

PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with CashEuroNetUK, LLC held on Thursday 17 July 2014

Background

1. CashEuroNetUK, LLC (CEN) told us that its new customer acquisitions were [REDACTED].
2. The number of applications had [REDACTED].
3. CEN had limited the number of customer rollovers to two since June 2013. Although the permitted maximum number of rollovers under Financial Conduct Authority's (FCA's) regulation is two, CEN believes that under FCA supervision companies are discouraged from using roll-overs. It had also reduced its use of continuous payment authority (CPA) over the last 14 months. CEN's US subsidiary could, under US regulations, only debit three times at the end of a loan term.
4. At present CEN's QuickQuid short-term loan day product accounted for approximately [REDACTED] of its business with FlexCredit, its flexible line of credit product, comprising [REDACTED]. [REDACTED]. It wanted to advertise QuickQuid loans as a brand and offer both payday loans and FlexCredit to give customers choice. The monthly default rate [REDACTED].
5. CEN had two other products, Pounds to Pocket and On Stride. Pounds to Pocket was a six to 12 month product which had lower interest rates than standard payday products in the market. On Stride, which was not a high-cost, short-term product, had been launched a couple of months ago and offered customers loans from £1,000 to £5,000 over a period of one to three years. It had a tiered pricing structure of 29, 50 and 89% depending on the risk profile of the customer concerned. [REDACTED].
6. The trend in the number of new customers was likely to be [REDACTED].
7. [REDACTED]. Most of the costs of issuing loans were variable costs with the greater proportion relating to acquisition, bad debt, bank fees, Callcredit fees and database fees. [REDACTED].

8. CEN saw scope for price competition under the FCA's price cap and would allow for a variety of single payment and instalment products. [REDACTED].
9. CEN did not necessarily agree with the FCA's analysis that all but the four largest lenders would exit the market. CEN thought that an assortment of small and mid-sized lenders would benefit from the price cap. A number of smaller firms ([REDACTED]) operated products below or at a very similar level to the cap. Ultimately whichever lenders developed the best credit models, and these would not necessarily be the largest, would survive in the market.

Price comparison website

10. A proportion of CEN's new customers ([REDACTED]%) were obtained through price comparison websites (PCWs). CEN received most of its PCW traffic from [REDACTED], but noted that the presentation of products was not driven by price. CEN has also been listed on [REDACTED]. CEN thought that there was scope to improve current PCWs.
11. The payday lending market was relatively small which might explain why the mainstream price comparison websites had not entered the sector. CEN also believed reputational reasons could be a factor. CEN thought that borrowers would welcome a functional comparison website provided that it identified firms' costs. The price cap would make pricing clearer as fees would be included in the pricing of the product. An accredited price comparison website or one created by the Competition and Markets Authority (CMA) would drive competition on price depending on how well it was advertised. Multiple accredited sites were also a good idea and might lead to competition in the price comparison sector.
12. The effectiveness of a comparison site in changing customer behaviour across the market would be dependent on customer awareness as the result of the promotion and advertising of the site. CEN thought that the site would need its own marketing budget and use of pay per click advertising. It would make sense to use one of the existing price comparison sites which would reduce the cost of setting up a bespoke site and reduce the expenditure on marketing.
13. The use of an existing commercial PCW would reduce the development cost of a payday comparison tool.
14. The site would need a governance board to provide oversight and to look out for what was best for the industry, the consumer and the market. The composition of the board could include representatives from trade bodies, consumer groups and independent members. If it was an effective and well

used site, [redacted]. The site could also assist new entrants provided that the website had a track record of success (i.e. in terms of the volume of loans issued).

15. Any price comparison site would need to present information neutrally. Critical to its success is to let the customer clarify or rank what he or she is looking for e.g. display loans by price from lowest to highest and allow a borrower to specify the duration and value of a loan. CEN thought that a graphical display of prices might assist customers in identifying the cheapest loans. Only lenders and products that met the FCA's high-cost, short-term definition should be included on the site and all authorised lenders should be required to participate (otherwise companies with the highest costs would not want to participate).
16. If the site required a full lead form and credit evaluation (to indicate the likely price a borrower would be offered from a variably priced product) then lenders should be asked whether they wanted to be included. CEN was concerned that other lenders would be able to analyse results and reverse engineer competitor's credit models enabling them to determine their lending criteria. To prevent competitors gaming the system lenders could run a credit report to identify the consumer and determine whether they could offer them a loan and then conduct further analysis on their own website. [redacted]. The main complexity of developing a site would be running scenarios for those products with tiered pricing. Customers using the website would need to enter enough personal data to identify themselves with a credit reference agency (CRA).
17. In terms of promoting the site, CEN expressed concern at the possibility that lenders might be required to provide a link to the price comparison site on their own website. This would result in the loss of CEN customers to other lenders, having incurred costs in the customer acquisition process. CEN acknowledged that other companies would also be required to provide links on their websites but thought it was likely that it would [redacted].

Fees and charges

18. The clarity and transparency of fees and charges varied by lender. CEN thought that a representative sample of fees and charges should be displayed prominently on lenders websites and that each lender should be able to list non price information about themselves.
19. CEN thought that late fees and default charges should be included on a comparison site but if fee structures became standardised there might be less of a need to display these. CEN did not agree that there was significant risk about increasing the prominence of late fees. CEN hadn't advertised the fact

that it had the lowest default charges in the market which were lower than the FCA price cap, as this was not a factor in a borrower's decision on whether to take out a loan. As a global organisation it had decided that it did not wish to profit from post-arrears charges, default charges or post-default interest.

20. If the FCA price cap was imposed there was a likelihood that fees and charges would become more homogenised.

Creditworthiness

21. Anyone wishing to take out a loan with CEN could establish if they were eligible for a loan before making a formal credit application because CEN used quotation searches rather than application searches in the first instance of needing to check a borrower's credit history. CEN had started undertaking quotation searches as result of Office of Fair Trading (OFT) guidance and had initially assumed that all lenders would have adopted quotation searches.
22. CEN's application process required customers to complete and submit an application form on its website. CEN checked its customer data base to establish whether there had been a previous loan relationship. If this did not indicate that a customer was ineligible, CEN would then conduct fraud checks. If these were passed CEN would then undertake a quotation search to obtain credit information. CEN which had started using quotation credit searches in 2013 at the suggestion of the OFT and had assumed that all lenders were required to do so but had learned that this was not necessarily the case. The quotation search which [redacted] did not leave a record with the credit reference agency (CRA). CEN used [redacted] to check whether customers had high-cost short-term credit products. CEN also purchased some [redacted] products. If a customer was eligible for a loan they would be presented with the loan conditions and the price. If the customer chose to take out the loan (signing the contract digitally), a second credit search was undertaken, (an application search) which left a footprint on the CRA's file.
23. Payday lenders used more bespoke credit models than other credit providers which might make developing an eligibility assessment on a price comparison website more problematic. It was not feasible for customers to use a standard CRA credit score as a tool for assessing likelihood of acceptance. CEN thought using a price comparison website would be easier for consumers to use (i.e. in obtaining a quote and a decision) than the existing system and would remove the confusion surrounding [redacted].
24. CEN thought that developing a PCW with an aggregation tool to match borrowers to the cheapest lenders that would lend to them (potentially using technology similar to a pingtree), in which customers entered their details and

received quotes from around three to five lenders, including non-price information, would be ideal from a competition standpoint.

Data sharing

25. CEN currently obtained near real time data from [REDACTED] on a daily basis which would ultimately be provided in real time. The CMA data from working papers indicated that less than 20% of CEN's customers already had another loan. [REDACTED]. Customers with higher credit scores were least likely to have another payday loan or two other payday loans outstanding already.
26. CEN believed that its monthly updates were shared with other CRA's in the same way as every other type of credit. CEN did not think that [REDACTED] differentiated between payday lenders or that CEN received different treatment. Although real time data was not going to be shared on a daily basis, data would still be shared at the same frequency (monthly) as before between the three largest CRAs, partly because [REDACTED] did not have daily batch updates and there was no agreement for them to share data on a daily basis. CEN and some of the trade associations were trying to facilitate more sharing between [REDACTED] and to encourage [REDACTED] to do so.
27. CEN saw no costs or risks to customers associated with real time data sharing. CEN considered that there were advantages to new entrants of having access to real time data as it ensured that credit models were based on more up to date data and thus were a more accurate credit risk.
28. CEN chose not to share data with CRAs that it had not requested data from. CEN identified that there would be additional costs in sharing data more widely without benefits to CEN and were uncertain about the benefits to customers given the reports of other credit providers basing lending decisions on the existence of a payday loan on a borrower's credit history.

Periodic statements

29. CEN considered that email was the most appropriate means of communicating with its customers. If CEN had to send letters by post it would have to increase its costs. The only communications CEN sent by post were arrears (default) letters. Most of CEN's customers had an account online which showed their loan history. All its customers received confirmation emails when they took out a loan. In some US States (e.g. Maryland) CEN was required by federal law to deliver periodic statements which it did by emailing a link directly to the customer's account. If lenders were required to issue periodic statements they should all do so at the same time (either quarterly or semi-annually) so that these could be compared. Customers who had taken out a loan in that period or who had a balance outstanding should

receive a statement. CEN thought that the statement should be fairly simple showing the number of loans, the number of payments and the totals for that period. It could also include, for high users of loans, a link to a debt charity. CEN thought it would take between 25 and 50 hours to programme and test an email batch system for issuing statements and that it would need periodic checking to ensure it was working effectively.

30. CEN considered that a link to the customer account pages in an email notifying them of the availability of a statement would be sufficient for its customers. CEN thought that it was feasible that a statement could be shown to returning customers when they logged-in to their account and that a customer could confirm receipt before continuing.

Lead generators

31. The FCA's price cap would reduce the price and profitability of each loan, making each lead less valuable to a lender which theoretically would lead to a decrease in the price paid by a lender for a given lead. This had not occurred in the US because there was a great deal of unlicensed lending (over 50% of the market was unlicensed). CEN hoped that this did not occur in the UK. CEN noted that pingtree prices had been relatively flat during the last six months.
32. Lead generators were used by lenders because they are effective professional expert marketers. [REDACTED]. Where CEN had paid for a lead it would continue to market alternative products to the customer provided that person had accepted CEN's privacy policy. If it was a contact through the pingtree CEN would not be able to contact them.
33. CEN subjected lead generators to a review process before using them which included a review of the lead generators' website with whom they had a direct relationship for compliance with relevant regulations. It would not do business with a lead generator or broker that charged customers a cash fee and its lawyers reviewed their websites to make sure there were no obvious violations of law. As an FCA regulated company CEN could only deal with reputable parties. [REDACTED]. However, CEN was unable to police the companies affiliated to lead generators because there were so many of them; CEN relied on the lead generators to do this. [REDACTED].