COMPETITION COMMISSION

PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with Barclays Bank plc held on 11 November 2013

Background

1. Barclays Bank plc (Barclays) did not offer a personal loan that was comparable to a payday loan. Barclays's average personal loan was [✂]. It offered a minimum loan of £1,000 for a minimum term of 12 months which would incur a charge one month's additional interest should it be repaid early. The majority of its personal loan customers were aged between [✂], and [✂] per cent of all applicants were successful.

The market

2. Barclays explained that payday loans and unauthorized overdrafts served different purposes and had different product characteristics and so the cost and the pricing structures were different. Payday loans were used by a number of customers some of whom used them repeatedly. Payday lenders were responding to consumer need, so payday loans were a useful product. Those Barclays customers using payday loans did not generally have an overdraft facility. The average payday loan taken out by Barclays's customers was around [✂]. Barclays estimated that between [✂] per cent of its customers repaid their payday loans successfully. Customers who had used a payday loan within a 12-month period were [✂] times more likely to be in arrears on other forms of credit.

3. The overall credit market had not grown in size but there had been a shift in customers' borrowing needs. Consumers who previously might have borrowed from friends or family or from companies below the radar were now using the payday lending sector leading to its growth. Barclays had not seen a significant uptake in the total amount of credit required by its customer base and had observed a year-on-year decline in the UK's unsecured credit market as a whole.

4. Borrowers tended to select a loan provider on the basis of the APR, because they had been offered a loan directly, or, because they had an existing relationship with a financial provider. It was difficult to make like-for-like comparisons when comparing loans because it was not possible to predict customer behaviour (eg repaying the loan early versus the total cost of credit). APR was a crude but useful tool for comparing on price.

5. Barclays carefully scrutinized applications from new merchants for merchant acquiring services [✂]. New merchants should have a [✂].

6. There had been a number of new entrants in the market. Barclays expected to continue to see growth in the payday lending sector and thought that payday lenders would continue to evolve and develop products in other credit markets (eg in the mortgage and savings markets) as had occurred in the USA.

7. Barclays estimated that around [✂] per cent of sales were completed through the Internet. The majority of Barclays's lending customers ([✂]) used the Internet or mobile banking when researching its products even if they did not complete the transaction online. Price was the key consideration when taking out a loan. Barclays had seen a significant shift in the numbers of consumers choosing to access

products online and this had been reflected by significant investment by Barclays in the digital channel. Barclays believed that payday loan companies would either diversify their products or would simplify and standardize them as it had done, reducing its personal lending offering from two to one.

8. Barclays considered that the demographic of customers using payday loans and its customers using its overdraft and credit card facilities were similar. The bulk of borrowing fell in the 35 to 55 age group. Barclays had not seen any evidence to suggest that specific consumer groups were being targeted by payday lenders. Around [✂] Barclays's current account customers had a preapproved credit limit and of those around [✂] used payday loans.

9. Barclays had no plans to enter the payday lending market, primarily due to concerns about affordability for its customers but it would also have reputational unease. [✂].

Affordability assessments

10. Barclays now spent far more time understanding affordability and had developed a model ([✂]) to understand customer affordability. [✂]. As a result the number of Barclays credit approvals had effectively declined as it had obtained a better understanding of consumers' income and outgoings and its loan loss rates had decreased significantly ([✂]). In this respect the banks were in a better position to assess affordability than the payday lenders.

11. Barclays noted that current account customers taking out a payday loan tended to be at the margin of its affordability assessment. Typically those customers taking out payday loans did not have an overdraft facility available. If a customer took out a payday loan within the last 12 months and then sought an extension to existing borrowing the consumer would be subject to an enhanced [✂] affordability assessment. If Barclays was unable to lend to a consumer due to the customer's credit profile staff would advise them on how to improve their creditworthiness. Customers who were unsuccessful in applying for unsecured credit were referred to local credit unions, Freedom Finance or to Step Change debt advice charity as appropriate.

Continuous payment authority

12. The use and abuse of continuous payment authority (CPA) was something that Barclays monitored closely. Visa had recently put in place a number of rules concerning acceptable use of CPA. [✂].

Barclaycard

13. Barclaycard customers were marginally more affluent than unsecured personal loan customers. Barclaycard had developed a number of products that were targeted at consumers new to credit and those new to the UK.

14. A Barclaycard customer could transfer up to £5,000 from their Barclaycard to their Barclays current account. This would normally be used where customers wanted to make large one-off transactions.

15. When approving applications for credit cards, different information might be taken into account than for loan applications as loans involved an expectation of repayment over a fixed period of time whilst credit cards involved a more open line of credit and more flexibility on repayment.