

CASHEURONETUK, LLC:

RESPONSE TO THE WORKING PAPER ON COMPETITION BETWEEN PAYDAY LENDERS AND OTHER CREDIT PROVIDERS ISSUED BY THE COMPETITION COMMISSION ON 31 JANUARY 2014

In this working paper the Competition Commission (CC) examines the extent of competition between payday loans and other forms of credit products such as credit cards, overdrafts and pawnbroking. CashEuroNetUK, LLC (**CashEuroNet**) has set out some general observations in its response to the Annotated Issues Statement. In this response, we provide further details on some specific issues of concern.

1 UNAUTHORISED OVERDRAFTS

- 1.1 Based on the findings of the consumer survey, the CC finds that only around 2% of payday customers would have used a credit card or overdraft facility to borrow money if their payday loan had not been available.¹ CashEuroNet is very surprised at this result, as it does not fit with our understanding of our customers or the wider market. CashEuroNet is particularly aware of the competitive constraint produced by authorised and unauthorised overdrafts, and is concerned that the CC has underestimated the role of this source of funds for customers of payday loans.
- 1.2 In particular, CashEuroNet is concerned that the CC's estimate of the proportion of customers who would have used an unauthorised overdraft does not properly capture the extent to which people turn to unauthorised overdrafts when funds are not available. The reason for this underestimate lies with the questions posed in the CC's consumer survey, which could result in customers not reporting that they would have used an unauthorised overdraft, even if they would have used one.
- 1.3 Question 'Qpdsb3' of the consumer survey asks respondents what options that they could have used – the list of possible responses includes overdrafts but does not include "unauthorised overdrafts" (people are only asked about unauthorised overdrafts once they have indicated that they have an overdraft. However, there will be people who do not have an overdraft facility but do have access to an unauthorised overdraft facility). The concern is that respondents may see unauthorised overdrafts as a form of default and therefore not literally as an alternative source of borrowing.
- 1.4 The extent to which customers could have turned to an unauthorised overdraft is indicated by question QFC2, which found that 56% of respondents had been overdrawn in the past twelve months, with an additional 17% having an overdraft facility that had not been used.² Another question (QPDSB3A) found that 67% of those who said they could have used an overdraft would have needed to go over the limit.³ Clearly many customers do use overdraft facilities and are likely to end up over their limit, suggesting that unauthorised overdrafts are an important alternative source of short term funds.

¹ Paragraph 25, 'Competition from other types of credit' working paper.

² Table Competition Commission (2014) 'Payday Lending Survey', Table 336.

³ Ibid, Table 89.

- 1.5 To explore this issue further, CashEuroNet conducted a short bespoke online survey of a sample of its customers to find out if unauthorised overdraft facilities and payday loans are considered substitutes. This was an online survey of customers. 1,254 customers viewed the survey, of which 914 completed the survey. The survey asked only four questions and took 1 minute to complete. A number of successful applicants were asked to complete the survey for a six-day period in February 2014. Details of the survey are provided in the Annex of this Response.
- 1.6 Customers were asked about how their use of unauthorised overdrafts had changed due to their use of payday loans, by asking them how often they had run up unauthorised overdrafts during a twelve month period before and after their adoption of payday loans. The results were that:
- 1.6.1 before the adoption of payday loans, [CONFIDENTIAL] % of respondents said they had run up unauthorised overdrafts.
- 1.6.2 since adopting payday loans, [CONFIDENTIAL] % of respondents said they had run up unauthorised overdrafts.
- 1.7 The results indicate that use of unauthorised overdrafts [CONFIDENTIAL], this suggests that payday loans and unauthorised overdrafts are used as substitutes by the survey respondents.
- 1.8 We look forward to the new evidence from the upcoming CC survey of Credit Reporting Agencies, which may be better able to assess the use of unauthorised overdrafts, depending on the availability of data. It will be important for the CC to have highly granular (perhaps daily) information about current account status for this analysis.
- 1.9 We note that the FCA are planning to conduct an analysis of credit outcomes for both consumers that took out payday loans and consumers that were declined payday loans, which we would expect (assuming that they are able to obtain the appropriate data) to provide interesting findings on the extent to which unauthorised overdrafts are a substitute for payday loans.

2 INFORMAL/ILLEGAL LENDING

- 2.1 The CC consumer survey finds that a large proportion (31%) of respondents reported that they would have turned to ‘family and friends’ if a payday loan had not been available. CashEuroNet suspects that in practice, a significant proportion of these survey respondents may turn to informal or illegal lenders who require significant financial returns from lending. A later question (QPDSB3) in the survey asked if respondents could have used an unlicensed lender or loan shark, and 17% of respondents said that they could have.⁴
- 2.2 Informal or illegal lending can take many different forms. Past reports commissioned by BIS indicate that in the past there has been a significant extent of informal/illegal lending in the UK.

⁴ Competition Commission (2014), ‘Payday Lending Survey’ Table 69.

- 2.2.1 Policis (2010) provides a recent estimate of the scale of illegal lending in the UK.⁵ Based on survey evidence and witness statements in Policis (2006),⁶ Policis estimated the scale of illegal money lending in the UK to amount to 310,000 households lending £120m and repaying £450m.
- 2.2.2 The Financial Inclusion Centre (2010) estimated that 200,000 people are in debt as a result of illegal lending, that these individuals borrowed over £57m, and made repayments amounting to £164m.⁷
- 2.2.3 Policis (2006) compared the APR of illegal lending with APR's in the home credit and Social Funds, and found that the cost of borrowing from illegal lenders averaged £280 per £100, a factor 3.5 of the highest cost of home credit in the legitimate market.⁸ The large gaps between money lent and repaid – the three studies found quotients of money lent to money repaid varying between 2.9 (FIC, 2010) and 3.8 (Policis, 2010) – demonstrate that the cost of illegal lending is typically high, as illustrated by the cost being more than three times the cost of the legal lending considered in the study.⁹
- 2.3 CashEuroNet has first hand experience of the potential growth of illegal or unregulated lending following restrictions on regulated lending in the United States.
 - 2.3.1 As set out in previously submitted documents¹⁰, the US market has seen a spike in informal and illegal market lending as more states have established caps and various other restrictions on the supply of payday loan credit.
 - 2.3.2 Data from the State of Oklahoma, among others, showed that complaints about unlicensed internet lending outnumbered complaints about payday licensees. Because state regulatory agencies typically lack the resources to pursue the large number of unlicensed internet lenders, this unlicensed market grew unchecked to the point that an estimated 60%+ of internet payday loans were issued by unlicensed lenders.
 - 2.3.3 The State of New York, where payday lending is illegal, recently launched enforcement against over 30 unlicensed internet lenders and was subsequently joined in its efforts by federal bank regulators.

These outcomes bear watching as the UK implements price caps and other regulatory measures.

⁵ See Policis (2010), 'Interim evaluation of the national illegal money lending projects – summary', report commissioned by BIS.

⁶ See Policis and PFRC (2006), 'Illegal lending in the UK', final research report, commissioned by DTI.

⁷ See The Financial Inclusion Centre (2010), 'The Real Cost of Christmas: Assessing the impact of illegal money lending on consumers', study.

⁸ See Policis and PFRC (2006), 'Illegal lending in the UK', final research report, commissioned by DTI.

⁹ See Policis and Personal Finance Research Centre (2006), 'Illegal lending in the UK', final research report, commissioned by DTI.

¹⁰ CashEuroNet submission to the Competition Commission, July 12, 2013.

3 COMPETITION WITH OTHER FORMS OF CREDIT

- 3.1 As a general comment, CashEuroNet disagrees with the CC's current view that there is little evidence that other types of short term credit product compete with payday lending and is firmly of the view that other types of short term credit product do exert competitive pressure on payday loan products. We note that the CC consumer survey found that 'more than half of those who took out payday loans could have used an alternative source of credit', which fits with our view.¹¹ The Bristol University research found that a majority of online payday loan customers would consider options such as overdrafts, credit cards and credit unions for a future loan, as well as online payday loans.¹² The CC should consider the wider range of options available to consumers, as payday loans are not the only way in which our customers obtain short term credit.
- 3.2 CashEuroNet would like to highlight a number of examples of short term credit products that compete with payday loans, which the CC should consider:
- 3.2.1 certain credit unions provide loan products which are similar to payday loans, particularly in terms of speed of disbursement. For example, London Mutual Credit Union offers a same day loan delivery for a charge of £11;¹³
- 3.2.2 in examining credit cards as a substitute for payday loans, CashEuroNet believes that a distinction needs to be made between regular and subprime credit cards, as the latter is expected to be a closer substitute to payday loans; and
- 3.2.3 home credit providers offer loans (which are not included in this investigation) that are comparable with instalment loans such as Pounds to Pocket. For example, Provident offers an online loan called Satsuma loans that is repaid through continuous payment authority debits over a 13 to 26 week period that is directly comparable to a 3 to 6 month payday instalment loan, with a similar APR.

¹¹ Section 2.3, 'Research into the payday lending market', Competition Commission 2013.

¹² See University of Bristol (2013), 'The impact on business and consumers of a cap on the total cost of credit', Appendix Table 23.

¹³ <http://www.cuok.co.uk/>

Annex

Survey Report: QQ internal overdraft survey – Feb 2014

Results gathered between 18-24 February 2014

[CONFIDENTIAL]