Competition Commission Submission – July 12, 2013

Overview of Think Finance – A New Entrant to UK Short-Term Lending Market

- Founded in the United States in 2003, Think Finance is a digital finance company that uses technology and risk analytics to bridge the gap between payday and mainstream consumer financing. We are a new entrant to the UK market, although we are well established in the US, and will shortly be launching a new, innovative product.

- We believe the future of short-term lending in the UK is going to evolve rapidly away from traditional "payday" loans that compete purely on speed and convenience. This is due to the media and government attention on these issues, which have highlighted a clear need to concentrate on things other than just speed and convenience. Because of these changes in the market we are closing down our traditional payday loan offering and introducing a new product that we believe better meets consumer needs. We differentiate our new product (Sunny) on tangible consumer benefits --- interest rates, fees, repayment flexibility and financial education, resulting in a significantly lower total cost of borrowing.

- We have saved US consumers over $1bn versus payday loans and believe we can save UK consumers £500m or more, annually within 2-3 years, by reducing the cost of borrowing by up to 50%. In the US our portfolio of alternative loan products start with rates just below typical payday rates[1] and drop progressively to loans costing £0.50 per day, per £100.00 borrowed.

- Backed by top tier investors including Sequoia Capital (early investors in Google & Yahoo!) and Technology Crossover Ventures (Netflix), we were recently named No. 2 on Forbes' Most Promising Companies in America list and as one of eight top innovators in financial services to watch by American Banker in 2013.

History of Think Finance in the UK

- In 2011, Think Finance bought Fortress Capital ('Fortress'), a UK payday loan company. The purpose of this acquisition was to gain insight into UK-specific risk factors and to better understand the local compliance regime. The product operated by Fortress was called 1 Month Loan (1ML), and was a typical payday loan product. Think Finance then began to explore a move away from payday lending with the introduction of quid.co.uk, a line of credit product. Neither product however, was sufficiently differentiated from the existing products available to consumers. Anticipating a shift in the market as discussed above, we believe now is the time to focus all of our energy on a new product. As a result, we are shutting down both of our legacy products. 1ML will be shut down by September 2013 and Quid by March 2014, in order to focus the company fully on a new product that we believe can transform essential elements of short-term lending.

- As a demonstration of our commitment to the transition away from "payday" (with its typical high fixed rates and dependence on rollovers) and into a new form of lending, based on risk-based pricing and payment flexibility, we are proactively offering all our existing customers who have a strong payment history, our NEW product at an interest rate HALF the rate they were paying on the old payday products. This migration will begin in July 2013.

- Think Finance's new product will launch shortly and will compete on tangible features of concern to consumers and regulators (as highlighted in the recent Bristol Report on the industry

[1] According to the OFT's final report firms reported that the average cost of borrowing £100 was around £25, but ranged from £14 to £51 http://www.oft.gov.uk/shared_oft/Credit/oft1481.pdf

and the OFT Payday Lending Review): risk-based rates, fees, no rollovers, payment flexibility that works with customers' changing circumstances, and the treatment of financial education.

- Our motivation for phasing out the quid.co.uk and 1ML products is that we want to focus all our energy on a more differentiated product. We believe we have the technology and analytical sophistication to build a successful business by offering consumers a product better suited to their needs than anything in the market at the moment. It will differentiate Think Finance and allow us to grow our market share from the incumbent competitors.

- We believe we can compete in the rapidly evolving short-term credit market now because the increased regulatory involvement creates an environment where an innovative new entrant can build a successful business provided it focuses on fundamental consumer value drivers that affect the Total Cost of Borrowing. Entrenched competitors will be reluctant to change due to large market shares and high profits and that leaves a unique opportunity for new entrants such as ourselves to establish a different type of product and brand introducing competition and innovation to this sector of the market.

- At present, we are gathering the material requested by the Competition Commission and will submit it by the 19th of July. It is important to note that in reviewing the financials and much of the data requested, the CC will be seeing "old product" data, which will look much as any other payday loan company might look (fixed rates, rollover fees, etc.). Our new product is designed for a new market and is fundamentally different. We would welcome the opportunity to come and discuss this product and strategy with you as we feel it could be insightful for you to see the new types of business model which could exist in this market.

Outlook on Short-Term Lending and Market Dynamics in the UK

- Think Finance believes that demand will continue to grow rapidly and will exceed £5 billion in new loans by 2015. Bank regulation that increases reserve requirements limits available credit for those customers less profitable to the banks and continues to push millions more consumers out of mainstream financing and into alternatives. In our view the market in which we aim to compete should be defined as wider than just pay day loans. It includes all forms of higher cost credit or rapid access to cash that consumers access. This includes payday loans, bank overdrafts (especially unplanned bank overdrafts which are the highest cost credit one can take on), pawn brokers, precious metal exchanges, doorstep loans (home credit), and possibly more. The fully unregulated world of illegal loan sharking should not be ignored as it is a real alternative that some consumers will turn to should other forms of credit not be available to them.

- Today, we see a fairly bipolar model of credit offerings in the UK. At one extreme, you have payday lenders, with rates ranging from 29%-50% per month* (as defined by the Bristol Report) with other fees (setup fees, funding fees, instalment fees, extension fees, rollover fees, late fees, and more) being added on top of these rates in some cases. At the other end of the spectrum to payday, one has mainstream credit, provided by the banks and card associations (Visa/MC/Amex generally) with rates in the range of 1.5%-2.9% per month. However, there is not much graduation between these extremes, especially for individuals who need access to credit quickly. Credit unions offer small amounts with reasonable instalment repayment schedules but often require extensive paperwork and can take 2-4 weeks to fund. In addition, most of these institutions also require prospective customers to build up a savings history prior to being able to obtain any form of credit; which is time consuming and unachievable for many individuals facing a short term financial crisis. There are also various forms of home loans but none provides the speed, convenience, and anonymity that many borrowers seek and sometimes need. For this reason, we define the customers between payday and mainstream as "Under-served". Think Finance wants to offer a range of products that bridge the gap from payday to mainstream for the underserved consumer. We want to offer them a path that helps them transition from high-cost credit back into steadily lower cost alternatives.

- In the payday sector specifically, we believe there is a part of the market not served well as existing competitors compete on speed and ease of access over price. Our new product will compete on price. It will be tailored to consumers with no or poor credit histories, who, if they can demonstrate good repayment behaviour, could access finance at a significantly lower total cost of borrowing than what would be available to them through traditional payday loans.

- The mix of the consumers borrowing short-term will continue to evolve with more and more people of higher income, diverse ages, and diverse professions and they will be using short-term financing for an ever broader array of acceptable purposes. This partly due to the overall greater acceptance of short-term credit but is also due to the shrinkage in available credit via mainstream institutions. Finally, it is due to a change in the dynamics of the workplace and the correspondingly higher volatility in income.

- Improved consumer savvy around the benefits of research will drive more business online and away from the high street payday lenders and pawn brokers. As the Bristol Report highlights, the most price-sensitive consumers are those borrowing online and this trend will accelerate. Just as online tools have driven down the cost of many mainstream retail consumer goods, so too will these tools help drive down the cost of financial services such as short-term loans.

- Technology, Big Data, and Analytics will play an increasingly important role as lenders will need to seek the economies of scale these building blocks provide to continue to offer competitive rates and services.

- Barriers to entry in short-term lending will look low on the surface but the reality is that they are quite high. The reason for this primarily is the extensive investment required in robust risk models and decision engines that are required to augment the profiles of consumers who generally have limited or poor credit histories.

- These significant investments in technology, big data and analytics are critical to removing the information asymmetry between consumer and lender, allowing us to better understand the current risk of default and reward good repayment behaviour with lower interest rates and a lower total cost of borrowing.

Outlook on Regulation

- Think Finance welcomes the anticipated increase in regulation of consumer credit but is concerned that regulation alone may not go far enough in addressing market failures of the payday loan sector. To encourage companies to develop practical alternatives to payday lending, regulation should foster an environment that enables real competition on tangible consumer benefits (rates, fees and more) not just on speed and convenience. Consumers need a clear and simple way to understand and compare the total cost of borrowing under more than one possible scenario---for instance they should be able to compare loans based on a likely repayment scenario and also under a scenario where things don’t go according to plan. In some cases this will highlight to them the true cost and they may possibly decide they don’t want or cannot afford the loan after all. In other cases, it will show them that while one company’s introductory rate may make them look appealing, the more realistic picture will show the full downside of a loan if things go different to plan. This will help consumers make better choices. Regulators can also improve the competitiveness of the sector by forcing greater disclosures by lead generating providers who create an image of objectivity for the consumer when in fact, this objectivity is often lacking.

- One example of market failure is reflected in the high concentration with three companies controlling an estimated 60-65% of all lending short-term in the UK. They trade under a variety of brands but it ultimately is three parent companies and these companies do not appear to compete aggressively on price. Think Finance would ask that the Competition Commission (CC) investigate whether there is a true level playing field that permits new entrants to compete.

- A second example of market failure is in the way referrals work from lead generators. We would ask the CC to investigate whether these companies are accurately representing themselves and if they are disclosing how they recommend lenders to the potential borrowers. While they create the perception of a price comparison, “best loan” search, the reality is that the borrower is served up to the lender bidding the most. Creating a more objective comparison capability for the consumer would be beneficial for consumers.

Think Finance is excited by the changes taking place in the Short-Term lending market as we believe these changes will enable greater competition by appropriately resourced companies. We believe we can build a successful and solid business with reasonable ethical profits while charging some customers less than half of what typical payday loans cost today in the UK. We want to partner with the regulators and be a new type of lender for the UK. Simplicity in product design, lending responsibly, flexibility in repayment, and financial education are critical to achieving this.

We would welcome the opportunity to come and discuss our plans, product, and processes at any time with the Competition Commission.

Yours Sincerely

John-Paul Savant

For more information on any of the issues raised above, please contact:

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