Digital Credit, Mobile Devices and Indebtedness:

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

Contents

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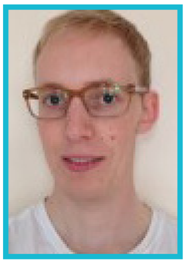

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The authors of this report bear responsibility for its contents.

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Executive summary

The aim of this research was to investigate how access to digital forms of credit is changing people's use of credit and their understanding and experiences of indebtedness. This report provides in-depth insights into consumers' lived experiences of online borrowing and digital credit use and the implications of this for their financial and personal well-being. The research also investigated how digital credit interfaces, namely websites, are designed and how they influence consumer behaviour and decision-making. Whilst the research focused on high-cost short-term credit (HCSTC) products, our findings are pertinent to wider issues around digital access to all types of consumer credit, the growth of fintech and the use of personal mobile devices in everyday banking and money management. The report is based on original qualitative research comprising 40 in-depth interviews with users of HCSTC, 11 interviews with user experience and user interface designers and 10 interviews with representatives from regulatory, debt charity and consumer advice organisations. We also completed analysis of 30 digital credit interfaces.

Key Findings

Our research suggests that there are a number of ways in which digital interfaces and devices - particularly websites accessed through smartphones - produce significant change in consumer behaviours, experiences and understandings of credit use.

1	**The speed and ease of access to online borrowing encourages people to see credit as money and not as debt, which minimises the consequences and implications of using HCSTC.**
2	**Digital credit interfaces are designed to minimise consumer deliberation by smoothing interaction and speeding up the lending process, which trivialises consumer decision-making around borrowing.**
3	**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'.**
4	**The speed and ease of access to digital credit produces and reinforces financially harmful behaviours, such as impulsive borrowing and spending.**
5	**Digital access to credit increases instances of borrowing because it gives consumers a heightened sense of anonymity, privacy and agency around money matters.**
6	**The use of personal digital devices to access and manage credit intensifies feelings of anxiety, pressure and guilt for consumers who feel constantly connected to their credit provider.**

Conclusions and recommendations

Recent reform in the HCSTC market has increased the affordability of credit and improved relations between lenders and consumers.[1] However, it is clear that changes to the accessibility of credit, whereby consumers are able to apply for and receive credit at any time and from anywhere using an internet-enabled device, is causing consumer detriment that cannot be addressed through current regulation. Digital access to credit produces and reinforces risky and financially harmful behaviours, which can contribute to long-term personal and financial hardship. Following from our key findings, we make the following recommendations:

1 Future reform of the HCSTC should consider further interventions at the level of digital interfaces, including the websites and mobile applications of lenders and brokers.

Given the apparent blurring of consumer understandings between money, credit and debt in this sector of the market, otherwise helpful reforms to increase competition and transparency and limit the cost of borrowing have no real effect on decisions to borrow. To intervene at the level of the interface, we recommend a range of mechanisms that slow down consumer decision-making, including:

1. A minimum dwell timer on the final application submission page that asks users to reflect on their decision. This will be composed of four timed acknowledgement prompts at fifteen second intervals, all of which must be completed before the application can be submitted.

2. Prompts that require active demonstration of consumer understanding at the income and expenses page of the application process. These would consist of three multiple choice questions asking the customer to confirm the date of repayment, the amount borrowed and the total amount to be repaid.

2 Applications for HCSTC products should have a mechanism to mitigate impulse borrowing.

Proposed mechanisms include:

1. A night-time curfew on access to online credit between the hours of 11pm and 7am.

2. A mandatory delay between application approval and receipt of funds of 4 hours.

3. A self-exclusion scheme whereby consumers can control their access to credit and request their exclusion from products and services provided by HCSTC lenders, managed by HCSTC lenders.

3 HCSTC companies should not be able to contact customers who begin but do not complete the credit application process, or be able to text and email existing customers to encourage them to apply for further credit.

Extensive digital communications can not only encourage vulnerable customers to enter into unsustainable cycles of 'quick fix' borrowing which later become problematic, but also heighten consumer anxiety about indebtedness. Debt anxiety is damaging to consumers in ways that are largely unconnected to the cost of credit and the making of repayments.

[1] Financial Conduct Authority, Call for Input: High-cost credit, including review of the high-cost short-term credit price cap, 2016.

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Introduction

Many people now apply for and manage credit online via personal digital devices. This is happening across the consumer credit market, but it is particularly significant in high-cost short-term credit (HCSTC). In their study of payday lending, the Competition and Markets Authority found that over 80% of payday loan customers took out a loan online.[2] The payday lending industry's explosive growth has been attributed to this shift online, not only by increasing the availability of credit to many who were previously excluded by mainstream lenders, but by transforming the accessibility and instantaneity of credit. Consumers using personal mobile devices, like smartphones and laptops, can now search for, apply for and manage credit whilst at home, at work or on the move, at any time of the day or night, and receive funds within a matter of minutes or hours.

Reviews by the OFT[3] and CMA[4] found the payday lending market to be exploitative, uncompetitive and non-compliant with laws and guidance at the time. This led to recent regulatory change to improve competition and conditions for consumers, including a total cost cap and new rules on debt collection practices.[5] Consumer organisations agree that the market has improved for consumers but say there is more that can be done around affordability assessments and responsible lending rules.[6]

However, it is clear that reform to-date in the HCSTC market has not explicitly addressed the role of digital interfaces and devices in consumers' access to credit and their relation to issues of consumer detriment. Its primary focus has been on total cost. This is despite the pervasiveness of online borrowing in the HCSTC market and the increasingly digitised nature of consumer credit and consumer spending more widely.The purpose of this report is to investigate how digital access to credit and use of digital devices is changing consumers' borrowing practices and how this matters to people's understandings and experiences of indebtedness. Whilst this report focuses on the HCSTC market, our findings are pertinent to wider issues around digital access to all types of consumer credit (especially as traditional 'payday loan' products are changing into longer-term instalment loans since regulation[7]), the growth of fintech and the use of personal mobile devices in everyday banking and money management.

[2]Competition and Markets Authority, Payday lending market investigation: final report, 2015.

[3]Office of Fair Trading, Payday lending: compliance review final report, 2013.

[4]Competition and Markets Authority, Payday lending market investigation: final report, 2015.

[5]Financial Conduct Authority, Detailed rules for the price cap on high-cost short-term credit, 2014.

[6]Citizens Advice, Payday loans after the cap: are consumers getting a better deal?, 2016.

[7]StepChange Debt Charity, Payday loans: the next generation. Changes to the high-cost short-term credit market since the introduction of the price cap, 2016.

Methodology

The report is based on original qualitative research including:

- In-depth interviews with consumers of HCSTC. We conducted 40 semi-structured interviews with people who had experience of applying for HCSTC online. The interviews explored the spaces, times and circumstances of people's borrowing and how digital devices and interfaces featured in their experiences.
- In-depth interviews with digital interface designers. We carried out 11 semi-structured interviews with user experience and user interface designers to investigate the techniques used in designing credit websites and apps.
- Digital interface analysis. We analysed 30 HCSTC websites to understand the different units, their relations and how they shape consumer decision-making.
- Interviews with representatives from regulatory, debt charity and consumer advice organisations. We interviewed a total of 10 representatives to explore how they understood the role of digital devices in consumer credit use and consumer decision-making.

Key findings

Our research suggests that there are a number of ways in which digital interfaces and devices - particularly websites accessed through smartphones - produce significant change in consumer behaviours, experiences and understandings of credit use.

1 The speed and ease of access to online borrowing encourages people to see credit as money and not as debt, which minimises the consequences and implications of using HCSTC.

Consumers consistently view HCSTC as a source of money rather than credit. We found this was related to the role of credit in helping consumers meet one of three types of monetary need:

1. Essential monthly expenses, like food shopping and household bills, where credit often worked to supplement low or precarious incomes.
2. Emergency costs, in the case of something unexpected happening, such as a car breakdown.
3. Discretionary spending, including Christmas and birthday presents.

For many, this means that HCSTC is embedded in monthly money management and incorporated into wider online banking practices. One person told us about his experience of using a credit facility product; a particular type of HCSTC product which includes an option where a loan is automatically transferred to your bank account when your balance reaches a predetermined level, on an ongoing basis.

> **"it's a bit more to-and-fro, and you almost feel like it's under the radar; you're not putting an application in, nobody is going to ring your workplace and check that your payslips are cushy, do you know what I mean? [...] you're just having this little to-and-fro thing, where it's like 'right, I'll just -' and it's quick as well."**
> **Interview, Participant 6**

This 'toing and froing' between credit and money captures the idea of blurring the practices of spending and borrowing. This becomes problematic when it works to disengage spending from credit use, which can complicate money management and frustrate attempts to reduce reliance on such products.

We also found that related debt repayments are typically understood as equivalent to other outstanding monetary obligations such as household bills. Meeting debt repayments was seen to be important, although this was not always possible, in order to maintain good relationships with lenders in case future borrowing was required.

2 Digital credit interfaces are designed to minimise consumer deliberation by smoothing interaction and speeding up the lending process, which trivialises consumer decision-making around borrowing.

HCSTC websites and apps are carefully designed and heavily tested to remove friction and smooth interaction for consumers. The techniques used in interface design have implications for consumers, most notably by enabling quick borrowing decisions which they may not otherwise make if the circumstances were different.

One of the most iconic and integral elements of the HCSTC interface is the slider. Usually made up of two sliding bars, the slider offers a potential customer the opportunity to select the amount they wish to borrow and the term of the loan. The slider works in real-time and presents the customer with a dynamic calculation as they move the bars. It is simple to use and the consumer can explore an amount to borrow and think about how they would spend the loan by using a single and smooth sliding motion. When comparing using the slider to filling in an application form, one person told us that:

> **"[The slider is] something totally different. It does get a hold of you a little bit because it's different. [...] It's almost as if it's not as important as what it is I suppose. [...] I mean it's like a game almost, isn't it? I mean that's the clever thing about it. You just play around with it. [...] So it's not dull. It's not form filling."**
> **Interview, Participant 20**

The slider makes it easy to select an amount, so much so that for some it felt like playing a game. This game-like quality of the slider reinforced the digitised quality of credit and its effect on decision-making and use of credit. One person, when describing how they used the slider, captures the trivialisation of online borrowing decisions:

> **"Because with this [the slider] it's literally a bar, it's just a little bar, in your head, it's nothing, it's not real money. [...] it doesn't feel real because there's no cash passes your hand, it goes into your bank and you use it for what you need."**
> **Interview, Participant 10**

The slider also works to make the consumer feel a false sense of control over their decision to borrow. This is achieved through the immediate feedback of the real-time calculation, whereby the total cost figure of the loan changes as the consumer moves the sliding bars up and down. This becomes problematic when consumer borrowing is shaped by the illusion of optimal decision-making conditions and total cost transparency that the slider produces. In reality, consumer choice is always limited by the parameters and price set by the lender and the representation of total cost does not include the potential to incur missed payment fees and late interest. In other words, the way the slider provides immediate feedback boosts consumer confidence in their decision to borrow, leading to increased instances of borrowing, often on superficial grounds.

Interacting with the slider may result in consumers applying for more or less credit than they first intended. One of the sliding bars shows the minimum and maximum loan amount available. For some consumers, their decision to choose a particular loan amount is made in relation to the positioning of the sliding bar relative to the minimum and maximum loan amount. For example, selecting a loan amount around the middle of the slider was deemed 'acceptable' by some – it is not too high, nor too low. This enabled and legitimised their decision to apply for that particular loan amount. One person told us how she justified the amount selected in relation to the total width of the sliding bar scale:

> **"[It]...makes you feel better because you see the split at the end and say, "Oh, I haven't maxed out. [...] It says I'm not desperate. Even if I am, it says I'm not. [...] As long as I'm not maxing out I'm not desperate. I don't desperately need it. I want it, but I don't need it."**
> **Interview Participant 14**

Put in another way, the slider design effectively created a false sense that the amount people were looking to borrow was reasonable, which was central to influencing the individual's decision to borrow.

3 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'.

Many HCSTC products can be accessed 24 hours a day. This means that consumers can apply for credit at any time and from anywhere using an internet-enabled mobile device. The spaces and times within which consumers apply for credit shape decision-making, with product choice, credit application and credit use intimately tied to the circumstances people were in at the time of taking out credit. People apply for credit at home in the kitchen whilst making dinner or in bed at night, during their lunch break at work, whilst travelling on the bus, at a rugby game, when out with family, in the pub on an evening, on holiday or whilst shopping in town. Many decisions were made quickly and people were overly-optimistic about the difference credit would make to their lives and their ability to meet repayments.

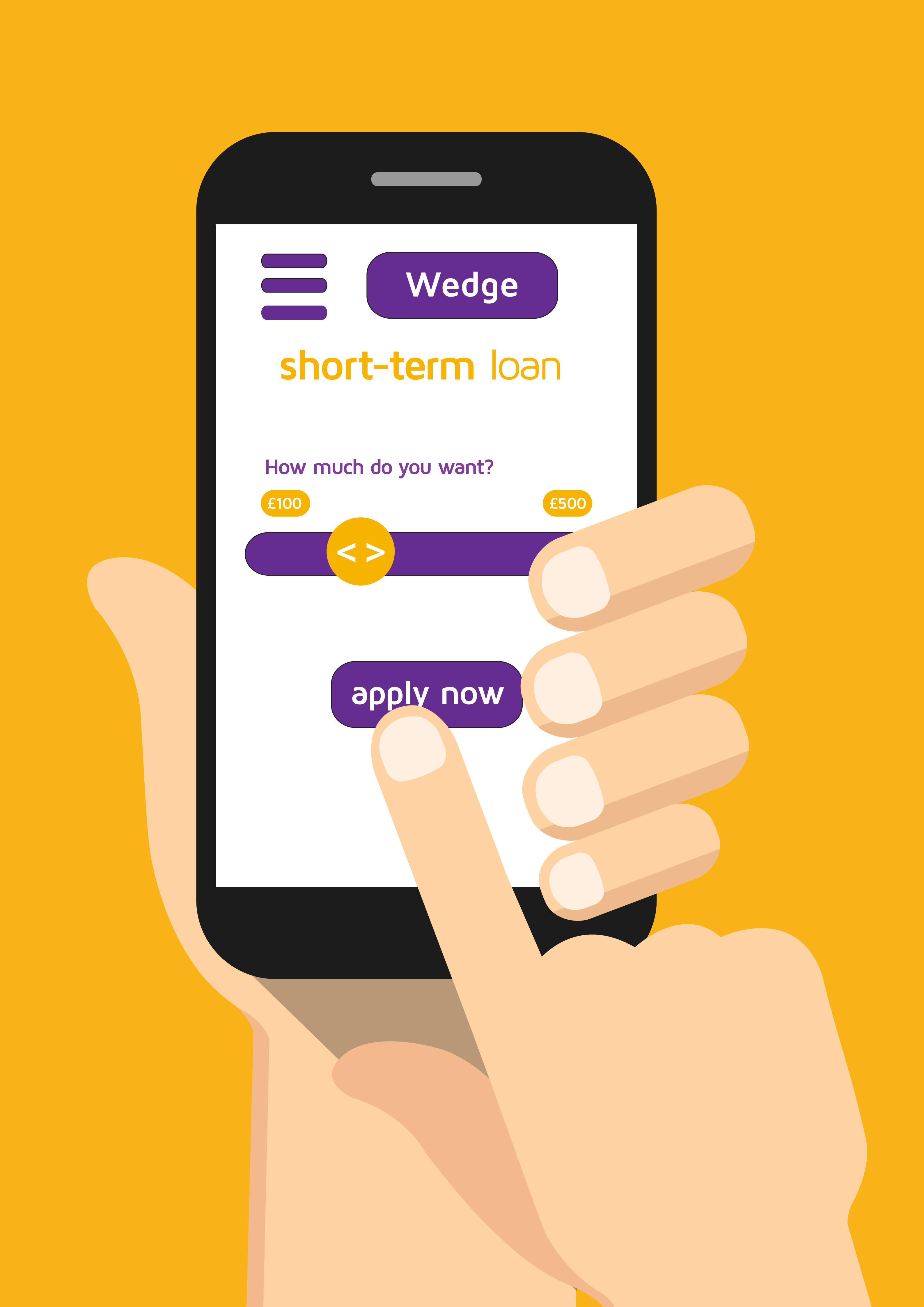
Consumers told us they found the immediate access to credit at any time and from anywhere helped them to deal with anxiety or worry about money. One person told us:

> **"I suppose I was a bit desperate in a way. It was just, like, you know, I was at work. I knew I wasn't going to be home until later on in the night to try and sort it out, and I was like, "I need it sorted out now." So I remember doing it at work one day."**
> **Interview, Participant 12**

However, the use of HCSTC failed to address the root cause for borrowing. Instead, it offered a 'quick fix' to help consumers deal with an emergency need for money or a period of financial difficulty, which often led to unsustainable cycles of borrowing. Although consumers find immediate reassurance and relief from uncertainty around money matters by checking credit availability and receiving instant decisions on credit applications, this was often short-lived and later became problematic.

> **"the relief is kind of short-term. It was nice to… you know, you check your bank and see, "Right, that bill has gone out. That has bought me a bit of time." But it's not long until you've got another bill due out, and when you've got zero money coming in, and you've used all your savings. It's, you know, within a week, really."**
> **Interview, Participant 9**

Digital access to credit worked to defer consumer worries about money to 'another time and place'. At a later date, the times and spaces which consumers decided to take out credit became tied up with feelings of guilt, shame, embarrassment and worry about meeting resulting debt repayments. These feelings are further complicated by the intrusive and relentless nature of communication via text messages and emails from HCSTC companies, which include repayment reminders and offers to both existing customers and those who have begun but not completed an online application. For some, their use of HCSTC resulted in further financial detriment when repayments could not be met. In retrospect, many criticised the ease with which they could apply for credit.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4 The speed and ease of access to digital credit produces and reinforces financially harmful behaviours, such as impulsive borrowing and spending.

Whilst the speed of and ease of access to credit is valued by consumers, it can become problematic when it produces and reinforces financially risky and harmful behaviours.

> **"Knowing you can access the internet so easily to get money. That's what it is. You don't have to wait for it. You don't have to do anything. You just have to click a button and that's it. It's just easy to do. And that was my problem, because it was so easy to do."**
> **Interview, Participant 23**

The online credit application process is designed to be smooth, streamlined and frictionless, which enables quick decision-making and quick application. For many products, consumers do not have to interact directly with a member of staff to process their application. One person highlighted the significance of this when applying for quick credit:

> **"There's no communication, like face to face or over the phone. If you're over the phone, someone's going to ask you a question, put you on the spot type thing, whereas online it's literally you can type whatever you want. You can apply. There's no trying to word your answers to the person. You think, 'They want to hear that so I'll say this.' Whereas if it's online, you just apply how much you want, put your name, date of birth and everything in and then just send it type thing. You get an email back or it comes up straightaway that you have been accepted and then you think, 'Happy days.'"**
> **Interview, Participant 5**

The ease of accessing credit online is even more evident for repeat borrowers, where a lender has processed their application before and stored all their personal and financial information.

> **"I did find that it was very easy to access; it was done in no time. You could literally just do it over your phone, on your laptop, you could do it within minutes, crash, bang, wallop, and once you'd got the relationship with them, it was even easier. For example, when I used to do Wonga, once they had your login details, they would say 'are they still the same? Do you still work at this place?' and you'd just tick yes, yes, yes, yes, yes – 'how much do you want?'"**
> **Interview, Participant 6**

Being able to access credit at any time and from anywhere means that some consumers make decisions to take out credit which they may not otherwise obtain. One person told us about applying for credit during a day out with family when it was approaching the time to go home, despite efforts to budget for the day:

> **"first of all you start off budgeting really carefully and then by the end of the day I was just thinking, "Oh we're having such a lovely day, I don't want to be tight, we'll go out for dinner." I actually went to the toilet and went on my phone and upped my loan to another £100 and it was so easy."**
> **Interview, Participant 26**

40% of people we interviewed described their use of credit as impulsive in some way. People experienced this differently in relation to their personal, psychological or emotional needs at the time of taking out credit. We talked to people experiencing significant life changes, like relationship breakdown or redundancy, who told us how immediate access to credit helped them to fill a gap or boost their mood. Other people living with mental health problems experienced periods of illness which would lead to additional spending fuelled by quick and easy credit.[8] People experiencing problem gambling and alcohol addiction told us how their use of credit was tied to their psychological needs, with some comparing the buzz of being accepted for a loan to a gambling win. Others engaged in impulsive spending with no real purpose or need. A lot of this online borrowing and spending activity happened at night.

> **"I've used it, I mean, it's terrible to say, I've used it after a few pints a couple of times, and that's been not the three-month option over Wonga, but I've used it for a month, been in, had a good time, and thought, "Money's a bit short. I'll just do it, and it means I can stay out a bit longer," which is a dreadful thing to say, you know. [...] It's always been a regret though, because you wake up the next day, and you think, "Well, you could have just went home, really." [...] It was after about five or six pints, and it was a case of, "Well, why not?" You know, because your mind-set changes, and you can be more impulsive if you've had a few beers."**
> **Interview, Participant 11**

[8] See also Money and Mental Health Policy Institute, Money On Your Mind, 2016.

5 Digital access to credit increases instances of borrowing because it gives consumers a heightened sense of anonymity, privacy and agency around money matters.

Consumers find the anonymity and privacy of online borrowing helps them to deal with the anxiety, embarrassment or shame they feel when applying for credit. However, this can lead to new and increased instances of borrowing where it works to ease consumer anxiety about the process of taking out credit. Some people told us that they would never apply for HCSTC face-to-face, but they felt differently about applying online.

> **"Because I didn't have to explain myself, it was just a computer that made the decision. [...] Like nobody, like if I was declined, it was my phone screen that was telling me it was declined, it wasn't like I was in a bank and a person was saying, "Oh I am sorry, but you've not been approved," where my face would have gone bright red because there's somebody there saying that."**
> **Interview, Participant 36**

It is significant that the interaction between consumers and HCSTC lenders, from application to credit decision, is enabled by digital devices and carried out through digital interfaces without the need for communicating directly with another person. For example, one person described how they imagined the pink pig brand mascot, which was prominently situated on one particular HCSTC website, was making the lending decisions. This felt less intrusive, less judgemental, and more conducive to borrowing.

> **"it's the little piggy giving me the money, it's not a real person. No, it's not a real person, there's no real people. [...] I think the closest I've ever come in my head is imagining a little piggy sitting at the other end of the laptop going yes, ticky, ticky."**
> **Interview, Participant 7**

In some cases, this worked to trivialise the borrowing decision by disconnecting the consumer from the cost and consequences of borrowing. Some people questioned the effectiveness of the digital interface in helping them to fully understand the credit agreement they were entering:

> **"It's the anonymity and you don't have that, kind of, repercussion straightaway. You don't have someone saying, you know, you do realise that if you do this, it's going to do this, this and this, you know. There were terms and conditions but, you know, who reads those on websites, you just click the box, you don't have to read it."**
> **Interview, Participant 37**

The use of personal devices is also significant and can reinforce secretive behaviours relating to money matters that can be financially and emotionally harmful to consumers. Some people told us how their online borrowing and online communication with lenders made it easy to keep their use of HCSTC hidden from friends and family. Rather than having a paper trail of receipts or loan letters, much of the communication between borrowers and lenders was done via text message or email, all managed on mobile phones or tablets. They did not have to hide paperwork, receipts and letters from family members. One person told us:

> **"it would just all go into my email delete button – it's gone forever."**
> **Interview, Participant 38**

6 The use of personal digital devices to access and manage credit intensifies feelings of anxiety, pressure and guilt for consumers who feel constantly connected to their credit provider.

For consumers, the cost of HCSTC (both interest rates and fees) is typically less of a concern than the anxiety of feeling constantly connected to their credit provider, who appears to have free reign to contact them however, wherever and whenever they wish. Whilst some communication can help consumers to monitor their borrowing and manage repayments, such as text message reminders, other communication from lenders often became intrusive and capable of inducing anxiety for the people we interviewed, even long after a loan was repaid. For example, marketing messages can be problematic for people who are trying to change their borrowing and spending behaviour.

> **"It's horrible. I've blocked so many numbers over the years. I don't even really use my personal email account anymore because it's inundated with companies emailing me about a loan."**
> **Interview, Participant 8**

The combination of instant digital access to credit and continual communication from lenders and brokers through mobile devices creates intense and damaging emotions of pressure, apprehension and unease, often contributing to mental health problems. Consumers often feel that they cannot get away from their debt, even if they repay according to their existing credit agreements. In cases where a borrower's ability to meet repayments became difficult, communication from lenders was often a constant reminder of the debt owed, punctuating everyday life. Such feelings are particularly intense because the device (often smartphones) that consumers use to access credit and manage their money is now an essential technology in everyday life, which the user typically carries with them at all times:

> **"you can't escape it, whatever time of the day or night they could, yeah, get in touch with you. You'd wake up with an email, or you'd check your bag on your lunch break and you'd have a text from them."**
> **Interview, Participant 29**

Conclusions and Recommendations

Recent reform in the HCSTC market has increased the affordability of credit and improved relations between lenders and consumers. However, it is clear that changes to the accessibility of credit, whereby consumers are able to apply for and receive credit at any time and from anywhere using an internet-enabled device, is causing consumer detriment that cannot be addressed through current regulation. Digital access to credit produces and reinforces risky and financially harmful behaviours, which can contribute to long-term personal and financial hardship. Following from our key findings, we make the following recommendations:

1 Future reform of the HCSTC market should consider further interventions at the level of digital interfaces, including the websites and mobile applications of lenders and brokers.

Given the apparent blurring of consumer understandings between money, credit and debt in this sector of the market, otherwise helpful reforms to increase competition and transparency and limit the cost of borrowing have no real effect on decisions to borrow. To intervene at the level of the interface, we recommend a number of mechanisms that slow down consumer decision-making, including:

a. A minimum dwell timer on the final application submission page that asks users to reflect on their decision. This will be composed of four timed acknowledgement prompts at fifteen second intervals, all of which must be completed before the application can be submitted.

b. Prompts that require active demonstration of consumer understanding at the income and expenses page of the application process. These would consist of three multiple choice questions asking the customer to confirm the date of repayment, the amount borrowed and the total amount to be repaid.

2 Applications for HCSTC products should have a mechanism to mitigate impulse borrowing.

Given that digital and immediate access to HCSTC at any time and from anywhere works to defer consumer need for or worries about money to 'another time and place', it fundamentally alters where, when and why people apply for credit in ways that can create difficulties and problematic indebtedness. In many cases, applications for HCSTC were made as a 'quick fix' and tied up with feelings of guilt, shame, embarrassment and worry about meeting debt repayments. Proposed mechanisms include:

a. A night-time curfew on access to online credit between the hours of 11pm and 7am. We note that data included in the FCA's Call for Input into the High Cost Credit Review show that arrears rates by time of day and day of week of loan origination vary considerably, peaking on loans originating after midnight and on Fridays in particular[9]. We also note that in Finland there is a restriction on night-time lending of instant loans under their Consumer Protection Act. This means that if a consumer applies for a loan between 11pm and 7am, the loan money cannot be transferred until 7am following the loan's approval.

b. A mandatory delay between application approval and receipt of funds of 4 hours.

c. A self-exclusion scheme whereby consumers can control their access to credit and request their exclusion from products and services provided by HCSTC companies, managed by HCSTC companies.

3 HCSTC companies should not be able to contact customers who begin but do not complete the credit application process, or be able to text and email existing customers to encourage them to apply for further credit.

Extensive digital communications can not only encourage vulnerable customers to enter into unsustainable cycles of 'quick fix' borrowing which later become problematic, but also heighten consumer anxiety about indebtedness. Debt anxiety is damaging to consumers in ways that are largely unconnected to the cost of credit and the making of repayments.

[9]See figures 11 and 12 in Annex III of the FCA's Call for Input: High-cost credit, 2016.

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