a business.

Stewart Hosie: That is quite helpful. I am sure other people will probe what you are saying. It is useful for me to understand the changes that have been made in the context of this lending sector. We have got to remember what we are talking about, the payday side of it. It is useful to hear that at this point and I am sure you will be probed further on that.

Q296 Chair: Did you agree with the summary of the FCA regulation, which met a good deal of consensus, that it had pitched its work in the right place?

Nick Brookes: It is a difficult one to judge at this point in time. We were involved in the consultation process with the FCA. We agree with it being a regulated market that works in the best interests of consumers. The challenge is in understanding what happens to all of those consumers within that market.

Q297 Chair: What about these consumers who were taking loans who are no longer obtaining loans? Have you done any work on that?

Nick Brookes: Yes, and that is one of the areas which we need to focus on. I understand that there is a review in 2017, and I would agree with the previous people that it should be done sooner than that because we want to make sure that not only is it working in line for those people who can still obtain credit but also for those people who are no longer able to obtain it. I look at information on a weekly basis to do with people whom we are no longer lending to. We have a lot of people who interact with us via Facebook or make specific complaints. Many of our complaints at the moment are from people who are unable to obtain a loan and were able to do so in the past. I have to review a number of those on a weekly basis. There are some very serious cases as well where people are very distressed about the fact that they do not feel that they can bridge that particular payment because of the action that we have taken and the fact that we are no longer lending in certain areas.

Q298 Chair: Have Wonga taken people away from illegal, unregulated lenders and put them into regulated lending and are those at risk of going back to that route as a consequence of the regulation?

Nick Brookes: I would say that there is a definite balance there.

Q299 Chair: Is that a yes or a no?

Nick Brookes: That is a yes. I think we offer a valid service which is used by customers. Most of our customers have access to other credit as well. Clearly all our customers have bank accounts. That is one of the criteria that we have.

Q300 Chair: On what scale is this going to happen?

Nick Brookes: In terms of pushing people back the other way?

Chair: Yes.

Nick Brookes: If you look at the FCA report, they have put out certain figures that they think are appropriate. I think there is other commentary that would say something different. From what I have seen over the last couple of months and some of the changes that we have made, there is a large volume of customers that we are no longer lending to. Whether those customers go to another payday lender, or use another form of credit, or go to an unregulated sector, we don't know at this point in time. We are looking to do some work which will identify whether those people went to a different lender once we can see some of that data mature. At this point, it is difficult to say, but from the information that I do see—comments directly from customers and complaints—it is definitely a difficult period of time for a lot of those customers in terms of making that adjustment.

Q301 Chair: If that is your view I am surprised by the equanimity with which you have taken the evidence which is collected on the FCA's initiative, where you feel it is probably pitched in the right place, or certainly worth a try. Whereas what you are saying would suggest, would it not, that it hasn't been pitched at the right place?

Nick Brookes: I think it is too early to say. We need to see the results of that. My concern is that it pushes a proportion of people into a different kind of unregulated market. There needs to be a balance between improving the outcomes for a number of people who are still able to obtain that credit versus the outcome for those people who are no longer able to. We heard some evidence before about the percentages and it looks like it is in the right place on balance; that is where I think the difficulty lies.

Chair: The evidence you have just given will no doubt be robustly challenged and the extent to which you are able to sustain it will be extremely important in the coming debate about how to structure regulation in this area.

Q302 Mr Love: I want to come to a mixture of conduct and culture. I will follow on from Stewart Hosie's question about the £2.6 million compensation for the threatening letters from fake solicitors. Who was the person responsible for that policy and is he still with the company?

Nick Brookes: In terms of who the person responsible was, I joined the company two months ago and this was stopped over four years ago. In terms of anybody associated with it, there has been a lot of change at the organisation. My understanding is that nobody who was associated with those decisions is with the business any longer.

Q303 Mr Love: Last year, the Business, Innovation and Skills Committee carried out an inquiry into payday lending, and Henry Raine, who was your head of regulatory and public affairs, said: "We aim to lend to people who can pay us back. We do everything we can to lessen the load of bad debt." A few months later, you wrote off debts for 375,000 people. He misled Parliament. Is he still with the company? If so, what role does he play?

Nick Brookes: I think Henry gave that information in good faith at that point in time. Some of the challenges in the organisation—

Q304 Mr Love: Do you expect the Committee to accept that? One in five of your borrowers were victims of your policies, and you say that Henry Raine genuinely believed that you were being honourable.

Nick Brookes: I think Henry provided that information in good faith. When I joined the company, one of the first things I looked at was affordability. It was something that the chairman identified as an issue, and something that the FCA asked us about a number of times. I looked at it, having spent 20 years working within banking and financial services—all that time I was in credit risk—and it was apparent to me that we did not have robust enough checks in place, so we made those changes.

Q305 Mr Love: Can you confirm that Henry Raine is still with the company?

Nick Brookes: He is, yes.

Q306 Mr Love: The Member of Parliament for Walthamstow, who was a leading advocate for the cap on payday lending that has been introduced, suffered a considerable number of abusive messages on Twitter, and somebody messed around with her Wikipedia entry. Both those things were traced to Wonga. Do you know who was responsible, and has action been taken?

Nick Brookes: Again, that is completely unacceptable. I don't know who was responsible for it. Again, it was long before I joined the organisation, but I would not defend it in any way. It is completely unacceptable.

Q307 Mr Love: Can you confirm that the person responsible is now special assistant to the chairman?

Nick Brookes: I don't have that detail, I'm afraid. As I say, I have been with the company for only two months, and I understand that that happened some time ago, but it is completely unacceptable behaviour.

Q308 Chair: It sounds like something you need to check out.

Nick Brookes: It is something that I will look into. If you want me to respond and write to the Committee, I will certainly do so.

Q309 Mr Love: It appears that the people who were responsible for all the problems at Wonga are still with Wonga. How do you intend to change the culture of the organisation?

Nick Brookes: We have a lot of new people who are joining the organisation. The chairman joined the organisation in July and set out a number of priorities which, as I said earlier, we are pushing forward quickly. They include the marketing and the products. Other people, such as me, have joined the organisation. We have a new group CFO who will join the organisation in December and a new UK MD. We are all focused on ensuring that we reform and change the organisation for the better so it is more focused on the outcome for the customer. We want to ensure we have a sustainable business and sustainable products.

Q310 Mr Love: We will be able to trace that ourselves. I look forward to seeing significant changes to the way Wonga does its business. On 2 October, you put in place interim lending criteria. Can you tell us when you expect them to become permanent, and can you explain the approach that you are likely to take with them?

Nick Brookes: On 2 September, we put in place the new affordability measures. We discussed them with the FCA and took it through the approach we are applying, in terms of how we assess affordability. We also started a process of investing in some additional technology within the organisation and a new decision engine, to which we will apply new criteria. We are working with the FCA. I mentioned that there is a skilled person, in terms of the remediation of the letters. We also have somebody who will review those criteria to ensure that they are appropriate and that the loans are affordable to the population we are lending to.

Q311 Mr Love: In the previous session, we discussed the people who, although they had been dealt the hand of inadequate affordability assessments, for whatever reason managed to repay their loan to Wonga. You got off lightly with the voluntary agreement between you and the FCA. Are you going to make things right and pay compensation to all the Wonga customers affected by inadequate affordability assessments?

Nick Brookes: We took a very broad view of affordability. When we came up with the criteria and agreed them, it was quite a conservative set of new ways of looking at affordability. We then took that new understanding of how we would lend to people and we overlaid that on all of the existing population we had; all the customers we had who were up to date, all the arrears customers and the customers who had been on the books for a substantial period of time. Some of them had taken loans that were made seven years ago. We went back and applied those criteria to loans made a very long time ago, when some of the data and systems would not even have existed, and even the legislation was not in place. So we went through an extensive process of assessing which loans were unaffordable—

Q312 Mr Love: The point I am trying to make is that the people who were compensated were those who were in arrears of up to 29 days and over 30 days. There were some people who rose to the occasion and paid back the debt, even though they could not afford it. Many of them would have taken out further loans, probably with other payday lenders, and perhaps even gone into the informal—illegal—sector to do so. When will they receive compensation?

Nick Brookes: We reviewed all the portfolio we had and our discussions with the FCA focused on—

Q313 Mr Love: You're expecting us to accept that Wonga is a changed organisation. Here is the perfect way in which you can show the change in the way that you are providing responsible lending, by compensating those who suffered from irresponsible lending.

Nick Brookes: We have done that, as you mentioned, with 375,000 customers; we have followed through on the actions we talked about on 2 October; and we have remediated the vast majority of those. We have written off the bulk of all those loans that we referred to—the 330,000—and for the 45,000 who we were refunding or returning interest and fees to, we have managed that for the vast majority of those, as well as correcting their credit files and everything else of that nature that we agreed to.

Q314 Chair: Andy Love has made a number of specific allegations there, which I think it would be important for you to come back to the Committee on in writing, with respect to some very concerning aspects of behaviour internally at Wonga. There appears to be a lot more work to do, and it would be helpful if you could confirm that, in order to sort out the culture of Wonga.

Nick Brookes: There's a lot more to do. We are not there yet, but we are making large strides. I have gone through some of the pieces, in terms of new people in the business; the way we have looked at our marketing; and the way we have looked at our fairness, in terms of the treatment of customers and some of the pricing pieces there. So we are making significant headway in relation to reform—

Chair: I am sure you understand the Committee's concern. We have been listening for years to bankers of various types coming before us and telling us, "Don't worry. We did have a serious problem, but we're on top of it now and we've all but sorted it out."

Q315 John Mann: What's the name of the skilled person you have appointed in conjunction with the FCA?

Nick Brookes: It's a skilled person who has been appointed, and they work within Deloitte.

John Mann: And who is it?

Nick Brookes: Her name is Cindy Chan.

Q316 John Mann: What percentage of your customers are repeat customers?

Nick Brookes: There is a large volume of our customers who are repeat customers—existing customers, as we would call them. And customers do tend to come back to take that product.

Q317 John Mann: What percentage of your customers have been turned down by a credit union immediately before?

Nick Brookes: I wouldn't have that information; I wouldn't know that they had been turned down by a credit union.

Q318 John Mann: Why wouldn't you know that?

Nick Brookes: I wouldn't be aware of a decision that was made by a credit union in relation to their credit.

Q319 John Mann: So your staff wouldn't ask that?

Nick Brookes: We have an online application. We view a lot of information that is supplied by the customer as well as from credit reference agencies, and any detail that we have in relation to the customer as well. So, if they have had previous accounts with us, we will also take that into consideration.

Q320 John Mann: But you wouldn't ask them if they'd been to see a credit union?

Nick Brookes: It's an online application; I'm not aware that that is a question on the application, no.

Q321 John Mann: And how many minutes would it take from applying to receiving a decision? What is the quickest that that can be done?

Nick Brookes: A decision can be made, in terms of your application and the process, within 15 minutes.

John Mann: Is it possible to do it quicker than 15 minutes?

Nick Brookes: Again, it depends on how quickly you can complete the application details—

John Mann: So what would you say is the quickest time it can be done within, and receive a decision on?

Nick Brookes: I don't know what the quickest time is that you could go through that. But we have, on average, a period that is between five and 15 minutes.

Q322 John Mann: Having completed the application, what is the quickest time in which a decision can be made on it?

Nick Brookes: Decisions are made instantly on many occasions. All the information is processed and decisions are made instantly on most occasions. That is usual within the credit industry. Most decisions for credit cards, loans and other types of short-term credit are made instantly.

Q323 John Mann: I ask again because I didn't get the precise figure: what percentage of your customers are repeat customers?

Nick Brookes: It is a large percentage, in excess of 90%. That is existing customers, not necessarily repeat customers.

Q324 John Mann: What is the difference between “existing” and “repeat”?

Nick Brookes: An existing customer is somebody who takes out loans on a relatively infrequent basis.

Q325 John Mann: So they are repeat customers? More than 90%?

Nick Brookes: Yes.

Q326 Chair: Sorry, just to be clear, what do you mean by “repeat customers”?

Nick Brookes: I thought you were asking whether they are repeat customers as in, lending the following month after a loan—

Q327 Chair: I see. Regular and repetitive you term “repeat”, whereas a return customer is one returning after an interval?

Nick Brookes: Once you have taken an account you are classified as a customer and you have an account with us. At that point, you can come back.

Q328 John Mann: Would you regard it as appropriate to borrow money in order to spend it immediately with a bookmaker?

Nick Brookes: No.

Q329 John Mann: Some university research has just come out and there is a phrase being used by teenagers, particularly in London: “Let’s go Wonga a pizza”. Would you regard it as appropriate for teenagers to Wonga a pizza?

Nick Brookes: I’m sorry, I don’t understand what “Wonga a pizza” is.

John Mann: It is a phrase being used by young people whereby, in order to have the cash to keep up with their cohort, they put in an application, even a repeat application, for small amounts of money to pay for a pizza. Would you regard that as an appropriate reason for lending?

Nick Brookes: I think that the product is there for specific reasons and, if used appropriately, it is a perfectly legitimate product. How customers use the money that we advance them is a difficult aspect to control. The money is deposited into their bank account. We do rigorous checks on those customers, so if a customer is coming in we will assess their credit reference and their existing accounts with us, and look at any information that they provide to us at that point. How they then spend that money is something that we don’t control.

Q330 John Mann: There is research that says that in youth culture, particularly in London, the concept of, “Let’s go Wonga a pizza” is now prevalent. Are you comfortable with such a concept?

Nick Brookes: I have no knowledge of that activity. It is something that I could look into, but I have no knowledge of the “Let’s go Wonga a pizza” that you refer to.

John Mann: You do now. Are you comfortable with that concept in terms of youth culture?

Nick Brookes: When we lend to people, how they then use that money is a decision for them.

Chair: On the specific point, perhaps you would come back to us.

Q331 John Mann: A five year-old in my constituency asked, as a Christmas present from his parents, for money from Wonga. Why do you think that would be?

Nick Brookes: I couldn't comment. It is impossible for me to tell why that would be.

Chair: Five-year-olds do ask for a wide range of things from their parents for Christmas.

Q332 John Mann: They do. You will have a view on it. Where would the five-year-old have picked up the information that would lead him to request, as a Christmas present, money from Wonga?

Nick Brookes: I have no idea where he would get that information. We have reviewed our marketing, as I have said, and taken our adverts off TV.

Q333 John Mann: Have you been criticised by the Advertising Standards Authority?

Nick Brookes: We have received criticism in the past, but, as I say, we have taken our adverts off TV, we stopped with the puppets immediately and we are in the process of taking our logos off the Newcastle United shirts for children. So we have listened to that; we think it is appropriate to do so.

Q334 John Mann: Some 59% of complaints about you to the Financial Ombudsman Service have been upheld. Why do you think that figure is so high?

Nick Brookes: The latest figure I have is 52%, which I think is in line with other banks. I think Santander had a very similar upheld rate. We have a limited number of complaints that go to the Financial Ombudsman Service. The Financial Ombudsman Service is there to take a judgment as to what they feel is the right decision. Whether to uphold the complaint at that point in time is at their discretion.

Q335 John Mann: What rate would you regard as acceptable for your new business model?

Nick Brookes: We hope that with our new business model we would have fewer complaints going to the Financial Ombudsman, and we would hope to have a better rate. But we are a business that has lent in large—

John Mann: I am sure you have a target. What would your target be?

Nick Brookes: We do not have a specific target for that.

John Mann: Would 50% be acceptable?

Nick Brookes: I am not going to get into a hypothetical percentage. We do not have a target for that.

Q336 John Mann: The real figure at the moment is 59%. That is not hypothetical. What is the major problem area that you have identified which has led to this 59% figure?

Nick Brookes: I do not have those details in front of me.

John Mann: But you must, as a business, have looked at what your major problems are which have led to such a high complaint rate. What is the major problem you have identified? What are you are doing wrong?

Nick Brookes: A lot of the information I see at the moment relates to affordability issues. That is one of the areas I have been working on heavily over the past couple of months. As I said, we have made significant changes to how we assess those applications, to make sure that we do have affordable loans and sustainable products for those customers. I have been very focused on dealing with this area. A lot of the information I see coming back from customers relates more to the fact that we are no longer able to make loans to those customers, and that is creating financial difficulties for them at this point in time.

Q337 John Mann: Would you consider adding a question to your application about whether the individual has considered a credit union loan?

Nick Brookes: We could look into that. Within our website there is a lot of information around customers' options. It clearly states how or where our loans should be used and what the products are there for. It also quite clearly signposts charities and debt advice services that customers can use. I can look into that for you.

John Mann: It would be helpful if you could respond to the Committee when you have done that. Thank you.

Q338 Chair: Do you ask people what they are going to spend the money on?

Nick Brookes: We have some information relating to the key reasons for taking out a loan, which tend to be for household bills, repairs, cars and general household items.

Q339 Chair: Do you go back to customers who have previously taken out loans, to ask them whether that is what they spent their money on?

Nick Brookes: That is not a routine activity. We occasionally do ad hoc surveys and reviews—

Q340 Chair: Is that something worth considering?

Nick Brookes: It is something we can consider, absolutely.

Q341 Alok Sharma: Mr Brookes, you told us that Wonga is a changed organisation, but you have also told colleagues that actually people can get a loan within five minutes. That is what you have said. Can you tell us precisely how the system has changed within Wonga to allow you to identify customers who are vulnerable and make sure they are not taking on loans they will fall into trouble with?

Nick Brookes: The first point is that the speed of the decision does not mean that there is an ease of credit. Most loan or credit card decisions as well as short-term lending decisions will be instant for the vast majority of applications. That is usual within the financial services industry. What has changed is that, when we looked at how we assess affordability, it was apparent that although rules were in place they were not sufficiently robust to identify—

Q342 Alok Sharma: You are talking in general terms. Can you give us a precise example of where those rules have changed?

Nick Brookes: One of the key things we looked at was the level of the loan in comparison to the individual's income, and whether we felt that was an affordable ratio and they would be able to sustain it and repay the loan. We also looked at their past performance with us. If they had had difficulty on a previous loan, we decided to have what we term a cooling-off period for a period of time as well. So there are a number of different things—

Q343 Alok Sharma: You did not have that before? There were no cooling-off periods before?

Nick Brookes: There weren't, no. So we have introduced a number of different measures—there is quite a large volume in total—to address a number of different factors. There are individual cases that you need to look at. Some people may be suffering in terms of affordability because they have other external debt, such as credit cards or charge cards or loans. Other people may have a different challenge, which is just their everyday expenditure, which we need to balance off and smooth out. So there are a number of different measures which we introduced to make sure that we felt very comfortable with the assessment of affordability, and we talked to the FCA on that for quite some time.

Q344 Alok Sharma: So you have had this voluntary agreement with the FCA but, going forward, where people start to fall behind, apart from this voluntary settlement, does Wonga do anything to help those vulnerable people, or not?

Nick Brookes: Absolutely. There are a number of measures. We help people throughout the whole customer journey. When a customer comes to Wonga, it is very clear:

we put on the home page how the loan works, and it is immediately apparent what you are going to pay for it in actual pounds and pence, so you have a clear understanding.

Q345 Alok Sharma: That is fine; we get that. The question I am asking is: if somebody falls behind, what help, if any, do you provide?

Nick Brookes: We provide substantial help, as I mentioned earlier. You can contact us and we will set up a repayment arrangement for you. What that effectively means is that we will put you on payments that are lower and spread over a longer period of time. We instantly stop any further fees and credit going on to the account. You can do that even before your payment is due. If you do not contact us, we give you the grace period that I talked about. We only have a 30-day period where we will charge as well. Those aspects are very favourable when you look across not just our market, but the consumer finance market in general. In the worst-case scenario, which is often talked about, if a customer comes to us and tells us that they are experiencing difficulty, it may be that they actually pay less interest than they would have done if they had fulfilled the loan on time. They could come to us two or three days before it is due.

Q346 Alok Sharma: You said that your TV ads have gone. Your chief executive took that decision. Is Wonga still engaging in unsolicited marketing? Are you cold calling people?

Nick Brookes: No.

Q347 Alok Sharma: Are you text messaging or sending mailshots?

Nick Brookes: No.

Q348 Alok Sharma: Nothing at all? There is absolutely no cold calling going on at all?

Nick Brookes: No, nothing of that nature.

Q349 Alok Sharma: Nothing unsolicited?

Nick Brookes: No.

Q350 Mark Garnier: The CMA recently announced proposals to encourage the development of a high-quality price comparison sector for payday lenders. Why do you think it has taken such a long time to come about?

Nick Brookes: In terms of how long it has taken for that report to come out, that is a good question. We fed into that study. We were involved in it. We think it is something that should be encouraged if it can be done commercially. We would also say that it should include other forms of credit, which we know our customers use, such as overdrafts or credit cards or other forms of short-term credit that are comparable sometimes with a short-term loan. It will be interesting to see how that develops. Everybody expects the market to contract in terms of the number of people offering short-term credit, which is why we would encourage other forms of credit to be offered alongside that.

Q351 Mark Garnier: In the previous evidence session, you may have heard Professor Gathergood's evidence on shopping around, where the credit referencing sector acts against the interests of shopping around. Do you have any thoughts about that?

Nick Brookes: Once a credit search is registered, once you make an application for credit, you can do quotation searches, and they are used sometimes within the insurance industry or sometimes for mortgages. It is less usual with things like credit cards, loans or short-term lending when you make a specific application for credit. In situations where you have some sort of price comparison site, there is value in that, because you are able to make a decision based on what is in front of you at that time and then pick the right company to move forward with on your financial solution.

Q352 Mark Garnier: Getting back to this question of the price comparison thing, irrespective of the CMA, why do you think the market has not developed a price comparison sector?

Nick Brookes: In terms of why that has not been something that any of the price comparison sites have picked up and included, I am not sure of the details behind that. That is a question for those particular sites that operate those services.

Q353 Mark Garnier: You must have been curious as to why it has not happened.

Nick Brookes: It would appear unusual when you look at the number of lenders within the marketplace and when you compare it to insurance, but I do not have any details as to the reasoning or the rationale or their position on that and why it does not exist.

Q354 Mark Garnier: But you would welcome something.

Nick Brookes: We would. We fed into the report and we would be happy with that. We would like it to include other forms of credit that we see as similar to our own in terms of facilitating short-term lending such as overdrafts, and unauthorised overdrafts as well.

Q355 Mark Garnier: I think it is very important not to isolate the payday lending sector.

Nick Brookes: Absolutely.

Q356 Mark Garnier: The Advertising Standards Authority ruled that one of Wonga's adverts breached the code of conduct because it failed to disclose a representative annual interest rate. Is the APR an appropriate way of trying to value that type of thing? When you have got to the stage of a four-digit APR, is that the right way of doing it or is there a better way of trying to compare prices?

Nick Brookes: It's a debate that has been had a number of times. Our view is that it is far better to show the customer exactly what that loan will cost and what the total cost of that credit is. On our site, you can clearly see, if you want to borrow £150 for a period of days, for example, what the actual cost is in pounds and pence. We think that is a far more meaningful number to show customers.

Q357 Mark Garnier: So a two-week loan of £150 will cost you £200 at the end? That type of thing?

Nick Brookes: Exactly. It is an actual pound value so the customer can then make a decision as to whether that is something that they feel is appropriate for the amount they are borrowing or whether that is something that is affordable for them. We have always set that out very clearly and transparently in terms of the front page that the customer goes to.

Q358 Mark Garnier: And if there are price comparison websites, that type of information would be more useful than the random high APR?

Nick Brookes: I think so. If you could put in something that was, again, £150 for 15 days and see what the total cost of that was, I think that would give you a good comparison. I think for customers to try to understand the complexities of the APR calculation it becomes a meaningless number. What the customer is interested in is knowing exactly what they are going to pay for that credit for that period of time and then making an informed decision as to whether they think it is appropriate or an affordable position for them to be in.

Q359 Mark Garnier: On a wider point, I seem to remember reading somewhere that there are 27 different ways of calculating an APR. Is there a settled way that people agree on yet?

Nick Brookes: There is a standardised way that you have to calculate the APR, which is a very complex way of doing it for things such as short-term loans.

Q360 Mark Garnier: So, on balance, were there to be a price comparison website, it makes far more sense saying "A loan for this amount of money for this period would cost you a repayment of x"?

Nick Brookes: I think, from a customer's point of view, that is the information they would like to see.

Q361 Mark Garnier: And everybody can understand that.

Nick Brookes: Yes, it is far easier to understand.

Mark Garnier: Fantastic. Thank you.

Q362 Chair: You said earlier that you had cancelled the TV ads because of the effect that they might have on children, and I think you cancelled those in July in the UK. Why have you been running them since July, and up to the end of the year, in Poland?

Nick Brookes: When we made the statement in July around the puppets coming off, we committed to doing that within the UK and we said that by the end of the year, it would be off in all the different regions. There is one reference to the puppets in an advert—it is a single frame, I believe—which has been run in Poland, but we are committed to removing the puppets in their entirety. It was there was a link so that people would understand and associate the Wonga brand at that point in time, but we are removing it.

Q363 Chair: We have asked you for some further information that relates to culture today. How far down the line, in percentage terms, to improving the culture to the point that it is acceptable do you feel that you have moved so far?

Nick Brookes: I think there has been a lot of progress on changes to the culture, with new people joining the organisation, in particular the chairman, people like myself and, as I said, we have a new group CFO and a new UK MD. I think where the challenge now lies for our business is making sure that that gets embedded within the organisation.

Q364 Chair: It sounds like a familiar story.

Nick Brookes: We have made a lot of progress very quickly.

Q365 Chair: Okay—I am asking you for a percentage estimate of that progress.

Nick Brookes: That is a good question. Internally within Wonga, there is a real force of momentum. We know that externally things will be looked at cynically, but we have changed a lot and we are making a lot of progress, although we are not there yet.

Q366 Chair: Okay, you've had 60 seconds to try to think of a number, somewhere between nought and 100, isn't it?

Nick Brookes: It is. I would say in terms of where we are—

Q367 Alok Sharma: It is not a minus number then?

Nick Brookes: Absolutely not. We have made substantial gains, but I think we are probably close to halfway.

Q368 Chair: So you have made 50% of the progress you need. As a result, there is a better appreciation that many of the people that you have been lending money to are very vulnerable. What we are trying to address here is an enduring and complex problem, not amenable to easy fixes or benefiting from political soundbites. Do you agree with that?

Nick Brookes: I would. It is a complex area and we are ensuring that our product meets those needs. Part of the cultural change is to make sure that we not only have the right products for the customers, but have a sustainable product going forward. We are looking at how we can provide sustainable products for the customer range that we serve as well.

Chair: You said that you are halfway down the road to the culture that you would consider acceptable. We are going to be keeping a close eye on the other half coming through. Thank you very much for coming to give evidence this morning. We are now going to move straight to panel 3, with Lloyds.

Examination of Witnesses

Witnesses: **Martin Dodd**, Customer Services Director, Lloyds Bank, and **Stephen Noakes**, Director of Mortgages, Lloyds Bank, gave evidence.

Q369 Chair: Good morning. Thank you very much for coming to give evidence to us. It is still this morning. I will begin by asking why you had so many complaints to the Financial Ombudsman in the first six months of this year.

Martin Dodd: I would look at our complaints story. Over the last two to three years we have made quite significant public pledges. Our CEO himself said that we would reduce complaints coming into the organisation by 50%. He made a commitment that we would reduce the complaints per thousand, so that you could look at it on a benchmarkable basis against our peers from over two complaints per thousand to a figure of one complaint per thousand by the end of 2013.

Q370 Chair: Is that one complaint per thousand—?

Martin Dodd: That is one complaint per thousand customers.

Q371 Chair: But by most measures, you are the worst performer, are you not?

Martin Dodd: I would disagree—I will explain why.

Q372 Chair: What measure are you using to reach that?

Martin Dodd: I would do it on two measures, which I think are the most critical. The first is complaint volume: we have reduced our complaints by 50% over the last three years. On a comparable basis—which is the complaints per thousand measure that the FCA asks us to use, so that one can see a more comparable performance—our performance at one complaint per thousand is much better than our peers, such as Barclays, Santander and RBS, who would be at two or three complaints per thousand customers.

Chair: That is not what we estimated, but it would be helpful if you could send us that information, together with the peer group estimate, and we could send it to your peers and see what they have to say about it.

Martin Dodd: I am very comfortable about sending that.

Q373 John Mann: What percentage of people with PPI have not yet complained?

Martin Dodd: Effectively, we have got two different groups. There is a group of customers we have written to, saying where we have identified a failing with PPI. We have written to over a million customers. Some 65% of those customers have not replied to the letters we have written and 35% have replied.

Q374 John Mann: What percentage of your cases comes from claims companies?

Martin Dodd: On PPI, or in general?

John Mann: On PPI.

Martin Dodd: On PPI, it varies week by week, but approximately 65% of our volume comes from claims management companies.

Q375 John Mann: What is the highest percentage of the compensation money that claims management companies are currently taking?

Martin Dodd: It varies by claim management company, but we see a range between a figure of 25% and about 35%.

Q376 John Mann: 25% to 35%. Are there any higher—are there any claiming 50% or 60%?

Martin Dodd: I am not sure. What we tend to see, from talking to our customers, are amounts in that range.

Q377 John Mann: But there could be.

Martin Dodd: There could be.

Q378 John Mann: What percentage of the money paid out is going to claims companies?

Martin Dodd: When we assess our customers' complaints, we review them based on the merits. When we pay any kind of redress we pay directly to the customer. We do not pay the money to the claims management company. We allow the customer to talk to the claims management company.

Q379 John Mann: But you would have a clear window on that, because the information is provided. What do you estimate is the amount of money that is actually going to the claims companies? Would you say it is 25% to 35%?

Martin Dodd: For the customer who has chosen to go with a claims management company, if you take an average PPI case of £2,500, those customers would be sending 25% of that figure to the claims management company.

Q380 John Mann: For most of the claims management companies, all that they are doing is sending you a letter.

Martin Dodd: That's correct.

Q381 John Mann: And doubtless there is a variety. Some will provide you with useful information and some will provide you with no information within the letter; in some cases, just a letter.

Martin Dodd: We get a mix in terms of the quality of the complaints that come in. At the better end of the scale, we would have a letter from the customer explaining why they thought PPI was mis-sold. In a number of instances, we would have a questionnaire issued by the ombudsman which gives more relevant information. Those are the best cases for us to assess. At the other end, we would have examples where a customer is claiming for PPI and they have never held PPI or, alternatively, it is a very generic letter with a number of allegations, but with no information to back that up.

Q382 John Mann: It's fairly straightforward, isn't it? If you get a letter from an individual, it is very straightforward for you to process that information and come to an accurate decision.

Martin Dodd: As long as we have enough information to gather our decision, yes, it is straightforward.

Q383 John Mann: How many cases of PPI claims have been fought over and referred to the Financial Ombudsman Service?

Martin Dodd: If we look at our numbers at the moment, we receive, although the numbers vary, about 10,000 complaints a week in the Lloyds Banking Group. We are effectively at this moment in time paying redress to customers in 80% of those cases, and we are seeing 13%—about 1,300—going to the Financial Ombudsman.

Q384 John Mann: So they are the ones which are disputed?

Martin Dodd: Yes.

Q385 John Mann: When one only needs to send in a letter, what is wrong with what you have done? Two thirds of the people who have been sent a letter by you have not responded, and of those who have responded, two thirds are going via a claims management company, which doubtless has been ringing them up, like they ring me 10 times a day at home, promoting themselves. What is wrong with your system? You are the ones at fault, so why are people not responding? Why are the majority of those who do respond going through a claims management company, which adds nothing to the process?

Martin Dodd: I take it in two parts. The first part is that the customers we are writing to are not using claims management companies. Where we have written to a customer, they are coming back with the information which we have sent, with a questionnaire giving us the information to allow us to review the complaint. We have tested why two thirds of customers are not coming back to us. The feedback from a number of those customers is that they do not believe they were mis-sold. They were happy with the product which they bought at the time from their branch, for example, and they do not want to complain. We have tested some of this.

If I look at why people are using claims management companies, that is a question we continually ask ourselves. We try and work with media, we try and put announcements on our website saying that customers do not need to use claims management companies in any way, shape or form. It is free to come to us. The case gets assessed in exactly the same way. We are constantly trying to reach out to our customers and tell them not to use claims management companies but to come direct to us.

Q386 John Mann: Why are some customers not getting sent a letter?

Martin Dodd: We have looked at where we believe we had failings in our sales processes with the product. We have identified those customers where we think that there could be a failing and we have written to those customers.

Q387 John Mann: But as you are getting lots via claims management companies, why are you not writing to all your past customers, where there is a theoretical possibility of PPI mis-selling?

Martin Dodd: The work we've done with the FCA on this matter is that we believe that it would be disproportionate to write to everybody because then you are writing to everybody who has ever held a policy. This is about those customers who believe that they were mis-sold.

Q388 John Mann: But considering the scale of the problems you are in on this, why would it be disproportionate? Considering the numbers coming through claims management companies, why would it be disproportionate for you, who are at fault, not to be writing to everyone possible and informing them what they can do about it?

Martin Dodd: We are writing to all the people where we believe there was a failure with the policy. We have identified those customers and we constantly look to see if there is any other group of customers or cohorts we should be writing to.

Q389 John Mann: Let's take a subset. Parts of your organisation in the late '80s, early '90s were basically giving PPI to everyone without asking. Why aren't all those people being written to?

Martin Dodd: I don't believe that we have any evidence that we have systemic issues like that. I haven't seen any and I have looked at all the areas of PPI. We don't have brands or parts of our business where we are just giving PPI to everybody. We know what the penetration rates are by brand, by channels, whether it was in a branch or over the phone. We know what the sales process was at the time and, where we have identified failures, we are writing to customers.

Q390 John Mann: Sorry—just to labour this point: how can that possibly be true, when claims management companies are bringing forward 65% of the claims? How can it possibly be true that you are doing your job properly now, when claims management companies speculatively ringing up anybody and everybody are bringing forward so many claims? If you have such good information, you would be getting to those people before the claims management companies. Something doesn't add up in your approach here and you are the ones who are at fault.

Martin Dodd: The difference is the specific customer circumstances. We can identify failures with the product and failures in the way we sold the product. What I can't identify, for example, is did the customer have a pre-existing medical condition; or did they have existing cover elsewhere; or did they have savings at that time? That is specific to that particular customer and until we get that information, I can't make a judgment one way or the other.

Q391 John Mann: I do find it rather unsatisfactory. Let me ask a final question about alternative redress. What percentage of your claims have been settled using alternative redress?

Martin Dodd: Alternative redress is a form of redress within PS10/12 as part of the guidance. Over a period of time, just on our loans—because you can only use it on loans—we have used it in 20% of our total loan claims.

Q392 Chair: Isn't part of the reason why people who should still be prepared to come direct to you are going to claims management companies because they don't trust their bank?

Martin Dodd: We've looked at this and we've looked at the research. Why is it that people are still using claims management companies? I think there are a number of answers. One is potentially that there is a lack of trust.

Q393 Chair: That's a serious one for a bank, bearing in mind that trust is what banking is all about, don't you think?

Martin Dodd: I agree.

Q394 Chair: And we are now six years down the line from this crisis and people are still very distrustful of their banks.

Martin Dodd: There's a combination of reasons. There are also reasons where it is convenient. So, a claims management company has phoned the customer on a number of occasions—

Q395 Chair: That's a perceived convenience. You will tell me, if I pressed you, that it is just as convenient to go through you.

Martin Dodd: I would argue that it is more convenient to go direct to us.

Chair: Well, there you are. So you are now saying that it is more convenient. So it is not, in fact, convenience; it is perceived convenience, which is part of trust.

Q396 John Thurso: Can I come back to the area that the Chairman raised at the beginning around complaints? Mr Dodd, you are the customer services director?

Martin Dodd: That is correct.

Q397 John Thurso: Is there anybody between you and the chief executive in the reporting line? Where does that put you in the pecking order?

Martin Dodd: I have a dual reporting line. I report to Alison Brittain, who runs our retail bank, and David Oldfield, who runs our group operations. They both report to the chief executive.

Q398 John Thurso: Right. So in your role, are you the sort of point person in charge of complaints and the way the bank deals with complaints?

Martin Dodd: I am.

Q399 John Thurso: What is your assessment of—I don't have the particular figures for Lloyds. This is an industry-wide figure from the Financial Ombudsman Service. I want to leave PPI out of this, because we have done that. Other areas, for example, package bank accounts, are upholding something like 70% of the complaints. What is your comment on that?

Martin Dodd: So, when I spoke at the start about us having specific targets around compliance handling, one is about volume, the other is about quality. The best measure for me, in terms of quality of a financial services firm, is upholding the right of the Financial Ombudsman, because they are independent; they get a view of all firms' complaints. So we have a target and have had a target for the last couple of years, where we expect each of our categories—whether that be banking, mortgages, life and pensions—to be at 30% or below.

The reason for choosing the 30% figure—that was in consultation with the ombudsman, talking to the ombudsman about what they see as best practice and what they deem to be good complaint handling from an organisation, and we have agreed with them that, at a figure of 30% or below, they would be seeing consistently good complaint handling. Our figures for the last six months, and then the previous 18 months before that, have been at 30% or below, on average, across all those categories.

Q400 John Thurso: So if you were on average, it would be around about the 30% mark or just under, wouldn't it?

Martin Dodd: It's actually been under. So it is 29%.

Q401 John Thurso: Yes, in the high 20s, whatever. Do you really think that an external body that basically must be overturning 30% of the adjudications your internal system has made—or even 25%—is an indicator of good service?

Martin Dodd: So I think what it does do—it is a funnel, in aspect. If you take our overall complaints and then you work through to the complaints that actually go to the ombudsman, excluding PPI—so if we can keep on that theme—only 1.5% of our complaints end up with the ombudsman. So in 98.5% we reach a conclusion with our customers. Of the

1.5%, they are only overturning less than three in 10. So if you look at our total complaints, it is less than 0.5%. We think it is—

Q402 John Thurso: I can understand why you are in the banking business. I was in the restaurant business. The way I look at it, that is an appalling statistic of failure on the part of my management—if I had 30% of the complaints made externally about me being upheld by somebody else—whereas the banking industry seems to regard that as something of a triumph.

Martin Dodd: I wouldn't say it was a triumph. What I would say is that if you compare us against our peers, that is market leading.

Q403 John Thurso: But you see, again, that is a slightly false thing to do, because I think exactly the same could be said about all your peers. It is an industry-wide problem. Actually, perhaps you ought to be looking for a different benchmark, like any other service industry.

Chair: Have a go at answering that.

Martin Dodd: Let me have another go at answering it. The 30% is not just that the ombudsman's overruled our decision. There is an element of they have disagreed with our decision. There is also an element of, "We agree with your decision, but actually you've paid the customer £100 for the distress and inconvenience and we think it should be £150." So 10% of that 30% is just what I would call a minor disagreement on how much distress and inconvenience.

The other 10%—another third of it—is, when we have assessed the complaint we have assessed it on the facts we have at the time. When the complaint goes to the ombudsman, the customer gives the ombudsman additional information. When we find out that additional information with the ombudsman, we agree that the change should happen.

Q404 John Thurso: You were here, I think, for the first panel.

Martin Dodd: Yes.

John Thurso: And you heard one of our witnesses describe the banks' complaints procedures as a shambles and my question that a shambles can mean it is just badly run or it could mean it is well defined to ensure that the customers do not get redress, broadly. What is your rebuttal to the comment that was made in that session.

Martin Dodd: So my rebuttal would be on three fronts. The first one is, we went out with publicly committed complaints-reduction targets. We have reduced complaints by 50% over the last three years. We have also gone out with quality measures around ombudsman change rates, to be at 30% or below, and we have achieved those. Both of those measures are market leading.

I think my final point is, if you are a customer in Lloyds Banking Group—whether it is Halifax, Bank of Scotland, Lloyds—if you walk into one of our branches or you phone one of our call centres, we resolve your complaint 90% of the time there and then. We think that the training and support we give to our front-line colleagues—we give them the ability to go to an expert to get the answers there and then, if they need to do so—is market leading: 90% of complaints are resolved there and then. We don't think anybody else is achieving that.

Q405 John Thurso: I could probably go on at this for ages, but I will ask just one question. If somebody comes up to the desk and says, “I have a problem. Can you sort it?” and the person at the desk says, “Yes, I can,” and they deal with it, is that a complaint that has been resolved? What constitutes a complaint?

Martin Dodd: That is in the FCA guidelines. A complaint is what they call an “expression of dissatisfaction,” so this for me is where something hasn't happened. An easy example would be where I cancelled my direct debit last month and it has gone through in error; why is that? That is a complaint.

Q406 John Thurso: That is the level that is getting fixed 90% of the time?

Martin Dodd: That's correct.

Q407 John Thurso: 90% is quite low for that sort of thing, isn't it?

Martin Dodd: We have a whole range within that.

John Thurso: I think I will leave it there.

Q408 Chair: Isn't the source of the problem behind the 30% figure the allegation that banks see the cost of complaints as a business cost?

Martin Dodd: Each firm is different, so I will comment on what Lloyds does. Complaints are an integral measure to us, so our CEO asks me to come to his group executive committee every month to walk through the volumes coming into the organisation. What are they? What are we doing about it? What is the quality of our complaint handling? How many are we resolving there and then? What are the volumes going to the ombudsman? What is the quality of the decisions at the ombudsman? There is a complete end-to-end review of our complaint measures.

Q409 Chair: But this is a business cost, isn't it? What happens in John Thurso's restaurant is that people go to the restaurant next door very quickly; but in your business, they don't. I am sure they all went to John's restaurant, but that is what they would do if he was running a complaint failure rate of 30%.

Martin Dodd: So what we see with complaint handling—I will do the polarisation—is that where we deal with complaints badly, where we give the wrong customer outcome or where we take too long, customers leave us. They go to another provider. Interestingly, when we do a great job with complaint handling, where we resolve something very speedily and do it well, customers bring us more business. Their feedback on that is, “I had an issue, a problem, and you were there for me. You fixed it. I trust you with my business.”

Q410 Chair: You’ve just given a piece of evidence that flies in the face of all the evidence that this Committee has taken for many years, which is that switching is perceived, often wrongly, to be very difficult. There is huge inertia in retail banking that is inhibiting genuine competition. Are you challenging that conclusion? It is a conclusion that lies behind the CMA’s decision to go for a full competition investigation.

Martin Dodd: I’m not challenging that conclusion. I was sharing what we see from our market research. With very good complaint handling, customers bring more business to that brand and that person. Where we do bad complaint handling, we see customers leave us.

Q411 Chair: I think we need the evidence that, in this rare pocket of retail banking, you are securing high levels of loss to other banks when customers are discontented. We had better have those figures stood up.

Stephen Noakes: Can I just add an additional comment? I want to give a sense that, although Martin is the customer services director, complaints are an important part of all product teams. In each product team, there is a deep understanding and analysis of the root cause of those complaints. One of the key metrics that we look at is customer advocacy and net promoter score, and there is no doubt that the more complainants you have, the greater the detrimental impact on that particular metric. It is actually a key part of the commercial part of the business.

Q412 Chair: I don’t disagree with that, and it is the point that I made. It is a business cost, so it is a key metric.

Stephen Noakes: But one that we are looking to minimise, rather than accept as just a part of doing business.

Chair: Well, what does minimise it? Whether ultimately it needs to be competition or whether other proxy forms of downward pressure can be brought to bear on it, that is the question. You have said that there is this very particular piece of evidence, which so far we have never had put before us; but it looks as if we might see it.

Q413 Mr Love: Can I come to basic bank accounts? The Parliamentary Commission on Banking Standards wanted a voluntary agreement that would set minimum standards for a basic bank account. That was 17 months ago. Can you report any progress in reaching those agreements?

Stephen Noakes: So, Andy, I will take that one. Certainly from a Lloyds perspective, we are pushing ahead with this. We have now got 4 million basic bank accounts. Basic bank account provision includes full ATM access; it is also debit cards and access to online and mobile services. The Banking Standards Review Council has still got further work to go. Some of that was heard in earlier evidence at this Committee today, but we are working with Treasury, and through the Banking Standards Review Council, to move forward on that agenda.

Q414 Mr Love: Well, you have outlined what Lloyds are doing, and that is complimentary, but is there any agreement out there with other banks about what would constitute minimum standards for a basic bank account? Have you reached a conclusion about what a basic bank account consists of?

Stephen Noakes: So that is the work that the Banking Standards Review Council are undertaking. There are still areas of debate, as you heard earlier on in this session, in terms of undischarged bankrupts as a particular cohort of the population, where there are still questions, which need to be addressed across the industry to get a consistent standard.

Q415 Mr Love: Tell me why. We also heard that Barclays are the only major bank that issue basic accounts to undischarged bankrupts. The Co-op used to but does no longer; so we seem to be going backwards there. What is the problem with undischarged bankrupts?

Stephen Noakes: So the key question, which is being looked to being resolved, is really around the legal status of that, with regard to the lender taking on the basic bank account for a customer in that particular position. I am confident that we will get progress on that, but it does need to be something which is agreed consistently across the industry.

Q416 Mr Love: You mentioned about 4 million basic bank account holders. Of course we hear from reports in the press and among those interested in this issue that the numbers without a bank account are going up. Can you confirm whether or not overall the banking sector is living up to its responsibilities to offer bank accounts to those in need of them?

Stephen Noakes: So financial inclusion is one of the key metrics that we at Lloyds have in terms of our “Helping Britain Prosper” manifesto. It is something which our chief executive launched relatively recently; so certainly from a Lloyds perspective we are keen to include, and increase the level of financial inclusion that we are able to offer. I cannot talk for the broader industry, but in terms of the Banking Standards Review Council that is the key forum by which we should be looking to achieve that collectively.

Q417 Mr Love: We have talked about undischarged bankrupts, where there appears to be a little progress. I know that Lloyds are doing well in terms of access to the ATM network, but others are not. Can you give this Committee any reassurance that progress is being made on any of the core issues relating to basic bank accounts at the standards council?

Stephen Noakes: Yes, and in truth all the major banks were in a meeting with Treasury very recently—only, literally, in the last few weeks—where a number of these topics were being discussed. So I think both through the Banking Standards Review Council and through collective discussions through Treasury, there is a real commitment in terms of moving us forward. I recognise the questions are, “Can we really see the evidence at the moment?” and we have still yet to demonstrate that.

Q418 Mr Love: Well, that is a problem that has run through all of the sessions this morning. There is a lot of pious comment, but not much in terms of tangible, real progress. Would you accept that it is quite hard to see any tangible, real progress?

Stephen Noakes: So there are elements of progress. For instance, in terms of the ATM access, that has been agreed collectively across the board, so there is a move forward in that area and we continue to work on the unresolved issues that are still in front of us. As I said, I am hopeful that, through both the co-operation of the Banking Standards Review Council and the Treasury’s direct engagement, we will be able to move that forward, either on a unilateral basis or collectively across the industry, where some of those things do require that collective industry engagement.

Q419 Mr Love: One of the other parts of the recommendation by the Parliamentary Commission on Banking Standards was that, if progress had not been made, statutory intervention should be considered. Given what you have said this morning and the lack of any real tangible progress, can you suggest a reason why the Committee should not recommend to the Treasury that statutory intervention is the only credible way forward?

Stephen Noakes: So I think the key thing the Banking Standards Review Council needs to do is set out a clear timetable by which we move forward. A number of areas are still in debate. Treasury are directly engaging to get resolution on some of those areas, but there needs to be a clear timetable. In the absence of that and the confidence in terms of the milestones which are ahead of it, clearly you will need to look at alternate actions.

Q420 Mr Love: Let me ask you one final question. A European directive is winging its way towards us that will be implemented over the next two years. How do the Banking Review Standards Council and Lloyds Bank consider that directive? Are they taking a positive attitude towards it, or will they oppose some of the terms?

Stephen Noakes: The early review of the European legislation would suggest that it provides a floor beneath where we are trying collectively to aim, as far as the UK is concerned, and I do not think that we should be reliant on European regulation coming behind to fix issues that collectively we see in front of us in our own country.

Q421 Mark Garnier: Mr Dodd, one of the notable things about the financial crisis was how, in the aftermath, a lot of banks said that they had learnt lessons and changed their ways. Did Lloyds change its ways?

Martin Dodd: I think Lloyds has changed its ways in a number of areas. Culturally, I look at the management team and I think that the commitment that we made on complaints is a good example of that. I had never seen before a CEO of one of the major banks at the quarterly trading statements go out and say that they would halve complaints over a three-year period and, at each of the quarterly trading statements, give updates on that and not just on volume, but quality as well. That is just one of the series—

Q422 Mark Garnier: Presumably, in management changes, there are structural and cultural changes and that kind of stuff.

Martin Dodd: Very much so. In terms of putting the customer at the heart of the way we do business, our key message is to be the best bank for customers, and culturally you can only do that by putting the customer at the heart of what you do. It is the way you make your decisions, the way Stephen and his team will design products and the way we deal with a customer when we see them day in, day out.

Stephen Noakes: And just to build on that, we have established over the last two to three years a set of new metrics which we look at on a regular basis, which are as important, if not more important than the commercial performance metrics of the business. We now have conduct risk appetite metrics, which apply to all the products. Those are reviewed on a monthly basis, in terms of their RAG status, which would include outcome testing. We do mystery shopping on all of the products and file verification to ensure that the appropriate advice is being provided to that individual customer. It also includes, by product, the complaints standards that Martin talked to earlier on. Those are then reviewed at group product governance level on an annual basis in an annual product review, where we supplement that with market research to ensure that the target market that we have described for each of those products is actually what we have seen and delivered against.

Q423 Mark Garnier: Those are very good, worthy comments about how your culture has changed. But that makes even worse the infringement between 2010 and 2012 when you were mis-selling insurance products that resulted in a £28 million fine from the Financial Conduct Authority. Given what you have just said, what lessons had you not learnt, or learnt but not implemented, to result in that colossal infringement?

Martin Dodd: So are we perfect? We are not perfect in any way.

Q424 Mark Garnier: No, no—you are far from perfect, but the point about the financial crisis was that it marked a pretty seminal moment in the history of banking. All the banks have come to us over a number of years since the financial crisis, with the overriding message, “We have listened and learned.” To a certain extent, when we have things such as the LIBOR infringements, it is worth noting that those go back to before the financial crisis and during it—similarly, things such as foreign exchange go back to before that. But the infringement that I am talking about is from between 2010 and 2012 on the selling of insurance products and was absolutely, categorically and unquestionably part of the brave new world you have just described for Lloyds Bank—indeed, for the whole banking industry,

but you are the only one so far to have had a newly created post-crisis infringement. What you have just said makes this even more appalling than just on the face of it.

Stephen Noakes: Let me step in on this one. One of the other areas that has seen major change over the last three years is the work on sales incentives.

Q425 Mark Garnier: Why the last three years? Why not before that?

Stephen Noakes: The last three years was when the new management team came through. As I said, sales incentives were one of the key areas. It was about moving away from product targets. To give an example, the variable pay component, which is now made on a quarterly basis, is now based purely in terms of customer feedback rather than in terms of any products achievement.

Q426 Mark Garnier: Mr Dodd, do you want to add anything?

Martin Dodd: The other thing we have done is take the learning from that—how it happened and why. Stephen has given the key answer, in terms of our reviews of all of our products, done on an annual basis and looking at the products from a value for money point of view, looking at the measures from a conduct point of view, looking at the compliance measures. We never want another PPI or another one of those things happening.

Q427 Mark Garnier: Okay. Let's turn to the thing that was reported in the press last month about Lloyds Bank staff being put under pressure to cold-call customers. Some of these customers are signed up to the Telephone Preference Service and some have also requested not to be called about alternative products, yet a whistleblower has come forward and suggested that the line managers at Lloyds Bank are asking call centre staff to call on an event, if you like. So if somebody goes overdrawn, they are effectively cold called on a lending product—that is how most of us would describe it, but Lloyds Bank would describe it as a credit event. Similarly, if they have money deposited into their bank account, it is cold calling on selling a savings product, but again you would describe it, to get around the Telephone Preference Service and the various contact guidelines, as being on the basis of the management of the account. Mr Dodd, how would you respond to that?

Martin Dodd: So how I would respond to that is that it is about the individual customer circumstances. I look at that and, if I am a customer and a large credit has come into my account, having a courtesy call from my local branch advising me that that money has arrived and asking whether there is any help I need with the money—does it need to be put in to a savings account in any way, shape or form?—I think is, at the time, a good service call. It is the sort of thing that banks should be doing to rebuild trust.

Q428 Mark Garnier: Yet a whistleblower is saying that staff are being put under pressure to use that as a cold calling opportunity.

Martin Dodd: So where it comes across as any kind of pressure, that is unacceptable; the purpose is just a courtesy call or service call. It is the same on an overdraft facility: if I was the customer receiving the call to let me know I was going over my overdraft facility and to ask me whether I wanted to do something to avoid any charges and put the account back where it was, I would think that is good customer service. That is what banking is all about.

Q429 Mark Garnier: Do you publish guidelines for your staff, to explain to them why that has not been a breach of Telephone Preference Service rules?

Martin Dodd: So we have recently updated our rules and have been very clear with our colleagues on what they can and cannot do with telephone preference customers.

Q430 Mark Garnier: So, for example, if a member of staff turns round to his or her line manager and says, “I am uncomfortable about making this call because the customer you have asked me to call is in the Telephone Preference Service and has made a request not to be contacted with sales products,” their line manager would turn around and say, “Don’t worry, we have had a look at this and it is absolutely fine. You must contact them because this is good sales practice.” Is that right?

Martin Dodd: No, we have stopped those calls now. We don’t do those calls.

Q431 Mark Garnier: Is that in response to this article?

Martin Dodd: We have looked at the legislation and the rules that are out there. We have stopped doing those practices at the current time.

Stephen Noakes: Just as a build on that, it is not because we do not think those are still good conversations to be having with the customers. The reality is that we do not have call recording capability in each of our individual branches.

Q432 Mark Garnier: Sorry—you don’t record calls in individual branches?

Stephen Noakes: Not in individual branches; in the call centres we do. It is just a capability that is not in our branches today. Because we are not able to review the conversation that the individual colleague has had with that customer, to ensure that we didn’t move beyond just having the service call and potentially went into a further sales conversation, which would then be in contravention of the telephone preference service, we have taken action to stop that action.

Q433 Mark Garnier: How many instances of whistleblowing are there a year within Lloyds?

Martin Dodd: Last year we had 443. Our numbers this year are running to a similar number.

Q434 Mark Garnier: How many members of staff do you have?

Martin Dodd: 85,000.

Q435 Mark Garnier: In the UK?

Martin Dodd: Yes.

Q436 Mark Garnier: So out of 85,000 members of staff, 443 felt it necessary to blow a whistle?

Martin Dodd: Correct.

Q437 Mark Garnier: How do you interpret that number?

Martin Dodd: Our guidelines around whether a colleague feels uncomfortable are in the first instance to go to their line manager and discuss it. We have given specific training and specific guidance to our line managers on how to deal with that kind of situation and how to understand and do something about the issues that are being raised. We also offer the whistleblowing facility so that if a colleague feels very uncomfortable and does not want to raise it with their line manager, or if they have and do not feel that enough has been done, they can go to an independent source where somebody can investigate that matter.

Q438 Mark Garnier: We come back to the Financial Ombudsman Service, don't we, where it is difficult to really understand whether it is a good sign that your boss or your line manager are responding to it well, or whether in fact there is a culture of fear in Lloyds Bank where they do not blow the whistle. I find it a remarkably small number that there are only 443 instances of whistleblowing in an organisation with 85,000 members of staff. I find that staggeringly small. Certainly, given the conversation that Members of Parliament have had with constituents who work at banks, where they feel intimidated by their line manager, I find that alarmingly small.

What troubles me about it is that Lloyds Bank used to be a byword for excellence and good management in the lead-up to the financial crisis. Since then, there seems to be a recurrent theme: the infringement in 2010-2012 and the fine that was very high profile—the biggest consumer fine that has been levied on any bank. We have these rumours coming out about pressures being put on staff. It is a pretty sorry story.

Q439 Chair: Does that whistleblowing include internal whistleblowing as a number?

Martin Dodd: That does not include issues raised with the line manager.

Q440 Chair: I am not asking about issues raised with a line manager; I am talking about something that has escalated in the bank.

Martin Dodd: The figure of 443 is where a colleague has decided, “Something isn’t happening; I have raised it with my line manager and nothing’s happening; so I want something else to happen.”

Q441 Chair: What proportion of those remain internal and what proportion is raised outside the building?

Martin Dodd: I’m not sure. I would need to check and send you the details separately.

Q442 Chair: I think it would be worth taking a look at that. On the question about branch staff, presumably if not being recorded for their sales or not permitted to sell those products and therefore going beyond what they are permitted to do, is the demarcation now clear in Lloyds of what people are permitted to sell and what they are not permitted to sell? If I asked you to show me a list for what a branch could or could not sell, would you be able to send it to me?

Martin Dodd: I would be able to send that to you, yes.

Chair: Okay. I would like to take a look.

Q443 Stewart Hosie: This is my final point. I can understand why this demarcation exists, but this is the part of the problem, isn’t it? If you trust your branch manager and you think you need a product, but he can’t actually sell it to you any more and you’ve got to phone some blinking call centre to get your insurance, is that not part of the problem, that you’ve got the mix of how things are done ever so slightly wrong? That is across banking, not just in Lloyds.

Stephen Noakes: There is no doubt that the evidential requirements are increasing, in terms of justifying the fact that the sale of any individual product was robust and, if you are looking at a lending product, was appropriate, affordable and sustainable. The reality today is that in many of our products, in the in-branch conversation, we now show videos to customers which disclose a lot of the regulatory information which is required. That is because the experience that we had prior to that showed that, although we were meeting customer needs, and we were doing regular outcome testing, we weren’t always disclosing every little piece of regulatory information. We put those videos in to ensure that that sale was conducted in the appropriate way.

The challenge that that has in a branch environment is that, if you are making an outbound call from that branch to a customer, there is no way that you can show that video,

and if you don't have the call recording, you have also not got the evidence. That is the challenge that we are facing collectively.

Q444 Stewart Hosie: I understand that. It may be a cultural change for customers as well, in terms of the speed of doing things and the expectation that their time will be taken up in understanding more what it is that they are buying or signing up to. You were here for the earlier sessions on payday lending and its consequences. The *Financial Times* has reported that Lloyds was considering offering short-term loans to consumers who might otherwise consider payday lending. Can you tell us anything more about those plans and how firm they are?

Stephen Noakes: I don't know where the FT got that story, but let me give you some data, because we have done some research on payday lending. Responding to some of the earlier commentary, there is a customer demand for this type of product.

Q445 Chair: Just to be clear, is the FT story true or untrue?

Stephen Noakes: We have looked at whether we should move into the short-term lending market, but we have no plans to do so at the moment. We have done some research which suggests that, of our customers taking payday loans, we would lend to 50% ourselves. Clearly, one key question is, why would those customers go to a payday lender rather than approach us? It is a key area we need to address in order to ensure that we have greater transparency about the lending solutions available to customers, so they should at least consider us alongside a payday lender when making that choice.

Q446 Stewart Hosie: Right, well, let's ask that question directly. You would offer some kind of facility to 50% of those customers?

Stephen Noakes: Yes.

Q447 Stewart Hosie: Why are they not coming to you? Why are they going online to the Wongas of this world, rather than going to the bank where their account is and saying, "Look, I need 500 quid", "I am overdrawn", "I am in a bit of trouble for £200" or whatever it happens to be? Whatever the reason is, surely that would be a far better option, given that you would lend to them. Where is the barrier, either in their perception or the bank's ability or willingness?

Stephen Noakes: It is not in the bank's ability or willingness. What we see from the customer research is that customers like payday lending because there is an anonymity in the process. They don't need to tell their bank manager, "I have got into a bit of financial difficulty this month"—it avoids that conversation because it can be done very seamlessly by an online transaction. There is clear attraction in that service.

Collectively, we and the broader industry need to find ways to make sure that they are at least aware that those lending options are also available with us, but that clearly still leaves

the other 50% that we wouldn't lend to. In that regard, you heard testimony earlier from Joanna and others about our support for credit unions. We have a £4 million fund looking to support the development of credit unions across the UK, because we need to find alternate solutions for those customers that we wouldn't lend to directly.

Q448 Stewart Hsieh: Okay, let us take these points in turn. I understand the anonymity and the seamless, quick approach that online payday lenders, in particular, can give. That makes sense. Were the bank to enter this market in a substantial way, which would probably be pretty welcome, would it have to mirror the current process, so as to be as anonymous, as seamless and, importantly, as quick as the online lenders? Would it have to mirror that process?

Stephen Noakes: I think it would do. If you look at the key customer needs of the customers who are using payday lenders, there is no doubt that those are components. In truth, there are elements of our process—for instance, for an unsecured loan—that are not dissimilar to that. For instance, a customer can within minutes—not within hours—understand whether they would be eligible for a loan; and moreover, in terms of the speed at which, if they are accepted, the money will move into their account, that is a 24-hour period. There are some elements that we have today that are in common with the service offer that payday lenders provide. The key thing is probably doing a better job of making sure that customers are aware of that and, moreover, that that doesn't have any stigma in terms of what we as a lender or financial services provider would think of our customer on a go-forward basis.

Q449 Stewart Hsieh: I have two final questions and I'll ask them together. Could the banking sector generally—not Lloyds specifically—make the changes to meet the needs of many of those customers in the way you have described, and do you think that will happen? More importantly, do the FCA's reforms on payday lending offer an opportunity for the banks to enter this market in some way?

Stephen Noakes: I do think, as we look at changes in consumer lending more broadly and credit products more broadly, that if there is space that essentially will be deserted because of the controls coming in on payday lending, collectively as an industry we need to find a way to solve that. That is also about support of alternate lending solutions, such as credit unions, but there is no doubt that transparency in terms of the offers that are available through other lending institutions is a very good thing. One of the other points raised in the earlier testimony was the fact that APRs can be very confusing. Actual pound signs mean a lot more to customers; again, you get that back from research. That is not to say that you should ditch APRs, but having both pieces of information, so that customers are able to review the different offers available and make an informed choice, is, I think, absolutely the right way to move forward.

Stewart Hsieh: That's helpful; thank you very much.

Chair: Thank you very much for coming to give evidence to us this afternoon, as it now is. It has been extremely interesting, and you are going to supply us with some further information on a number of points that concern us.

