Competition & Markets Authority

PAYDAY LENDING MARKET INVESTIGATION

Summary of a hearing with Cash Converters UK and the Consumer Finance Association held on Wednesday 26 February 2014

Background

1. Cash Converters UK was a subsidiary of Cash Converters International Limited and was the world's largest retailer of second-hand goods. It had 227 stores in the UK, 63 of which were corporately owned and 164 of which were franchise businesses. It provided a wide range of services including pawn-broking (including buy-backs and lay-buys), retail and financial services. It had a head office employing around 200 staff and a call centre which dealt with customer service and collections calls. Cash Converters' credit model was based on face-to-face contact with the customer. The Consumer Finance Association (CFA) thought that this relationship, as opposed to borrowing on a credit card, helped ensure that funds were repaid. Cash Converters collected its personal loan product and payday loan product centrally for its corporate stores and audited and governed the policies of the collections work of its franchisee's payday lending, although the franchisees collected their funds themselves. Cash Converters employed a team of 30 experienced staff to ensure that it was compliant with industry regulations and that company policy was applied consistently.

2. Cash Converters set its standards high and had a compliance team comprising ten members of staff. It had ambitions to grow and diversify into other products although its five-year plan was currently on hold pending the outcome of the Competition and Markets Authority's payday lending market investigation and potentially new regulation by the Financial Conduct Authority. If at the end of these processes there was no cost on credit, Cash Converters was confident that it could increase its market share. The CFA was concerned at the effect additional regulation might have on the industry.

3. Cash Converters offered a payday cash-advance product, which ranged from £50 up to £750 over a 31-day period; and a personal loan product, which was available online, and ranged from £300 to £2,000. [✄]

The market

4. Cash Converters estimated that payday lending accounted for around 10% of its business. Its business from personal loan products was split between the high street (75%) and online (25%). Customers could apply for loans from Cash Converters directly on its website [✂]. Cash Converters was also in the process of preparing data for price comparison websites [✂] which it thought would be operational from May 2014.

5. The majority of Cash Converters' payday lending customers were drawn from existing customers. Cash Converters did not consider that taking out a payday loan should affect a consumer's credit rating, for example by affecting their ability to obtain a mortgage in the future.

6. Customers seeking a loan from Cash Converters were subject to a full credit assessment based on their circumstances at the time. Cash Converters did not lend to anyone: every time a customer applied for a loan he/she had to make a new application. Cash Converters wanted to ensure customers were in a position to repay their loans in full and did not offer rollovers. When a customer repaid the loan in full they might then be able to take out another one provided that their financial circumstances had not deteriorated.

7. Cash Converters used data from Callcredit to help it make credit risk assessments and also employed a credit-scoring system for personal loans. However, it did not credit-score customers for its cash advance product. Instead customers were required to provide two months' worth of pay slips and bank statements, two utility bills for proof of address and a valid form of identification for money-laundering purposes. Cash Converters then assessed the customers' income and expenditure taking any primary and secondary debts into consideration before making a decision on the loan amount available. The first loan would be a percentage of this figure with the full loan amount becoming available following subsequent loans. All applications for cash advance were made through Cash Converters stores while applications for personal loans were dealt with by head office. Every loan, with the exception of quotes made online, started with cash advance. Cash Converters would then review the customer's circumstances, explaining the options available to them before deciding whether to offer the customer an alternative product (ie a personal loan) if appropriate.

8. All Cash Converters rates and charges were set centrally. It was part of a nationwide network and did not offer local promotions as it believed in treating its customers fairly. Its pricing was based on the cost of introducing new products and the associated overheads. However, it made a loss every time a customer defaulted on a loan as it adhered to the guidance issued by the

Office of Fair Trading (ie to charge a £12 default fee). It did not want to risk incurring a media backlash by increasing this charge.

9. With regard to repeat borrowing, the CFA noted that some young consumers new to the employment market, who could not access credit elsewhere, took out and repaid short-term loans in an attempt to improve their credit rating. The CFA was planning on conducting research later in 2014 to look at whether payday loans provided a stepping stone to financial mobility. The CFA wanted to see how long people were dependent on a payday or short-term loan, whether this was cyclical, whether some customers in certain demographics might use them for a longer period and whether customers stopped using them when their income increased.

10. In commenting on late payment, Cash Converters told us that it did not charge a default fee if its customers repaid a loan a day late, provided the customer informed Cash Converters in advance. Cash Converters made sure that it did not overcommit its customers and only attempted continuous payment authority (CPA) three times [✂] which put it at a market disadvantage. If a customer did not have the funds in their account when these attempts were made and subsequently telephoned Cash Converters to make payment over the telephone, Cash Converters would be fined. Paying by CPA was preferable to alternative options such as direct debit because customers were not charged for a failed CPA. If a direct debit payment failed, the customer would be charged by Cash Converters and the bank. Cash Converters noted that one bank had cancelled the CPA for five customers at their request but had not reinstated it when asked to do so, meaning that the customers had to pay in-store by cash.

11. CFA customer research indicated that 85% of customers had no difficulty repaying a loan, with 94% repaying on time. The CFA believed that there should be a multiple or a combination cap on credit, taking into consideration the cost of providing a loan while allowing the lender a small profit margin within that cost. If there were cost efficiencies to be gained, the lender should be able to increase its margin on the cost of providing a loan but should not be making a profit from customers who were not able to pay.