



PREMIUM RATE SERVICE-BASED CONSUMER CREDIT RESEARCH

FINAL REPORT FOR PHONEPAYPLUS

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1. Purpose and scope of research

The consumer credit market operates across a range of models, one of which brings it into PhonepayPlus' remit. Rather than levying a fee, premium rate brokerage services use a premium rate phone number and consumers pay up-front through the cost of the call(s) whether their loan applications progress or not. The broker makes their revenue through taking a revenue share from the premium rate call. This is in contrast to a commission-based service, where a fee is levied via a card or cash payment when making the application or, when an application is successful.

PhonepayPlus commissioned Thinktank to conduct a programme of qualitative research to better understand the consumer credit services market, in particular consumers' decision-making processes and their knowledge and understanding of the premium rate service (PRS)-based model. The research was based around a particular service model operated by Cash Finance Direct Holdings Ltd, trading as Horizon Finance (Horizon/CFD). This company has been the main consumer credit broker using the PRS based model and therefore is an appropriate model against which to test consumer understanding and perceptions. However, we understand that at least one other provider is about to enter the PRS consumer credit and we recognise that the service model they operate may differ in some respects from Horizon's, albeit that the key element will be the same; that of consumers paying upfront through a premium rate call.

In addition to the requirement for a general understanding of how consumers would engage with the PRS-based model, PhonepayPlus wanted to understand consumers' understanding of specific elements of the service. This included an exploration of their contextual understanding of the purpose of the second call to the PRS-based consumer credit service, expectations of getting an earlier decision on loan applications and overall perceived value of the second call. PhonepayPlus also wanted to examine the level of understanding and awareness or eligibility around the refund process allowed by the PRS-based model. The research was ultimately driven by the first of PhonepayPlus's stated values: "staying aware of, and responsive to, the ways in which consumers, or particular sets of consumers, may be vulnerable when using premium rate services and striving to ensure that they receive the necessary protection."

The results of the research will inform future policy decisions.

2. The Horizon/CFD model of loan service brokerage

Horizon's role

It is important to understand that Horizon's role is as a broker not a lender. They do not lend money to consumers, rather they refer consumers on to loan providers, seeking to match them with providers who will best meet their needs. We understand that Horizon acts as a broker for a range of loan products, however we have focused our research on their brokering of short-term unsecured, or payday, loans. These are the types of loans that give rise to greatest potential concern given the vulnerability of typical consumers of these loans and the risk that, without a full understanding of the service being offered, applicants for payday loans through a PRS brokerage service may incur substantial upfront costs that they do not understand and cannot afford.

Marketing

Consumers are marketed to via various forms of direct marketing either by the company itself or through a third party marketing agency. This marketing will typically be done through text messaging. The marketing message promotes a freephone number that consumers can call to find out if they are eligible for a loan. This call centre is run by the company itself, and during the call there are some preliminary basic checks made about the consumer's identity and the nature of their interest in a loan agreement. If they 'qualify' based on that basic information, then the call centre promotes the PRS service and supplies the 09 number to the consumer. The consumer needs to ring the 09 number if they want to make a loan application.

The first PRS call.

This call is charged at £1.53 per minute from a BT landline, but the cost of the call can be higher on other networks and can be substantially more if dialled from a mobile phone. Upon calling in to the main service on the 09 number, the consumer is introduced to the service and asked a series of questions to gather details about them, their credit history and the type of loan they are seeking. Consumers are informed during the call of their right to a full refund of the cost of the call if they are not happy with the service with which they have been provided.

At the end of this first call, if the application has any prospect of success with any lenders on the panel, the company promotes the optional 'second call'. According to

the script, the service on the 'second call' may provide information about potential 'matched' lenders given the nature of the consumer's application. This does not mean that the consumer is eligible for a loan with any of the lenders at this stage.

The (optional) second PRS call

OFT and now FCA rules require that PRS consumer credit brokers or lenders do not charge consumers more than one premium rate phone call for making a loan application. However, Horizon offer consumers a second PRS call to provide what they have termed a results or update service. This second call is not in breach of OFT/FCA rules because the second call is not a requirement of the application process. Nonetheless, it provides a way in which the cost to consumers (and income for the broker) from an individual application can be extended beyond the limits allowed in the first call.

Customers are invited to make this second call one hour after making the first call to the main service. This is charged at the same rate as the first PRS call as described above. If the consumer chooses to call this second service line, they may be provided with names of potentially 'matched' lenders, and then told those lenders may contact them within 5 working days. During the second call, a freephone number is given to the consumer if they wish to make any further enquiries about their application.

Consumers are informed during the second call that if they are in any way dissatisfied with the service, they are eligible for a full refund of the premium rate call charges. Horizon claims that their refund policy goes beyond what is legally required of the company, because they offer a full refund whereas the statutory entitlement is to a full refund minus £5. Consequently they do not inform consumers that they have a statutory entitlement to a full refund minus £5 where they are unsuccessful in obtaining a loan or they refuse the loan agreement offered to them.

What happens next?

During the first call all callers are informed that in about 5 working days any potential lenders will contact them directly.

If callers choose to call the optional service, they are also informed that in about 5 working days any potential lenders will contact them directly.

The refund process

At any time following the making of either one or both calls to the service using an 09 number, the company policy entitles the consumer to call a freephone number to claim a full refund. According to the script, regardless of whether a loan is arranged or not, a claim can be made for the full amount paid for the service. According to the script, the company asks that evidence of the call, and the associated charges, be supplied as part of a claim. As indicated above, the company informs consumers of Horizon's policy of offering consumers a full refund of their call costs if they are dissatisfied with the service they have received, rather than informing them of their statutory right to a full refund, minus £5, where they are unsuccessful in obtaining a loan or they refuse the loan agreement offered to them.

3. Methodology

PhonepayPlus was interested in learning about the opinions and experiences of adults who had themselves used a consumer credit service. The research was thus conducted with 48 pre-recruited respondents. All respondents were “in the market” for the Horizon/CFD-type services. All thought they were at least “quite likely” to apply for a payday loan or an unsecured loan within 6 months, while 80% had applied for a payday loan or an unsecured loan in the previous 2 years.

Thinktank conducted face-to-face, 1-hour-long interviews with a total of 48 consumers in London, Manchester and Birmingham, who had a history of using credit services. Whilst the sample size may not be large enough to provide robust quantitative data, it is sufficient to provide robust qualitative research, as consistent themes emerging from a representative group of users of that size are likely to be replicated across a broader group of users.

The interviews covered contextual information on life stage, situation, previous experience of consumer credit companies, credit needs and priorities. Written questionnaires were used initially to capture respondents’ previous experiences with consumer credit companies, and to determine factors informing their product search and decision making in the sector. These were completed by respondents independently, immediately prior to meeting the researchers. Additionally, researchers exposed respondents to a recording of a real-life first call to Horizon/CFD (supplied by the company to PhonepayPlus) and determined their understanding/sentiment both by written questionnaires (completed unaided) and moderator questioning. Participants then listened to a real-life follow-up call (also supplied by Horizon/CFD to PhonepayPlus) and their understanding/sentiment was also assessed by unaided written questionnaire and followed by moderator questioning.

The questionnaires were introduced with a view to yielding numerical data to support the qualitative findings.

At the outset of the project, PhonepayPlus had wished to include a small sample of actual users of the service in the research in order to verify that the user journey was as would be expected from the call scripts and sample call provided. Horizon/CFD provided a list of 25 applicants who had been through the premium rate call process and were willing to participate in the research. Unfortunately, in spite of repeated calls to all on the list provided, nobody could be recruited to take part in this phase of the research.

4. Key Findings

Whilst a good number of the respondents found the calls to be informative and the operators to be professional, friendly and polite, the research does highlight some significant concerns about the operation of Horizon's service:

- Lack of understanding about Horizon's role and the nature of the service being provided. Many consumers said that they expected Horizon to provide them with a loan decision rather than merely referring them on to loan providers. There was a strong sense that consumers were not clear about Horizon's role as a broker even after the second call; and this only became clearer during the second call, by which point they would already have paid for two premium rate phone calls. A number of consumers expressed concern about the lack of clarity about Horizon's role and questioned the value they added for consumers in a market where they can go direct to loan providers and may not feel that they need an intermediary.
- Concern about the length of calls. 32 out of 48 consumers expressed concerns about the length of either the first or the second PRS call, where they felt that the information gathering process took longer than it ought to have or was repetitive, with consumers being asked in the second call for information they had already provided in the first call. Some consumers felt that calls were being deliberately "dragged out" to increase revenue for the broker.
- Lack of understanding about the purpose of the second call. 28 out of 48 consumers either did not understand the purpose of the second call or were under the (false) impression that the second call would give them a definite loan decision. Some consumers felt that the second call was promoted in a way that

made them think that a second PRS call was an essential part of the process to getting a loan decision rather than an optional update call.

- Lack of clarity about the refund process. 28 out of 48 consumers either did not understand Horizon's refund policy at all or misunderstood it. Consumers generally did not realise that regardless of Horizon's policy, they had a statutory right to a refund for the cost of their call, minus £5, where they are unsuccessful in obtaining a loan or they refuse the loan agreement offered to them.

5. The Consumer Credit Services Experience

44 of the 48 respondents were users of payday loans (PDL)/or were very familiar with such services. Many have come to regard these kinds of loans as one of the financial tools they use to manage their budgets, often deploying them to fund distress situations, but also to finance retail and entertainment opportunities. They are generally viewed as quick-fix financial management.

They were therefore very familiar with the loan application process as used by leading providers such as Wonga and QuickQuid, and so brought **certain expectations commensurate with those services to the Horizon/CFD experience.** They generally equated Horizon/CFD with these kinds of providers rather than with banks, which they saw as more formal, long-term lenders. In particular, they were **accustomed to a fairly rapid process and a loan approval/refusal ensuing within a matter of minutes.**

"If you're just looking for easy, quick - you get it within 10, 15 minutes."

Male, 18 to 24

Users were generally very aware of the conditions surrounding a PDL and it was generally accepted that lenders really needed to pay back the loan on time, or suffer the consequences of a punitive rate of interest.

"My advice is that it is short-term, make sure you pay [the PDL] back. You don't want the bailiffs coming." Male, 25 to 34

A majority of respondents found the Horizon/CFD process (an 11-minute first call and a 9-minute second call, both without resolution, in our materials) to be **an over-long and unsatisfactory overall experience**. Almost three-quarters of respondents (35 in number) were critical of all or some parts of the process, with 28 out of 48 classifying one or both of the calls as 'long/long-winded/lengthy'. In addition, two-fifths (19 respondents) at some point called the process 'a waste of time/pointless/in some ways fraudulent/money-making'. Eight respondents explicitly used the term 'scam/con/theft'.

"This company is a serious worry. It's taking money off desperate people. It's a scandal and it's quite upset me. It's a disgrace." Male, 45 to 64

6. The First PRS Call

After the first call, just over one-fifth of respondents (10) expressed positive sentiments, saying that the process had been straightforward as well as 'clear', 'friendly' and 'informative. However, **14 respondents believed that the operator was asking too many questions or was being repetitive**, while a little over half (25) categorised it as long-winded/long. Although just 8 respondents explicitly stated that the call was confusing, 30 were actually unable to explain that Horizon/CFD operated in such a way that it would match up an applicant with prospective lenders, ie that it was a brokerage. In addition, almost half of respondents (23) believed the applicant would get a definitive yes/no response to the application later that day, while one-quarter (12 respondents) were not sure when such a response would be received.

"It was very thorough, very clear and what you would expect. Questions were straightforward and he asked what he needed to ask." Female, 25 to 34

"It'll be processed within an hour and you can get money within the same day – I thought it was brilliant." Male, 18 to 24

In terms of next steps, some confusion was evident: two-fifths of respondents (20) believed the only option available to applicants as a follow-up was to call a premium-rate number, while 14 respondents thought calling a freephone number was one of the options provided. However, there was more awareness when it came to cost and

four-fifths of respondents (38) made more-or-less correct estimates in saying that the first call would cost between £10.01 & £15, or more than £15.

“The next step is, if I want a loan on the same day then I ring another number, which is another expensive number.” Female, 18 to 24

7. The Second PRS Call

One-third of respondents (18) did correctly understand that applicants would be given loan options if they made a second call. However, a majority did not have a full understanding of the purpose or likely outcome of the second call, with 28 respondents believing that applicants making use of the call-back option would be told the results of the application.

“I would expect some payment plan. Who’d be willing to lend me, how much it is going to cost me, how my payments are going to be taken. All the finishing details really.” Male, 35 to 44

After listening to the second call, **37 respondents were critical of the call in some way**, with 13 respondents finding it long-winded, and 19 saying it was repetitive/pointless/a waste of time. 10 respondents used highly negative terms to describe the second call, including “con”, “scam”, “rip off”, “fraudulent” and “disgusting”. Respondents were also asked to rank their satisfaction with the second call on a scale of 1 to 10 (where 1 was ‘not at all satisfied’ and 10 was ‘very satisfied’) and the average score was 3.6. However, some respondents were impressed by the second call, saying it was “friendly”, “factful” and “helpful” with 8 respondents expressing positive sentiment.

“Very thorough, very clear, friendly, helpful. He took time to match the applicant with the right lender.” Female, 25 to 34

I would be so peed off. It’s a con. I expected a decision.” Female, 45 to 64

8. The Refund Mechanism

Participant understanding of the eligibility criteria pertaining to refunds was generally poor. Just under one-third of respondents (14) correctly identified that applicants would be eligible for a refund if they were simply not satisfied with the call, while around the same proportion (15) believed that a refund was contingent upon either taking out/not taking out a loan. 13 respondents said refunds were available under no circumstances, or that no information was given, or they were not sure if they had been told.

“I presume you get a refund if you take out a loan... if you don't then you don't get a refund.” Female, 25 to 34

As noted earlier, Horizon informs consumers that their refund policy is to offer consumers a full refund if they are not satisfied with the service they have received. This approach is adopted instead of informing consumers of their statutory right to a refund minus £5 if they are unsuccessful in obtaining a loan or they refuse the loan agreement offered to them.

There was a general lack of understanding about how to apply for a refund, and some respondents – 10 out of 48 – remarked unprompted on the operator's comment that the freephone line was a busy one, believing that this meant the process would be a long one. Due to this confusion and anticipation of possible delay, there was a low expectation of getting a refund, or a belief that it would be a troublesome process.

“If you are dissatisfied then you call a freephone number but you won't get through.”
Male, 35 to 44

“You'll probably need to prove the cost of the call... I can't quite remember what he said. There was some procedure in place for you to get money back.” Male, 35 to 44

“She didn't explain what the terms were. It was if you were approved or disapproved. I guess you'd have to write a letter. I don't know.” Male, 18 to 24

9. Overall Consumer Assumptions/Understanding

As stated above, on completion of the second call, one-fifth of respondents (9) still had some positive sentiments relating to the overall process. Overall, the results highlighted a number of significant concerns around Horizon's service model.

There was a lack of clarity regarding the nature of Horizon/CFD's business model. Almost two-thirds did identify the company as a brokerage but often understanding did not come until the second call. There was a strong sense that consumers assumed **Horizon/CFD was the credit firm which would actually furnish the loan.** One respondent posed the question as to whether the company name may be misleading for a brokerage operation, as the moniker 'Cash Finance Direct' does not at all suggest an intermediary service. The general confusion could partially be down to Horizon/CFD failing to explain clearly until the second call that they are not themselves lenders. The operator mentions the word 'broker' a single time in the first call without qualifying the nature of its activities.

"It came out [in the second call] that the company is a brokerage, maybe I missed it before." There needs to be clarity about what the company does, they should say 'we are brokers for...'" Male, 45 to 64

It often comes as something of a surprise to respondents when they realise, by the end of the second call, that the company itself will not be lending funds. This then **renders the service provided superfluous** in the eyes of 14 respondents who believe a simple Google search, a visit to Moneysupermarket/GoCompare, would be an equivalent method of **finding multiple lenders**. In addition, 11 respondents thought applicants would do better going directly to the lender than going through the Horizon/CFD process.

"It's pretty steep when all they're getting is information. I could do the research myself for free." Female, 25 to 34

"The guy could have gone to Wonga directly. He could have saved £30 on phone calls." Male, 25 to 34

"I don't see point of using CFD. I would rather search online." Female, 35 to 44

In addition, **there was some confusion over how Horizon/CFD would end up making money on an application**: 13 respondents out of 48 posited that company might charge a fee/make a commission on any successful loan application in addition to collecting the call charges.

It is also worth noting at this point that in the second-call transcript, **the operator provided the same piece of misleading information twice**. In the first instance, she informed the caller that there were three possible lenders when one had actually declined. In the second, prior to providing lender information, she told the caller there was a “pretty good chance of success” with Wageday Advance and two other companies when on screen it clearly said the former had, in fact, declined: this was remarked upon by 4 respondents. It was also noted - by five respondents - that a possible lender for the caller was Wonga, with whom the applicant already had outstanding loans, which made them question why this provider had been suggested.

In terms of the cost of the phone calls, respondents sometimes felt that this information was in the fast segment of what was a two-speed delivery on the part of the operator, largely on the first call. This meant that the **T&Cs were delivered at rapid speed, while information gathering was conducted at a more leisurely pace** (something compounded by the repetitive nature of both calls we note earlier). This was often interpreted as a ploy by Horizon/CFD to keep applicants on the line so that they would rack up higher phone charges.

“Oh my God, this a premium rate call and they are reading out T&Cs they could send out, asking irrelevant questions, repeating. Everything that could drag out the call was dragged out.” Male, 35 to 44

It should be borne in mind that **some callers to Horizon/CFD might well be in a state of some distress** and be seeking loans from a number of possible providers within a short period of time in order to obtain financial relief. In fact, 13 respondents remarked unprompted that applicants would likely be desperate/stressed when they made such calls and may find it more difficult than they did, during the research, to take in the information provided. All respondents were recruited on the basis that they were at quite likely to apply for a payday loan or an unsecured load, while many had applied for a payday loan or an unsecured loan in the previous 2 years (see Section 3, above).

“He’s obviously a bit desperate. You can tell the desperation in the man’s voice.”
Female, 45 to 64

“In the heat of the moment you don’t think about how much it costs for the call - if you need the money.” Male, 18 to 24