Terms of reference and conduct of the investigation

Terms of reference

1. On 27 June 2013, the OFT made the following reference to the CC:

   1. The OFT, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), hereby makes a reference to the Competition Commission for an investigation into the supply of payday lending in the United Kingdom.

   2. The OFT has reasonable grounds for suspecting that a feature or a combination of features of the market or markets for the supply of payday loans in the UK prevents, restricts or distorts competition in this market.

   3. For the purposes of this reference, payday lending consists of the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the consumer's next payday or at the end of the month and specifically excluding home credit loan agreements,[1] credit cards,[2] credit unions and overdrafts.[3]

   (signed) **CLIVE MAXWELL**
   Office of Fair Trading
   27 June 2013

Conduct of the investigation

2. This appendix provides a more detailed explanation of the conduct of the payday lending market investigation.

3. On receiving the reference from the OFT on 27 June 2013, we published on our website an invitation to interested parties to provide evidence about the referred market. We also sent out on the same day, and over the course of the following week, around 50 letters to payday lenders requesting initial information about their businesses. Non-confidential versions of initial submissions have been published on our website.

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[1] As defined in the CC's Home Credit Market Investigation Order 2007.
[2] Credit-token agreements as defined in the Consumer Credit Act 1974.
[3] Authorised overdrafts within section 74(1) (b) and overdrawing within section 74A of the Consumer Credit Act 1974.

4. On 7 August 2013 we published an administrative timetable for our investigation.

5. On 14 August 2013 we published an issues statement, setting out the areas of concern on which the investigation would focus based on the OFT's market study report, the terms of reference and the initial information and evidence we had received. We received 16 responses from payday lenders, trade associations, consumer and debt advice agencies and other interested parties in response to the issues statement. Non-confidential versions of responses to the issues statement have been published on our website.

6. In July 2013 we sent out a request to four trade associations requesting a list of their members and whether they provide online or high street lending (or both). During July and August 2013 we held initial meetings with five payday lenders to help identify data and information held by the industry operators.

7. In August 2013, we requested customer- and transaction-level data from 11 major payday loan companies. These 11 major lenders operated 16 separate companies in the UK and marketed loans under around 22 different brands. Between them, these lenders provided a range of single repayment and instalment loans available online and on the high street. The data requested covered all payday loans issued by each lender in the period 1 January 2012 to 31 August 2013 and involved an analysis of 15 million loans, with a total value of £3.9 billion.

8. In September 2013, we sent out market and financial questionnaires to 11 major payday loan companies, covering 16 separate companies in the UK. In October 2013 an information request was sent to over 200 companies for which payday lending may have been a relatively small part of their overall business or which may, based on the information available to us at the time, have accounted for a small part of the market. This specific information request was drafted in consultation with various trade associations. In October 2013, we also sent out detailed questionnaires to other credit providers and non-payday lenders including: banks, credit card providers, credit unions, home credit providers, logbook loan providers, pawnbrokers, peer-to-peer lenders and retailers.

9. During September and October 2013 we visited the premises of four payday lenders and were given presentations on the operation of their services. We also met with two trade associations during this period. We collected written evidence and gathered data from a large number of third parties throughout this period of the investigation including other government departments/regulators, other credit providers and non-payday lenders, investors, credit reference agencies, lead generators, price comparison websites, Internet

search engines, trade associations, consumer bodies, and debt and financial advice agencies. A number of these information and data requests were followed up with further written requests and/or telephone calls and/or meetings.

10. During October and November 2013, we held three hearings with other credit providers and a multi-lateral hearing with five consumer and debt and financial advice agencies. Non-confidential versions of summaries of the hearings have been published on our website.

11. As well as the information and data gathering, we published on 20 August 2013 our survey methodology. Following a tender process, we commissioned TNS BMRB to carry out quantitative and qualitative research to inform our understanding of payday lending from a consumer perspective, their decision processes and the factors which influence them. The results of this survey were published on our website on 31 January 2014. A technical report was published on 14 March 2014.

12. Prior to the publication of our provisional findings and in order to facilitate contributions from parties, we published our views on a range of issues at various stages and, where appropriate, the results of our analyses. Our intention was to assist the parties in understanding our concerns and our position during the investigation, to encourage comments and to aid transparency generally. This published material included the annotated issues statement (published on 31 January 2014) and also included the following series of working papers:

- Companies background – final version published 31 January 2014
- Competition between payday lenders and other credit providers – final version published 31 January 2014
- Competition between payday lenders and other credit providers – Annex 1 – Price comparison method – final version published 14 February 2014
- Competition in product innovation – final version published 31 January 2014
- Customers and their loans (and a descriptive statistics methodology note) – final version published 14 February 2014
- Customers' use of multiple payday lenders – final version published 10 April 2014
- Entry and expansion – final version published 21 February 2014

- Local competition – final version published 19 February 2014
- Payday lender pricing – final version published 19 February 2014
- Prices over time – final version published 19 February 2014
- Payday loan products – final version published 31 January 2014
- Profitability of payday lending companies – final version published 24 February 2014
- Regulation of payday lending – final version published 31 January 2014
- Repeat borrowing and customers' use of multiple lenders – final version published 10 April 2014
- Repeat customers (and accompanying notes) – final version published 14 February 2014
- Review of the websites of payday lenders and lead generators – final version published 31 January 2014
- Shopping around – final version published 19 February 2014
- The size and concentration of the payday lending sector – final version published 14 February 2014
- Use of other credit products by payday loan customers – final version published 10 April 2014

13. We have published on our website non-confidential versions of the submissions we received in response to our annotated issues statement and our working papers, along with summaries and transcripts of the 13 hearings held with payday lenders, trade associations and the FCA during February and March 2014.

14. A non-confidential version of these provisional findings has been placed on our website.

15. We would like to thank all those who have assisted in our investigation so far.

Payday loan products

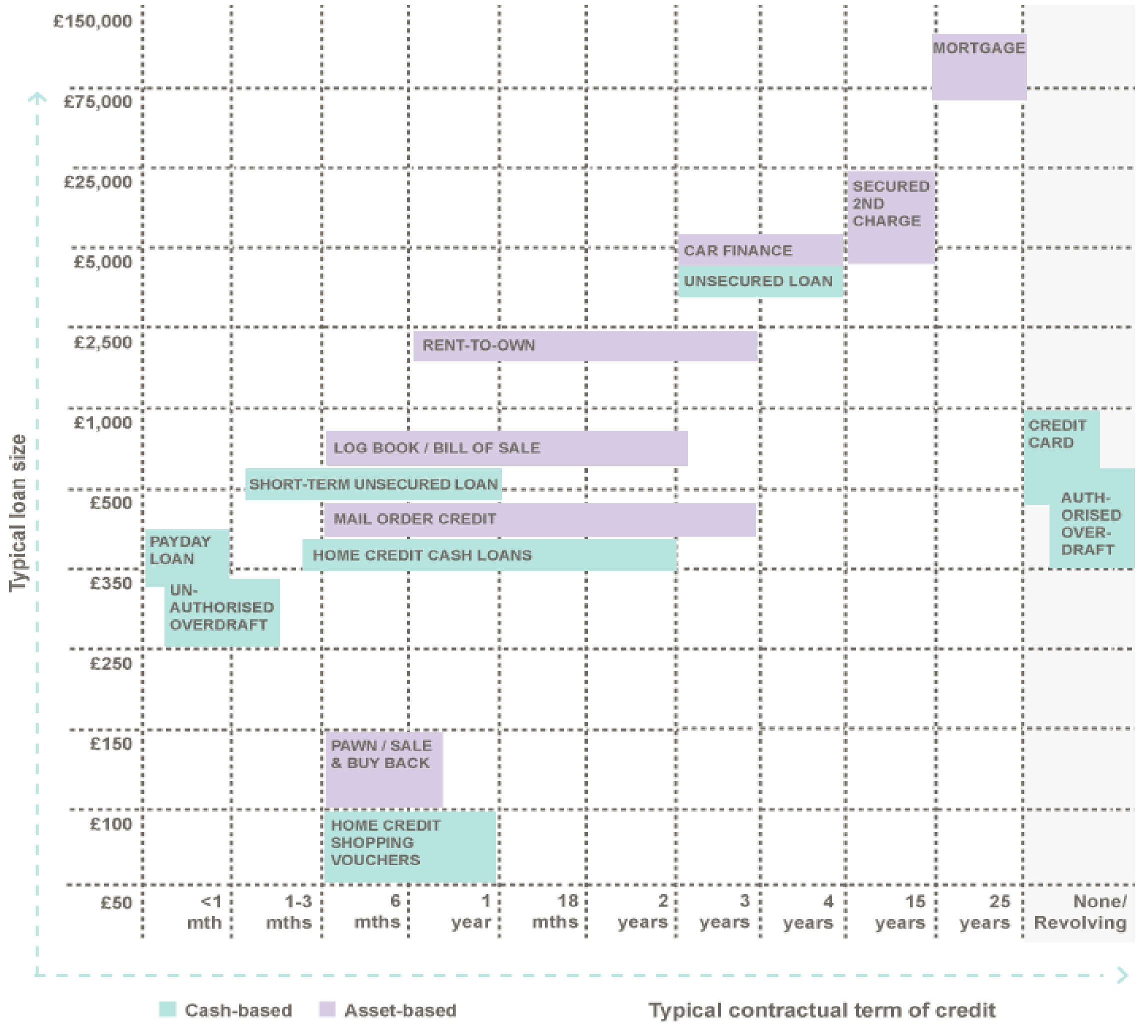
Payday loans in context

1. Payday lending is part of the unsecured credit sector. Within this sector, payday loans fall into a smaller category of unsecured short-term high-cost lending. Section 5 on market definition and the constraints from other forms of credit and the corresponding appendices provides further explanation analysis of the position of payday loans relative to other credit products.

2. Figure 1, produced by Provident Financial, seeks to put the payday loan products in the context of other unsecured and secured credit available in what it describes as the non-standard small-sum credit market.

FIGURE 1

Payday lending and the non-standard credit market



Source: Provident Financial.

3. The combined characteristics that differentiate payday loans from other forms of credit is that they are:

(a) unsecured credit products;

(b) of relatively low value;

(c) sold at a high cost; and

(d) marketed on a short-term, speed-orientated basis.

However, there is no standard by which to identify a payday loan, and there is significant variation in the types of products on offer in the sector.

4. To provide a common basis for our analysis, we require a working definition of what constitutes a payday loan. This appendix identifies common or similar characteristics across different products as well as dimensions across which products tend to vary.

Product characteristics

What is a payday loan?

5. Payday lending is defined in our terms of reference as:

> the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month, and specifically excluding home credit loan agreements, credit cards, credit unions and overdrafts.[1]

As noted in the OFT reference, the term 'payday loans' is not used exclusively to refer to loans linked to the borrower's payday.[2]

6. In PS14/3 the FCA uses the term 'high-cost short-term credit' to refer to the payday lending sector, to account for the fact that loans are not necessarily paid back on the borrower's payday, and to capture longer-term products that are repaid over several months.[3] It has proposed a definition of a high-cost short-term credit as regulated credit agreements:

(a) which are borrower-to-lender or P2P agreements; and

[1] See Appendix 1.1.
[2] Payday lending market investigation: Terms of reference, OFT, 27 June 2013.
[3] PS14/3, p44.

(b) in relation to which the APR is equal to or exceeds 100 per cent, either:

(i) in relation to which a financial promotion indicates that the credit is to be provided for any period up to a maximum of 12 months or otherwise indicates that the credit is to be provided in the short term; or

(ii) under which the credit is due to be repaid or substantially repaid within a maximum of 12 months of the date on which the credit is advanced;

(c) which is not secured by a mortgage, charge or pledge; and

(d) which is not:

(i) a credit agreement in relation to which the lender is a community finance organisation; or

(ii) a home credit loan agreement, a bill of sale loan agreement or a borrower–lender agreement enabling a borrower to overdraw on a current account or arising where the holder of a current account overdraws on the account without a prearranged overdraft or exceeds a prearranged overdraft limit.[4]

7. We received a comment requesting that, because the FCA is the sector regulator, we should use its definition for the reference products as of 1 April 2014.[5] We are mindful of the need to take into account the regulatory environment at each stage of the investigation. However, we define the reference products for the purpose of conducting our analysis. It does not bind our approach to defining the economic market in which these products compete, nor does it prevent us from imposing remedies on a broader range of participants in the market, should that be necessary to remedy any AEC we might find.[6]

8. The FCA's definition serves a different purpose from our definition in that it forms part of CONC and will, therefore, restrict the types of firms that they can target for enforcement purposes.

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[4] FCA 2014/12 Consumer Credit (Consequential and Supplementary Amendments) Instrument 2014, Annex A, Amendments to the Glossary of Definitions.
[5] MYJAR response to the payday loan products working paper, p1.
[6] Our definition is a tool which allows us to analyse the traded products in the market which are subject to our reference. The market definition(s) used by the CMA need not always correspond with the 'relevant market(s)' as used in the Act. We come to a definition on the economic market by considering the competitive connection between those products that are subject to the reference, as well as other products and other factors influencing the relevant market: see pp130–153 of the Guidelines.

9. For the purposes of our investigation we define payday loans as short-term, unsecured credit products which are generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less. Home credit loan agreements, credit cards, overdrafts, credit union loans and retail credit are all excluded.[7]

10. It should be noted that this definition differs from (and is slightly broader than) that used in our issues statement, which referred to products which are generally taken out for *less* than a year and which are generally of value *less* than £1,000.[8] The revised definition is to capture products at the edge of what might be considered a payday loan, such as 12-month loans or loans where the amount borrowed may in some instances be £1,000 or more (eg some QuickQuid Pounds to Pocket loans) but which nonetheless are very similar in concept to other payday products within our terms of reference. It will also allow us to take into account ongoing product innovation, the trend of which appears to be towards products which allow borrowers increased flexibility over loan term and amount.

11. For the purposes of our information requests we have needed to employ a more precise definition, without the use of ambiguous terms such as 'generally', in order to allow lenders and ourselves to establish whether products at the edges of our definition should be included or not. Accordingly, we asked lenders to provide information on short-term, unsecured credit products which can be taken out for 12 months or less, and where the minimum amount that can be borrowed is £1,000 or less.

12. This definition of what constitutes a payday loan has been used to frame the focus of our analysis. However, within this, we consider variation in the extent of competition between lenders offering different types of payday products (for instance, online and high street lenders, and lenders offering shorter- and longer-term products). We also consider in Section 5 the competitive constraint presented by lenders offering products that fall outside of this definition (for instance, other types of credit).

Product characteristics

13. Lenders offer a range of different types of payday products that fall within our definition. In what follows we describe the key characteristics of the payday

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[7] We are considering the competitive constraint presented by lenders offering products that fall outside of this definition (for instance, other types of credit), and to allow us to consider competitive landscape as a whole we have made information requests to suppliers of credit products within and outside the relevant market: see paragraph 12 of this appendix.
[8] Issues statement, paragraph 10.

products offered by the 11 major lenders.[9] The products included in our review are set out in Table 1.

TABLE 1 **List of the payday loan products included in this review**

Lender	*CC estimate of total share of payday revenue*	*Brand*	*Product name*	*Available online/ in-store*
Ariste Holding Limited (Ariste)	[0–5]%	Txtme Cash	1-month loan	Online
		Cash Genie/Cash Genie Loans	1-month loan	Online
			3-month loan	Online
		Payday is Everyday	1-month loan	Online
CashEuroNet UK, LLC (CashEuroNet)	[10–20]%	QuickQuid	FlexCredit	Online
			Payday	Online
		Pounds to Pocket	Instalment Loan	Online
CFO Lending Limited (CFO Lending)	[0–5]%	CFO Lending	Short Term Loan	Online
		PayDay First	PayDay Loan	Online
Cheque Centres Group Limited	[0–5]%			
• The Loan Store (Cheque Centre (online))		The Loan Store	Payday Loans	Online
• Cheque Centres Limited (Cheque Centre (high street))		Cheque Centre	Short Term Loan	In-store
Dollar Financial UK Limited (Dollar)	[20–30]%)			
• Instant Cash Loans Limited (Instant Cash Loans)	[5–10]%	The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	In-store
			Cheque based loan	In-store
• Express Finance (Bromley) Limited (Express Finance)	[5–10]%	PaydayExpress	PayDay Loan	Online
• MEM Consumer Finance Limited (MEM)	[5–10]%	PaydayUK	Payday Loan	Online
Global Analytics Holdings, Inc	[0–5]%			
• Lending Stream LLC (Lending Stream)		Lending Stream	Loan	Online
• Zebit LLC (Zebit)		Zebit	Short Term Cash Loan	Online
Harvey & Thompson Limited	[0–5]%	H&T pawnbrokers	Payday Loan (Cheque)	In-store
			Payday Loan (Debit)*	In-store
			Online Payday Loan†	Online
			KwikLoan	In-store
SRC Transatlantic Limited (SRC)	([0–5]%)			
• Speedy Cash	[0–5]%	Speedy Cash	Flex account	In-store
			Flex Loan (12-month)	In-store
			Payday Loans	Both
• Wageday Advance Limited	[0–5]%	WageDayAdvance	Loan	Online

[9] The 11 major lenders included in this analysis operate 16 separate companies in the UK and market loans under around 22 different brands (see appendix to the companies background working paper for a full list of the companies and brands). Between them these lenders provide a range of single repayment and instalment loans available online and on the high street. Collectively, we estimate that these lenders accounted for over 90% of loans issued in 2012 and over 90% of payday loan revenue in 2012. We consider the pricing of payday loans in Section 4.

Lender	*CC estimate of total share of payday revenue*	*Brand*	*Product name*	*Available online/ in-store*
TxtLoan Ltd	[0–5]%	MYJAR	Cash Loan 18 day	Online
The Cash Store Financial Limited (The Cash Store)	[0–5]%	Cash Store	Payday Loan	In-store
Wonga Worldwide Limited (Wonga)	[20–30]%	Wonga	Little Loan	Online

Source: CMA analysis.

*H&T has now withdrawn its in-store payday loans.
†H&T is withdrawing its online payday loan with a projected closure date in the first week of February 2014.
Note: The revenue share figures may be updated to reflect the work on market concentration.

14. As can be seen in the table, each lender generally offered one or two products under each of its brands, and some lenders operate multiple brands. We have excluded some products offered by these 11 major lenders as they fall outside our definition of what constitutes a payday loan, including:

    (a) Wonga's Paylater and Everline products – the former is a retail financing product while the latter is for business loans of over £3,000; and

    (b) SRC's Flex Loan (18-month) which is offered for a minimum of 510 days.

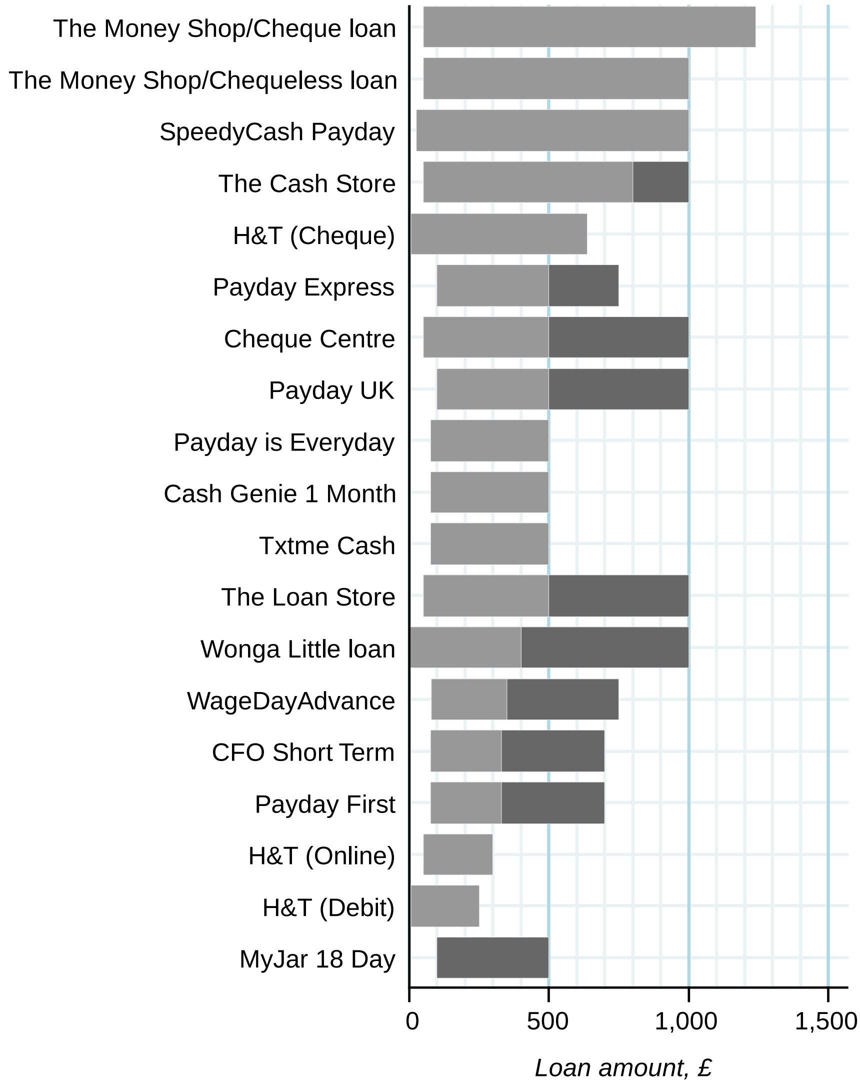
Amount of loan

15. One dimension in which different lenders' products vary is in terms of the amount that is available to be borrowed.

16. Figure 2 shows the initial amount that new and repeat customers are able to borrow using payday loan products with a single repayment date. Figure 3 does the same for the instalment products.

FIGURE 2

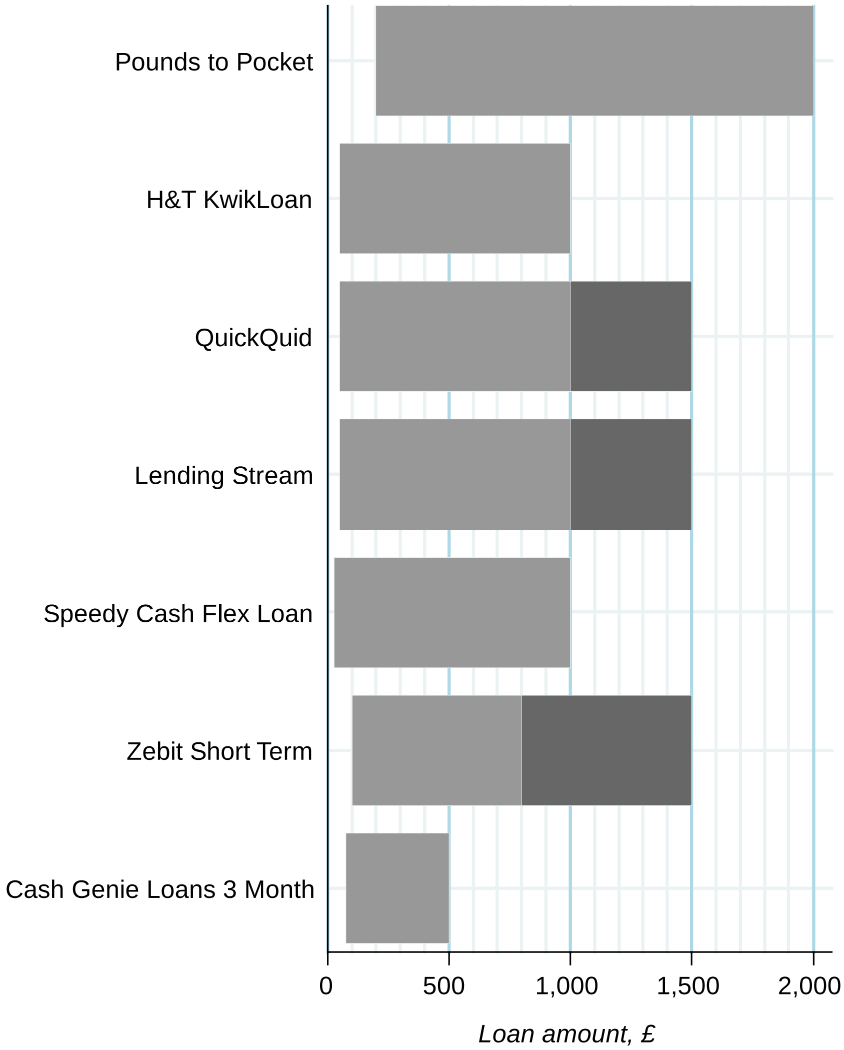
The amount that can be borrowed using the single repayment products offered by the largest lenders



Source: CMA analysis.
Notes:
1. The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.
2. New customers taking out a MYJAR 18-day loan are limited to borrowing exactly £100; repeat customers can borrow up to £500.

FIGURE 3

The amount that can be borrowed using instalment products offered by the major lenders



Source: CMA analysis.
Note: The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.

17. The figures show that nearly all payday lenders allow customers to borrow small amounts, with all but the QuickQuid Pounds to Pocket product offering customers the ability to borrow £100 or less.

18. There is more variation between products in terms of the maximum amount that a new customer can borrow, ranging from £100 for a new customer taking out a MYJAR 18-day loan, up to £2,000 for an individual taking out a Pounds to Pocket Loan. Commensurate with their longer terms, instalment products generally allow customers to borrow larger amounts. For shorter-term products, the maximum amount that can be borrowed generally lies between £100 and £1,000.

19. As the figures also show, a number of products allow repeat customers to borrow more than new customers, including many of the most popular products in the sector. The additional amount that can be borrowed can be up to five times as much.

Duration of loan

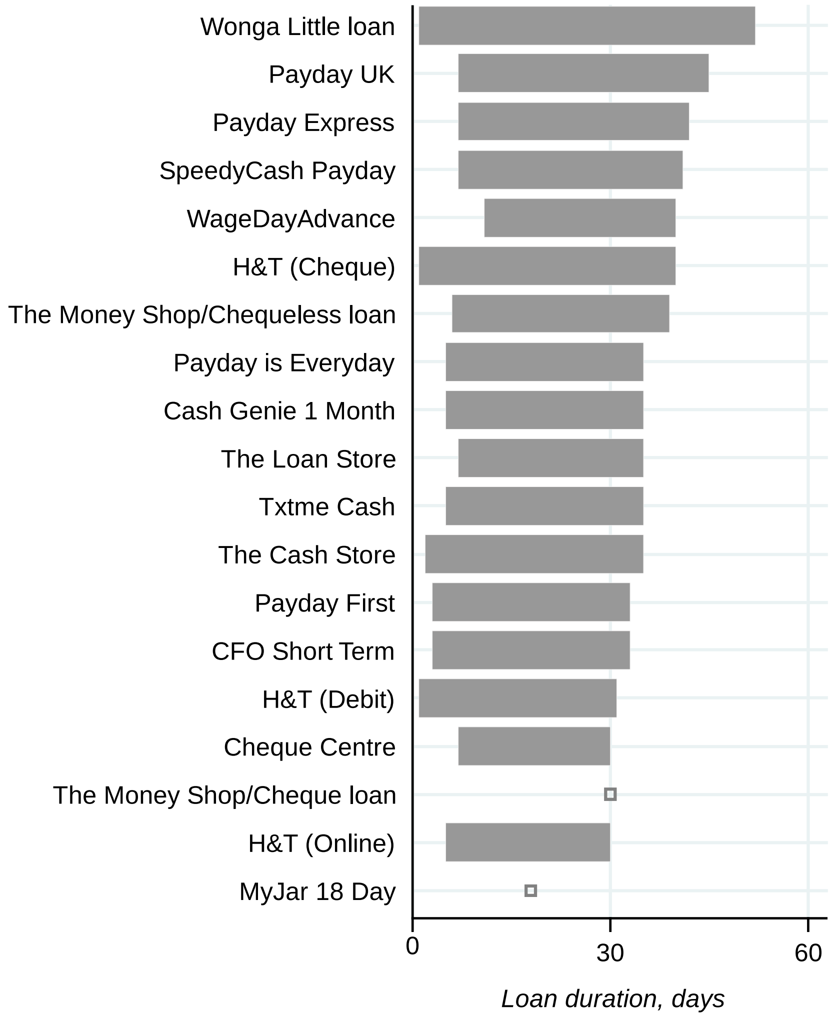
20. An important dimension across which the products of the largest payday lenders differ is in terms of the length of time for which money can be borrowed. There are broadly two types of loans: single repayment products and loans repaid in a number of instalments.

21. Single repayment products are generally linked to an individual's payday; a loan will cover the period up to the day on which a borrower is next paid. For some products, if the customer's payday is within a very short period, the loan term will carry over until the next payday. The minimum loan terms that we observe among products of this type, offered by these 11 lenders, range from one to eleven days and are most commonly five to seven days.

22. Figure 4 shows the loan terms (in days) available under the single repayment products offered by the lenders in our review. Figure 5 does the same for the instalment products.

FIGURE 4

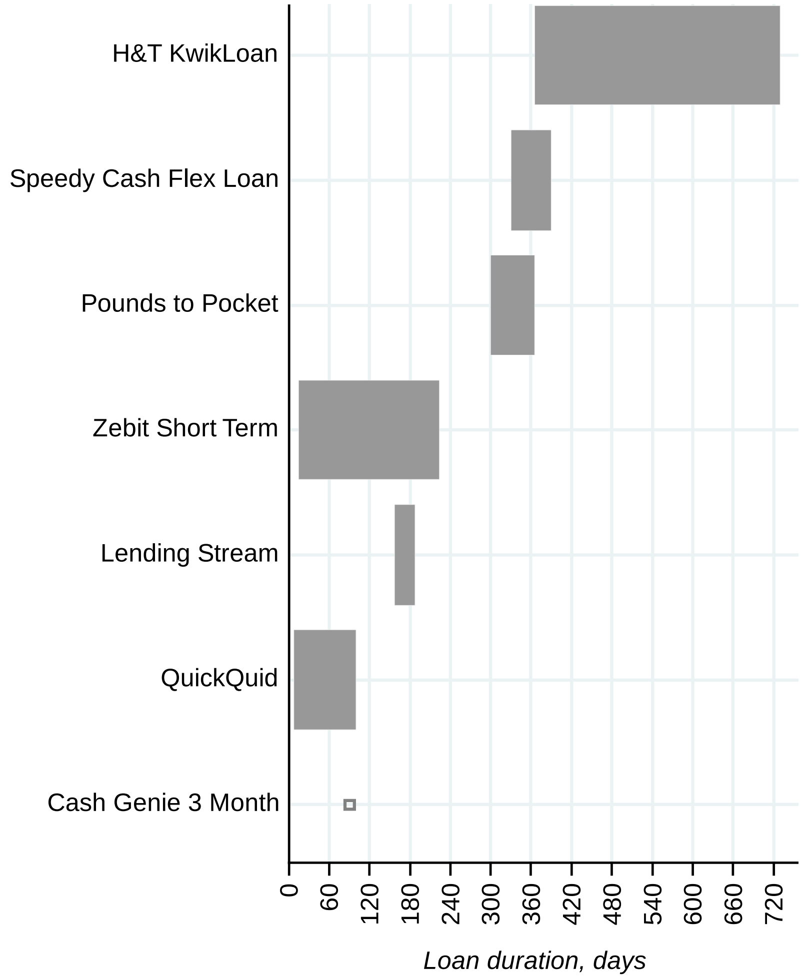
Loan durations for the single repayment products offered by the major lenders



Source: CMA analysis.
Note: ☐ indicates products that must be taken out for a specific length of time.

FIGURE 5

Loan durations for the instalment products offered by the major lenders



Source: CMA analysis.
Note: □ indicates products that must be taken out for a specific length of time.

23. The Wonga Little Loan product is a single repayment product where the repayment date is not necessarily linked to the borrower's payday. This product allows the customer the flexibility to choose the repayment date, regardless of the date on which they get paid. Another single repayment product for which repayment is not linked to a customer's payday is the MYJAR fixed 18-day loan product.

24. A number of lenders offer payday products that allow an individual to borrow for longer periods and make repayments in instalments. These loans are offered for up to, or just over, one year, with repayments generally made at monthly intervals (although some lenders allow a weekly repayment schedule). As with single instalment products, repayment dates are tied to the customer's payday.

TABLE 2 **Instalment loan products**

Product	*Loan duration (days)*	*Minimum no of instalments*	*Maximum no of instalments*	*Minimum instalment amount*
Cash Genie/Cash Genie Loans 3-month	90	3	3	Equal instalment of total repayable
H&T KwikLoan	365	12	104	Equal instalment of total repayable
Lending Stream	157–187	6	24	Interest for the 'cycle' and a fraction of the principal
Pounds to Pocket	300–365	10	12	Equal instalment of total repayable
QuickQuid Payday Loan	8–100	1	3	Finance charge (interest)
Speedy Cash Flex Loan (12-month)	330–390	11	52	Finance charge (interest) and fraction of the principal
Zebit Short Term Loan	14–224	1	28	Equal instalment of total repayable

Source: CMA analysis.

25. For some products, the borrower may be allowed flexibility over the number of instalments (for instance, the QuickQuid payday loan, which allows repayment in one, two or three monthly instalments); for others, the number of instalments may be fixed. Similarly, some products require borrowers to repay fixed amounts in each pay period, while other products – closer to open credit facilities – allow customers flexibility over the amount they repay. Most products require borrowers to repay in equal amounts.

Extension facilities

26. Another characteristic of many payday loan products is the existence of extension facilities, commonly referred to as rollover facilities.

27. As a working definition (for example, for the purposes collecting transaction data), we took the view that a loan is rolled over if the loan (or part of the loan) is not repaid on the date originally agreed, but where the borrower is not considered to have defaulted as a further agreement to extend the repayment period has been entered into between the borrower and the lender. The customer may pay all outstanding and unpaid fees, finance charges or interest at the time the rollover is executed but in all cases, some or all of the loan principal is carried forward after the date of the rollover.[10]

28. The FCA has made rules[11] to limit the number of rollovers and other types of extension where the lender receives consideration, for example some form of payment or promise to provide something by the customer, in connection with

[10] In our transaction data request, we correspondingly asked lenders not to consider an extension to constitute a rollover if a lender and customer agree to keep a loan agreement open and unpaid on the due date and the borrower is not considered to have defaulted and the customer is not charged further interest, fees or charges for the additional time.

[11] FCA 2014/11 Consumer Credit Instrument 2014, Annex, Consumer Credit sourcebook (CONC), rule 6.7.17 R(1).

the extension. The FCA considers these types of extension facilities to be a form of refinancing, which it defines as follows:

> ‘refinance’ means to extend, or purport to extend, the period over which one or more repayment is to be made by a customer whether by:
>
> a) agreeing with the customer to replace, vary or supplement an existing regulated credit agreement;
>
> b) exercising a contractual power contained in an existing regulated credit agreement; or
>
> other means, for example, granting an indulgence or waiver to the customer.

29. The exact terms on which these facilities are offered and the terms used to describe them vary, but the common effect is to allow the customer to extend the duration of their loan beyond the originally agreed repayment date.[12] We consider the various facilities currently offered by payday loan providers below.

30. For single repayment products, the most common extension facility offered by lenders allows borrowers to pay off the interest and fees already accrued, and defer repayment of the principal (and associated interest and fees) until a later date. The effect of the extension is to allow the customer to repay in instalments, although instalment products themselves will differ in that they generally require some proportion of the principal in addition to interest and fees to be paid in each instalment.

31. Table 3 describes the extension facilities offered by the major lenders. As can be seen, five of the products offered by the major lenders do not allow for extensions of any sort, but most merely limit the number of available extensions. Generally, limits range from two to ten, but one of the relatively longer-term products allows for practically unlimited extensions.[13] The vast majority of lenders allow their loans to be extended up to three times.

32. Most instalment products do not allow for extensions beyond the final repayment date. Dependent on the flexibility of the lender on the repayment of

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[12] The Consumer Finance Association prohibits any extension that allows for this in its Code of Practice: ‘4.6.1. Members shall never extend interest or fees due on a short term loan. Only the original principal sum may be extended.’

[13] The limit on the number of times H&T’s KwikLoan can be extended is 999 times. Given that the duration of the loan is fixed at a year, this product can be treated as allowing for unlimited rollovers. However, H&T told us that technically KwikLoan is never extended but rather a new agreement is drawn up for the new loan, part of which is used to repay the outstanding balance of the existing loan.

instalments, instalments could be deferred to later repayment dates. Three of the seven instalment products included in our review have rollover facilities. The QuickQuid payday loan can be taken out for an initial three-month term and extended for a further two months – one month at a time – at the cost of an additional finance charge. The Pounds to Pocket loan, which is normally offered for 12 monthly instalments, can be rolled over three times.

TABLE 3 **Extension policies**

Brand	*Product name*	*Allows repayment in instalments?*	*Loan duration (in days)*	*Maximum no of times loan can be extended*
Cash Genie/Cash Genie Loans	3-month loan	Yes	90	1
	1-month loan	No	5–35	3
Cash Store	Payday Loan	No	2–35	4
CFO Lending	Short Term Loan	No	3–33	3
Cheque Centre	Short Term Loan	No	7–30	3
H&T	Payday Loan (Cheque)	No	1–40	0
	Payday Loan (Debit)	No	1–31	0
	Online Payday Loan	No	5–30	0
	KwikLoan	Yes	365–730	999
Lending Stream	Loan	Yes	157–187	0
MYJAR	Cash Loan 18-day	No	18	0
PayDay First	PayDay Loan	No	3–33	3
Payday is Everyday	1-month loan	No	5–35	3
PaydayExpress	Payday Loan	No	7–42	3
PaydayUK	Payday Loan	No	7–45	3
Pounds to Pocket	Instalment Loan	Yes	300–365	3
QuickQuid	Payday	Yes	8–100	2
Speedy Cash	Flex account	Yes	330–390	0
	Flex Loan (12-month)	Yes	Open-ended	N/A
	Payday Loans	No	7–41	5
The Loan Store	Payday Loans	No	7–35	3
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	No	6–39	3
	Cheque based loan	No	30	3
Txtme Cash	1-month loan	No	5–35	3
WageDayAdvance	Payday Loan	No	11–40	5
Wonga	Little Loans	No	1–52	3
Zebit	Short Term Cash Loan	Yes	14–224	0

Source: CMA analysis.

Notes:
1. The two open revolving credit products are excluded from this table because extensions are not applicable to their use.
2. N/A = not applicable.

Top-up facilities

33. In addition to the initial amount lent, some products allow the borrower to increase or top up their loan before the end of the loan term. These facilities work on the principle that a customer might choose to borrow or be borrowing less than the amount they are approved for or the lender is willing to underwrite, and so is given the opportunity to ‘top up’ to this higher amount during the course of the loan term.

34. Many lenders use fixed-sum credit agreements, and so no top-up can be made under the original agreement. To allow for a top-up, a modifying credit agreement or an entirely new credit agreement must be entered into.[14] Some products are marketed with this as a possibility from the outset. For example, with a Wonga Little Loan, top-ups are available on an outstanding loan, subject to affordability checks, for an additional transmission fee of £5.50.[15] A modifying credit agreement is entered into to reflect the additional amount lent but the repayment date remains the same.

35. Alternatively, CashEuroNet's Pounds to Pocket product is marketed as having a top-up facility under which a customer may (without incurring any additional early settlement or processing fees) take out a new loan of a greater value, which is used in part to pay off the existing loan early.[16] As a new agreement is made, the duration and value of the loan are variable. In theory, this type of facility could allow for the type of extension that is referred to in the footnote to paragraph 29 above.

36. Where lenders use running account credit agreements, whether for single repayment loans or revolving credit facilities, the amount lent can be varied throughout the duration of the loan without having to enter into a new loan agreement. A credit limit is specified in the agreement; however, this can be varied on notice by the lender to reflect the individual's creditworthiness.

37. Two of the products offered by these 11 lenders, QuickQuid FlexCredit and the Speedy Cash Flex Account, operate as revolving credit facilities. For both these products, once the account is opened, the customer may draw against their credit limit for the duration. Customers can make periodic repayments (typically monthly) on their account.[17] FlexCredit payments are variable and repayment schedules can be changed at any time.[18]

Repayment methods

38. Another distinguishing characteristic of different lenders' payday loans relates to the methods of repayment available to the customer. There are two standard methods of repayment used by the largest lenders. All products offered online are debit card based and allow the lender the use of a CPA.

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[14] See section 82 of the Consumer Credit Act 1974 for situations in which a modifying credit agreement is required and provisions as to form.
[15] Wonga website.
[16] Pounds to Pocket website.
[17] In their responses to the market questionnaire, CashEuroNet told us that FlexCredit was limited to 300 days while Speedy Cash told us that the Flex Account was open-ended.
[18] For FlexCredit, minimum required payments are comprised of accrued interest plus 10% of funded principal.

The majority of high street lenders offer both debit-card-based and more traditional cheque-based loans.

39. From the perspective of the lender, these repayment methods provide a certain amount of security; if there is money in the customer's bank account, these methods provide access to it.

40. Under a debit-card-based loan the borrower will nominate a debit card at the outset of the credit agreement. A CPA allows the lender the ability to withdraw amounts the borrower owes under the loan agreement via the nominated debit card. A nominated debit card is generally required for a loan to be granted, and customers can only choose to make repayments by a different method at a later date.

41. A cheque-based loan requires the customer to write out a cheque, which may be post-dated, for the total amount repayable, which the lender agrees not to cash until the end of the loan period. This type of loan is only offered by high street lenders and most will give customers the option of paying by another method on the repayment date (and destroying the cheque).

Speed of delivery

42. A characteristic of payday lending, emphasised by some lenders in their marketing material, is the speed of approval and the length of time before customers receive funds once approval has been given.

43. If a manual review of the lending decision is not required, the approvals process, excluding the time taken for a recipient bank to process transfers (see below), can take under a minute and rarely more than 5 minutes from the completion and submission of the application form. This includes the time it takes for the lender to approve the application and submit the fund transfer. If some manual review is required, or the lender requests additional documentation from the customer, approval times can take anywhere from 2 hours to one week. Table 4 summarises the times between making an application and the submission of the payment by the lender.

TABLE 4 **Speed of delivery**

Brand	*Product*	*Time to fill app? (mins)*	*Time for approval? (mins)*	*Minimum amount of time to submit payment after application (mins)*
Cash Genie/Cash Genie Loans	3-month loan	5	60	60
	1-month loan	5	60	60
Cash Store	Payday Loan	30	10–15	<60
CFO Lending	Short Term Loan	Not specified	120	60
Cheque Centre	Short Term Loan	5	30	<60
H&T	Payday Loan (Cheque)	20	20	<60
	Payday Loan (Debit)	20	20	<60
	Online Payday Loan	681	766	<60
	KwikLoan	681	20	<60
Lending Stream	Loan	3	2	4
MYJAR	Cash Loan 18-day	5	5	<60
PayDay First	PayDay Loan	Not specified	120	60
Payday is Everyday	1-month loan	5	60	60
PaydayExpress	PayDay Loan	5	<1	45
PaydayUK	Payday Loan	4	<1	60
Pounds to Pocket	Instalment Loan	5	1	60
QuickQuid	FlexiCredit	5	1	60
	Payday	5	1	60
	Flex account	Not specified	30	<60
Speedy Cash	Flex Loan (12-month)	Not specified	30	<60
	Payday Loans	Not specified	30	<60
The Loan Store	Payday Loans	5	30	Loans funded at 1pm & 5.30pm Mon–Fri, 5.30pm Sat
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	5–10	20	<60
	Cheque based loan	5–10	20	<60
Txtme Cash	1-month loan	5	60	60
WageDayAdvance	Short Term Cash Loan	30	120	60
Wonga	Little Loans	5–10	<1	<5
Zebit	Short Term Loan	3	2	4

Source: CMA analysis.

Notes:
1. Lenders were asked for their average approval time. Approval times may vary for some lenders depending on the lender's assessments of the need for additional manual checks for some customers. It may also depend on the times of the day during which they process applications.
2. Payment submission times may depend on whether a customer has opted for faster payment.
3. The 'Minimum amount of time to submit payment after application (min)' means the minimum time after the customer signs/completes the contract.

44. High-street lenders can give the loan in cash on the spot and online lenders will execute a Faster Payment Service or BACS transfer within minutes. BACS transfers take three working days to clear. Faster Payments Service payments are expected to take less than a couple of hours. However, dependent on the recipient bank's procedure and any additional checks they carry out, some transactions may be delayed.[19]

[19] *How does the Faster Payments Service work?*, Faster Payments website.

Transaction data

Introduction

1. This appendix provides a brief overview of the process by which customer- and transaction-level data was collected from payday lenders and the steps taken to clean this information. The purpose of the appendix is to provide further detail of the methodology used to produce its summary statistics regarding payday customers and their loans.

Information requested

2. In August 2013, we requested customer- and transaction-level data from 11 major payday loan companies, including the largest lenders and a mix of online and high street lenders. For further details of these lenders and how they were chosen, see Appendix 2.5.

3. The data requested covered all payday loans issued by each lender in the period 1 January 2012 to 31 August 2013. The parties were asked to provide the data in three batches:

   (a) **Table A: Customer-level data** – data relating to any customer who took out a loan in the reference period. The information included: details of the most recent loan (eg date, channel of purchase) and details of previous transactions (eg number and value of loans in the reference period, date of the first ever loan taken with the lender etc).[1]

   (b) **Table B, part 1: Loan details** – data relating to any loan taken in the reference period, for example product type, channel of purchase, loan date and value, interest and other charges, and details of any risk scores used to decide whether or not to approve the application. Table B, part 1, also included customer demographics such as date of birth, gender and income.

   (c) **Table B, part 2: Loan status** – repayment information relating to each loan included in Table B, part 1, eg whether the loan was repaid in full, whether it was rolled over, the value of any repayments made on the loan

[1] Table A also provides contact details of each customer. However, this information was used mainly in the customer survey rather than in our analysis.

before/on and after the original due date. The information about loan status was to be provided as of 1 October 2013.

4. We assigned each loan and customer a unique ID so that the information in the three tables could be merged together, allowing the creation of a single data set containing loan and customer-level data for the reference period.

Key definitions

5. For the purpose of the data requests, the following key definitions were used:

   (a) **Payday** loan – unsecured loan product taken out for 12 months or less, where the minimum amount that can be borrowed is £1,000 or less, regardless of whether the loan is repaid as a lump sum or in instalments.

   (b) A **loan** was defined as a fixed-sum loan agreement or an advance made to customers under a running account credit agreement. Rollovers/ extensions were not considered separate loans.

   (c) A loan was defined as having been **rolled over** if the loan (or part of the loan) was not repaid on the date originally agreed, but where the borrower was not considered to have defaulted as a further agreement to extend the repayment period was entered into between the borrower and the lender. The customer may have paid all outstanding and unpaid fees, finance charges or interest at the time the rollover was executed but in all cases, some, or all, of the loan principal was carried forward after the date of the rollover. It was not considered a rollover if a lender and customer agreed to keep a loan agreement open and unpaid on the due date, AND the borrower was not considered to have defaulted, AND the customer was not charged further interest, fees or charges for the additional time.

   (d) **Principal** – the loan amount received by the customer.

   (e) **Repayment date** – the original date on which a loan was repayable, as agreed at the outset of the loan. For instalment products we refer to the date of the final repayment as agreed at the outset of the loan.

   (f) **Total amount repayable** – total amount due on the repayment date *as agreed at the time the loan was taken out.*

   (g) A **broker/lead generator** – any credit business involved in the effecting of introductions of individuals desiring to obtain credit to consumer credit businesses.

(h) A loan was considered to have been **repaid in full** if there was no outstanding balance on this loan as of 1 October 2013.

Data cleaning

6. After the data was submitted, the CC began a thorough data checking and cleaning exercise to identify and correct any significant anomalies in the data and ensure consistency across data sets provided by different lenders.

7. Data checking involved identifying any missing or unusual values; duplicate observations; and any discrepancies between different data sets provided by the same lender (eg Table A with Table B) or between different variables in the same data set. We performed the same set of checks on each lender's data sets.

8. Where a potential error affected a significant proportion of observations in the data set, we raised it with the party in question, offering the opportunity either to correct the data or, if it turned out not to be an error but an accurate reflection of the lender's database, to explain why the discrepancy might have occurred. A number of variables/data sets were corrected as a result of these queries.

9. Once all updated versions of the datasets were submitted, steps were taken to ensure that the format of variables, their names and labels were consistent across the different data sets. Finally, the different lenders' data sets were appended together to enable analysis of the set of companies as a whole.

The consolidated data set

10. The final data set covered a total of 32 products supplied by 11 payday lenders. It includes a total of around 15 million loans issued in the period 1 January 2012 to 31 August 2013, with a total value of around £3.9 billion. Loans issued by Wonga account for [✂]% of all loans in the sample, and just under 80% of all loans in the sample are provided by online lenders. Longer-term products (longer-term instalment loans and open credit facilities) account for 4% of the sample.

11. Further details of the share of each lender's loans in the sample are provided in Table 1.

TABLE 1 **The number of loans of each lender in the transaction data**

	2012		*2013 (Jan–Aug)*			
Lender	*Total number of loans*	*Total value of loans £m*	*Total number of loans*	*Total value of loans £m*	*% (number)*	*% (value)*
Ariste Holdings	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PaydayExpress (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PaydayUK (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Speedy Cash (SRC)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
The Money Shop (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance (SRC)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
	8,807,573	2,277.2	6,221,077	1,607.7		

Source: CMA analysis of transaction data provided by the 11 major lenders.

Demographics

1. This appendix provides a brief overview of the demographic background of payday loan customers. The analysis is based on our survey of payday loan customers.

Gender, age and ethnicity

2. The gender,[1] age[2] and ethnic characteristics of payday lending customers, as recorded in our survey, are shown in Figure 1. This shows that:

   (a) Payday lending customers are more likely to be male than the population as a whole.

   (b) Payday borrowers are noticeably younger than the population as a whole. Half (49%) of payday loan customers are 18 to 34 compared with 29% of the UK adult population. Only 9% of borrowers are 55 or older compared with 37% of the population. The age profile of customers may be linked to various other characteristics of customers, such as household composition and economic status, which we consider below.

   (c) While the majority (84%) of payday lending customers are white, payday lending customers are also slightly more likely to be from black and minority ethnic (BME) communities compared with the UK population.[3]

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[1] Our analysis of the transaction data found that 60% of customers are male, compared with 59% in the survey: customer and transaction level descriptive presentation, slide 8.
[2] Our analysis of the transaction data found a mean age of 35: ibid, slide 8.
[3] The age and gender profile of BME customers is different from the population as a whole. Asian customers were underrepresented compared with the UK population and are more likely to be male (84%) and younger than white customers. Black customers were more likely to be female (53% compared with 40% of w1hite customers) and tended to be slightly older.

FIGURE 1

Gender, age and ethnicity characteristics of payday customers

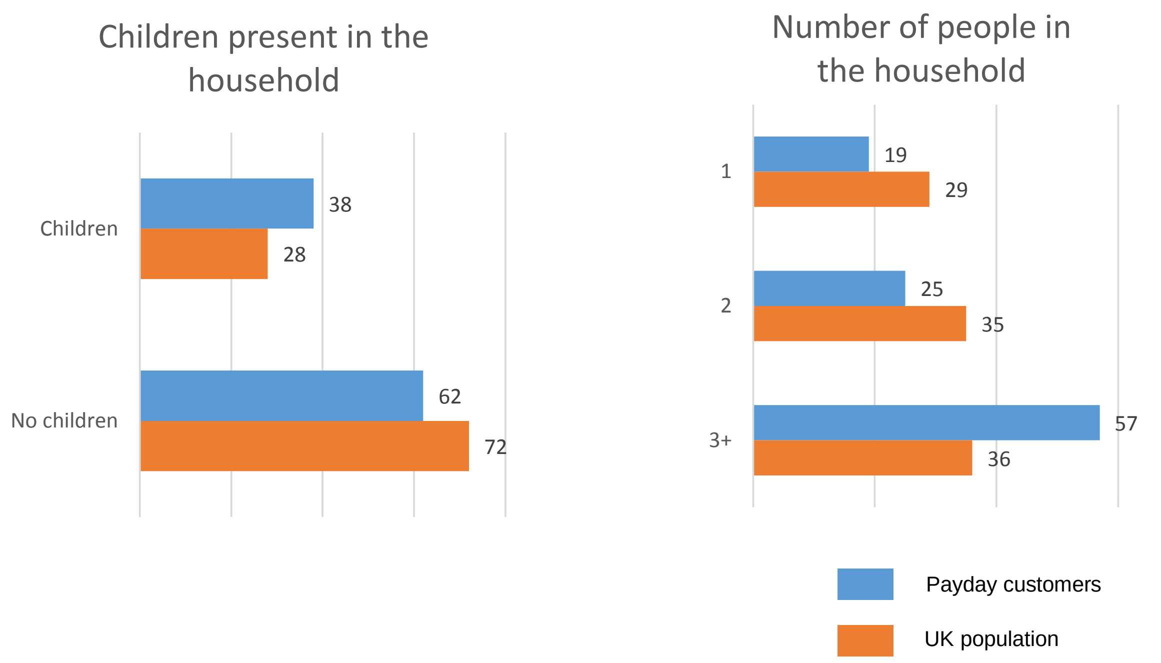
Source: TNS BMRB Survey Report, pp15, 16 & 17.

Composition of customer households

3. The composition of customers' households are shown in Figure 2. Payday lending customers are more likely to have children (which may be a function of the age profile of customers) and correspondingly are also more likely to have larger households, with 57% of customers having more than three people in the household compared with 36% of the population as a whole.

FIGURE 2

Composition of the customer's household



Source: TNS BMRB Survey Report, p18.

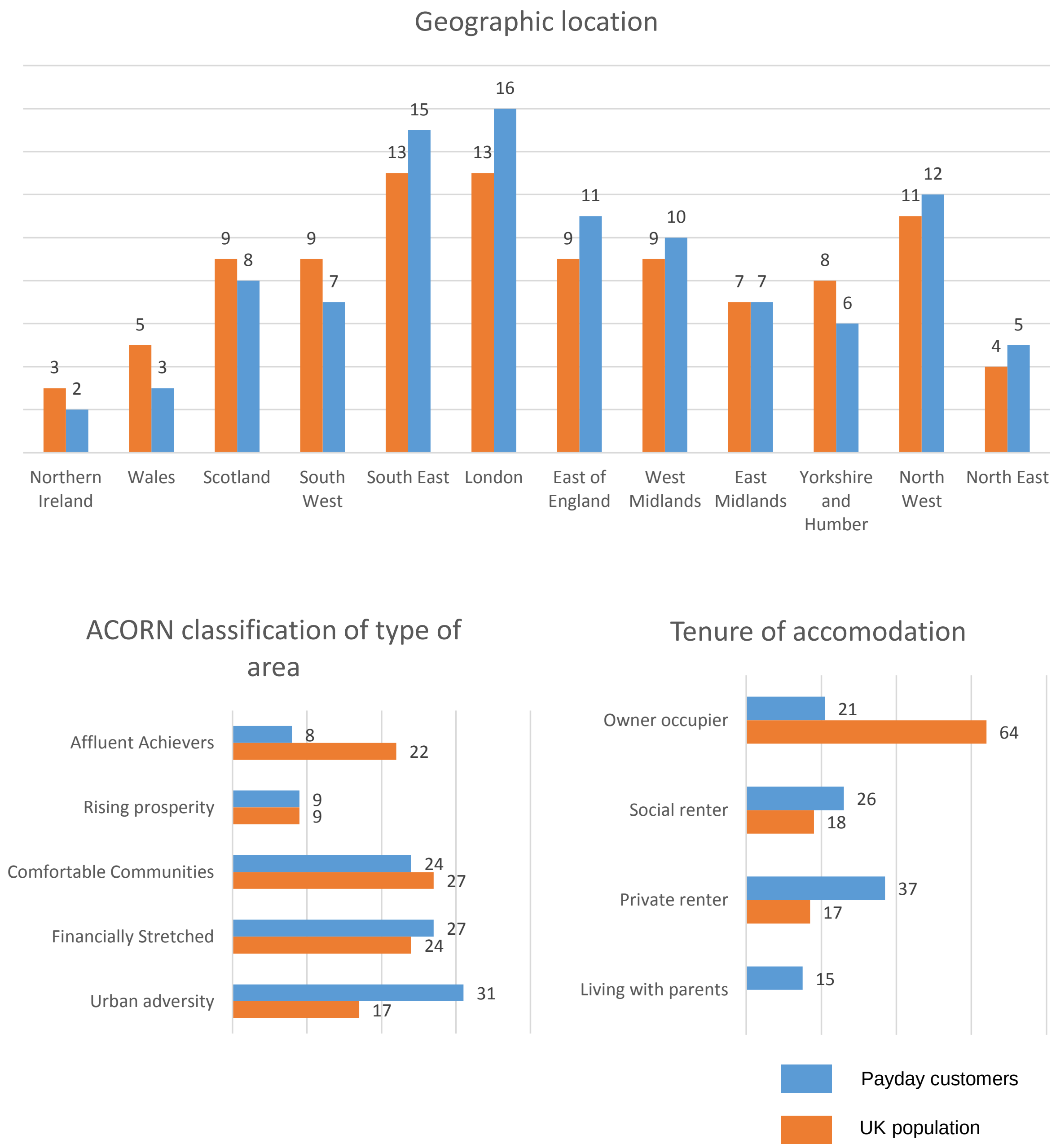
Customer location and housing tenure

4. Figure 3 shows the geographic distribution of payday lending customers and the tenure of their accommodation. Generally, the geographic distribution of payday customers matches that of the UK population as a whole. However, payday lending customers are more likely to live in areas classified as 'urban adversity' and 'financially stretched' and less likely to live in areas classed as 'affluent achievers'.[4] Payday lending customers are much more likely than the population as a whole to be living in rented accommodation, particularly in the private sector and much less likely to own their own home (21% of payday customers compared with 64% of the population).

[4] See http://acorn.caci.co.uk/downloads/Acorn-User-guide.pdf for a detailed description of the ACORN classifications. High street customers were disproportionately concentrated in London compared to online customers, with 24% of all high street customers living in London compared to 14% of online customers. In contrast, 16% of online customers lived in the south east of England (excluding London) compared to 8% of high street customers. In other regions the relative number of online and high street customers are similar. TNS BMRB Survey Report, p57.

FIGURE 3

Geographic and housing characteristics



Source: TNS BMRB Survey Report, pp22, 23, 19.
Note: UK population data used for comparison of tenure does not include a category of 'living with parents' which our survey did.

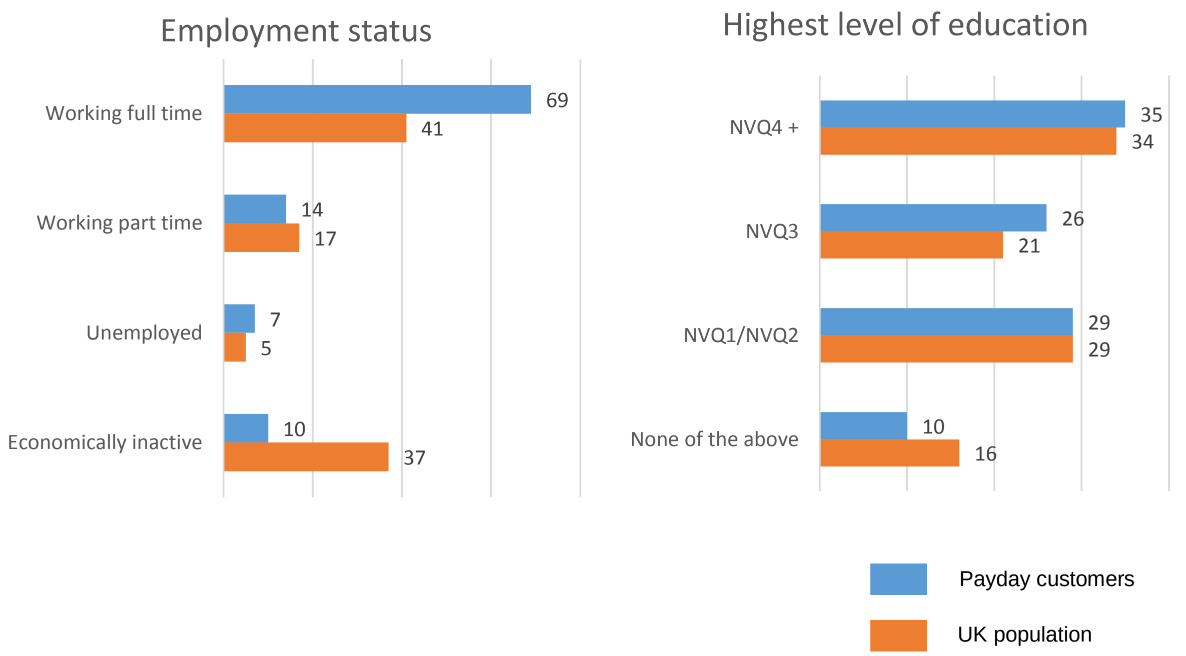
Economic and educational characteristics

5. The economic and educational characteristics of payday lending customers are shown in Figure 4. Payday lending customers are more likely to be in full-time employment than the rest of the population (69% of customers, compared with 41% of the population), and are less likely to be economically inactive (10% of customers compared with 37% of the population). This result

is likely to be linked to both the age and gender distribution of payday customers (as customers are predominantly of working age and more likely to be male). Payday lending customers have a broadly similar level of educational achievement to the population as a whole.

FIGURE 4

Economic and educational characteristics



Source: TNS BMRB Survey Report, pp19, 21, 26.

Product eligibility and approvals

Summary

1. This appendix provides background to the application and approval process for customers taking out payday loans. We cover basic eligibility requirements and verification, and conduct a high-level examination of the affordability, creditworthiness and risk assessments. We then consider the relationships lenders have with CRAs and how they are involved in the approval process.

2. The main evidence base for this section is the responses of 11 major lenders to our market questionnaire.

3. We find a fairly similar picture across the market in terms of the application process, specifically in reference to the application details requested. The approval process has some similarity across lenders that operate through the same distribution channels but the specifics of the affordability and credit-worthiness assessments are not easily comparable. Some significant differences in approach appear between online and high-street lenders; high-street lenders review and verify income and expenditure using some form of physical documentation, such as a bank statement. Almost all the lenders considered use some form of CRA data but the views on CRA products and data is varied, with many lenders preferring their internal data and risk models.

Application process

4. From the perspective of the customer, the application process follows a regular structure for most lenders. The details a lender requests from a customer in a typical application process are considered below. In respect of expenditure, across which there is not a high level of commonality among lenders, the information is set out in Table 1:

   (a) a loan amount using analogue ‘slider’ bars or by typing an amount into a form;

   (b) personal details, including name, address, residential status, date of birth, email address and telephone number;

   (c) income details, such as employment type, net monthly pay, pay frequency, pay date, employment sector and time at current job;

   (d) expenditure:

TABLE 1 **Expenditure details requested by lenders**

Lender	*Brands*	*Information on expenditure required*
Ariste	Txtme Cash/Cash Genie/Cash Genie Loans/Payday is Everyday	None
CashEuroNet	QuickQuid/Pounds to Pocket	'Credit commitments'
CFO Lending	CFO Lending/Payday First	None
Cheque Centres Group Limited	Cheque Centre/The Loan Store	'Expenditure (outgoings)'
Dollar Financial UK Limited (Dollar)		
• Express Finance	PaydayExpress	'Mortgage/rent, monthly credit commitments and other regular outgoings'
• MEM	PaydayUK	
• ICL	The Money Shop/Robert Biggar/ Duncanson & Edwards	'Monthly rent/mortgage, monthly creditor commitments, regular monthly outgoings, mobile phone contract type, car ownership'
Global Analytics		
• Lending Stream	Lending Stream	'Monthly spending'
• Zebit	Zebit	'Monthly spending'
H&T	Harvey & Thompson	Not specified
SRC		
• Speedy Cash	Speedy Cash	'Expenditures'
• Wageday Advance Limited	WageDayAdvance	None
TxtLoan	MYJAR	'Number of current loans and aggregated balance'
The Cash Store	Cash Store	'60 days of expenditure'
Wonga	Wonga	None

Source: CMA analysis.

(e) bank details, ie account name, sort code, account number; and

(f) card details, including card type, card number, expiry date and security code.

5. These details are entered over a few different stages. An online application form usually takes 5 to 10 minutes to complete. If the customer fails any of the automatic checks, because they are, for example, too young or do not have an accepted debit card, they may not be able to continue their application to the end. Once submitted, there will be a short time lapse while the lender completes affordability and risk assessments and the customer will then either be approved or declined.

Basic eligibility requirements and initial verification

6. The minimum eligibility requirements common to all lenders are that the customer is a UK resident and is over 18 years of age. Additional minimum requirements vary. Most lenders require the borrower to have a bank and a debit card. For verification purposes, high-street lenders usually require identification (ID) and proof of address while online lenders require mobile phone ownership. Minimum monthly income requirements vary from £100 to £750.[1]

[1] Minimum monthly income requirements are qualified by the lender's overall approach to affordability assessment. This is discussed in Annex A. Wonga and CashEuroNet do not specify a minimum. For both lenders income is one of a number of variables which feed into integrated risk and affordability assessments.

Table 2 shows the minimum eligibility requirements across the payday loan products offered by the major lenders.

TABLE 2 **Minimum eligibility requirements**

Brand	*Product name*	*Bank account?*	*Debit card?*	*Residency?*	*Employment?*	*Paper ID?*	*Paper proof of address?*	*Mobile phone?*	*Minimum monthly income?*
Cash Genie/Cash Genie Loans	3-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
CFO Lending	Short Term Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
Cheque Centre	Short Term Loan	Yes	Yes	Yes	Yes	Yes	Yes	No	95/Weekly Loan 100/fortnightly 150/Monthly
Harvey & Thompson	Payday Loan (Cheque)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Payday Loan (Debit)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Online Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
	KwikLoan	Yes	Yes	Yes	Yes	Yes	Yes	No	750
Lending Stream	Loan	Yes	Yes	Yes	Yes	No	No	Yes	400
MYJAR	Cash Loan 18-day	Yes	Yes	Yes	No	No	No	Yes	400
PayDay First	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
Payday is Everyday	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
PaydayExpress	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
PaydayUK	Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	500
Pounds to Pocket	Instalment Loan	Yes	No	Yes	No	No	No	No	Dependent on risk
QuickQuid	FlexCredit	Yes	No	Yes	Yes	No	No	No	Dependent on risk
	Payday	Yes	No	Yes	No	No	No	No	Dependent on risk
Speedy Cash	Flex account	Yes	Yes	Yes	No	Yes	No	No	200
	Payday Loans	Yes	Yes	Yes	No	Yes	No	No	100
The Cash Store	Payday Loan	Yes	Yes	Yes	No	Yes	Yes	No	100
The Loan Store	Payday Loans	Yes	Yes	Yes	Yes	No	No	Yes	400
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	Yes	Yes	Yes	No	Yes	Yes	No	416
	Cheque based loan	Yes	Yes	Yes	No	Yes	Yes	No	416
Txtme Cash	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
WageDayAdvance	WageDayAdvance	Yes	Yes	Yes	Yes	No	No*	Yes	400
Wonga	Little Loans	Yes	Yes	Yes	No	No	No	Yes	Dependent on risk
Zebit	Short Term Cash Loan	Yes	Yes	Yes	Yes	No	No	Yes	400

Source: CMA analysis.

*WageDayAdvance will exceptionally ask for paper proof of address if they cannot verify address through Callcredit or EPDQ.
Note: This does not include business or policy rules which are too varied to tabulate across lenders.

7. The customer is passed through a verification stage consisting of ID and fraud checks and often additional policy or business rules.[2] This takes place as the customer enters their application details and, for most lenders, it is binary in nature. If verification of any of the borrower's details is not possible, if they fail any fraud checks, or if they do not pass thresholds outlined by the lender's business or policy rules, the loan will be refused.[3]

8. Online, verification of the customer's ID can be carried out in various ways. Single or multiple telephone numbers may be required and can be contacted during the verification process.[4] Another possibility is the use of CRA credit records and other electronic databases, such as the electoral roll, for the purposes of electronic ID verification.[5]

9. For high-street lenders, the customer will be required to bring in one or two forms of ID, such as a passport or driving licence, and this will be checked against a proof of address, such as a utility bill or a bank statement.

10. Application forms are analysed for consistency and fraud and money-laundering risk indicators. Customer details may be processed by CRA anti-fraud products, for example [✂] uses Iovation, which validates device information, and Callcredit's CallValidate, which verifies card and bank details. [✂] use Experian's BankWizard to do the same. Other external databases are also used, including CIFAS databases[6] and mainstream bank databases, both used by [✂] and [✂]. More detail on the products used by different lenders is shown in Table 3 below.

Affordability and creditworthiness/risk assessment

11. In general, there are two distinguishable assessments, though these will often run concurrently or be integrated and will not generally be visible to the borrower as separate processes: an affordability assessment which determines the customer's credit limit; and a creditworthiness and risk assessment which determines whether or not the customer is likely to pay back the loan. These processes are additional to the ID verification, anti-fraud and anti-money-laundering checks discussed above. Dependent on the lender's approach to the process, the customer's risk may also influence the amount

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[2] Examples of business or policy rules include rules against lending to certain persons, such as members of the armed forces, or against lending to persons with one or more loans with another lender.
[3] [✂] does not have a discrete verification stage. Its ID and fraud checks and business rules feed directly into the overall credit risk assessment.
[4] For example, [✂] use this method of ID verification.
[5] For example, [✂].
[6] CIFAS is a fraud prevention service and operates two databases: the 'National Fraud Database' and the 'Internal Fraud Database'. The organization, which has been in existence since 1998, provides fraud prevention services to over 300 organisations across multiple sectors and industries.

the customer is judged to be able to afford. The whole process requires customer information to be collected and then processed using a range of techniques from basic affordability equations to complex risk models.

12. The approach of the lenders to this task varies substantially. As such, we consider the approach taken by each of the 11 major lenders separately in Annex A.

13. In summary, all those that lend online use some form of internal scorecard incorporating information from CRAs to make a risk assessment of new customers. Of the five that lend through the high street, three use similar scoring models to the online lenders while two, [✄], base their lending decision on verification of income documentation provided by the customer including bank statements or payslips.

14. Human input was relevant to a varying extent in these processes. Five lenders used human underwriters to manually review applications only in certain circumstances. All high-street lenders have a staff member reviewing the application process. [✄], did not rely on the member of staff to make the ultimate lending decision in all cases. [✄], relies on a human underwriter to make the final lending decision. Four online lenders, [✄], provided evidence that their approach was to allow for an automated decision, except in very exceptional circumstances.

15. Six lenders told us specifically that internal information on existing or returning customers was important. [✄] and [✄] said that they kept existing customer accounts on review on a biweekly and monthly basis respectively, while the other four suggested that repayment history with the lender would be taken into account. [✄], for example, noted that those with a good track record were likely to get higher credit limits.

16. We have not sought specific information on precisely how these risk models function, especially in relation to some of the largest lenders, such as [✄] and [✄]. These models are highly complex and we are not carrying out an assessment of the adequacy and effectiveness of companies' approvals processes. While an important matter for regulators, we took the view that such an assessment would not inform our analysis of competition in the market for payday loans.

Sharing information with CRAs

17. As is evident from the description of the different lenders' approval processes, lenders often use information sourced from CRAs in their internal models. In

this section, we discuss the relationship between lenders and CRAs in more detail.

18. This relationship is governed by the Principles of Reciprocity. These principles are developed and administered by the Steering Committee on Reciprocity, made up of members from major credit providers and CRAs. The governing principle is that: 'Data are shared only for the prevention of over-commitment, bad debt, fraud and money laundering, and to support debt recovery and debtor tracing, with the aim of promoting responsible lending.'[7] At a high level the principles require lenders to share the same categories of data to those which they receive from the CRA but, according to the Steering Committee's guidance, the precise type of data that should be shared in particular situations is not always the same, and the nature and purpose of data sharing must be carefully considered in each case.

19. Table 3 compares the use of CRAs across the major lenders.

TABLE 3 **Use of CRAs**

[✂]

Source: CMA analysis.

[✂]

20. Of the 11 lenders examined, only [✂] does not use CRA information in its lending decisions.[8] Of the other lenders, one lender uses data from only one CRA, seven lenders use two, while [✂] and [✂] have used data from five and six CRAs respectively.[9] Often lenders use multiple products or data sources supplied by the same CRA. As seen above, CRA products and data are used during various stages of the approval process.

21. The CRAs most commonly used among the major lenders are Callcredit and Experian, with, respectively, nine and eight of the 11 lenders using their products at some point in the approval process. Generally, these CRAs require lenders to provide information on a monthly basis in accordance with the Principles of Reciprocity. [✂] reported that it gave Experian real-time access to its information as a member of Experian's reporting proof of concept activity.

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[7] *Information Sharing: Principles of Reciprocity*, Version 35, Steering Committee on Reciprocity, September 2013, p3.
[8] [✂] does use background information including KYC and bank account records to assess eligibility for loans. See paragraph 13 above and Annex A, paragraph 5.
[9] [✂]

22. Five of the 11 lenders use Teletrack. [✂] submits information to Teletrack weekly. [✂] provide data in real time to Teletrack's through LAPS-IT's loan management system.[10] Real-time or near real-time arrangements are also offered by LendProtect and LendingMetrics, but have only been used by [✂] among the major lenders. We note that recent reports in the industry media suggest that a number of the lenders included are working with Callcredit on a product which will utilise the provision of real-time data from lenders.[11]

23. Under the Principles of Reciprocity, lenders must provide information commensurate to their subscriptions. As listed in the Principles of Reciprocity, the different types of subscription are:

> 3.1 Standard Full Subscriber
>
> The subscriber agrees to provide positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained.
>
> 3.2 Default only Subscriber
>
> The subscriber agrees to provide data on all accounts which are in default. A definition of default is included in Section 4.2. Reference should also be made to the latest Guidance Note on Defaults published by the Information Commissioner's Office (ICO).
>
> 3.3 Debt Purchase Subscriber
>
> The subscriber agrees to provide positive, delinquent and default data, as appropriate, on a regular basis (usually at a minimum monthly, depending on the nature of the product) on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained. Access to full data will be granted on those purchased default level portfolios previously reported by an originator at full level on the principle that the purchaser continues to report the required updates to default level data.

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[10] For more on the LAPS-IT loan management systems, see the LAPS-IT website.

[11] See, for example, 'Data sharing among payday firms set to launch', *Credit Today*, 15 January 2014; and 'Real-time data for payday lenders', *E&T Magazine*, 15 January 2014.

For those accounts on which the debt purchase subscriber has only ever provided default data, but is accessing full data, the full data may only ever be used for risk assessment purposes to support arrears management. It may not be used for any other purpose.

3.4 Non-Subscribing Organisation

It is possible that non-subscribing organisations may request access to shared data for a specific purpose. Such access will not be allowed without the specific written agreement of SCOR.[12]

24. A number of the major lenders provided a description of the data they provide to CRAs. All but one of those lenders, [✄], provide both application information and account status. [✄] does not provide performance information but provides application information and salary only. [✄] provided slightly more detail on the specific account information shared; this included loan ID, full name, full address, date of birth, loan amount and the current status of the loan whether closed (repaid in full), 30 days overdue, 60 days overdue, 90+ days overdue, not yet due or under a repayment plan.

25. Lenders can access CRA databases at any time during the approval process. The reciprocal arrangement is based on the commencement and ongoing supply (typically monthly) to the CRA of account performance information relating to that lender's loan portfolio, rather than the ability of the lender to access it. [✄] clarified that it received data from [✄] biweekly. However, it also told us that [✄] could be accessed in real time. Publicly-available information from Experian suggests that CRA databases are updated by the lenders themselves subject to the CRA ensuring the lenders' obligations are met and the quality of the submissions is correct, with the CRA delaying the update only if a problem is found.[13]

26. A number of lenders made submissions about the quality and value of the information provided by CRAs. These views are detailed in Section 7.

27. The evidence provided on CRA use suggests that payday lenders develop internal risk models drawing on CRA data because the existing sub-prime

[12] *Principles of Reciprocity*, p8. 118118 Money told us that the age of the data that CRAs held could be as much as 60 days when lenders accessed it (118118 Money submission to the CC Payday lending market investigation 14.3.14, pp5 & 6). Experian explained that the information-sharing cycle could be as many as 45 days but in around 95% of cases it was only 30 days (Transcript of hearing with Experian, p4, lines 14-17.) Given that CRAs are likely to have better data on the length of these cycles, and noting that 118118 Money was presenting the most extreme example, the balance of the evidence we received does not suggest that data is commonly at the top of the range from 0 to 60 days.
[13] *The credit reference agency explained: A guide for consumer advisers*, Experian, 2013.

models provided by CRAs are not suitable for customers borrowing on this sort of short-term basis. While CRA data appears important and well used, the testing of information and the development of payday-specific models appears to be an important issue for these lenders.

Approach of the major lenders to the approval process

Ariste

1. Ariste [✄].[1]

2. When considering applications from repeat customers, Ariste also considers any relevant information about the customer it has gained through its previous dealings with that customer. If the customer had a previous overdue repayment, legal proceedings have been started or there is a debt management plan in place, the customer will be embargoed from receiving another loan for a period [✄].

CashEuroNet

3. CashEuroNet's 'credit model' encompasses credit and affordability checks as well as customer identity verification in the same sequence. Customer application details and ID/anti-fraud information is fed through a credit and affordability model which utilises over [✄] variables, an over-indebtedness index, [✄] and an internal affordability model. New variables are tested continuously in 'dry runs': if they test well they add them to the credit model. Some applications show up 'yellow flags', in which case call centre processing representatives manually review the application and may request documentation such as bank statements and wage slips.

The Cash Store

4. The Cash Store makes loans of no more that 50% of a customer's net income, subject to a lower limit of £50 and an upper limit of £800. This is based on background information including KYC and bank account records. Each branch manager is responsible for signing off on loans and qualifying the customer at 50% of their income based on their bank statement. Customers will not be considered if they do not provide a bank statement.

Cheque Centre

5. Cheque Centre follows two slightly different processes. [✄] to assess the customer for a grade. This grade then equates to a loan amount based upon the level of risk from the customer.

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[1] [✄]

6. The Loan Store online loans go through an internal scorecard [✂].

7. [✂]

CFO Lending

8. To assess affordability, CFO Lending[2] uses information from the customer on income and outgoings. Application information is fed through [✂], which provides information on confidence in income figures provided, the likelihood that the income has been inflated, a ratio explaining income change and figures on loans, credit cards and current accounts. Auto-decline might then occur, for example, because the customer has over five current accounts, over 80% of their income is used to repay secured debt or the number of outstanding loans they have is in excess of five. If the income cannot be verified at all, manual review of documentation is required. If an application receives risk flags, the later creditworthiness score will be subject to penalty points.

9. CFO Lending uses two scorecards to assess the risk of an application. Data is taken from the customer's application information, previous applications, [✂], pre-authorisation data and [✂]. Once the scorecard is passed, CFO Lending passes applications through further verification using [✂].

10. For new customers, applications that successfully pass the validation, business rules, affordability, scorecards, bank verification and ID checks will pass through to an underwriting team. The underwriting team then applies a number of 'sight rules' such as checking that there is not a prepaid credit card being used or notes left on previous applications. If a query cannot be resolved, the underwriter should request a bank statement to verify income.

11. Existing customers are subject to less verification but notes on the account and previous late payments are taken into consideration. CFO Lending's overall lending limits are as follows.

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[2] CFO Lending's lending limits can be overridden by a member of the management team in order to offer customers a refinance agreement. Credit limits for this product will not exceed 50% of the customer's salary but may conflict with above rules.

TABLE 1 **CFO Lending's loan limits**

		£
Monthly income	*1st loan*	*2nd loan*
750–849	110	300
850–949	125	340
950–1,099	140	380
1,100–1,249	165	440
1,250–1,399	185	500
1,400–1,599	200	560
1,600–1,749	240	640
1,750–1,949	260	700
1,950–2,199	290	
2,200+	330	

Source: CFO Lending.

Dollar

12. Express Finance and MEM have adopted a 'test and learn' approach to new customer acquisition which includes the development of [✂] and associated strategies. A bespoke scoring system was developed from [✂] in conjunction with CRA data [✂] to minimise the likelihood of a customer failing to repay their loan. Additionally a series of policy criteria rules have been implemented based on [✂]. If the score [✂] is greater than the cut level,[3] the application is accepted, pending the results of additional affordability and fraud checks. If accepted, an applicant is assigned an appropriate credit limit based on [✂]. MEM customers' maximum loan sizes are calculated based on: [✂].

13. MEM's policy on return customer credit limits is outlined in Table 2.

TABLE 2 **MEM finance's loan limits**

*Number of previous loans**	*Max loan cap £*	*[✂] £*
1	[✂]	[✂]
2	[✂]	[✂]
3	[✂]	[✂]
4	[✂]	[✂]
5	[✂]	[✂]
6+	[✂]	[✂]
[✂]	[✂]	[✂]

Source: DFC.

14. Express Finance customers' initial loan sizes are calculated based on: [✂].

15. An Express Finance customer can never borrow more than [✂]% of their net monthly pay or £750 (whichever is the lower).

[3] [✂] Tighter cut-offs may be set where the business wishes to take a more cautious approach.

16. MEM and Express Finance [✄]. However, historical analysis has shown a repayment history with the lender to be far more predictive of ability to repay loans.

17. Instant Cash Loans developed a bespoke system from [✄] in conjunction with CRA data and [✄] to minimise the likelihood of a customer failing to repay their loan. [✄], producing predictive scorecards based on the level of data being returned from the CRA as well as data declared by the customer.

18. New customers of Instant Cash Loans are assigned an initial credit limit not greater than any one of the following:

- [✄]% of their net monthly income;
- £[✄]
- net monthly income minus [✄]; and
- [✄]

19. To derive net monthly income, Instant Cash Loans uses both the gross income and net monthly income fields to remove any outlying data that may have been caused by keying errors. [✄]

20. As a customer builds up a repayment history with Instant Cash Loans they may gradually increase the amount they are eligible to borrow or, if their circumstances change negatively, Instant Cash Loans will seek to decrease their reliance over a period of time.

Global Analytics

21. Lending Stream has several internal risk and fraud models that incorporate CRA data. Cut-off values on model scores are used to estimate the credit-worthiness of the applicant and from that, both the approval decision and the loan amount to be offered, if any. The models are updated regularly so the input variables may change from month to month.

22. The decisions generated by these models are generally more stringent for first-time applicants than for customers who have previously taken out a loan with Lending Stream. The maximum loan amount is generally lower for a new customer than a returning customer with a good track record of repayments because those factors are normally taken into account in the predictive models.

H&T

23. H&T uses risk models but all lending decisions are reviewed by an underwriter. Initially the store staff make an assessment of basic criteria and, with a review of the bank account statement, an assessment of affordability to inform them of the eligibility to apply for a loan. The loan system will then use internal demographics to determine an internal score and then an additional score will be applied to the application using CRA data. All active customers are evaluated monthly at a portfolio, and by selected cohort, level. H&T did not provide any specific details for its online lending policy.

MYJAR

24. MYJAR underwriting is undertaken using application information provided by the applicant and information purchased from CRAs. Information is also purchased in respect of device reputation. Assessment of ability to pay is carried out through an authorisation of card details with MYJAR's payment merchant and against the output of [✂]. Customers who fail the automated checks may be declined or subjected to manual validation which will involve the request of documentary evidence from the customer.

SRC

25. WageDayAdvance uses a scoring system to process the application. This includes eligibility rules, verification and affordability assessment. Customer information answers questions posed by the scoring system. Some questions will result in a knockout while others result in a score. The lending decision is made on the final score and is processed manually by an underwriter.

26. In its Speedy Cash stores, SRC's approach to affordability assessment is based around the verification of documentary evidence prevented. A large part of this is ID and anti-fraud verification. For affordability purposes, a customer will be expected to present a bank statement, a payslip or log-in to Internet banking. SRC customers must show at least 60 days of recurring income. Bank statements are verified, if possible, by calling the customer's bank.[4] Expenditure is verified in a similar manner and SRC's staff search for inconsistencies. Debit card and telephone numbers are also extensively verified to ensure that the customer is likely to repay the loan. SRC's approval approach for scoring new online customers uses an internal risk model which considers [✂] scores.

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[4] The customer will be required to pass the security stages of the call to the bank before SRC's store staff listen in.

Wonga

27. Wonga combines application data and predictive variables provided by [✄] in its credit risk decision models. [✄], first-time borrowers are never allowed to borrow more than £400, while existing customers are limited to a maximum of £1,000. Wonga's internal customer performance data is tested on a regular basis. Existing customers' credit files are refreshed [✄] using CRA data.

Methodology for the assessment of market size and structure

Introduction

1. In this appendix, we describe the methodology used in our analysis of the size and structure of the payday lending market. We begin by discussing the two data sources that our assessment was based on: the financial questionnaire sent to the 11 major lenders, and responses to our smaller lender questionnaire. We then discuss the time periods covered by our analysis.

The financial questionnaire

2. A detailed financial template was sent to 11 lenders: CashEuroNet, Dollar, Wonga, Ariste Holdings, The Cash Store, CFO Lending, Cheque Centres, SRC, H&T, MYJAR and Global Analytics. The key variables in this template are total reported payday revenue and the total volume and value of payday loans issued.

3. These 11 lenders were selected on the basis of the following broad criteria:

   (a) size of lender – to ensure that our information requests covered a significant proportion of the payday loans sector;

   (b) distribution channels – to ensure that we had a mix of online and high-street lenders; and

   (c) products offered – to ensure that the subset of lenders selected covered a range of payday products falling under our working definition (for example, standard payday loans; longer-term fixed-sum loans repaid in instalments; and running accounts/open credit facilities in which the borrower has a fixed credit limit and can draw down the funds into their bank account up to the limit).

4. The 11 lenders operate 16 separate companies in the UK and market loans under around 22 different brands. Between them, these lenders provide a range of single repayment and instalment loans available online and on the high street. Collectively, we estimate that these lenders accounted for over 90% of loans issued in 2012 and over 90% of payday loan revenue in 2012.

The smaller lender questionnaire

5. The smaller lender questionnaire was sent to over 200[1] firms believed to have offered payday loans in recent years. Since many payday loan companies were very small, the small lender questionnaire only included a shortened financial template along with questions on entry, exit, lenders' payday loan delivery channels and any other services lenders provided.

6. Responses were received to the questionnaire from 100[2] companies that have operated in the payday sector at some point in the period 1 January 2010 to 1 October 2013. A full list of these companies is provided in Annex A.

7. Not all of these lenders could provide full financial information for both 2011 and 2012. For example, of the 89[3] lenders who both responded to the questionnaire and operated in 2012, in 17 cases the total number of payday loans issued in 2012 was missing; in 20 cases the value of new payday loans issued in 2012 was missing; and in 16 cases payday loan revenue in 2012 was missing.

Financial years

8. Our analysis of the size and structure of the payday lending market covers financial years 2011 to 2012 inclusive for all lenders, and the financial years 2008 to 2012 inclusive for the 11 major lenders that received more detailed information requests.

9. Financial years were standardised across lenders as follows. Financial information provided by lenders with financial years ended before 30 June 2012 was recorded as financial year 2011. Financial information provided by lenders with financial years ended between 1 July 2012 and 30 June 2013 were recorded as financial year 2012.

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[1] In contrast to the FCA and the OFT, we counted all franchisees of a franchisor as one payday lending company and we counted all subsidiaries of a parent company as one payday lending company.
[2] Seventy-nine of these companies were operating as payday lenders on 1 October 2013.
[3] This total of 89 includes some lenders who operated as lenders in 2012 but have now exited the market.

List of respondents to the small lender questionnaire

1st Stop Payday Loans Limited
4Finance Ltd
Access Mortgage Underwriting Ltd
Aclasslone
Active Securities Ltd
Albemarle & Bond Holdings Plc
APFIN Ltd t/a Cashasap.co.uk
Batten Finance (Plymouth) Ltd.
BB Credit Ltd
Bruce Finance Ltd
Carson Finance Limited
Cash-a-Cheque (UK) Ltd
Cash 4U
Cash and Barter
Cash Central of UK Ltd
Cash Centres SW
Cash Converters UK Ltd
Cash Inn Ltd
Cash On Go Limited
CASH XPRESS LIMITED
Cashxchange Uk Ltd
Chandler Hart Ltd
Cheque Express (Staines) Ltd
Cheque Express (Telford) Limited
Chequers Leamington Spa Limited
Codeway Finance Ltd
DTW Associates Limited
Fast Investment Ltd
FCL (UK) Limited
Ferratum UK Ltd
Fidelity Works
Financial Retail Services Ltd
Forward Business Enterprises Ltd
FTMS Ltd
Full Pocket Ltd
Generaldirect Ltd
Henderson Finance (Northern) Ltd
Iain Alexander Tarn Christie and Catherine Christie
IC Loans Ltd
Indigo Michael Ltd
Instant Cash Services N. Ireland Limited
Jolly's Pawnbrokers and Fine Jewellery
Kabayan Finance Ltd
Lion Supplies Limited
Merrydown Finance Ltd
Micro Lend UK Ltd
Microcredit Limited
Mint Finance (NE) Limited
Money In Advance Limited
Money Matters (London) Limited
Money Spinner York Limited
Monkey Dosh Ltd
MQ123 Ltd
MLJ Loans
My Money Partner Ltd
Northern Soul Limited
Nottingham Payday Loans
Oakam Limited
Onesys Financial Limited
PayBreak Ltd
PDL Finance Ltd
Peter Guy Knowlson
Pimlico Finance
Pocket Money Payday Loans Limited
Provincial Funding Ltd
Quid24 Ltd
Ramsdens Financial Limited
Rapid Cash Ltd
Raselle (Staple Hill) Ltd
Redwallet Ltd
Response Funding Limited
Riskinc Limited
Rogerstan Finance Ltd
Speedy Dosh Limited
Stagemount Ltd
Stonemere Finance Ltd
Swift Money Ltd
T.L.K. Edwards and Sons Limited
The Antique and Bargain Stores Ltd
The Cash Shop
The Cheque Shop Limited
The Lending Factory Ltd
The Lending Well Limited
The Quick Loan Shop Ltd
Think Finance (UK) Ltd
Tide You Over Limited
TMAdvances
Tower Capital Ltd
Tower Credit Limited
Trusted Cash Ltd
Turvers Ltd
UK Cash Services Limited
UK Fast Loan Limited
Umbrella Loans Ltd
Uncle Buck Payday Loans LLP
United Kash Ltd
V Gates Ltd
Value Finance Corporation Ltd
Whiston Services Limited
Yes Solutions Ltd

Group structure of large lenders

Introduction

1. This appendix sets out the group structure of the three largest payday lenders as at November 2013. CONC requires lenders to have a UK establishment[1] (that is, a UK branch or representative) but not necessarily an incorporated UK legal entity.

2. The relevant trading entities are identified for each of the three companies as white boxes.

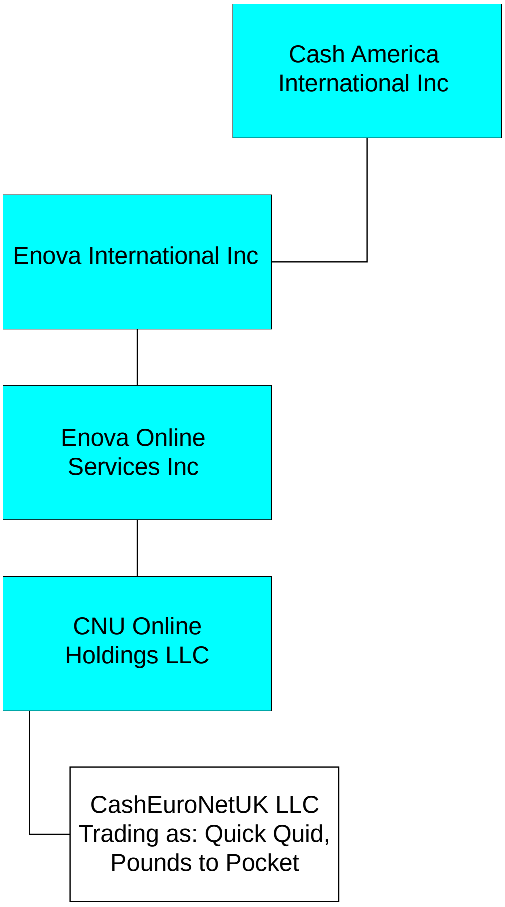
CashEuroNet

3. Figure 1 sets out the Cash America group structure.

[1] CONC 1.2.5 R (1).

FIGURE 1

Cash America group structure and trading names



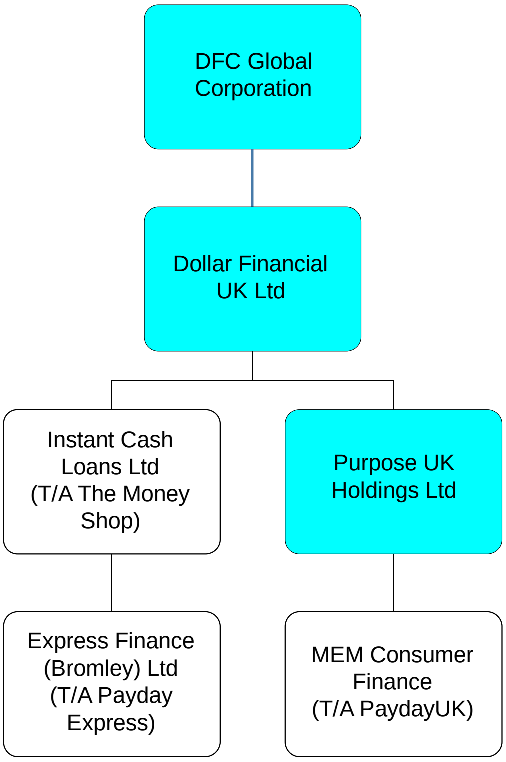
Source: CMA.

Dollar

4. The position of UK activities (and the three businesses operated by Dollar) within the overall Dollar group structure are set out in Figure 2.

FIGURE 2

Simplified Dollar group structure and trading names



Source: CMA.

Wonga

5. The position of UK activities within the overall Wonga group structure are set out in Figure 3.

FIGURE 3

Wonga Group Limited Corporate Structure (principal companies only)

[✂]

Source: Wonga.

6. The above corporate structure has been in place since [✂]. The primary trading companies of Wonga Group Limited are:[2]

   (a) Wonga Technology Ltd: based in Dublin, it develops Wonga's information systems, as well as providing customer care;

2 [✂]

(b) WDFC SA: based in Geneva, it is primarily responsible for marketing, branding and loan-handling services;

(c) Wonga Worldwide Ltd: this is the holding company for all Wonga’s lending operations; and

(d) WDFC UK Ltd (Wonga): responsible for all lending activities within the UK.

Law and regulation applicable to payday lending in the UK

Introduction

1. This appendix describes the law and regulation applicable to payday lending in the UK in four parts, as follows:

- In Part 1, we discuss the institutions relevant to and tasked with the enforcement of payday lending in the UK.

- In Part 2, we describe the regulatory framework and self-regulation.

- In Part 3, we discuss the most recent regulatory developments including the future cost cap for high-cost short-term credit.

- In Part 4, we provide a brief comparison with some other jurisdictions.

2. The principal legislation covering consumer credit is contained in the Consumer Credit Act 1974 (CCA) and the Financial Services and Markets Act 2000 (FSMA). Payday loans fall within the definitions of ‘fixed-sum’ and ‘running account’ credit agreements in section 10 of the CCA.[1] Most payday loans are fixed sum credit agreements.

Part 1: The institutions concerned with the regulation of payday lending in the UK

3. There are several bodies involved in the regulation of payday loans. These have changed during the course of this investigation and regulatory change is ongoing:

- HM Treasury provides the main policy and legislative initiative in consumer credit having taken over responsibility from BIS in November 2013.

- On 1 April 2014, responsibility for consumer credit regulation moved to the FCA from the OFT. On the same date, activities connected with consumer credit and consumer hire became regulated activities under the FSMA, along with the power to authorise, supervise and take enforcement action in relation to consumer credit activity.

[1] Fixed sum credit is to be distinguished from running account credit, under which a borrower is enabled to receive cash from time to time up to the value of the credit limit.

- The FCA and the Advertising Standards Authority (ASA) are both concerned with the regulation of payday loan advertising.

4. In paragraphs 16 to 34 we discuss the role of the various bodies that are currently involved in the regulation of payday lending. However, an understanding of the history of regulation is important context to the current regulatory regime, so we start by outlining the roles and actions of BIS and the OFT prior to 1 April 2014.

The roles and actions of BIS and the OFT before 1 April 2014

BIS

5. BIS had primary responsibility for government policy on ‘Making consumer credit markets fairer’ prior to November 2013. The Coalition Agreement set out the current government’s commitment to curb unsustainable lending; to strengthen consumer protections; and to put in place a safe, fair regulatory framework for credit and personal insolvency.

6. In 2011, BIS commissioned a report from the University of Bristol (the Bristol Report) to inform understanding of the likely impact on lenders and consumers of introducing a variable cap on the total cost of credit that can be charged in the short- to medium-term fixed-rate credit markets. The purpose of the research was not to make a recommendation to BIS on whether or not a cap should be introduced, but to provide an up-to-date evidence base that would help inform policy decision-making in this area. The Bristol Report[2] considered three short-term credit markets, namely payday lending (both high street and online), home credit and pawnbroking. In its response[3] to the Bristol Report, the government said that its main concern was with payday lenders. Its concerns were:

   - the relative speed and ease of access to payday loans;
   - the high cost of borrowing;
   - the way in which lenders assess the affordability of payday loans;
   - the frequency with which loans are rolled over and the way in which this happens; and

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[2] BIS, *Government response to the Bristol University report on high cost credit*, 6 March 2013.
[3] www.gov.uk/government/uploads/system/uploads/attachment_data/file/137623/13-703-government-response-to-the-bristol-university-report-on-high-cost-credit.pdf.

- the levels of multiple and repeat borrowing.

7. On 6 March 2013, BIS announced a package of measures[4] aimed at tackling the problems in the high-cost credit market and arranged for the Consumer Affairs Minister to meet members of the industry in person and call them to account.

8. On 3 October 2013, BIS produced reports[5] on two surveys which it had commissioned to assess compliance with the payday lending good practice charter and codes of practice; and research conducted by Ipsos Mori for BIS on advertising of payday lending. The report on the charter and codes sets out the findings of surveys of more than 4,000 consumers and 44 payday lending firms. The advertising report provided qualitative research consisting of nine in-depth interviews and four focus groups held in Sheffield and London and considered customer responses to a range of advertising.

OFT

9. The OFT regulated consumer credit in the UK until 31 March 2014. Under the OFT regime, credit providers needed to be licensed and the OFT aimed to ensure that only those firms fit to hold or retain a licence did so and enforced licensing standards.

10. In addition to the basic licence application form, applicants for consumer credit licences intending to undertake higher risk activities were required also to complete the relevant parts of the Credit Competence Form. These higher-risk activities included consumer credit lending where this was secured/sub-prime and/or in the home and/or short-term, high-cost payday-type loans.

11. As part of its responsibility for the consumer credit regime, the OFT launched a review of compliance by payday lenders with the relevant legislation and guidance, in particular the Irresponsible Lending Guidance, on 24 February 2012. In November 2012, the OFT published an interim report on the compliance review. The OFT's final report was published in March 2013.

12. In its March 2013 report, the OFT published the findings of its review of compliance by payday lenders with relevant legislation and OFT guidance, stating that it would write to 50 payday lenders (which it estimated accounted for 90% of the market), requiring them to take immediate steps to address areas of non-compliance and to prove within 12 weeks that they had done so or risk losing their licence. Some lenders[6] informed the OFT that they were

[4]www.gov.uk/government/news/government-takes-action-to-tackle-payday-lending-concerns.
[5] www.gov.uk/government/publications/payday-lending-research-reports.
[6] www.oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review/.

leaving the payday market and others announced that they would continue to trade in other areas of business that require a credit licence and were required to provide an audit report to the OFT. In total, the OFT received audit reports from 46 lenders, including all those who retained a licence.

13. In addition to the 50 leading lenders, and following publication of the OFT's payday review report in March 2013:

- three firms engaged in payday lending had their licences revoked after their appeals against OFT determinations were either dropped or struck out by the First Tier Tribunal;[7] and

- a further four lenders have also surrendered their licences.

14. As part of its compliance review, the OFT conducted an advertising sweep of over 50 payday lending websites[8] and wrote to the main trade bodies in the payday lending market outlining areas where standards in advertising needed to improve.[9]

15. The creation of the CMA on 1 April 2014 has brought together the CC and the competition and certain consumer functions of the OFT. The OFT's main responsibilities for consumer credit, however, have passed to the FCA rather than the CMA, fulfilling the government's intention of creating a single regulator responsible for conduct in financial services.

The institutions currently involved in the regulatory framework

HM Treasury

16. HM Treasury is the government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

17. HM Treasury now provides the main policy and legislative initiative in consumer credit, having taken over responsibility from BIS in November 2013.

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[7] Appeals to the First-tier Tribunal are against the decisions from government departments and other public bodies. The Upper Tribunal hears appeals from the First-tier Tribunal on points of law, ie an appeal made over the interpretation of a legal principle or statute. Further appeals may be made, with permission, to the Court of Appeal. (www.justice.gov.uk/about/hmcts/tribunals.)

[8] www.oft.gov.uk/shared_oft/Credit/oft1481e.pdf. This comprised all known large and medium-sized lenders including members of the four main trade bodies, new entrants to the industry and licensees that had been the subject of consumer complaints or enforcement action. The OFT also included a random sample of websites identified as a result of using search-engine terms such as 'quick cash loans' or 'adverse credit payday'.

[9] www.oft.gov.uk/shared_oft/Credit/oft1481e.pdf.

18. In December 2013, the government imposed an obligation on the FCA to use its powers to impose a cap on the cost of payday loans by January 2015 (see further details in paragraphs 64 to 69 below).

FCA

19. From 1 April 2014, the FCA has taken on a number of functions equivalent to those previously carried out by the OFT, including the regulation of consumer credit generally including the payday lending industry.

20. The FCA also has the power to make general rules under section 137A of the FSMA, including the power to make rules limiting interest rates, associated charges and the duration of a credit agreement.

21. As part of the transfer of consumer credit regulation, some aspects of the CCA regime have been repealed and replaced by the FSMA provisions and FCA rules. The retained CCA provisions will be reviewed by 2019.[10]

22. The FCA published new Rules and Guidance in respect of consumer credit on 28 February 2014. In large part these carried across into the FSMA regime the repealed CCA provisions plus relevant OFT guidance, but with some additional rules in respect of high-cost short-term credit (HCSTC), ie payday lending, and debt management services. Most of the rules and guidance in the FCA's CONC came into effect on 1 April 2014, but with a transitional period until 1 July 2014 for some of the additional rules applying to HCSTC.

23. Firms which held an OFT consumer credit licence had to register for interim permission (IP) by 31 March 2014, and will be invited by the FCA to apply for full authorisation in stages between 1 October 2014 and 31 March 2016.

24. In addition to its consumer credit responsibilities, section 6 of the Financial Services Act 2012 amended the FSMA to give the FCA a competition objective to promote effective competition in the interests of consumers. The FCA is required to identify and address competition problems and adopt a pro-competition approach to regulation. The competition objective is ancillary to the FCA's consumer protection and integrity objectives and it is limited by its compatibility with those other objectives. Following a request from the FCA to the Chancellor that it be given additional powers to support its current statutory competition objective, a further amendment to the powers in the FSMA was made by the Financial Services (Banking Reform) Act 2013,

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[10] See Article 20 Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2013 under which the FCA must provide a report to HM Treasury by 1 April 2019 of a review of the remaining provisions of the CCA, among other things, to identify those provisions of the CCA which can be replaced by rules or guidance to be made by the FCA.

conferring on the FCA the competition law powers contained in Part 1 of the Competition Act 1998 (ie powers to take enforcement action against anti-competitive agreements and abuses of a dominant position) and Part 4 of the Enterprise Act 2002 (ie powers to make market investigations references).[11] The competition powers will not be implemented before April 2015. To underline the importance of its competition functions, there will be a duty on the FCA to consider the use of its Competition Act powers before exercising certain powers in the FSMA.

25. The financial promotions regime under section 21 of the FSMA has been extended to include consumer credit by amendments included in the Financial Services Act 2012. These include a further new power for the FCA (under new section 137C of the FSMA) to direct firms to withdraw or amend misleading financial promotions. Under the FSMA, a financial promotion is 'an invitation or inducement to engage in investment activity' that is made 'in the course of business' and is 'capable of having an effect in the UK'. That broad definition captures all promotional activity, including traditional advertising, telephone sales and face-to-face conversations, in relation to all products and services regulated by the FCA.

26. From 1 April 2014, the Consumer Credit (Advertisements) Regulations 2010, together with relevant aspects of OFT guidance, were replaced by the new FCA rules and guidance in the CONC sourcebook, and by the general requirement that financial promotions must be 'clear fair and not misleading'.[12]

ASA

27. The ASA has the ability to act, in some circumstances, over advertising relating to payday lending, though it is not the lead regulator for financial advertising.[13] The ASA work complements that of the FCA and previously the OFT by covering the 'non-technical' elements of financial marketing communications that are not subject to the 'technical' requirements of the FSMA.

28. 'Non-technical elements' include matters of serious or widespread offence, social responsibility and the truthfulness of claims that do not relate to specific characteristics of the financial product itself.

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[11] Financial Services (Banking Reform) Bill Government Amendments: FCA Concurrent Powers, Briefing for Peers, HM Treasury, October 2013.
[12] CONC 3.3.1R.
[13] See ASA submission to the consultation on high-level proposals for an FCA regime for consumer credit.

29. The ASA liaises with the FCA to ensure consistency of approach and to avoid double jeopardy.

30. Enforcement action by the ASA in 2013 included the banning of a Wonga advertisement, deemed irresponsible because it gave the impression that the use of a payday loan was something that might be done routinely and without sufficient consideration.[14] It also banned a Cash Lady advertisement, because it made references to past financial difficulties and implied that payday loans were more convenient and desirable than loans from high street banks.[15]

Financial Ombudsman Service

31. The Financial Ombudsman Service (FOS) is the statutory dispute-resolution scheme set up by Parliament under the FSMA.[16] It also had powers under the CCA. The FOS provides consumers with a free independent service to help resolve complaints about regulated financial firms including payday lenders and, until 31 March 2014, consumer credit licensees.

32. Previously under the CCA and since 1 April 2014 under the FSMA, the FOS makes rules regarding the handling of consumer credit complaints, with the approval of the FCA, and these are included in the FCA Handbook in the Dispute Resolution: Complaints sourcebook (DISP).[17]

33. Although payday loans account for only a small proportion of the cases[18] considered by the ombudsman service, in the 2013/14 financial year the FOS received[19] 794 complaints about payday loans–a 46% increase on 2012/13 (542 complaints). According to the FOS, many of the complaints involve the lender's use of a CPA[20] – which allows the lender to collect payments directly from the consumer's bank account. Complaints involve payday lenders trying to take payments unexpectedly – or repeatedly attempting to take payments when the consumer has already explained that they do not have enough money to cover the debt. The FOS has also received complaints about unaffordable lending, the debt recovery methods used by some payday lenders.

[14] www.asa.org.uk/Rulings/Adjudications/2013/10/WDFC-UK-Ltd/SHP_ADJ_232698.aspx.
[15] www.asa.org.uk/Rulings/Adjudications/2013/5/PDB-UK-Ltd/SHP_ADJ_219095.aspx.
[16] www.opsi.gov.uk/acts/acts2000/ukpga_20000008_en_1.
[17] www.fca.org.uk/static/documents/handbook/readers-guide.pdf.
[18] In 2013/14, FOS handled 2,357,374 initial enquiries and complaints from consumers. A record 512,167 enquiries went on to become formal disputes. 78% of these cases – 399,939 disputes – related to payment protection insurance.
[19] www.financial-ombudsman.org.uk/publications/ombudsman-news/109/109-payday-lending.html.
[20] See paragraphs 56 to 58 for further details.

Part 2: Key aspects of the regulatory framework and the role of self-regulation

34. We next set out the key aspects of the regulatory framework. It is structured as follows:

- In paragraphs 35 to 37, we discuss the CCA, which has been the principal piece of legislation regulating consumer credit lending and credit related activities in the UK and now partially replaced and supplemented by FSMA and the FCA's CONC sourcebook.

- In paragraphs 38 to 45, we set out lenders' obligations to assess a customer's creditworthiness before issuing a loan.

- In paragraphs 43 to 45, we describe legal requirements concerning the form and content of advertisements that relate to the provision of credit.

- Paragraphs 46 to 48 summarise lenders' obligation under unfair contract terms legislation.

- Finally in paragraphs 49 to 51, we consider the role of self-regulation.

The CCA

35. The CCA has been the principal piece of legislation regulating consumer credit lending and credit-related activities in the UK and, since 1 April 2014, it has been partially replaced and supplemented by FSMA and FCA rules. The CCA sets out the range of consumer protection requirements for lenders and brokers in relation to the advertising and marketing of loans, the form, content and execution of credit agreements, pre-contractual and post-contractual disclosure requirements, default and termination, the taking of securities, and judicial controls over the enforcement of debts.

36. The CCA provides for rules requiring information to be given to borrowers before entry into a consumer credit agreement.

37. Annex B to this appendix sets out the salient requirements relating to the formation and termination of and withdrawal from consumer credit agreements.

Lenders' obligations to assess customer's creditworthiness

38. The CCA placed requirements on lenders, filled out by the OFT guidance on affordability, for lenders to assess a consumer's creditworthiness before concluding a credit agreement. This should be based on 'sufficient

information' obtained from the borrower where appropriate and from a CRA where necessary.

39. In its guidance,[21] the OFT advised that to make an accurate assessment of affordability for any customer, a number of 'affordability indicators' need to be taken into account, including:

- the type of credit product
- the amount of credit to be provided and the associated cost and risk to the borrower
- the borrower's financial situation at the time the credit is sought
- the borrower's credit history, including any indications of the borrower experiencing or having experienced financial difficulty
- the borrower's existing and future financial commitments including any repayments due in respect of other financial products and significant non-credit commitments
- the impact of a future change in the borrower's personal circumstances: for example, this could include a known end date of current employment due to circumstances such as retirement or the end of a fixed-term employment contract – either of which may lead to a fall in the borrower's disposable income
- the vulnerability of the borrower: for example, whether the borrower is known to lack – or is reasonably believed to lack – the mental capacity to be able to understand information and explanations provided to them and make informed borrowing decisions based on their understanding of such information and explanations at the time they are provided

40. The CONC sourcebook has replaced these obligations by the rules and guidance.[22] These do not specify what checks should be made, and it is for lenders to determine the appropriate methods in each case having regard to the amount of credit to be provided and the associated costs and risks to the borrower.

41. The CONC provisions make clear that an assessment of creditworthiness and affordability must include consideration of the potential for the borrower's other commitments to impact adversely on the borrower's financial situation

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[21] The OFT Irresponsible Lending guidance, paragraph 4.10.
[22] See CONC 5.

and ability to make repayments in a sustainable manner – in other words without undue difficulty, while meeting other reasonable commitments, without having to borrow further over the life of the agreement and out of income and savings.

42. To process the loan transaction, lenders may use customer data to carry out affordability assessments.

Advertising

43. The Consumer Credit (Advertisements) Regulations 2010 imposed requirements concerning the form and content of advertisements by lenders and credit brokers. These have now been replaced by FCA rules[23] governing financial promotions (which include advertisements).

44. A financial promotion must include a representative example if it indicates an interest rate or an amount relating to the cost of credit. This must include the representative APR together with other cost information including the interest rate, any non-interest charges and the total amount payable. A representative APR must also be included if a financial promotion indicates in any way that credit is available to persons who might consider their access to credit restricted, or that any of the terms on which credit is available (or the way in which credit is offered) is more favourable than in any other cases or by other lenders, or if the promotion includes an incentive to apply for credit or to enter into an agreement under which credit is provided. The example or APR must be given greater prominence than any 'trigger' information (ie information that triggers its disclosure) or any other information on the cost of the credit.

45. The representative APR must be a rate at or below which the advertiser reasonably expects that credit will be provided pursuant to least 51% of agreements entered into as a result of the financial promotion.

Regulation on unfair practices

46. Under the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCR), an unfair term is one which has not been individually negotiated and which, contrary to the requirement of good faith, causes a significant imbalance in the parties' rights and obligations to the detriment of the consumer (regulation 5). The assessment of unfairness must take into account all the circumstances attending the conclusion of the contract. That assessment may not relate to the definition of the main subject matter of the contract or the

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[23] See CONC 3.

adequacy of the price or remuneration against the service supplied as long as the terms are in plain intelligible language (regulation 6). Unfair terms are not binding on consumers (regulation 8).

47. Qualifying bodies named in Schedule 1 to the regulations, for example the Consumers' Association, may apply for an injunction to prevent the continued use of an unfair contract term.

48. The UTCCR are not intended as a price control mechanism and therefore exclude from their scope the price paid for any service or goods. The extent of that exclusion of financial services was considered by the Supreme Court in a judgment of 2007. In *Office of Fair Trading v Abbey National plc and others*,[24] the ability of banks to make default charges on customers who made payments or tried to make payments out of an account with insufficient funds was challenged as unfair and in the alternative a penalty contrary to common law and an injunction was sought. The Commercial Court found that the OFT had power to assess the charges for fairness under the regulations because they were not prices for services and also that the regulations did not displace the common law on unlawful penalties. On appeal, eventually to the Supreme Court, on the points concerning the interpretation of the regulations that Court ruled in summary:[25]

- Unauthorised overdraft charges are part of the price that customers agree to pay for the whole 'package' of services from their bank. The exemption in the regulations therefore applies and the OFT cannot challenge the fairness of the banks' charges.

- It is not correct to say that the exemption only applies to the 'core' or 'essential' price in the contract. There was no justification for making such a distinction, and the exemption in the regulations applies to all prices.

- These charges were not in any event non-core or non-essential. Banks provide a package of services to customers, and, in return, the customers pay a package of prices: interest and charges on overdrafts, charges for specific services (eg foreign currency payments), and interest forgone on credit balances. The charges are an important part of the charging structure.

- The Supreme Court dismissed the grounds that the OFT had provisionally raised in the course of its investigation as irrelevant and inadmissible,

[24] [2008] EWHC 875 (Comm).
[25] [2009] UKSC 6.

because in comparing charges with only certain services (as opposed to the whole package), the OFT's investigation was 'beside the point'.

The role of self-regulation

49. In July 2012, following discussions between BIS and four trade associations representing over 90% of the payday and short-term loan industry, a Good Practice Customer Charter[26] was published by the four trade associations: BCCA, CCTA, CFA and FLA[27] (the trade associations).

50. The trade associations committed their members to explaining how loans work and the costs involved; increasing transparency about loan repayments so that consumers can make informed decisions and are not surprised by hidden payments; providing help for customers in financial difficulty by freezing charges and interest; undertaking robust credit and affordability assessments to ensure that loans are suitable for the customer's situation; and effective compliance monitoring by the trade associations to root out poor practice in the industry. The CFA's Code of Practice also introduced a limit of three rollovers per customer.[28]

51. Under the Good Practice Customer Charter, the trade associations require their members to provide an annual statement of compliance and to be subject to periodic independent compliance visits. Failure to comply with the Charter could result in firms being subject to written warnings, recommendations as to future conduct and expulsion from the trade association for more serious breaches. Furthermore, the CCTA's[29] and the CFA's[30] codes of practice state that they would suspend or expel any of their members who fail to comply with the code. To our knowledge, no sanction has ever been reported.

Part 3: Recent and expected regulatory changes

52. In this section, we set out a number of recent changes to the regulation of payday lending and the background to the requirement on the FCA to introduce a price cap.

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[26] www.cfa-uk.co.uk/assets/files/PD&STL_Charter.pdf.
[27] FLA has only one member in this sector, which is Wonga.
[28] www.moneyshop.tv/CFA_Lending_Code_for_Small_Cash_Advances_25_July_2012.pdf. Point 4, f), iv) of the Code of Practice 'Members shall not allow customers to extend a short term loan on more than three occasions'.
[29] Annex C Code of Practice for bills of sale lenders (paragraphs 2.4 & 2.5).
[30] www.moneyshop.tv/CFA_Lending_Code_for_Small_Cash_Advances_25_July_2012.pdf.

Recent changes introduced by the FCA

53. As set out in paragraph 22, on 28 February 2014, the FCA published its new CONC sourcebook for the consumer credit market, including payday lending. Most of the rules came into effect on 1 April 2014, subject to a six-month grace period if a firm can demonstrate compliance with a corresponding rule under the CCA or OFT guidance. Some of the additional requirements listed below also came into force on 1 April 2014, while others were delayed until 1 July 2014 to allow firms time to amend systems and procedures.

54. Annex A contains a table which summarises when FCA new requirements will come into force. Further details of the changes are provided in the FCA policy statement, which sets out in a table the main feedback on the draft CONC provisions and the FCA response on each and, in Appendix 1, the final CONC rules.[31]

Imposing a limit on rollovers

55. Within the CONC rules, rollovers are treated as a form of 'refinancing' and a definition of refinancing is provided. A loan is refinanced if the period for repayment is extended whether by agreement between the parties or otherwise, but excluding where the lender exercises 'forbearance' (in the narrow sense of refinancing without any ongoing interest charges and with non-interest charges limited to reasonable administrative costs). There are various ways in which a loan may be refinanced, but for instance the customer is required to pay all outstanding interest and charges and may also pay off some of the loan principal.

56. From 1 July 2014, payday lenders will be precluded from refinancing an agreement (except by exercising forbearance as defined above) more than twice. The purpose of this restriction is to protect customers from spiralling debt while still providing them with some flexibility to extend their loans under certain circumstances.

Regulating continuous payment authority attempts

57. The majority of online payday lenders collect payments via a CPA, which is a way for creditors to take money from bank accounts under the terms of an agreement with the borrower and which typically enables the lender to take a payment at any time and in any amount it wishes.

[31] www.fca.org.uk/your-fca/documents/policy-statements/ps14-03.

58. Using a CPA can be a convenient way for customers to pay their bills, as the money is automatically deducted and can help a customer avoid late payment or default charges. However, the OFT found evidence that some payday lenders appeared to have taken money from the accounts of their customers without warning. FOS has received complaints about lenders continuing to use a CPA after the borrower has sought to cancel it.

59. Under the FCA's new rules, payday lenders are limited, from 1 July 2014, to two failed CPA attempts, meaning that they cannot keep trying to withdraw payment from consumers when the funds are not available. Instead, they are expected to contact customers to find out about their situation and whether the customer is in financial difficulty.

Prohibiting partial continuous payment authority payments

60. In addition, payday lenders will be prohibited from using a CPA to take part payments from the customer's account, unless the customer expressly authorises this. Rules carried across from OFT guidance also require a firm to use a CPA in a way which is reasonable, proportionate and not excessive, and not to request payment where the lender has reason to believe there are insufficient funds in the account.

Implementing a new risk warning

61. The FCA rules require lenders to insert a risk warning in financial promotions for payday loans. This is targeted at consumers who could otherwise underestimate the risks and costs associated with not paying back a loan on time, and those consumers who would benefit from impartial debt advice. The warning is: 'Warning: Late repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk'[32] and must be shown prominently.

62. All payday lenders must now also clearly display this risk warning on all their electronic communications. As of 1 July 2014, a risk warning must also be displayed within all 'non-electronic media'.

Providing debt help information

63. Payday loan companies must now provide consumers with information regarding where they can receive free debt advice before they refinance a

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[32] CONC 3.4.1R.

payday loan. This must be by means of a tailored version of the arrears information sheet on the FCA website.[33]

Introduction of a price cap

64. Section 137C of the FSMA (added by the Financial Services Act 2012) ensures that the section 137A general rule-making power includes power to make rules to cap the amount of interest or charges that can be charged on specified loans or descriptions of regulated credit agreements.

65. This section was further amended by section 131 of the Financial Services (Banking Reform) Act 2013. This imposed a duty on the FCA to make such rules, to come into force by 2 January 2015, in relation to regulated credit agreements appearing to the FCA to involve the provision of HCSTC. The general duties that apply to how the FCA is to exercise its powers under the FSMA[34] will apply also to the design and making of these new rules to ensure that the design of the cap works in UK consumers' interests and fits the UK market.

66. The section sets out that the FCA must make these rules in order to protect consumers from excessive charges, and these rules must advance one or more of its operational objectives. In addition, the FCA will have to consult the Treasury before it publishes any draft rules, and report on the use of this power in its annual report.

Part 4: International comparisons

67. Some countries have introduced regulation specifically on payday loans. The table in Annex C provides some detail of the types of regulation and interest rate restrictions that exist in the EU, the USA, Canada, Japan and Australia.

68. In the USA, many states have regulated payday lending either by introducing a ban or by introducing a cap on the maximum charge for credit which can be made. In Canada, the government introduced a national cap on the total cost of credit, but allows provincial governments to implement even lower limits in their own area. Australia has also introduced a cap of 20% on the level of upfront fees a lender is able to charge relative to the amount borrowed. Regulation dealing with other practices, such as rollovers, very short-term

[33] Information sheet is at www.fca.org.uk/your-fca/documents/information-sheets/information-sheet-arrears and has to be tailored in accordance with CONC 6.7.20R.
[34] See section 137A & C of the FSMA.

loans and inadequate credit assessments, have been implemented in Japan and some provinces in Canada, including Ontario and British Columbia.

69. The table in Annex C indicates that there is considerable variation in the regulation of payday loans.

Summary of when FCA new requirements come into force

Date	Rules coming into force
1 April 2014	In relation to firms generally: • High-level rules – Principles for Businesses (PRIN), relevant provisions of Senior Management Arrangements, Systems and Controls (SYSC) and General Provisions (GEN) • Conduct rules – Consumer Credit sourcebook (CONC) – carrying across CCA provisions plus OFT guidance as FCA rules or guidance[2] – some material from existing industry codes • Financial services and Markets Act (FSMA) enforcement powers • Certain requirements to notify information to FCA in line with Principle 11 and chapter 15 of our Supervision manual (but not periodic reporting) In relation to HCSTC: • Risk warning in online and electronic financial promotions In relation to debt management: • Requirement to signpost free independent debt advice and ensure fees for debt management plans are spread
1 July 2014	In relation to HCSTC: • Additional rules on refinancing (rollovers) • Additional rules on CPAs • Risk warning on other financial promotions
1 October 2014	In relation to firms generally: • End of transitional period for CONC rules In relation to P2P platforms: • Adequate explanations requirements • Creditworthiness requirements • Notices of arrears and default sums • Right of withdrawal In relation to not-for-profit debt advice bodies grandfathered into limited permission on 1 April 2014: • End of transitional period for detailed client money rules In relation to HCSTC and home-collected credit: • Once authorised, PSD reporting requirements
1 April 2015	In relation to financial promotions: • End of transitional period for financial promotions in certain catalogues first communicated before 1 October 2014
1 April 2017	For debt management firms and some not-for-profit debt advice bodies: • End of transitional provision for prudential requirements that permits firms not to deduct certain items from their prudential resources

2 Six-month transitional if firm can demonstrate compliance with corresponding rule (in specified CCA provisions, regulations or OFT guidance) which is substantially the same in purpose and effect to corresponding CONC rule.

Obligations relating to the formation termination and withdrawal from consumer credit agreements

1. Creditors are required to assess the borrower’s creditworthiness before granting credit or significantly increasing the amount of credit. The assessment must be based on sufficient information, obtained from the borrower where appropriate, and from a CRA where necessary.

2. Creditors must ensure that the borrower is provided with an adequate explanation of the proposed credit agreement, for example the particular features of the agreements, the cost and the consequences of failure to make payments, to enable the borrower to assess whether the agreement is suited to their needs and financial situation. It specifically requires the explanation to cover those features which might make the credit unsuitable for a particular type of use and features which may operate in an unforeseen way which may have a significant adverse effect. The explanation must be provided orally in a face-to-face situation. The borrower must be able to ask questions about the agreement, or to ask for further information or explanation.

3. These obligations were in section 55B and 55A of the CCA but on 1 April 2014 those sections were repealed and their content has been replicated in the CONC.

Pre-contractual information and agreements (section 55 of the CCA)

4. The Consumer Credit Act (Disclosure of Information) Regulations 2010, made under section 55 of CCA, require pre-contractual information to be given in good time before the borrower enters into the agreement. The information must be clear and easily legible, and the borrower must be able to take it away to consider it and to compare it with other offers if he wishes. In most cases the information must be provided in a standard format, the Pre-contract Credit Information form, to aid comparability and consumer understanding. In the case of overdrafts, a different standard form may be used but is not mandatory. If this form is not used, all the information must be equally prominent.

Formalities of a credit agreement

5. Since 2011, creditors must provide borrowers with certain specified information in a pre-contract information form and the borrower should be advised by the creditor to consider this information before signing the agreement. This is to ensure that the borrower is fully aware of the cost of the

agreement and of their legal responsibilities. Creditors must ensure that the borrower is provided with an adequate explanation of the proposed credit agreement to enable them to assess whether the agreement is suited to their needs and financial situation.

6. Under section 55A of the CCA, the creditor must provide the borrower with the following information:

- the amount the customer is borrowing
- the length of the agreement
- the amount and frequency of payments
- details of the customer's cancellation rights (if applicable) and other forms of protection and remedies available
- the total charge for credit and the APR

7. The agreement must be signed by both the creditor and the borrower who is entitled to a copy of the agreement. If this information is not given or is not signed by both parties, the agreement could be unenforceable.

Information disclosure (section 60 of the CCA)

8. The Consumer Credit (Agreements) Regulations 2010 do not prescribe the form of the credit agreement, or the ordering of information. They prescribe the information that must be included in the document which the borrower signs. It must be clear and concise and easily legible. There are rules regarding the provision of copies of executed agreements. There is a right for consumers to request a statement of account for a fixed-term loan. The statement can be requested at any time during the life of the agreement but not more frequently than once a month.

Online execution of agreements

9. The CCA (Electronic Communications) Order 2004 allows for the execution of CCA-regulated agreements online (or by other 'electronic communications') and permit creditors to send out copies of agreements and notices by electronic means where the borrower has agreed to this.

10. The Order sets out the amendments to the CCA and associated regulations needed to bring this into effect, including changes to the form of agreements to allow for electronic signatures. In each case, the creditor is required to specify the form of electronic communication needed to conclude the

agreement. Electronic communication is widely defined, and includes email and online transactions. It also, in principle, includes telephone communications, although the creditor would still need to ensure that it had complied with the provisions of the CCA such as the form of agreements and delivery of copies of agreements. Although most notices can be sent electronically, it is not possible to take enforcement action unless a default notice has been sent by post.

Right of withdrawal (section 66A of the CCA)

11. The borrower can withdraw from an agreement within 14 days following conclusion of the agreement or (if later) once the borrower has received a copy of the executed agreement or notification of the credit limit on a credit card. The borrower must repay the credit and must also pay interest for each day the credit was drawn down.[1]

12. Under section 67 of the CCA, agreements not within section 66A are subject to a right of cancellation equivalent to the right in section 66A.

Ending the agreement and early payment

13. Under section 94 of the CCA, the borrower can settle a regulated consumer credit agreement early by giving notice to the lender and paying the amount due less a rebate. The borrower is also entitled to information about the amount needed to settle. This has been extended from 1 February 2011 to provide a new right of partial early repayment.

[1] Some lenders told us that in practice they did not charge interest in these cases.

ANNEX C

Comparison of international regulation of payday loans

Country	*Legal status*	*Relevant regulator*	*Legislation*	*Notable regulatory measures in place*
Germany	Annual interest rates capped at a low level	Deutsche Bundesbank ('German Central Bank')	Court-based jurisprudence rather than statute The German Criminal Code	Interest rates are capped at no more than double the average market rate as calculated by the German Central Bank and in any event must not be more than 12% above the average of that rate. Contracts containing interest rates exceeding the caps are void. Rules prohibiting exploitation of borrowers are also contained in the section 291(2) of the German Criminal Code.
France	Annual interest rates capped at a low level	Banque de France ('Bank of France')	Article L313-3 du *Code de la Consommation*	APR capped at 1/3 above the average percentage rate applied by credit institutions during the previous quarter for loans of the same type and presenting a similar risk factor.
Australia	Regulated	Australian Competition and Consumer Commission	Consumer Credit Legislation Amendment (Enhancements) Bill 2012 Regulations to support the Consumer Credit Legislation Amendment (Enhancements) Bill 2012	Fees charged on loans less than $2,000 are capped. Credit providers can only charge the following fees: • A one-off establishment fee of not more than 20% of the loan amount. • A monthly account keeping fee of not more than 4% of the loan amount. • A government fee or charge. Default fees or charges; the credit provider cannot collect more than 200% of the amount loaned if you default – that is, fail to pay back the loan.
Japan	Regulated	Consumer Affairs Agency	Money Lending Business Act 2006 (phased implementation over three and a half years)	Qualification examinations for money-lending managers and requirements that qualified managers be present in all branches. 50 million yen asset requirement. Establishment of designated credit bureaux. Interest rate cap of 20%.
Canada (Federal)	Regulated	Regulated	Sections 347 and 347.1 of the *Criminal Code of Canada,* R.S. 1985, c. C-46	Criminal cap of the 'effective annual rate of interest … that exceeds sixty per cent on the credit advanced'. There is an exception if: *(a)* the loan is $1,500 or less and for 62 days or less; *(b)* the person is licenced or authorised under the laws of a province; and *(c)* the province is designated by secondary legislation. Examples of provincial legislation are given below.
Ontario, Canada	Regulated	Ontario Ministry of Consumer Services	Payday Loans Act, 2008	TCC cap of $21 per $100 borrowed. Payday lenders must be licensed and registered with the Registrar. Certain industry practices are prohibited, including 'rollover' loans. Payday loan customers have a two-day 'cooling off' period after taking out a loan.

Country	*Legal status*	*Relevant regulator*	*Legislation*	*Notable regulatory measures in place*
Nova Scotia, Canada	Regulated	Service Nova Scotia and Municipal Relations	Consumer Protection Act, 1989	TCC cap of $21 per $100 borrowed calculated on a $300 loan due after 14 days. Additionally, the maximum charge for missing a payment is $40 and customers may be charged up to 60% annual interest if they pay late.
British Columbia, Canada	Regulated	Consumer Protection BC	Business Practices and Consumer Protection Act, [SBC 2004] Chapter 2	Maximum charge of 23% of the principal amount. Advertising requirements, adequate explanation requirements, right of withdrawal, no multiple loans with single lenders, complete prohibition on rollovers, lending limit of 50% of net income and compulsory instalment loans.
Saskatchewan, Canada	Regulated	Consumer Protection Division, Financial and Consumer Affairs Authority of Saskatchewan	The Payday Loans Act, Chapter P-4.3 of *The Statutes of Saskatchewan, 2007,* (effective 1 January 2012) The Payday Loans Regulations, Chapter P-4.3, Reg 1 of *The Statutes of Saskatchewan*	Payday lenders may not charge more than $23 for every $100 borrowed under a payday loan agreement. This amount must include all fees whatsoever that may be directly or indirectly connected to your loan. Other measures include disclosure requirements and a right of withdrawal.
Alberta, Canada	Regulated	Service Alberta	Fair Trading Act, Revised Statutes of Alberta 2000, Chapter F-2 Payday Loans Regulation. Alberta regulation 157 / 2009	Maximum charges permitted of $23 per $100 lent. Prohibition on rollovers, advertising requirements, due date embargo, prohibition on additional fees and a prohibition on unauthorised withdrawals.
USA (Federal)	Generally legal on a federal level but loans to military personnel regulated.	Consumer Financial Protection Bureau	Military Lending Act Dodd–Frank Wall Street Reform and Consumer Protection Act	36% per year rate cap on certain payday loans to military personnel. 32 states enacted safe harbour legislation for payday lenders and permit loans based on checks written on consumers' bank accounts at triple digit interest rates, or with no rate cap at all. A few examples of the regulation enacted by the remaining 18 states are included below.
New York, USA	Annual interest rates capped at a low level	New York State Banking Department	N.Y. Banking Law 340 et seq N.Y. Banking Law 373. N.Y. Penal Code 190.40.	Small Loan Rate Cap Criminal law sets the civil usury cap at 16% per year and the criminal usury cap at 25% per year
Alaska, USA	Regulated	Alaska Division of Banking and Securities	Alaska Stat. §§ 06.50.010 et seq.	Loan Terms: Maximum Loan Amount: $500 Loan Term: Min: 14 days Maximum Finance Rate and Fees: $5 + the lesser of $15 per $100 or 15% Finance Charge for 14-day $100 loan: $20 APR for 14-day $100 loan: 520%
Maine, USA	Generally prohibited – supervised lenders only	Maine Office of Consumer Credit Regulation	Maine's UCCC applies. Me. Rev. Stat. tit. 9-A § 2-401.	Small Loan Rate Cap 30% per year on amounts up to $2,000 or a fee of $5 for amounts financed up to $75; $15 for amounts financed $75.01–$249.99; or $25 for amounts financed of $250 or more

Pricing structures

Introduction

1. In this appendix, we provide further details of the pricing structures used by different lenders.

Products included in our review

2. For the purpose of our review, we examined the pricing structures as of October 2013 for 27 products offered by 11 major payday loan companies. These products are listed in Annex A. For ease of analysis and comparability, we have grouped some products together and excluded others from our review. In particular:

   (a) While Dollar listed in its response to our market questionnaire six products that are sold in high-street stores, these can reasonably be classified as two products – a cheque-based and a chequeless loan – marketed under three brands: The Money Shop in England, Robert Biggar in Scotland[1] and Duncanson & Edwards in Edinburgh. As prices do not vary across these brands and because these brands do not compete in the same local areas, we include just The Money Shop product in our analysis.

   (b) Global Analytics' Lending Stream Loan product is repaid over six paydays or 'cycles'. In most cases this means that borrowers face either a weekly or monthly repayment structure. As these structures affect the pricing of the loan, the 'paid-weekly' and 'paid-monthly' prices of this product are presented separately for clarity.

   (c) We exclude two products of Ariste, Txt Me Cash and Payday is Every Day, as [✂] and these products have both the same product characteristics and pricing structure as Ariste's Cash Genie one-month loan.

   (d) We have excluded H&T's KwikLoan and CashEuroNet's Pounds to Pocket as these long-term instalment products have long minimum durations and are rarely used by customers for borrowing terms of less than one month. However, we include SRC's long-term instalment

[1] Glasgow, Aberdeen and Motherwell.

product, Flex Loan (Speedy Cash), despite its long minimum duration as customers commonly use it for short-term borrowing by repaying early.

Interest and finance charges

3. Interest or finance charges represent the primary component of the price of payday loans and are calculated based on the agreed principal and duration of the loan. The charges themselves are generally expressed either as simple percentage interest rates or fixed prices in pounds per £100 of credit borrowed. The rates themselves are most commonly charged per day or per month, although this is not always the case (eg per 18 days for MYJAR's product).

4. The interest or finance charges of payday loans are typically based on simple interest rates charged per day or per month. For most products that charge a monthly rate, the borrower incurs the interest or finance charge for the full month even if the loan is repaid within a shorter period (for example, a borrower taking out a 'chequeless' payday loan with The Money Shop (Dollar) will pay monthly interest of £29.99 per £100 borrowed, irrespective of how long before their payday they take out the loan (up to the maximum loan duration). Products with daily interest rates are often flexible around a customer's repayment date (for instance, allowing early repayment without a penalty).

5. The most common structure for the main finance charge is a fixed monthly charge. Among the largest players, this includes QuickQuid's PayDay loan (supplied by CashEuroNet) and all four loan products supplied by Dollar's three payday lending subsidiaries. However, it excludes Wonga's Little Loans and CashEuroNet's relatively new QuickQuid FlexCredit product, which carry daily interest rates of 1 and 0.82 per cent respectively.

6. Repayment structure is another important distinction affecting the interest or finance charges applied to payday lending products. With the majority of products considered, borrowers must repay the loan in a single repayment on the agreed date. In contrast, eight of the products we consider in this appendix[2] – six fixed-sum agreements and two open credit agreements – either can be or must be repaid in multiple instalments. Where this repayment structure is flexible – that is, where a choice exists in terms of whether customers pay by instalment and/or the number of instalments over which

[2] These are: Ariste Holding Limited's Cash Genie three-month loan product; CashEuroNet's QuickQuid Payday and QuickQuid FlexCredit products; H&T's KwikLoan product; Lending Stream's Zebit Short-Term Loan, Zebit Instalment and Lending Stream Loan products; and SRC Transatlantic Limited's Speedy Cash Flex Loan and Speedy Cash Flex Account products.

they will repay – the final price of the loan can depend on the chosen instalment structure. This is because in some cases the instalment payment goes toward paying off the principal of the loan, which in turn reduces the interest charge incurred in subsequent periods.

7. The full range of interest rates and the basis on which they are applied are shown in Table 1.

TABLE 1 **Interest rates and finance charges by product**

Company name	*Brand*	*Product name*	*Rate and basis*
Ariste	Txt Me Cash	1 Month loan	£30.00 per £100 per month
	Cash Genie/Cash Genie Loans	3 Month Loan	£90.00 per £100 per 3 months
	Cash Genie/Cash Genie Loans	1 month loan	£30.00 per £100 per month
	Payday is Every Day	1 month loan	£30.00 per £100 per month
CashEuroNet	QuickQuid	FlexCredit	0.82% per day
	QuickQuid	Payday (Average rating)	£29.50 per £100 per month
	QuickQuid	Payday (Good rating)	£25.00 per £100 per month
	QuickQuid	Payday (Excellent rating)	£20.00 per £100 per month
CFO Lending	CFO Lending	Short Term Loan	£36.00 per £100 per month
	PayDay First	PayDay Loan	£36.00 per £100 per month
Cheque Centres	The Loan Store	Payday Loans	£29.99 per £100 per month
	Cheque Centre	Short Term Loan	£29.99 per £100 per month
Dollar	PaydayUK	PayDayLoan	£29.95 per £100 per month
Dollar	The Money Shop	Chequeless loan	£29.99 per £100 per month
	The Money Shop	Cheque-based loan	£29.85 per £100 presented
Dollar	PaydayExpress	PayDay Loan	£29.00 per £100 per month
Global Analytics	Zebit	Short Term Cash Loan (monthly)	25% per month
	Zebit	Short Term Cash Loan (weekly)	6.4% per week
	Zebit	Instalment Loan	11% per month
	Lending Stream	Loan (weekly)	8.90% per week
	Lending Stream	Loan (monthly)	34% per month
Harvey & Thompson*	Harvey & Thompson	Payday Loan (Cheque)	17.64% per 30 days
	Harvey & Thompson	Payday Loan (Debit)	20% per 30 days
	Harvey & Thompson	Online Payday Loan	20% per 30 days
	Harvey & Thompson	KwikLoan	59.17% per year
MYJAR	MYJAR	Cash Loan 18 day	£20.00 per £100 per 18 days
SRC	WageDayAdvance		£29.50 per £100 per month
	Speedy Cash	Flex account	0.82% per day
	Speedy Cash	Flex Loan	0.75% per day
	Speedy Cash	Payday Loans	£25.00 per £100 until payday
The Cash Store	Cash Store	Payday Loan	84% per year plus 23% regardless of duration†
Wonga	Wonga	Little Loan	1.00% per day

Source: CMA analysis.

*These products (except for KwikLoan) are charged on a 'per 30 days' basis (ie not on a daily rate) based on the answers provided by H&T in its response to the market questionnaire and on examination of the transaction data for its Payday Loan (Debit).
†In addition to an interest rate of 84% per year, a single-occurrence 'brokerage fee' also applies to The Cash Store's Payday Loan. However, as this fee is calculated as a proportion of the loan principal, it falls under our definition of an 'interest or finance charge'.

Faster payment and other transaction fees

8. A number of lenders charge additional fees which are incurred by the borrower at the time of taking out the loan. These fees may by compulsory or optional.

9. Two of the products within our review include compulsory flat fees – charges of a fixed amount that are incurred by the borrower on the date the loan is issued, and unrelated to any optional features of the product itself. Specifically, Wonga's Little Loans carry a fixed transaction fee of £5.50 and Ariste charges a compulsory fixed fee of £15 on its three-month Cash Genie product.[3]

10. In addition, a number of lenders charge customers additional amounts at the time of taking out the loan in return for some additional service that is not included as standard as a feature of the loan product. These optional services can be forgone at the borrower's discretion.

11. Most often, these optional fees are 'faster payment fees', paid in order to secure a reduction in the waiting time between the agreement of the loan and receipt of the loan principal. The payments services offered by lenders are discussed in greater detail in Appendix 2.1 (paragraphs 42 to 44).

12. The only other type of optional fee currently observed in the market is the set of card fees charged to those customers of The Cash Store Limited (Cash Store) who elect to obtain their loan via MasterCard.

13. In total, six payday lenders in our sample – Payday Express, CFO Lending, Ariste, WageDayAdvance, H&T and The Cash Store – currently charge optional fees on at least one of their products. Eight payday lenders – Wonga, CashEuroNet, The Money Shop, PaydayUK, Speedy Cash, MYJAR, Cheque Centres and Global Analytics – do not charge optional fees on any of their products. These optional fees thus apply to ten products in total: these are set out in Table 2.

[3] Ariste's compulsory fee is described by the lender as a faster payment fee.

TABLE 2 **Faster payment and other optional fees by product**

Lender	*Product*		*Optional fee type*	*Fee amount £*
Company name	*Brand*	*Product name*		
Ariste	Txt Me Cash	1 Month loan	Faster payment	20
	Cash Genie/Cash Genie Loans	1 month loan	Faster payment	20
	Payday is Every Day	1 month loan	Faster payment	20
CFO Lending	CFO Lending	Short Term Loan	Faster payment	15
	PayDay First	PayDay Loan	Faster payment	15
Dollar	PaydayExpress	PayDay Loan	Faster payment	15*
H&T	H&T	Online Payday Loan	Faster payment	7
The Cash Store	Cash Store	Payday Loan	Faster payment	5
	Cash Store	Payday Loan	Card fee	10
WageDayAdvance	WageDayAdvance		Faster payment	15

Source: CMA analysis of responses to the market questionnaire.

*The faster payment fee for Dollar's Payday Express loan is only charged to repeat customers – ie customers taking out a second or subsequent loan.

14. Faster payment fees range from £5 on The Cash Store's Payday Loan up to £20 on Ariste's one-month loan products. New customers are exempted from the £15 faster payment fee on Payday Express's payday product.

Top up and rollover charges

15. Top-up fees are additional flat fees incurred when a customer chooses to 'top up' their loan during the course of the original loan term (see Appendix 2.1, paragraphs 33 to 37 for further details). Different lenders' approaches to top-up fees vary. For example, Wonga charges a £5.50 top-up fee and applies its standard interest rate of 1% per day to the additional amount (including the top-up fee) from the date of top-up to the repayment date. CashEuroNet does not charge any flat top-up fees. It told us that charges for top-ups were 'charged pro-rata based on the new principal balance of additional loan proceeds funded for the remaining term of the loan'.

16. Rollover charges refer to additional flat fees and/or further interest or finance charges incurred by the borrower on agreement with the lender to extend the duration of the loan beyond the original repayment date. As described in Appendix 2.1 (paragraphs 29 to 32), the availability and structure of rollover arrangements varies across lenders. Of the lenders included within our review, only Wonga charges a flat rollover fee (of £10) when agreeing an extension.

17. All products carry an interest or financing charge for the period of the rollover. In all cases, this interest or financing charge is calculated at the same rate as was charged on the original loan. Customers may be required to repay all

outstanding interest and/or fees when rolling over a loan. This is relevant from a pricing perspective: all else being equal, the overall cost of a rollover will usually be lower the greater the proportion of outstanding principal, interest and fees that is repaid at the point of rollover.

Late payment fees

18. Late payment fees refer to flat fees and/or interest or finance charges incurred by the borrower when they fail to make a repayment by the previously agreed time and/or date (where an extension has not been agreed). These late fees can be divided into:

    (a) ‘immediate late payment fees’, which are flat fees incurred by the borrower on the first day the loan is considered late;

    (b) ‘conditional late payment fees’, which are other flat fees associated with late repayment but only apply after certain additional conditions have been met; and

    (c) ‘late interest or finance charges’, which are similar to the standard interest or finance charges except that they relate to the overdue period only.

19. We note that some lenders will, in some cases, exercise forbearance with respect to some or all of the late payment fees and interest associated with their products (for example, where customers agree to a repayment plan).

20. Almost all payday loan products carry an ‘immediate late payment fee’ for late repayments. The full range of immediate late payment fees charged by each lender is set out in Table 3.

TABLE 3 **'Immediate late payment fees' by product**

Company	*Brand*	*Product name*	*Late fee charged the first day after payment is missed?*	*Amount £*
Ariste	Txt Me Cash	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	1 Month loan	Yes	15.00
	Payday is Every Day	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	3 Month Loan	Yes	15.00
CashEuroNet	QuickQuid	FlexCredit	Yes	12.00
	QuickQuid	Payday	Yes	12.00
Cheque Centres	The Loan Store	Payday Loans	Yes	30.00
	Cheque Centre	Short Term Loan	Yes	30.00
CFO Lending	CFO Lending	Short Term Loan	Yes	25.00
	PayDay First	PayDay Loan	Yes	25.00
Dollar	PaydayUK	PayDayLoan	No	N/A
	PaydayExpress	PayDay Loan	No	N/A
	The Money Shop	Chequeless loan	Yes	29.00
	The Money Shop	Cheque-based loan	Yes	29.00
Global Analytics	Zebit	Short Term Cash Loan (monthly)	Yes	12.00
	Zebit	Short Term Cash Loan (weekly)	Yes	12.00
	Zebit	Instalment Loan	Yes	12.00
	Lending Stream	Loan (weekly)	Yes	8.00
	Lending Stream	Loan (monthly)	Yes	12.00
H&T	Harvey & Thompson	Payday Loan (Cheque)	Yes	25.00
	Harvey & Thompson	Payday Loan (Debit)	Yes	25.00
	Harvey & Thompson	Online Payday Loan	Yes	15.00
	Harvey & Thompson	KwikLoan	Yes	15.00
MYJAR	MYJAR	Cash Loan 18 day	Yes	25.00
SRC	Speedy Cash	Flex account	No	N/A
	Speedy Cash	Payday Loans	Yes	12.50
	Speedy Cash	Flex Loan	No	N/A
	WageDayAdvance		Yes	12.00
The Cash Store	Cash Store	Payday Loan	Yes	25.00
Wonga	Wonga	Little Loan	Yes	30.00

Source: CMA analysis of responses to the market questionnaire.

21. While these immediate late payment fees range in value from £8 to £30, the majority are grouped in two clusters: between £12 and £15 (14 products), and between £25 and £30 (14 products).

22. 'Conditional late payment fees' are typically applied following a specific event, including:

(a) when the length of the overdue period passes a certain threshold or thresholds;

(b) where an attempt by the lender to withdraw payment is declined by the borrower's bank; and/or

(c) where the lender deems the loan to be in default or the borrower must be traced.

23. For example, Ariste applies a fee of £12 – in addition to its initial late payment fee of £15 – each time a borrower is sent a late payment notification letter. For its one-month products, the notification letters are sent on days 7, 23, 32 and 62 after the original repayment date, and for its three-month product, they are sent on days 7 and 23 after each instalment. Ariste also charges a fee of £30 for each unauthorised debit transaction (a ‘chargeback’) and a trace fee of £45 where Ariste has been advised that the customer no longer lives at that address but the customer failed to respond to any of Ariste’s contacts or advise a change of address.

24. The full range of these conditional late fees is set out in Table 4.

TABLE 4 **Conditional late fees by product**

Company	*Brand*	*Product name*	*Condition for additional flat late fees (excluding fees on first day late)*	*Amount £*
Ariste	Txt Me Cash	1 Month loan	7, 23, 32 and 62 days late	12.00
	Txt Me Cash	1 Month loan	Unauthorized debit ('chargeback')	30.00
	Txt Me Cash	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	1 Month loan	7, 23, 32, 62 days late	12.00
	Cash Genie/Cash Genie Loans	1 Month loan	Unauthorized debit ('chargeback')	30.00
	Cash Genie/Cash Genie Loans	1 Month loan	Trace fee	45.00
	Payday is Every Day	1 Month loan	7, 23, 32, 62 days late	12.00
	Payday is Every Day	1 Month loan	Unauthorized debit ('chargeback')	30.00
	Payday is Every Day	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	3 Month loan	7, 23 days late after each instalment	12.00
	Cash Genie/Cash Genie Loans	3 Month loan	Unauthorized debit ('chargeback')	30.00
CashEuroNet	QuickQuid	FlexCredit	N/A	N/A
	QuickQuid	Payday	N/A	N/A
Cheque Centres	The Loan Store	Payday Loans	-	-
	Cheque Centre	Short Term Loan	-	-
CFO Lending Limited	CFO Lending	Short Term Loan	-	-
	PayDay First	PayDay Loan	-	-
Dollar	PaydayUK	PayDayLoan	7 days late	15.00
	PaydayExpress	PayDay Loan	7 days late	15.00
	The Money Shop	Chequeless loan	-	-
	The Money Shop	Cheque-based loan	-	-
Global Analytics	Zebit	Short Term Cash Loan	36 days late	10.00
	Zebit	Short Term Cash Loan	55 days late	40.00
	Zebit	Instalment Loan	34 days late	10.00
	Zebit	Instalment Loan	55 days late	40.00
	Lending Stream	Loan (weekly)	34 days late	10.00
	Lending Stream	Loan (weekly)	53 days late	40.00
	Lending Stream	Loan (monthly)	34 days late	10.00
	Lending Stream	Loan (monthly)	53 days late	40.00
H&T	Harvey & Thompson	Payday Loan (Cheque)	-	-
	Harvey & Thompson	Payday Loan (Debit)	-	-
	Harvey & Thompson	Online Payday Loan	-	-
	Harvey & Thompson	KwikLoan	-	-
MYJAR	MYJAR	Cash Loan 18 day	11 days late	25.00
SRC	Speedy Cash	Flex account	-	-
	Speedy Cash	Payday Loans	-	-
	Speedy Cash	Flex Loan	-	-
	WageDayAdvance		-	-
The Cash Store	Cash Store	Payday Loan	Payment not honoured	20.00
Wonga	Wonga	Little Loan	-	-

Source: CMA analysis of responses to the market questionnaire.

25. In addition to these flat charges, some loan products continue to accrue interest or finance charges on overdue balances until the borrower makes full repayment. Additional late interest or finance charges apply to 20 products, including Wonga's Little Loans and several of Dollar's lending products, but excluding CashEuroNet's QuickQuid Payday and QuickQuid FlexCredit

products. In some cases, these additional late interest or finance charges continue at the same rate as the original loan, while in others a new rate or charge applies. The full range of late interest rates on overdue balances is presented in Table 5.[4]

[4] For loan products with instalments, it is possible to accumulate significant late fees as the number of repayments that can be missed is greater than for a loan with a single repayment date.

TABLE 5 **Interest rates on overdue balances**

Company name	*Brand*	*Product name*	*Amount*	*Limit*	*Interest calculated on:*
Ariste	Txt Me Cash	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Payday is Every Day	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	3 Month Loan	£30 per £100 per month or part-month	[✂]	Principal only
CashEuroNet	QuickQuid	FlexCredit	No late interest*	[✂]	N/A
	QuickQuid	Payday	No late interest*	[✂]	N/A
Cheque Centres	The Loan Store	Payday Loans	No late interest	[✂]	N/A
	Cheque Centre	Short Term Loan	No late interest	[✂]	N/A
CFO Lending	CFO Lending	Short Term Loan	1.20% per day*	[✂]	Principal only
	PayDay First	PayDay Loan	1.20% per day*	[✂]	Principal only
Dollar	PaydayUK	PayDayLoan	Daily interest based on 29% per calendar month	[✂]	Principal only
	PaydayExpress	PayDay Loan	Daily interest based on 29% per calendar month	[✂]	Principal only
	The Money Shop	Chequeless loan	0.81% to 0.89% per day depending on the number of days in the previous month. [✂]	[✂]	Principal only
	The Money Shop	Cheque-based loan	No late interest*	[✂]	N/A
Global Analytics	Zebit	Short Term Cash Loan (weekly)	25% per month		Principal only
	Zebit	Short Term Cash Loan (monthly)	6.4% per week	[✂]	Principal only
	Zebit	Instalment Loan	11% per month		Principal only
	Lending Stream	Loan (weekly)	8.9% per week		Principal only
	Lending Stream	Loan (monthly)	34% per month		Principal only
H&T	Harvey & Thompson	Payday Loan (Cheque)	0.56% per day	[✂]	Principal only
	Harvey & Thompson	Payday Loan (Debit)	0.67% per day	[✂]	Principal only
	Harvey & Thompson	Online Payday Loan	0.67% per day	[✂]	Principal only
	Harvey & Thompson	KwikLoan	-	[✂]	-
MYJAR	MYJAR	Cash Loan 18 day	1.11% per day*	[✂]	Principal only
	MYJAR	Cash Loan 18 day	25% flat fee of outstanding balance in lump sum when referred for debt collection	[✂]	
SRC	Speedy Cash	Flex account	No late interest*	[✂]	N/A
	Speedy Cash	Payday Loans	No late interest*	[✂]	N/A
	Speedy Cash	Flex Loan	No late interest*	[✂]	N/A
	WageDayAdvance		0.74% per day*	[✂]	Principal only
The Cash Store	Cash Store	Payday Loan	0.23% per day	[✂]	Full outstanding balance incl fees & interest
Wonga	Wonga	Little Loans	1% per day	[✂]	Full outstanding balance (but excl £30 late payment fee)

Source: CMA analysis of responses to market questionnaire.

*Products charging late interest rates that differ from the standard interest rate charged on the agreed period of the loan.

List of products included in the CMA’s pricing analysis

TABLE 1 **Product codes**

Lender	*Product*	
Company name	*Brand*	*Product name*
Ariste	Txt Me Cash	1 Month loan
	Cash Genie/Cash Genie Loans	3 Month Loan
	Cash Genie/Cash Genie Loans	1 month loan
	Payday is Every Day	1 month loan
CashEuroNet	QuickQuid	Payday (Average rating)
	QuickQuid	Payday (Good rating)
	QuickQuid	Payday (Excellent rating)
	QuickQuid	FlexCredit
Cheque Centres	The Loan Store	Payday Loans
	Cheque Centre	Short Term Loan
CFO Lending	CFO Lending	Short Term Loan
	PayDay First	PayDay Loan
Dollar	PaydayUK	PayDayLoan
	The Money Shop	Chequeless loan
	The Money Shop	Cheque-based loan
	PaydayExpress	PayDay Loan
Global Analytics	Zebit	Short Term Cash Loan
	Lending Stream	Loan (weekly/monthly)
	Zebit	Instalment Loan
H&T	Harvey & Thompson	Payday Loan (Cheque)
	Harvey & Thompson	Payday Loan (Debit)
	Harvey & Thompson	Online Payday Loan
	Harvey & Thompson	KwikLoan
MYJAR	MYJAR	Cash Loan 18 day
SRC	WageDayAdvance	
	Speedy Cash	Payday Loans
	Speedy Cash	Flex Loan
	Speedy Cash	Flex Account
The Cash Store	Cash Store	Payday Loan
Wonga	Wonga	Little Loan

Source: CMA analysis.

Representative scenarios

Introduction

1. In this appendix we provide additional detail about the representative borrowing scenarios used in our analysis of payday lenders' pricing. We begin by discussing the loan values, loan durations, optional fee take-up and repayment behaviour that are used in our representative scenarios. We then present some additional detail on lenders' prices under the different scenarios.

Representative scenario characteristics

Loan value

2. Our analysis of the major lenders' transaction data indicates that:

   (a) the mean loan amount varies across lenders from £163 to £326;

   (b) the modal loan amount is £100 for the majority of lenders;

   (c) the modal loan amount across lenders is also £100; and

   (d) the median loan value is £200.

3. Given its modal frequency and its reasonable proximity to the bulk of the distribution of loan values, we choose £100 as the loan amount for our representative scenarios. Loans of this value have the incidental advantage that comparisons of 'costs per £100' are relatively clear when considering loans of £100.

Loan duration

4. Our analysis suggests that a significant majority – 90% – of loans are for 34 days or less. The most frequently-occurring loan durations are around 14 days and 28 to 30 days. On this basis, we choose 14 and 28 days as the durations of the lending scenarios that we consider.

Take-up of optional fees

5. The most common optional fee relates to faster payments.[1] Based on the fee payments made by customers in the transaction data, we estimated take-up rates on optional faster payments for each of the products that carry them. These take-up rates are shown in Table 1.

TABLE 1 **Faster payment fee 'take-up' rates (where optional)**

Product (lender)	*Fee type*	*Fee rate £*	*Estimated percentage take-up*
Cash Genie/Cash Genie Loans – 1 month loan (Ariste)	Faster payment	20	[✂]
Cash Store Payday Loan	Faster payment	5	[✂]†
CFO Lending Short Term Loan (CFO Lending)	Faster payment	15	[✂]
H&T Online Loan (Harvey & Thompson)	Faster payment	7	[✂]
Payday Express (Dollar)	Faster payment*	15	[✂]
PayDay First (CFO)	Faster payment	15	[✂]
Payday is Every Day (Ariste)	Faster payment	20	[✂]
Txt Me Cash (Ariste)	Faster payment	20	[✂]
WageDayAdvance	Faster payment	15	[✂]

Source: CMA analysis.

*This fee applies to repeat customers only.
†[✂]

6. The table shows that the overall take-up of faster payment fees is high. Given this, we assume that the borrower in each of our representative scenarios elects to pay for faster payment where the option is available.[2]

Repayment behaviour

7. Around a third of payday loans are not repaid in full on or before their original repayment date. In addition to calculating the prices of different lenders on the assumption that a borrower repays on time, we therefore also think it is important to consider both a 'late repayment' scenario and a 'rolled-over loan' scenario.

8. According to our analysis of lenders' transaction data, the average late repayment was made around 11 days after the original repayment date. We take this value of 11 days as the number of days of delay before repayment in our 'late repayment' scenario.

9. Analysis of lenders' transaction data indicates that, for all loans that are rolled over once, the median number of days between the original repayment date

[1] The Cash Store's Payday Loan features two other optional fees: a 'new card/load fee' and an 'ATM fee' of £10 and £2.50 respectively. We found that take-up of the ATM load and new card fee was [✂]. We exclude these fees in the representative borrower scenarios for this product.
[2] [✂]

and the new extended repayment date is 28 days. We use this median value as the length of the extension in our ‘rollover’ scenario.

The four representative scenarios

10. On the basis of the above, we identified four scenarios which we consider to be representative of key patterns of borrowing behaviour observed among payday customers, namely:

    (a) a customer takes out a £100 loan for 28 days, which is repaid in full on time;

    (b) a customer takes out a £100 loan for 14 days, which is repaid in full on time;

    (c) a customer takes out a £100 loan for 28 days, which is rolled over for an additional 28 days before being repaid in full; and

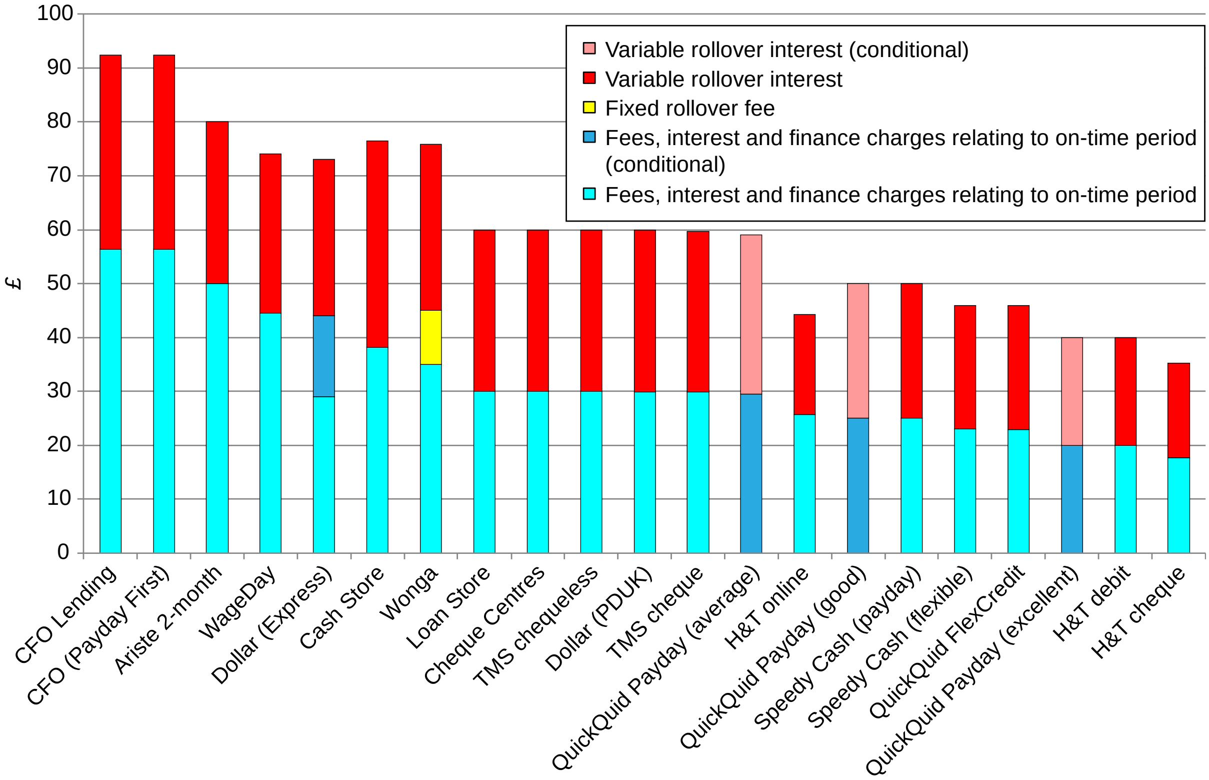
    (d) a customer takes out a £100 loan for 28 days, which is repaid in full 11 days late (the median overdue period among loans repaid late).

11. Taken together, we estimate that loans that are broadly equivalent to one of these four borrowing scenarios account for around 6% of all loans in our transaction data set. We consider that these examples allow us to understand the pricing of lenders in a much larger proportion of short-term borrowing scenarios, however, given that the prices of different lenders will typically vary linearly with the amount and duration of a loan. We consider the sensitivity of our findings to variation in these parameters in paragraph 4.34.

12. The prices of each lender under the first two of these borrowing scenarios are presented in Figures 4.1 and 4.2. Below we present the prices of each lender under the remaining two borrowing scenarios.

FIGURE 1

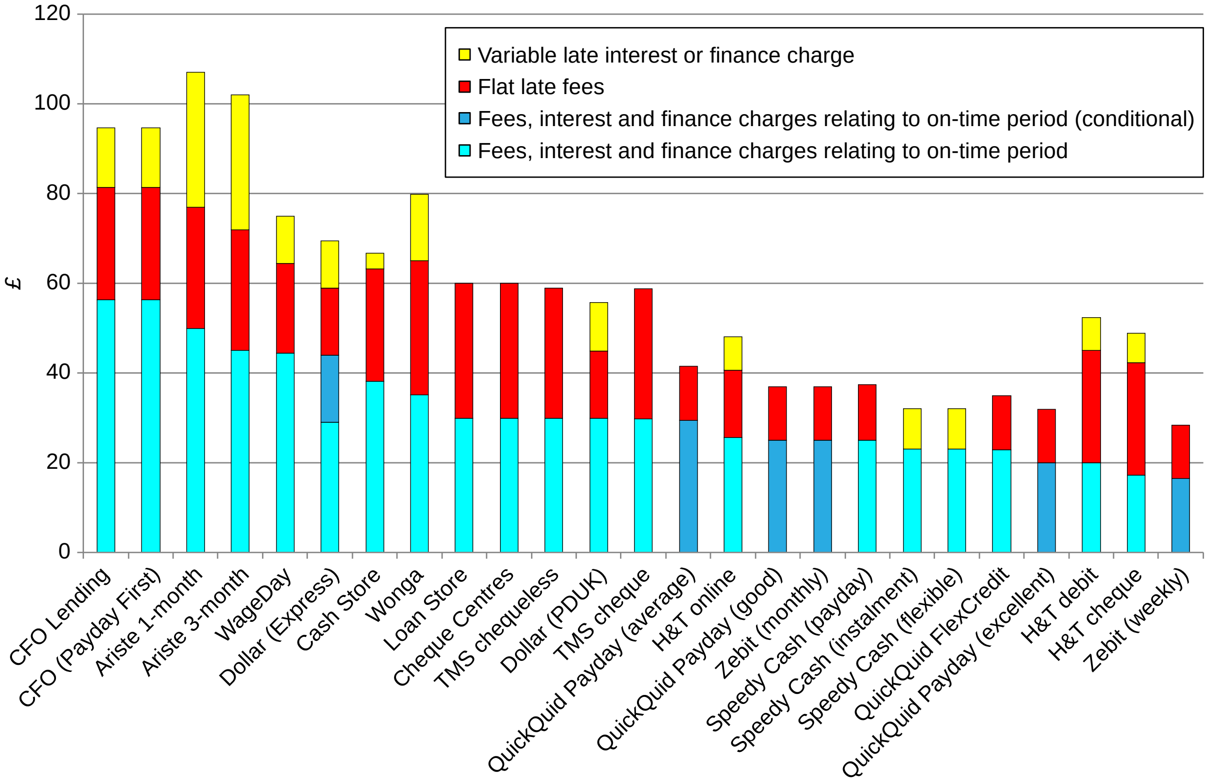
Total cost of credit for a £100 loan taken out for 28 days and extended for a further 28 days (Scenario 3)



Source: CMA analysis.
Note: Charges that vary by customer are shaded with darker blue, namely Payday Express (whose faster payment fee does not apply to new customers) and lighter red, namely QuickQuid Payday (for which the interest charge depends on the customer's risk tier).

FIGURE 2

Total cost of credit for a £100 loan taken out for 28 days and repaid 11 days late (Scenario 4)



Source: CMA analysis.
Note: Charges that vary by customer are shaded darker blue, namely Payday Express (whose faster payment fee does not apply to new customers), QuickQuid Payday (for which the interest charge depends on the customer's risk tier) and Zebit (for which the repayment structure, and therefore interest charge, is determined by the customer's pay cycle).

Prices over time

Introduction

1. In this appendix we illustrate the evolution of the prices of a number of products of the major lenders for the period January 2007 to October 2013.

2. The total cost of credit illustrated in the figures for each product are based on the following assumptions:

   (a) a loan amount of £100;

   (b) a loan duration of 28 days (although for some products we also present TCCs for shorter loan durations);

   (c) the loan is repaid on time; and

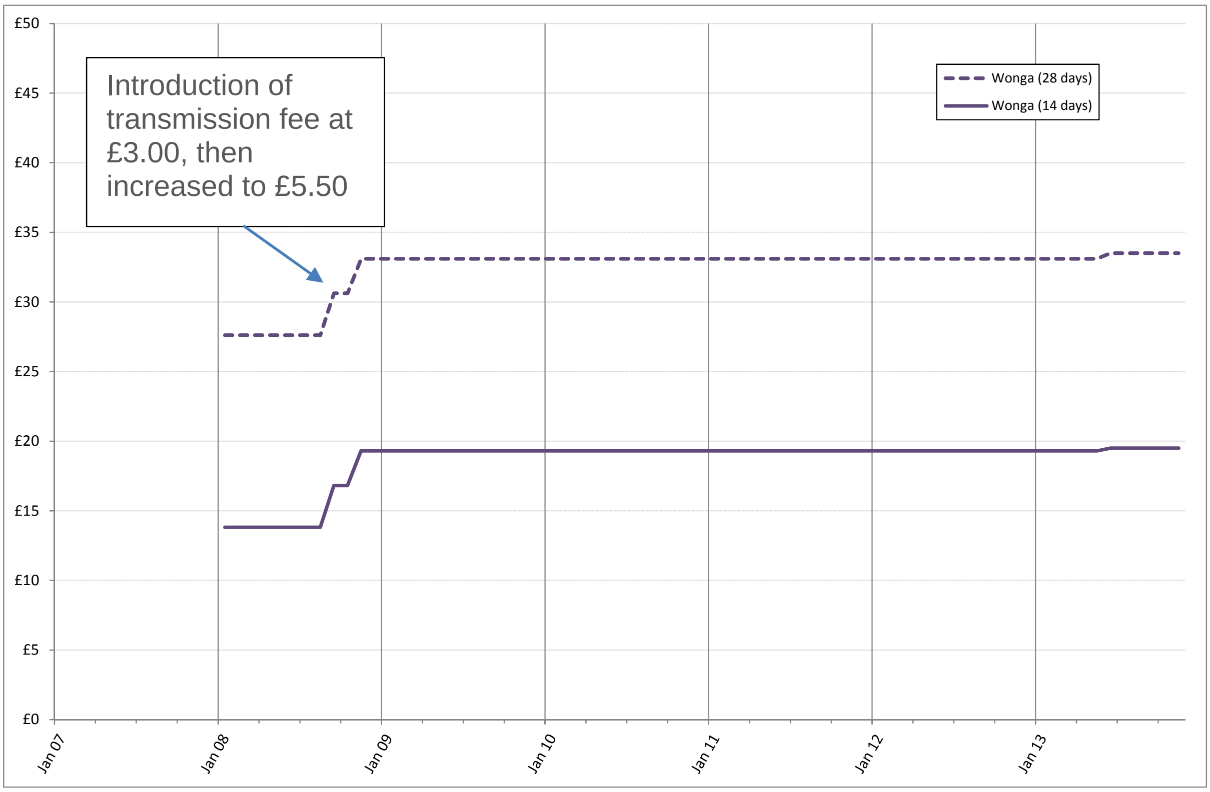
   (d) customers do not receive promotional rates.

3. Where faster payment fees are included, these are marked in the figures.

The development of lenders' prices, January 2007 to October 2013

FIGURE 1

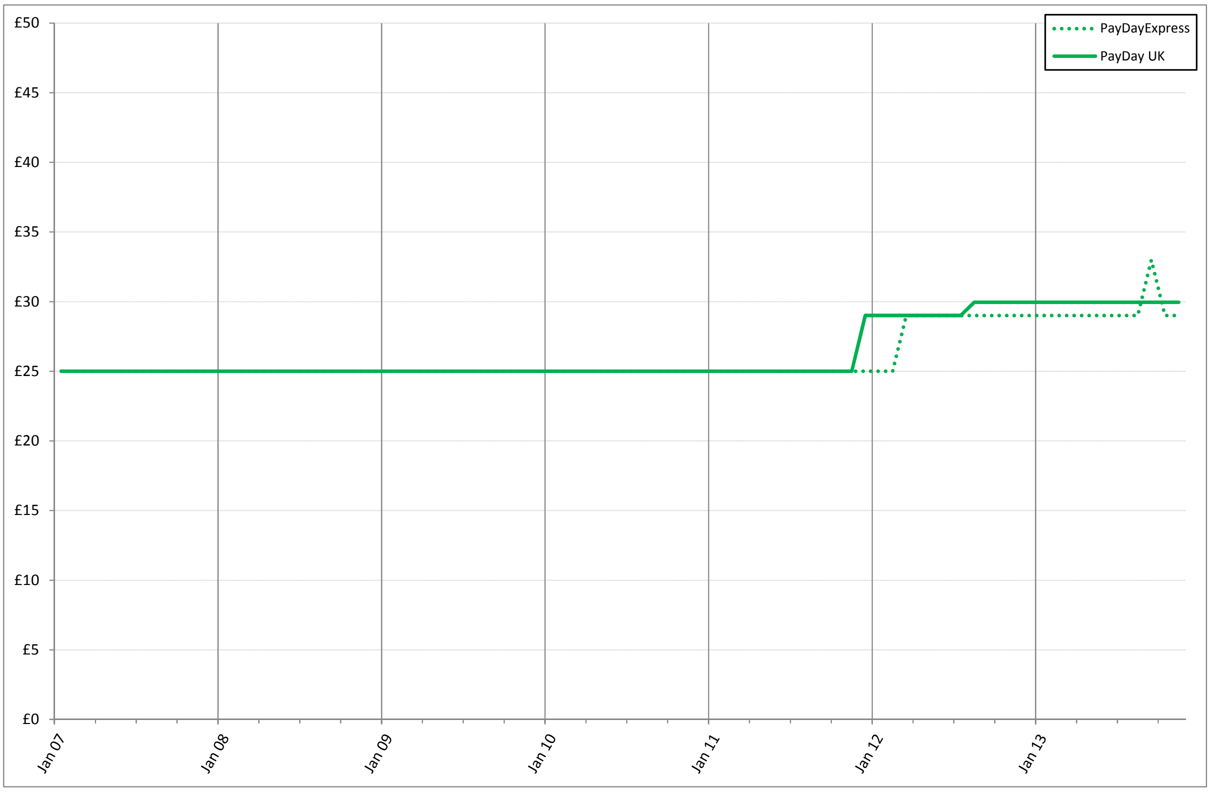
TCCs for Wonga, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 2

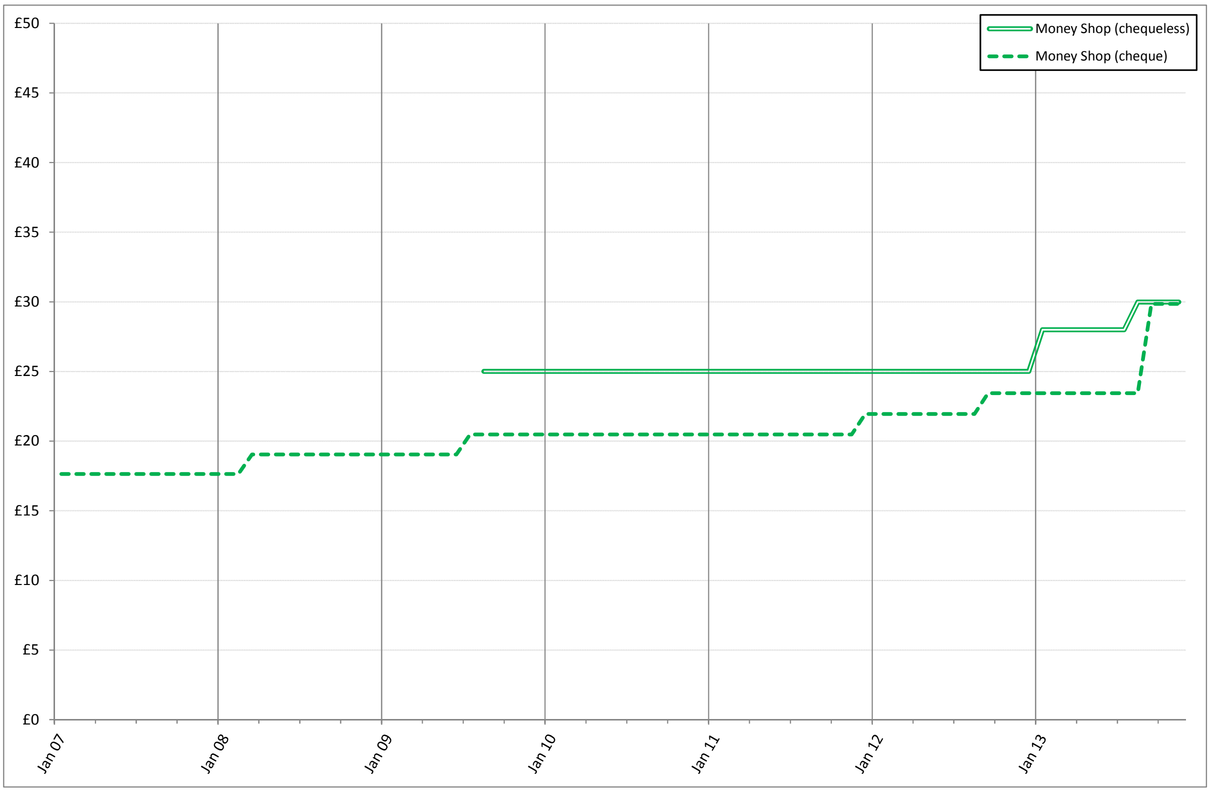
TCCs for PaydayUK and Payday Express (Dollar), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 3

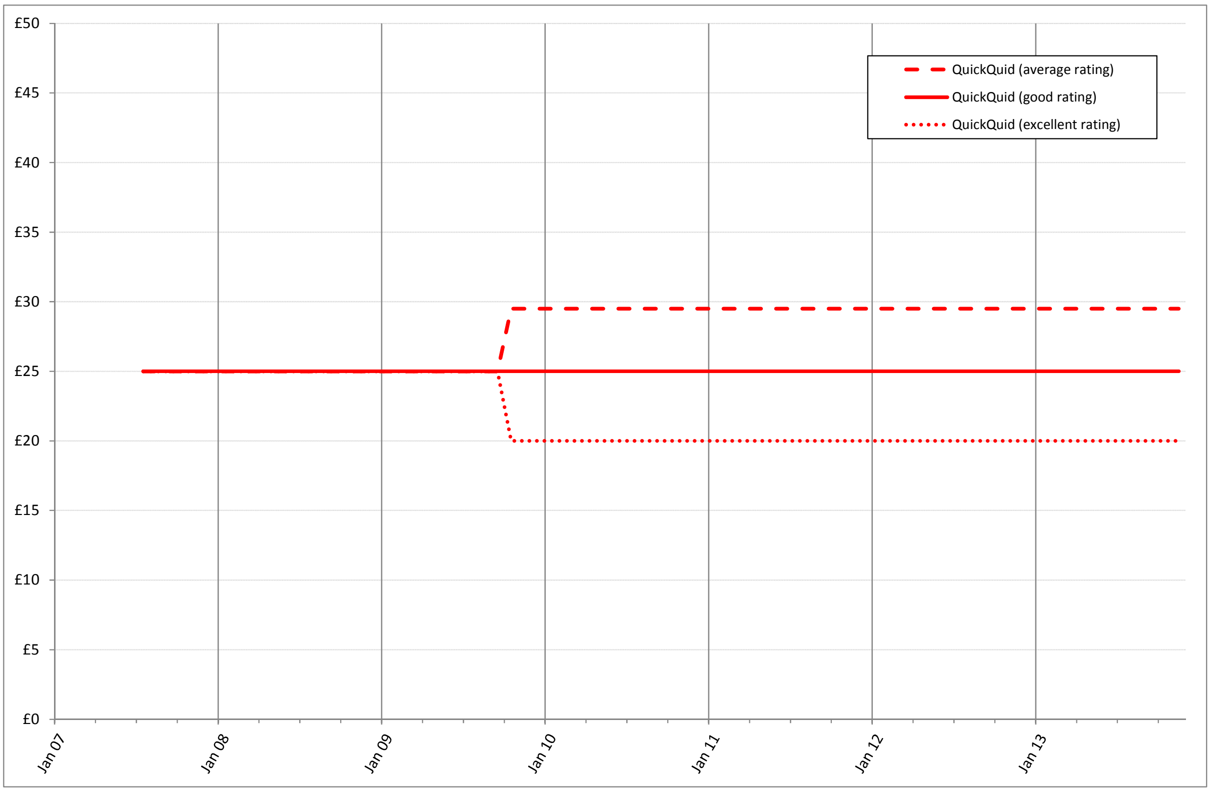
TCCs for The Money Shop (Dollar), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 4

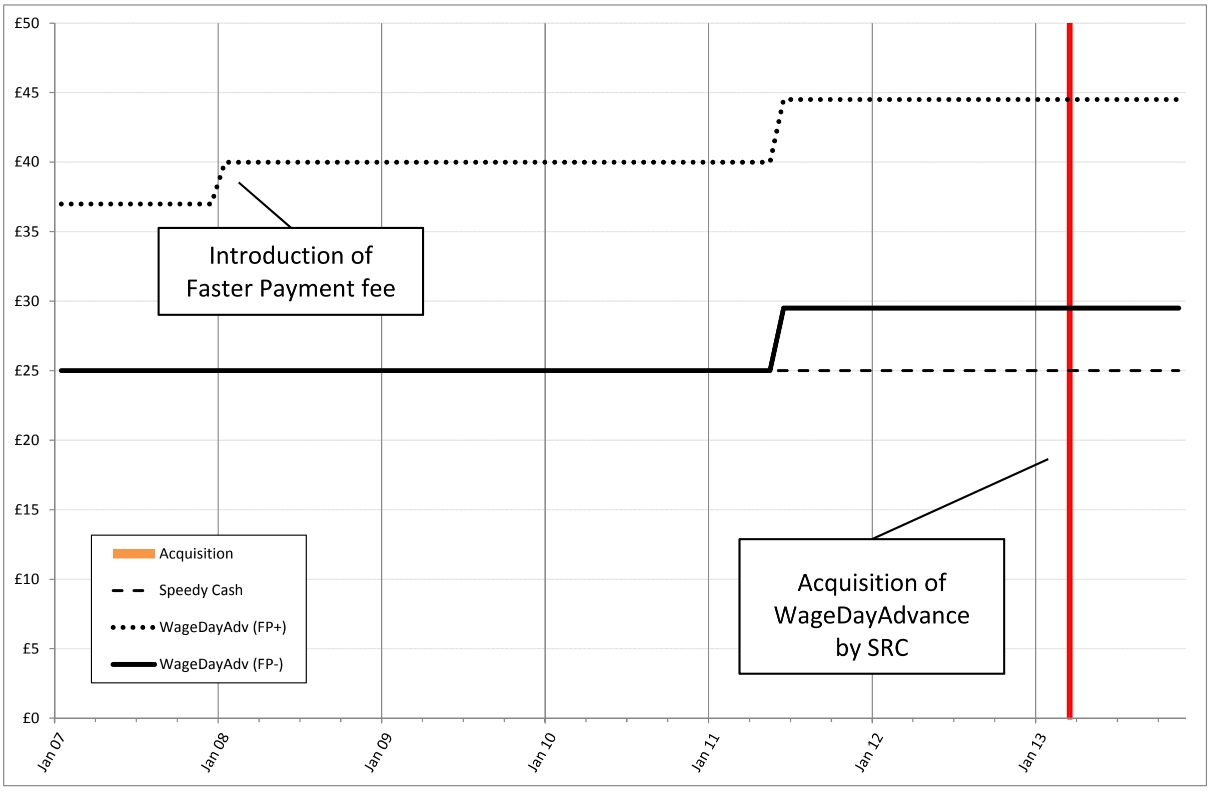
TCCs for CashEuroNet, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 5

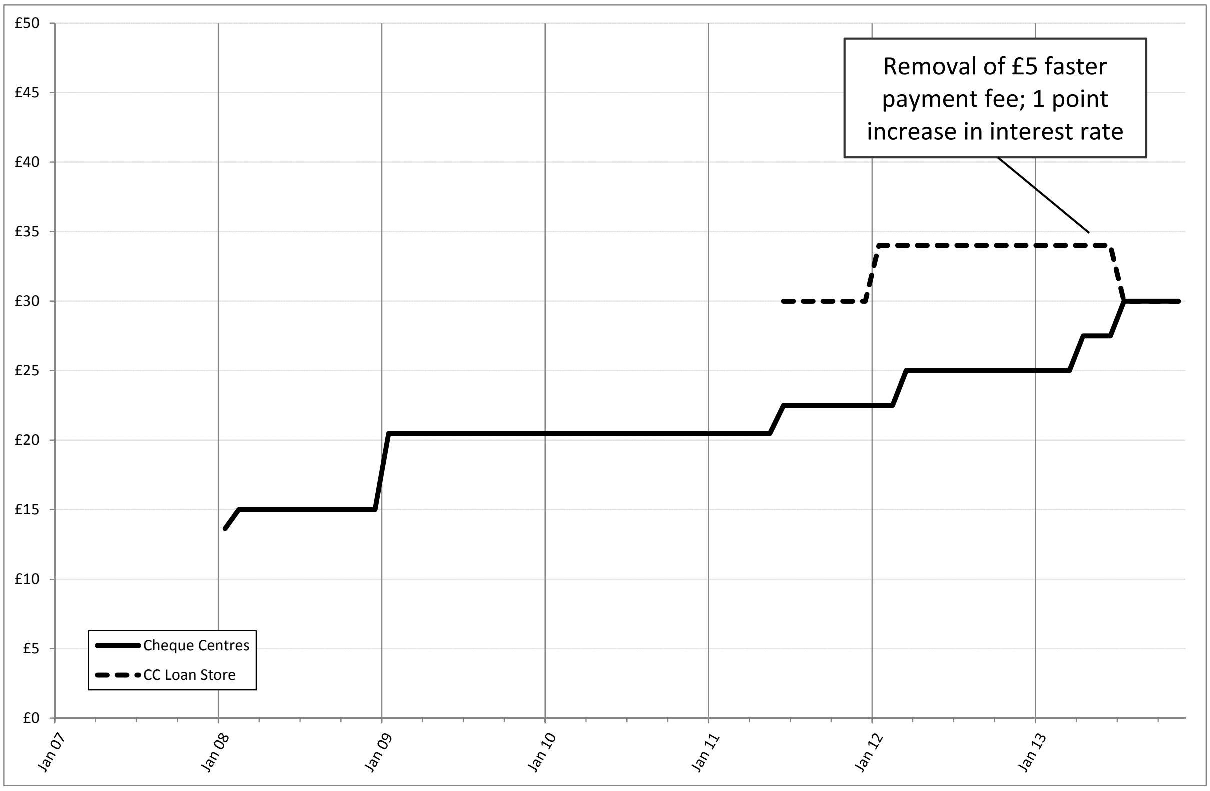
TCCs for WageDayAdvance and Speedy Cash (SRC), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Notes:
1. Line marked “FP+” includes the £15 Faster payment fee. The take-up rate of faster payments for this product in the transaction data was [✄]%.
2. SRC acquired WageDayAdvance in February 2013 (marked in the figure with a red vertical line).

FIGURE 6

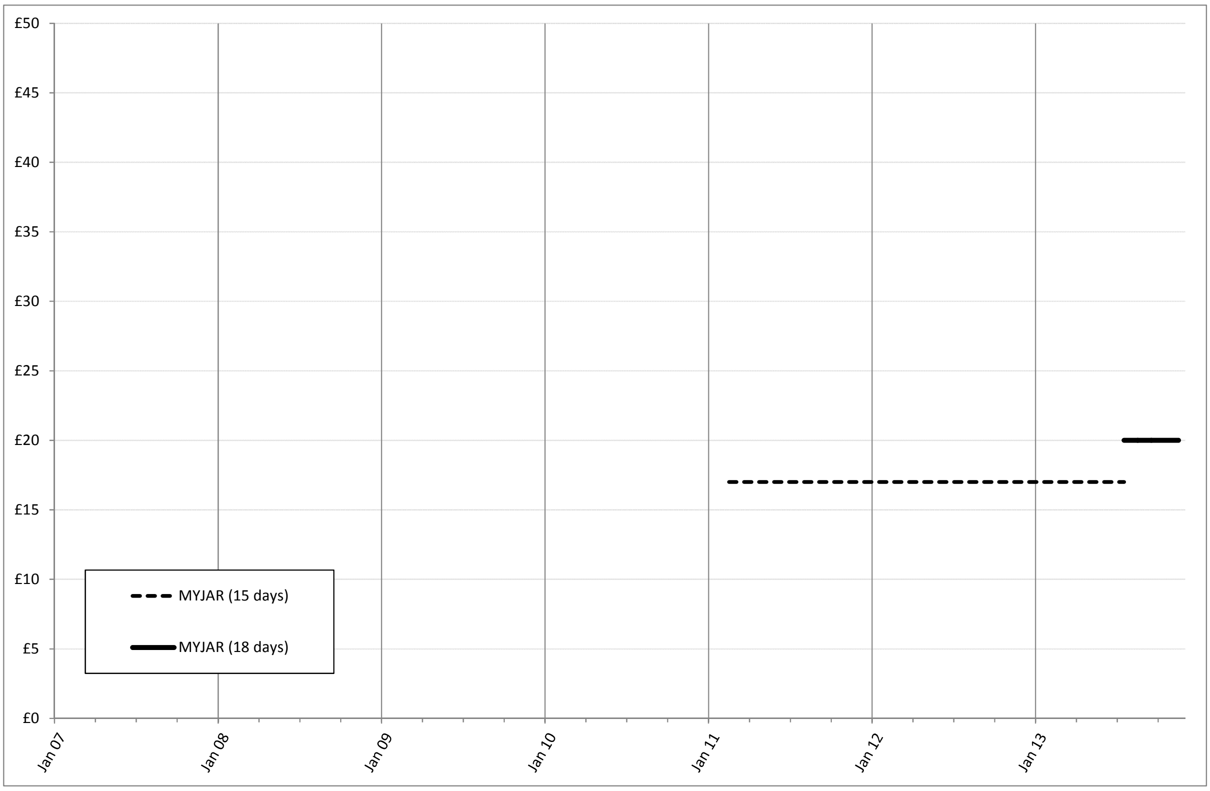
TCCs for Cheque Centres, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: The price of the Loan Store product include a faster payment fee of £5 during 2012 and the first half of 2013.

FIGURE 7

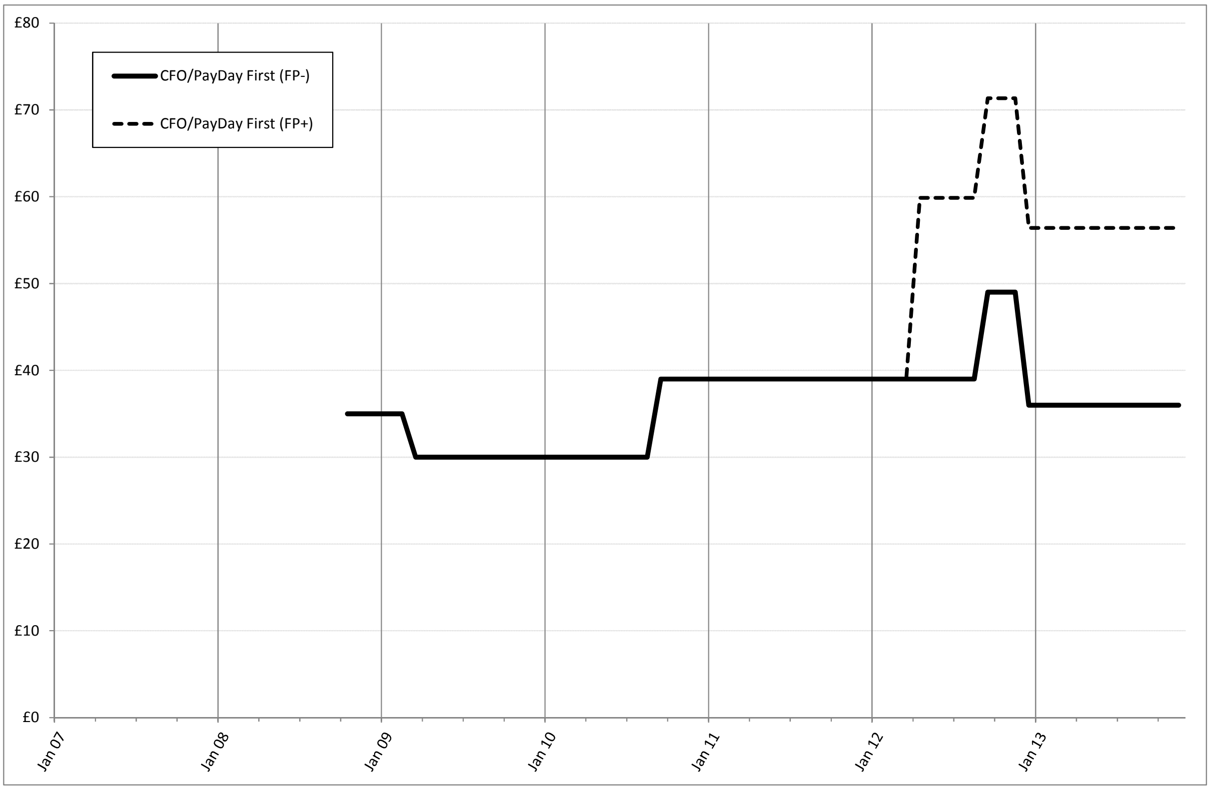
TCCs for MYJAR, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 8

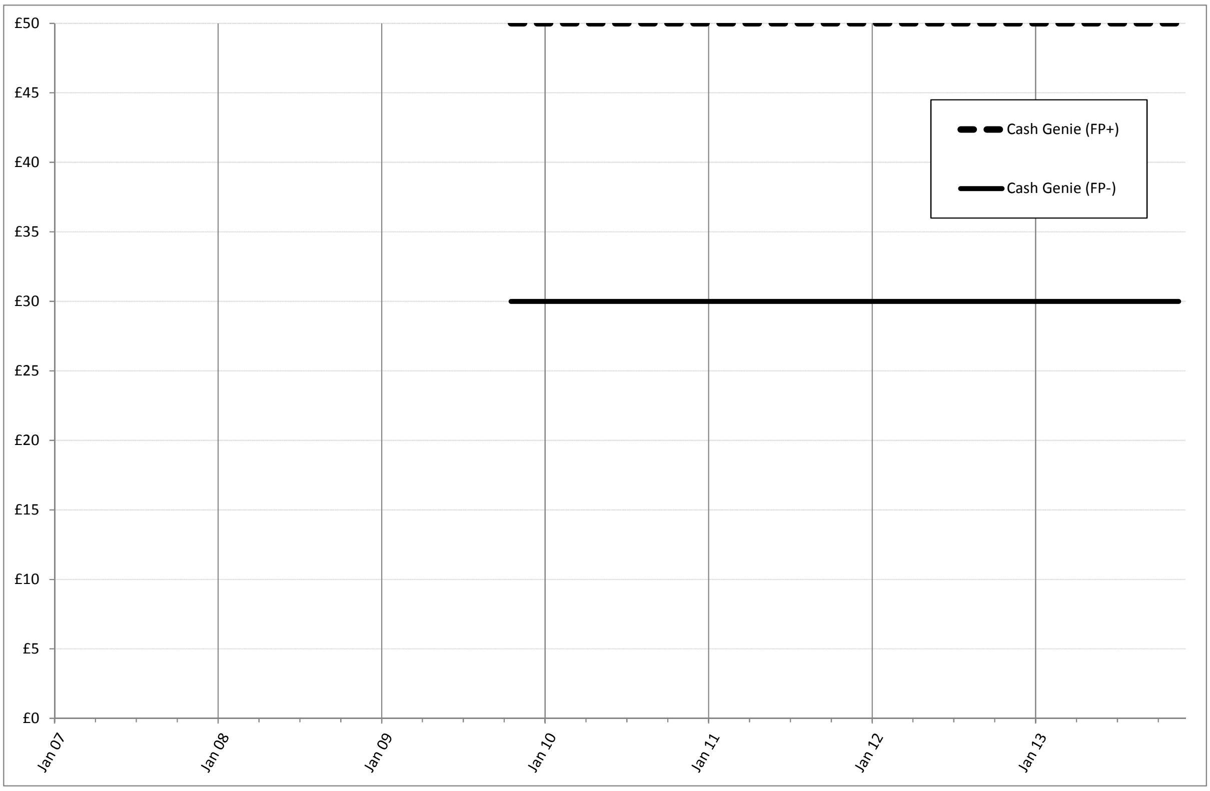
TCCs for CFO Lending, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Notes:
1. Line marked “FP+” includes faster payment fee, introduced in 2012 at £15. The take-up rate of faster payments for this product in the transaction data was [✂]%.
2. The scale in this figure differs from that for the other lenders, as CFO Lending’s price extend above £50 per £100 in the period.

FIGURE 9

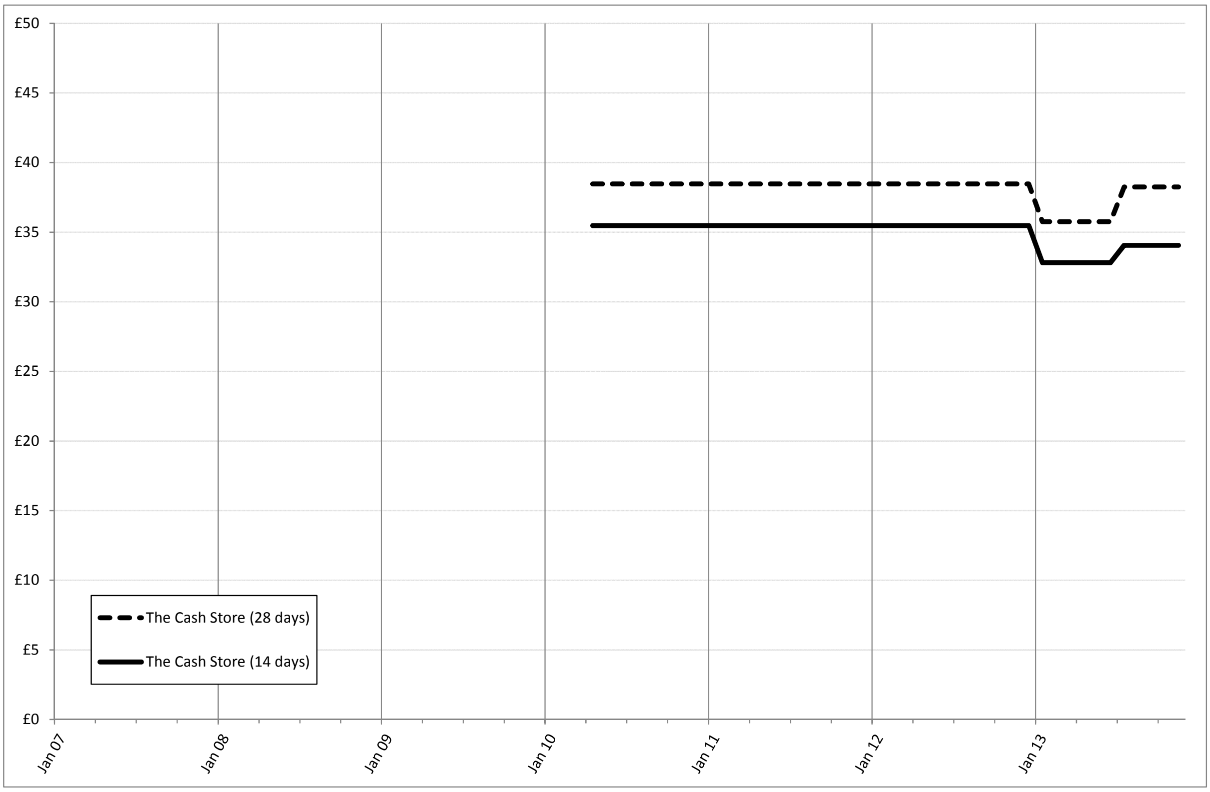
TCCs for Ariste, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: Line marked 'FP+' includes £20 faster payment fee. The take-up rate of faster payments for Ariste's products in the transaction data ranged from [✂]% to [✂]%.

FIGURE 10

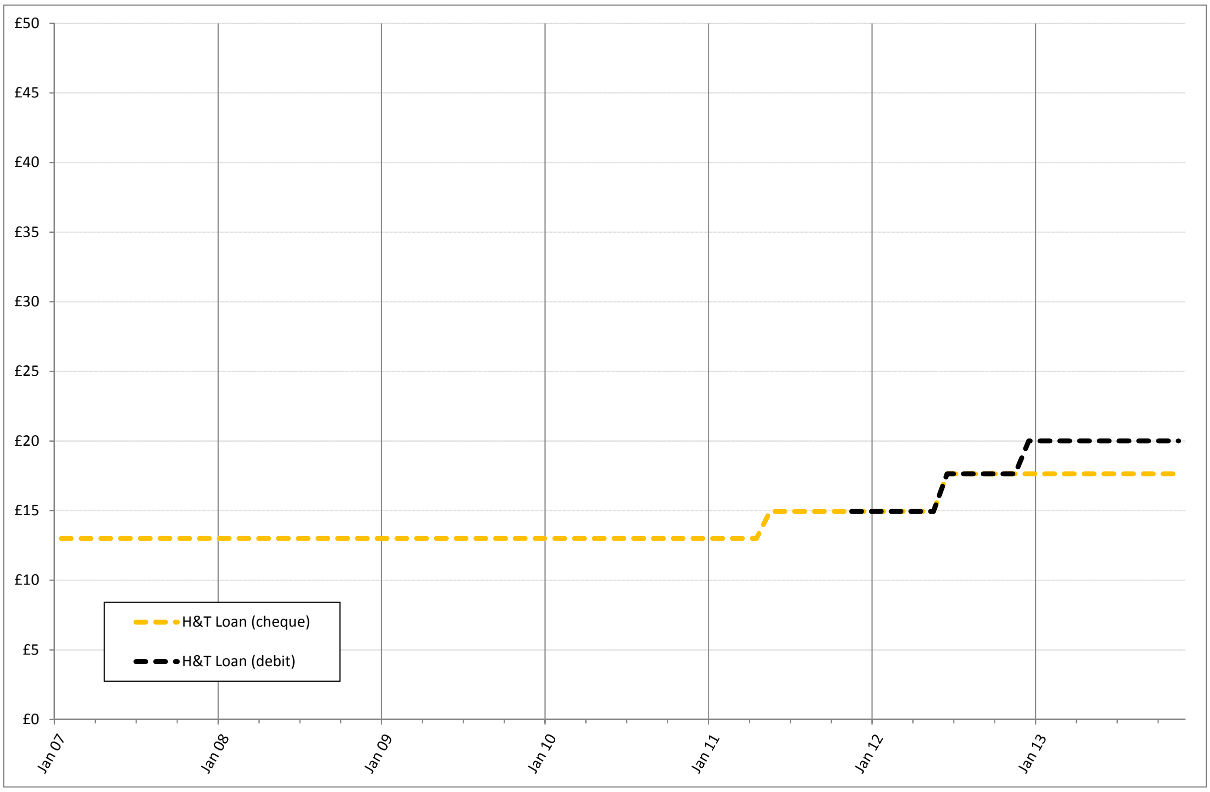
TCCs for The Cash Store, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 11

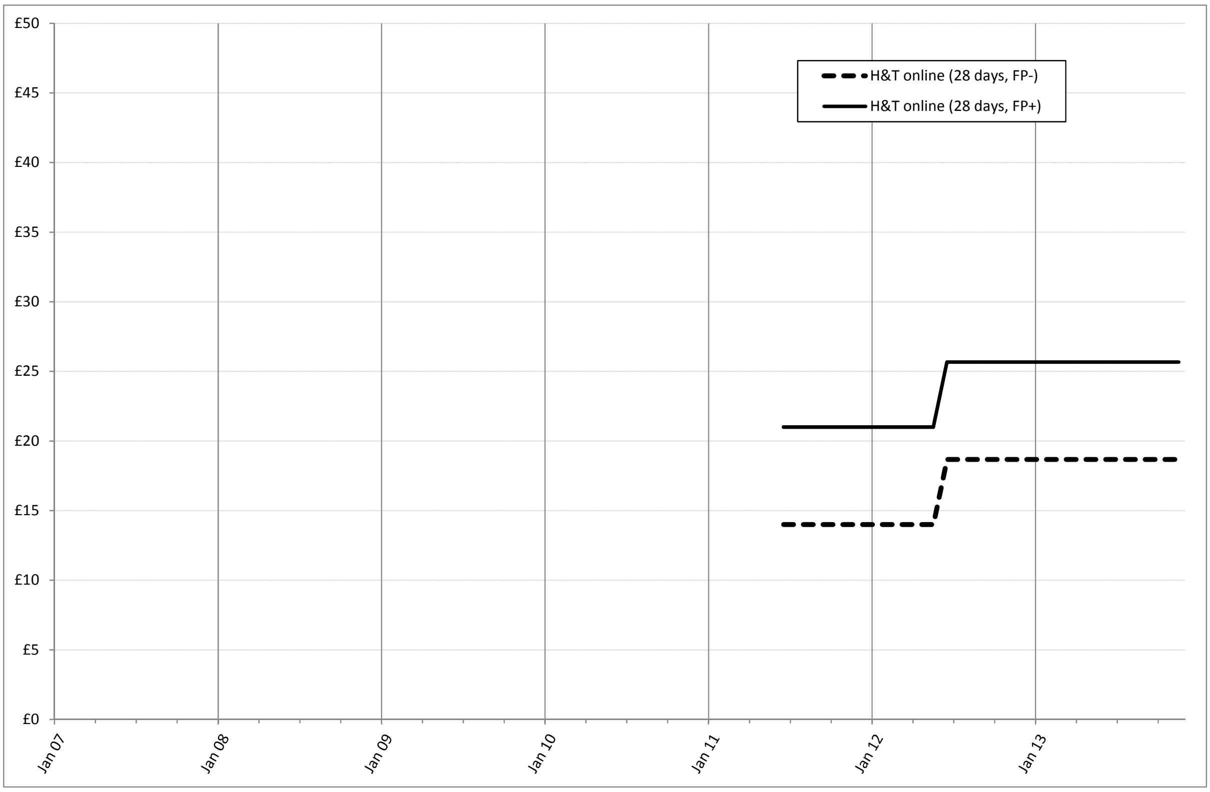
TCCs for H&T high street products, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 12

TCCs for H&T online, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: Line marked ‘FP+’ includes faster payment fee of £7. The take-up rate of faster payments for this product in the transaction data was [✂]%.

Prices and shares of supply in different borrowing scenarios

Introduction

1. In this appendix, we describe the methodology underpinning our analysis of the relationship between different products' prices and the share of all payday loans that they capture.

Methodology

2. We calculate the price of each payday product under two of the borrowing scenarios discussed in Appendix 4.2: a £100 loan taken out for 28 days and repaid in full on time, and a £100 loan taken out for 14 days and repaid in full on time.

3. The shares of supply are calculated by recording the number of loans issued under each product relating to each borrowing scenario (eg taken out for 14 days, repaid in full on time), and then dividing this by the number of loans issued by all lenders which relate to the borrowing scenario. The period over which the shares of supply of different products are examined is the ten weeks from 1 April to 9 June 2013. This period was selected on the basis that it is the most up-to-date period within our transaction data set which is of a significant length, during which no price changes took place, and for which consistent transaction data was available for the most significant payday products available on the market. The period used for this analysis pre-dates CashEuroNet's introduction of FlexCredit.

4. For the 14-day scenario, we included within our calculations of shares of supply all loans of length 13 to 15 days. For the 28-day loan, we include all loans from 27 to 31 days. Including a slightly wider range of loan durations than in the specific scenarios increases the representativeness of our analysis. However, we do not expand the range any wider, as in this case the calculated TCCs would reflect less well the prices actually paid by customers.

5. For most products, the loan duration used for this analysis is the loan duration agreed when the loan is taken out. However, for products that can be repaid early and whose interest charges are calculated based on the actual loan duration (rather than the agreed loan duration), we use the actual loan duration. This applies to Wonga's Little Loans and the Speedy Cash Flex Account.

6. We include all loans ranging in value from £75 to £125 in our calculations of products' shares of supply. Including a slightly wider range of values around £100 reduces the sensitivity of our analysis to the fact that certain loan values may be relatively popular for certain products due to the product's structure (rather than due to customers' borrowing needs).[1] As in the case of the loan durations considered, we do not expand the range any wider however, as the calculated TCCs would then provide a less accurate approximation of the actual prices paid by customers.

7. For QuickQuid Payday, prices depend on the risk tier assigned by CashEuroNet to a customer. Although we are not able to observe in our data set which risk tier each customer falls into (and so which TCC applies to each loan), we can combine information on CashEuroNet's internal risk scores and the overall distribution of loans across risk tiers to estimate the volume of loans (and their distribution of duration and value) within each risk tier.

8. The prices that we use in our analysis do not take into account any promotional rates offered by lenders, or customers who do not take up faster payment fees. We would expect any effect on our findings to be relatively small, given that the extent to which customers pay rates lower than the advertised TCCs as a result of either of these factors is limited.

9. Figures 4.7 and 4.8 set out lenders' shares of volume and their prices, calculated as per the description above. We also replicate the analysis for additional scenarios, focusing on lenders' shares of volume within certain subsets of payday loans – ie loans to relatively low-risk customers, loans taken out online and loans taken out by customers who were new to the lender. These results are presented in Figures 4.9 to 4.12.

10. Because lenders' shares of supply by product within each scenario are commercially sensitive, Figures 4.7 to 4.12 have been redacted. In order to provide an indicative example of the format of the charts contained in these figures, Figure 1 presents a similar chart based on the lenders' overall share of 2012 total loans issued (see Table 2.5).

11. In order to maintain confidentiality:

    (a) we use the midpoint of the ranged shares of supply presented in Table 2.5 to generate an indicative share of supply;[2]

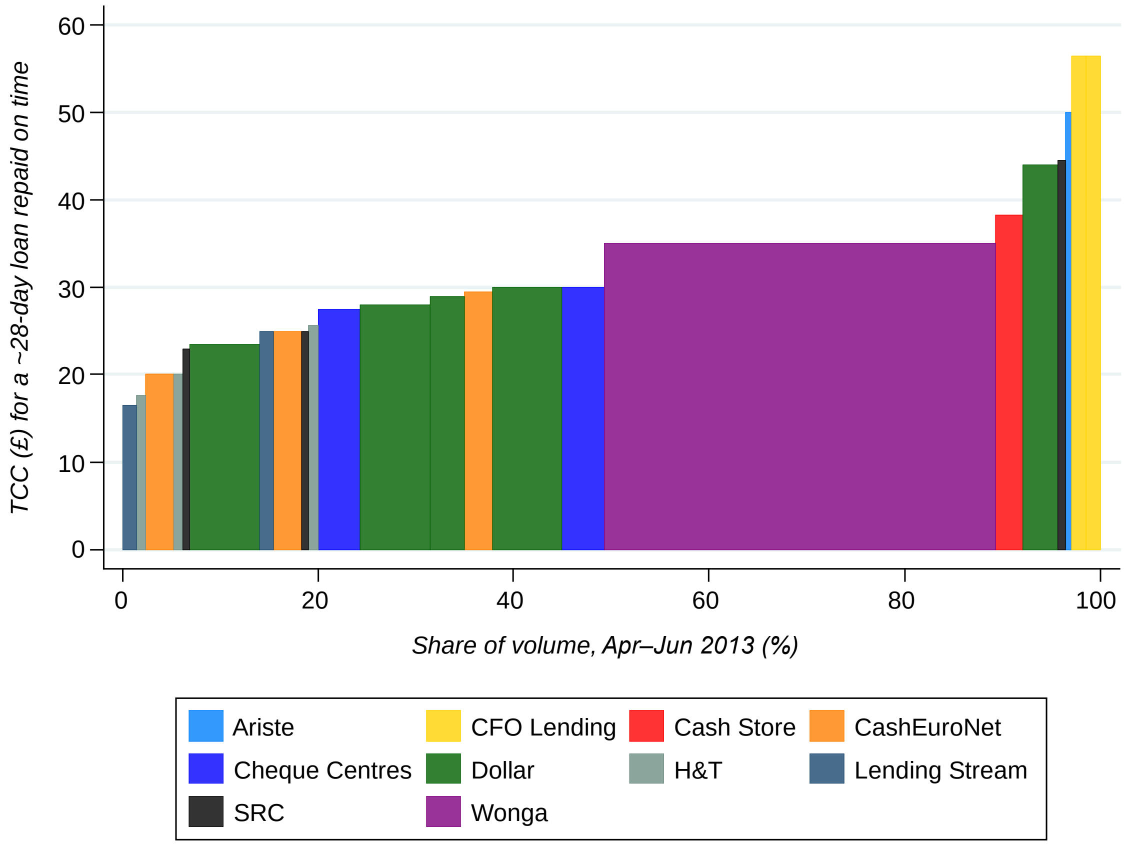
[1] For example, all new customers of MYJAR are restricted to borrowing exactly £100.
[2] For smaller lenders not appearing in this chart, we use a ranged share of supply of 0 to 5%.

(b) where lenders have multiple brands/products, we divide lenders' indicative shares of supply evenly between their brands and products; and

(c) where individual products have multiple 'formats' with different TCCs for different customers,[3] we divide those products' indicative shares of supply evenly between those 'formats'.[4]

FIGURE 1

Prices by indicative share of supply for loans of £100 for 28 days



Source: CMA.

[3] This includes CashEuroNet's QuickQuid Payday risk-based price tiers, Lending Stream's Zebit weekly and monthly formats, and Payday Express's faster payment fee for repeat customers.
[4] The indicative shares of supply presented have been rebased so that they sum to 100%.

Assessment of profitability

Introduction

1. This appendix presents our approach to assessing the profitability of the 11 major payday lenders. It includes:

   (a) an outline of the ROCE methodology;

   (b) our approach to adjustments to the inputs of the ROCE calculations to seek to ensure comparability between lenders and to incorporate intangible assets identified;

   (c) our calculation of the WACC for the major payday lenders; and

   (d) responses received from parties regarding the cost of capital.

ROCE methodology

2. ROCE is usually expressed as profit before interest and tax as a percentage of financial debt plus equity shareholders' funds. We adopted this definition for our profitability analysis and adjusted levels of accounting capital employed for intangible asset values identified (see paragraphs 15 to 32). Following submissions by Wonga and Dollar, we also cross-referenced results for these two lenders with a more detailed review of the equivalent approach based on fixed assets plus working capital (also incorporating adjustments for intangible assets identified).

3. We based our analysis of ROCE on financial information for the 11 major lenders gathered from management accounts, published financial statements and data submitted by lenders in response to our financial questionnaire. For further details on our approach to gathering and analysing financial information from payday lenders, see Annex A. For further detail on cost issues and accounting issues considered, see Annex B.

4. In previous market investigations in the financial services sector, including PPI, Store Cards and banking services to SMEs,[1] the CC considered an ROE approach to be most appropriate. ROE was chosen for SME banking because customers' deposits and other customer accounts have a dual nature, being both a liability/means of financing lending activities and a retail product in their

[1] The supply of banking services by clearing banks to small and medium-sized enterprises, March 2002.

own right – that is, forming part of working capital. Accordingly the CC concluded that a cost of capital taking both equity and debt into consideration was not relevant for banks and the appropriate cost of capital was the cost of equity, and the appropriate profitability calculation was ROE. There are also regulatory requirements for banks to hold minimum levels of equity.

5. In many other market investigations, including Home Credit, the CC assessed profitability using an ROCE approach. We considered that ROCE was the more appropriate returns metric in the case of payday lending. Factors supportive of an ROCE approach included the fact that there is no regulatory requirement for payday lending companies to hold a particular level of equity, and that payday lenders do not have access to internal equity funding from customer deposits for lending operations. In addition, many of the major lenders had received intercompany loans from parent companies during the period under review. We also took the view that in the light of adjustments required to costs (see paragraphs 35 to 95), ROCE was likely to be more robust than ROE because it did not require assumptions for adjusted tax and interest charges.

6. Table 1 shows the information submitted by parties on levels of debt and shows that debt levels at eight of the major lenders was appreciable between 2008 and 2012. There was evidence that interest rates were not based on the cost of borrowing for some lenders and that with internal funding arrangements, in some instances no cash was physically paid on capital provided by parent companies. We considered that if intercompany debt was regarded as quasi equity, profitability based on ROCE rather than ROE would be more representative. This was consistent with evidence from CashEuroNet which said that intercompany debt should be treated as a form of equity.[2]

[2] CashEuroNet, LLC response to the profitability of payday lending companies working paper paragraph 3.3.

TABLE 1 **Debt as a percentage of capital employed, 2008 to 2012**

	2008	*2009*	*2010*	*2011*	*2012*
					%
Ariste	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres online	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar high street	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar online	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]
SRC	[✂]	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

7. When estimating levels of ROCE for payday lenders in addition to the general considerations normally associated with conducting profitability analysis in market investigations, we sought to assess any industry-specific aspects of the payday lending market relevant to conducting such analysis. We identified the three areas of *(a)* the time period analysed and how this related to the industry life cycle; *(b)* the relevance of different business models to the analysis of profitability in payday lending; and *(c)* cost issues, in particular relating to measuring doubtful debt expenses. These issues are discussed in Section 4. Further detail relating to cost issues is included in Annex B.

Adjustments to ROCE calculations

8. We have previously considered the profitability of the major payday lenders and our preliminary analysis was published in a working paper alongside our annotated issues statement.

9. Following publication of the profitability working paper, we received submissions from Dollar and Wonga detailing adjustments relating to ROCE analysis and from CashEuroNet regarding our approach to profitability analysis.

10. In this subsection we set out:

(a) parties' views on asset values and our consideration of intangible assets in paragraphs 11 to 32;

(b) adjustments proposed by Dollar and Wonga for profitability analysis and adjustments included in our ROCE findings in paragraphs 33 to 83; and

(c) our sensitivity analysis on ROCE including additional intangible assets not incorporated into our provisional profitability findings including customer acquisition costs and CRA data costs in paragraphs 84 to 95.

Treatment of asset values within the ROCE framework

11. Three parties submitted views on the value of assets.

Dollar's views on asset values

12. Dollar engaged economic and accounting firm FTI to review the data it had previously submitted to us. [✂] FTI submitted a value of £[✂] million for the intangible assets recognised on the acquisition of Payday UK in 2011, and stated that intangible assets for Payday Express and The Money Shop were likely to [✂] to those in Payday UK. Our analysis of FTI's calculations indicated that economic capital employed for the period 2010 to 2013 was between a multiple of [✂] and [✂] times the level of accounting capital employed.

Wonga's views on asset values

13. Wonga commissioned a report from economic consultants AlixPartners. AlixPartners calculated economic ROCE using several adjustments and considered the value of intangible assets using three methods and associated with the following categories: customer acquisition costs; knowledge of the customer base;[3] staff recruitment and training; regulatory costs; pre-incorporation costs; and start-up losses.[4] The methods adopted combined uplifted values for fixed assets with working capital averaged for the financial year in question and were therefore equivalent to our approach which took equity and interest-bearing debt. Both approaches included year-end cash balances from audited financial statements. AlixPartners' intangible asset valuations are set out below and our analysis indicated that economic capital employed for the period 2009 to 2013 ranged between a multiple of [✂] and [✂] times the accounting capital employed.

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[3] Wonga believed that this was an asset as it was 'incurred in order to build the firm's capability to enhance sales in the future'.
[4] We observed that Wonga had made some other small changes to its 2012 figures when submitting 2013 figures, including an increase in the value of fixed assets of £[✂] and an adjustment to accrued interest for collections post year end. We accepted the fixed asset change in our adjusted ROCE analysis but disregarded the loan book figures in favour of audited 2012 balances for accounting capital employed, noting that the amended service charge cost allocation changes should have no impact on the interest accrual policy.

CashEuroNet's views on asset values

14. CashEuroNet said that it was:

> important to take account of the intangible value of the business which the UK operations rely upon but were built up before operations in the UK began including [✂].[5]

[✂]

CMA consideration of issues raised by parties on intangible assets

15. In the light of submissions from Wonga, Dollar and CashEuroNet we considered levels of adjusted ROCE taking into account the effect of incorporating intangible assets. The categories of intangible assets considered are discussed below.

Customer acquisition costs

16. [✂] In our base case ROCE analysis we have not included a value for intangible assets associated with customer relationships for the following reasons:

(a) Whilst it may be possible to identify separately sums spent on marketing and customer acquisition, we do not consider that these costs have created an asset separate from any arising from the general running of the business (see paragraph 4.158).

(b) For lenders using ping-tree auctions (see Section 2), a significant proportion of leads bought do not translate into loans issued, and can therefore be considered wasted. It would be inappropriate to capitalise costs paid for unsuccessful leads.

(c) Our analysis of transaction data (see Section 6) shows that there is a large incidence of borrowers taking loans from multiple lenders, and that a significant number of customer relationships are not exclusive to a particular lender.

(d) There is evidence that the average duration of customer relationships, often around [✂], is relatively short compared with other financial

markets, which reduced the extent to which it made sense to capitalise costs incurred in acquiring new customers.[6]

17. In addition, we took the view that, notwithstanding the above, it was inappropriate to capitalise all customer acquisition costs identified by parties because a potentially substantial, but unknown, proportion of marketing costs would have been of a general nature to encourage existing customers to take out further or larger loans. Given the high levels of repeat borrowing we observed for all the major lenders, costs associated with retaining existing customers, rather than acquiring new customers, could be significant and would appropriately be treated as revenue expenditure.[7] Unlike previous analyses undertaken by, for example, Ofcom in the assessment of Sky's profitability, we saw no reliable basis on which to split marketing costs into those which might have created intangible assets associated with new customer relationships from those that had maintained existing relationships.[8]

18. Given the difficulties in evaluating the proportion of marketing costs which have led to profitable loans from exclusive customer relationships, we considered that any partial cost figure we adopted in order to value an intangible asset in our base case would be unsupported by evidence. Our sensitivity analysis, which is set out in paragraphs 84 to 95 below, shows that notwithstanding the above, if we were to capitalise historic customer acquisition costs incurred by the major lenders, the resulting levels of ROCE would not be sufficiently different to change the conclusions of our profitability analysis.

Impairment costs and knowledge of the customer base

19. We did not accept the assumption[9] made by AlixPartners that [✄] costs (quantified as £[✄][10] for Wonga for the period 2007 to 2013) should be capitalised. This was for several reasons:

(a) AlixPartners' adjustment was not based on a specific cost. We consider it fundamental to the analysis of intangible assets to identify expenditure required for running the business as being distinct from that which creates an asset, or 'the right of access to future economic benefits as a result of

[6] For example, in the CC's inquiry into SME banking customer relationships were judged to last seven years.
[7] See also report into SME banking, paragraph 2.303.
[8] See Oxera's report on BSkyB's profitability in the context of the Ofcom market investigation, pp15 & 19 and section 3.3.2 where Sky's management accounts identified retention marketing costs.
[9] We note that AlixPartners mentioned that it did not have access to 'sufficiently detailed information to determine precisely the proportion of staff that should be allocated to developing Wonga's knowledge of customer creditworthiness or the cost of credit checks': Wonga Group Limited, the profitability of its UK payday business in the context of the CMA's market investigation - report by AlixPartners UK LLP, paragraph 4.2.15.
[10] Wonga Group Limited, the profitability of its UK payday business in the context of the CMA's market investigation - report by AlixPartners UK LLP, Table 4.18, p35.

a past transaction or event'.[11] The principle of separately identifiable costs was adopted in the CC's SME banking report[12] and independently commented on by the Carsberg report, which stated that 'the Commission has been reasonable in insisting that the recognition of intangible assets should be restricted to assets that are specifically identified and associated with costs incurred'.[13] In the absence of any evidence on an appropriate proportion of bad debt costs that should be capitalised, we regard AlixPartners' use of [✂]% as an arbitrary valuation.

(b) We consider that bad debts are in large part the cost of unsuccessful lending decisions. A firm lending money faces the basic operational risk that some of it will not be repaid. Bad debts can be seen as a normal business expense which efficient firms will seek to mitigate with strong operational procedures.

(c) We were concerned that under AlixPartners' proposed approach it is possible that costs resulting from inefficiency or poor management could be capitalised. This did not appear to be a sound methodological characteristic of this approach.

(d) We noted that one further limitation of this approach is that, for most lenders, the customers who generate the company's bad debts cease to be customers. Taken simply, the bad debts incurred do not relate to any knowledge of the remaining customer base, which is the asset we are seeking to value. Though knowledge of former customers' characteristics, or aspects of a customer profile deemed to be predictive of repayment behaviour, may provide some future value in guiding lending decisions to similar customers, this is essentially a speculative future economic value. Equally speculative is the hypothetical saving that the firm would make by not lending to a defaulting customer in the future.

20. We noted that in the Home Credit investigation the CC had estimated an intangible asset associated with knowledge of customers' creditworthiness using a cost of £1.50 per customer which represented the typical cost of customer data purchased from the three principal CRAs. The market reference value for data was assumed to operate for lenders selling data at the same price as it was purchased. We considered using this approach in this investigation, but concluded that it was inappropriate in the case of payday lending. As discussed in Section 7, the information that is available from CRAs suffers from various limitations, including the frequency with which

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[11] Report into SME banking, paragraph 2.249.
[12] ibid, March 2002.
[13] ibid, paragraph 23.

it is updated, the level of detail available, and the completeness of records (records regarding repayment history may not be available for all lenders).

21. Given the limitations discussed above, we considered that historic spending by lenders on CRA data was unlikely to have created a separate asset associated with customer creditworthiness. Our sensitivity analysis in paragraphs 92 to 95 shows that, notwithstanding the above, if we were to capitalise the costs incurred by the major lenders on credit checking data,[14] this would not change the conclusions of our profitability analysis.

22. Finally, we considered whether an intangible asset should be recognised in view of costs incurred in developing the data-analysis capabilities of lenders, including the system and formulas or algorithms used to drive lending decisions. We concluded that as all three sets of reporting standards applied by the companies (UK GAAP, IFRS, US GAAP) allow expenses incurred in developing software to be capitalised, it was likely that the value of assets created was already incorporated in reported levels of assets,[15] and therefore already included in our analysis of accounting capital employed. In addition, we noted that it was possible that assets already recognised by lenders in accounting capital employed included development costs of websites, as well as loan-writing software, and therefore our approach could be considered conservative in this regard. This approach was consistent with evidence from CashEuroNet, which told us that [✂].

Recruiting and training costs

23. We considered the extent to which costs relating to recruiting and formally training new staff might have been incurred entirely for future rather than current benefit and whether skills acquired were likely to be of a general or specific nature. Figures submitted by Wonga did not make clear whether staff costs capitalised by AlixPartners related to permanent staff and the extent to which training costs related to formal activities rather than the salary costs of staff 'learning by doing'. Given that the sums were around [✂]% of total staff costs, it seemed likely that the major element of employee costs comprising salaries and related benefits had been appropriately treated as revenue expenses. We therefore accepted the recruitment and training intangible assets and associated amortisation charges estimated by AlixPartners. Amortisation rates were based on a useful economic life (UEL) of [✂], which was determined by reference to historic staff retention rates.

[14] Costs as reported in the financial template under 'credit searches and checks'.
[15] [✂]

24. None of the other lenders had identified specific intangible values or relevant asset lives for recruitment and training. In order to ensure consistency of treatment between lenders, we assumed that [✂] and applied this ratio to costs identified from our financial template and, where possible, cross-referenced this to management accounts. Further details of our assumptions and methodology are discussed in paragraphs 79 to 82.

Regulatory costs

25. We did not agree that regulatory costs were appropriate for capitalisation because expenditure related to a lender's licence and compliance with the regulatory regime is necessary to run the business, and not additional to the costs necessarily incurred in running the business. This approach is consistent with that taken by the CC in the SME banking and Home Credit investigations.

Channel relationships

26. [✂] The channel relationships intangible asset value was based on analysis performed by [✂] as representing the fair value of the relationships with external parties which introduce new customers to PaydayUK. We did not agree that an intangible asset for channel relationships should be incorporated based on a consideration of the criteria set out in paragraph 4.158.

Pre-incorporation costs

27. AlixPartners argued that pre-incorporation costs of £[✂] should be capitalised, which it estimated using an assumption that the two founders of Wonga could each have earned a salary of £[✂] in the year leading up to Wonga's incorporation (the period of time they spent researching and developing the business plan). We did not agree that it was appropriate to capitalise pre-incorporation costs but noted that the figures were immaterial in the context of Wonga's capital employed.

Start-up losses

28. We have not included an intangible adjustment for start-up costs in our base case to avoid introducing the inconsistency that would arise as the business developed.[16] Once revenues were sufficient to cover costs (including the cost

[16] AlixPartners reasoned that start-up losses should not be included as intangible assets because losses were 'driven by the accounting policy leading to expensing of costs which in fact reflect intangible investments in the business, such as acquisition costs and knowledge of the customer base. In making economic adjustments to reflect these intangible adjustments in the capital base, there is therefore no need to make any specific

of capital), the same costs would cease to be recognised as assets despite continuing to be spent on the same aspects of the business operation. We note that, in Wonga's case, start-up costs are not material to the outcome of our analysis. Including or excluding [✄] does not change our finding that ROCE for both 2009 to 2013 and 2007 to 2013 averaged around [✄]% (see Table 37).

Goodwill

29. We recognise that the appropriate treatment of goodwill[17] is open to debate. All three accounting standards used by the major payday lenders allow the inclusion of purchased goodwill as an intangible asset.[18]

30. By contrast, the methodology adopted by the CC in the Home Credit investigation[19] and a number of academic studies support the exclusion of goodwill. For example, Professor Alan Gregory's paper 'Excessive prices and the role of profitability analysis'[20] argues that 'If assets have been acquired as a result of an acquisition, then goodwill will typically be recorded as the difference between the acquisition cost of the asset and its "fair value" (in the historic accounting sense of the term)'. Professor Gregory stated further that:

> several problems can arise here. First, the acquiring firm may over-pay for the target firm,[21] meaning that goodwill may overstate the true economic value of the assets acquired. Second, some element of 'goodwill' may reflect the difference between value to the business of the assets acquired and their balance sheet value. Thus if we uplift the book values to MEAs[22] including goodwill as well would lead to double counting. Finally, a particular problem for regulators is that goodwill may simply reflect the present value of excess profitability in the firm acquired. For all these reasons, the general approach should be to exclude purchased goodwill from the calculations, but instead to estimate the MEAs of both tangible and intangible assets.

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adjustments to allow for start-up losses': Wonga Group Limited, the profitability of its UK payday business in the context of the CMA's market investigation - report by AlixPartners UK LLP (paragraph 3.2.16).

[17] Goodwill is the recognition of the difference between the price paid for a business and the fair value/net book value of those assets recognised in the financial statements.

[18] [✄]

[19] See Table 3.5 of the final report.

[20] OECD Policy Roundtables, Excessive Prices 2011

[21] The academic evidence on the long-run performance of acquiring firms is consistent with this. For a summary, see Agrawal and Jaffee (2000).

[22] The Modern Equivalent Asset (MEA) principle.

For the reasons stated above, our adjusted ROCE calculations do not include purchased goodwill. This approach is consistent with [✂] our use of book value for tangible assets (see paragraph 4.156).

Numerator adjustment

31. When capitalising intangible assets, the standard methodological approach having removed costs from EBIT (the numerator) is to replace them with a normalised depreciation charge calculated using an assumption for asset life. This was the approach taken by AlixPartners for Wonga's IT capitalisation adjustments.[23] FTI also incorporated numerator adjustments in its analysis. Under AlixPartners' MEA 1[24] approach, however, AlixPartners argued that during a growth phase this approach generated results that were not meaningful because capitalising costs resulted in an increase to operating profits.[25] We did not agree with AlixPartners' MEA 1 approach because it was inconsistent with both adjustments made elsewhere and with precedent for intangible analysis. We also noted that AlixPartners' analysis under scenario MEA1b (which did not assume that the economic adjustments had no effect on operating profit) indicated economic ROCE levels generally higher than under the MEA 1 approach. Table 2 shows the results of AlixPartners' analysis under the three approaches considered.

TABLE 2 **AlixPartners' calculations of Wonga economic ROCE including adjustments for intangible assets, 2007 to 2013**

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
ROCE (%)							
MEA 1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 1b	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Capital employed (average of year) (£m)							
MEA 1							
Accounting	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Intangible assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners' report.

32. Having considered parties' views on asset values and our approach to intangible assets, we now consider the detailed adjustments relevant for our analysis.

[23] See AlixPartners' schedule 2012 capitalisation of £[✂] million into capital employed net of £[✂] million amortisation charge.

[24] AlixPartners' analysis valued intangible assets and calculated economic ROCE under three different approaches named MEA 1 (a bottom-up approach), MEA 2 (based on market-to-book rations of publicly listed payday lenders) and MEA 3 (which uplifted the asset base by 41.9%).

[25] Wonga Group Limited, the profitability of its UK payday business in the context of the CMA's market investigation - report by AlixPartners UK LLP, paragraph 3.2.10(b).

Adjustments relevant to Dollar's ROCE

Background

33. In order to calculate ROCE for Dollar's high-street lending operation in the profitability working paper, the CMA adjusted reported EBIT to remove an estimate for non-payday-lending costs included in Dollar's original submission. This adjustment was considered necessary as Dollar's high-street stores offer several products and services but Dollar's original submission had allocated all store costs to payday lending, therefore understating profitability for our purposes.

34. Following the publication of our working paper, Dollar undertook a reallocation exercise to assign store overhead costs between payday lending and other activities. This was completed by FTI, which identified the following adjustments.

35. [✂]

FTI adjustment 1: UK holding company costs

36. The three UK entities operated by Dollar are owned and operated by a holding company, Dollar Financial UK Ltd.

37. Holding company costs were allocated to online and high street based on [✂] was then used to split costs allocated to high street between payday lending and other activities.

TABLE 3 **Allocation of holding company costs, year ending June**

					£'000
	2008	*2009*	*2010*	*2011*	*2012*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 2: Reallocation of costs between online and high street other

38. [✂]

(a) [✂]

TABLE 4 **Allocation of high-street head office costs**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]
High street – other activities				[✂]	[✂]

Source: FTI Consulting Report.

(b) [✂]

TABLE 5 **Allocation of IT Support and Helpdesk costs**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 3: Reallocation of high-street costs from payday lending to other activities

39. In the original financial template for high street, all overhead costs, such as advertising, staff and premises, were allocated to payday lending unless directly attributable to other services. [✂]

40. Allocating all indirect costs to payday lending resulted in [✂] and considered that costs should be shared by payday lending and other activities based on net revenue.

TABLE 6 **Reallocation from payday lending to other activities**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Costs transferred to other activities	[✂]	[✂]	[✂]	[✂]	[✂]
Costs remaining in payday lending	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 4: Allocation of high-street head office assets

41. In addition to reallocating high-street head office costs to the online business (FTI adjustment 2), the associated underlying assets were also reallocated to online [✂].

TABLE 7 **High-street head office assets transferred to online**

					£'000
	2008	*2009*	*2010*	*2011*	*2012*
Assets transferred to online	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 5: IT system assets

42. [✂] Based on the use of each system, and using the [✂] and [✂] recorded by the parent, FTI allocated [✂] to high-street payday lending operations, [✂] to online and [✂] on the basis of [✂].

TABLE 8 **IT system assets allocated to online**

					£'000
	2008	*2009*	*2010*	*2011*	*2012*
Assets allocated to online	[✂]	[✂]	[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 9 **IT system assets allocated to high street**

					£'000
	2008	*2009*	*2010*	*2011*	*2012*
Assets allocated to high street	[✂]	[✂]	[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 6: Payday UK intangible assets

43. In 2011, Dollar UK purchased Payday UK (MEM) for £[✂]. However, while these assets were recorded by DFC under US GAAP, they were not recognisable in UK GAAP and are therefore not recorded in any UK company.

44. FTI submitted that these assets should be included in online assets and allocated technology, customer relationships and channel relationships using valuations prepared by [✂].

TABLE 10 **Additional intangible assets allocated to online (NBV)**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Assets allocated to online:					
– Technology			[✂]	[✂]	[✂]
– Customer relationships			[✂]	[✂]	[✂]
– Channel relationships			[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Summary of FTI's adjustments

Effect on EBIT

TABLE 11 **Effect of FTI adjustments on online**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]
UK holding company costs	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high-street head office costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate IT Support and Helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PUK assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 12 **Effect of FTI adjustments on high street**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]
UK holding company costs	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high-street head office costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate IT Support and Helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate common costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Effect on fixed assets

TABLE 13 **Effect of FTI adjustments on online**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Original fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high-street head office assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems	[✂]	[✂]	[✂]	[✂]	[✂]
PUK assets	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 14 **Effect of FTI adjustments on high street**

£'000

	2008	*2009*	*2010*	*2011*	*2012*
Original fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high street head office assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Total effect on ROCE – high street and online

TABLE 15 **ROCE before and after FTI adjustments**

£'000

	2009	*2010*	*2011*	*2012*	*Total*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]
Original capital employed – average	[✂]	[✂]	[✂]	[✂]	[✂]
Original ROCE	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

CMA adjustments relating to Dollar's ROCE

45. We reviewed the FTI report and incorporated certain adjustments into our ROCE analysis.

46. The reallocation of costs and assets between online and high street in FTI adjustments 2 and 4 have not been incorporated into our analysis as we have looked at Dollar in total, therefore these adjustments net to nil.

CMA adjustment 1: High-street payday lending working capital

47. [✂]

48. [✂] Whilst we could not verify the accuracy of the figures to other data sources such as management accounts or financial statements, we noted that the [✂] capital employed figures [✂] did agree to the original financial template.

TABLE 16 **Difference between original and FTI capital employed figures (before changes to EBIT)**

					£'000
	2009	*2010*	*2011*	*2012*	*Total*
Dollar's original submission capital employed – average	[✂]	[✂]	[✂]	[✂]	[✂]
FTI capital employed – average (before any adjustments)	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CMA adjustment 2: Reallocation of high-street costs

49. In Dollar's initial submission the company apportioned [✂]% of total costs for its high-street operations to payday lending, an activity which had generated [✂]% of high-street revenue in the year to June 2013. Dollar's initial cost allocation approach resulted in [✂]. We said in our working paper that, whilst the methodology adopted might have aligned with Dollar's operational approach to its business, it was likely to under-represent payday lending profitability for our purposes. We reviewed [✂] accepted that the adjustments proposed produced a result which was more representative of the profitability of payday products within Dollar's overall high-street operations.

TABLE 17 **Reallocation of high-street costs to online and other activities**

£'000

	High street				*Online*				*Total*			
	2009	*2010*	*2011*	*2012*	*2009*	*2010*	*2011*	*2012*	*2009*	*2010*	*2011*	*2012*
Allocate high-street head office costs [✂]			[✂]	[✂]			[✂]	[✂]			[✂]	[✂]
Allocate IT Support and Helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate common costs [✂]	[✂]	[✂]	[✂]	[✂]					[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 18 **Effect of high-street cost reallocation on EBIT**

				£'000
	2009	*2010*	*2011*	*2012*
Original EBIT	[✂]	[✂]	[✂]	[✂]
EBIT adjusted for cost reallocation	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CMA adjustment 3: Asset adjustments

50. FTI included [✂]. We agreed with this approach given the business requirement for IT systems and to ensure comparability with other lenders in our analysis.

TABLE 19 **Effect of IT system allocation on fixed assets**

				£'000
	2009	*2010*	*2011*	*2012*
Original fixed assets	[✂]	[✂]	[✂]	[✂]
Fixed assets adjusted for additional IT systems	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

51. We have not incorporated the adjustment for purchased Payday UK intangible assets as discussed in paragraphs 16 to 18 and 26.

CMA adjustment 4: Holding company costs

52. FTI submitted that costs in Dollar Financial UK Ltd, the holding company, should be allocated to online and high street as costs were incurred for the benefit of subsidiaries, and would still be incurred if these operations were stand-alone entities.

TABLE 20 **Value of holding company costs allocated to high street and online**

					£'000
	2009	*2010*	*2011*	*2012*	*Total*
Online	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]
High street – other	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

53. To investigate these costs further, the CMA reviewed Dollar Financial UK's financial statements[26] and obtained the following breakdown of costs.

[26] Dollar UK Financial statements, 2010–2013.

TABLE 21 Dollar Financial UK cost break-down, 2009 - 2012

	2009	2010	2011	2012	Total
					£'000
Administration expenses	6,356	11,217	15,505	8,401	41,479
Interest payable	6,304	4,293	12,723	21,303	44,623
Tax	76	5	6	3	90
Total costs	12,736	15,515	28,234	29,707	86,192

Source: CMA analysis.

54. This breakdown of costs shows the majority of costs related to interest. [✂][27]

55. [✂] This expense had already been accounted for in our ROCE calculations and therefore if we were to allocate head office interest to each entity, subsidiaries would effectively be charged twice.

56. Based on this evidence, we concluded that Dollar UK's interest expenses should not be allocated to its UK operations. [✂]

57. The financial statements also gave more information about the purpose of the holding company, notably:

> The principal activity of the company is that of a holding company and administration company for its trading subsidiaries Risicum OYJ, OK Money Poland Sp PL, Instant Cash Loans Limited, T M Sutton, Limited, MEM Consumer Finance Limited and Merchant Cash Express Limited.

58. Table 20 shows that [✂]. A review of the investments note in the 2013 financial statements shows that these companies are spread between the UK, Sweden, Finland, Spain and Poland and participate in pawnbroking as well as other lending. [✂]

59. Based on this evidence we considered that only administration holding company costs should be allocated to UK operations. [✂]

TABLE 22 **Allocation of holding company administration costs**

	2009	2010	2011	2012	Total
					£'000
Online	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]
High street – other	[✂]	[✂]	[✂]	[✂]	[✂]
Total	6,356	11,217	15,505	8,401	41,479

Source: CMA analysis.

[27] [✂]

CMA adjustment 5: Capitalisation of staff training and recruitment costs

60. [✂], we capitalised staff training and recruitment costs to ensure comparability between lenders (see paragraph 79).

61. For Payday Express, staff training and recruitment costs were provided by Dollar. Staff training costs were also provided for Payday UK, and recruitment costs were assumed to be [✂]% of total staff costs (see paragraph 80 for reasoning).

62. [✂], therefore staff training and recruitment was assumed to be [✂]% of total staff costs. Payday lending high-street revenue as a proportion of total high-street revenue was used to allocate costs to payday lending operations.

TABLE 23 **ROCE including capitalised staff costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*Total*
Total staff costs to be capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted for capitalised staff costs		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for capitalised staff costs		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted capitalised staff costs		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 24 **Total effect of adjustments – reallocation of high-street costs, IT systems fixed assets, holding company administration costs, capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*Total*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]
Original average capital employed	[✂]	[✂]	[✂]	[✂]	[✂]
Original return on capital employed (%)	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted average capital employed	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted return on capital employed (%)	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Adjustments relating to Wonga's ROCE

63. AlixPartners included analysis on cost allocation and asset valuation it considered relevant for calculating Wonga's ROCE.

AlixPartners adjustment 1: Figures used

64. AlixPartners performed all calculations between 2007 and 2010 using Wonga Group figures, with 2011 and 2012 calculations performed on reallocated Group accounts. This approach differed from the original financial template

used by the CMA in which Wonga submitted figures for Wonga.com only (renamed WDFC UK in 2012). AlixPartners' methodology resulted in greater capital employed and EBIT balances than the original financial template because fixed assets and cash balances were not included in Wonga.com but held at the Group level. Trade creditors and expenses were also impacted by the elimination of intercompany balances.

AlixPartners adjustment 2: Allocating the service fee

65. Wonga restructured its operations in 2012. Wonga told us that 'a commercial hub was established in Geneva and this entity provided [✂] services to the international lending entities and the service fee charged [✂].[28]

66. [✂]

67. [✂] charged [✂] relating to the final quarter of 2012 and included this figure in the financial template under commissions to affiliates, lead generators and agents cost category. Wonga has indicated a service charge [✂].

TABLE 25 **Analysis of Wonga's service charge**

£'000

	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
[✂] service charge					[✂]	[✂]	[✂]	[✂]
Revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Service charge as % revenue					[✂]	[✂]	[✂]	[✂]
Non-service-charge costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Non-service-charge % revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total costs % revenue	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: [✂].

68. [✂]

TABLE 26 **Effect of adjusted service fee on EBIT**

	[✂] *£'000*
Original service fee	[✂]
Original total costs	[✂]
Original EBIT	[✂]
Adjusted total costs	[✂]
Adjusted EBIT	[✂]
Movement in EBIT (%)	[✂]

Source: CMA analysis.

[28] [✂]

AlixPartners adjustment 3: Reallocation of cash

69. [✄]

AlixPartners adjustment 4: Additional intangible assets

70. AlixPartners submitted that Wonga also had intangible assets which did not meet accounting recognition standards and so were not recorded on the balance sheet.

71. AlixPartners' report identified the following intangible assets and their values:

(a) Marketing and customer acquisition costs: Wonga submitted that marketing and customer acquisition costs allowed Wonga to attract and retain customers and comprised marketing and staff costs, offline and online customer acquisition costs and ongoing affiliate commissions. A UEL of [✄] was assumed by AlixPartners based on customer retention analysis.

TABLE 27 **Value of marketing and acquisition intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Amortisation for the year	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Net book value	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: AlixPartners' report.

(b) Knowledge of customer creditworthiness: AlixPartners submitted that as Wonga learned more about its customers it was able to make better lending decisions and derive future benefits. The intangible asset associated with knowledge of customer creditworthiness was calculated by capitalising [✄] and was amortised over [✄]. AlixPartners assumed that the UEL of this intangible asset was longer than the intangible asset associated with marketing and customer acquisition costs because the knowledge obtained by Wonga could still be used after a customer had ceased borrowing from the company.

TABLE 28 **Value of knowledge of customer creditworthiness intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Amortisation for the year	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Net book value	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: AlixPartners' report.

(c) Staff training and recruitment expenses: AlixPartners submitted that acquiring appropriate staff and improving the quality of the workforce also brings future economic benefits to Wonga. AlixPartners capitalised 100% of these costs with amortisation over [✂], based on staff retention rates.

TABLE 29 **Value of staff recruitment intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners' report.

TABLE 30 **Value of staff training intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners' report.

(d) Regulatory compliance and business continuity: AlixPartners submitted that by complying with all regulatory requirements Wonga ensured that it could operate into the future. All legal and professional services costs were capitalised by AlixPartners for 2011 and 2012, with the percentage of 2011 costs to total operating costs used to calculate the amount to be capitalised for 2007 to 2010. The 2012 ratio of costs to total operating costs was applied to calculate 2013 and a [✂] useful economic life assumed for amortisation purposes.

TABLE 31 **Value of regulatory compliance and business continuity intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners' report.

(e) Pre-incorporation costs: AlixPartners capitalised the opportunity cost incurred by the two founders of Wonga from earnings lost while researching and developing the business plan. AlixPartners assumed that both founders could have earned a salary of £[✂] each during this period. The total asset remained at £[✂] between 2007 and 2013 and was not amortised.

TABLE 32 **Total value of intangible assets (NBV)**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Marketing and customer acquisition costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Knowledge of customer creditworthiness	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Recruitment expenses	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Staff training	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Regulatory compliance and business continuity	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pre-incorporation costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners' report.

CMA adjustments relating to Wonga's ROCE

72. We considered submissions from Wonga and AlixPartners carefully and adjusted our analysis as set out below.

CMA adjustment 1: Wonga Group figures

73. AlixPartners used Wonga Group figures as a starting point for cost allocations, as opposed to the WDFC UK figures originally submitted. Group figures were subsequently used in cost allocations, as explained in paragraph 64. We accepted that Wonga Group figures were appropriate for the period 2007 to 2010 following a review of the corporate structure. During 2007 to 2009 the group comprised only Wonga.com and SameDayCash, a smaller payday lending operation, and therefore the Group represented total payday lending operations. Expansion appears to have begun in 2010 with the incorporation of Quickbridge Technology Ltd and Wonga Worldwide Ltd. However, these were dormant at the year end.

74. From 2011 onwards, other products and companies were launched and we considered that the group was no longer representative of only UK payday lending. We concluded that Group figures were no longer appropriate and therefore have continued to use the WDFC UK figures originally submitted in the financial template for 2011, 2012 and 2013.

TABLE 33 **Effect on ROCE on using Group figures***

			£'000
	2008	*2009*	*2010*
EBIT – original	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]
ROCE – original (%)	[✂]	[✂]	[✂]
EBIT – Group	[✂]	[✂]	[✂]
Average capital employed – Group	[✂]	[✂]	[✂]
ROCE – Group (%)	[✂]	[✂]	[✂]

Source: CMA analysis.

*Group EBIT and capital employed have been calculated from the Quickbridge UK Ltd (Wonga Group Ltd after 2010) financial statements, 2007–2010.

CMA adjustment 2: Service fee adjustment

75. [✂] We reviewed the reallocation bases and accepted the adjusted figures.

TABLE 34 **Effect of service fee adjustment on ROCE**

	[✂] *£'000*
CMA adjustment in Profitability working paper	
EBIT – financial template	[✂]
CMA adjustment for service charge	[✂]
CMA adjusted EBIT	[✂]
Average capital employed	[✂]
ROCE (%)	[✂]
Adjusted for Wonga calculated service fee	
EBIT – financial template	[✂]
Wonga's adjustment for service charge	[✂]
CMA adjusted EBIT	[✂]
Average capital employed	[✂]
ROCE (%)	[✂]

Source: CMA analysis.

CMA adjustment 3: Fixed assets

76. AlixPartners' calculations included additional fixed assets in 2007 to 2010 above those recorded in the financial statements. These appear to be related to the capitalisation of 'internal development' which we considered to be IT systems. We therefore accepted this adjustment, calculating it as the difference between fixed assets and depreciation included in the Group financial statements.

77. AlixPartners' calculations also included fixed assets for 2011 and 2012 which were not originally recorded in the financial template. This was because WDFC UK did not own any fixed assets as these were held by other subsidiaries. We accepted the inclusion of fixed assets for these years.

TABLE 35 **Effect on ROCE of additional fixed assets**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – adjusted for additional fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for additional fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted for additional fixed assets (%)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CMA adjustment 4: Capitalisation of staff training and recruitment costs

78. We also capitalised staff training and recruitment costs using the figures below.

TABLE 36 **Effect of staff costs intangible asset on ROCE**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Costs to capitalise	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted for capitalised staff costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for capitalised staff costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted capitalised staff costs (%)		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 37 **Total effect of adjustments – Group figures, adjusted for service fee, additional fixed assets and capitalised staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original (%)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Adjustments to other lenders

79. As described above, we incorporated an adjustment for capitalised staff training and recruitment expenses. To ensure consistency, this adjustment has also been made to all other lenders in our analysis on the following basis.

80. Of total staff costs in the financial template of each lender, total staff training and recruitment costs are assumed to be [✂]%. Our assumption in this regard is based on [✂] assumption and our analysis of costs across lenders' management accounts, which indicated that staff training and recruitment costs ranged from [✂] to [✂]% of staff costs across 2009 to 2012.

81. We have then assumed a [✂] useful economic life for amortisation purposes.

82. For firms in operation prior to 2008, the starting point of our analysis, we used cost information provided by relevant parties to incorporate appropriate adjustments to our intangible asset analysis in order to reflect costs incurred prior to 2008.

Provisional ROCE findings

83. The following tables set out the original calculations included in our profitability working paper and our provisional ROCE findings, which are adjusted as discussed above and which incorporate intangible assets identified. In the case of Ariste, CashEuroNet, CFO, MYJAR and Wonga the effect of incorporating intangible asset adjustments is very slightly to increase ROCE in a very limited number of years of our analysis. For an explanation, see paragraph 31 relating to numerator adjustments. In all cases except one year for one lender[29] the effect of incorporating intangible assets is no more than a 1% increase in adjusted ROCE.

Ariste

TABLE 38 **ROCE before and after capitalisation of staff training and recruitment costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original			[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

[29] The effect on one lender in one year is a 3% increase in ROCE.

CashEuroNet

TABLE 39 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CFO Lending

TABLE 40 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Global Analytics

TABLE 41 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

H&T

TABLE 42 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

MYJAR

TABLE 43 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: [✂]

SRC Transatlantic

TABLE 44 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

The Cash Store

TABLE 45 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – Original		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – Original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – Original		[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

WageDayAdvance

TABLE 46 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Sensitivity analysis

84. In order to perform sensitivity analysis, we considered the effect of capitalising *(a)* customer acquisition costs and *(b)* CRA data costs.

Customer acquisition costs sensitivity analysis

85. We have undertaken two scenarios to capitalisation of customer acquisition costs: capitalise 25% of costs, capitalise 100% of costs. Adjustments were calculated using costs from the financial template, specifically commissions to affiliates, lead generators and agents and advertising and promotion costs. Under each scenario, the resulting asset was amortised over [✂] years. Our approach to the asset life incorporated in this analysis is consistent with evidence that customers often remain with a lender for [✂].

86. All sensitivity analysis was based on EBIT and capital employed after all CMA adjustments, including capitalisation of staff training and recruitment costs above.

87. The Cash Store has not been included in the sensitivity analysis due to incomplete information. We do not consider that the exclusion of this lender has altered the analysis in any material way, given the relatively small size of the lender concerned.

88. Table 47 shows that if we were to incorporate an intangible asset based on 100% of customer acquisition costs, the average ROCE for the major lenders during the period 2009 to 2013 would range from 26% to 48%.

TABLE 47 **Major lenders' ROCE post-capitalisation of 100% customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Number of lenders		[✂]	[✂]	[✂]	[✂]	[✂]	
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE		47%	47%	48%	36%	26%	37%

Source: CMA analysis.

89. The following tables set out customer acquisition cost sensitivity analysis by individual lender analysed.

Ariste

TABLE 48 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2010	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 49 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2010	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CashEuroNet

TABLE 50 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 51 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CFO Lending

TABLE 52 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 53 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Dollar

90. Our analysis for Dollar is based on total Money Shop expenses allocated between payday lending and other activities based on revenue.

TABLE 54 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 55 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Global Analytics

TABLE 56 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 57 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

H&T

TABLE 58 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 59 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: No customer acquisition costs were provided prior to 2011

MYJAR

TABLE 60 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 61 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

SRC Transatlantic

TABLE 62 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 63 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

WageDayAdvance

TABLE 64 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 65 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Wonga

91. Sensitivity analysis for Wonga was based on adjusted costs included in AlixPartners' analysis.

TABLE 66 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 67 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CRA data sensitivity analysis

92. We also undertook sensitivity analysis on the effect of capitalising the costs incurred by major lenders for credit searches and checks (CRA data costs).

93. The total cost of credit searches and checks were taken from the financial template for each entity. 100% of costs were capitalised and a 30-month UEL assumed.

94. Table 68 shows that if we were to incorporate an intangible asset based on capitalising CRA data costs, the average ROCE for the major lenders during the period 2009 to 2013 would range from 28% to 45%.

TABLE 68 **ROCE sensitivity analysis post capitalising credit referencing costs, major lenders, 2009 to 2013**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*Total*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted		[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE (%)		34	39	45	35	28	36

Source: CMA analysis.

95. Table 69 sets out the levels of ROCE for the major lenders if we were to incorporate adjustments for intangible assets associated with both customer acquisition costs and CRA data costs. Our analysis indicates that if we were to incorporate additional intangible assets, the resulting levels of profitability would not be sufficiently different to alter our provisional findings on ROCE for the period 2009 to 2013.

TABLE 69 **ROCE sensitivity analysis post CMA adjustments and capitalisation of intangible assets associated with staff training, staff recruitment, 100% customer acquisition and credit referencing costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*Total*
EBIT – adjusted	60,164	118,422	208,377	212,801	146,259	746,022
Average capital employed – adjusted	168,021	285,310	439,452	614,224	565,944	2,072,952
ROCE (%)	36	42	47	35	26	36

Source: CMA analysis.

Estimating the cost of capital

96. We have calculated a WACC for the major payday lenders using the CAPM. The Guidelines refer to CAPM as a widely understood technique with strong theoretical foundations.

97. Our calculation of the average pre-tax nominal WACC for the period 2008 to 2013 is between 7.9 and 12.7%. This is derived from an average pre-tax cost of equity of between 9.3 and 13.3%, a pre-tax cost of debt from 5.0 to 11.5% and gearing of 32%. Our estimate of the post-tax cost of equity is from 7.0 to 10.0%. The detail of the calculations is set out below.

TABLE 70 **Estimates of WACC parameters**

		%
	Low	*High*
RFR	3.0	4.0
ERP	4.0	5.0
Equity beta (number)	1.0	1.2
Cost of equity (post-tax)	7.0	10.0
Tax	25	25
Cost of equity (pre-tax)	9.3	13.3
Debt premium	2.0	7.5
Cost of debt (pre-tax)	5.0	11.5
Gearing	32	32
WACC	**7.9**	**12.7**

Source: CMA calculations.

98. We expressed our WACC as a range to take account of several factors which meant that our calculations could not be made with complete accuracy:

(a) None of the high-street payday lenders had the supply of payday lending as its only activity – non-payday products accounted for between 44 and 96% of company revenue in 2012. The existence of these other activities meant that the corporate entity's cost of capital may be different from that of its payday lending operations.

(b) Data on betas is limited because out of the 11 major lenders, only H&T is listed. The parent companies of Dollar, CashEuroNet, Ariste and The Cash Store are listed, but the share price performance of parent companies is likely to be affected by investors' perception of group profits, including prospects of the significant non-payday and non-UK operations of these parent companies.

(c) The cost of debt for a company is largely determined by its credit rating. A company with a higher credit rating can borrow more cheaply than one with a lower rating. Credit ratings were only available for DFC and The Cash Store.

(d) Debt capital raised and provided by overseas parent companies to UK payday lending operations may have been made available on more favourable terms or additional interest could have been added to cover costs. These terms could have changed over the period under review. Parties told us that raising debt capital for payday lenders was difficult and we note that DFC postponed its proposed $650 million bond issue in November 2013.[30]

99. The WACC is calculated using weights and costs of equity and debt in an appropriate capital structure. We calculated an estimate of pre-tax WACC on a nominal basis as this is the appropriate figure for comparison with historical ROCE. Historical ROCE is based on the accounting data of the major lenders, which has not been adjusted for the effects of inflation.

100. The pre-tax WACC is calculated from the following formula:

$$WACC = ((1 – g) \times Ke \times (1/(1 – t)) + (g \times Kd)$$

Where:

g is the gearing level (debt divided by the sum of debt and equity)

Ke is the cost of equity

Kd is the pre-tax cost of debt

t is the tax rate (weighted average for the major lenders)

Each of the elements of WACC is discussed below.

[30] Bloomberg.

Gearing and capital structure

101. Our analysis of information submitted by the major lenders indicates that for the period 2008 to 2012 the weighted average gearing of the major lenders was 32%. We refer to gearing as the percentage (debt / debt + equity) based on the book values of debt and equity submitted by the parties. We have not attempted to incorporate market values of debt or equity for the major lenders due to the difficulties of obtaining data relevant to analysis in this area.

102. Our analysis indicated that gearing for the selected consumer lending comparables included in Table 71 (where full data is available for the period 2008 to 2013) averaged 37% based on historic book debt and historic market capitalisation figures from Bloomberg. The gearing of these companies was 34%, based on the book value of debt and market value of equity as at 30 May 2014.

The cost of equity

103. We estimated the cost of equity following the Guidelines which state that we generally look to the CAPM when considering the cost of capital, but have regard to alternative models where appropriate.[31] There are limitations to the availability of data for this analysis, and the nature of the payday lending industry suggests that a wide range of estimates is appropriate.

104. The CAPM postulates that the opportunity cost of equity (Ke) is equal to the risk-free rate (RFR) plus the equity risk premium (ERP) multiplied by beta, where beta measures the extent to which the price of a particular share fluctuates with the market (referred to as systematic risk or non-diversifiable risk, that is, the sensitivity of returns to market returns).

ERP and RFR estimate

105. The ERP, calculated as the market return (Rm) less RFR, is the additional return that investors require to compensate them for the risk associated with investing in equities, rather than in risk-free assets.

106. The ERP is not directly observable from market data because the future payout from equities, unlike that on bonds held to maturity (other than in respect of default risk), is uncertain. In the past, the CC and sector regulators have used two methods to estimate the ERP: historical data showing the

[31] *CC3*, Annex A, paragraph 16.

difference between the realised return on equities over the RFR; and forward-looking data relating to investors' current expectations of the ERP.

107. The arithmetic average of historical market returns over the last 112 years suggests a real market return (Rm) of around 7%; Fama and French's evidence[32] suggests a long-run real market return of 5.5%,[33] with a short-run return (since 1950) of 4.5%, although with less extensive statistical data. Forward-looking approaches suggest a market return of 5.5 to 6.5%. Based on this evidence, it would seem reasonable to use a range for the real market return of between 5 and 7%.

108. Using a range for real Rm of between 5 and 7% results in a range for the ERP of 4 to 5%, based on the low-end Rm of 5% minus the low end of the range of real RFR of approximately 1% and the high end of the estimate of Rm of 7% less the high end of the real RFR of approximately 2%.

109. We estimate the nominal RFR for use in our WACC calculation referencing UK gilt yields (as they have negligible default risk) and forecast CPI as a measure of expected inflation over the period. In previous investigations we have taken the view that long-dated index-linked gilt yields are in principle the most suitable basis for estimating the RFR as they match the long (indefinite) maturity nature of equities. We have, however, tended to use medium-term gilt yields rather than long-term yields, as long-dated index-linked gilts have been affected by distortions (associated with, for example, pension fund dynamics). Assuming that the market return is likely to be more stable than the ERP and taking Rm of 5 to 7% indicates an RFR of 3 to 4%.

Beta estimate

110. The beta of a share measures the exposure of the company to systematic risk. It is only this form of 'non-diversifiable' risk for which investors require compensation. Non-systematic risk ('company-specific risk') can be diversified by investors. Hence it is only systematic risk that is relevant to the cost of equity of a company.

111. Data on betas was limited because, out of the 11 major lenders, only H&T is listed. Additionally, as noted above, none of the high-street listed lenders have the supply of payday lending as its sole operation. This means that the beta for the UK payday lending business may differ from the company beta. We

[32] E F Fama and K R French, 'The Equity premium', *Journal of Finance*, April 2002.
[33] This result is derived from an average dividend yield of 4.5% and dividend growth of 1% a year (Barclay's Equity Gilt Study data).

have therefore sought to use beta values for a variety of consumer lending businesses, shown in Table 71.

112. The observed beta range from Bloomberg for the period 1 January 2008 to 31 December 2013, taking account of weekly, daily and quarterly data, and examining both raw and adjusted betas, indicates a range for the median estimate of 1.0 to 1.1.

113. There are a variety of financial year ends included in our financial analysis. We have therefore also examined beta values for the period January 2008 to December 2012 (as the majority of lenders use a December year end) and July 2008 to June 2013 (Dollar uses a June year end). Bloomberg data indicates that average beta values for daily, weekly and quarterly time periods and for both raw and adjusted beta over these time periods ranged from 0.8 to 1.2, which is very similar to the range we include in our WACC calculation.

114. In its own calculations of WACC, Dollar used a beta of [✄] (relevered using a [✄]% tax charge) for its UK operations (high street and online) for the financial year to June 2013, and [✄] and [✄] for 2012 and 2011 respectively, which falls [✄] the range of observed betas above. [✄] used a beta of [✄] based on a peer[34] average of [✄]. We note that Advance America is no longer listed, having been acquired by Grupo Elektra. H&T submitted a WACC calculation as at 7 October 2013 based on a comparable levered beta of [✄].

[34] [✄]

TABLE 71 **Comparable consumer lending metrics, 31 December 2013**

Name	*Weekly beta adj*	*Daily beta adj*	*Quarterly beta adj*	*Weekly beta raw*	*Daily beta raw*	*Quarterly beta raw*	*Beta relative index*	*Gearing 2008–2013 (%)*	*Debt (local) current*	*Market cap (local) current*	*Free float*	*PE trailing LTM*
Cash America Intl Inc	1.1	1.0	1.0	1.2	1.0	1.1	SPX Index	33	739,989,000	1,336,001,293	98	8.8
DFC Global Corp	1.4	1.1	1.1	1.5	1.2	1.1	SPX Index	58	1,042,000,000	357,763,471	97	
Ezcorp Inc	1.1	1.1	0.8	1.1	1.1	0.6	SPX Index		247,299,000	678,145,325	93	13.6
H&T Group Plc	0.4	0.4	0.6	0.1	0.1	0.4	UKX Index	27	28,605,000	60,377,541	89	12.3
Cash Store Financial, The	0.7	0.5	0.5	0.5	0.3	0.3	SPTSX Index		128,367,000	n/a	72	
Cash Converters Intl Ltd	0.7	0.7	1.3	0.6	0.6	1.5	AS51 Index	12	70,928,052	452,557,327	63	17.2
First Cash Finl Svcs Inc	0.9	0.9	0.6	0.8	0.9	0.4	SPX Index		190,352,000	1,528,141,187	93	19.1
Provident Financial Plc	0.7	0.7	0.5	0.6	0.5	0.2	UKX Index	41	1,284,600,000	2,945,407,206	99	20.2
Regional Management Corp	1.0	0.9	1.2	1.0	0.8	1.2	SPX Index		362,750,000	181,127,967	88	6.3
World Acceptance Corp	1.2	1.3	1.0	1.2	1.4	1.0	SPX Index	25	400,250,000	809,477,000	72	8.6
Capital One Financial Corp	1.6	1.6	1.6	2.0	1.8	1.8	SPX Index	59	39,739,000,000	45,257,651,280	99	10.5
American Express Co	1.4	1.4	1.5	1.5	1.5	1.8	SPX Index	53	60,351,000,000	96,862,377,447	100	18.0
Advance America Cash Advance Centers Inc	1.5	1.4	2.1	1.8	1.6	2.6	SPX Index					
High	1.6	1.6	2.1	2.0	1.8	2.6						
Low	0.4	0.4	0.5	0.1	0.1	0.2						
Median	1.1	1.0	1.0	1.1	1.0	1.1		37				
S&U Plc	0.4	0.7	0.7	0.2	0.4	0.7	UKX Index		20,574,000	223,569,068	25	16.7
QC Holdings Inc	0.9	0.3	0.9	0.8	0.7	0.9	SPX Index		24,082,000	39,575,518	25	7.1
MCB Finance Group Plc	0.3	0.4	0.5	0.0	0.3	0.5	UKX Index		28,915,284	11,410,055	40	
Albemarle & Bond Holdings	0.4	n/a	0.6	0.1	0.4	0.6	UKX Index		43,501,000	n/a	57	

Source: Bloomberg and CMA analysis.

115. Within a CAPM framework, changes in gearing affect equity betas.[35] All other things being equal, a higher level of gearing will increase risk to both debt and equity holders, causing them to demand a higher return in exchange for making capital available. Hence, it may be necessary to adjust for gearing differences in order to make comparisons between equity betas, for example by calculating the asset beta (the beta at zero gearing). As discussed in paragraph 101, our review of Bloomberg data indicates that gearing levels for the major lenders and the consumer lending comparables have not diverged significantly over the period. Our assessment of the appropriate beta is therefore based on the equity betas for the comparable companies in Table 71.

Cost of debt

116. The cost of debt can be calculated as the sum of the RFR and the debt premium; however, when assessing historical costs on a nominal basis it can also be observed using actual debt costs. Our review of information submitted by parties indicates a range of debt costs of zero to 13.6%[36] between 2011 and 2012/13. If we exclude interest-free intercompany loans at the bottom of the range and the top-end estimate (which includes capital leases and other obligations as well as senior secured debt) from our analysis, this indicates a range of around 2 to 12% for the cost of debt submitted by parties.

117. In assessing the cost of external debt, we looked at credit ratings and recent corporate bond issues. Credit ratings were only available for DFC, rated B– by S&P and The Cash Store, rated D by S&P.[37] Coupon rates for recent debt issues by parent companies included a 3.25% DFC convertible bond; a 5.75% unsecured Cash America bond; and a private placing by The Cash Store in January 2012 at 11.5%. Excluding data on the convertible bond,[38] we consider that a range of 5 to 11.5% is a suitable reflection of the likely cost of debt for the period under review.

Tax

118. Our analysis of data submitted by parties indicates a weighted average tax rate of 25% for the major lenders for the period 2008 to 2012.

[35] The theory behind adjusting betas for gearing differences is that a company's exposure to systematic risk increases for a given increase in fixed costs (eg interest payments on debt). As a result, the beta of a company increases as debt costs increase. This also applies to operating lease payments as they increase fixed costs, although they are not shown on the balance sheet.
[36] [✂]
[37] Bloomberg.
[38] Coupon rates on convertible bonds may be lower given the expectation of equity issuance at maturity.

Parties' views on the cost of equity and cost of capital

119. We sought views from the parties on the cost of equity and the cost of capital. There was little similarity in the opinions of the major lenders on the cost of equity and several parties told us that estimates were not routinely made in this area.

120. Of those major lenders which provided figures for the cost of equity, estimates ranged from 12.7[39] to over 40%,[40] with some concentration around 18 to 19%.[41] Of the major lenders which provided figures for WACC, estimates ranged from 9.85% pre-tax to 18% post-tax. For detailed views of parties, see below.

121. Wonga told us that it did not routinely estimate its cost of equity or capital as part of any evaluation process. Wonga noted that:

> the cost of capital is an ex ante concept of the required return of equity and debt investors whereas the profitability results the CC will 'presumably' calculate are likely to be based on outturn data or, in other words, be an ex post measure and that a comparison of outcome returns with the cost of capital is particularly inappropriate for start-up companies or immature industries where outcome returns could differ from the cost of capital for a variety of reasons. For example, it could reflect superior innovation, efficiency or quality. The CC itself has recognised the fact that difference between profitability and the cost of capital do not necessarily reflect market power.

122. Dollar provided internal analysis calculating the cost of equity for 2013 as [✂]% post-tax and [✂]% post-tax for online and high-street lending respectively and the cost of capital for 2013 as [✂]% post-tax and [✂]% post-tax for online and high-street lending respectively.

123. CashEuroNet assessed its cost of equity for [✂] at [✂] and WACC [✂].

124. Global Analytics said that, based on a shareholder base that favoured venture capital firms, its cost of equity could be between [✂] and [✂]% given return expectations over a five-year time horizon on a nominal pre-tax basis and estimated its cost of debt at [✂]%. The company told us that it was likely that the cost of equity had gone down over the past six years and suggested that a Series A/B investor might be looking for a [✂]x return on investment, while a

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[39] [✂]
[40] [✂]
[41] [✂]

Series C/B investor might be seeing a [✂]x return. Global Analytics also said that its cost of debt capital had [✂].

125. MYJAR said that, based on conversations with potential investors in the sector, it believed the cost of capital to be [✂] (pre-tax) and that private equity investors sought returns of [✂].

126. The Cash Store told us that [✂] had determined a cost of [✂]. The company considered this to be a reasonable proxy for its UK operations [✂].

127. H&T calculated its cost of debt at [✂]% post-tax and cost of equity at [✂]% post-tax (7 October 2013) and said that it did not believe that these costs had changed substantially over the last six years. It suggested that it might be appropriate to include a small company premium of around 1 to 2% to the cost of equity for payday loan companies. It said that it was likely that new equity investment in the payday loans market would bear a substantial cost, certainly [✂]% net a year.

128. Some of the parties provided coupon rates for loans from banks and parent companies, including [✂] which told us that it had a £50 million facility at a margin of between 1.25 and 2.25% over LIBOR, and [✂].

129. We requested target rates of return from five VC companies which had provided start-up capital to [✂]. We received two replies, both of which indicated that target returns were [✂]x initial invested capital under a successful scenario.

130. [✂]

131. Accel Partners invested £5.6 million in Wonga in June 2009, at which point Wonga had 2009 planned revenues of £11 million, and a small positive cash flow. Accel told us that in making investments in fledgling technology companies it targeted a return of at least [✂]x invested capital and historically had to wait an average of [✂] before it saw any return from an investment. Accel provided additional capital of £14 million to Wonga and told us that it ‘maintained a return expectation of [✂]x aggregate invested capital in a scenario where the company executes well, but with potential for significant upside beyond that in a successful scenario, and still being hopeful for the targeted [✂]x’.

Process of data collection

1. This annex summarises the process we have followed to obtain financial information from the major payday lenders for use in our profitability analysis.

Stage 1: Design and issue of the financial questionnaire

2. We prepared a financial questionnaire and a financial template to gather financial information from 11 major payday lenders.

3. The Excel template contained one sheet comprising integrated summary financial statements – profit and loss, balance sheet and a simplified cash flow statement, and further detailed notes relating to various line items in the financial statements. The template requested financial information for five historical years and three forecast years.

4. The financial questionnaire included 54 questions on a variety of topics. These included company background, ownership structure, accounting principles, lending and collection processes, communication with customers, write-off and provision policies, cost allocation, cost of capital and growth predictions. Payday loans were defined to direct parties to the information required, and we specified that only UK operations were to be included.

5. The questionnaire and Excel template were issued as a draft on 5 September 2013 and we allowed parties four days to review and provide comments on the structure and content.

6. We updated the questionnaire and template to reflect parties' comments and incorporate other modifications that we felt appropriate, and issued a final version to the parties on 16 September 2013.

7. We allowed parties four weeks to respond and make submissions. During the response period we notified parties of minor modifications to the template.

Stage 2: Review and clarification

8. Between October and November 2013 we reviewed the submissions to our questionnaire and template. Where possible, we verified the information provided in the template for the last two financial years to management accounts provided by the entity, or publicly available financial statements from Companies House. We also reviewed the submitted information for any

unusual relationships or movements to seek to identify if any input errors had been made.

9. As the financial template was being verified, we also noted the set of accounting standards used by each company, important accounting policies and any information on intercompany transactions, funding and intangible assets. The accounting policies considered important for our analysis were revenue recognition, provision for doubtful debts, bad debt write-offs and capitalisation of intangible assets.

10. Each individual template was copied into one spreadsheet, the aggregation file. This made comparisons between companies easier and allowed for the calculation of totals and percentages. It also allowed for the standardising of the latest financial year. Each company has a different financial year end, from February to December, although the majority are December. To ensure that information was comparable and no distortion would arise through timing differences, any year-end dates falling between July 2012 and June 2013 were treated as '2012' for the purposes of our analysis.

11. On 28 November 2013 we issued further questions (supplementary questions) to parties. These primarily related to:

    (a) information provided in the financial template which could not be verified from the management accounts or financial statements. We requested a reconciliation, explanation or updated information in order to complete the verification process;

    (b) explanations for unusual movements between accounts, such as those between the doubtful debt expense and gross loan book;

    (c) requests for the provision for doubtful debts calculation, in order to understand the method used to calculate the provision, including the percentages applied;

    (d) information regarding accounting policies where this was not clear from the financial questionnaire or financial statements; and

    (e) questions confirming where amounts disclosed in the financial template relating to the loan book and doubtful debts provision included principal and/or accrued interest.

12. Several companies were also asked to resubmit the template due to incomplete information or the exclusion of divisions required for our analysis.

13. The majority of replies to supplementary questions were returned the first week of December. Where additional financial information had been received, this was used to verify figures in the financial template. Any new or updated financial templates were verified again using the process outlined above and added to the aggregation template with a comment on the change. Further information on accounting policies, or explanations for unusual movements, were noted with the original information.

14. Doubtful debt provision calculations were reviewed to understand how they worked and whether accrued interest was included. We also agreed the loan book, total provision calculated and any provision expense to the financial template. The findings from this review are included in our analysis on the provision for doubtful debts.

15. Following a review of the supplementary questions, further questions were issued to several companies. The majority of these were questions which had not been answered in the original financial questionnaire, template or supplementary questions. Explanations were also requested where new information had been provided which did not agree with the financial template. These questions were issued ad hoc as they arose but were primarily sent mid-December and received back in early January.

Step 3: 2013 financial template

16. As the majority of lenders have a 31 December year end, an updated financial template was sent to all lenders in March 2014 requesting 2013 information. The 2013 template was based on that sent for prior periods with some additional questions and other sections removed. We also included the submitted 2012 information which was prepopulated to aid completion.

17. The majority of templates were received back from lenders mid-April 2014. From here, a new aggregation file was created for 2012 and 2013 data. The 2012 data received in the 2013 template was agreed back to the original financial template in order to identify differences. The majority of differences were known adjustments made by the parties and explained to the CMA; any other differences were followed up.

Cost and accounting issues considered for profitability analysis of the major lenders

1. This annex identifies the key accounting issues considered in performing our profitability analysis. Our detailed review focused on financial information for 2011 and 2012.

2. Where significant differences between lenders were identified, and an adjustment considered necessary, this has been discussed in paragraphs 33 to 91.

Naming conventions

3. Throughout this annex a combination of company and trading names are used, particularly where two brands operate under one company. To clarify:

   - 'Wonga' refers to the UK operation (WDCF UK) unless stated.
   - The Cheque Centres Group Limited refers to both Cheque Centre (high street) and Cheque Centre (online). These have also been split out where necessary.
   - Global Analytics, the parent of Lending Stream and Zebit, is only referred to as Global Analytics.
   - SRC Transatlantic is split between SRC and WageDayAdvance and is not referred to as one company.

4. Our detailed review of financial information covered the 2011 and 2012 financial years. For Dollar Financial companies, '2012' refers to the financial year ended 30 June 2013 and '2011' to 30 June 2012.

Cost issues

Doubtful debt expenses

5. The doubtful debt expense is an item in the profit and loss statement for the relevant financial year. For details on how this is expense is calculated, see Annex D.

Calculating the doubtful debt expense

6. In simple terms the expense is calculated by assessing the level of outstanding debt (loan principal and interest due) by repayment status and applying an assumption about the percentage of debt that will not be recovered. Typically the percentage of debt treated as doubtful increases as the loan becomes more overdue, as shown in the illustrative example in Table 1.

TABLE 1 **Illustrative example of method and assumptions used in the doubtful debt expense calculation**

Status of loans outstanding	*Percentage of loan outstanding included in provision %*
Current	15
Overdue by:	
1–15 days	60
16–30 days	70
31–60 days	80
60+ days	100

Source: CMA illustrative example.

Anticipated versus actual default

7. The doubtful debt expense is therefore a cost item which *anticipates* default, and is dependent on assumptions about the future collection pattern of loan principal made to customers and interest charges due to be paid. The doubtful debt expense differs from *actual* default experienced by lenders and is an indication of the level of *anticipated* risk at a specific point in time rather than a measure of the *actual* default cost experienced by a lender as loans pass through the collection cycle.

8. We have looked in detail at the assumptions underlying the calculation of the doubtful debt expense to gauge the extent to which this cost is comparable between the major lenders.

9. To aid our comparison of the policies used by lenders to calculate this expense, we constructed a hypothetical loan book based on the combined loan books of the 11 major lenders at the end of the last reported financial year.[42] This was not a precise exercise as we could only model the range of impairment policies in broad terms given limited data on the ageing mix of loans past due. However, we considered that this analysis provided a useful illustration of the extent to which costs varied due to the use of different

[42] The loan book at year end represents loans outstanding at year end including principal and interest and differs from new lending made during the year which is for the year as a whole and is principal only.

methods, as distinct from differences which arose due to the use of different assumptions, within a similar method.

10. The reason for examining methods and assumptions separately was that we might wish to make adjustments in our cost analysis for significantly different methods between lenders in order to increase the comparability of data. However, we were less inclined to adjust for differences in the assumptions used in cost calculations because assumptions are generally based on the actual historic collections experience of lenders (albeit that several of the major lenders do not have a long trading history on which to judge historic trends).

11. The requirement for judgement in calculating the doubtful debt expense can be illustrated with the example of the provision for doubtful debt at Express Finance (included in Dollar online), which rose in the year to June 2013, [✄]. Dollar told us that:

> Changes in [✄], following the adoption of the Code of Practice and OFT requirements, impacted both debt recovery during fiscal 2013 and our estimation of the future recovery of debt outstanding at the end of the fiscal year. In addition, increased competition in the market place [✄].

12. Our review of provisions policies indicated that in general terms the majority of lenders followed similar methodologies with the exception of:

    (a) [✄], which took a single percentage of lending and interest due;

    (b) [✄], which did not include a provision for current debt; and

    (c) [✄], which provided for loan principal only on instalment revenue,[43] which meant that, all else being equal, the doubtful debt expense was understated relative to the rest of the sample.

13. The lenders listed above did not account for a significant portion of the cost base under review and we therefore did not make adjustments to any cost analysis which was based on the doubtful debt expense.

Doubtful debt expense in context

14. Putting the doubtful debt expense into context, however, was not straight-forward. It is common for management and industry analysts to evaluate this

[43] [✄]

expense in relation to revenue, and the resulting percentages can appear high at around 40% for established lenders.[44]

15. The doubtful debt expense is a cost which is subtracted from revenue in calculating accounting profits; however, this cost is based on loan principal and interest. Revenue is not based on principal repayment, therefore comparing a cost which includes loan principal against revenue, which does not, may be a useful management tool for monitoring business performance, but does not provide a full picture on the level of risk experienced by lenders.

Principal loss rate

16. We considered the principal loss rate to be a better indicator of default risk. The principal loss rate is a cash on cash measure calculated as:

= 1 – (loan principal collected / loan principal issued) for a given financial year

17. The principal loss rate had the advantage that it measured the actual cash loss to the business rather than an element of expected revenue forgone. It compared principal with principal and was not referenced to revenue levels which varied depending on the interest level charged by lenders.

18. The level of principal loan loss calculated for Wonga using this method was consistent with [✂].

19. Our analysis indicated that default costs, as measured by the principal loan loss rate, fell in 2012 on the prior year for most of the major lenders.

TABLE 2 **Principal loss rates for major lenders, 2011 and 2012**

		%
	2011	*2012*
Ariste	[✂]	[✂]
CashEuroNet	[✂]	[✂]
Cheque Centres high street	[✂]	[✂]
Cheque Centres online	[✂]	[✂]
Dollar – EFL	[✂]	[✂]
Dollar – MEM	[✂]	[✂]
Dollar high street	[✂]	[✂]
Dollar online (combined)	[✂]	[✂]
Global Analytics	[✂]	[✂]
H&T	[✂]	[✂]
MYJAR		[✂]
SRC	[✂]	[✂]
The Cash Store	[✂]	[✂]
WageDayAdvance	[✂]	[✂]
Wonga	[✂]	[✂]

Source: CMA analysis.

[44] [✂]

20. We recognised that this analysis had some limitations in that it may over-estimate the cost of default for loans which are rolled over and where default charges and/or rollover fees may compensate the lender for loss of loan principal.

21. Wonga submitted that our approach to calculating the principal loss rate could be distorted by the timing of cash flows on loans if payments were received from late customer payments, repayment schedules and debt collection agencies, or if the principal lent was changing year on year.[45] We noted that our calculation for Wonga's principal loss rate at [✂]% for 2012 was close to Wonga's figure of [✂]%[46] and that no other lenders had raised concerns about our methodology. We took the view that our approach was consistent with the cash flow to the business during a financial year and that it enabled consistent calculations to be made for all lenders in our analysis.

Accounting standards

22. We also reviewed the accounting standards in use by the major lenders. Accounting standards are based on where the company is physically registered and whether it is listed on a stock exchange. Of the 11 companies included in the profitability analysis, three different sets of accounting standards were used:

    (a) UK Generally Accepted Accounting Practice (UK GAAP): UK GAAP applied to UK-registered companies only. Although very similar to US GAAP and IFRS, these rules were designed for smaller companies and therefore have less disclosure and reporting requirements.

    (b) International Financial Reporting Standards (IFRS): any company listed on the London Stock Exchange or Alternative Investment Market (AIM) must comply with IFRS. These are accounting rules set by an international body and used around the world to prepare financial statements. They are designed for larger businesses, therefore non-listed UK companies can choose to apply UK GAAP or IFRS.

    (c) United States Generally Accepted Accounting Practice (US GAAP): this set of accounting rules only applies to companies registered within the USA. Listed companies must also comply with the Sarbanes-Oxley Act (SOX) and Security and Exchange Commission (SEC) rules.

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[45] Wonga Group Limited's response to the profitability of payday lending companies working paper, paragraph 2.4.9.
[46] ibid, paragraph 2.4.3.

23. The above sets of accounting rules were very similar and all had the same major requirements, such as the use of accrual accounting and similar revenue recognition policies. Differences did remain, however, including how items were capitalised, the disclosures required and how calculations, such as the doubtful debts provision, were made.

TABLE 3 **Accounting standards by company**

Company	*UK GAAP*	*IFRS*	*US GAAP*
Ariste	✓		
CashEuroNet			✓
CFO Lending	✓		
Cheque Centres Group Limited	✓		
Dollar	✓		
Global Analytics			✓
H&T		✓	
MYJAR	✓		
SRC	✓		
The Cash Store			✓
WageDayAdvance	✓		
Wonga		✓	

Source: CMA analysis of data provided by parties.

Accruals versus cash accounting

24. The accruals basis is an accounting method whereby income and expense items are recognised and entered into the books as they are earned or incurred, even though they may not have been received or actually paid in cash. The accruals basis aims to match income with expenses.

25. The other main accounting method, the cash basis, only recognises transactions when cash is received from customers or paid to suppliers. The primary difference between these methods is timing – both record the same transaction for the same amount, but they may be recorded in different accounting periods.

26. Under the accruals basis, interest revenue from a loan is generally recognised over the life of the loan, rather than at the beginning or end of the lending period. In practice, this means that interest revenue can be spread across multiple accounting periods. For example, where an accounting period is one 30-day month and the loan period is 45 days, interest revenue for the first 30 days will be recorded in the first month, and interest revenue for the remaining 15 days recorded in the second month.

27. Under the cash basis, interest revenue would only be recorded when cash was received. If interest and principal were to be repaid together at the end of the lending period, no interest revenue would be recognised until this point. Using the example above, the total interest income on a 45-day loan would

only be recorded in month 2, when cash is received. It would not be recorded across both months.

Recognising interest revenue

28. There are two accrual accounting revenue recognition methods used by the payday lending companies reviewed in this investigation:

(a) Accrued Interest method. Interest income is recognised as revenue as it is earned over the life of the loan. The corresponding amount is added to the customer's outstanding balance, increasing the total loan receivable asset.

(b) Deferred Income method. Under this method, the expected interest receivable on a loan is recognised/recorded at the same time as the principal, before it has been earned. The corresponding amount can be recorded as a liability, taken directly to revenue, or recorded as a reduction of the asset:

- Deferred income liability: the corresponding amount to the interest receivable asset is recorded as a liability on the balance sheet, creating a nil effect. As interest is earned over the life of the loan, the revenue is recognised in the profit and loss statement (P&L) and the liability decreased until all revenue is recognised and the liability is nil.

- Revenue: the interest receivable is recorded as revenue in the P&L although it has yet to be earned. At the end of the accounting period an adjustment is made to the balance sheet and P&L for any unearned revenue. This is very similar to the above method except the adjustment is only made at period end, rather than when interest is incurred.

29. For an illustrative example of how interest revenue would be recorded under each method, and how this would affect the balance sheet and P&L, see Annex C.

TABLE 4 **Interest revenue recognition methods by company**

Company	*Accrue interest*	*Defer income*
Ariste	✓	
CashEuroNet		✓
CFO Lending		
Cheque Centres Group Limited		
Dollar		✓
Global Analytics	✓	
H&T	✓	
MYJAR	✓	
SRC		✓
The Cash Store	✓	
WageDayAdvance	✓	
Wonga	✓	

Source: CMA analysis of data provided by parties.

Note: [✂]

Other revenue

30. As well as interest, payday lenders also charge a variety of fees such as loan origination, late fees and non-sufficient funds fees. The latter fees are usually grouped into ‘default fees and interest’ and can be treated differently from origination fees:

(a) Loan origination fees: in line with the interest revenue policies above, we noted that companies recorded these in two ways: allocated over the expected life of the loan, or recognised immediately.

(b) Default fees and interest: these can also be recognised differently but are primarily recognised as revenue only when it is likely that the amount will be recovered.

TABLE 5 **Loan origination fees and default fees and interest recognition policies by company**

Company	*Loan origination*			*Default fees and interest*		
	Accrue/defer with interest income	*Immediate recognition*	*When received*	*When expected to be recovered*	*Immediate recognition*	*When received*
Ariste	✓			✓		
CashEuroNet	✓			N/A		
CFO Lending		✓		N/A		
Cheque Centres Group Limited		✓			✓	
Dollar		✓				✓
Global Analytics			✓			✓
H&T	✓			N/A		
MYJAR		✓			✓	
SRC		✓		N/A		
The Cash Store	✓				✓	
WageDayAdvance	✓					✓
Wonga	✓			✓		

Source: CMA analysis of data provided by parties.

Notes:
1. For H&T this table applies to the payday loan products only. Interest and fee revenue for the instalment loan (KwikLoan) is only recognised when cash is received. [✂]
2. N/A = information not supplied.

Provisions for doubtful debt (expense item charged to the profit and loss account)

31. The provision for doubtful debt is an accounting estimate of the portion of a debt that may not be collected, and is taken to recognise credit risk and ensure that assets are not overstated. The provision is recorded against the loan book in the balance sheet with the year-on-year movement an expense in the P&L. Although all sets of accounting standards require this provision, neither include a specific accounting standard on how it must be calculated. This is left to management's judgement, with the provision usually based on historical collection patterns. It is the largest expense in the P&L, and therefore has a significant impact on net profit.

32. Payday loans are not individually significant enough for impairment provisions to be assessed on a case-by-case basis, therefore they are usually grouped. This can be done in any number of ways but is usually on similar credit risk characteristics, such as number of days in arrears, loan size or month in which the loan was made.

33. Given that each payday loan company is different, they will have their own unique provisioning policy based on assumptions and rates relevant to their own loan book. This makes comparing the doubtful debt expense between companies difficult as the percentages used to create the provision, and how the loan book is assessed, differs across lenders.

34. For further clarification on how the provision for doubtful debts is calculated, and its impact on the P&L and balance sheet, see Annex D for an illustrative example.

35. On reviewing the doubtful debt provisions, we found that there were two distinct groups when providing for doubtful debts:

    (a) Provide for both principal and accrued interest. Evidence submitted showed that this can be presented as one provision or as two separate provisions, depending on whether companies can separate their loan book between accrued interest and principal.

    (b) No doubtful debt provision is calculated. Several companies do not prepare a calculation for doubtful debts at period end. Instead, they have a strict write-off policy where any overdue debt, both principal and interest, is immediately written off to the doubtful debts provision. Therefore the doubtful debts expense in the P&L will be 100% overdue debt, less any funds subsequently recovered.

TABLE 6 **Method of providing for doubtful debts, by company**

Company	*Provide for doubtful debts?*	*Method* Principal and interest	*Overdue debts only*
Ariste			
CashEuroNet			
CFO Lending			
Cheque Centres Group Limited			
Dollar			
Global Analytics		[✂]	
H&T			
MYJAR			
SRC			
The Cash Store			
WageDayAdvance			
Wonga			

Source: CMA analysis of data provided by parties.

Note: H&T provides for principal only on KwikLoan products. Cheque Centres Group Limited charges a flat fee on its loans rather than interest. For analysis purposes, we have included this fee as interest income.

TABLE 7 **How provisioning and loan information was presented to the CMA in the financial template**

Company	*Expense*		*Balance sheet provision*		*Gross loan book*	
	Separate expense for interest, separate expense for principal	*Expense recorded together*	*Principal and interest together*	*Separate provision for interest, separate provision for principal*	*Principal only*	*Principal and interest*
Ariste						
CashEuroNet						
CFO Lending						
Cheque Centres Group Limited						
Dollar						
Global Analytics			[✂]			
H&T						
MYJAR						
SRC						
The Cash Store						
WageDayAdvance						
Wonga						

Source: CMA analysis of data provided by parties.

Note: Ariste has only provided for principal and interest since April 2012.

36. Given the above differences, any comparison of the doubtful debts provision and expense for each company must be considered carefully. The majority of provisioning policies are based on assumptions and rates relevant to each loan book, which is in turn influenced by company lending and collection policies.

37. The provision for doubtful debt calculations received from the companies varied greatly in detail. While some were able to provide full calculations, showing percentages applied to overdue debt by number of days, and a breakdown between accrued interest and principal, others provided an average percentage used across the loan book, with no explanation of how it differed by the age of the loan.

38. In order to illustrate the impact assumptions have on the provision for doubtful debts, we have taken the percentages applied to overdue debt for each company and applied these to a hypothetical loan book. As shown in Annex E, these assumptions lead to large variations in the doubtful debt provision required, and ultimately revenue.

39. Due to the importance of the loan book and doubtful debt provisions for our analysis, we requested that companies confirm that the total new lending and loan collection activity recorded in the financial template was for principal only. All companies confirmed that this was correct, except for [✂] and [✂], indicating that their figures for total new lending and loan collection activity also included accrued interest. No response was received from [✂].

40. Given the impact the provision expense has on profit, we also looked at how it affects tax calculations. Lenders are most likely to be covered by HMRC's loan relationship rules, which cover 'money debt, arising from a transaction for the lending of money'.[47] These rules outline that debt write-offs can only be claimed as deductible expenses when the expense is from an impairment loss or the company has released all or part of the debt. Any expense related to the revaluation of debt, that is, the costs of a general doubtful debts provision, cannot be claimed.[48] This means that only debts the company is certain will not be paid, and has written off, can be included as an expense in its tax calculation. As has been shown, the majority of companies analysed in this annex do calculate a general provision. However, it will not affect taxable profit.

Write-offs

41. Unlike the provision for doubtful debts, a write-off, or bad debt, is an amount the company knows will not be collected. Each company will have its own criteria for when a loan is written to bad debts, which can include time spent in arrears or knowledge of the customer's circumstances, such as bankruptcy or death.

42. When loans are written off, this expense can be treated in two ways. A bad debt, an amount the company is certain will not be collected and has not provided for, will be recorded as an expense in the P&L. Other write-offs will not go through the P&L as they have already been provided for in the

[47] HMRC guidance: *CFM30140 – Loan relationships: a short guide: the meaning of 'loan relationships'.*
[48] HMRC guidance: *CFM41040 – Deemed loan relationships: money debts other than discounts: trade debts: restrictions on write-down.*

provision for doubtful debts expense. Rather, the provision for doubtful debts recorded in the balance sheet will decrease, as will the loan book.

43. It is possible for cash to be recovered even when a loan has been written off for accounting purposes. Indeed, many finance companies will ‘write off’ a loan for accounting purposes while actively trying to recover the debt. When this occurs, the cash received can either be recorded as revenue or as a reduction to the bad debt expense already incurred.

TABLE 8 **Write-off policies by company**

Company	*Number of days after default that loan written off*
Ariste	[✂]
CashEuroNet	[✂]
CFO Lending	[✂]
Cheque Centres Group Limited	[✂]
Dollar: MEM	[✂]
Dollar: Express Finance	[✂]
Dollar: Instant Cash Loans	[✂]
Global Analytics	[✂]
H&T	[✂]
MYJAR	[✂]
SRC	[✂]
The Cash Store	[✂]
WageDayAdvance	[✂]
Wonga	[✂]

Source: CMA analysis of data provided by parties.

44. Again, the difference between policies makes the provision for doubtful debts expense difficult to compare. Write-offs and recoveries will be much higher for a company writing off loans on default than one which waits 180 days.

Information technology systems and website assets

45. Given the importance of information in providing payday loans, many companies have spent considerable amounts building loan-writing software and websites. All three sets of reporting standards applied by the companies (UK GAAP, IFRS, US GAAP) allow expenses incurred in developing software, including websites, to be capitalised as an asset and depreciated over its economic useful life. It is also worth noting that companies using UK GAAP must record capitalised development costs as tangible (fixed) assets, while IFRS and US GAAP allow these as intangible assets. However, all three sets of standards state that any research costs must be expensed.

46. UK GAAP, US GAAP and IFRS all have a specific research and development accounting standard identifying when research ends and development begins. However, this is often more difficult to separate in practice and the standards are open to interpretation, therefore some companies have stricter capitalisation policies than others. For example, WageDayAdvance does not capitalise

staff costs, often a significant proportion of development costs, while others do.

47. In addition to capitalisation policy disparities, other differences relating to IT systems can affect cost comparisons between companies. Some companies do not own their software, using parent company systems or a third party provider. How parent company software is recorded differs between companies, as some are charged licensing fees while for others it is included in management charges. Where specific UK adjustments are made to the system, these can also be capitalised or expensed. Depreciation policies for capitalised assets will also impact total costs.

48. Table 9 shows which companies capitalise IT expenditure and where this is recorded on the balance sheet. Where possible, the amount capitalised and expensed in 2012 is also recorded.

TABLE 9 **Information technology systems and websites accounting policies by company**

Company	*IT systems held on balance sheet?*	*Tangible or intangible asset?*	*Amount capitalised 2012 £'000*	*Amount expensed 2012 £'000*
Ariste				
CashEuroNet				
CFO Lending				
Cheque Centre (high street)				
Cheque Centre (online)				
Dollar: MEM				
Dollar: Express Finance				
Dollar: Instant Cash Loans		[✄]		
Global Analytics				
H&T				
MYJAR				
SRC				
The Cash Store				
WageDayAdvance				
Wonga				

Source: CMA analysis of data provided by parties.

*[✄]
Note: All companies will have expensed some portion of IT costs.

Intercompany management fees and charges

49. The largest payday lenders within the investigation are all subsidiaries of larger corporations. As such, they are charged management fees or other intercompany charges from the parent company which can cover a variety of costs. Depending on what these charges relate to, including or excluding them from our analysis could be misleading and create distortions.

50. When reviewing the intercompany charges, we distinguished two categories:

(a) Direct costs. Charge directly relates to providing payday loans. For example, some companies outsource customer service activities to

another subsidiary within the group. Such charges are often calculated using a driver such as number of loans written and are therefore attributable to providing payday loans. Although these costs can be directly traced, they still need to be evaluated to ensure that the value is reflective of the activities involved, and the allocation method is comparable to prior periods.

(b) Indirect costs. Charge indirectly relates to providing payday loans. Parent companies often allocate a portion of corporate overheads to other companies within the group, such as group director fees or internal audit. These are usually allocated on a pro-rata basis, like proportion of group revenue, and not directly related to individual activities. Including these intercompany charges could distort profitability if they are not a true reflection of the costs incurred in providing payday loans.

TABLE 10 **Intercompany management fees and charges by company**

Company	*Management fees charged?*	*2012 amount £'000*	*Allocation basis*	*From*	*For*
Ariste					
CashEuroNet					
CFO Lending					
Cheque Centre (high street)					
Cheque Centre (online)					
Dollar: MEM					
Dollar: Express Finance					
Dollar: Instant Cash Loans			[✂]		
Global Analytics					
H&T					
MYJAR					
SRC					
The Cash Store					
WageDayAdvance					
Wonga*					

Source: CMA analysis of data provided by parties.

*[✂]

51. Another issue raised by management fees and intercompany charges is the way in which they are allocated. For example, where the expense is based on personnel expenses, it is not known whether this is an appropriate indicator of activity. Management fees can also be a way of shifting costs to more profitable from less profitable businesses to take advantage of differing tax rates. This is where transfer pricing agreements are used.

52. Transfer pricing is primarily applied by multinational companies providing goods and services between subsidiaries in different tax jurisdictions. In order to stop profits being moved to countries with lower tax rates, transfer pricing ensures that prices charged between related parties are similar to those

charged between unrelated parties.[49] Guidance on the principles of transfer pricing and accepted calculation methods are outlined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, which is used internationally for tax legislation.[50] HMRC frequently undertakes audits of transfer pricing and can recalculate the tax provisions if it believes that calculations are incorrect.[51]

Financing

53. As cash-intensive businesses, access to finance is extremely important to payday loan companies. During our review we identified two primary means of funding: intercompany borrowings and shareholder loans. This makes comparisons between the interest expense, and potentially profits, for each company more difficult. Interest rates and repayment terms between group companies ('internal funding') may not be based on the cost of borrowing for the lender. It could be more favourable to the borrowing company, or additional interest could be added to cover costs. It should also be noted that the parent companies of these groups operate in different countries, affecting their access to credit which in turn will affect the interest rate charged.

54. Of the 11 companies analysed, only two have external sources of finance. The majority of independent companies have raised cash through equity or debt issuance.

55. Intercompany funding may also have an impact on cash flows as it is possible that no physical payment of interest is made. It is common for subsidiary companies in any industry to accrue interest as it is incurred but add the amount owing to the total loan payable. No cash is physically paid to the lender. This is an important difference between those with external and internal funding, as companies with external sources of finance are contractually obliged to pay.

[49] HMRC guidance, *INTM412040 – Transfer pricing: legislation: rules: the arm's length principle*.
[50] ibid.
[51] ibid.

TABLE 11 **Financing arrangements by company for the financial year 2012**

Company	*Source of financing*	*Outstanding amount £'000*	*Interest rate*	*Interest expense £'000*	*Repayment terms*
Ariste					
CashEuroNet					
CFO Lending					
Cheque Centre (high street)					
Cheque Centre (online)					
Dollar: MEM					
Dollar: Express Finance					
Dollar: Instant Cash Loans			[✂]		
Global Analytics					
H&T					
MYJAR					
SRC					
The Cash Store					
WageDayAdvance					
Wonga					

Source: CMA analysis of data provided by parties.

*[✂]

Allocation of expenses

56. In order to assess the financial performance of payday lenders, we need to consider the extent to which the revenue and costs analysed are related to payday loans rather than other products. This can be difficult to ascertain where companies offer more than one loan product. For example, many high-street lenders will also offer other services such as pawnbroking or foreign currency. While revenue is often recorded by product, costs may be more difficult to attribute to products, and the total cost of running a store, such as rent and staff, would need to be allocated across the products offered.

57. Expenses are often allocated based on the revenue generated by a product, but it is also an area of judgement. We compared payday lending costs submitted by parties as a proportion of total costs with payday revenue as a proportion of total revenue. For these calculations we have excluded the provision for doubtful debts expense as this is a direct cost, and in most cases has already been verified with other documentation. We would expect the expense and revenue proportions to be similar.

TABLE 12 **Proportion of payday revenue and costs as a proportion of total revenue and costs excluding the doubtful debt expense as submitted by parties**

%

Company	*Payday expenses as a percentage of total expenses*	*Payday revenue as a percentage of total revenue*
Ariste	[✂]	[✂]
CashEuroNet	[✂]	[✂]
CFO Lending	[✂]	[✂]
Cheque Centre (high street)	[✂]	[✂]
Cheque Centre (online)	[✂]	[✂]
Dollar: MEM	[✂]	[✂]
Dollar: Express Finance	[✂]	[✂]
Dollar: Instant Cash Loans	[✂]	[✂]
Global Analytics	[✂]	[✂]
H&T	[✂]	[✂]
MYJAR	[✂]	[✂]
SRC	[✂]	[✂]
The Cash Store	[✂]	[✂]
WageDayAdvance	[✂]	[✂]
Wonga	[✂]	[✂]

Source: CMA analysis of data provided by parties before adjustments outlined in the profitability paper.

Illustrative comparison between accrued interest, deferred income and immediate recognition accounting methods

Loan amount: £100

Interest: 25% per month

Loan period: 2 months

For simplicity, no other fees are charged

P&L: Profit and loss

BS: Balance sheet

Step 1: Loan is provided to customer in cash, receivable accounts created

General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	↑£100 (BS)	↑£100 (BS)	↑£100 (BS)
Interest receivable asset	-	↑£50 (BS)	↑£50 (BS)
Deferred revenue liability	-	↑(£50) (BS)	-
Interest revenue	-	-	↑(£50) (P&L)
Cash on hand	↓£100 (BS)	↓£100 (BS)	↓£100 (BS)
	Only the loan principal is recognized as an asset because no interest income has been earned yet	The loan principal and expected interest from the loan are recognized immediately. However, as no interest revenue has actually been earned, it is also recorded as a liability	The loan principal and expected interest from the loan are recognized immediately. The interest revenue is recognized at the same time as the receivable
<u>Summary: Loan provided</u>			
Total loan and interest receivable	100	150	150
Total deferred revenue liability	-	(50)	-
Total revenue	-	-	(50)

Step 2: Interest revenue recognized at the end of month 1

General Ledger account	**Accrued Interest method**	**Deferred income: deferred liability**	**Deferred Income: Revenue**
Loan receivable asset	-	-	-
Interest receivable asset	↑£25 (BS)	-	-
Deferred revenue liability	-	↓£25 (BS)	↑(£25) (BS)
Interest revenue	↑(£25) (P&L)	↑(£25) (P&L)	↓(£25) (P&L)
	One month of interest revenue has been earned and recognised, creating an interest receivable account in the balance sheet	One month of interest revenue has been earned and can now be recognised. This increases interest revenue and decreases the liability	An adjustment is required at period end for any unearned revenue. As two months of revenue have been recorded but only one month has been earned, revenue for the second month is treated as a liability and removed from revenue for the period
<u>Summary: End of month 1</u>			
Total loan and interest receivable	125	150	150
Total deferred revenue liability	-	(25)	(25)

Total revenue	(25)	(25)	(25)

Step 3: Interest revenue recognized at the end of month 2

General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	-	-	-
Interest receivable asset	↑£25 (BS)	-	-
Deferred revenue liability	-	↓£25 (BS)	↓£25 (BS)
Interest revenue	↑(£25) (P&L)	↑(£25) (P&L)	↑(£25) (P&L)
	The second month of interest revenue is earned and recognized, increasing the interest receivable and interest revenue accounts	The second month of interest revenue is recognized, leaving the deferred revenue account at 0	The second month of interest revenue has now been earned, therefore the deferred revenue liability created in month one is reversed and revenue recognized
<u>Summary: End of month 2</u>			
Total loan and interest receivable	150	150	150
Total deferred revenue liability	-	-	-
Total revenue	(50)	(50)	(50)

Step 4: Repayment			
General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	↓£100 (BS)	↓£100 (BS)	↓£100 (BS)
Interest receivable asset	↓£50 (BS)	↓£50 (BS)	↓£50 (BS)
Deferred revenue liability	-	-	-
Interest revenue	-	-	-
Cash on hand	↑£150 (BS)	↑£150 (BS)	↑£150 (BS)
	The loan principal of £100 and interest expense of £50 is repaid in cash, decreasing the loan and interest receivable assets and increasing the bank account.		
<u>Summary: After repayment</u>			
Total loan and interest receivable	-	-	-
Total deferred revenue liability	-	-	-
Total revenue	(50)	(50)	(50)

Cash Flow effect			
	Accrued Interest method	*Deferred income: deferred liability*	*Deferred income: revenue*
End of month 1	Cash out £100	Cash out £100	Cash out £100
End of month 2	Cash in £150	Cash in £150	Cash in £150

Although the three revenue recognition methods outlined above record revenue and loan assets at different times, the period-end balances will be the same across all methods.

Illustrative example of relationship between the doubtful debt provision, balance sheet and profit and loss

1. This is to clarify how the doubtful debts provision is calculated, and its impact on the balance sheet and profit and loss statement.

Beginning of year 1

- Gross loan book: £200,000
- Year-end doubtful debts provision: £5,000

Step 1: Calculate the doubtful debts provision required for the year
Management believe that based on historical rates, 15% of the loan book will not be collected

Doubtful debts provision required: £30,000

Step 2: Calculate the additional doubtful debt provision expense for the year

Required doubtful debts provision:	£30,000
Current doubtful debts provision:	£5,000
Difference	£25,000

The additional £25,000 will be recorded in the P&L as the doubtful debts expense.

Effect on profit

Revenue	£400,000
Less doubtful debt expense	£25,000
Gross profit	£375,000

Step 3: The value of the loan book in the balance sheet will be shown net of the provision for doubtful debts

The loan book will be presented as £170,000:

Gross loan book	£200,000
Less provision for doubtful debts	£30,000
Net loan book	£170,000

During year 1
Gross loan book: £225,000
Doubtful debts provision: £30,000
Bad debts: £10,000

Step 1: Write-off the bad debts from the loan book
Loan book: ↓£10,000 to £215,000

Step 2: Deduct the bad debts from the doubtful debts provision
Doubtful debts provision: ↓£10,000 to £20,000

No additional expense is recorded in the P&L as these loans were already caught in the doubtful debts provision made at the beginning of the year.

The loan book will be presented as:

Gross loan book	£215,000	
Less provision for doubtful debts	£20,000	
Net loan book		£195,000

End of year 1

- Gross loan book: £250,000
- Doubtful debts provision: £20,000

Step 1: Calculate the doubtful debts provision for the year
Management have reviewed their assumptions and now believe that 10% of the loan book will not be collected

Doubtful debts provision required: £25,000

Step 2: Calculate the additional doubtful debt provision expense for the year

Required doubtful debts provision:	£25,000
Current doubtful debts provision:	£20,000
Difference	£5,000

The additional £5,000 will be recorded in the P&L as the doubtful debts expense.

Effect on profit

Revenue	£400,000
Less doubtful debt expense	£5,000
Gross profit	£395,000

Step 3: The value of the loan book in the balance sheet will be shown net of the provision for doubtful debts

The loan book will be presented as £225,000:

Gross loan book	£250,000
Less provision for doubtful debts	£25,000
Net loan book	£225,000

Illustration of the impact different assumptions used in the provision of doubtful debts calculation have on revenue and the net loan book

TABLE 1 **Hypothetical loan book**

Ageing category	*Total loan book*	*Principal*	*Interest*
Current	[✂]	[✂]	[✂]
1–15 days	[✂]	[✂]	[✂]
16–30 days	[✂]	[✂]	[✂]
31–60 days	[✂]	[✂]	[✂]
61–90 days	[✂]	[✂]	[✂]
91–120 days	[✂]	[✂]	[✂]
121–150 days	[✂]	[✂]	[✂]
151–180 days	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]

[✂]
[✂]
[✂]

TABLE 2 **Results by company**

Company	*Provisioning method*	*Provision required (D)*	*Net loan book (A) – (D)*	*Provision expense (E) = (D) – (C)*	*Revenue post-provision charge (B) – (E)*	*Provision as % of loan book (D)/(A)*	*Expense as % of revenue (E)/(B)*
Ariste				[✂]			
CashEuroNet	[✂] [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending				[✂]			
Cheque Centres (high street)				[✂]			
Cheque Centres (online)				[✂]			
Dollar: MEM	[✂] [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar: Express Finance	[✂] [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar: Instant Cash Loans	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂] [✂] [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
H&T				[✂]			
MYJAR				[✂]			
SRC				[✂]			
The Cash Store	[✂] [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance				[✂]			
Wonga	[✂] [✂]	[✂] [✂]	[✂] [✂]	[✂]	[✂]	[✂]	[✂]

Characteristics of payday loans and other credit products

Background

1. As described in paragraph 2.16, we have defined payday loans as short-term, unsecured credit products which are generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less. Some of the key defining characteristics of payday loans are:

    (a) Amount of loan – this is typically less than £1,000.

    (b) Loan duration – this is typically a month or less, but can be up to a year for some products, particularly instalment products.[1]

    (c) No need to provide security – payday loans are unsecured loans.

    (d) Payment and repayment method – when customers take out a payday loan online the loan amount is deposited in their bank account, making the money available for paying bills and withdrawing as cash. With high-street payday loans customers can receive the funds in cash or as a credit to their bank account. Loans are often repaid through the use of CPAs and customers of some high-street lenders (eg The Money Shop) can repay loans in cash in-store.[2]

    (e) Speed of application, approval and transfer – successful applicants generally receive the funds on the same day, often within an hour (or less) of their application. Customers using high-street payday lenders can receive the cash immediately after approval.

    (f) Ability to roll over loans – many payday loan products allow customers to roll over their loan. The exact terms on which these facilities are offered, and the terms used to describe them, vary, but the common effect is to allow the customer to extend the duration of their loan beyond the originally agreed repayment date.

    (g) Top-up facilities – some payday loan products allow the borrower to increase or top up their loan before the end of the loan term.

2. In this section we discuss the extent to which other credit products have similar characteristics to payday loans.

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[1] Rollovers and refinancing may also result in the extension of the effective loan period of shorter-term loans.
[2] www.moneyshop.tv/short-term-loan-FAQ/.

Credit cards

3. Credit cards allow cardholders to pay for goods and services on credit, up to an agreed limit. The credit facility allows the cardholder to have a revolving balance, which can be paid off over time. If balances are not repaid in full, the cardholder will be required to make a minimum monthly payment. Gross credit card lending was estimated to be £139 billion in 2012[3] and there were an estimated 31 million credit card holders and around 61 million cards in issue, meaning that the average credit card customer had two cards.[4] On a group basis, in 2012 the five largest credit card issuers were Barclays, LBG, HSBC, MBNA and RBS Group. Together, they were estimated to have around three-fifths of the market, by share of customers. Other notable suppliers included Tesco, Capital One and American Express.[5]

4. Comparing the attributes of credit cards with payday loans, we find that the two credit types share many characteristics, although there are some differences:

   (a) Amount of loan – customers can borrow sums less than £1,000 by purchasing items on their existing credit cards or can apply for credit cards with limits of less than £1,000. Barclays said that Barclaycard offered a revolving credit facility of £250 to £10,000. Capital One said that its minimum was £200 and maximum £12,000. MBNA told us that its minimum was £500 and its maximum was £20,000.[6] SAV[7] told us that for new customers its minimum was £100 and £1,600 was the maximum.

   (b) Payment and repayment method – unlike a payday loan, money borrowed on a credit card is not credited to the customer's bank account. However, customers are able to make purchases with their credit card.[8] Many credit cards also allow cash withdrawals. Repayment is generally from the customer's bank account, although the amount borrowed is not repaid via a CPA, as is typically the case with payday loans.

   (c) Credit cards do not offer rollovers in the same way as payday lenders. However, the ability to revolve credit gives customers flexibility over when they repay, implying that credit cards share this characteristic with payday loans. Evidence from our survey showed that some customers dislike

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[3] Mintel, *Credit Cards – UK – July 2012*, p11.
[4] ibid, p21.
[5] ibid, p14.
[6] This is the outlying range based on policy parameters. It is possible, by exception, to establish a credit limit beyond these parameters.
[7] SAV Credit operates the Aqua, Marbles and Opus credit card brands in the UK (www.savcredit.co.uk/).
[8] Barclays told us that Barclaycard had launched a facility for customers to transfer money from their credit card to their bank account.

credit cards precisely because of the perceived risks of being able to revolve their debts.[9]

(d) Like payday loans, credit cards are unsecured loans.

(e) Speed – like payday loans, customers who already have an existing credit card with available credit can use the funds on the same day. Customers who apply for a credit card typically will not be able to access the funds on the day of application and the time period between application and card delivery varies. Barclays told us that the minimum was [✄] days; Capital One told us that it was [✄] days; LBG told us that it was [✄] days; RBS/NatWest told us that it was [✄] days; and HSBC said that it was a minimum of [✄] days. MBNA told us that for its Amazon-branded cards customers could spend immediately after approval, but only on Amazon's site.

(f) Top-up facilities – like payday loans, customers can spend additional amounts if they have not reached their existing credit limit.

5. However, credit cards differed from payday loans in terms of the repayment period. Credit card customers are only required to pay a pre-specified minimum amount every month and can revolve the debt, extending the payback period.

Overdrafts

6. Overdraft services can be applied for by customers with current accounts other than a basic bank account. There are two kinds of overdraft: authorised and unauthorised.[10] Authorised overdrafts are agreed between the customer and the bank and allow the customer to continue spending up to this agreed limit. According to the British Bankers' Association, in September 2013 £7.8 billion was being borrowed on authorised overdrafts from the major high-street banks.[11] Unauthorised overdrafts are not pre-agreed between the customer and the banks and banks will typically charge additional fees for this service.

7. As with credit cards, we found that overdrafts share many of the characteristics of payday loans.

[9] Research into the payday lending market report – results of quantitative and qualitative research undertaken by TNS BMRB, p85.
[10] The terms arranged and unarranged, and planned and unplanned, are also used.
[11] www.bba.org.uk/statistics/article/september-2013-figures-for-the-high-street-banks. The BBA data covers Santander, Barclays, HSBC, Virgin Money, Lloyds and RBS.

(a) Amount of loan – customers can borrow less than £1,000 or more through authorised overdrafts. For example, Barclays told us that customers could apply for authorised overdrafts of up to £5,000. Unauthorised overdrafts also allow customers to borrow for certain types of transactions, but the amounts depend on the creditworthiness of the customer. For example, RBS/NatWest told us that [✂]. HSBC told us that [✂]. Barclays told us that it did not provide unarranged overdrafts, but instead offered a Personal Reserve service. This was a service that gave customers an extra agreed amount which could be used if they had occasional need to go overdrawn or exceed an arranged overdraft limit. Personal Reserves of between £150 and £2,500 were available to eligible current account customers.

(b) Payment and repayment method – both authorised and unauthorised overdrafts result in available credit being added to customers' bank accounts and are therefore similar to online payday loans. Cash withdrawals can be used to replicate the cash from high-street payday lenders. Repayments are made by depositing funds in the account, similar from the perspective of a customer to repaying a payday loan via a CPA.

(c) Rollovers – authorised overdrafts are typically open-ended credit arrangements, with customers having an overdraft facility until it is removed by the bank. Since there is no specific repayment date overdrafts cannot be rolled over in the same way as payday loans, but they allow customers to extend the duration of their borrowing and therefore can be seen as offering a similar service to rollovers. Unauthorised overdrafts are typically shorter-term arrangements, with banks often honouring a few payments before rejecting others. Unauthorised overdrafts therefore do not allow customers to roll over a debt. For example, LBG told us that it tried to avoid customers staying in their unplanned overdraft for an extended period as that was not what the service was designed for. It would contact customers who went over their unplanned limit by £100 and discuss a possible repayment plan. More generally, a customer's unplanned overdraft could be removed as part of the monthly scoring/limit assignment process.

(d) Like payday loans, overdrafts are unsecured loans.

(e) Speed – like payday loans, customers with an existing authorised overdraft and available credit can use the funds on the same day. Similarly, unauthorised overdrafts allow funds to be used on the same day. When customers have to apply for an authorised overdraft the evidence from banks showed that the funds would be available quickly. Barclays, HSBC,

LBG and Santander told us that the funds would be made available immediately. RBS/NatWest told us that [✂].

(f) Top-up facilities – like payday loans, customers can spend additional amounts if they are below their authorised overdraft credit limit. Unauthorised overdraft limits cannot be increased in the same way.

8. However, overdrafts also differ from payday loans on the payback period. Authorised overdrafts typically run over an extended period and can extend indefinitely. Unauthorised overdrafts typically cover a shorter period. Santander told us that the average time a customer spent in unauthorised overdraft was three days. RBS/NatWest told us that in a typical month ‘new into excess accounts’, where customers were charged excess fees, were charged on average for three days. LBG told us that of those customers who used an unauthorised overdraft, [✂]% stayed in their overdraft for [✂].

Other credit products

9. Table 1 summarises our comparison of other credit products with payday loans.[12]

[12] Guarantor loans was not included in the table.

TABLE 1 **Comparison of payday loan characteristics with those of other credit products**

Characteristic	*Are credit union loans similar?*	*Is home credit similar?*	*Are logbook loans similar?*	*Is pawnbroking similar?*	*Is peer-to-peer lending similar?*	*Are personal loans similar?*	*Is retailer credit similar?*
Amount	Yes – £100–£7,500*	Yes – £50–£2,500	Yes – £200–£50,000	Yes – £5–£100,000	No – minimum of £1,000	No – minimum typically £1,000†	Yes – £150 upwards
Payback period	Yes – some one-month loans‡	No – minimum 14 weeks	Yes – minimum six months	Yes – customers can repay at any time up to seven months	Yes – minimum six months, but typically longer§	No – typically one year¶	No – revolving credit
Payment and repayment method	Yes – paid and repaid through bank account	No – cash sum lent is paid back in cash	Yes – paid and repaid through bank account	No – cash sum lent is paid back in cash	Yes – paid and repaid through bank account#	Yes – paid and repaid through bank account	No – credit only for purchases from retailer
Rollovers	No – new loan required	No – customers can miss payments at no extra cost	No – new loan required	Yes – customers can roll over their loan at any time in the contract period	No – new loan required	No – new loan required	Yes – can revolve the debt
Secured/unsecured	Yes – unsecured loan	Yes – unsecured loan	No – logbook required	No – pawn required	Yes – unsecured loan	Yes – unsecured loan	Yes – unsecured loan
Speed	Some – instant to 7 days	No – average 5 days to 2 weeks	Yes – minimum 1 hour	Yes – 5–15 minutes	No – 48 hours from application to reception~	Yes – funds available in around an hour	Yes – funds available in 15–30 minutes
Top-up facilities	Yes	Yes – customers can refinance/renew loans	No – new loan required	No – new pawn required	No – new loan required	No – new loan required	Yes – if have available credit

Source: CMA analysis.

*www.creditunion.co.uk/Loans.htm.
†Airdrie Savings Bank offers a personal loan of £550 (http://airdriesavingsbank.net/sites/default/files/images/PL%20Summary%20Box%202013.pdf). HSBC also lends smaller amounts to its customers through its flexiloan credit product. This allows customers to borrow up to £500 and gives them flexibility over how they repay the loan (www.hsbc.co.uk/1/2/loans/flexible-loans).
‡www.creditunion.co.uk/Loans.htm.
§www.ratesetter.com/borrowing/process.aspx.
¶Airdrie Savings Bank offers Express loans repaid over a maximum of six months (http://airdriesavingsbank.net/exloans, consulted 29 January 2014).
#www.ratesetter.com/borrowing/any_questions.aspx.
~www.ratesetter.com/borrowing/any_questions.aspx.

10. None of the seven products is similar across all the characteristics, but all share some characteristics with payday loans:

(a) Credit union loans involved similar small, unsecured credit which was paid and repaid through bank accounts, offered top-up facilities and was available for shorter terms (including in some cases one-month loans). However, they sometimes could not be obtained quickly and did not offer the ability to refinance the credit (although some lenders may allow customers to repay an existing loan and take out a new loan in a short period of time). In addition, a customer would need to meet the membership criteria of a particular credit union in order to be able to borrow from them.

(b) Home credit loans involve similar unsecured small amounts with top-up facilities. However, payment and repayment is made in cash, rollovers are not available, payback is generally over a longer period and it takes longer to obtain the loans.

(c) Logbook loans offer customers the option of borrowing funds, using the logbook of their car as security. Logbook loans involve similar small amounts with a short payback period. The loans can be obtained quickly and are paid and repaid through bank accounts. However, borrowers must have a car they can use as security and rollover and top-up facilities are not available.

(d) Pawnbroking loans involve similar small amounts, can have a similar payback period, offer rollovers, and can be obtained quickly. However, they do not offer top-up facilities, borrowers must have an item of value they can use as security, and payment and repayment is made in cash.

(e) Peer-to-peer loans are unsecured and are paid and repaid through bank accounts. While some loans are for six months, they are typically for longer and are for larger sums. In addition, they cannot be obtained quickly and do not have rollover or top-up facilities (although customers may be able to use a loan from another lender to repay an existing loan).

(f) Personal loans are unsecured, can be obtained quickly and are paid and repaid through bank accounts.[13] However, they typically involve larger sums, have a longer payback period and do not have rollover or top-up facilities.

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[13] We recognise, however, that customers' perceptions are that bank loans take longer to obtain than payday loans, see for example Research into the payday lending market report – results of quantitative and qualitative research undertaken by TNS BMRB, p85.

(g) Retailer credit could involve borrowing similar unsecured small amounts and the funds could be made available quickly. However, the credit had to be spent with a specific retailer and the payback period could be longer than for payday lending, as the credit generally operates in a broadly similar way to a credit card.

11. The results suggest that of this set of products, credit union loans and retailer credit share the most characteristics with payday lending.

The prices of payday loans and other credit products

Background

1. In this appendix we describe the method we have used to compare prices between payday loans and other forms of credit.

2. We compared prices for the four borrowing scenarios discussed in paragraph 4.17. These four scenarios are where a customer:

   (a) takes out a £100 loan for 28 days and pays back on time;

   (b) takes out a £100 loan for 14 days and pays back on time;

   (c) takes out a £100 loan for 28 days and then rolls over the loan for 28 days; and

   (d) takes out a £100 loan for 28 days and pays back 11 days late.

3. We recognise that the cash flows associated with these borrowing scenarios may not always be capable of being precisely replicated with other credit products. For example, the minimum loan term available from the home credit provider Provident is 14 weeks and a loan of £100 would involve 14 weekly payments of £10. Consequently, these results should be seen as illustrative of the relative costs of borrowing using different credit products, rather than exact comparisons. More detail on the scenarios and the results are provided below.

Scenario 1

4. Scenario 1 consists of a borrower taking out a £100 loan for 28 days and paying back on time. For comparison purposes, we adopted the following scenarios for the other credit products:

   (a) **Authorised overdrafts.** The borrower enters the authorised overdraft on day 0, going £100 overdrawn. The borrower exits the authorised overdraft on day 28, returning to a zero balance. The costs of authorised overdrafts were calculated for Barclays, Halifax, HSBC, Lloyds Bank, RBS/NatWest[1] and Santander.[2]

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[1] We used the RBS/NatWest select account.
[2] We used the Santander 123 account.

(b) **Unauthorised overdraft.** The borrower enters the unauthorised overdraft on day 0, going £100 overdrawn. The borrower exits the unauthorised overdraft on day 28, returning to a zero balance. The costs of unauthorised overdrafts were calculated for Halifax, HSBC, Lloyds Bank,[3] RBS/NatWest and Santander. For Barclays, calculations were based on the use of the Personal Reserve service, which is Barclays' alternative to an unauthorised overdraft.

(c) **Credit and store cards.** The borrower makes a purchase of £100 on day 0 with their credit or store card. The borrower repays on day 28, returning to a zero balance. The costs were calculated for Barclays, Capital One, MBNA, SAV[4] and Topshop.[5] In this scenario we have assumed that the credit and store card borrower does not incur any interest as the debt is not revolved.[6]

(d) **Credit unions.** The borrower takes out a loan of £100 from the credit union which is repaid after 28 days.

(e) **Home credit lenders** do not offer 28-day loans and therefore the cost of credit is based on borrowing £100 for 14 weeks—the minimum loan duration—and paid back in 14 weekly repayments. The costs were calculated for Provident Personal Credit.

(f) **Pawnbrokers.** The borrower pawns an object on day 0 and repays the loan on day 28. The costs were calculated for Fish Pawnbrokers.

Scenario 2

5. Scenario 2 consists of a borrower taking out a £100 loan for 28 days and paying back on day 14. For comparison purposes, we adopted the following scenarios for the other credit products:

(a) **authorised and unauthorised overdrafts, credit and store cards and pawnbrokers** – as scenario 1, except the payback date (ie the date on

[3] LBG told us that the scenarios we used were unrepresentative of how customers used unauthorised overdrafts, as they were designed to support customers for short periods of time.
[4] Two figures were calculated for SAV, based on the minimum and maximum interest rates offered on their Acqua credit card.
[5] Two figures were calculated for Topshop, based on the minimum and maximum interest rates offered on their Topshop store card.
[6] The exact charges incurred using a credit card or store card to borrow for 14 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that 14 days' interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.

which the customer stops being overdrawn and returns to a zero balance) was changed from day 28 to day 14;[7]

(b) **credit unions**, as scenario 1, as the minimum loan duration offered by London Mutual Credit Union is for a month; and

(c) **home credit** – as scenario 1.

Scenario 3

6. Scenario 3 consists of the borrower taking out a £100 loan for 28 days and then rolling over the loan for 28 days, paying back on day 56. For comparison purposes, we adopted the following scenarios for other credit products, based on assuming a month was 28 days:

(a) **authorised and unauthorised overdrafts and pawnbrokers** – as scenario 1, except the payback date was changed from day 28 to day 56;

(b) for **credit and store cards**, we assumed that the debt was revolved for 56 days and therefore 56 days' interest was due on the £100 borrowed;[8]

(c) for **credit unions**, we assumed that the loan was for 56 days, with repayment made in two equal payments: one on day 28 and one on day 56; and

(d) **home credit** – as scenario 1.

Scenario 4

7. Scenario 4 consists of a borrower taking out a £100 loan for 28 days and paying back 11 days late on day 39. For comparison purposes, we adopted the following scenarios for the other credit products:

(a) **authorised and unauthorised overdrafts and pawnbrokers** – as scenario 1, except the payback date was changed from day 28 to day 39;

(b) for **credit and store cards**, we assumed that the debt was revolved for 39 days and therefore 39 days' interest was due on the £100 borrowed. In

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[7] The exact charges incurred using a credit card or store card to borrow for 28 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that 28 days' interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.
[8] For credit cards, we calculated a monthly interest rate and applied this to the average monthly balance. For store cards, we calculated a daily interest rate and applied this to the daily balance. The exact charges incurred using a credit/store card to borrow for 56 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that zero interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.

addition, to match more closely the late payment fees incurred by a payday loan customer in this scenario, we assumed that the customer incurred one late payment fee;[9]

(c) for **credit unions**, we assumed that the loan was for 56 days, with repayment made in two equal payments: one on day 28 and one on day 56; and

(d) **home credit** – as scenario 1.

Results

8. Our analysis suggests that borrowing using a payday loan was typically significantly cheaper than using an unauthorised overdraft. Payday loans were, however, generally substantially more expensive than the other forms of credit considered under all scenarios, apart from home credit. Borrowing using a payday loan was typically cheaper than using home credit in scenarios 1 and 2 (the shorter scenarios), but more expensive than using home credit in scenarios 3 and 4 (the longer scenarios). This was influenced by the minimum loan term for Provident's home credit product, which was substantially longer than 28 days.[10]

9. Table 1 sets out the range of prices we observe for the different credit alternatives in greater detail.

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[9] For credit cards, we calculated a monthly interest rate and applied this to the average monthly balance. For store cards, we calculated a daily interest rate and applied this to the daily balance. The exact charges incurred using a credit/store card to borrow for 56 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. For example, one lender told us that in scenario 4 no interest and charges would be due if the balance were cleared on day 39. If we were to assume that zero interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.
[10] In principle, a customer might borrow from the Provident on a longer, cheaper term and then get a rebate within 28 days, which would cause the relative price of using home credit to decline relative to the price of a payday loan.

TABLE 1 **Comparison of pricing of different credit options**

	Payday loans	*Authorised overdrafts*	*Unauthorised overdrafts*	*Credit & store cards*	*Credit union*	*Home credit*	*Pawn-broker*
							£
Scenario 1 – borrow for 28 days and pay back on time							
Minimum	16.50	1.35	26.39	0.00			
Median	29.85	7.22	89.00	0.00	2.00	40.00	5.60
Maximum	56.40	28.00	100.00	0.00			
Scenario 2 – borrow for 14 days and pay back on time							
Minimum	11.35	0.68	25.70	0.00			
Median	29.25	6.61	72.50	0.00	2.00	40.00	2.80
Maximum	56.40	14.00	86.70	0.00			
Scenario 3 – borrow for 28 days and roll over for 28 days							
Minimum	35.28	2.71	27.79	2.58			
Median	59.90	14.45	178.00	4.97	3.01	40.00	11.20
Maximum	92.40	56.00	200.00	6.74			
Scenario 4 – borrow for 28 days and pay 11 days late							
Minimum	28.50	1.89	26.94	13.78			
Median	55.78	13.71	147.50	15.43	3.01	40.00	7.80
Maximum	107.00	39.00	173.94	16.66			

Source: CMA analysis.

Note: No minima and maxima are given for home credit and pawnbroker loans as we only had pricing data for one supplier.

Evidence from CRA records on borrowers' use of other sources of credit

Introduction

1. This appendix sets out evidence on the use of other sources of credit by payday loan customers. Our assessment is based on information provided by a CRA ([✂]) for a sample of payday loan customers.

2. The appendix is organised as follows:

   (a) We describe the data that we used for our analysis.

   (b) We set out our findings relating to payday loan customers' use of other credit products.

   (c) We examine the extent to which customers with credit cards had credit available on those accounts when taking out a payday loan.

3. Our main findings are:

   (a) In 2012, around half of all payday customers in our sample had a credit card and around half had an overdraft of more than £20. More than two-thirds had either a credit card or an overdraft of more than £20. Relatively few customers used other sources of credit such as personal loans or home credit.

   (b) In many cases, payday loan customers with a credit card did not have sufficient credit available to use that card instead of taking out a payday loan. In particular, we estimate that in 65% of cases, when taking out a payday loan, the borrowers in our sample either had no credit card, or had no credit available on their credit cards. In 82% of cases, the borrowers in our sample either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.

Description of the data set

4. Our analysis is based on a sample of over 3,000 customers taking out payday loans in 2012, selected from the transaction data submitted by the 11 major lenders. Further details of how this sample was constructed, and the steps taken to match customers across lenders' databases, are provided in Appendix 6.2.

5. A number of CRAs were asked to provide information on the different credit products used by each customer in the sample in the period 1 January 2012 to 31 August 2013. In our analysis, we primarily focused on the information provided by one CRA, [✂], which was chosen because it had the most extensive coverage for a number of key credit products.[1] The information provided by [✂] covered over 90% of the customers in our original sample. 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.

6. Because our sampling was based on a random selection of loans, and not customers, it contains a disproportionate number of heavy borrowers relative to the overall population of payday loan users. We consider it useful to look at the extent of use of other credit products among this weighted sample as it reflects the greater relative importance of heavier borrowers to lenders. However, at certain points in this appendix we also refer to results based on a sample reweighted to give additional prominence to lighter users of payday loans, which is representative of the average payday customer in 2012 irrespective of the number of loans they took out. Further details of this re-weighting are provided in paragraph 2.49.

Use of other credit products

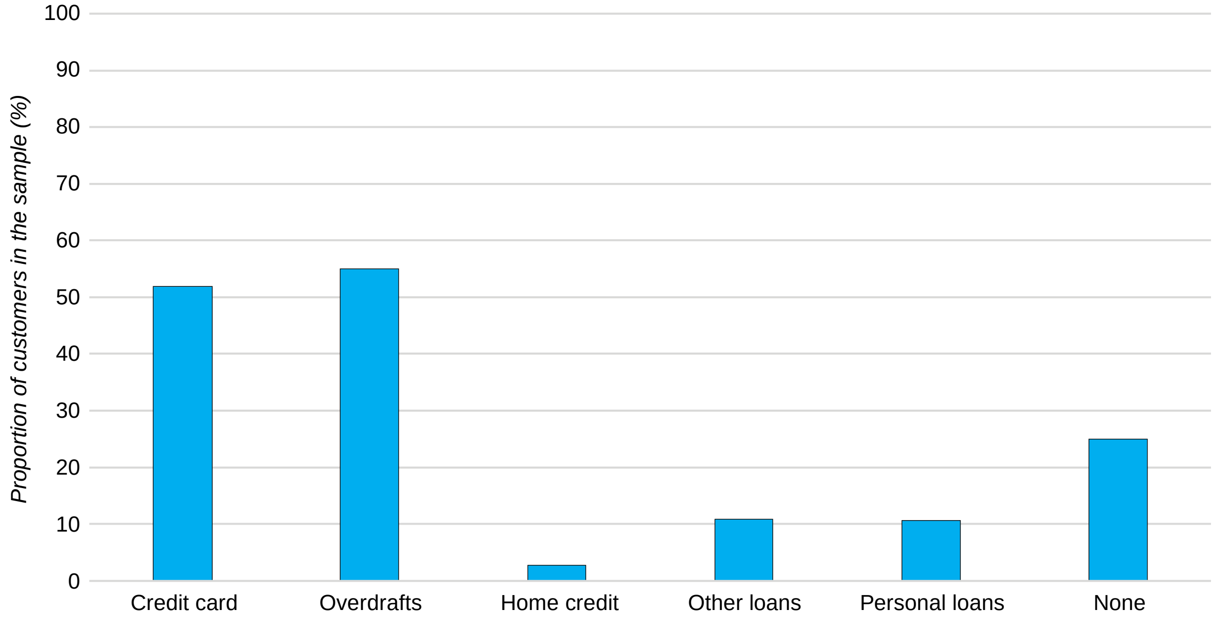
7. For payday loan customers who took out a payday loan in 2012, we analysed the credit products other than payday loans they had used in 2012, including whether that customer had an authorised overdraft greater than £20 in the year, whether the customer had any active credit cards in the year,[2] and whether the customer took out any home credit loans, personal loans or other types of loan (such as a logbook loan) in the period.

8. Figure 1 shows that 52% of payday loan customers in our sample had an active credit card[3] during 2012 and 55% had an overdraft balance greater than £20. A smaller proportion of customers used other credit products, such as personal loans – around 25% were recorded in our data set as not having used any other credit product. A slightly lower proportion of customers were found to use other types of credit when we considered the reweighted sample.[4]

[1] To obtain information on personal loan usage we also used information provided by [✂].
[2] A credit card was assumed to be active if the start date of that card was in 2012, or the start date was prior to 2012 and a balance update was recorded in 2012.
[3] 47% of customers had a credit card for which the balance, as reported in credit record updates, changed at some point during 2012.
[4] Using this sample, we found that in 2012, 46% of customers had an active credit card and 52% an overdraft. 29% had used no other source of credit.

FIGURE 1

Payday loan customers' use of other credit products



Source: CMA analysis of data provided by CRAs.
Notes:
1. These results are based on a sample of 3,228 payday customers in 2012.
2. Overdrafts refer to customers with overdraft balances greater than £20 in the period.
3. Because information on personal loans was unavailable in the [✄] sample, personal loan information was obtained from [✄].

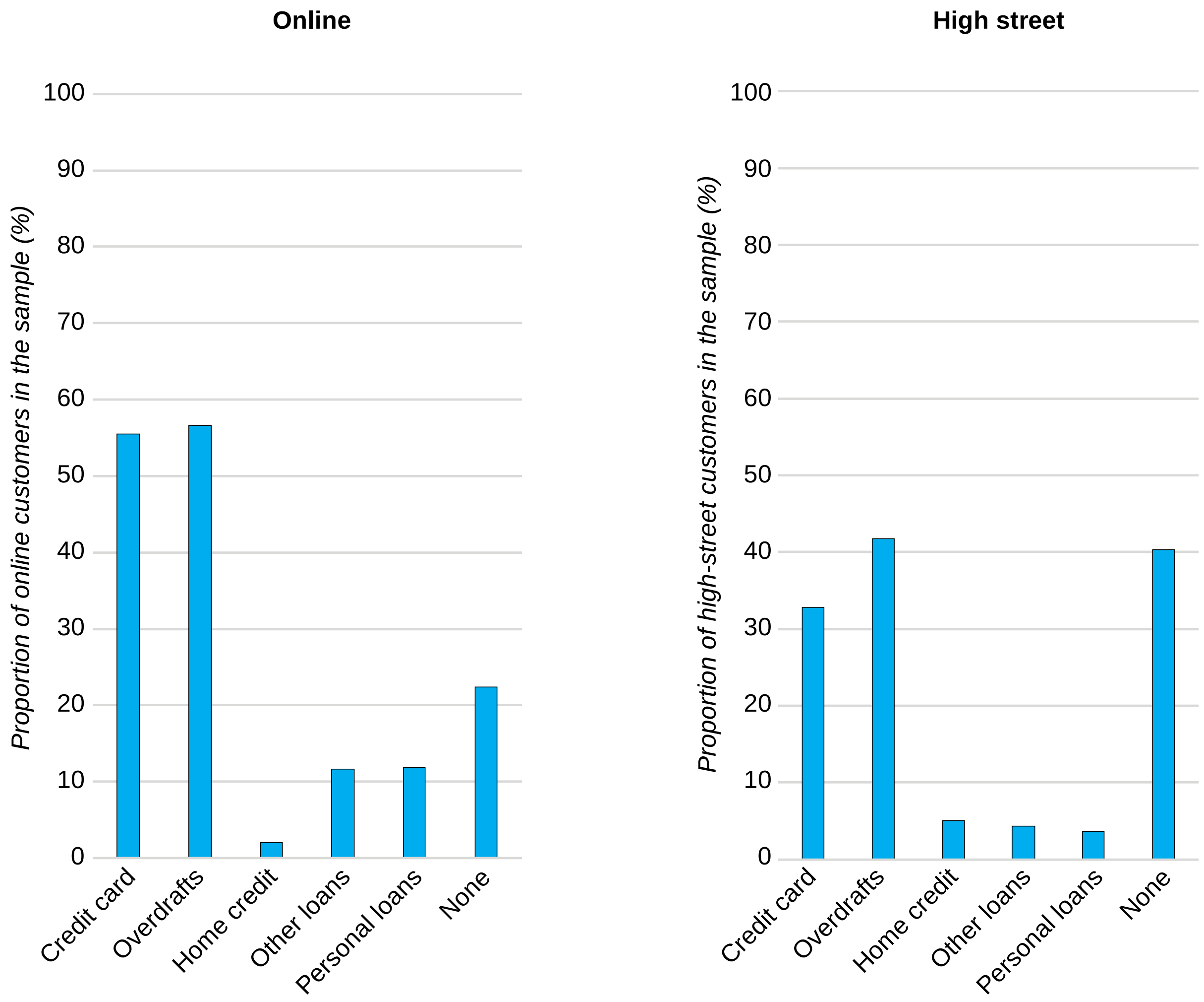
9. We also considered combined usage of credit products other than payday loans. We found that 72% of customers used either an active credit card or an overdraft in 2012, and 35% had used both. Again, this result is broadly similar if we reweight the sample.[5]

10. When comparing online payday customers with high-street payday customers, we found that online payday customers were more likely to use alternative credit sources. Our results are set out in Figure 2. Specifically, in 2012, 78% of online customers and 60% of high-street customers used another credit product. Again, we find broadly similar results when we use the reweighted sample.[6]

[5] Using the reweighted sample, we found that in 2012, 67% of customers used either an active credit card or an overdraft, and 30% used both.
[6] Using this reweighted sample, we found that in 2012, 74% of online customers and 62% of high street customers used another credit product.

FIGURE 2

Use of other credit products among customers who had only borrowed online or on the high street



Source: CMA analysis of data provided by CRAs.
Notes:
1. These results are based on a sample of 414 high-street payday customers (ie individuals who only took out payday loans on the high street) and 2,448 online payday customers (ie individuals who only took out payday loans from online lenders). 366 payday customers who used both channels are excluded from this analysis.
2. Overdrafts refer to customers with overdraft balances greater than £20 in the period.
3. Information on personal loans was obtained from [✂].

Credit availability on credit cards

11. Our results suggest that a significant proportion of payday loan customers use (or have used) credit cards. We considered the extent to which customers actually had credit available on their cards when taking out a payday loan. We did this by taking each payday loan in the sample that was issued in the period from 1 April 2012 to 31 March 2013, and for those customers with

credit cards, seeking to estimate the total amount of available credit on all of their credit cards at the point at which the loan was taken.[7]

12. Available balances were estimated by comparing customers' outstanding balances with their corresponding credit limits. CRA records of credit card balances are typically updated on a monthly basis (and sometimes less frequently), which means that it is generally not possible to observe a customer's credit card balances at the exact point at which a payday loan is issued. For this reason, we assessed credit availability by taking every payday loan in the sample, and considering the most up-to-date balance information that was available for each credit card held by that customer.

13. In 62% of cases, the date on which a credit card's balance was recorded in our data was no more than 30 days before the payday loan was issued. In 81% of cases, the date of the update was within three months of the loan being issued.[8] Wonga told us that there was scope for significant error because customers' credit balances might have changed between updates.[9] However, we considered that the preceding balance updates would represent a useful guide to available balances at the time at which a payday loan was taken out, and did not see any reason to expect a systematic tendency to exist for available balances to increase prior to the payday loan being taken. Rather, we considered that the significant delay for some loans suggested that we may be including in our analysis some cards which – although active at some point in 2012 – had become inactive by the time at which the payday loan was issued. This may cause us to overestimate the extent to which payday loan customers have credit available on their credit cards.

14. We find that in most cases customers did not have significant amounts of credit available on their credit cards when taking out a payday loan. Looking at all payday loans taken out by customers in our sample, we estimate that:

    (a) In 49% of cases, customers did not have a credit card when the loan was issued.

---

[7] It was not possible to carry out a similar assessment for overdrafts, because of limitations in the data available for these products.

[8] Our approach to defining whether or not a card is considered to be active is more cautious than that taken in the analysis set out in the presentation on 'Use of other credit products', where we excluded any credit cards for which no balance updates were recorded subsequent to the payday loan being issued (on the assumption that these cards were no longer active at the point at which the payday loan was issued). These cards are not excluded in the analysis presented in this appendix. This drives the difference between the estimates of the delay between balance updates and loans being issued that are presented here, and those set out in the presentation.

[9] Wonga's response to the CMA repeat borrowing and customers' use of multiple lenders working paper of 10 April 2014, p3.

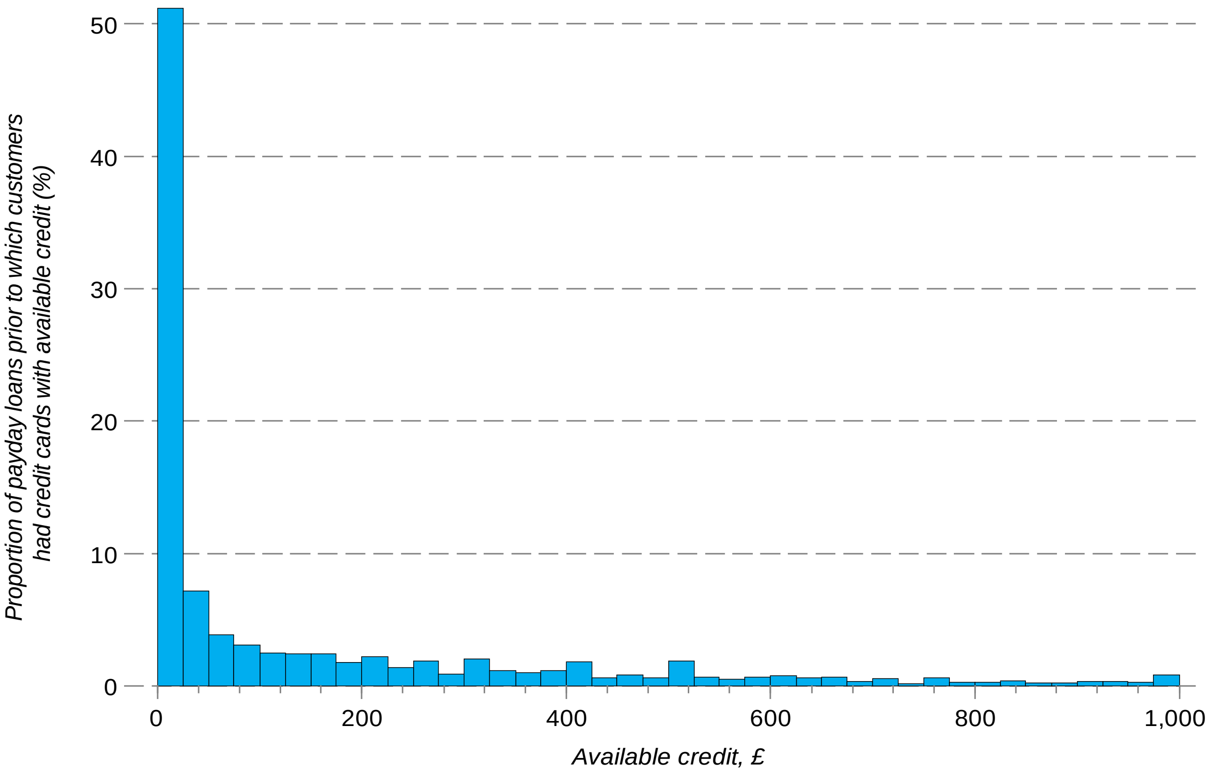
(b) In 65% of cases, customers either did not have a credit card, or did not have any credit available on their cards.

(c) In 82% of cases, customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.[10]

15. Figure 3 sets out in detail the distribution of the amount of credit available on credit cards, for those customers who had credit cards prior to taking out a payday loan.

FIGURE 3

Amount of credit available on credit cards at the point of the most up-to-date balance updates available prior to the loan being taken



Source: CMA analysis of data provided by CRAs.
Note: This chart excludes customers with more than £1,000 of available credit (approximately 8% of all loans).

16. Results based on our sample reweighted such that it is representative of the population of payday loan customers, irrespective of the number of loans taken out, are again similar. In particular:

[10] If we exclude credit cards where the gap between the card's balance being updated and the loan being issued was greater than or equal to 90 days (on the assumption that these cards were inactive), then we find that in 86% of cases customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed.

(a) In 51% of cases, customers did not have a credit card when the loan was issued.

(b) In 67% of cases, customers either did not have a credit card, or did not have any credit available on their cards.

(c) In 83% of cases, customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.

Lenders' submissions on competition between payday loans and other credit products

Introduction

1. In this appendix we summarise the submissions of payday lenders on the extent to which they compete with providers of other credit products.

Payday lenders' submissions

2. CashEuroNet said that the most important alternative borrowing options available to customers included: borrowing from other online payday lenders; taking bank overdrafts (including unauthorised overdrafts); drawing down credit cards; borrowing from informal sources, such as family and friends; and paying the late fees charged by utility and other service providers. It said that its survey showed that [✂] of its customers had used other lending sources in the past three years. The results are shown in Figure 1.[1]

FIGURE 1

Sources used to borrow money in the last three years

[✂]

Source: CashEuroNet.

3. CashEuroNet also said that it monitored overdraft pricing and competed with unauthorised overdrafts, pawnbrokers and home-collected credit. It said that it was strongly affected by the actions of other credit providers and it believed that the recent growth of payday loans was linked to a decline in unauthorised overdrafts – customers had learnt that unauthorised overdrafts fees were more expensive than payday loan fees.

4. In response to the CC's working papers, CashEuroNet carried out a short survey of a sample of its customers. Customers were asked how often they had run up unauthorised overdrafts during a 12-month period before and after their adoption of payday loans. The results were that [✂]% of respondents had used an unauthorised overdraft before their payday loan, and [✂]% had done so afterwards. It said that this suggested that payday loans and unauthorised overdrafts are used as substitutes by survey respondents. CashEuroNet also added that certain credit unions provided loan products

[1] Response to issues statement, pp2 & 3.

that were similar to payday loans in terms of speed of funding, that subprime credit cards were a particularly close substitute to payday loans and that some home credit providers offered loans comparable to instalment loans.

5. CFO Lending told us that other credit products affected the size of the overall payday loan market. For example, the lending policy of credit card providers could mean that they were in direct competition with CFO Lending. It told us, however, that typically customers would have been turned down for this type of credit and were therefore looking for alternatives that met their needs.

6. Cheque Centres told us that customers considered the payday product against a range of other options, from pawnbroking to unauthorised overdrafts. For those with assets, and facing financial pressure, a payday loan provided a rational choice in many circumstances.

7. Dollar said that products that might be said to impose a competitive constraint on payday loans included, but were not limited to, authorised and unauthorised overdrafts, revolving credit, short-term instalment loans (three- to six-month terms), rent-to-own and possibly pawnbroking and home credit. Dollar told us that it monitored the performance of [✄] firms.

8. H&T told us that the key alternative to a payday loan was an overdraft (frequently unauthorised).

9. Microlend said that it competed with high-street banks, lenders and other financial institutions.

10. SRC told us that the actions of other credit providers did affect its business, but it could not measure this as it did not do any tracking or analysis.

11. ThinkFinance told us that it competed in a market that was wider than payday loans and included all forms of higher-cost credit, rapid access to cash, and alternative credit options that consumers accessed outside mainstream credit cards. This included payday loans, bank overdrafts (especially unplanned bank overdrafts which were the highest-cost credit one could take on), pawnbrokers, precious metal exchanges, doorstep loans (home credit), and possibly more. It said that the fully unregulated world of illegal loan-sharking should not be ignored as it was a real alternative that some consumers would turn to should other forms of credit not be available to them.

12. Wonga said that: *(a)* 18%, ie almost one-fifth, of online payday customers compared the costs of loans from non-payday providers before choosing to take out their loan (as found by a Bristol University study); *(b)* customers perceived payday loans as functionally similar to other types of short-term credit; *(c)* payday lenders perceived themselves to be competing against

mainstream and other credit products; *(d)* industry commentators treated payday loans as an alternative to unauthorised overdrafts; and *(e)* this was consistent with how Wonga viewed its business. Wonga cited Airdrie Savings Bank, which was offering express loans to existing customers, and credit card companies, which were refining their credit assessments.

13. Wonga said that it had created a proposition which competed head-on with the banks by delivering improved customer service and convenience. [✄]

14. Wonga said that the case for recognising a wider market for short-term credit was enhanced by the fact that the cost of alternative sources of credit such as unauthorised overdrafts or credit cards could be compared. As noted above, the Chartered Institute for Securities & Investment identified that £200 borrowed from a payday lender would cost £66 compared with a charge for borrowing the same amount by way of an unauthorised overdraft of £84.22 for Lloyds Bank and £110 for NatWest. Customers also considered and evaluated other features of short-term credit beyond price such as the potential impact of payment delinquency.

15. Wonga told us that it monitored the cost of unauthorised overdrafts and compared itself with credit cards for cash advances. [✄]

16. Wonga told us that [✄].

17. In response to our working papers, Wonga said that the distinctions between credit products based on product characteristics were blurring as the market evolved and innovated. This had created a chain of substitution across loan products. Wonga cited economic research published by the Federal Reserve Bank of New York that it said showed banks altering their overdraft charges in response to entry by payday lenders.[2]

18. MYJAR stated that it saw itself as being in direct competition with providers of overdrafts and credit cards. It sought to compete with these credit providers on the basis of speed of service, accessibility, transparency and fairness. MYJAR said that in addition to overdrafts and credit cards, store cards were also products that were relatively readily available for the purchase of goods at the time of shopping.

19. Lending Stream told us that it considered itself in a different category from other credit providers such as pawnbrokers, credit card providers and providers of overdraft facilities, and did not compete with them directly. For individual customers, it was possible that Lending Stream was in the same

[2] Competition and Adverse Selection in the Small-Dollar Loan Market: Overdraft versus Payday Credit, Federal Reserve Bank of New York Staff Reports, Staff Report no 391, September 2009 (revised December 2009).

consideration set as some of these other providers, but it did not actively try to compete with other types of credit.

20. The Cash Store told us that it did not see itself as competing directly with credit cards and overdrafts, as these lenders practised more stringent under-writing based on credit scoring. It served the customers that these lenders could not assist. It saw pawnbroking as significantly different from payday lending and it felt that consumers who chose a payday loan knew the difference. Therefore, it did not see itself as a direct competitor. Furthermore, the trending it saw in its loan volumes and sales did not suggest that the actions of other credit providers negatively affected it.

Non-payday lenders' submissions

21. Barclays told us that its customers who had used a payday loan did not typically have any large overdraft available. It said that payday loan customers were on average 6.5 times more likely to go into arrears than non-payday-loan customers. Barclays typically processed a very broad range of internal and external data every month to enable it to calculate how much it would be willing to lend to each customer (a 'pre-approved limit'). If a customer then requested an amount of credit which was within this pre-approved limit, then they would be granted that credit, effectively instantly, subject to the customer confirming their acceptance of the relevant terms. Customers who had used a payday loan within the past 12 months were likely to be treated differently and would be unable to benefit from pre-approved limits through this automated system. Instead, payday loan users were assessed manually [✄].

22. HSBC told us that it had seen an increasing proportion of its customers using payday loans over time and an increasing proportion of these customers were using payday loans in consecutive months. Its historical analysis suggested that even customers who had used payday loans 18 months previously continued to default at higher rates than average customers, suggesting that payday lending did not fix a short-term need. [✄] Potential albeit not verified reasons for this were: *(a)* convenience of the payday lender; *(b)* perceived lower costs for small value loans; and *(c)* not wanting to be seen to use overdraft facility. [✄]

TABLE 1 **HSBC acceptance and rejection rates for identified payday loan customers**

Product	Acceptance rate	Rejection rate
		%
Current Account—Overdraft Limit Review	[✂]	[✂]
Credit Card—Limit Review	[✂]	[✂]
Credit Card—New Card	[✂]	[✂]
Personal Loan	[✂]	[✂]

Source: CMA analysis based on HSBC's historical (ie pre-2012) data.

23. LBG told us that of its customers, [✂] had received at least one payday loan credit into their current account(s) in the tax year April 2012 to March 2013. Of these customers, [✂]% had a current account that offered an overdraft facility (as at March 2013) and [✂]% had spent at least one day in excess of their agreed overdraft limit in the 12-month period (including those customers with no overdraft facility). These customers were in excess of their agreed overdraft limit for an average of [✂] days over the 12 months.

24. LBG told us that payday loan customers tended to be in the higher-risk, higher-indebtedness end of its customer base. LBG internal research from April 2012 suggested that of the Lloyds Bank customers who used payday loans, [✂]% would be rejected if they applied for a personal loan. For HBOS customers using payday loans, the figure was [✂]%. Follow-up research in July 2012 gave rejection figures of [✂]% for Lloyds Bank and [✂]% for Halifax.

25. LBG provided some analysis of payday loan use by HBOS customers. This showed that most customers using payday loan companies either did not have an authorised overdraft, or were already heavily using their authorised overdraft. However, there was still some appetite from HBOS to lend further amounts to two subsets of these customers.

26. RBS/NatWest told us that [✂]. RBS/NatWest told us that [✂].

27. A large bank ([✂]) told us that 4.4% of its retail customers had evidence of an active payday loan facility or had taken or applied for a payday loan facility in the last 12 months. Of those customers, 80% were currently in arrears on other credit facilities with 73% having a registered default, county court judgment or insolvency marker. It told us that customers with recent payday loan activity had default rates up to ten times higher than those customers without payday loan activity.

Local overlap and concentration

Introduction

1. To the extent that customers have a preference for high street lenders, then it may be relevant to understand how competitive conditions vary across different local areas. To do this, in this appendix we consider the extent of overlap between the operations of the different high-street lenders.

2. We begin by presenting evidence on the distance that customers travel to take out a payday loan. We then present figures on the number of stores operated by high-street lenders and how near these stores are to each other, allowing us to build up a picture of how concentrated the supply of high-street payday loans is at a local level.

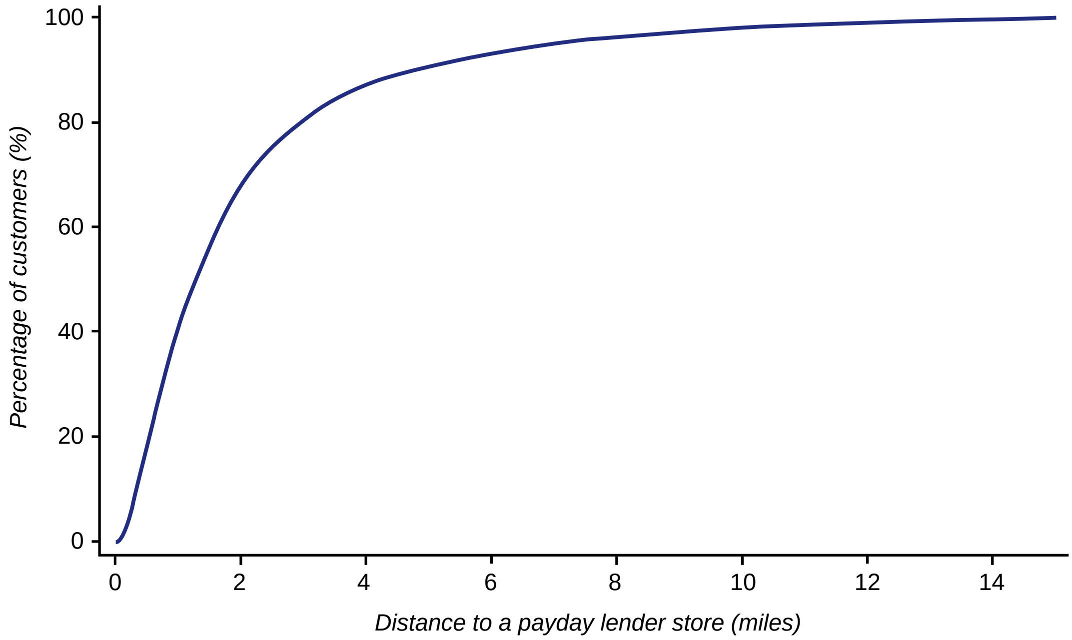
Distance travelled to stores

3. Using information on customers' postcodes, we find that the great majority of borrowers travelled a relatively short distance to take out their loan. Figure 1 shows the cumulative distribution of straight-line distances (ie not road distances, which will be higher) between the addresses of all customers taking out loans from five of the largest high-street lenders in the 12 months to August 2013 and the stores from which they took out their payday loan. The data shows that around 80% of loans were taken out by customers that were located within 3.2 miles of the store and 95% by customers within 9 miles.[1] Customers' willingness to travel appeared similar across different lenders.

[1] We also investigated the number of stores of the same lender that customers used. We find that the most customers used only a single store of a lender: on average, customers used 1.09 stores of the same high-street lender in the 12 months to August 2013.

FIGURE 1

Cumulative distribution of distance travelled to reach the store



Source: CMA analysis.
Note: The distribution of distances between customer and store address is shown for all loans issued by five of the largest high street lenders (The Money Shop, Cheque Centres, Speedy Cash, H&T and The Cash Store) in the 12 months to August 2013.

Lenders' store locations

4. We also considered the geographic distribution of the stores of the high-street lenders. Table 1 summarises the number of stores operated by five of the largest high-street payday lenders. Maps of the locations of these stores are provided in Annex A.

TABLE 1 **High-street payday lending: number of stores as of August 2013**

	Lender					
	Cheque Centre	*The Money Shop*	*H&T*	*Speedy Cash*	*The Cash Store*	*Other lenders*
Number of stores	496	578	194	23	29	89

Source: Main parties' responses to market questionnaire and responses to small lender questionnaire.

5. The maps show that the two largest high-street lenders, The Money Shop and Cheque Centres, both operate large numbers of outlets, with stores spread across the UK. H&T also operates a substantial number of stores across England and Scotland. The Cash Store has a relatively small number of stores primarily in the North of England, while Speedy Cash operates a similar number of branches, primarily in larger cities in England.

6. In order to assess the extent of overlap between different lenders' operations, we calculated, for each store, how many rival high-street lenders operated nearby stores.[2] We used a threshold of 3.2 miles, on the basis that 80% of payday loans are taken out by customers located within 3.2 miles (straight-line distance) of the store from which they borrow, and on the assumption that most customers would be unwilling to travel a distance further than this to take out a payday loan.[3] Our results are set out in Table 2.

TABLE 2 **Overlap between lenders' stores as of August 2013**

	Cheque Centres	*The Money Shop*	*H&T*	*Speedy Cash*	*The Cash Store*	*Small lenders*	*All lenders*
Zero rival fascia within 3.3 miles	69 (13.9%)	48 (8.4%)	1 (0.5%)	0 (0%)	0 (0%)	5 (5.6%)	123 (10.0%)
One rival fascia within 3.3 miles	139 (28.0%)	156 (27.2%)	3 (1.6%)	0 (0%)	1 (3.4%)	8 (9.0%)	307 (25.7%)
Two rival fascias within 3.3 miles	125 (25.2%)	131 (22.9%)	68 (35.2%)	1 (4.3%)	0 (0%)	20 (22.5%)	345 (24.5%)
Three rival fascias within 3.3 miles	106 (21.4%)	107 (18.7%)	59 (30.6%)	6 (26.1%)	19 (65.5%)	18 (20.2%)	315 (20.5%)
Four rival fascias within 3.3 miles	54 (10.9%)	128 (22.3%)	60 (31.1%)	14 (60.9%)	7 (24.2%)	35 (39.3%)	298 (18.6%)
Five rival fascias within 3.3 miles	3 (0.6%)	3 (0.5%)	2 (1%)	2 (8.7%)	2 (6.9%)	3 (3.4%)	15 (0.7%)

Source: CMA analysis.

Note: This analysis covers a total of 1,403 stores operated by high-street lenders as of August 2013. This is lower than the total in Table 1, due to missing postcode information for a small number of stores.

7. We find that around 90% of the stores operated by high-street lenders are located within 3.2 miles of a store of at least one rival high-street lender.[4] As is evident from an inspection of the maps showing the distribution of The Money Shop and Cheque Centres stores, this is primarily because of the very significant overlap in the location of the operations of these two lenders. A substantial proportion (nearly two-thirds) of the stores of high-street lenders are located within 3.2 miles of two or more rival lenders.

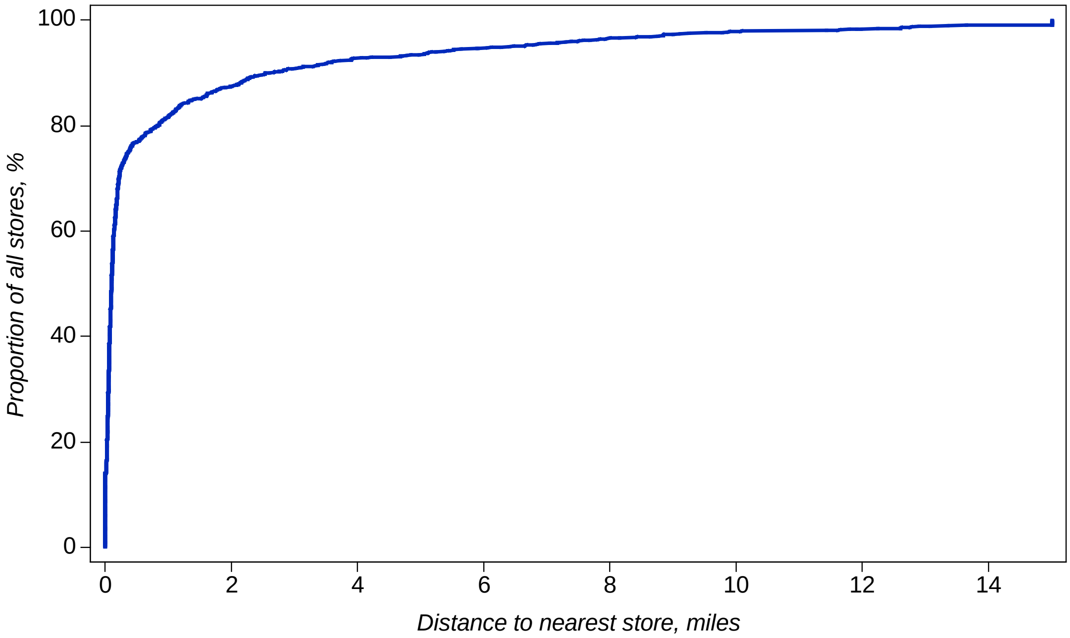
8. Finally, we investigated the distribution of distances from the store of each lender to the nearest store of a rival lender. Figure 2 shows the cumulative distribution of the distances between all lenders' stores and the nearest store of a rival lender. The figure suggests that 51% of lenders' stores are within 0.1 miles of the store of another lender. 82% of stores are within 1 mile of a

[2] For example, if an H&T store has two The Money Shop stores and one Cheque Centres store nearby, it would be classed as having two lenders nearby.
[3] Evidence submitted by payday lenders also suggested that customers generally do not travel long distances to a payday lender's store. The Cash Store told us that the majority of its customers used public transport and therefore anything over a 20-minute travel time to a location from the customer's home address was thought to be too long. [✂] research showed that 30% of customers travelled less than a mile and 90% of customers travelled less than 9 minutes.
[4] When a threshold of 5 miles is used, 7% of stores are found not to have any nearby rivals. When the distance is set to 2 miles, the figure is 13%.

rival lender. The mean distance between a lender’s store and the nearest store of a rival is around 1 mile.

FIGURE 2

Cumulative distribution of straight-line distances between lenders’ stores and the nearest store of a rival high street lender

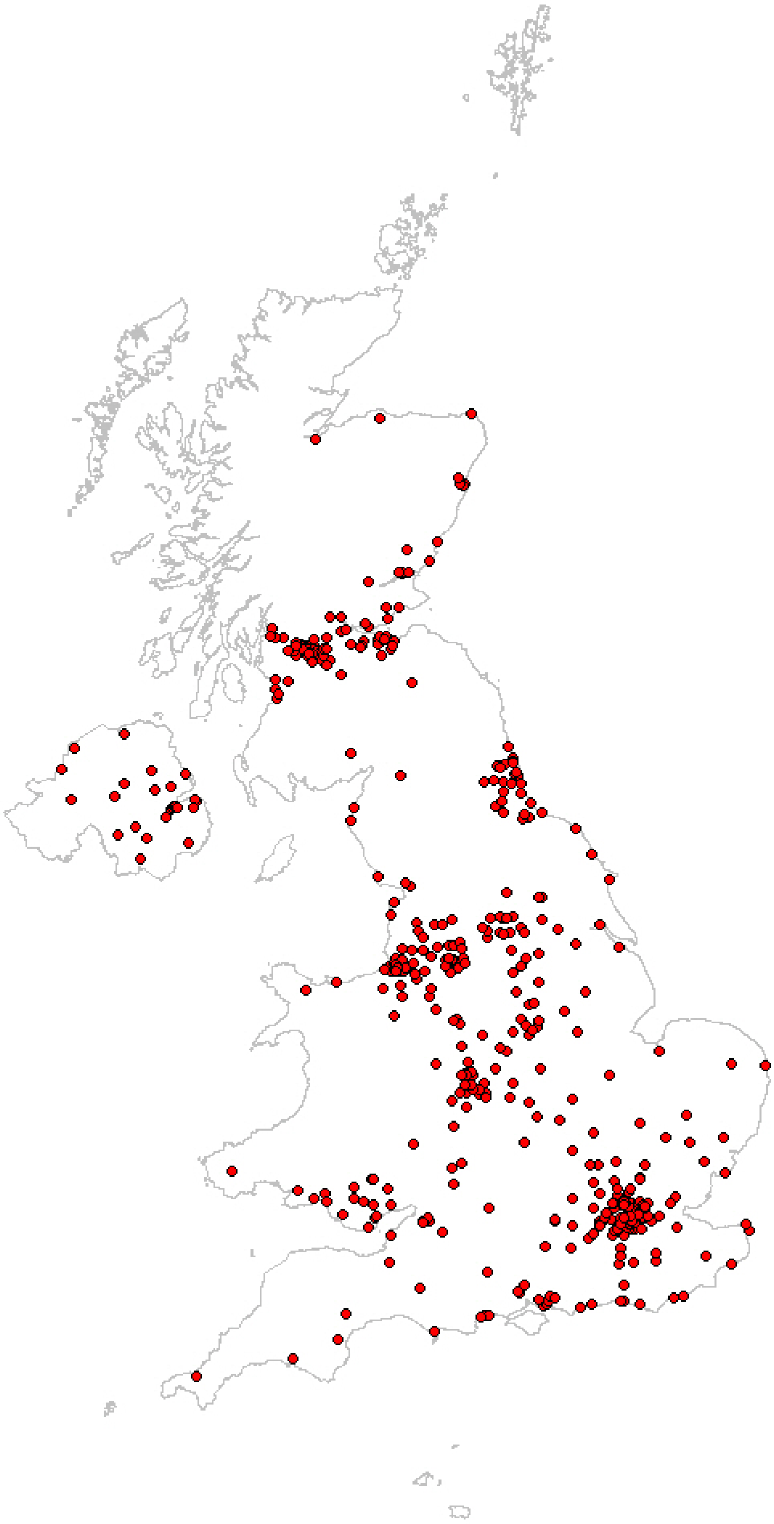


Source: CMA analysis.
Notes:
1. This analysis covers a total of 1,403 stores operated by high-street lenders as of August 2013. This is lower than the total in Table 1, due to missing postcode information for a small number of stores.
2. In addition to those shown in the chart, there are a further 13 stores with the nearest store of a rival located further than 15 miles away (0.9% of all stores). The maximum distance from a store to the nearest store of a rival lender is around 34 miles.

Maps of local operations

FIGURE 1

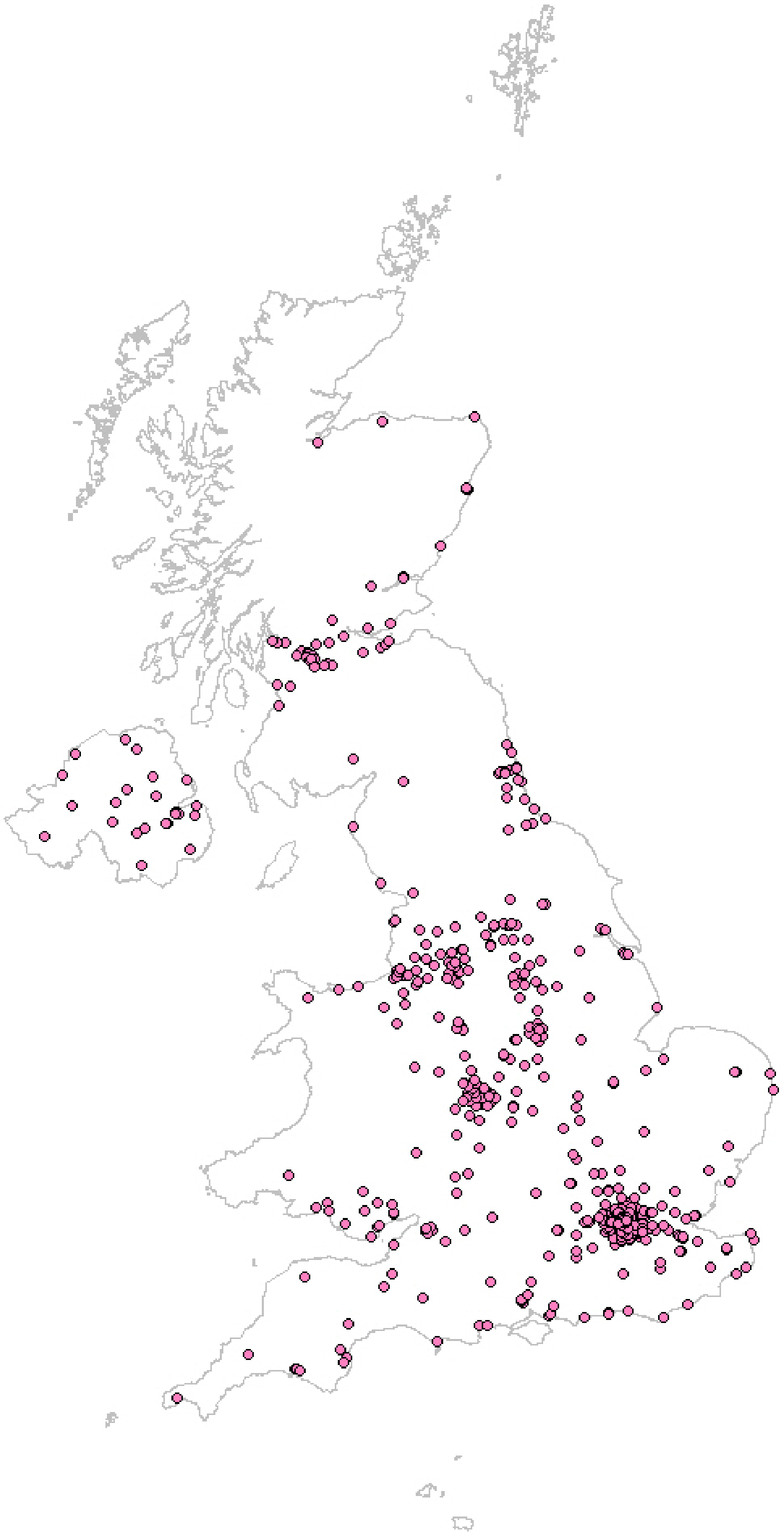
Cheque Centres locations



Source: CMA analysis.

FIGURE 2

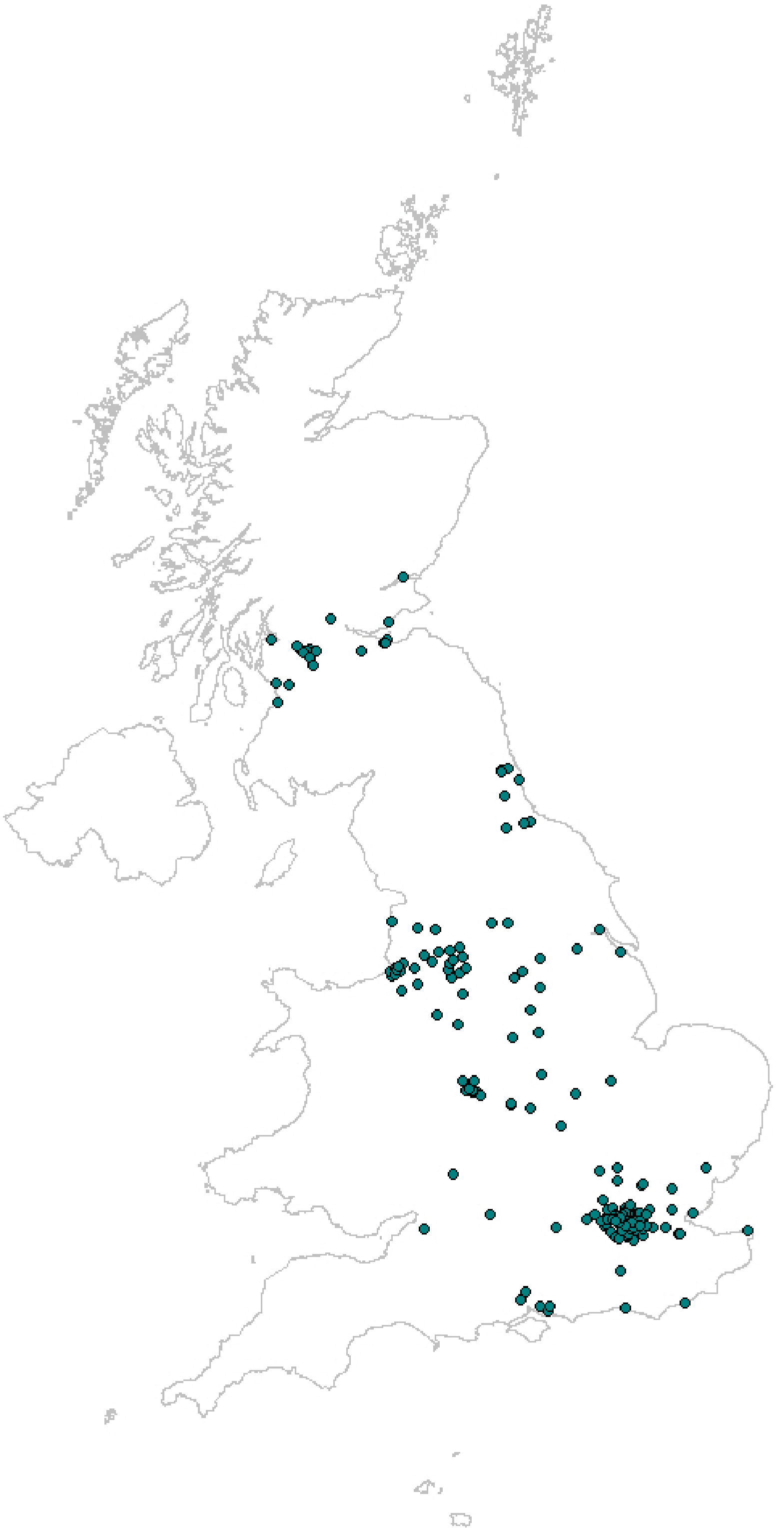
The Money Shop locations



Source: CMA analysis.

FIGURE 3

H&T locations



Source: CMA analysis.

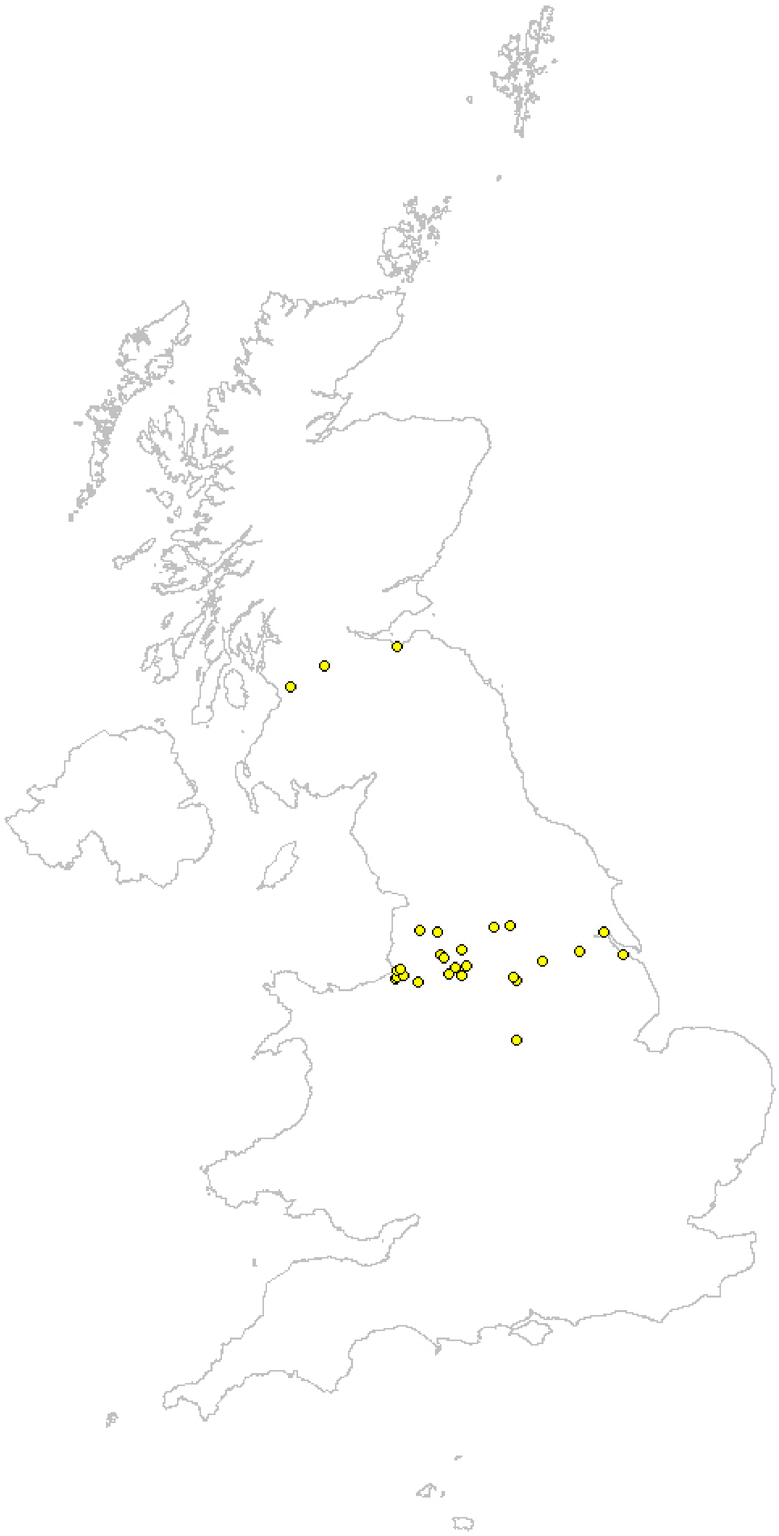
FIGURE 4

Speedy Cash locations

Source: CMA analysis.

FIGURE 5

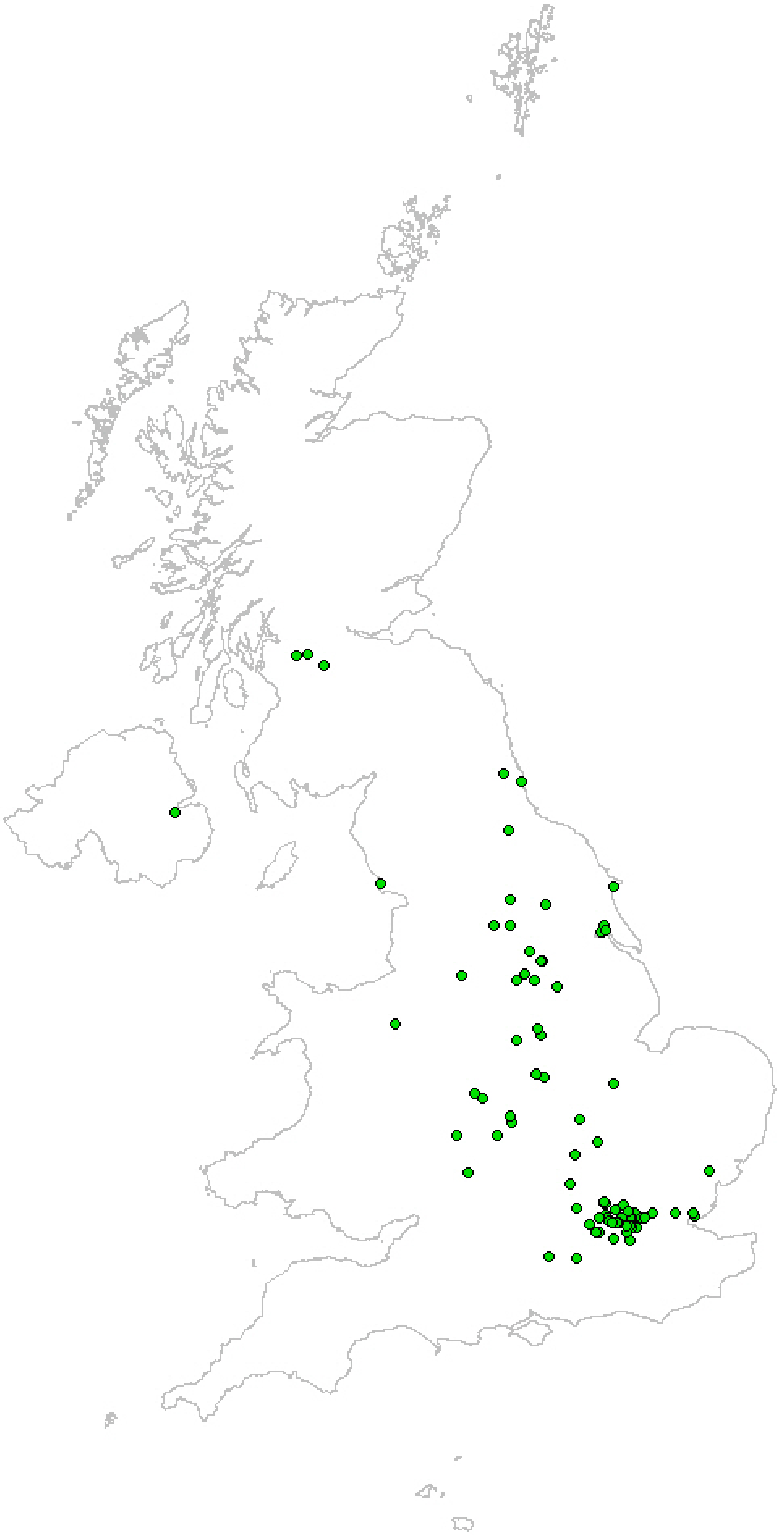
The Cash Store locations



Source: CMA analysis.

FIGURE 6

Other lenders



Source: CMA analysis.

Factors affecting customers' likelihood of shopping around

1. In this appendix, we investigate the relationship between customers' characteristics and their likelihood of shopping around. Using the responses to our customer survey, we analyse econometrically the characteristics that are most commonly associated with whether a customer reported having shopped around.

2. The main findings are:

   (a) Online customers are significantly more likely to report having shopped around than customers who borrow from high-street stores.

   (b) Customers who attribute most importance to the speed of getting the loan tend to report having shopped around less frequently than customers placing more value on other factors when taking out their loan.

   (c) A higher level of education and familiarity with financial concepts are positively correlated with the probability of a customer reporting having shopping around.

   (d) We do not find the amount of the loan to have any statistically significant effect on the probability a customer reports having shopped around.

   (e) Previous experience with payday loans appears to have, if any, a limited (and positive) effect on the probability that a customer reports shopping around.

3. The appendix is structured as follows. First, we briefly describe the econometric methodology. Second, we discuss the data and the explanatory variables used in the model. Third, we present the main results. Finally, we discuss some robustness checks that we carried out.

The methodology

4. The aim of the analysis is to examine how the probability that a customer reports having shopped around for their loan in our customer survey[1] is affected by customer and loan characteristics. Given that our dependent variable is binary (whether or not a customer reported having shopped

[1] This is based on the customers' responses to the question of whether they compared pros and cons of different payday lenders. However, as discussed in Section 6 (see paragraphs 6.24 to 6.26), evidence from the qualitative research suggests that even when they reported having shopping around they might not have carried out a thorough comparison and as a result they might have failed to identify the best-value offer.

around), we estimate the model using a probit analysis. Probit models are typically used when the outcome of the dependent variable is binary as in that case OLS (Ordinary Least Regression) produces predicted probabilities which are not constrained between 0 and 1.

5. The model specifies that:[2]

$$p_i = \Pr[y_i = 1 \mid X] = \Phi(X_i'\beta)$$

That is, the probability of customer *i* (p_i) shopping around (ie Y taking value of 1) conditional on a set of explanatory variables (X, where β is the vector of coefficients associated with the explanatory variables) is given by $\Phi(\cdot)$, the cumulative distribution function of the error term, ε, at given values of the independent variables ($X_i'\beta$). In the probit model, the error term is assumed to be normally distributed with zero mean and variance equal to 1.

Data

6. Our analysis is based on the responses to our customer survey. The survey sample consists of 1,560 payday loan customers who took loans from the 11 major lenders between 1 September 2012 and 31 August 2013 and/or between October and December 2013.[3] The sample covers online and high-street customers as well as new and repeat customers.

7. The data from the survey has been weighted back to the population based on channel of purchase used (online/high street), number of loans (new/repeat customers) and identity of the lender (separate for the customers of the largest lenders and combined for those taking out loans from smaller companies). For the purposes of weighting, the 'population' has been defined as customers in the transaction data set provided by the 11 major lenders (see Appendix 2.2 for further details of this data set).[4]

Dependent variables

8. Our dependent variables are based on customers' responses to two questions:

> Did you shop around between payday lenders – for example, compare some of the pros and cons of different payday lenders – before you applied for your loan?

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[2] See Cameron and Trivedi, *Microeconometrics; Methods and applications*, 2005, Chapter 14.
[3] See TNS BMRB survey report, p8.
[4] ibid, p9.

and, for those customers who did not report having shopped around:

> Now think about *all* the times you have taken out a payday loan. Have you *ever* shopped around to compare some of the pros and cons of different payday lenders?

9. We run two separate regressions: *(a)* with a variable indicating whether a customer reported shopping around for the most recent loan as the dependent variable, and *(b)* with a variable indicating whether a customer reported shopping around for any loan (either the most recent loan or any loan previously taken out) as the dependent variable.

10. According to our survey, 27% (421) of the customers reported having shopped around for the most recent loan and an additional 13% (200) reported having shopped around in the past, although not for the most recent loan.

Explanatory variables

11. As part of the survey, several different pieces of information about customers were collected, covering a wide range of aspects: socio-demographic characteristics of the customers, the context in which they took out payday loans, their borrowing behaviour, their familiarity with financial concepts and the loan terms (amount and costs) for the most recent loans they took out. In addition, further information was available from our transaction database.

12. We included a number of different independent variables in our models, to reflect factors which might in theory influence the likelihood that a customer will shop around. These variables, based in part on the discussion of barriers to shopping around set out in Section 6, included:

    (a) Socio-demographic characteristics: in particular, we included variables reflecting respondents' income and level of qualification/education.[5,6]

[5] We also considered customer age and gender. However, both these characteristics do not have a significant effect on the likelihood of shopping around.

[6] We considered a set of dummy variables indicating the highest level of qualification obtained by the customer (ie university degree, diploma in higher education, A-level, GCSE). Only university degree and higher education diploma had a significant effect on the probability of shopping around, therefore only those two variables were included in the final model. Furthermore, since the marginal effects of these variables were very similar, the two variables were combined into one dummy variable indicating whether a customer has a university degree or a higher education diploma.

(b) Level of financial literacy: as proxy for customers' familiarity with financial concepts, we included a variable indicating whether a customer was able correctly to calculate simple interest rate.[7]

(c) The context in which the loan was taken out: in order to proxy for the extent to which a customer felt under pressure, we included a variable indicating whether the respondent reported that they could definitely not have gone without the loan.[8]

(d) The channel through which customers took out the loan (online vs high street): we included a variable giving the purchase channel used for the most recent loan (in the model with shopping around for the most recent loan as dependent variable) or the channel mainly used by the customer (in the model with shopping around for any loan as the dependent variable).

(e) The speed of obtaining the loan: we included a variable to test whether customers who reported speed as the single most important factor when taking out their payday loan are more or less likely to report having shopped around for their loan than customers who reported any other factor.

(f) The amount of the most recent loan: to test whether a relationship existed between customers' propensity to shop around and the amount that they could potentially save, we included a variable giving the value of the most recent loan, as recorded in lenders' transaction data.

(g) Borrowing behaviour: to understand the impact on the likelihood of a customer shopping around of their previous experience with payday loan products, we included in our model the number of loans that a customer reported having taken out previously.

(h) Uncertainty as to whether a loan will be approved or not: to proxy for the uncertainty facing a customer we considered various different measures: whether a customer reported having been rejected for a previous payday loan, whether the customer reported having been turned down for other forms of credit in the past, or whether they have experienced any debt problem (eg bad credit rating, county court judgment) in the last five years. Since these three variables are correlated with each other, we

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[7] We checked through a chi-squared test that financial literacy and level of qualification/education are not closely correlated.
[8] See Question QPDSA4 of our survey questionnaire.

included just one in our preferred specification, namely whether or not a customer had been rejected for a payday loan in the past.[9]

Main findings

13. The coefficients of the model are estimated using the Maximum Likelihood Estimation technique. The estimation is carried out separately for the dependent variable based on the most recent loan (Regression 1) and the dependent variable based on whether customers had ever shopped around, either for the most recent loan or for any previous loan (Regression 2).

14. Estimates of the effect of a change in any one explanatory variable depend on the values of the other explanatory variables in the model. A common approach is to estimate the sample average of the marginal effects, ie the average of the marginal effects calculated at each value of the explanatory variables.

15. Table 1 shows the average marginal effects of Regression 1. The strongest predictor of whether or not a customer reports shopping around for their most recent loan is the channel of purchase, with high-street customers less likely to shop around than online customers. The importance a customer attributes to speed when taking out their loan also negatively affects the likelihood that they report shopping around for that loan.[10] Shopping around appears to be more likely (positively correlated) when customers hold a university degree or a higher education diploma, and when they understand simple financial concepts. Other variables do not have a statistically significant effect on the probability of shopping around in our model.

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[9] However, as robustness checks we also run the model using the alternative two variables (see paragraph 17 for further details).
[10] We also ran a specification that included a dummy variable for each of the factors indicated by customers as the most important when shopping around (ie reputation, cost of loan, ease of application process, repayment flexibility, the amount of the loan, the purchase channel) but not for speed. The coefficients associated with these variables reflect the higher or lower probability of shopping around by customers who indicated one of those factors relative to the probability of shopping around of customers who reported speed as the most important factor. Only the coefficients associated with ease of application process and repayment flexibility are statistically significant, and the marginal effects associated with both explanatory variables are positive. This may somewhat further support the finding that when customers attribute primary importance to speed they are less inclined to shop around.

TABLE 1 **Factors explaining the likelihood a customer reports shopping around for their most recent loan – Regression 1**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.212***	0.037
Most important factor _ speed	–0.062**	0.030
Log (number loans)	0.017	0.015
Importance of loan	0.026	0.029
Being refused for PDL before	0.048	0.034
Log (amount of loan)	–0.012	0.019
Financial literacy	0.148***	0.041
Higher education	0.122***	0.029
Log (income)	0.034	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[11] Pseudo R2 = 0.067, Log-Likelihood = –573.29.

16. The results of Regression 2 are presented in Table 2. As Regression 2 is intended to investigate customers' attitudes towards shopping around looking beyond their most recent loan, loan-specific characteristics (the amount of the loan and the perceived importance of the loan) are not included in this specification. The results are largely consistent with those in Regression 1. The channel of purchase has the largest effect on the probability a customer reports shopping around, and when customers attribute most importance to speed when taking out their payday loan, they are less likely to report having shopped around. By contrast, financial literacy and higher level of education are positively correlated with the probability of shopping around. The results of two regressions differ in relation to:

(a) the variable capturing whether a customer was rejected for a previous loan is statistically significant and positively correlated with the likelihood of shopping around. This may reflect some customers having previously had to shop around in order to finding a lender that would approve their application; and

(b) variables capturing a customer's experience with payday loans (the number of loans taken out) and income are positively related with the probability a customer reports having ever shopping around, and these effects are statistically significant. However, the size of these effects is small.

[11] The number of observations are less than the sample size (1,560). This is mainly due to a number of customers refusing to provide their income details.

TABLE 2 **Factors explaining the likelihood a customer reports having shopped around for any loan – Regression 2**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.249***	0.037
Most important factor _ speed	–0.107***	0.031
Log (number loans)	0.054***	0.016
Being refused for PDL before	0.100***	0.035
Financial literacy	0.215***	0.040
Higher education	0.090***	0.031
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[12] Pseudo R2 = 0.09264, Log-Likelihood = –630.61

17. We performed some checks to assess the robustness of our model. Full results are presented in Annex A. In particular:

(a) As discussed in paragraph 12*(h)*, there are various variables which could be used to capture customers' uncertainty about whether they will be approved for a loan, and they are all highly correlated. Our preferred specification includes the explanatory variable based on whether customers reported having been rejected for a previous payday loan. Nevertheless, we also estimated the model using information on (i) whether customers reported having been turned down for other forms of credit in the past, and (ii) whether they have experienced any debt problem (eg bad credit rating, county court judgment) in the last five years. These models produce similar estimates to those reported in Tables 1 and 2.[13]

(b) We also ran the regressions using both a logit model[14,15] and a standard OLS model. The estimated marginal effects have the same sign and similar magnitude as those derived using the probit model.[16]

[12] See previous footnote.
[13] See Tables 1, 2, 5 & 6 in Annex A.
[14] This model assumes that the error term has a standard logistic distribution rather than a normal distribution as with the probit.
[15] Logit and probit models use different scale factors and as a consequence logit coefficients are usually larger in magnitude than those generated using a probit model. As the average marginal effect measure is scaled similarly across models, it can be used for comparison purposes. See Cameron and Trivedi, *Microeconometrics; Methods and applications*, 2005, section 14.3.7.
[16] See Tables 3, 4, 7 & 8 in Annex A.

Results of robustness checks

Regression 1 – Factors explaining the likelihood a customer reports shopping around for their most recent loan

TABLE 1 M**odel with the variable indicating whether customer has been turned down for other forms of credit as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.215***	0.038
Most important factor _ speed	–0.067**	0.031
Log (number loans)	0.017	0.015
Importance of loan	0.027	0.030
Turned down for other credit	0.050	0.032
Log (amount of loan)	–0.014	0.019
Financial literacy	0.132***	0.041
Higher education	0.118***	0.030
Log (income)	0.037	0.032

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 851,[1] Pseudo R2 = 0.067, Log-Likelihood = –567.44

TABLE 2 M**odel with the variable indicating whether customer has experienced any debt problem as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.209***	0.037
Most important factor _ speed	–0.061**	0.031
Log (number loans)	0.020	0.015
Importance of loan	0.015	0.030
Debt problem	0.025	0.031
Log (amount of loan)	–0.017	0.019
Financial literacy	0.163***	0.042
Higher education	0.115***	0.030
Log (income)	0.037	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 853,[2] Pseudo R2 = 0.066, Log-Likelihood = –563.41

[1] See footnote 11.
[2] See footnote 11.

TABLE 3 **Logit model**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.221***	0.040
Most important factor _ speed	–0.061**	0.031
Log (number loans)	0.016	0.015
Importance of loan	0.027	0.029
Being refused for PDL before	0.047	0.034
Log (amount of loan)	–0.013	0.019
Financial literacy	0.148***	0.042
Higher education	0.123***	0.029
Log (income)	0.035	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[3] Pseudo R2 = 0.067, Log-Likelihood = –573.06

TABLE 4 **Ordinary Least Squares model**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.191***	0.035
Most important factor _ speed	–0.061**	0.030
Log (number loans)	0.015	0.015
Importance of loan	0.027	0.029
Being refused for PDL before	0.048	0.035
Log (amount of loan)	–0.013	0.019
Financial literacy	0.139***	0.039
Higher education	0.129***	0.031
Log (income)	0.036	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[4] R2 = 0.077.

[3] See footnote 11.
[4] See footnote 11.

Regression 2 – Factors explaining the likelihood a customer reports having shopped around for any loan

TABLE 5 M**odel with the variable indicating whether customer has been turned down for other forms of credit as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.251***	0.037
Most important factor _ speed	–0.103***	0.031
Log (number loans)	0.061***	0.015
Turned down for other credit	0.055*	0.033
Financial literacy	0.189***	0.041
Higher education	0.092***	0.031
Log (income)	0.068**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 867,[5] Pseudo $R2$ = 0.0869, Log-Likelihood = –625.19.

TABLE 6 M**odel with the variable indicating whether customer has experienced any debt problem as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.246***	0.037
Most important factor _ speed	–0.113***	0.031
Log (number loans)	0.062***	0.016
Debt problem	0.066**	0.031
Financial literacy	0.226***	0.041
Higher education	0.082***	0.031
Log (income)	0.055*	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 869,[6] Pseudo $R2$ = 0.0902, Log-Likelihood = –621.56.

TABLE 7 **Logit model**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.255***	0.038
Most important factor _ speed	–0.105***	0.031
Log (number loans)	0.055***	0.015
Being refused for PDL before	0.099***	0.035
Financial literacy	0.221***	0.041
Higher education	0.089***	0.031
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[7] Pseudo $R2$ = 0.0932, Log-Likelihood = –630.23.

[5] See footnote 11.
[6] See footnote 11.
[7] See footnote 11.

TABLE 8 **Ordinary Least Squares model**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.241***	0.037
Most important factor _ speed	–0.106***	0.031
Log (number loans)	0.054***	0.016
Being refused for PDL before	0.102***	0.036
Financial literacy	0.219***	0.040
Higher education	0.091***	0.032
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[8] R2 = 0.012.

[8] See footnote 11.

Use of multiple lenders

1. This appendix sets out our analysis of the borrowing patterns of payday loan customers, and the circumstances under which borrowers use multiple lenders. Our analysis is based on a sample of customers randomly selected from the transaction data of the major lenders.

2. A substantial proportion of payday lending customers have used multiple lenders. We find that much of the use of multiple lenders that we observe is likely to take place as a result of customers being constrained in their ability to return to their previous lender for additional credit. In particular, on a large proportion of those occasions where we observe customers changing lenders, the customer already has a loan with the previous lender outstanding. Furthermore, borrowers often appear to change lenders following repayment difficulties with a previous loan. In only a minority of occasions where we observe customers changing lenders, customers did not appear to be constrained from returning to the same lender by either of these two scenarios.

3. The appendix is organised as follows:

   (a) First, we describe the data that we used for the analysis.

   (b) Second, we investigate payday loan customers' borrowing patterns, and the most common conditions under which use of multiple lenders takes place.

   (c) Third, we discuss comments submitted by some lenders in relation to our analysis.

Description of the data sets

4. To construct our sample we randomly selected 3,250 payday loans issued in 2012 from the transaction data submitted by the 11 major lenders.[1] Each customer identified was then matched across the lenders' transaction data-bases using a combination of their last name, postcode and date of birth.[2] This allowed us to generate a single database of all loans issued to the

[1] A small number of customers that were recorded as having taken out loans fraudulently were later excluded from this sample. This affected around 1% of customers in the sample.
[2] The matching process has some limitations: first, customers may have changed address during the period considered; second, there may be inaccuracies (or small differences) in the way a customer's name is recorded. Both may result in failing to match a customer across the lenders' transaction data, and ultimately may lead to underestimate the extent to which customers take out multiple loans and/or use multiple lenders.

customers in the sample by the 11 major lenders in the period January 2012 to August 2013.

5. To gain a complete picture of the loans taken out by the sampled customers, we integrated the transaction data collected from the 11 major lenders with information provided by five CRAs: Callcredit, Experian, Equifax, Lending Metrics and Teletrack. The CRAs were asked to match the customers in their sample to their own databases and provide any records of payday loans issued to these individuals between January 2012 and August 2013. Information on payday loans issued by those lenders for whom transaction data was not available was then taken from the records provided by the CRAs and added to our data set.[3]

6. We note some limitations affecting the CRA data:

   (a) The information held by the CRAs may be incomplete, to the extent that lenders do not provide details of all loans that they have issued to one of the five CRAs from which we collected information. This may affect the completeness of our records of loans issued by smaller lenders.

   (b) The information provided by the CRAs on smaller lender loans is generally less rich than that available in the transaction data collected from the major lenders (for example, often information about the repayment date of loans is incomplete – see paragraph 18 for details of the assumptions about the duration of loans issued by smaller lenders that we have made as a result of this).

   (c) Comparing loans appearing in the transaction and the CRA data, we observe discrepancies in recorded loan volumes for some lenders. This is most likely to be driven by the way rollovers and top-ups are treated in the two data sets. In general, we consider the transaction data to be the more reliable source, and have relied on this as our primary source of information on payday loans taken out by customers in the sample.

7. Lenders other than the 11 major providers accounted for approximately 10% of the loans issued in 2012 (see paragraph 2.84). Therefore any limitations associated with the data collected from the CRAs are likely to have, if any, only a minor effect on our results.

8. Given the sampling methodology, the probability of a customer being included in the sample is proportionate to the number of loans issued to that customer. As a consequence, the results of our analysis are representative of the

[3] We dropped any duplicates – instances where a loan issued by the same lender on the same day to the same customer were recorded by multiple CRAs.

population of payday loan customers in 2012, weighted by the number of loans those customers took out. The behaviour of higher-frequency borrowers will therefore play a greater role in driving the results of our analysis than the behaviour of lower-frequency borrowers.

9. We consider it useful to use this sample for our analysis as it reflects the greater relative importance of heavier borrowers to lenders. Nevertheless, we also considered how the results our of analysis vary if we reweight our sample to give additional prominence to lighter payday loan users, such that the sample is representative of the average payday customer in 2012 irrespective of the number of loans they took out.

10. The final consolidated data set contained a total of 53,343 loans, issued by 68 different lenders in the period January 2012 to August 2013. 91% of loans were issued by the major 11 lenders, and 9% were issued by smaller lenders.

11. On average, a customer in the sample took out 11.6 loans in 2012. Of the loans in our sample taken out in 2012, 81% were issued by online lenders and 19% were issued by high street lenders.[4] 76% of customers borrowed only online, 13% borrowed only from high-street lenders and 10% used both channels.[5]

Patterns of borrowing from multiple lenders

12. We considered the borrowing patterns of payday loan customers, and the circumstances under which borrowers use multiple lenders.

13. More than half (55%) of payday customers in our sample borrowed from more than one payday lender in the period April 2012 to March 2013.[6] Breaking this result down to a loan level (as illustrated in Figure 1), of all loans issued in the 12 months to March 2013:[7]

    (a) 3% were the first loan that we observed a borrower taking out in the entire period covered by our data set;

[4] We could not establish the channel for 0.35% of the loans issued in 2012 because either the lender who provided the loan was active in both channels (and we do not have information about which particular product was used), or we could not identify the channel in which the lender was operating.
[5] Customers who only borrowed from high-street lenders are more likely to have used only one lender than customers who used only online lenders. Customers who borrowed from both online and high-street lenders used a larger number of lenders on average.
[6] For the scope of this analysis we considered brands belonging to the same group as different lenders (for example, Dollar operates three subsidiaries in the UK, namely: PaydayUK, Payday Express and The Money Shop; we treated them as separate lenders). This may tend to overstate the extent to which customers use multiple lenders and change between lenders.
[7] We allowed for a three-month window before any loan in the sample, so that we could observe the loan history prior to the beginning of our analysis period. This subset of our data set contained a total of 3,094 customers who took out 36,073 loans in the period.

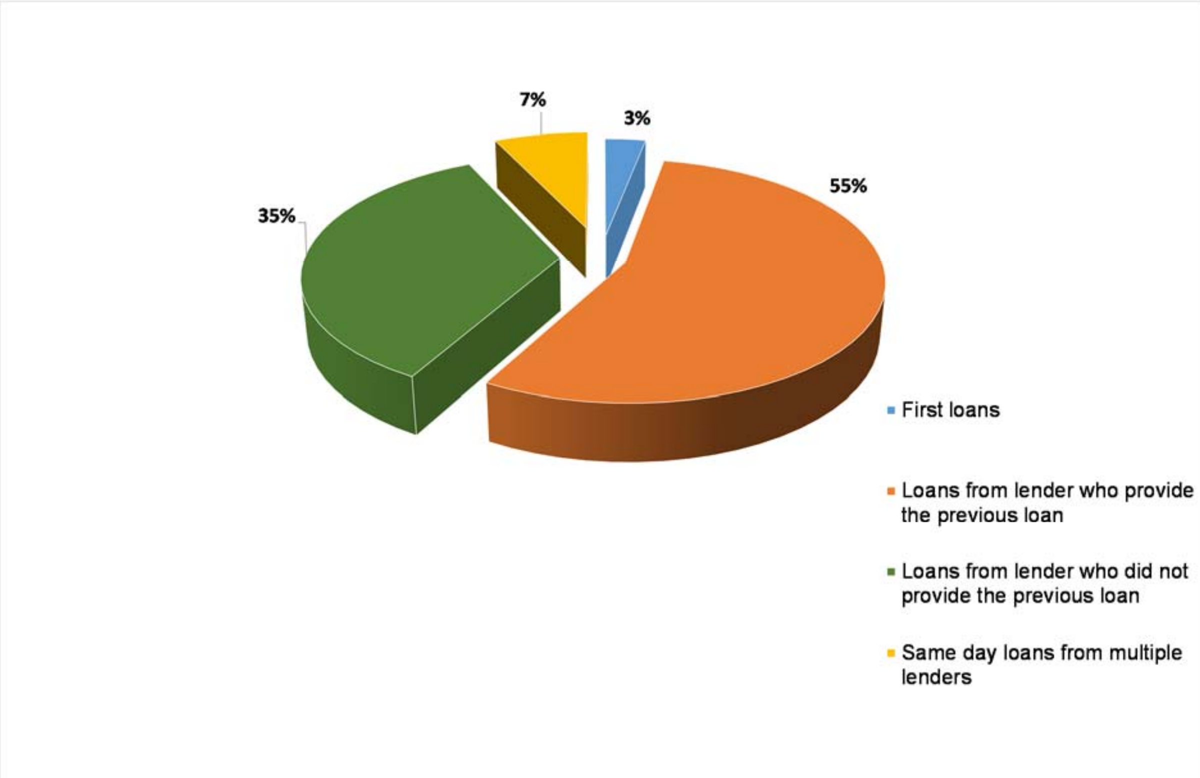
(b) 7% of loans were issued on the same day as another loan from a different lender;

(c) 55% were loans from the same lender that provided the previous loans; and

(d) 35% were loans from lenders that did not provide the previous loans.

FIGURE 1

Loans issued between 1 April 2012 and 31 March 2013, by type



Source: CMA's analysis on the transaction and CRA data.

14. A significant proportion of loans are taken out from a different lender from the one used previously. One factor that may drive payday loan customers to change lenders is if their previous supplier would be unwilling to grant them further credit. In this section, we consider the extent to which those occasions where we observe borrowers changing lenders are likely to be driven by credit constraints with the existing lenders.

15. We identified two common scenarios, in which we considered that borrowers would generally be constrained in their ability to return to the same lender for additional credit:

(a) First, customers are likely to be constrained in their ability to take out further credit from a lender if they already have a loan outstanding with that lender. In particular, most lenders will not issue a customer a new loan if they already have a loan outstanding.[8] One exception is that some lenders allow customers to top up existing loans – this is discussed in greater detail in paragraphs 32 to 36.

(b) Second, a customer may be constrained in their ability to borrow further amounts from a lender if they repaid their previous loan late, or did not repay it at all. This is discussed in greater detail in paragraph 6.31*(b)*.

16. We discuss in the following sections the extent to which each of these borrowing scenarios are observed among customers in our sample. Then, we discuss the extent to which we observe customers changing lenders when neither of these scenarios applies.

Changing lender when customers have outstanding loans with other lenders

17. We begin by considering the extent to which, where customers in our sample change providers, this takes place while they have loans outstanding with their previous lender.

18. In order to determine whether a loan was still outstanding at a given point in time, we use the actual repayment date of that loan as recorded in our transaction data (ie the date on which the loan was repaid in full, after any rollovers or top-ups). Where information on the actual repayment date was not available (for instance, for loans which were never repaid in full), we used the original agreed repayment date (plus 22 days for any rollover).[9] Where information on the original agreed repayment date was not available (most commonly for loans made by smaller lenders), we assumed a repayment date of 22 days.

19. We found that the extent to which payday customers borrow while they have loans outstanding with a previous lender is very significant. In particular, in the period April 2012 to March 2013, 54% of customers in our sample took out a loan while there was another loan from a different lender still outstanding[10] (ie 'multisourced') on at least one occasion. This affected nearly all (98%)

[8] For example, this applies to Wonga, CashEuroNet, Dollar, MYJAR, Cash Genie (Ariste), H&T, Cheque Centres, Speedy Cash (SRC) and WageDayAdvance (SRC).
[9] 22 days is the average loan duration in the transaction data set for the period September 2012 to August 2013 (see 'Customer and transaction level descriptive presentation', slide 26).
[10] Or on the same day as another loan from a different lender.

customers that used more than one lender. 37% of all customers in the sample multisourced more than half of all of their loans.[11]

20. Heavier borrowers (ie borrowers who took out a greater number of loans in the period) tended to multisource more frequently than customers who took out a smaller number of loans. Table 1 shows that of the loans to customers who took out more than 15 loans, 63% were issued when there was another loan outstanding, while the equivalent figure for customers who took out one to five loans was 23%.

TABLE 1 **Proportion of multisourced loans by group of customers according to total number of loans**

Group of customers according to total number of loans	*% of customers*	*% of loans*	*% of 'multi-sourced' loans*	*No of lenders used*
1–5 loans	29	8	23	1.5
6–9 loans	22	14	28	2.1
10–15 loans	25	26	39	2.5
>15 loans	24	52	63	4.1

Source: CMA analysis of the transaction and CRA data.

21. We considered what proportion of those occasions on which customers changed lenders in the period took place when a customer already had a loan outstanding, and so where the borrower was likely to be constrained in their ability to return to the original lender for a further loan. We found that this accounted for most of the occasions on which customers changed lender in our sample: specifically of all occasions on which we observed borrowers changing lenders (35% of the loans in our sample),[12,13] 90%[14] took place while they had a loan outstanding with their previous lender.[15]

22. In addition, a further proportion of those instances where we observe borrowers changing lenders are likely to be driven by multisourcing, in so far as these occasions reflect borrowers returning to a lender which was not

[11] In some cases a lender will not be able to lend the sum a customer requires, which may encourage the customer to take out several loans from different lenders on the same day. 7% of loans were taken out on the same day as another loan from a different lender, and 530 customers (17%) took out loans in such a manner at least once.

[12] See paragraph 13.

[13] 7% of loans were issued on the same day as another loan from a different lender (see paragraph 13). These loans are likely to reflect situations where customers' use of multiple lenders is driven by the inability of taking out the sum they require from a single lender. We note that 5% were instances in which the loans issued on the same day were from lenders other than that providing the previous loan. However, almost all of these instances occurred when the previous loan was still outstanding. As we discuss above (see paragraph 15), these are likely to represent instances of multisourcing where a borrower is constrained in their ability to return to the same lender for additional credit.

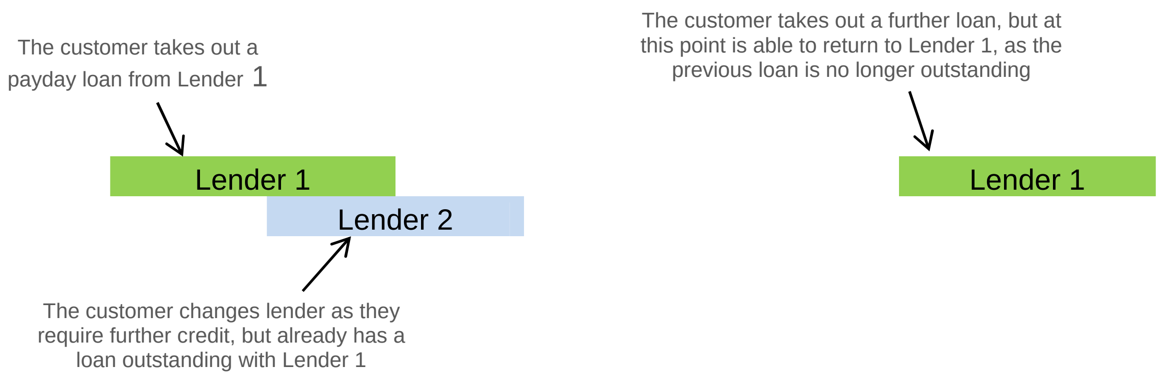
[14] That is, 31.4% of the loans in our sample.

[15] This proportion falls to 88% if we allow one-day overlap (ie taking out a loan from a new lender on the repayment day of a loan from the previous lender), and to 86% if we allow two-day overlap.

available when the previous loan was taken. This scenario is illustrated with an example in Figure 2.

FIGURE 2

The impact of multisourcing on the customer borrowing patterns



Source: CMA.

23. We estimated that of all occasions on which we observed borrowers changing lenders (35% of the loans in our sample), in 6%[16] of cases this took place when the customer did not have any outstanding loans, but represented a return to a lender with which a customer had a loan outstanding when they took out their previous loan.

Changing lender following a repayment problem with a previous loan

24. We next considered the extent to which customers changed providers subsequent to experiencing a repayment problem with a previous loan.

25. We found that 22% of the loans in the sample were either never repaid in full, repaid in full late but not rolled over,[17] or – for loans issued by smaller lenders for which only information from the CRAs was available[18] – were marked as having entered arrears.

26. Our analysis suggests that customers are significantly more likely to change lender following a repayment problem with the previous loan. 71% of loans that followed a repayment problem were taken out with a different lender,

[16] That is, 2% of the loans in our sample.
[17] We do not classify a loan as problematic if the loan was rolled over but then repaid in full.
[18] Some CRAs did not provide us with a detailed information on whether a particular loan was in default, or just had one or more missed payments.

whilst 34% of loans that did not follow a repayment problem were with a different lender.[19]

27. We considered the proportion of those occasions where we observed customers changing lenders in the period which took place subsequent to a borrower experiencing a repayment problem. Taking those instances where customers had no outstanding loan and borrowed from a lender who did not provide the previous loan (3.3% of the loans in our sample), we found that in 35%[20] of cases customers experienced some form of repayment problem on their previous loan.

Changes in lender that do not appear to be driven by lack of availability of credit

28. Bringing together the scenarios discussed in the previous paragraphs, we found that in the instances where we observed customers changing lender in the sample (35.0% of all loans in our sample):

(a) 31.4% were multisourced (ie taken out where a loan was already outstanding with the previous lender);

(b) a further 1.9% were instances of customers returning to a lender that was unlikely to have been available when they took out their previous loan; and

(c) a further 1.2%[21] were instances where changes in lender took place when no loan was outstanding and following a repayment problem with the previous loan.

29. This implies that only in a very small proportion of those occasions where we observed a borrower changing lender (accounting for less than 1% of the loans in our sample), this was likely to have taken place where neither the customer had an outstanding loan or had experienced a repayment problem with the previous loan. On at least 10% of those occasions,[22] customers

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[19] If we consider only loans which were never repaid in full or – for smaller lenders – loans which were marked by CRAs as entering arrears, then in 80% of those cases where a customer took out a loan subsequent to this, that loan was taken out with a different lender. The equivalent figure for loans that were not preceded by a repayment problem (ie they were repaid in full or – for smaller lenders – they were not marked by CRAs as entering arrears) with the previous loan was 35%.
[20] That is, 1% of the loans in our sample.
[21] These loans are additional to the multisource instances mentioned in paragraph 28*(a)*, but they overlap to some extent with the loans described in paragraph 28*(b)*. In other words, categories *(b)* and *(c)* are not mutually exclusive.
[22] Information on whether a customer applied directly to a lender or through a broker/lead generator is missing in the transaction data for some lenders. Therefore, this figure only provides a lower bound estimate of the loans coming through brokers/lead generators.

applied for the loan through a broker/lead generator rather than directly with the lender.

30. Considering the entire sample, 6% of customers changed lender at least once in the period on an occasion where the customer did not have an outstanding loan and had not experienced a repayment problem with the previous loan.

31. As a sensitivity check, we reproduced our estimates using a reweighted sample of customers, such that the sample was representative of the average payday customer in 2012 irrespective of the number of loans they took out. Further details of how the reweighting was carried out are given in paragraph 2.49. We found that when the reweighted sample was used, it remained the case that a very large proportion of the use of multiple lenders that we observed took place where the customer had an outstanding loan or had experienced a repayment problem with the previous loan. Specifically, using the reweighted sample, we found that only 4% of customers changed lender at least once in the period on an occasion where the customer did not have an outstanding loan and had not experienced a repayment problem with the previous loan (compared with a total of 39% of customers who had used more than one lender in the period).

Parties' comments

32. Lenders raised some concerns in relation to the methodology we used to identify occasions where customers are likely to be restricted in their ability to return to an existing lender. These concerns can be summarised as follows:

(a) Some products offer top-up or open credit facilities. Given this, customers who already have a loan outstanding with a lender may nevertheless be able to borrow additional amounts from that same lender, provided that customers have not exhausted their credit allowance.[23] As a result, in some cases multisourcing may reflect customer preferences for products offered by different lenders, rather than necessarily representing an instance where customers are forced to change lender in order to obtain additional credit.

(b) Customers who do not repay loans are likely to encounter difficulties in taking out subsequent loans from any lender because lenders will be able

[23] Related to this, CashEuroNet and Dollar pointed to the fact that many customers borrowed less than their credit limits – see the presentation 'Customers and their loans – presentation based on analysis of the transaction data', slide 25. As set out in the notes to that slide, there are certain limitations with the data used to calculate these proportions, so these estimates should be treated with caution.

to observe the fact that they have not repaid previous loans by accessing their CRA records.

(c) Customers who repaid late may still borrow from existing lenders, and will not be constrained from returning to the same lender provided that they repaid the loan in full.

33. Relating to the first point, we note that it is fairly common for lenders to issue additional credit to a customer when a loan is already outstanding. For example, in the 12 months to August 2013, [✂]% of Wonga loans and [✂]% of CashEuroNet loans were topped up. Given this, it is possible that in some cases customers who multisource their loan may have been able to return to the previous lender for additional credit, and so a borrower's decision to change lenders when they already have a loan outstanding with a previous lender may not exclusively reflect limited credit availability.

34. We considered, however, that this was unlikely to be the case for most occasions of multisourcing. This is because many customers will be unable to top up their loan to the required amount, either because their product does not offer this functionality, because they have borrowed at or close to their credit limit when first taking out a loan, or because they have already topped up their loan to the fullest extent possible.

35. We used our data set to help understand the extent to which customers who multisource their loans are likely to have access to additional funds by topping up an existing loan or drawing down from an open credit facility.[24] Our ability to estimate available balances was limited, because information was typically not available on either the credit limit available to each customer, or on when and by how much a loan had been topped up. Nevertheless, using information for a small sample of lenders,[25] we estimated that in the majority of cases (more than 60%) where we observed borrowers taking out a loan with another lender when they already had a loan outstanding with a lender which offered top-up facilities, the difference between the original amount borrowed by that customer and their original credit limit was not large enough to cover the amount subsequently borrowed from the other lender.

36. We also noted that, to the extent that customers are required to repay the full loan amount on the repayment date of the existing loan, topping up may not be a suitable alternative to taking out a loan with another lender, even when further credit is available with the existing lender. This will particularly affect

[24] Facilities that allow customers to adjust (incrementally increase) the loan amount up to some limit by: Wonga, CashEuroNet (Pounds to Pocket and QuikQuid Flexicredit), Dollar (Payday Express and The Money Shop), SRC, The Cash Store, Pay Day Loans and KwikLoan (H&T) and SRC (SpeedyCash Flex Loan) (see paragraph 4.198).
[25] [✂] Our estimate is therefore based on the other lenders that offered top-up facilities.

borrowers who require additional credit towards the end of their original loan period: even if these individuals do have the capacity to top up their loan, if they do so, they may be required to repay the total amount borrowed within an unfeasibly short period of time.

37. In relation to point *(b)*, we note that where customers fail to repay their previous loan and are as a result unable to take out a loan with an alternative lender – not just their existing provider – this will not affect the findings set out in this appendix in that we are investigating patterns of borrowing behaviour that do take place (ie where borrowers are successful in being approved for a loan). More generally, we noted that different lenders may have different strategies in relation to the customer risk profiles that they are willing to accept, and that the information available via CRAs suffers from a number of limitations (see paragraphs 7.108 to 7.110), which means that an alternative lender will generally not have as good visibility of a customer's repayment history as their previous lender.[26]

38. Regarding point *(c)*, we acknowledged that some lenders may be willing to approve an application for additional credit in cases where a customer has previously repaid their loan late (although a history of late repayments is likely to affect the likelihood that a lender approves an additional loan, or the amount that it is willing to lend). Assuming that all customers who repaid their previous loan late would be able to return to their previous lender for additional credit has only a small effect on the estimates set out in paragraphs 29 and 30

39. In particular, excluding these cases, we estimate that it remains the case that in less than 1% of all of those occasions where we observed a borrower changing lender, this took place where the customer did not have an outstanding loan and had repaid their previous loan in full (though perhaps late). Considering the entire sample, 8% of customers changed lender at least once in the period when we exclude these scenarios.

[26] For example, although some steps are being taken by CRAs and lenders to develop real-time data (see paragraphs 2.140 to 2.145), at present there is generally a lag before information about a customer's repayment performance is recorded on a borrower's credit record.

Product features highlighted in payday lenders' advertising materials and on lenders'/lead generators' websites

1. In this appendix, we consider the key product features emphasised by payday lenders and lead generators in their advertising materials and on their websites.

2. To do this, we reviewed two sets of evidence:

   (a) the main messages on the home webpage of each of the major payday lenders; and

   (b) the Adword text associated with lenders' and lead generators' advertisements generated by some Google search terms.

3. Table 1 lists those messages that are most prominent on the home webpage of the major payday lenders.[1] The headline is selected as particularly prominent by virtue of its font size, colour or positioning on the screen – or a combination of these – and therefore inevitably contains an element of subjective judgement.

[1] See Appendix 2.5 for further details.

TABLE 1 **Comparison of key aspects of advertising by payday lenders**

Lender	*Websites*	*Main 'benefit' emphasised on website home screen*
Ariste	www.cashgenieloans.co.uk	'Payday loans online from a trusted short term lender'
CashEuroNet	www.quickquid.co.uk	'If approved – cash sent 10 minutes after approval'
	www.quickquidflexcredit.co.uk	'If approved, borrow as needed up to your credit limit!'
CFO Lending	www.paydayfirst.com	'The online service offering up to £600 to your account'
	www.cfolending.com	'The online service offering up to £600 to your account today'
Cheque Centres	www.chequecentre.co.uk	'Need Cash? Borrow from £50–£1000 Terms and Conditions apply'
Dollar	www.paydayuk.co.uk	'Cash when you need it! Borrow between £100–£1000 today'
	www.paydayexpress.co.uk	'Bridging the gap between your paydays'
Global Analytics	www.lendingstream.co.uk	'Get the cash you need for life's unexpected moments Upon approval, – Fund transfer initiated within 4 minutes – Borrow up to £1500 – Repay over 6 months'.
H&T	www.handtpawnbrokers.co.uk/services/kwikloan/	'Need a helping hand? We can get you the cash you need today!'
MYJAR	www.myjar.com	'No rollovers. Never have. Never will.' 'We keep it simple with easy to understand loans. Borrow £100, pay back £120, 18 days later.'
Speedy Cash	wwwuk.speedycash.com	'Competitive Payday Loan Rates Fast 1st Time Application: Secure, confidential & no faxing required'
WageDayAdvance	www.wagedayadvance.co.uk	'Making any day your wage day' '3 quick easy steps' 'Quick and secure online application' 'Same day £80 to £750 payout possible' 'High acceptance rate'
Wonga	www.wonga.com	'We can send you up to £400 within 5 minutes of your loan being approved. We can get you the cash you need today!'

Source: CMA analysis based on website information as of 6 May 2014.

Notes:
1. Cheque Centres' headline is based on a website review on 7 February 2014 (the payday homepage was not operational on 6 May 2014).
2. All information is taken directly from lenders' websites.

4. As the table shows, speed ('quick loans', 'cash sent few minutes after approval') – together with the amount of loan, the ease/simplicity of applying and the trustworthiness of the provider – are key themes emphasised by lenders. Only MYJAR's advertisement mentions price (through the phrase 'borrow £100, pay back £120').

5. We also noted one instance of a lender emphasising a 'high acceptance rate' (WageDayAdvance).

6. Table 2 presents the results of the analysis of the wording of Google Adword advertisements generated by the search terms ‘payday loans’ and ‘payday loan’ (which are among the most common searches related to the payday lending sector).[2] For lenders and lead generators appearing on the first 100 listings in Google search results, we recorded (on 6 May 2014) the Adword text associated with these terms.

TABLE 2 **Google Adword advertisements**

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Active Securities	https://secure.247moneybox.com	Lender	247Moneybox.com are leading providers of payday loans, pay day loans, payday loans uk, cash loans	Organic
Ancora Capital Ltd	www.redwallet.com	Lender	Short term and payday loans, with excellent rates.Online 24 hours with a quick approval and fast funding.	Organic
CashEuroNet	www.quickquid.co.uk/	Lender	Apply for a payday loan £50–£1000. 1999% APR Representative.	PPC
	www.quickquid.co.uk/payday-loans-uk.html	Lender	Apply for QuickQuid payday loans and, if approved, have cash sent within 10 minutes after approval.	PPC
	www.poundstopocket.co.uk/12-month-payday-loans.html	Lender	Apply at Pounds to Pocket using our online application for 6 to 12 month payday loans and see if you're approved.Loans up to £2000 for approved customers!	Organic
CashOnGo Ltd	www.peachy.co.uk/payday-loans	Lender	Searching for a Payday Loan? We have the answer. Peachy specialize in instant Payday Loans of up to £500.	Organic
	www.peachy.co.uk/Payday-Loan	Lender	Get up to £500 – No hidden fees Repay in up to 4 months	PPC
CFO Lending	www.paydayfirst.com/	Lender	Payday loans online lender from £75 – £600.Get cash today with an instant decision cash advance payday loan, payout direct to your bank account.	Organic
Dollar	www.paydayuk.co.uk	Lender	Get a Payday Loan with Payday UK No Transfer Fees, Apply Now!	PPC
	www.moneyshop.tv/	Lender	Is Payday Not Coming Fast Enough? Apply Online or in Store Today	PPC
	www.paydayuk.co.uk	Lender	PaydayUK offers payday loans, which can help with short-term financial emergencies.Apply now and you could have the cash you need for your emergency	Organic
Emergency Cash Ltd	www.wizzcash.com/payday-loans/	Lender	The 3 month payday loan – an exciting new breed. A 3 month loan is a normal loan repaid over 3 months. This option offers customers greater flexibility because ...	Organic
Moola Loans	www.moolaloans.co.uk/	Lender	Loans from £50 – £1000 in 15 mins No calls, no fuss, instant decision	PPC
SRC	www.wagedayadvance.co.uk/	Lender	High acceptance. 3 simple steps No Fuss.Payday loans since 2004	PPC

[2] According to the information submitted by Google, the average monthly searches of these terms in the UK in 2013 were [✂] for [✂] ([✂] overall in 2013) and [✂] for [✂] ([✂] overall in 2013).

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Think Finance	https://sunny.co.uk/payday-loans	Lender	Learn about payday loans and their alternatives from Sunny's experts. Our loans are designed to help you get back on your feet financially.	Organic
TideUover	www.tideuover.com	Lender	Tide U Over are a direct payday loan lender offering short-term loans to cover your unexpected emergencies. We are one of the most trusted payday lenders ...	Organic
Wonga	www.wonga.com	Lender	Short-term cash loans between £1 – 1000. ... Payday Loans Alternative – Wonga.com ... We can send up to £400 within 5 minutes of your loan being approved	Organic
	www.wonga.com/money/payday-loans-alternative	Lender	We're different to traditional payday lenders, like quick quid and others, because we put you in control of your loan. You can use the sliders below to decide	Organic
EPL Web Solutions Ltd	www.paydayknight.com/	Lead generator	Fast payday loans. Borrow up to £1000 in 15 minutes. Instant decision, no hassle, no fuss, no joke.	Organic
Eudore Limited	searchpayday loans.co.uk	Lead generator	A payday loan search engine comparison site helping people to apply for a loan in an easy, quick, and straight forward way. Search over 35 lenders with ONE ...	Organic
Loansprofit.co.uk	Loansprofit.co.uk	Lead generator	Loansprofit.co.uk facilities you offering Payday Loans No Debit Card, Bad Credit Loans, Same Day Loans, Instalment Loans, 6, 12 Month Loans, Payday Loans …	Organic
Nouveau Finance	www.fast-online-payday.co.uk/	Lead generator	Get a short term loan with fast-online-payday. Let us match you to a Lender that is right for you.	Organic
	http://www.3-monthpaydayloans.co.uk/	Lead generator	With the assistance of 3 month payday loans no fees no guarantor scheme, it is quite helpful to improve your fiscal status. So, get 3 month loan and borrow ...	Organic
	www.2monthpaydayloans.co.uk/	Lead generator	2 Month Payday Loans UK offering a diversified range of no credit check loans and 2 to 12 month loans and cash for 60 days to meet your financial urgencies	Organic
	www.e6monthpaydayloans.co.uk/same-day-payday-loans-for-people-on-benefits.html	Lead generator	Come to us here at E6 Month Payday Loans where one can quickly visit for fetching feasible funds as soon one need to cope up with the unplanned	Organic
			Same day payday loans for people on benefits are served either with online easy manner or with available process to a citizen of United Kingdom. Apply now	Organic
Payday Boss	www.paydayboss.co.uk/	Lead generator	When you are faced with unexpected bills and repayments that you just weren't prepared for, it is easy to be caught short before payday. Life before the Internet, ...	Organic
Payday Panda	www.paydaypanda.co.uk	Lead generator	UK payday loans from £100 up to £1000 can be in your account today! Apply online now for fast cash.	Organic

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Perfect data solutions	epayday.co.uk	Lead generator	With the use of cutting edge technology, ePayday makes it possible for you to apply payday loan through our licensed and regulated lenders as fast as possible.	Organic
PingTree Limited	www.purplepayday.co.uk/Deposit	Lead generator	Up To £1,000 Deposited Today!	PPC
Premiernetloans.co.uk	www.ukteachersonline.co.uk/	Lead generator	Get a cheap UK payday loan.Get up to £1000 Instantly! NO Credit Check! No Hidden Fees! Apply in few min!	Organic
Quiddi Hub Limited	littlepaydayloans.co.uk/	Lead generator	Little Payday Loans from £100 up to £750: Apply in minutes: Cash in under 24 hours.	Organic
Shoppaydayloans.co.uk	www.shoppaydayloans.co.uk/	Lead generator	At shoppaydayloans you can get instant payday loans online for 3, 6, 12 month via direct UK lenders. Quick & easy loan process bad credit OK, no credit check ...	Organic
Swiftmoney	www.swiftmoney.com/	Lead generator	Payday Loan In 10 Minutes – Instant Decision, No Fax, No Calls. Very High Approval, No Credit Check	PPC

Source: CMA analysis based on search carried out on 6 May 2014.

Note: All information is taken directly from Google searches.

7. Most lenders and lead generators had a single advertisement in the first two pages of Google search results. However, there were some exceptions. Some of the lenders had both a PPC and an organic advertisement, and one lead generator (Nouveau Finance) had four websites in the first two pages.[3]

8. The most common themes covered in the Adword texts are speed and loan amount available, and only CashEuroNet's and Wonga's advertisements referenced other competitors or price:

   (a) Five of the 12 lenders, and 11 of the 12 lead generators, listed in Table 2 had advertisements that mentioned the speed of the application process. This included instances where either the text mentioned the exact application time (ie 10 minutes, 24 hours etc) or where it explicitly emphasised the speed of the application process through phrases (such as 'instant decision', 'quick approval' etc).

   (b) Five of the 12 lenders, and 5 of the 12 lead generators, had advertisements that referenced specific loan amounts.

[3] This included cases where the lead generator had advertisements for webpages that strictly may not be part of the lead generator's website (eg affiliates), where the webpage's main functionality was limited to redirecting to the lead generator's homepage.

(c) Only Wonga compared its product with a competitor (QuickQuid's (CashEuroNet)), and only QuickQuid (CashEuroNet)'s advertisements referred to the APR of its product.

(d) One lender (WageDayAdvance) and four lead generators[4] emphasised the high acceptance rate, that they did not perform a credit check, or that they targeted individuals with bad credit ratings.

9. Other aspects (like loan duration, flexibility, customer support, etc) were mentioned, but less frequently.

[4] Swift Money, premiernetloans.co.uk, Shoppaydayloans.co.uk and Loansprofit.co.uk.

Review of the websites of payday lenders and lead generators

Summary

1. As part of our assessment of how effectively payday loan customers are able to shop around, we reviewed the websites[1] of a number of:

   (a) large online lenders, in order to assess what information on payday offers is available online and how transparently this information is presented; and

   (b) lead generators, in order to assess the information provided by these lead generators about the services that they offer.

2. For the websites of the major lenders, our observations are as follows:[2]

   (a) Key information about loan terms (covering the total cost of credit, speed of the process, loan duration, maximum and minimum loan amount) is typically available on each lender's website, and can be found in a small number of mouse-clicks or 'page down' commands.

   (b) The information is also in general clearly presented (using font of normal size and weight).

   (c) However, we note a number of cases where information on late payment fees and/or interests is unclear or incomplete.

3. For lead generator websites, our observations are as follows:

   (a) All lead generators provide information on the price of a loan for representative examples, and this information is easy to access (though the examples provided will not necessarily reflect the price of the lender with which a customer will ultimately be matched).

   (b) Visually the homepages of lead generator websites look similar to those of the lenders themselves. Most sites present sliders, inviting prospective customers to indicate the size of the loan they are seeking and its duration. None of the websites reviewed reveal the fact that a provider is

[1] Our analysis was carried out in the last week of April 2014. Our observations are therefore based on the information available on the websites we reviewed in that period.
[2] Our review does not cover other/smaller lenders.

a lead generator in the company or product name or the title of the website.

(c) While all lead generator websites at some point inform visitors that they are a credit broker (in varying degrees of prominence and clarity), there is considerable variability in how the lead generators describe the service they offer on their websites:

(i) The most common approach from the sample is to talk in terms of ‘matching’ customers with a loan provider.

(ii) Several go further and refer to saving customers the need to search or shop around, which might be open to misinterpretation by customers; some customers might interpret the wording used on several of the sites (including the references to avoiding the need to shop around) as meaning that they were being matched with the ‘best-value’ loans for them.

(d) Very few of the sites set out clearly that they are remunerated by the lenders when they forward an application and we have not seen any examples of lead generators clearly explaining the mechanism through which they sell their lead (ie an auction whereby the lead is sold to the highest bidder).

Lenders’ websites

Methodology

4. We reviewed a sample of the 11 major payday lenders’ websites.[3] Where a lender offers more than one product, we selected its most common online product (with the exception of CashEuroNet and Dollar for which we reviewed the online information on two products each). We limited our review to lenders offering loans online.

[3] See Appendix 2.5 for details of these lenders.

TABLE 1 **List of lenders' websites surveyed***

Lender	*Product*	*Website homepage*
Ariste	Cash Genie—1-month loan	www.cashgenieloans.co.uk/
CashEuroNet	QuickQuid Flexicredit	www.quickquidflexcredit.co.uk/
CashEuroNet	QuickQuid Payday	www.quickquid.co.uk/
CFO Lending	Short Term Loans	www.cfolending.com†
Dollar	PaydayUK	www.paydayuk.co.uk/
Dollar	PaydayExpress	www.paydayexpress.co.uk
Global Analytics	Lending Stream Loan	www.lendingstream.co.uk
MYJAR	MYJAR	https://myjar.com/
SRC	Speedy Cash	http://wwwuk.speedycash.com/
SRC	Wage Day Advance	www.wagedayadvance.co.uk/index.aspx
Wonga	Little Loans	www.wonga.com/

Source: CMA.

*Includes websites that operated on 28 April 2014.
†Redirects to 'www.paydayfirst.co.uk'.

5. For each website we measured whether information was available – and how accessible that information was – on the following loan terms:

   (a) rate of interest and total cost of loan;

   (b) default charges and late payment fees;

   (c) speed of process (application, approval, funds transfer upon approval) and faster payment services (FPS) charges;

   (d) minimum and maximum amount of loan; and

   (e) minimum and maximum duration of the loan.

6. In order to assess the accessibility of information about each of these product characteristics, we recorded the number of clicks (or 'page down' button presses) from the homepage needed to reach the information, and also how clearly the information is presented (we looked at the font size and weight (normal, bold, grey/faded)).

Observations

Interest rate and total cost of loan

7. Information on interest rate (annual rate or APR) is typically shown in the homepage or can be found within a single mouse click. The interest rates are generally clearly laid out (no small or scarcely visible font).

8. Most websites we investigated also provide clear information on the total cost of the loan, and enable website users to calculate how the costs change when the relevant terms of the loan changes (typically, the amount borrowed but also the number of instalments or loan duration when this option is available).

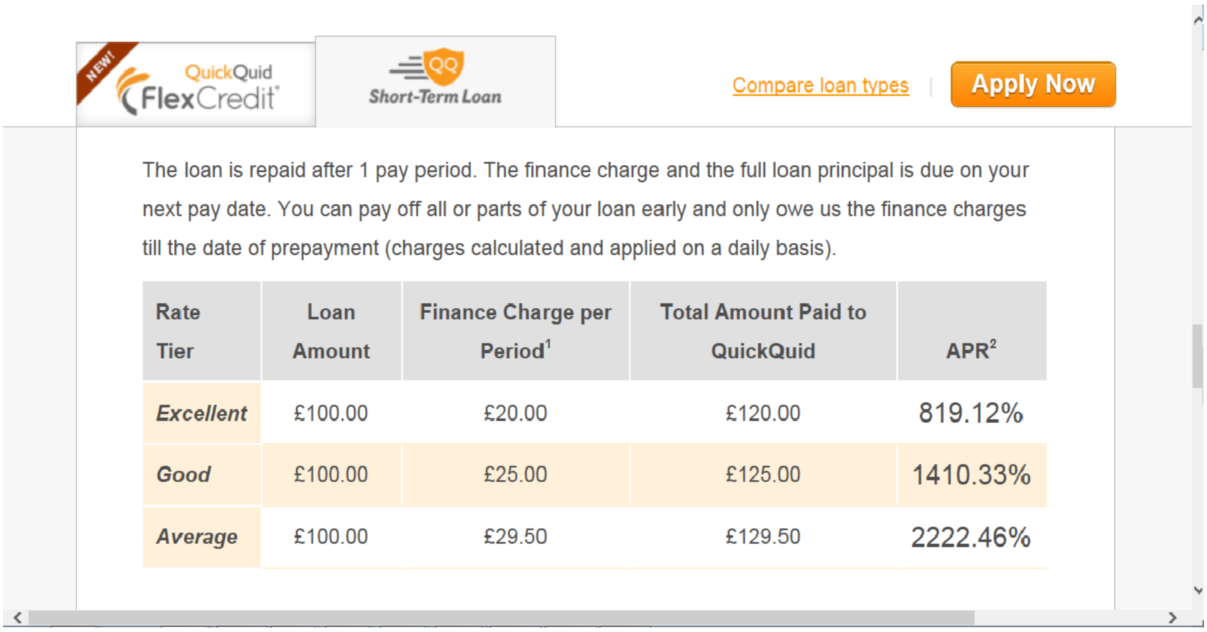
Five out of the 11 websites have a slider which allows flexing the terms of the loan and seeing how the total cost of credit changes accordingly.

9. There are a few exceptions:

(a) QuickQuid Payday (CashEuroNet)[4] provides a table showing the total cost for a £100 loan and how this varies depending on the creditworthiness of the customer and on the number of periods over which the customer chooses to repay the loan. But it does not allow a website user to see how the costs change when the amount of the loan varies.

FIGURE 1

Screenshot of QuickQuid Payday's rates and terms



The loan is repaid after 1 pay period. The finance charge and the full loan principal is due on your next pay date. You can pay off all or parts of your loan early and only owe us the finance charges till the date of prepayment (charges calculated and applied on a daily basis).

Rate Tier	Loan Amount	Finance Charge per Period[1]	Total Amount Paid to QuickQuid	APR[2]
Excellent	£100.00	£20.00	£120.00	819.12%
Good	£100.00	£25.00	£125.00	1410.33%
Average	£100.00	£29.50	£129.50	2222.46%

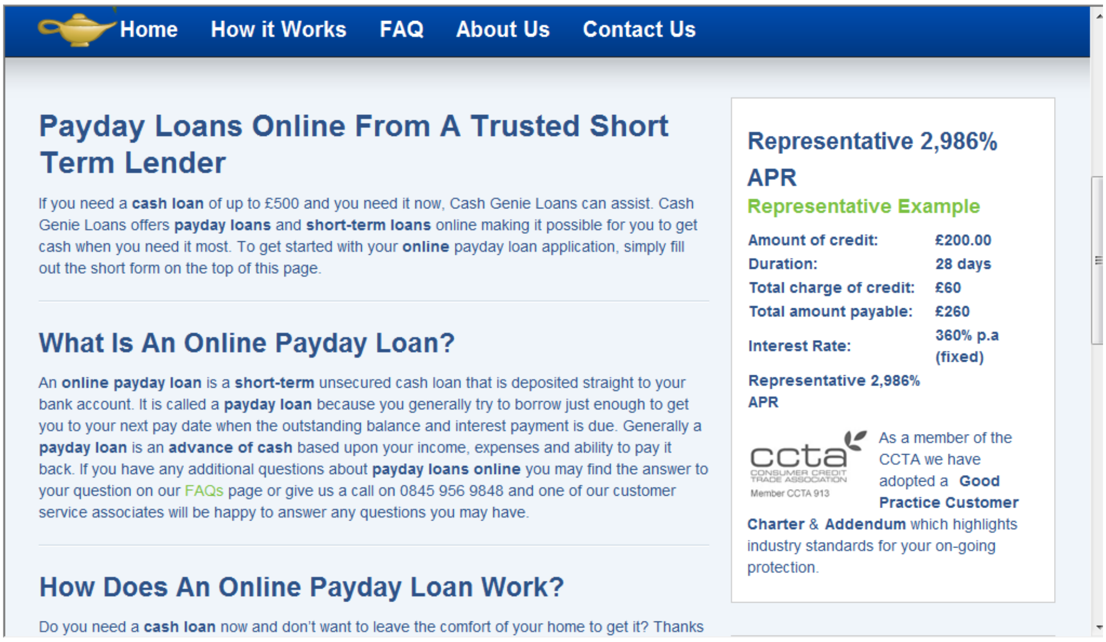
Source: CMA. Website accessed 28 April 2014.

(b) Cash Genie – one month (Ariste),[5] Lending Stream (Global Analytics)[6] and WageDayAdvance (SRC) provide representative examples of the total cost of a loan (to varying levels of detail).

[4] See Figure 1.
[5] See Figure 2.
[6] See Figure 3.

FIGURE 2

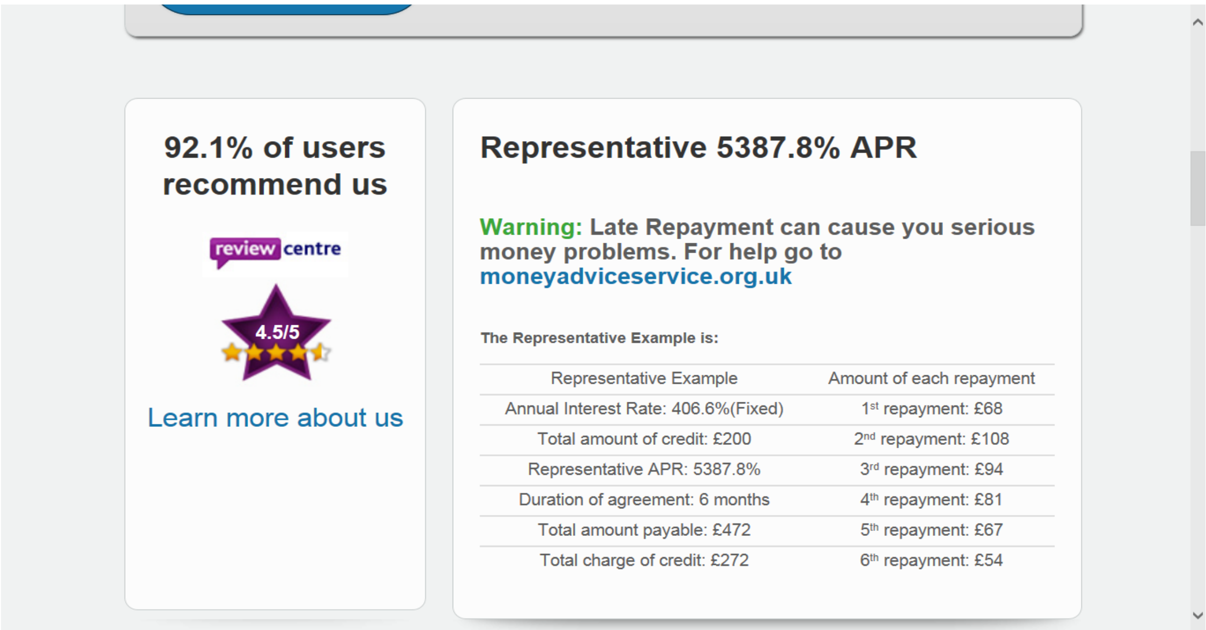
Screenshot of Cash Genie's homepage



Source: CMA. Website accessed 28 April 2014.

FIGURE 3

Screenshot of Lending Stream's Homepage



Source: CMA. Website accessed 30 April 2014.

10. When there are compulsory fees that apply to every loan, these are included in the total cost figures. This is the case for Wonga, which generally charges a £5.50 transaction fee on each loan. None of the other products we surveyed

charge additional compulsory fees. Optional charges, such as FPS[7] fees, are not included in the total cost figures (see paragraphs 17 and 18 for further details of the ease of accessing information on these fees).

11. Information is in general readily accessible either on the homepage or a few clicks away from the homepage. Table 2 summarises the results.

TABLE 2 **Accessibility and clarity of the information on total costs of loan**

Product	*No of clicks from the homepage*	*No of pages down*	*Font size (big/normal/small)*	*Font weight (grey-faded/normal/bold)*	*Slider*	*Does TC include all compulsory fees?*
Cash Genie – 1-month loan	0	1	Normal	Bold	N	Y
Lending Stream	0	3	Normal	Normal	N	Y
Little Loans	0	0	Normal	Normal	Y	Y
MYJAR	1	1	Normal	Normal	N	Y
PaydayExpress	0	0–1	Normal	Normal	Y	Y
PaydayUK	0	0	Normal	Normal	Y	Y
QuickQuid Flexicredit	0	0	Normal	Normal	Y	Y
QuickQuid Payday	2	3	Big	Normal	N	Y
Short Term Loans	0	0	Normal	Bold	Y	Y
Speedy Cash	2	1	Normal	Normal	N	Y
WageDayAdvance	0	0–1	Normal	Normal	N	Y

Source: CMA analysis.

Default charges/late payment fees

12. Most of the websites we surveyed provide some information on default charges and late payment fees.

13. Information is in general accessible within one or two mouse clicks from the homepage, and/or one or two ‘page down’ button presses, and clearly laid out using fonts of normal size and weight. However, we note some limitations in the way lenders present information default charges and late payment fees.

14. First, this information is rarely presented on the same page as the slider (if any) or the total cost of the loan is displayed. Table 3 shows the results of our assessment of the accessibility of information on default charges/late payment fees for each website.

[7] FPS is a payment service that reduces clearing time and enables payments made via electronic telephone banking, Internet banking and standing order to be completed quickly.

TABLE 3 **Accessibility and clarity of the information on default charges/late payment fees**

Product	*No of clicks from the homepage*	*No of pages down*	*Website section*	*Same pages as slider/TCC?*
Cash Genie/Cash Genie Loans – 1-month loan	2	1	Rates & terms	N
CFO Lending Short Term Loans	1	1	Our charges	N
Lending Stream	0	3	Homepage	Y
Little Loans	2	1	How it works	N
MYJAR	1	1	How	N
PaydayExpress	2	2	FAQ	N
PaydayUK	1	2	Our charges	N
QuickQuid Flexicredit	1	2	Rates & terms	N
QuickQuid Payday	2	1	Rates & terms	Y
Speedy Cash Payday Loans	2	1	Rates & terms	N
WageDayAdvance	1	2	Charges	Y

Source: CMA analysis.

15. Secondly, we found some instances where late fee information is unclear or incomplete:

    (a) Short Term Loan (CFO Lending) indicates that a fixed fee of £25 is charged in case of a missed payment together with default interest on any overdue payment but it does not specify how much the default interest is.

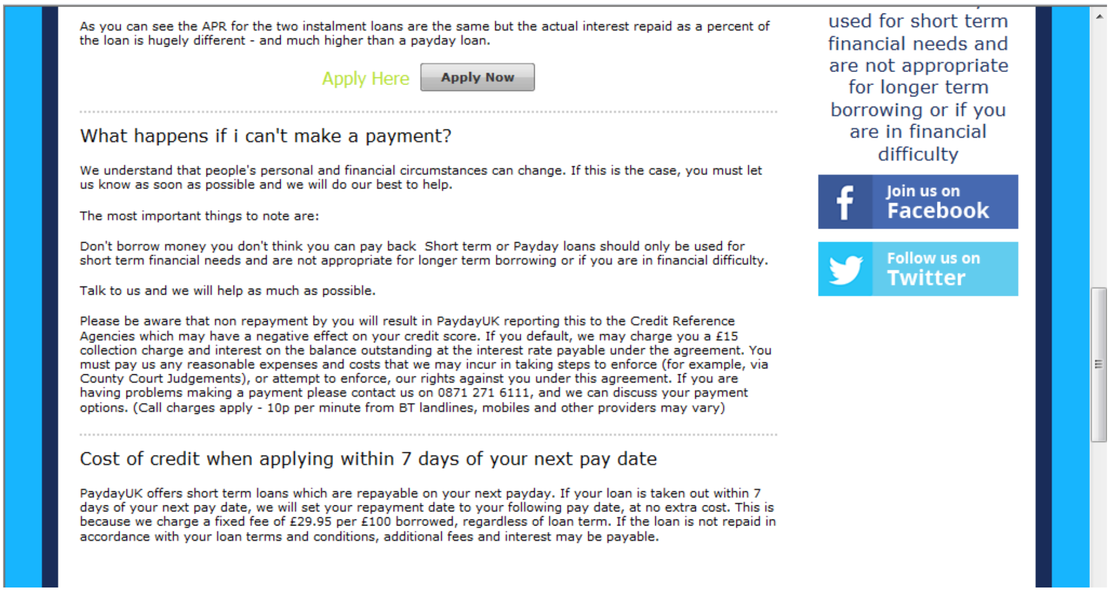
    (b) PaydayUK (Dollar) says on its website that 'If you do not repay your loan on the due repayment date we may charge ... interest on the outstanding balance at the interest rate payable under the agreement until you repay us'. It is not immediately clear what the interest rate payable under the agreement is as PaydayUK charges £29.95 per £100 borrowed. On late payment, PaydayUK applies an interest rate of 0.98% per day.

16. Thirdly, there are also some instances where late fees, or links to access information about these fees, are presented in a smaller or less prominent font:

    (a) Payday UK (Dollar) adopts a relatively small font to report information on default charges.

FIGURE 4

Screenshot of Payday UK's 'our charges' webpage

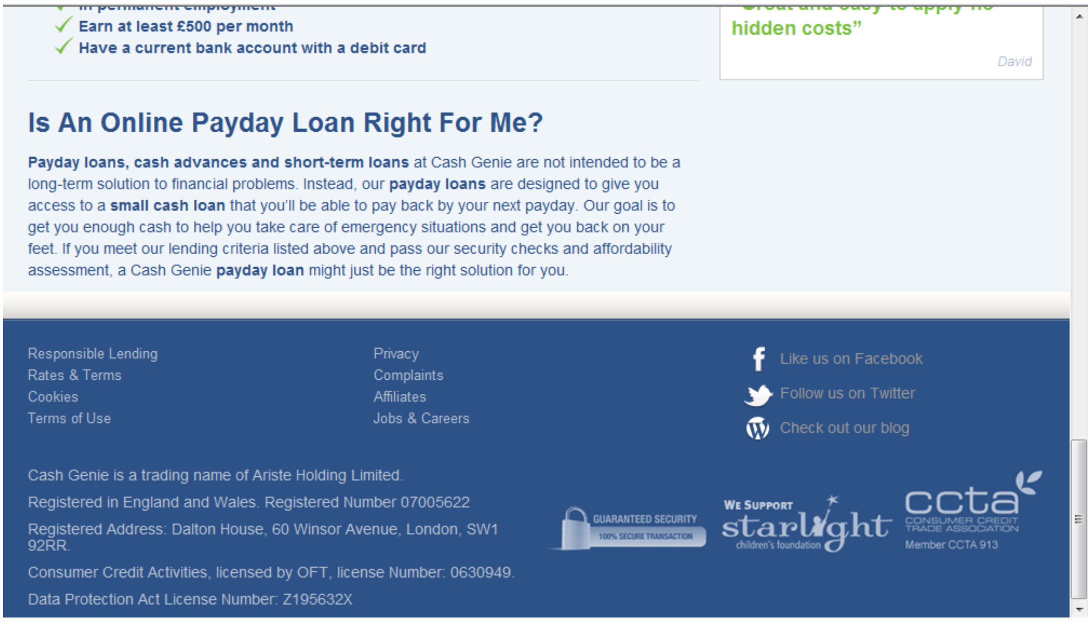


Source: CMA. Website accessed 28 April 2014.

(b) Cash Genie (Ariste)'s information on default charge is shown under the 'Rates & Terms' link which is displayed at the bottom of the homepage in a small and faded font.

FIGURE 5

Screenshot of Cash Genie's 'Rates & Terms' webpage



Source: CMA. Website accessed 28 April 2014.

Speed of the process and faster payment services charges

17. The speed of the process is an area where customers may find it more difficult to compare different lenders' products using the information presented on their websites. Lenders usually do not indicate how long the approval process may take. However, many emphasise the speed of money transfer post-approval: lenders often advertise that money is transferred to the customer's account a few minutes after the approval (eg 4, 5, 10, 15 minutes upon approval).

18. In our sample, currently two lenders charge a fee for FPS.[8] In both cases information on FPS fees is easily accessible and clearly presented, although not included within the total cost of credit reported on those pages.

Minimum and maximum amount of loan

19. The information on the minimum and maximum amount of loan is available on lender websites and, in general, it is easily accessible either on the homepage or one or two mouse clicks from the homepage.

20. However, website users may find it more difficult to determine how much new customers and existing customers can borrow. Although the information is available in the description of loan terms given on websites, we might expect customers often to infer the maximum amount of loan that they can borrow from the slider (where websites use sliders). However, whether a slider reflects the range available to either new or existing customers will vary between lenders. For example, Little Loans (Wonga)'s and QuickQuid Flexcredit (CashEuroNet)'s sliders only show the amount available to new customers. By contrast, the Payday UK and Payday Express (both belonging to Dollar) sliders reflect the range available to repeat/existing customers. With the exception of Little Loans (Wonga), which specifies above the slider that existing customers can borrow more than that implied by the slider, lenders clarify the difference in maximum loan amount offered between new and existing customers in a different section of their website ('Rates & Terms', 'How it works', 'FAQ', etc).

Minimum and maximum duration of the loan

21. Information on the duration of the loan is also in general easily accessible from the homepage of the websites we reviewed. Those products for which

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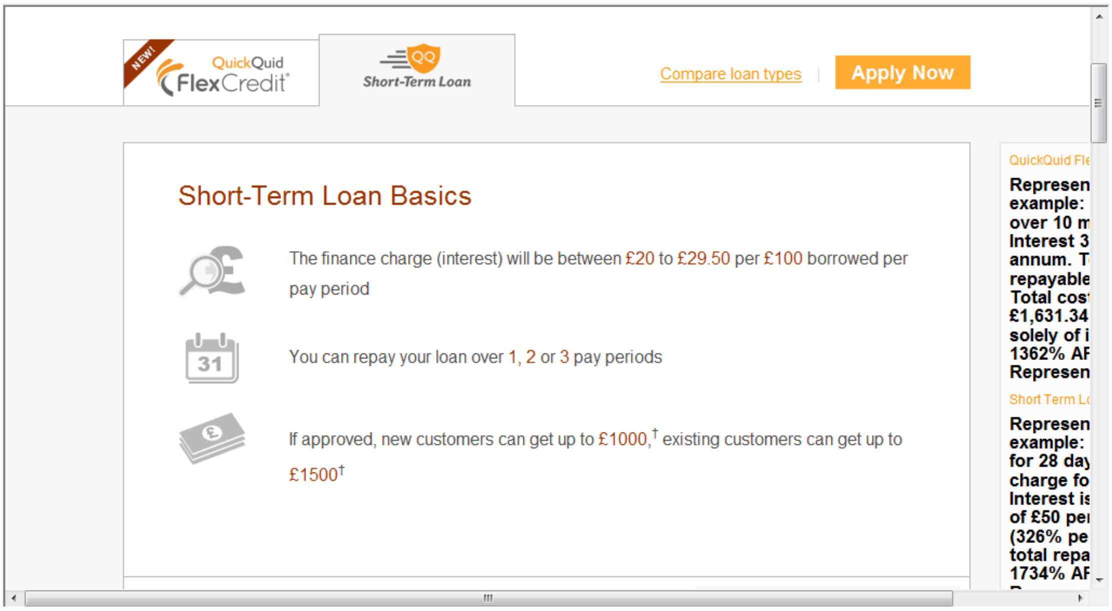
[8] WageDayAdvance (SRC) and Short-Term Loan (CFO Lending). Payday Express (Dollar) also charged a faster payment fee but only to repeat customers – ie customers taking out a second or subsequent loan (see Table 2 in Appendix 4.1). Cash Genie (Ariste) charged a faster payment fee until very recently (it removed the fee in late May 2014).

the repayment is not strictly linked to the payday (for example, QuickQuid Payday (CashEuroNet in Figure 6 below) set out clearly (typically on the homepage or a few clicks from it) the duration of the loan and the options available to customers.

FIGURE 6

Screenshot of QuickQuid Payday's 'Rates & Terms' webpage



Source: CMA. Website accessed 28 April 2014.

Lead generators' websites

Methodology

22. We reviewed a sample of ten lead generator websites, which were identified by selecting providers which appeared most prominently in the pay-per-click advertisements (PPC) and organic search results generated by a number of payday-related search terms. Specifically, we analysed the Google results (displayed on the first page) for the following queries: 'payday loans', 'payday', 'payday lenders', 'payday loan lenders', 'payday loan direct' and 'compare payday'. For each of these terms we recorded the results generated by Google (both PPC and organic search results) across 23 days during the period January to April 2014. The websites included in our review are set out in Table 4.

TABLE 4 **List of lead generator websites surveyed**

Website name	*Website homepage*
Bee loans	www.beeloans.co.uk/
Blueseapayday	www.blueseapayday.co.uk
Compare Payday	www.comparepayday.co.uk/
Doshnow	www.doshnow.co.uk
iCash Advance	www.icashadvance.co.uk/
Kwikcash	www.kwikcash.co.uk/
Mypaydaylender	www.mypaydaylender.co.uk/
Payday Pig	www.paydaypig.co//
Purple payday	www.purplepayday.co.uk/
Very merry loans	www.verymerryloans.co.uk

Source: CMA.

23. For each site, we reviewed the following:

    (a) the information provided about the price of a loan; and

    (b) the ease with which lead generator websites can be distinguished from those of lenders, and how the lead generators describe their services.

24. As with our review of lender websites, we also recorded how accessible information was in terms of the number of clicks (or 'page down' button presses) from the homepage needed to reach the information.

Observations

Information on the price of a loan

25. All the lead generator websites that we reviewed provided price information for a representative example, in the form of an APR and the associated total amount repayable. The representative examples given by each of the websites are set out in Table 5. In some cases lead generators use sliders[9] or tables[10] to present information on total cost.

[9] For example, Beeloans, IcashAdvance, MyPayDaylender, VeryMerryLoans, Blueseapayday,PurplePayday and PaydayPig.
[10] For example, Blueseapayday, MyPayDayLender and PaydayPig

TABLE 5 **Representative prices displayed by the lead generator**

Lead generator	*Representative example*
Beeloans.co.uk	Representative APR 1737% Representative example: Borrow £300 for 30 days, Amount payable – £375, Interest – £75, Interest rate (pa) – 1737% APR (variable).
Blueseapayday	Representative 1974% APR .On this page and elsewhere on this website we use 1974% APR as an example rate. This example is based on a loan of £50 over 30 days and a fixed interest rate of 359%. This equals a total amount of £64.75. This is for example only.
Compare Payday	Representative 2,670% APR Representative example: Borrow £200 for 28 days Total in one repayment: £258 Interest payable: £58 Interest rate pa: 378% (fixed)
Doshnow	2327.87% APR Representative Representative example: Borrow £200 for 28 days, Payable £258 single payment Total interest: £58, Interest Rate: 378%, Representative APR: 2708.9%
Icashadvance.co.uk	Representative example: Borrow £300 for 30 days, Amount payable – £375, Interest – £75, Interest rate (pa) – 1737% APR (variable)
Kwikcash	Representative example: Borrow £500 for 28 days Representative 2,670% APR Interest payable: £145 Total in one repayment: £645 Interest rate pa: 378% (fixed)
Mypaydaylender.co.uk	Online loans are designed to be fast, hassle-free, and get you what you need when you need it. Figuring out interest is much the same, fast and hassle-free. Basically, all you have to worry about is a flat rate fee for every £100 you borrow, and that flat rate is only £25 per every £100. So, for example, if you needed £400, the total amount to be repaid would simply be £500; could it be any easier?
Payday Pig	Representative example: If £100 borrowed for a period of 31 days at an interest rate of 296% variable per annum, total amount repayable by one payment is £125. 1737% APR Representative.
Purplepayday.co.uk	Representative example: £320 borrowed for 28 days. Annual interest rate of 446.3% (fixed). Total amount repayable by one repayment is £419 (£96 interest and £3 transmission charge).
Verymerryloans.co.uk	Borrowing = £50 Interest = £1.63 Total to repay = £51.63

Source: CMA. Websites accessed 28 April 2014.

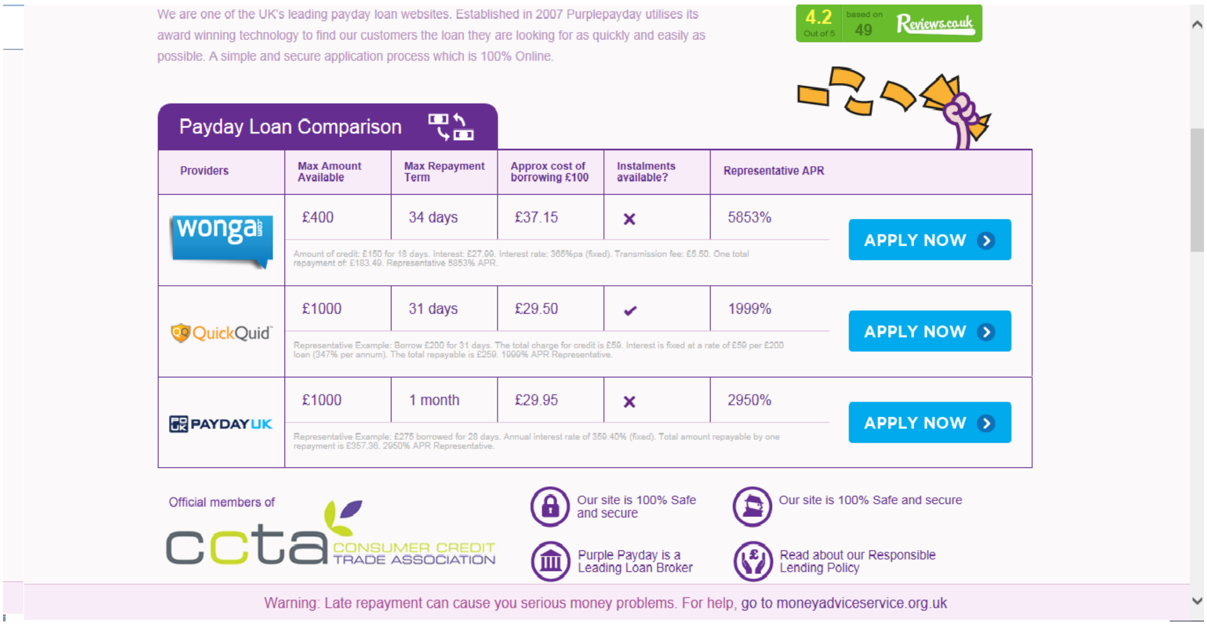
26. The examples provided by lead generators will not necessarily reflect the price that a customer will pay, as this will depend on the lender that they are actually matched with from the lead generator’s panel. Only Blueseapayday states clearly that this is the case (by including the text ‘Example only, lenders fees may vary’ under its slider).

27. We also note a case where the description may be confusing: MyPayDaylender refers to a flat rate fee of £25 for every £100 but there is no mention that this is only a representative example.

28. Purplepayday provides a table that compares the ‘Approx monthly cost of borrowing £100’ for three lenders, namely Wonga, QuickQuid and PaydayUK (see Figure 7 below). Linked to each lender in the table there is an ‘Apply now’ button which may give customers the impression that they would apply directly to the chosen lender whereas in reality these buttons are linked to the application page of the lead generator.

FIGURE 7

Screenshot of Purple payday's 'Payday Comparison' table, on its homepage



Source: CMA. Website accessed 29 April 2014.

Distinguishing between the websites of lenders and lead generators

29. Visually the homepages of lead generator websites look similar to those of the lenders themselves (presenting visitors with similar options and content). To some extent this may simply reflect the fact that both types of website are collecting payday loan applications.

30. None of the websites reviewed states that a provider is a lead generator in the company or product name or the title of the website. As recorded in Table 6, most sites present at least one slider, which – in a similar way to those on lender websites – invites prospective customers to indicate the size of the loan they are seeking and its duration.

TABLE 6 **Presence of sliders on lead generator websites**

Lead generator	*Slider (amount)*	*Slider (term)*
Beeloans.co.uk	Yes (£50–£750)	Yes (5–31 days)
Blueseapayday.co.uk	Yes (£100–£1,000)	No
ComparePayday.co.uk	No	No
Doshnow.co.uk	No	No
Icashadvance.co.uk	Yes (£50–£1,000)	Yes (5 days–3 months)
Kwikcash	No	No
Mypaydaylender.co.uk	Yes(£100–£1,000)	No
PaydayPig.co.uk	Yes (£100–£1,000)	No
Purplepayday.co.uk	Yes (£50–£1,000)	Yes (1–45 days)
Verymerryloans.co.uk	Yes (£50–£1,000)	Yes (7–45 days)

Source: CMA. Websites accessed 29 April 2014.

31. All lead generator websites we reviewed inform visitors at some point that they are a lead generator. Different websites present this information with different prominence. Table 7 reports how lead generators describe the service that they offer on their websites. As shown, there is considerable variability in how the lead generators describe the service they offer on their websites:

(a) Many (although not all) lead generators refer to offering a credit brokerage service.

(b) The most common approach to describing the specific service provided among the lead generators reviewed is to talk in terms of ‘matching’ customers with a loan provider.

(c) Some go further and refer to saving customers the need to search or shop around (eg Beeloans), which might be open to misinterpretation by customers. In particular, given the lack of detail that is provided, some customers may interpret the wording used on several of the sites (including the references to avoiding the need to shop around) as meaning that they were being matched with the ‘best value’ loans for them.

TABLE 7 **How lead generators describe their services**

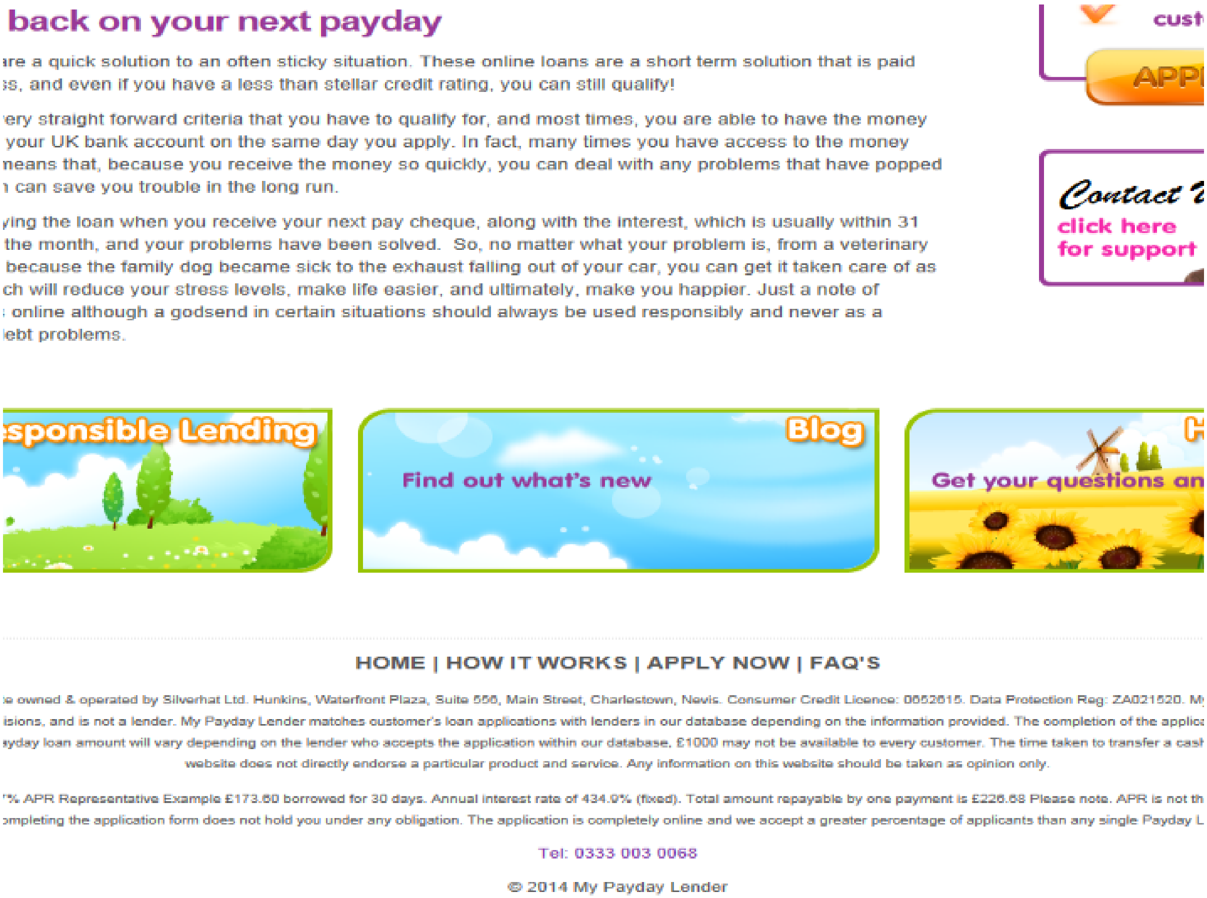
Lead generator	*How they describe their service*
Beeloans.co.uk	At Bee Loans, we use specialist systems to automatically talk to a large panel of payday loan lenders and match your details with their criteria for payday loans. This means that finding a payday loan is quick, easy, and hassle-free. We take the stress away from finding a payday loan, as the process is 100 per cent online, and ensures you don't need to shop around—search over 40 payday loan lenders with one click.
Blueseapayday.co.uk	Blue Sea Payday is a loan broker not a direct lender. We never charge you for the service we provide or take money from your account.
Comparepayday.co.uk	Money Gap Group Limited operate and own the credit brokerage site, **Comparepayday.co.uk**. Money Gap Group Limited is not a lender nor does it provide credit to consumers. If you decide to apply on this site, your application will be shown to a variety of our lending partners to consider. We receive a commission from the lenders we work with after successful applicants are passed on from this website. Approval is subject to status and all applicants must have reached 18 years of age or older. The information provided on this website is for the purpose of explaining the lending process and should not be considered financial advice.
Doshnow.co.uk	As the UK's leading loan brokers, we are dedicated to your satisfaction and want you to understand the loan process and financial implications. Working with one of the UK's largest lender networks we've been successful in finding loans for many hard-working customers. Fees, interest and APR will vary by lender between 299% to 4559%. In addition to interest on the principal loan amount, some lenders will charge fees which are explained in your loan agreement and are sometimes optional. Additional fees are also sometimes charged if you require your loan fast-tracked and deposited same day.
Icashadvance.co.uk	At iCashAdvance.co.uk, we use our specialist technology and close lender relationships to match you with the right product for you. Whether it's £50 or £5000 you need, we can find you funding.
KwikCash	KwikCash is a non-charging broker, which means that your application will be free and we will not charge you anything, whether or not we find you a loan. This is because we charge a fee to whichever lender you are matched with, so we do not need to charge you anything for it.
Mypaydaylender.co.uk	My Payday Lender does not make payday loan or credit decisions, and is not a lender. My Payday Lender matches customer's loan applications with lenders in our database depending on the information provided. The completion of the application form does not guarantee approval of a loan. The payday loan amount will vary depending on the lender who accepts the application within our database, £1000 may not be available to every customer. The time taken to transfer a cash advance loan may vary. This website does not directly endorse a particular product and service. Any information on this website should be taken as opinion only.
Paydaypig.co.uk	Payday Pig ® is a loan broker and we never charge you for the service we provide or take money from your account.
Purplepayday.co.uk	We are one of the UK's leading payday loan websites. Established in 2007 Purplepayday utilizes its award winning technology to find our customers the loan they are looking for as quickly and easily as possible
Verymerryloans.co.uk	At VeryMerryLoans we see ourselves in a very lucky position in that we can help improve the lives of those around us. Right back in the early days when we were planning the company we outlined that amongst an excellent team and clever technology we wanted to be known as a fair, honest and professional lender. But above all else, we wanted to put the customer at the heart of everything we do.

Source: CMA. Websites accessed 29 April 2014.

32. In addition, lead generator's service descriptions may be unclear and hard to find. For example, MyPaydayLender's description (see figure 8) is difficult to read because it appears in small font at the bottom of its homepage.

FIGURE 8

Screenshot of MyPaydayLender's service description on its homepage



Source: CMA. Website accessed 30 April 2014.

33. We noted an instance where the description is very unclear about the nature of the service provided by the lead generator. VeryMerryLoans describes itself as a lender in certain parts of its website, and then describes itself as a credit broker in other places. For example, the description found in the 'About us' section (see Table 7) suggests that it is a lender ('we wanted to be known as a fair, honest and professional lender') but the text in the 'Terms and Conditions' section reveals that it is actually a payday loan intermediary (see Figure 9).

FIGURE 9

Screenshot of VeryMerryLoans' 'Terms and Conditions' website section

support@verymerryloans.com

Our Services

On our Site we act as Intermediary between You and Lenders who will offer the loans subject to a successful application. We do not lend or provide loans or any form of finance to Clients. Once a Client enters into an agreement with us and accepts our Terms and Conditions and Privacy Policy, we act as a broker for the purpose of finding such Client a loan or other form of finance.
We shall endeavour to search through our panel of lenders to provide you with a range of loans and/or other financial products. We do not represent the interests of or act on behalf of any Lender. We may receive a fee for introducing you to a Lender.
We provide no warranty, assurance or guarantee as to whether any Client will receive an offer of finance or the terms upon which any finance may be offered. All decisions to provide or offer a Client a loan or other financial product lies solely with the Lender. All interest rates, loan/finance amounts, repayment periods and all other terms are at the Lender's sole discretion. We have no influence or control over the terms of any loan or financial product. All examples on our Site are for information purposes only to help Clients understand the kinds of financial products which may be offered by Lenders through our Site.
It is your responsibility to contract directly with the Lender to obtain any loan or financial product. We are not and will not be a party to this arrangement and have no liability, rights or obligations in relation to the provision of any loan or financial product by a Lender to you. The Lender will have their own terms and conditions so please read those carefully before entering into a contract with them.
Our Clients are protected under the Consumer Credit Act 1974 (as amended) (Credit Act) and we only work with Lenders who are licensed by the Financial Conduct Authority (FCA).

Checks and references

We do not at any time carry out any credit checks on our Clients.
However, Lenders may use external credit reference agencies and credit scoring services to ascertain your eligibility for a loan or finance product. Whether you are eligible for a loan or finance product is at the Lender's sole discretion.

Source: CMA. Website accessed 30 April 2014.

34. Kwikcash is the only website that sets out the nature of the financial remuneration that the lead generator earns for forwarding an application,[11] but we have not seen any example of lead generators making clear that the lead will be sold through an auction to the lender which pays most. None of the websites provide visitors with any details of the lenders included on their panel.

[11] See Table 7.

New entrant case studies

Introduction

1. In this appendix we discuss the recent experiences of two new entrants into the payday lending sector: Provident Financial (which launched its Satsuma product in November 2013) and Think Finance (which launched its Sunny product in August 2013).

Provident Financial – Satsuma

2. Provident Financial describes itself as 'one of the UK's leading suppliers of personal credit products to the non-standard lending market'. Provident Personal Credit, part of Provident Financial, supplies home credit to 1.7 million customers in the UK through a network of local agents. Vanquis Bank, a subsidiary of Provident Financial, supplies credit cards to around 1 million customers. Vanquis advertises a representative APR of 39.9%, and its customers tend to be higher credit risk than typical credit card customers.

3. Provident launched its 'Satsuma Loans' product in November 2013. This is an instalment product, allowing new customers to borrow amounts between £100 and £300, and repeat customers amounts up to £800. Loans are offered for either a 13- or 26-week period, and are paid back weekly through the use of CPA. A £100 loan for 13 weeks costs £140.01 in total, a weekly amount of £10.77. Customers do not repay late charges – if payments are missed, then the debt is extended until all payments have been made.

4. Provident told us that increasing regulation (from the OFT, FCA and CC) to stamp out poor behaviour in the payday sector, along with its approach based on its long experience with home credit customers, meant that now was a good time to launch the Satsuma product. It said that it saw a clear separation between the customers of its core business that it was serving with home credit and with Satsuma. Customers of slightly higher credit quality, and who were dealing less in cash, were being lost from its home credit business, and it was these customers who Provident was seeking to retain with the Satsuma product.

5. Provident told us that it would rely on a mixture of different sources to generate new business, including advertising on television and lead generators. It would keep the mix of different sources under review – adapting its reliance on lead generators depending on the quality of applicants and the cost per customer. In addition to these standard channels, Provident's other products

would also provide a source of customers – as well as customers declined from its credit card products at Vanquis Bank, it would be able to generate some leads from customers visiting its home credit website looking for an online product.

6. In an investor presentation, Provident referred to its competitive advantage in its marketing reach, citing its ‘financial firepower, existing lead generation capabilities/relationships and links to Vanquis Bank declines’. It referred to branded search as being the key to success, and set out its plans for the Satsuma brand.

7. In terms of credit risk assessment, while Provident referred to the need to ‘feel its way’ in terms of how much to lend and how long for, it noted that the weekly cycle of its product allowed it to learn more quickly than it would otherwise would be able to. In the same investor presentation referred to above, it referred to Provident’s advantage in collecting and underwriting instalment products due to its experience with home credit and the Vanquis Bank, as well as its stock of 6 million home credit customer records. It would build on these advantages, together with additional data from credit bureaux, in order to build a bespoke scorecard.

8. Provident was planning on using its existing customer services and call centres in Bradford and Chatham, which currently served its home credit and Vanquis Bank customers.

9. Provident told us that the development of its Satsuma product was progressing well. It had deliberately moderated the volume of new loans issued as it built the capacity to support more rapid development, and because of the uncertainty introduced by the impending price cap. Between the product’s launch in November 2013 and the end of May 2014, Provident had written around [✄] loans, compared with initial expectations of around [✄]. It had an acceptance rate of around [✄]% of applications. It forecast that it would write [✄] loans in 2015, although this was very dependent on the outcome of the proposed price cap.

Think Finance – Sunny

10. Think Finance is an established US online lender, offering instalment loans, lines of credit or rent-to-own. It entered the UK market in 2011 with the acquisition of Fortress Group UK Ltd, a UK payday lending company offering a product called ‘1 Month Loan’. The acquisition was made in order to understand UK-specific risk factors and the UK compliance regime better. Think Finance has since withdrawn the products previously offered by Fortress, and in August 2013 launched a new product, ‘Sunny’.

11. Using this product, customers are able to borrow amounts of between £100 and £1,000, with a flexible loan duration of between three days and five months. Loans of a month or less are repaid in a single payment – longer loans are repaid in monthly instalments. Sunny is unusual in that it uses risk-based pricing. Lower-risk customers may qualify for monthly interest rates of 15%, compared with a monthly interest rate of 29% for most customers. Sunny does not levy any transaction fees or late charges.

12. As of early 2014, Think Finance was issuing around [✂] to [✂] new loans per month. Its gross revenue in the first two months of 2014 was around £[✂], approximately half of forecast levels.

13. Think Finance is using a number of different strategies in order to acquire new customers. Its television and display advertising budget for 2014 was around £[✂] (relative to a total marketing budget of £[✂]). Despite this relatively large expenditure, it told us that it expected that it would take some time for it to capture a significant brand awareness, given the established brands of larger lenders. It said that television was a very expensive acquisition channel compared with others, and that customer acquisition costs for previous entrants using television had been much lower.

14. Think Finance told us that the existing advertising regulations were causing it difficulties when trying to advertise its lower prices. This was due to Sunny's tiered interest rates, which meant that lower rates were offered only to certain customers, making it difficult to emphasise these rates in its marketing. It would only be able to include its lower rates in its APR representative example if more than half of its customers paid that rate.

15. Think Finance said that it was now using its third generation of risk models to assess applications for its Sunny product. Each iteration in the development cycle of these models – collecting performance data, analysing this information and implementing improvements – took around three to four months to complete. Given that it had only recently entered the market, Think Finance was still very conservative with who it offered loans to. It expected its models to be quite a bit better in a year's time. Think Finance said that while it was actively using information from three CRAs, this information was not on its own powerful enough to give a complete picture of affordability.

16. Think Finance said that in the past firms could operate with an off-the-shelf system, but now that the market was developing, companies needed in-house risk models and technical expertise to compete with the larger firms.

17. Think Finance told us that although it was incurring significant losses, it was making progress, and was comfortable that it would eventually turn profitable.

It said that many companies would not have had the stomach to last so long – Think Finance was willing to do so given its experience in the sector in the USA.

Customer detriment

Introduction

1. In this appendix we describe the likely nature and potential scale of the detriment to payday loan customers arising from the AEC that we have provisionally found.

2. Assessing customer detriment is an inevitably complex exercise. The focus of the analysis presented in this appendix is to enable us to gain an understanding of the ways in which customer detriment arises and the order of magnitude of any effect, rather than to quantify exactly which customers are suffering a detriment and by precisely how much.

3. We identified two sources of customer detriment which are likely to arise as a result of the provisional AEC:

   (a) Some customers pay more for their loan than they would if price competition were more effective. The extent to which different groups of customers overpay for their loan is likely to vary: for example, customers who currently use relatively expensive lenders could be expected to suffer a particularly large detriment.

   (b) There is likely to be less innovation on pricing (eg in relation to the introduction of risk-based pricing) than we would observe in a market in which price competition were more effective.

4. We discuss each of these two sources of detriment in turn below.

Higher prices

5. We have provisionally found that payday lenders are not subject to an effective competitive constraint when setting their prices. As a result, the price of taking out a payday loan is generally higher than it would be in a well-functioning market, to the detriment of payday loan customers.

6. We have sought to derive an indicative estimate of the extent to which payday loan customers may be overpaying for their loans. Our analysis is structured as follows:

   (a) First, we discuss the price level that would be expected if competition were working more effectively.

(b) Second, we describe the methodology that we have used to calculate how much customers are overpaying relative to this competitive benchmark.

(c) Third, we present our estimates of the scale of this customer detriment.

Competitive benchmark

7. We considered how much lower prices might be in the payday lending market if price competition were more effective.

8. As discussed in section 4, there is a degree of clustering among payday lenders around a headline price of £30 for a customer borrowing £100 for around one month. The primary competitive benchmark that we have used is one in which the price of a typical payday loan falls from £30 to £25 per £100 for a one-month loan as a result of more effective price competition. We considered a price reduction of this magnitude to be a realistic and relevant benchmark because:

(a) It is similar to the price paid by some customers for some of the cheaper products currently available on the market, such as CashEuroNet's FlexCredit product.

(b) A monthly interest rate of 25% was charged by Dollar's online businesses until late 2011/early 2012. [✄] In addition, Dollar continued to offer the discounted monthly interest rate of 25% to customers coming via the more competitive environment of moneysupermarket.com.

9. A price reduction from £30 to £25 per £100 for a one-month loan would represent a fall of 16.7% in percentage terms. Our analysis of the major lenders' historic profitability, as set out in section 4, suggests that efficient lenders would have been able to retain reasonable levels of profitability in the face of a decline in revenue of this order of magnitude, even without altering their risk thresholds.

10. We also considered two further benchmarks: £27.50 and £22.50 per £100 for a one-month loan (declines of 8.3% and 25.0% respectively in percentage terms). A higher price point may be more relevant if recent or anticipated increases in costs meant that lenders could not supply payday loans profitably at the £25 level, even in a more competitive environment. A lower price point may be more relevant if we consider that the lowest prices on offer in the market – for instance, those offered by Speedy Cash or those offered by CashEuroNet to customers using money.co.uk – are more representative of the prices that we might expect to see in a market in which competition was working more effectively.

Calculating how much customers are overpaying

11. In order to generate an indicative estimate of how much customers are overpaying for their loans, we compared the prices paid by payday loan customers to these competitive benchmarks.

12. We began by calculating the price of each of the major lenders' products for a loan repaid on time for each duration between 1 and 31 days. Loans longer than 31 days – which account for a relatively small proportion of all loans – were excluded from this analysis because of the complexity associated with calculating comparable TCCs across lenders for these longer durations.[1]

13. Because TCCs vary depending on the size of the loan, we based our TCC calculations on the average loan value taken out by customers at each given duration. So, for example, if we consider a product with a fixed monthly interest rate of 30% and no other fees or charges; and if the average value of loans taken out for 28 days using that product was £200; we would calculate the average TCC for this product and this duration as £60 (ie 30% x £200). For the same product, if the average loan value for 29-day loans was £220, the average TCC used for this product and this duration would be £66 (ie 30% x £220).

14. Having calculated TCCs for each product, we then compared these with the competitive benchmark to estimate the amount that customers overpay using that product for different loan durations. As described in paragraphs 8 and 10, we considered three levels of prices for a typical one-month loan that we might expect in a more competitive market: a 'base' case of £25.00 per £100, a 'low' case of £22.50 per £100 and a 'high' case of £27.50 per £100.

15. The extent to which customers overpay in total will depend on how (if at all) price reductions vary by lender, and the extent of price dispersion which persists in the presence of more effective price competition. We used two different scenarios when specifying our competitive benchmark:

    (a) In the first scenario (Scenario A), we assume that price dispersion would not persist if customers were more responsive to variation in prices, such that no lender would set its prices above the competitive benchmark. Lenders that currently charge beneath this price point continue to do so.

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[1] This complexity arises because some traditional 'monthly' payday products allow some customers to take out loans for slightly longer than one month without incurring a second month's interest charges, while others do not. The TCC of a given loan for more than 31 days will therefore depend on whether the lender makes an allowance of this type. Approximately 17% of all loans made in 2012 had durations of more than 31 days. This comprises both traditional monthly payday products that allow some customers to borrow for a few days more than a month, and flexible or longer-term products.

(b) In the second scenario (Scenario B), we assume that price dispersion persists in line with that which we currently observe in the market, but that all lenders' prices fall by a given percentage (including those lenders with relatively inexpensive products). The scale of the reduction in prices applied to each lender is proportionate to the relative difference between the typical price of £30 per £100 per month and the benchmark price. That is, all lenders' prices are 16.7% lower in the base case, 25.0% lower in the 'low' case and 8.3% lower in the 'high' case.

16. This results in a range of six different 'counterfactuals' against which we can estimate the extent to which customers may be overpaying for their loans, which vary according to the assumptions made regarding the overall magnitude of the reduction in prices in a more competitive environment, and how this varies across lenders. These counterfactuals are set out in Table 1.

TABLE 1 **Counterfactuals used to estimate customer detriment associated with high prices**

Benchmark price	*No lender sets prices above the benchmark*	*All lenders reduce their prices by a fixed percentage*
£22.50 per £100 month	Scenario A (low)	Scenario B (low)
£25.00 per £100 per month	Scenario A (base)	Scenario B (base)
£27.50 per £100 per month	Scenario A (high)	Scenario B (high)

Source: CMA.

17. Having calculated the overpayment associated with each product and loan duration, we next sought to estimate the average overpayment by a payday loan customer, taking into account the market shares of different products and the variation in the loan amounts and durations of customers. To do this, we began by considering all loans issued by the major lenders in the period 1 April to 9 June 2013[2] (excluding loans which were never repaid in full[3] and loans longer than 31 days in duration). For each loan, we calculated the difference between the TCC for that product and loan duration and each of the competitive benchmarks, and took the sum of these overpayments across loans. This total was then divided by the total number of loans to get the average amount overpaid per loan.

18. We did not include in our analysis any fees incurred after the loan is agreed – for example, late fees, top-up fees or rollover fees. This is because of the complexity associated with comparing these fees across lenders for different

[2] This period was selected on the basis that it is the most up-to-date period within our transaction data set which is of a significant length, during which no price changes took place, and for which complete transaction data were available for the most significant payday products available on the market. The period used for this analysis pre-dates CashEuroNet's introduction of FlexCredit.
[3] We exclude loans that were never repaid in full, as while these customers may be overcharged as a result of a lack of competition, the extent to which they suffer detriment as a result of this will vary, given that they do not repay the amount owed.

potential borrowing scenarios. By excluding these fees, we are likely to understate for some customers the extent to which they are overpaying for their loan (potentially by a substantial amount, given the extent of variation that we observed in the late fees used by different lenders).

19. The TCCs that we used in our analysis also do not take into account any promotional rates offered by lenders, or customers who do not take up faster payment fees. While this may cause us to overestimate the extent of overpayment for some customers, we would expect any effect to be small, given that the extent to which customers pay rates lower than the advertised TCCs as a result of either of these factors is currently limited.

Estimates of possible detriment

20. Table 2 sets out our estimates of the average amount overpaid per loan in our sample under each of the six counterfactual scenarios. In the base case (ie a reduction in the typical price of a payday loan from £30 to £25 per £100 per month), we estimate per loan savings of between £5 and £10, or between 9% and 17% in percentage terms. Looking across all of the different counterfactuals, the lowest detriment estimated is a saving of £2.74 per loan, and the highest is a saving of £14.14 per loan.

TABLE 2 **Average amount saved per loan relative to each of the counterfactuals**

Benchmark price	*Average saving per loan*	
	Scenario A	*Scenario B*
Low – £22.50 per £100 per month	£8.26 (14.6%)	£14.14 (25.0%)
Base – £25.00 per £100 per month	£5.35 (9.5%)	£9.43 (16.7%)
High – £27.50 per £100 per month	£2.74 (4.9%)	£4.71 (8.3%)

Source: CMA.

Note: Total number of loans included in analysis = 1,273,573.

21. We considered the overall extent to which customers may be overpaying for their loans across the payday lending sector, by extrapolating these average per-loan savings to the total number of loans issued in 2012 which were repaid in full. In doing so, we do not take into account any impact of increased price competition on the total number of payday loans issued.[4]

22. As described in section 2, we estimate that around 10.2 million payday loans were issued in 2012 and, of these, around 88% or 9.0 million were ultimately

[4] The number of loans might increase, to the extent that lower prices attract further customers, or decrease, to the extent that lower prices cause lenders to tighten their risk thresholds, as it becomes unprofitable to supply customers with a higher expected risk at a lower price point.

repaid in full.[5] Our estimates of total annual savings under the different assumptions regarding the competitive counterfactual are presented in Table 3. Estimates of the average savings per customer are also presented (these are derived by dividing the total annual saving by the estimated number of customers in 2012, 1.8 million).

TABLE 4 **Annual savings**

Benchmark price	*Estimated annual saving*		*Average saving per customer*	
	Scenario A *£m*	*Scenario B* *£m*	*Scenario A* *£*	*Scenario B* *£*
Low – £22.50 per £100 per month	74	127	41	71
Base – £25.00 per £100 per month	48	85	27	47
High – £27.50 per £100 per month	24	42	14	24

Source: CMA.

Note: Total number of loans included in analysis = 1,273,573.

23. We note that the average savings per loan and per customer set out in Tables 3 and 4 are likely to vary for different customer groups. To the extent that we would observe less price dispersion in the presence of more effective price competition, then customers using lenders that are relatively expensive for a given set of borrowing criteria, or taking out loans in scenarios in which lenders' prices are particularly widely dispersed, are likely to overpay for their loans by a relatively large amount. This is likely to include customers who are currently paying upfront fees such as faster payment charges (as these customers often pay the most for loans repaid on time);[6] customers who are using products with monthly interest rates for loans of shorter durations (which are typically relatively expensive compared to products with daily interest rates);[7] and customers who repay their loan late (given the substantial difference between the default charges of the cheapest and most expensive lenders).[8]

Greater innovation on pricing

24. A second source of detriment would exist if payday lenders innovate less on prices than they would in the absence of the AEC that we have provisionally identified. There are two key areas of pricing innovation which we considered were likely to be undeveloped relative to the level that we would expect in a

[5] We use the estimate for 2012, because it includes both the major and smaller payday lenders. However, this may cause us to underestimate the total extent to which customers are overpaying for their loans, given that market volume continued to grow in 2013, albeit at a reduced rate.
[6] See Figures 4.1 & 4.2.
[7] See paragraph 4.34.
[8] See paragraph 4.30.

market in which price competition were more effective: risk-based pricing, and the use of flexible pricing models.

25. Under risk-based pricing, the interest rate paid by a borrower depends on their risk of default as assessed by the lender, with less risky customers paying lower prices. In a market in which price competition was effective, we would expect lenders to make use of risk-based pricing, as suppliers competed to win and/or retain groups of lower-risk borrowers by offering these customers lower rates to reflect the lower cost of supplying them. In contrast, in the presence of the features that we have identified, customers are un-responsive to variation in prices, weakening any incentive for lenders to use prices to target low-risk groups with discounted rates.

26. We considered there to be significant scope in the payday lending market for greater use of risk-based pricing, given the large difference in risk between certain groups of customers (eg first-time and repeat customers). Although a number of lenders reported that they had either considered or were considering introducing risk-based pricing, it remains uncommon to observe lenders offering different rates to customers of different risk. Only one of the major lenders offers risk-based pricing (CashEuroNet, which introduced three different price tiers in 2009), and we are also aware of one new entrant, Think Finance, which offers reduced rates to lower-risk borrowers who make successive timely repayments, or participate in training on financial awareness.

27. One potential drawback associated with risk-based pricing which was highlighted by some lenders is the resulting increase in the complexity of prices. Increased use of risk-based pricing might also have the effect of increasing prices for higher-risk customer groups, to the extent that current prices imply cross-subsidisation from less to more risky customers. Despite this, we would generally expect stronger incentives for lenders to use risk-based pricing to lead to more efficient market outcomes, as the costs of supplying different groups of customers came to be better reflected in the prices paid.

28. A second possible area of pricing innovation which may be less developed relative to the level that we would expect in the absence of the provisional AEC relates to the use of flexible pricing models that better reflect the cost of serving customers with different borrowing requirements. One particular example is the greater use of daily pricing, rather than prices charged per month or part-month.

29. A number of lenders – including two of the largest – already offer flexible products with daily interest rates. Nevertheless, the majority of products in the

market continue to use the traditional model (in the sense that customers are charged monthly interest, even though many borrow for shorter periods than this) and these products continue to command a material share of shorter-duration loans issued in the payday lending market (see section 4). In the absence of the AEC, we would expect lenders to face a greater incentive to introduce prices that reflected the diversity in the borrowing requirements of different borrowers, and monthly products with fixed rates to become less common.

Summary of findings on overall scale of the customer detriment

30. To summarise, on the basis of different plausible assumptions about the level of prices that might be observed in a market in which price competition was more effective, we estimated that on average borrowers are overpaying for their loans by around £5 to £10 per loan in our base case scenario. This is relative to a typical loan of £260 taken out for just over three weeks, and with a total cost of credit for a customer who repays in full and on time of around £75. Applying these savings to the total number of loans issued in 2012 that were repaid in full would imply potential annual savings to customers of around £48–£85 million. Looking across our wider range of counterfactual scenarios, we derive estimates of per-loan savings ranging from a little under £3 up to just over £14, and total annual savings to customers of between £24 million and £127 million.

31. We also considered that the current use of risk-based pricing and flexible pricing models was undeveloped relative to the level that we might expect to see in a well-functioning market, and so a further detriment (which we did not seek to quantify) was likely to exist associated with the overall efficiency of the market, and the extent to which prices reflect the cost of supplying different groups of customers.

32. While we have not conducted a detailed analysis of the relative impact of the AEC on different customers, we would expect different groups of customers to be affected to varying degrees, with low-risk customers, borrowers repaying their loan late, borrowers paying upfront fees and borrowers using traditional products to borrow for relatively short periods particularly likely to suffer a substantial detriment as a result of the AEC that we have provisionally found.

Glossary

ACORN	Acronym for A Classification of Residential Neighbourhoods. A geodemographic information system categorising some UK postcodes into various types based upon census data and other information such as lifestyle surveys. The population is divided into six categories from Affluent Achievers (25.1%) to Not Private Households (22.4%). Those categories can also be subdivided into 18 groups and 62 types.
Act	Enterprise Act 2002.
AEC	Adverse effect on competition, as set out in section 134(2) of the **Act**.
Affiliate	Persons or companies that generate traffic using, for example, banner advertisements or a **price comparison website** and then pass these customers on to **lender**s or **lead generator**s, who then seek to collect from these individuals customer information which can be sold to a lender.
AlixPartners	AlixPartners UK LLP, a business advisory firm. It carried out work on the payday lending industry on behalf of **Wonga**.
APR	Annual percentage rate.
Ariste	Ariste Holding Limited, a payday lender. Trading as Cash Genie, it is a subsidiary of EZCORP Inc.
ASA	Advertising Standards Authority.
BACS	Bankers' Automated Clearing Services, a payment service through which transfers take three working days to clear: they are entered into the system on the first day, processed on the second day, and cleared on the third day.
BCAP	British Code of Advertising Practice.
BCCA	BCCA Limited (formerly the British Cheque and Credit Association), a trade association for providers of unsecured short term loans such as payday, instalment and guarantor loans; credit brokerage; and third party cheque cashing services.
BIS	The Department for Business, Innovation and Skills.
Bristol report	In 2011, **BIS** commissioned a report from the University of Bristol to inform understanding of the likely impact on lenders and consumers of introducing a variable cap on the

	total cost of credit that can be charged in the short- to medium-term fixed-rate credit markets. The purpose of the research was not to make a recommendation to **BIS** on whether or not a cap should be introduced, but to provide an up-to-date evidence base that would help inform policy decision-making in this area. The Bristol report considered three short-term credit markets, namely payday lending (both retail and online), home credit and pawnbroking.
BVCA	The British Private Equity and Venture Capital Association.
CA98	Competition Act 1998.
Callcredit	Callcredit Information Group, a trading name of Callcredit Limited, a **CRA**.
CAPM	Capital asset pricing model.
CashEuroNet	CashEuroNet UK, LLC, a payday lender. Trading as QuickQuid, Pounds-to-Pocket and FlexCredit, it is a subsidiary of Cash America International, Inc.
CBT	Contribution before tax.
CC	Competition Commission. (As from April 2014, the functions of the CC, including those in relation to pre-existing market investigations under the **Act** such as the payday lending investigation, have been taken over by the **CMA**.)
CC3	See **Guidelines**.
CCA	Consumer Credit Act 1974.
CCD	Consumer Credit Directive (208/48/EC). Adopted by the European Parliament in June 2008.
CCF	Credit Competence Form.
CCTA	Consumer Credit Trade Association, a trade association representing all businesses involved in consumer credit.
CFA	Consumer Finance Association, a trade association representing the interests of major short-term lending businesses operating in the UK.
CFO Lending	CFO Lending Limited, a payday lender.
Cheque Centres	Cheque Centres Group Limited, a payday lender operating on the high street and online. The online operation was known as The Loan Store until 2013.

Citizens Advice	A registered charity and Government-funded provider of consumer education; providing advice, advocacy and education to consumers in Great Britain.
CMA	Competition and Markets Authority. As of 1 April 2014, the competition functions of the **CC** and the **OFT** under the Enterprise Act 2002 are the functions of the CMA. The previous functions of the **CC** on this investigation are now the CMA's.
CONC	The FCA Consumer Credit sourcebook.
CP13/10	FCA Consultation Paper 13/10: Detailed proposals for the FCA regime for consumer credit (October 2013).
CPA	Continuous payment authority, also referred to as recurring pre-authorisation. A method by which customers can authorise merchants, including lenders, to debit their account via their debit card at the point of sale. CPA requires the long number on the front of the card and the three-digit security code on the reverse. Merchants accepting payments via this service must comply with the operating regulations of the card scheme provider (eg Visa, MasterCard etc), which may prohibit, among other things, excessive use. Most online lenders agree a CPA with customers to enable them to take payment on a customer's repayment date.
CPA attempt	A single attempt by a merchant to utilise a **CPA**.
CPRs	Consumer Protection from Unfair Trading Regulations 2008.
CRA	Credit reference agency. CRAs collect and sell information relevant to the financial standing of individuals, which lenders can then use as a relevant input to their credit risk assessments. A number of CRAs operate in the payday lending sector in the UK, including **Experian**, **Equifax**, **Callcredit LendProtect** and **LendingMetrics**. Account data are provided to CRAs by **credit provider**s, private companies (such as utility companies) and professional associations on a reciprocal basis. The information is compiled by the CRA into a single file for each individual.
Credit broker	Credit brokerage is defined in article 36A of the **RAO**. In general terms, it includes the effecting of introductions of individuals desiring to obtain credit or goods on hire to consumer credit businesses or consumer hire businesses. It is also credit brokerage to introduce individuals to other credit brokers. Many **lead generator**s and **lead**

	aggregators may be classed as credit brokers for the purpose of regulating consumer credit.
Credit provider	A person who grants or promises to grant credit in the course of his trade, business or profession.
DFC	Dollar Financial Corp. The ultimate parent of **Dollar**.
Dollar	Dollar Financial UK Limited. As the context requires, Dollar should be read as a reference to Dollar Financial UK Limited and its subsidiaries collectively or any one or more of those companies. Dollar has three subsidiaries supplying **payday loan**s in the UK, namely Instant Cash Loans Limited, Express Finance (Bromley) Limited and MEM Consumer Finance Limited. These subsidiaries trade as The Money Shop, Payday Express and Payday UK respectively.
DPA	Data Protection Act 1998.
DWP	Department for Work and Pensions.
EBIT	Earnings before interest and tax.
Equifax	Equifax Ltd, a **CRA**.
Experian	Experian Limited, a **CRA**.
Extension facility	Any facility offered by lenders whereby a customer can make any repayment (ie including one or more instalment repayments) at a date later than that originally agreed with the lender. Extension facilities include, but are not limited to, **rollover**s and instances of **forbearance**.
FPS	Faster Payment Service. A payment service which allows payment times to be reduced to a few hours or less, significantly faster than the three days required by the long-established **BACS** service. Faster Payment Service is a trading style of Faster Payments Scheme Limited, a not-for-profit joint venture owned and operated by a number of well-known financial institutions.
FCA	The Financial Conduct Authority, which assumed responsibility for the regulation of consumer credit, including **payday lending**, from April 2014.
FCA Handbook	Contains rules and guidance made by the **FCA** using powers under the **FSMA**. The provisions contained in the handbook apply to **FCA**-regulated firms.
Fixed-sum credit	Under section 10(1) of the **CCA**, fixed-sum credit is any facility under a consumer credit agreement, other than a running account credit facility, whereby the borrower is

	enabled to receive credit (whether in one amount or by instalments).
FLA	Finance and Leasing Association, a trade association for the asset, consumer and motor finance sectors in the UK.
FOS	Financial Ombudsman Service.
Forbearance	Where a lender and customer agree to keep a loan agreement open and unpaid on the due date, the customer is not considered to have defaulted, and the customer is not charged further interest, fees or charges for the additional time.
FSMA	Financial Services and Markets Act 2000.
FS(BR)A	Financial Services (Banking Reform) Act 2013.
FTI Consulting	A business advisory firm. FTI reviewed data submitted to the **CMA** on behalf of **Dollar**.
Guidelines	*CC guidelines for market investigations: Their role, procedures, assessment and remedies, CC3 (Revised)* (April 2014). These Guidelines have, with effect from 1 April 2014, been adopted by the **CMA**.
Global Analytics	Global Analytics Holdings Inc, a payday lender trading as Lending Stream and Zebit.
H&T	Harvey & Thompson Limited, a payday lender.
High-street lender	A **lender** supplying **payday loan**s from a retail store.
HMT	HM Treasury.
Home Credit report	The **CC**'s report on the investigation into the supply of home credit in the UK, November 2006.
ICO	Information Commissioner's Office.
Irresponsible Lending Guidance	*Irresponsible lending: OFT guidance for creditors* (updated February 2011).
Instalment product	These products allow customers to repay the principal in more than a single repayment. Instalment loans are often for longer periods than single repayment loans.
IRR	Internal rate of return.
IVA	Individual voluntary arrangement.
Late loan	A late loan is a loan whose final repayment date is later than its original due date, but the loan is not rolled over.

Laps IT	A trading name of Lending Software Solutions Ltd. Laps IT provides LAPS, the Loan Application Processing System, an electronic loan management system.
LATSS	Local authority trading standards services.
Lead aggregator	A person or company that collects and processes customer information from multiple parties, such as **affiliate**s and **lead generator**s, for the purpose of selling that information on to **lender**s. The sale of these leads may take the form of an auction or **ping tree**. A lead aggregator may or may not be **lead generator** itself.
Lead generator	A person or company that contracts with **lender**s to provide potential customer applications (or 'leads') in return for a fee for each lead provided. Like **credit broker**s more generally, **lead generator**s must be authorised by the **FCA** to carry out consumer credit activities. Lead generators may also act as **affiliate**s or **lead aggregator**s.
Lender	A supplier of **payday loan**s.
Major lenders	The 11 major lenders included in our core analysis operate 16 separate companies in the UK and market loans under around 22 different brands. The 11 major lenders are **Ariste**, **CashEuroNet**, **The Cash Store**, **CFO Lending**, **Cheque Centres**, **Dollar**, **Global Analytics**, **H&T**, **MYJAR**, **SRC** and **Wonga**. Between them these lenders provide a range of **single repayment** and **instalment product**s available online and on the high street.
MAS	Money Advice Service, a statutory body for improving people's understanding and knowledge of financial matters and their ability to manage their own financial affairs. Its statutory objectives were defined in the Financial Services Act 2010. On 30 May 2014 **HMT** published the terms of reference for a review of MAS's activities and functions.
MEAV	Modern equivalent asset value, the cost of replacing an existing asset with a technically up-to-date asset.
Money.co.uk	A UK **price comparison website**. Money.co.uk is a trading name of Dot Zinc Limited.
Moneysupermarket	MoneySupermarket.com Group plc, a UK **price comparison website** (moneysupermarket.com).
Mr Lender	PDL Finance Limited, a payday lender trading as Mr Lender.
Multisourcing	Where a **payday loan customer** takes out concurrent loans from multiple **lender**s.

MYJAR	TxtLoan Ltd, a payday lender trading as MYJAR.
Oakam	Oakam Ltd, a payday lender.
OFT	Office of Fair Trading.
OFT compliance report	*OFT Payday Lending Compliance Review: Final Report* (March 2013).
Online lender	A **lender** supplying **payday loan**s via a website.
Overdraft	A product usually supplied as part of a current account service whereby a customer can withdraw cash beyond the amount held in the account, taking their balance below zero. Overdrafts may be authorised or unauthorised.
P2P lending	Peer-to-peer lending, the practice of lending money to unrelated individuals, without going through a traditional financial intermediary such as a bank or other financial institution. This lending takes place online on P2P lending companies' websites using various different lending platforms and credit checking tools.
PAT	Profit after tax.
Payday lending	The provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month and specifically excluding home credit loan agreements, credit cards, credit unions and **overdraft**s.
Payday loan	We have defined payday loans to be unsecured loans which are generally taken out for less than 12 months, and where the amount borrowed is usually less than £1,000 (excluding home credit loan agreements, credit cards, credit unions and **overdraft**s). The 'traditional' payday loan involves a relatively small-sum unsecured loan repayable on the customer's payday. There are though a range of loan products currently available offering customers relatively small-sum loans, with different amounts of flexibility regarding when repayments are made. For example, an increasing number of products allow repayment in a small number of instalments.
PBT	Profit before tax.
PCI	Pre-contract credit information.
PECR	Privacy and Electronic Communications (EC directive) Regulations 2003.

Ping tree An automated auction whereby a **lead generator** or **lead aggregator** seeks bids for the details of individuals applying for a payday loan.

Planned overdraft An **overdraft** for which the customer agrees a credit limit with the **credit provider** in advance. These overdraft products are sometimes called ‘authorised overdrafts’.

PPC advertising **Pay per click advertising,** an internet advertising model used to direct traffic to websites, in which advertisers pay the publisher when the advertisement is clicked. Some search engines allow advertisers to sign up online, create advertisements and select keywords relating to these advertisements. They can then submit bids to the search engine based on the maximum they are willing to pay per click or for an overall campaign for a particular key word search. Pay per click advertisements usually appear at the top and to the right of the results page and are distinct from organic search results, the ranking of which are not determined by a commercial process.

Price comparison website A website which, as its primary business, gathers and presents price and/or non-price information about different suppliers’ products in order to allow users to compare those products. Price comparison websites generally provide a means for customers to contact the provider of the chosen product.

Principal loss rate A measure of risk which takes into account the proportion of the principal lent which is recovered. It is defined as 1-(loan principal collected/loan principal issued) for a given financial year.

PS14/3 FCA Policy Statement 14/3: Final for consumer credit firms (February 2014).

RAO Financial Services and Markets Act 2000 (Regulated Activities) Order 2001/544.

RAR Risk-adjusted revenue.

Refinance To extend, or purport to extend, the period over which one or more repayment is to be made by a customer whether by:

(a) agreeing with the customer to replace, vary or supplement an existing regulated credit agreement;
(b) exercising a contractual power contained in an existing regulated credit agreement; or
(c) other means, for example granting an indulgence or waiver to the customer.

Repeat customer	A customer of **payday loan**s that returns to the same **lender** for additional credit.
Repeat loan	A **payday loan** taken from a lender by a customer who has previously taken out a loan with the same lender.
Revolving credit	A facility whereby, once a running account is opened, the customer may draw against their credit limit for the duration. The repayment structures of individual drawdowns are often structured like single repayment loans or instalment loans but are variable and can be changed at any time.
ROCE	Return on capital employed. Profit before interest and tax as a percentage of financial debt, equity shareholders' funds and intangible assets identified.
ROE	Return on equity.
Rollover	A loan is 'rolled over' if the loan (or part of the loan) is not repaid on the date originally agreed (excluding where a lender grants the customer **forbearance**), but where the customer is not considered to have defaulted as a further agreement to extend the repayment period has been entered into between the customer and the lender. The customer may pay all outstanding and unpaid fees, finance charges or interest at the time the rollover is executed but in all cases, some or all of the loan principal is carried forward after the date of the rollover.
Running account credit	Under section 10(1) of the **CCA**, running account credit is a facility under a consumer credit agreement whereby the borrower is enabled to receive from time to time from the **credit provider** cash, goods and services (or any of them) to an amount or value such that, taking into account payments made by or to the credit of the debtor, the credit limit is not at any time exceeded.
SCOR	Steering Committee on Reciprocity.
SECCI	Standard European Consumer Credit Information.
Single repayment product	**Payday loan** products where the principal is repaid in full on a single agreed repayment date. Single repayment products are generally (though not exclusively) linked to an individual's payday; a loan will cover the period up to the day on which a customer is next paid. For some products, if the customer's payday is within a very short period, the loan term will carry over until the next payday.
SRC	SRC Transatlantic Limited, trading as Speedy Cash and WageDayAdvance.

Survey	TNS BMRB Research into the payday lending market: Final report (2013–2014).
Transaction data	Data collected from the **major lenders** relating to their customers and the loans taken out by those customers. Appendix 2.2 provides an overview of this data.
TCC	Total cost of credit. The total amount in pounds that a customer would pay if they took out and repaid a loan in particular circumstances.
Teletrack	Teletrack UK Ltd, a **CRA**.
TFEU	Treaty on the Functioning of the European Union.
The Cash Store	The Cash Store Financial Limited, a payday lender.
Think Finance	Think Finance (UK) Ltd, a payday lender.
TNS	TNS BMRB, a market research company. Conducted the **payday lending** customer survey on behalf of the **CC**.
Top-up	A loan is 'topped up' if, in addition to the initial amount lent, the **lender** allows the customer to increase or top up their loan before the end of the loan term. These facilities work on the principle that a customer might choose to borrow or be borrowing less than the amount they are approved for or the **lender** is willing to underwrite, and so is given the opportunity to 'top up' to this higher amount during the course of the loan term.
TPS	Telephone Preference Service.
TSOs	Trading Standards Officers.
UCPD	European Unfair Commercial Practices Directive 2005.
UK GAAP	Generally Accepted Accounting Practice in the UK, the body of accounting standards and other guidance published by the UK Accounting Standards Board.
Unplanned overdraft	An **overdraft** for which the customer has not agreed a credit limit with the **credit provider** in advance. These overdraft products are sometimes called 'unauthorised overdrafts'.
UTCCRs	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083).
VC	Venture capital.
WACC	Weighted average cost of capital.

Wonga	Wonga.com Ltd, renamed WDFC UK Ltd in 2012. A payday lender and subsidiary of Wonga Group Limited. WDFC SA provides services to WDFC UK and is also a subsidiary of Wonga Group Ltd.
Which?	The Consumers' Association, which uses the brand 'Which?', is a registered charity. It has a wholly-owned trading subsidiary called Which? Ltd, which is registered as a company in England and Wales. Which? conducts independent and extensive tests of hundreds of products and services every month, and publishes the test results in its commercial magazine and on its website.