PAYDAY LENDING MARKET INVESTIGATION

Repeat borrowing and customers' use of multiple lenders working paper

Introduction

1. Most individuals taking out a payday loan for the first time will return for further credit from a payday lender, and over 80% of loans made by payday lenders are to customers who have taken out a payday loan with them previously. Subsequent to taking out an initial payday loan, there are a number of ways in which a customer may borrow further amounts from a new or an existing lender:

   (a) by taking out a new loan with either the same or a different lender;

   (b) by rolling over an outstanding loan with an existing lender; or

   (c) by drawing down further funds to 'top up' an outstanding loan with an existing lender.

2. In this paper, we consider the significance of repeat borrowing within the payday lending market and the extent to which payday customers use multiple lenders. Against this background, we then consider whether there are characteristics of the payday lending sector that may serve to discourage existing customers from changing provider when taking out further payday loans – opting instead to return to the same lender for additional credit.

3. This analysis complements our working paper on 'shopping around', where we discussed possible characteristics of the payday lending sector that might impede either new or repeat customers' ability to shop around effectively for a loan. By contrast in this working paper, we focus solely on the behaviour of existing customers, and any barriers that they may face when considering switching provider.

4. The paper is structured as follows:

   (a) First, we discuss the extent to which customers take out multiple loans over time from the same lender.

   (b) Second, we consider the extent to which borrowers use multiple lenders, and the nature of their borrowing patterns.

(c) Third, we consider the evidence on the reasons why some serial borrowers choose to switch between lenders, and why others do not.

(d) Fourth, we consider a number of different mechanisms which might impede existing customers' ability to switch lender when seeking further credit.

Preliminary observations

5. The evidence we have reviewed to date suggests the following preliminary observations:

(a) *Repeat borrowing and use of multiple lenders:* repeat business is important to payday lenders, with returning customers accounting for a significant proportion of most lenders' loans. On average a customer took out around eight loans in 2012, and around half took out more than five loans. More than half of all payday lending customers use more than one payday lender during the course of a year. Our analysis of borrowing patterns suggested that much of this use of multiple lenders takes place as a result of customers being constrained in their ability to borrow further amounts from an existing lender. In particular, much of the use of multiple lenders that we observe involved multi-sourcing (ie borrowing simultaneously from more than one lender). For many of those occasions where we observed a borrower changing lender, but where they did not have a loan outstanding, this appeared to either follow a repayment problem on a previous loan, or reflected a customer returning to a lender that was unlikely to have been available when they took out their previous loan.

(b) *Reasons given by customers for changing lenders:*

(i) Our survey suggests that for those customers who have changed provider, concerns about the likely availability of further credit from the previous lender are often an important factor driving this decision. In addition, a significant proportion of those customers who have changed lender reported having done so because they prefer some aspect of the product and/or offering of the new lender, such as the total cost of credit, repayment flexibility, or the ease of application process.

(ii) Customers who have always used the same lender typically reported doing so because they were happy with the service provided by their existing lender. Our qualitative research suggests that in particular customers place value on having a 'good experience' with a particular lender – especially given concerns about the reputation of the market.

For those customers who did not report satisfaction with their current lender as the reason for returning to them for additional credit, other reasons that were cited for not changing provider included convenience (including the need to go through a new application process with a new lender), a preference for the product offered by the current lender, and an expectation that the current lender is more likely to approve a customer's application.

(c) We considered three mechanisms which, for those payday customers who are looking for an alternative provider, may affect the perceived or actual costs of switching:

(i) *The inconvenience/difficulty associated with switching lender*. Our survey suggests that for some customers the general ease/convenience of remaining with the current lender and the effort of going through a new application process may inhibit customers from switching.

(ii) *Uncertainty regarding other lenders' offering*. Our survey suggests that some customers may be dissuaded from switching by uncertainty about whether another lender will approve them for a loan. The qualitative survey also suggests that the fear of bad experiences with a different lender may be an important factor in shaping the customers' attitude towards changing lender.

(iii) *Better loan terms to repeat customers rather than existing customers.* Price promotions or discounts targeted to repeat customers appear uncommon. However, some lenders offer a higher credit limit to repeat customers and we have seen some evidence of customers using this facility to take out larger loans.

Repeat use of payday loans from the same lender

6. In this section we consider the extent to which we observe payday customers returning to the *same* lender for additional credit. This is particularly relevant for our consideration of switching, because it allows us to understand the extent to which lenders develop ongoing relationships with their customers. All else equal, we would expect the threat of customers switching to have a more significant impact on payday lenders' incentives if repeat borrowers make up a larger share of their business.

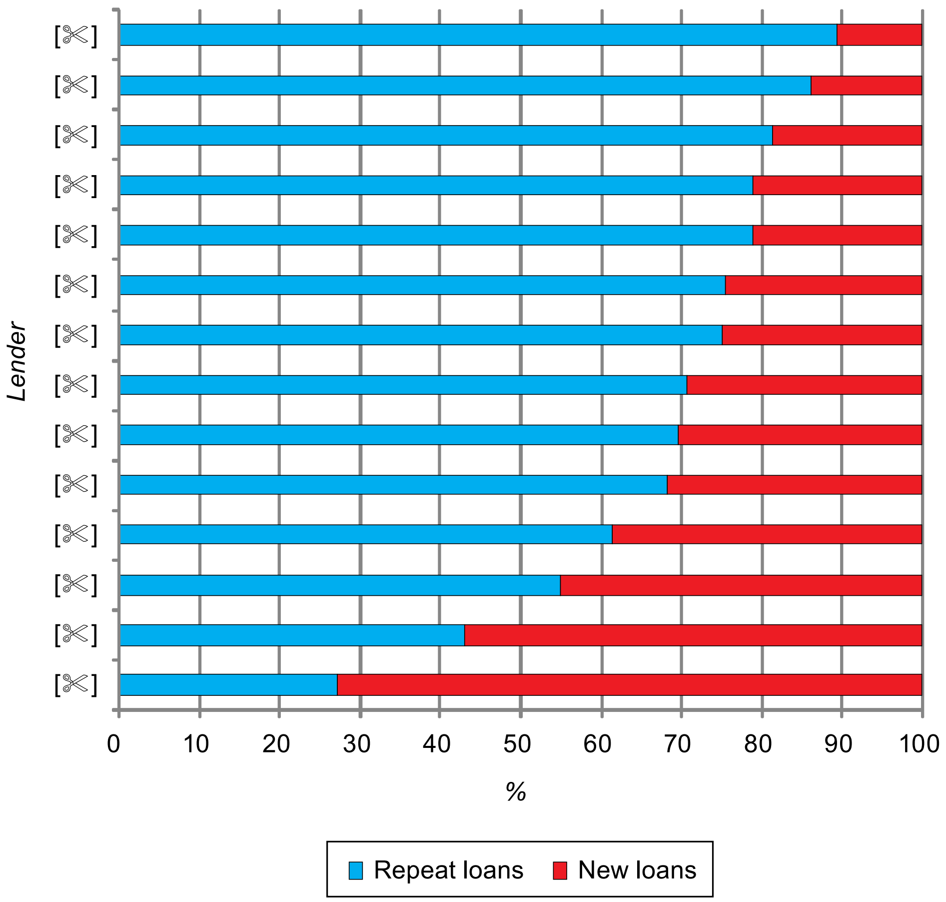
7. Our analysis of lenders' transaction data suggests that more than 80% of all loans (excluding rollovers) issued by the major lenders in 2012 were to

customers who had previously borrowed with them. This suggests that repeat borrowing will be important to payday lenders' business models.

8. The extent of repeat borrowing varies considerably across lenders. Figure 1 shows the proportion of each of the major lender's loans in 2012 which were to repeat customers. This proportion ranges between 27% ([✂]) and 89% ([✂]). Notwithstanding this variation, it is worth noting that for most lenders more than half of all loans are to repeat customers – and for many the proportion is much greater than this.

FIGURE 1

New customers vs repeat customers – number of loans



Source: CMA's analysis on lenders' transaction data.

9. Looking at the extent of repeat borrowing from the customer's perspective, our analysis shows that if we consider a *new* customer taking out a loan with a lender for the first time in the first part of 2012:[1]

[1] See the CMA working paper 'Repeat customers—presentation based on analysis of the transaction data' for further details.

(a) 60% went on to take out at least one further loan from the same lender during the subsequent year;

(b) 21% went on to take out more than five additional loans from the same lender during the subsequent year; and

(c) the *average* number of additional loans that a customer went on to take out from the same lender within a year of the first is 3.6.

10. Table 1 shows how the proportion of new customers who took out additional loans with the same lender within a year of their first loan varies across lenders. For most lenders, at least half of all new customers returned for at least one further loan within a year, although there were exceptions among the smaller lenders. The extent of repeat borrowing again varies significantly between the customers of different lenders. The proportion of new customers who took out at least one further loan in the subsequent year ranged from 18% ([✂]) to 77% ([✂]). The number of customers taking out more than five loans during the first year ranged from none ([✂]) to 40% ([✂]).

TABLE 1 **Repeat borrowing among the customers of different lenders**

	% of customers who took out additional loans				*Average number of further loans taken out within 365 days*
Lender	*0 loan*	*1 loan*	*2–5 loans*	*>5 loans*	
Ariste	[✂]	[✂]	[✂]	[✂]	[✂]
Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]
CFO	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar (Express Finance)	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar (ICL)	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar (MEM)	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]
SRC (Speedy Cash)	[✂]	[✂]	[✂]	[✂]	[✂]
SRC (WageDay Advance)	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]
Total	40	14	26	21	3.6

Source: CMA analysis of lenders' transaction data.

11. A non-negligible proportion of the repeat borrowing that we observe in the payday market takes the form of 'top-ups' (where lenders[2] offer customers the ability to borrow additional amounts by topping up an outstanding loan to a

[2] Facilities of this type are offered by Wonga, CashEuroNet (Pounds to Pocket and QuikQuid Flexicredit), Dollar (Payday Express and Instant Cash Loans), SRC, The Cash Store, Pay Day Loans and KwikLoan (H&T), SRC (SpeedyCash Flex Loan) and MYJAR.

predefined credit limit – see the ‘Competition in production innovation’[3] working paper for further details). For example, [✂].[4]

12. In addition to taking out new loans, many borrowers take out additional credit from the same lender by rolling over an existing loan (see the working paper on ‘Payday loan products’ for further details). In 2012, around 20% of the loans taken from the 11 major lenders were subsequently rolled over, and of these more than 50% were rolled over more than once.[5,6] This repeat borrowing is in addition to that described in the table and figure above.

13. Again, we observe significant differences in the extent of repeat borrowing of this type between lenders. Specifically, the proportion of loans subsequently rolled over varied from 0% ([✂]), to 55% ([✂]). Note that a cap will be placed on the number of times a lender is allowed to rollover a customer’s loan under the Financial Conduct Authority’s new rules, which may reduce the incidence of rollovers going forwards.

14. In summary, the evidence presented in this section indicates that repeat lending to the same customer – whether in the form of completely new loans, rolling-over of existing loans, or top-ups – is pervasive, and accounts for a substantial proportion of the loans issued by payday lenders.

Use of multiple lenders

15. In this section we consider evidence relating to customers’ use of multiple lenders. We look first at the extent to which customers use multiple lenders. We then consider patterns of borrowing from multiple lenders, and in particular the extent to which borrowers appear to be using a number of lenders at the same time (‘multi-sourcing’), and how often we see borrowers changing lender when they do not have another loan outstanding.

Repeat borrowing and use of multiple lenders

16. To help us assess the extent to which repeat customers take out loans from multiple lenders, we analysed a sample of over 3,000 customers which were selected at random from a database of all payday loans provided by 11 major lenders, and combined this with information provided by five Credit Reference Agencies (CRAs) on loans issued to these customers by other payday lenders. Further details of this analysis may be found in our working paper ‘Customers’ use of multiple lenders’.

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[3] See paragraph 22.
[4] [✂]
[5] On average, each such loan has been rolled over 2.5 times.
[6] See CMA working paper ‘Customer and transaction level descriptive presentation’.

17. Of the customers that we sampled, we estimated that more than 80% took out more than one loan in 2012.[7] 36% took out 2 to 5 loans, 24% took out 6 to 10 loans and 26% took out more than 10 loans. On average, a payday customer took out 7.9 loans in 2012.

18. More than half of customers (55%) in our sample borrowed from at least two different lenders during the year and these customers accounted for 69% of all loans. 33% of customers borrowed from two to three lenders and 22% borrowed from more than four lenders. On average, each customer borrowed from 2.5 lenders (this figure is 3.7 if we consider only customers who used multiple lenders). We did not observe any significant difference by channel (ie high street versus online) in the overall extent to which customers use multiple lenders.

19. There is some variation in the extent to which an individual lender's customers also use other lenders. For example, [✂].

20. These findings are broadly consistent with the results of our customer survey. In our survey, we found that 79% of all customers interviewed had taken out multiple loans. Of these individuals, 43% had taken out all of their loans from the same lender, while 57% used more than one lender (right-hand side of Figure 2 below).

21. Looking at all customers – including those who had only ever taken out one loan – 45% of respondents had taken out loans from multiple lenders. 34% had taken out multiple loans, but always from the same lender. Two in ten had only taken out one loan (left-hand side of Figure 2 below). Of those respondents who had taken out loans from multiple lenders:

    (a) 45% had borrowed from two lenders;

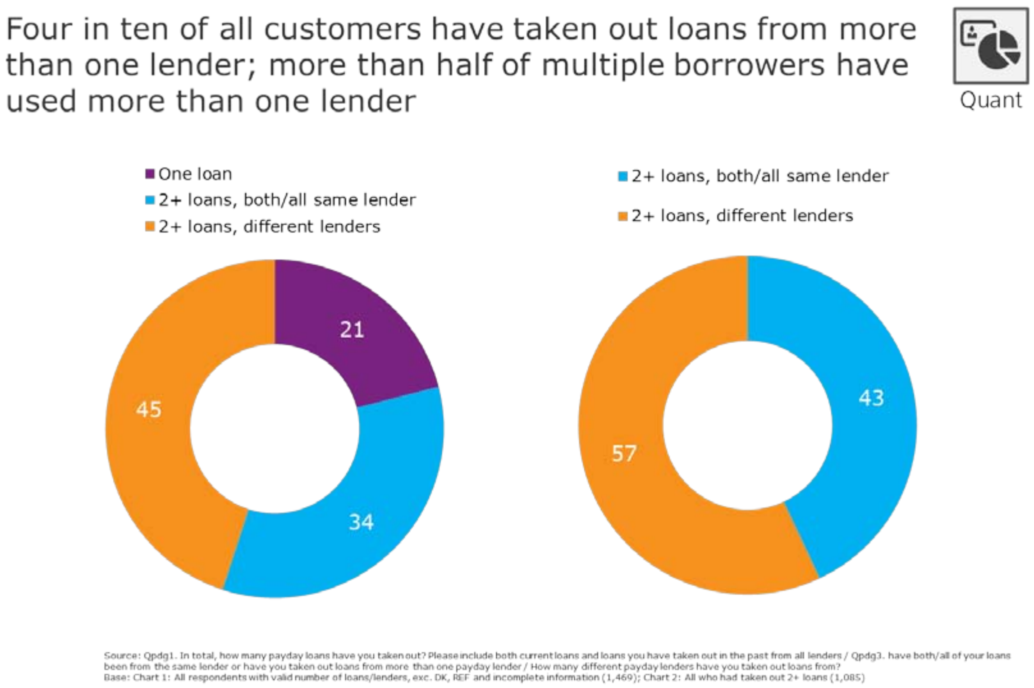
    (b) 26% had borrowed from three lenders; and

    (c) the remaining 28% had borrowed from four or more lenders.

[7] Either with the same lender or with multiple lenders.

FIGURE 2

Use of multiple lenders – CMA customer survey



Source: CMA's customer survey.

22. Our survey suggests that there may be some relationship between a customer's financial behaviour and the extent to which they take out more than one loan and use multiple lenders (see Figure 3 below):

(a) 85% of payday loan customers who had used non-payday sources of credit in the last 12 months had taken out more than one loan compared with 73% of customers who had not used non-payday sources of credit in this period.

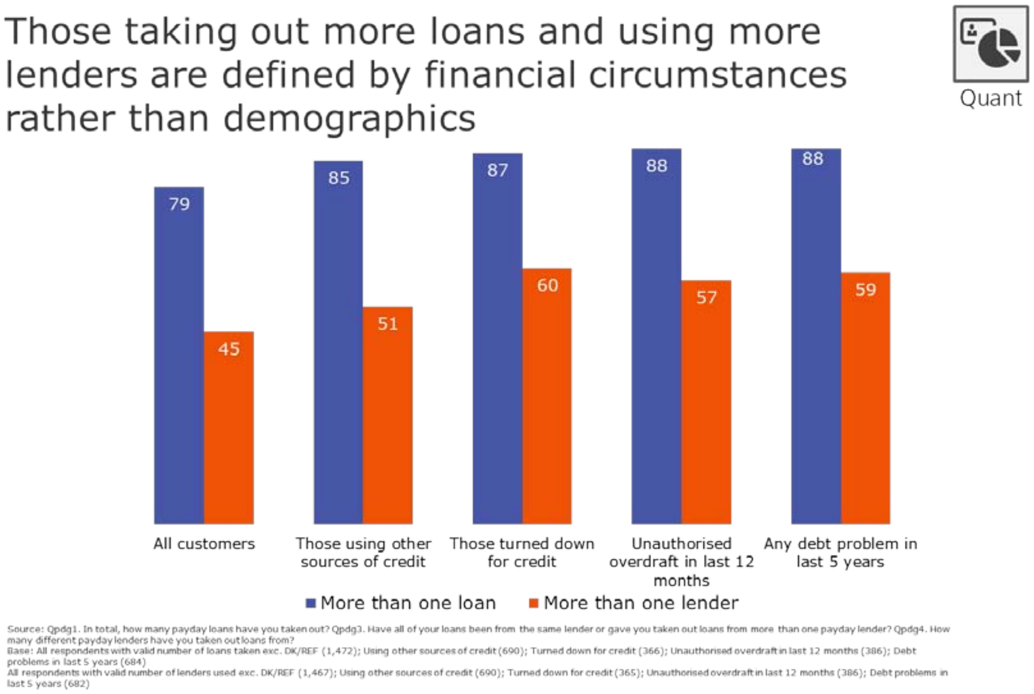
(b) Customers who experienced credit or debt problems[8] were all more likely than average to have had more than one payday loan and were also more likely than average to have used more than one lender.

(c) Customers with an unauthorised overdraft, who had been turned down for credit in the last year, or who had a debt problem in the last five years had used an average (median) of two lenders whereas the average (median) number of lenders used across all customers was one.

[8] Customers who had been turned down for credit, who had an unauthorised overdraft in the last 12 months, and who had a debt problem in the last five years.

FIGURE 3

Customers' financial behaviour and use of multiple lenders – CMA customer survey



Source: CMA customer survey.

Multi-sourcing and consecutive use of different lenders

23. We also used our database of payday loans for a sample of over 3,000 customers (see paragraph 16) to explore the extent to which customers who used multiple lenders tended to borrow from several lenders at the same time (multi-sourcing), or repaid a loan in full from one lender before taking out a new loan with a different lender. Again, further details of our analysis are provided in our presentation 'Customers' use of multiple lenders'.

24. Specifically, we defined a loan as being 'multi-sourced' if it was taken out while a loan was outstanding with a different lender. Typically, where a customer has an outstanding loan with a lender, we would expect their ability to borrow further amounts from that lender to be constrained. We found that simultaneous use of multiple lenders was widespread, and accounted for a large proportion of the use of multiple lenders that we observed among borrowers. In particular, just over half (54%) of customers in the sample had multi-sourced at least once in the period April 2012 to March 2013 and 37% of customers in the sample multi-sourced more than half of all of their loans in this period. Of all loans issued by lenders in the period, 48% were multi-sourced.

25. Although multi-sourcing was prevalent in our sample, we also observed examples of customers changing lenders when they did not have another loan outstanding. To capture the extent of this behaviour, we recorded cases in which borrowers in our sample used different lenders for consecutive loans, but where another loan was not outstanding. We found that 27% of customers in the sample used different lenders for consecutive loans on at least one occasion in the period April 2012 to March 2013. Of all loans in the period, 4% represented examples of customers using different lenders for consecutive loans.

26. In many cases (67%) where we observed customers using different lenders for consecutive loans, this represented a borrower returning to a supplier which had already lent to the customer previously (but not for the most recent loan). From an initial review of the data it appears that on many of the occasions where we observe customers changing lender, this reflects a return to a lender that was unlikely to have been available to the borrower when they took out their previous loan.

27. In addition, in some cases where we observe customers changing lender, this appears likely to be driven by a borrower experiencing repayment problems with the previous loan, and hence being unable to return to the same lender. This is discussed in more detail in paragraph 40.

28. We are continuing to investigate customers' borrowing patterns, and in particular the extent to which this takes place as a result of customers being constrained in their ability to borrow further amounts from an existing lender.

29. We also considered evidence submitted by lenders relating to the extent to which payday loan customers change supplier:

(a) Wonga told us that [✂] of its inactive customers were using other payday lenders (with [✂] being the most popular alternative for this group of customers), and [✂]% were using some other forms of lending product.[9]

(b) CashEuroNet submitted the results of a survey ([✂]) which asked respondents about the lender that customers had used before taking out their loan with QuickQuid. [✂]% of respondents reported having used another payday lender, higher than the proportion of customers who reported having previously taken out a loan from QuickQuid itself. CashEuroNet also told us that customers tended to stay with a payday

[9] See Wonga's response to the annotated issues statement (paragraph 1.16). Wonga told us [✂]. (See Wonga's response to the annotated issues statement (paragraph 5.16).)

lender only for around 12 to 18 months, which resulted in a continual churn of customers who were taking out payday loans.[10]

(c) Dollar submitted that the CMA's evidence resulting from the analysis of transaction data and customer survey suggested high rates of churn.[11] In particular, it pointed to the following evidence: (i) based on the transaction data, 40% of customers who obtained their first loan in January to August 2012 took out no further loans with that lender within a year of their first loan; (ii) based on the survey, most customers who took out a loan in 2012 were relatively new to that payday lender (ie they did not start borrowing from that lender in 2010 or earlier); and (iii) the degree of repeat business varied widely across the lenders, and this suggested that 'even to the extent that some customers do remain with the same lender, this is not a feature of the market but may simply be a function of that lender's competitive offering'.

Summary of use of multiple lenders

30. Overall, the evidence that we have seen shows that a significant proportion of payday customers use more than one payday lender during the course of a year. The analysis of borrowing patterns that we have carried out using this dataset suggests that much of this use of multiple lenders takes place as a result of customers being constrained in their ability to borrow further amounts from an existing lender.

31. In the following section, we consider other evidence on what factors are driving customers to change supplier (or to continue with their existing supplier). We then assess a number of possible frictions which may impede borrowers that are considering using an alternative supplier.

Factors driving customers' decisions to change or stay with the same lender

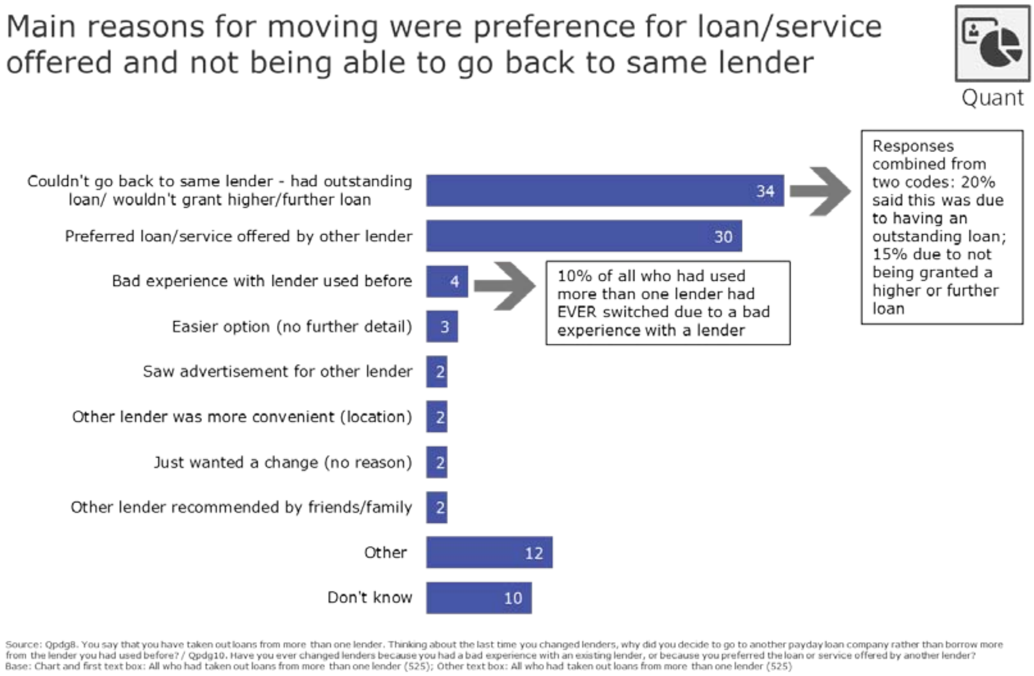
Reasons for changing lender

32. In our customer survey, we asked those customers who had taken out loans from more than one lender in the past[12] what had caused them to go to another payday lender rather than borrow more from the same lender. The responses to this question are shown in Figure 4.

[10] CashEuroNet's response to the 'Repeat customers' working paper.
[11] See Dollar's response to the AIS, paragraph 7.13.
[12] We did not ask whether the loans from different lenders were taken out simultaneously (ie multi-sourced), or one after another.

FIGURE 4

Main reasons for switching the lender



Source: CMA customer survey.

33. As the figure shows, the most common reasons cited by customers for changing lender were:

(a) that they could not go back to the same lender either because they already had an outstanding loan or because they would not be granted a higher/further loan by that lender (34%); and

(b) a preference for a loan or service offered by the other lender (30%).

34. Other reasons such as having had a bad experience with the previous lender, convenience, or a personal recommendation were cited much less frequently.[13]

35. The possibility that a significant proportion of the instances of borrowers changing lenders that we observe is being driven by borrowers being unable to go back to the original lender is also supported by a number of other pieces of evidence. In particular:

(a) Our analysis of repeat borrowing relationships between payday customers and a single lender shows[14] that the last loan a customer takes out with a

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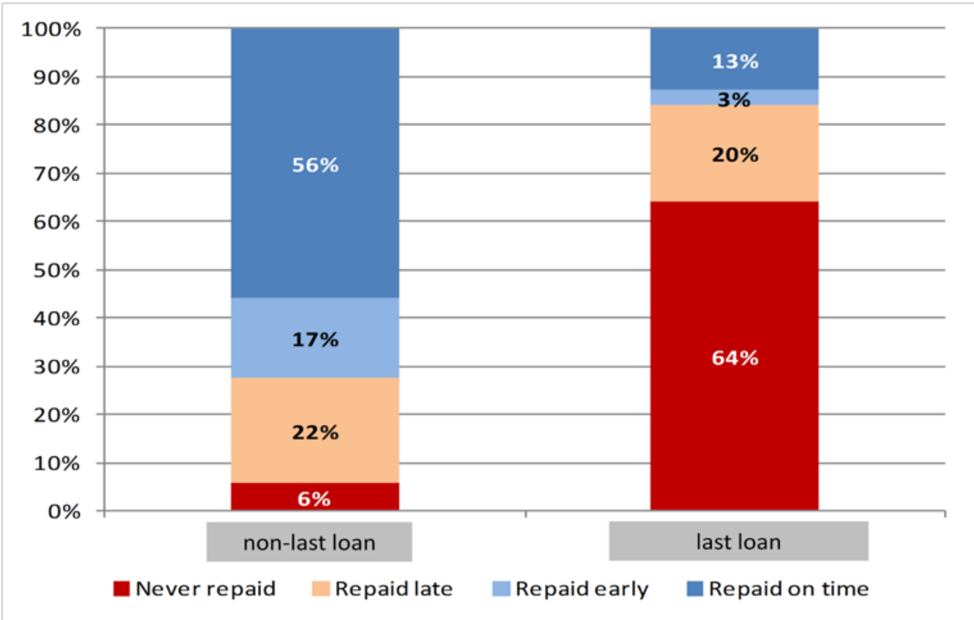
[13] Although not captured in the quantitative survey, the qualitative research suggests that sometimes customers use a new lender to repay other loans and avoid late payment fees.
[14] See CMA's 'Repeat customers - presentation based on analysis of the transaction data'.

lender is around ten times as likely never to be repaid compared with other loans. Specifically, around two-thirds of 'last loans' are never repaid in full, compared with around 6% of loans that are not a customer's last (see Figure 5). This suggests that for many customers, repayment problems with a previous loan is stopping them from returning to the same lender for additional credit – forcing them to turn to an alternative lender if they require further credit.

FIGURE 5

Repayment profile of an 'average last loan' vs 'average not-last loan'



Source: 'Repeat customers – presentation based on analysis of the transaction data' working paper – slide 36.

(b) In addition, responses to our customer survey suggested that about 70% of customers who had used multiple lenders experienced some form of financial problem[15] in the previous 12 months (compared with 42% of customers who had used only one lender), supporting the existence of a relationship between high credit risk and the use of multiple lenders.

(c) We also considered the role of repayment behaviour in driving the changes in lender that we observed in our analysis described in paragraphs 23 to 27. Using information on the repayment status of each loan, we established whether a loan was either repaid in full late or never repaid in full. We found that of the loans preceding a customer's decision

[15] Financial problems were defined as either *(a)* having been overdrawn on any of the customer' bank accounts, *(b)* having gone over the agreed limit on any of the customer's accounts, or *(c)* having been turned down for any types of credit.

to use different lenders for consecutive loans, 44% were repaid in full late or never repaid in full.

36. The responses to our survey also suggested that around a third of customers who had used multiple lenders had changed because they preferred the loan or service of another lender. All else equal, we might expect switching of this type to place a constraint on lenders to improve their loan offering. The most common aspects of the other lender's offer that were cited as a motivation for switching were the total cost of the loan (38%) and repayment flexibility (29%), followed by the ease of the application process (18%) and the speed of getting the money (9%).

Reasons for not changing lender

37. We also explored reasons for not changing supplier with those customers who had taken out multiple loans, but had only borrowed from a single lender.

38. Customers interviewed as part of our qualitative research indicated six key reasons for not switching lenders:

(a) they were generally pleased with the service they had received from the lender;

(b) a perception that online lenders, or high street lenders, offered essentially the same deals;

(c) a reluctance to provide more information about themselves or proof of income;

(d) a fear that another lender might not accept their application and this might affect future loan applications;

(e) a fear that by being accepted by another lender they might be tempted to take out more loans than they could afford; and

(f) inertia brought on by having an account with a lender that made it easy to apply for further loans.

39. We explored the frequency with which these reasons were put forward by payday loan customers in our quantitative survey. Of those customers who had taken out multiple loans but only used a single lender (34% of the sample), only 15% had at some point considered going to a different lender, whilst a clear majority (85%) said that they had not considered using alternative providers.

40. When asked about the reason why they had not considered switching supplier, the majority of borrowers said that this was because they were happy with the service provided by the existing lender. Of the remainder, respondents cited the general ease/convenience of sticking with the same lender (11%), avoiding the need to go through a new application process (6%), concerns about the likelihood of approval with another lender (4%), that the current lender offered better terms (4%), that they did not have enough time to compare (2%), and difficulties in comparing offers (1%).[16]

41. A smaller proportion of respondents who did not consider changing supplier said that they saw no incentive to switch as they considered lenders to be all the same (3%), they never thought about other lenders (4%) and they were not aware of other lenders (1%). This may reflect an ignorance of the differing offers from other lenders or inertia. The barriers to shopping around that we discussed in the 'Shopping around' working paper may reinforce the perceived lack of benefits from switching, if customers face difficulties in identifying suitable alternative lenders and rationalise this difficulty by blaming the lack of credible alternative to their current lender.

42. For those customers who had only used one lender but had considered using an alternative provider, again most reported deciding not to switch because they were happy with the service provided by the current lender. However, in general these customers were more likely to cite obstacles such as the need to go through a new application process, the general convenience of sticking with the current lender and concerns about the likelihood of approval with another lender as reasons for not switching, compared with customers who did not consider using an alternative lender.

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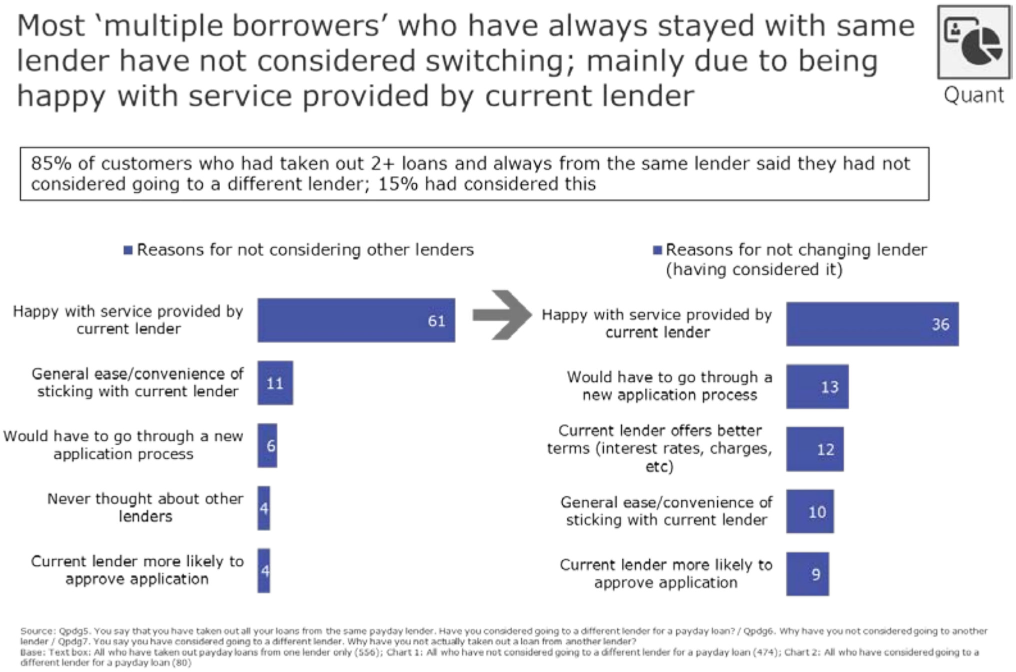
[16] A similar question was asked of customers who said that they did not compare the pros and cons of different lenders when taking the most recent loan because they had used the lender before (18% of the customers saying that they did not compare the pros and cons of different lenders). As above, almost 60% said that they were happy with service provided before. Other reasons cited by customers were the following:

- 14% said that it was easier/more convenient because they already had your details
- 10% said that there was more chance of being approved for a loan as a repeat customer
- 6% said that it was easier/simpler (no further detail required)
- 4% said that it allowed them to borrow more as a repeat customer
- 2% said that they did not want to repeat the application process

FIGURE 6

Main reasons for not switching the lender



Source: CMA customer survey.

43. Our qualitative research also explored what customers meant when they said that they were happy with the service provided by an existing lender. In-depth conversations with customers indicated that customer satisfaction appeared to be related to the perception that the sector was potentially unsafe or that there were 'dodgy' lenders in the market. Therefore, using a lender with which a customer had previously had a good experience could reduce the perceived risk of having a negative experience in the future. A number of factors were cited as contributing to customers having a positive experience with a lender, including: an easy and quick application and approval process; having an account that could be logged into and did not require a customer to provide basic information again; being offered increased loan amounts; not be charged for paying late by a few days; and 'thank you' texts after repayment that make a customer feel valued.[17]

44. We also note that the proportion of customers who had ever shopped around is significantly lower among those who had never considered changing the lender (29%) compared with the equivalent figure among those customers who either had used multiple lenders (53%) or considered changing supplier but they did not (61%). This suggests that the unwillingness of considering

[17] For high-street customers a good experience means: the customer can build up a relationship with the outlet staff; where staff make the customer feel valued by being friendly, helpful, engaging and establishing a report; and by being a 'friend offering a helping hand.

alternatives appears to be associated with a lack of knowledge of what other lenders offer. For example, of the customers who did not consider changing supplier as they said that they were happy with the service provided by an existing lender, one in three (32%) had ever shopped around, whereas the equivalent figure is twice as big for customers who considered changing lender but they did not.

Summary on factors driving customers' switching decisions

45. The evidence that we have collected suggests that a variety of factors influence customers' decisions about whether to change lenders or to remain with their existing lender:

(a) Our customer survey and our analysis of transaction and CRA data indicate that the likely availability of additional credit from a previous lender is likely to be an important factor driving some customers to change lenders.

(b) Our customer survey also indicates that a significant proportion of customers choose to change lenders because they prefer some aspect of the product and/or offering of the new lender, such as the total cost of credit, repayment flexibility, or the ease of application process.

(c) Our customer survey indicates that generally those customers who have taken out multiple loans but have only used one lender have not considered using an alternative provider. Responses to our survey suggest that customers primarily remain with the same lender because they are happy with the service provided. Our qualitative research provides some insight into the types of factor that are important to customers in their decision to remain with the same lender, and in particular the value that customers often place on a lender's customer service, given concerns about the reputation of the market in general.

(d) Other reasons given by borrowers for not changing provider include convenience (for example, avoiding the need to go through a new application process with a new lender), a preference for the product offered by the current lender and an expectation that the current lender is more likely to approve a customer's application. Customers who have considered other lenders are more likely to cite one of these factors than those who have not considered alternatives.

Consideration of potential barriers to switching

46. In this final section, we consider potential barriers to switching in the payday lending market.

47. Barriers to switching exist if it is costly (or if it is perceived to be so) for customers who have previously purchased from one firm to switch to a competitor's product, even when the two firms' products are functionally similar. In its guidelines,[18] the CMA identifies a number of factors which may result in switching costs, including:

    (a) customers' lack of information about alternative products;

    (b) inconvenience and administrative obstacles to switching;

    (c) the presence of network effects that are not available with another supplier;[19]

    (d) significant customer investment in product- or provider-specific equipment and/or skills, such that switching supplier would require the customer to make a further such investment; and

    (e) contractual terms (eg low early settlements rebates) or marketing devices (eg loyalty cards) that increase the financial cost of switching, or behaviour (eg negative advertising) that increase customers' concerns about the costs and/or risks of using other providers.

48. Where material switching costs exist (and hence existing customers are 'captive' in some sense), then lenders are likely to have an incentive to exploit their existing customer base by increasing their prices, anticipating that the customer response will be weak.

49. This effect may be offset, to some degree, by an increase in the incentive for lenders to compete for new customers. The nature and extent of any such offsetting incentives will be affected by lenders' pricing policies:[20]

    (a) If lenders vary their offering for new and repeat customers, then higher prices for existing customers may be accompanied by discounts to attract

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[18] *Guidelines for market investigations, CC3*, paragraph 318.
[19] As stated in the CMA guidelines, network effects may arise when:

> Customers value the network or platform more highly when it is used by a greater number of other customers; for example, in newspaper (and other media) markets both readers (or viewers, or listeners) and advertisers are served and the value of the product (eg an advertisement) to one group of customers (advertisers) is affected by the number of customers served in the other group (the number of readers of a newspaper, listeners to a radio station or viewers of a television channel).

(See footnote 107.)
[20] See OFT 'Switching costs', Economic Discussion Paper 5 (2003).

new customers (as firms try to increase the number of captive customers that they supply): this is sometimes referred to 'bargains-then-rip-off' pricing.

(b) Conversely, if lenders charge both new and repeat customers the same price, then they may face a trade-off – while they will want to take advantage of their market power over their existing customer base by raising headline prices, they may also have an incentive to reduce headline prices in order to compete for new customers, so as to build a customer base and ensure profitability in the future.

50. With the exception of some limited use of promotions targeted to attract new customers, we have not seen much evidence of price discrimination by payday lenders in favour of new customers. In either pricing scenario, the presence of material switching costs is likely to introduce some distortions to the competitive process.

Potential barriers to switching

51. We considered whether – for customers who are considering switching – any characteristics of the payday lending sector might serve to discourage them from doing so by altering the perceived or actual costs to payday customers of switching lenders. In particular, we considered three possible mechanisms:

(a) the inconvenience/administration associated with switching lender;

(b) the greater extent of uncertainty perceived by a customer regarding the offering of other lenders, including whether their loan application will be approved; and

(c) the possibility that lenders may offer better loan terms to repeat customers than new customers.

52. We discussed each of these mechanisms in turn below. It is important to note that customers' switching behaviour and the impact that switching may have on suppliers' product offering and competitive behaviour will also be affected by any frictions that make it difficult for customers to shop around effectively (see our working paper on 'Shopping around').

The perceived inconvenience of switching

53. One factor that could in principle discourage borrowers from switching lenders is if the act of switching is perceived as being time-consuming or in-convenient. The relative inconvenience of changing lender may be particularly high for a borrower who is considering topping up or rolling over an existing

loan, as these processes may require very little effort to arrange with an existing lender. As set out in the working paper on 'Shopping around', the cost to a borrower of time spent filling in application forms or researching alternatives may be perceived to be high in the payday lending sector, given the short-term nature of the demand for the product, and the perceived urgency of the loan. In addition, for customers who are considering rolling over, the perception of inconvenience in changing lender may be exacerbated by the concern that the funds are received in sufficient time to pay off the existing loan and make all of the relevant transfers.

54. There is some evidence to suggest that inconvenience may be a factor for some borrowers considering switching lender. Putting to one side those customers who reported staying with the same lender because they were happy with the service provided, the results of our customer survey (set out in paragraphs 40 to 42) suggest that a significant proportion of those other customers who had not changed lender considered the ease/convenience of remaining with the current provider – or the burden of going through a new application process – as a factor contributing to their decision not to switch.[21]

55. We also noted that of the customers who rolled over the most recent loan (6% of the survey sample), less than 10% said that they would consider taking out a loan with a lender in order to pay off a debt to another lender.

Uncertainty regarding other lenders' offering

56. Another factor which may discourage some customers from switching is uncertainty regarding other lenders' offering, including the likely availability of credit.

57. Many payday loan customers are likely to face some uncertainty about whether or not they will be approved for a loan by any given lender, given the high levels of debt problems that are observed among borrowers. When coupled with the time pressure that customers often perceive to be associated with their decision to take out a payday loan, this may inhibit borrowers' incentives to shop around, and cause them to base their decision on which lender they consider will approve them for a loan, rather than which lender offers the best-value product.

58. Uncertainty regarding approval may similarly deter repeat customers from switching lender. A borrower who has been approved for a loan by a particular

[21] For example, out of 39 of the customers – who did not consider changing lender and who did not report staying with the same lender because they were happy with the service provided – 17% indicated either the ease/convenience of remaining with the current provider or the burden of going through a new application process as reasons contributing to their decision not to change lender.

lender in the past may expect to be approved if they seek to borrow a further amount from the same lender in the future (assuming the customer has repaid the previous loan on time). In contrast, a borrower may be more uncertain about their likelihood of being approved if they use an alternative lender, who may take different factors into account in their credit assessments, and will not have access to as detailed information on that customer's repayment history. For customers considering rolling over a loan, the difference in the likelihood of approval between the incumbent and alternative providers may be particularly significant,[22] as a customer that is rolling over is particularly unlikely to be considered a good credit prospect by an alternative lender.

59. Our customer survey provides some limited evidence that this factor may discourage some borrowers who are considering switching lender from doing so. In particular, putting to one side those customers who reported staying with the same lender because they were happy with the service provided, the results of our customer survey (see Figure 8) show that among the remainder of customers who had used only one lender, a significant proportion cited the fact that a current lender was more likely to approve their application as a reason for not switching (with an overall percentage of 4% of those who had not considered switching citing this as the reason for not doing so, and 9% of those who had considered switching but ultimately decided not to attributing this to the higher likelihood of being approved by the current lender).

60. We also note that among those customers who did not shop around as they used the same lender before, a common reason cited by customers – apart from being happy with the service provided – was that they had more chance of being approved for a loan as they were repeat customers (10% of the customers who did not shop around for the most recent loan).[23,24]

61. In addition, responses to our customer survey (see paragraph 19) suggest that borrowers may value certain aspects of lending relationships that are difficult to observe prior to borrowing from a lender. This could include a lender's customer service, or their approach to loan collections. Uncertainty about the extent to which other lenders offer comparable levels of service may cause borrowers to perceive a risk associated with using another lender, discouraging them from switching. One factor that might be expected to heighten any effect of this type is the reputation of the payday lending sector, and the perception of poor lending practices among certain payday lenders (see paragraph 43).

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[22] For example, Wonga told us that since July 2013 it had been filtering out applicants who had two or more existing payday loans with other lenders as reported by the CRA.
[23] Another common reason cited by customers (14%) was that it was easier/more convenient as the lender already had the details.
[24] See TNS BMRB survey report (slide 82, p103).

62. In this context, Think Finance told us [✂]. SRC told us that it focused on customer retention and on 'making sure that customer has a good lending experience with us'.

Better terms for repeat customers

63. In some cases, lenders may offer specific benefits to repeat customers, discouraging them from switching provider. Most commonly, many lenders offer repeat customers higher potential credit limits if they have repaid previous loans. There is also some limited evidence of lenders occasionally offering repeat customers lower finance charges. While discounts and improved terms will benefit repeat customers, rival lenders may be unable to match these improved terms if they are less able to determine a borrower's credit risk. In this case, incumbent lenders may have a competitive advantage over their rivals, and so the terms that repeat customers receive may be less favourable than they would be in a more competitive situation. Among the major lenders, only Wonga offers a price promotion (it waives its £5.50 transmission fee) which is targeted at repeat customers.[25] Specifically, it waives this fee for: *(a)* [✂]; and *(b)* [✂]. According to our analysis of the transaction data, this promotion was applied to [✂]% of the customers since the closure of moneysupermarket.com's payday loan page (and [✂]% of the repeat customers before moneysupermarket.com's closure). Given this, it does not seem that pricing discounts/promotions are common tools used by lenders to retain repeat customers in this industry.[26]

64. Given the relatively limited extent of pricing discounts currently offered to existing customers, in what follows we focus on the extent to which repeat customers are offered additional credit.

Differential borrowing limits

65. As set out in Figures 2 and 3 of the 'Payday loan products' working paper, a significant proportion of payday products (including many of the most popular products on the market) offer a greater maximum loan amount to repeat customers. The increase in the maximum amount that can be borrowed is often significant. For example, the maximum amount available to a first-time customer using a Wonga Little loan will be £400 – a repeat customer may be able to borrow up to £1,000. Similarly, a first-time customer taking out a loan

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[25] The promotion is also granted to other customer groups, including customers coming via Wonga's Facebook page, customers who start but do not complete an application; and customers referred to Wonga via moneysupermarket.com (until June 2013).

[26] One additional example that we are aware of is a discount scheme previously offered by CashEuroNet, whereby customers that had successfully repaid three, six or twelve loans were offered discounted interest rates. [✂]

with Cheque Centres will be able to borrow up to £500 – the maximum loan amount available to repeat customers is £1,000.

66. We assessed the extent to which repeat customers made use of the higher credit limit available to them. To do this, we analysed whether the amount that repeat customers borrowed is higher than the maximum amount available to a first-time customer.

67. We considered the payday loan products, among those supplied by the 11 major lenders, that envisage different credit limits for new and repeat customers, namely: Wonga, Payday UK (Dollar), QuickQuid (CashEuroNet), Cheque Centres, The Loan Store (Cheque Centres), CFO Lending and The Cash Store.[27] Table 2 shows for each lender the proportion of repeat customers who borrowed more than the credit limit imposed for new customers.

TABLE 2 **Proportion of repeat customers who borrowed more than the credit limit for new customers**

Product	*%*
CFO Lending	[✂]
Cheque Centres	[✂]
Payday UK (Dollar)	[✂]
QuickQuid (CashEuroNet)	[✂]
The Cash Store	[✂]
The Loan Store (Cheque Centres)	[✂]
Wonga	[✂]
Average	16

Source: CMA analysis on lenders' transaction data.

68. Looking across lenders, 16% of repeat customers made use of the possibility of borrowing more than they could have done if they had been new customers. The figure varies significantly by lender, [✂].

69. Despite the material proportion of customers who we observe borrowing additional amounts as repeat customers, it was relatively uncommon for respondents to our survey (even excluding those customers who reported being happy with the service provided by their lender as the reason for not changing lender) to report that they had not considered switching/decided not to switch because they were offered benefits to stay with their incumbent lender (in total this was highlighted by only 1 to 2% of all customers).

[27] We excluded running account products because the transaction data does not allow to calculate the amount borrowed at any point in time.