Department for Business Innovation & Skills

Ipsos MORI Social Research Institute

MAKING CONSUMER CREDIT MARKETS FAIRER

Payday lending advertising research conducted for BIS by Ipsos MORI Social Research Institute

OCTOBER 2013

Contents

Note

This research was commissioned and funded by the Department of Business, Innovation and Skills (BIS).

The report was authored by the Suzanne Hall, Isabella Pereira, Jerry Latter and Georgie Davies of Ipsos MORI Social Research Institute.

Executive Summary

The study comprised qualitative research – four group discussions and six depth interviews – with a mix of participants who had considered using a payday loan and those who were payday lending customers. This short summary contains selected findings and is followed by a longer summary covering key findings from the whole study.

How payday loans were used and general attitudes towards payday loans

By far the most common use of payday loans was to **meet an urgent household need of some description**. Only a small minority in the research used payday loans to pay for non-necessary expenses. Generally, participants who had taken out a payday loan typically reported that doing so was a "**last resort**"; they had done so because they **lacked other viable credit options**, and because their **need for the money was immediate** and critical at the time of taking out the loan.

Those who were able to **access alternative sources finance** – and, crucially, felt comfortable in doing so – were less likely to take out payday loans. **Friends and families** were the most important source of alternative credit across all types of people interviewed. Most participants who had taken out a payday loan felt that loans from high-street banks were unsuitable for their needs due to **bank loans being longer-term or more difficult to obtain** than payday lending.

Perceived advantages and disadvantages of payday lending

Of primary importance was the **immediate access** to finance that payday loans offered. Linked to this was the **speed and ease of application and acceptance for loans**. The **privacy and anonymity** of online lenders was also important for easing the discomfort of the stigma participants reported regarding having to borrow money. Payday loans therefore offered **more independence and control** over their finances to customers, which some found attractive, because they could be paid off quickly and in one lump sum.

Most were aware that payday loans typically had a much **higher interest rate** than bank loans but, for many customers, **high interest rates were a trade-off for the speed, privacy and control** they offered, as well as the option of credit for those who had no alternatives.

Views on payday lending advertising

All participants were aware of payday loan advertising and had seen many different examples. Participants mentioned **television adverts** spontaneously most often – particularly on daytime television – but a minority had seen adverts via email. **Wonga was the television advert most commonly recalled** due to its reported ubiquity. There was a strong feeling that payday lending advertising was difficult to avoid on television, but, with the exception of the brand leader, Wonga, there was very little to differentiate lenders from each other.

In general, participants were highly concerned about the effect of payday advertising on vulnerable people. There was a strong feeling among participants that the **adverts were more prevalent on daytime television**, and there was **widespread disapproval** that the adverts were thought to be targeted at those out of work and short of money. Many participants were also concerned that payday lenders seemed to be concentrating their operations in deprived neighbourhoods.

Thinking as consumers, customers and potential customers were relatively **disinclined to engage with information about the risk and costs of lending** in advertising material. Adverts which disassociated payday lending with its negative connotations and sold the product to customers less aggressively were more successful with customers.

Participants preferred to seek information about risks and costs of taking a loan on lenders' websites. Their primary concern before taking a loan was to **establish the relevant total cost of credit**; websites which made this easy to do were strongly advocated.

Views on modifications to payday lending adverts

Participants tended to be positive about the inclusion of modifications. There was a strongly-held view that the different modifications would be relevant to different types of people, and that this would be difficult to identify as it would be dependent on their circumstances and attitudes, hence **all or a combination of the messages would be necessary** to use were such an approach to be taken.

Participants were not advocates of the 'wealth warning', ("*Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time")*. This was because the **figures cited did not raise enough concern** for them – the 2.6 million was not a high enough proportion of the total number of payday loans taken to worry potential or previous customers.

There was more preference for the 'wealth warning' ("STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?"). Participants felt that the **direct appeal to the reader/viewer** was effective, and that it was appropriate to deter payday borrowers who might not be aware of the relevant risks of payday lending. It was important to participants that modifications included a **clear indication of the consequences of defaulting** on loans and to think seriously about the affordability.

Participants were generally very receptive to advice signposting modification ("Are you struggling to make ends meet at the end of each month? Call the Money Advice Service on 0300 500 5000 to get quick and easy debt advice). This was because it was perceived to offer an **additional option to people in very difficult circumstances** who were likely to be short of choices or support.

The 'total cost of credit' was the most widely-liked modification. They felt that this information was an **appropriate way to explain the costs of the loan** – less complex or intimidating than APR – and would help them make an informed decision about whether to borrow and aid comparison across loans. A few participants suggested that a '**defaulting scenario**' could be incorporated into this modification.

While participants were positive about the modifications for most borrowers, they also tended to feel quite strongly that **modifications to adverts alone may not be an adequate response to deter the most vulnerable from choosing payday lending**, particularly given the difficulties people may be facing when they turn to payday loans, and the constrained choices that people in such situations might have.

Summary

1. Background and methodology

a. Background

- Payday loan use has been increasing over the last few years as has interest in the advantages and disadvantages.
- As part of a programme of research on consumer credit Government is exploring whether payday loan advertising presents consumers with a balanced impression of the costs and risks associated with payday lending should they need access to credit.
- BIS therefore commissioned Ipsos MORI to conduct further research to explore the impact of advertising and communications by payday loan companies on existing and potential customers and on their behaviour.

b. Methodology

- The research comprised two components:
  - Four one-and-half-hour-long discussion groups, each with at least six and up to eight participants; and
  - Six hour-long face-to-face single depth interviews.
- A mixed qualitative methods approach was used to make the most of the generative dynamic between participants inherent within group discussions, but also to mitigate social desirability bias given the sensitivity of the research topic.
- All the research was conducted with participants who had already used or were planning to use payday loans, in two locations – London and Sheffield, and with quotas set on payday loan use status, income, age and gender to access a range of customers who commonly apply for payday loans.

c. Presentation of findings

- Qualitative research is designed to be detailed and exploratory and provides insight into the perceptions, feelings and behaviours of people. It is useful for exploring perceptions of policy issues and proposals but it is important to note that qualitative findings are not statistically representative of the views of the general public.
- Participants gave their views from two distinct perspectives: as ‘citizens’, considering the wider context of payday lending on society as a whole, and as ‘consumers’, considering taking out a payday loan themselves, often experiencing ‘cognitive dissonance’ in doing so.

2. *Uses and perceptions of payday lending*

a. How payday loans were used

- By far the most common use of payday loans for participants was to meet an urgent household need of some description.
- Many people spent payday loans on unexpected expenses such as, the repair or replacement of cars and white goods; expensive items which families did not feel they could live without.
- Seasonal demands also provoked a need for borrowing, and were commonly related to either children or extra costs at Christmas.
- Many participants reported costs from unexpected and seasonal needs occurring simultaneously or building up; taking them to a point at which previous coping mechanisms and budgeting strategies were no longer sufficient and they found it difficult to pay for ordinary living costs.
- Several participants reported that they had turned to payday lending to cover the cost of living: there was widespread sense that it was currently harder than in previous years to manage given the rising costs of living. Many participants reported a growing sense of hardship and difficulty in managing to pay regular bills.
- Only a small minority in the research used to payday loans to pay for non-necessary expenses. Such participants also held the view that they could confidently repay the loan, usually when they received their salary at the end of the month.
- Across the research, participants who had taken out a payday loan typically reported that doing so was a “last resort”; they had done so because they lacked other viable credit options, and because their need for the money was immediate and critical at the time of taking out the loan.

b. General attitudes towards payday lending

- The availability of alternative sources of credit and finance was a critical difference between those who had taken out a payday loan and those who had considered doing so but decided against. Those who were able to access alternative sources finance – and, crucially, felt comfortable in doing so – were less likely to take out payday loans.
- Friends and families were the most important and widely-cited source of alternative credit across all types of people interviewed. Many of those who had taken out payday loans had felt unable to ask family members for support because they felt that family members were also struggling to make ends meet. Those who did not ask friends or family members also tended to report that they would prefer not to appear in a difficult financial situation to friends and family.
- Most participants who had taken out a payday loan felt that using a bank loan from a high-street bank was not the most suitable solution to their financial need. This was due to bank loans being longer-term or more difficult to obtain than payday lending.
- Payday lending was associated strongly with unhappy and uncomfortable feelings – for both customers and those who had eventually decided against

taking out loans. There was a strong wider sense of social stigma around taking out loans.

- Customers who had found themselves in difficulties in repaying payday loans saw themselves as personally responsible for their difficulties. This was because participants tended to feel that the risks and costs around payday lending were implicit, and believed themselves to be suitably informed when taking out the loan.
- There was also a strong and widespread sense of concern around the habitual use of payday loans. As 'citizens', participants were concerned about how more vulnerable people might be affected by them.

c. Perceived advantages of payday lending

- Of primary importance was the immediate access to finance that payday loans offered. Linked to this was the speed and ease of application and acceptance for loans, which was widely appreciated as it meant that payday lending products solved customers' short term financial problems very quickly with money in their account the same day.
- The privacy and anonymity of online lenders was also important for easing the discomfort of the stigma participants reported.
- Payday loans therefore offered more independence and control over their finances to customers, which some found attractive, because they could be paid off quickly and in one lump sum.

d. Perceived disadvantages of payday lending

- Most were aware that payday loans typically had a much higher interest rate than bank loans. For some participants – especially those who had not taken out loans – this made them unattractive, but for many customers high interest rates were a trade-off for the speed, privacy and control they offered, as well as the option of credit for those who had no alternatives.
- There was general concern about the actions of payday lenders if a borrower was unable to repay the loan. Participants were fearful of what might happen: though few had an understanding of particular conditions around non-repayment, some had seen friends and relatives suffer the consequences

e. How borrowers choose payday lenders

- Most participants had done little research comparing lenders before they borrowed.
- Most people we spoke to commented on the ubiquity of advertising for payday loans, and could recall specific adverts, mentioning advertising as the reason they became aware of the existence of payday loans.
- Advocacy was a powerful influence on deciding to use a payday lender. Several participants had relied on the recommendation of family, friends and colleagues to choose a lender.
- Payday loan customers did not expect to see information about the risks and costs of lending on adverts, but they did expect to find full information about these issues on lender websites. On prompting, most participants reported

that the most important information they searched for on a website was the cost of the loan.

- However, customers were less concerned at using websites to investigate the risks around using a lender, including the consequences of delaying or renewing repayment. This was because they typically believed that these scenarios would not apply to them, and they would not be facing a situation where they might default on the loan.

f. Awareness of payday lending conditions

- Awareness of the specific risks in using payday lending was very low.
- Typically, most customers had not investigated what would happen if they could not repay the loan as they did not feel this was a situation which applied to them.
- Where specific conditions were concerned, APRs presented a particular difficulty, with many struggling to express the meaning of the figure. Many conceptualised the additional cost attached to payday loans as a 'fee' rather than an interest rate.
- Awareness of available advice and how to complain about a lender was very low.

3. Views on payday lending advertising

a. Awareness of payday lending advertising

- All participants were aware of payday loan advertising and had seen many different examples of it. Participants mentioned television adverts spontaneously most often – particularly on daytime television – but a minority also mentioned that they had seen adverts via email.
- Wonga was the television advert that was most commonly recalled due to its reported ubiquity, although a few participants were also aware of the Quickquid campaign, and a few remembered the Kerry Katona 'Cashlady' advert, although not the name of the lender.
- As well as the adverts themselves, many had seen payday lending shop signs in their local high street.
- There was a strong feeling that payday lending advertising was difficult to avoid on television, but, with the exceptions of the brand leader, Wonga, there was very little to differentiate lenders from each other.

b. Views on the positioning of payday lending advertising

- In general, participants were highly concerned about the effect of payday advertising on vulnerable people. There was a strong feeling among participants that the adverts were more prevalent on daytime television, and there was widespread disapproval that the adverts were thought to be targeted at those out of work and short of money.
- Many participants were also concerned that payday lenders seemed to be concentrating their operations in deprived neighbourhoods.

c. Views on messages in payday lending advertising

- Thinking as consumers, customers and potential customers were relatively disinclined to engage with information about the risk and costs of lending in advertising material, and did not expect this information from adverts.
- Adverts which disassociated payday lending with its negative connotations – specifically being desperate for money – and sold the product to customers less aggressively were more successful with customers, with Wonga being the most notable example.
- Many participants also felt uncomfortable with an expression of the risks and costs of lending in adverts which contained percentages and figures. This was generally, because information about the risks and costs made them feel uncomfortable about taking the loan, but also, in several cases, because they lacked confidence in understanding what the figures meant and felt confused by them.
- Participants preferred to seek information about risks and costs of taking a loan on websites, but nonetheless, they were less well-disposed to sites which made this information seem complicated or made it difficult to access. Their primary concern before taking a loan was to establish the relevant total cost to credit; websites which made this easy to do were strongly advocated.

4. Views on modifications to adverts

a. Views on 'wealth warnings'

- Participants were not strong advocates of the first 'wealth warning', "Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time". This was because they did not feel that the figures raised enough concern for them –the 2.6 million was not a high enough proportion of the total number of payday loans taken to worry potential or previous customers.
- There was more of a preference for the second 'wealth warning' ("STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?") as participants felt that the direct appeal to the reader/ viewer was more effective that the 'social norm' presented in the first 'wealth warning'.
- There was also a strong sense that it was appropriate to deter payday borrowers who might not be aware of the relevant risks of payday lending. It was very important to participants that modifications included a clear indication of the consequences of defaulting on loans.

b. Views on signposting to advice

- Participants were generally very receptive to this modification ("Are you struggling to make ends meet at the end of each month? Call the Money Advice Service on 0300 500 5000 to get quick and easy debt advice). This was because it was perceived to offer an additional option to people in very difficult circumstances who were likely to be short of choices or support.

- For a few, however, the advice signposting suggested was impractical or was felt to be confusing as it was “advertising” both the lender and the Money Advice Service.

c. Views on information on ‘total cost of credit’

- This was the most widely-liked modification, chiming with the qualities of ‘honesty’ and ‘transparency’ which participants were very positive about in lenders. They felt that this information was an appropriate way to explain the costs of the loan – less complex or intimidating than APR – and would help them make an informed decision about whether to borrow.
- A few participants suggested that a ‘defaulting scenario’ could be incorporated into this modification. They felt that it would be most useful to include the costs of late repayment into the message, so that potential customers would be made aware not only of the costs, but of some of the attendant risks too.

d. General views on modifications

- They tended to be positive about the approach, but also tended to feel quite strongly that modifications alone may not be an adequate response to deter the most vulnerable from choosing payday lending, particularly given the difficulties people may be facing when they turn to payday loans, and the constrained choices that people in such situations might have.
- There was also a strongly-held view among some participants in the discussion groups that the different modifications would be relevant to different types of people, and that this would be difficult to identify as it would be dependent on their circumstances and attitudes. They therefore felt that all or a combination of the messages would be important to use were such an approach to be taken.

1. Background and methodology

CHAPTER SUMMARY

a. Background

- Payday loan use has been increasing over the last few years as has interest in the advantages and disadvantages.
- As part of a programme of research on consumer credit Government is exploring whether payday loan advertising presents consumers with a balanced impression of the costs and risks associated with payday lending should they need access to credit.
- BIS therefore commissioned Ipsos MORI to conduct further research to explore the impact of advertising and communications by payday loan companies on existing and potential customers and on their behaviour.

b. Methodology

- The research comprised two components:
- Four one-and-half-hour-long discussion groups, each with at least six and up to eight participants; and
- Six hour-long face-to-face single depth interviews.
- A mixed qualitative methods approach was used to make the most of the generative dynamic between participants inherent within group discussions, but also to mitigate social desirability bias given the sensitivity of the research topic.
- All the research was conducted with participants who had already used or were planning to use payday loans, in two locations – London and Sheffield, and – with quotas set on payday loan use status, income, age and gender to access a range of customers who commonly apply for payday loans.

c. Presentation of findings

- Qualitative research is designed to be detailed and exploratory and provides insight into the perceptions, feelings and behaviours of people. It is useful for exploring perceptions of policy issues and proposals but it is important to note that qualitative findings are not statistically representative of the views of the general public.
- Participants gave their views from two distinct perspectives: as ‘citizens’, considering the wider context of payday lending on society as a whole, and as ‘consumers’, considering taking out a payday loan themselves, often experiencing ‘cognitive dissonance’ in doing so.

1.1 Background to the research

Earlier this year, BIS-commissioned research entitled *The Impact on Business and Consumers of a Cap on the Total Cost of Credit* was published. This looked at the impact of introducing a cap on the total cost of high cost credit, including payday loans. The Office of Fair Trading (OFT) also issued their *Payday Lending Compliance Review Final Report*, detailing the findings of their review of payday lenders' compliance with the law and OFT guidance. Taken together, these reports found that the payday lending market was not functioning in consumers' interests and that there was widespread non-compliance and poor practice in the industry.

On 6 March 2013 the Government published the *Government Response to the Bristol University Report on High Cost Credit*. This set out a strong action plan to tackle the current problems in the payday lending market and since then action has been underway to deliver on these announcements:

- The OFT announced that it would prioritise payday lending compliance and enforcement. Over the last few months, it has been taking action on some of the leading payday lenders to improve standards across the industry.

- Following referral from the OFT, the Competition Commission is now carrying out a comprehensive investigation into the payday market..

- The new Financial Conduct Authority (FCA), the successor body to the Financial Services Authority, will take over responsibility for regulating consumer credit from April 2014. They have committed to prioritise action on payday lending from this date.

On the advertising of payday loans in particular, the BIS-commissioned research found that nearly two thirds of payday lending customers questioned felt that it was "too easy for them to borrow". In support of this, the OFT review found that 60% of the payday lending websites they inspected emphasised speed and simplicity and 40% omitted or downplayed important information about the costs and risks to the borrower. However, the OFT review did not make any assessment of the impact of these findings on consumer behaviour. BIS therefore commissioned Ipsos MORI to conduct additional research to explore the impact of advertising and communications by payday loan companies on existing and potential customers and on their behaviour. The research will input into the FCA's thinking and analysis on potential new rules on payday lending advertising in advance of the publication of their consultation in the Autumn, and will also be useful for wider thinking on consumer behaviour within the Department.

1.2 Research objectives

The objectives of the research were to explore the following issues in detail:

- The reasons why participants choose payday lending, including their financial situation and other factors which may have encouraged them to do so;

- The impact of payday loan advertising on customers' decisions to choose these products, including the role of context, tone, language, images and placement; and,

- The potential for changes to payday lending adverts to change participants' behaviour in regard to choosing payday loans.

1.3 Methodology

A qualitative approach was selected for the research in order to allow participants the opportunity to respond to the required stimulus and to prompts and questioning around their behaviour. Overall, the research comprised two components:

- **Four one-and-half-hour-long discussion groups**, each with at least six and up to eight participants; and
- **Six hour-long face-to-face single depth interviews**.

A mixed methods approach was used to make the most of the generative dynamic between participants inherent within group discussions, but also to mitigate likely *social desirability bias*[1]. **Participants were sensitive about discussing using payday loans honestly with a group of people with whom they were unfamiliar**: as Sunstein has noted, in groups, "social pressures … lead people to silence themselves in order not to face reputational sanctions, such as the disapproval of relevant others"[2]. **Including depth interviews in the design therefore ensured we were able to access concerns which participants may have been uncomfortable speaking about in a group**. It also allowed researchers to triangulate data in making comparisons between participant responses from interviews and groups, hence testing and challenging our hypotheses and findings throughout the research process.

All the research was conducted with participants who had already used or were planning to use payday loans, in two locations – London and Sheffield, and with a range of types of people who commonly apply for payday loans according to the sample frame below. An explanation of why these issues are important in the research is provided below the table.

Figure 1: participants in the qualitative interviews

Quota	Discussion groups	Depth interviews
Payday loan status	2 groups x those who have used a payday loan 2 groups x those considering using a payday loan	3 interviews x those who have used a payday loan 3 interviews x those considering using a payday loan

1 Social desirability bias is the tendency of participants to answer questions in a manner that will be viewed favourably by others. It can take the form of over-reporting "good behaviour" or under-reporting "bad," or undesirable behaviour.
2 Group Judgments: Deliberation, Statistical Means, and Information Markets, Cass R. Sunstein, Chicago (2004)

Location	2 groups x London 2 groups x Sheffield	3 interviews x London 3 interviews x Sheffield
Income: individual rather than household basis, and including benefits	Mix of less that £10k, 10-15k; 15-20k and more than 20k	Mix of less that £10k, 10-15k; 15-20k and more than 20k
Household status	Mix of single households, households with children under 16, non-single households with no children	Mix of single households, households with children under 16, non-single households with no children
Quota	**Discussion groups**	**Depth interviews**
Age	Mix of participants aged 18-24, 25-34, 35-44 and 44 +	Mix of participants aged 18-24, 25-34, 35-44 and 44 +
Gender	Mix of male and female	Mix of male and female

Payday loan status: A range was included here to uncover both the reasons for deciding to use a payday loan, and the factors encouraging those who are likely to take out a loan. We did not initially include a quota on participants who defaulted on their payments to avoid over-complicating recruitment, but added this quota as fieldwork progressed. Only a small number of participants in the research reported that they had defaulted on payments – although there is a strong possibility that others had defaulted but were not prepared to admit to it during the research due to social desirability bias. Most of the payday loan customers in the research had taken out loans online, with only a small proportion using high-street lenders.

Location: Two locations were included as the CFA's research demonstrates that only 10% of payday loan users are in London, which is slightly proportionally low given that 12% of the UK population lives in London[3]. However, the same research suggests that 22% of payday borrowers live in the North West, and 12% in Yorkshire and Humber (the largest proportions outside the South East) – hence the choice of a location in the North of England.

Income: The CFA's research suggests that a wide range of households of different incomes use payday loans[4]. The research quotas reflect this range.

Household status: The CFA identifies three predominant types of payday borrowers: young single people; young families on low incomes; and older parents with unexpected needs[5]. The quotas here will aim to capture this diversity.

Age: The CFA's research indicates that younger age groups account for nearly three-quarters of payday borrowers (74% are under 44)[6]. For this reason our quotas are focused on younger participants but allowed flexibility to include older participants in the 'over 44' group.

3 ibid
4 ibid
5 ibid
6 ibid

Gender: It was be important to include a mix here to take into account that around half of payday borrowers are male and half female.[7]

Participants were recruited for the research face-to-face, using a short screener questions to ensure they were eligible for the research and to ensure their willingness and interest to take part. The final locations were chosen to facilitate a collaborative approach to the research, allowing BIS to view the groups in both London and Sheffield. Fieldwork was conducted from June-July 2013.

A discussion guide was used to structure the conversations with participants to ensure that content of interviews was consistent across the research, and this was tailored to capture the experiences of both those who had used a payday loan and those who had recently considered doing so (this guide is included in the Appendix to this report). In the course of interviews and discussion groups, participants were asked to respond to stimulus: payday lending advertising, payday lending websites and potential modifications to the adverts. This was done to ground the research in observations of participant responses to adverts, and to collect detailed information on participants' reactions to specific elements of the adverts. This stimulus is presented in the body of the report in the relevant chapters.

All interviews and discussion groups were recorded with participants' permission, and most interviews were also transcribed. Analysis of the qualitative work was conducted throughout fieldwork through team discussions, which helped us make sense of data from an early stage, and allowed us to adopt an iterative approach and to test hypotheses developed in the field. These meetings were followed by detailed analysis of fieldnotes and transcripts from interviews and groups building on themes identified in the discussions.

1.4 Presentation of findings

Qualitative research is designed to be detailed and exploratory and provides insight into the perceptions, feelings and behaviours of people. It is useful for exploring perceptions of policy issues and proposals but it is important to note that **qualitative findings are not statistically representative of the views of the general public**.

As far as possible we have attempted to state the strength of feeling about a particular issue, although in some cases it has not always been possible to do this due to the small numbers of participants taking part in the research. Further, the perceptions of participants make up a considerable proportion of the evidence in this study, and it is important to remember that although such perceptions may not always be factually accurate, they represent the truth to those who relate them.

It is important to note from the outset that, when responding to payday lending advertising, participants gave their views from two distinct perspectives: as 'citizens', considering the wider context of payday lending on society as a whole, and as 'consumers', considering taking out a payday loan themselves. Participants often proposed both types of views within the space of an interview or discussion – for example, expressing concern at the content of a payday loan advert due to its

7 ibid

potential impact on the vulnerable, yet later appreciating the salience and appeal of its message for them personally as a customer. The theory of *cognitive dissonance*[8] is highly relevant here, and in the presentation of findings, we have indicated where participants have assumed a particular perspective – although their perspective may not have remained consistent throughout the discussion or interview.

Verbatim comments have been used throughout this report to help illustrate and highlight key findings. Where verbatim quotes are used, they have been anonymised and attributed with relevant characteristics of gender and location.

The findings are presented in the following four chapters:

- Perceptions and uses of payday lending;
- Views on payday advertising;
- Views on modifications to adverts; and,
- Conclusions.

Each chapter is divided into subsections which are listed at the start of the chapter. In all chapters **bold type is used to indicate key findings**, which are summarised at the end of the chapters. *Italics* are used for emphasis.

8 Cognitive dissonance is the discomfort experienced when simultaneously holding two or more conflicting cognitions: ideas, beliefs, values or emotional reactions.

2. Perceptions and uses of payday lending

CHAPTER SUMMARY

a. How payday loans were used

- Many people spent payday loans on unexpected expenses such as, the repair or replacement of cars and white goods; expensive items which families felt they could not live without. Seasonal demands also provoked a need for borrowing, and were commonly related to either children or extra costs at Christmas.
- Many participants reported costs from unexpected and seasonal needs occurring simultaneously or building up; taking them to a point at which previous coping mechanisms and budgeting strategies were no longer sufficient and they found it difficult to pay for ordinary living costs. Several participants said they had turned to payday lending to cover the cost of living.
- Only a small minority in the research used to payday loans to pay for non-necessary expenses. Such participants also held the view that they could confidently repay the loan, usually when they received their salary at the end of the month.

b. General attitudes towards payday lending

- Those participants who were able to access alternative sources finance – and, crucially, felt comfortable doing so – were less likely to take out payday loans.
- Friends and families were the most important and widely-cited source of alternative credit across all types of people interviewed. Many of those who had taken out payday loans had felt unable to ask family members for support because family members were also struggling to make ends meet.
- Most participants who had taken out a payday loan felt that using a bank loan from a high-street bank was not the most suitable solution to their financial need. This was due to bank loans being longer-term or more difficult to obtain than payday lending.
- Customers who had found themselves in difficulties in repaying payday loans saw themselves as personally responsible for their difficulties. This was because participants tended to feel that the risks and costs around payday lending were implicit, and believed themselves to be suitably informed when taking out the loan.
- There was there was also a strong and widespread sense of concern around the habitual use of payday loans. As 'citizens', participants were concerned about how more vulnerable people might be affected by them.

c. Perceived advantages of payday lending

- Of primary importance was the immediate access to finance that payday loans offered. The privacy and anonymity of online lenders was also important for easing the discomfort of the stigma participants reported.

- Payday loans therefore offered more independence and control over their finances to customers, which some found attractive, because they could be paid off quickly and in one lump sum.

d. Perceived disadvantages of payday lending

- Most were aware that payday loans typically had a much higher interest rate than bank loans. For many customers high interest rates were a trade-off for the speed, privacy and control they offered, as well as the option of credit for those who had no alternatives.
- There was general concern about the actions of payday lenders if a borrower was unable to repay the loan.

e. How borrowers choose payday lenders

- Most participants had done little research comparing lenders before they borrowed.
- Most people we spoke to commented on the ubiquity of advertising for payday loans, and could recall specific adverts, mentioning advertising as the reason they became aware of the existence of payday loans.
- Advocacy was a powerful influence on deciding to use a payday lender. Several participants had relied on the recommendation of family, friends and colleagues to choose a lender.
- Payday loan customers did not expect to see information about the risks and costs of lending on adverts, but they did expect to find full information about these issues on lender websites.
- However, customers were less concerned at using websites to investigate the risks around using a lender, including the consequences of delaying or renewing repayment.

f. Awareness of payday lending conditions

- Awareness of the specific risks in using payday lending was very low.
- Typically, most customers had not investigated what would happen if they could not repay the loan as they did not feel this was a situation which applied to them.
- Where specific conditions were concerned, APRs presented a particular difficulty, with many struggling to express the meaning of the figure. Many conceptualised the additional cost attached to payday loans as a ‘fee’ rather than an interest rate.
- Awareness of available advice and how to complain about a lender was very low.

Participants in the research held strong views of payday lending and the companies that offered this service. These views shaped how and why they responded to payday lending advertising, as did their personal reasons for needing to use this form of finance in the first place. This evidence, therefore, provides important contextual information and, given this, in this chapter we will explore participants' perceptions and uses of payday lending including:

- How payday loans were used;
- General attitudes towards payday lending;
- Perceived advantages of payday lending;
- Perceived disadvantages of payday lending;
- How borrowers choose payday lenders; and
- Awareness of payday lending conditions.

2.1 How payday loans were used

In the research, we spoke to payday borrowers from a diverse range of a circumstances and backgrounds, and, accordingly, participants used payday loans to pay for diverse requirements. **By far the most common use of payday loans was to meet an urgent household need** of some description. These needs fell into three categories:

- Needs generated by unexpected expenses;
- Those arising from seasonal costs; and,
- Needs created by difficulties in meeting general living expenses.

A small minority in the research used to payday loans to pay for non-necessary expenses, such as holidays**.** In this section we explore each of these types of reasons for taking out a payday loan in turn.

2.1.1 Needs generated by unexpected expenses

Where unexpected expenses were concerned, repair or replacement of cars, boilers, and white goods were the major source of costs. Participants were dependent on these for transport, heating, and the smooth functioning of their households respectively – and felt that they had no choice but to pay for repairs or replacements should they break down. Without doing so, participants suggested that they would be unable to get to work (if their car broke down), that food would be wasted (if their freezer or fridge did not work) or that they would be unable to wash or heat the house (if the boiler was in need of repair). The urgency with which these repairs or replacements had to be made was particularly acute in households with children.

Case illustration 1: Turning to payday lending due to unexpected costs

Jenny, a mother of two from Sheffield, took out a payday loan for £320 plus a £50 fee when her boiler broke down last winter: *"the guy we got to fix the boiler couldn't take a credit card … so we had to have cash for it".* She would usually ask her parents for an emergency cash loan, but they were on holiday at the time, and she *"didn't want to bother mum and dad whilst they were away".*

Jenny took a payday loan to meet her immediate need, despite the fact that, in the past, a relative had fraudulently taken out a payday loan in her name which had led to a court case. She disliked payday loans because she knew from this experience that there were few identity checks in place, and because she felt they were too easy to access. Nonetheless her concern to provide a warm home for children in winter overwhelmed her opposition to them. In order to reassure herself of the legitimacy and security of the loan, she decided to use a payday lending high street shop rather than applying for the loan online or over the telephone, to ensure the appropriate checks were properly conducted.

"It would only ever be something if it was necessary for us as a family … We've got two small children and we needed to do it".

2.1.2 Needs generated by seasonal demands

Seasonal demands also provoked a need for borrowing, and were commonly related to either children or extra costs at Christmas. Parents told us they borrowed to pay for unexpected school-related expenses for their children, including activities like swimming lessons, deposits for school trips: this is a common challenge faced by families, evidenced in wider research studies[9].

If I didn't pay because I was waiting for the money, she wouldn't have been able to go.

Female, Payday loan customer, London

Children's school uniforms also represented a major demand on participants' budgets, and some borrowed to buy these in time for the new school term. Where Christmas was concerned, some had struggled to save over the year and needed money to buy Christmas presents, and others reported borrowing money to buy a train ticket home to see family. These seasonal needs were seen to be immediate – for instance, Christmas presents could not wait until a January payday, and children needed uniforms to attend school when the new term started.

9 Hall, S. and Perry, C. (2013) Family Matters, Ipsos MORI/ Family and Childcare Trust

2.1.3 Needs generated by cost of living

Many participants reported costs from unexpected and seasonal needs occurring simultaneously or building up, and taking them to a point at which previous coping mechanisms and budgeting strategies were no longer sufficient and they found it difficult to pay for ordinary living costs. Underpinning this was also a widespread sense that it was currently harder than in previous years to manage given the rising costs of living: many participants reported a growing sense of hardship and difficulty in managing to pay regular bills.

It feels like you're living hand to mouth, I've never lived like that before

Female, Considered using a payday loan, London

Several participants reported that they had turned to payday lending to cover the cost of living. Some had used payday loans once or twice to pay bills because their current income could not cover the cost of these: commonly payday loans were used to pay for utility and phone bills, but one participant also reported using payday loans to pay for child maintenance in financially difficult months. These participants tended to be in low-paid work, but a few better paid participants also mentioned that that unstable incomes, through being self-employed or shouldering the initial costs of setting up a new business, meant that some months were more difficult than others financially. And for one participant in the research, payday lending was the sole available option while waiting for welfare payments after experiencing an injury which prevented him from working and left him unable to pay for rent and food.

Case illustration 2: Turning to payday lending due to the cost of living

Mark, a self-employed engineer from London, took out two payday loans of around £150 each recently, to cover general living expenses such as food and rent. He is currently unable to work after tearing a ligament in his leg, and has just started claiming out-of- work benefits.

Mark has no savings and no family support available. He has struggled to cover living expenses in the past when he was self-employed and his income was unstable, taking out payday loans to cover living expenses when paid work dried up.

In principle, Mark is debt averse – "I don't like taking too much in case I can't pay it back; I don't like to be in debt" – and he is aware that payday loans are expensive. However, he could not think of any other way to cover necessary expenses when stuck, after the bank turned down his application to extend his overdraft.

In these circumstances Mark regarded payday loans as essential and perceived no alternative other than the "luck" of his benefits coming in: "People do still need their payday loans...like my situation, it could have been my only option". Mark has attempted to take out another payday loan to cover living expenses due to this situation, but his application has been denied.

2.1.4 Using payday loans to pay for non-essential items

Only a small minority of participants in this research had borrowed money – or considered doing so – to pay for a luxury. As an example, one participant had used payday lending for a spontaneous holiday with a friend, booking his flights as soon as he received the funds.

My mate uses them quite a lot. And I was just sitting next to him and we was booking our holiday, and I was like I haven't got the money for like a week, I get paid next week … and it was like bang that

Male, Payday loan customer, London

One other participant borrowed money to allow her to buy something she wanted sooner rather than later.

I didn't really need the car as soon as I did get it, but my car broke, I'm lazy and I didn't want to walk.

Female, Payday loan customer, Sheffield

Such participants also held the view that they could confidently repay the loan, usually when they received their salary at the end of the month. Included in this group were a few younger participants for whom using payday lending had been 'normalised' – typically through friends and family members using them without experiencing adverse consequences. These participants were also confident that they would have the resources to repay the loan when required, and viewed payday lending neutrally as a short-term immediate credit option which was suitable for their needs.

It was a week before payday and I needed a little bit of money, and as I knew I was getting paid I didn't mind doing it.

Female, Payday loan customer, London

2.2 The role of financial resilience and capability

Financial resilience is widely seen as important for the ability of households to respond to changing circumstances[10]. **Financial resilience is the ability to withstand financial 'shocks'** – the existence of savings, the ability to increase household income through paid work and access to formal or informal credit on agreeable terms are factors which would increase the financial resilience of a

10 Barr, Michael S. (2004a), "Banking the Poor," Yale Journal on Regulation, 21, 121–237 psych.princeton.edu/psychology/research/shafir/pubs/Behavioral%20 decision%20making%20among%20the%20poor.pdf and also "No Slack" http://www.brookings.edu/research/books/2012/noslack

household. There is also extensive literature citing the importance of financial capability in the lives of families and individuals[11]**. Financial capability is the knowledge, awareness and the ability to manage money well and in changing circumstances**.

Across the research, participants who had taken out a payday loan typically reported that doing so was a "last resort"; they had done so because they lacked other viable credit options, and because their need for the money was immediate and critical at the time of taking out the loan. The availability of alternative sources of credit and finance was an important difference between those who had taken out a payday loan and those who had considered doing so but decided against. Those who were able to access alternative sources finance – and, crucially, felt comfortable in doing so – were less likely to take out payday loans. Participants' levels of financial capability were also important in determining their decisions around payday loans.

In this section we present findings on the following aspects of financial resilience and capability:

- Alternative credit through informal loans;
- Alternative credit through formal loans; and,
- The role of financial management and knowledge.

2.2.1 Alternative credit through informal loans

Friends and families were the most important and widely-cited source of alternative credit across all types of people interviewed. Indeed, almost all those interviewed who had considered payday loans but not taken them out had turned to friends or family for informal loans instead, and many of those who had taken out payday loans had felt unable to ask family members for support because they felt that family members were also struggling to make ends meet.

It's a horrible situation to be in, to ask for money and everyone seems to be in the same boat really, so it's like robbing Peter to pay Paul constantly

Male, Payday loan customer, London

Moreover, in our wider work we have seen that borrowing from family – and the attendant tensions over repayment and guilt – can adversely affect relationships between relatives[12]. Several participants suggested they were reluctant to reveal that they needed money to friends and relatives because they felt embarrassed about their situation. For this reason they were reluctant to ask friends and family for help, and instead turned to payday loans.

11 For example, Taylor, Jenkins and Sacker, 2011, accessible at https://www.iser.essex.ac.uk/publications/working-papers/iser/2011-18.pdf

12 Hall, S. and Perry, C. (2013) Family Matters, Ipsos MORI/ Family and Childcare Trust

[You] don't want to tell your friends or family, don't want them to think you can't manage your money.

Female, considered using a payday loan, Sheffield

Those who did not ask friends or family members also tended to report that they would prefer not to appear in a difficult financial situation to friends and family – or to discuss the possibility of using a payday loan with them, which many felt to be highly stigmatised – something we have found in other research projects[13]. Participants were concerned about how their families would react to an admission of being financially desperate, and were reluctant to face potential criticism and disapproval.

It's easier to go somewhere I don't know without the hassle, without getting a gobful. They'd go beserk if I told them.

Male, Payday loan customer, Sheffield

We will explore the implications of this concern around the stigma of using a payday lender in detail in section 2.3.2.

Case illustration 3: Turning to informal credit instead of a payday loan

Tom, a retail worker from Sheffield, considered taking out a payday loan to fund unexpected dental work after he broke his tooth, but instead borrowed the money from his mother.

Tom was disinclined to use a bank overdraft after negative past experiences with university debt. He considered using a payday loan because, due to bad experiences with banks, he would prefer to deal with a payday loan shop than with a bank: 'banks feels like begging... shops are more comforting'. He also considered payday loans because he disliked the idea of borrowing from his mother, feeling that he was *'at an age where I should be fiscally astute'.* Tom was not deterred by the potential financial risks of taking out a payday loan: he had a good understanding of what taking out a payday loan could entail; understanding that some customers did end up defaulting or rolling over their loans as well as understanding the concept of the Continuous Payment Authority.

However, it was not his awareness of the financial risks and disadvantages of taking out a payday loan, rather his wish to avoid the stigma attached to payday loans, which led Tom to turn to his mother for informal credit rather than to take out a payday loan.

13 ibid

2.2.2 Alternative credit through formal loans

Most participants who had taken out a payday loan felt that using a bank loan from a high-street bank was not the most suitable solution to their financial need. Some older participants reported that using a bank loan was not an option for them as they had a bad credit rating, whereas younger participants were reluctant to take on the responsibility of a longer-term loan from a bank, preferring instead the short-term option provided by payday loans. A few of these participants had had credit card or store card debts in the past and were reluctant to use similar long-term forms of credit.

You don't want to be tied into something ... I've tried to reduce all my monthly outgoings... the last thing you want to do is put yourself back in a situation that you know you might still be paying off what you've been in before.

Female, Payday loan customer, London

For many others, a loan from a high-street bank was not the preferred option because they needed finance immediately: for example to pay for a repair or for Christmas presents. The preference to avoid long-term financial commitment kept some from enquiring with a bank at all, whereas others reported a fear of potential embarrassment in asking for a bank loan, in being turned down, or in jeopardising their reputation with their existing credit provider – for example, in asking for a loan at the bank where their mortgage was held.

We looked at increasing our overdraft, we looked at taking a bigger bank loan out... but we've been digging ourselves out of the big hole and I've almost got to the point where I'd rather shoot myself than borrow any [more] money off a bank... we've done really well to get where we've got and we didn't want to make a step back … we don't want to embarrass ourselves too much.

Male, Payday loan customer, London

However, for a few who felt a bank loan was attractive and for whom it was an option, this sometimes prevented them using a payday loan, as illustrated in the example below.

One participant in a discussion group had used home credit in the past, which he found convenient, but had since turned to payday loans instead as they meant he received the funds faster. No participants in the research discussed using credit unions, although they were not prompted on this issue and it was not a focus of the discussion. Wider research on this issue suggests that awareness of credit unions is low (though growing) and access to them patchy[14].

14 http://www.bristol.ac.uk/geography/research/pfrc/themes/psa/membership-counts.html

Case illustration 4: Turning to formal credit instead of a payday loan

Emily considered taking out a payday loan to cover general living expenses when her partner was unemployed and finances were tight, but instead took out a five year loan with monthly repayments from a bank.

Emily needed the money to pay for *“school uniforms and stuff like that”,* but was reluctant to get a payday loan because she had heard *“lots of scary stories”* about high interest rates and the risk of defaulting on payday loans and paying them off ‘forever’. In particular, Emily mentioned a friend who was “hooked” on payday loans and for whom the ensuing stress had caused illness and bankruptcy. Consequently, Emily attempted other options first, considering a payday loan only as a last resort if there was “no choice”; she thought, “*let me try and see if I can get a loan [from the bank], and if I can then that’s fine. If not, I’ll have to go down that avenue”.*

Whilst in this instance Emily was able to get formal credit from her bank and so did not take out a payday loan she would still consider using them in the future. Although she does not understand APR or know what a Continuous Payment Authority is, she feels she has some understanding of the realities of payday loans and their late payment penalties from friends’ experiences.

2.2.3 Levels of financial capability

In the discussions and interviews, there was not sufficient time to explore participants’ financial capability in detail, but it was nonetheless evident as an important factor in shaping decisions around turning to payday lending. Among those who had considered but decided not to take out payday loans, only a small number had managed to make economies that removed the need for borrowing money. For example, two participants contacted their utilities companies, and set up repayment plans with lower monthly costs to free up cash for an immediate need. In addition, very few participants demonstrated a feeling of confidence in asking for help from lenders – rather they typically felt personally responsible for meeting the demands made on them by lenders or other creditors. Further, they did not expect to be able to renegotiate terms with lenders or, for example, utilities companies. By not believing they could renegotiate when their outgoings changed, they were left with few options but to find extra funds in the form of a loan.

2.3 Attitudes towards payday lending

Loans and debt are sensitive, emotional subjects. Participants in this research demonstrated considerable negative feelings about decisions around payday lending and were typically uncomfortable in discussing their personal experiences. In this section we present findings on the following themes in attitudes to payday lending:

- Personal discomfort and shame;
- Social unacceptability of payday loan usage;
- Personal responsibility; and
- Concern about dependence on loans.

2.3.1 Personal discomfort and shame

Broadly speaking, **using payday lending was associated strongly with unhappy and uncomfortable feelings** – for both customers and those who had eventually decided against taking out loans. Those who had not taken out loans often tended to talk about those who had with a sense of disapproval, given that they had been able find alternative to taking out a payday loan, and concern, where they considered the vulnerability of many payday borrowers. Both those who had taken out loans and those who had not taken them associated taking out payday loans with a sense of shame. This was related to the painful admission of financial hardship which taking out a payday loan amounted to for most borrowers.

You feel a bit worthless after [you've done it]

Female, Payday loan customer, London

I felt really, really desperate when I had to go to payday loan

Female, Payday loan customer, Sheffield

Among those who had not taken loans, given that many had borrowed from family instead, there was also a sense of sympathy for those who did not have such support and so had to borrow from payday lenders.

2.3.2 Social unacceptability of payday loan usage

Social stigma was an important issue underpinning decisions around payday lending. Payday lending customers interviewed in the research typically reported feeling ashamed of the need to use a payday loan, especially when the loan was used to meet a household need. This was because they were uncomfortable about admitting that they were in a position close to financial desperation, which was understood by many to arise from not having managed money well, or being unable to provide sufficiently – both situations which conferred shame. Further, by being widely perceived as a 'last resort', payday loans were seen as a symptom of such financial desperation.

It's horrible when someone says "Who'd have one?" and you think "I have".

Female, Payday loan customer, Sheffield

To find yourself in this situation where you're thinking of using these companies, it makes you feel so desperate, seedy.

Female, Payday loan customer, London

Even the small number of participants who had used payday lending to fund paying for luxuries, such as holidays, felt a sense of stigma.

[My friend said] make sure you pay them back 'cause that's it seriously, pay them back and as I said I'll never do it again. ... it helped me out to be fair, but obviously you have to pay back an extra £30 or something

Male, Payday loan customer, London

Accordingly, some participants who used payday loans were secretive about doing so; indeed, one participant we spoke to had not told her cohabitant partner that she had used one. Further, none of the participants in the groups admitted to regular use of payday loans – rather they were reported as an occasional 'last resort' option.

2.3.3 Personal responsibility

Alongside a sense of stigma about their use, many participants expressed a strong sense of personal responsibility regarding any misuse and difficulties caused by missed or mismanaged payments. Customers who had found themselves in difficulties in repaying payday loans – for example having bailiffs visit to reclaim debts – saw themselves as personally culpable. **They tended to believe that they were *sufficiently* aware of the risks and costs involved in taking out the loan to be responsible for the consequences** – although none of the payday loan customers interviewed had in fact reported understanding the full implications and conditions of the loan they had taken.

I don't blame anyone else, I knew the rules

Female, Payday loan customer, Sheffield

Most participants were generally hostile to most payday lenders, feeling them to be taking advantage of those in difficult financial circumstances (findings relating to this are outlined in depth in chapter 3 of this report). Many were particularly alert to this as they had been in such a situation of themselves, and felt sympathy for others who were. Nonetheless, **many also felt that payday loan customers were responsible for their decisions**, and the attendant risks and costs, regardless of how lenders used advertising or provided information about their products.

Anyone who takes it out, it's their own fault.

Male, Considered using a payday loan, Sheffield

Case illustration 5: Defaulting on a payday loan

Catherine reluctantly took out a payday loan to pay for general living expenses: *'I borrowed £500 just to see us through'.* In the past three years, a series of financial shocks had exhausted her savings. She thought the loan was expensive, but felt she was desperate: *'It just feels so wrong, because I just know I'm getting ripped off...'.* Catherine faced huge pressures at the time from unforeseen housing costs, from her partner losing income due to interruptions to his work and because their newborn was in intensive care. Consequently, she did not feel able to inform herself more fully about payday loans before taking one out: *'I didn't have time to think about it.'* She admits that she was 'desperate', had 'no-one to ask' and so opted for the 'first thing that came to mind'.

Catherine's understanding of her loan was very limited; she initially claimed she had a twelve month loan but had not contacted the provider to establish this. Later, she revealed she had taken out the loan 2-3 months ago, but had not managed to pay anything back. Further, she was not aware that she needed to contact the provider before rolling the regular payment over, having made no repayment on it at all. She had been avoiding calls and emails from the provider and admitted that she was 'in denial' about repaying this loan and 'embarrassed' about being so.

However, Catherine works as a key worker helping vulnerable people 'with their finances, things like that' and consequently felt that she knew about the options, or lack of options, available to her. She knew the rates were 'extortionate' but seemed confident that her payday loan was easy to manage and could be extended easily. In reality, Catherine had no knowledge of the Continuous Payment Authority or of the consequences she was facing for defaulting on her loan.

This was related to the fact that, across all groups, **participants tended to feel that the conditions around payday lending were implicit in the product**: they believed that payday loans were for small amounts of money (under £500), were short-term loans used only as a 'last resort', and there were attendant risks and costs which were the trade-off for the ease and simplicity of the product. This perception was reinforced by the fact that many participants who had taken out loans had repaid them on time, and understood the importance of doing so, even if they did not understand the detail of the conditions attached to the loan.

You take an amount of money you can afford to pay back in a short time

Male, Payday loan customer, London

Case illustration 6: Repaying a payday loan on time

Ella, a student at Manchester University from London, has taken out and repaid three payday loans; two for £50 and one for £250. On all three occasions, Ella knew that her student loan or her pay for her part-time job was about to come in and that she would be able to repay the loan.

However, Ella has little understanding of payday loans; she does not know what APR is or conceptualise her loan in terms of interest rates, instead regarding these as a repayment 'fee'. She freely admits that, for her, the appeal of payday lending is that she *"doesn't really think of it as a loan"* and so does not have to worry about longer term implications: *"in two weeks time I can forget about it."*

Ella does not feel that she needs a greater understanding of payday loans as she does not believe that she would ever default on a payday loan or have to deal with longer term consequences: *"I see payday loans as being small amounts you pay off quickly".*

2.3.4 Concern about dependence on loans

Some participants were concerned about others becoming dependent on payday loans, and **there was there was also a strong and widespread sense of concern around the habitual use of payday loans**. This was because most people interviewed were aware that there were risks and costs associated with using payday loans – which were potentially punitive – even if they did not know what these were specifically or understand them fully. As 'citizens', they were concerned about how more vulnerable people might be affected by them.

It's basically temptation and it's fine if you're strong and that, but it provides that temptation for people who are weak or at their lowest.

Male, Payday loan customer, London

For one participant, this concern around dependence was sufficient to prompt her to reconsider choosing payday lending and choose a bank loan instead.

[You can get] obsessed with having a loan each month, when you know you can't afford to pay that back

Female, Considered using a payday loan, London

2.4 Perceived advantages of payday lending

Despite the profound negative connotations around payday lending, **payday loan customers interviewed in the research saw some clear advantages to the products in comparison to alternatives**. Where participants felt they had a choice between payday loans and other sources of finance, these advantages were attractive in their own right, and sometimes making them preferable to banks and family or friends as a source of credit. Participants for whom this was the case tended not to have looked in detail into alternative sources of credit – if they thought a payday loan was what they wanted, they tended not to investigate or compare other options. The perceived advantages were such that even some of those who felt they had no alternatives appreciated certain features – such as speed and privacy.

In this section we describe participant views of:

- Immediate access to finance;
- Privacy and anonymity; and,
- Independence and control over finances.

2.4.1 Immediate access to finance

Of primary importance was the immediate access to finance that payday loans offered. This was because, as outlined in section 2.1, customers needed payday loan finance to address immediate and urgent needs. Linked to this was the **speed and ease of application and acceptance for loans**, which was widely appreciated as it meant that payday lending products solved customers' short term financial problems very quickly with money in their account the same day. This offered immediate respite from the need for money, but also the physical and emotional stresses financial problems can bring with them[15].

It's instant relief.

Male, Considered a payday loan, Sheffield

When it goes straight through, you feel really happy, it's a lot of pressure off you.

Male, Payday loan customer, London

Quick access to finance also appealed to people making spontaneous purchases – for example, when booking a holiday – and those who needed money for time-sensitive purchases, such as Christmas presents or to pay for travel for an occasion. The speed of the process of applying for and receiving a payday loan also **allowed customers to complete an act they felt uncomfortable about quickly and cleanly**, and without needing to address their sense of shame about it: it was a quick fix for an unpleasant and painful problem.

15 Hall, S. and Perry, C. (2013) Family Matters, Ipsos MORI/ Family and Childcare Trust

When it's quick, instant... [you] don't have to think about it for weeks

Male, Considered using a payday loan, Sheffield

2.4.2 Privacy and anonymity

The **privacy and anonymity of online lenders** was also important for easing the discomfort of the stigma participants reported. Participants contrasted the private, quick and anonymous experience of taking out a payday loan with asking for bank loan, noting that taking out an online payday loan did not involved any interactions with people, which could be difficult or uncomfortable.

[You don't have the] interrogation into your finances … [which is] humiliating

Male, Payday loan customer, London

This widespread sense of shame around being in a situation of financial desperation, and, by extension, using payday lending meant that the privacy and anonymity of online lenders was highly valued by customers, with some customers reporting a preference for an online payday lender over friends, relatives and formal credit.

Banks can be quite intrusive when they're asking you about why you want the loan, how much money you earn, what your outgoings are.

Male, Payday loan customer, London

2.4.3 Independence and control over finances

Payday loans therefore **offered more independence and control over their finances to customers**, which some found attractive. They liked that they were able to choose when they could pay back their loan, and exactly how much they could borrow. Again, this was contrasted with bank loans, which many associated with larger amounts and longer repayment conditions. The flexibility of the amount participants could borrow from payday lenders meant they could fit their borrowing exactly to their needs.

I don't like taking too much in case I can't pay it back; I don't like to be in debt.

Male, payday loan customer, London

Moreover, the control offered by early repayment options and the expectation of a short-term loan was attractive, and contrasted with what many found off-putting about bank loans – that one would have a long-term commitment to monthly repayments. In general, **payday loan customers tended to feel that a key advantage of payday loans was that that they could be paid off quickly and in one lump sum**. This was attractive to those with unstable incomes, who could not be sure they could meet a longer-term commitment, and those uncomfortable with a longer-term loan for other reasons; for example, one participant had experienced being tied into long-term repayments before and had struggled to afford other necessary expenses during that time. Some participants preferred to pay a higher interest rate in order to be debt-free sooner, rather than borrow at a lower rate but stay in debt for longer.

[I don't want] the burden of paying it off in the future … in 2 weeks time I can forget about it.

Female, Payday loan customer, London

Many payday loan customers participating in this research felt that the advantages of payday loans outlined above were highly important in their decision to choose the product – and, **although for most using the loans remained a last resort, they were willing to pay a price for the ease, simplicity and control offered by the product**.

£150 extra was [what] it cost me, but... I wanted it and I got it when I wanted it.

Female, Payday loan customer, Sheffield

2.5 Perceived disadvantages of payday lending

In addition to the concerns that payday loans may lead to dependence, and a general sense of stigma surrounding them, participants also perceived disadvantages of payday loans which were related to qualities as financial products. These were as follows:

- High interest rates; and,
- Concern about action from lenders on defaulting.

2.5.1 High interest rates

High interest rates were frequently mentioned, with most aware that the rates attached to payday loans tended to be much higher than those offered by banks. For some participants – especially those who had not taken out loans – this made them unattractive, but **for many customers high interest rates were a trade-off for the speed, privacy and control they offered**. Many of this view found the APR to be irrelevant, as they intended the loan to be short-term, and were more interested to know the 'fee' – or the amount they would pay if the loan was paid back in a month (understanding of APR and its relevance to payday loans will be discussed more fully in section 2.2).

I could get that loan and get it paid off straight away... even though the interest was a little bit higher I [could] just forget about it

Female, Payday loan customer, London

Nonetheless, many participants expressed concern that those in desperate circumstances would have no alternative but to choose such products with high rates of interest. This led to concerns around dependence, as discussed earlier in section 2.3.3.

I've heard from a few people that the interest is ridiculous, and because of the interest you end up taking out loan after loan. You come to a stage where you come to rely on that.

Female, Considered using a payday loan, London

2.5.2 Concern about action from lenders on defaulting

Moreover, **there was general concern about the actions of payday lenders if a borrower was unable to repay the loan.** Participants were fearful of what might happen: though few had an understanding of particular conditions around non-repayment, some had seen friends and relatives suffer the consequences – including bankruptcy and stress leading to health issues – of spiralling debts after non-repayment.

They're quite ruthless.

Male, Payday loan customer, London

I know some friends that have been really harassed by not paying theirs back and like until they've been ill and I've actually borrowed people money to get out.

Female, Payday loan customer, London

Some participants were also concerned that they thought that payday loan companies particularly targeted vulnerable customers, which is discussed in depth in chapter 3.

2.6 How borrowers choose payday lenders

Few participants did any research comparing lenders before they borrowed. Few compared the costs and rates of different lenders and, as discussed in section 2.4, they tended to focus on the advantages of the loan and avoid looking in detail at the risks of borrowing. Rather, participants tended to use lenders whose branding they recognised and whose reputations they trusted. Some, however, had different routes to the lender they chose.

Most people we spoke to commented on the ubiquity of advertising for payday loans, and could recall specific adverts. Wonga was especially familiar – and many participants remembered the puppets and story-lines of its adverts. For many payday loan customers, the familiarity of the brand translated into trust – meaning they were more likely to choose this lender. We discuss this issue and its implications in detail in chapter 3.1.

Participants spontaneously spoke of using such advertising as a source of certain information about payday lenders: through them most had learned that loans could be received very quickly, and were available to most people. Moreover, advertising campaigns powerfully established the brands with customers and potential customers; **participants suggested they would typically do no more than go to the lender's website after seeing an advert to look up any further information**. This was in preference to using other sources, such as comparison websites or financial advice services to explore the risks and costs of a loan (this issue is explored in more depth in chapter 3.3). Given that many did not research available companies, having one in mind was a powerful influence on borrowers' decisions; if they looked at a lender's website and found the loan product suitable for their requirements, they were likely to take out a loan on the spot. **This was because they tended to need money very quickly**, or wished to get the uncomfortable act of taking a payday loan out over with as soon as possible – which in turn affected the way they chose a lender, dissuading them from researching potential lenders in detail.

Generally I am a person that would research everything [but] I did not have the time at that point, everything was so… we needed some money, [and] I had no-one to ask.

Female, Payday loan customer, Sheffield

Others, by contrast, **relied on the recommendation of family, friends and colleagues to choose a lender**. Advocacy was a powerful influence on deciding to use payday lender: one participant was introduced to Wonga by her mother, who was given a £20 reward by the company for doing so; another took the recommendation of colleagues to use QuickQuid. One participant who had used a payday loan to fund a holiday was sat at the computer with a friend who suggested he get the loan, recommended Wonga, and sat with him as he took it out.

Only a small number of participants had looked on the internet to find the best value payday loan. As an example, one told us he had used websites that ranked companies by which charged the least in interest in fees, or what their 'rate' was.

The rate is most important [thing].

Male, Payday loan customer, London

Further, he would look at forums to gain a consumer's perspective on dealing with the company. This sort of research was atypical, however; only a few participants reported having checked one or two websites of brands they knew, and many said these were around the same price and others reported that they would find it difficult to understand comparisons generally.

Any way they'd compare it would probably confuse me, to be honest.

Female, Payday loan customer, London

Payday loan customers did not expect to see information about the risks and costs of lending on adverts, but they did expect to find full information about these issues on lender websites. On prompting, **most participants reported that the most important information they searched for on a website was the cost of the loan**. Obtaining this information was their priority.

I always want to know how much I have to pay back, if I take out a loan, how much do I have to pay back.

Female, Payday loan customer, London

For customers, **it was critical that the website was 'honest' in communicating the costs of the loan** – and by this they typically meant that the **'total cost to credit' was easy for them to understand as quickly as possible**.

It's honest information – giving you an example of what you'll pay back … You can check and put different amounts in.

Female, Considered using payday loan, London

However, **customers were less concerned at using websites to investigate the risks around using a lender, including the consequences of delaying or renewing repayment**. This was because they typically believed that these scenarios would not apply to them, and that they personally would have the discipline to repay a loan.

I don't think any of us here would take out a loan if we didn't think we could pay it back.

Female, Payday loan customer, London

None of the participants spontaneously mentioned that they had used websites to find out such information, and although most payday loan customers had used websites to find out information about the cost of their loans, most admitted that they did not know what exactly would happen if they delayed or renewed their loan.

Further, **it was vital to customers that the websites were quick and easy to use** – hence they disliked websites where it was difficult for them to understand how much they needed to pay or were asked to consider figures which they might find confusing. Speed and ease of use also translated into advocacy.

Somebody told me that Wonga was the easiest.

Female, Payday loan customer, London

2.7 Awareness of payday lending conditions

Participants displayed various levels of awareness of the conditions attached to payday loans but, **generally, awareness of the specific conditions was very low**. To some extent, this seemed to be a product of the situations in which people turned to payday loans. When desperate for money – without support from friends or family, and with bank credit either too slow or not available – many participants told us they would not think about the conditions attached, and be glad to have that source of money.

I never really look into it that much, I just do it when I'm really desperate... when you're desperate, you don't really think too much about it.

Male, Payday loan customer, London

Predominantly, **participants understood payday loans to be for a small amount of money and for a short time period**. For some customers of payday loans, they were viewed as an advance on their wages, which came with a fee for early access. Accordingly, most also understood that repaying at the agreed time – usually when paid their salary – was their key responsibility in taking out the loan, and many customers reported that they would not have considered using them as longer-term credit. Typically, **those who viewed loans in this way had not investigated what would happen if they could not repay the loan as they did not feel this was a situation which applied to them**.

I feel like for payday loans I don't need to know about [terms and conditions]... I don't feel like there's any long-term implications, so I don't mind not knowing what this word means and what that word means, because I know that in a week or two weeks I can just forget about it.

Female, Payday loan customer, London

Only a very few customers in this research had extended their loans, although it is possible that others in the research had also done so, but were unwilling to admit to their situation in the group discussions (see section 1.3 on 'social desirability bias'). One such participant had extended his loan by agreeing a longer-term repayment plan with his lender at a higher rate than originally paid, and was happy with the option offered because it offered a solution to the problem of his defaulting on the loan.

We set up a deal...and it went on for a bit longer but I had to pay quite a lot more interest... but I was quite pleased at the time, because I was a bit stressed about it all.

Male, Payday loan customer, London

A few who had been unable to repay on time, however, had not agreed with the lender to extend the loan and thereby breached the terms of the contract: one participant had experienced bailiffs collecting a debt to a payday loan company, whilst another was ignoring letters from her lender.

Where specific conditions were concerned, APRs presented a particular difficulty to many people we spoke to. Whilst most recognised they had something to do with interest rates, few understood any more than this or could explain the implications of a high APR. For some participants this was due to a lack of numerical skills and the presentation of the APR figure, which they found confusing.

I thought percentages are out of a hundred… so straight away I'm completely confused by 1300%

Male, Payday loan customer, London

In addition to a lack of knowledge and skill, APRs were difficult for many to understand as many **conceptualised the additional cost attached to payday loans as a 'fee' rather than an interest rate** – considering only whether they could afford the amount they needed to pay back, rather than whether the product was offered at a competitive rate. This links to the difficulties participants reported experiencing in making comparisons between lenders, noted in section 2.4. Simplicity was crucial – hence one participant suggested that if percentages were to be used to communicate repayment rates, they needed to be simple, rather than using APR, which people found hard to understand and compare.

They should say whatever you borrow, you pay 10% back, so you could work it out, and you think if I borrow £30, I've got to pay back an extra £3 on top.

Male, Payday loan customer, London

Of those who knew an APR represented rates over a year, many found it irrelevant to what they felt they needed to know about the loan, which was the exact cost of a short-term loan. And for a few participants, a deeper understanding of APR was not off-putting with regard to what payday lenders were offering.

I looked to it a bit more – the way I thought was – seems like 6000% but that's over a year. It would be the same if you rented a DVD.

Male, Considered using a payday loan, Sheffield

Few interviewed had heard of Continuous Payment Authorities. When these were explained, most found them a worrying feature of payday loans, and were surprised it was permitted.

I don't think I like the sound they can just take your money without your permission … I would be worried even if I paid them off they'd still be taking money from me.

Female, Considered using a payday loan, London

Similarly, and as discussed above, many participants were unsure what would happen if they didn't pay back a payday loan. Some felt comfortable in not having this knowledge because they could and would pay back their loan on payday; such people typically thought of payday lending as an advance on their payday, as described above. Others, however, had not tried to find out because they knew or suspected they couldn't pay the loan back, and were frightened about what they would find.

Whilst most participants lacked clarity about exactly what would happen if a loan was not repaid at the agreed time, most understood that charges would increase if the loan was not paid. The very small number who admitted that they had experienced problems repaying were no different, rather they struggled to make their payments for reasons of constrained budgets (in one case due to waiting for welfare payments), or potentially due to lower levels of financial capability – although this is unclear from the data in this study due to sufficiency of evidence. Some thought interest rates would be increased, whilst others assumed the agreed interest rate, or ‘fee’, would double as they entered a second month of borrowing. Others expected that the lender would offer a further, expensive loan; which contributed to some participants’ fears that a cycle of dependence could develop.

Although some participants drew on friends’ or relatives’ experiences of non-repayment – as described above – to help them understand how to use payday loans, most participants seemed to dissociate themselves with what could go wrong with this type of lending. As might be expected then, awareness of available advice and how to complain about a lender was very low.

I know there are people that aren’t aware that there are advice things. A lot of people, they’re not aware that there is help out there.

Female, Payday loan customer, Sheffield

Some thought that the loan company itself would be a suitable first line for complaints, despite others’ worries that lenders were ‘ruthless’ with those who could not pay. Furthermore, in general, there was strong disapproval that payday loans companies were apparently offering loans to those with poor credit history or who had had trouble with debts in the past, though this was primarily a concern with the industry itself rather than the advertising around it.

But straight away they’re flashing up ‘no credit checks even if you’ve got CCJs ... no quibble, come to us and we’ll help you’. It just seems to be attractive. Especially to the vulnerable.

Female, Considered using payday loan, Sheffield

2.8 Conclusion

Payday loans meant many people we spoke to – or their families – did not have to go without essential items like food, heating, and a car[16]. **Whilst most recognised that payday loans were expensive credit, customers were either driven by a desperate need for money and the unavailability of other options**, **or found the product – simple, fast, anonymous credit – worth the price**. What was most important about the loan varied depending on participants’ situations: some were keen to avoid long-term commitment, and others appreciated payday loans as their only available option. But almost all were in serious immediate need of credit, and their decisions on whether to turn to a payday loan were shaped by what alternatives were available to them through formal or informal credit, and the level of ability they had in managing their finances to meet their ongoing needs.

In general, awareness of the specific risks linked to payday lending was very low. Many participants were **concerned that people in desperate need were vulnerable to the potentially risky conditions attached to payday loans**, however. They felt that in such a situation they – and others – would be unlikely to pay attention to the risks and conditions of a payday loan.

16 http://www.jrf.org.uk/publications/MIS-2013

3. Views on payday advertising

CHAPTER SUMMARY

a. Awareness of payday lending advertising

- All participants were aware of payday loan advertising and had seen many different examples of it. Participants mentioned television adverts spontaneously most often – particularly on daytime television – but a minority also mentioned that they had seen adverts via email.
- Wonga was the television advert that was most commonly recalled due to its reported ubiquity, although a few participants were also aware of the Quickquid campaign, and a few remembered the Kerry Katona ‘Cashlady’ advert, although not the name of the lender.
- As well as the adverts themselves, many had seen payday lending shop signs in their local high street.
- There was a strong feeling that payday lending advertising was difficult to avoid on television, but, with the exceptions of the brand leader, Wonga, there was very little to differentiate lenders from each other.

b. Views on the positioning of payday lending advertising

- In general, participants were highly concerned about the effect of payday advertising on vulnerable people. There was a strong feeling among participants that the adverts were more prevalent on daytime television, and there was widespread disapproval that the adverts were thought to be targeted at those out of work and short of money.
- Many participants were also concerned that payday lenders seemed to be concentrating their operations in deprived neighbourhoods.

c. Views on messages in payday lending advertising

- Thinking as consumers, customers and potential customers were relatively disinclined to engage with information about the risk and costs of lending in advertising material, and did not expect this information from adverts.
- Adverts which disassociated payday lending with its negative connotations – specifically being desperate for money – and sold the product to customers less aggressively were more successful with customers, with Wonga being the most notable example.
- Many participants also felt uncomfortable with an expression of the risks and costs of lending in adverts which contained percentages and figures. This was because information about the risks and costs made them feel uncomfortable about taking the loan, but also because they lacked confidence in understanding what the figures meant.

- Participants preferred to seek information about risks and costs of taking a loan on websites, but nonetheless, they were less well-disposed to sites which made this information seem complicated or made it difficult to access. Their primary concern before taking a loan was to establish the relevant total cost to credit; websites which made this easy to do were strongly advocated.

In this chapter we will move beyond participants' experience of payday lending to explore their views on the advertising produced by the industry, as well as general views of payday loan advertising across a range of media. We will also present reactions to specific adverts and payday lender websites.

This chapter therefore covers the following sections:

- Awareness of payday lending advertising;
- Views on the positioning of payday lending advertising;
- Views on messages in payday lending advertising;
- Views on specific payday lending adverts; and,
- Views on specific websites.

As noted earlier in this report, when responding to payday lending advertising, participants gave their views from two distinct perspectives: as 'citizens', considering the wider context of payday lending on society as a whole, and as 'consumers', considering taking out a payday loan themselves. We explain the reasons for this in depth in section 1.4.

As citizens, they responded in terms of the potential for the adverts to be misleading (for instance by not making the risks associated with and the costs attached to payday lending clear). As consumers, they responded in terms of the key features which stood out for them where the advert was concerned. In general, those who had only considered a loan tended to respond as citizens initially, while those who had taken out a loan tended to respond as consumers, however, most participants moved between the two viewpoints at different times in the interviews or groups.

3.1 Awareness of payday loan advertising

All participants were aware of payday loan advertising and had seen many different examples of it. Participants mentioned television adverts spontaneously most often – particularly on daytime television – but a minority also mentioned that they had seen adverts sent via email. Some had been sent adverts through text messages and found this technique particularly annoying and invasive because they did not welcome unsolicited emails and texts to personal mobile numbers and email addresses. Wonga was the television advert that was most commonly recalled due to its reported ubiquity; although a few participants were also aware of the Quickquid campaign, and a few remembered the Kerry Katona 'Cashlady' advert, which was noted and recalled because she was a widely-known celebrity.   However, it was felt that Kerry Katona was an inappropriate spokesperson for a financial product because she had been declared bankrupt. As a result participants did not consider the lender seriously – nor were they able to remember its name.

As well as the adverts themselves, **many had seen payday lending shop signs in their local high street**. Such recollection was less common amongst Sheffield respondents, though most were aware of The Money Shop's local presence. In London, Speedy Cash was frequently cited, and many had also seen smaller payday lenders on the high street but could not recall their names. Others recalled payday lending that was available in some pawnbrokers.

There was a strong feeling that payday lending advertising was difficult to avoid on television, but, **with the exceptions of the brand leader, Wonga, there was very little to differentiate lenders from each other.** This was because the ubiquity and distinctiveness of Wonga's advertising campaign meant that the brand was well established in consumers' consciousness, which also meant that participants considered it very differently to other lenders.

Wonga's advertising campaign made it distinct from any other lender

Most participants were aware of Wonga's large-scale and multi-channel advertising campaign, and its market presence reinforced it in participants' minds as a brand leader.   Several commented that they believed that if Wonga had the resources for such a campaign they were most likely to be trustworthy, and potentially more so than other lenders – so much so that a few participants in Sheffield believed them to be a mainstream lender, akin to a high-street bank.

[The TV ads] make them more plausible as a company … a company on the internet could be anyone

Female, Payday loan customer, London

Their [Wonga's] APR is horrendous, but because of their reputation that's what drew me in, I just thought, yes, OK, I'll go with them.

Female, Payday loan customer, London

Most participants therefore accepted that the Wonga campaign was an entertainment for potential customers which created awareness and contributed to the brand's profile. The diverting nature of the adverts and the well-established brand left participants reassured about the company and feeling positive about their offer.   Where in general participants held negative perceptions of payday lenders, Wonga was considered to be fun and friendly.

3.2 Views on payday lending adverts channels and positioning

In general, participants were highly concerned about the effect of payday advertising on 'vulnerable' people. Their concerns were specifically about those with the lowest incomes who might be unable to repay loans, and those with least understanding of the consequences of payday lending, possibly as a result of low educational attainment. There were widespread concerns that the industry was creating debt amongst these groups, and, furthermore, that this would increase the risk of dependency on payday loans among vulnerable groups.

As a result, participants typically felt that the channels and positioning of payday lending advertising were often inappropriate. **There was a strong feeling among participants that the adverts were more prevalent on daytime television**, and there was widespread disapproval that the adverts were thought to be targeted at those out of work and short of money. As an example, one participant had seen them most prominently on a dedicated racing channel;

I like horse racing – they are constantly on [the racing channel] literally all the time there. Can see people who have just lost hundreds are tempted to ring straight away and have it within minutes. Which is bad, if you've got addictive gamblers – and that's where the ad is where you don't need a credit rating.

Male, Considered using payday loan, Sheffield

For these reasons, for some participants, particularly those who had not used payday loans, advertising payday loans was similar to advertising gambling or drugs in placing a temptation in front of those who might consider taking the opportunity, without explaining the consequences clearly. So, for some people payday loans were seen as bad rather than of value (in terms of speed and convenience). In contrast many of the participants had described the benefits of payday loans to them.

[The adverts] are almost like putting drugs in front of a drug addict.

Male, Considered using a payday loan, London

Many participants were also concerned that payday lenders seemed to be concentrating their operations in deprived neighbourhoods. Some London participants had seen or been approached by the Speedy Cash kangaroo character outside their office in Brixton or in Shepherd's Bush, which they found invasive and inappropriately trivial given that the product promoted was a financial one with attendant risks. They, and participants in Sheffield who had seen branches of the Money Shop opening up, were aware that their high street presence was in less affluent areas, and were annoyed to see this targeted approach.

Again it's the areas that they target, these [lenders] they're not stupid, they target sort of deprived areas, like this is in Brixton, you know, I don't know if Brixton's like that, but they do tend to target those type of areas.

Male, Payday loan customer, London

3.3 Views on messages in payday lending advertising

Adverts recalled from television fell into two main broad types: those which participants were comfortable with and tended to enjoy – specifically Wonga's television campaign – and those, which had a tendency to put them off using the lender, or made them feel uncomfortable. Wonga's television adverts featuring the puppets were, in general, the only ones that participants were comfortable with, whereas those of the other companies were typically disliked. As this section explains in detail, this was because Wonga's adverts tended to focus on the softer and more positive aspects of payday lending and did not overtly sell the product to customers, whereas other lenders tended to use a harder selling approach, and suggested images which related to financial hardship. In this section we present findings on the following types of messages:

- Using entertainment to reinforce brand identity;
- Presenting financial need as a reason for taking a loan;
- Emphasising speed and simplicity; and,
- Presenting information on risks and costs of loan.

3.3.1 Using entertainment to reinforce brand identity

Participants typically reported that they enjoyed Wonga's television advertising. They specifically recalled the three 'Wongie' puppet characters who portray elderly employees of Wonga. They also recalled their youthful behaviour, for example listening to dance music and riding round on skateboards. **Wonga's advertising was therefore perceived to be much more light-hearted, entertaining and diverting that those of other lenders.** This was because of the playful nature of the adverts was perceived to be different from other campaigns which showed real life situations with actors playing the part of those in financial trouble.

It [Wonga campaign] seems quite harmless, doesn't it...very light-hearted, so it does draw you in.

Female, Payday loan customer, London

It reminds me of the Dolmio ads [with the puppets].

Male, Considered using payday loan, Sheffield

Nonetheless, several participants, drawn from across a range of circumstances and age groups, found Wonga's television campaign irritating rather than entertaining. Despite this, they tended not to dislike the lender on this basis as they believed that 'being annoying' was the objective of the advert, as it is for other adverts, such as, for example, gocompare's advertising campaign.

Wonga, it's very catchy, you can't not get it. They sell it really friendly.

Male, Payday loan customer, London

Wonga adverts were also perceived to be less pushy than those of other lenders, with fewer 'selling' messages contained within the advert.   On exploring the issue, participants recalled that key messages about the product were conveyed – such as the flexibility of the loan and the simplicity of the 'sliders' – but only obliquely, as the adverts were felt to consist mainly of light-hearted characterisation. Participants felt that, by extension, this communicated the impression of an organisation that was not desperate for custom, thus enhancing its trustworthiness.   None of the participants in the research felt concerned that Wonga was attempting to conceal the risks and costs by not adding this information to their campaigns as they primarily saw the adverts as a diversion.

3.3.2 Presenting financial need as a reason for taking a loan

Generally, participants commented that these adverts produced by other lenders other than Wonga tended to feature people in their homes trying to balance their finances, with a voiceover encouraging those watching to consider a payday loan. Such adverts were felt to be an attempt at a realistic portrayal of people trying to manage their finances, though some did feel that either the actors or the settings were a little idealised, and possibly middle-class in order to make those considering payday lending feel that the need to do so was widespread, and did not affect only the poorest in society. Participants were less positive and receptive to these adverts. This was linked to general feelings of shame around choosing payday lending, as discussed in chapter 2 – such adverts brought home the reality of the situation, which was what participants hoped to avoid confronting.

It's usually a woman sat at a kitchen table with a list with crosses next to it.

Male, Considered using payday loan, Sheffield

You always see people in their homes on the adverts. Because people think 'oh well, that must be me'.

Female, Considered using payday loan, London

None of the participants reported that such adverts encouraged them to find out more about the lenders, and many of those who had considered doing so felt that such adverts acted as a deterrent. Given the broader context of the earlier discussion on attitudes to payday lending (see section 2.3), it is likely that they felt **uncomfortable with the images of householders struggling with their finances, as they preferred not to be reminded of their own difficulties** so starkly – rather they preferred to be diverted by adverts and hence tended to choose Wonga, the only lender which reassured them and legitimised their choices.

3.3.3 Emphasising speed and simplicity

In chapter 2 we discussed the **importance of immediate access to finance and ease of application to customers and potential customers**. Given these priorities, adverts which communicated these qualities were viewed favourably or reportedly afforded more attention by participants. As an example, the emphasis on the simplicity in the Wonga adverts seemed to chime with the needs of customers; many said that these were the features of the loan that they were looking for. This was emphasised in the adverts in a ‘soft’ way, through demonstrating the simplicity of accessing the loan through using puppets of elderly people, or speed through comic portrayals of the elderly puppets on skateboards.

They’ve got three old people haven’t they on the advert and if old people can sort it out, I feel I’ll be able to do anything so that’s how it kind of thinks that I must be lazy

Male, Payday loan customer, London

3.3.4 Presenting information on risks and costs of loan

Initially, participants were typically unconcerned about the low level of information in payday loan advertising included on the risk and costs of taking a loan. As discussed in chapter 2.2, most felt that the risks and costs in taking a payday loan were implicit, and only on prompting and extensive discussion did those participants who were payday loan customers consider the role of adverts in presenting this type of information. They tended to see payday lending advertising as a *signpost* to more detailed information, which they expected to find on a lender’s website.

If I wanted more information about how much I would pay … I’d look on the website.

Female, Payday loan customer, London

Given this expectation, many participants also expressed a tacit acceptance that payday lending was a competitive market, hence it was acceptable not to include information about the risks and costs of taking out a loan in adverts.

They’d never get sales if they showed the downside.

Male, Considered using payday loan, Sheffield

Furthermore, one of the reasons that participants were so positive about Wonga adverts was because they had not seen anything in the adverts to make them concerned about taking out a loan.

It’s so straightforward, it just looks so simple … They just say the positives don’t they?

Female, Payday loan customer, London

Many commented on how quickly information was typically spoken or conveyed in most payday lending adverts. Participants noted that details of the terms and conditions were shown or recited at speed, or in small print at the bottom of the screen or page in printed adverts. **This generated strong distrust of the adverts**, with some feeling that conditions were being disguised or badly communicated and hence were less transparent, and others feeling that the information was a distraction from presenting the advantages of the loan.

Basically get people to talk really quick. And you see all these things across the bottom which are bad parts, with someone distracting you from that by talking quickly about the good parts.

Male, Considered using payday loan, Sheffield

The presence of APR information and 'small print' was more associated with a 'typical' payday lending advert, and most felt that this was a deterrent to taking out a payday loan with that particular organisation: the detail was off-putting and confusing.

Texts and percentages confuse me … it makes it seem more difficult

Female, Payday loan customer, London

Equally, few understood what the detail on financial conditions would mean for them. Therefore, although the presence of a four figure APR percentage (where shown) at the bottom of the screen served as a reminder to some of the potential risks of payday lending, it was not easy for many to understand, and some found it off-putting rather than informative.

3.4 Views on specific payday lending adverts

Across the groups and depths, four specific adverts were tested in depth in all discussions. These were one radio advert, one television advert, a flyer and an advert sent via email. The order was rotated across the discussions. These adverts were selected to present a cross-section of media to participants, and were chosen in collaboration with BIS. The findings on views of each of the adverts are structured around three key issues:

- Perception of brand
- Consumer impact/ call to action
- Information on risks and costs

Where possible, we have tried to present the difference in view between payday loan customers and those who were only considering a payday loan. In addition, it is worth noting that social acceptability bias was an important factor in the reception of some the adverts when presented in the groups as the discussion progressed – for example, when a few participants expressed strong disapproval of an advert, it became harder for others to report that they found it appealing and might be interested in its messages. The findings presented here is from groups and depth interviews, with data triangulated to address the weaknesses outlined.

Advert 1 – Quickquid television advert[17]

Perception of brand

For many, this was a 'typical' advert for a payday lender, with a quickly spoken voiceover suggesting that "sometimes a pay cheque does not last until the end of the month". This sentiment resonated with many, but as the advert did not feature any characters, rather images of arrows and clocks appearing and disappearing, they tended to find it less engaging than the Wonga adverts. Several customers therefore found this advert too serious for their tastes as consumers and dismissed it quickly, restating their preference for adverts that are light-hearted and distracting.

Quick Quid is too formal …Too much information at once. Not enough personality.

Female, Payday Loan customer, Sheffield

Furthermore, for most, the rapidly-moving visuals were off-putting, which created suspicion among some that the advert was deliberately difficult to understand so as to trick consumers, and which others simply found confusing. For example, some found the 25% discount, which was mentioned in both the main advert and the small print, difficult to understand and were unsure what this would mean for any application that they might make.

It's very simple and then obviously offering you 25% if you put a code in, that's like a further discount off. Is that off that year, the APR, 25%?.. I don't fully understand that 25%.

Female, Payday Loan customer, Sheffield

Consumer impact/ call to action

For existing payday loan customers, the clear messages that the product was both fast and easy to use in the advert were important, given their own requirements for a product that was both short-term and available immediately. This view was most typically expressed by those who had taken out a payday loan in the past and found these to be the key advantages of using such a product.

17 http://www.youtube.com/watch?v=fzXqE-thJfI

It's spot on. I need money, I'm searching for somebody who can lend me £150, I see that …it's straight to the point, I'm fine with it … Money in your bank account in 10 minutes.

Male, Payday Loan customer, London

Others who were not existing loan customers tended to be put off this advert by their perception of the advert as containing too much detailed information and therefore being confusing to follow.

Information on risks and costs

Participants who were not payday loan customers generally tended to feel that the lack of full information about the risks and costs of the loan was problematic, although they were pleased to see the APR displayed throughout. This was because it signified that some care had been taken over protecting the customer, even though many participants, as discussed, did not understand what was meant by APR. Broadly speaking though, they disapproved of the brash tone of the advert, which was fast-moving visually with a loud commentary, because they felt it sold the product too aggressively.

They're very loud and it's very fast, it's a fast advert, this is how quick it can happen for you.

Female, Payday Loan customer, Sheffield

Payday loan customers who were more receptive to its messages were not looking for information about risks and costs in the advert, and only on prompting or after considerable reflection did they realise that the advert contained relevant information about the costs.

Only if people do pay attention did I notice that the APR was every single [moment], it was there constantly.

Female, Payday Loan customer, London

It doesn't tell you how much you've got to pay back as long as you keep it within the day does it, you know what I mean or whatever it is, the limit.

Male, Payday Loan customer, London

None were concerned about the lack of information in the advert about what would happen if they needed to renew or delay payment – as discussed earlier in this chapter, participants tended to see advertising as a signpost to accessing further information about the risks and costs, if they wanted to face these issues at all.

Advert 2 – Wonga radio advert[18]

Perception of brand

Several participants had already heard this advert, a spoof of the 1950s song 'Mr Sandman'. It was described variously as irritating and addictive, with comparisons made to the 'Go Compare' opera singer adverts, but it also confirmed the view that Wonga is a light hearted, approachable organisation. Any irritation was directed at the advert itself rather than the organisation, and most understood that the advert was not a direct call to action, but a way of establishing recognition of the Wonga brand

I like it when they write songs … I find it quite clever. It's annoying. You don't know it's about loans; it draws you in … and I wouldn't listen to the words anyway.

Female, Payday Loan customer, London

Consumer impact/ call to action

None of the participants who were presented with the advert reported that they would respond to its messages by taking out a payday loan, or even, consciously, considering doing so. As discussed in section 3.3.1, they rather saw the advert as an opportunity for Wonga to reinforce their brand identity, and entertain their audience – although, on some reflection, some participants were concerned about the 'soft-selling' approach of the advert, given that the risks of the loan were not presented.

They just say the positives, don't they?

Female, Payday Loan customer, London

Information on risks and costs

As discussed in chapter 2, participants did not expect this type of advert to contain information about the terms, conditions, risk and costs of payday lending – rather they expected it to entertain them, and if they were interested in the loan they would find relevant information about these issues on the Wonga website. The response to this advert demonstrated the difference between participants' perception of Wonga and other brands: they tended to already know and trust Wonga, hence did not expect to be informed, rather diverted instead. Given the widespread brand familiarity, participants were also more comfortable with Wonga providing less information to them and simply entertaining them or reinforcing brand awareness.

18 http://www.youtube.com/watch?v=yxdbu8b4ITk

They’ve done a good job of planting a seed into your head though ‘cause it’s a catchy song.

Female, Payday Loan customer, London

When reflecting on the advert as ‘citizens’, however, they were surprised at the lack of information on these issues, and began to consider whether this was inappropriate, or even potentially irresponsible. Participants tended to consider the ‘citizen’ viewpoint about the Wonga adverts only when challenged about them directly, and asked whether the adverts contained sufficient information about the risks and costs.

Whereas Halifax might say ‘we’ve got 2 per cent interest, come here!’ you would never hear Wonga say that… they tend to think of us being a bit plebian… there’s no consequences.

Female, Considered using payday loan, London

More generally, and when unchallenged on this point, they tended to be content that the Wonga adverts did not contain information about the risks and costs – which was because, to some extent, they perceived the brand and the company as different from other lenders (as noted in section 3.2) and did not see the adverts as selling them a loan, rather offering entertainment.

Advert 3 – Ferratum email

Perception of brand

This was shown as an example of an advert that might be sent, unsolicited, via email. In general, participants across the research were wary of being approached about a payday loan in this way, preferring instead to choose a more established brand. Most, therefore, were not predisposed to choosing to use Ferratum regardless of the content of the advert: unsolicited emails were felt to be less trustworthy in general. This was because they did not know the origin of the emails, or have a sense of the reliability or the trustworthiness of the company behind the emails.

I don’t think I’d go for somebody that targeted me I get texts and I get emails and things and I just completely ignore every single one

Female, Payday loan customer, London

However, some participants felt that the design was a little bland and did not stand out, stating that the advert was reminiscent of insurance or medical organisations.

They also noted that the production values, such as the amount of money spent on the design of the advert, for the advert seemed low, which, as discussed in chapter 2, reduced their trust in the lender. Participants also felt that the advert looked similar to many other ‘spam’ emails from untrustworthy sources.

That’s spot cream ... more like medical private insurance ... it’s from a website template – cheap software – someone in a back bedroom can knock that together.

Payday Loan customers, Sheffield

For others, the advert looked professionally produced and they felt that the lender did not look “desperate” for their custom – once again demonstrating the general preference for “soft” selling of these types of products. However, participants who expressed this view reported that they would not choose Ferratum for a payday loan as they did not generally trust the unsolicited email channel for the advertisement.

Consumer impact/ call to action

Participants were wary about clicking on ‘Apply Now’ button – they were concerned that this would commit them in some way, or open them to the possibility of receiving email spam. Nonetheless, payday loan customers felt that the model used in the email made them feel at ease; firstly because she was considered to be attractive and unstressed which made the advert enjoyable to look at and reassuring, and, secondly, she was thought to look young and like a student who was considering taking out a loan, rather than someone who was in desperate need of money.

For the few customers who were receptive to this advert, the key messages were that the application could be completed in “2 minutes”, and hence was simple and quick. Further, that the advert made it clear that the company offered loans for small amounts of money appealed as typical payday loan customers were not interested in borrowing large amounts.
It was therefore important that payday loans met their expectations of being for short-term credit – those who had taken out loans were uncomfortable both with large amounts of credit being offered, or long-term loans. For some, this worked in Ferratum’s favour – they were positive about the small loan offer (under £300) it was making.

I feel like I could get that and pay it back straight away.

Female, Considered using payday loan, London

For others, though, Ferratum’s 45-day offer was off-putting: this signalled a loan which would go on for longer than they would be comfortable with.

For payday as loans, I take it as within the month, 45 days is stretching it now … so I wouldn’t go for this.

Female, Payday loan customer, London

Information on risks and costs

As discussed in chapter 2, participants were concerned about the general risks and costs of payday loans, but tended to be ill-informed about the specific difficulties they might face when they took out a loan. Given this, some participants did not notice that there was no information about repayment rates on the advert, but, as discussed in chapter 2, did not expect to find information about loans in adverts, rather expected to find out how much the loan would cost them once they visited the website for the lender. However, there was concern that the advert was concealing relevant information about the risks and costs of the advert from the consumer, which created suspicion.

They should enlarge the font. It's almost like they don't want people to see that and the revolving credit facility [is confusing].

Female, Payday loan customer, London

Further, participants who had not taken out loans noted that there was no information about APR or the terms of the loan in the text, and little information about the risks of taking out the loan. Payday loan customers were also concerned about the lack of information about the costs of the loan.

It doesn't tell how much you've got to pay back does it?

Male, Payday loan customer, London

Advert 4 – Speedy Cash leaflet

Perception of brand

Overall this was the most negatively received of all the adverts that were shown. The key objection to it was that the 'neon light' visuals in the advert were reminiscent of a fast food takeaway or nightclub, and suggested a down market tone. For some, this created an impression that such shops were open very late at night, and therefore may be frequented by those who were drunk or very desperate for money. It was felt that the advert was intended to appeal to students, or to more vulnerable people, and participants disapproved of this approach from lenders.

It looks like a pizza delivery place.

Male, Payday Loan customer, Sheffield

Looks like it's going for council estates... A lower socio-economic …Simple, garish, obvious.

Male, Considered using payday Loan, Sheffield

Some participants had encountered Speedy Cash in deprived areas of their neighbourhoods, which compounded these perceptions, and added to the concern that the advert was aimed at people who might not have a choice of credit options.

Participants were uncomfortable with the offer of an interest-free loan which seemed disingenuous, and many were cynical about the inclusion of the line 'Seriously, no strings attached'. This raised suspicion and damaged their trust in the lender because they felt it too good to be true, and, as such, most took an instant dislike to the brand.

I think that's a bit patronising isn't it, seriously no strings attached. Who are they trying to fool?

Male, Payday Loan customer, London

I wouldn't go for it, 'cause nothing comes for free in this day and age, so there must be a catch

Male, Payday Loan customer, London

Consumer impact/ call to action

Most participants reported that the leaflet would have no impact on their considering taking out a payday loan. It was only on reflection that participants realised that it was publicising an introductory offer. Though many felt that there would still be a hidden catch, a few payday loan customers in both London and Sheffield were interested in what Speedy Cash had to offer and admitted that they might take advantage of the loan. These customers tended to have a strong belief that they had the discipline to repay the loan on time.

I'd use this, if it was telling me £200 for 30 days and I don't pay any interest, I'd go and use it then, I'd do it for 30 days and then I'd pay it back.

Male, Payday Loan customer, London

Information on risks and costs

Given the strong disapproval around this advert more generally – due to the perception that it was targeted at vulnerable groups – many of those who were not payday loan customers and some of those who were, were pleased to see that information about costs had been included. Most, however, disliked the small print in the white box and felt that everything should be the same font size, to avoid the perception that there were hidden catches. Several participants also commented that the cost text on the flyer had been deliberately faded, making it hard to read, which also damaged their confidence in the lender. This fed into suspicions that the style of the advert had aroused, and some participants were concerned that the interest free loan offered was an attempt to entice vulnerable people into becoming reliant.

I just don't believe what their advert is saying....I would say they're lying to me... nothing is at 0%....I think they're trying to entice me to get hooked.

Female, Considered using payday loan, London

For the majority of payday loan customers who admitted strong aversion to seeing detailed information about the financial risks of taking a loan, the use of the white box including details on the costs and risk of taking the loan reminded them of the presentation of costs which might be used by a more mainstream lender. This also served to put them off as they did not want to take on a loan which resembled a mainstream loan in either length or amount.

3.5 Views on specific websites

As discussed in Chapter 2, **most payday lending customers in the research had arranged their loans online** (as discussed in chapter 2.3) as this was considered to be the easiest, fastest and most private way to access a loan. Nonetheless, few reported that they had shopped around between different lenders; most either decided that they would use the lender they had decided upon because it was trusted or advocated by a friend, or, having entered the search term 'payday loan', settled on the first lender that they came across as they assumed that the rates would be the same wherever they went (as discussed in Chapter 2.5). Websites were important to participants, and it was **widely reported that they would expect to look to websites as a source of information about the risks and costs of loans**, often looking at the 'information' or 'FAQs' before taking out a loan.

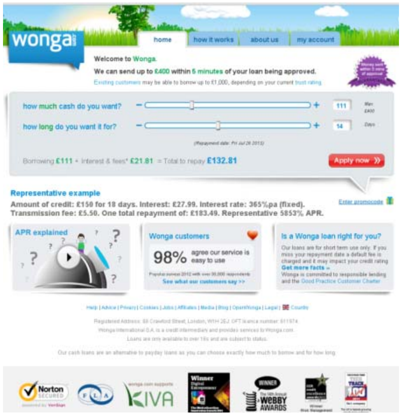
I'd want to go to the questions first [on a website]

Female, Payday loan customer, London

Given these considerations, in this section we discuss in detail participants' views on three websites demonstrated to them in the discussion groups and interviews.

www.wonga.com

Perception of brand/ consumer impact



The webpage was thought to look professional and therefore trustworthy through its clean and uncluttered homepage design. Participants mentioned that **simplicity and clarity** were important components of payday lender website and, indeed, were key criteria which participants used when deciding to take out a loan or not. Given this, the Wonga website was viewed very positively, as the sliders at the top of the page were thought to provide clarity about the charges that apply depending on the amount of the loan and were felt to be very easy to use. **Participants liked the fact that the sliders were on the homepage, meaning that they could calculate their total cost to credit as soon as they entered the site**, and could tailor the loan to meet their needs in terms of finance and loan period required

Information on risks and costs

There was also particular positivity towards how the landing page signposts information that customers may have questions about. This was because participants felt that this demonstrated transparency from the lender, which fuelled perceptions that Wonga was a trustworthy brand.

I don't have a clue what it means, but I like the bit that says "APR explained".

Female, Payday loan customer, Sheffield

It *is* transparent. You can say they prey on the vulnerable, but the information is there.

Male, Considered using payday Loan, Sheffield

Some participants picked up on the 'kite marks' at the bottom of the page enhancing the reputation of the organisation, despite only two of the certifications relating specifically to finance, and others relating to the website itself.

Looks accredited by charter mark scheme even if they're not real…. [although it's] awards they've won

Male, Considered using payday Loan, Sheffield

www.wagedayadvance.co.uk

Perception of brand/ consumer impact

In contrast to the 'Wonga' site, the 'WageDayAdvance' site was felt to contain too much information on its landing page. Participants were confused by this and did not know which section to read first. This was generally off-putting: participants found the website too busy with a lot of sections vying for the customer's attention. They typically found the colours used bright and ostentatious, and, although the site had

kite marks, as with Wonga, the overall impression was of a lender which they were less likely to trust with their details due to the confusing impression it left.

M: I wouldn't trust the website.
F: There's too much on there.

Male/ Female, Payday Loan customers, London

As discussed, understanding the total cost of credit was the priority, and on this website it took a while for them to see the slider on the left hand side of the page, so they were less keen on it. Participants agreed that the site should try to streamline the information, or move it on to separate pages. In general, **the slider was the most important thing for customers so they advocated sites where these were evident**. Here, although there was a lot of information on the site, once the slider was located this was reassuring.

You pay back £328, so it's there immediately, so you're a lot more aware of what you're letting yourself in for, for something like that.

Female, Payday Loan customer, Sheffield

Information on risks and costs

On prompting, payday loan customers felt that the information on the website could be useful and would be likely to explain the risks of taking out the loan. As consumers they felt the information seemed too detailed, especially when compared to Wonga, and was perceived, in conjunction with the small print at the bottom, as a warning. However, they **typically admitted that they would not be likely to read these in detail, and that this information too was a potential deterrent**. This tied in with customers' general preferences that websites were easy to use and to understand.

F: There's a lot of information which probably if you took time to read it would be a good thing, but I don't know if I would.
F: It would put you off as well wouldn't it?

Female, Payday Loan customers, London

There's a lot to take in, there's a lot. The words are very small, the writing's very small, it looks like a lot of effort.

Female, Payday Loan customer, Sheffield

www.loanandfast.co.uk

Perception of brand/ consumer impact

This website's application page, which is self-contained, was well received, particularly by payday loan customers because it was straightforward to use and did not require many details from them. But for those regarding the website from a citizen's perspective**, it seemed too easy to apply for a loan, as it could be done in two clicks**. Participants who held this view felt that the website made it too easy to take out a loan, and were unfavourable about the fact that the website advertised itself as ideal for those with bad credit. This was because they felt that this meant that those who were more vulnerable were likely to be attracted to it, and be tempted to take out a loan on unfavourable terms.

If this was me now and I went on to this and it said 'Get your cash' at this stage, am I applying for that money there and then?

Female, Considered using payday loan, Sheffield

Information on risks and costs

The landing page for 'loan and fast' was viewed much more favourably by some participants thinking as consumers, as they felt that key information they wanted about the loan – that it was quick and easy to access – was available but the page was much easier to look at because there was less text on the homepage in comparison to the WageDayAdvance website.

From the front there's not too much information there, it tells you everything you need in terms of questions, working out what it costs, so it seems fine

Male, Payday loan customer, London

But for others, the site did not contain enough information, and, on prompting about whether the site contained enough information about the risks around taking out a loan, they felt the information signposting on the site was inadequate. This was because it did not signpost explanations of terms and conditions in the clear way that, for example, they felt the Wonga website managed. Participants also noted that the lack of sliders meant that it was hard to understand the costs which would be potentially incurred by taking a loan.

It doesn't tell you when you're going to have to pay it back, what you're going to have to pay back, if you don't pay it back and presumably that when you press button at the end of it, it would just literally tell you whether you can or can't have it.

Female, Payday Loan customer, Sheffield

3.6 Conclusion

Overall, participants' general experiences of payday lending advertising demonstrated that – thinking as consumers – **customers and potential customers are relatively disinclined to engage with information about the risk and costs of lending in advertising material, and do not expect this information from adverts**. This is illustrated in the strong contrast between participants' responses to the Wonga television advertising and advertising from other payday lenders. The Wonga adverts are successful in deflecting potential customers' feelings about shame and stigma regarding taking out payday loans, whereas other payday lending advertising reportedly reminded participants of less comfortable feelings – and hence were less popular with them.

Broadly speaking, adverts which disassociated payday lending with its negative connotations – specifically being desperate for money – and sold the product to customers less aggressively were more successful with customers, with Wonga being the most notable example. **Many participants also felt uncomfortable with an expression of the risks and costs of lending in adverts which contained percentages and figures**. This was generally, because information about the risks and costs made them feel uncomfortable about taking the loan, but also, in several cases, because they lacked confidence in understanding what the figures meant and felt confused by them.

Participants **preferred to seek information about risks and costs of taking a loan on websites**, but nonetheless, they were less well-disposed to sites which made this information seem complicated or made it difficult to access. Their **primary concern before taking a loan was to establish the relevant total cost to cred**it; websites which made this easy to do were strongly advocated.

4. Views on modifications to adverts

CHAPTER SUMMARY

a. **Views on ‘wealth warnings’**

- Participants were not strong advocates of the first ‘wealth warning’, “Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time”. This was because the 2.6 million was not a high enough proportion of the total number of payday loans taken to worry potential or previous customers and make them consider whether to take a loan or if they could repay.
- There was more of a preference for the second ‘wealth warning’ (“STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?”): participants felt that the direct appeal to the reader/ viewer was more effective that the ‘social norm’ presented in the first ‘wealth warning’.
- There was also a strong sense that it was appropriate to deter payday borrowers who might not be aware of the relevant risks of payday lending. It was very important to participants that this warning included a clear indication of the consequences of defaulting on loans.

b. **Views on signposting to advice**

- Participants were generally very receptive to this modification. This was because it was felt to offer an additional option to people in very difficult circumstances who were likely to be short of choices or support.
- For a few, however, the advice signposting suggested was impractical or was felt to be confusing as it was “advertising” both the lender and the Money Advice Service.

c. **Views on information on ‘total cost of credit’**

- This was the most widely-liked modification. Participants felt that this information was an appropriate way to explain the costs of the loan – less complex than APR – and would help them make an informed decision about whether to borrow.
- A few participants suggested that a ‘defaulting scenario’ could be incorporated into this modification. They felt that it would be most useful to include the costs of late repayment into the message, so that potential customers would be made aware not only of the costs, but of some of the attendant risks too.

d. **General views on modifications**

- Participants tended to be positive about the approach, but also tended to feel that modifications to adverts alone may not be an adequate response to deter the most vulnerable from choosing payday lending.
- There was also view that the different modifications would be relevant to different types of people, and that this would be difficult to identify as it would be dependent on their circumstances and attitudes. They therefore felt that all or a combination of the messages would be important to use were such an approach to be taken.

All the discussion groups and interviews included a section in which participants were presented with wordings for some proposed modifications to the payday lending adverts and asked for their views and responses to them.

The four modifications proposed by BIS are listed below. These presented different approaches to informing and protecting customers: ‘wealth warnings’ (A and B), signposting to advice (C) and information on ‘total cost of credit’ (D).

In this section we present the some general views on the modifications, followed by views on each modification in turn.

Figure 1: List of modifications tested in the research

A: **Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time**

B: **STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?**

C: **Are you struggling to make ends meet at the end of each month? Call the Money Advice Service on 0300 500 5000 to get quick and easy debt advice.**

D: **For a typical loan of £200 the repayment cost would be £60 if the loan was paid back within 30 days.**

4.1 *Views on ‘wealth warning’ modifications*

4.1.1 A: Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time

In general, **participants were not strong advocates of the first ‘wealth warning’, “Of around 7.8 million payday loans taken out in 2012, nearly 2.6 million were not paid back in time”**. This was primarily because they did not feel that the figures raised enough concern for them – in other words, the 2.6 million was not a high enough proportion of the total number of payday loans taken to worry potential or previous customers and therefore prompt them to consider whether to take the loan or not.

The figure isn’t shocking enough to me.

Female, Payday loan customer, London

Participants also tended to feel that the proportion of defaulting loans was not high enough to be likely to include them. As discussed earlier in this chapter, potential loan customers tended to hold a strong belief that they would be able to repay the loan with no difficulties. This ‘wealth warning’ did not shake this confidence – indeed research around ‘ social norming’ messages has demonstrated that the proportion of a group affected by an issue needs to be at least 75% before those absorbing the message feel it will be relevant to them[19].

It’s an interesting statistic but if you wanted to take out that payday loan you would just read that and think oh I’ll pay that back.

Female, payday loan customer, Sheffield

I prefer B, because … I think how are those 2 million affecting me?

Female, Considered a payday loan, London

Several participants felt that this message stated an obvious fact that a proportion of borrowers defaulted because they would be facing a challenging time financially, and did not perceive it as a warning at all – further reinforcing the finding that the proportion of those defaulting would need to be larger for people to consider acting on the modification.

That statistic – so what? Just telling me – it’s obvious people will not pay some back

Male, Payday loan customer, Sheffield

And, as with the modifications more generally, most participants felt that it would not be relevant in influencing them personally to consider whether to take a loan –

19 Please see http://www.hmrc.gov.uk/research/report186.pdf, p63. Also see see Chong et al (2013) accessible athttp://karlan.yale.edu/p/Peru_Recycling_Final_All.pdf, p12 - from which it might be possible to infer that at ‘conformity’ threshold of at least 75% is required

although it may potentially have an effect on someone in a more vulnerable position. Participants found it hard to conceptualise being in a position where they would be likely to default themselves, even though many admitted struggling with their finances.

It wouldn't change my view, because I've got that in my head that I know I need to pay it back. It may change some other people's views who don't have a regular income or don't have a job.

Female, payday loan customer, London

4.1.2 B: STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?

There was **more of a general preference for the second 'wealth warning'** ("STOP! THINK! COULD YOU AFFORD TO PAY BACK THIS LOAN?") as a more effective prompt to consider whether to take a loan. Participants felt that the direct appeal to the reader/ viewer was more effective that the 'social norm' presented in the first 'wealth warning'. Participants felt that this forced participants to reflect on their decisions personally.

With the question, you need to answer that yourself. The other one [you think] I'm not going to fall into that bracket, that statement, I won't fall into it.

Male, Payday loan customer, London

There was also a strong sense that **it was appropriate to deter payday borrowers who might not be aware of the relevant conditions**, given the seriousness of the potential consequences. This was, again, in the context of protecting the most vulnerable borrowers, rather than a feeling that the message would be relevant to or influential upon participants personally.

It's what the truth is isn't it? You take that loan, if you can't pay it back, you're going to be in a bigger mess. It's good to have that in your face.

Male, Payday loan customer, London

More generally, it was **very important to participants that modifications included a clear indication of the consequences of defaulting on loans**. This applied in particular to the wealth warnings, which they felt were a challenge to borrowers, but did not demonstrate the potential risks they faced clearly enough. Participants felt that messages around the consequences should be quite hard-hitting as people were unlikely to consider the risks without being frightened by them.

I'd like it to stay "stop, think… because if you can't we're going to really rip you off". In all seriousness… here they should say "stop, think… if you can't, this is going to cost you".

Female, Considered a payday loan, London

Well if it says nearly 2.6 million were not paid back in time, it doesn't say what happened to those 2.6 million people.

Male, Payday loan customer, London

Some of those who were already payday lending customers, on reflecting on their views, found difficulties with the wealth warning. As noted in earlier chapters, loan customers had a preference for adverts which communicated that the loan was quick and easy to use, and did not portray the risks and costs in detail. As discussed in chapter 2, taking a loan was felt to be a difficult choice, so regarding the warning, **payday loan customers tended to find their views as 'citizen' and 'consumer' in conflict** – an experience of 'cognitive dissonance'[20] – as illustrated below.

M: I think you'd probably have two mixed messages: what [the advert is] saying is I can get money really, really quick and then you're telling me to stop to think about it.'

F: Yes, I think it makes the stress worse, whereas you know you might just be inclined to do it, if it's straightforward and simple...

Payday loan customers, London

Furthermore, there were concerns around how widely effective it would be given the assumptions participants held about the how informed most payday borrowers were. Some, for example, felt that all payday borrowers would have considered in depth whether they could repay the loan and that the modification would be redundant.

Everybody questions whether they can afford it, surely?

Female, Payday loan customer, Sheffield

4.2 Views on 'advice signposting' modification

Participants were **generally very receptive to this modification** ("Are you struggling to make ends meet at the end of each month? Call the Money Advice Service on 0300 500 5000 to get quick and easy debt advice). This was because **it was felt to offer an additional option to people in very difficult circumstances who were likely to be short of choices or support**.

They could be an alternative that you haven't thought about and they'll say did you know what you needed that money for; you can actually get it at a lower rate via social services, or through your local authority.

Male, Payday loan customer, London

It was, again, perceived to be most effective for those who were most vulnerable rather than being felt to be relevant to those participating in the research. Nonetheless, **participants were positive about this modification's potential to**

20 Cognitive dissonance is the discomfort experienced when simultaneously holding two or more conflicting cognitions: ideas, beliefs, values or emotional reactions.

alleviate the stress of financial difficulties and provide an effective intervention before people turned to high-cost loans.

There might be a handful of people [it would help], money problems do suffocate people and make [you] feel like only person in world who has this issue.

Female, Considered using a payday loan, Sheffield

For a few, however, the advice signposting suggested was impractical or was felt to be confusing. As examples, one participant was concerned that the phone number was not a freephone number, so would not be appropriate for those in financial difficulties, and one participant noted that she would not have time to call MAS so the advice option would not be useful to her.

I think it's good but as I said like, if that was me and I was in a situation... I wouldn't bother even calling up, I'd just do it, because I need to because I have kids and I have other things going on

Female, Payday loan customer, London

A further participant noted that the reference to another organisation might be confusing to some, perceiving the modification as advertising for MAS, rather than as signposting to an information service, as intended.

It's like double advertising, if you're advertising a loan advice service as well

Female, Considered using a payday loan, Sheffield

4.3 Views on the 'total cost of credit' modification

Of all the modifications, **this was the most widely-liked among participants, which they felt would help them make an informed decision about whether to borrow**. The modification tested presented the 'total cost of credit' of the loan in the following way: **For a typical loan of £200 the repayment cost would be £60 if the loan was paid back within 30 days.** This modification chimed with the qualities of 'honesty' and 'transparency' which, as discussed in chapter 2, participants were very positive about in lenders. They felt that this information was an appropriate way to explain the costs of the loan – as less complex than APR – and would help them make an informed decision about whether to borrow. As noted in section 3.3, it was also the information that participants tended to seek out first when accessing a payday lending website, and participants felt it was suitably easy to understand.

Straightforward, simple. There're not lying to you, they're telling you straight

Female, Payday loan customer, London

It would make me decide better – whether it's worth it or not. [It's] more black and white

Male, Considered using a payday loan, Sheffield

Nonetheless, the research illustrated the existence of ambiguities around how effectively this modification would work as a deterrent to borrowers, if intended as such. Given participants' concern with understanding how much their loan would cost, **this modification also appealed to them as *consumers*, as well as citizens** – indeed, for some, it seemed to serve as an encouragement to payday borrowing.

D is encouraging you to come and get a loan! £60 is nothing if you're desperate and you need it.

Female, Payday loan customer, London

It would have encouraged me if I knew what I was paying back. Right 200 pounds, I would know I'd need to find 260 by end of month

Female, Considered using a payday loan, Sheffield

It was also evident that the modification had the potential to discourage potential customers from seeking out further information about the risks of payday lending, by making what was perceived to be the most important information – about the cost of the loan – clear, without highlighting the attendant risks.

Yes, that's all you need to know.

Male, Payday loan customer, London

A **few participants therefore suggested that a 'defaulting scenario' could be incorporated** into this modification. They felt that it would be most useful to include the costs of late repayment into the message, so that potential customers would be made aware not only of the costs, but of some of the attendant risks too.

4.4 General views on the modifications

In general, participants of different types across the research understood the principles behind the wealth warnings, making comparisons with those included on cigarette packets. They tended to be positive about the approach, but also tended to feel quite strongly that **modifications to adverts alone may not be an adequate response to deter the most vulnerable from choosing payday lending**, particularly given the difficulties people may be facing when they turn to payday loans, and the constrained choices that people in such situations might have.

When you have it in your head that you need that loan, you might just ignore that. You know the dangers going into it.

Male, Payday loan customer, London

If you take the loan, you need the money instantly at that point in time … you don't have any other option … people who couldn't pay back … would have no other option, they couldn't go to the bank and get a loan

Female, Payday loan customer, London

Furthermore, in general, participants did not see the warnings and advice signposting, which were explicitly intended to protect consumers, as being relevant to them personally, even though, as discussed in chapter 3, most participants in the research had little knowledge or had not sought information about the risks of taking a loan. Rather, they felt that the modifications would be useful and impactful for vulnerable people, whom they tended to identify as people claiming welfare support.

F: Some people could spiral out of control.
M: With me I would use it, but I control myself.

Female/ Male, Payday loan customers, London

It depends what kind of people you are approaching, someone who could be like unemployed just think oh well, if those many people haven't paid it back, I could be one

Female, Payday loan customer, London

There was also a strongly-held view among some participants in the discussion groups that the **different modifications would be relevant to different types of people**, and that this would be difficult to identify as it would be dependent on their circumstances and attitudes. They therefore felt that all or a combination of the messages would be important to use were such an approach to be taken.

They're giving out a different message, all different messages, you really need a mixture of all of them.

Female, payday loan customer, London

Participants also typically felt that the **all modifications should include details of consequences on defaulting on a loan**. They felt that it was important that messages included information about the risks, as well as the costs of borrowing and signposting to advice.

There's loads of different things that are important, but for me personally, I would like it clear on how much I'm paying back and if I don't pay it, what happens.

Female, Payday loan customer, Sheffield

It could say to find out the consequences of what would happen if you don't pay it back look here. It should be making every attempt to direct people to a single source of information that's independent.

Male, Payday loan customer, London

4.5 Conclusion

Overall, participants welcomed the modifications. Both the '**wealth warning' and 'total cost of credit' were felt to be potentially effective should the consequences of defaulting on a loan be included in the messages**. Including clear information about the risks of payday borrowing in the modifications was felt to be the most effective way of communicating the potential difficulties people may face if unable to repay a loan. This was because most felt that this was a scenario most may not have personally considered. The total cost of credit was seen an appropriate way to explain the costs of the loan – as less complex than APR – and would help participants make an informed decision about whether to borrow. As noted in section 3.3, it was also the information that participants tended to seek out first when accessing a payday lending website with a view to taking out a loan, because participants felt it was suitably easy to understand.

Many also felt that the '**signposting to advice' message would be potentially helpful in providing an additional option to those facing serious financial difficulties** and lacking other support.

This publication is also available on our website at www.gov.uk/bis

Any enquiries regarding this publication should be sent to:

Department for Business, Innovation and Skills
1 Victoria Street
London SW1H 0ET
Tel: 020 7215 5000

If you require this publication in an alternative format, email enquiries@bis.gsi.gov.uk, or call 020 7215 5000.

BIS/13/1228