WONGA GROUP LIMITED

RESPONSE TO THE CMA REPEAT BORROWING AND CUSTOMERS' USE OF MULTIPLE LENDERS WORKING PAPER OF 10 APRIL 2014

1. INTRODUCTION AND GENERAL OBSERVATIONS

1.1 Wonga sets out below its comments on the CMA's working paper of 10 April 2014 on Repeat Borrowing and Customers' Use of Multiple Lenders, as well as on the following presentations dated 9 April:

(a) Customers’ use of multiple payday lenders; and

(b) Use of other credit products by payday loan customers.

1.2 By way of introduction, Wonga makes the following general observations in relation to the CMA's analysis:

(a) the methodology and data adopted by the CMA has various shortcomings which limits the weight the CMA can reasonably place on its related findings. In particular, the sampling of loans instead of customers results in a sample which is skewed towards heavier borrowing. Moreover, little weight can be placed on the CMA's assessment of the extent to which customers with active credit cards had credit available when taking out a payday loan due to the lack of a reliable real-time measure of credit availability at the time the payday loan was taken out;

(b) the CMA's survey indicates that a significant proportion of customers are exercising an active choice between lenders (30 per cent) which increases to more than 45 per cent when other competition based switching factors are included, such as "easier option" and "more convenient". This is consistent with the existence of a significant competitive constraint on payday lenders to offer attractive and competitive products in order to win a share of the significant proportion of customers that are switching on the basis of the attractiveness of these offerings;

(c) The CMA's evidence is not sufficiently compelling for it to be able to draw its conclusion that "much of this use of multiple lenders takes place as a result of customers being constrained in their ability to borrow further amounts from an existing lender".[1] Indeed, the CMA itself expresses uncertainty about the effect and highlights the challenges associated with quantification; [2]

(d) the CMA places insufficient weight on the fact that the most important reason by far given by customers for not switching, (cited by 61 per cent of respondents to the CMA's survey) is satisfaction with the existing service. This is the hallmark of a competitive market;

(e) the CMA has no compelling evidence to support the theory that switching may be limited by the following "possible mechanisms"[3]: inconvenience; uncertainty regarding other lenders' offerings; and better terms for repeat customers/differential borrowing limits; and

(f) the CMA has not undertaken a comprehensive assessment of the availability of credit from other sources, and there are significant shortcomings associated with the analysis which has been done.

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1 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 30.

2 Slide 15, (emphasis added), Customers’ use of multiple payday lenders.

3 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 51.

1.3 Wonga's more detailed comments on the CMA's analysis are set out below.

2. THE CMA'S DATA AND METHODOLOGY

Customers' use of multiple payday lenders

2.1 Wonga notes that the CMA's methodology suffers from the following shortcomings, which Wonga submits limit the weight the CMA can reasonably place on its related findings:

(a) the CMA used a sample of 3,250 randomly selected loans issued in 2012 from the transaction databases submitted by 11 major lenders. Wonga considers that, by sampling a limited number of loans instead of customers, the sample will be biased towards heavier borrowers. Indeed the CMA acknowledges that its approach will "overstate the average number of loans per customer";[4]

(b) the CMA's analysis appears to give equal weight to occurrences of repeat borrowing irrespective of the duration of the loan. For example, the CMA reports that "on average a customer took out around eight loans in 2012, and around half took out more than five loans"[5] but there is no indication of whether repeat borrowing is typically for loans of longer or shorter duration, or whether the duration changes for subsequent loans. This is highly relevant to any assessment of this pattern of borrowing, in particular because it allows an investigation of whether customer and/or lender behaviour changes with experience and, if so, the nature of these changes. Equally the CMA has not investigated whether loan value changes with number of loans;[6]

(c) the CMA considers the pattern of repeat borrowing for new customers taking out a loan with a lender in the first part of 2012. The CMA has only, therefore, considered the pattern of repeat borrowing by a single customer cohort. The CMA is unable, therefore, to identify trends over time, and this significantly limits its ability to assess how the payday segment is evolving and might change going forward. Wonga, in contrast, monitors the repeat borrowing of its customers for different cohorts over time and has observed that the extent of repeat borrowing amongst its customers has [CONFIDENTIAL]. For example, the graph submitted to the CMA in response to its questions of 14 March (which is reproduced below for ease of reference)[7] shows that repeat usage of loans [CONFIDENTIAL] and has [CONFIDENTIAL]; and

[CONFIDENTIAL]

(d) the CMA's approach of considering multiple borrowing by existing customers separately from repeat borrowing from a particular lender (which encompasses rollovers and top-ups) means that important interactions have not been considered, in particular, the extent to which the options listed in paragraph 1(a) of the working paper (which lists the ways in which a customers may borrow further amounts from a new or existing lender) are available as alternative options to customers.

Use of other credit products by payday loans customers

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4 Customers' use of multiple payday lenders, slide 4.

5 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 5(a).

6 Wonga notes that the CMA has investigated the evolution of loan size and duration for subsequent loans as part of its analysis of repeat borrowing with a particular lender (see slides 26-27).

7 Wonga's response (submitted on 26 March 2014) to question 4 of the CMA's questions of 14 March 2014 following the hearing with Wonga.

2.2 Wonga has concerns in relation to the CMA's use of credit reference agency ("**CRA**") information on non-payday loan credit products used by each payday loan customer in the sample and, in particular, the use of this data to estimate the total amount of available credit on a credit card at the point the payday loan was taken out.[8]

2.3 As a general comment, Wonga notes that the CMA's analysis will underestimate the extent to which payday customers use other credit products where a customer's credit history is not fully documented.[9]

2.4 As regards the CMA's assessment of the availability of credit on credit cards, the CMA caveats the analysis as follows:

> "It is generally not possible to observe a customer's credit card balances at the exact point at which a payday loan is issued, as these balances are updated on a monthly basis (and sometimes less frequently). Instead, we assessed credit availability by taking every payday loan in the sample, and then considering the most up-to-data balance information that was available for each credit card that was active when that loan was issued."[10]

2.5 Although the CMA finds that in 96 per cent of cases, the date of the update was within two months of the loan being issued (and within 30 days in 73 per cent of cases)[11], Wonga considers that there is still scope for significant error in measuring the availability of credit because, within the relevant timespans between updates (i.e. typically a month but in some cases more), the customer's credit balance may have changed, but this will not be picked up in the CRA data.

3. REPEAT USE OF PAYDAY LOANS FROM THE SAME LENDER

3.1 The CMA places insufficient weight on the significant variations it has identified in relation to various borrowing metrics and the degree to which this points to normal competitive processes and, in particular, variations in lenders' competitive success. More specifically:

(a) the CMA notes that the extent of repeat borrowing varies considerably across lenders. The CMA chooses to highlight that "for most lenders more than half of all loans are to repeat customers – and for many the proportion is much greater than this".[12] The variation amongst the 14 lenders, however, should also be highlighted – for approximately half of the 14 lenders, new loans account for 30 per cent or more of loans in 2012. In a static market with little switching, a consistently high level of loans to repeat customers would be expected across the entire industry. This is not the case in the payday segment: new loans are taken out by customers that are entirely new to payday lending as well as by customers who have switched lenders. The fact that some lenders attracted a higher proportion of new loans in 2012 than others is consistent with dynamic competition for new customers amongst players seeking to expand their businesses (through new pricing models as well as innovation, new product features and new products); and

(b) the CMA notes that the proportion of new customers who took out additional loans with the same lender within a year of their first loan varies "significantly" across

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8 Use of other credit products by payday loans customers paper, slide 4.

9 The CMA acknowledges this as follows "Note that to the extent that a customer's credit history is not fully documented in the CRA's database, our results may underestimate customers' usage of other credit products", Use of other credit products by payday loans customers, slide 4.

10 Use of other credit products by payday loans customers, slide 10.

11 Slide 10, Use of other credit products by payday loans customers.

12 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 8.

lenders.[13] This is also consistent with competitive outcomes where some payday lenders are more successful than others at retaining customers because they offer better service, more innovative products and competitive pricing.

4. USE OF MULTIPLE LENDERS

4.1 The CMA has investigated so-called "multi-sourcing" – i.e. where a loan is taken out while a loan is outstanding with a different lender. The CMA appears to assume that multi-sourcing must be explained by credit constraints (as opposed to switching on the basis of choice) because "where a customer has an outstanding loan with a lender, we would expect their ability to borrow further amounts from that lender to be constrained".[14]

4.2 Wonga does not agree – additional borrowing may be available from those lenders that offer top-up facilities and open credit facilities, provided the customer has not exhausted the maximum credit allowance that is identified through the initial affordability assessment. As noted above at paragraph 2.1(d), the segmentation of the CMA's analysis means that it cannot fully explore the extent to which the different options which are available to certain customers to borrow further amounts may be used as alternatives.

4.3 Wonga considers that, in certain cases, multi-sourcing may reflect consumer preferences for the products offered by different lenders. For example, some customers with an outstanding loan with a particular lender may seek a further loan from another lender in preference to a top-up with their existing provider.

4.4 Having said this, Wonga has taken steps to further promote responsible lending [CONFIDENTIAL].

5. FACTORS DRIVING CUSTOMERS' DECISIONS TO CHANGE OR STAY WITH THE SAME LENDER

A significant proportion of customers are exercising an active choice and lenders are responding to the pressure created by this switching

5.1 The CMA's survey indicates that the most common reasons cited by customers for changing lenders are:

(a) a preference for a loan or service offered by other lenders (30 per cent); and

(b) the customer could not go back to the same lender, either because they had an outstanding loan or because they would not be granted a higher/further loan by that lender (34 per cent).[15]

5.2 Wonga notes that all of the other reasons cited in the survey are consistent with a choice being exercised (as opposed to a customer being unable to return to the same lender).[16] Although the proportion of customers citing these reasons are individually less than 5 per cent, when added to the 30 per cent citing preferences for a loan or services offered by other lenders, the survey suggests that approximately 45 per cent of customers switch for competitive reasons.

5.3 Even without this adjustment, the CMA's survey suggests that a significant proportion (30 per cent) of customers are exercising an active choice between lenders. The CMA

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13 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 10

14 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 24.

15 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 32.

16 The other reasons cited are as follows: bad experience with lender used before (4 per cent); easier option (3 per cent); saw advertisement for other lender (2 per cent); other lender was more convenient (location) (2 per cent); just wanted a change (2 per cent); other lender recommended by friends/family (2 per cent).

acknowledges that "all else equal, we might expect switching of this type to place a constraint on lenders to improve their loan offering",[17] but then devotes a considerable proportion of the working paper to an unsuccessful attempt to identify further evidence to support the contention that a proportion of customers change lenders because they cannot use an existing lender.

5.4 For the reasons set out below, Wonga does not consider that these "other pieces of evidence" are compelling. In any event, a finding that 30 per cent of customers switch because they prefer the offering of other lenders is consistent with a significant competitive constraint (particularly in circumstances where the CMA has "not seen much evidence of price discrimination by payday lenders in favour of new customers").[18] In other words, the pressure on payday lenders to offer attractive and competitive products in order to win a share of the significant proportion of customers that are switching on the basis of the attractiveness of these offerings will also benefit less active customers.

5.5 Wonga's research indicates [CONFIDENTIAL].

5.6 The CMA refers to factors which are cited as key motivations for switching (namely, total cost of the loan (38 per cent); repayment flexibility (29 per cent); ease of applications process (18 per cent) and speed of getting money (9 per cent)),[19] but fails to investigate whether payday lenders are responding to the pressure created by this switching in respect of these product dimensions. Wonga considers that there is significant evidence that these are precisely the dimensions in relation to which payday lenders have sought to innovate and improve their offers in recent years. The evidence may be found in the CMA's own Competition in product innovation working paper[20] which describes the recent innovations introduced by lenders in the previous five years affecting repayment flexibility (i.e. increased flexibility in the amount of loan that can be taken out); innovations affecting access to credit (faster and easier access to payday credit); and other significant changes to product features observed in the period (such as the importance of customer services to attract and retain customers).[21]

There CMA places undue emphasis on the use of multiple lenders due to constraints in using existing lenders

5.7 The CMA states that "in some cases where we observe customers changing lenders, this appears to be driven by a borrower experiencing repayment problems with the previous loan and hence being unable to return to the same lender".[22] Wonga would make the following observations in relation to this speculative comment:

(a) The use of the words "appears to be" is significant. The CMA does not have any direct evidence to support this statement from its latest analysis of transaction data, supplemented by data from the CRAs. Indeed, in its supplementary paper Customers' use of multiple payday lenders, the CMA states that, "Customers choosing to change lenders <u>may or may not</u> be constrained in their ability to return to the previous lender for additional credit, and quantifying the extent to which consecutive use of different lenders is being driven by credit availability rather than some other reasons is <u>challenging</u>."(emphasis added).[23]

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17 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 36.

18 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 50.

19 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 36.

20 Competition in product innovation working paper, paragraphs 18 to 37.

21 See also Wonga's response (submitted on 26 March 2014) to question 1 of the CMA's questions of 14 March 2014 following the hearing with Wonga, which describes how Wonga is proposing to further improve its pricing offer.

22 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 27.

23 Slide 15, (emphasis added), Customers' use of multiple payday lenders.

(b) Without any direct evidence from its transactional analysis, the CMA highlights "two observations which suggest that on many occasions where we observe customers changing lender, this is likely to reflect a response to credit availability" (emphasis added).[24] It is clear from the language used that the CMA is uncertain as to how much weight may be placed on these "observations":

(i) The CMA finds that on 67 per cent of occasions where it has observed customers using different lenders for consecutive loans, customers had used the new lender previously (but not for the most recent loan).[25] The CMA speculates that the observed pattern of switching reflects customers returning to a lender that was previously unavailable because of an outstanding loan with that lender. This theory depends on a number of premises (all of which are unsupported by any evidence) namely: (1) the customer multi-sourced on an earlier occasion because further credit was not available from Lender 1; and (2) the customer switched back to Lender 1 once the outstanding loan was paid because the credit constraint was then relaxed.

The central assumption driving this elaborate theory is that further credit is unavailable where a customer has an outstanding loan and that this drives switching away from Lender 1 as well as switching back when the constraint is relaxed. This is not necessarily the case – as explained in 4.1 above: (1) additional borrowing may be available from those lenders that offer top-up facilities and open credit facilities, provided the customer has not exhausted the maximum credit allowance that is identified through the initial affordability assessment; and (2) in certain cases, multi-sourcing may reflect consumer preferences for the products offered by different lenders. There is no evidence from the CMA's analysis of transactions that indicates the extent to which credit constraints drive switching as described by the CMA. Indeed the CMA has assumed the very thing it is purporting to investigate.

(ii) The CMA states that a loan which is never repaid has a significantly greater likelihood of being a customer's last with a lender compared with other loans.[26] The CMA states "This suggests that, for many customers, repayment problems with a previous loan is stopping them from returning to the same lender for additional credit – forcing them to turn to an alternative lender if they require credit". Again, the CMA's transactional analysis does not show that customers who have outstanding loans are subsequently "forced" to use alternative lenders. Indeed, Wonga considers that customers who do not repay loans are likely to encounter difficulties in getting subsequent loans from any lender because their CRA credit record will include details indicating the unpaid loan and lenders will typically rule out loans to customers with outstanding loan.[27]

(c) Further "pieces of evidence" that are cited in the working paper at paragraphs 35(b) and 35(c) do not provide compelling evidence to support the CMA's theory:

(i) In the absence of any compelling evidence from the transactional analysis, the CMA tries to support its theory that the use of multiple lenders is due to

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24 Slide 15, (emphasis added), Customers' use of multiple payday lenders.

25 Slide 16, Customers' use of multiple payday lenders.

26 Customers' use of multiple payday lenders, slide 17 and Repeat borrowing and customers' use of multiple lenders working paper, paragraph 35(a).

27 As indicated in Wonga's response to the AIS (at paragraph 4.14), Wonga considers that a more appropriate interpretation of the relevant survey result, is that loans that are not repaid are very likely to be the last loan, as this better reflects the causality arising from responsible lending decisions.

constraints on the ability to borrow from an existing lender by reference to its customer survey. The CMA states "responses to our customer survey suggested that about 70% of customers who had used multiple lenders experienced some form of financial problem in the previous 12 months (compared with 42% of customers who had used only one lender), supporting the existence of a relationship between high credit risk and the use of multiple lenders".[28] Even if there is such a "relationship", there can be no assumption that use of multiple lenders is <u>due to</u> previous financial difficulties (i.e. the survey says nothing about the critical question of causation). Alternatively, customers with high demand for short term credit and more frequent use of multiple lenders, may be more likely to experience financial difficulties because they are more frequent users of credit.

(ii) The CMA further notes that "of the loans preceding a customer's decision to use different lenders for consecutive loans, 44% were repaid in full late or never repaid in full".[29] Again, there is no compelling evidence that the repayment history identified by the CMA is "driving" changes in lender (as opposed to other factors, such as identifying a better deal). As noted above, customers who have defaulted on loans will experience difficulties in getting further loans from any lender. Customers who have repaid late may still borrow from existing lenders or decide to switch to alternatives, but both lenders will take into account their previous credit history (which is likely to be shared with the CRAs). Wonga also observes that the CMA's finding implies that 66 per cent of loans preceding a customer's decision to switch to a different lender were repaid on time, and there can be no suggestion in these cases that the switching is attributable to previous repayment problems.

5.8 The CMA concludes that "The analysis of borrowing patterns that we have carried out using this dataset suggests that much of this use of multiple lenders takes place as a result of customers being constrained in their ability to borrow further amounts from an existing lender".[30] This statement is difficult to reconcile with the CMA's uncertainty about this effect and the challenges associated with quantification which are identified by the CMA as follows: "Customers choosing to change lenders <u>may or may not</u> be constrained in their ability to return to the previous lender for additional credit, and quantifying the extent to which consecutive use of different lenders is being driven by credit availability rather than some other reasons is <u>challenging</u>."(emphasis added).[31] For the reasons outlined above, Wonga considers that the CMA's evidence is not sufficiently compelling for it to be able to draw such a conclusion, especially in light of the flaws in the CMA's data and methodology outlined in Section 2 above (in particular, that the sample used by the CMA is likely to be skewed towards heavier borrowers).

6. REASONS GIVEN FOR NOT CHANGING LENDER

6.1 As acknowledged by the CMA, its survey evidence indicates that customers remain with the same lenders primarily because they are happy with the service provided.[32] The CMA's qualitative survey provides a description of what a good experience means for an online customer, namely the factors listed in paragraph 43 of the working paper. It is significant that these factors are precisely those which online providers have sought to develop and offer competitively in recent years in order to meet the requirements of customers (and to avoid losing ground to rivals).

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28 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 35(b).

29 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 35(c).

30 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 30.

31 Slide 15, (emphasis added), Customers’ use of multiple payday lenders.

32 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 45(c).

6.2 The CMA seeks to play down the extent to which these satisfied customers are capable of exerting a constraint because it highlights that only one in three have shopped around.[33] This finding is entirely unsurprising; customers that perceive a product to be attractive (and ever improving) and the provider to be responsive will have little incentive to shop around. This is not to say that they would not do so if the product became less attractive and/or the provider less engaged. In any event, for a third of customers to have shopped around is significant.

6.3 The CMA sets out in paragraphs 40 and 41 of the working paper the "other reasons" given by customers for not considering a switch to another supplier. However, with the exception of "general ease/convenience of sticking with the same suppliers" which was cited by 11 per cent of respondents, all the others reasons were cited by less than 5 per cent of respondents, which is not sufficiently large to place any significant weight on these findings. It is clear that the most important reason by far for not switching, (cited by 61 per cent of respondents) is satisfaction with the existing service. This is the hallmark of a competitive market.[34]

6.4 Equally, Wonga does not consider that the CMA can place any significant weight on the reasons given by customers who used only one lender (but had considered using an alternative provider) for not switching. The sample for this group is 80 – too small to reach robust conclusions.

7. CONSIDERATION OF POTENTIAL BARRIERS TO SWITCHING

The perceived inconvenience of switching

7.1 The CMA has no compelling evidence to support the assertion that the perceived inconvenience of switching may be particularly high for borrowers considering topping-up or rolling over an existing loan "as these processes may require very little effort to arrange with an existing lender".[35] As indicated in Wonga's response to the AIS (at paragraph 6.15) the online environment facilitates effective searching, comparisons, applications and switching between lenders, and online customers are comfortable using the internet to help them identify the right product, to apply online and to achieve a swift transfer of funds. Wonga does not consider, therefore, that customers would perceive much difference in topping-up/rolling over with an existing provider or seeking a new loan from an alternative provider. Wonga also does not consider that concerns about transfer of funds will deter customers from switching given the speed and the reliability of faster payment services which are offered by most lenders.

7.2 The CMA seeks to support its assertion by reference to its survey results but it has to "put to one side" (i.e. exclude from its calculations) the very large proportion of customers who report not switching because of product satisfaction in order to make the proportion citing "ease/convenience of sticking with current lender" look larger.[36] There is no good reason to exclude these customers when reporting these results – the fact is that only 11 per cent of customers cited "ease/convenience of sticking with current lender" as a reason for not switching, and this does not suggest that this is a significant barrier to switching for most customers.

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33 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 44.

34 See, for example, paragraph 5.25 of Wonga's response to the AIS regarding examples of evidence pointing to high levels of satisfaction amongst payday customers.

35 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 53.

36 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 53 and footnote 21.

Uncertainty regarding other lenders' offerings

7.3 The alleged barrier to switching arising from uncertainty regarding other lenders' offering (including the likely availability of credit) outlined as a "possible mechanism"[37] by the CMA but there is no compelling evidence to support the theory:

(a) the survey evidence does not indicate that uncertainty about loan approval is a significant concern, and it is not appropriate to exclude the proportion of customers citing satisfaction as the reason for not switching in order to make the figures look bigger (as the CMA does in paragraph 59 or the working paper). The fact is:

(i) only 4 per cent of borrowers who have not considered going to a different lender for a loan indicate that this is because the current lender is regarded as more likely to approve their application; and

(ii) only 9 per cent of borrowers who had considered switching, but had not actually done so, indicated that this was because the current lender was considered to be more likely to approve their application.

(b) The CMA suggests that uncertainty may arise because customers value aspects of lending relationships that are difficult to observe prior to borrowing from a lender. This is hard to reconcile, however, with the CMA's acknowledgement of the availability, and ease of access to, key information on lenders' websites.[38] Wonga refers to the body of evidence which points to information being readily available and readily understood by customers set out at paragraph 6.21 of its response to the AIS.

Better terms for repeat customers/differential borrowing limits

7.4 Wonga does not consider that the availability of better loan terms to repeat customers (as compared to new customers) acts as a significant barrier to switching. As regards the evidence discussed in the working paper, Wonga notes that:

(a) the CMA finds that pricing discounts/promotions are not common tools used by lenders to retain repeat customers in the payday segment. Wonga agrees with this finding, but considers that all lenders must ensure that their pricing and product package (for both new and repeat customers) is competitive; and

(b) the CMA's investigation of differential borrowing limits indicates that most customers do not make use of the higher credit limit available to them suggesting that differential borrowing limits are unlikely to be a significant driver of switching behaviour. More specifically, the CMA reports that a "material" proportion of repeat customers made use of the higher credit limit available to them (as compared to first-time customers). Wonga would not, however, describe 16 per cent as significant. The figure for Wonga is [CONFIDENTIAL] suggesting that the vast majority of Wonga's repeat customers do not make use of the higher credit limit available to them;[39]

(c) as noted by the CMA, only a very small proportion of customers (1 to 2 per cent) cited benefits offered by their existing lenders as the reason for not switching[40] suggesting that this is not perceived as a significant barrier to switching.

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37 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 51.

38 AIS, paragraph 87.

39 For Wonga's views on differential borrowing limits, please refer to paragraphs 6.26 and 6.27 of its response to the AIS.

40 Repeat borrowing and customers' use of multiple lenders working paper, paragraph 69.

8. USE OF OTHER CREDIT PRODUCTS BY PAYDAY LOAN CUSTOMERS

8.1 The CMA's key findings are as follows:

(a) "We estimate that in 2012 around 52 per cent of payday customers used credit cards and 54 per cent used overdrafts. 71 per cent were estimated to have used either a credit card or overdraft. Relatively few payday customers used any other sources of credit.

(b) Our analysis of transaction data on the major 11 lenders estimates that the average payday loan has a value of £260. When a payday loan was taken out, we estimate in 85 per cent of cases customers had less than £200 of credit available on their credit cards. In 81 per cent of cases they had less than £100 of credit available."[41]

8.2 Wonga notes that other research which has examined the use of alternative sources of credit also finds high usage of overdrafts and credit cards but differs in finding higher use of other sources of credit. For example:

(a) Wonga's research indicates that the vast majority ([CONFIDENTIAL] per cent) of customers believe they have access to alternative credit sources (with [CONFIDENTIAL] per cent believing they have access to overdrafts; [CONFIDENTIAL] per cent to credit cards; [CONFIDENTIAL] per cent to bank loans and [CONFIDENTIAL] per cent to other forms of credit and loans);[42] and

(b) a Consumer Finance Association study indicates high rates of credit use by low income customers: credit cards (41 per cent); overdrafts (37 per cent); home credit (22 per cent); store cards (17 per cent); and bank loans (26 per cent).[43]

8.3 As regards the finding that a significant proportion of customers had less than £200 of credit available on their credit cards when a payday loan was taken, Wonga makes the following observations:

(a) the CMA cannot place any reliance on this finding given the lack of a reliable real-time measure of credit availability at the time the payday loan was taken (as discussed in Section 2);

(b) the CMA has not investigated the availability of credit from any other source of credit at the time the payday loan was taken out (in particular overdrafts). This omission significantly limits the CMA's ability to draw any conclusions on the constraints which these products can exert both individually as well as in aggregate;

(c) notwithstanding the methodological limitations outlined above, the CMA has identified that 19 per cent of payday loans were issued to customers with at least one active credit card active with more than £100 of credit available in total (of which 15 per cent had more than £200). In the light of this, Wonga notes that:

(i) switching opportunities are available for many of these customers as not all will require credit at the level of the average payday loan (i.e. £260). The average value of loans taken by Wonga's first time customers, for example, is [CONFIDENTIAL];

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41 Use of other credit products by payday loans customers, slide 3.

42 Populus Customer Survey, March 2013, slide 21 at Annex 3 of Wonga's Initial Submission.

43 See http://www.cfa-uk.co.uk/information-centre/payday-facts-and-research/payday-facts-and-research/the-payday-lending-market.html.

(ii) the CMA has not explored the possibility of customers combining the available credit on their credit card with other sources of credit in order to meet their borrowing requirements. The CMA should not confine itself to investigating constraints by reference to the substitutability of product pairs, but should consider the aggregate constraint exerted by a range of products (some of which might be used in combination); and

(iii) the CMA should also consider, in this regard, the scope for the borrowing requirements of a household to be met by aggregating the available credit across multiple sources for more than one household member.

9. CONCLUSION

9.1 In summary, Wonga has material concerns in relation to the CMA's preliminary analysis of repeat borrowing, the extent to which payday customers use multiple lenders and the use of other credit products, as well as the CMA's preliminary findings in relation to this analysis. In particular, the methodology and data adopted by the CMA has various shortcomings (many of which are acknowledged by the CMA) which limits significantly the weight which can reasonably be placed on the CMA's findings. Wonga is also concerned that the CMA appears to place undue emphasis on the significance of credit constraints as a factor influencing the use of multiple lenders given that the CMA acknowledges the challenges in quantifying the effect, and has not assembled a compelling body of other evidence to support the theory. Finally, it is clear that most customers (by far) do not switch lenders because they are satisfied with the existing service, (cited by 61 per cent of respondents to the CMA's survey). There is also compelling evidence that a significant proportion of customers are exercising an active choice between lenders (30 per cent) which increases to more than 45 per cent when other competition based switching factors are included. These are both hallmarks of a competitive market.

25 April 2014