

## CASHEURONETUK, LLC:

### RESPONSE TO THE REPEAT CUSTOMERS – PRESENTATION BASED ON THE ANALYSIS OF THE TRANSACTION DATA ISSUED BY THE COMPETITION COMMISSION ON 14 FEBRUARY 2014

In this presentation the Competition Commission (CC) examines the extent of patterns of repeat usage of payday loans by customers (**Presentation**). In this response, CashEuroNetUK LLC (**CashEuroNet**) sets out its observations on the Presentation.

- 1.1 CashEuroNet has previously provided various pieces of evidence on consumers shopping around and switching payday lenders.<sup>1</sup> At this stage, CashEuroNet would like to respond to the possible perception that there could be a link between repeat borrowing and profitability.<sup>2</sup>
- 1.2 Slide 6 of the Presentation presents proportions of ‘repeat loans’ versus ‘new loans’ for different lenders. We note that the large variation in the share of new loans across lenders (slide 6 of the Presentation) can be explained either by:
  - 1.2.1 Existence of new entrants in the sector, who tend to rely mostly on new loans.
  - 1.2.2 Variation in customer profiles: certain lenders may cater to borrowers who tend to spend less time with a single lender, and hence these borrowers may have higher customer turnover rates and a higher proportion of new customers.
- 1.3 As shown in slide 11 of the Presentation, the proportion of lending to new customers did not decline over the course of 2012, suggesting that the importance of attracting new customers did not decline during that year. CashEuroNet believes that this reflects the fact that customers tend to only stay with a payday lender for around 12-18 months, which results in a continual churn of customers who are taking out payday loans.
- 1.4 It is important to note that this definition of ‘new customers’ is on a monthly basis, but if ‘new customers’ are considered on an annual basis then the results are quite different. As shown in slides 8 and 9 of the Presentation, for most lenders at a given point in time, the majority of loans are to customers who started borrowing during the course of the current year. On this basis, most customers are new customers, as few existing customers have used a lender for more than a 12-18 month period.
- 1.5 Consequently, payday lenders always have to compete for new customers since few existing customers stay with the same lender for much more than a 12-18 month period. Therefore, the lender must continually recruit new customers to maintain the business.
- 1.6 We hope the observations set out above are helpful to the CC in its inquiry.

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<sup>1</sup> Including CashEuroNet's initial submission to the Competition Commission (12 July 2013), and CashEuroNet's submission in response to the Competition Commission's Statement of Issues (14 August 2013).

<sup>2</sup> Competition Commission, "Payday Lending Market Investigation: Annotated Issues Statement", as suggested in paragraph 48.