Response from SGE Group to the CMA's provisional decision on remedies

In terms of your publication as detailed below there is one main area that jumps out at me.

You state that the Satsuma model – which charges less than 0.8% per day – is a viable example that the proposed cap is commercially viable for lenders.

I disagree and would urge you to consider the below points:

1) Satsuma are part of Provident that is an established LISTED business, that is 134 years old; and can therefore secure cheap rates when it borrows money.

2) Other lenders do not have Provident's buying power and have to borrow at a higher rate – the CAP then may have an adverse impact on new entrants to the market in ADDITION existing players may exit the market because the cap will mean their business model is not commercially viable.

3) The outcome of increased barriers to entry and players exiting the market is reduced customer choice and therefore less competition.

4) The CAP does not appear to consider that base rate will rise next year and moving forward to be 4 to 6 times the current rate as forecast by Bank of England – again this will exacerbate the impact of my above points.

5) Satsuma is an instalment based model that requires more capital than a payday model because the lender has to wait longer to be repaid. This again has an impact on barriers to entry and existing players as their capital requirements to maintain their revenue stream by moving to an instalment model will increase and therefore the number of loans they are able to issue will reduce.

6) Think about in cash terms:

    - Payday lender: Lends £100 for 30 days at 0.8% per day: interest is £24, total repayable is £124

    - Instalment lender: Lends £100 for 3 months (90 days) at 0.7% per day: interest is £63, total repayable is £163

The instalment lender makes more money than the payday lender – however the instalment lender needs to have the capital resource to fund an instalment loan.

In the case of Satsuma – they have huge funding facilities – smaller lenders/younger companies do not have the same resource.

The CAP will simply increase barriers to entry, reduce the number of active lenders and reduce competition.

Whilst the market would benefit most from a perfect model I believe the impact of the proposed changes will result in an extended oligopoly.

15 October 2014