PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with Provident Financial plc held on 20 November 2013

Background

1. Provident Financial plc (Provident) told us that it offered three credit products within the (non-standard) credit market: the Vanquis credit card, home credit products and the Satsuma loan. The market comprised between 10 to 12 million consumers, largely in the C1, C2, D and E socio economic groups.

2. The Vanquis credit card (Vanquis) was aimed at those borrowers with a better credit score. It had an initial credit limit of £250 which could be increased over time. Vanquis was set up in 2003 and now had one million customers. Provident's home credit products were designed for borrowers on lower incomes who budgeted weekly. Provident estimated that its home credit customers took out between one to three loans a year. Satsuma loans were designed for those borrowers in between Vanquis and home credit customers in terms of credit scores, who were looking for direct repayment mechanisms rather than a home visit.

3. The average net weekly individual income of home credit customers was £196 per week and average net weekly household income was £283. The average annual income for Vanquis customers was between £25,000 and 30,000.

The market

4. The growth in payday lending had been driven by the continuing underlying demand for consumer credit combined with the reduction in the number of lenders offering credit to non-standard and prime customers using more mainstream credit models following the economic downturn in 2007. The introduction of online systems (from the USA) had increased the ease, speed and convenience of customer loan applications.

5. The main competitor for payday loans was the overdraft. The use of overdrafts had declined during the last few years as the payday lending market had grown, which Provident attributed to consumers' reluctance to deal with banks. Payday loans might be a better option for some consumers in certain circumstances, taking the underlying cost of the two products into consideration.

6. Payday loans were an appropriate product for consumers who could budget, who were paid monthly and who had a reasonable income relative to their outgoings and who every now and then needed to fund a big or unexpected expense. Payday loans could be cheaper than an overdraft, could be applied for online, were easier and simpler to arrange, were far more flexible and were paid off very quickly. Payday loans were less suitable for lower-income earners. Provident did not consider that a lack of transparency was a problem for those customers who were able to repay on time, it was clear that the APRs of these products were high and the loan term was clear.

Home credit

7. The growth in the payday lending market had had a marginal effect on Provident's home credit business. There was some overlap (around 5 to 10 per cent) between its

customer base and that of the payday lenders at any one particular time. Provident's customers tended to have lower income levels than those consumers using payday lenders and had tighter household budgets (budgeting weekly) and so were less able to cope with a monthly direct debit. Home Credit customers were well informed about their finances but minor unexpected costs affected them significantly.

8. Provident had been trying to grow its business for the past few years but had noted that demand for borrowing had weakened as a result of a lack of consumer confidence in the market, poor employment prospects (notably under-employment) and increased living costs. At the same time new product formats such as those offered by Brighthouse and Perfect Home (rent to own) and the move of mail order credit online had had the effect of depressing the demand for home credit.

9. There were a number of differences between Provident's home credit products and those products offered by payday lenders. Customers using home credit (and indeed Satsuma), for example, paid small manageable amounts on a weekly basis over a long term rather than a lump sum at the end of the month. If a customer missed a payment or paid less than that required for a week or two they could do so without incurring any additional fees, charges or interest as this was factored into the price of the product upfront, although Provident would discuss the customer's situation, reasons for the miss and repayment plan with them. The vast majority of home credit customers missed at least one repayment which simply resulted in an extension of the length of the loan at no extra cost to the customer. However, by contrast, if a consumer could not repay a payday loan at the end of the month/contractual term they would have to roll it over incurring more fees (plus interest) thereby making their financial situation worse.

10. Customers applying for Provident home credit products can do so directly with one of its agents or over the Internet or telephone. All potential customers were screened using centralised assessment systems, regardless of how they had made the initial contact. In all cases an agent would make a home visit before extending credit. In the home visit the agent would record details of the consumer's income and outgoings, (including any other forms of credit and any regular bills) on a customer detail form. The agents had discretion in rejecting applications based on a number of factors including an overall impression when visiting the customer. If the customer applied over the Internet or telephone Provident would run checks using its own systems (to check whether the consumer had committed fraud in the past and whether they had encountered repayment problems) and those of a credit bureau, before passing the lead to the agent to visit. Agents referred all direct customer applications for screening using the same systems, prior to accepting or declining an application. Provident had recently started using credit bureau data to score new customers as well as existing customers, including, to determine which consumers already had payday loans as this indicated a higher level of risk. If successful customers would receive funds in about a week. Approximately 80 per cent of all applicants were rejected.

11. The home credit model had a high contact element, contained a high degree of flexibility surrounding the weekly visit and was very personal. Provident wanted to move with the demands and preferences of the consumer to some degree but thought that it would be difficult to transfer the model fully online and therefore that there would continue to be a place for cash payments and personal contact. Provident had, however, begun to introduce plastic cards as an option for home credit loan disbursements in order to allow customers to use their loan online and to accept more forms of repayment in addition to cash during the home visit.

12. Consumers tended to use a number of different forms of credit to varying degrees. Provident had around 1.6 million customers in its home credit business but expected that this number would fall over the next year or two due to income pressures on its customers. It was trying to maintain the business during what was a transitional period and was planning on be putting new technology and systems in place. Approximately 25 per cent of its home credit customers had an overdraft and approximately 22 per cent held a credit card (a lower percentage than the general population at around 50 to 60 per cent).

Satsuma

13. Satsuma was launched on 7 November 2013 and now had [✂] a few thousand customers. Provident planned to expand the business over the next five years. Satsuma was essentially a home credit loan without the home visit, which was applied for online and for which payments were collected by continuous payment authority (CPA). It was designed for those consumers whose lifestyle did not suit the home credit model, who had better credit scores than home credit customers and who were able to manage a direct debit repayment product. As soon as a consumer had passed the necessary lending checks (initially similar to those used for home credit) they would then receive a welcome call to mimic the personal contact with home credit. Satsuma loans had 13- and 26-week terms for which the charged rates were £40 and £68 respectively. Provident was planning on reviewing these over time to determine whether these rates were too low or too high as experience builds with the new product and new customer behaviours and needs. Provident was intending to broaden the product range and introduce a loan period of up to a year.

14. Provident thought that Satsuma would attract consumers who would otherwise have taken out payday loans and it considered that it would serve these customers better. Satsuma was different to payday lending as customers could miss payments when they needed to without incurring any additional extra costs.

15. Provident indicated that Satsuma, which was initially branded as Provident Online, had benefitted from the leads generated on its website. Provident would also consider using lead generators or intermediaries to some degree (depending on the cost and the quality of the customer coming through) and would continue to advertise on television.

Response to Financial Conduct Authority consultation

16. Provident expressed concern that the proposals outlined in the Financial Conduct Authority's (FCA) consultation paper relating to the use of CPA and conflating refinancing and forbearance with rollovers would create issues for Satsuma. Provident explained that it used continuous payment authority because direct debit and standing orders were not flexible enough to cater for weekly payments and were too difficult to re-arrange. Using CPA meant that a customer could reduce or miss a weekly payment relatively easily without incurring any charges or fees. With regard to refinancing a rollover, Provident explained that it did not charge fees for missed payments which effectively enabled a customer to spread payments over a longer period. Provident proposed a selective carve out for those companies using CPA and allowing customers to miss payments in a way which did not impact detrimentally on the customer through additional interest, fees or charges. It also suggested that the number of failed attempts by a lender to collect payment from a customer by CPA should be reduced from the two as proposed in the FCA consultation to one, but be considered on a per loan, rather than per payment basis. There appeared to be little

reason to try a CPA more than once if it had failed without contacting the customer first.