PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with The Cash Shop held on Wednesday 26 February 2014

Background

1. The Cash Shop told us that it had 14 stores and payday lending accounted for [✂] of its revenue ([✂] in April 2013). The greater proportion of The Cash Store's revenue was generated from buy-back, pawnbroking and retail second-hand goods enabling it to make this decision. The decline in its payday lending revenue was offset by the growth of its newer stores and its other revenue streams. The business was still growing but at a slower rate as a result of the decision to withdraw from the traditional payday loan product. (It made the strategic decision in April 2013 to move away from offering conventional payday loans to an instalment product.) The impact of switching from payday loans to instalment loans was vast as the repayments The Cash Shop received from instalment loans was less. It was being very cautious in issuing these loans because more money was being lent over longer periods. The Cash Shop focused on affordability and staff asked whether a potential customer already had an existing payday loan. The Cash Shop would not lend to customers which it knew already had existing loans. If it could not lend to a customer its staff would draw their attention to the other services it had to offer.

The market

2. The payday lending industry was, until the Office of Fair Trading reviewed the market, woefully under-regulated. Companies operating in the USA, Canada and Australia saw the UK as a 'green field' as it was not regulated. However, businesses such as The Cash Shop were not the scourge of the high street as they provided customers who might not otherwise be able to obtain funds from the banks with money which was then invested back into the local economy.

3. The primary problem in the payday lending industry was rollovers; removing them would solve much of the problem. The Cash Shop considered that rollovers were unjustifiable and were simply a means for companies to make money. It thought that a credit agreement should finish on the agreed day and that the customer should have to repay their loan on that day or default; extending the loan and charging to do so did not assist the customer. The Cash Shop would work with the customer to get its money back. However, there were some payday lenders who would offer customers a loan if they knew they had an existing loan because the company reasoned that the customer would not be able to repay both and so would need to roll over the loan. In the absence of rollovers, companies would be competing for the same customer which would result in true competition and reduced prices.

Continuous payment authority (CPA) was also abused, especially by the larger organisations that had until recently been extremely successful and profitable. These companies had very low debt numbers because of the significant number of times they used CPAs.

4. The Cash Shop entered the UK market by acquiring a business which had a banking facility. It launched its (now defunct) payday loan product in September 2010 replacing the delayed presentation cheque-cashing product it inherited. It had charged a fee of £25 per £100 with the option of a rollover. This had been a popular product with plenty of demand.

5. Although its stores were located in the Midlands and North East, it hoped to expand into other areas. Most of its stores were located in prominent city centre locations. The Cash Shop competed on customer service and the location and visibility of its stores. It noted that due to the level of competition in the market, companies had improved their offers.

6. The Cash Shop did not develop a credit risk model but instead asked a potential customer to prove that they were employed and to provide bank statements and wage slips. The Cash Shop did not know how online companies were able to assess affordability without access to this data. It also used data from Experian and considered how the Financial Conduct Authority (FCA) would view the application. The Cash Shop would call to confirm a customer's employment and then issue a loan of up to half their disposable income. It took at least 30 minutes to process a loan application.

7. With regard to prices, The Cash Shop employed the same pricing model throughout all its stores. It could not justify charging different rates to customers in different local markets. It charged 22.5% for its single repayment loan, repayable on the customer's next payday; 42.5% for its three-month loan; and 67.5% for its six-month loan. Although the total cost of credit was higher, the repayments were smaller which made it more affordable. The Cash Shop's average loan was less than £200.

8. The Cash Shop noted that some banks were unwilling to provide banking services, citing reputational risk. The Cash Shop had used banking services provided by NatWest before switching to Barclays until the latter removed its cheque-cashing facility. The Cash Shop had impeccable anti-money-laundering policies and procedures in place and assumed that its business was simply not large enough for Barclays.

Entry

9. The Cash Shop thought it would be almost impossible to project growth in the market until the Competition and Markets Authority and FCA had completed their work. Potential new entrants might be waiting to see the outcome of these investigations before deciding whether or not to enter the UK market. The Cash Shop thought entry was likely but not from the high street banks.

Regulation

10. In The Cash Shop’s view, the UK market was currently over-regulated. The Cash Shop thought that the compliance procedures required by the FCA would be challenging but it was confident that it was in a good position to grow its (instalment loan) business. The Cash Shop noted that the Financial Services Authority had been used to dealing with much larger organisations and was unsure how the dynamic would work between the FCA and approximately 80,000 consumer credit licence-holders.