

## PAYDAY LENDING MARKET INVESTIGATION

### The size and concentration of the payday lending sector working paper

#### Summary

1. In this paper we provide an assessment of the size and concentration of the payday lending sector. We consider all payday lenders together, before looking separately at online and high street lenders.
2. The paper provides background information about the sector including estimates of the number and size of lenders that are active in the payday loan sector. This background will inform various other strands of our analysis. It will also inform our view on concentration in the payday loan sector.
3. The data sources used to carry out this analysis are summarized in Appendix 1.
4. Our initial observations are:
  - (a) Our current estimate is that around 90 lenders offer payday loans in the UK.<sup>1</sup> Total payday revenue in the financial year 2012 was around £1.1 billion, with lenders issuing approximately 10.2 million new loans, with a total value of £2.8 billion.
  - (b) Around 80 per cent of total payday loan revenue is generated by online.
  - (c) Wonga has a [20–30] per cent share of total payday revenue; the three largest firms by payday loan revenue have just under a 70 per cent share and the ten largest firms have a share of around 90 per cent.
  - (d) In the online payday sector, we estimate Wonga—the largest lender—has a [30–40] per cent share of total online payday revenue; the three largest firms by

---

<sup>1</sup> Although this may underestimate the true number of firms, as there may be some smaller lenders who we have not been able to identify, we would expect the scale of the payday operations of any lenders not included within this total to be very limited.

payday loan revenue have just under a 75 per cent share and the five largest firms by payday revenue have over an 80 per cent share.

- (e) On the high street, we estimate Dollar Financial UK Limited (Dollar)—the largest lender—has a [50–60] per cent share of total high street payday revenue, the three largest firms by payday loan revenue have over an 80 per cent share and the five largest firms by payday revenue have over a 90 per cent share.
- (f) Over the period 2008 to 2012, Wonga’s share of total payday revenue has increased significantly, while the share of other lenders has declined.

## **The overall market**

### ***Total number of payday lenders***

5. Our current estimate is that 90 lenders offered payday loans<sup>2</sup> as of October 2013. This estimate reflects the number of lenders that responded to our questionnaires and confirmed that they were active in the payday sector. This figure may underestimate the true number of lenders to the extent that not all lenders responded to our questionnaire, or we were unable to identify all relevant potential lenders. In the main we would expect any lenders that are missing from this list to be limited to firms with very small-scale lending activities. [✂]

### ***Total revenue, volume and value of payday loans***

6. For each lender in each financial year, payday loan revenue refers to the total income generated by each lender’s payday lending operations, payday loan volume refers to the number of new loans issued by each lender and payday loan value refers to the total loan amount issued by each lender.

---

<sup>2</sup> We consider a payday loan to be a short-term unsecured credit product which is generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less.

7. As shown in Table 1, during the financial year 2012, total payday loan revenue was around £1.1 billion, with lenders issuing approximately 10.2 million new loans, worth £2.8 billion.<sup>3</sup> These figures are a 35 to 50 per cent increase on the preceding financial year.

TABLE 1 **Total revenue, value and number of payday loans issued, financial years\* 2011 and 2012**

<i>Totals</i>	<i>2011</i>	<i>2012</i>	<i>Growth</i>
Volume	7.44m	10.22m	37%
Value	£1,925.94m	£2,810.50m	46%
Revenue	£755.12m	£1,091.06m	44%

Source: CC analysis.

---

\*Please see paragraph 8 in the appendix to this paper for a description of how different lenders' financial years have been treated.

### ***Online and high street lending***

8. In financial year 2012, online lenders accounted for 70 to 80 per cent of total loan revenue, volume and value, high street lenders 20 to 30 per cent. These proportions did not change significantly relative to the previous financial year.
9. More specifically, in the financial year 2012, around 80 per cent of total payday loan revenue was generated by online lenders and around 20 per cent was generated by high street lenders. The proportion of revenue generated online marginally increased between financial years 2011 and 2012.
10. The percentage of payday loan revenue generated online is similar when the total value of new loans issued is considered, at around 80 per cent. This value did not change between financial years 2011 and 2012.

---

<sup>3</sup> The figures for revenue, volume and value may not always correspond because not all lenders could provide full information on all these metrics.

11. Around 70 per cent of new loans were issued online in financial year 2012; 30 per cent on the high street. In the financial year 2011, around 70 per cent of loans were issued online.

### ***Shares of supply***

12. Table 2 reports estimated total payday revenue and shares of supply for the ten largest payday lenders. In 2012, Wonga—the largest lender—had a [20–30] per cent share of total payday revenue, a [30–40] per cent share of newly issued loans and a [40–50] per cent share of all newly issued payday loans by value. The three largest lenders by revenue had a share of just under 70 per cent of total payday revenue, over 65 per cent of new payday loans issued and over 75 per cent of newly issued value; the ten largest lenders by payday revenue accounted for more than 90 per cent of total payday revenue, 85 per cent of new payday loans issued and just under 95 per cent of newly issued value.
13. We note that the different characteristics of lenders' products may drive differences between a lender's share of revenue, value and volume. For example, all else equal, a lender offering an instalment product may be expected to issue higher value loans because of the longer repayment period.

TABLE 2 Total revenue and shares of supply of the ten largest lenders, financial years\* 2011 and 2012

Lender	Total payday revenue in 2011 £m	Total payday revenue in 2012 £m	Share of 2012 total loan revenue %	Share of 2012 total loan value %	Share of 2012 total loans issued %
CashEuroNet, UK, LLC (CashEuroNet)‡	[x]	[x]	[10–20]	[10–20]	[5–10]
CFO Lending Limited (CFO Lending)	[x]	[x]	[0–5]	[0–5]	[0–5]
Cheque Centres Group Limited§	[x]	[x]	[0–5]	[5–10]	[5–10]
Dollar	[x]	[x]	[20–30]	[10–20]	[20–30]
Global Analytics Holdings, Inc (Global Analytics)	[x]	[x]	[0–5]	[0–5]	[0–5]
MYJAR	[x]	[x]	[0–5]	[0–5]	[0–5]
Oakam Limited (Oakam)	[x]	[x]	[0–5]	[0–5]	[0–5]
PDL Finance Limited (PDL Finance)	[x]	[x]	[0–5]	[0–5]	[0–5]
SRC Transatlantic Limited (SRC)	[x]	[x]	[0–5]	[0–5]	[0–5]
Wonga	[x]	[x]†	[20–30]	[40–50]	[30–40]
Other lenders	[x]	[x]	[5–10]	[5–10]	[10–20]
Total	755.12	1,091.06	100.00	100.00	100.00

Source: CC analysis.

\*Please see paragraph 8 in the appendix to this paper for a description of how different lenders' financial years have been treated.

†Wonga has undergone a corporate restructuring which may affect the extent to which their year-on-year figures are comparable with other lenders.

‡Pounds to Pocket instalment loans are included in CashEuroNet's total figures.

§Cheque Centres instalment loans are included in Cheque Centres total figures.

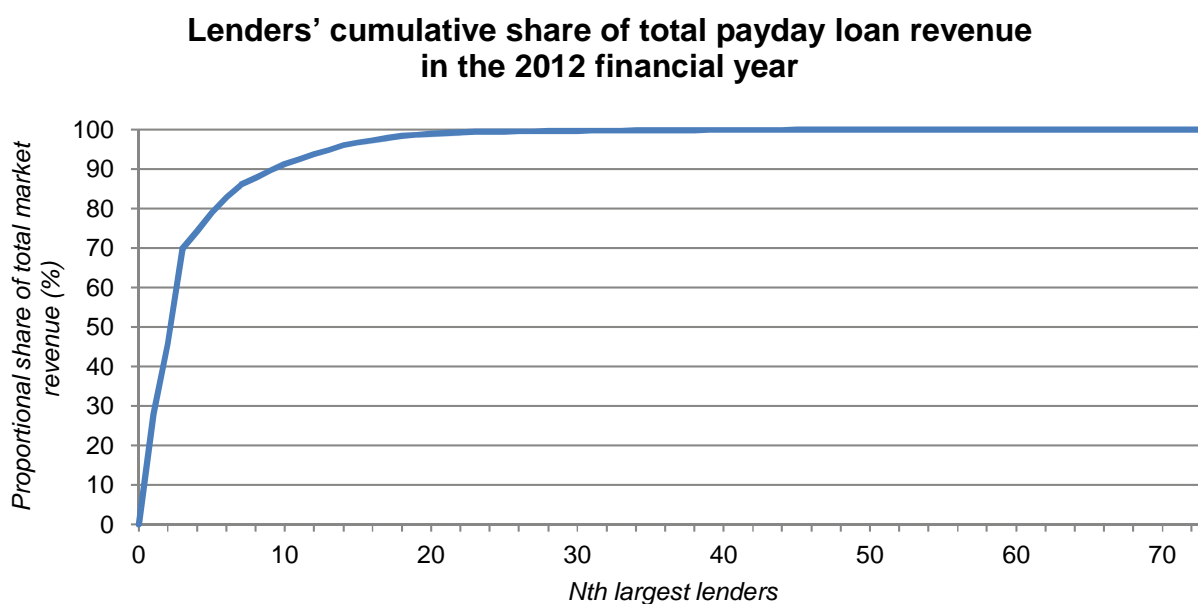
14. As discussed in the appendix to the 'Companies background' working paper, we collected detailed information from 11<sup>4</sup> of the largest lenders, chosen so as to cover a mix of high street and online lenders. These 11 lenders covered all of those listed in Table 2 with the exception of Oakam and PDL Finance, and three additional lenders.<sup>5</sup>

<sup>4</sup> The 11 major lenders included in this analysis operate 16 separate companies in the UK and market loans under around 22 different brands (see appendix to the Companies background working paper for a full list of the companies and brands). Between them these lenders provide a range of single repayment and instalment loans available online and on the high street. Collectively, we estimate these lenders accounted for over 90 per cent of loans issued in 2012 and over 90 per cent of payday loan revenue in 2012.

<sup>5</sup> The three additional members of the 11 major lenders were Ariste Holdings Limited (Ariste), Cash Store (UK) (The Cash Store) and Harvey and Thompson (H&T), which each accounted for less than 5 per cent of total payday revenue in 2012. Together, the 11 major lenders generated total payday revenue of around £980 million in financial year 2012, approximately 90 per cent of total payday revenue.

15. Figure 1 shows the distribution of payday loan revenue across all lenders. It shows that 99 per cent of payday loan revenue is accounted for by the 25 largest lenders.<sup>6</sup>

FIGURE 1



Source: CC analysis.

16. To analyse trends in shares of supply over time, Figure 2 shows the percentage point changes (ie the absolute changes) in the ten largest lenders' shares of total payday loan revenue between the 2011 and 2012 financial years. It shows that Wonga's share of total payday revenue increased and Dollar's share fell between 2011 and 2012.

FIGURE 2

**Percentage point changes in the ten largest lenders' shares of total payday  
loan revenue between the 2011 and 2012 financial years**

[✂]

Source: CC analysis.

---

<sup>6</sup> This is based on an estimate derived from 73 lenders operating in the 2012 financial year which we received complete responses from.

## Online lenders

### *Lender characteristics*

17. We collected information from 58 currently operating lenders which issue loans online.<sup>7</sup> In 2012, approximately 40 per cent of these lenders generated total revenue of less than £500,000. Apart from payday lending, at least one-quarter of these online lenders also act as brokers/lead generators.

### *Shares of supply*

18. Table 3 shows the estimated share of total online payday loan revenue in financial year 2012 accounted for by the largest online lenders. It shows that the three largest online lenders by revenue in 2012 had just under a 75 per cent share of online payday loan revenue, just under a 85 per cent share of total online payday loan value and over a 75 per cent share of total online payday loans issued. The five largest online firms had over an 80 per cent share of total online payday revenue, over a 90 per cent share of total online payday loan value issued and just under an 85 per cent share of total online payday loan volume issued.

TABLE 3 **Total revenue and share of total online payday revenues for the five largest online lenders, financial years\* 2011 and 2012**

<i>Lender</i>	<i>Total payday revenue in 2011* £m</i>	<i>Total payday revenue in 2012* £m</i>	<i>2012* share of online loan revenue %</i>	<i>2012* share of online loan value %</i>	<i>2012* share of online loans issued %</i>
Wonga	[£<]	[£<]	[30–40]	[50–60]	[50–60]
CashEuroNet	[£<]	[£<]	[20–30]	[20–30]	[10–20]
Dollar	[£<]	[£<]	[10–20]	[10–20]	[10–20]
Global Analytics	[£<]	[£<]	[5–10]	[0–5]	[0–5]
WageDayAdvance Limited	[£<]	[£<]	[0–5]	[0–5]	[0–5]
Other lenders	[£<]	[£<]	[10–20]	[5–10]	[10–20]
Total	599.79	890.37	100.00	100.00	100.00

Source: CC analysis.

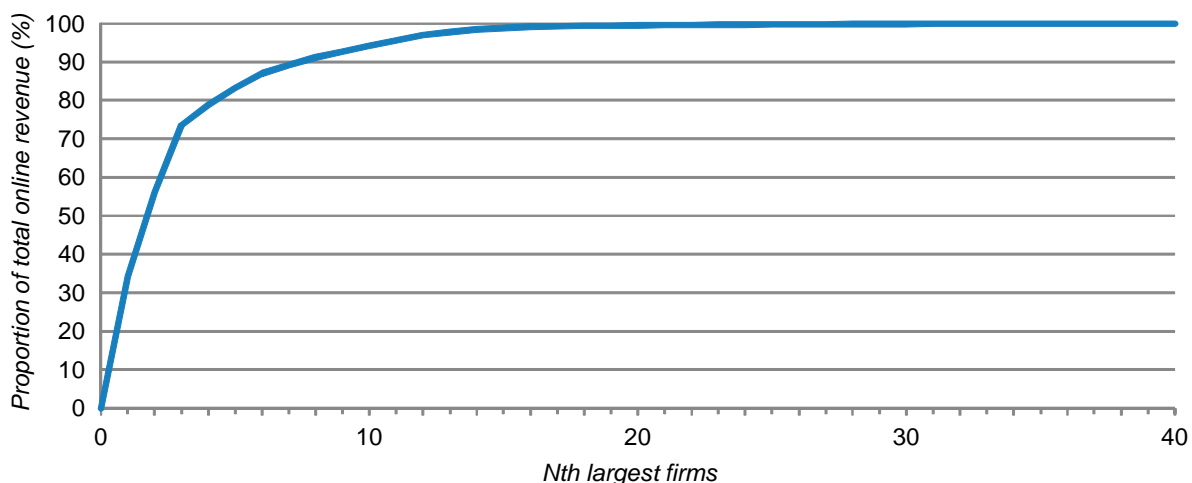
\*Please see paragraph 8 in the appendix to this paper for a description of how different lenders' financial years have been treated.

<sup>7</sup> These were the 58 currently operating lenders which responded to our questionnaires.

19. Figure 3 shows how online payday revenue is distributed across all online lenders. We estimate around 99 per cent of online payday loan revenue is generated by the 15 largest lenders.<sup>8</sup>

FIGURE 3

**Lenders' cumulative share of total online payday loan revenue in the 2012 financial year**



Source: CC analysis.

20. The historic trend in the split of online payday revenue between the five largest online lenders in Figure 4 shows that since 2008 Wonga's payday revenue share among the five<sup>9</sup> largest online lenders has increased substantially, CashEuroNet's share has marginally increased, while Dollar's online payday revenue share has fallen.

FIGURE 4

**Split of payday loan revenue between the five largest online lenders, financial year 2008 to financial year 2012**



Source: CC analysis.

<sup>8</sup> This was based on the questionnaire responses of 40 online lenders operating in 2012.

<sup>9</sup> Note that Dollar acquired Payday Express in the 2007 financial year.

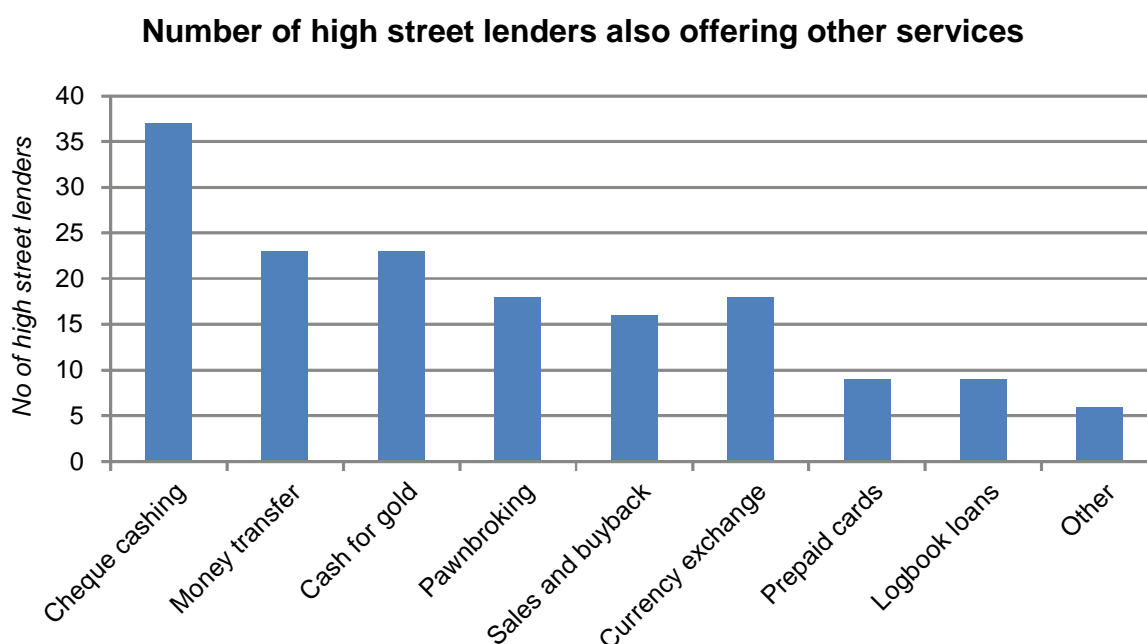


## High street lenders

### *Lender characteristics*

21. Based on our analysis, we observe that many high street lenders are very small.<sup>10</sup> In 2012 approximately 50 per cent of these lenders operated more than one branch, 35 per cent operated more than two branches; and 25 per cent operated more than ten. 25 per cent had total revenue generated from all activities lower than £500,000 and 50 per cent had total revenue from all activities lower than £1 million.
22. In addition to payday lending, many high street lenders provided other services. Figure 5 shows the number of high street lenders that offer various other non-payday services.

FIGURE 5



Source: CC analysis.

### *Shares of supply*

23. Table 4 shows the estimated share of total high street payday loan revenue in financial year 2012 accounted for by the largest high street lenders. For the 2012

---

<sup>10</sup> Our data covered 39 high street lenders which we received questionnaire responses from.

financial year, the three largest high street lenders accounted for over an 80 per cent share of total high street payday loan revenue, just under an 80 per cent share of high street issued loan value and just under a 75 per cent share of high street issued payday loans. The five largest high street lenders had over a 90 per cent share of total payday loan revenue on the high street, just under a 90 per cent share of all new high street loan value issued and over an 80 per cent share of all new payday loans issued on the high street.

TABLE 4 Total revenue and share of total high street payday revenues for the five largest high street lenders, financial years\* 2011 and 2012

<i>Lender</i>	<i>High street payday revenue in 2011 £m</i>	<i>High street payday revenue in 2012 £m</i>	<i>2012 share of high street loan revenue %</i>	<i>2012 share of high street loan value %</i>	<i>2012 share of high street loans issued %</i>
Dollar	[£]	[£]	[50–60]	[30–40]	[40–50]
Cheque Centres Limited (Cheque Centres)	[£]	[£]	[10–20]	[30–40]	[20–30]
Oakam	[£]	[£]	[5–10]	[0–5]	[0–5]
SRC	[£]	[£]	[5–10]	[0–5]	[0–5]
Cash Converters†	[£]	[£]	[0–5]	[0–5]	[5–10]
Other lenders‡	[£]	[£]	[5–10]	[10–20]	[10–20]
Total	155.33	200.68	100.00	100.00	100.00

Source: CC analysis.

\*Please see paragraph 8 in the appendix to this paper for a description of how different lenders' financial years have been treated.

†These figures are based on an aggregated total of all Cash Converter franchisees.

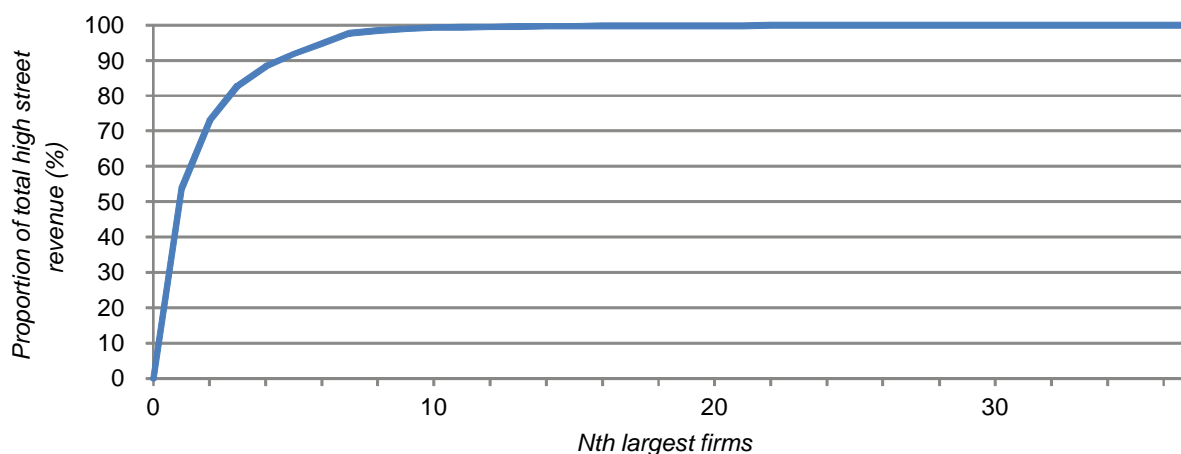
‡Other lenders' figures are affected by the fact that [£].

24. Figure 6 shows the distribution of estimated high street payday revenue shares across all high street lenders. The five largest high street lenders account for more than 90 per cent of total high street payday loan revenue. 99 per cent of total high street payday loan revenue<sup>11</sup> is accounted for by the nine largest lenders.

<sup>11</sup>This is based on an estimate derived from 38 high street lenders for which we received complete payday revenue information.

FIGURE 6

**Lenders' cumulative share of high street payday loan revenue in the 2012 financial year**



Source: CC analysis.

25. Figure 7 shows the trend between 2011 and 2012 in the split of high street payday revenue between the five largest high street lenders. It shows that the split of revenue between the largest lenders has remained relatively constant over the period.

FIGURE 7

**The split of payday loan revenue between the five largest high street lenders, financial year 2011 and 2012**



Source: CC analysis.

## Data sources

1. The analysis set out in this paper is based on two sources: the responses of the 11 major lenders to the financial questionnaire, and the responses of smaller lenders to the small lender questionnaire.
2. The financial questionnaire refers to a detailed financial template sent to 11 major lenders to complete, covering the period from 2008. The key variables in this template are total reported payday revenue and the total volume and value of payday loans issued.
3. The small lender questionnaire was sent to 213 firms believed to have offered payday loans in recent years. It included a shortened financial template along with questions on entry, exit, lenders' payday loan delivery channels and any other services lenders provided.
4. Excluding the 11 major lenders which received the financial and market questionnaires, the 213 possible lenders comprised all companies which available information suggested were offering or had recently operated as payday lenders. The list was drawn up from a range of sources including: companies in a list of lenders compiled by the OFT, members of the BCCA, CCTA and CTA trade associations, a desktop review; and lists of competitors provided by lenders in response to our initial letter.
5. The logistics for organizing and collecting small lender questionnaire responses were outsourced to IFF, a market research company. IFF created an online portal where lenders could fill an online version of the questionnaire and sent hard copies to any lenders who were not contactable through email. In order to improve the

completeness and accuracy of responses, IFF chased both lenders who had not responded to the questionnaire and lenders with incomplete responses.

6. 121 responses to the small lender questionnaire were received. 79 responses were from currently operating payday lenders, 21 were from lenders who had previously existed as payday lenders but no longer issued loans and 21 were from non-payday lenders, franchisees or subsidiaries of another lender. Of those 92 candidate lenders which failed to respond to the questionnaire: 66 did not respond to IFF's contact attempts, 25 were removed from the original list because they were either franchisees or not payday lenders and one company was unable to respond because it was in liquidation.
7. Within the 121 responses there were some issues around the accuracy of information provided. For example, for 89<sup>12</sup> lenders who both responded to the questionnaire and operated in 2012: in 17 cases the total number of payday loans issued in 2012 was missing; in 20 cases the value of new payday loans issued in 2012 was missing; and in 16 cases payday loan revenue in 2012 was missing.
8. Financial years were standardized across lenders as follows. Financial information provided by lenders with financial years ending before 30 June 2012 was recorded as financial year 2011. Financial information provided by lenders with financial years ending between 1 July 2012 and 30 June 2013 were recorded as financial year 2012.
9. Our analysis covers the period including financial years 2011 to 2012 inclusive for all lenders, and the financial years 2008 to 2012 inclusive for the 11 major lenders that received the more detailed information requests.

---

<sup>12</sup> This total of 89 includes some lenders who operated as lenders in 2012 but have now exited the market.