



Critical

R E S E A R C H

TEN-16-075. PRICE CAP RESEARCH

Technical Report

Prepared for:

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Table of Contents

Acknowledgements	2
The Authors	3
Glossary	4
1. Introduction	6
1.1 Research background	6
1.2 Questionnaire length.....	6
1.3 Fieldwork dates	6
2. Sample Design	7
2.1 Database development	7
2.2 Summary of exclusions from the sampling stage.....	9
2.3 Population building	9
2.4 Sub-population groups.....	9
3. Questionnaire Development	14
3.1 Measuring use of illegal money lenders.....	14
3.2 Questionnaire programming.....	15
3.3 Quality control processes.....	15
4. Pilot.....	16
4.1 Outcomes	16
4.2 Pilot recommendations including questionnaire changes	16
4.3 Encouraging response	17
5. Fieldwork	18
5.1 Interviewer briefing.....	18
5.2 Location of telephone centres	18
5.3 Hotline and forewarning letter	19
5.4 Supervision and quality control.....	19
5.5 Incentivisation	19
6. Data processing	20
6.1 Recoding.....	20
6.2 Statistical tabulations.....	20
6.3 Significance testing.....	20
7. Sample representation	21
7.1 Comparison of interviewed sample versus the population	22
7.2 Sample outcomes	23
8. Weighting	25
8.1 Weighting variables.....	25
8.2 Weighting efficiency.....	27
Appendix 1: data request to firms.....	28

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Glossary

Consumer credits terms

FCA	Financial Conduct Authority
HCSTC	High Cost Short Term Credit, defined in the FCA handbook ¹
Illegal money lending	Lending that is not regulated by the FCA conducted in a way to earn money from lending
Price cap	The general term used to cover the price restrictions the FCA introduced to HCSTC in January 2015
Payday loan	The term used for survey participants to describe HCSTC

Research terms

Confidence interval (CI)	The range within which a survey statistic falls 95% of the time, based on interviewing a sample of consumers.
Sample Group	Lenders were asked to make 2 selections of customers, to reflect those active customers (A. applied for a payday loan) and those who have former (B. used to, but have not recently taken out a payday loan)
Groups	Active customers were divided into 3 groups: <ol style="list-style-type: none">1. Accepted for a PDL (accepted)2. Declined a PDL (declined)3. Previously had PDLs but have stopped applying (former) <p>This status was checked during the interview, and only those who agreed</p>

¹ See Annex 4 for the full definition

with the sample information were classified into these 3 groups in the analysis stage.

1. Introduction

This report summarises the methodological approach used for the Price Cap Research undertaken in 2017. For further information and findings from this research, please visit www.fca.org.uk.

1.1 Research background

Prior to September 2014, providers of High Cost Short Term Credit (HCSTC) were not regulated by the FCA and were instead covered by regulations stipulated by the OFT under the Consumer Credit Act. Largely these firms were those previously known as Payday Lenders: that is firms offering very short term loans with a high interest rate as a stop gap for consumers until payday.

When the FCA took over regulation of consumer credit firms, including HCSTC providers, a greater degree of regulation was introduced in order to reduce customer detriment whilst providing suitable choice for consumers, in a competitive market. Due to the short-term nature of HCSTC, a further regulation was introduced for lenders providing loans with an APR in excess of 100% to ensure borrowers were not charged excessively.

The “Price Cap” regulation, introduced in January 2015, ensured a limit to the amount of fees and interest a consumer would pay, in particular if they were unable to meet repayments. Consumers cannot be charged more than 100% of the original loan value in fees and interest; there is a £15 cap on default fees; and, an initial cap of 0.8% interest per day cannot be exceeded.

Whilst these measures are designed to protect consumers from high charges, it does mean that more people may become ineligible for loans of this nature. Potentially a large number of consumers therefore might seek loans elsewhere, possibly even extending to illegal money lenders. For this reason, and to check for other unforeseen consequences, the FCA committed to conducting consumer research to establish the impact of the price cap.

1.2 Questionnaire length

The questionnaire took on average 25 minutes to complete, although the range varied from 19 to 34 minutes. Overall there were approximately 30 minutes of questions available, but due to routing, not everyone was eligible to be asked all questions.

Interviews which lasted longer than average were typically those where the respondent was able to provide longer answers to some of the open-ended questions.

1.3 Fieldwork dates

Telephone fieldwork ran continuously over a 12-week period, starting on 23 January 2017 and was completed on 21 April 2017.

2. Sample Design

In order to produce a reasonable sample frame, 8 HCSTC lenders were asked to provide extracts from their customer base. Lenders were asked to provide customers in two groups:

Group A, Recent Applicants. Those applying for a HCSTC loan between 01 May 2016 and 31 October 2016, regardless of the outcome of that application.

Group B, Former Borrowers. Those successfully applying for a HCSTC loan between 01 January 2014 and 30 April 2016, who have not applied for a loan since then.

All firms provided their submissions by Friday 16 December 2016. The data request to lenders made by the FCA using its legal powers is available in Appendix 1: data request to firms.

2.1 Database development

In order to approximate the population of payday loan customers, a database comprising the submissions from all 8 lenders was created. Each lender provided 10,500 customers² split into Group A (7,000 customers) and Group B (3,500 customers).

When processing the data some anomalies were found for Group A as follows

- Last loan acceptance date was prior to 01 May 2016
- Last loan acceptance date was blank
- Last loan acceptance date was blank and last loan rejection date was blank
- Last loan rejection date was before last loan application date
- Last loan value was £0

Some lenders provided additional explanations for some of these scenarios, which enabled decisions about whether to exclude such customers from the sample:

It may happen that the customer's application was approved however, the customer did not sign the contract. In these cases, this column will remain null. This may result in scenarios, where the variable `numberLoanApplications` is greater than `numberLoanAcceptance` (customer applied

² With the exception of one lender who provided a second tranche of customers profiled in exactly the same way, towards the end of fieldwork to assist with achieving the final number of interviews.

more times than we funded a loan); however, the lastLoanrejected³ remains null (as all applications may have been approved, but we did not fund a loan).

In total 1334 Group A anomalies were excluded (2.4%).

For Group B, similar anomalies were found:

- Last loan acceptance date was after October 2016
- Last loan application date was blank
- Last loan acceptance date was after April 2016
- Last loan acceptance date was blank
- Last loan value was £0

In total 413 Group B anomalies were excluded (1.5%).

All anomalies listed above were excluded from the sampling processes.

2.1.1 *Deduplication and missing contact details*

2,483 records were excluded as a customer appeared multiple times across the database (and occasionally within the records provided by each lender). A combination of name, mobile phone number, email address and postal address were used to removed subsequent records leaving a database of unique individuals.

A further 1,298 customer records were excluded from the final sampling due to missing telephone numbers that could not be sourced. Finally, 2 records were removed because the age and date of birth were obviously wrong and could not be allocated to the sampling profile.

³ See Annex 3 for definitions of *numberLoanApplications*, *numberLoanAcceptance* and *lastLoanrejected*

2.2 Summary of exclusions from the sampling stage

The following table shows how the exclusions were applied.

	Group A	Group B	Total
Starting number of customers	56000	28000	84000
- Removed: anomalous	1334	413	1747
- Removed: duplicated	1911	572	2483
- Removed: wrong age	1	1	2
- Removed: total	3246	986	4232
Total population	52754	27014	79768
- Removed: no phone numbers	1181	117	1298
Total sampleable population	51573	26897	78470

Table 1. Sample breakdown showing exclusions

With anomalies and duplicates removed, 79,768 records were put forward for some further profiling work (see sections 2.3 and 2.4). However as some of these could not be contacted for the telephone interviews, 78,470 records were available for sampling.

2.3 Population building

From Table 1 above, 79,768 records were used to develop some statistics about the sub-populations. Results are shown below (but note, they are not weighted by lender).

2.4 Sub-population groups

From the 2 sample groups, three populations were defined, as follows:

- Group 1. Consumers from Group A who applied for a payday loan⁴ and were declined from May 2016 onwards (and were not accepted for a payday loan after this date)
- Group 2. Consumers from Group A who applied for a payday loan and were accepted from May 2016 onwards
- Group 3 – Consumers from Group B who used to use payday loans between January 2016 and April 2016 but have not applied since May 2016.

⁴ The term 'payday loan' was used in the survey as consumers are more familiar with this term than 'high cost short term credit'. The sample is not restricted to only single instalment short term loans but also includes multiple instalment loans or any other loan captured under the definition of HCSTC.

The groups have the following age and gender profiles:

Group 1	Male	Female	Total
18 to 24	3747 (26%)	3001 (26%)	6748 (26%)
25 to 34	5653 (40%)	4386 (38%)	10039 (39%)
35 to 44	2679 (19%)	2205 (19%)	4884 (19%)
45 to 54	1537 (11%)	1467 (13%)	3004 (12%)
55 to 64	540 (4%)	497 (4%)	1037 (4%)
65+	93 (1%)	101 (1%)	194 (1%)
Total:	14249	11657	25906
Mean age:	32.4	33.0	32.7

Table 2. Group 1 age and gender profile

Group 2	Male	Female	Total
18 to 24	3314 (20%)	2202 (21%)	5516 (21%)
25 to 34	6641 (41%)	3905 (37%)	10546 (39%)
35 to 44	3563 (22%)	2216 (21%)	5779 (22%)
45 to 54	2076 (13%)	1581 (15%)	3657 (14%)
55 to 64	656 (4%)	516 (5%)	1172 (4%)
65+	99 (1%)	79 (1%)	178 (1%)
Total:	16349	10499	26848
Mean age:	33.8	34.4	34.0

Table 3. Group 2 age and gender profile

Group 3	Male	Female	Total
18 to 24	2466 (15%)	1652 (15%)	4118 (15%)
25 to 34	6711 (42%)	4287 (39%)	10998 (41%)
35 to 44	3675 (23%)	2445 (22%)	6120 (23%)
45 to 54	2183 (14%)	1836 (17%)	4019 (15%)
55 to 64	840 (5%)	686 (6%)	1526 (6%)
65+	144 (1%)	88 (1%)	232 (1%)
Total:	16019	10994	27013
Mean age:	34.9	35.8	35.3

Table 4. Group 3 age and gender profile

The profiles across all three groups are quite similar, indicating there are not many substantial differences in these demographics. Those which are thought to be former customers (Group 3), do appear to have a slightly older age profile however.

Looking at average loan values by age and group:

Average last loan value	Group 2	Group 3	Total
18 to 24	£366	£311	£342
25 to 34	£448	£382	£414
35 to 44	£514	£442	£477
45 to 54	£546	£464	£504
55 to 64	£545	£500	£520
65+	£464	£464	£464
Male	£472	£416	-
Female	£449	£387	-
Overall average:	£463	£404	-

Table 5. Profile of average loan value by age and Group

Group 1 values are not shown, as many customers allocated to Group 1 (declined) had not previously had a payday loan value.

Those in Group 3 (former) also consistently have borrowed less. This could be in part inflationary (Group 3 customers typically borrowed about a year before on average), but the figures differ by far more than 3%.

Average last loan value	Group 2	Group 3	Total
London	£519	£462	£493
Offshore	£486	£481	£482
South East	£488	£427	£458
West Midlands	£469	£406	£437
Scotland	£467	£401	£435
East of England	£456	£406	£430
South West	£460	£388	£424
Northern Ireland	£452	£381	£417
Wales	£433	£394	£412
East Midlands	£436	£386	£410
North West	£431	£385	£407
Yorkshire & Humberside	£438	£375	£407
North East	£438	£373	£405
Overall average:	£463	£404	£434

Table 6. Profile of average loan value by region and Group

The same differential by Group exists across each region. Furthermore, there are some differences in average loan values across the regions. Perhaps predictably, London and the South East appear in the top 3 regions by average loan amount. Scotland is perhaps higher than expected, assuming typical regional differences

3. Questionnaire Development

The questionnaire was developed by the FCA research team, with input and consultation from Critical Research from the outset. Where appropriate some questions from relevant previous research were used, including the previous research into Payday lending conducted by TNS-BMRB in 2014.⁵

3.1 Measuring use of illegal money lenders

Whilst many of the questions are standard and straightforward, one of the research objectives was to try to measure the extent to which illegal money lenders were being used, especially as a result of being denied access to regulated lenders. Typically, when questioned directly, most people will not admit to behaviour that may be considered reprehensible for fear of the consequences.

For this research, two techniques were used to overcome this which are described below.

3.1.1 *Item count*

This is a method of counting the number of items or 'behaviours' that have been conducted without the person having to specifically name the items. To implement this for the research, the sample was split into 2 halves, the first half receiving a control list of 4 items and the second half receiving the same list, together with a fifth item of "Used an illegal money lender". Each respondent was then asked to state how many of the items they had done in the last 12 months, without having to state which ones specifically they had done.

For analysis, the two samples were matched demographically, and the differences in the mean number of mentions between the two lists were compared. Theoretically the increased average number of mentions in the second list, equates to use of illegal money lenders. There are some limitations to this technique, but it does help overcome the reluctance of some people to describe their behaviour directly to an interviewer.⁶

⁵ <https://www.fca.org.uk/static/documents/research/consumer-research-into-hcstc-market-july-2014%20v2.pdf>

⁶ Further papers about handling the item count technique.
<http://www.stat.columbia.edu/~gelman/surveys/course/Glynn2013.pdf>;
http://www.academia.edu/1817890/The_Item_Count_Method_for_Sensitive_Survey_Questions_Modelling_Criminal_Behaviour; <http://imai.princeton.edu/research/files/list.pdf>; <http://imai.princeton.edu/talk/files/UCI11.pdf>.

3.1.2 Indirect questioning

Throughout the questionnaire a number of open and part-open questions were used to establish which alternative options had been considered or used. Furthermore, two questions were included which followed up on use of informal money lenders such as friends, family and other members of the community. These questions established whether the informal lender charged interest, or lends as a way of making money. Additional questions were asked about the possible outcomes of not paying.

The pattern of responses at these questions can be used together to form an indication of whether an individual is at risk of using illegal money lenders, without the need for asking the question directly.

3.2 Questionnaire programming

Once the questionnaire was agreed, the questions were scripted using specialist market research software (Askia). The system allowed for complex routing and question filtering to ensure the correct flow and path through the questionnaire, as well as text substitution where alternative wording was required. The system also allocated at random one of the item count lists to each participant.

Once computerised, the resulting script was checked against the agreed questionnaire to ensure the correct questions were being administered and in the order intended.

3.3 Quality control processes

Throughout the questionnaire scripting stage, each version of the script was logged and checked against the questionnaire. In total, including the pilot, 10 versions of the questionnaire script were produced. Each time the following processes were undertaken:

- Questionnaire checks:
 - Question wording was appropriate
 - Correct routing was applied
 - Wording changes implemented, that may be necessary for different audiences
 - Changes did not disrupt the flow or have consequences elsewhere in the questionnaire
- Programmed script checks
 - Wording and routing matched the latest version questionnaire
 - Full version of the questionnaire checked for each sample group
 - Resulting test data was in correct format and as expected
 - Changes were compatible with any earlier data already collected

4. Pilot

Pilot work conducted from 13-25 January 2017. The objectives of the pilot were as follows:

- To test whether the questionnaire was working as intended, that questions were understood and being answered as expected
- To establish questionnaire length
- To test the sampling processes and to establish how best to sample for the main stage
- To establish response rates and determined if any changes were required to the approach and screening questions

4.1 Outcomes

In total 30 interviews were achieved for the pilot. The total number of people contacted, and their outcomes at the end of the pilot were as follows:

	Total	Group 1 (Declined)	Group 2 (Accepted)	Group 3 (Former)
Completed interviews	30	11	12	7
Failed screening questions	39	14	9	16
Refusals	122	41	45	36
Appointments to call back another time	377	112	81	184
Voicemail left	189	63	83	43
Multiple no answer	963	294	323	346
Ineffective telephone numbers	390	151	81	158
Total:	2110	686	634	790

Table 7. Pilot outcomes for each customer record

The outcomes of the pilot were also used to inform subsequent sampling processes.

4.2 Pilot recommendations including questionnaire changes

The pilot enabled a number of minor changes to be made to improve the survey. Broadly speaking these were questionnaire changes (largely removing questions) and changes to the screening processes. Below is a summary of the changes to the approach as a result of the pilot:

- Screening questions were modified to add additional “prompt” style questions wherever the respondent’s answer appears to contradict lender records, specifically when:
 - The respondent claims not to have taken out a loan in the last 12 months (Question 1.1)
 - The respondent claims not to have been declined a loan in the last 12 months (Question 1.3)

- The respondent was declined, but claims to have been accepted for a loan from another provider (Question 1.4)
- The respondent claims not to have had any payday loans since January 2014 (Question 1.6)
- The questionnaire sequence from 3.24 to 3.31 was changed and two questions were amended to be entirely open-ended questions.
- Questionnaire length was reduced by removing or changing several questions.

4.3 Encouraging response

Following learning from the pilot, two additional strategies were adopted which had a positive impact on strike rates:

- Wherever a landline or mobile voicemail was encountered a short voicemail was left as follows:
“Sorry to bother you. This is <James> calling on behalf of the FCA. It is nothing to worry about and not urgent. We would like to ask you a few questions about some financial services you may use. We will try you another time.”
- Whilst the majority of calls were conducted between 5pm and 9pm, with some weekend calls, success was also had calling during working hours too. Mobiles were more likely to be answered in the daytime and appointments then made for an evening interview.

5. Fieldwork

All interviews were conducted using Computer Assisted Telephone Interviewing and occurred in in January to April 2017. The research was compliant with the Market Research Society Code of Conduct,⁷ using a team of well-trained interviewers experienced in undertaking consumer interviews about money and finance.

5.1 Interviewer briefing

A team of 42 interviewers was used to complete the fieldwork. Each interviewer received a briefing from the Research Director which covered:

- **The research background.** This included the research sponsor and the objectives. Interviewers were familiar with the FCA in particular the changing regulatory landscape in consumer credit, but nonetheless the team was brought up to speed on the Price Cap regulations and possible consequences of change.
- **Terminology.** As some terms that may not be familiar to all participants were being used, these were defined in a small glossary.
- **Sampling and interviews.** Interviewers were instructed about the 3 differing groups of HCSTC customers and the number of interviews required in each. Interviewers were also informed from where the customer details were sourced, and FCA's role in this process.
- **Introduction.** The survey introduction was also explained as part of the briefing. It was important that this was positioned as a general financial and well-being survey in order to minimise any bias and avoid wherever possible talking about HCSTC.
- **Questionnaire structure.** As part of the briefing interviewers were taken through an overview of the questionnaire, and then question by question were shown each screen and how to handle likely answers at each.

5.2 Location of telephone centres

Interviewing was conducted in equal part from Critical's 2 UK telephone centre in North West London (Carpenders Park) and Central London (London Bridge).

⁷ https://www.mrs.org.uk/standards/code_of_conduct

5.3 Hotline and forewarning letter

To facilitate the data collection process, respondents were able to contact the fieldwork team using a dedicated Freephone number and email address. These contact points were detailed in a reassurance letter that was issued to potential survey respondents when requested. This process allowed respondents to be reassured of the genuine nature of the research, and also provided easy access to the project team, should there be questions about the research or to change a specific interview appointment.

5.4 Supervision and quality control

For every 6 interviewers, one supervisor was dedicated to assisting and guiding the interviewing process. Each supervisor has a minimum of 3 years telephone interviewing themselves. The team of interviewers and supervisors reported to the telephone centre manager, who in turn reported to the research director. Supervisors were available at all times to assist with any questionnaire queries or questions from respondents, as well as performing their quality control duties.

A total of 10% of calls were accompanied or listened to after the interview was completed. This process checked the accuracy of question administration, the interviewer manner and courtesy, and the corresponding entered data, according to a standard underpinned by IQCS.⁸ The result of each checked interview was feedback to each interviewer face to face and any learnings were discussed. Any data changes were made after discussion with the interviewer and reviewed alongside the interview recording.

5.5 Incentivisation

Each respondent was provided with a £10 online retail voucher or posted a personal cheque if that was their preference.

⁸ <https://www.mrs.org.uk/standards/iqcs>

6. Data processing

After data collection was completed, the resulting database was checked and cleaned.

6.1 Recoding

6.1.1 *Part open questions*

The answers for each part-open question were reviewed and where necessary were coded back to existing codes. Where a significant number of other answers could be grouped into a new code, this was added to the code-frame.

6.1.2 *Fully open questions*

Two questions were asked in a completely open way. Interviewers were not presented with a code-frame, but instead asked to type in the answers, which were reviewed at the end of fieldwork. Answers to these questions were taken as a whole, and a code-frame was developed based on grouping answers considered useful by the FCA.

6.2 Statistical tabulations

Once recoding was completed, the data was put forward to a statistical tabulation package (Askia Analyse) which provides cross tabs for each question. Three sets of tables were produced, one for each group.

6.3 Significance testing

To facilitate the identification of genuine differences (and not those which occurred by chance due to the sampling processes), significance testing was applied to the tables such that differences between columns within each banner and versus the total column were identified. The standard tests applied were student t-test and χ^2 for binomials or 2 degrees of freedom.

7. Sample representation

Despite rigorous controls elsewhere in the research design, it is possible that those interviewed do not fully represent everyone who has applied for or are former users of payday loans. This might occur, for example, if some demographics were much harder to reach for a telephone interview. Inevitably some audiences are easier and some harder to interview, so the following steps were taken to minimise the impact of this:

- Sampling was conducted in a stratified and randomised way to help ensure sub-groups by age, gender and lender were represented in the final interviewed total
- Samples of customers were released to the interviewing team in a controlled way across several batches, with individuals only replaced when all attempts at contacting the original customers had been exhausted
- The interviewed sample was structured by age, gender and lender and an intelligent system was used to release each record to best reflect the required targets
- Phone calls were made at different times of the day and on different days of the week between 9am and 9pm. Up to 6 calls were made to each customer before they were declared uncontactable.
- Incentives were used to encourage response
- Final data were weighted back to the known profile of customers (see section 8. Weighting)

Whilst this non-response error can never be eliminated, these steps give confidence that the research does represent the views of typical payday lender users

7.1 Comparison of interviewed sample versus the population

Whilst the interviewed sample was engineered to be representative of the population of payday lenders by age and gender, there are some other measures that can be used to check for representation. The most useful of these was default rates. If the supposition that participation in a telephone survey is to some degree linked to levels of deprivation, then default rates becomes a useful check.

The table below shows the default rates according to the definition 'LastLoanDefault'⁹ provided by lenders on their customer submissions.

	Group 1		Group 2		Group 3	
	Int	Sam	Int	Sam	Int	Sam
Lender A	0%	3%	33%	51%	91%	87%
Lender B	3%	2%	33%	54%	52%	60%
Lender C	0%	0%	16%	34%	42%	69%
Lender D	3%	1%	22%	23%	53%	57%
Lender E	0%	0%	19%	32%	10%	35%
Lender F	11%	3%	52%	61%	76%	85%
Lender G	0%	5%	19%	32%	16%	22%
Lender H	25%	25%	16%	21%	29%	41%

Table 8. Default rates by lender to enable a comparison of the interviewed sample with the population

Those whose last outcome was a default are represented across the interviewed sample as a whole, but slightly under-represented especially in groups 2 and 3. For this reason, the LastLoanDefault data was also taken forward as a weighting variable.

⁹ LastLoanDefault is defined as whether the customer missed one or more payments on this HCSTC loan. For those whose last outcome was 'declined' lenders either provided a "no" or left the information blank, nonetheless a small proportion of those in the declined group were flagged as having defaulted on their loan. For this reason it is unclear whether the figures in the table are accurate default rates for those in the declined group. However as we are comparing like with like for the purposes of identifying sampling errors, the process is still sound.

7.2 Sample outcomes

The following tables show the outcomes from the calls made, including calculations of contact rates.

7.2.1 All outcomes

	Group 1	Group 2	Group 3
Interviews	489	1005	306
Screening failures	394	530	235
Refusals	1720	2977	1152
Ineffective telephone numbers	6757	6821	3591
Constant no reply	3657	4921	3393
Constant answerphone, message left	5283	7056	3290
Appointment to call back	480	700	596
Other outcomes (duplicate, unavailable in fieldwork)	152	210	87
Totals	18932	24220	12650

Table 9. Sample outcomes

7.2.2 Success rate from all contacts

Success rates are calculated as the proportion of interviews and screening failures of all sampled contacts.

	Group 1	Group 2	Group 3
Success rate from all	5%	6%	4%

Table 10. Success rates from all

7.2.3 Success rate from effective contacts

Ignoring ineffective sample, success rates from valid sample are as follows.

	Group 1	Group 2	Group 3
Success rate from effective	11%	13%	10%

Table 11. Success rates from effective contacts

7.2.4 Ineffective sample rate all contacts

The level of ineffective contacts within the whole sample was high.

	Group 1	Group 2	Group 3
Ineffective sample	55%	49%	55%

Table 12. Ineffective rates from all contacts

7.2.5 Refusal rate from effective contacts

A measure of the willingness to co-operate can be derived from the proportion of interviews and screening failures amongst all interviews, screening failures and refusals.

	Group 1	Group 2	Group 3
Refusal rate	66%	66%	68%

Table 13. Refusal rates

7.2.6 Qualification rate from valid contacts

Finally, the outcomes of the qualification screening can be calculated by the proportion of those qualifying amongst those willing to start the interview.

	Group 1	Group 2	Group 3
Qualification rate	55%	65%	57%

Table 14. Qualification rates

8. Weighting

8.1 Weighting variables

Weighting was conducted using 4 variables: Age, Gender, Lender market share and Last loan default (an indication of whether the last loan was defaulted one or more times). Each sub-population group of customers was weighted to the profile of age, gender and default status discovered during the analysis of the customer samples (see Section 2.3). The profile of lender market share was applied in the same proportions for each group.

8.1.1 Age and gender profiles

The following age and gender profiles were used for each group:

	Age & Gender groups	Interviews	Target	Sample Profile	Weight
Group 1	18-34 Male	198	177.4	9292	0.896
	35+ Male	97	91.5	4793	0.944
	18-34 Female	123	139.4	7302	1.134
	35+ Female	71	80.6	4221	1.135
Group 2	18-34 Male	357	370.3	10118	1.037
	35+ Male	265	237.8	6498	0.898
	18-34 Female	218	230.3	6291	1.056
	35+ Female	165	166.6	4550	1.009
Group 3	18-34 Male	99	104.0	9072	1.050
	35+ Male	83	77.5	6763	0.934
	18-34 Female	63	67.3	5871	1.068
	35+ Female	61	57.3	4997	0.939
	TOTALS	1800	1800	79768	

Table 15. Profile of age and gender by group as weighting inputs

8.1.2 Lender market share

Market share was calculated using loan volumes provided to the FCA by firms in the period January to August 2016. The 8 firms from which consumers were drawn for the survey were used as being representative of the whole market. The market share of the 14 largest firms (by loan volume) that were not included in the firm sample was allocated to the 8 firms that were included in the sample. The allocation was made on the basis of similar product characteristics, and the resulting profile by the 8 lenders was used to calculate this further dimension of the weighting.

8.1.3 Last loan default

The last loan default rates for each lender were established from the samples of customers provided. A weighted average of these was taken, using the market share figures quoted in section 8.1.2 above. The resulting typical rate for each group was then taken as the weighting target.

The following weighted average for Last loan default status was used for each group:

	Group 1	Group 2	Group 3
Weighted (market share) average	9.5%	32.3%	51.6%
Target interviews (defaulted)	46	325	158
Target interviews (not defaulted)	442	680	148

Table 16. Profile of 'Last loan default' rates by lender as weighting inputs

8.2 Weighting efficiency

During the fieldwork, sample was strictly controlled to ensure the profile of achieved interviews did not deviate substantially from the required profile. As such the weighting applied was not substantial and the study retains much of the original sample size.¹⁰

The net effective sample size together with the weighting efficiency is shown below.

	Group 1	Group 2	Group 3
Sample size	489	1005	306
Max weight	1.966	1.502	2.230
Min weight	0.770	0.548	0.489
Estimate of neff	469.6	906.5	248.8
Estimate of design effect statistic	1.020	1.053	1.109
Weighting efficiency	96.0%	90.2%	81.3%
Confidence interval for 50% (+/-)	4.5%	3.3%	6.2%

Table 17. Summary of weighting outcomes

¹⁰ When applying weighting to a dataset, some interviews contribute more than others to the total, to correct imbalances in the interviewed profile. These corrections potentially have an impact on the sample size, and as such the net effective sample size (the sample size had this been a simple random sample without weighting) can be calculated.

Appendix 1: data request to firms

13 December 2016

Dear

Review of the HCSTC price cap: Notice of requirement for information

This letter, together with the Annexes, comprises a formal notice to provide information.

This information requirement is for the forthcoming review of the price cap on high-cost, short-term credit (HCSTC). We have publically committed to this piece of work in our policy statement from November 2014 (PS14/16). We plan to publish the outcome of the review by summer 2017.

This notice requires a list of high-cost, short-term credit (HCSTC) customers, and customer details, for two groups detailed in the scope of requirement in Annex 1. You must fill the variable fields as defined in this notice, and using the CSV template provided to submit the information as set out in Annexes 2 and 3.

Further instructions on how to comply this requirement are provided in the Annexes to this letter and the accompanying template 'Table1_Template'. The Annexes and CSV file, together with this letter, comprise a notice for the purposes of section 165 of the Financial and Services Markets Act 2000 ("FSMA").

NOTICE TO PROVIDE INFORMATION

You are required under Section 165(1) of FSMA to provide the information specified in this Notice. This should be provided to us in the form set out, and by the date set out, in this Notice.

Where your firm supplies HCSTC via a number of different operating companies, please make separate submissions for each of your operating companies. The aggregate total of your submission should be 10,500, and should be reflective of your overall customer base across subsidiaries.

The information required under this notice must be provided by Friday 16th December 2016 (3 working days from the sending of this Notice).

The FCA has contracted Critical Research as the market research agency to carry out this research. We require you to send the information directly to the agency in a secure way following protocols which it has agreed with the FCA. Please contact James Hopkins by emailing james.hopkins@critical.co.uk to arrange this.

FCA contact details

If you have specific questions on this information request which are not addressed by the information we have provided, or any questions regarding this project more generally please contact David Malcolm (David.Malcolm@fca.org.uk, 0207 066 0136).

If there are any elements of this requirement that you believe raise significant problems, please contact us as soon as possible.

Thank you for your cooperation.

Yours sincerely,

Graeme McLean

Head of Banking, Lending and Protection Policy

Annex 1: Scope of requirement

We require information relating to customers that applied for products which fall under the FCA Handbook definition of high-cost, short-term credit (HCSTC)¹.

We require customer information (Table 1) for a random sample of customers who fall into two groups:

- i. Group 1: Recent applicants
- ii. Group 2: Former borrowers

If you are aware that a customer's details are no longer accurate it would be useful if you could indicate this when you send the information through.

This section explains how to select the sample of HCSTC customers eligible for inclusion in each group.

Group 1: Recent applicants

Start with the non-fraudulent (applicants who pass initial eligibility checks) applicants who applied (successfully or unsuccessfully) for HCSTC between 1st May 2016 and 31st October 2016.

If applying the above criteria results in the number of customers remaining greater than 7,000 customers please apply the below approach to pick a sample of 7,000 customers.

Assign each customer a random number. This can be done using a random number generator in statistical programs with the seed set in order for the method to be exactly replicated if necessary. Using this random number to extract a sample of 7,000 customers.

Group 2: Former borrowers

Start with the customers who applied for HCSTC between 1st January 2014 and 30th April 2016 and were issued a loan. Exclude those customers who have applied (successfully or unsuccessfully) for HCSTC between 1st May 2016 and 31st October 2016. Therefore, none of the individuals in Group 2 are potentially in Group 1.

If applying the above criteria results in the number of customers remaining greater than 3,500 customers please apply the below approach to pick a sample of 3,500 customers.

Assign each customer a random number. This can be done using a random number generator in statistical programs with the seed set in order for the method to be exactly replicated if necessary. Using this random number to extract a sample of 3,500 customers.

Following this selection process should result in providing a total sample of 10,500 customers.

You must fill the variable fields as defined in this notice, and using the CSV template provided to submit the information as set out in Annexes 2 and 3. Any changes to the template provided must be agreed in writing with us in advance of fulfilling this requirement.

Timelines

The information under this notice must be provided by 3 working days from the date of this request

Information format and transfer

The FCA has contracted Critical Research as the market research agency to carry out this research (henceforth, the agency). We require you to send the information directly to the agency in a secure way following protocols which it has agreed with the FCA. Please email james.hopkins@critical.co.uk to arrange this. Information should be sent by the 16th December 2016. Please note that Critical Research may need to contact you if anything is unclear in the information submitted.

All information provided will be securely held in line with our security and data protection policies, and that of the agency. The agency has been through the FCA's Information Services due diligence process. The information provided will be subject to the restriction on disclosure of confidential information under Section 348 of FSMA (restrictions on disclosure of confidential information). There are criminal offences in Section 352 FSMA for persons who wrongfully disclose such information. If you have questions regarding the information transfer process please let us know at the earliest possible opportunity.

Annex 2: Guidance

This letter describes the information we require from you. We have provided definitions of the variables and concepts at the end of this document in the Annex 4: glossary. We have enclosed one CSV file 'Table 1 Template' containing the headers for your reference. Please adhere to the exact names of the headers in the tables below (please match the case as well), as this will help the market research agency process the information more efficiently. Please provide the information to us by the timings set out in the notice letter.

Please provide using the comma separated values (CSV) format. Please ensure the following checklist is complete before sending us the information:

The first line of each CSV file (each corresponding to a separate table, contains the headers as described in each of the tables below, with the exact case matched header names).

Each field is separated by a comma (,)

Fields that contain a comma are enclosed in double quotation marks (")

Ensure that that there are no new lines in any of the field entries.

Annex 3. Table 1 codebook

Please ensure that the information used is the most up to date information you have. For example, if the customer has changed address, and has applied for multiple loans, please provide us with the most recent address they have provided.

Please provide this table in CSV format.

#	<u>Variable name</u>	<u>Variable notes</u>	<u>Variable format</u>
1	CustomerID	Unique customer ID	Alphanumeric
2	firstLoanApplication	Date on which this applicant first applied for a loan with your company (this can be before our sample period)	Date (DD/MM/YYYY)
3	firstLoanAcceptance	Date on which this applicant was first issued a loan with your company (this can be before our sample period)	Date (DD/MM/YYYY)
4	numberLoanApplication	Number of loans this applicant applied for between 1st January 2014 and 31st October 2016. Applications for top-ups or extensions should not be included in this number	Numeric
5	numberLoanAcceptance	Number of loans this applicant was issued between 1st January 2014 and 31st October 2016. Top-ups and extensions should not be included in this number	Numeric
6	lastLoanApplication	Date on which this applicant last applied for a loan with your company, that is the most recent application	Date (DD/MM/YYYY)

7	lastLoanAcceptance	Date on which this applicant was last issued a loan with your company, that is the most recent loan this customer was accepted for	Date (DD/MM/YYYY)
8	lastLoanrejected	Date on which this applicant was last rejected for a loan with your company, that is the most recent loan this customer was rejected for	Date (DD/MM/YYYY)
9	lastLoanValue	Total amount payable under the loan agreement	Numeric
10	lastOriginationValue	The amount of credit advanced gross of any fees and charges	Numeric
11	lastLoanDuration	The total actual duration of the loan, including any extensions from the time of the decision to grant credit	Numeric
12	lastOriginationDuration	The amount of time in calendar days the principal was originally intended to be borrowed for from the time of the decision to grant credit	Numeric
13	lastLoanDefault	Has the customer missed one or more payments on this HCSTC loan?	Yes/No
14	Age	Current age of applicant in year	Numeric
15	dateOfBirth	Date of Birth	Date (DD/MM/YYYY)
16	title		String
17	firstName	First Name	String
18	middleName	Middle Name	String
19	Surname	Surname	String
20	gender		String
21	addressLine 1	Most up to date address	String
22	addressLine 2		String
23	addressLine 3		String
24	addressLine 4		String
25	addressLine 5		String
26	postcode	Full Post Code	Alphanumeric
27	email	Most up to date email address	String
28	phoneMobile	Most up to date mobile phone number	Numeric
29	phoneLandline	Most up to date landline number	Numeric
30	groupNumber	Group individual is eligible for (1 or 2)	Numeric
31	lastLoanStatus	Was the most recent application for a loan by this applicant rejected or accepted	Rejected/accepted

Annex 4: Glossary

High-cost short-term credit

A high cost short term credit agreement is a regulated credit agreement:

- (a) which is a borrower-lender agreement or a P2P agreement;
- (b) in relation to which the APR is equal to or exceeds 100%;

(c) either

(i) in relation to which a financial promotion indicates (by express words or otherwise) that the credit is to be provided for any period up to a maximum of 12 months or otherwise indicates (by express words or otherwise) that the credit is to be provided for a short term; or

(ii) under which the credit is due to be repaid or substantially repaid within a maximum of 12 months of the date on which the credit is advanced;

(d) which is not secured by a mortgage, charge or pledge; and

(e) which is not:

(i) a credit agreement in relation to which the lender is a community finance organisation; or

(ii) a home credit loan agreement, a bill of sale loan agreement or a borrower-lender agreement enabling a borrower to overdraw on a current account or arising where the holder of a current account overdraws on the account without a prearranged overdraft or exceeds a prearranged overdraft limit.