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Moneylender News

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Welcome to Moneylender News

Bernard Sheridan
Director, Consumer Protection

Welcome to the first edition of Moneylender News.

Ensuring the best interests of consumers of financial services are protected is a statutory objective of the Central Bank of Ireland ("Central Bank").

In this first edition of Moneylender News, we give an overview of our supervisory approach for licensed moneylenders and highlight some key issues and risks that we see as relevant to the sector and its consumers, with a particular focus on areas which promote responsible lending.

It is the responsibility of the boards and senior management of each firm to ensure they are acting in the consumers' best interests. This newsletter should help to inform you about how we carry out our supervisory role and also assist you in ensuring that you are 'getting it right for your consumers'.

*All your feedback is welcome – **moneylending@centralbank.ie***

This edition contains topical updates and compliance information on:

- *Our Supervisory Approach;*
- *Fitness & Probity requirements;*
- *Review of Compliance with Advertising Requirements;*
- *Best Practice in relation to Sales Incentives;*
- *Report on the Licensed Moneylending Industry, 2013;*
- *Appearance at Joint Committee on Finance, Public Expenditure and Reform; and*
- *Responsible Lending.*

Contact Details

The Moneylending Unit	moneylending@centralbank.ie
Online Individual Questionnaire	fitnessandprobity@centralbank.ie
Advertising Standards	advertising@centralbank.ie

How we supervise

'*Getting it right for consumers*' is the fundamental objective of our supervisory approach and we seek to do so through our "5Cs Framework". Under this Framework, the ***CONSUMER*** is at the centre of our thinking alongside ***confidence***, ***challenge***, ***culture*** and ***compliance***. Put simply, our goal is to protect consumers by challenging firms and ourselves; improving firms' compliance; promoting a consumer-focused culture in the financial sector; and helping consumers to have more confidence in financial services. Where firms fail to comply with the protections provided to consumers under the requirements described below we will act including by way of enforcement action where appropriate.

As at 1 September, there are 40 moneylenders licensed to operate in Ireland and the Central Bank supervises them through annual reviews of their activities as part of the annual licensing process; inspections (both firm-specific and across the sector); applying a fitness and probity regime; applying the Consumer Protection Code for Licensed Moneylenders ("the Code") and the European Communities (Consumer Credit Agreements) Regulations, 2010 ("the CCR"); conducting consumer research; advertising monitoring and monitoring trends including complaints made to the Financial Services Ombudsman.

All of this is done to ensure that licensed moneylenders act in the best interests of their consumers (who, in 2013 numbered some 360,000 with outstanding loan accounts totalling in the region of €200 million) and we will continue to target key risk areas and specific firms where we consider there to be a significant threat to consumers.

Reminder – Fitness & Probity Standards

Moneylenders must ensure that approval is sought and received from the Central Bank **prior** to the appointment of any individual to a Pre-Approval Controlled Function ('PCF') such as Executive Director, Non-Executive director, Sole Trader etc.

In addition, Moneylenders are responsible for ensuring that all individuals performing a Controlled Function ('CF') (including PCFs) meet the required Fitness & Probity Standards, both prior to appointment and on an on-going basis. Please note that agents of moneylenders are CFs. For more information on the Fitness & Probity Standards, please click here.

On 14 July 2014, the Central Bank published findings from its Review of Compliance with Advertising Requirements of the CCR. The Review found that overall approximately 30% of 291 advertisements did not contain all relevant information or display the information in a clear, concise and prominent way by means of a representative example as set out in the CCR. In the sample of moneylenders reviewed, we found issues in 12% of cases and these issues were followed up with the firms concerned.

Best Practice in relation to Sales Incentives

The Central Bank is committed to building a culture of consumer-focused sales within all regulated firms, where the right products and services are sold based on their suitability to each individual consumer's needs.

Sales incentives and variable remuneration practices are key drivers of a firm's culture. Therefore, there is an onus on firms to have in place structures that facilitate sales staff to act at all times in the best interests of consumers. Moneylenders that reward staff/agents with sales-related or other bonuses should note the Central Bank's new guidelines on Variable Remuneration Arrangements for Sales Staff which set out how to achieve 'best practice' when selling.

While moneylenders were not specifically included in the review, we expect all firms which remunerate sales staff/agents on a variable basis to review their remuneration arrangements in light of our review. Such arrangements should focus on encouraging the right culture and behaviour in sales staff, while actively discouraging poor practices. Firms must implement sales remuneration practices that focus primarily on the quality of sales to their consumers rather than the quantity. Sales remuneration is an on-going priority for the Central Bank, and will be the subject of future review to ensure that the culture and behaviours of firms are aligned with acting in the consumers' best interests. For licensed moneylenders in particular, appropriate remuneration arrangements are an essential safeguard to ensuring responsible lending (for the protection of both the consumer and the firm).

Report on Licensed Moneylending Industry, 2013

In November 2013, the Central Bank published a report on the Licensed Moneylending Industry in Ireland. The research was undertaken to inform the Central Bank of its regulatory approach to the sector and to find out how moneylenders were treating their consumers. The research showed that the licensed moneylender sector has not changed significantly since the Central Bank published its Report on the Licensed Moneylending Industry in 2007. The number of licensed moneylenders had declined and overall the rates of interest charged have remained largely at 2007 levels.

Some Key Highlights from the 2013 Report

- The most common loan amount is €200-€500.
- The most frequent term offered is approximately 9 months, with an APR of 125%.
- A significant proportion (25%) of consumers surveyed experienced difficulties in making repayments in the past 18 months, with 63% of those reporting that repayment difficulties were caused by a drop in household income.
- A majority (65%) of consumers reported that they have repaid a loan early. However, only 31% of those recalled receiving a rebate for doing so.
- A sixth (16%) of consumers reported that they were repaying loans to two different moneylenders.
- A majority of consumers (84%) reported that they know the cost of credit on their loan and 65% reported that they understand the amount of interest charged on their loans.

Central Bank appearance before the Joint Committee on Finance, Public Expenditure and Reform

On 29 January 2014, a team from the Central Bank, headed by the Director of Consumer Protection, appeared before the Joint Committee on Finance, Public Expenditure and Reform to report on key issues arising from the Report on the Licensed Moneylending Industry. To view Mr Sheridan's opening statement, please click here.

Responsible lending

As a regulated sector, licensed moneylenders can play an important role in providing credit to consumers who do not have access to legitimate credit elsewhere and those who do not use other regulated credit providers. This role must be balanced with the duty to lend responsibly, particularly given the high-cost nature of some loans from moneylenders. If a consumer cannot afford to repay credit, then his/her level of debt will increase and often become unsustainable, resulting in anxiety and hardship for consumers. It can also lead to increasing levels of late payments and bad debts for moneylenders. Although higher costs of credit can more easily be justified for occasional, short-term lending, moneylenders should be mindful of consumers' continued use of this form of credit, especially when used for non-essential expenditure.

Moneylenders must therefore ensure that their lending policies and practices are responsible. This means seeking to ensure that each borrower can repay a loan without suffering hardship. Weak lending and arrears management practices are neither in the consumers' nor the lenders' interest and charging higher rates is not an acceptable alternative to improving systems and controls for assessing creditworthiness.

Before concluding a credit agreement, moneylenders have a statutory duty under the CCR to assess the creditworthiness of consumers, using sufficient information. It is disappointing therefore that the research conducted by the Central Bank in 2013 found that 50% of consumers did not recall the moneylender assessing their creditworthiness before their most recent loan was taken out and a further 6% were unsure or could not remember. Of those who were assessed, 41% said that the most common form of assessment was a discussion about income and employment and 12% were asked to provide proof of employment.

While the Central Bank acknowledges that the home collection credit industry may lend itself to building on-going relationships with consumers, such on-going relationships should not be solely relied upon when assessing consumers' creditworthiness. Moneylenders must consider all existing loans and any arrears a consumer may have when assessing creditworthiness and must have strong documented evidence of the consumer's income, expenditure and ability to repay, before advancing each loan. Moneylenders should also note in this regard that our 2013 research found that many consumers borrow from different credit providers and also that over 1 in 5 consumers have loan arrangements with more than one lender.

The responsibility rests with you to maintain evidence in order to demonstrate compliance with the General Principles of the Code and Regulation 11 of the CCR, where a firm is obligated to assess creditworthiness of consumers in this regard. This will be a future area of focus for the Central Bank and, as in other areas, we will take steps to enforce compliance where necessary (including monetary or other penalties).

Did you know?

In 2014 FincoNet, the international organisation for financial consumer protection regulators, published a report on responsible lending practices. The report identifies practices and initiatives that promote responsible lending.