COMPETITION COMMISSION

PAYDAY LENDING MARKET INVESTIGATION

Shopping around working paper

Summary

1. In a market in which competition is working effectively, firms will be incentivized to keep their prices down and the quality of their products high because if they do not do so, customers will choose alternative suppliers. If barriers exist in the market that prevent customers from effectively shopping around for loans then firms may be able to exploit these barriers and enjoy market power.

The extent to which payday loan customers shop around for their loan

2. The evidence that we have reviewed suggests that there are a number of different information sources which are used by payday loan customers prior to taking out a loan. These include lenders' advertising, web search, lenders' websites, comparison websites, visiting a store and personal recommendations.

3. Our customer survey suggests that a significant proportion of payday loan customers do not shop around prior to taking out a loan. Seven out of ten customers reported that they had not shopped around prior to taking out their most recent loan, and six out of ten customers reported never having done so. Online customers are more likely to shop around than high street customers.

4. We have considered the effectiveness of the shopping around that does take place. Of the minority of customers that did shop around, our survey suggests that nearly all found out how much it would cost to borrow the amount required from another lender and how quickly the other loan would be granted. A lower proportion (around two-thirds of customers that reported shopping around) reported finding out the cost of another lender's loan if they did not pay back on time. Of those customers who

reported shopping around online using lenders' websites,[1] half reported visiting the websites of more than three lenders.

Indicators from market outcomes of barriers to shopping around

5. We have carried out a preliminary review of the extent to which market outcomes suggest the existence of barriers to shopping around for payday loan customers. We have considered: *(a)* the price dispersion of payday loan products, and *(b)* some evidence on customers' sensitivity to changes in the prices of payday loans.

6. In a competitive market where customers are able to shop around effectively, it would normally be expected that (in the absence of differentiation between products), differences in prices would be competed away over time as customers substitute away from products that are more expensive than alternatives). However, when consumers face search costs, price dispersion may arise. As noted in the working paper on the 'Pricing of payday loans', although the prices of a number of products are clustered at around £30 for a £100 one-month loan that is repaid on time, there is still some significant variation in prices across lenders, even after controlling for potential differences in product characteristics. Price differentials are greater in the event that a loan is rolled over or repaid late.

7. Evidence showing a lack of sensitivity of customer demand to price changes may also be an indication of the existence of barriers to shopping around. On the basis of the evidence that we have seen to date, lenders' internal analysis generally suggests that customers' overall sensitivity to prices is low (although we are continuing to consider evidence on how customers respond to price changes). There is also evidence that lenders are more likely to offer pricing promotions for loans advertised on comparison websites, which in turn suggests that those customers using

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[1] 89 per cent of those who shopped around for any loan visited the website of payday loan lenders.

comparison websites may be more responsive to prices. These are issues that we intend to consider further in future work.

Potential barriers to shopping around

8. We have considered three potential mechanisms which could inhibit the extent to which customers shop around effectively prior to taking out their loan:

- Some customers may have weak incentives to shop around effectively.
- There may be restrictions on the availability of, ease of access to and comparability of the information required by customers to shop around effectively.
- Customers may be over-optimistic about their ability to repay their loans in the future, which may inhibit the extent to which they shop around on certain product characteristics.

Weak incentives for customers to shop around

9. Some customers may have weak incentives to shop around effectively for a payday loan. This could be the case if payday loan customers perceive the need for the loan to be urgent, and are therefore reluctant to spend time shopping around. Payday loans are by their nature a short-term credit option, with most products allowing funds to be accessed within a matter of minutes or hours. In many cases payday loans are taken out in response to unexpected financial difficulties to pay for urgent expenses.

10. The evidence that we have collected to date suggests that the perceived urgency of the loan is likely to make some borrowers reluctant to spend time shopping around. The most common reason given by borrowers in response to our customer survey for not shopping around (or not shopping around more) was not having enough time to do so. We have seen considerable evidence to suggest that borrowers placed a high value on the speed of access to credit, including evidence from our customer survey (when asked to indicate the importance of different product characteristics, speed

was most often chosen as the most important) and from lenders' advertising materials and websites (on which the speed of access to funds is often given significant emphasis).

11. There is also evidence (among a relatively small minority of customers) suggesting that some individuals may have limited interest in or appetite for shopping around. This may be due to an absence of perceived benefits to shopping around, for example because of the relatively small size of loans or a perception that lenders offer similar terms. We note, however, that the evidence of price dispersion would suggest that the potential financial gains from selecting a cheaper provider can be significant, particularly for customers who roll over a loan, are late in repaying or who are repeat users of payday loans.

Restrictions on the information required by borrowers

12. Customers may face restrictions on the availability of—or ease of access to—the information required to shop around effectively. This could be the case if:

- the information presented by lenders in stores or on their websites is unclear or incomplete;
- comparing loans offered by different lenders is difficult; and/or
- borrowers face uncertainty regarding whether or not they will be approved for a loan.

13. We have reviewed the websites of the major lenders, and found that key information about the terms on which loans are offered (and particularly fees and interest charges on the initial loan) is typically available on each lender's website and can be relatively easily found. The information is generally clearly presented (using font of normal size and weight).

14. Even if information about individual loans is readily available, however, customers may encounter difficulties when shopping around, if comparing the attributes of different loans is complex and/or they struggle with financial terms. Compared with other credit products, traditional payday loans appear relatively simple. However, differences in product characteristics between lenders may make comparisons complicated, especially if customers repay late or extend their loan. The analysis that we have carried out so far in our investigation suggests that there is variation in which lender is cheapest, depending on the duration of that loan and on whether a loan is repaid late or not.

15. In many markets for financial products, comparison websites play a key role in helping customers to compare the offering of different suppliers. We are considering the extent to which comparison websites are currently available for payday loans as well as any limitations in these websites' functionality.

16. We are also considering the role of lead generators and credit brokers and the extent to which these intermediaries facilitate or impede effective shopping around.[2] We note that responses to our survey suggested that only 7 per cent of new online payday loan customers reported having applied via a broker or third party—this is substantially lower than our estimates (based on the transaction data) that 35 per cent of all new customers apply via a broker.

17. One possible concern is that many borrowers using lead generators are not aware that they are visiting this type of intermediary. A web search for payday-related terms will often generate a mixture of direct lenders and lead generators among both the organic and pay-per-click advertisements, and neither the name of the product or lender, nor the text accompanying these search results, will identify the target

[2] A description of the service offered by lead generators is provided in the annex to our working paper on entry and expansion.

website as belonging to a credit broker rather than a lender (although this fact will typically appear on the lead generator websites at some point). Visually, lead generators' websites are very similar to those of payday lenders themselves.

18. We also noted that some lead generators describe the service they provide by referring to saving customers the need to search or shop around. There is a risk that, even when they are aware of using lead generators, some customers may interpret the wording used on these sites as meaning that they were being matched with the 'best value' loans for them and therefore they do not need to shop around, whereas in practice the customer is matched with whichever lender pays the highest amount for the 'lead'. One important piece of information that may be difficult for customers to access is whether or not they will be approved for a loan, which will generally require a customer to submit a completed application form. The strength of customers' desire to obtain credit, the perceived urgency of doing so and the need to submit a completed application form to know whether or not they will be approved may combine to deter customers from shopping around. Some customers may also be concerned by the possibility that additional applications would appear on their credit record and could affect their future access to credit.

19. Uncertainty about whether or not a loan application will be accepted may cause some customers to base their decision of which lender to apply to on their perception of which lender will give them the highest probability of approval (eg a lender with which they have an existing relationship), rather than which has the most attractive loan offer. To the extent that customers have an understanding of the service offered by lead generators (we are continuing to investigate this issue), customers may choose to use these websites as a way to speed up the process of finding a lender willing to approve their application. In doing so, these customers will essentially be forgoing any comparison of lenders on the basis of their different loan attributes.

Over-optimism regarding ability to repay

20. Some customers may be over-optimistic regarding their future ability to repay the amount that they owe. If this is the case, then customers may pay insufficient attention to the fees and charges associated with repaying a loan late (as they will underestimate the relevance of these charges to themselves).

21. We have assessed the extent to which there is evidence of over-optimism among payday loan customers. We note that a significant proportion of payday customers repay late or roll over a loan. There is some evidence from our survey that customers may not be fully aware of late fees until they come to pay them.

Introduction

22. In this paper we consider whether impediments exist in the payday loan sector that restrict borrowers' ability to shop around effectively. We consider barriers to shopping around that may affect both first-time users of payday loans and repeat customers. Barriers that are specific to repeat customers—and may serve to 'lock' borrowers in to a specific lender—are not covered in this paper, but are the subject of ongoing work. Our assessment is structured as follows:
    - *(a)* first, we give some background about payday loan customers' reasons for borrowing as this provides the context for their decisions about payday lending;
    - *(b)* second, we discuss evidence on the information sources used by payday loan customers to find out about lenders and their products, and the extent to which customers shop around for their payday loans;
    - *(c)* third, we consider any evidence of market outcomes which might suggest that barriers to shopping around exist which impede payday loan customers' ability to shop around effectively; and
    - *(d)* fourth, we assess a number of potential factors which might impede the ability of borrowers to shop around effectively for their loan.

23. The annexes to the paper summarize the consideration of related issues in previous Office of Fair Trading (OFT) and Competition Commission (CC) investigations; the product features highlighted in payday lenders' advertising materials and on their websites; and the relative prices of different lenders under different borrowing scenarios.

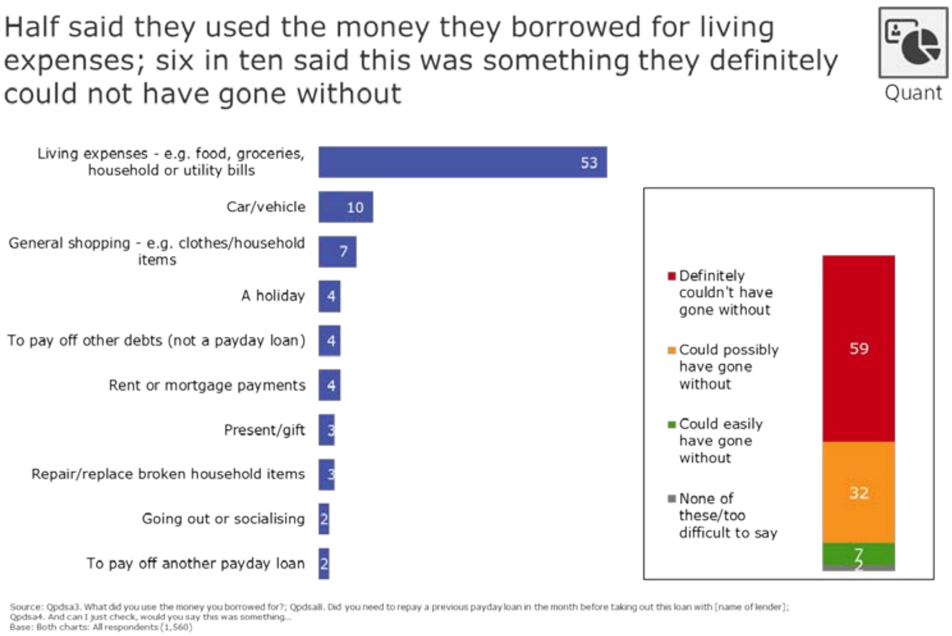
Reasons for taking out a payday loan

24. The majority of payday loan customers use their loans for essential living expenses. In particular, responses to our customer survey suggested that 57 per cent of customers used their payday loan to pay for living expenses (food, groceries, household or utility bills) or rent/mortgage payments, 10 per cent to cover expenses related to car/vehicle and a further 7 per cent for general shopping (eg clothes, household items). Nearly 60 per cent of customers said that the expenditure was something that they definitely could not have gone without—another one-third of customers said the expenditure was something that they could only have possibly gone without.[3] A minority of customers used their loans for more discretionary expenditure, such as holidays or presents/gifts. Fewer than 10 per cent of customers said that they could easily have gone without the purchase (see Figure 1 for further detail).

[3] If they had not been able to get it on that occasion, around 30 per cent said that they would have gone without the loan. A similar proportion said that they would have borrowed from friends/family. Fewer customers said that either they would have borrowed in some other way (6 per cent), or they would have spoken to the people who owed the money and requested more time (7 per cent), or they would have defaulted on another loan/bill/payment (5 per cent).

FIGURE 1

Reasons for taking out a loan: CC customer survey



Source: CC customer survey.

25. These findings are consistent with other consumer research, including the YouGov DebtTrack survey[4] (which found that 60 per cent of payday loan users had used their most recent loan for everyday bills); research commissioned by Wonga (which found that [✂] per cent of Wonga's customers had used their most recent payday loan for bills); research commissioned by the Consumer Finance Association (which found that about [✂] per cent of customers had used payday loans for living and emergency expenses); and a survey of The Money Shop customers (which found that relatively few customers ([✂] per cent) used payday loans for treats, entertainment, going out, holidays, etc).

26. Responses to our customer survey suggested that in most cases, payday loans were linked to unexpected changes in income or expenditures. In particular, the majority of

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[4] See Department for Business, Innovation & Skills (June 2013), 'Credit, Debt and financial difficulty in Britain, 2012' (Table B6), www.gov.uk/government/uploads/system/uploads/attachment_data/file/208075/bis-13-p187-a-report-using-data-from-the-yougov-debttrack-survey.pdf.

respondents (52 per cent) said that their need for a loan was linked to an unexpected increase in expenses and outgoings. 19 per cent said that the need was due to an unexpected decrease in income; 31 per cent said their need for a loan was not due to either of these factors. Of those who said their need for a loan was due to a change in financial circumstances, nine in ten expected this change to be temporary and only 5 per cent expected the change to be permanent.[5]

Shopping around among payday loan customers

27. In this section we discuss evidence on how customers select their payday loan. We begin by discussing the main sources of information that are available to customers when searching for a lender. We then set out evidence on the extent to which we observe payday loan customers comparing lenders and shopping around prior to taking out their loan.

Sources of information

28. Borrowers have a number of potential information sources available to them when deciding which payday loan to take out. These include: advertising, web search, company websites and comparison websites. For customers considering taking out loans on the high street, visiting a shop is another potential source of information. Lenders have also cited word-of-mouth recommendations as being an important source of new customers.

Advertising

29. Lenders rely considerably on advertising to raise awareness of their payday products, with television and pay-per-click advertising in particular used extensively by the largest online lenders. The importance of advertising in generating awareness of a lender among potential customers is corroborated by a number of customer

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[5] The remaining 2 per cent said that they did not know.

surveys carried out by lenders. For example, research conducted by Wonga (the payday lender with the largest television advertising expenditure) estimated that [✂] per cent of its customers first found out about Wonga from television advertising. Around [✂] per cent of Payday Express's (Dollar) customers reported first hearing about the company through online advertising, as did [✂] per cent of PaydayUK's (Dollar) customers.

30. In addition to raising brand awareness, customers may use advertising as a source of information about the attributes of different lenders' products. In particular, in response to our customer survey, among the minority of customers that had ever shopped around for a loan, 57 per cent reported that advertising was used as a source of information to compare the pros and cons of different lenders. A review of lenders' advertising (see Annex 2) suggests that speed of application process, amount of loan available, ease/simplicity of applying are among those product attributes most commonly emphasized in lenders' advertising materials.

Web search

31. Another source used by customers to find out information about payday lenders is web search, using tools such as the Google search engine. Research conducted by Wonga suggests that around [✂] per cent of its customers first discovered the company by web search. Customer research by Dollar suggests that [✂] of its online customers first heard about it via a search engine ([✂] per cent for PaydayUK, and [✂] per cent for Payday Express).

32. An individual using Google to search for a payday-related term will be presented with links to the websites of a number of lenders in the organic search results, as well as a number of pay-per-click adverts for payday lenders and brokers. To gain a better understanding of the typical search results that payday loan customers face when

searching on Google, we analysed the search results on Google's first page for a number of payday-loan-related terms[6] in November 2013 and January 2014.[7]

33. Our analysis suggests that of all of the top 10 organic search results generated by each of these searches on each of these dates, 39 per cent were lenders' websites, 15 per cent were comparison websites, 5 per cent brokers'/lead generators' websites and the remaining 41 per cent included news websites, advice websites such as moneysavingexpert.com, Wikipedia, etc.[8]

34. Among the pay-per-click adverts (considering both those placed at the top and those placed on the side of Google's page), lenders' websites were the most common links (67 per cent of the adverts). Lead generators appeared much more frequently (26 per cent) than in the organic search results. Adverts related to comparison websites were 4 per cent, and the remaining 2 per cent related mostly to financial products other than payday loans.[9]

Visiting payday lenders' websites

35. Another important information source for customers seeking to compare the different attributes of the loans offered by different lenders is the websites of those lenders. Of the minority of customers who stated that they had shopped around in our customer survey, 89 per cent reported having got the information to compare the pros and cons of different lenders by visiting the websites of payday loan companies.

36. In addition to an application page that customers can use to apply for a loan, lenders' websites typically have pages showing the relevant loan terms, including rate of

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[6] Namely: *compare payday*, *payday*, *payday lenders*, *payday loan direct*, *payday loan lenders*, *payday loans* and *payday UK*.
[7] Specifically on 4, 6, 8, 11, 13, 15 and 18 November 2013, and 29, 30, 31 January 2014.
[8] Lenders' website appeared more frequently (49 per cent) in January 2014's search results than in November 2013's (35 per cent) whilst links to 'others' were more common in November 2013 (47 per cent) than in January 2014 (28 per cent).
[9] These figures are roughly similar in November 2013 and January 2014.

interest and total cost of the loan, charges in case of default or late payment, amount of loan that can be borrowed, duration of the loan, repayment scheme options, etc. Many of them also have a Frequently Asked Questions (FAQ) page which contains additional information, for example on the Continuous Payment Authority (and how to cancel it), the speed of money transfer, eligibility criteria.

Comparison websites

37. A number of websites exist (or previously existed) allowing visitors to carry out some comparison of the terms of different payday lenders.

38. One such website which appears particularly prominently in search results for payday-related terms is www.money.co.uk. This site provides prospective borrowers with a list of payday products offered by a number of lenders and brokers. For each company the website provides information on the representative annual percentage rate (APR), the loan amount, the maximum duration and the total repayable for £100 for a standard lending period (which could vary by lender).

39. www.moneysupermaket.com, one of the largest financial services price comparison websites, operated a payday loan comparison site until Spring 2013. It told us that this service was withdrawn in response to the increasing level of media and political scrutiny into payday lender practices, and the perception of non-compliance in the sector. When active, the comparison table available on the website listed the products of six lenders and for each of them information on the representative APR, the loan term and the total amount repayable was provided. When comparing lenders, customers could select three possible amounts: £100, £200 or £300. Apart from loan amount, no other information was collected from customers.[10]

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[10] This was in contrast to other comparison tables offered by moneysupermarket.com. moneysupermarket.com told us that the reason for this was the limited differentiation between payday lenders' products.

www.moneysupermaket.com told us that the traffic generated by visitors searching for payday loans was very limited compared with other financial products listed on the website (especially credit cards and insurance products).

40. We are also aware of the existence of a number of other smaller comparison websites, including allthelenders.co.uk and whichwaytopay.com. We are continuing to research the extent to which comparison sites are used by customers in the payday lending sector.

Visiting a store

41. High street lenders generally also operate websites which provide information about their loans. Of seven high street brands owned by the 11 major payday lenders, five have a website which provides information on their payday loan products (Robert Biggar's and Duncanson & Edwards' websites contain no information on payday loans). We also noted that of the 13 per cent of high street customers who stated that they had shopped around in our customer survey, a high proportion (61 per cent) reported having got the information to compare the pros and cons of different lenders by visiting the websites of payday loan companies.

42. It is also likely that for many customers taking out a payday loan on the high street, an important information source will be the store itself. This is supported by consumer research commissioned by The Money Shop (Dollar), which found that more than [✄] per cent of its customers first found out about it by seeing a store in the area. According to our survey, of the small proportion of high street customers who reported having shopped around for their loan (13 per cent), around half reported having visited the shop of high street lenders in order to get information to compare the pros and cons of different lenders.

Word of mouth

43. Finally, some customers may rely on recommendations and word of mouth as a source of information about the payday loans on offer. Consumer research provided by Wonga suggested that [✄] per cent of customers found out about the company via recommendation. Ariste provided details of customer research that it had commissioned in which [✄] cited recommendations as an information source used when they were considering taking out a payday loan. In our own customer survey, of the minority of customers that reported having shopped around prior to taking out their loan (see paragraph 45), 17 per cent reported having spoken to friends and family as a way of getting the information to compare different lenders.

How much shopping around do we observe?

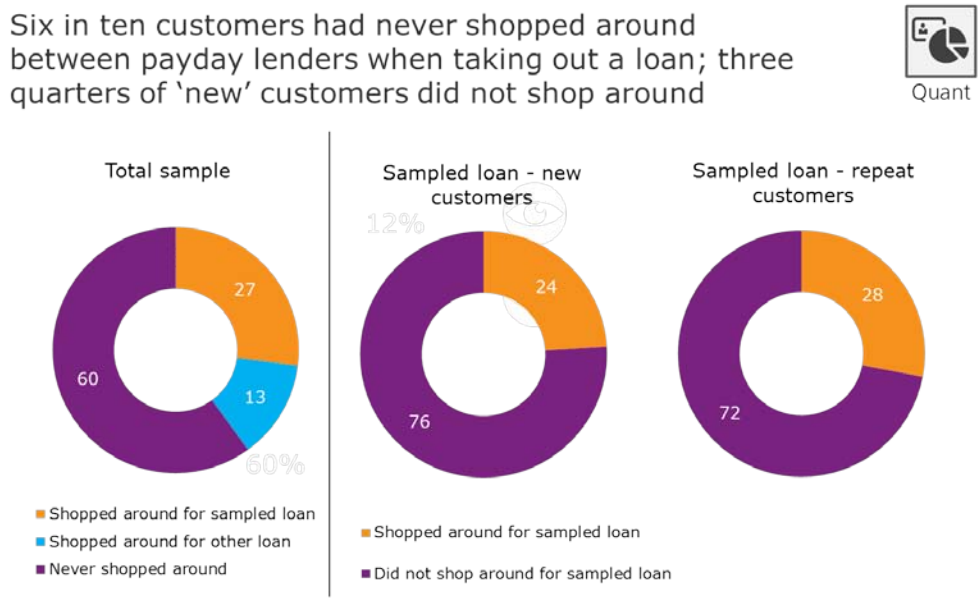
44. In this section we consider evidence on the extent to which customers compare different lenders before taking out their loan, and the extent and nature of these comparisons.

Proportion of customers that report shopping around

45. Our customer survey suggests that a significant proportion of payday loan customers do not shop around prior to taking out a loan. In response to the question 'Did you shop around between payday lenders—for example, compare some of the pros and cons of different payday lenders—before you applied for your loan?', seven out of ten customers reported that they had not done so for the most recent loan, and six out of ten customers reported never having done so (see Figure 2).

FIGURE 2

The extent of shopping around: CC customer survey



Source: CC customer survey.

46. Both new and repeat customers shopped around for their most recent loan to a similar extent. Specifically, 34 per cent of repeat customers reported having shopped around for their most recent loan compared with 28 per cent of new customers. Online customers are more likely to shop around (32 per cent) compared with high street customers (13 per cent). In general, shopping around appears to be more common among customers with higher levels of educational qualifications (ie they hold a degree or a diploma), and those that have higher incomes, borrow a larger amount, and favour the flexibility of repayment as the most important factor in their decision.

47. Of the minority of customers who shopped around, a small proportion (12 per cent) reported having started an application with another lender before taking out the loan. Around one-third of those customers who reported having started an application with another lender said that their application was refused by the other lender, while the

remaining two-thirds were approved but did not take out the loan with the other lender.

The extent and nature of comparisons

48. We considered the extent and nature of the search activities that were undertaken by the minority of customers who reported shopping around. 91 per cent of customers who said that they shopped around reported having found out how much it would cost to borrow the amount needed from another lender; 84 per cent how quickly the other loan would be granted; and 80 per cent the amount that they could take out. Around two-thirds of customers who shopped around reported having found out the length of the application process for another lender (66 per cent) and the cost of borrowing with that lender if they did not pay back on time (64 per cent).

FIGURE 3

What customers look at when they shop around: CC customer survey

Source: CC customer survey.

49. Of those customers that reported shopping around and used lenders' websites to do so,[11] around half reported visiting the websites of three or fewer lenders. Of those

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[11] 35 per cent of all respondents.

customers that reported shopping around and visited lenders stores to do so,[12] around two-thirds (70 per cent) reported visiting the shops of one or two lenders.

50. Our qualitative research suggests that in some cases the shopping around behaviour of online customers may not be particularly thorough. For example, for some customers shopping around consisted of typing payday-loan-related terms (eg 'short-term loan') into a search engine and clicking on first two or three results, spending ten minutes, picking one and applying (and if rejected, trying another one). Other customers, despite spending a significant amount of time searching and comparing, appeared unable to identify the best deal for them. We discuss below potential obstacles that may render loan comparisons difficult for customers or make it difficult for customers to identify the best deal for them, notwithstanding some customers' willingness to devote time to shopping around.

Other evidence on the extent to which customers shop around

51. We also asked lenders for any evidence discussing the extent to which their customers compare the products of different payday lenders or different credit providers:

   (a) Wonga told us that its customer research indicated that [✂] per cent if its first-time customers considered at least one other lender's website before choosing Wonga[13] and that an increasing proportion of these customers looked at several websites.[14]

   (b) CashEuroNet submitted two pieces of evidence: (i) the Google pay-per-click conversions which indicate that the majority of click-throughs do not reach the application stage [✂]; and (ii) [✂].

[12] 17 per cent of all respondents.
[13] The question asked to the customers was 'Before deciding to apply for your first Wonga loan, can you remember if you looked at and considered other cash advance websites too?'.
[14] According to customer research conducted in March 2013, [✂] per cent of Wonga's customers considered one or two other lenders before choosing Wonga, and [✂] per cent considered 'lots'.

52. The Bristol University Research also investigated the extent to which payday loan customers shop around. It found that 26 per cent of high street customers and 46 per cent of online customers reported having compared the cost of their loan with other lenders before taking out the loan.

53. This evidence points to a higher incidence of shopping around than suggested by our own consumer research. However, we note the methodological differences between these consumer studies and our own, both in terms of the samples used (and in particular their size and representativeness of customers as a whole) and the specific questions put to borrowers. In relation to CashEuroNet's evidence (paragraph 51(b)), it is unclear to what extent those individuals who do not go on to take out a loan from CashEuroNet do in fact shop around and take out a loan from another lender instead, rather than not taking out a loan at all.

Preliminary observations

54. The results of our survey show that around three in ten customers report having shopped around for their most recent loan. This is lower than the proportion of customers reported to have shopped around in other consumer research. We note, however, that the proportion of customers reported as shopping around is likely to be affected by the precise question asked, and the representativeness of the sample used.

55. Our quantitative and qualitative research suggests that some of those reporting having shopped around may not always have effectively gathered information on—and compared loans across—multiple lenders.

56. Overall the evidence suggests that while some shopping around takes place, the majority of customers either do not shop around at all, or do not do so effectively.

Evidence from market outcomes

57. This section discusses the extent to which market outcomes suggest the existence of barriers to shopping around for payday loan customers. We analyse evidence on:

(a) price dispersion; and

(b) customers' sensitivity to price (and non-price-related) changes to payday loans.

Price dispersion

58. In a competitive market where customers are able to shop around effectively and with limited differentiation between products, we would expect differences in prices to be competed away over time (as customers substitute away from products that have a higher price compared with the alternatives). However, when consumers face search costs, price dispersion may arise.

59. There is a substantial body of economic literature, both theoretical and empirical, on search costs and price dispersion, starting with Stigler's paper (1964)[15] which supports the finding that in many markets search costs may drive price dispersion.[16] The CC considered price dispersion as an indicator of the existence of search costs in its market investigation on Protection Payment Insurance (PPI). In that case, the CC noted that the wide price dispersion in relation to some products implied that there were significant potential gains from searching and this, in combination with the limited amount of shopping around observed in that market, suggested that there were significant barriers to search (see Annex 1 for a further discussion of how barriers to shopping around were treated in the PPI and a number of other CC investigations).

[15] Stigler, G (1964), 'The economics of information', *Journal of Political Economy*, Vol. 61, pp213–225.
[16] For a review of the relevant literature, see Baye, MR and J Morgan (2005), 'Information, search, and price dispersion', Handbook on Economics and Information Systems.

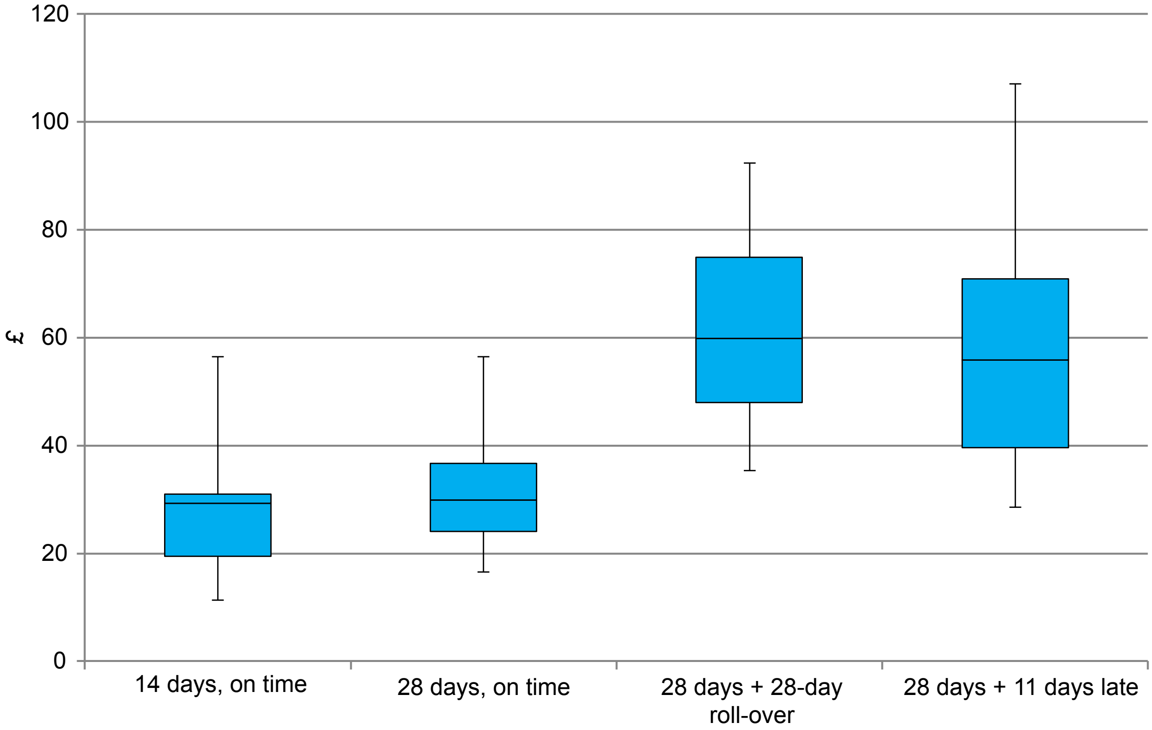
60. As noted in the working paper on the 'Pricing of payday loans', although the prices of a large number of products tend to cluster around £30 for a £100 one-month loan that is repaid on time, there is still some significant variation across lenders. The variation is even greater where customers repay late or roll over.

61. Figure 4 shows a box plot of price variation across four different pricing scenarios.[17] The blue boxes identify the price distributions between the 25th and the 75th percentile. The smaller the box, the more concentrated (less dispersed) prices are. In Scenario 1, 50 per cent of the prices are distributed between £19 and £31 for a £100 loan. Prices in Scenario 2 vary by a similar amount (with a difference between the 75th and 25th percentile of around £13). The range of variation in Scenarios 3 and 4 is considerably larger (with a difference between the 75th and 25th percentile of around £27 to £31).

[17] In the Pricing of payday loans paper we set out the following scenarios:
(a) Scenario 1: take out a £100 loan for 14 days and payback on time;
(b) Scenario 2: take out a £100 loan for 28 days and payback on time;
(c) Scenario 3: take out a £100 loan for 28 days and then rollover for 28 days; and
(d) Scenario 4: take out a £100 loan for 28 days and payback 11 days late.

FIGURE 4

Variation in payday loan prices for different repayment scenarios



Source: CC analysis of 11 major lenders' data.

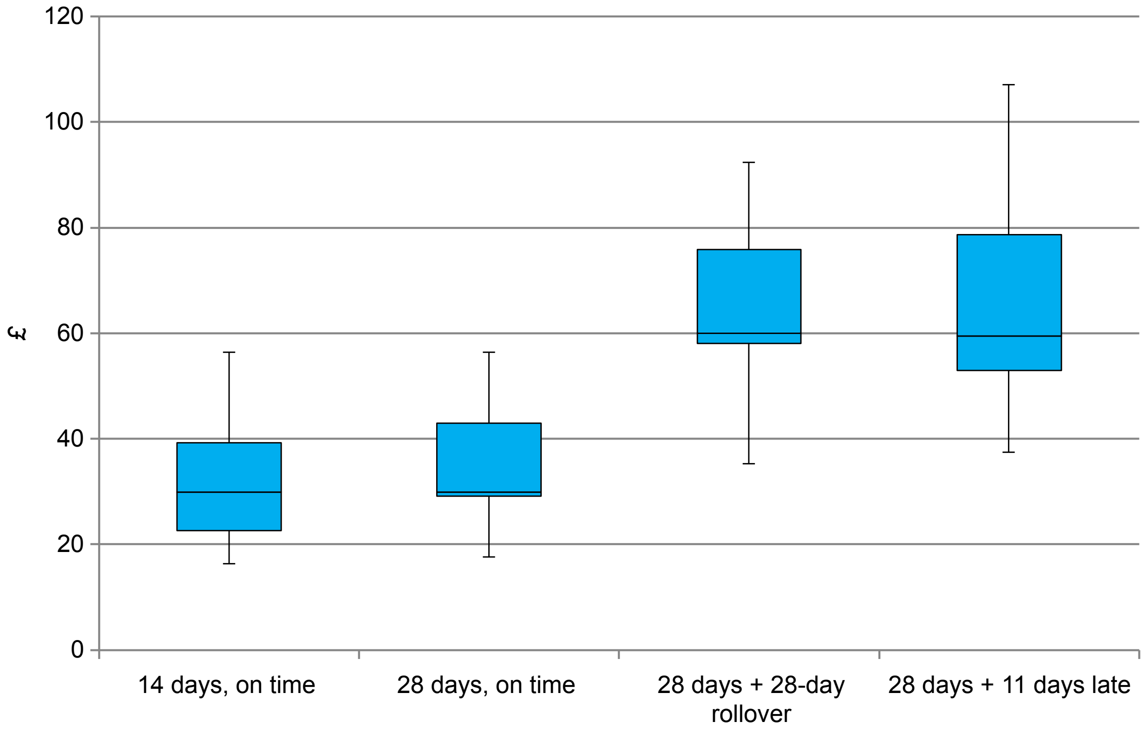
62. One possible explanation for observed differences in prices is differences in product characteristics (such as repayment flexibility or the availability of top-up facilities). To control for this potential confounding factor we explored the price dispersion considering only 'standard' payday loan products (ie payday loans that must be repaid in full on the payday) and excluding instalment loans and products with open credit facilities, namely Zebit Short Term Cash Loan, QuickQuid FlexCredit, Speedy Cash Flex Loan and Speedy Cash Flex Account.[18] Figure 5 shows a box plot of price variation for this subset of loans. The extent of price dispersion is still substantial. The difference between the maximum and the minimum loan prices in Scenarios 1 and 2 is around £40, and £57 and £70, respectively, in Scenario 3 and Scenario 4.

[18] We included QuickQuid Payday. Although this product envisages the possibility of repayment in instalments it is commonly used as a standard payday loan product.

The size of the range between the 25th and the 75th percentile varies between £14 (Scenario 2) and £26 (Scenario 4).

FIGURE 5

Variation in payday loan prices for different repayment scenarios (no instalment products or open credit facilities)



Source: CC analysis of 11 major lenders' data.

63. To summarize, we observe significant price dispersion in the payday loan market even after controlling for potential differences in product characteristics. These differentials are largest where customers repay late or roll over a loan.

Customers' sensitivity to price changes

64. As set out in paragraph 58 price dispersion may arise if customers do not respond to differences in prices by substituting away from those providers who charge higher prices. Limited customer sensitivity to price changes may similarly be an indication of barriers to shopping around.

65. We asked lenders to provide any evidence/documents which were relevant to understanding how customers respond to changes in the price of payday loan products. Below we summarize the most relevant responses:

(a) Wonga submitted research [✂].[19]

(b) CashEuroNet provided a number of examples of phone conversations between customers and its call centre that relate to how customers responded to price and non-price competition [✂].

(c) [✂] assessed the effect on volume of a change in the interest rate charged by [✂]. It concluded that [✂]. The analysis also suggested that the planned price change [✂] was not expected to have an adverse effect on the [✂] argued that customers using comparison websites tended to be more price responsive: [✂] subsequent analysis [✂] found that at prices [✂] customers showed some price sensitivity [✂]. However, [✂] beyond [✂] per cent would have [✂] also submitted analysis on the impact of price [✂][20] 2013 and resulted in a drop off in new customer rate by [✂] per cent.

(d) Lending Stream told us that it made minimal changes to the price of its products since inception and these changes did not result in a ‘major adverse reaction from customers’. It submitted data showing that the booking rate (customers moving from approval stage to final booking) had not changed significantly following the rate increase in 2010 (from 25 per cent to 30 per cent per month), and in 2013 (from 30 per cent to 34 per cent per month) though it noted that when it increased the price in 2013 it also dropped the faster payment service fee of £15.

[19] Wonga also submitted an internal document which analysed the impact of various promotional campaigns undertaken by Wonga in 2013 (see ‘Pricing of payday loans’ working paper for further details). The study compared some key performance indicators (volume, revenue, arrears, Profit and Loss, etc) for a group of customers targeted by the promotional campaign against the same indicators for a control group. [✂]

[20] [✂]

(e) H&T told us that offering interest rates considerably lower than some of the major lenders[21] (like Wonga) did not result in any significant increase in volume. As a major cause of the apparent lack of customers' responsiveness, H&T pointed at the negative media coverage which created a perception that 'lenders are all as bad as each other' rather than informing customers on the available alternatives in the market and the opportunity to 'save significant amounts by shopping around'.

(f) CFO Lending told us that the market had become more price sensitive and that other lenders had an increasingly direct effect on its prices. It also indicated that its prices affected the profile of customers it attracted, which it also factored into its pricing.

66. In general, the evidence that we have seen to date suggests that customers' sensitivity to prices is low—internal analysis carried out by lenders shows that on occasion they have been able to raise prices without the risk of losing significant numbers of customers, and there is an example of a lender being unable to attract customers despite its prices being significantly lower than its competitors. At the same time, there are some indications from lenders' internal analysis that some customers may be sensitive to price increases. There is also some evidence that lenders are more likely to offer promotions on comparison websites, which in turn suggests that those customers using comparison websites may be more responsive[22] to prices. We will consider these issues further in future work.

[21] H&T submitted that it initially charged 15 per cent compared with 37 per cent offered by Wonga.
[22] [✂]

Factors that may inhibit shopping around

67. We identified a number of mechanisms which could restrict the extent to which customers shop around for a payday loan and/or are effective in doing so. These can be categorized as follows:

(a) weak incentives for customers to shop around;

(b) restrictions on the availability of, and ease of access to, the information required to shop around and/or make effective comparisons; and

(c) over-optimism in relation to customers' ability to repay their loans in the future.

68. The mechanisms we assess below are relevant for both online and high street customers, although some of the issues that we discuss in relation to paragraph 67(b) concern mostly, or only, online customers (eg in relation to lead generators).[23]

Customers' incentives to shop around

69. We looked at whether there might be factors that would act to reduce payday loan customers' incentive to collect and compare information on different lenders' products before taking out a loan. In particular we looked at:

(a) the time pressures that payday loan customers perceive themselves to be under, when making borrowing decisions; and

(b) whether there was a lack of perceived benefits from shopping around.

The time pressures facing payday loan customers

70. Payday loans are by their nature a short-term credit option, with most products allowing funds to be accessed quickly (often within a matter of minutes or hours). As set out in paragraphs 24 and 25 above, our customer research suggests that payday loans are most often used for essential living expenses, often following an un-expected, temporary decrease in income and/or increase in expenditure. This

[23] See paragraphs 89–91.

suggests that the need for payday loans will often be urgent. Consequently a customer looking to take out a payday loan may be unwilling to spend time collecting information on different lenders' products and comparing them prior to taking out the loan. Put another way, the opportunity cost perceived by a payday loan customer of time spent shopping around is likely to be high.[24]

71. Our customer survey provides some evidence that the time pressure perceived by payday loan customers could restrict the extent to which they shop around. In particular, 'Not enough time to search' was the most common reason cited for not shopping around (21 per cent) by the respondents to our survey.[25] Even among the minority of customers who reported shopping around, the lack of time was cited as the most common barrier to not comparing a larger number of lenders or spending more time comparing offers (34 per cent).

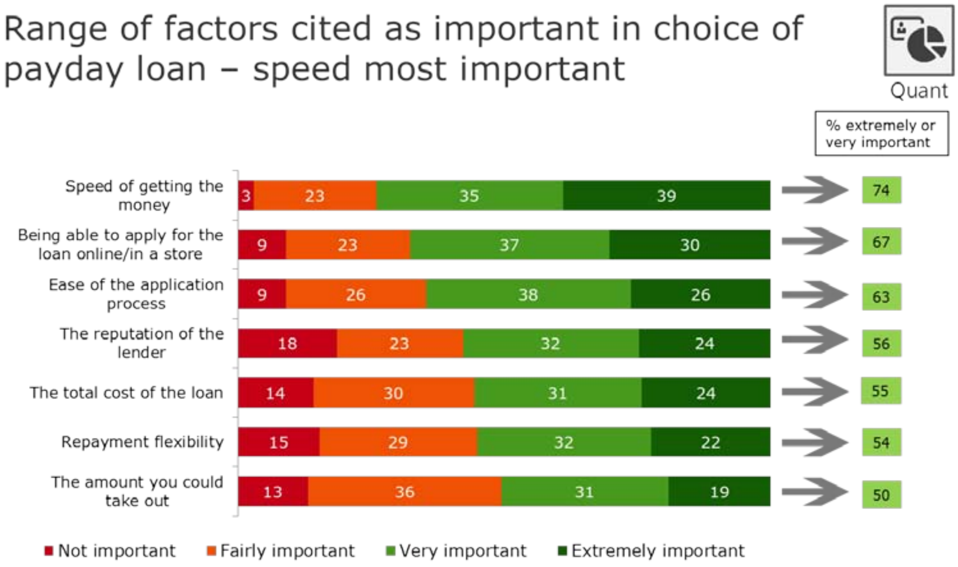
72. More generally, we have seen considerable evidence that the length of time taken to access funds is important to payday loan customers. As part of our customer survey we asked respondents to indicate the importance of various product characteristics in the choice of payday loan. 'Speed of getting the money' was the factor most commonly emphasized, cited as very or extremely important by 74 per cent of the respondents (see Figure 6).

[24] Which? pointed at the results of the University of Bristol study which found that payday loan users choose a lender primarily on the basis of convenience and speed of application and payment. It submitted that the behavioural economics suggested that consumers might tend to heavily discount the future cost of credit and as a consequence choose lenders that promise to pay out rapidly at the expense of offers with significantly lower interest rates.

[25] We note that the customers who said that they could easily have gone without the loan (12 per cent of those who did not shop around) cited 'happy with the fist loan I looked at' as the most common reason cited (20 per cent), whilst lack of time was cited less frequently (12 per cent). Among those who said that they definitely could not have gone without the loan (62 per cent of those who did not shop around) lack of time was the most common reason cited (21 per cent).This suggests that the more customers consider the loan as indispensable the more they feel under time pressure to obtain a loan.

FIGURE 4

Factors cited as important in the choice of payday loan—CC customer survey



Source: CC customer survey.

73. When respondents were pushed to choose a single factor as the most important, three in ten choose speed. The next most frequently cited factor was the reputation of the lender and the total cost of the loan, chosen by, respectively, 14 and 13 per cent of respondents.[26] Both new and repeat customers cited most frequently 'speed of getting the money' (though speed was chosen relatively more frequently by repeat customers).[27,28]

74. 'Not enough time/need to a get a loan quickly' was a major reason given for not shopping around by both new (18 per cent) and repeat customers (23 per cent)[29] as well as for both high street (32 per cent) and online customers (31 per cent).[30]

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[26] See Figure 73 of TNS BMRB survey report.
[27] 25 per cent for new customers versus 35 per cent for repeat customers.
[28] Compared with repeat customers, new customers chose more frequently the reputation of the lender and the ease of the application process as the most important factor.
[29] Similarly, of those customers who shopped around, 30 per cent of repeat customers and 36 per cent of new customers cited 'lack of time' as the major reason for having not compared more lenders.
[30] Speed appears to be of particular importance for those customers who have used multiple lenders (42 per cent of those who had used three or more lenders considered the speed of getting the money to be the most important factor compared with 26 per cent of those who had used one lender).

75. The particular importance of speed and convenience to customers is also supported by consumer research carried out by the lenders. For example, a survey commissioned by Wonga found that [✂] per cent of its customers indicated the most appealing feature of Wonga's products 'that it is faster than other lenders', and a survey commissioned by CashEuroNet in 2012 found that [✂] indicated speed of process as the most important driver of the provider choice. CashEuroNet submitted that a more recent survey (August 2013) suggested that different factors (especially interest rate [✂]) were now more important drivers of product choice than speed within the UK payday loan market. This indicated that speed was a lower factor overall because rapid availability of money was provided by the main payday lenders and therefore 'is not a driver of choice between different online payday loan options'.

76. Our qualitative research suggests that speed of process may remain important even when the need for the money is more discretionary. Some customers see payday loans as 'impulse purchases' and they fear that if they have time to rationalize their decision they may end up changing their mind about getting a loan ('the longer it takes the longer I doubt things, it was like an impulse thing').

77. Finally, we noted that many lenders highlight on their website and/or in the advertising campaign the speed of the arrangement as a major feature of their offer (see Annex 2 for further details).[31,32] This further supports the importance to customers of the speed of the loan process.

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[31] Cash Converters submitted that it believed it was at a disadvantage to competitors who relied on credit searches to assess affordability whilst it required customers to complete a detailed income and expenditure form which it then matched with bank statements to verify income and ensure that all expenditures had been declared. It told us that this approach was time-consuming and customers often commented that they went to competitors who could provide them with funds more quickly.
[32] Wonga submitted that it did not consider that it emphasized the easy availability of loans and speed of arrangement but this was not given precedence over the total cost of borrowing (see Wonga's initial submission).

Lack of perceived benefits from shopping around

78. Along with the perceived high opportunity cost of time, some survey responses suggested a lack of motivation for shopping around among a minority of customers.

79. As a reason for not shopping around, 5 per cent of the customers said that 'lenders are all much the same'. Some customers also reported a lack of any interest in comparing offers: 2 per cent said that they 'couldn't be bothered' and 2 per cent said that they did not even think to compare other offers. Likewise, around 20 per cent of the customers who did not shop around (and had never done so) claimed that they were happy with the first loan that they looked at.[33] It is unclear what made customers think that the first loan they looked at was offering a good deal given that they did not shop around and/or collect information on any other loans available.

80. One possible explanation for these views is that, unlike some other financial products, such as longer-term loans or some insurance products, payday loans involve typically small amounts (one in two of the loans issued by the major lenders in the 12 months to August 2013 was for £200 or less). It is possible that some customers pay relatively little attention to the choice of the provider because, given the small amount involved, any difference between lenders may not be expected to have a material impact on the cost of the credit in absolute terms. Such a perception would not necessarily be accurate, particularly where customers take out multiple loans, are late in repaying or roll over a loan.

81. There is some evidence that customers borrowing more were more likely to shop around. Table 1 below shows how the proportion of customers who shopped around for the most recent loan increases as the amount of loan increases. The proportion of

[33] We considered if customers did not feel the need to shop around because they knew what other lenders offered having previously used loans from those lenders. This does not seem to be the case as the proportion of respondents saying that they were happy with the first loan that they looked at is the same for both new and repeat customers (20 per cent).

customers shopping around varies from 23 per cent for those who borrowed £100 or less to 32 per cent for those who borrowed more than £500.

TABLE 1 **Proportion of customers who shopped around for the most recent loan depending on the amount of loan**

Amount borrowed £	*% of customers who shopped around*
0–100	23
100–200	26
200–300	29
300–400	30
400–500	30
>500	32

Source: CC customer survey.

Preliminary observations on customers' incentives to shop around

82. Based on the above evidence, our preliminary view is that customers place considerable weight on the speed with which they are able to obtain credit. This is supported by survey evidence which indicates that lack of time is often highlighted by borrowers as a reason for not shopping around and the fact that many lenders give prominence to 'speed/immediacy' in their advertising messages. Taken together, this evidence suggests that many customers perceive their need for a payday loan to be urgent, and this will limit their willingness to shop around prior to borrowing.

83. There is also some evidence to suggest that a relatively small minority of customers may have limited motivation to shop around, possibly because of the perceived lack of benefits associated with doing so.

Ease of accessing and comparing information on loans

84. Customer decisions about taking out payday loans will be influenced by the information that customers have about the different payday loans on offer and their characteristics (eg interest rates, repayment scheme, duration of the loan, charges in case of late payment or default). The extent to which customers can assimilate and

process this information depends on whether the necessary information is available and easily accessible to them, as well as the complexity of the comparison that is required to make an effective decision.

85. We examined whether customers are likely to find it difficult to gather the necessary information to assess and compare payday loan offers. To evaluate this we considered:

(a) the clarity and completeness of the information that is available to customers about the different products on offer;

(b) the ease of comparing loans offered by different lenders; and

(c) the extent to which borrowers face uncertainty about whether or not they will be approved for a loan.

The clarity and completeness of the information provided by lenders and other sources

86. According to the results of our survey, the most common source of information for the minority of customers who shopped around was the websites of the payday lenders.[34] We have reviewed the websites of a number of online lenders in order to assess what information on payday offers is available online and how transparently this information is presented (see 'Review of the websites of payday lenders and lead generators' working paper).

87. We found that key information about loan terms (the total cost of credit, default and late charges, speed of the process, loan duration, etc) is typically available on each lender's website, and can be relatively easily found in a small number of mouse-clicks or 'page down' commands. The information is also in general clearly presented

[34] This is in particular true for online customers (92 per cent reported to have visited lenders' website to collect information that allowed comparing pros and cons of different lenders). However, also for high street customers the website of the payday lenders was the most common source of information although seeing advertising and visiting the high street shops of lenders were almost as common as visiting lenders' website (see TNS BMRB survey report, Figure 80).

using font of normal size and weight. There are, however, a few instances of incomplete or ambiguous information in relation to default/late payment charges and the maximum amount of loan that customers can borrow.

88. This appears to be consistent with the outcome of our customer survey. More than eight in ten respondents said it was either very or fairly easy to find out the information they needed in order to be able to compare lenders. 9 per cent said that it was fairly difficult to do so, and only 4 per cent claimed that it was very difficult. Similarly, more than 80 per cent of respondents who shopped around for any loan said that the information they found was very or fairly clear. A small proportion of respondents (17 per cent) who shopped around for any loan said that the information was not very or not at all clear.

89. One area in which information is generally less clear is in relation to the distinction between direct lenders and credit brokers/lead generators. In particular, a web search for 'payday lending' or related terms will often generate a mixture of direct lenders and lead generators among both the organic and pay-per-click results (see paragraph 33), and the text accompanying these results will very rarely identify the target website as belonging to a credit broker rather than a lender[35,36]

90. We carried out a review of the websites of a number of lead generator websites and found that, although all those lead generator websites that we looked at inform visitors somewhere on the site that they offer a brokerage service rather than directly lending funds (in differing degrees of prominence and clarity), visually these websites

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[35] [✂] expressed a number of concerns about the customer experience when using online searches involving lead generators. It said that payday borrowers might be frustrated because the comparison process was confusing and non-transparent due to the lack of clarity about the nature of the service provided by lead generators and due to the fact that information provided by lead generator might be misleading. For example, lead generators advertise the interest rate of the cheapest lenders though the actual charges may turn out to be much higher once the matching process has been completed.

[36] Think Finance told us that it thought there was scope for consumers to be confused when using lead generators, because they created the perception of a price comparison, 'best loan' search. In reality consumers were not in fact offered the 'best loan' available at that time within the consumer credit sector and instead were placed in a ping-tree and sold to the highest bidder (initial submission, p4).

are very similar to those of the lenders themselves, and none of the websites reveal that they are a lead generator in the product or company name, or in the website title. We also noted that some lead generators describe the service they provide by referring to saving customers the need to search or shop around. We are concerned that some online customers may interpret the wording used on these sites as meaning that they were being matched with the 'best value' loans for them and therefore they do not need to shop around, whereas in practice the customer is matched with whichever lender pays the highest amount for the 'lead'.

91. There is some evidence suggesting a lack of understanding regarding lead generators in our survey. In particular, 92 per cent of those new online customers responding to our survey said that they applied directly to lenders while a very limited number of customers (7 per cent) reported having applied through a broker or a third party. This is much less than would be suggested by our analysis of the major lenders' transaction data, which found that the lenders' reliance on third parties for new customers is on average significantly higher than is implied by the survey responses—at around 35 per cent.[37]

92. We are giving further consideration to the role of lead generators and other intermediaries in the payday loan market and their impact on competition.

The ease of comparing loan terms across lenders

Background

93. If customers find it difficult to interpret information about the price of payday loans and how different loan terms might affect them, then this may enable lenders to raise

[37] In theory this could be explained by the sample of customers surveyed. As illustrated in Figure 1 of the 'Competition in sourcing customers' working paper, the proportion of new customers sourced from brokers or lead generators for each of the online lenders (as a proportion of all new customers) differs significantly between the main online lenders. Yet, the survey figures presented in the paragraph above are similar across lenders ([✂]). This suggests that the apparent inconsistency between the results of the survey and the transaction data is unlikely to be driven by the composition of the survey's sample.

prices or otherwise worsen their terms without expecting a significant customer response.

94. As part of our customer survey, we asked some questions to test payday loan customers' understanding of financial concepts. We found that 60 per cent of respondents were able to correctly answer a question testing their understanding of simple interest rates. One-third demonstrated an understanding of interest compounding. These findings are broadly consistent with evidence from other financial services markets which indicates that many people struggle with financial concepts and understanding financial products.[38]

95. We note, however, that traditional payday loans are relatively simple compared with other credit products (ie the loan is for a set amount which must be paid back on a specific date—normally the borrower's payday—at a price agreed upfront). There is some support for this in the survey responses. More than 90 per cent of respondents said that they understood very or fairly well what they would need to repay at the point of taking out the loan.

96. Understanding and comparing prices is likely to be more difficult in the case that borrowers take into account the risk that they repay late, or if they seek to compare traditional payday loans with 'non-standard' products. In particular:

(a) different lenders use different pricing structures in the case a borrower does not repay his/her loan on time. The best value lender for a loan that is repaid in full may not be the same as the lender that would ideally be chosen in case of default; and

(b) several lenders offer products with different pricing structures (for instance daily rather than monthly interest charges), and other differentiating factors with

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[38] See, for example, Financial Services Authority 'Financial Capability in the UK: results of a baseline survey', March 2006, www.fsa.gov.uk/pubs/consumer-research/crpr47.pdf.

implications for the cost of borrowing (such as the ability to repay in instalments or top up during the term of the loan).[39]

97. Below we discuss the extent to which these factors may make comparing loans less straightforward. We then consider the potential role played by comparison websites in addressing any resulting complexity.

The extent of variation in relative prices

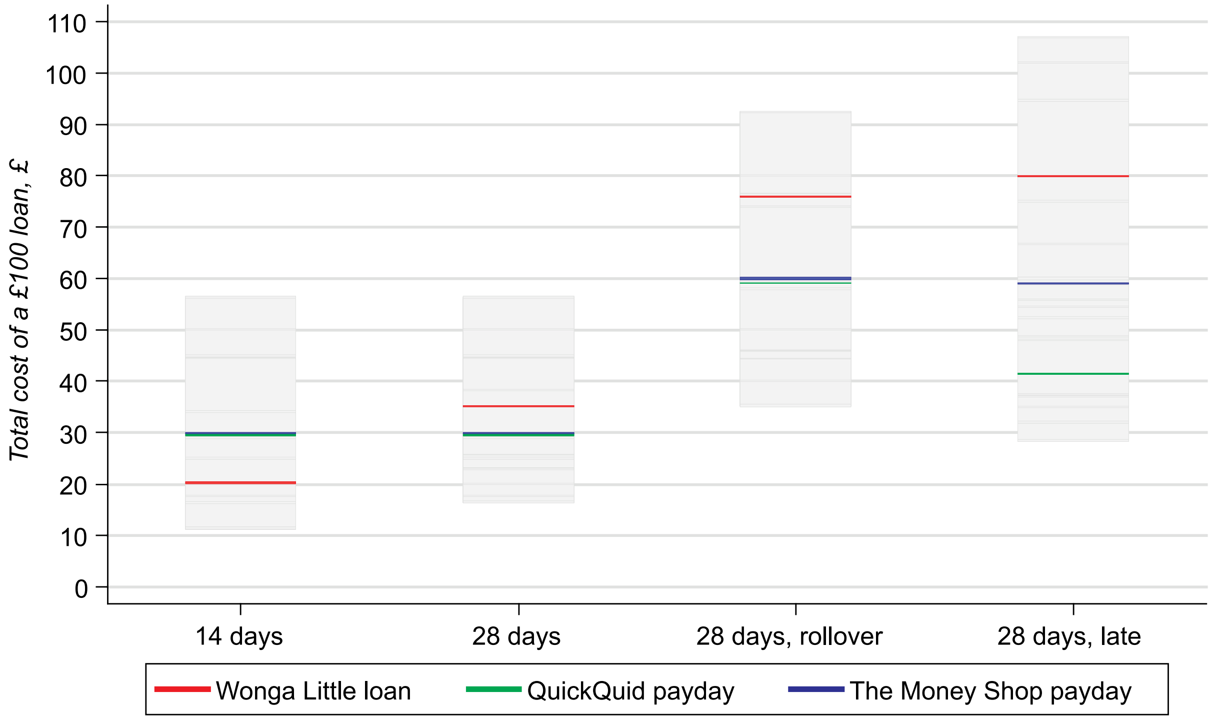
98. As the loan amount, duration and repayment behaviour change, the price that a customer will pay will also change. Moreover, the *relative* prices of different lenders' products may fluctuate, depending on the factors mentioned above.

99. To illustrate, Figure 7 shows the price of borrowing £100 using products of three of the largest lenders—Wonga, CashEuroNet and The Money Shop—under each of the four borrowing scenarios set out in our working paper on the 'Pricing of payday loans'. The cost of borrowing using each of these products (indicated by the coloured lines) is shown in the context of the range of prices observed across the products of all 11 of the major lenders (the grey bars). The figure shows that borrowing with Wonga is considerably cheaper when taking out a 14-day loan, but more expensive for a 28-day loan or if the loan is rolled over. If the loan is repaid late, CashEuroNet's QuickQuid Payday product becomes significantly cheaper than the other two alternatives.

[39] Wonga told us (see response to the issue statement, paragraph 5.31) that although there was some product differentiation, payday loans were still relatively simple and transparent compared with many other products (for example, utility products). It also added that whilst the ability of customers to compare prices should be encouraged, this should not come at the expense of innovation.

FIGURE 7

The relative price of borrowing £100 using the products of Wonga, QuickQuid and The Money Shop, under four borrowing scenarios



Source: CC analysis.
Notes: The grey bars show the range of prices offered by the 11 major lenders, the grey lines show the prices of other lenders.

100. In Annex 3, we provide a table showing the ranking of the prices—from least to most expensive—of 20 products[40] of the major lenders under the four borrowing scenarios.[41] Table 2 summarizes the changes that we observe in the rankings of the prices of different lenders' products when moving between scenarios.

[40] We considered only those products for which we could calculate the price under every scenario.
[41] In calculating the rankings, we assumed that when two or more products have the same price the rank of the product coming after depends on the order as well as the number of products at each price level (for example, if there are three products with the same price (ranking = *i*), the product coming after has a ranking *j* = *i*+3). We consider that this approach better reflects how many cheaper products a customer would be forgoing if they selected product with ranking *j*. We note, nonetheless, that even if we assumed that the ranking only depended on the order of the prices, the changes in the rankings of the prices would be broadly similar.

TABLE 2 **Changes in the relative prices of different lenders' products, compared with the price of borrowing £100 for 28 days**

Number of payday products changing position compared to 28 day, on time scenario	*14 days, on time*	*28 days, rollover*	*28 days, repay late*
No change	5	13	2
One or two positions	11	6	13
Three to five positions	3	1	3
More than five positions	1	-	2
Total number of products included	**20**	**20**	**20**

Source: CC analysis.

101. Table 2 shows that as the length of the loan increases from 14 to 28 days, four products lose or gain at least three rankings relative to their initial position. This is largely driven by those products that allow discounts for early repayment or charge interest on a daily basis becoming relatively cheaper under this scenario, compared with the more traditional one-month products.

102. When moving from the '28-day loan on-time scenario' (Scenario 2) to the 'late scenario' (Scenario 4), five products (around a quarter of the sample) lose or gain at least three rankings relative to their initial position. For example, H&T's Cheque-based Payday Loan is the cheapest payday loan in Scenario 2 but once late payment fees are taken into account it loses six ranking places (from 1st to 7th).

103. Rolling over the loan (ie moving from Scenario 2 to Scenario 3) results in less fluctuation in relative prices, with only one product losing or gaining at least three rankings relative to its initial position.

104. In general, we note that some products tend to have a rather stable ranking across the scenarios (for example, QuickQuid FlexCredit and The Cash Store Payday), while others (like Wonga and H&T Online Loan) show significant variation in the ranking.

105. These changes in the relative value of different products depending on the borrowing scenario suggests that the process of identifying the cheapest payday loan may be complicated for some borrowers, and in particular those that have some flexibility around the length of time that they borrow for, or face some risk of repaying late or rolling over. Note that this analysis is based on the four standardized scenarios, and if we were to consider less common behaviours (eg customers not requiring faster payment services, or wanting to borrow for more than a month), the variation in rankings would likely be greater.

The role of comparison websites

106. In many online markets for financial products, comparison websites play a key role in helping customers to compare the offering of different suppliers and, as discussed above (see paragraph 66), there is some evidence that price competition between lenders is more intense on comparison websites. However, the extent to which comparison services are available to payday loan customers appears limited. Our customer survey indicates that 42 per cent[42] of those who shopped around for any loan visited comparison websites, significantly less than the proportion of customers who used lenders' website (89 per cent) and advertising (57 per cent) as sources of information.[43,44]

107. In addition, the functionality of the payday comparison websites that do exist appears to suffer from some limitations:

(a) First, these websites typically do not allow customers to adapt the search criteria in order to compare loan terms for a given set of borrowing criteria. Instead, loans can generally only be ranked on the basis of one or two standardized measures

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[42] 45 per cent of the online customers and 22 per cent of the high street customers.
[43] Both new and repeat customers use comparison websites as a source of information less often than visiting lenders' websites and seeing advertising, though new customers appear to rely on comparison websites slightly more (50 per cent) than repeat customers (40 per cent).
[44] Our qualitative research suggests that some customers were unaware of price comparison websites and because of this, they were not able to compare lenders' offer like with like.

of price (eg APR or total charge for credit (TCC)), which may not reflect a borrower's requirement.[45] In this regard, money.co.uk, one of the largest comparison websites for payday loans in terms of traffic in the UK,[46] told us that 'establishing a single metric by which different lenders' prices can be compared is challenging because of the different loan terms associated with different lenders' products'.

(b) Second, the comparison websites that do exist appear to include only a limited subset of payday lenders. For example, as of 17 January 2014, whichwaytopay.com listed 25 providers. Allthelenders.co.uk offered better coverage with 36 lenders. Money.co.uk listed only 13 providers.

(c) Third, some comparison websites, such as for instance whichwaytopay.com and money.co.uk, include lead generators among the providers listed in their comparison tables. The prices listed for these lead generators will not necessarily reflect the actual price that customers would pay if they applied through a lead generator. [✂] noted that price comparison websites may be listing the lowest possible price for a lender that the lead generator may source despite sourcing to this lender only a small proportion of the leads.[47]

(d) Fourth, the order in which various products are presented by comparison websites (and which products are displayed on the page) may not solely depend on the relative prices of the products. For example, [✂].

Uncertainty about loan approval

108. One piece of relevant information that it can be difficult for customers to access when searching the market is whether or not they will be approved for a loan. Generally, a customer will need to complete the entire application process with a lender before

[45] In response to the issue statement (p3), Think Finance said that currently there was no comparison website which enabled customers to evaluate loans on 'easily measurable factors' and compare loans 'based on what happens if things do not progress as the consumer may hope'.
[46] [✂]
[47] [✂]

knowing whether or not they have been approved for a loan. Borrowers may often be unwilling to do so when set against the time pressure they perceive themselves to be facing.[48] Customers may also perceive a further cost of filling in additional applications if this would lead to additional applications appearing on their credit record (potentially having an adverse impact on the customer's likelihood of being approved for credit by other lenders). The evidence from our customer survey indicates that a small proportion of all customers that shopped around reported having started an application with another lender before taking out the loan (see paragraph 47).

109. One potential implication is that customers who face uncertainty about whether or not they will be approved may use lead generators in order to automate this process. In doing so, these customers will be forgoing any comparison of lenders on the basis of the merits of their different loan products. We note in this regard that around 35 per cent of all new customers of the major lenders are sourced from lead generators, brokers or other intermediaries (although we note the possibility that not all customers understand the service that lead generators offer, see paragraph 91).

110. Alternatively, some customers may base their decision on the lender that they apply to on which lender they perceive as giving them the highest probability of approval, rather than which has the most attractive loan offer. This may be a lender with which they have an existing relationship or a lender/broker which emphasizes factors such as a high acceptance level, a willingness to lend to customers with impaired credit records and/or limited credit checks in their promotional text (see Annex 2 for examples).

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[48] Our survey identifies some customers who appeared to be mostly, or solely, concerned with the approval when selecting a lender: 3 per cent of the respondents who did not shop around claimed that they were approved by the first lender they approached and they did not even bother searching for alternatives, and 1 per cent said that they had a bad credit record and the lender they chose was the only company that would lend to them. The qualitative survey also confirms that some customers just looked for approval from anyone. Money Gap Group Limited (formerly PDB UK Limited), one of the major lead generators in the UK, told us that 'for many customers price was less important and customers were looking for a lender that would accept their application and lend them the money'.

111. Any barrier to shopping around of this type will be more significant if customers face significant uncertainty about whether or not they will be approved for a loan. There is evidence to suggest that such uncertainty is likely to be a significant factor for many payday lending customers:

(a) The rate of refused loans is often well above 50 per cent for many of the major lenders (see Table 3). A significant number of prospective customers are therefore likely to see their application refused by some lenders before being approved.

TABLE 3 **Rate of refused loans* for the major lenders†**

Lender	*Brand (if data was provided separately by brand)*	*Rate of refused loans %*
Wonga		[✂]
CashEuroNet		[✂]
Dollar	*PaydayUK*	[✂]
	PaydayExpress	[✂]
	TMS	[✂]
Global Analytics		[✂]
CFO Lending		[✂]
H&T		[✂]
SRC	*Speedy Cash*	[✂]
The Cash Store		[✂]
TxtLoan		[✂]‡

Source: CC analysis.

*The rate was calculated as the proportion of refused loans over the completed applications.
†Some lenders did not provide this information, namely: Ariste, Cheque Centres and Wage Day Advance (SRC).
‡[✂]

(b) Some customers may have previously defaulted on a credit agreement and may therefore expect to have a bad credit rating. According to our survey, 56 per cent of payday loan customers were overdrawn in the last year, 27 per cent went over their agreed overdraft limit in their last year and almost 30 per cent were turned down for another type of credit. Overall, half of the respondents said that they experienced debt problems in the last five years, of which 38 per cent experienced bad credit rating, 35 per cent made arrangements to pay off arrears, 11 had a county court judgment and 10 per cent were visited by debt collectors/ bailiffs.

112. This evidence suggests that many payday loan customers are likely to face uncertainty about whether or not their loan applications will be approved.[49]

Preliminary observations on 'ease of accessing and comparing information on loans'

113. We found that it is generally straightforward to access product information using lenders' websites, particularly about headline lending rates. There is some evidence that some customers may be unable to distinguish between lead generators and direct lenders.

114. Standard payday loans are relatively simple products and product complexity is generally likely to be less of an issue than with many financial products. However, the price that customers will ultimately pay is uncertain at the point at which they take out the loan, as this will be determined by factors such as whether they repay late or roll over. These factors can significantly affect the relative value for money offered by different providers. In addition the existence of products allowing increased flexibility in loan duration, repayment terms, and the availability of top-up facility/line of credit products are likely to complicate the comparison exercise further. Comparison websites are potentially useful tools to help customers in comparing different products, although it is unclear how much these websites are used, and the functionality of these websites may suffer from some limitations.

115. It is likely that a significant proportion of customers will face uncertainty about whether or not they will be approved for a loan, given the high percentage that have experienced debt problems in the past. Uncertainty about whether or not a loan application will be accepted may cause some customers to base their decision of

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[49] Note that we are investigating if the uncertainty about whether or not they will be approved for a loan represents an even stronger disincentive for repeat customers to switch lenders. A borrower that has been approved for a loan by a lender in the past is likely to expect to be approved if they seek to borrow a further amount from that same lender in the future, assuming they repaid the previous loan on time. However, that borrower may face greater uncertainty about whether or not they will be approved for a loan if they are to use an alternative lender, which may take different factors into account in its credit assessments, and will generally not have access to detailed information on that customer's repayment history. Our analysis of barriers to switching is ongoing.

which lender to apply to on their perception of which lender will give them the highest probability of approval (eg a lender with which they have an existing relationship), rather than which has the most attractive loan offer. To the extent that customers have an understanding of the service offered by lead generators (we are further investigating this issue), customers may choose to use these websites as a means to speed up the process of finding a lender willing to approve their loan. In doing so, these customers will essentially be forgoing any comparison of lenders on the basis of their different loan attributes.

Over-optimism

116. One potential source of 'behavioural bias' which it has been suggested might exist among payday loan customers is over-optimism about the customer's likelihood of repaying in full on time.[50] Customers taking out a payday loan may underestimate their likelihood of being unable to repay the loan, or needing to take out further loans. If this is the case, the comparison that customers carry out may not be fully effective. Customers would pay greater attention to the fees and charges associated with repaying a loan late (or associated with future loans) if their expectations about their ability to repay were more accurate. This may allow lenders to increase these fees to a greater extent than they would be able to if customers were more realistic in their expectations.

117. We observe a high incidence of both late repayments and rollovers among payday loan customers. Of the loans issued by the 11 major lenders in 2012, 20 per cent

[50] This and other potential aspects of customer behaviour are considered in paragraph 307 of our *Guidelines for market investigations: Their role, procedures, assessment and remedies (CC3)*, April 2013. See also FCA Occasional Paper 1, 'Applying Behavioural Economics at the Financial Conduct Authority, April 2013 www.fca.org.uk/static/documents/occasional-papers/occasional-paper-1.pdf.

were rolled over[51] and 35 per cent were either repaid in full late, or never repaid in full.

118. Around 20 per cent of the respondents[52] to our survey reported having failed to repay in full by the repayment date.[53] Against this background, we noted that 95 per cent of respondents recollected[54] being very or fairly confident of being able to repay on time[55] at the time they took out the most recent loan and this figure is above 80 per cent also for those customers who failed to repay in full by the repayment date.

119. Given their greater experience, we might expect repeat customers to better anticipate the risk of not being able to repay on time. However, our survey shows that the majority of repeat customers (94 per cent) also reported that they were very or fairly confident of being able to repay on time when they took out the most recent loan.

120. There is some evidence to suggest that customers are not particularly aware and/or responsive to the fees charged in case of late payment or default.

(a) 67 per cent of all respondents said that when taking out the loan they looked at the late payment fees, significantly less than the proportion of the respondents who reported having looked at information on the total cost of the loan (89 per cent).[56] This holds true for new and repeat customers. We note that also those customers who were not very or not at all confident in their ability to repay the loan (and therefore could be expected to place more attention on late payment

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[51] Rollover interest and fees account for 34 per cent of all fees and interest charged to customers (excluding late fees, top-up fees, and ignoring any discounts given to those repaying early), though relative importance of rollover interest and fees varies substantially between lenders.
[52] This figure is based on those customers whose repayment date had passed at the time of the interview. These customers represent almost 80 per cent of all respondents.
[53] Which? submitted the results of a survey conducted in August 2012 according to which almost half (48 per cent) of the payday loan users had taken out credit in the past that it turned out they were not able to repay.
[54] Question QPDSI3 of the CC survey: '*Thinking back to when you first took the loan out, how confident were you that you would be able to repay the loan in full on the date originally agreed with [name of the lender]?*'
[55] Of those who said that their need for a loan was due to a change in financial circumstances (80 per cent of the respondents), nine in ten expected this change to be temporary (see paragraph 27 above).
[56] These figures are similar for both repeat and new customers.

fees) looked at the late payment fees (49 per cent) significantly less than those who looked at the total cost of the loan (80 per cent).

(b) 63 per cent of the minority of customers who shopped around for any loan[57] collected information on the late payment fees.[58,59] This is significantly less than the proportion of the respondents who reported having gathered information on the total cost of the loan (92 per cent), the speed of the process (83 per cent) or the amount that they could take out (80 per cent).[60,61]

(c) The results of the qualitative survey suggest that some customers become aware of late payment fees only if they end up paying them. Based on the quantitative survey one in two of those who failed to repay on time said that the total repayment amount was more than they expected when the loan was taken out, whereas only 14 per cent among those who repaid in full by the repayment date said that they paid more than they expected. This may suggest that some customers became aware of the late payment/default fees only after being charged.

(d) Of the customers in the contemporaneous sample who failed to repay on time, 36 per cent considered that they did not spend enough time looking at costs and charges when taking out the loan, significantly higher than the same figure for the customers who repaid on time (10 per cent).

(e) In an internal document [✄] noted that [✄].

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[57] 40 per cent of all the respondents (see paragraph 45).

[58] This figure is broadly similar for customers who ended up repaying late (62 per cent) and for customers who repaid in full on time (66 per cent).

[59] In its response to the issues statement, the Consumer Finance Association submitted that, according to a consumer survey commissioned to YouGov, 86 per cent of the respondents said that they were informed of the default charges. We will further assess the methodology and the results of this survey.

[60] These figures are similar for both repeat and new customers. 69 per cent of the new customers and 62 per cent of the repeat customers compared the late payment charges of various lenders. For both type of customers this figure is significantly lower than the proportion of the respondents who reported having gathered information on the total cost of the loan, the speed of the process or the amount that they could take out.

[61] Also those customers who shopped around and who were not very or not at all confident in their ability to repay the loan looked at the late payment fees (about 60 per cent) less frequently than those who looked at the total cost of the loan (100 per cent). However, the size of this subsample of respondents is very small (13).

121. In response to the issues statement,[62] Dollar pointed to a study which found that 'the majority of payday borrowers hold substantially correct ex ante repayment expectations'.[63] We note, however, that according to the study while 57 per cent of the surveyed customers accurately predicted how long it would take to repay their loans, a significant proportion of customers (43 per cent) erroneously predicted the date on which they actually repaid their loan.[64]

122. Our qualitative research survey identified the following possible explanations for a relatively low level of customer focus on late payment fees among customers who intended to pay back the loan:

(a) Denial: customers do not want to think about the possibility that they might not be able to repay in time;

(b) Overconfidence: customers are confident that they will be able to repay, so they deem the information irrelevant.

(c) Urgency/need for speed: customers feel pressure to find a loan and do not want to spend time seeking out information.

(d) Difficulty in understanding the information.

123. The CC found similar customer attitudes to unauthorized overdraft charges in the market investigation into Personal Current Account Banking Services in Northern Ireland (see Annex 1). The evidence collected by the CC suggested that many customers either did not think about these charges at all or did not consider them to be relevant to them because they did not believe they would incur these charges.

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[62] www.competition-commission.org.uk/assets/competitioncommission/docs/2013/payday-lending/131004_dollar_finance_mem_icl_express_finance_response_to_is.pdf.
[63] Mann, Ronald J, 'Assessing the Optimism of Payday Loan Borrowers', *Supreme Court Economic Review* (January 2014, forthcoming), Columbia Law and Economics Working Paper No. 443, available at http://ssrn.com/abstract=2232954.
[64] Customers were considered to have predicted accurately the date of repayment if they repaid within two weeks of their predicted date of clearance.

Preliminary observations on over-optimism

124. Late payments, defaults and rollovers arise frequently in the payday lending sector. However, survey evidence suggests that when taking out the loan some customers tend to pay less attention to late payment, default and rollover fees than to other product attributes (such as the total cost of loan). Qualitative and quantitative survey evidence also suggests that some customers become aware of late payment fees only if and when they end up paying them. This may reflect, in part, an over-confidence on behalf of customers about the likelihood of paying back the loan in full on time.

Previous CC and OFT investigations

1. Barriers to shopping around in financial markets were considered in a number of previous investigations by the CC and the OFT. In particular:
   (a) Home Credit market investigation (CC report published in November 2006);
   (b) Personal Current Account Banking Services in Northern Ireland market investigation (CC report published in May 2007);
   (c) Payment Protection Insurance market investigation (CC report published in January 2009);
   (d) Review of high-cost credit (OFT report published in June 2010); and
   (e) Review of personal current accounts in the UK (OFT report published in January 2013).

2. In this annex, we briefly discuss the major findings of these investigations in relation to barriers to shopping around.

Home credit

3. In the market investigation into home credit the CC found that the demand was unresponsive to changes in prices as measured by APR or TCC[1] and that customers' insensitivity to price was exacerbated by their difficulty in assessing and comparing the price of home credit loans. The CC identified several factors that contributed to this difficulty, including:
   (a) it was not always easy for customers to find out prices of competing products;
   (b) products were not readily comparable as lenders offered loans of different lengths;

[1] Customers tended to focus more on the level of the weekly repayment than on measures of the total value of the loan they were taking out (such as the TCC).

(c) it was difficult for customers to understand prices (APR was a particularly difficult measure to interpret); and

(d) advertising regulations (which required the use of APR in advertisements) could discourage price comparison in advertising.

4. The CC concluded that the lack of customers' sensitivity to prices contributed, alongside other factors, to the lack of price competition on the part of lenders by reducing their incentive to compete on prices.

Northern Ireland banking

5. In 2005 to 2007 the CC investigated the personal current account (PCA) banking services in Northern Ireland. It found a number of features which inhibited customers' ability and willingness to search and make properly informed choices:

(a) banks had unduly complex charging structures and practices;[2]

(b) banks did not fully and sufficiently explain their charging structures and practices; and

(c) customers did not actively search for alternative PCAs due to a combination of factors, including a perceived lack of financial incentive, complexity of charging structures and lack of transparency in the market.

6. The CC noted, in particular, that customers were unlikely to consider and compare either authorized or unauthorized overdraft charges, partly because many customers thought that such charges would not apply to them. This could be because customers were optimistic that they would not get into financial difficulties; alternatively it could also reflect an unwillingness to think about the issue or a lack of understanding of charging structures.

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[2] Among other factors, the CC noted that *(a)* the incidence and frequency of charging was not always clear; *(b)* customers did not often have the opportunity to see the charges incurred before they were debited to their account; and *(c)* the terminology used for charges was not always clear and often inconsistent between banks, especially in relation to unauthorized overdraft and ancillary services.

7. Due to the existence of these features the CC concluded that banks competed less vigorously on price and service because they did not think they would lose a significant volume of customers than would be expected in a well-functioning market.

Payment protection insurance

8. The CC also found significant obstacles to search in the PPI market. Consumers who were willing to compare PPI policies were hindered in doing so for a number of reasons:

   (a) It was time-consuming to obtain accurate quotes when PPI was provided alongside credit (some firms only provided price illustrations for PPI by going through a full application process).

   (b) PPI policies were complex as there was considerable scope for variations between products (variations related to the type of cover, the period of time for which a policy paid out, the amount of benefit paid out, the exclusion of pre-existing conditions) and the way the cost of PPI was presented made it difficult to compare offers.[3]

   (c) A perception existed that taking PPI would increase a customer's chances of being given credit, or that it was a condition of taking the credit.

   (d) The limited scale of stand-alone provision.

9. The CC concluded that these obstacles, along with other features of the market, would prevent, restrict or distort competition in the supply of PPI to non-business customers.

[3] The cost of PPI was typically shown relative to the total payment on credit rather as opposed to the interest cost and as a consequence consumers could not be fully aware of the relative importance of PPI.

OFT review of high cost credit

10. In 2010 the OFT carried out a review of the high-cost credit sector. This sector comprised the pawnbroking, payday loan, home credit and rent-to-buy credit markets. The review found that, in a number of respects, these markets worked reasonably well in that they served borrowers not catered for by mainstream suppliers, complaint levels were low, and there was evidence that for some products, lenders did not levy charges on customers who missed payments or made payments late.

11. Notwithstanding these comments, the OFT found that there were problems with the effectiveness of competition in these markets. Among these problems, the OFT had a number of concerns in relation to the ability of customers to identify the best-value products on offer:

    (a) Many consumers valued the availability of funds and speed of process rather than focusing on the cost of credit.

    (b) Some consumers purchased high-cost credit based on the short-term affordability or size of repayment, without taking into consideration the long-term costs or total repayment amount (eg the OFT's consumer survey found that respondents in the lowest income (less than £6,500 a year) considered the monthly repayment amount more important than the APR).

    (c) Consumers of high-cost credit had lower levels of financial literacy than users of mainstream financial products.

12. These findings were largely based on an online experiment conducted on over 2,500 respondents. The experiment aimed to test how varying the information shown for some hypothetical high-cost credit products affected respondents' subsequent perception, understanding of them and their final decision.

OFT review of personal current accounts

13. In January 2013, the OFT published a Review of Personal Current Accounts in the UK. The review sought to establish how the market had evolved since the OFT market study carried out in 2008. In the 2008 study the OFT found that a combination of complexity (in the way unarranged overdrafts were implemented) and opacity (on unarranged overdraft charges, forgone interest and other fees) made it difficult for consumers to know how much their PCA could be costing them compared with others on offer. The OFT agreed a number of initiatives (set out in its reports of October 2009 and March 2010) with the industry to make PCA costs more transparent, the switching process more reliable[1] and improve the way unarranged overdrafts are provided.

14. The 2013 review concluded that longstanding competition concerns remained in the PCA market. In terms of unarranged overdrafts, while there had been significant reductions in charges and some improvements in the ability of customers to control their use of unarranged overdrafts, progress on initiatives to improve the transparency of charges had been slow and charging structures were still complex and comparison between products remained challenging. The OFT made some further recommendations to build on the initiatives previously agreed, and indicated that it would look at the market, and whether a market investigation reference should be made, again in 2015 or before.

Product features highlighted in payday lenders' advertising materials and on their websites

1. In this annex, we consider the key product features emphasized by payday lenders and lead generators in their advertising materials and on their websites. To do this, we reviewed two sets of evidence: *(a)* the main messages on the home web page of each of the major payday lenders; *(b)* the Adword text associated with lenders' and lead generators' adverts generated by some Google search terms.

2. Table 1 lists those messages that are especially prominent on the home web page of the major payday lenders.[4] The headline is selected as particularly prominent by virtue of its font size, colour or positioning on the screen—or a combination of these—and therefore inevitably contains an element of subjective judgement.

[4] The 11 major lenders included in this analysis operate 16 separate companies in the UK and market loans under around 22 different brands (see the annex 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 that these lenders accounted for over 90 per cent of loans issued in 2012 and over 90 per cent of payday loan revenue in 2012.

TABLE 1 **Comparison of key aspects of advertising by payday lenders**

Lender	*Websites*	*Main 'benefit' emphasized on website home screen*
Ariste	www.paydayiseveryday.co.uk www.cashgenieloans.co.uk www.txtmecash	'Quick Loans from £75 to £500' 'Payday loans online from a trusted short term lender' 'Short term loans with quick loan approval'
Wonga	www.wonga.com	'We can send you up to £400 within 5 minutes of your loan being approved.'
CashEuroNet	www.quickquid.co.uk www.quickquidflexcredit.co.uk	'If approved – cash sent 10 minutes after approval' 'If approved, borrow as often as needed up to your credit limit!'
Dollar	www.paydayuk.co.uk www.paydayexpress.co.uk	'Fixed for cash? Loans up to £1000' 'Fixed rate per £100 borrowed. Fixed in no time. Fixed bonus' '3 steps' 'Bridging the gap between you paydays'
CFO Lending	www.paydayfirst.com www.cfolending.com	'The online lender offering up to £600 to you account today' 'The online service offering £75 - £600 to people running low on cash. Loans are designed to cover a shortfall in your income to cover an unexpected bill or emergency, you repay your loan on your following payday.'
WageDayAdvance	www.wagedayadvance.co.uk	'Making any day your wage day' '3 quick and easy steps' 'Quick and secure online application' 'Same day £80 to £750 payout possible' 'High acceptance rate'
Global Analytics	www.zebit.com www.lendingstream.co.uk	'Get flexibility, control & cash' 'Upon approval, - Fund transfer initiated within 4 minutes# - Choose your repayment term, from 1 to 7 months - Apply to borrow any amount, from £100 to £800' 'Get the cash you need for life's unexpected moments Upon approval, - Fund transfer initiated within 4 minutes - Borrow up to £1500 - Repay over 6 months'.
Cheque Centre	www.chequecentre.co.uk	'Need cash? Borrow from £50 - £1000 Terms and Conditions apply First time customers may be able to borrow up to £500'
MYJAR	www.myjar.com	'No rollovers. Never have. Never will.' 'We keep it simple with easy to understand loans. Borrow £100, pay back £120, 18 days later.'
SRC	www.speedydosh.com	'Online Payday Loans and Short Term Loans Which Get You Cash When You Need It Most…'
H & T	www.handtpaydayloans.co.uk	No dominating statement

Source: CC analysis based on website information as of 7 February 2014.

3. As the table shows, speed ('quick loans', cash sent few minutes after approval)—together with the amount of loan, the ease/simplicity of applying and the trustworthiness of the provider—are key themes emphasized by lenders.

4. Table 2 presents the results of the analysis of the wording of Google Adword advertisements generated by the search terms 'payday loans' and 'payday loan'

(which are among the most common searches related to the payday lending sector).[5] For lenders and lead generators appearing on the first page of Google search results we recorded (on 7 February 2014) the Adword text associated with those terms.

TABLE 2 **Google Adword advertisements**

Website	*Lender or lead generator*	*Adword text*
www.quickquid.co.uk/	lender	Apply for up to £1000. 24/7 helpful customer Support.
www.swiftmoney.com/	lender	Payday Loan In 10 Minutes - Instant Decision, No Fax, No Calls. Very High Approval, No Credit Check
www.wizzcash.com/payday-loans/	lender	The 3 month payday loan – an exciting new breed. A 3 month loan is a normal loan repaid over 3 months. This option offers customers greater flexibility because ...
www.wonga.com	lender	We know you just searched for payday loans – you might be glad you found us! We're different to traditional payday lenders, like quick quid and others, because ...
www.quickquid.co.uk/	lender	Apply for a Payday Loan Online. Looking for a payday loan? Apply for QuickQuid payday loans and, if approved, have cash sent within 10 minutes after approval
www.paydayuk.co.uk	lender	Online cash loans. PaydayUK offers payday loans. Apply now and get £5 cashback for every £100 borrowed when you pay back your loan in full, on or before your original due ...
www.sunny.co.uk	lender	Now Until Feb 28th Get £20 Cash. Back On Any Approved Loan!
www.moneyshop.tv	lender	Need a Payday Loan? Is Money Tight this Month? Apply Online or in Store Today
www.wagedayadvance.co.uk	lender	£80 - £750 in your bank today. All credit historys welcome
www.moolagroup.com	lender	Borrow £50 - £1000 in 15 Minutes Fast decisions, no hassle, no fuss
www.lifeboatloans.co.uk	lender	Same Day Payday Loans. Approved In Seconds. 100 per cent Online! Borrow £50 - £500 Today. Apply Now.
www.peachy.co.uk/payday-loans	lender	Fast Online Payday Loan Providers in UK. Searching for a Payday Loan? We have the answer. Peachy specialize in instant Payday Loans of up to £500.
www.cashlady.co.uk/	lead generator	Pay Day Loans Before 12pm. Apply Today For Up To £300. Easy Application. Answer In Mins.
monkey-payday3.co.uk	lead generator	Try Our New 60 Second Loan Application. The fastest payday loans online with INSTANT APPROVALS! At Disco Loans, we have the highest approval rating in the industry!
www.purplepayday.co.uk/PaydayLoansShare	lead generator	98 per cent Acceptance Rates. Apply for a Payday Loan Today. £50 - £1,000, Waiting for You!
www.beeloans.co.uk/payday-loans	lead generator	Payday loan in 15 minutes/ £50 - £1k loans. No phone, No fax, no fuss. Instant decision!
www.kwikpayday.co.uk/PaydayLoans	lead generator	Fast Cash Loans. Minutes to Apply For Up to £750 Keep It Quick with KwikPayday!

Source: CC analysis based on search carried out on 7 February 2014.

5. As in Table 1, the most common themes covered in the Adword texts are speed (‘instant decision/approvals’, ‘approved in seconds’, ‘payday loans in 15 minutes’, ‘fast decisions’, etc), amount of loan available and convenience. We noted a number of cases where the advertisements emphasize the high acceptance rate or target

[5] According to the information submitted by Google, the average monthly searches of these terms in the UK in 2013 were [✂] for [✂] ([✂] overall in 2013) and [✂] for [✂] ([✂] overall in 2013).

individuals with bad credit ratings. Other aspects (like flexibility, customer support, etc) were also mentioned but less frequently.

The ranking of the price of the each of the major lenders' products, under different borrowing scenarios

Lender	*Payday loan product*	*Scenario 1* *14 days, on-time*	*Scenario 2* *28 days, on-time*	*Scenario 3* *28 days + 28 day roll-over*	*Scenario 4* *28 days + 11 days late*
CashEuroNet	QuickQuid—Flexicredit	1	3	4	3
SRC (Speedy Cash)	Flex account	2	4	4	1
SRC (Speedy Cash)	Flex loan	2	4	6	1
H&T	Online loan	4	7	3	6
H&T	Cheque-based	5	1	1	7
H&T	Chequeless	6	2	2	8
Wonga	Little Loan	7	15	16	17
SRC (Speedy Cash)	Payday loan	8	6	7	4
Dollar Finance	Payday loan	9	8	8	9
CashEuroNet	QuickQuid—Payday	10	9	9	5
Dollar Finance	Cheque-based	11	10	10	11
Dollar Finance	Payday loan	12	11	11	10
Cheque Centres	Loan Store—payday	13	12	12	13
Dollar Finance	Chequeless	13	12	12	12
Cheque Centres	Short term loan	13	12	12	13
The Cash Store	Payday	16	16	17	15
Wage Day Advance	Loan	17	17	15	16
Ariste	Cash Genie—1 month	18	18	18	20
CFO Lending	Payday First	19	19	19	18
CFO Lending	CFO Short term loan	19	19	19	18

Source: CC analysis.

Note: We did not include the following products as the cost cannot be calculated under one or more scenarios:
1. Cash Genie – 3 months (Ariste);
2. Zebit monthly and weekly (Lending Stream); and
3. MYJAR (18 day).