

CASHEURONETUK, LLC:

RESPONSE TO PROVISIONAL FINDINGS REPORT BY THE COMPETITION AND MARKETS AUTHORITY PUBLISHED ON 13 JUNE 2014

NON-CONFIDENTIAL VERSION

1 INTRODUCTION AND EXECUTIVE SUMMARY

Introduction

- 1.1 CashEuroNetUK, LLC (**CashEuroNet**) appreciates the opportunity to comment on the Competition and Market Authority's (**CMA's**) Provisional Findings (**PF**) report published on 11 June 2014.
- 1.2 CashEuroNet is of the opinion that further examination of the findings would point to a greater degree of price competition in the payday lending market than is suggested in the CMA's PF report. This response highlights those areas where we believe further analysis should be conducted to determine the level of competition in the payday lending market.

Executive Summary of Response

- Price sensitivity and shopping around

- 1.3 The CMA has expressed concern about the price sensitivity of payday customers and the extent of shopping around. However, on the issue of price sensitivity, evidence shows that the extent of price dispersion in payday lending is not out of line with the range observed in other competitive markets. Furthermore, we believe that the extent of shopping around is greater than indicated by the CMA.

- 1.4 The CMA also points to certain market features which may be reducing the incentives of customers to shop around. CashEuroNet would like to point out that, while we agree with some of the CMA's conclusions, we do not believe there is enough evidence to support certain others. For example, while the CMA argues that consumers may not switch due to the inconvenience of doing so, the CMA's consumer survey shows that the prime reason borrowers stay with the same lender is that they are happy with the service provided.

- Barriers to entry

- 1.5 It is the opinion of CashEuroNet that the payday lending market in the UK remains an industry with \times barriers to entry. There exist multiple customer acquisition channels, which do not involve large upfront expenses, which new entrants can use to gain market share. CashEuroNet would also like to stress the importance of the recent real-time data sharing agreement with Callcredit in helping new and existing firms in the assessment of credit risk.

- Profitability

- 1.6 We have serious concerns about the profitability analysis in the PF report. The CMA has compared the ex-post profits of the three most successful entrants to this new product market with estimates of the ex-ante required returns of investors. The CMA's estimates of profitability reflect a survivorship bias. When CashEuroNet entered the UK market, our subsequent success was in no way guaranteed, as the CMA implicitly

assumes. The venture could have been unsuccessful, in the same way that other entrants to the payday lending market were unsuccessful. The CMA needs to consider all of the possible outcomes, on an ex-ante basis, in order to make a comparison to an ex-ante measure of required returns.

- Impact of Financial Conduct Authority (FCA) regulation

1.7 We draw the CMA's attention to the already observable impact of FCA regulation on payday lending and highlight our concern should the CMA base its final conclusions on out-dated data and historic market conditions.

- Remedies

1.8 Finally, we make some comments and suggestions regarding the potential remedies put forward by the CMA.

2 PRICING OF PAYDAY LOANS

2.1 The CMA has expressed concern about the extent of price dispersion in the payday lending market. In particular, consumers were found to purchase higher cost products despite the presence of cheaper alternatives. However, price dispersion occurs in many markets, even those which are deemed highly competitive. It is therefore important to compare price dispersion in the payday lending market with other benchmarks before drawing conclusions as to the extent of the market's competitiveness.

2.2 There is a wealth of academic literature that provides empirical estimates of price dispersion in various markets. Price dispersion is typically measured in terms of the coefficient of variation¹ in prices. Table 1 below provides a small selection of results from the academic literature.

2.3 These results can be compared to the extent of price dispersion in the payday lending market, using the analysis conducted by the CMA, whereby the total cost of credit for each product was calculated under the four different scenarios². Table 1 also sets out price dispersion for payday loans based on the CMA results.

2.4 To further illustrate these findings, CashEuroNet also conducted a short survey of the price dispersion in two retail markets, personal unsecured loans³ and private motor insurance (PMI),⁴ using the price comparison website www.moneysupermarket.com. These results are also included in Table 1.

2.5 From this range of estimates of the coefficient of variation, measuring price dispersion in a wide range of markets that are broadly considered competitive, it can be seen that price dispersion varies widely from supermarkets, through personal unsecured loans to PMI. The CMA data for prices in the payday loan industry provides a range for price dispersion (based on the four scenarios provided by the CMA) which falls within this range.

¹ The coefficient of variation measures the extent of the variability in relation to the mean and is calculated by taking the ratio of the standard deviation to the mean. It is being used here to measure price dispersion because the different products have significantly different scales and means.

² The cost estimates were extracted from Figures 2, 3, 5 and 6 of the CMA Working Paper on Payday Lender Pricing.

³ Data was collected on the representative APR for an unsecured personal loan of £3000 for 1 year.

⁴ Data was collected for the annual charge for private motor insurance for a Ford Fiesta worth £9,000, driven by a 35 year old man.

2.6 In sum, the extent of price dispersion in payday lending does not appear to be out of line with the range observed in other competitive markets.

Table 1: Estimates of price dispersion in various markets

Source of estimate of price dispersion	Market	Estimates of the 'coefficient of variation' for price dispersion
Paper 1: 'The Morphology of Price Dispersion' ⁵	Broad range of household goods	0.19 to 0.36
Paper 2: 'Persistent Price Dispersion in Online Markets' ⁶	Online consumer electronic products	0.30
Paper 3: 'Equilibrium Price Dispersion in Retail Markets for Prescription Drugs' ⁷	Pharmacies	0.22
Paper 4: 'Rigid Prices: Evidence from U.S. Scanner Data' ⁸	Supermarket goods in two Midwestern cities	0.088 to 0.184
CMA data on payday loans ⁹	Payday: Based on four scenarios	0.25, 0.36, 0.39, and 0.47
Personal unsecured loans ¹⁰	Personal unsecured loan	0.29
Private motor insurance ¹¹	Private motor insurance	0.46

Source: Various, as indicated in footnotes.

2.7 Furthermore, CashEuroNet has previously noted that the price dispersion witnessed in the payday lending market may, to some extent, be reflective of the underlying riskiness of clients, in addition to the normal extent of price dispersion witnessed in any market. The CMA attempted to test this hypothesis, by measuring the correlation between each

⁵ Kaplan G. And Menzio G., (2014) 'The Morphology of Price Dispersion', available: http://scholar.princeton.edu/gkaplan/files/kaplan_menzio_wp_2014.pdf

⁶ Baye, R., Morgan J. And Scholten, P., (2002) 'Persistent Price Dispersion in Online Markets', available: http://www.researchgate.net/publication/5134233_Persistent_Price_Dispersion_in_Online_Markets/file/9c960521c9ba95f9cb.pdf

⁷ Sorensen, A. T. (2000). "Equilibrium price dispersion in retail markets for prescription drugs". *Journal of Political Economy*, 108(4):833–850. Available: http://www.ssc.wisc.edu/~sorensen/papers/sorensen_JPE_2000.pdf

⁸ Eden, B. (2013). "Price dispersion and demand uncertainty: Evidence from U.S. scanner data". Technical report, Vanderbilt University Department of Economics. Available: <http://fmwww.bc.edu/ec-j/SemS2013/Campbell.pdf>

⁹ Competition Commission (2014) 'Payday lender pricing working paper'. We note that the degree of price dispersion may have been overestimated since some of the payday lenders that had relatively high fees appear to have reduced their fees recently.

¹⁰ Based on prices collected from www.moneysupermarket.com in June 2014. Additional fees such as late payment fees etc. have not been taken into account which may have resulted in an underestimate of the degree of price dispersion.

¹¹ Based on prices collected from www.moneysupermarket.com in June 2014. Add-ons (such as legal expense insurance and breakdown cover) have not been included in the analysis. This may have resulted in an underestimate of the degree of price dispersion.

lender's average daily revenue per £100 with the average principal loss.¹²

- 2.8 We do not believe that the empirical analysis that the CMA has undertaken is sufficiently robust to test the hypothesis. The objective of this analysis is to determine whether the riskiness of customers influences the lender's pricing decisions. Risk-based pricing in a competitive market can be expected to result in lenders with higher default rates setting higher prices than lenders with lower default rates. It is therefore necessary for interest revenues in the analysis *not* to reflect any losses that may be incurred as a result of credit default. For example, this means that in the case of a £100 loan that attracts interest of £15 but where the borrower defaults (on both principal and interest payment), the interest revenue in the analysis should be £15 and not £0.¹³ Revenues should therefore be reported on a deferred income method where interest receivable is recorded as revenue in the P&L in order to see a correlation between the 'Revenue per day per £100 new borrowing' and 'Average principal loss per £100' in Figure 4.4 of the CMA's PF report.
- 2.9 CashEuroNet understands the CMA has used the total revenues submitted by lenders, which were based on each lender's individual accounting policies. These are outlined in Table 2 of Appendix 6 of the working paper on 'Profitability of payday lending companies', which suggests that most companies report on an *accrued interest* basis. This means that the empirical analysis that the CMA has undertaken is unlikely to be able to test the hypothesis and therefore cannot be relied upon. Appropriate adjustments would have to be made.

3 THE EXTENT OF SHOPPING AROUND

- 3.1 The CMA seems to rely only on the results of its own consumer survey. CashEuroNet would like to stress the importance of factoring in the results found in other surveys, in order to have a more representative figure of the level of shopping around in the payday market.
- 3.2 Although the survey conducted by CashEuroNet consisted only of its own customers, this does not make the survey less relevant. CashEuroNet is a significant player and the experience of its customers is therefore important. It must be stressed that the survey was conducted using a very similar approach to that of the CMA in conducting its own consumer survey. Customers were first asked whether they shopped around for the loan for which they had been approved, and if the answer was 'No', they were asked a follow-up question on whether they had ever shopped around for a previous payday loan. The results of the survey show that 38% replied that they had shopped around for the loan in question and 38% replied that, while they had not shopped around for this loan, they had shopped around for previous payday loans.¹⁴
- 3.3 The results from the Bristol University study highlight the importance of taking into account alternative forms of credit when measuring the extent of shopping around for payday loans. The study, which finds a significantly higher proportion of shopping around for the most recent online payday loan (46%), asked respondents if they compared the cost of the payday loan with other payday lenders and other forms of credit. Question QPDSE3 of the consumer survey only asks whether the consumer compared across payday lenders and excludes any other forms of credit.

¹² See Paragraph 4.35 of the PFs onwards.

¹³ The default would be recorded as a cost item.

¹⁴ CashEuroNet's response to the CMA's Annotated Issues Statement, submitted 28 February 2014, paragraph 6.2.

- 3.4 CashEuroNet has previously noted that the extent of shopping around for payday loans (45% for online customers)¹⁵ is broadly comparable with shopping around for PMI (42%). The CMA has now argued that there are substantial differences in the extent to which PMI and payday loan customers compare products: “Nearly all PMI customers (95%) had at some point compared insurers/policies. The majority of customers who had ever shopped around online used a price comparison website and, of these, around 30% used more than one price comparison website to compare policies.”¹⁶
- 3.5 We note that referring to the 95% of PMI customers that had at some point compared insurers/policies rather than the 42% of customers that compared policies in less than a year does not provide a robust comparison.
- 3.6 Payday loans are a relatively new/recent product, and consumers typically only use payday loans for a period of around 12 to 18 months according to CMA findings.¹⁷ On the other hand, many motor drivers may have been buying motor insurance for a significant number of years. It is inevitable that over a very long time period the latter group will be more likely to have shopped around than the former group, whatever the consumer behaviour. If consumers replied that they have shopped around for motor insurance at some point in the past, it may well be the case that they are not familiar with current prices as the last time they shopped around was several years ago. This is indeed what the PMI survey shows.
- 3.7 It should also be borne in mind that consumers typically take multiple payday loans per year while, in the case of motor insurance, they usually only purchase one policy per year. This means that if a payday loan customer did not shop around for the most recent loan but for another loan, he/she may still have shopped around very recently.
- 3.8 In sum, it is not robust to compare the 95% of PMI customers that had at some point compared insurers/policies with the 45% of payday loan customers that shopped around. Taking into account the fact that consumers take multiple loans over a relatively short period of time (12 to 18 months), it would be more appropriate to compare the shop-around rate of 45% with the shop-around rate of 42% for PMI (shopped around within less than a year) or 52% (shopped around within 18 months).¹⁸
- 3.9 The CMA has taken the position that some payday customers do not shop around because they perceive themselves as unlikely to qualify for credit or perceive the time commitment from shopping around to be high. Therefore, the customer will take any offer of credit regardless of price. However, CashEuroNet has provided evidence that some customers are shopping extensively and do not simply take the first offer of credit or make an application without first reviewing other options:
- Pay-per-click conversion rates for branded and unbranded campaigns consistently average less than 3%.¹⁹
 - Lead conversion rates are consistently low: QuickQuid consistently averages drop-off rates of over 30% over time²⁰

¹⁵ CMA TNS Survey, as described in paragraph 106 of CMA Working Paper on Shopping Around.

¹⁶ Footnote 3 of Paragraph 6.14 of the PFs.

¹⁷ See Slide 11 of the CMA Presentation on Repeat use of payday loan customers.

¹⁸ 42% of PMI customers shopped around within less than a year while 20% of PMI customers shopped around between 1 and 2 years ago. Assuming that these people are evenly distributed over time, this would suggest 10% shopped around between 12 and 18 months ago. This suggests that the shop-around rate in the market for payday lending is comparable with that observed in the market for PMI.

¹⁹ CashEuroNet Response to Statement of Issues dated 14 August 2013, page 7.

²⁰ 30%

- Organic drop off amongst QuickQuid customers is 8%²¹
 - 8% of unique, new visitors to QQ Rates & Terms page in March 2013 actually took a loan (# of loans originated / # of unique IP addresses visiting QuickQuid Rates & Terms page);
 - 8% of customers that start the registration process on our main website application page, drop off and do not complete the application;
- Drop-off at the time of offer of credit is also 8%: 8% of applicants that get to the SECCI page for review of the legally required disclosures drop off after receiving these disclosures.²²

3.10 CashEuroNet would encourage the CMA to explore the reasons for the failure of prospective customers to complete the lender's application process or to reject an offer of credit. CashEuroNet's speed of funding is similar to that offered by competitors and there is little on our website to indicate that we are more or less likely to offer credit than our competitors. These facts fit poorly with the CMA's findings that payday customers do not shop around because they are centred on speed and take any offer of credit regardless of price. The CMA itself notes that the rate of loan applications turned down is well above 50% for many of the major lenders²³. Given the high level of internet participation in this industry, we feel that a thorough examination of shopping in the payday market requires review of the levels of customer drop offs and what factors drive customer drop-offs during the shopping process.

3.11 Overall, CashEuroNet continues to believe that there is a significant degree of shopping around for payday loans, comparable to other markets that are considered to be competitive.

• **Other potential factors which the CMA believes limit shopping around:**

3.12 CashEuroNet would like to comment on the extent to which certain market features, identified in paragraph 45 of the PF report, influence the level of shopping around.

- *Consumers do not shop around due to uncertainty and credit constraints*

3.13 Current evidence from the CMA's survey does not appear to support the CMA claim that credit constraints and uncertainty may discourage people from shopping around. In particular, the CMA's recent analysis that studied which variables impact the consumer's propensity to shop around, finds that those consumers who have been denied a loan before are *more* likely to declare they have shopped around in the past²⁴.

- *Consumers do not shop around due to complexity of price comparison*

3.14 Price comparison is much easier for a payday loan than it is for an overdraft facility or a credit card (which can create a long term debt position). For example, the costs are not expressed in percentages but in absolute terms (which is easier for consumers to understand) and fee schedules are readily available. Whilst CashEuroNet expects that placing alternatives together on one site (a price comparison website) will further promote shopping around, there is no inherent problem with payday loan price

²¹ 8%

²² 8%

²³ CMA Payday Lending Market Investigation, Summary of Provisional Findings Report

Notified: 11 June 2014, paragraph 11.

²⁴ Competition and Markets Authority 'Payday lending market investigation: Provisional Findings Report' Appendix 6.1

comparison using individual lender websites.

- *Consumers tend to be less aware of all fees and charges*

3.15 It is the view of CashEuroNet that these charges should be kept at reasonable levels, in order to protect customers who may be facing financial difficulties. For this reason, CashEuroNet does not charge post-default interest and our late payment fee, set at £12, is relatively low both compared to other payday lenders and compared to banks and credit card companies.

- *Consumers do not switch due to the inconvenience of doing so*

3.16 CashEuroNet believes there is not enough evidence to support the CMA's argument that consumers may not switch around due to a perceived loss of convenience of doing so. As the CMA's consumer survey has shown, only 17% of consumers indicated that they stayed with their lenders due to the inconvenience of switching²⁵. This is compared with the 61% who replied that they didn't switch because they are happy with the service provided.

4 CONSUMER USE OF MULTIPLE LENDERS

CashEuroNet believes that the CMA's conclusion, that when consumers *do* switch it is often because they are denied credit by their existing lender, is not supported by some of the CMA's findings. First of all, as shown in the presentation 'Customers and their Loans'²⁶, only 22% of customers use the full credit limit offered by their lender, and a further 11% of customers use 75% or more of their full credit limit. This means that 67% of customers could have borrowed significantly more from the current lender. Furthermore, the CMA's consumer survey shows that the main reason why consumers switch lenders (by 30%) is that they prefer the product offered by another lender.

5 POTENTIAL BARRIERS TO ENTRY

5.1 CashEuroNet would like to comment on some of the CMA's conclusions on potential barriers to entry.

Cost of customer acquisition

5.2 CashEuroNet is of the opinion that the cost of customer acquisition is not a substantial barrier to entry, as smaller lenders face a similar cost per acquisition as larger lenders.

5.3 There are multiple customer acquisition channels which new entrants can use to gain market share, without being disadvantaged by economies of scale. For example, online lenders can generate new business by using pay-per-click (PPC) advertising at a manageable cost. Whilst certain search words such as 'payday loans' or ⌘ may have a relatively high price, new entrants can also gain market share by bidding for the less popular phrases. There are also no economies of scale in buying leads from lead generators, as they are purchased on a lead-by-lead basis. Only with TV advertising are there clear economies of scale, but this channel is not necessary for a new entrant. Even with CashEuroNet, TV advertising represents ⌘ of marketing spend²⁷, yet we have still commanded a reasonable market share.

²⁵ See Table 285 of the 'Payday lending TNS survey tables'

²⁶ Slide 25

²⁷ TV advertising accounted for ⌘% of total marketing spend in 2013.

Information asymmetries

- 5.4 The CMA is right to identify the particular importance of lenders' ability to assess risk in the payday lending market. This is an important element of how we compete in the payday lending market, and new entrants need to develop effective creditworthiness checks. As we have previously stated, whilst we believe that these checks are vital for a payday lender, effective checks can be developed in only around six months, due to the short lifespan of payday loans and with a small team of technical staff.
- 5.5 CashEuroNet notes further that the CMA provided the following summary of its discussions with Think Finance at the latter's hearing before the CMA: "*Sunny was currently on its third generation of risk model in the UK. It took around three to four months to gather enough data about performance and as a new company, it expected its risk modules to improve in the future. Communicating risk-based pricing to customers had proved challenging due to advertising regulations and various channels were being explored.*"²⁸
- 5.6 In an effort to improve customer information across lenders, CashEuroNet has been involved in the recent launch of a real-time data-sharing initiative with Callcredit. This is intended to ensure that any applicant is properly assessed based on the most recent data available from all reporting sources and is therefore expected to benefit existing and new entrants alike.

6 PROFITABILITY

- 6.1 CashEuroNet would respectfully call on the CMA to revisit its analysis of the profitability of payday lenders to address the clear problem of 'survivorship bias' in its analysis. Whilst the CMA acknowledges that this issue could arise, we do not believe that the CMA has addressed this problem and continues to compare the actual ex-post returns of the most successful entrants into the market with ex-ante concepts of expected returns.
- 6.2 In the analysis, the CMA compares the average profits (in terms of the return on capital employed (**ROCE**)) over the past five year of the three largest firms with measures of the returns that investors expect to receive, based on analysis of the weighted average cost of capital (**WACC**) and the long term returns of Venture Capital (**VC**) funds. This is not a robust comparison, as:
- All firms are new entrants to the online payday lending market, which represents most payday lending. The CMA is essentially looking at the profitability of the three most successful entrants, in terms of sales growth; it would seem highly likely that the profitability of these three successful firms is higher than the average of all entrants to this market, particularly given that some entrants failed and had to exit the market.
 - The CMA comparator benchmarks are measures of the returns investors expect to receive, averaged across all possible outcomes for firms, including the most and the least successful outcomes; this includes the benchmarks based on the long term returns of VC funds, as these VC funds will include both successful and unsuccessful businesses.

²⁸ CMA, "Summary of hearing with Think Finance (UK) Limited on 6 March 2014", paragraph 25.

- Consequently, the CMA is comparing the profits of the most successful firms with the average profits across all firms (both successful and unsuccessful) and, unsurprisingly, finding that the former have higher profits than the latter.
- 6.3 The CMA analysis would only make sense if CashEuroNet was guaranteed success when it entered the UK market. At the point of entry, our subsequent success was in no way guaranteed. The venture could have been unsuccessful, in the same way that other entrants to the payday lending market were unsuccessful. ✕ made apparent by the exit from the market of some of our competitors in recent months.
- 6.4 The CMA therefore needs to consider all of the possible outcomes, on an ex-ante basis, in order to make a comparison to the ex-ante measure of required returns. As CashEuroNet has previously emphasised in our submissions to the CMA, one should expect, in a new and rapidly developing sector subject to fierce competition, to see both businesses failing and businesses making a clear profit. This is exactly what we observe in the payday lending sector.
- 6.5 CashEuroNet would also like to point out that the CMA has not included in its calculations of ROCE the value of the intangible asset of payday lending business 'know-how' that CashEuroNet acquired from CashNetUSA for no charge in 2007. As previously submitted, CashEuroNet believe that this intangible asset would have been costly to develop and should not be excluded from the calculations.

7 THE IMPACT OF FCA REGULATION ON PAYDAY LENDING AND PROFITABILITY

- 7.1 The CMA snapshot view of the payday loan industry from 2012 and 2013 is already out-of-date given regulatory and legislative changes announced since the review period. FCA supervision is already impacting the supply of credit²⁹ and the cost structures of lenders³⁰. The FCA rules on rollovers and Continuous Payment Authority have already (and will further) negatively impact³¹ lender profits and returns on investment (**ROI**).
- 7.2 The net impact of the various regulatory and legislative changes to the payday industry in 2014 and 2015 will undoubtedly be lower profits and lower ROI for individual payday firms. The CMA claims that there is consumer detriment of £5 - £10 on a typical £260 loan. However, it is CashEuroNet's position that the data from which the CMA is working is already outdated and, we believe, does not reflect current market conditions under FCA regulation. The CMA will have access to the FCA cap consultation in July 2014 and have the opportunity to observe the impact of ongoing FCA activities before the December 2014 Final Report. CashEuroNet respectfully suggests that any CMA finding or statement in its Final Report with regard to any AEC or consumer detriment should reflect relevant actual (not historic) market conditions, including taking account of the expected limits on default charges, arrears fees and post-default interest.

²⁹ <http://www.fca.org.uk/news/cheque-centre-stops-selling-single-repayment-payday-loans-fca-tougher-consumer-protection>

³⁰ <http://www.fca.org.uk/your-fca/documents/requirement-notice/wageday-advance-limited-vreq>

³¹ <http://www.fca.org.uk/your-fca/documents/consultation-papers/cp13-10> pages 165 - 166

8 REMEDIES

- 8.1 CashEuroNet welcomes the opportunity to comment on the remedies that the CMA proposes. We have provided some views on each of the proposed remedies below. In addition, we contributed to the CFA's detailed proposals on enhancing consumer transparency across the industry.

Remedy 1: Price comparison website

- 8.2 CashEuroNet has always supported the concept of an effective price comparison website (**PCW**) for payday lending, and we welcome the proposals of the CMA.
- 8.3 We believe that the PCW should include all *authorised* payday lenders. We would suggest, however, that inclusion of lead generators could confuse customers unless their status is clearly identified and the charges indicated are the charges that the customer would face if accepted for the loan.
- 8.4 We also believe that the PCW should provide a comparison of products that would be considered by customers to offer similar services in order to encourage effective use of the PCW. For example, if the customer wishes to repay the loan over a three month period, then the comparison should be of three month instalment loans. Customers should also be able to restrict the comparison according to other desired product features, such as speed of funding. Increasing the ability of the customer to set the requirements for the comparison will assist customers in comparing charges of truly comparable products.

Remedy 2: Measures to improve customer awareness of additional charges and fees

- 8.5 CashEuroNet welcomes the CMA approach to improving customer awareness of additional charges and fees. CashEuroNet has always maintained a policy of charging only a single £12 late fee for a missed payment, with no post-default interest being applied. We believe that all customers should take all additional charges and fees fully into account when selecting a payday loan. We would welcome the opportunity to work with the CMA to identify the most effective ways to disclose this information to consumers. We would also urge the CMA to note the proposals for the FCA rate cap once published in July, as it is likely these will significantly limit the scope for lenders to charge post-default fees & interest.

Remedy 3: Measures to help customers assess their own creditworthiness

- 8.6 CashEuroNet welcomes measures that help consumers to have a better understanding of their own creditworthiness, but we believe that it is very important not to introduce measures which limit the ability of lenders to develop and improve their creditworthiness and affordability checks. These checks are vital for the business of payday lending, allowing lenders to serve a customer base that is often under-served by financial services and they are a key part of the way we compete.
- 8.7 CashEuroNet conducts credit checks and we make this clear to our customers. We have also been at the forefront of developments to share real-time data with Callcredit, the credit reference agency, to improve the quality of creditworthiness checks. We therefore fully support options (a) and (b) proposed by the CMA.

- 8.8 With regard to option (c), we do not believe that it would be helpful to indicate to customers whether they may be successful or not before we have conducted our creditworthiness assessments. Our creditworthiness checks are complex and are being continuously improved and updated according to market conditions. An initial check would not provide sufficient information to be able to provide customers with an initial assessment of their eligibility— we need to review information from credit reference agencies (**CRAs**) before this is possible.
- 8.9 It is also the case that we need to rely on much more than just the overall credit score provided by the CRA, and it would not be appropriate to indicate eligibility based on a CRA credit score alone. The quality and effectiveness of our creditworthiness assessment allows us to identify the customers who are most likely to be able to repay loans and therefore these assessments necessarily go beyond a simply credit score.
- 8.10 In short, CashEuroNet believes that it is not necessary to potentially mislead customers with low quality indicators of creditworthiness, as applications for loans can be made relatively easily. Customers that shop around can quickly obtain a view of their creditworthiness, based on whether they are accepted for loans or not. CashEuroNet's use of quotation searches allows for credit reports to be used only for its internal review of a credit report without leaving a footprint. If CashEuroNet approves the loan, it updates Callcredit and the record is created.
- 8.11 With regard to option (d), we believe that there is a risk that integrating a standard eligibility assessment into the PCW could mislead customers about their eligibility and could compromise the ability of lenders to innovate with regard to their creditworthiness assessments. An initial check is unlikely to provide a typical payday loan customer with a clear understanding of whether they are likely to be eligible, and could result in some customers being rejected at the initial stage when a full analysis of the credit status could have led to acceptance, whilst other customers may be disappointed as they pass the initial stage but are then rejected after analysis of their credit status.
- 8.12 CashEuroNet wishes to emphasise to the CMA that creditworthiness assessments are a key part of innovation in this sector, which allow us to service a customer base that is often under-served by traditional financial services providers. This innovation should not be hampered by efforts to improve customer understanding of their status prior to the lender having sufficient information to be able to effectively approve or deny a customer's loan.
- 8.13 In order to provide a prospective customer with either a quotation or an indication as to their eligibility for a loan, CashEuroNet would need to complete a full assessment as to creditworthiness, including by reference to the individual's credit score. ✕
- 8.14 Providing always that CashEuroNet was provided with the relevant customer identification information to enable it to complete its assessments, it would be able to provide a prospective customer with an accurate advance quotation in real-time and would be happy to provide this service.

Remedy 4: Periodic statements of the cost of borrowing

- 8.15 CashEuroNet understands the desire of the CMA to improve customer awareness of their use of credit facilities. We believe that this approach should, however, avoid creating unnecessary costs that may ultimately be passed on to customers.

- 8.16 In particular, we request that any periodic statements can be provided online or through email, as this is likely to be most appropriate for online payday customers and will also minimise costs.

Remedy 5: Measures to increase the transparency of the role of lead generators

- 8.17 CashEuroNet welcomes measures that increase the transparency of the role of lead generators in the payday lending market.

04 July 2014