PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with Provident Financial PLC held on Monday 28 July 2014

Recent developments and financial performance

1. Provident Financial plc (Provident) said that it had recently put out a public half-year statement with its results and outlook regarding its new product offering Satsuma. Since last speaking to the CMA it had been seeking to understand whether there was sufficient demand for this type of product and whether it could make reasonable returns from it. It was confident that there was demand in the marketplace. However, before increasing the business' scale, it was refining its underwriting process to ensure that it got its affordability assessment right and also building a new flexible IT platform to handle the scale of business that it was envisaging.

2. Presently the business was still loss making, but Provident's aim was to break-even [✄] and then continue to grow. In June it had had 11,000 customers and a net receivable of about £2.5 million. It was doing around [✄] loans a month and this level had been constant for some time. By the end of the year it was hoping to increase this to [✄] per month, and then to sustain this level throughout 2015. It was careful who it lent to and its acceptance rate was below [✄]%. Provident was hoping to increase this slightly, but its primary focus was to not lend to too many people who would default on payment.

3. Provident said that Satsuma's customer base was very different from its Home Credit one as they did not want to make cash payments, would not be at home and would want to transact either online or over the phone. However, the customers were still managing a budget and wanting to interact weekly, and occasionally they would have to miss a payment. Hence when designing the pricing model for Satsuma, Provident had based its assumptions on a model similar to Home Credit.

The FCA price cap

4. Provident thought that the Financial Conduct Authority (FCA) had achieved a good balance as it seemed to be a relatively tight rate cap, whilst also being simple for the consumer. Provident also felt that there was a reasonable balance between the single instalment short-term traditional payday loan, the

multiple instalment loan and the slightly longer revolving credit loan. It believed that the FCA was trying not to shut down the short-term payday loan, but making sure that it went to the right people at a lower price, and also trying not to overly incentivise going longer term and revolving to maintain the same revenue from the customer.

5. Provident thought the proposed cap was very well designed as it included all fees, charges and revenues that could be levied on the customer. This was key for Provident because that was how its products were structured and it wanted to compete on a level playing field.

6. It also felt that the FCA had taken the right approach regarding policing and enforcement as the FCA was clear about what it expected lenders to do and then it used its supervision regime to seek evidence that companies were actively complying before it would authorise them.

7. Provident did not believe that the price cap affected Satsuma's products although it was applied differently to an instalment loan product than to a single product. Provident was looking at the specific details, but did not believe that it would need to change the pricing and structure of its product based on this control.

8. Provident said its products ranged from 3 to 12 months and it emphasised that it did not put on any additional charges, unlike its competitors who priced similarly but then added on extra fees and charges wherever possible.

9. Provident had undertaken the necessary analysis to determine its pricing and it said that the FCA having the cap set above where it had decided to price did not now mean that it felt the need to price up to it. Provident thought that this might mean that it was slightly cheaper than its competitors and it said that it would play on the fact that not only did it operate in a capped market, it also had its own cap, so it felt that its customers would know what to expect from the outset regarding pricing and this would give them confidence.

10. Provident was unsure how competition would develop. It thought that competition would probably focus around the daily rates, but it felt that price competition would be constrained by the tight nature of the cap. While others might price at the cap in the short term, it thought that it was more difficult to know how prices would develop in the longer term.

Price comparison websites

11. Provident said that it was using TV advertising to try and drive direct business to Satsuma's website. It had also tried limited exposure through price comparison websites (PCWs) and aggregators in order to test some different

channels to market. At present it had not had enough volume to say which was going to work best. Provident stated that it could be difficult to generate business through PCWs because Satsuma's APR was relatively high.

12. Provident thought that presently the majority of its customers were coming directly to its website and that was being driven through the higher profile advertising.

13. Provident said that it had had experience of trying to set up an industry PCW for the Home Credit industry and it thought this remedy could work well. For Provident, the key was to set it up as commercially as possible. It said that customers would want to transact from the site and it would be counterproductive to have information on a site if the customer could not then go directly to the chosen provider.

14. On Home Credit, it had found it difficult to get companies to tender to host the site because there was a lack of commercial potential to grow and expand the site. It also felt that the association with high APR lending may also limit the number of companies who would be willing to host the site.

15. Provident said that there would be a real benefit from official assistance and branding and it highlighted the fact that there was a lot of dislocation within the industry, so it felt that it would be a challenge to get the site up and running if it were left to the industry itself to sort out.

16. Provident thought that having either an accredited site(s) or a public sector body to show a non-commercial set of tables could work, as it felt that these would fit in with what consumers wanted. It believed that the best chance of success would be from using existing commercial PCWs. However, it queried whether the commercial sites would want to be associated with this particular market without accreditation from either the CMA or the FCA.

17. Regarding governance, Providence accepted that there would need to be some criteria and constraints about what could or could not be done on the specific parts of the site and it thought that the FCA may be best placed to oversee this. It thought an additional governance structure would be seen as too interventionist and would put certain sites off. However, as people would be compelled to use these sites, and revenue was generated by the number of deals going through the sites, it may still prove to be attractive to some.

18. If a commercial PCW were to be used, it would have an incentive to drive volumes through it. Therefore it would try to encourage customers who may be using other parts of the site to visit areas that they might not have realised had more appropriate products for them. Hence the site would work more like a broker or an intermediary had previously worked in this market.

19. Provident would be happy to go on more than one accredited site and so negotiate agreement terms with all of the sites identified. It said that on-line comparison sites were relatively easy to deal with.

Additional fees and charges

20. Prior to the cap Provident thought that highlighting the late fees and other charges should have been done at the point where customers were making decisions about a loan. However, it felt that the effect of this remedy was now going to be limited as the FCA had come up with a very simple structure that people would be able to understand.

21. It was important for Provident that it could say that its customers would never pay any more than initially agreed.

22. Provident thought that outlining additional fees and charges worked well as a remedy, especially in tandem with having a PCW. However it said that if Satsuma were compelled to provide scenarios up front, it may be confusing for customers as Satsuma did not charge additional fees and therefore this may confuse customers, instead of differentiating it from its competitors. Provident was keen to emphasise that it would not charge additional fees and so wanted its prices to be compared in a sensible way with the prices of others who might charge extra fees further down the line.

23. Provident thought that the best way to do this would be to highlight the differences in the initial table that outlined the various products. It said that presently the problem was that consumers were not expecting to run into payment problems and incur additional costs and so were somewhat deluded, the costs therefore needed to be clear at the point of decision.

24. Provident said there was little risk associated with customer behaviour being driven by increased prominence of late charges as it had been having conversations with customers for years in connection with Home Credit and therefore it would manage the situation to ensure that it would not be seen as a soft touch.

Assessing credit worthiness

25. Provident said that it could be very difficult to use a limited quotation search to provide customers with any certainty upfront that they would be accepted for a loan, as after a full search and credit assessment, the response may be very different. Lenders could not commit to accepting a customer at a particular price on a particular product on a limited set of data.

26. Provident believed that the information received from a quotation search and an application search was very different as when a customer applied, Provident would take a reasonable amount of information from them in order to assess affordability. It would not go through all the necessary steps just for a quotation, as many customers would not continue through to an application and significant costs would be incurred without generating any new business. This would significantly raise the cost of new customer acquisition on average.

27. Provident said that, with Satsuma, it was developing its credit tools and it may choose to go to differential pricing. However, at present, things were more simplistic and it was looking mainly at eligibility.

28. In regard to building an eligibility check into a PCW and the possibility of having a traffic light system for the likelihood of getting a loan, Provident thought it could work to help customers understand which types of lender would be most likely to offer them a loan. It said that this had previously been the role of the broker/intermediary. However, lenders may have very different ways of assessing eligibility, so customers would need to answer a range of questions upfront, which could either narrow things down too much or not enough and would require the customer to spend a lot of time inputting the information. Alternatively a higher level approach could be taken which would just give a general indication that people were in the right part of the site. The site could then direct customers differently depending on whether they wanted a short-term, single instalment loan or something longer term.

29. Provident saw it as a big challenge and said that brokers and intermediaries had always done something high level. The more specific and narrowed down it was, the more difficult it would be, but allowing consumers to self-select in some way could be possible.

Real time data sharing

30. Provident said it was very interested in real time data sharing and it supported better quality data that would be shared more across the industry as this was fundamental to it model. It was moving from a position of interacting with a customer on the doorstep with lots of qualitative information, to having a customer on the phone or website, where it did not have all the information. It thought the more frequently the information could be shared, the more beneficial it would be and if it could be instantaneous, it would be ideal. Provident said that it did not want to be lending to a customer or assessing them not knowing that they had just taken out another loan. It supported the idea of compelling all lenders to participate and thought requiring them to take part would get the schemes up and running a lot quicker.

31. Provident did not believe that compelling all lenders to provide the data to all the different bureaux was the answer, but rather having the bureaux share the data across them so that everyone would have the same underlying data.

Periodic statements on cost borrowing

32. Provident thought this remedy could be effective. It believed there were 2 points at which it made sense to do it, either when the loan was paid off, so making it clear what that total cost was, or on an annual basis providing the total cost of loans over the year. It suggested short electronic communications with totals on them linked to appropriate advice or the PCW. It thought the annual statement had a role, but would be too intermittent, so the key point was when the customer finished the loan.

33. It envisaged Satsuma customers being able to look up their loans and manage them on-line when its systems were fully set up. However, it thought sending information to the customer would work better as a prompt, rather than relying on the customer to go and look things up. Especially as if customers were already logging on to look at their status, they wouldn't need a prompt to consider how much the loans were costing and a nudge towards a PCW.

Lead generators

34. Provident said that the behaviour of some intermediaries that the CMA had highlighted in its Provisional Findings report was not acceptable as they did not deliver an outcome for the borrower that was in the borrower's best interests. Often the generators were not clear about their role, nor about how the lender was selected, but Provident believed there was a clear FCA regulation framework already in place to deal with this behaviour.

35. Provident stated that the lead generators needed to be clear upfront that they were an intermediary or aggregator, not a lender. It also thought more clarity was needed about how they were ranking and directing business as if they directed customers purely on who incentivised them more, it was likely to be poor conduct. For Provident, it was less of a transparency issue and more of a good conduct issue. Provident thought that this problem should be addressed by the FCA checking that the business models of the aggregators ensured the right outcome for the customer.

36. Initially Provident did not think that lead generators should be on an accredited payday lending website. However, after reflecting, it believed that there may be a role for an aggregator in helping smaller new entrants who may not have the ability to deal with PCWs.

Remedies – general comments

37. Provident agreed with the CMA's finding that price competition was weak. It thought that in order to acquire and retain customers, some competitors had struggled to compete in a clean and sensible way based on price or innovative structure.

38. Provident queried the CMA's conclusions relating to innovation and stated that it felt that there had been a huge amount of innovation, looking at scale and also the move from pure payday, through to instalment, through to revolving. Provident felt that there had been too much innovation from those who were not used to looking at the loan from a lending perspective, but rather from an online service perspective. It thought that some providers were not used to the issue of customer conduct and how to handle customers and considered that just because the customer was buying, it must be a positive.

39. Provident said that the FCA and the OFT had done a lot to address the poor behaviour in the market and this was why it had concluded that it could now compete with a product like Satsuma.

40. Provident agreed with the CMA regarding the remedies that it was not considering.