COMPETITION COMMISSION
PAYDAY LENDING MARKET INVESTIGATION

Payday Lending multi-hearing
held at Victoria House, Southampton Row, London WC1B 4AD
on Wednesday 26 February 2014 - afternoon session

PRESENT:

FOR THE COMPETITION COMMISSION

Simon Polito	- Chairman
John Harley	- Member
Ray King	- Member
Tim Tutton	- Member
Katherine Holmes	- Member

FOR THE STAFF

Adam Land	- Inquiry Director
Andy Toner	- Inquiry Co-ordinator
Graham Reeve	- Economic Adviser
Charles Raikes	- Legal Adviser
Samir Lecheheb	- Legal Researcher
Sally Ronald	- Finance and Business Adviser
Sheila Robinson	- Statistician

FOR TRADE ASSOCIATIONS (AND THEIR MEMBERS)

Geoff Holland	- Chairman, BCCA
Rachael Corcoran	- Chief Executive, BCCA
Richard Fuller	- Director, The Cash Shop
Greg Stevens	- Chief Executive, CCTA
Graham Haxton-Bernard	- Head of Legal, CCTA
Adam Freeman	- Chief Executive, Mr Lender
Russell Hamblin-Boone	- Chief Executive, CFA
Graham Dunn	- Head of Public Affairs, CFA (observer)
Rhiannon Thompson	- Head of Communications, CFA (observer)
Rona Bar-Issac	- Legal Director, Addleshaw Goddard (observer)
Chris Powley	- Head of Personal Finance, Cash Converters

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THE CHAIRMAN: Good afternoon to you all, and welcome. Thank you for coming here today. We are also very grateful to you for the assistance you have already provided in the course of this inquiry. Thank you for that. It would be helpful if we could start with some introductions, not least for the transcriber so that we have got them on record here. I am Simon Polito, I am a Deputy Chair of the Competition Commission and I am the Chair of this particular inquiry.

Q. (Mr Reeve) I am Graham Reeve, I am an Economic Adviser.

Q. (Mr Harley) John Harley, panel member.

Q. (Ms Holmes) Katherine Holmes, panel member.

Q. (Mr Land) Adam Land, Inquiry Director.

Q. (Mr Tutton) Tim Tutton, panel member.

Q. (Mr King) Ray King, panel member.

Q. (Ms Ronald) Sally Ronald, Finance and Business Adviser.

Q. (Ms Robinson) Sheila Robinson, Statistician.

Q. (Mr Lecheheb) Samir Lecheheb, Legal Researcher.

Q. (Mr Raikes) Charles Raikes, Legal Adviser.

Q. (Mr Toner) Andy Toner, Inquiry Co-ordinator.

THE CHAIRMAN: Thank you very much. So if we start off with you, sir.

A. (Mr Powley) Yes, sure. Chris Powley, I am the Head of Personal Finance for Cash Converters UK.

A. (Mr Hamblin-Boone) Russell Hamblin-Boone, I am the Chief Executive of the Consumer Finance Association, representing some of the larger members.

A. (Mr Haxton-Bernard) Graham Haxton-Bernard, Head of Legal at the Consumer Credit Trade Association.

A. (Mr Stevens) Greg Stevens, Chief Executive Officer of the CCTA.
A. (Mr Freeman) Adam Freeman, I am the CEO of Mr Lender (PDL Finance).
A. (Ms Corcoran) Rachael Corcoran, Chief Executive of BCCA.
A. (Mr Holland) I am Geoff Holland, I am Chairman of the BCCA.
A. (Mr Fuller) Richard Fuller, Managing Director at The Cash Shop.
A. (Ms Bar-Issac) Rona Bar-Issac, Addleshaw Goddard External Legal Adviser.
A. (Mr Dunn) I am Graham Dunn, the Head of Public Affairs at the Consumer Finance Association.
A. (Ms Thompson) Rhiannon Thomson, Head of Communications at the Consumer Finance Association.
THE CHAIRMAN: That completes the full cast, thank you. I just want to make a few preliminary remarks, if I may, before we start the hearing. Firstly, the way in which we conduct our proceedings and the way in which the hearing has been explained to you by the Competition Commission. In particular that you understand the particular statutory obligation to disclose information which you give and/or which other people give to us. You will see that we are taking a transcript; we will send that to you within seven days or so and we would ask you to check it for accuracy. If you would like to amend it or supplement it in any way we would ask you to do that, please, in a separate document, so we keep the transcript as an accurate record of what is actually said today.
We have a number of questions that we would like to ask you today. I think a number of them are common to a number of the parties here and I hope they give rise to any sensitivities between you. I think asking those questions will probably take us to 3.30pm or so, but we did recognise that we also had some questions which probably were not appropriate for us to ask of individual

companies in the presence of their competitors. And I understand that individual companies have a separate slot later on and we hope that that will be about half an hour each, and thank you very much for agreeing to that. It is helpful to be able to see you all in one go, but then to have a discreet section where we can ask you those questions.

Just in terms of how this hearing sits into the overall process, as you know we have published our annotated issues statement and also a number of working papers. At this particular stage we have not come to any conclusions, even provisional conclusions. We are still very much forming those through analysing and seeking information from you, and we are very much looking forward to your contribution informing us in so far as you have comments on our annotated issues statement or on any of the evidence that we have put into the public domain. All of those, along with comments that you have and submissions will be fed into our provisional findings, which we are hoping to publish in May or June.

The final preliminary is may I remind you, as I remind all of those who come before us, that it is a criminal offence recklessly or intentionally to give false or misleading information to the Competition Commission for this hearing. I do not think that is a particularly happy note on which to finish introductory remarks, but nonetheless, I must do.

Now, I am conscious that we have a lot of you, and we have a lot of questions and we want to make as efficient use of time as we can. On the other hand, we obviously want to hear from as many of you as we can. So I think in so far as questions are asked, it would be helpful if insofar as people have said things and you have nothing to add then you might just say it is very much the same. If you have a different point of view or a different experience then by all means express it, but it would be helpful if you do not simply repeat answers that have already been given.

I am going to hand over now to Ray King, who is going to ask the first question.

Q. (Mr King) Thank you, Simon. Good afternoon, everybody. Nice to see everyone. In this first section of our discussion this afternoon, we would like to focus on firstly the market as you currently see it. Obviously we want to stay very much up to date with our market participants to see what is happening out there and get your perspectives not just on today but how you think things might evolve in the future. So that is one area.

And then, secondly, obviously we are all aware of the changes in regulation regime being proposed and we are waiting for things to be published from the FCA. Again, we would like to explore your perspectives in that area.

So if I could kick off by just talking about the market for a moment. From the data that we have collected it seems clear to us that after a period of very strong growth in the payday lending sector in the early years, going back a few years, that growth has been reducing. Some companies have made announcements indicating that perhaps levels of sales and profitability have suffered in recent times. So we would like to get a perspective on where things are at the moment from your point of view. And if you do think things are slowing or whatever direction you do think things are going in, if you can tell us what your analysis is of the reasons behind it? And obviously given we have a couple of constituencies, we have the high street represented here, we have online lending, any perspectives about the relative performance of those two markets overall.

So I am not sure who is going to answer the first question, but please feel free.

A. (Mr Stevens) I will kick off, if I can, on small companies and I suppose small to medium-sized companies. We have got roughly 60 members who either have been fully or partially involved in payday lending. I suppose the factors at the moment which are driving change are obviously multiple. So there is the OFT review, there is obviously the Competition Commission Payday Lending Inquiry. There is the FCA, and the FCA has already broadcast their intentions with regard to what is going to be in competition rules on payday lending. You have already mentioned where the market is. The market is certainly in maturity. You know, I think it has gone infancy and adolescence and it is now in maturity, and that market is now changing into other products. So you are seeing many of our members moving towards short-term instalment credit or longer term products. Not because they are doing anything wrong in payday lending, it is because the downward pressure because of regulation and regulatory threat is increasing as political pressure with parts of the market at the same time. So we are seeing a massive distortion to the market; it is a market that in your own papers you have said is something which is liked by consumers, it is something which consumers readily use. But that is now being distorted. So I would like that to be recorded. Obviously I think it is a situation where as you progress to provisional findings and potential remedies then many of those things are being taken away from you. We have seen a situation where rate capping is coming through the back door at the time the Competition Commission's review is ongoing, which seems perverse, but that is political.

So I think the biggest problem we have and the members are having is continuity; certainty in terms of where will the market be, what will the regulation be? Is there any reason or rational process of actually getting into that market from new? So in terms of new entrants, there is very little in terms of new entrants. It is going to be a question of what is left in the market place after the current round of regulation is finished, and obviously with regard to competition rules, and then how the new regulator, the FCA, will look at payday lending with regard to is it something they think is a poor outcome for consumers or a good outcome for consumers?

So there is a lot of threats, not a lot of certainty, so at the moment the market is very much paralysed in terms of the route which you can go.

Q. (Mr King) I am very keen for us to come on to talk about regulation and the points you make are interesting points, but could we look at the demand side just for a moment? You know, where customers are, what they are looking for? Is the demand out there, is it steady, is it growing is it decreasing? What is happening on the demand side?

Q. (Mr Powley) I will do that one. So I am speaking on behalf of Cash Converters. We are the world's biggest second-hand retailer and quite prominent on the high street. We have got 227 stores. What we are finding at the moment is there is an immense demand for the product, but as things currently stand the influence of the media or political issues, the product is being tarnished and if anything it is being black balled. So what we are seeing through our customers base is demand from customers who are coming to the high street and can take advantage of the other products that we sell, because we are a multi-faceted business not just a payday lender. But they are quite happy to deal with us online, and we have got testimonials to back that up, where customers say they will take your rates and will take your service but they do not want to be seen going into a Cash Converters store because it is stigmatised.

Q. (Mr King) So you think there is a shift towards online because of the stigma?

A. (Mr Powley) From Cash Converters' point of view, because the stigma that is being attached to our product, in my opinion wrongfully, is now driving the customer to do business with us, but not on a face-to-face basis and more down the lines of an internet basis.

We have been through three independent audits in the last 12 months, through Deloitte, Eversheds and KPMG, and I am proud to say we have come through with flying colours. But as things stand at the moment, no news in relation to payday is good news, so we have to sit on that information because anything that, if we come out and say that we have had three independent audits and we are compliant, and to do business with us, then I know that I am going to have an army of independent journalists outside my store with fraudulent documents that they have acquired off the internet with a view of trying to catch us out. And if we do stop it and we do not lend them the money we still get black balled for it. So ultimately there is too much heat presently at the moment that we have not incurred ourselves with what we have done, but it is just politically difficult at the moment to trade.

Q. (Mr King) Any other perspectives?

A. (Mr Freeman) I think as an online lender, and we are purely online; I see demand consistently growing for the product, it is still there. For us we have slowed probably about five or six months ago because of uncertainty, it is as simple as that, we do not know what direction the market place is going in. I probably could have carried on growing my business and facilitating but it is too risky because I do not know where I am going to be next month as a business owner, so it is very hard to project your business when you do not know how many attempts you can have on a debit card, and you know, it is very difficult. So, yes, the simple answer is demand is there, it is ever-increasing, it is just, for me, it is uncertainty.

Q. (Mr King) And what about the economic aspect of, you know, the country is beginning finally to get a bit of economic growth going again. Is that impacting on the market at the moment? Do you think it will impact going forward? Are they inversely correlated? Is demand for these products inversely correlated to economic growth, or is there always a latent pool there that will remain the same and grow?

A. (Mr Freeman) There is always going be a demand for it, I think. It is a specialised product, it is a demanded product and, as I said, however the economy is turning, it is not going to change overnight, however well or bad the economy over there, these are customers that need this product, and I have not seen a drop; I do not have the exact numbers, but if anything I would say there is a slight increase in demand, yes, certainly.

A. (Mr Stevens) Can I say that we have sampled some of our members with regard to the feel-good factor, looking at the economy and the feel-good factor. The feel-good factor outside of the London bubble is not that evident, so you are in a situation where I think that there are a lot of myths. In terms of, most people, they are being squeezed; in terms of the squeezed middle, people liken them as strivers. You are in a situation where because of changes to tax, and certainly in terms of tax allowances for children, then the tapering off in terms of that is actually impacting on families. So there is a situation with families that are squeezed and there is not at the moment any kind of -- I suppose it is this feel-good factor in terms of getting back to spending. But they are in certain parts of the country.

A. (Mr Fuller) I have been in the industry for 20 years now, both in Canada and the UK, and not to oversimplify things or be in any way facetious, but what I have seen over this 20 years has been cyclical nature of various economies. It is that when times are tough, people need money, and when times are good, people want more money. So I do not expect that an upturn will diminish demand.

Q. (Mr King) If you had to use a crystal ball, then, going out into 2014, and I know regulation is a big thing, but do you expect this market overall to continue to grow? Is that your expectation?

A. (Mr Freeman) Based on demand, yes. I think based on demand it will certainly grow, yes.

A. (Mr Powley) I think in relation to that, what we are currently going through, we are one of the businesses that are working with the FCA on the total cost on credit cap. There is a real danger that there is going to be an element of the population that is going to be excluded from credit, and that is being publicly noted by the FCA, and I think we need to be careful as a nation and as regulators that we do not a form, a line of credit that is available to people who really need it.

A. (Mr Fuller) If I could add to that? Yes, I think we are going through a period of self-imposed contraction currently. I know certainly from my own 14 stores on the high street. I have worked larger firms in the past in this industry. And again if I use the Canadian experience, they went through not exactly the same process but a similar process of regulating the payday lending industry. The market grew because the product was regulated, it was perceived as being now credible, legal, and those customers who may have been put off due to the stigma attached to it, that was overcome by the simple fact that they had faith and trust that the product was properly regulated. So I actually would not be surprised if when the dust settles that the market expands.

Q. (Mr King) So once the dust settles and it is given a clean bill of health, if you like, then that will encourage people to use it?

A. (Mr Hamblin-Boone) But possibly expanding with a different customer profile, because I think it is inevitable that there will be a segment of low-income customers, particularly because of the increased affordability and the risk profiles that lenders will have to work to, that will be excluded from the product.

A. (Mr Stevens) I think there is another factor, and you allude to it in your paper which looks at other credit providers, is if people cannot get payday lending then they will go back to unauthorised overdrafts or credit cards, which is more expensive than payday lending. So you will have a distortion of the market which will push them in a certain direction, and both from the Competition Commission in terms of looking at the protecting markets and from the Financial Conduct Authority with regard to outcomes for consumers, it is wrong on both accounts.

A. (Mr Holland) Thank you. Yes. Just a bit of background. I was a Trading

Standard officer for over 30 years and got involved in consumer credit regulation way back in 1974 when the act was passed. I was very young at the time, I hasten to add. So I have been really an observer and a regulator of the entire industry for over three decades. Now, my own view is that this is just another innovation. These short-term, unsecured loans of comparatively small value are a new innovation within the industry. The credit industry in the UK has always been the most innovative in the world, possibly with the exception of the US. We have innovated far more, as indeed Financial Services has, including insurance and everything else. And I think now, because times have been tough, people now just want to borrow what they need to borrow and pay it back as quickly as possible, and that is where this product comes in. And I think people like the product. Despite what people say, it is not expensive credit, and if you have a gross margin of 25 to 30 per cent, that is not a huge gross margin, frankly. But on the other hand, I think the product is going to stay around, I think people - well, people do like it, there is no doubt about - providing it is not regulated out of existence. I think that is a big danger.

Q. (<u>Mr King</u>) Do you think the need will evolve, or do you think this particular product is going to be --

A. (<u>Mr Holland</u>) Well if you look at previous recessions people have indeed drawn their horns in. But the great British public do not particularly like spending money, and when they have paid out a certain amount of debt, they are quite happy then, subconsciously, probably more and enjoy themselves again, simple as that, really. But they do get out the habit of spending money, for a while, but it usually lasts about four years, and then they start spending money again.

A. (<u>Mr Powley</u>) Can I just add to that, if that is okay? I think it is important to note how we have got to where we are today. If we go back to 2006, if you looked on the high street there were sub-prime lenders that were associated with major banks, HFC Bank, or Black Horse Finance, or Welcome Finance, people like that. And then gradually, as the recession kicked in, these people exited, for different reasons, but they exited the market. We live in a consumerist society, that is just a fact, and people still wish to purchase. But those opportunities were not there for them any more, and also as it transpired the ability to get equity on your property diminished because house prices were falling as well. So customers' availability of credit was no longer there. So what happened then, you may have seen there was a rise of debt management companies? And debt management companies came out along the lines of if you come to them they can consolidate what you have and can make - initially - your payment less. So it sort of filled that gap with consolidation that was there previously and freed up more disposable for people that were in the market. But it gradually -- what happens is that a debt management company becomes the lender, and people will fall out of love. I think the average life term of a debt management company is about six and half to seven months. And they part company with them and their credit rating suffers now with the debt management company because they are not fulfilling their instalment obligations. So now these people do not fit in at all. They cannot borrow from Tesco's or Sainsbury's or the bank, because they have no longer got a credit profile that is sufficient to fit there. There is no longer any mid-term lenders such as Black Horse and Welcome, because they have exited stage left. So a lot of these people are still consumers at heart and that drove the demand for the payday lending. So the point I am trying to make to you is that at the minute it is supplying a need that is currently there, but it all comes down to the customer's propensity to borrow and need to purchase will remain in the future regardless of whatever the regulation looks like.

Q. (Mr King) Can we turn now to the topic of regulation? Obviously we have got from April 2014 the FCA taking over the responsibility for compliance from the OFT. We have got the FCA proposals last October in relation to rollovers for example, and the use of the continuous payment authority and then the coming introduction of a price control from 2 January 2015. I know you all have some interesting perspectives. What have you been doing to prepare your businesses for these changes and where do you expect things to settle once this regulatory change is in place?

A. (Ms Corcoran) I think initially, as a trade body, we project that certainly from our members there will be a lot of contraction. So the FCA predicted 25 to 30 per cent market exit, but in our response to the FCA we predicted for our membership base the more realistic figure was 50 per cent. And we have seen some of the fallout from the regulation already, even before it has actually taken effect. So we have had businesses who are looking to sell. It is a very difficult environment at the moment with pending regulation and price capping; very uncertain times. We have seen people who have completely decided to park the consumer credit business and focus on another aspect of the business that they might have done on a small scale. So I think, you know, we were talking about the demand side still being there; I absolutely agree with that, but I think the problem for the interim period will be that the supply side will --

Q. (Mr King) Will shrink?

A. (Ms Corcoran) -- that there will be a proportion of consumers who will not have their needs well served.

A. (Mr Hamblin-Boone) In 2011 all of our members signed up to the government's customer charter. CFA members decided to encompass that, or enshrine that, within their code of practice, and were developing their own self-regulatory regime focused specifically on areas that they identified were of consumer detriment. So quite targeted things like restricting the number of rollovers; things around advertising, transparency to customers; forbearance measures and so forth; and that was starting to pay out. Last year we introduced independent monitoring of our code of practice, and I think we were starting to see some better practice being shared as a result of that code of practice. In some ways, the regulator has sort of tried to better that, if you like, by reducing the number of rollovers from three to two, restricting the use of CPAs and things. But actually – while in some ways it has allowed lenders to self-regulate themselves in preparation for stricter regulation – it has also put them at a competitive disadvantage. They have self-imposed restrictions upon themselves ahead of the FCA regulation, which not all lenders are doing or if they are doing are not being monitored in the same way when they are doing it.

So I think we welcome regulation and almost anticipated that the code could become the template for the regulator's rule book, and some of those things are in it. But I think the analysis of risk as the regulator sees it, we would not necessarily identify everything that the regulator sees as risk to consumers, and actually it is probably more a risk to business, because of the fact that we are talking about very small sums over short periods. And your work has shown that, despite some of the suggestions that borrowers have huge, ballooning debt burdens, that is not the case for the majority of people. And so we are getting to point where regulation is strangling the opportunity for lenders to compete.

Q. (Mr King) Rollovers for example will reduce to two in the FCA proposals. What is the impact of that? What if it were lower than two? What would it do to the industry?

A. (Mr Hamblin-Boone) Well, some lenders rollover, some lenders do not. I think we are all working to the three rollover limit that we have in the customer charter. And, if you like, that is a business decision as to whether the business model allows customers to have that flexibility. I think that, as you said, a limit is almost a given, and we will find out this when we see it in hard copy. Lenders who want to stay in the market will need to adjust their business, anticipating two rollover and probably one and ultimately none.

A. (Mr Fuller) I, being a smaller player, like to think I have a bit more flexibility. And I think prior to the OFT review the common consensus within the industry was there is not a lot of specific guidance in terms of how we should be doing this. Then the review occurred and then there was a lot more specific guidance. Personally, I found it extremely helpful for my business. And I made a decision, with the customer at the heart of the decision, to modify our unsecured lending product so that it did not include rollovers, because I was forced to hold up the mirror and ask myself if this is something that is right for the customer. And I was able to come up with a product that enabled the customer to borrow anywhere from one to six months where there are no rollovers and each repayment pays down part of the principal and part of the interest. It is not as profitable as a payday loan but my decision was based on the fact that I wanted to be around for the long term. As this time approaches, April 1 and beyond, I wanted to be secure. Because this is the challenge. I mean, you look at, you know, 70 per cent of the 100 per cent of the market is taken up by the big three, and if the FCA is predicting a 30 per cent market exit then that includes me, if you do that math. But I do not want to go, because I have got customers that I think appreciate the service that I offer. So I am going to hang in there. So it was, I suppose, the issue for me to be able to steer my smaller ship to adapt.

A. (Mr Stevens) So the follow up on what Rachael was saying with regard to the medium-sized to small members, we represent roughly 400 members, some of which do payday lending, many of which do high-term credit. Because we have to remember that when the referral was handed across to the Competition Commission it was a very simple product in terms of payment on payday or 30 days. It has now widened in its third iteration out of the FCA. So the uncertainty goes across a lot more of the market place. To look in terms of the numbers of people who currently have applied for interim permission, it is just over 41,000. I think the figure that the FCA are hoping for is round about 50,000, compared to the 80,000-odd consumer credit licences which were there before the process started.

Now, I think in a situation, this with the FT as it still stands and obviously with the FCA, many people who have gone through to interim permission have to do so to collect out the book. So in terms of what will be the number of companies who are left authorisation, it is going to be significantly less. And the reason for that is not just in terms of payday lending and the regulation and the inquiry, it is with regard to the style of regulation. As much as the OFT was reactive, you had to do something wrong before you actually came under their gaze, the new regulator is very much proactive, intensive and intrusive. So many companies, and that is small companies, it is companies who might be second or third-generation, who have been running a very -- almost like a new community lending company in a 30-mile radius, will be saying do I really want this kind of regulation where I have to change my business model? It is not just the business model, it is the compliance process, the documentation, the increased fees; the fees will go up, the running costs will go up. And we have to remember that their profit is actually their salary, so any decreases which come on the back of onerous regulation actually impact on their pocket. So it would be stupid to think that the majority of players will stay. A lot of the small companies will go. A bit like Richard said, many will be there, they are putting all the things into place but there is a higher cost, and again, the loser in terms of higher cost is the consumer because prices will go up.

A. (Mr Powley)` .From that point of view, like the gentleman at the end, I have been in the business of sub-prime lending now for 23 years, and when I joined Cash Converters it was quite clear to see that the regulation and the OFT was going to move towards the regulation that was the FSA. So we raised our standards to MCOB and ICOB standards, because I had a regulator background and that is what we did as a business, with a view that our time would come. We do not do rollovers either, the same. Our time would come and the whole company would benefit in the end, and the government will come out. What we did not envisage was a total cost of credit cap. We offer two products, by the way, we offer payday loan and a personal loan as well. But both our products sit permanently within the parameters of what the FCA has brought in now under the total cost of credit cap. What we could not see, and we still cannot see to the present day, is the effect of that. And that is from a previous perspective, which is a really difficult position, and we are planning our forecast presently for the new year. I can only plan to December, I have no idea what it looks like from January. If you are a new person coming into this business, or if you are a new staff -- I have accounts teams, we have compliance teams, we have all these people to work on. If you are running a small to medium-sized business, it is absolutely immense. So that as it stands at the moment is one of the biggest detriments of anyone joining this business, because the media pressure, the political pressure, the administrative pressure on data requests, and the unknown future costs.

Q. (Mr King) There is clearly very considerable regulatory uncertainty at the moment in terms of what impact it is going to have, and there is a lot of reputational -- the media, politicians have really been vocal on this. Do you think that once the regulatory side of things is implemented and settles down, that the reputational situation, public perception, will improve significantly?

A. (Mr Powley) Well it takes it away, does it not? We have always been regulated, by the way. It is nothing new, we have always been regulated from the very beginning. We have had the Consumer Credit Act 1974 with people turning around and saying we are unregulated businesses. But when -- the payday market had been regulated by the FCA and we do not know what the total cost of credit is going to be. But ultimately, and we have had this conversation with the regulator themselves, it becomes their problem then. At the moment, the problem is put firmly and squarely on the people that are sat at this table, because we are regulated and we are scrupulous, and ultimately we will follow the rules, and they will be hard-and-fast rules, and the regulator may make it impossible to money on the back of that.

A. (Mr Stevens) I think in terms of the experience there was the experience after the Competition Commission in 2004-2006. And prior to that it was the same kind of traumatic reputational problems, in the press and MPs. After the inquiry was finished and we put in the remedies then that died away. So I suppose you can say that in terms of this exercise the same thing will happen. It think there is one final part of that equation, is the new regulator will be taking if you like a feed-in from the consumer groups, and I suppose the thing we do not know with the FCA because they are proactive is how they will view proactivity with regard to what is perceived as consumer problems, which have not got the right scalability or evidence behind it. And I suppose that is the danger, and certainly it is one of the things that has been mentioned before with regard to what kind of forward gaze have we got with regard to finding certainty? The one thing we know with the new regulator with regard to intervention powers, they can intervene very quickly in our market place, which does pose problems. I have got companies currently who have got funding through for 12 months and cannot get funding past that 12 month stage. So it is starting to impact on investors and funders' thinking at the same time.

Q. (Mr King) Both Rachael and yourself, Greg, mentioned that you are expecting a significant contraction in the number of players in the industry because of this. Once the thing settles down, how would you view the entry barriers to new people eventually deciding to come into this industry? Because obviously one wants a dynamic industry.

A. (Mr Holland) Right, well whichever trade sector you look at big regulation is good for big businesses because they can cope with it. Now, Russell represents a small number of big businesses. We represent a big number of small businesses, so we come at this from an entirely different angle. I should also point out that all big businesses; Marks & Spencer's, Shell, Unilever; all started off as small businesses originally. Now if we end up with a regulatory regime which prevents new entrants into the market because it is so expensive and costly without huge scale to comply with it, or it forces out existing small players and medium-sized players, that is bad regulation. That is bad from everyone's point of view, apart from the big players who are already existing in the market. And that is my main concern, as a consumer as much as anything else. That is not right. And I am afraid the vibes I am getting from the FCA are that they do not care about small businesses. And if you look at the previous track record; if you look at the regulation of insurance, where are all those small high-street brokers now? If you look at regulation of mortgage advice, where are all those independent mortgage advisers on the high street? They have all gone, and the ones that have benefitted have been the big guys. Now, that is not good.

Q. (Mr King) Any other comments from anyone else? I think we are just about ready to move on to the next section now. Thank you very much.

THE CHAIRMAN: I will ask Katherine Holmes, then, to lead on to some additional questions.

Q. (Ms Holmes) Thank you. I would like to ask a few questions about competition among payday lenders. Obviously we have to keep this at a very high level for commercial reasons. So if I can ask for some broad reactions. You have seen from our working paper that the costs of loans seem to cluster around the £30 for a £100 loan, assuming it is repaid on time. There seems to be clustering. Can you explain why that clustering has occurred?

A. (Mr Hamblin-Boone) I think there are two parts to that. The first part is where in the past lenders both online and on the high street have attempted to offer a lower rate or offer perhaps reduced costs for rolling over. They have been criticised for either encouraging people to take out loans or encouraging people to rollover their loans, and they are probably thinking it is just safer to stick with a single price and if it is similar to everybody else then they are not sticking their head above the parapet, and therefore are not subjecting themselves to criticism. So one high-street lender did a week-long promotion where they halved the price of their loan, and were castigated in the press for doing such a thing, with campaigns outside their stores and all sorts of objections. So there was no opportunity for them to offer a price differentiation.

The competition in this market is in underwriting the loans and risk profiling, and that is where a lot of the investment goes. Because obviously the better you are at profiling and predicting the outcome of your customer in terms of getting your money back then the better the revenue and the better the profit, ultimately, in it. So I think that that is an important point in terms of price competition.

Q. (<u>Ms Holmes</u>) Thank you. Any other observations on that?

A. (<u>Ms Corcoran</u>) I think that some of the very small-scale lenders who are operating on the fringes, so when I say that I mean they are not necessarily recognised brands, sometimes they offer as low as £10 per £100. So I think it tends to be this idea of the £30 per £100 is very visible online, but I would suggest that some of the very small-scale operators in very concentrated areas, you might find there is actually a bit more variability.

Q. (<u>Ms Holmes</u>) Thank you.

A. (<u>Mr Hamblin-Boone</u>) That was my second point, actually, the non price competition.

A. (<u>Mr Fuller</u>) Sorry, and just again my personal experience. When we offered a more traditional payday loan product it was 25 per cent. When we revamped the product we tried the single repayment loan at £17.50 per £100. It did not work because we did not make any money, to be honest with you. And we moved it to 22.5 per cent. We do not make a lot of money but we feel that that works for us. So at the end of the day, how much will it cost to offer that product and how much margin are you making? Because really, if it is reasonable and justifiable, I think the big concern around price capping is that everybody will be told that they have to lower their prices. Well price-capping, my understanding means you cannot go over a certain amount. That does not mean everybody is going to be pushed downward, necessarily. Again, sorry for using Canadian experience again, but I think it is somewhat relevant. The average cost per $100 over there was about $23, and the fear around regulating and price capping was that the industry would be regulated out of business. Well common sense prevailed, and that figure of $23 per $100 was deemed to be fair, reasonable and the right one, and the industry over there is thriving and the stigma has certainly dissipated to an incredible degree.

And also, too, I think the reality that has already been alluded to is that a couple of years ago it was not £30; that number has been pushed up as a result of some of the self-imposed policies and procedures that certain companies are putting in place, but they still have to maintain a certain amount of business, and as a result they have had to increase their price to maintain their margin, I think it is fair to say.

Q. (Ms Holmes) Thank you. We have also noted that if you take a more granular look at a number of different scenarios; the amount borrowed, the amount for which it is borrowed; whether it is paid back on time, whether it is rolled-over; and there are actually quite significant differences in the costs. We set that out in our charts in the working paper. So quite significant differences. Some are cheaper at the shorter loans, but if that loan is extended it becomes relatively more expensive. Why do you think it is that borrowers do not generally seem to migrate to the cheaper products that are available?

A. (Mr Powley) I have an opinion on that one, if that is okay. I think we have to bear in mind again where the customer is coming from and how they are finding the individual provider. Broad brush-speaking, these customers -- I think it was mentioned in one of your papers that potentially the competition could come from credit cards and store cards. These people, some of them cannot get credit cards and store cards, they have not got a line of credit. They are in turn-down mode. They have been turned down by a significant number of people. So when they find a relationship with a lender that someone actually says yes, albeit it may be a down-sell, as opposed to an up-sell, someone actually says yes to them, they do not want to move out of that comfort zone, for want of a better term, because they have been turned down so many times before. So they are pleased to have found one; it is a bit like banks, we were talking about this a little bit earlier. I have not changed my bank since I left school. I am sure I can get a better deal somewhere else, but they have never let me down, and they are there when I need them, so I will stick to my bank. And to a lesser extent that is a similar situation that we are finding with a lot of providers, is that a comfortable service - from a personal point of view, ours is face to face. So that we have a relationship with the people that we do business with, and they do not necessarily want to change. That is my opinion.

Q. (Ms Holmes) That could be particularly the case for high street, I guess. Would the same factors apply online, do you think?

A. (Mr Fuller) If I could say, again, from a high street perspective, my biggest competitors are the online guys, simply because a lot of customers would not be caught dead being seen going into one of my stores. My stores are lovely, I should add. But, you know, looking at the working paper and some of the costings, and again now that I have got a product that somebody can borrow upto six months on, there is one provider that charges, and I am sure I read it right, £90 per £100 for three months. Mine is £42.50, less than half. You would be crazy not to take up that offer compared to the other alternative, except you would physically have to walk into my store to get it, as opposed to the anonymity and perhaps the convenience that goes with online. So I know that that is my biggest challenge. I would like to think my prices are as low as they can be, and they are, because that is really the only way I can compete. And then getting that message out is very difficult as well, because I cannot say it is cheaper than a payday loan, or more portable than a payday loan, because of the new definition - it is a payday loan. And also, too, it is very difficult to get anybody to buy into the fact that it is *only* 428 per cent APR. So I have got what I think is a good product at a good price; I find it very difficult to promote it and very difficult to compete in that context.

A. (Mr Hamblin-Boone) I was going to say, that you do not necessarily distinguish between high street and online in terms of customer experience with things like live chat and emails and the investment in call centres. You know from your own figures, customer service is very high, and if you take, your figures suggested 88 per cent of people paying back on time - our figures are higher than that, they are into the nineties - those people are having a good experience and they are having a good experience because they are getting very good customer service and they are getting the sort of feeling, of ownership, if you like, a relationship building with that particular lender. And if they have had a good experience and they have paid off the loan, and they have enjoyed the experience and they like the style - and individual online lenders are presenting themselves in a different way – so if it is a particular style that you like, whether it is a funky style or it is a more austere style, they are sticking with that lender.

Q. (Ms Holmes) So you could say non-price competition in a way is as important if not more important?

A. (Mr Hamblin-Boone) Yes. I think more important, in fact.

A. (Mr Powley) I think it comes down -- I am sure you have already done it, but you are looking at buying models and the customer's preference, and the different providers and the journey that they are going to get to where they need to be. And sometimes cost is not everything. You know, we have a 98 per cent customer satisfaction and constantly are checking in with our customer base to find out where we are, to try and be in tune with our customer base. So we do not profess to be the cheapest on the high street - we are not - but we believe we offer the best customer service, and our customers like that, and are prepared to pay whatever our cost is to have that service.

A. (Mr Hamblin-Boone) Just in terms of evidence, because the impression is given that online you cannot have a relationship with your customer. We provided some evidence to the Financial Conduct Authority when it was looking at CPA, and showed a whole range of reasons why somebody might not be able to make their payment date. Lost cards; the fact that banks did not process payment; all sorts of things. And we provided transcripts and examples of emails between the customer and the online lender. And you would not believe that you were reading an email between a customer and a business, because they say, "Hi there, sorry I cannot make my payment date. Pay cheque did not come through. Promise I will let you have it in a couple of days' time, lots of love, Debbie". And it is a very colloquial kind of language that they are using, and people are not feeling that they are dealing with a bank or some officious body. And lenders cultivate that dialogue with their customers.

Q. (Ms Holmes) Thank you very much. Just moving on to non-price competition.

I know we have covered that quite a bit now, but we have seen a reasonable amount of product innovation, particularly more flexible payments, instalments, draw-down upto a maximum limit, that kind of thing. Rather different to the traditional paydays of £100 for 30 days or whatever it is. Do you see products with this kind of flexibility being introduced across the board by smaller lenders as well as large lenders?

A. (Mr Holland) Well, at the end of the day this is all about retail. We just happen to be selling mini financial services, or selling money, if you like. You only succeed in retail if you offer people products that they want to buy. So in other words you cater for demand. As soon as you start to offer people products that you want them to buy, that is an entirely different ball game. So you have to cater for demand; if the customers like it, you will supply a product. You will try things and if it works, that is what you will do. But it is just pure retail, really, it is no different to Marks & Spencer's, Tesco's or Waitrose or anyone else.

A. (Mr Freeman) I think instalment products will affect the smaller lenders more, because you need greater capital, because you are going to be lending more money over longer periods if you are fulfilling customers, you are going to need much greater access to capital. So for a small lender, that is probably not the best thing for them.

A. (Mr Fuller) Being one of those small lenders who has moved to an instalment product, that is definitely a consideration; but one that we were happy to face up to that challenge. We had a self-imposed limit of the amount that we would lend to somebody, it was £250, and then it went onto what I call a payday loan, made payable on the next payday. Sometimes they wanted more but we could not give it to them because we felt that they could not afford to repay or even they wanted more but, because I did not want to lend more, they could not have it. The new product now allows us to say yes to more customers because we can lend them upto £500 over six months. The repayments are smaller than a single payday loan repayment. But it is interesting - I will share this statistic. I sort of expected that if people had a choice to repay over three or six months, which is as many as 24 instalments for people who are paid weekly, that they would take that option. The reality being probably a third of customers still opt for the single repayment option. I am not sure yet, because it is still relatively early days, probably because I have only been offering it for five or six months. I do not know if that is because it is a cost thing, because it is cheaper, or if it is just a cultural thing, they are always used to that. Or if it is just what they want, they do not want to be tied in to something longer term. And so a third take it for a month, single repayment. I would probably say about 40 per cent take it for three months, and then 27 per cent, whatever it is, take it for six months.

A. (Mr Hamblin-Boone) I was just saying, to go to Geoff's point about meeting what customers want. Customers want speed, transparency and convenience - and lenders are providing all of those things. Sometimes there is a suggestion that they are competing on speed to the detriment of consumers. I think that payment services and electronic transfers mean that things can happen very quickly. And I think we are all very clear that when we are talking about the speed of money in your account, that is post-approval, that is not from the point at which you click on the website. And even then, lenders are criticised. Yet in other markets, an airline market, for example, you pay a small fee to be able to board quicker. The larger lenders I think would get a lot of criticism given their profile if they started charging people to speed up the process of money in the bank. I think there is an opportunity to compete, that is again stifled by the stigma about the industry.

THE CHAIRMAN: Okay. I am going to ask John Harley to pick up.

Q. (Mr Harley) Good afternoon. I am going to cover in this section how lending firms acquire your customers, how you manage your credit risk, and whether new entrants to your sector or expanding lenders face additional challenges compared with existing players.

So perhaps we could look first at customer acquisition. From the exercise we have done we have identified a number of ways in which payday lenders can attract new customers. For some it might be advertising outside stores, others, local advertising. Obviously online advertising. The use of lead generators. And most recently probably, Google and Google rankings. So what advantages or disadvantages do you face in attracting new customers? And perhaps you could also describe how smaller online lenders typically go about building a brand? Is your ability to do so affected by the position of the larger lenders, for example Wonga, or how much would it cost for a smaller lender to advertise effectively?

A. (Mr Powley) To speak from a high street perspective, we have been trading in the UK for 23 years at Cash Converters, and our financial services product is an additional product that goes alongside our core products, be it pawn broker, or retail, or buy-facilities, lay-by facilities. So it sort of goes hand-in-hand with the products that we offer. Without getting corporate and cheesy the model that we have is letting the customers get on with their lives, and it is very much that, that is the way that we do it. And that ties in with our 98 per cent customer satisfaction, because we offer what the customer needs. Now that 23 years, it has taken a long time to build the brand - which is occasionally getting dismantled by the current climate, but it has taken a long time to build that brand, and we have 227 stores, predominantly in most high streets in the country. Word of mouth helps considerably. We have a small personal loan not a payday loan product. We are online but we do not advertise that product at all, at least not at the moment that is not something that we would like to try and do. We advertise on TV. We are the prominent sponsors for Hull City in the Premiere League; we have sponsored Motherwell up in Scotland; we also are big in darts, which does not come cheap. So we try and get our brand awareness -- we have 96 per cent brand awareness within the UK but we only have 46 per cent product awareness and that is something that we are working on at this moment in time.

But ultimately, my point of view is that if we treat our customers properly and we offer a product that they want, and they feel like they have got suitable customer service to meet their needs, then they will spread that news and they will bring people to us. We do not see ourselves as being an out-and-out payday lender, we never have. It is just another product that we offer to our customers to help them get by.

A. (Mr Hamblin-Boone) I think unless you enter the market by acquisition and therefore have a legacy customer base, you have to rely on lead generators to build your customer base. Having said that, we are aware that there is confusion for customers around who they are borrowing from. Some lead generators are confused as being first-point lenders. But over time, certainly the larger businesses that have been established for a while, dependence on lead generators has diminished For all the reasons I have explained, lenders will build up their own loyal customer base. And I think that one of the things that is worth looking at is some sort of comparison mechanism for people, not just to allow them to compare price, but also to take out this confusion and consumers' assumption that lead generators are providing you with the best price. That is not necessarily the case. They are providing you with the price that they get from the lender. And I think that people think that if they go through a lead generator - a bit like if they were going through a mortgage broker - that person is shopping around on their behalf to get them the best deal. And I think that needs to be clarified, and perhaps we have some kind of comparison mechanism that could deal with that.

A. (Mr Powley) Just on comparison websites, one of the major comparison websites actually took down their payday lending product offering because they did not want to be attached to the stigma of payday lending. Only because of that.

Q. (Mr Harley) Do you think if this was sorted out they would come back?

A. (Mr Powley) In my previous life I have had dealings with them on a considerable basis; there is absolutely no doubt at all that they would be back in the market, but at the moment it is reputational risk. They do not want to be associated with it because of the heat that is in that area.

Q. (Mr Harley) Hold that point as we might well come back to it.

A. (Mr Freeman) We are predominantly lead generation, probably 90 per cent plus of our new business comes from lead generation.

Q. (Mr Harley) And could you perhaps, on that, just explore a little bit, things like

Yew Tree and so on? How are you focused on that? Do you bid at the bottom, do you bit at the top? What are you trying to do? Without giving too much -- I am conscious there are competitors in the room.

A. (Mr Fuller) I am not online at all.

A. (Mr Freeman) There is a science behind it. We do have different price points. I think at the moment I think the lead price is actually coming down considerably because of the uncertainty. The uncertainty is definitely seeing a low price because not everyone is growing their portfolio or their loan books at the moment because they are not sure where it is going. But it changes, it depends on demand of the products what we would pay. It will depend on the customer that we are looking at. But we probably in real time would run 200 to 300 checks on a customer before we would actually purchase a lead, and we are doing that three times on three different positions - there is a whole science behind it.

Q. (Mr Harley) In a few seconds?

A. (Mr Freeman) Yes, within like five seconds, yes.

Q. (Mr Harley) Okay. And so I suppose what we are questioning also is whether pay-per-click that comes from Google in particular is not cheaper and quicker?

A. (Mr Freeman) Yes, but again there is a whole science behind that, it is not as simple as just paying a price and clicking on a link and coming through to a site. I think from a lead generating perspective they could be a lot more transparent. For example, if they have multiple lenders behind this ping tree, I think, different lenders charge different prices. You could, not so much a comparison, but have each lender with what price the lender is charging, so that when you actually eventually find that lender, you know the writing, you can maybe reapply. I am not sure of the technical aspects of it, but to have just one price per loan, I think there is a fundamental problem there which I think you are probably aware of. You cannot say it is £25 per £100 if you have got people charging £40 per £100 on your ping tree. So I think as a lead generator they could be a lot more transparent about who actually sits in there. But I think the difference is, probably two years ago the lead generators, that is a trade secret; they would not want to say what lenders are having that ping tree, because the other lenders are going to get on the ping tree with other ping trees, and then it is not a fair market place. Whereas I think if the actual ping trees would say that these are the lenders that have these prices, then I suppose you are giving the consumer that little bit more opportunity. If he is supplied with a lender that is charging £40 per £100, he will say, if that is too expensive, that he is going to reapply, or that he does not want to pay £40, there is £20 per £100 lenders, so he could reapply. I do not know the technical aspects of that, but it is certainly something that could --

A. (<u>Mr Powley</u>) There is major sales challenges, by the way, not just payday industry wide. In my previous life I was the operations director for one of the biggest master brokers in the country. You go from mortgages to second charges, it is exactly the same. It is ownership that --

Q. (<u>Mr Harley</u>) There is always something there. Okay, well we might pick that up in a second, but I was just wondering if there were any thoughts there, or are you all happy with - okay.

Could we now pass to managing credit risk and look at that a little bit? This is obviously an important aspect of operating a successful payday loan business. We know that Callcredit has announced that it plans to enable real-time data sharing with payday lenders from April 2014 and that Experian has announced similar plans. What are your views on this development and do your members plan to participate in either scheme? And will this improve the quality of the information available to you about potential customers? What will be the limitations?

A. (Mr Fuller) From my perspective, one of the biggest risks to us and the one that catches us out is the fact that we do not have access to real-time data share, and a few of our locations a customer could go and get a loan at three or four other providers before they get to me. I will take all their documentation, three months' worth of bank statement, three months' worth of wage slips. I will have them fill out an affordability assessment and credit questionnaire, I will pull a credit report on them. And what it will not tell me is that they have got £1000 in their pocket from four other providers, and then I will give them a couple of hundred and then of course we are all in the same boat. So I would very much welcome real-time data share. I do not want to give money to somebody who cannot afford to pay me back. It is not good business.

A. (Mr Freeman) We are actually in the process now of integrating with them for the real-time data. Again, this is all well and good having access to it; we are not really sure how we are meant to or not meant to be using it. Because at the moment obviously if someone has got three open loans you do not want to give them another payday loan, and the data is probably 60 days out of date. It can be upto 60 days out of date. So I guess, yes, it is how many people ask clients for that data. Because it is all well and good having it, but Callcredit and Experian are just two CRAs, they are not -- I do not know percentages, but not everyone is using them. So even having the real-time data is not going to mean all of a sudden we are going to have no defaults. I still think there needs to be a lot more people signed up to the initiative.

Q. (Mr Harley) Can I just take that on? You were saying there are one or two companies that we think have got their own substantial amount of loan information; should they be linked in as well?

A. (Mr Freeman) I think everyone should be linked in, yes. I think at some point. It is not going to happen in April, but yes, at some point. I think even now for Callcredit to take the initiative to do it, I guess if we are using Callcredit as a main agency, we would certainly do better loans because it is more up to date, but again it is only up to date with who is sharing into it. I think there is only six people actually signing up to the initiative, from what I understand.

A. (Mr Stevens) I am the Chairman of Score, which is a steering committee on reciprocity which looks at this from the technical aspect. The two credit reference agencies you have mentioned, there is a bit of misnomer with regard to real-time data. It is actually daily bashing, and I do not know whether it is the same kind of daily bashing from both Experian and Callcredit. We are talking to the FCA on real-time data because they are very anxious go get something set in place. But I would remind the Competition Commission obviously we have the same kind of situation in home credit, and at the end of the period we arrived at the fact that large companies shared data. The smaller companies who do not provide white data -- so you will find that most small companies will actually share default data, which is black data, but not white data. What we are referring to here is white data which is a paper performance. And the cost to a small company to actually sign up to one of the agencies or put in the systems is prohibitive. So it will only be the larger to medium-sized companies that do it, so you will never have a situation where you have got something in place which will stop somebody fraudulently going down the high street trying to get as much money as possible from a series of companies who are doing their best but do not have that white data coming in.

A. (Mr Hamblin-Boone) A number of my members are early adopters of this, and they are speculating to some extent, because obviously it does depend on a critical of mass, both in terms of the quality of the data, the volume of the data, and hopefully on a reduction of cost over time. They are having to invest with the credit reference agency without a clear outcome or a clear idea of what the benefit is. And potentially there is a barrier there for new entrants, not just with the cost of becoming part of some form of data-sharing mechanism, but also evidence tells us that when new entrants come to market they are getting other customers who have not managed to get credit elsewhere. There is a community of people who are watching all the time, and if someone new comes to market then word goes round the social media forum that there is a new lender and; everybody tries them. So new entrants also face a risk of being gamed by less reputable borrowers, shall we say? You can understand the reasons why. But therefore your risk profiling is actually at greater risk.

A. (Mr Powley) We would love for it to happen, absolutely love it, it would be fantastic. Unfortunately it does not exist. In its current guise, when a company signs with Callcredit it will not exist. We subscribe to Callcredit. There are three main providers, the main CRAs, Equifax, Experian and Callcredit, and they do not talk to each other because obviously they are in competition with each other.

We review our debt, as any business would do, and look at triggers, where we can learn. If I could pick someone who was not going to pay me, I would not lend to them in the first place, but unfortunately I do not have that skill. So what we have to try and do is learn retrospectively on the mistakes that we have made. We get tipped over the edge affordability-wise from undeclared from a number of different areas. It can come from credit cards, store cards, hire purchase by people like Brighthouse and Perfecthome on the high street. It can come from car HPs, it can come from anything that the customer has not declared. So if we could have real-time credit that shows you everything that was going on, not just payday lending, because it is not always payday lending that seeks it; if we could have everything, that would be phenomenal.

A. (Mr Hamblin-Boone) And council tax debts --

A. (Mr Powley) Utility bills. Lots of different pitfalls. Credit control, that can tip the customer over the edge. And as a lender, we lend money to get it back, as we mentioned previously, and anything that can help us get our money back, anything that can lower our default rates, anything that can make that money turn around quicker so we can lend to other people that need it, would be fantastic. But to be realistic, as it currently stands at the moment, though it is an improvement and I am all for it, it is not the save-all, I am afraid.

A. (Mr Freeman) And just to add to that, the affordability issue of it, the capping of the rollovers resolves the problem of real-time sharing as well, because in the past where there is some lenders that are not capping their roller-overs continuing, that is allowing the consumer to go out there and borrow more money. Whereas if they are forcing to settle two rollovers or three rollovers, the chances of the customer getting into a rollover trap with three or four or five payday loans, they are cutting off the payday loans at some point as well. So one issue is resolving the other issue. So that is kind of new to the market as well.

Q. (Mr Harley) Okay. Just as a follow-up point to that, given the importance of managing credit risk, if you like, we also do not fully understand why there are relatively low levels of risk-based pricing? The prices seem to be at a very consistent standard. So is there any thoughts on why you and others do not also price this according to the risk of default? You talked about ping trees, which has an element of risk of default in it. But there does not seem to be a lot of variation. What are your thoughts on that?

A. (Mr Powley) Default risk is built into our pricing. It is not taken into a tariff of charges; we take it all into account with our price.

A. (Mr Hamblin-Boone) One of my larger members that you have already heard from, does have risk-based pricing where they do distinguish between an average, a good and an excellent customer and will adjust their pricing accordingly. But I suspect that that is an arrangement between them and the customer, because for all the reasons I have said, if price differentiation becomes too obvious and they are a household name then they are open to criticism for that.

A. (Mr Fuller) Also I think by the very nature and definition of the product, your customer base is riskier. And then I suppose what you would have to do is once they have demonstrated an ability to repay, begs the question that they are a customer of yours, do you want to offer them a better rate moving forward? It kind of contradicts the whole notion of what a payday loan is supposed to be intended for. That would be, if I did that, if I said the more you borrow, the better the rate, then am I not sending them the wrong message from a regulatory perspective where I am enticing the customer?

A. (Mr Hamblin-Boone) Paradoxically, that is exactly what revolving credit does. As we know, that it is called "low and grow" where you start off low and then your limit is raised. Again we are not allowed to do that.

Q. (Mr Harley) Given the time, if I just go with one final question. We have had discussions about the current environments and the difficulty of growing the market at the moment because of reputational issues and so on. If you are a new entrant or you are trying to expand, shall we say, in the future rather than today because we know it is difficult today, what factors would you highlight to make it easier to enter the market or to grow and to expand your share of the market? What would make it easier from your perspective?

A. (Mr Powley) I find it impossible to answer that question because we do not know what the future looks like. We could be priced out of the market completely, based on what happens on 2 January.

Q. (Mr Harley) But you might have a view of what you would like it to look like, that is what I am after.

A. (Mr Hamblin-Boone) I think an acknowledgement of all the effort, both voluntary and those that are mandatory that the industry has made. A recognition that the industry came to market - unlike any other product which would be tested within an inch of its life behind the scenes before it is brought to market - the circumstances and the economic circumstances in particular meant that the development of this market, particularly the growth of this market, happened in the public spotlight. And from our point of view, we do not deny that there has been bad practice in the past and there were things that needed to be addressed. But the perception of the industry is based on something that, as your working papers have shown, is not a reflection of the current market. I think a recognition of the Office of Fair Trading's and many detractors and the consumer groups' assessments of people in debt are not necessarily valid. And that is why we very much welcome the working papers that you are publishing, because much of your research accords with ours, particularly around customer profiling. It will help an awful lot if there is acknowledgement that the industry, in very difficult circumstances, has been driving forward to do the right thing. And I think particularly with FCA regulation, it is a very challenging point, because these businesses have not been subject to FSA regulation. They are going through an education process. To some extent they are going through an education process without really knowing what the rules are that they can apply to this business. They also do not necessarily know what the culture is that the FCA is going to bring.

We are almost doing things the wrong way round; we are setting the rules and we are setting price controls and everything else. It is a bit like setting the rules of rugby before William Webb Ellis has even picked up the ball. There are a lot of unknowns about what the expectation of the regulator is, and I think there is some work that needs to be done with the industry, specifically with the regulator about what is the culture that it expects? We can all work to the letter of the law; actually we need to understand what we mean by the spirit of the law. I think that is the challenge that we face.

Q. (Mr Harley) One thing in particular that you are bringing to the table, you mentioned the comment about small business being crunched by regulation. But in theory you are more threatened by regulation. Do you believe that? And secondly do you think that favoured big business, things like the clearing banks, would enter this market under a regulated environment because there would be less damage to their reputations?

A. (Mr Holland) First of all, if I wanted to start off tomorrow I would have to get banking facilities and the chances of that happening at the moment are pretty slim. Now, bearing in mind that this sector is really the only real competition to current account overdrafts, I find that a bit odd. Now, I do not think there is any way big banks are going to get into this sector. HFC was bought out by HSBC some years ago; great surprise in the industry, including myself as well, because I am certain that HSBC did not have a clue what they bought, and that turned out to be the case. I think they paid $40 billion, and lost the lot. So I cannot see the mainstream banks getting involved in this short-term, comparatively high-risk compared with their normal customer lending, area at all. And certainly their attitude for providing banking facilities is choking off any entrants to the market.

A. (Mr Hamblin-Boone) Yes, and that is not just small lenders, that prejudice is being experienced by the larger lenders as well.

A. (Mr Powley) We are a franchise network; we are running on the best part of 150 franchisees, and we have got one friendly bank. Nobody else will take us.

A. (Mr Hamblin-Boone) Which is actually to consumer detriment as well, because consumers cannot process their payments through certain banks because the banks will not deal with the lender.

A. (Mr Freeman) That is a big problem. Probably a year and a half ago we had our bank and we had a bank account, [✄]. We just spent probably £50,000 to £100,000 integrating with that payment system, [✄]. So that is a problem you should look at.

A. (Mr Fuller) Yes, I found that to be the biggest challenge after I came over in 2010, having been in the UK in 2006, 2007, to come back and re-enter this industry. And despite mine and my business partner from Canada's credentials in the industry, banks weren't interested. We ended up buying a business because it had a banking facility. That bank turned around and said they do not like the unsecured lending. And then we moved to another bank, who since then has told us they do not like cheque cashing. And it is getting that the banking is the biggest barrier to entry, I think. If you look at historically the influx in the number of competitors in this industry, it was a reflection of the under regulation, to go back and answer your previous question, John. If the industry becomes over-regulated, we probably will not see much new entry. If it becomes appropriately regulated, where the rules, and we need rules, are there and clear, then people know what they can expect.

A. (Ms Corcoran) I think the banks are dictating the current shape of the market, because certainly when the online payday lending took off, which was around 2009, 2010 in my experience, we were getting umpteen calls a week from potential new entrants into the market. At that time there was appetite from certain banks to consider applications from short-term lenders. When that ceased, the inquiries did also. So the banks are playing a big part in how the market currently operates, and they will continue to do so if they do not change that stance post FCA regulation.

A. (Mr Hamblin-Boone) And the banks are constantly reviewing their arrangements, so you can have an arrangement with the bank and think that you might have some stability and longevity. But it might only be six months before the bank comes back and says they want to review again, and that is happening even for the bigger businesses. And bearing in mind this isn't an industry that is totally dependent on wholesale banking, either. A lot of the funding for industry is from private investment. So if we moved more to the wholesale market then we imagine that wholesale market would withdraw funding.

THE CHAIRMAN: Thank you. I will move to Tim and ask him if he will introduce our last set of questions.

Q. (Mr Tutton) The final bit is really about the customer and what role the customer plays in the market to some extent. As you know from reading our reports, and traditional analysis says to the extent the customer is engaged, prepared to shop around, whatever, and what we observe and you will have seen in the working papers is a certain amount of price dispersion. Also the relative prices between different offerings, which change with circumstances, depending on the duration of the loan, whether it is repaid on time, and so on and so forth. And what we also observed is a certain lack of migrating of customers to what would seem to be the cheapest offer for their circumstances. Now, Chris, you said earlier that part of the reason for this may be that at least part of the consumer base is used to being turned down, so if they are used to being turned down they would be grateful to find somebody that does not turn them down, and they therefore stay.

The question is how widespread is this? Because if that was across the market, that would imply the final demand in the market was not exercising much pressure on the market, or at least not as much as it might.

A. (Mr Powley) Well I think in our experience we find that the customers that we deal with, then they come in there will be two or three different choices. If the customer has a loyalty to our brand, we have got a customer there coming to purchase one of our retail products and realised that other products are available. And you have got the customer that has found us because they were looking for financial services. And in our experience what we have found is that once we have a relationship with that customer it is two driving forces. One, I would like to think, is our customer service, and I have statistics to back that one up. The second part is an element of gratitude that they have found a provider that will actually provide a line of credit for those people, and also will look on their circumstances with a sympathetic ear.

We have looked at this a lot within our business because obviously we are looking for growth and trying to find ways in which we can increase our market share. But the over-riding fact from a Cash Converters point of view is once they have found their provider of choice, they are often happy to stick with that provider. And that happens in lots of different walks of life as well.

A. (Mr Fuller) Could be a brand awareness thing as well. I have 14 stores, I look at those guys at the other end of the table (Cash Converters) that are household names and I think that perhaps what goes along with that is a level of credibility and comfort, they have seen them on TV; they are more trustworthy. They may be a bit more expensive, but that is probably why they are paying more.

Q. (<u>Mr Tutton</u>) One of the other things we have touched on already, but to go over it again very briefly, is lack of comparison websites, really, and the lack of a deep penetration by comparison websites. And you alluded to the very obvious player which withdrew from the market. I can see that if a comparison website is looking to have a broad brush of comparisons across all sorts of things, why they are not going to sacrifice anything for one market which they think is damaging their overall brand. But even, so, it is odd in some ways, if you described it to an outsider, that there have not been more specialist providers of information in this space.
There is two questions, really. One is, why is that? And two is, again alluding to a point which you made earlier, and is part of the problem, a confusion about the role of lead-generator website in customers' minds, as to what they think lead-generator sites are really doing? Because to the extent that they think they are in a sense brokers, offering them the best deal around, that that contains a disincentive to look for other sorts of information.
A. (<u>Mr Freeman</u>) You can be penalised -- I am not a specialist in search engine optimisation but I have had conversations with SEO experts, and you can be penalised by Google, it can affect your rankings, by promoting payday products. Even at the level of Google, you cannot just, as we said before, make your own advert and just go there and have it approved. If you want to sell a product or a service, most things get through Google, but even Google as the main source of traffic for most companies, you have to go through barriers to actually get an advertising page on there, and have the right scripts on there and the right text and have everything regulated. And I think to associate with payday, because of the tarnish that it is, it can damage your

own ranking. So that is if you have a successful website with price comparison at the moment - for insurance, for mortgages, all kinds of products. If you have payday, it is going to affect your other business, which you are going to be penalised for. So that could be one of the reasons, especially MoneySuperMarket, why they are not going down the route at the moment.

A (Mr Powley) Still comparison sites still show - Confused.com, Go Compare, Money.com and some more obscure ones, it is still there.

Q. (Mr Tutton) Final question, one of the things we have evidence on, and it has been referred to before, is people with multiple loans. How this game plays out, are the main people with multiple loans a real negative side? It is implied by you that if you had real-time information and someone had just gone and taken out £1,000 of loans, that would obviously be a negative. But if a customer is using multiple providers, that is going to give the information that they have already got multiple relationships now so they are not stuck with this one relationship. In principle that gives them some flexibility in this market, the ability to shop around. Is that part of what is going on or is this largely the multiple loans thing - people just need to have multiple loans to get the money they want and therefore it is a desperation thing rather than a flexibility thing?

A. (Mr Powley) I think it might be part of everything, really. I think I mentioned at the top of the meeting when I spoke about how we got to where we are today, with HFC Bank and Welcome Finance, the Black Horse and the like, and some customers' need to generate funds to make a purchase or for home improvement or something that they need that. Individually we are not (several inaudible words), and if we had real-time credit they probably would not get it. But that would not stop the customer's demand. And at the moment that is the flaw in the system. Is that what we would all like to fix? Is it the guy that goes to Cash Converters, The Money Shop and Cheque Centre in the space of three hours? We would all love to stop him, but it is the customer's need.

A. (Mr Fuller) For us it is a slightly different scenario, because we often have customers who will come in looking for a loan with us, and we can see on their bank statements they have loans with other providers. Our guiding principle is, whether we are helping this customer by giving them money, or hurting them by giving them money. And it is really hard to justify giving somebody who has already got more than one payday loan another payday loan. If you find yourself in a situation where you have to take out a payday loan, you probably do not need another one, you probably need debt advice. So then we rarely agree, unless the customer is saying if you lend them £500, they will take that money to pay these others off. We are agreeable to have a dialogue with the customer in most instances, and we would take that into consideration. But we are usually the one who says no to them, because they have other loans.

Q. (Mr Tutton) So one conclusion from that would be some people do have multiple relationships, and therefore in one sense are in a better position, to play the game, are in fact less likely to be able to because they are going to be maxed out?

A. (Mr Powley) Sure, and the thing with that is we all have stringent affordability checks. The customer's detriment, regardless of what is said, is at the centre of everyone's decision because acquiring customers is expensive. So ultimately when you get those customers you want to keep that customer, you do not want to drown them; you certainly do not want to put them in a detrimental situation. Cash Converters have a solid relationship with StepChange. Customers come into our store and they look into one of our financial products and we go through an income and expenditure because that is part of the application process and we can see that customer is over-committed then we will direct that customer to StepChange, who is our partner. At that point we do not get any credit from them. We are not looking for credit, by the way, we are looking to have a customer, ultimately. But that never gets mentioned, no one ever discusses that. It is all about how unscrupulous lenders are, and multiple lending. Ultimately, that customer leaves us in a financially better situation than when they came and saw us. Because the whole part about it is to help them get on with what they are doing. It is absolutely not beneficial, it is not good to us at all, for the customer to leave us in a worse scenario than when they came.

A. (<u>Mr Fuller</u>) But the reality is they will go from you, then they will come over to me, and then we tell them the same thing, and then they go somewhere and get the loan.

A. (<u>Mr Powley</u>) But we have got to stop that, yes, and that is what we said before, we would love to stop it, but we cannot.

A. (<u>Mr Hamblin-Boone</u>) Yes. The majority of customers do not get the amount that they originally applied for according to our independent research of CFA members. But I also think that if you try to put some restriction in, you know, you have to look at the individual, and it cannot be a hard and fast rule. We have seen the demographic changing, particularly online. There are increasingly people who have good incomes who, like all of us, all spend what we earn and have those additional needs for finance. Now, if you are on a good income and you need £500 but the lender is only going to lend you £100, then why would you not go to five different lenders to make up that £500 if that was a convenient and cost-effective way for you to do it because you felt you could pay it? I had an example of someone who said exactly that, asking me why would there be some restriction? Saying he has a good salary, but actually it was very commission-based. So some months he got more than other months and some months he got way more and some he got way less. He needed to make up that income because he still had to provide stabling for horses and gym membership, and all of the nice things this guy's lifestyle had. And he asked if I was telling him he can only have one loan when he is earning X amount of money. That did not seem fair to him.

THE CHAIRMAN: Well, thank you all very much. I think that brings to an end the panel research part of all of that. What we want to do is break to have three separate sessions, of as I said at the start probably about half an hour each. So five to ten minutes ahead of time, but we will try and keep this as best we can to the schedule. I think you are on first. Do you want to stay with us, in that case, and I would ask the others to come back. I think you are on next so it will probably be about 4.10pm or so, if that is okay. And Mr Freeman, I think you are last. Sorry you have got the last slot. If you can come back about 4.40pm. Thank you very much.

Key to punctuation used in transcript

--	Double dashes are used at the end of a line to indicate that the person’s speech was cut off by someone else speaking
…	Ellipsis is used at the end of a line to indicate that the person tailed off their speech and did not finish the sentence.
- xx xx xx -	A pair of single dashes are used to separate strong interruptions from the rest of the sentence e.g. An honest politician – if such a creature exists – would never agree to such a plan. These are unlike commas, which only separate off a weak interruption.
-	Single dashes are used when the strong interruption comes at the end of the sentence, e.g. There was no other way – or was there?