PAYDAY LENDING MARKET INVESTIGATION

Summary of a response hearing with SGE Group held on Friday 29 August 2014

Background

1. SGE Group (SGE) told us it was technically a lead generator but its model differed from other lead generators. It was in its fifth year of trading. It was established as Switch Gas and Electric Limited but moved to a group structure on 1 January 2013, with Switch Gas and Electric Limited dealing with energy switching, and SGE Loans broking loans. SGE was not aware of any other organisations that offered a similar business model.

2. It had four inquiry websites (SGE Loans, A Loan Provider Credit, Affordable Loans For You and Apply For A Loan) through which it obtained the contact details of customers seeking loans. It advertised the telephone number of its call centre on its websites and the adverts it placed with Google. Within eight minutes of a customer completing SGE's inquiry form it would call the customer. (However, sometimes the customer called SGE first.) SGE also offered the customer a credit report and a premium service product which were optional. If, during the call, SGE's internal systems could identify any energy savings for the customer it would transfer them to its energy team. SGE also offered its customers the option of taking advantage of services provided by an insurance broker (provided they met the relevant criteria) and a telecoms provider it worked with.

3. The loan application was completed over the telephone during which SGE sought details of the customer's income and expenditure. SGE had a range of lenders (approximately 50) on its panel, 10 of which were payday lenders. Of these it dealt directly with the Dollar brands Payday UK, Ladderloans and Payday Express and another lender WageDayAdvance. SGE also transferred leads to pingtree operators (primarily Revup Media and Money Gap but also Goldfish) to generate business with lenders including Mr Lender (with which it used to deal with directly) and MYJAR. The process whereby customers entered their details into the pingtree and were then redirected to the lenders website was quite fluid. The revenue from traditional payday lending lead generation activities accounted for around 5% of SGE's turnover. Energy accounted for 20 to 25% with the remainder being generated from the non-payday loans section.

4. SGE had just launched a new product called Choice Freedom Card whereby customers received an instant £500 credit facility. Instalment loans had only recently started featuring in the market. SGE believed that instalment products such as Satsuma which had broadened its product range, were better suited to customers, offering them better value and more choice. The flip side was that approval rates had dipped in the short-term. However, SGE believed this would balance out in the medium term as more instalment providers entered the market.

5. The lenders on the panel all had different lending criteria, for example, some lenders only wanted customers who had a car without any finance on it while others might only want customers who were in full time employment earning over £1,000 a month. SGE conducted its own criteria checks including checking a customer’s income and employment status. SGE sought the best match for the customer, matching their details with the requirements of the lender and then sent API feeds to the lenders that were appropriate for that customer. If the customer was accepted they would receive an email from the lender or an email from SGE on behalf of the lender. SGE’s pay-outs team conducted an affordability assessment and then talked through the different options with the customer, describing how the electronic agreement worked or would hotkey (telephone transfer) the customer to a lender depending on what had been approved and what the customer wanted. If the customer wanted to accept the loan they would click on the URL and electronically sign for the loan. SGE received payment when a loan was issued.

6. Around 97% of SGE’s customers applying for a loan received an offer. SGE attributed this high percentage to the fact it offered a guarantor loan and had two home-collected credit lenders (Shopacheck and Provident). Home-collected credit offered loans to unemployed people whereas payday lenders would not. Loan approval was based on approval by lenders. The SGE system would group loans into best matches, same day credit and other options. The SGE agent would then explain the process to the customer following the order on the SGE system. Feedback from lenders indicated that SGE was a much lower fraud risk than other lenders. This was because SGE spoke to its customers to verify their details on the telephone number the customer had provided and recorded the calls. SGE did not conduct any credit checks on its customers. SGE was paid on the basis of pay-per-lead and pay-per-funded.

7. SGE did not charge customers a membership fee, instead levying a £5 administration fee. It also offered a premium service which was an optional extra for the customer. Around 25% of SGE’s customers took advantage of the premium service for £99.99 which afforded a range of discounts including cheap shopping codes at a variety of online sites, restaurant vouchers, a £100

ABTA approved holiday voucher, a £50 Virgin wine voucher, an energy saving guide and an online portal so that they could see all the different loan companies offers. The premium service did not expire.

8. The telesales model worked well in terms of meeting the Financial Conduct Authority's (FCA's) treating customers fairly (TCF) requirements because it enabled SGE to explain products to customers over the telephone. However, operating a telesales based organisation meant that SGE had a higher cost base. It had a sales team of 40.

9. SGE did not encounter any problems with using search engines because it had separated its lending and energy businesses: it did not cross-sell finance into energy, but cross-sold energy into finance. Quite often cross-selling business models could incur the customer additional expense and so SGE's model worked well because there was no expense to the customer to switch to a cheaper energy supplier a strong focus on affordability and switching a customer to a cheaper supplier reduced their outgoings.

10. SGE managed pay-per-click differently to traditional online businesses because it was buying leads to feed its call centre. SGE calculated how many leads it would need to buy based on the number of staff working on loans on the call centre on that day. SGE monitored the inbound traffic generated by its Google advertisements to ensure it purchased the correct volume of leads. It did not want to purchase more leads than its call centre could speak to.

11. Organic search was not a large part of SGE's business. SGE had tended to stay away from organic search because it was not a precise science and Google had a tendency to change its algorithms. SGE used around 50,000 different terms. It ran weekly reports which identified the key words used on Broad and Phrase which it incorporated into its campaign because exact matches with key words were cheaper.

12. In theory pingtree operators were competing with SGE but did not impact on its business. Their average loan request was about £150 whereas SGE's average loan request was £1,200. In SGE's experience businesses within the loan industry worked quite well with each other. SGE did receive some repeat business but this was something it did not encourage, its business was not set up to build a long-term relationship with the customer. SGE was focussed on new customer acquisition whereas the payday loan model was based on a customer having three or four loans a year.

13. There were some lenders that SGE would not deal with, for example Peachy Loans which was not based in the UK. SGE had been approached by quite a few lenders it would not deal with. As part of its TCF policy it was currently in

the process of obtaining the TCF policies from all the lenders it operated with. If SGE was not comfortable with a lender it would not put that lender on its panel.

14. SGE had approached moneysupermarket.com about obtaining a listing on its website but found that this was not possible because SGE had payday loan products in its portfolio. SGE advertised representative APR's on its website for payday and guarantor loans and also provided a table of examples for its range of loans. Its representative APR's ranged from 49% for guarantor loans to 2,000% for payday loans. Its average APR was 299%. SGE thought it was good practice to publish representative APR's, but noted that if a customer wanted a loan they were not too concerned with representative examples.

Regulation

15. SGE had its processes, procedures, scripts and terms and conditions reviewed and signed off by Trading Standards. It had a good working relationship with Trading Standards which SGE met every month. Moving to the new regulatory regime under the FCA was more of a progression than a change as it already met many of the FCA's regulatory requirements. SGE thought that in order to operate, all lenders should be authorised by the FCA.

16. SGE hadn't had a TCF policy however it had subsequently developed one following an internal meeting in January 2014, including its 11 principles booklet (which incorporated an anti-bribery policy, data protection training and confidentiality training, amongst other things). SGE had trained its staff on the additional policies and procedures, and now had a TCF staff team and held an FCA TCF meeting twice monthly with its FCA committee. It was also planning on having posters displayed all around the call centre. SGE was content for the FCA to visit its offices at any time including as part of the authorisation procedure scheduled to take place between 1 August and 30 October 2015.

17. SGE thought that one of the challenges of communicating messages online was that the majority of customers accessed lead generator websites from mobile devices as opposed to desktop devices and it was only possible to fit so much information on a small screen meaning customers had to scroll down through different pages. SGE was in the position that it could advise customers on the telephone that it was a broker and not a lender. Each team within the call centre had a Quality Monitoring Supervisor who listened to the calls. If an agent did not receive confirmation from a customer that they were happy they would lose their commission. SGE also believed that customers should take responsibility for their actions.

18. With regard to displaying text on lead generators websites explaining how they were funded, SGE thought that a pop-up message would be better from a usability point of view. It would cost in the region of £5,000 for an external IT company to add a pop-up box to a website.

Lead generators

19. SGE thought that lenders should have responsibility for the activities of lead generators in the market and that brokers should ensure that lenders they were dealing with were operating in a compliant manner. SGE noted that some of the lead generator websites did not contain a minimum advice warning. SGE included details of its APR on its website and the minimum advice warning in its emails and call centre scripts.

Price comparison websites

20. In terms of managing a price comparison website (PCW) it was easier to operate an energy PCW than a financial PCW because there were fewer energy companies in the market. The main challenge with a payday lending PCW would be ensuring that all the lenders and products were listed. SGE thought this would be quite difficult to police. Finance was a more dynamic market than energy with companies entering and exiting and launching new products.

21. SGE was one of the 11 Ofgem accredited energy suppliers. It viewed accreditation positively because it indicated to consumers that SGE was doing its job properly. However, there were significant barriers to entry (in terms of obtaining the tariff information from the energy companies) in becoming accredited. For example, SGE was the only company to be accredited in the last six years.