Digital Credit, Mobile Devices and Indebtedness:

Online Borrowing in the High-Cost Short-Term Credit Market

New research from Newcastle University reveals how access to digital forms of credit via mobile devices like smartphones and laptops is changing consumer use of credit and their experience of indebtedness. In many cases, this leads to financial, psychological and emotional harm for the consumer.

Briefing note for regulators

Newcastle University

E·S·R·C ECONOMIC & SOCIAL RESEARCH COUNCIL

Durham University

What are the key findings?

1 **The spaces and times within which consumers apply for and use credit matter.** Product choice, loan amount and credit use are intimately tied to the circumstances people are in at the time of application. This fundamentally alters where, when and why people apply for credit which can lead to problematic indebtedness.

We note that arrears rates vary considerably, peaking on loans originating after midnight and on Fridays in particular, according to data in Annex III of the FCA's Call for Input into the High Cost Credit Review (Figures 11 & 12).

2 Digital access to credit at any time and from anywhere is problematic because it **fails to address the root cause of borrowing** by simply deferring consumer need for or worries about money to 'another time and place'. It is a quick fix and provides only short-term relief. This can lead to unsustainable cycles of borrowing and credit use.

3 The speed and ease of access to digital credit produces **and reinforces financially harmful behaviours,** such as impulsive borrowing and spending. People experience this differently in relation to their personal, psychological or emotional needs at the time of application. Online credit applications are streamlined and designed to be frictionless for quick decision-making which enables this kind of behaviour.

40% of people interviewed described their use of digital credit as impulsive.

4 Digital access to credit increases instances of borrowing because it gives consumers a **heightened sense of anonymity and privacy** when compared to more traditional face-to-face or telephone-based financial services. This can reinforce **secretive behaviours** relating to money matters and lead consumers to keep borrowing activity hidden from friends and family.

5 The use of **personal digital devices** to access and manage credit relations **intensifies damaging feelings of anxiety, pressure and guilt** for consumers who feel constantly connected to their credit provider, which often contributes to mental health problems.

What are the implications of this for the regulator?

1 **Future reform of the HCSTC market should consider further intervention at the level of digital interfaces, including design measures for websites and mobile applications that slow down consumer decision-making. We recommend a minimum dwell time on application pages and prompts that require active demonstrations of consumer understanding.**

2 **Mechanisms are needed to mitigate impulse borrowing. We recommend a night-time curfew (11pm to 7am) on credit access, a mandatory delay between application approval and receipt of funds of 4 hours and a self-exclusion scheme managed by HCSTC providers.**

A full report is now available. Visit the project website here:

www.debtinterfaces.org.uk

Get in touch. For more information, please contact the Principal Investigator, Dr James Ash: **james.ash@newcastle.ac.uk**