

## CASHEURONETUK, LLC:

### RESPONSE TO THE SHOPPING AROUND WORKING PAPER ISSUED BY THE COMPETITION COMMISSION ON 19 FEBRUARY 2014

CashEuroNetUK, LLC (**CashEuroNet**) appreciates the opportunity to comment on the Competition Commission's (CC) Shopping Around working paper. These comments are set out below.

#### 1 LEVEL OF SHOPPING AROUND

- 1.1 As a lender, we believe that it is in our best interest for consumers to be well informed about the costs of a payday loan prior to purchase. If consumers are not fully aware of the costs, they are more prone to take loans that they may struggle to repay.
- 1.2 The CC finds that "a significant proportion of payday loan customers do not shop around prior to taking out a loan"<sup>1</sup>, but the working paper does not provide any benchmarks against which to judge whether or not the extent of shopping around is higher or lower than one may expect. CashEuroNet does not believe that the extent of shopping around for online payday loans is low.
- 1.3 Currently, the proportion of customers shopping around is found to be 45% for online payday lenders. We believe that it is useful to compare this result to similar results for other financial products:
  - 1.3.1 The current CC market investigation on private motor insurance (**PMI**) reveals that "two-fifths (42%) of PMI customers said that they last compared insurers or insurance policies less than a year ago."<sup>2</sup> The CC considered this a relatively high level of shopping around and concluded that there was strong rivalry in the sale to consumers of motor insurance.<sup>3</sup>
  - 1.3.2 In a Yougov survey of 2011, 58% of people responded that they use a price comparison website (**PCW**) to buy insurance and 42% use PCWs to find a utility provider.<sup>4</sup>
  - 1.3.3 A survey by Mintel<sup>5</sup> from 2011 showed that: 46% of consumers have researched motor insurance through a PCW; and 25% have researched a credit card.

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<sup>1</sup> Competition Commission, "Shopping Around", paragraph 45.

<sup>2</sup> Competition Commission (2013) "Private Motor Insurance Market Investigation: IFF Research report", paragraph 2.20.

<sup>3</sup> See Competition Commission (2013) working paper "Private motor insurance investigation: Theory of harm 4: Obstacles to switching", particularly paragraphs 2 and 14. The CC refers to another survey finding that 55% of respondents "generally compare PMI policies every year at renewal". Of these respondents, 35% (of the 55%) then went on to say they had not compared "less than a year ago" (question A14a), which explains the difference with the 42% that actually compared "less than a year ago". See page 27 of the 'Consumer survey tables' published with the CC working papers for the PMI investigation.

<sup>4</sup> [http://cdn.yougov.com/cumulus\\_uploads/document/0mzoub601j/YG-Archive-1110506-Publicite.pdf](http://cdn.yougov.com/cumulus_uploads/document/0mzoub601j/YG-Archive-1110506-Publicite.pdf)

<sup>5</sup> <http://www.mintel.com/press-centre/technology-press-centre/price-comparison-sites-its-a-click-with-60-of-brits>

- 1.4 CashEuroNet conducted a short bespoke online survey of its customers<sup>6</sup> to estimate the proportion of those who shop around. Similar to the CC consumer survey, customers were first asked whether they shopped around for the loan for which they had been approved, and if the answer was 'No', they were asked a follow-up question on whether they had ever shopped around for a previous payday loan. The results of the survey show that [CONFIDENTIAL] % replied that they had shopped around for the loan in question and [CONFIDENTIAL] % replied that, while they had not shopped around for this loan, they had shopped around for previous payday loans. Further details of this survey can be found in the Annex 1 attached to this response.
- 1.5 Whilst these findings provide valuable evidence on consumers' *stated* shopping around behaviour, we believe it is also useful to analyse data which reflect consumers' *actual* behaviour when purchasing a payday loan. For example, CashEuroNet has already presented evidence on the pay-per-click conversions.<sup>7</sup> While we agree with the CC that it is not clear what customers end up doing after they leave the website of CashEuroNet<sup>8</sup>, the fact that [CONFIDENTIAL] % of consumers who visit the website do not even proceed to the application stage suggests that consumers scan several websites before making a decision, even if that decision is to not get a payday loan at all.
- 1.6 Overall, CashEuroNet believes that a significant proportion of our customers do shop around, to an extent that is comparable to other financial services products, including products such as motor insurance.

## 2 PRICE DISPERSION

- 2.1 CashEuroNet believes that the level of price dispersion seen in the payday loan market is not necessarily a reflection of consumers not shopping around effectively. Rather, it may reflect the cost structure of the industry. Like many other financial products, the payday lender's costs depend greatly on the borrower's default risk. Some lenders that face high default rates may be going "deeper into the market" and accepting higher risk customers than other lenders. These lenders may charge higher default fees in order to recuperate their losses. Transaction data presented by the CC shows a significant variation in default rates across lenders<sup>9</sup>, which is commensurate to the dispersion in prices.
- 2.2 In order to fully assess the validity of this hypothesis, CashEuroNet suggests that the CC should assess prices in conjunction with the cost of default. This requires a careful analysis covering a sufficiently long time period that takes into account the total cost of credit and the different ways these costs may be recovered from different types of customer.

## 3 INCENTIVES TO SHOP AROUND

- 3.1 CashEuroNet respectfully asks the CC to conduct further research before concluding that customers will "perceive time spent shopping around to be costly" due to the value they place on the speed of funding.<sup>10</sup>

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<sup>6</sup> This was an online survey of customers conducted over a 6-day period in February 2014. [CONFIDENTIAL].

<sup>7</sup> CashEuroNet's submission to the CC Market Questionnaire, question 34.

<sup>8</sup> Competition Commission, "Shopping Around", paragraph 53.

<sup>9</sup> Competition Commission, "Customers and Their Loans – Presentation Based on Analysis of the Transaction Data", slide 32.

<sup>10</sup> Competition Commission, "Payday Lending Market Investigation: Annotated Issues Statement", paragraph 86.

- 3.2 It is important to reflect on the amount of time involved. From the customers' perspective, obtaining funds quickly means obtaining funds within the next hour or so via a payday loan, or instantly from an unauthorised overdraft, instead of having to wait perhaps a few days for alternative sources (such as from family and friends or a credit union). The findings of the qualitative research of the consumer survey<sup>11</sup> show that each customer spends approximately 1-10 minutes reviewing the websites of payday lenders. This is not surprising given the ease of accessing price information from many payday lenders' websites.<sup>12</sup> In the view of CashEuroNet, therefore, the need to obtain funds within an hour rather than in the next few days does not preclude shopping around for the best deal online, as the amount of time needed to shop around is relatively small.
- 3.3 Furthermore, the CC places great weight on the consumer survey finding that lack of time is the most commonly cited reason for not shopping around. However, the percentage who answered lack of time is only 21% (of those that did not shop around). The percentage of the second ("happy with the first one I looked at") and third ("have used before") ranked reasons for online customers is 21% and 20%.<sup>13</sup> Most respondents therefore did not emphasise a lack of time as the reason for not shopping around.

## **4 LEAD PROVIDERS**

- 4.1 [CONFIDENTIAL].
- 4.2 [CONFIDENTIAL].
- 4.3 [CONFIDENTIAL].

## **5 OPTIMISM BIAS**

- 5.1 The high incidence of late repayments and rollovers suggests that a significant number of borrowers are not able to properly assess their ability to repay the loan. CashEuroNet shares the CC's concern that some borrowers may be overoptimistic about their ability to repay, which leads them to pay insufficient attention to late fees and post-default interest charges when selecting a loan.<sup>14</sup> It is the view of CashEuroNet that these charges should be kept at reasonable levels, in order to protect customers who may be facing financial difficulties. For this reason, CashEuroNet does not charge post-default interest and our late payment fee, set at £12, is relatively low both compared to other payday lenders and compared to banks and credit card companies.

## **6 CONCLUSIONS**

- 6.1 CashEuroNet appreciates the detailed analysis undertaken by the CC in relation to whether there are any barriers in the payday loan sector that restrict customers' ability to shop around for payday loans and would respectfully ask the CC to consider the points raised in this response during the next phase of this inquiry. Overall, we believe that a significant proportion of payday loan customers do shop around, to an extent that is comparable to other financial services products, including motor insurance.

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<sup>11</sup> Competition Commission, "Research into the payday lending market: Final Report", page 95.

<sup>12</sup> Competition Commission, "Payday Lending Market Investigation: Review of the Websites of Payday Lenders and Lead Generators", paragraph 2.

<sup>13</sup> See Table 192 of the "Consumer Survey Tables" published with the CC working papers for the PMI investigation.

<sup>14</sup> Competition Commission, "Payday Lending Market Investigation: Annotated Issues Statement", paragraph 92.

**Annex 1**  
**CashEuroNet Online Survey Results**

**[CONFIDENTIAL]**