COMPETITION COMMISSION

Payday Lending

Prices over time

19 February 2014

Section 1 – Introduction

Introduction

This presentation:

- reviews price changes, changes to pricing structures and price promotions since 2007; and
- matches these developments to lenders' responses to questions relating to price changes and price promotions.

The purpose is to help us understand the extent lenders compete on price.

The following slide deck is structured as follows:

- Section 1 – Introduction
- Section 2 – Overview of main observations
- Section 3 – Summary of key price changes
- Section 4 – Detailed analysis of trends in prices by lender
- Section 5 – Detailed analysis of trends in late fees

Assumptions behind the analyses

The loans we consider have the following characteristics:

- Principal: £100
- Duration < 1 month
  - where different durations affect price (e.g. Wonga) we present TCCs for different durations
- Repayment: on-time
- Customers: not eligible for repeat customer discounts

Some notes on the analysis in this presentation:

- Market shares mentioned in this presentation are based on the analysis of shares of total loan revenue published in our Size and concentration of the payday lending sector working paper
- ‘New lines’ in charts do not in all cases imply new entrants or products
- Some products are not included in this presentation:
  - Our analysis suggests that, in some cases, borrowers use relatively long-term instalment products for borrowing needs of less than one month by agreeing to a long-term loan but repaying early. While we continue to examine the extent to which this occurs, these products are not included in this piece of analysis.

Section 2 – Overview of main observations

Overview of main observations

Headline price changes are infrequent and we observe very few reductions in interest rates and fees in the period since 2008.

- Many products have had only one price change since 2008.
- Headline interest rates and fees increase intermittently over time, with these increases rarely reversed.

Price promotions are used by all of the large lenders, to differing extents. Fewer of the small lenders use discounts.

- The discounts used by lenders are often substantial relative to the total cost of credit.
- Promotions are commonly linked to price comparison websites
- Some discounts are ongoing, others are linked to specific promotions.

Prices for loans paid on time have exhibited some convergence ...

- An increasing number of products have TCCs close to £30 per £100 when repaid on time.

... but there still exist outliers with both relatively high and relatively low prices.

- The 'cheap' products tend to have relatively small market share. While this may be explained partially by the relatively recent introduction of some low-price products, the two cheapest products we examine were introduced in 2003 and 2009.

Fees for 'late loans' changed very infrequently, remaining widely dispersed for several years.

- Wonga and Dollar are exceptions, both having changed their flat late fees on multiple occasions.

Section 3 – Summary of key price changes

Summary of key price changes

Of the small number of price changes that we do observe, several stand out as being of particular interest:

CashEuroNet introduction of risk-based pricing

CashEuroNet introduced tiered, risk-based pricing in 2011.

- CashEuroNet told us it was introduced [✄].
- [✄]
- [✄]

Summary of key price changes

Of the small number of price changes that we do observe, several stand out as being of particular interest:

CashEuroNet introduction of FlexCredit

CashEuroNet also introduced a flexible product, FlexCredit, on 10th June 2013.

- The price level of this product was relatively low at 0.82% per day with no fixed fee, also with discounts applying for regular customers of QuickQuid.
- CashEuroNet told us the new product was introduced [✂].
- The 0.82% per day interest charge was slightly higher than the **Speedy Cash Flex Loan**, which charged 0.75% per day.
  - However, Speedy Cash changed the price of its Flex Loan to 0.82% per day (along with its duration) on 4th June 2013.
  - Speedy Cash did not comment on the rationale for this price change in its response to the market questionnaire.

Summary of key price changes

Of the small number of price changes that we do observe, several stand out as being of particular interest:

DFC online products: increase from 25% to 29%/30%

In December 2011, **Dollar Financial Corporation (DFC)** increased the monthly interest charge on its PaydayUK payday loan from 25% to 29%. This price increase was matched for their Payday Express product three months later (March 2012).

- DFC told us the initial rate increase to 29% on its PaydayUK product was [✂].
- In August 2012, Dollar further increased its PaydayUK interest rate to 29.95%.

25% price promotion

In December 2011—when increasing the PayDayUK rate from 25% to 29%—DFC introduced a promotional code on the Moneysupermarket.com website, offering both products at the original 25% interest rate.

- When 'stable', the coverage of this promotion (in terms of loan volume) is around [✂]% of loans to new customers and [✂]% of loans to repeat customers.
- DFC told us this promotion ended in April 2013 when Moneysupermarket.com closed its payday loans section.
- [✂]

Summary of key price changes

Of the small number of price changes that we do observe, several stand out as being of particular interest:

DFC (Payday Express) temporary price increase to 32.99%

In September 2013, DFC increased the Payday Express interest charge from 29% to 32.99% before reversing this increase 10 days later.

- [✄] suggest that the price change to 32.99% was rolled [✄].
- Payday Express and PaydayUK now have interest rates of 29% and 29.95%, respectively.

Summary of key price changes

Of the small number of price changes that we do observe, several stand out as being of particular interest:

Speedy Cash (SRC Transatlantic Limited) free £200 loan price promotion

In April 2013, Speedy Cash began offering 0% interest on all loans up to £200 borrowed by a new customer. Customers borrowing more than £200 would pay 0% interest on the first £200 and the standard interest rate (25%) on the balance.

- This promotion is advertised in-store, by promotional leaflets and on the Speedy Cash Facebook page.
- According to the transaction data on all loans issued since April and repaid by August 2013, this promotion applied to 90% of loans to new customers.

Summary of lenders' responses

In their responses to our market questionnaire, lenders described in more general terms the importance of costs and competitors' prices to their own pricing.

Pricing – the role of costs

- **Cheque Centres, WageDayAdvance, TxtLoan, Ariste Holding Limited, The Cash Store and H&T** each told us that [✂].

Pricing – lenders' comments regarding price competition

- **CFO Lending** told us that the market has become more price sensitive and that other lenders have an increasingly direct effect on its prices. It also indicated that its prices affect the profile of customers it attracts, which also factors into its pricing.

- **Cheque Centres** also told us that it [✂].

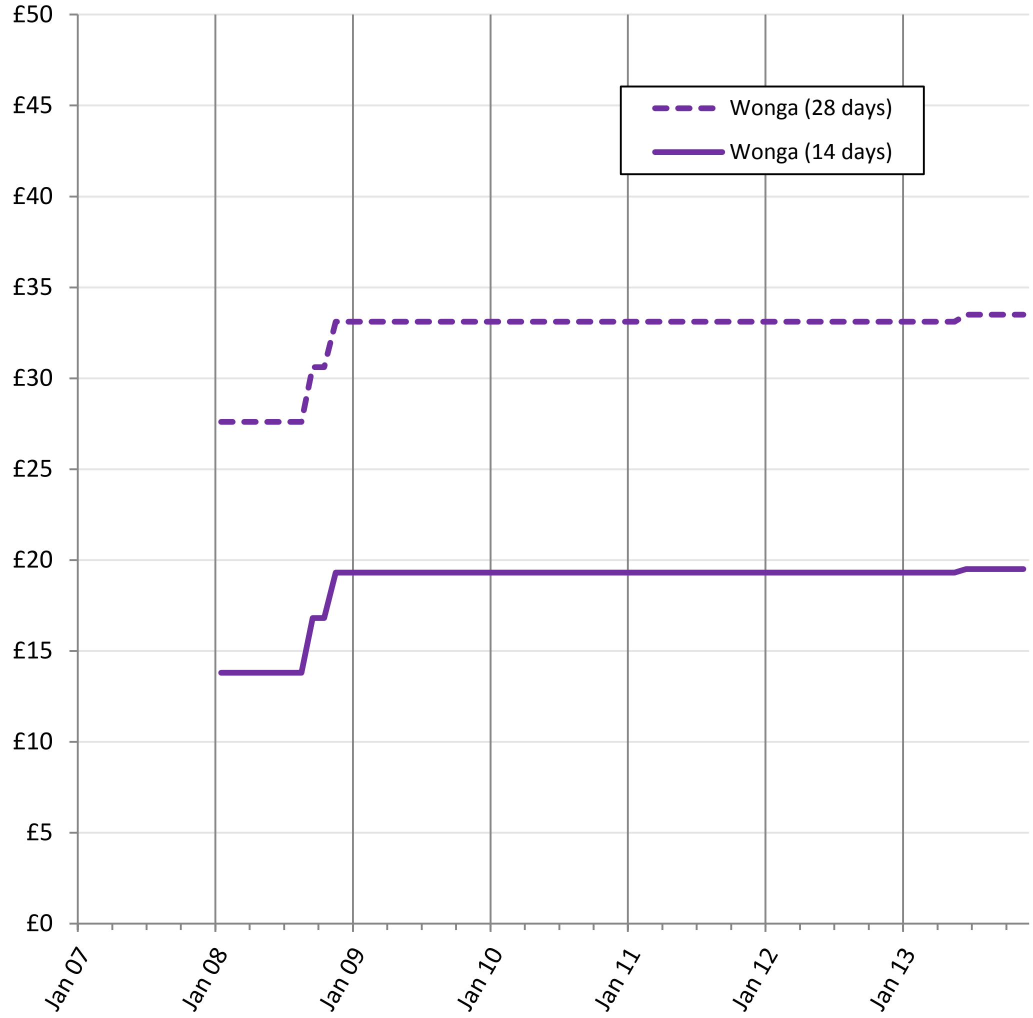
Section 4 – Detailed analysis of trends in prices by lender

Price developments (TCC of a £100 loan) 2007-13
Wonga

[20-30]% share of major lender revenue

Current prices (TCCs):

- Depends on both loan duration and amount
- Wonga becomes more expensive relative to other products:
    - for loans of longer duration; and
    - for loans of smaller amounts due to the fixed transmission fee.



Price developments (TCC of a £100 loan) 2007-13
Wonga

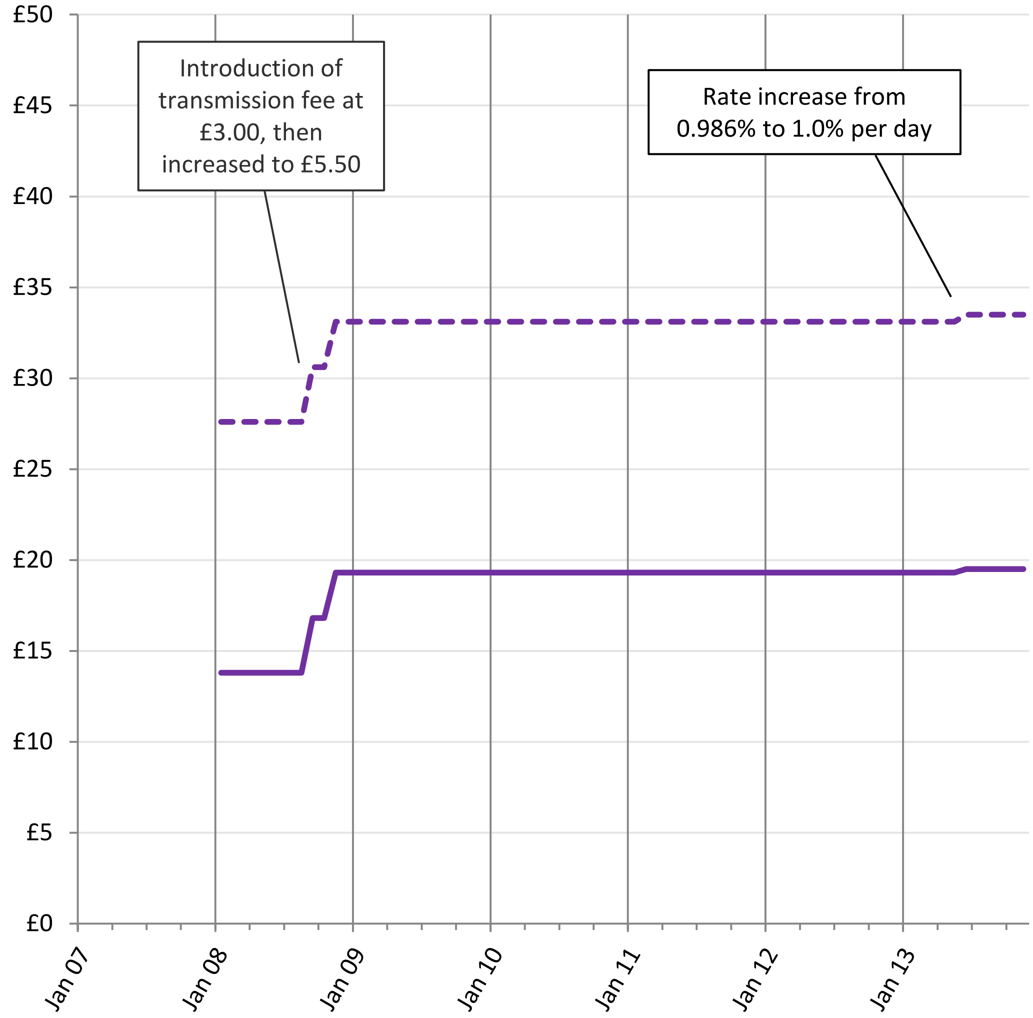
Few price changes:

Transmission fee introduction in 2008

Wonga told us that 'the pricing change made it possible to offer low value loans and short duration loans'

Interest rate change in 2013

Since 2008, the only other price change implemented by Wonga was a slight increase in the daily interest rate to correct for a coding error.

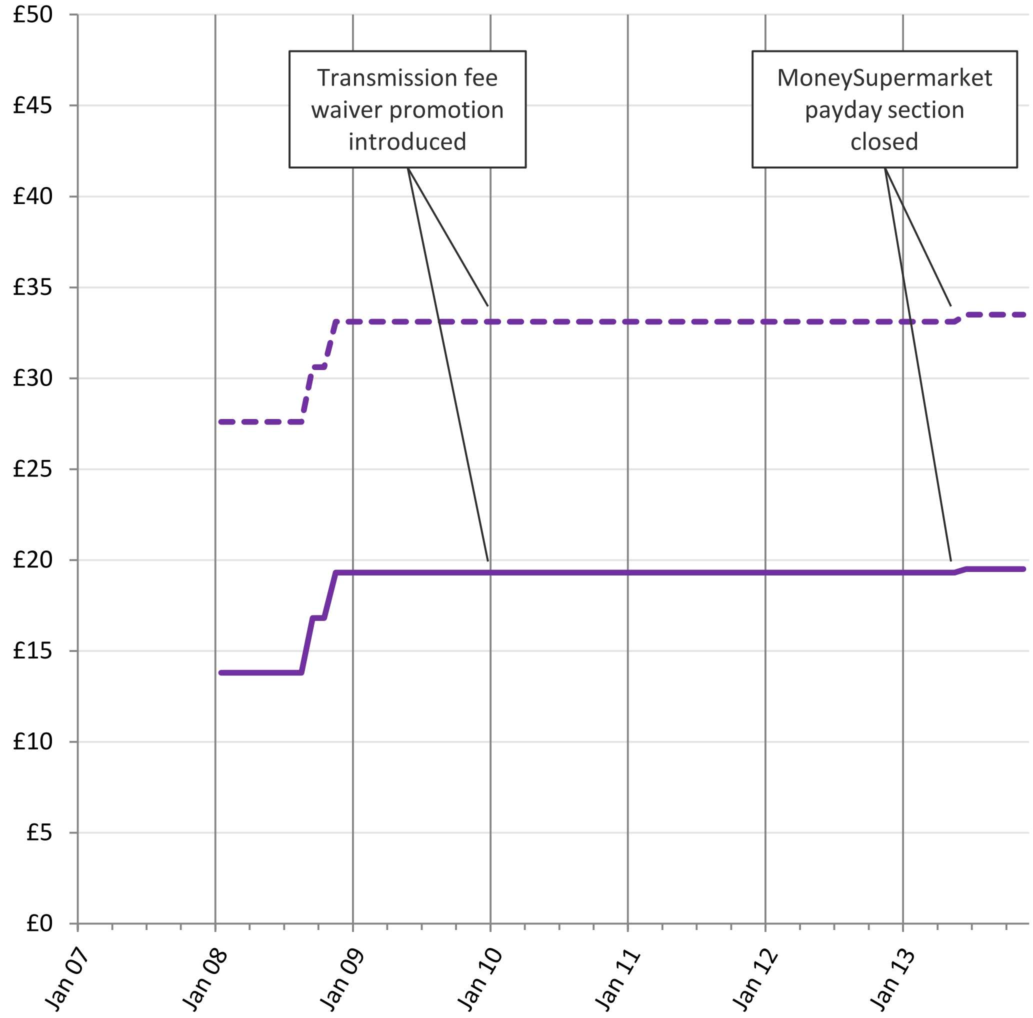


Price developments (TCC of a £100 loan) 2007-13 Wonga

Promotions:

Transmission fee waiver

Wonga waives its £5.50 transmission fee for customers entering promotional codes, which Wonga distributed to customers referred to Wonga via MoneySupermarket (until 06/2013) [✂].



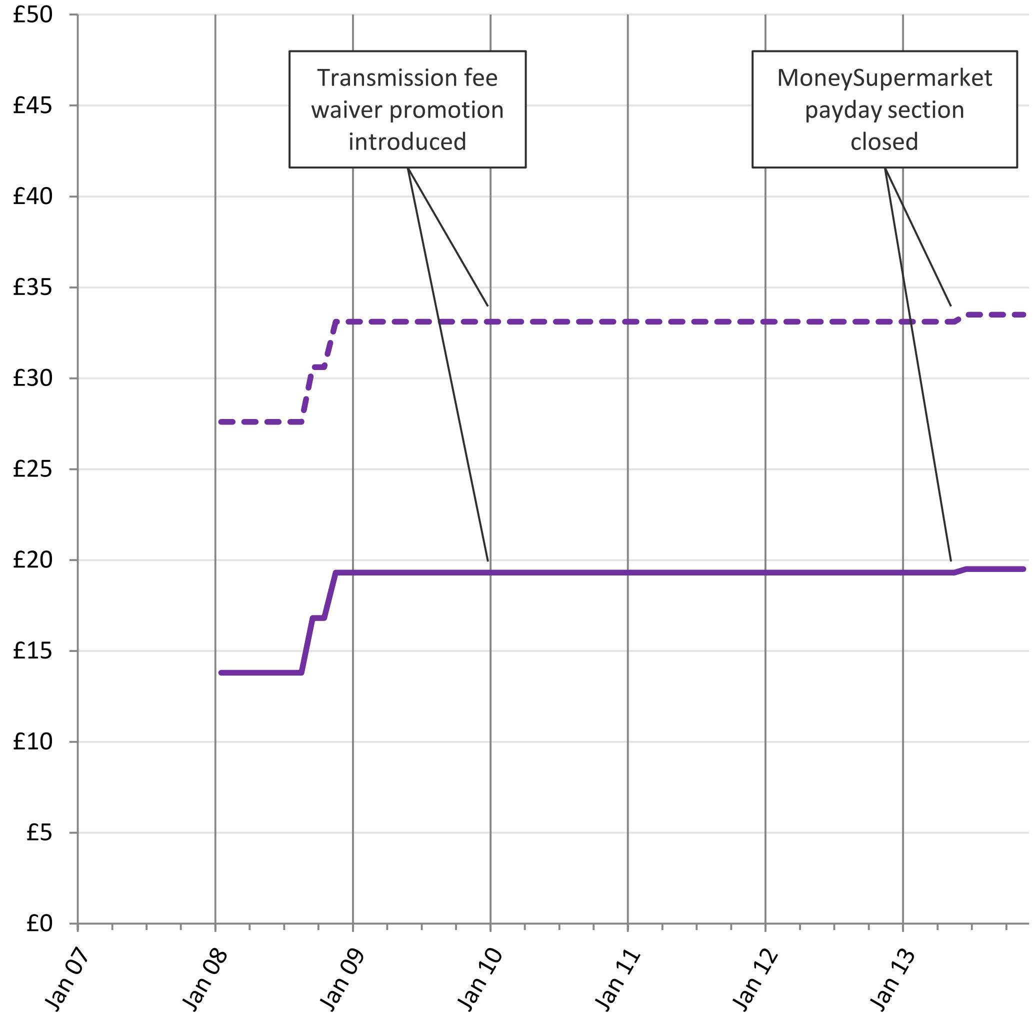
Price developments (TCC of a £100 loan) 2007-13
Wonga

Promotions:

Transmission fee waiver

According to our analysis of the transaction data, this waiver was applied to the following proportions of loans.

[✂]

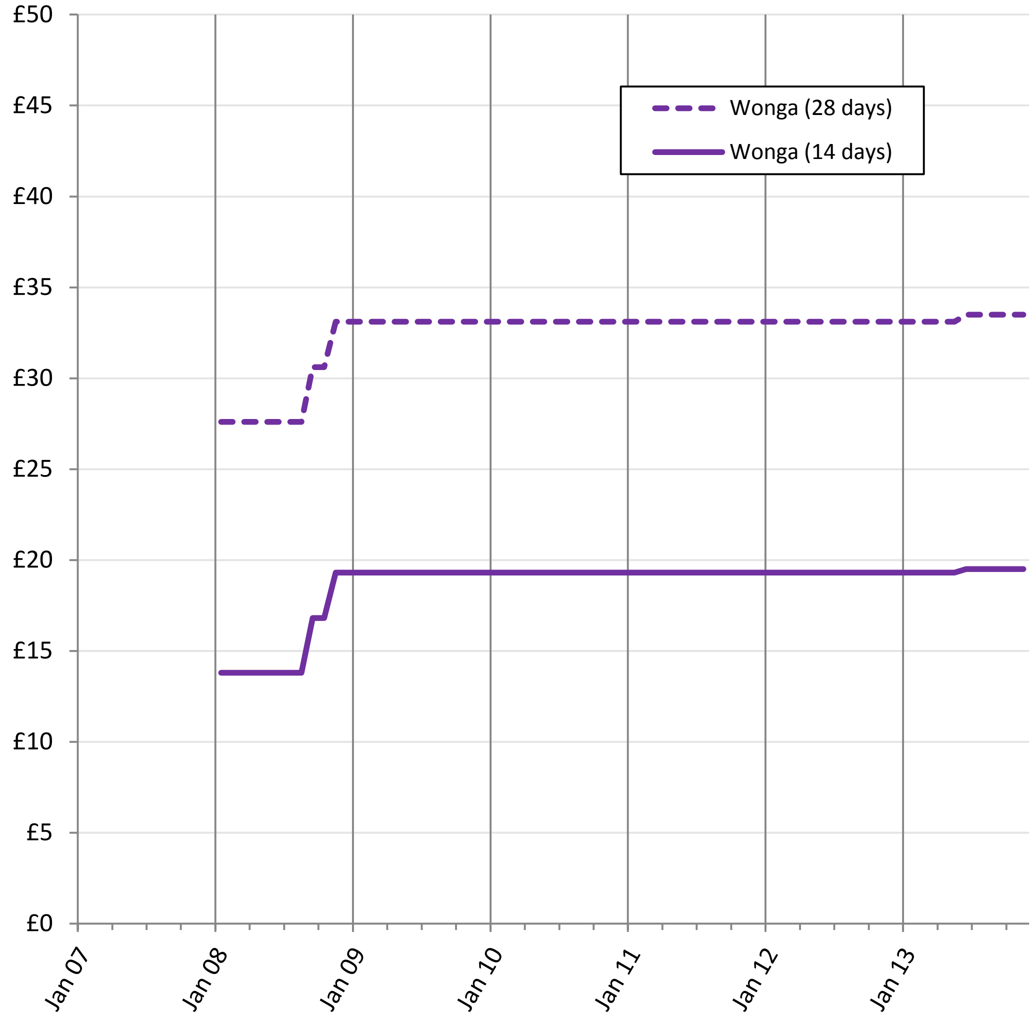


Price developments (TCC of a £100 loan) 2007-13
Wonga

On internal costs:

Wonga told us [✂].

It appears there was no change in headline prices in response to these shocks.



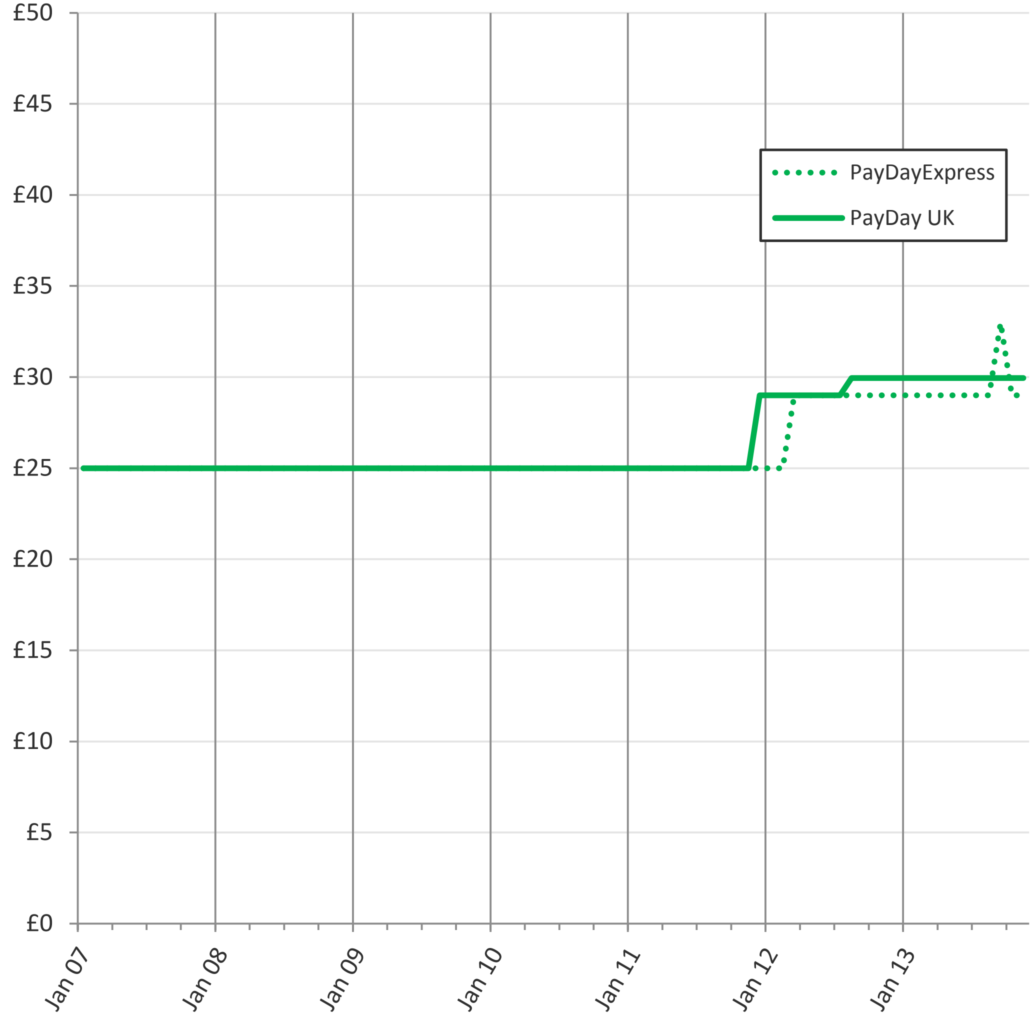
Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

[20-30]% share of major lender revenue
  DFC online products: [✂]% share
  DFC high street products: [✂]% share

Online products:
- PaydayUK
- PayDayExpress

Price patterns for online products:
- Static for long periods
- Main exceptions:
  - increases 2011/12
  - temporary increase 2013
- Convergence to ca. £30 per £100

Note:
The depicted PayDayExpress price excludes a faster payments fee (£15), which applies to repeat customers only

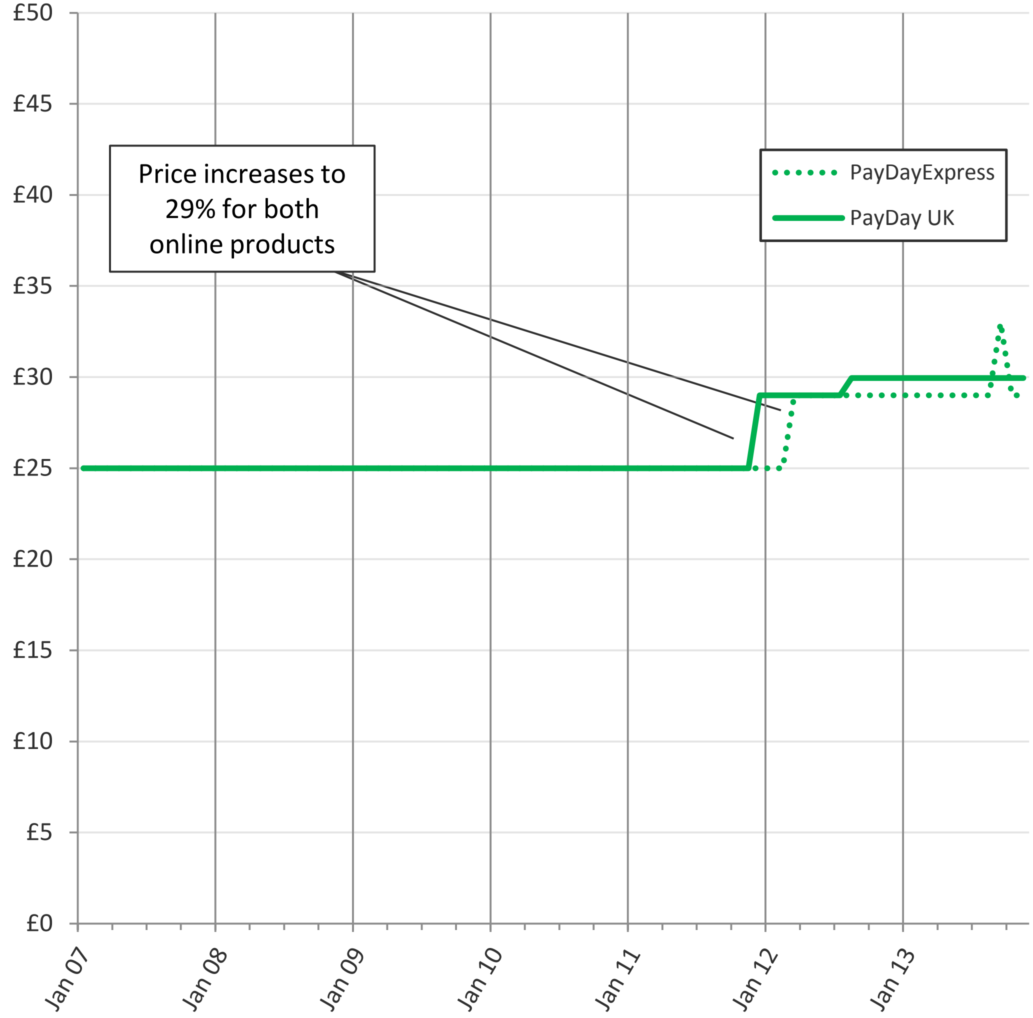


Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Online products: Price Change 1

DFC increased its prices to 29% for both of its online products in December 2011 and March 2012.

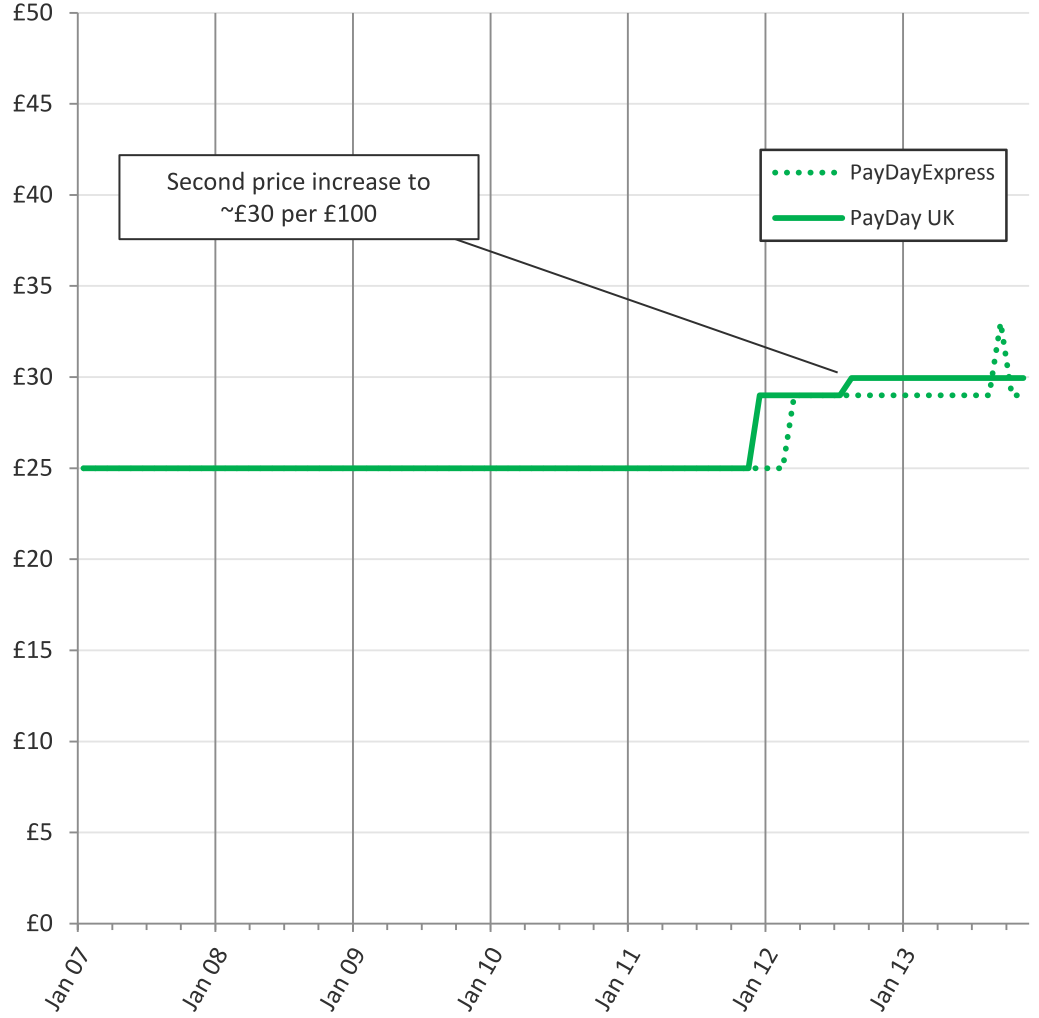
DFC told us this was [✂].



Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Online products: Price Change 2

[✄]



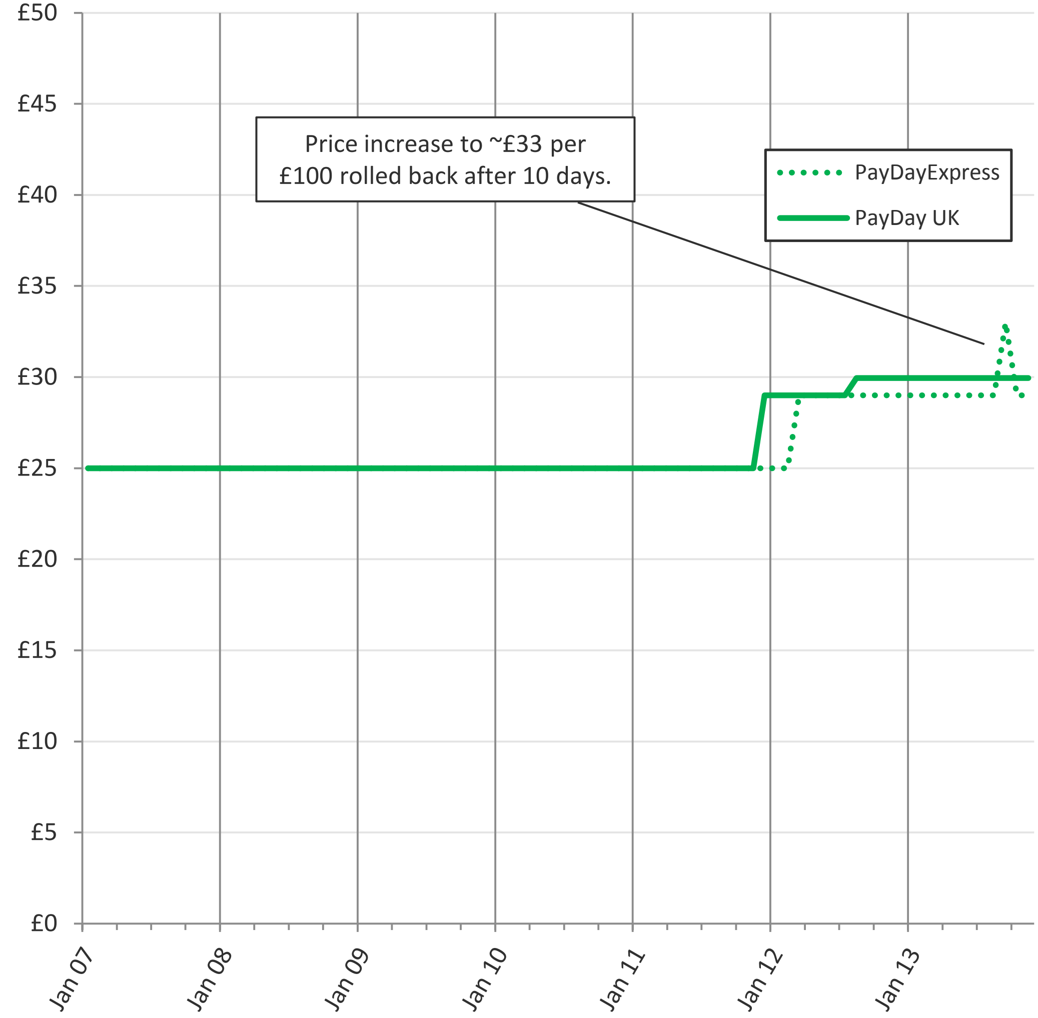
Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Online products: Price Change 3

In 2013, DFC increased the price for Payday Express to ~£33 per £100.

[✂]

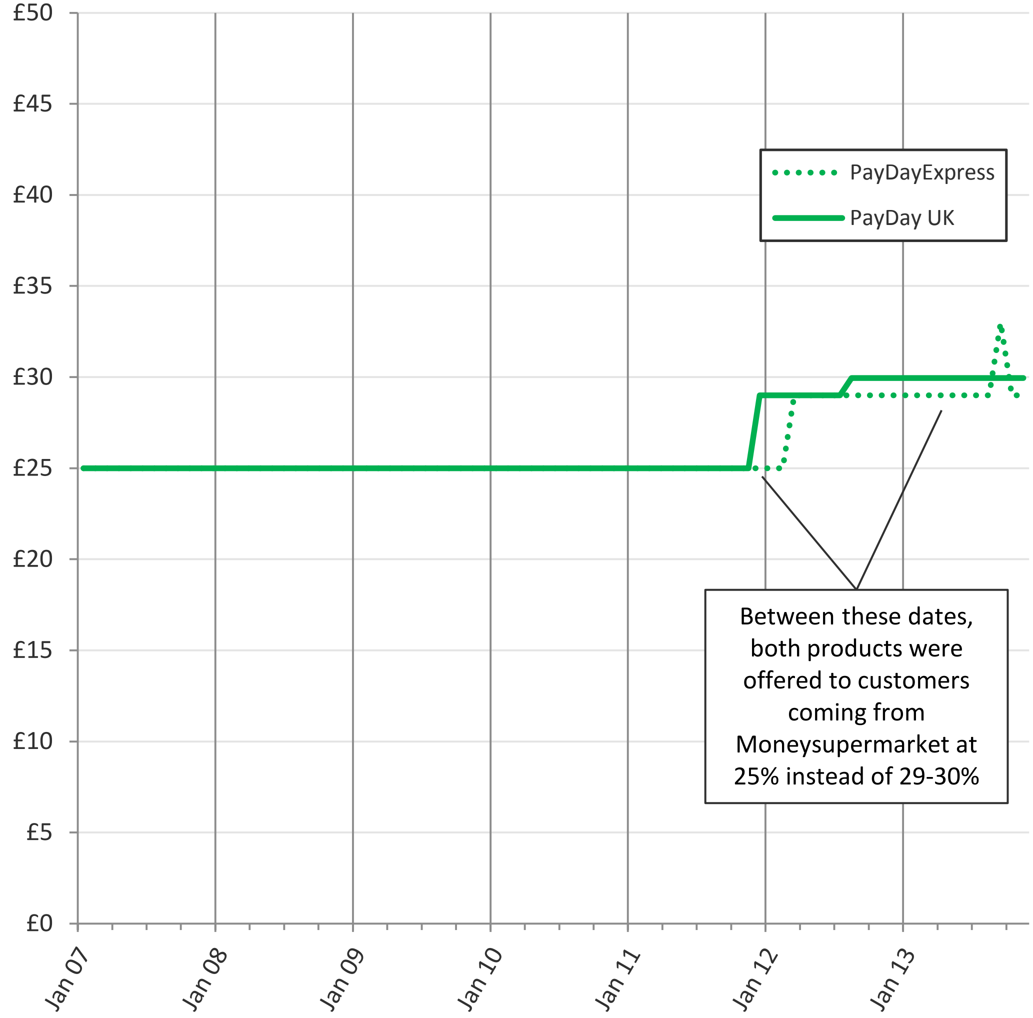
Six slides showing DFC's analysis of these online price changes are reproduced in the annex to this presentation.



Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Online products: 25% promotion

Between December 2011 and April 2013, both PaydayExpress and PaydayUK loans were offered at 25% to customers referred from Moneysupermarket.com.



Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Online products: 25% promotion

Using transaction data on loans repaid on time and in full, we calculated the 'implied interest rate' based on the principal borrowed and interest charged for each loan.

Based on the proportion of loans with implied interest rates of approximately 25%, we estimate the following with regard to the coverage of this promotion:

[✂]

[✂]

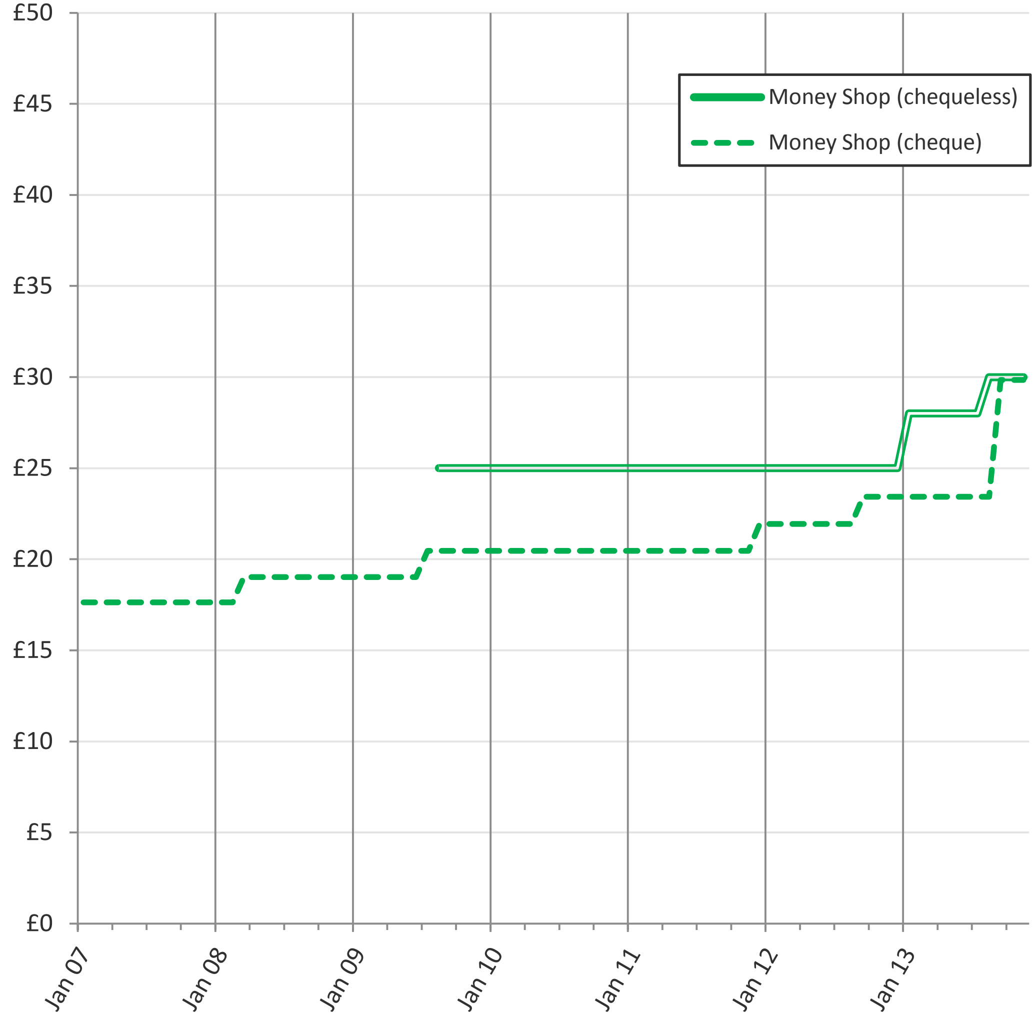
Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

High Street products (share of major lenders' revenue)

- The Money Shop - Chequeless ([✂]%)
- The Money Shop - Cheque-based ([✂]%)

Price patterns for high street products:

- Intermittent price increases
- Also exhibit convergence to 30%

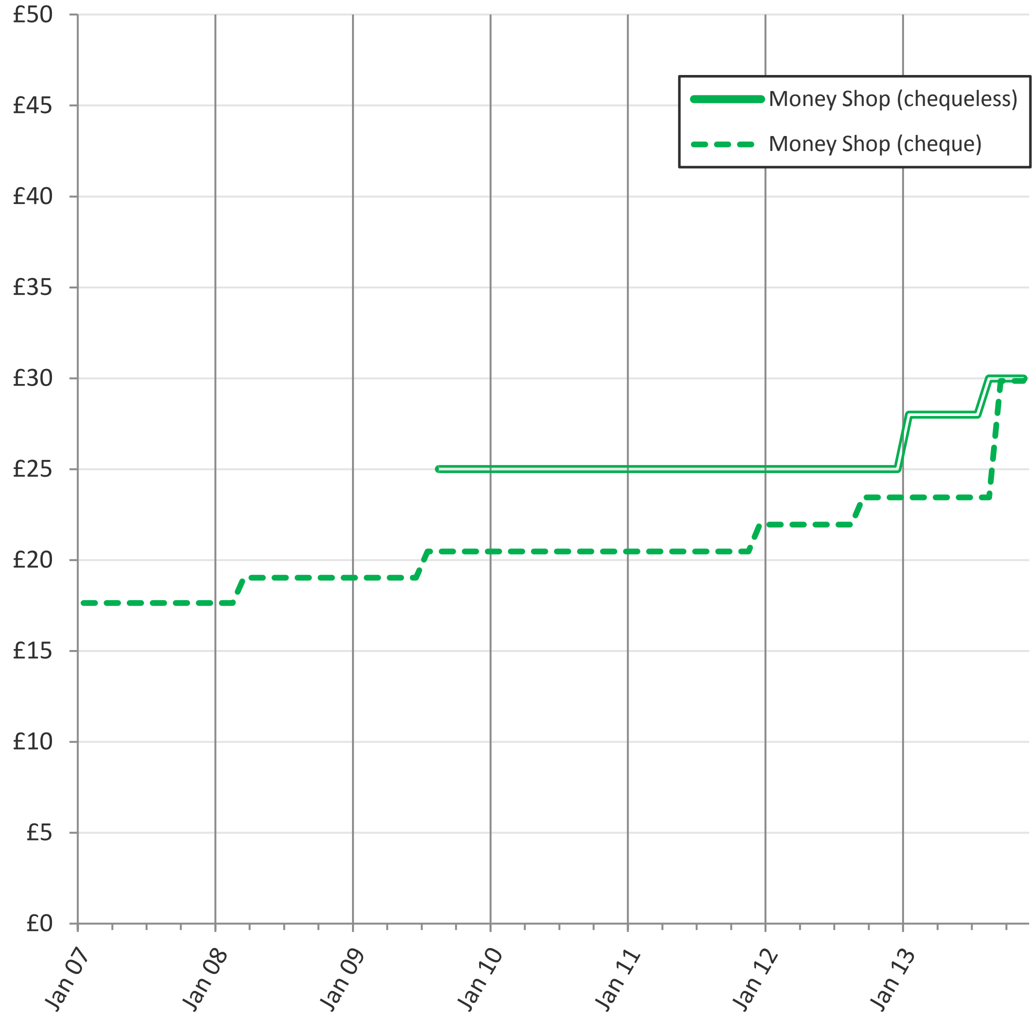


Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

High-street products: price changes

DFC told us:

[✄]



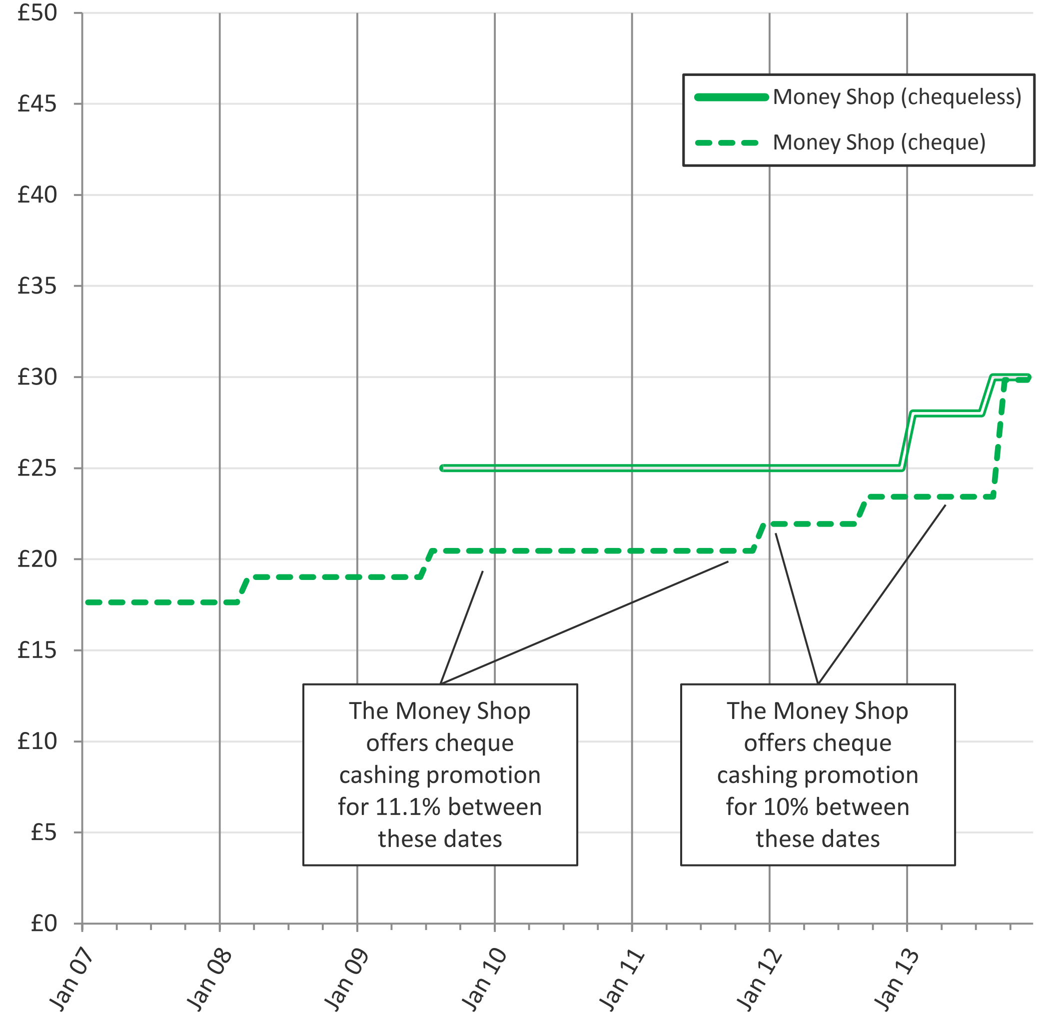
Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

New customer promotional discount

DFC have offered discounted interest rates to new customers of their cheque based loan product, advertised through TV adverts, POS, posters, Money Talk magazine, website, and new store opening offer leaflets.

- 11.1% instead of 20.5% (Jan. 2010—Sep. 2011)
- 10% instead of 21.9 to 23.4% (Jan. 2012—May 2013)

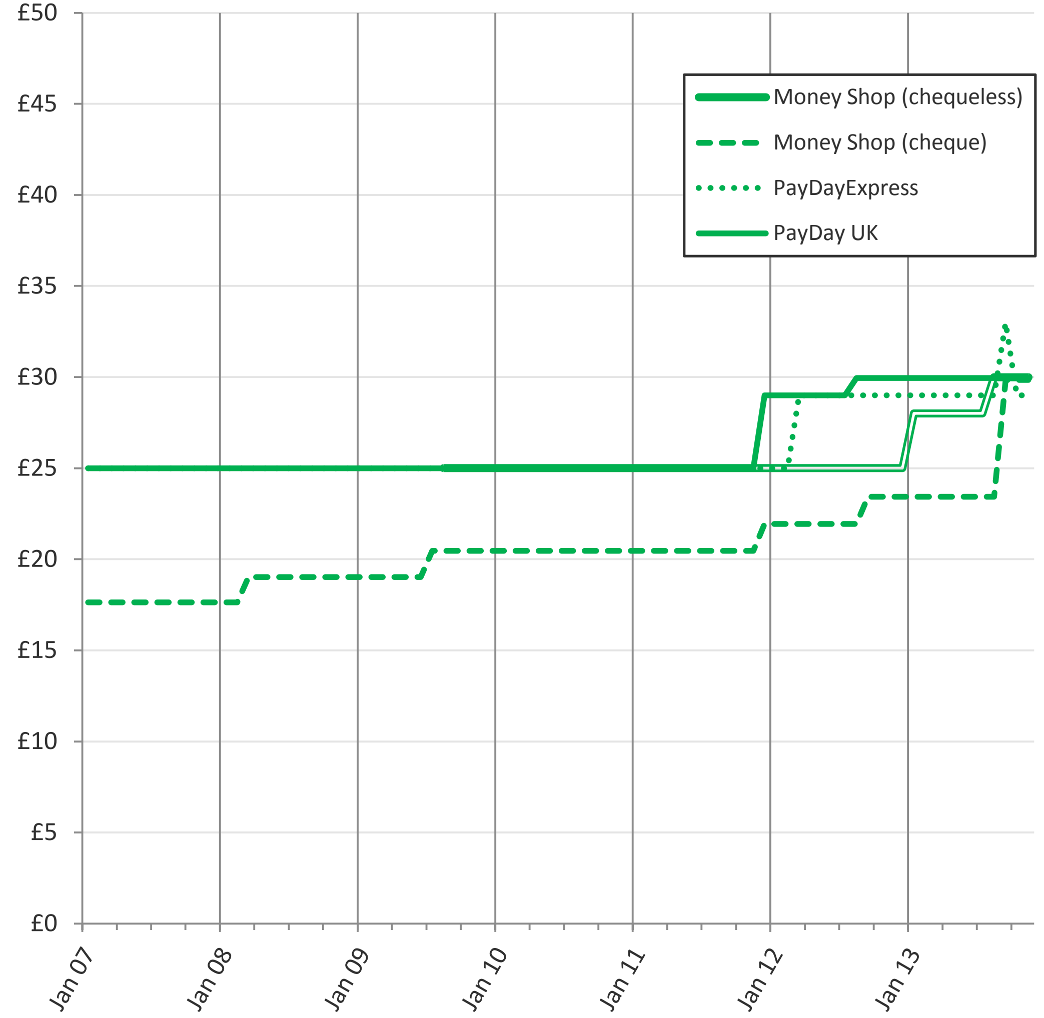
[✂] our analysis of the transaction data on fully repaid loans to new customers between January 2012 and April 2013 suggests the latter promotion was applied to [✂]% of loans.



Price developments (TCC of a £100 loan) 2007-13
Dollar Financial Corporation

Overview

Online and High Street Products



Price developments (TCC of a £100 loan) 2007-13 CashEuroNet

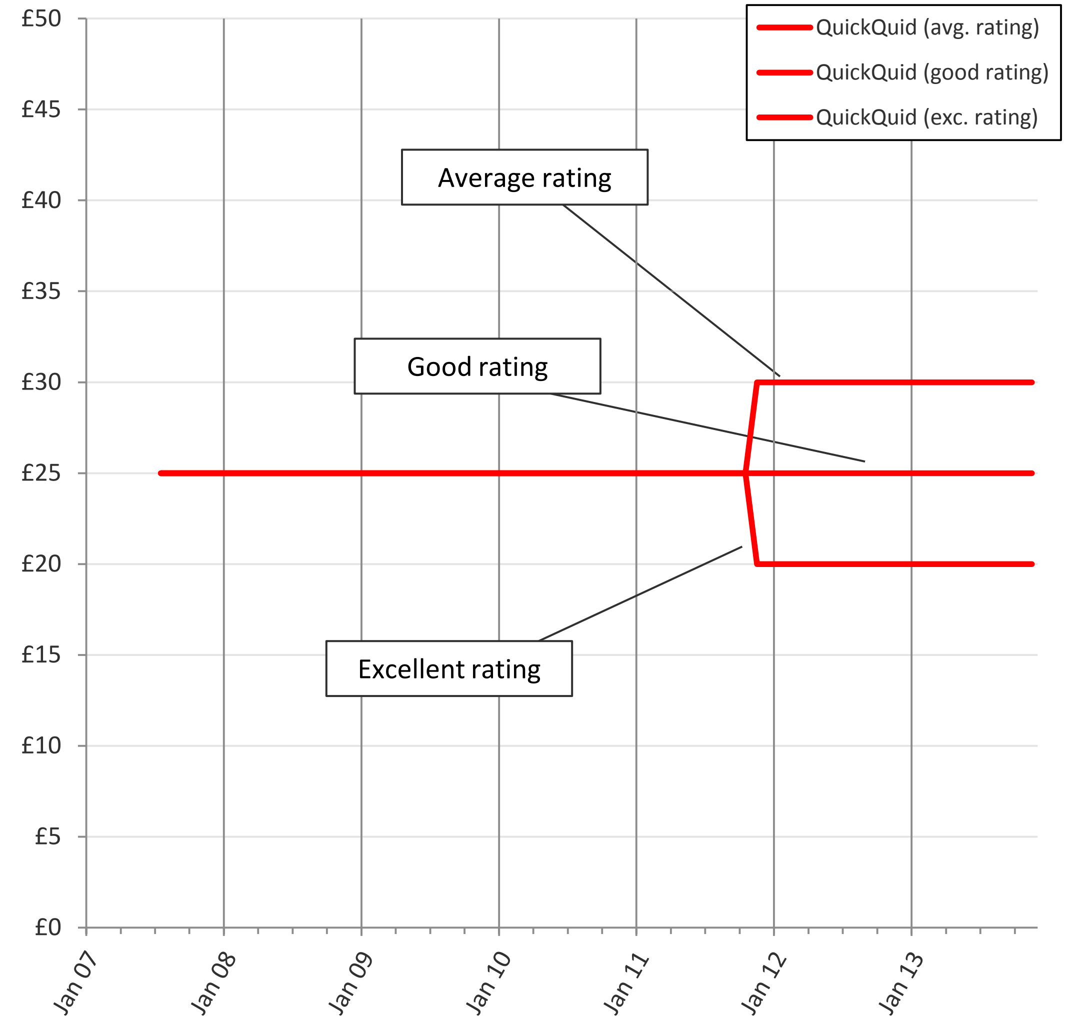
[10-20]% share of major lender revenue

QuickQuid Payday: [✂]% share

Pounds to Pocket: [✂]% share

Prices:

- Largely static
- Since end 2011:
    - risk-based pricing
    - repeat customer discounts (recently discontinued)



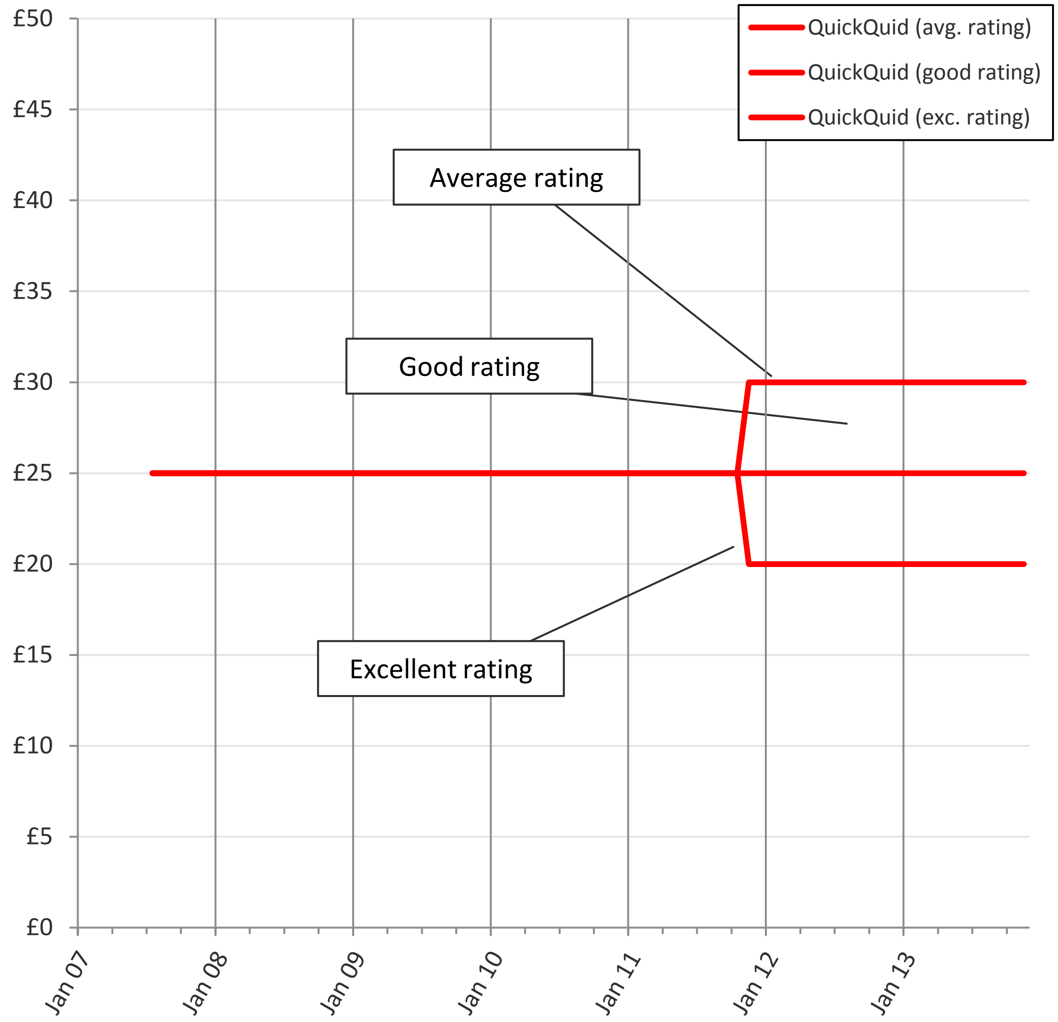
Price developments (TCC of a £100 loan) 2007-13 CashEuroNet

Key price change:

CashEuroNet told us its introduction of risk-based pricing—the only pricing change to its QuickQuid product—was [✄].

CashEuroNet told us the distribution of ratings applied to their loans is as follows:

[✄].

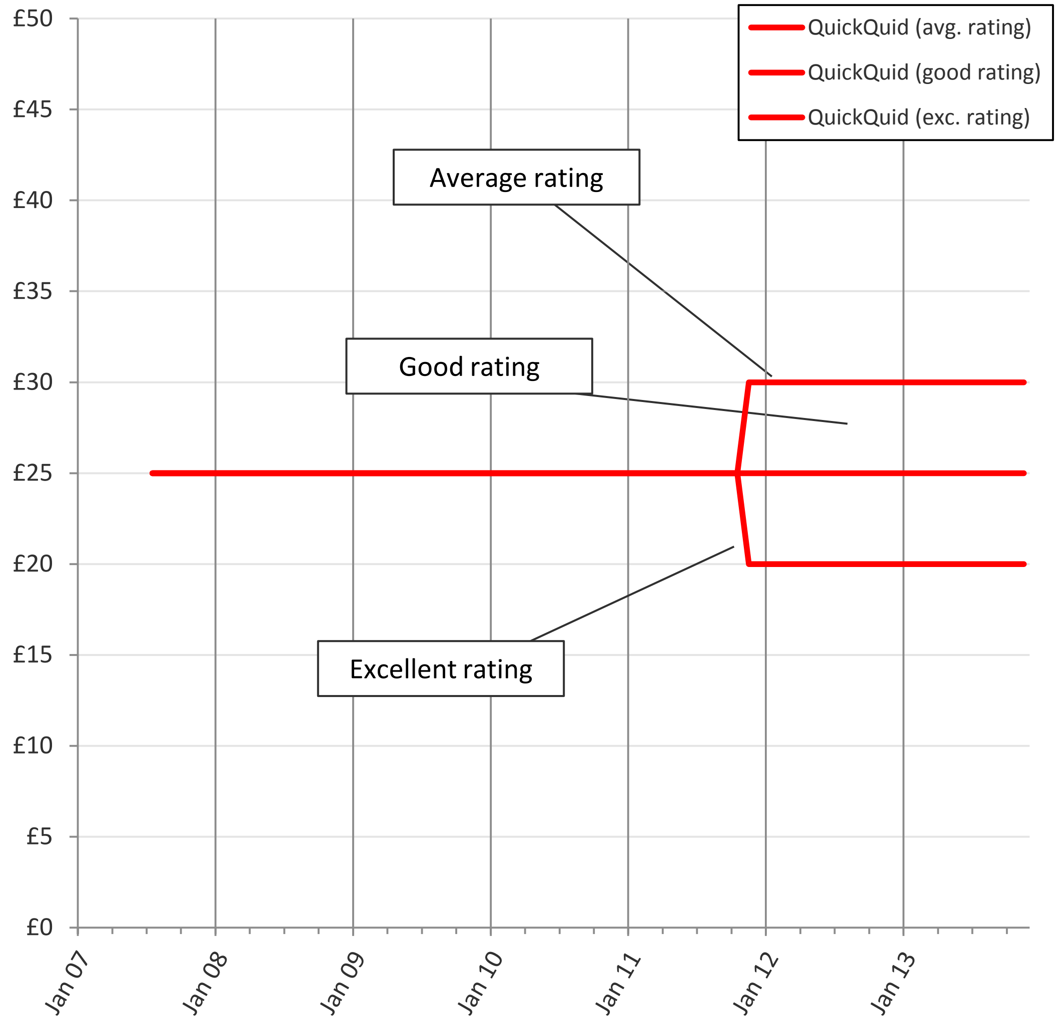


Price developments (TCC of a £100 loan) 2007-13 CashEuroNet

Promotions:

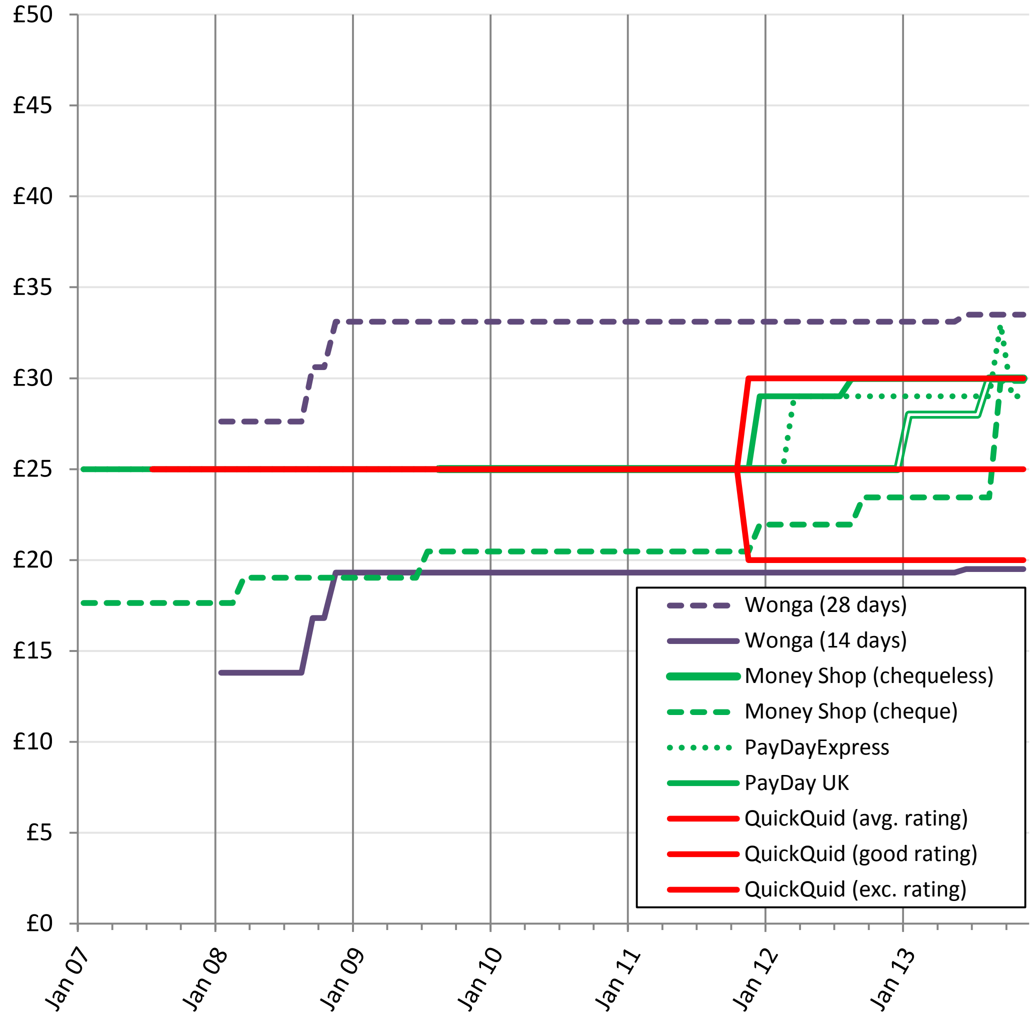
CashEuroNet told us that they applied promotional discounts to [✄]% of loans issued to new customers in the period June-August 2013.

CashEuroNet also told us that [✄], but that the average discount in the period June-August 2013 was [✄]%.



Price developments (TCC of a £100 loan) 2007-13
Three largest lenders

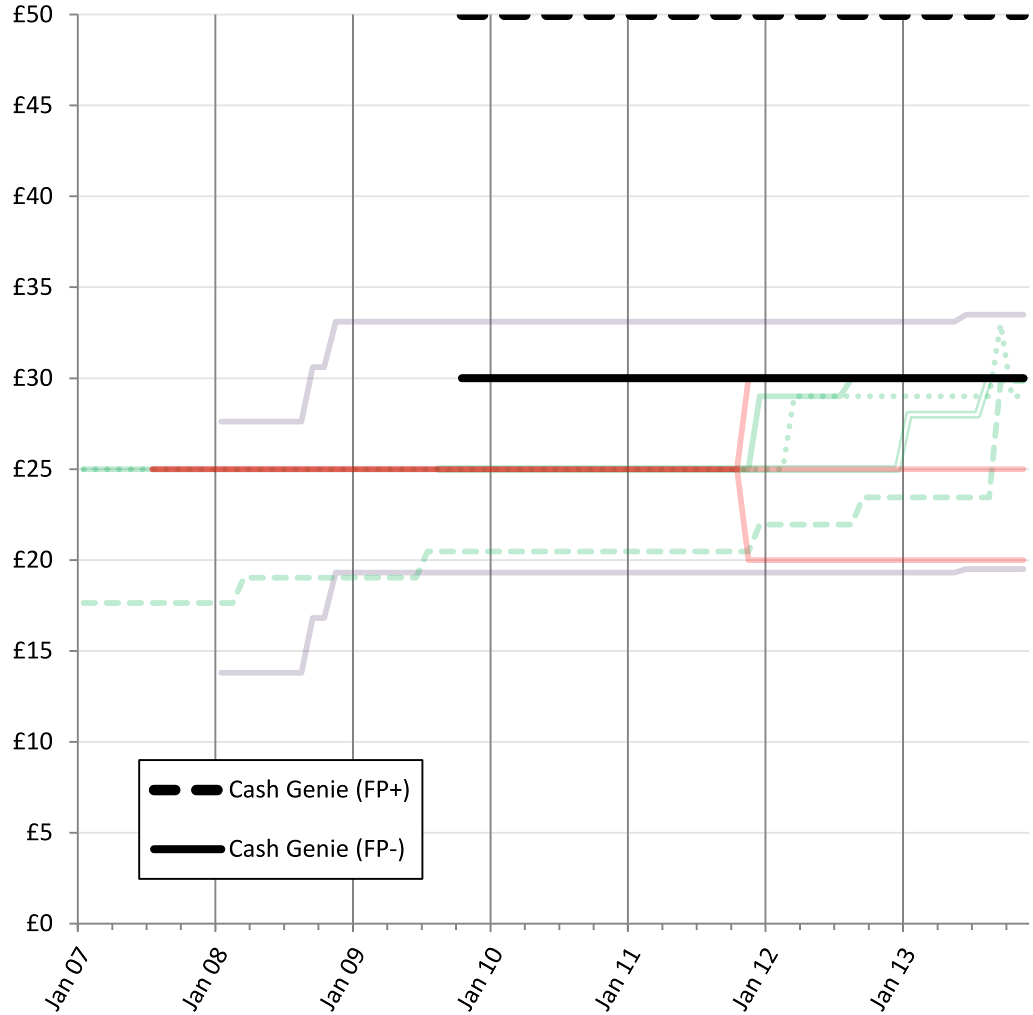
All remaining products in this presentation are compared to these large players



Price developments (TCC of a £100 loan) 2007-13
Ariste Holding

[0-5]% of major lender revenue

- Optional fees
  - £20 faster payment optional
  - [✄]% uptake
  - Prices including/excluding faster payment fees are marked FP+ and FP-, respectively.

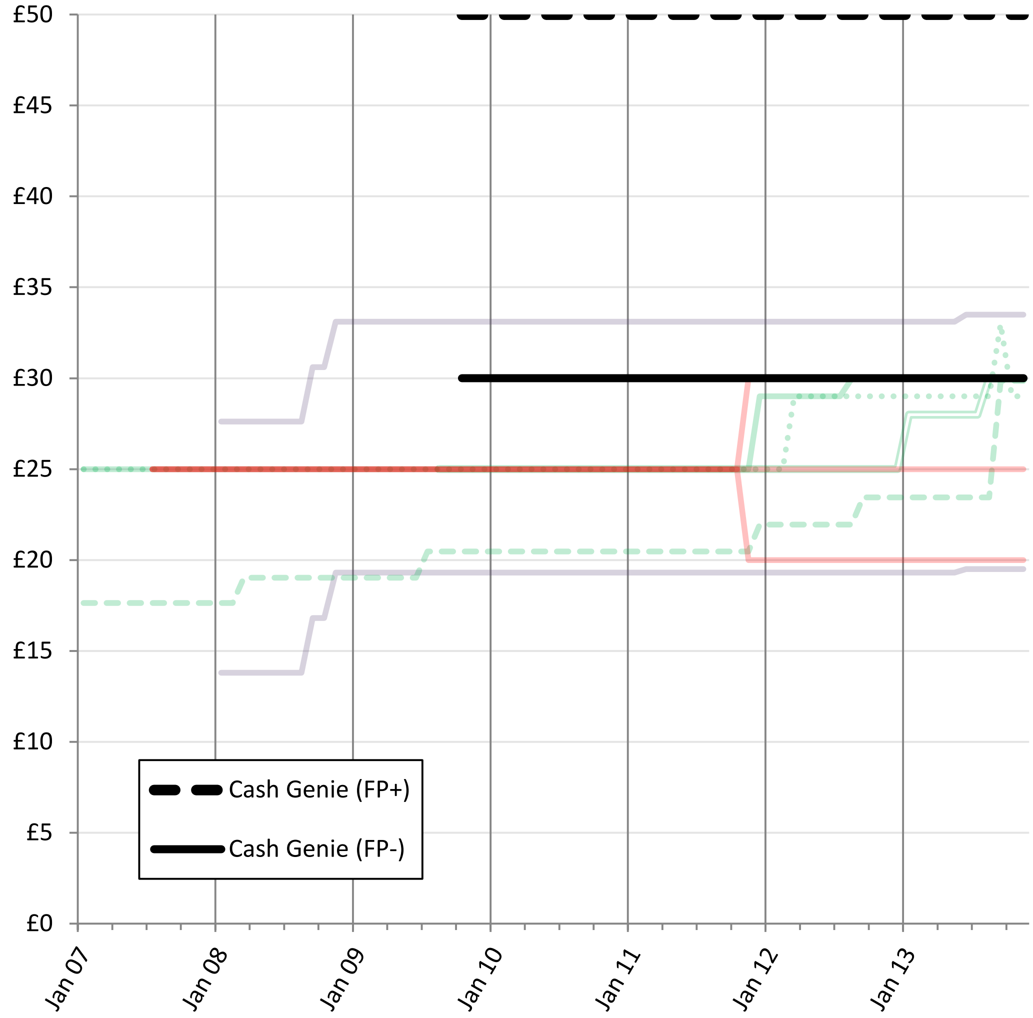


Price developments (TCC of a £100 loan) 2007-13
Ariste Holding

[0-5]% of major lender revenue

Ariste Holding told us the following:

[✂]



Price developments (TCC of a £100 loan) 2007-13
The Cash Store

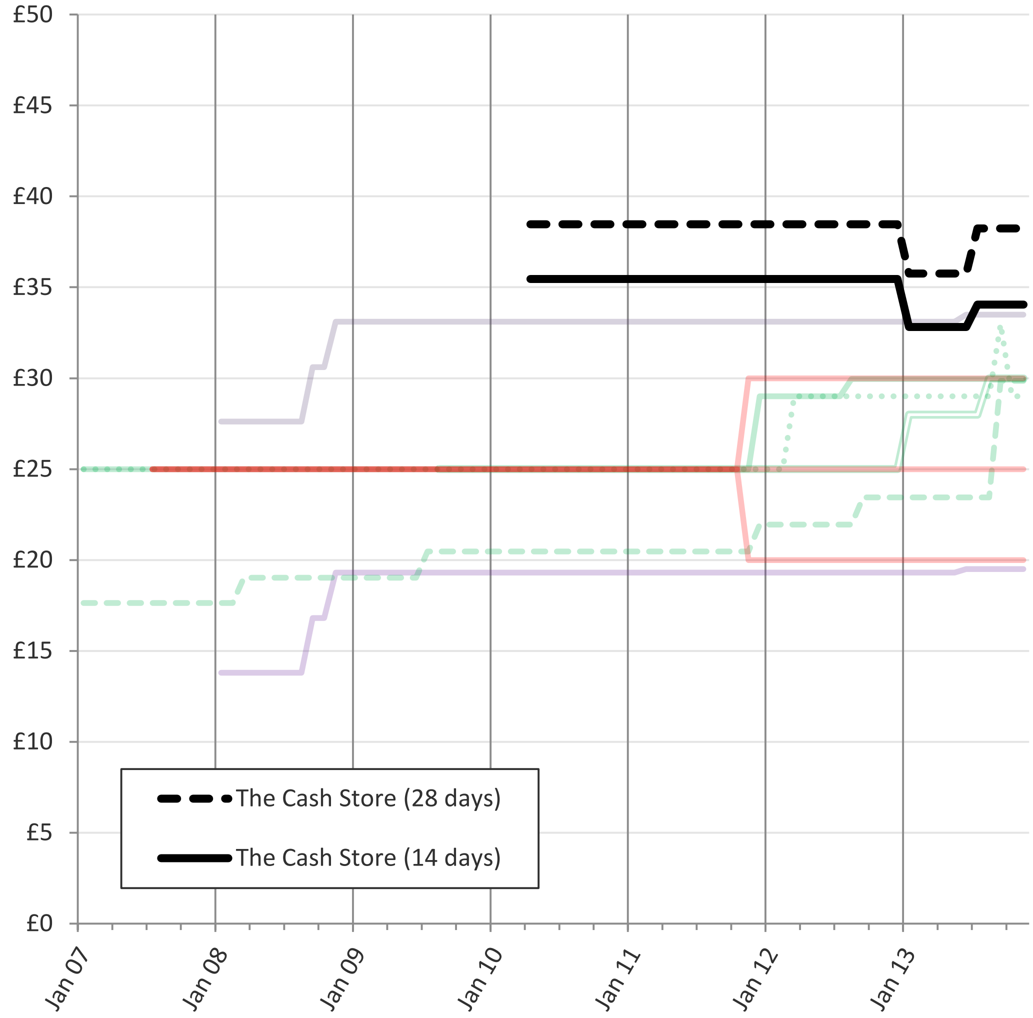
[0-5]% of major lender revenue

The Cash Store told us the following:

'The level of interest rates and other charges is determined by reference to factors which include the need to operate profitably.

Cash Store's administrative costs have increased since 2007 and this has been reflected in an increase of interest rates to the current level.'

'We do not base our costs on the actions of competitors.'



Price developments (TCC of a £100 loan) 2007-13
CFO Lending

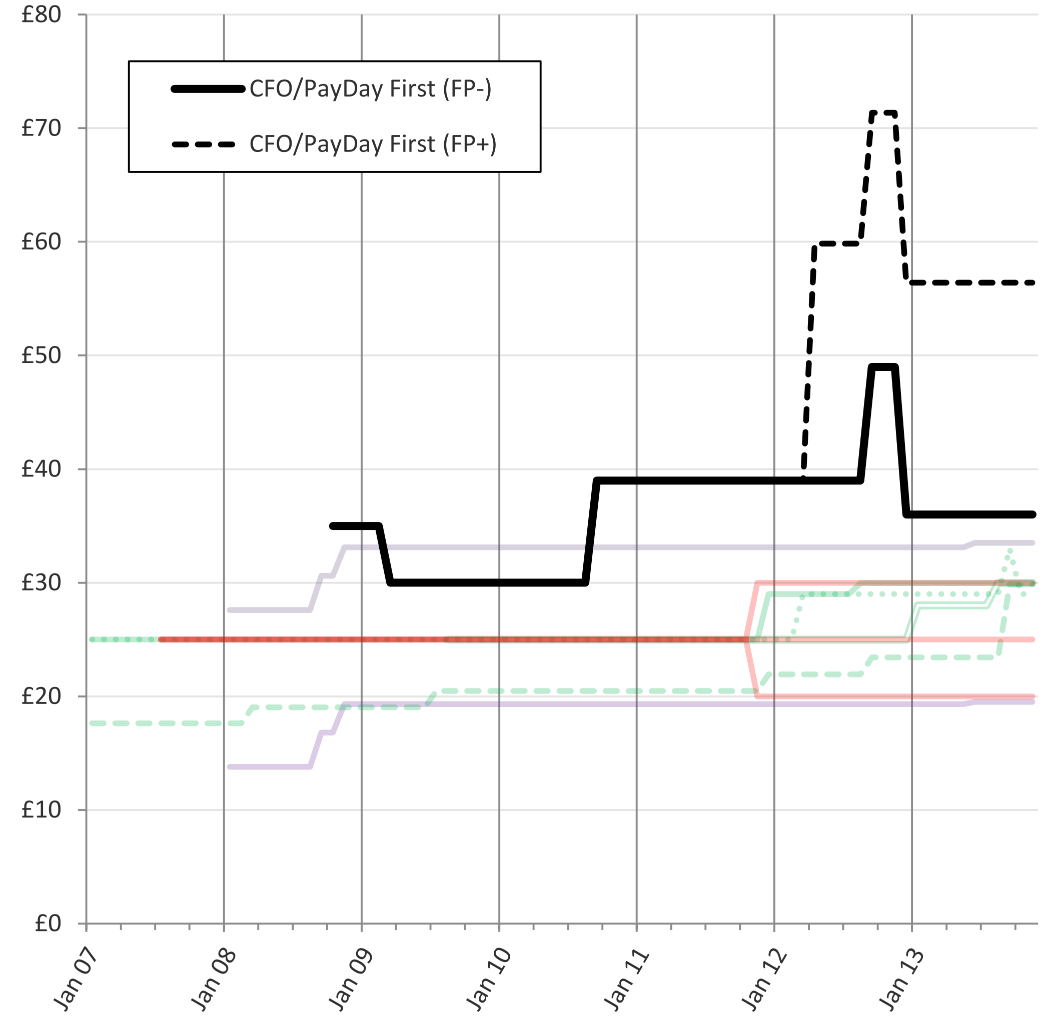
[0-5]% of major lender revenue

CFO Lending told us:

'The main factors that were considered during these [pricing] decisions were Market Conditions, Business objectives & strategy and competitor behaviour.

As the industry has become a main stream credit option and the demand for the product has risen, our decisions have been largely affected by an increasingly price sensitive market.

The ability to attract new customers of the correct profile has also had a clear correlation to interest charges.'



Price developments (TCC of a £100 loan) 2007-13
CFO Lending

[0-5]% of major lender revenue

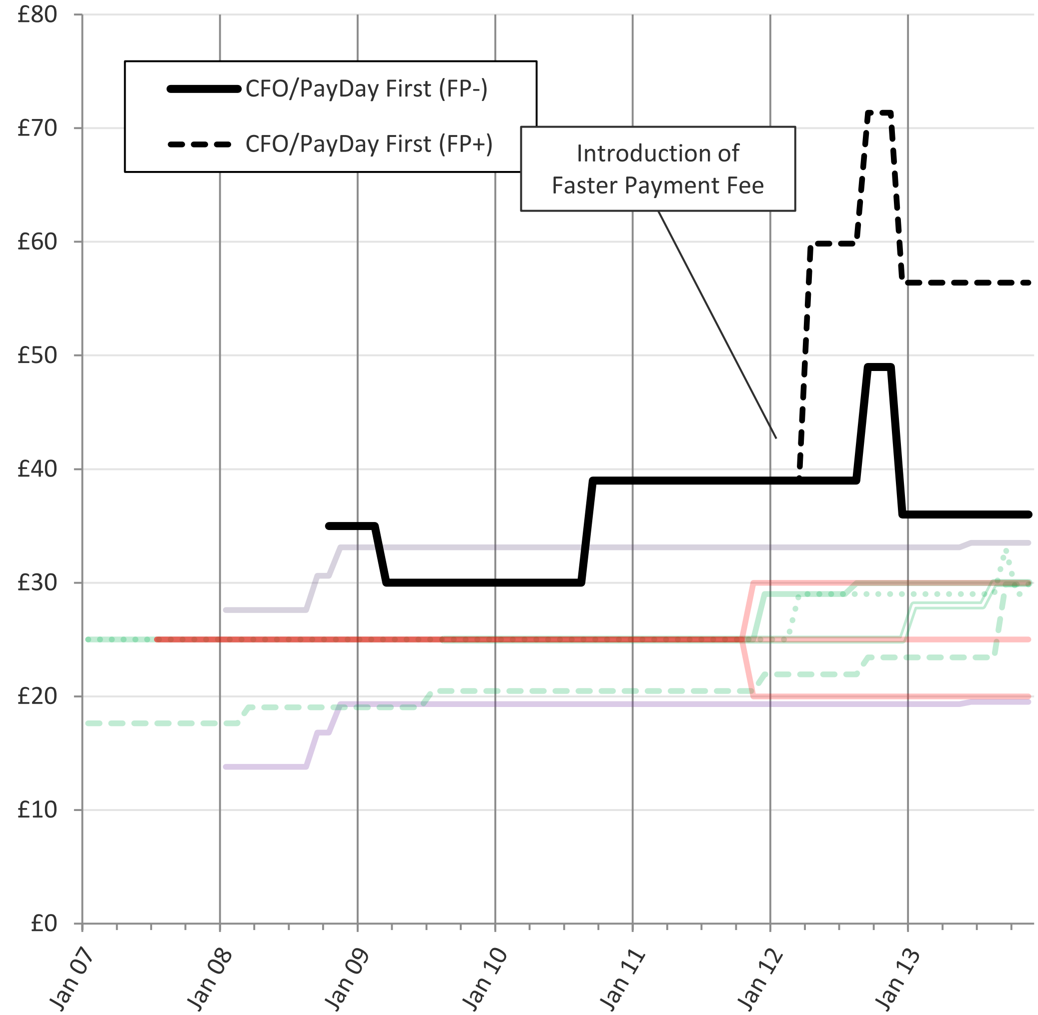
Note that the scaling is different in this graph as the price extends above £50 per £100 in some instances

CFO Lending's price has changed intermittently since 2008. These changes mostly reflect headline finance charge changes, except for the introduction of am optional faster payment fee in 2012.

CFO Lending told us the following:

'CFO Lending monitor market conditions on an ongoing basis in order to ensure that our charging structure is competitive.

The actions of other lenders in terms of pricing has a direct impact on our ability to attract customers of the necessary profile.'



Price developments (TCC of a £100 loan) 2007-13
Cheque Centres

[0-5]% share of major lender revenue:

Payday loans: [✂]% share

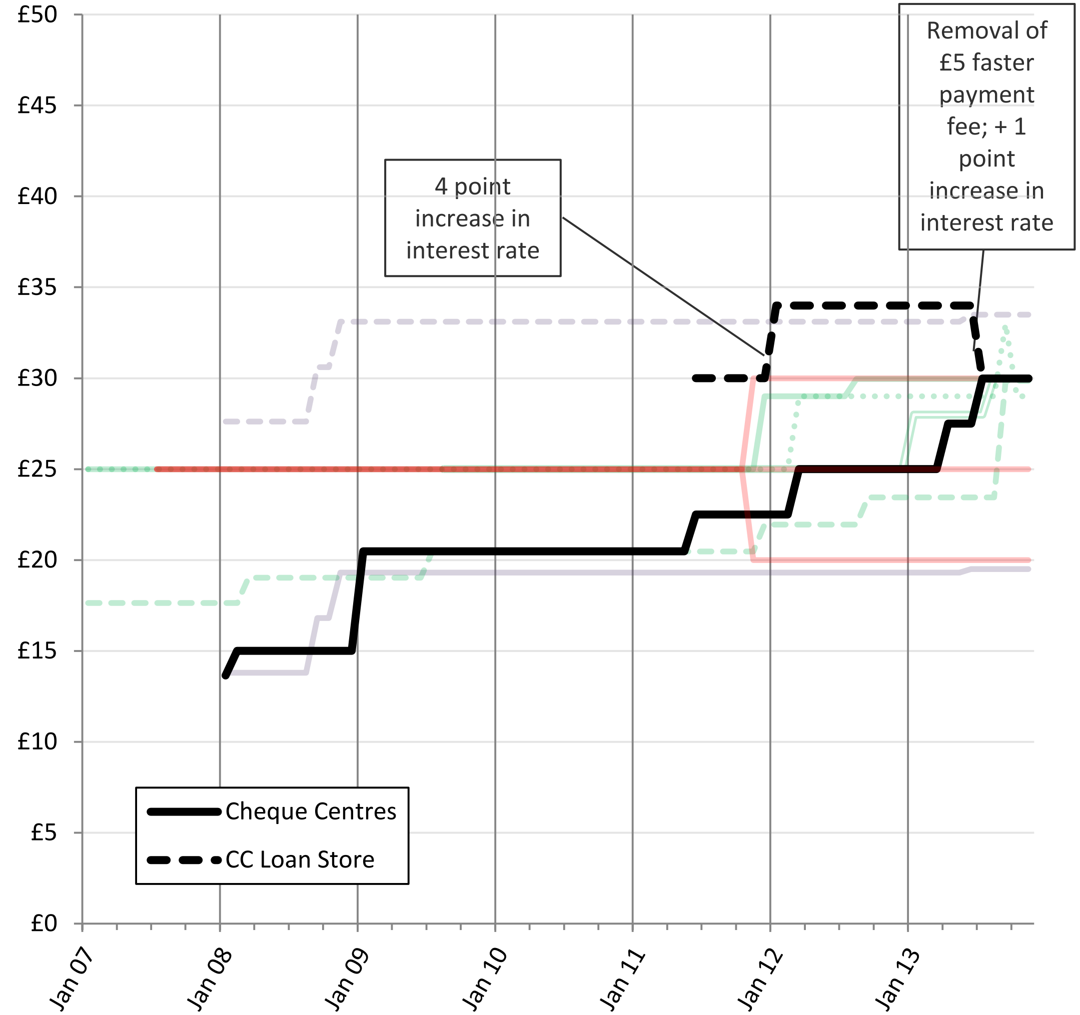
Loan Store: [✂]% share

Cheque Centres prices:

- Some static periods
- Intermittent changes to interest rate
- Correlation with Dollar's high street product
- Have gradually increased over time to £30 per £100

Loan Store prices:

- Faster payment fee introduced temporarily
  - ([✂]% uptake)

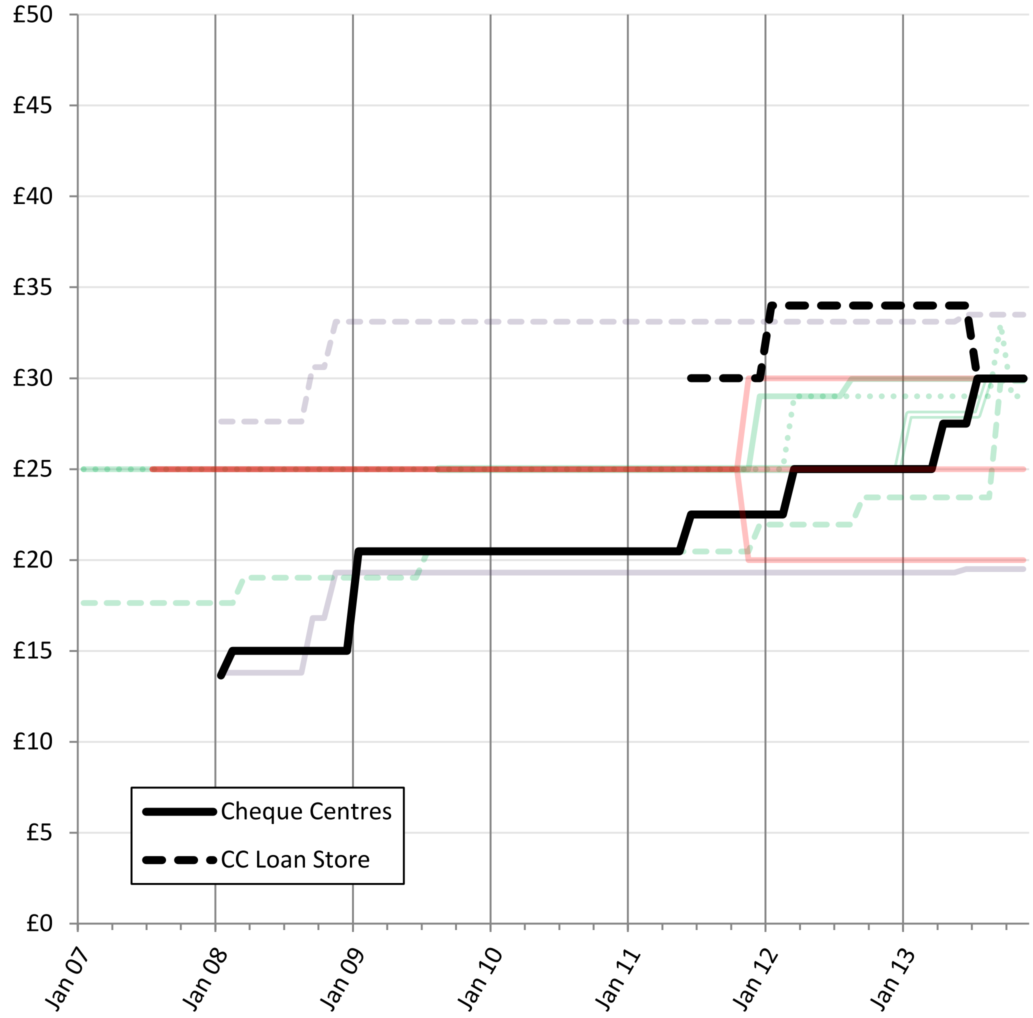


Price developments (TCC of a £100 loan) 2007-13
Cheque Centres

[0-5]% share of major lender revenue:
    Payday loans: [✂]% share
    Loan Store: [✂]% share

Cheque Centres told us the following:

[✂]



Price developments (TCC of a £100 loan) 2007-13
Cheque Centres

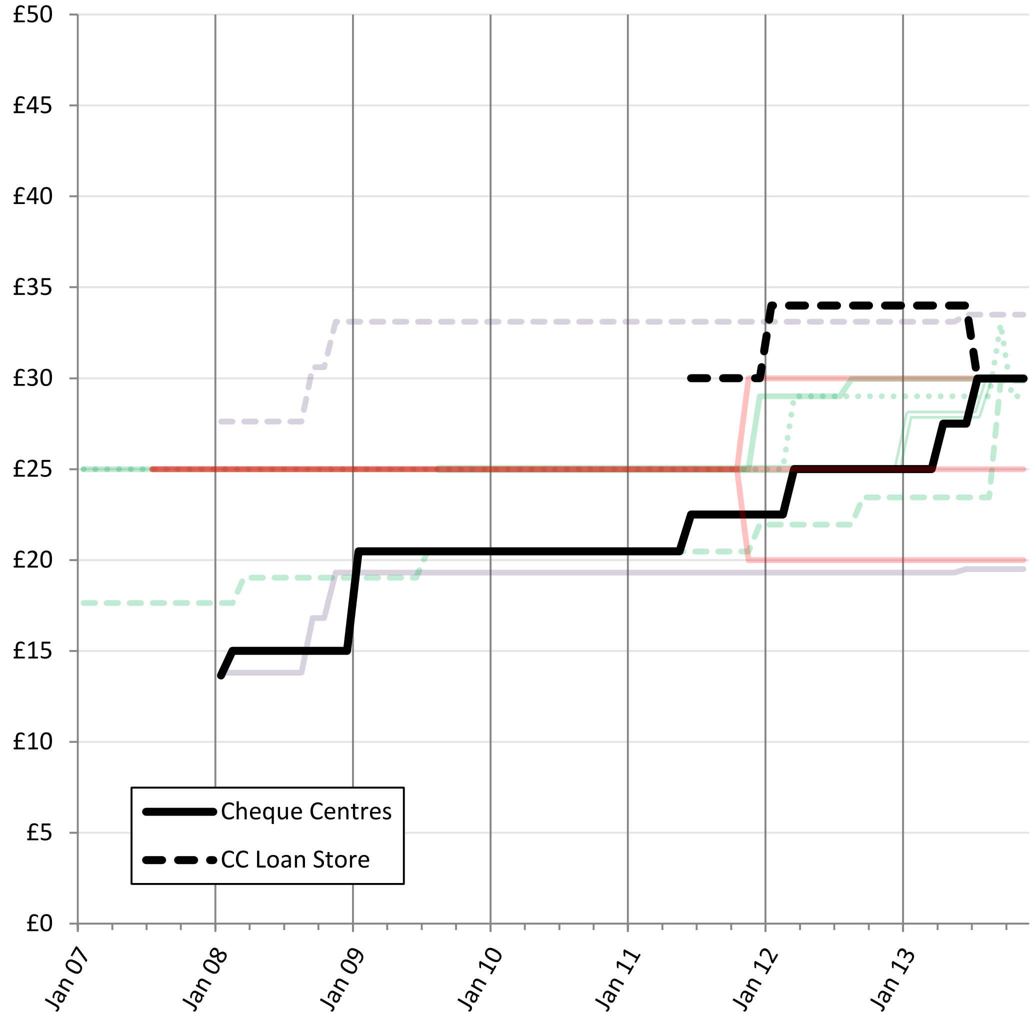
[0-5]% share of major lender revenue:
Payday loans: [✂]% share
Loan Store: [✂]% share

(Cheque Centres - High Street):

[✂]

(The Loan Store - Online):

'Removal of the £5 faster payment fee was driven by [✂].'



Price developments (TCC of a £100 loan) 2007-13
H&T

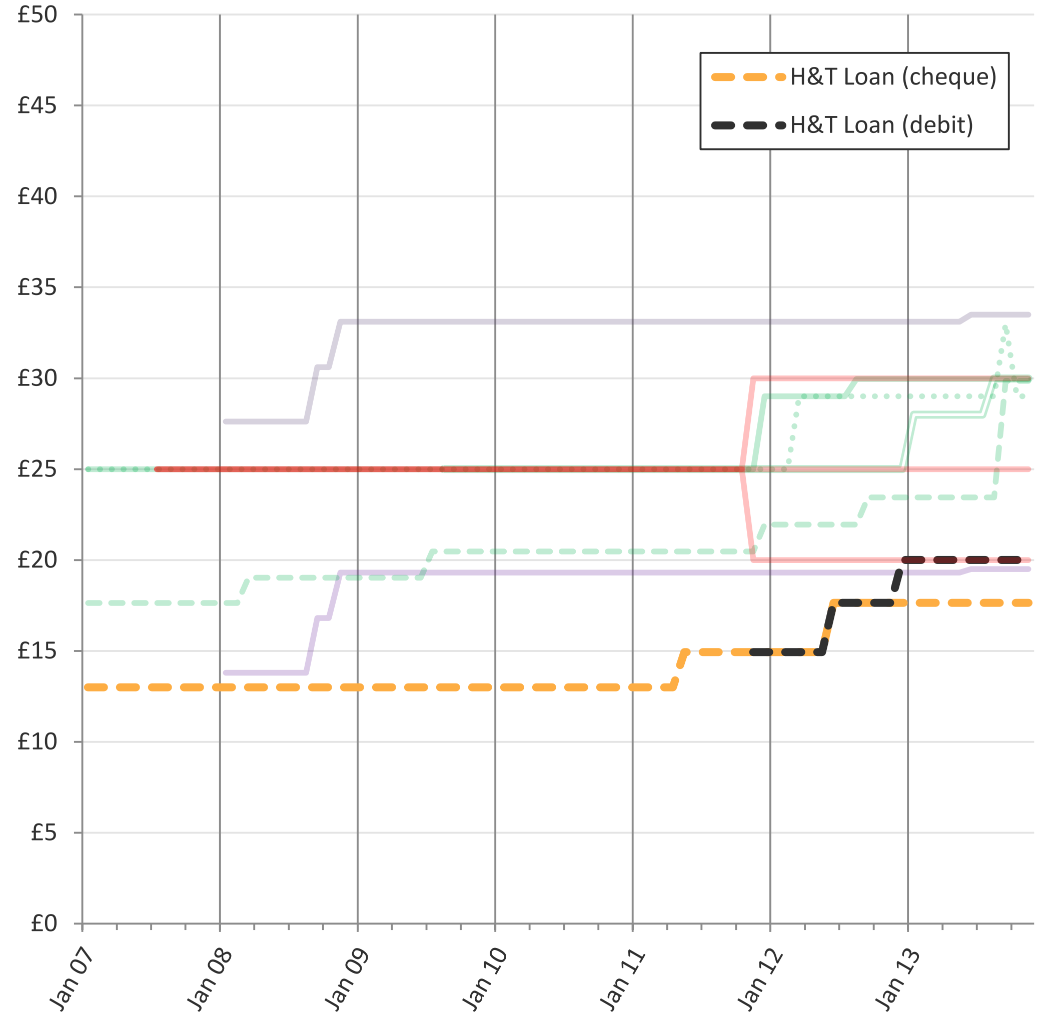
[0-5]% of major lender revenue

H&T told us the following:

'The principal factor that impacts pricing is the [default costs] that a particular segment of business will incur.'

'We have always tried to balance a fair price with the risk (ie debt %) of a particular product and tried to develop a product that performs reasonably well for the lowest possible price.

Given the small proportion of our revenue that comes from this area we have been able to tolerate levels of performance that a stand-alone operator would have been unable to sustain without increasing prices.'



Price developments (TCC of a £100 loan) 2007-13
H&T

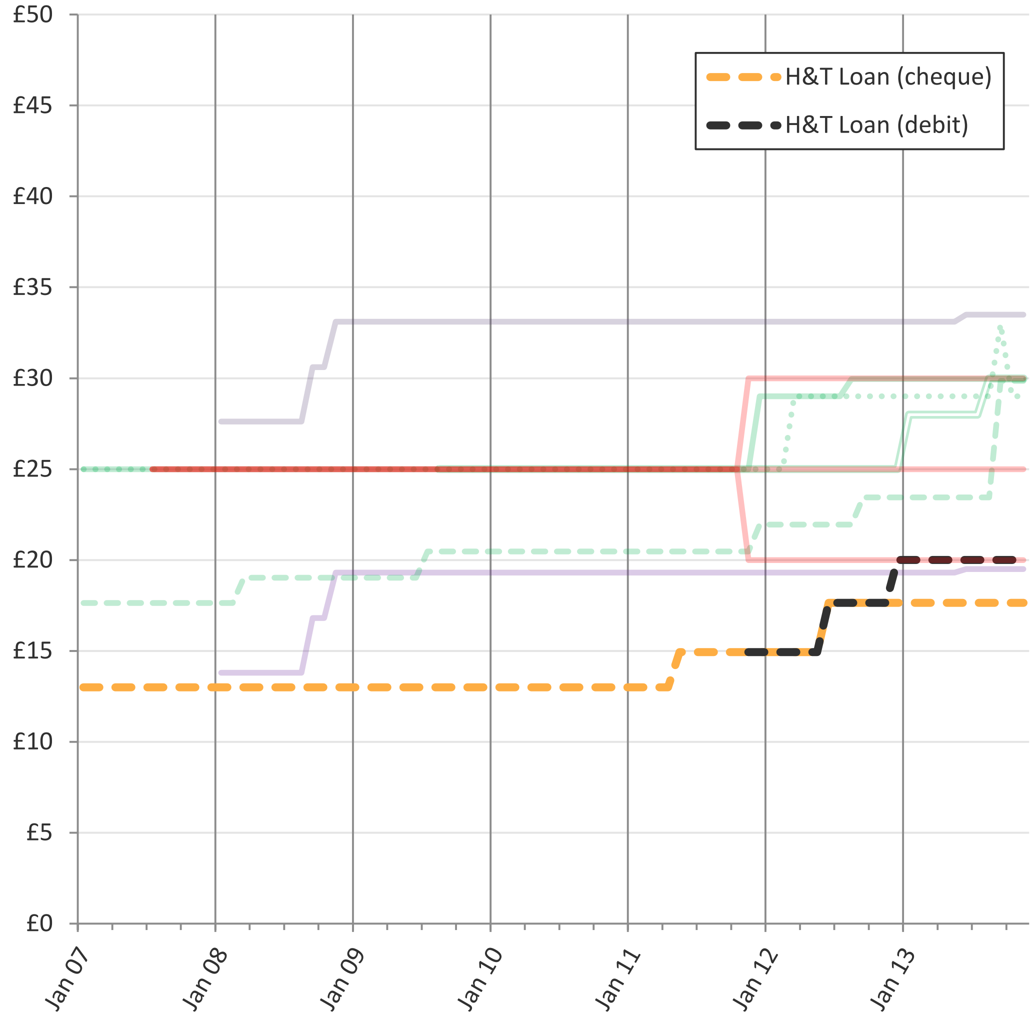
[0-5]% of major lender revenue

Costs listed in order of importance by H&T:

1. Default costs
2. Collection % (as a % of default costs)
3. Costs of collections (people, rent, rates, telecoms, bank charges, etc.)
4. Credit agency costs
5. Bank charges (CPA, fees on value collected, auth. charges etc.)

'The only real shock [to costs] occurred with the withdrawal of the cheque guarantee card and the subsequent impact on [default costs].

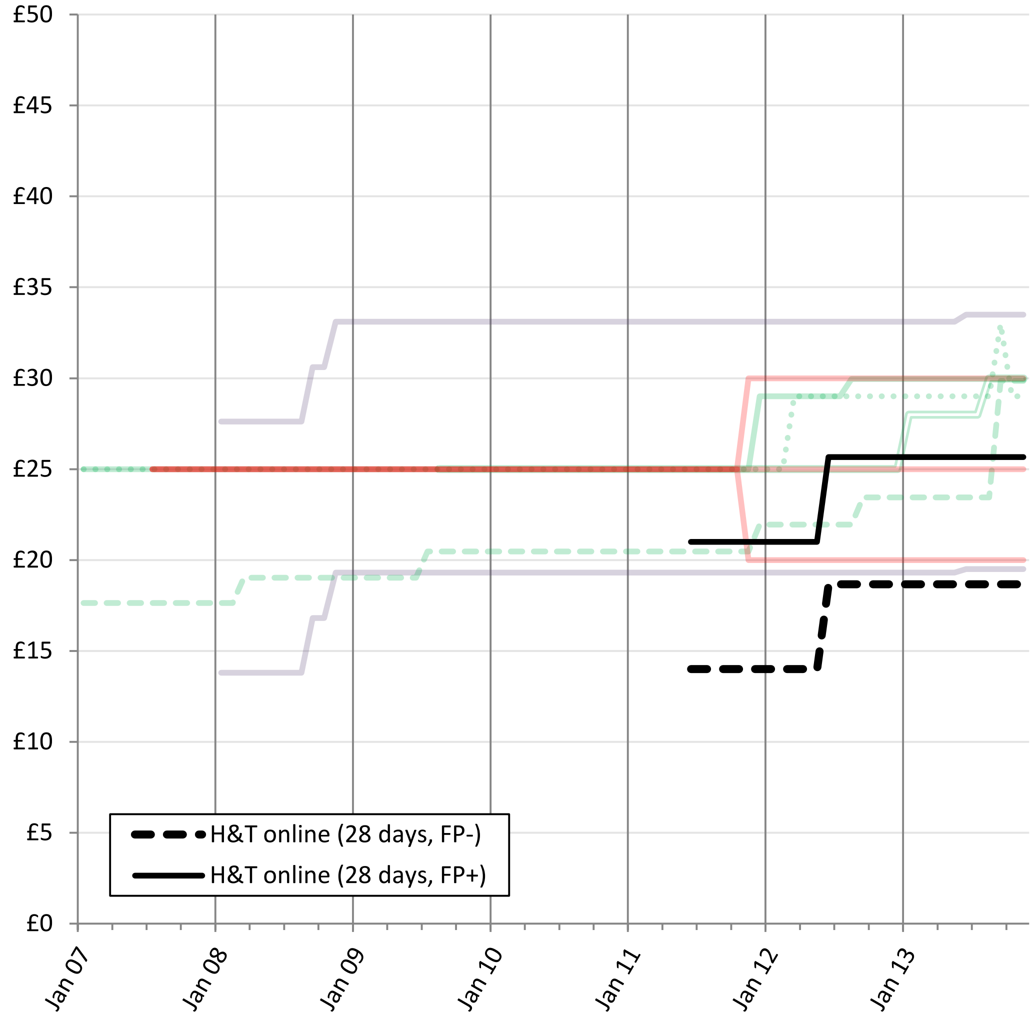
This also resulted in increased costs for credit searches etc. ...'



Price developments (TCC of a £100 loan) 2007-13
H&T

[0-5]% of major lender revenue

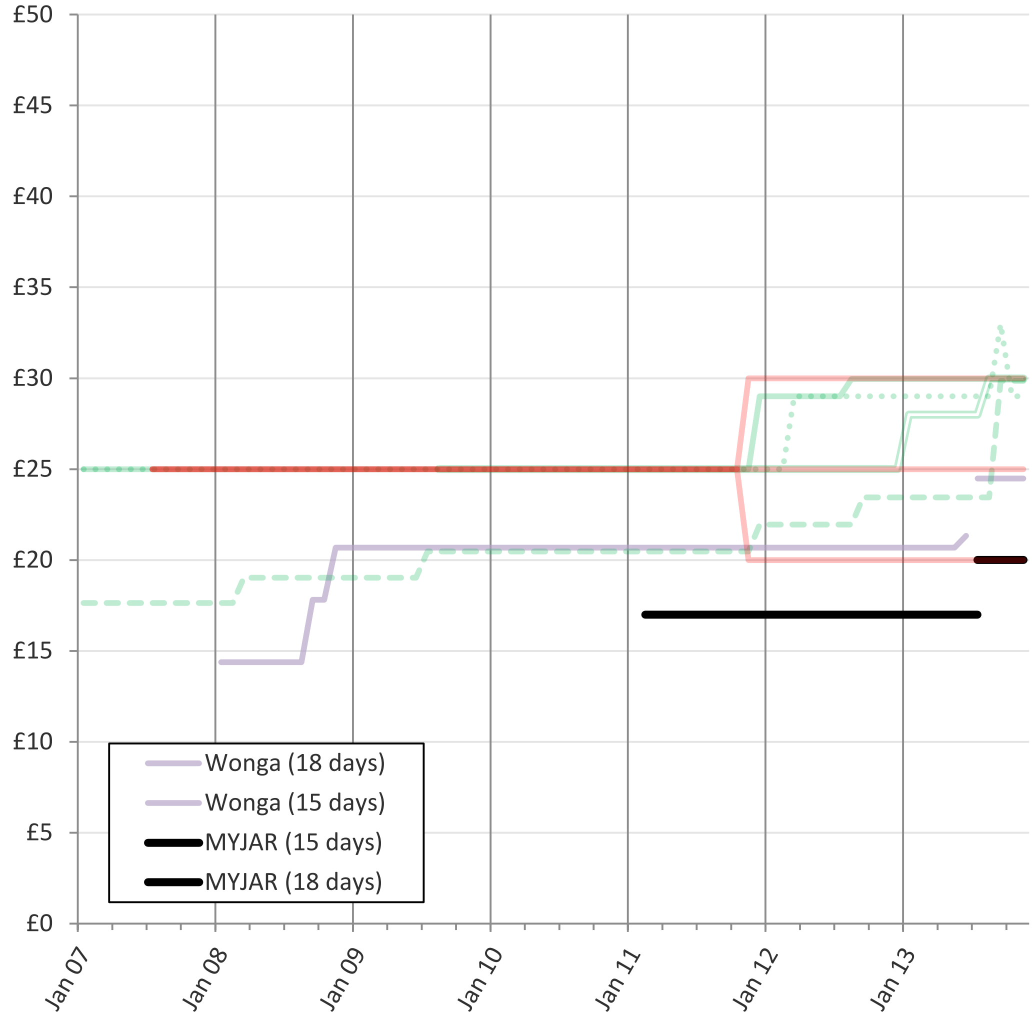
- Price increase in 2012
- No comment (or internal documentation) was provided by H&T relating to this price increase.



Price developments (TCC of a £100 loan) 2007-13
MYJAR

[0-5]% share of major lender revenue:
- MYJAR 18-day product replaced the 15-day product in 2013

Lower price than largest lenders for loans of its set duration(s)
- Note that in this example, we compare MYJAR with the usual monthly loan prices, but in this case consider a Wonga Loan for 15 and 18 days (instead of 14 and 28 days) to allow for more meaningful comparison

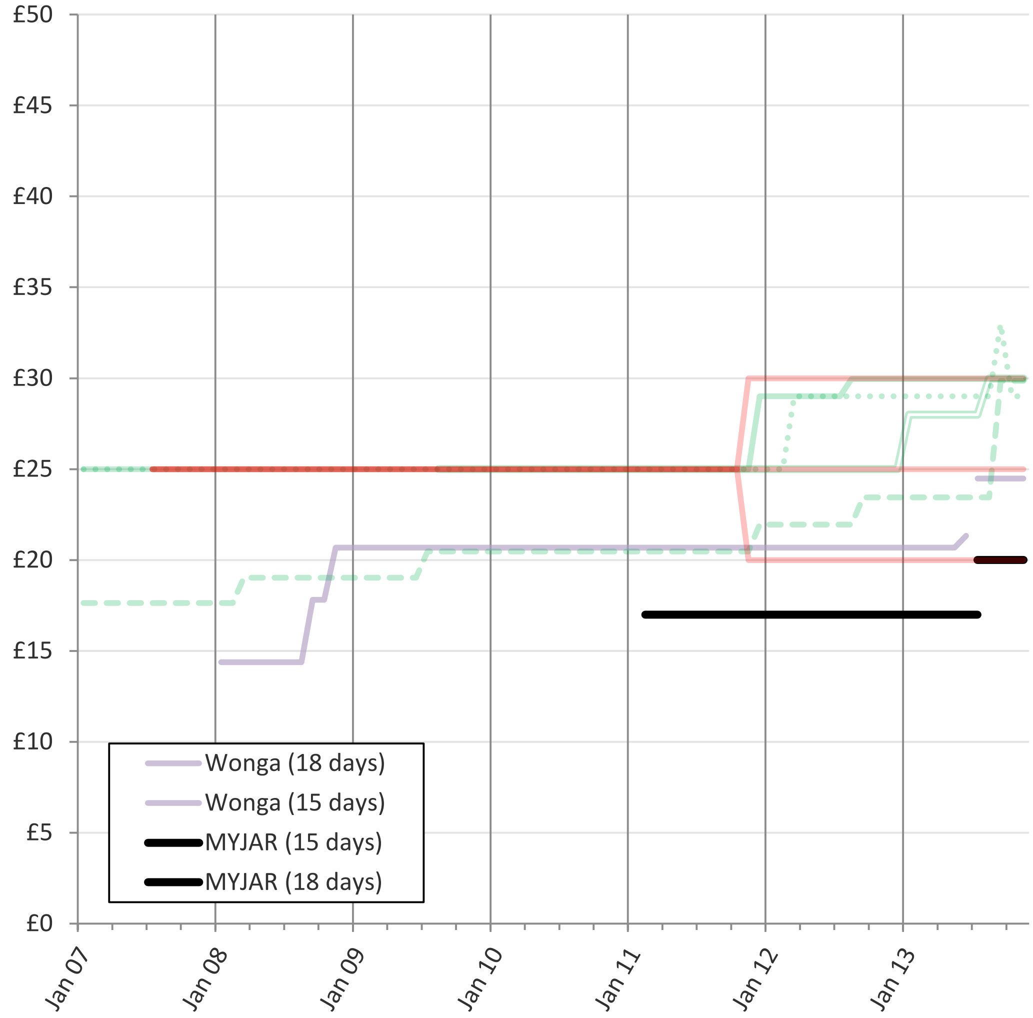


Price developments (TCC of a £100 loan) 2007-13
MYJAR

MYJAR told us that its rates are driven by the following commercial factors:

1. Bad debt
2. Cost of acquiring a customer
3. Fraud
4. Operational costs (data, developing scorecards, underwriting)
5. Call centre costs
6. Compliance
7. Cost of capital

'Bad debts, cost of acquiring customers and cost of capital all drive price and any long term price shocks in these drivers are unlikely to be absorbed and will need to be reflected in higher prices.'

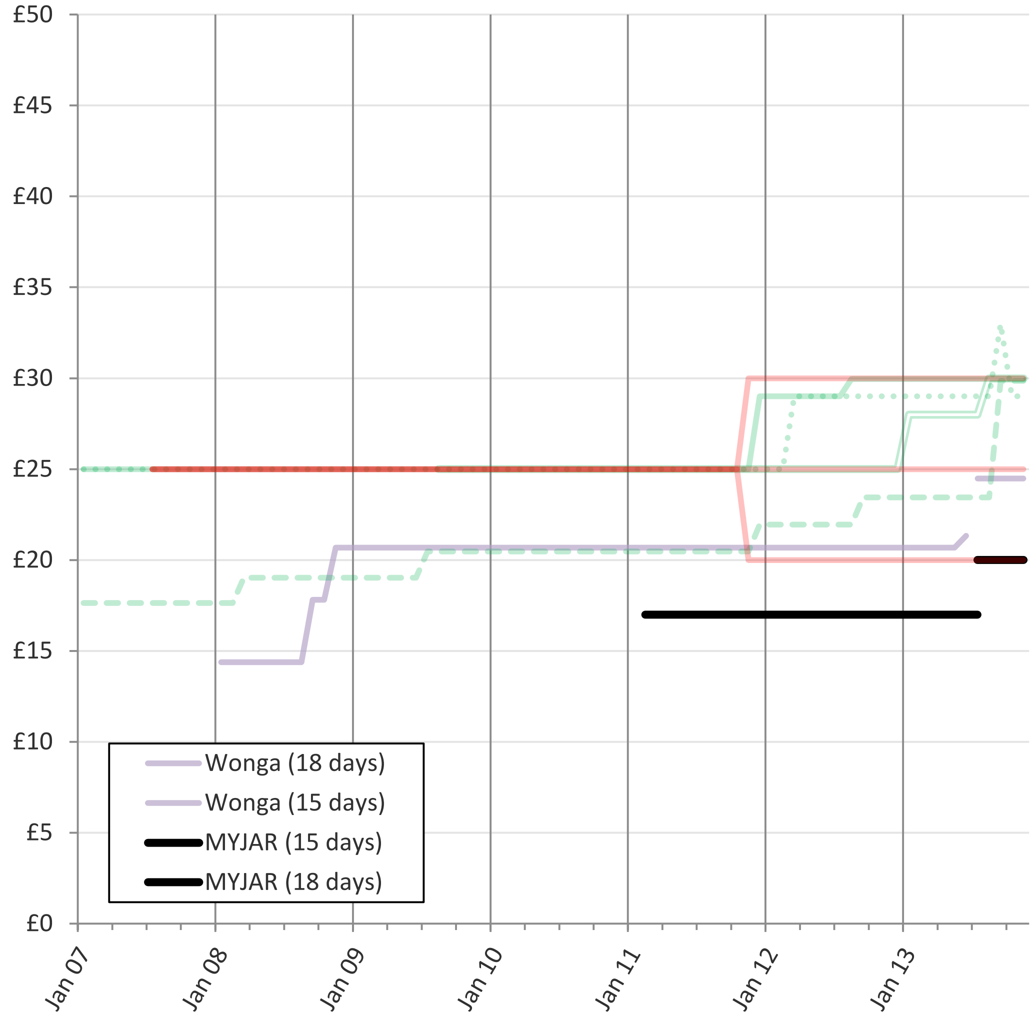


Price developments (TCC of a £100 loan) 2007-13
MYJAR

MYJAR told us that its rates are driven by the following commercial factors:

1. Bad debt
2. Cost of acquiring a customer
3. Fraud
4. Operational costs (data, developing scorecards, underwriting)
5. Call centre costs
6. Compliance
7. Cost of capital

'We experienced an increase in bad debts in late 2012 however we did not seek to change the price as we felt we charged a fair price for the service and rather we set about reviewing our underwriting processes and procedures.'

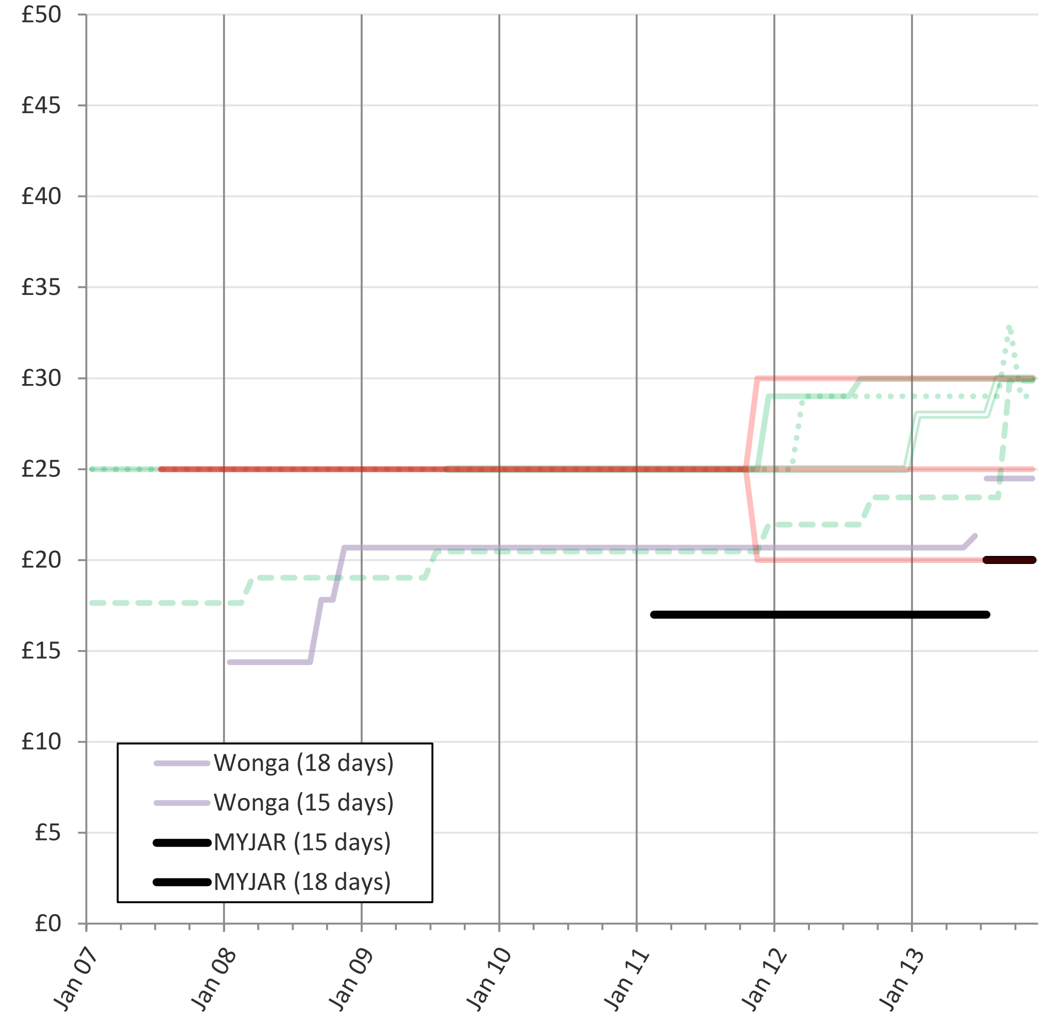


Price developments (TCC of a £100 loan) 2007-13
MYJAR

MYJAR told us that its rates are driven by the following commercial factors:

1. Bad debt
2. Cost of acquiring a customer
3. Fraud
4. Operational costs (data, developing scorecards, underwriting)
5. Call centre costs
6. Compliance
7. Cost of capital

'The price at which other lenders provide their loans is not a key factor in the pricing that we have adopted. We have set our price at a level that we believe our customers see as fair and which gives us an economic return.'



Price developments (TCC of a £100 loan) 2007-13
SRC Transatlantic Ltd.

[0-5]% share of major lender revenue:

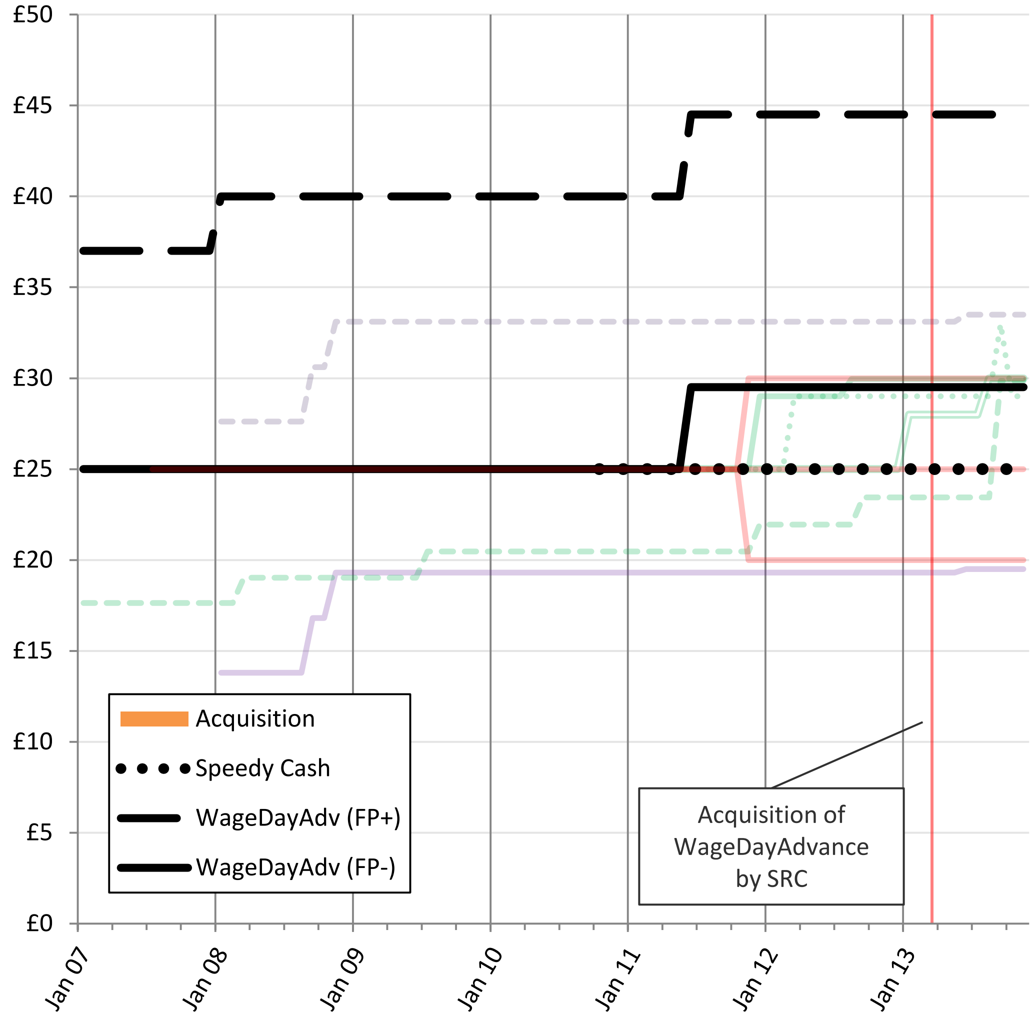
- WageDayAdvance (online–[✂]%)
- Speedy Cash (high street–[✂]%)
  - Payday Loan ([✂]%)
  - Flexible products (later slides):
    - Flex Loan ([✂]%)
    - Flex Account ([✂]%)

WageDayAdvance:

- Acquired by SRC in February 2013
  - (vertical red line in graph)
- In the graph, the line marked 'FP+' includes the £15 faster payment (FP) fee, which [✂]% of customers elect to pay

Speedy Cash Payday Loan:

- Relatively low price for much of this period



Price developments (TCC of a £100 loan) 2007-13
SRC Transatlantic Ltd.

WageDayAdvance:

Price changes

2007

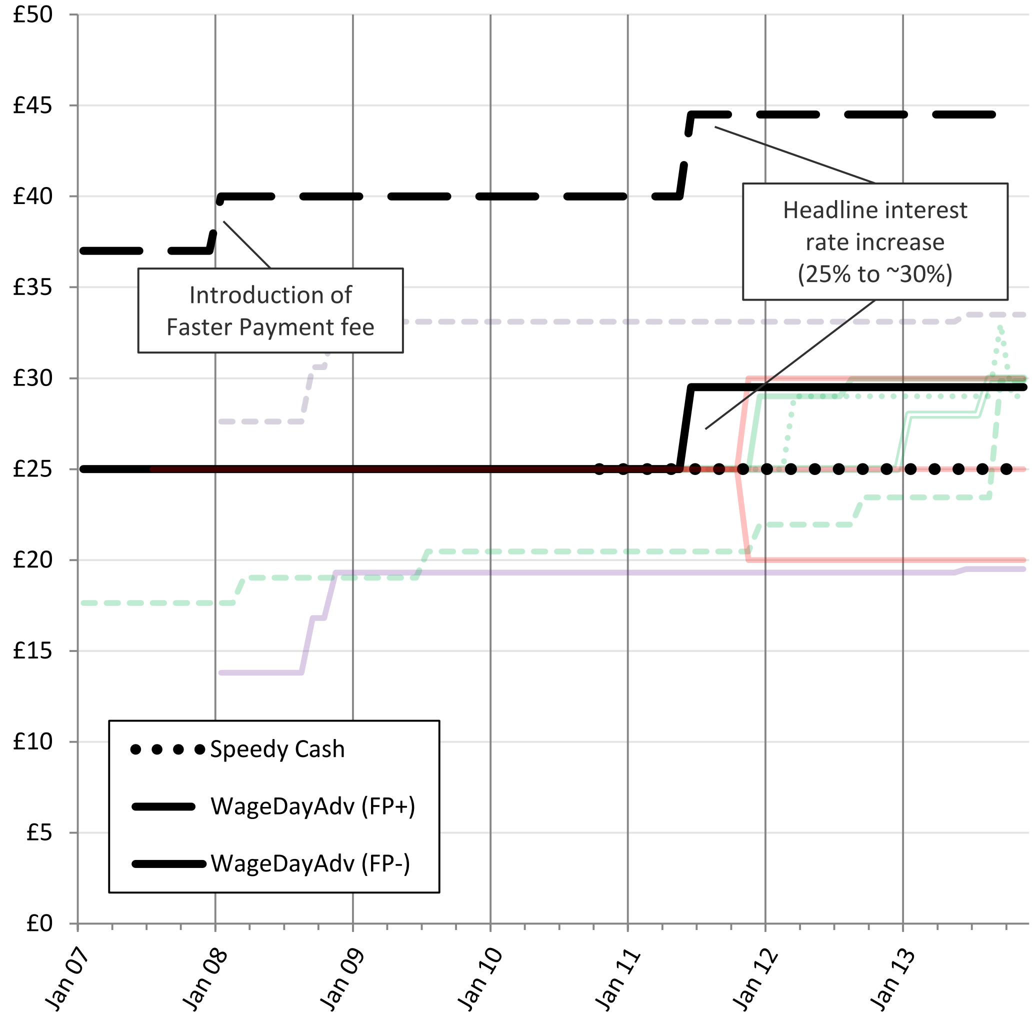
Intro. of faster payment fee

2011

Headline interest rate increase

WageDayAdvance told us that the factors considered in June 2011 price increase included:

'... number of defaulted loans, the length of time a loan is in an arrears state (taking longer to repay) & increased costs from third party providers.'

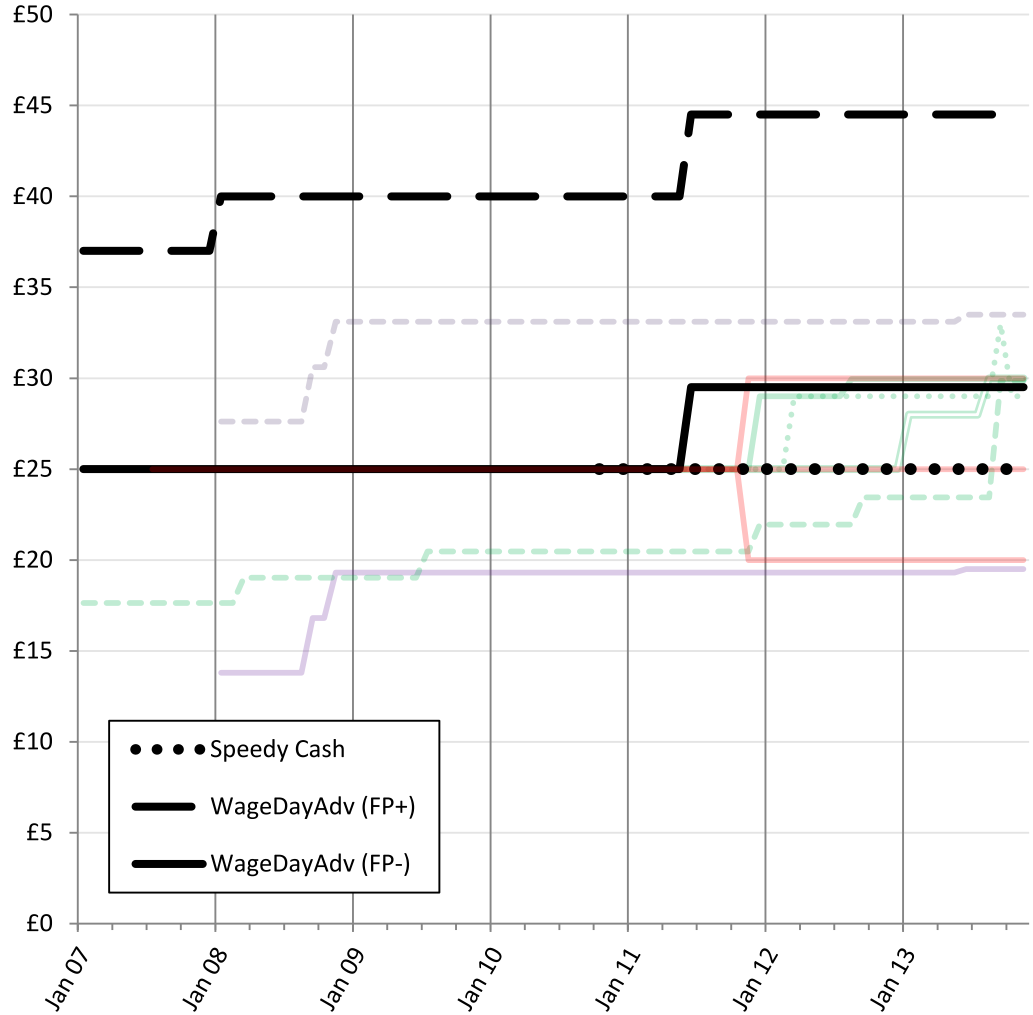


Price developments (TCC of a £100 loan) 2007-13
SRC Transatlantic Ltd.

Speedy Cash Payday Loan:

'The factors we take into account in setting the level of interest rates and other charges associated with our payday loans is based on competitors in the market and operating costs.'

'No significant shocks were experienced that influenced our setting of prices for our product offering.'



Price developments (TCC of a £100 loan) 2007-13
SRC Transatlantic Ltd.

Speedy Cash Payday Loan:

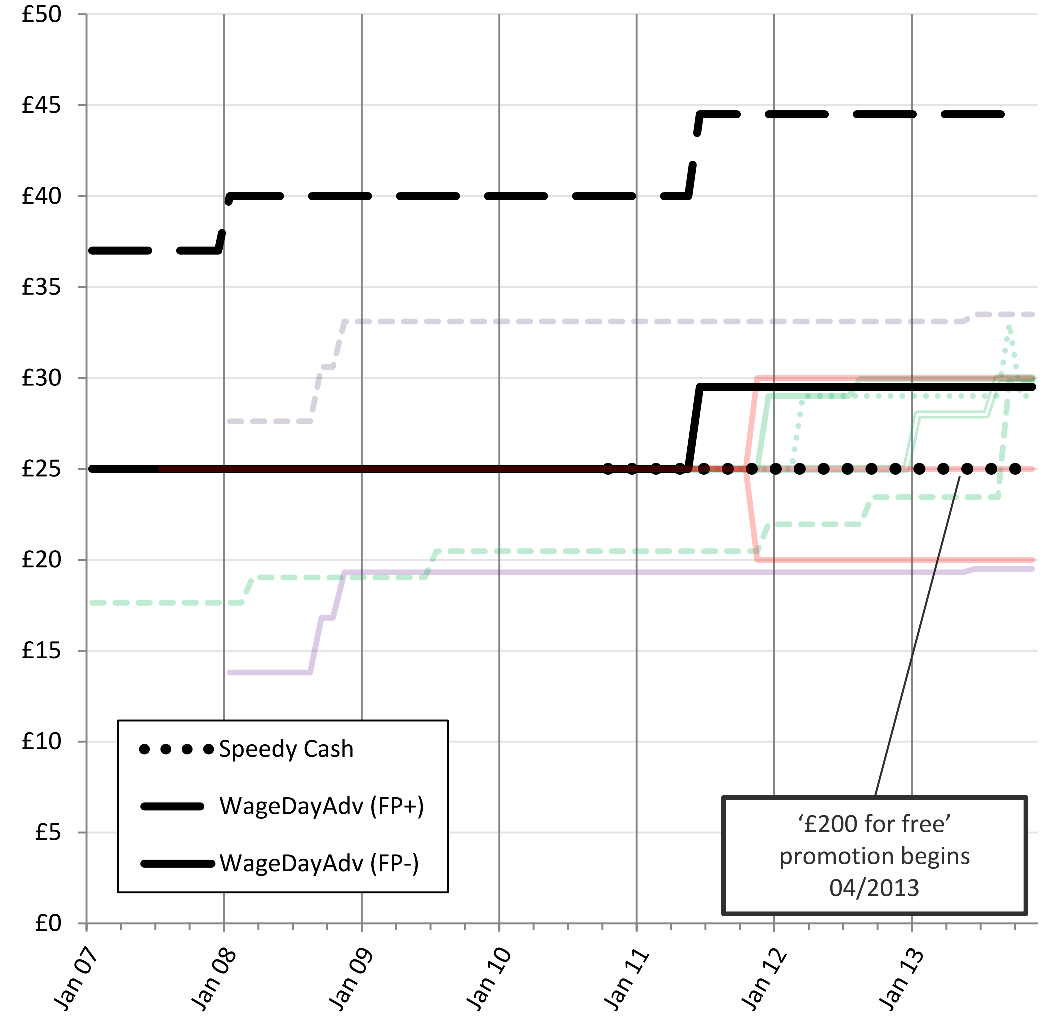
Speedy Cash offered the following promotion on their Payday Loan:

‘£200 for free’ promotion

- Began 04/2013
- 0% interest on the first £200
- New customers only
- Advertised in-store, by leaflet and on Facebook

Prevalence

In the transaction data, 89.6% of new customer loans repaid in full appear to have incurred zero interest on the first £200 of their loan. There was an upward trend in the coverage of this discount, increasing from 80% of loans in April to 95% of loans in August.



Price developments (TCC of a £100 loan) 2007-13
Flexible products – CashEuroNet FlexCredit

Flexible products:

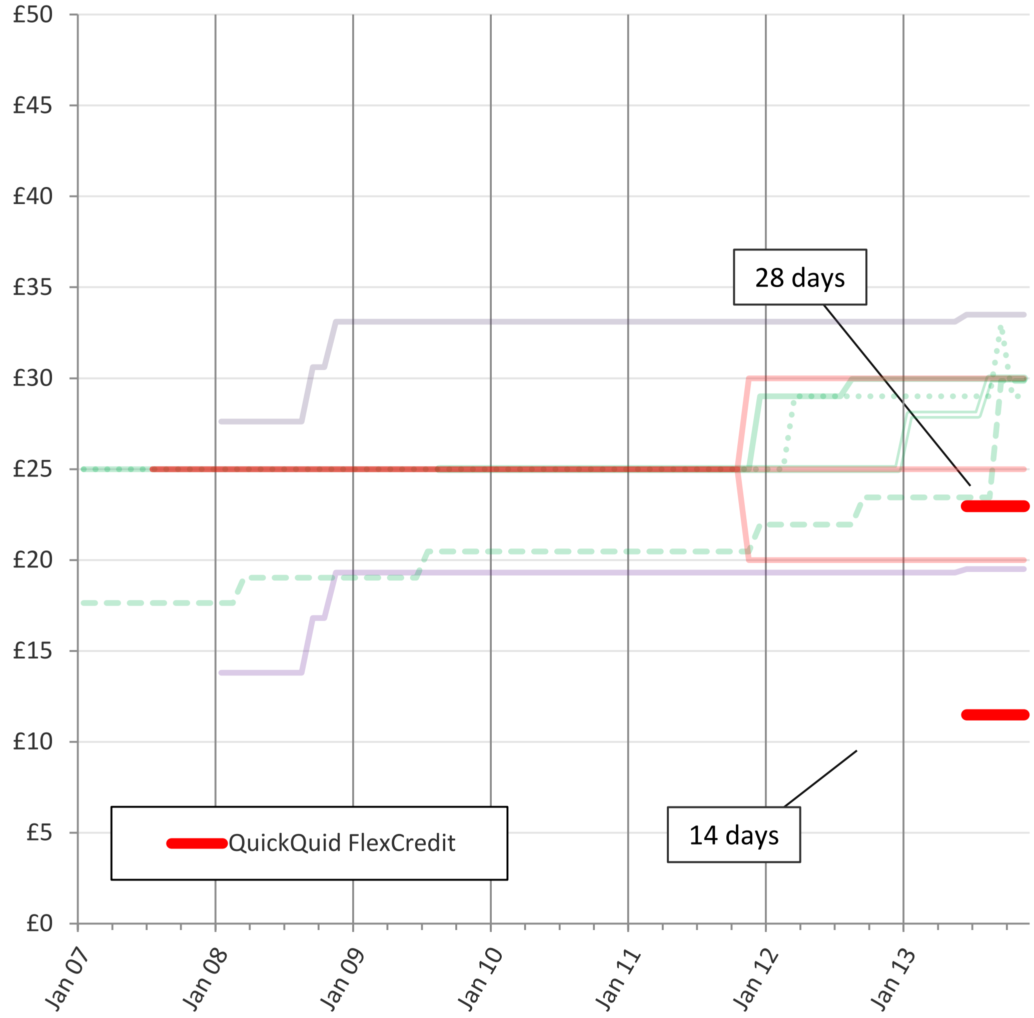
Relatively new products

- Limited data on market shares
- Relatively cheap

CashEuroNet QuickQuid FlexCredit

CashEuroNet told us the following:

[✄]



Price developments (TCC of a £100 loan) 2007-13
Flexible products – Speedy Cash Flex Loan / Flex Account

Flexible products:

Relatively new products
- Limited data on market shares
- Relatively cheap

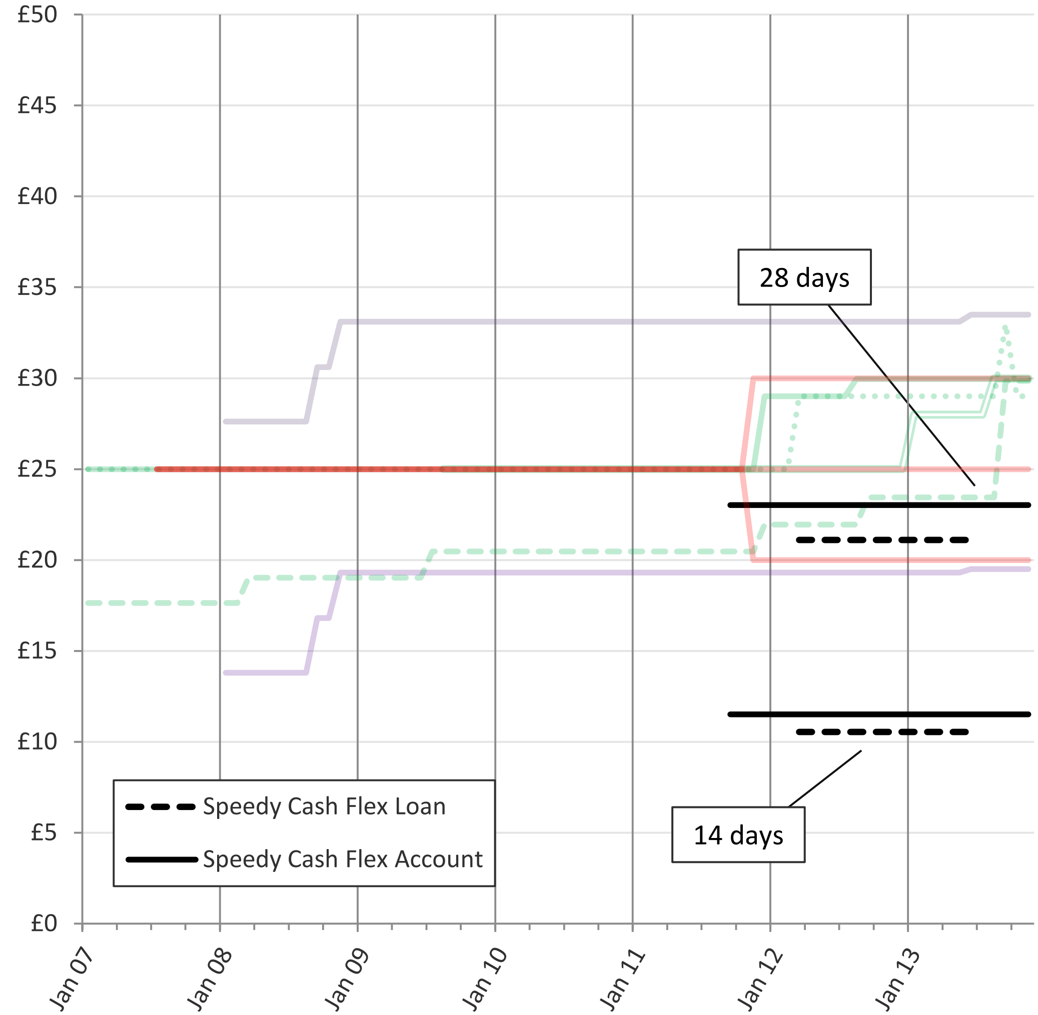
Speedy Cash Flex Loan

12-month instalment product charging 0.75% per day

Changed to 18-month instalment product charging 0.82% per day in June 2013

Speedy Cash Flex Account

Open-ended credit agreement charging 0.82% per day

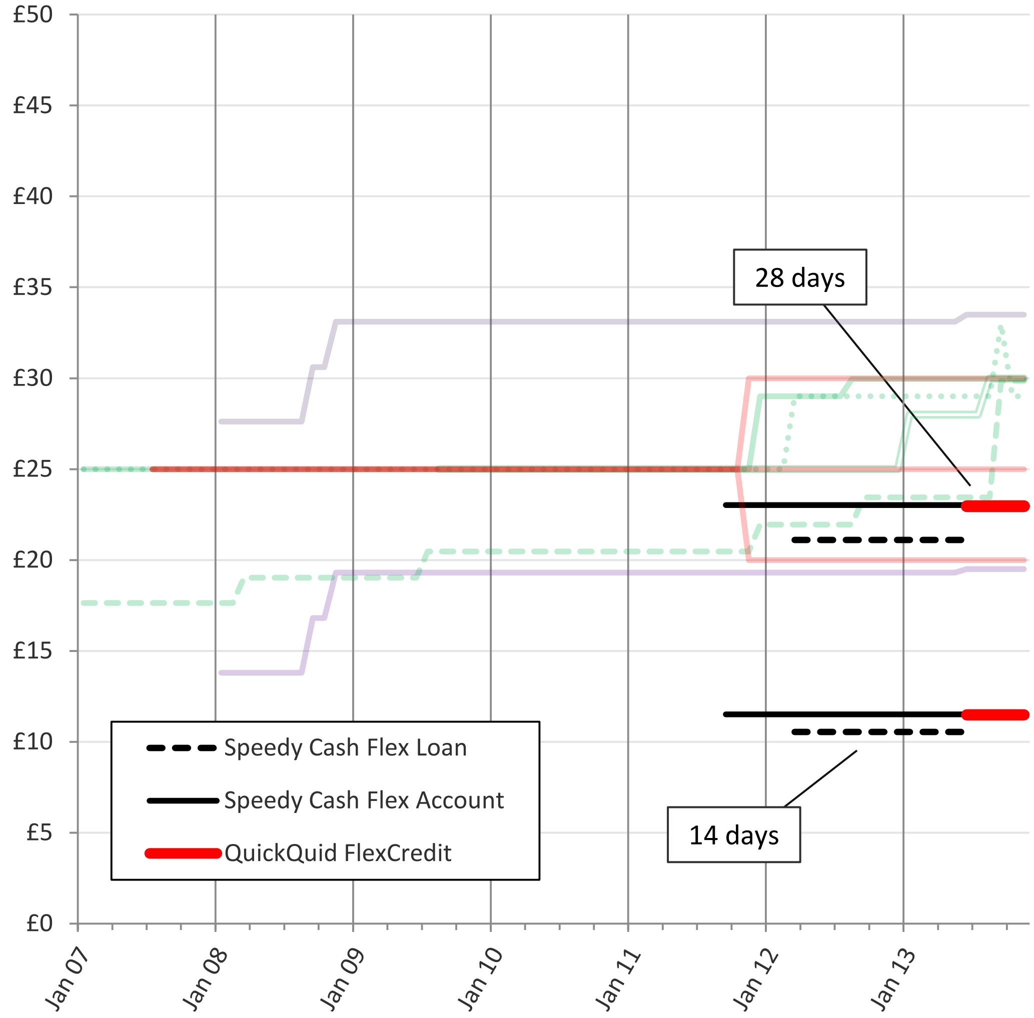


Price developments (TCC of a £100 loan) 2007-13
Flexible products

Speedy Cash Flex Loan/Flex Account

and

CashEuroNet FlexCredit



Section 5 – Detailed analysis of late fees

Late fees (up to 11 days late)

Five lenders changed their late fees during the period of the market questionnaire:

DFC changed the amount of its flat late fees relating to both its cheque-based and chequeless loans and introduced late fees on its Payday Express product

Wonga has changed its flat late fee both in terms of its level and its structure on a number of occasions.

CFO Lending Limited changed the daily interest rate on overdue amounts three times since April 2009.

WageDayAdvance changed the structure of its late interest rates in August 2013.

Harvey & Thompson introduced interest on overdue loans in 2013.

All other products have had their late fees and late interest rates held constant since 2008.

Late fees (up to 11 days late)

DFC (The Money Shop):

Chequeless loan:

August 2009	£25 flat fee
September 2012	£29 flat fee

Cheque-based loan:

1999:	£25 flat fee
September 2012:	£16 flat fee
August 2013:	£29 flat fee

Late fees (up to 11 days late)

Wonga:

October 2007:	£10 flat fee	
October 2009:	£10 flat fee plus additional £45 charged on days 6 and 11	Wonga told us its ‘staged time-centric’ fees (introduced Oct. 2009) were [✂].
March 2010:	£15 flat fee	
July 2010:	£7 flat fee if late at 8am plus £17.50 if still late at 5pm	
December 2010:	£20 flat fee	
August 2013:	£30 flat fee*	Wonga told us this increase to £30 was [✂].

*currently charged when payment is not made by 5pm on the ‘promise date’, according to the Wonga website

Late fees (up to 11 days late)

CFO Lending Limited:

October 2008:	1.16% per day
April 2009:	1.00% per day
September 2010:	1.30% per day
July 2012:	1.63% per day
December 2012:	1.20% per day

These changes track the changes to CFO’s standard interest rate.

Late fees (up to 11 days late)

WageDayAdvance:

Until August 2013, WageDayAdvance computed its late interest rate on a loan-by-loan basis. The interest rate would equal the implied daily interest rate on the originally agreed loan.

From August 2013, the interest rate was changed to 0.74% per day.

Harvey & Thompson:

Up until 11/02/2013 H&T did not charge interest after the due date on a loan if the customer failed to pay.

H&T told us that this change was introduced [✂].

Section 6 – Annex

[✂]