Terms of reference and conduct of the investigation

Terms of reference

1. The terms of reference for the investigation as varied by the CMA are as follows:

   1. The OFT, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), hereby makes a reference to the Competition Commission for an investigation into the supply of payday lending in the United Kingdom.

   2. The OFT has reasonable grounds for suspecting that a feature or a combination of features of the market or markets for the supply of payday loans in the UK prevents, restricts or distorts competition in this market.

   3. For the purposes of this reference, payday lending consists of the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the consumer's next payday or at the end of the month and specifically excluding home credit loan agreements,[1] credit cards,[2] credit unions and overdrafts.[3]

   4. For the purposes of this reference, the definition of suppliers of payday loans and the associated definition of the market or markets in paragraph 2 above shall also include credit-brokers[4] (and other intermediaries) such as lead generators who collect and pass on to providers of payday loans (generally for a fee) details, including personal contact information, of individuals seeking loans.

(signed) DAVID CURRIE
Chairman of the Competition and Markets Authority
22 July 2014

[1] As defined in the CC's Home Credit Market Investigation Order 2007.
[2] Credit-token agreements as defined in the Consumer Credit Act 1974.
[3] Authorised overdrafts within section 74(1) (b) and overdrawing within section 74A of the Consumer Credit Act 1974.
[4] Credit brokers are persons who hold a permission under Part 4A of the FSMA in respect of the regulated activity in Article 36A(a) to (c) of the FSMA 2000 (Regulated Activities) Order 2001 (S.I. 2001/544) introducing potential borrowers to potential lenders.

Variation of the terms of reference

2. On 27 June 2013, the Office of Fair Trading (OFT), in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), made a reference to the Competition Commission (CC) for an investigation into and report on the supply of payday loans.

3. On 1 April 2014, the Competition and Markets Authority (CMA) took over many of the functions and responsibilities of the CC and the OFT. Accordingly, the functions of the CC in relation to the reference were transferred to the CMA.[5]

4. In our provisional findings, published on 11 June 2014, we concluded provisionally that the operation of the lead generator channel contributed materially to the AEC we had provisionally identified. However, in its final decision in making the market investigation reference the OFT stated that:

> The evidence relied upon by the OFT does not itself indicate that the features identified above relate to the activities of lead generators and the OFT has not thought it appropriate to conduct research into those activities. However, should the CC [now CMA] in the course of gathering evidence during its detailed investigation, consider that the role of lead generators should be within the scope of their investigation, then it may request that the OFT expands the terms of reference. It is likely that the OFT would need to re-consult on doing so at that stage.

5. As the OFT had specifically excluded the role of lead generators from the scope of the investigation we consulted on amending our terms of reference. The CMA board considered the responses to the consultation and approved the variation in our terms of reference.

6. The Notice of a request for a variation in the terms of reference was published on the CMA website on 11 June 2014 alongside our provisional findings and details of the responses to the consultation were included in our Notice of the variation of the terms of reference on 22 July 2014 which confirmed the variation. Our original terms of reference are included in the Notice of the variation and also in Annex A of this appendix.

[5] Under Schedule 5 to the Enterprise and Regulatory Reform Act 2013 and the Schedule to the Enterprise and Regulatory Reform Act 2013 (Commencement No. 6, Transitional Provisions and Savings) Order 2014 (the Order).

Conduct of the investigation

7. This appendix provides a more detailed explanation of the conduct of the payday lending market investigation from the reference by the OFT to publication of the final report.

8. On receiving the reference from the OFT on 27 June 2013, we published on our website an invitation to interested parties to provide evidence about the referred market. We also sent out on the same day, and over the course of the following week, around 50 letters to payday lenders requesting initial information about their businesses. Non-confidential versions of initial submissions have been published on our website.

9. On 7 August 2013 we published an administrative timetable for our investigation. A revised version was published on 9 October 2014 and 19 December 2014.

10. On 14 August 2013 we published an issues statement, setting out the areas of concern on which the investigation would focus based on the OFT's market study report, the terms of reference and the initial information and evidence we had received. We received 16 responses from payday lenders, trade associations, consumer and debt advice agencies and other interested parties in response to the issues statement. Non-confidential versions of responses to the issues statement have been published on our website.

11. In July 2013 we sent out a request to four trade associations requesting a list of their members and whether they provide online or high street lending (or both). During July and August 2013 we held initial meetings with five payday lenders to help identify data and information held by the industry operators.

12. In August 2013, we requested customer- and transaction-level data from 11 major payday loan companies. These 11 major lenders operated 16 separate companies in the UK and marketed loans under around 22 different brands. Between them, these lenders provided a range of single repayment and instalment loans available online and on the high street. The data requested covered all payday loans issued by each lender in the period 1 January 2012 to 31 August 2013 and involved an analysis of 15 million loans, with a total value of £3.9 billion.

13. In September 2013, we sent out market and financial questionnaires to 11 major payday loan companies, covering 16 separate companies in the UK. In October 2013 an information request was sent to over 200 companies for which payday lending may have been a relatively small part of their overall business or which may, based on the information available to us at the time, have accounted for a small part of the market. This specific information

request was drafted in consultation with various trade associations. In October 2013, we also sent out detailed questionnaires to other credit providers and non-payday lenders including: banks, credit card providers, credit unions, home credit providers, logbook loan providers, pawnbrokers, peer-to-peer lenders and retailers.

14. During September and October 2013 we visited the premises of four payday lenders and were given presentations on the operation of their services. We also met with two trade associations during this period. We collected written evidence and gathered data from a large number of third parties throughout this period of the investigation including other government departments/regulators, other credit providers and non-payday lenders, investors, credit reference agencies, lead generators, PCWs, internet search engines, trade associations, consumer bodies, and debt and financial advice agencies. A number of these information and data requests were followed up with further written requests and/or telephone calls and/or meetings.

15. During October and November 2013, we held three hearings with other credit providers and a multi-lateral hearing with five consumer and debt and financial advice agencies. Non-confidential versions of summaries of the hearings have been published on our website.

16. As well as the information and data gathering, we published on 20 August 2013 our survey methodology. Following a tender process, we commissioned TNS BMRB to carry out quantitative and qualitative research to inform our understanding of payday lending from a consumer perspective, their decision processes and the factors which influence them. The results of this survey were published on our website on 31 January 2014. A technical report was published on 14 March 2014.

17. Prior to the publication of our provisional findings and in order to facilitate contributions from parties, we published our views on a range of issues at various stages and, where appropriate, the results of our analyses. Our intention was to assist the parties in understanding our concerns and our position during the investigation, to encourage comments and to aid transparency generally. This published material included the annotated issues statement (published on 31 January 2014) and also included the following series of working papers:

- Companies background – final version published 31 January 2014.

- Competition between payday lenders and other credit providers – final version published 31 January 2014.

- Competition between payday lenders and other credit providers – Annex 1 – Price comparison method – final version published 14 February 2014.

- Competition in product innovation – final version published 31 January 2014.

- Customers and their loans (and a descriptive statistics methodology note) – final version published 14 February 2014.

- Customers' use of multiple payday lenders – final version published 10 April 2014.

- Entry and expansion – final version published 21 February 2014.

- Local competition – final version published 19 February 2014.

- Payday lender pricing – final version published 19 February 2014.

- Prices over time – final version published 19 February 2014.

- Payday loan products – final version published 31 January 2014.

- Profitability of payday lending companies – final version published 24 February 2014.

- Regulation of payday lending – final version published 31 January 2014.

- Repeat borrowing and customers' use of multiple lenders – final version published 10 April 2014.

- Repeat customers (and accompanying notes) – final version published 14 February 2014.

- Review of the websites of payday lenders and lead generators – final version published 31 January 2014.

- Shopping around – final version published 19 February 2014

- The size and concentration of the payday lending sector – final version published 14 February 2014.

- Use of other credit products by payday loan customers – final version published 10 April 2014.

18. We have published on our website non-confidential versions of the submissions we received in response to our annotated issues statement and our working papers, along with summaries and transcripts of the 13 hearings

held with payday lenders, trade associations and the FCA during February and March 2014.

19. On 11 June 2014 we published a Notice of provisional findings, a summary of our provisional findings, a Notice of possible remedies and a Notice of a request for a variation in our terms of reference. A non-confidential version of our provisional findings and the accompanying appendices were published on 13 June 2014.

20. Non-confidential versions of responses to our provisional findings, Notice of possible remedies and our request to vary our terms of reference have been published on our website.

21. Having considered the representations received, the CMA board varied the terms of reference pursuant to section 135(1) of the Act on 22 July 2014. A Notice of the variation of the terms of reference was published on 22 July 2014.

22. During July, August and September 2014, we held 26 response hearings with parties including payday lenders, lead generators, other credit providers, other government departments/regulators, credit reference agencies, PCWs, internet search engines, trade associations, consumer bodies and debt and financial advice agencies. Non-confidential versions of summaries of the response hearings have been published on our website.

23. Following a tender process, we commissioned TNS BMRB to carry out qualitative research to aid the design of any proposed remedies package.

24. We considered responses to our Notice of possible remedies and our evidence gathered to allow us to make a provisional decision on remedies. On 9 October 2014 we published our provisional decision on remedies, a non-confidential addendum to our provisional findings presenting additional evidence gathered on lead generators, and the survey report and supporting appendices produced by TNS BRMB.

25. Non-confidential versions of responses to our provisional decision on remedies have been published on our website.

26. On 19 December 2014 we published a consultation paper which set out material changes to the proposed remedies that we were considering, specifically relating to the accreditation of PCWs by the FCA and the specification of the 12-month period that a summary of the cost of borrowing would cover. We sought views on how any such amendment to these elements of our proposed package of remedies would affect the effectiveness or proportionality of the overall remedies package.

27. Non-confidential versions of responses to our consultation on amendments to the PCW and the statement of borrowing remedies have been published on our website.

28. We would like to thank all those who have assisted in our investigation.

29. A copy of the final report has been placed on our website.

The original terms of reference

1. On 27 June 2013, the OFT made the following reference to the CC:

    1. The OFT, in exercise of its powers under sections 131 and 133 of the Enterprise Act 2002 (the Act), hereby makes a reference to the Competition Commission for an investigation into the supply of payday lending in the United Kingdom.

    2. The OFT has reasonable grounds for suspecting that a feature or a combination of features of the market or markets for the supply of payday loans in the UK prevents, restricts or distorts competition in this market.

    3. For the purposes of this reference, payday lending consists of the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the consumer's next payday or at the end of the month and specifically excluding home credit loan agreements,[1] credit cards,[2] credit unions and overdrafts.[3]

    (signed) **CLIVE MAXWELL**
    Office of Fair Trading
    27 June 2013

[1] As defined in the CC's Home Credit Market Investigation Order 2007.
[2] Credit-token agreements as defined in the Consumer Credit Act 1974.
[3] Authorised overdrafts within section 74(1) (b) and overdrawing within section 74A of the Consumer Credit Act 1974.

Payday loan products

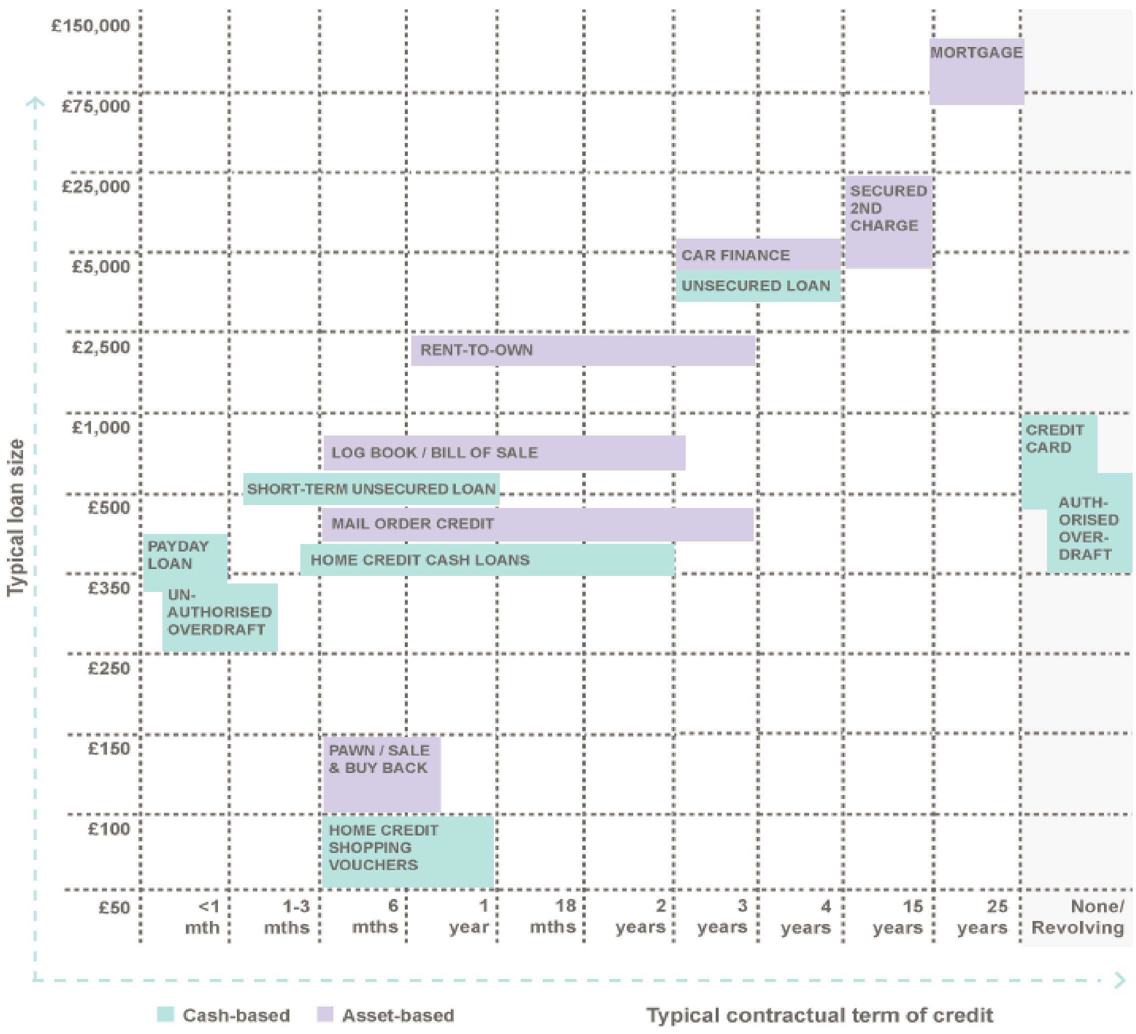
Payday loans in context

1. Payday lending is part of the unsecured credit sector. Within this sector, payday loans fall into a smaller category of unsecured short-term high-cost lending. Section 5 on market definition and the constraints from other forms of credit and the corresponding appendices provides further explanation analysis of the position of payday loans relative to other credit products.

2. Figure 1, produced by Provident Financial, seeks to put the payday loan products in the context of other unsecured and secured credit available in what it describes as the non-standard small-sum credit market.

FIGURE 1

Payday lending and the non-standard credit market



Source: Provident Financial.

3. The combined characteristics that differentiate payday loans from other forms of credit is that they are:

   (a) unsecured credit products;

   (b) of relatively low value;

   (c) sold at a high cost; and

   (d) marketed on a short-term, speed-orientated basis.

   However, there is no standard by which to identify a payday loan, and there is significant variation in the types of products on offer in the sector.

4. To provide a common basis for our analysis, we require a working definition of what constitutes a payday loan. This appendix identifies common or similar characteristics across different products as well as dimensions across which products tend to vary.

Product characteristics

What is a payday loan?

5. Payday lending is defined in our terms of reference as:

   > the provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month, and specifically excluding home credit loan agreements, credit cards, credit unions and overdrafts.[1]

   As noted in the OFT reference, the term 'payday loans' is not used exclusively to refer to loans linked to the borrower's payday.[2]

6. In PS14/3 the FCA uses the term 'high-cost short-term credit' to refer to the payday lending sector, to account for the fact that loans are not necessarily paid back on the borrower's payday, and to capture longer-term products that are repaid over several months.[3] It has proposed a definition of a high-cost short-term credit as regulated credit agreements:

   (a) which are borrower-to-lender or P2P agreements; and

[1] See Appendix 1.1.
[2] Payday lending market investigation: Terms of reference, OFT, 27 June 2013.
[3] PS14/3, p44.

(b) in relation to which the APR is equal to or exceeds 100 per cent, either:

(i) in relation to which a financial promotion indicates that the credit is to be provided for any period up to a maximum of 12 months or otherwise indicates that the credit is to be provided in the short term; or

(ii) under which the credit is due to be repaid or substantially repaid within a maximum of 12 months of the date on which the credit is advanced;

(c) which is not secured by a mortgage, charge or pledge; and

(d) which is not:

(i) a credit agreement in relation to which the lender is a community finance organisation; or

(ii) a home credit loan agreement, a bill of sale loan agreement or a borrower–lender agreement enabling a borrower to overdraw on a current account or arising where the holder of a current account overdraws on the account without a prearranged overdraft or exceeds a prearranged overdraft limit.[4]

7. We received a comment requesting that, because the FCA is the sector regulator, we should use its definition for the reference products as of 1 April 2014.[5] We are mindful of the need to take into account the regulatory environment at each stage of the investigation. However, we define the reference products for the purpose of conducting our analysis. It does not bind our approach to defining the economic market in which these products compete, nor does it prevent us from imposing remedies on a broader range of participants in the market, should that be necessary to remedy any AEC we might find.[6]

8. The FCA's definition serves a different purpose from our definition in that it forms part of CONC and will, therefore, restrict the types of firms that they can target for enforcement purposes.

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[4] FCA 2014/12 Consumer Credit (Consequential and Supplementary Amendments) Instrument 2014, Annex A, Amendments to the Glossary of Definitions.

[5] MYJAR response to the payday loan products working paper, p1.

[6] Our definition is a tool which allows us to analyse the traded products in the market which are subject to our reference. The market definition(s) used by the CMA need not always correspond with the 'relevant market(s)' as used in the Act. We come to a definition on the economic market by considering the competitive connection between those products that are subject to the reference, as well as other products and other factors influencing the relevant market: see pp130–153 of the Guidelines.

9. For the purposes of our investigation we define payday loans as short-term, unsecured credit products which are generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less. Home credit loan agreements, credit cards, overdrafts, credit union loans and retail credit are all excluded.[7]

10. It should be noted that this definition differs from (and is slightly broader than) that used in our issues statement, which referred to products which are generally taken out for *less* than a year and which are generally of value *less* than £1,000.[8] The revised definition is to capture products at the edge of what might be considered a payday loan, such as 12-month loans or loans where the amount borrowed may in some instances be £1,000 or more (eg some QuickQuid Pounds to Pocket loans) but which nonetheless are very similar in concept to other payday products within our terms of reference. It will also allow us to take into account ongoing product innovation, the trend of which appears to be towards products which allow borrowers increased flexibility over loan term and amount.

11. For the purposes of our information requests we have needed to employ a more precise definition, without the use of ambiguous terms such as 'generally', in order to allow lenders and ourselves to establish whether products at the edges of our definition should be included or not. Accordingly, we asked lenders to provide information on short-term, unsecured credit products which can be taken out for 12 months or less, and where the minimum amount that can be borrowed is £1,000 or less.

12. This definition of what constitutes a payday loan has been used to frame the focus of our analysis. However, within this, we consider variation in the extent of competition between lenders offering different types of payday products (for instance, online and high street lenders, and lenders offering shorter- and longer-term products). We also consider in Section 5 the competitive constraint presented by lenders offering products that fall outside of this definition (for instance, other types of credit).

Product characteristics

13. Lenders offer a range of different types of payday products that fall within our definition. In what follows we describe the key characteristics of the payday

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[7] We are considering the competitive constraint presented by lenders offering products that fall outside of this definition (for instance, other types of credit), and to allow us to consider competitive landscape as a whole we have made information requests to suppliers of credit products within and outside the relevant market: see paragraph 12 of this appendix.
[8] Issues statement, paragraph 10.

products offered by the 11 major lenders in 2013.[9,10] The products included in our review are set out in Table 1.

14. As can be seen in the table, each lender generally offered one or two products under each of its brands, and some lenders operate multiple brands. We have excluded some products offered by these 11 major lenders as they fall outside our definition of what constitutes a payday loan, including:

(a) Wonga's Paylater and Everline products – the former was a retail financing product while the latter was for business loans of over £3,000; and

(b) SRC's Flex Loan (18-month) which was offered for a minimum of 510 days.

[9] The 11 major lenders included in this analysis operated 16 separate companies in the UK and marketed loans under around 22 different brands (see the Companies Background working paper, Annex 1, for a full list of the companies and brands). Between them these lenders provided a range of single repayment and instalment loans available online and on the high street. Collectively, we estimated that these lenders accounted for over 90% of loans issued in 2012 and over 90% of payday loan revenue in 2012. We consider the pricing of payday loans in Section 4.

[10] Since we undertook our review some of these lenders have ceased lending (see paragraph 2.75).

TABLE 1 **List of the payday loan products included in this review**

Lender	*CC estimate of total share of payday revenue %*	*Brand*	*Product name*	*Available online/in-store*
Ariste Holding Limited (Ariste)	[0–5]	Txtme Cash Cash Genie/Cash Genie Loans Payday is Everyday	1-month loan 1-month loan 3-month loan 1-month loan	Online Online Online Online
CashEuroNet UK, LLC (CashEuroNet)	[10–20]	QuickQuid Pounds to Pocket	FlexCredit Payday Instalment Loan	Online Online Online
CFO Lending Limited (CFO Lending)	[0–5]	CFO Lending PayDay First	Short Term Loan PayDay Loan	Online Online
Cheque Centres Group Limited • The Loan Store (Cheque Centre (online))	[0–5]	The Loan Store	Payday Loans	Online
• Cheque Centres Limited (Cheque Centre (high street))		Cheque Centre	Short Term Loan	In-store
Dollar Financial UK Limited (Dollar)	([20–30])			
• Instant Cash Loans Limited (Instant Cash Loans)	[5–10]	The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan Cheque based loan	In-store In-store
• Express Finance (Bromley) Limited (Express Finance)	[5–10]	PaydayExpress	PayDay Loan	Online
• MEM Consumer Finance Limited (MEM)	[5–10]	PaydayUK	Payday Loan	Online
Global Analytics Holdings, Inc	[0–5]			
• Lending Stream LLC (Lending Stream)		Lending Stream	Loan	Online
• Zebit LLC (Zebit)		Zebit	Short Term Cash Loan	Online
Harvey & Thompson Limited*	[0–5]	H&T pawnbrokers	Payday Loan (Cheque) Payday Loan (Debit) Online Payday Loan KwikLoan	In-store In-store Online In-store
SRC Transatlantic Limited (SRC)	([0–5])			
• Speedy Cash	[0–5]	Speedy Cash	Flex account Flex Loan (12-month) Payday Loans	In-store In-store Both
• Wageday Advance Limited	[0–5]	WageDayAdvance	Loan	Online
TxtLoan Ltd	[0–5]%	MYJAR	Cash Loan 18 day	Online
The Cash Store Financial Limited (The Cash Store)	[0–5]%	Cash Store	Payday Loan	In-store
Wonga Worldwide Limited (Wonga)	[20–30]%	Wonga	Little Loan	Online

Source: CMA analysis.

*H&T withdrew its in-store and online payday loans in February 2014. It has recommenced lending with a new personal loan product for amounts of £50–£1,000 for between 1 and 24 months.
Note: The revenue share figures may be updated to reflect the work on market concentration.

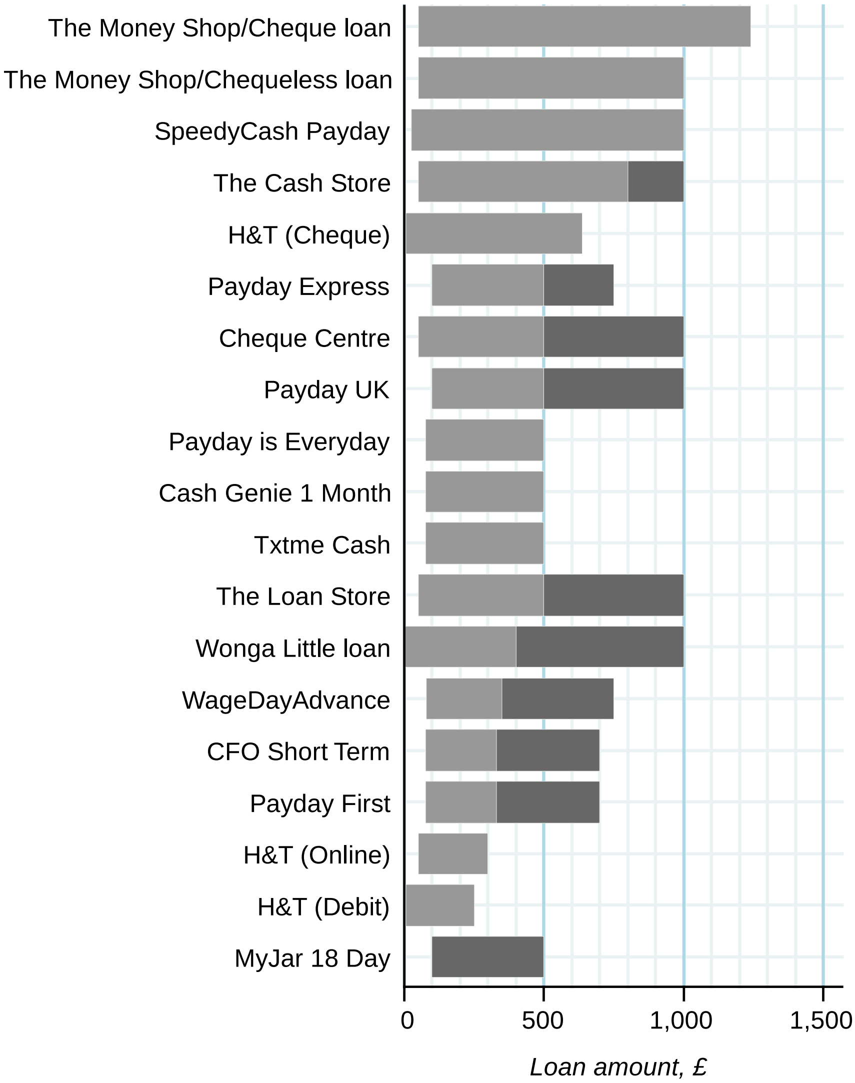
Amount of loan

15. One dimension in which different lenders' products varied was in terms of the amount that was available to be borrowed.

16. Figure 2 shows the initial amount that new and repeat customers were able to borrow using payday loan products with a single repayment date. Figure 3 does the same for the instalment products.

FIGURE 2

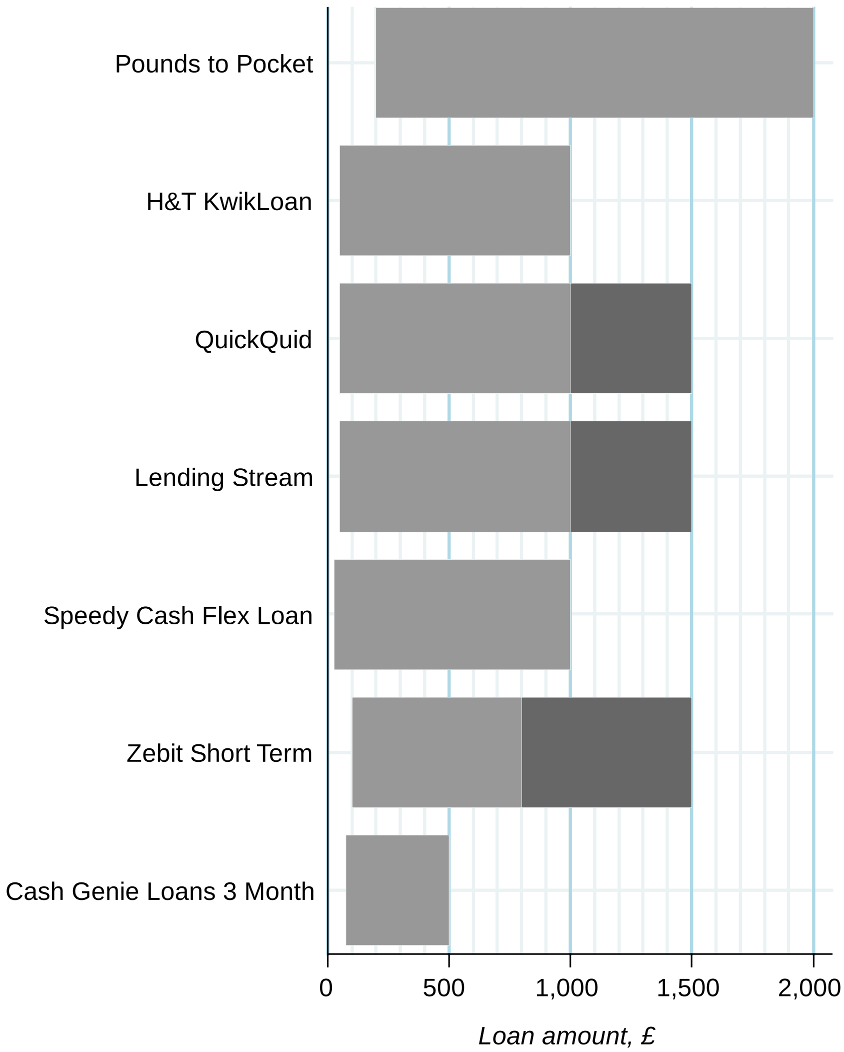
The amount that can be borrowed using the single repayment products offered by the largest lenders



Source: CMA analysis.
Notes:
1. The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.
2. New customers taking out a MYJAR 18-day loan are limited to borrowing exactly £100; repeat customers can borrow up to £500.

FIGURE 3

The amount that can be borrowed using instalment products offered by the major lenders



Source: CMA analysis.
Note: The light grey bar shows the amount available for new customers to borrow. Where repeat customers are able to borrow larger amounts, this is illustrated by the dark grey bars.

17. The figures show that nearly all payday lenders allow customers to borrow small amounts, with all but the QuickQuid Pounds to Pocket product offering customers the ability to borrow £100 or less.

18. There was more variation between products in terms of the maximum amount that a new customer can borrow, ranging from £100 for a new customer taking out a MYJAR 18-day loan, up to £2,000 for an individual taking out a Pounds to Pocket Loan. Commensurate with their longer terms, instalment products generally allow customers to borrow larger amounts. For shorter-term products, the maximum amount that can be borrowed generally lies between £100 and £1,000.

19. As the figures also show, a number of products allow repeat customers to borrow more than new customers, including many of the most popular products in the sector. The additional amount that can be borrowed can be up to five times as much.

Duration of loan

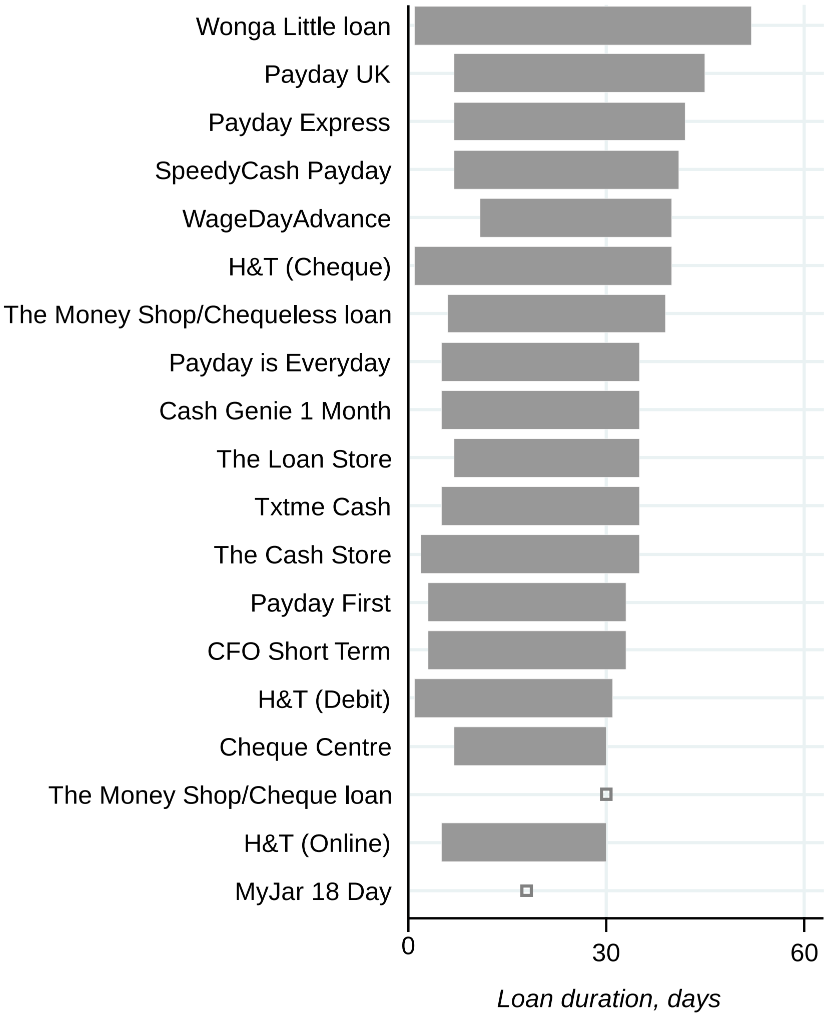
20. An important dimension across which the products of the largest payday lenders differed was in terms of the length of time for which money could be borrowed. There are broadly two types of loans: single repayment products and loans repaid in a number of instalments.

21. Single repayment products are generally linked to an individual's payday; a loan will cover the period up to the day on which a borrower is next paid. For some products, if the customer's payday is within a very short period, the loan term will carry over until the next payday. The minimum loan terms that we observed among products of this type, offered by these 11 lenders, ranged from one to eleven days and are most commonly five to seven days.

22. Figure 4 shows the loan terms (in days) that were available under the single repayment products offered by the lenders in our review. Figure 5 does the same for the instalment products.

FIGURE 4

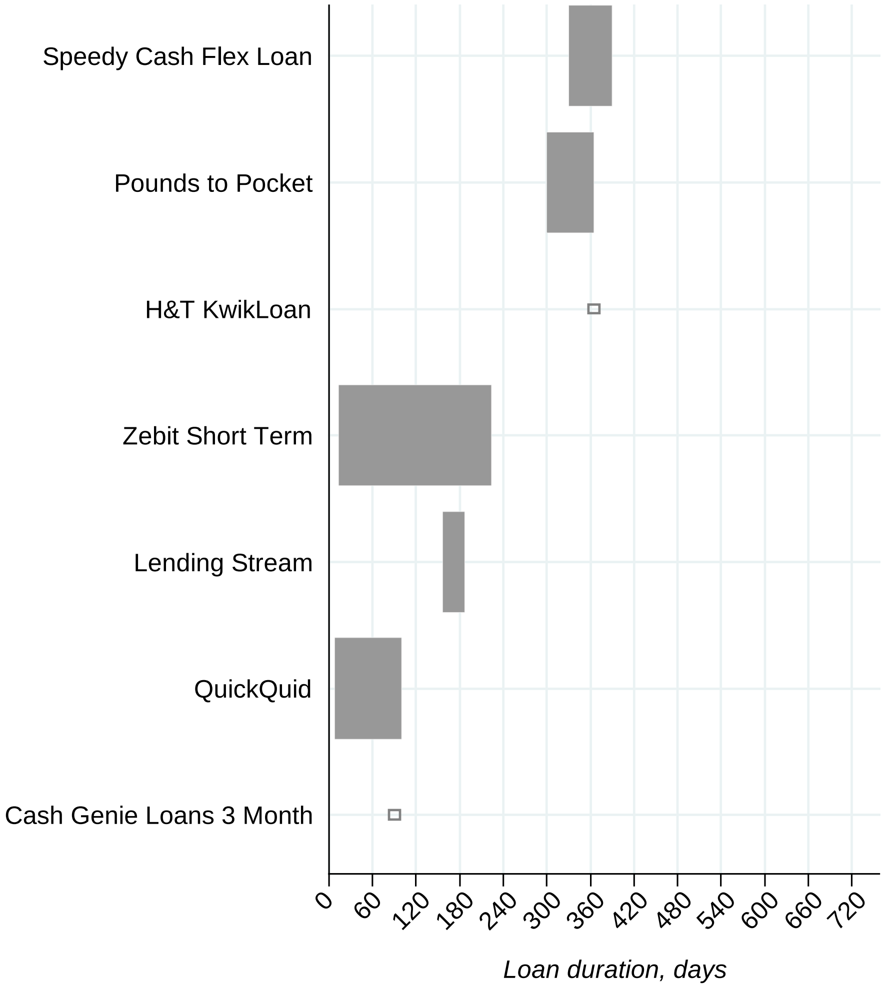
Loan durations for the single repayment products offered by the major lenders



Source: CMA analysis.
Note: ◻ indicates products that must be taken out for a specific length of time.

FIGURE 5

Loan durations for the instalment products offered by the major lenders



Source: CMA analysis.
Note: ◘ indicates products that must be taken out for a specific length of time.

23. The Wonga Little Loan product was a single repayment product where the repayment date was not necessarily linked to the borrower's payday. This product allowed the customer the flexibility to choose the repayment date, regardless of the date on which they get paid. Another single repayment product for which repayment was not linked to a customer's payday is the MYJAR fixed 18-day loan product.

24. A number of lenders offer payday products that allow an individual to borrow for longer periods and make repayments in instalments. These loans are offered for up to, or just over, one year, with repayments generally made at monthly intervals (although some lenders allow a weekly repayment schedule). As with single instalment products, repayment dates are tied to the customer's payday.

TABLE 2 **Instalment loan products**

Product	*Loan duration (days)*	*Minimum no of instalments*	*Maximum no of instalments*	*Minimum instalment amount*
Cash Genie/Cash Genie Loans 3-month	90	3	3	Equal instalment of total repayable
H&T KwikLoan	365	12	104	Equal instalment of total repayable
Lending Stream	157–187	6	24	Interest for the 'cycle' and a fraction of the principal
Pounds to Pocket	300–365	10	12	Equal instalment of total repayable
QuickQuid Payday Loan	8–100	1	3	Finance charge (interest)
Speedy Cash Flex Loan (12-month)	330–390	11	52	Finance charge (interest) and fraction of the principal
Zebit Short Term Loan	14–224	1	28	Equal instalment of total repayable

Source: CMA analysis.

25. For some products, the borrower may be allowed flexibility over the number of instalments (for instance, the QuickQuid payday loan, which allowed repayment in one, two or three monthly instalments); for others, the number of instalments may be fixed. Similarly, some products required borrowers to repay fixed amounts in each pay period, while other products – closer to open credit facilities – allow customers flexibility over the amount they repaid. Most products required borrowers to repay in equal amounts.

Extension facilities

26. Another characteristic of many payday loan products is the existence of extension facilities, commonly referred to as rollover facilities.

27. As a working definition (for example, for the purposes collecting transaction data), we took the view that a loan is rolled over if the loan (or part of the loan) is not repaid on the date originally agreed, but where the borrower is not considered to have defaulted as a further agreement to extend the repayment period has been entered into between the borrower and the lender. The customer may pay all outstanding and unpaid fees, finance charges or interest at the time the rollover is executed but in all cases, some or all of the loan principal is carried forward after the date of the rollover.[11]

28. The FCA has made rules[12] to limit the number of rollovers and other types of extension where the lender receives consideration, for example some form of payment or promise to provide something by the customer, in connection with

[11] In our transaction data request, we correspondingly asked lenders not to consider an extension to constitute a rollover if a lender and customer agree to keep a loan agreement open and unpaid on the due date and the borrower is not considered to have defaulted and the customer is not charged further interest, fees or charges for the additional time.
[12] FCA 2014/11 Consumer Credit Instrument 2014, Annex, Consumer Credit sourcebook (CONC), rule 6.7.17 R(1).

the extension. The FCA considers these types of extension facilities to be a form of refinancing, which it defines as follows:

> ‘refinance’ means to extend, or purport to extend, the period over which one or more repayment is to be made by a customer whether by:
>
> a) agreeing with the customer to replace, vary or supplement an existing regulated credit agreement;
>
> b) exercising a contractual power contained in an existing regulated credit agreement; or
>
> other means, for example, granting an indulgence or waiver to the customer.

29. The exact terms on which these facilities were offered and the terms used to describe them varied, but the common effect is to allow the customer to extend the duration of their loan beyond the originally agreed repayment date.[13] We considered the various facilities currently offered by payday loan providers below.

30. For single repayment products, the most common extension facility offered by lenders allows borrowers to pay off the interest and fees already accrued, and defer repayment of the principal (and associated interest and fees) until a later date. The effect of the extension is to allow the customer to repay in instalments, although instalment products themselves will differ in that they generally require some proportion of the principal in addition to interest and fees to be paid in each instalment.

31. Table 3 describes the extension facilities offered by the major lenders. As can be seen, five of the products offered by the major lenders did not allow for extensions of any sort, but most merely limited the number of available extensions. Generally, limits ranged from two to ten, but one of the relatively longer-term products allowed for practically unlimited extensions.[14] The vast majority of lenders allowed their loans to be extended up to three times.

32. Most instalment products did not allow for extensions beyond the final repayment date. Dependent on the flexibility of the lender on the repayment of

[13] The CFA prohibits any extension that allows for this in its Code of Practice: ‘4.6.1. Members shall never extend interest or fees due on a short term loan. Only the original principal sum may be extended.’
[14] The limit on the number of times H&T’s KwikLoan could be extended was 999 times. Given that the duration of the loan is fixed at a year, this product can be treated as allowing for unlimited rollovers. However, H&T told us that technically KwikLoan was never extended but rather a new agreement was drawn up for the new loan, part of which was used to repay the outstanding balance of the existing loan.

instalments, instalments could be deferred to later repayment dates. Three of the seven instalment products included in our review had rollover facilities. The QuickQuid payday loan could be taken out for an initial three-month term and extended for a further two months – one month at a time – at the cost of an additional finance charge. The Pounds to Pocket loan, which was normally offered for 12 monthly instalments, could be rolled over three times.

TABLE 3 **Extension policies**

Brand	*Product name*	*Allows repayment in instalments?*	*Loan duration (in days)*	*Maximum no of times loan can be extended*
Cash Genie/Cash Genie Loans	3-month loan	Yes	90	1
	1-month loan	No	5–35	3
Cash Store	Payday Loan	No	2–35	4
CFO Lending	Short Term Loan	No	3–33	3
Cheque Centre	Short Term Loan	No	7–30	3
H&T	Payday Loan (Cheque)	No	1–40	0
	Payday Loan (Debit)	No	1–31	0
	Online Payday Loan	No	5–30	0
	KwikLoan	Yes	365–730	999
Lending Stream	Loan	Yes	157–187	0
MYJAR	Cash Loan 18-day	No	18	0
PayDay First	PayDay Loan	No	3–33	3
Payday is Everyday	1-month loan	No	5–35	3
PaydayExpress	Payday Loan	No	7–42	3
PaydayUK	Payday Loan	No	7–45	3
Pounds to Pocket	Instalment Loan	Yes	300–365	3
QuickQuid	Payday	Yes	8–100	2
Speedy Cash	Flex account	Yes	330–390	0
	Flex Loan (12-month)	Yes	Open-ended	N/A
	Payday Loans	No	7–41	5
The Loan Store	Payday Loans	No	7–35	3
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	No	6–39	3
	Cheque based loan	No	30	3
Txtme Cash	1-month loan	No	5–35	3
WageDayAdvance	Payday Loan	No	11–40	5
Wonga	Little Loans	No	1–52	3
Zebit	Short Term Cash Loan	Yes	14–224	0

Source: CMA analysis.

Notes:
1. The two open revolving credit products are excluded from this table because extensions are not applicable to their use.
2. N/A = not applicable.

Top-up facilities

33. In addition to the initial amount lent, some products allow the borrower to increase or top up their loan before the end of the loan term. These facilities work on the principle that a customer might choose to borrow or be borrowing less than the amount they are approved for or the lender is willing to underwrite, and so is given the opportunity to ‘top up’ to this higher amount during the course of the loan term.

34. Many lenders use fixed-sum credit agreements, and so no top-up can be made under the original agreement. To allow for a top-up, a modifying credit agreement or an entirely new credit agreement must be entered into.[15] Some products are marketed with this as a possibility from the outset. For example, with a Wonga Little Loan, top-ups were available on an outstanding loan, subject to affordability checks, for an additional transmission fee of £5.50. A modifying credit agreement was entered into to reflect the additional amount lent but the repayment date remained the same.

35. Alternatively, CashEuroNet's Pounds to Pocket product was marketed as having a top-up facility under which a customer may (without incurring any additional early settlement or processing fees) take out a new loan of a greater value, which was used in part to pay off the existing loan early.[16] As a new agreement was made, the duration and value of the loan were variable. In theory, this type of facility could allow for the type of extension that is referred to in the footnote to paragraph 29 above.

36. Where lenders used running account credit agreements, whether for single repayment loans or revolving credit facilities, the amount lent could be varied throughout the duration of the loan without having to enter into a new loan agreement. A credit limit was specified in the agreement; however, this could be varied on notice by the lender to reflect the individual's creditworthiness.

37. Two of the products offered by the 11 major lenders, QuickQuid FlexCredit and the Speedy Cash Flex Account, operated as revolving credit facilities. For both these products, once the account was opened, the customer could draw against their credit limit for the duration. Customers could make periodic repayments (typically monthly) on their account.[17] FlexCredit payments were variable and repayment schedules could be changed at any time.[18]

Repayment methods

38. Another distinguishing characteristic of different lenders' payday loans relates to the methods of repayment available to the customer. There are two standard methods of repayment used by the largest lenders. All products offered online are debit card based and allow the lender the use of a CPA.

[15] See section 82 of the Consumer Credit Act 1974 for situations in which a modifying credit agreement is required and provisions as to form.
[16] Pounds to Pocket website.
[17] In their responses to the market questionnaire, CashEuroNet told us that FlexCredit was limited to 300 days while Speedy Cash told us that the Flex Account was open-ended.
[18] For FlexCredit, minimum required payments were comprised of accrued interest plus 10% of funded principal.

The majority of high street lenders offer both debit-card-based and more traditional cheque-based loans.

39. From the perspective of the lender, these repayment methods provide a certain amount of security; if there is money in the customer’s bank account, these methods provide access to it.

40. Under a debit-card-based loan the borrower will nominate a debit card at the outset of the credit agreement. A CPA allows the lender the ability to withdraw amounts the borrower owes under the loan agreement via the nominated debit card. A nominated debit card is generally required for a loan to be granted, and customers can only choose to make repayments by a different method at a later date.

41. A cheque-based loan requires the customer to write out a cheque, which may be post-dated, for the total amount repayable, which the lender agrees not to cash until the end of the loan period. This type of loan is only offered by high street lenders and most will give customers the option of paying by another method on the repayment date (and destroying the cheque).

Speed of delivery

42. A characteristic of payday lending, emphasised by some lenders in their marketing material, is the speed of approval and the length of time before customers receive funds once approval has been given.

43. If a manual review of the lending decision is not required, the approvals process, excluding the time taken for a recipient bank to process transfers (see below), can take under a minute and rarely more than 5 minutes from the completion and submission of the application form. This includes the time it takes for the lender to approve the application and submit the fund transfer. If some manual review is required, or the lender requests additional documentation from the customer, approval times can take anywhere from 2 hours to one week. Table 4 summarises the times between making an application and the submission of the payment by the lender.

TABLE 4 **Speed of delivery**

Brand	*Product*	*Time to fill app? (mins)*	*Time for approval? (mins)*	*Minimum amount of time to submit payment after application (mins)*
Cash Genie/Cash Genie Loans	3-month loan	5	60	60
	1-month loan	5	60	60
Cash Store	Payday Loan	30	10–15	<60
CFO Lending	Short Term Loan	Not specified	120	60
Cheque Centre	Short Term Loan	5	30	<60
H&T	Payday Loan (Cheque)	20	20	<60
	Payday Loan (Debit)	20	20	<60
	Online Payday Loan	681	766	<60
	KwikLoan	681	20	<60
Lending Stream	Loan	3	2	4
MYJAR	Cash Loan 18-day	5	5	<60
PayDay First	PayDay Loan	Not specified	120	60
Payday is Everyday	1-month loan	5	60	60
PaydayExpress	PayDay Loan	5	<1	45
PaydayUK	Payday Loan	4	<1	60
Pounds to Pocket	Instalment Loan	5	1	60
QuickQuid	FlexiCredit	5	1	60
	Payday	5	1	60
	Flex account	Not specified	30	<60
Speedy Cash	Flex Loan (12-month)	Not specified	30	<60
	Payday Loans	Not specified	30	<60
The Loan Store	Payday Loans	5	30	Loans funded at 1pm & 5.30pm Mon–Fri, 5.30pm Sat
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	5–10	20	<60
	Cheque based loan	5–10	20	<60
Txtme Cash	1-month loan	5	60	60
WageDayAdvance	Short Term Cash Loan	30	120	60
Wonga	Little Loans	5–10	<1	<5
Zebit	Short Term Loan	3	2	4

Source: CMA analysis.

Notes:
1. Lenders were asked for their average approval time. Approval times could vary for some lenders depending on the lender's assessments of the need for additional manual checks for some customers. It could also depend on the times of the day during which they process applications.
2. Payment submission times could depend on whether a customer opted for faster payment.
3. The 'Minimum amount of time to submit payment after application (min)' means the minimum time after the customer signs/completes the contract.

44. High street lenders can give the loan in cash on the spot and online lenders will execute a Faster Payment Service or BACS transfer within minutes. BACS transfers take three working days to clear. Faster Payment Service payments are expected to clear in a matter of hours. However, dependent on the recipient bank's procedure and any additional checks they carry out, some transactions may be delayed.[19]

[19] *How does the Faster Payments Service work?* Faster Payments website.

Transaction data

Introduction

1. This appendix provides a brief overview of the process by which customer- and transaction-level data was collected from payday lenders and the steps taken to clean this information. The purpose of the appendix is to provide further detail of the methodology used to produce its summary statistics regarding payday customers and their loans.

Information requested

2. In August 2013, we requested customer- and transaction-level data from 11 major payday loan companies, including the largest lenders and a mix of online and high street lenders. For further details of these lenders and how they were chosen, see Appendix 2.5.

3. The data requested covered all payday loans issued by each lender in the period 1 January 2012 to 31 August 2013. The parties were asked to provide the data in three batches:

   (a) **Table A: Customer-level data** – data relating to any customer who took out a loan in the reference period. The information included: details of the most recent loan (eg date, channel of purchase) and details of previous transactions (eg number and value of loans in the reference period, date of the first ever loan taken with the lender etc).[1]

   (b) **Table B, part 1: Loan details** – data relating to any loan taken in the reference period, for example product type, channel of purchase, loan date and value, interest and other charges, and details of any risk scores used to decide whether or not to approve the application. Table B, part 1, also included customer demographics such as date of birth, gender and income.

   (c) **Table B, part 2: Loan status** – repayment information relating to each loan included in Table B, part 1, eg whether the loan was repaid in full, whether it was rolled over, the value of any repayments made on the loan

[1] Table A also provides contact details of each customer. However, this information was used mainly in the customer survey rather than in our analysis.

before/on and after the original due date. The information about loan status was to be provided as of 1 October 2013.

4. We assigned each loan and customer a unique ID so that the information in the three tables could be merged together, allowing the creation of a single data set containing loan and customer-level data for the reference period.

Key definitions

5. For the purpose of the data requests, the following key definitions were used:

(a) **Payday** loan – unsecured loan product taken out for 12 months or less, where the minimum amount that can be borrowed is £1,000 or less, regardless of whether the loan is repaid as a lump sum or in instalments.

(b) A **loan** was defined as a fixed-sum loan agreement or an advance made to customers under a running account credit agreement. Rollovers/ extensions were not considered separate loans.

(c) A loan was defined as having been **rolled over** if the loan (or part of the loan) was not repaid on the date originally agreed, but where the borrower was not considered to have defaulted as a further agreement to extend the repayment period was entered into between the borrower and the lender. The customer may have paid all outstanding and unpaid fees, finance charges or interest at the time the rollover was executed but in all cases, some, or all, of the loan principal was carried forward after the date of the rollover. It was not considered a rollover if a lender and customer agreed to keep a loan agreement open and unpaid on the due date, AND the borrower was not considered to have defaulted, AND the customer was not charged further interest, fees or charges for the additional time.

(d) **Principal** – the loan amount received by the customer.

(e) **Repayment date** – the original date on which a loan was repayable, as agreed at the outset of the loan. For instalment products we refer to the date of the final repayment as agreed at the outset of the loan.

(f) **Total amount repayable** – total amount due on the repayment date *as agreed at the time the loan was taken out.*

(g) A **broker/lead generator** – any credit business involved in the effecting of introductions of individuals desiring to obtain credit to consumer credit businesses.

(h) A loan was considered to have been **repaid in full** if there was no outstanding balance on this loan as of 1 October 2013.

Data cleaning

6. After the data was submitted, the CC began a thorough data checking and cleaning exercise to identify and correct any significant anomalies in the data and ensure consistency across data sets provided by different lenders.

7. Data checking involved identifying any missing or unusual values; duplicate observations; and any discrepancies between different data sets provided by the same lender (eg Table A with Table B) or between different variables in the same data set. We performed the same set of checks on each lender's data sets.

8. Where a potential error affected a significant proportion of observations in the data set, we raised it with the party in question, offering the opportunity either to correct the data or, if it turned out not to be an error but an accurate reflection of the lender's database, to explain why the discrepancy might have occurred. A number of variables/data sets were corrected as a result of these queries.

9. Once all updated versions of the datasets were submitted, steps were taken to ensure that the format of variables, their names and labels were consistent across the different data sets. Finally, the different lenders' data sets were appended together to enable analysis of the set of companies as a whole.

The consolidated data set

10. The final data set covered a total of 32 products supplied by 11 payday lenders. It includes a total of around 15 million loans issued in the period 1 January 2012 to 31 August 2013, with a total value of around £3.9 billion. Loans issued by Wonga account for [✂]% of all loans in the sample, and just under 80% of all loans in the sample are provided by online lenders. Longer-term products (longer-term instalment loans and open credit facilities) account for 4% of the sample.

11. Further details of the share of each lender's loans in the sample are provided in Table 1.

TABLE 1 **The number of loans of each lender in the transaction data**

	2012		*2013 (Jan–Aug)*			
Lender	*Total number of loans*	*Total value of loans £m*	*Total number of loans*	*Total value of loans £m*	*% (number)*	*% (value)*
Ariste Holdings	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PaydayExpress (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PaydayUK (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Speedy Cash (SRC)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
The Money Shop (Dollar)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance (SRC)	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
	8,807,573	2,277.2	6,221,077	1,607.7		

Source: CMA analysis of transaction data provided by the 11 major lenders.

Demographics

1. This appendix provides a brief overview of the demographic background of payday loan customers. The analysis is based on our survey of payday loan customers which was undertaken between September and December 2013.[1]

Gender, age and ethnicity

2. The gender,[2] age[3] and ethnic characteristics of payday loan customers, as recorded in our survey, are shown in Figure 1. This shows that:

   (a) Payday loan customers are more likely to be male than the population as a whole.

   (b) Payday borrowers are noticeably younger than the population as a whole. Half (49%) of payday loan customers are 18 to 34 compared with 29% of the UK adult population. Only 9% of borrowers are 55 or older compared with 37% of the population. The age profile of customers may be linked to various other characteristics of customers, such as household composition and economic status, which we consider below.

   (c) While the majority (84%) of payday loan customers are white, payday loan customers are also slightly more likely to be from black and minority ethnic (BME) communities compared with the UK population.[4]

[1] All interviewees had taken a loan out in the 12 months to 31 August 2013.
[2] Our analysis of the transaction data found that 60% of customers are male, compared with 59% in the survey: customer and transaction level descriptive presentation, slide 8.
[3] Our analysis of the transaction data found a mean age of 35: ibid, slide 8.
[4] The age and gender profile of BME customers is different from the population as a whole. Asian customers were underrepresented compared with the UK population and are more likely to be male (84%) and younger than white customers. Black customers were more likely to be female (53% compared with 40% of w1hite customers) and tended to be slightly older.

FIGURE 1

Gender, age and ethnicity characteristics of payday customers

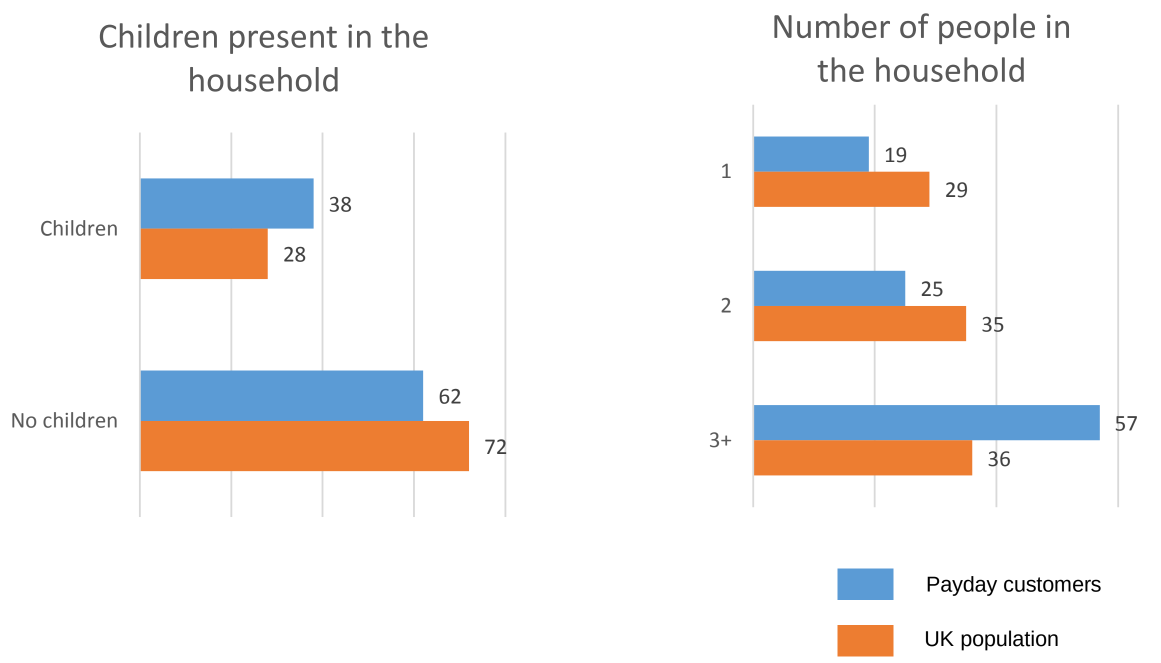
Source: TNS BMRB Survey Report, pp15, 16 & 17.

Composition of customer households

3. The composition of customers' households are shown in Figure 2. Payday loan customers are more likely to have children (which may be a function of the age profile of customers) and correspondingly are also more likely to have larger households, with 57% of customers having more than three people in the household compared with 36% of the population as a whole.

FIGURE 2

Composition of the customer's household



Source: TNS BMRB Survey Report, p18.

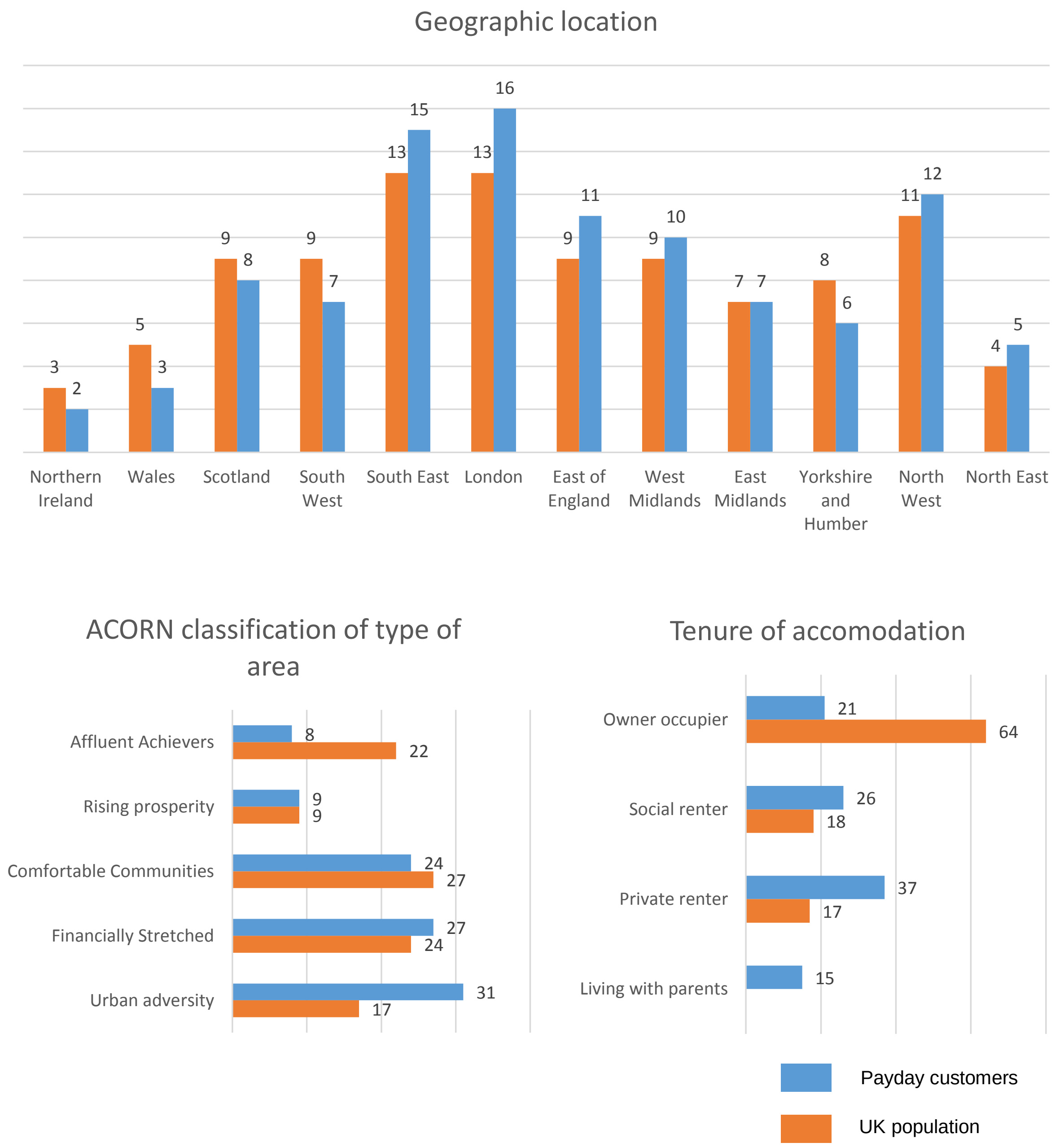
Customer location and housing tenure

4. Figure 3 shows the geographic distribution of payday loan customers and the tenure of their accommodation. Generally, the geographic distribution of payday customers matches that of the UK population as a whole. However, payday loan customers are more likely to live in areas classified as 'urban adversity' and 'financially stretched' and less likely to live in areas classed as 'affluent achievers'.[5] Payday loan customers are much more likely than the population as a whole to be living in rented accommodation, particularly in the private sector and much less likely to own their own home (21% of payday customers compared with 64% of the population).

[5] See CACI, *The Acorn user guide: The consumer classification* for a detailed description of the ACORN classifications. High street customers were disproportionately concentrated in London compared to online customers, with 24% of all high street customers living in London compared to 14% of online customers. In contrast, 16% of online customers lived in the south east of England (excluding London) compared to 8% of high street customers. In other regions the relative number of online and high street customers are similar. TNS BMRB Survey Report, p57.

FIGURE 3

Geographic and housing characteristics



Source: TNS BMRB Survey Report, pp22, 23, 19.
Note: UK population data used for comparison of tenure does not include a category of 'living with parents' which our survey did.

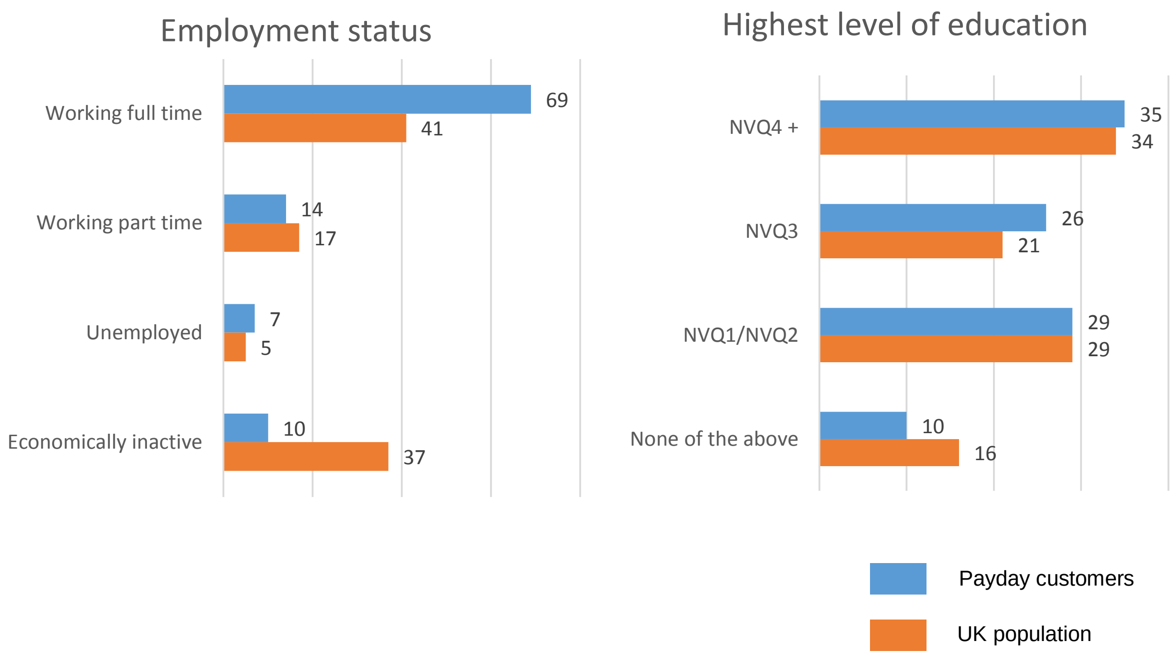
Economic and educational characteristics

5. The economic and educational characteristics of payday loan customers are shown in Figure 4. Payday loan customers are more likely to be in full-time employment than the rest of the population (69% of customers, compared with 41% of the population), and are less likely to be economically inactive (10% of customers compared with 37% of the population). This result is likely

to be linked to both the age and gender distribution of payday customers (as customers are predominantly of working age and more likely to be male). Payday loan customers have a broadly similar level of educational achievement to the population as a whole.

FIGURE 4

Economic and educational characteristics



Source: TNS BMRB Survey Report, pp19, 21, 26.

Product eligibility and approvals

Summary

1. This appendix provides background to the application and approval process for customers taking out payday loans. We cover basic eligibility requirements and verification, and conduct a high-level examination of the affordability, creditworthiness and risk assessments. We then consider the relationships lenders have with CRAs and how they are involved in the approval process.

2. The main evidence base for this section is the responses of 11 major lenders to our market questionnaire.[1]

3. We find a fairly similar picture across the market in terms of the application process, specifically in reference to the application details requested. The approval process has some similarity across lenders that operate through the same distribution channels but the specifics of the affordability and credit-worthiness assessments are not easily comparable. Some significant differences in approach appear between online and high street lenders; high street lenders review and verify income and expenditure using some form of physical documentation, such as a bank statement. Almost all the lenders considered use some form of CRA data but the views on CRA products and data is varied, with many lenders preferring their internal data and risk models.

Application process

4. From the perspective of the customer, the application process follows a regular structure for most lenders. The details a lender requests from a customer in a typical application process are considered below. In respect of expenditure, across which there is not a high level of commonality among lenders, the information is set out in Table 1:

   (a) a loan amount using analogue ‘slider’ bars or by typing an amount into a form;

   (b) personal details, including name, address, residential status, date of birth, email address and telephone number;

---

[1] Responses were received primarily in October 2013. The credit risk models of lenders are subject to periodic reviews but we have not been made aware of any fundamental changes to the nature of the application and approval process.

(c) income details, such as employment type, net monthly pay, pay frequency, pay date, employment sector and time at current job;

(d) expenditure:

TABLE 1 **Expenditure details requested by lenders**

Lender	*Brands*	*Information on expenditure required*
Ariste	Txtme Cash/Cash Genie/Cash Genie Loans/Payday is Everyday	None
CashEuroNet	QuickQuid/Pounds to Pocket	'Credit commitments'
CFO Lending	CFO Lending/Payday First	None
Cheque Centres Group Limited	Cheque Centre/The Loan Store	'Expenditure (outgoings)'
Dollar Financial UK Limited (Dollar)		
• Express Finance	PaydayExpress	'Mortgage/rent, monthly credit commitments and other regular outgoings'
• MEM	PaydayUK	
• ICL	The Money Shop/Robert Biggar/ Duncanson & Edwards	'Monthly rent/mortgage, monthly creditor commitments, regular monthly outgoings, mobile phone contract type, car ownership'
Global Analytics		
• Lending Stream	Lending Stream	'Monthly spending'
• Zebit	Zebit	'Monthly spending'
H&T	Harvey & Thompson	Not specified
SRC		
• Speedy Cash	Speedy Cash	'Expenditures'
• Wageday Advance Limited	WageDayAdvance	None
TxtLoan	MYJAR	'Number of current loans and aggregated balance'
The Cash Store	Cash Store	'60 days of expenditure'
Wonga	Wonga	None

Source: CMA analysis.

(e) bank details, ie account name, sort code, account number; and

(f) card details, including card type, card number, expiry date and security code.

5. These details are entered over a few different stages. An online application form usually takes 5 to 10 minutes to complete. If the customer fails any of the automatic checks, because they are, for example, too young or do not have an accepted debit card, they may not be able to continue their application to the end. Once submitted, there will be a short time lapse while the lender completes affordability and risk assessments and the customer will then either be approved or declined.

Basic eligibility requirements and initial verification

6. The minimum eligibility requirements common to all lenders are that the customer is a UK resident and is over 18 years of age. Additional minimum requirements vary. Most lenders require the borrower to have a bank and a debit card. For verification purposes, high street lenders usually require identification (ID) and proof of address while online lenders require mobile phone

ownership. Minimum monthly income requirements vary from £100 to £750.[2] Table 2 shows the minimum eligibility requirements across the payday loan products offered by the major lenders.

[2] Minimum monthly income requirements are qualified by the lender's overall approach to affordability assessment. This is discussed in Annex A. Wonga and CashEuroNet do not specify a minimum. For both lenders income is one of a number of variables which feed into integrated risk and affordability assessments.

TABLE 2 **Minimum eligibility requirements**

Brand	*Product name*	*Bank account?*	*Debit card?*	*Residency?*	*Employment?*	*Paper ID?*	*Paper proof of address?*	*Mobile phone?*	*Minimum monthly income?*
Cash Genie/Cash Genie Loans	3-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
CFO Lending	Short Term Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
Cheque Centre	Short Term Loan	Yes	Yes	Yes	Yes	Yes	Yes	No	95/Weekly Loan 100/fortnightly 150/Monthly
Harvey & Thompson	Payday Loan (Cheque)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Payday Loan (Debit)	Yes	Yes	Yes	Yes	Yes	Yes	No	750
	Online Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
	KwikLoan	Yes	Yes	Yes	Yes	Yes	Yes	No	750
Lending Stream	Loan	Yes	Yes	Yes	Yes	No	No	Yes	400
MYJAR	Cash Loan 18-day	Yes	Yes	Yes	No	No	No	Yes	400
PayDay First	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
Payday is Everyday	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
PaydayExpress	PayDay Loan	Yes	Yes	Yes	Yes	No	No	Yes	750
PaydayUK	Payday Loan	Yes	Yes	Yes	Yes	No	No	Yes	500
Pounds to Pocket	Instalment Loan	Yes	No	Yes	No	No	No	No	Dependent on risk
QuickQuid	FlexCredit	Yes	No	Yes	Yes	No	No	No	Dependent on risk
	Payday	Yes	No	Yes	No	No	No	No	Dependent on risk
Speedy Cash	Flex account	Yes	Yes	Yes	No	Yes	No	No	200
	Payday Loans	Yes	Yes	Yes	No	Yes	No	No	100
The Cash Store	Payday Loan	Yes	Yes	Yes	No	Yes	Yes	No	100
The Loan Store	Payday Loans	Yes	Yes	Yes	Yes	No	No	Yes	400
The Money Shop/Robert Biggar/Duncanson & Edwards	Chequeless loan	Yes	Yes	Yes	No	Yes	Yes	No	416
	Cheque based loan	Yes	Yes	Yes	No	Yes	Yes	No	416
Txtme Cash	1-month loan	Yes	Yes	Yes	Yes	No	No	Yes	500
WageDayAdvance	WageDayAdvance	Yes	Yes	Yes	Yes	No	No*	Yes	400
Wonga	Little Loans	Yes	Yes	Yes	No	No	No	Yes	Dependent on risk
Zebit	Short Term Cash Loan	Yes	Yes	Yes	Yes	No	No	Yes	400

Source: CMA analysis.

*WageDayAdvance will exceptionally ask for paper proof of address if they cannot verify address through Callcredit or EPDQ.
Note: This does not include business or policy rules which are too varied to tabulate across lenders.

7. The customer is passed through a verification stage consisting of ID and fraud checks and often additional policy or business rules.[3] This takes place as the customer enters their application details and, for most lenders, it is binary in nature. If verification of any of the borrower's details is not possible, if they fail any fraud checks, or if they do not pass thresholds outlined by the lender's business or policy rules, the loan will be refused.[4]

8. Online, verification of the customer's ID can be carried out in various ways. Single or multiple telephone numbers may be required and can be contacted during the verification process.[5] Another possibility is the use of CRA credit records and other electronic databases, such as the electoral roll, for the purposes of electronic ID verification.[6]

9. For high street lenders, the customer will be required to bring in one or two forms of ID, such as a passport or driving licence, and this will be checked against a proof of address, such as a utility bill or a bank statement.

10. Application forms are analysed for consistency and fraud and money-laundering risk indicators. Customer details may be processed by CRA anti-fraud products, for example [✄] uses Iovation, which validates device information, and Callcredit's CallValidate, which verifies card and bank details. [✄] use Experian's BankWizard to do the same. Other external databases are also used, including CIFAS databases[7] and mainstream bank databases, both used by [✄] and [✄]. More detail on the products used by different lenders is shown in Table 3 below.

Affordability and creditworthiness/risk assessment

11. In general, there are two distinguishable assessments, though these will often run concurrently or be integrated and will not generally be visible to the borrower as separate processes: an affordability assessment which determines the customer's credit limit; and a creditworthiness and risk assessment which determines whether or not the customer is likely to pay back the loan. These processes are additional to the ID verification, anti-fraud and anti-money-laundering checks discussed above. Dependent on the lender's approach to the process, the customer's risk may also influence the amount

[3] Examples of business or policy rules include rules against lending to certain persons, such as members of the armed forces, or against lending to persons with one or more loans with another lender.
[4] [✄] does not have a discrete verification stage. Its ID and fraud checks and business rules feed directly into the overall credit risk assessment.
[5] For example, [✄] use this method of ID verification.
[6] For example, [✄].
[7] CIFAS is a fraud prevention service and operates two databases: the 'National Fraud Database' and the 'Internal Fraud Database'. The organization, which has been in existence since 1998, provides fraud prevention services to over 300 organisations across multiple sectors and industries.

the customer is judged to be able to afford. The whole process requires customer information to be collected and then processed using a range of techniques from basic affordability equations to complex risk models.

12. The approach of the lenders to this task varies substantially. As such, we consider the approach taken by each of the 11 major lenders separately in Annex A.

13. In summary, all those that lend online use some form of internal scorecard incorporating information from CRAs to make a risk assessment of new customers. Of the five that lend through the high street, three use similar scoring models to the online lenders while two, [✂], based their lending decision on verification of income documentation provided by the customer including bank statements or payslips.

14. Human input was relevant to a varying extent in these processes. Five lenders used human underwriters to manually review applications only in certain circumstances. All high street lenders had a staff member reviewing the application process. [✂] did not rely on the member of staff to make the ultimate lending decision in all cases. [✂] relied on a human underwriter to make the final lending decision. Four online lenders, [✂], provided evidence that their approach was to allow for an automated decision, except in very exceptional circumstances.

15. Six lenders told us specifically that internal information on existing or returning customers was important. [✂] and [✂] said that they kept existing customer accounts on review on a biweekly and monthly basis respectively, while the other four suggested that repayment history with the lender would be taken into account. [✂], for example, noted that those with a good track record were likely to get higher credit limits.

16. We have not sought specific information on precisely how these risk models function, especially in relation to some of the largest lenders, such as [✂] and [✂]. These models are highly complex and we are not carrying out an assessment of the adequacy and effectiveness of companies' approvals processes. While an important matter for regulators, we took the view that such an assessment would not inform our analysis of competition in the market for payday loans.

Sharing information with CRAs

17. As is evident from the description of the different lenders' approval processes, lenders often use information sourced from CRAs in their internal models. In

this section, we discuss the relationship between lenders and CRAs in more detail.

18. This relationship is governed by the Principles of Reciprocity. These principles are developed and administered by the Steering Committee on Reciprocity, made up of members from major credit providers and CRAs. The governing principle is that: ‘Data are shared only for the prevention of over-commitment, bad debt, fraud and money laundering, and to support debt recovery and debtor tracing, with the aim of promoting responsible lending.’[8] At a high level the principles require lenders to share the same categories of data to those which they receive from the CRA but, according to the Steering Committee’s guidance, the precise type of data that should be shared in particular situations is not always the same, and the nature and purpose of data sharing must be carefully considered in each case.

19. Table 3 compares the use of CRAs across the major lenders in 2013.

TABLE 3 **Use of CRAs**

[✂]

Source: CMA analysis.

[✂]

20. Of the 11 lenders examined, only [✂] did not use CRA information in its lending decisions.[9] Of the other lenders, one lender used data from only one CRA, seven lenders used two, while [✂] and [✂] have used data from five and six CRAs respectively.[10] Often lenders used multiple products or data sources supplied by the same CRA. As seen above, CRA products and data are used during various stages of the approval process.

21. The CRAs most commonly used among the major lenders were Callcredit and Experian, with, respectively, nine and eight of the 11 lenders using their products at some point in the approval process. Generally, these CRAs require lenders to provide information on a monthly basis in accordance with the Principles of Reciprocity. [✂] reported that it gave Experian real-time access to its information as a member of Experian’s reporting proof of concept activity.

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[8] *Information Sharing: Principles of Reciprocity*, Version 35, Steering Committee on Reciprocity, September 2013, p3.
[9] [✂] does use background information including KYC and bank account records to assess eligibility for loans. See paragraph 13 above and Annex A, paragraph 5.
[10] [✂]

22. Five of the 11 lenders used Teletrack. [✂] submitted information to Teletrack weekly. [✂] provided data in real time to Teletrack through LAPS-IT's loan management system.[11] Real-time or near real-time arrangements were also offered by LendProtect and LendingMetrics, but had only been used by [✂] among the major lenders. We noted that recent reports in the industry media suggest that a number of the lenders included are working with Callcredit on a product which will utilise the provision of real-time data from lenders.[12] We discuss the development of real-time data systems and the FCA's work to encourage adoption of RTDS in Section 9 of our final report and in Appendix 9.3.

23. Under the Principles of Reciprocity, lenders must provide information commensurate to their subscriptions. As listed in the Principles of Reciprocity, the different types of subscription are:

> 3.1 Standard Full Subscriber
>
> The subscriber agrees to provide positive, delinquent and default data on a regular (usually at a minimum monthly, depending on the nature of the product) basis on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained.
>
> 3.2 Default only Subscriber
>
> The subscriber agrees to provide data on all accounts which are in default. A definition of default is included in Section 4.2. Reference should also be made to the latest Guidance Note on Defaults published by the Information Commissioner's Office (ICO).
>
> 3.3 Debt Purchase Subscriber
>
> The subscriber agrees to provide positive, delinquent and default data, as appropriate, on a regular basis (usually at a minimum monthly, depending on the nature of the product) on all accounts within a particular product/portfolio where the necessary legal consents/notifications have been obtained. Access to full data will be granted on those purchased default level portfolios previously reported by an originator at full level on the principle that the

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[11] For more on the LAPS-IT loan management systems, see the LAPS-IT website.
[12] See, for example, 'Data sharing among payday firms set to launch', *Credit Today*, 15 January 2014; and 'Real-time data for payday lenders', *E&T Magazine*, 15 January 2014.

purchaser continues to report the required updates to default level data.

For those accounts on which the debt purchase subscriber has only ever provided default data, but is accessing full data, the full data may only ever be used for risk assessment purposes to support arrears management. It may not be used for any other purpose.

3.4 Non-Subscribing Organisation

It is possible that non-subscribing organisations may request access to shared data for a specific purpose. Such access will not be allowed without the specific written agreement of SCOR.[13]

24. A number of the major lenders provided a description of the data they provided to CRAs. All but one of those lenders, [✂], provided both application information and account status. [✂] did not provide performance information but provided application information and salary only. [✂] provided slightly more detail on the specific account information shared; this included loan ID, full name, full address, date of birth, loan amount and the current status of the loan whether closed (repaid in full), 30 days overdue, 60 days overdue, 90+ days overdue, not yet due or under a repayment plan.

25. Lenders can access CRA databases at any time during the approval process. The reciprocal arrangement is based on the commencement and ongoing supply (typically monthly) to the CRA of account performance information relating to that lender's loan portfolio, rather than the ability of the lender to access it. [✂] clarified that it received data from [✂] biweekly. However, it also told us that [✂] could be accessed at any time as necessary. Publicly-available information from Experian suggests that CRA databases are updated by the lenders themselves subject to the CRA ensuring the lenders' obligations are met and the quality of the submissions is correct, with the CRA delaying the update only if a problem is found.[14]

26. A number of lenders made submissions about the quality and value of the information provided by CRAs. These views are detailed in Section 7.

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[13] *Principles of Reciprocity*, p8. 118118 Money told us that the age of the data that CRAs held could be as much as 60 days when lenders accessed it (118118 Money response to working papers, pp5 & 6). Experian explained that the information-sharing cycle could be as many as 45 days but in around 95% of cases it was only 30 days. Given that CRAs are likely to have better data on the length of these cycles, and noting that 118118 Money was presenting the most extreme example, the balance of the evidence we received does not suggest that data is commonly at the top of the range from 0 to 60 days.

[14] *The credit reference agency explained: A guide for consumer advisers*, Experian, 2013.

27. The evidence provided on CRA use suggested that payday lenders develop internal risk models drawing on CRA data because the existing sub-prime models provided by CRAs were not suitable for customers borrowing on this sort of short-term basis. While CRA data appears important and well used, the testing of information and the development of payday-specific models appears to be an important issue for these lenders.

Approach of the major lenders to the approval process

Ariste

1. Ariste [✄].[1]

2. When considering applications from repeat customers, Ariste also considered any relevant information about the customer it has gained through its previous dealings with that customer. If the customer had a previous overdue repayment, legal proceedings have been started or there is a debt management plan in place, the customer would be embargoed from receiving another loan for a period [✄].

CashEuroNet

3. CashEuroNet's 'credit model' encompassed credit and affordability checks as well as customer identity verification in the same sequence. Customer application details and ID/anti-fraud information was fed through a credit and affordability model which utilised over [✄] variables, an over-indebtedness index, [✄] and an internal affordability model. New variables were tested continuously in 'dry runs': if they tested well they added them to the credit model. Some applications showed up 'yellow flags', in which case call centre processing representatives manually reviewed the application and might request documentation such as bank statements and wage slips.

The Cash Store

4. The Cash Store made loans of no more that 50% of a customer's net income, subject to a lower limit of £50 and an upper limit of £800. This was based on background information including KYC and bank account records. Each branch manager was responsible for signing off on loans and qualifying the customer at 50% of their income based on their bank statement. Customers would not be considered if they did not provide a bank statement.

Cheque Centre

5. Cheque Centre followed two slightly different processes. [✄] to assess the customer for a grade. This grade then equated to a loan amount based upon the level of risk from the customer.

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[1] [✄]

6. The Loan Store online loans went through an internal scorecard [✂].

7. [✂]

CFO Lending

8. To assess affordability, CFO Lending[2] used information from the customer on income and outgoings. Application information was fed through [✂], which provided information on confidence in income figures provided, the likelihood that the income had been inflated, a ratio explaining income change and figures on loans, credit cards and current accounts. Auto-decline might then occur, for example, because the customer had over five current accounts, over 80% of their income was used to repay secured debt or the number of outstanding loans they had was in excess of five. If the income cannot be verified at all, manual review of documentation was required. If an application raised risk flags, the later creditworthiness score would be subject to penalty points.

9. CFO Lending used two scorecards to assess the risk of an application. Data is taken from the customer's application information, previous applications, [✂], pre-authorisation data and [✂]. Once the scorecard is passed, CFO Lending passes applications through further verification using [✂].

10. For new customers, applications that successfully passed the validation, business rules, affordability, scorecards, bank verification and ID checks would pass through to an underwriting team. The underwriting team then applied a number of 'sight rules' such as checking that there was not a prepaid credit card being used or notes left on previous applications. If a query could not be resolved, the underwriter should have requested a bank statement to verify income.

11. Existing customers were subject to less verification but notes on the account and previous late payments were taken into consideration. CFO Lending's overall lending limits were as follows.

[2] CFO Lending's lending limits could be overridden by a member of the management team in order to offer customers a refinance agreement. Credit limits for this product could not exceed 50% of the customer's salary but this could conflict with the above rules.

TABLE 1 **CFO Lending's loan limits**

Monthly income	*1st loan*	*2nd loan*
		£
750–849	110	300
850–949	125	340
950–1,099	140	380
1,100–1,249	165	440
1,250–1,399	185	500
1,400–1,599	200	560
1,600–1,749	240	640
1,750–1,949	260	700
1,950–2,199	290	
2,200+	330	

Source: CFO Lending.

Dollar

12. Express Finance and MEM have adopted a 'test and learn' approach to new customer acquisition which includes the development of [✂] and associated strategies. A bespoke scoring system was developed from [✂] in conjunction with CRA data [✂] to minimise the likelihood of a customer failing to repay their loan. Additionally a series of policy criteria rules have been implemented based on [✂]. If the score [✂] is greater than the cut level,[3] the application is accepted, pending the results of additional affordability and fraud checks. If accepted, an applicant is assigned an appropriate credit limit based on [✂]. MEM customers' maximum loan sizes are calculated based on: [✂].

13. MEM's policy on return customer credit limits is outlined in Table 2.

TABLE 2 **MEM finance's loan limits**

*Number of previous loans**	*Max loan cap £*	*[✂] £*
1	[✂]	[✂]
2	[✂]	[✂]
3	[✂]	[✂]
4	[✂]	[✂]
5	[✂]	[✂]
6+	[✂]	[✂]
[✂]	[✂]	[✂]

Source: DFC.

14. Express Finance customers' initial loan sizes are calculated based on: [✂].

15. An Express Finance customer can never borrow more than [✂]% of their net monthly pay or £750 (whichever is the lower).

[3] [✂] Tighter cut-offs may be set where the business wishes to take a more cautious approach.

16. MEM and Express Finance [✂]. However, historical analysis has shown a repayment history with the lender to be far more predictive of ability to repay loans.

17. Instant Cash Loans developed a bespoke system from [✂] in conjunction with CRA data and [✂] to minimise the likelihood of a customer failing to repay their loan. [✂], producing predictive scorecards based on the level of data being returned from the CRA as well as data declared by the customer.

18. New customers of Instant Cash Loans are assigned an initial credit limit not greater than any one of the following:

- [✂]% of their net monthly income;
- £[✂]
- net monthly income minus [✂]; and
- [✂]

19. To derive net monthly income, Instant Cash Loans uses both the gross income and net monthly income fields to remove any outlying data that may have been caused by keying errors. [✂]

20. As a customer builds up a repayment history with Instant Cash Loans they may gradually increase the amount they are eligible to borrow or, if their circumstances change negatively, Instant Cash Loans will seek to decrease their reliance over a period of time.

Global Analytics

21. Lending Stream had several internal risk and fraud models that incorporated CRA data. Cut-off values on model scores were used to estimate the credit-worthiness of the applicant and from that, both the approval decision and the loan amount to be offered, if any. The models were updated regularly so the input variables could change from month to month.

22. The decisions generated by these models were generally more stringent for first-time applicants than for customers who had previously taken out a loan with Lending Stream. The maximum loan amount was generally lower for a new customer than a returning customer with a good track record of repayments because those factors were normally taken into account in the predictive models.

H&T

23. H&T used risk models but all lending decisions were reviewed by an underwriter. Initially the store staff made an assessment of basic criteria and, with a review of the bank account statement, an assessment of affordability to inform them of the eligibility to apply for a loan was made. The loan system then used internal demographics to determine an internal score and then an additional score was applied to the application using CRA data. All active customers were evaluated monthly at a portfolio, and by selected cohort, level. H&T did not provide any specific details for its online lending policy.

MYJAR

24. MYJAR underwriting was undertaken using application information provided by the applicant and information purchased from CRAs. Information was also purchased in respect of device reputation. Assessment of ability to pay was carried out through an authorisation of card details with MYJAR's payment merchant and against the output of [✂]. Customers who fail the automated checks may be declined or subjected to manual validation which will involve the request of documentary evidence from the customer.

SRC

25. WageDayAdvance used a scoring system to process the application. This included eligibility rules, verification and affordability assessment. Customer information answers questions posed by the scoring system. Some questions resulted in a knockout while others resulted in a score. The lending decision was made on the final score and is processed manually by an underwriter.

26. In its Speedy Cash stores, SRC's approach to affordability assessment was based around the verification of documentary evidence prevented. A large part of this was ID and anti-fraud verification. For affordability purposes, a customer was expected to present a bank statement, a payslip or log-in to internet banking. SRC customers had to show at least 60 days of recurring income. Bank statements were verified, if possible, by calling the customer's bank.[4] Expenditure was verified in a similar manner and SRC's staff searched for inconsistencies. Debit card and telephone numbers were also extensively verified to ensure that the customer was likely to repay the loan. SRC's approval approach for scoring new online customers used an internal risk model which considered [✂] scores.

[4] The customer will be required to pass the security stages of the call to the bank before SRC's store staff listen in.

Wonga

27. Wonga combined application data and predictive variables provided by [✂] in its credit risk decision models. [✂], first-time borrowers were never allowed to borrow more than £400, while existing customers were limited to a maximum of £1,000. Wonga's internal customer performance data was tested on a regular basis. Existing customers' credit files were refreshed [✂] using CRA data.

Methodology for the assessment of market size and structure

Introduction

1. In this appendix, we describe the methodology used in our analysis of the size and structure of the payday lending market. We begin by discussing the two data sources that our assessment was based on: the financial questionnaire sent to the 11 major lenders, and responses to our smaller lender questionnaire. We then discuss the time periods covered by our analysis.

The financial questionnaire

2. A detailed financial template was sent to 11 lenders: CashEuroNet, Dollar, Wonga, Ariste Holdings, The Cash Store, CFO Lending, Cheque Centres, SRC, H&T, MYJAR and Global Analytics. The key variables in this template are total reported payday revenue and the total volume and value of payday loans issued.

3. These 11 lenders were selected on the basis of the following broad criteria:

   (a) size of lender in 2012 – to ensure that our information requests covered a significant proportion of the payday loans sector;

   (b) distribution channels – to ensure that we had a mix of online and high street lenders; and

   (c) products offered – to ensure that the subset of lenders selected covered a range of payday products falling under our working definition (for example, standard payday loans; longer-term fixed-sum loans repaid in instalments; and running accounts/open credit facilities in which the borrower has a fixed credit limit and can draw down the funds into their bank account up to the limit).

4. The 11 lenders operate 16 separate companies in the UK and market loans under around 22 different brands. Between them, these lenders provide a range of single repayment and instalment loans available online and on the high street. Collectively, we estimate that these lenders accounted for over 90% of loans issued in 2012 and over 90% of payday loan revenue in 2012.

The smaller lender questionnaire

5. The smaller lender questionnaire was sent to over 200[1] firms believed to have offered payday loans in recent years. Since many payday loan companies were very small, the small lender questionnaire only included a shortened financial template along with questions on entry, exit, lenders' payday loan delivery channels and any other services lenders provided.

6. Responses were received to the questionnaire from 100[2] companies that have operated in the payday sector at some point in the period 1 January 2010 to 1 October 2013. A full list of these companies is provided in Annex A.

7. Not all of these lenders could provide full financial information for both 2011 and 2012. For example, of the 89[3] lenders who both responded to the questionnaire and operated in 2012, in 17 cases the total number of payday loans issued in 2012 was missing; in 20 cases the value of new payday loans issued in 2012 was missing; and in 16 cases payday loan revenue in 2012 was missing.

Financial years

8. Our analysis of the size and structure of the payday lending market covers financial years 2011 to 2012 inclusive for all lenders, and the financial years 2008 to 2012 inclusive for the 11 major lenders that received more detailed information requests.

9. Financial years were standardised across lenders as follows. Financial information provided by lenders with financial years ended before 30 June 2012 was recorded as financial year 2011. Financial information provided by lenders with financial years ended between 1 July 2012 and 30 June 2013 were recorded as financial year 2012.

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[1] In contrast to the FCA and the OFT, we counted all franchisees of a franchisor as one payday lending company and we counted all subsidiaries of a parent company as one payday lending company.
[2] Seventy-nine of these companies were operating as payday lenders on 1 October 2013.
[3] This total of 89 includes some lenders who operated as lenders in 2012 but have now exited the market.

List of respondents to the small lender questionnaire

1st Stop Payday Loans Limited
4Finance Ltd
Access Mortgage Underwriting Ltd
Aclasslone
Active Securities Ltd
Albemarle & Bond Holdings Plc
APFIN Ltd t/a Cashasap.co.uk
Batten Finance (Plymouth) Ltd.
BB Credit Ltd
Bruce Finance Ltd
Carson Finance Limited
Cash-a-Cheque (UK) Ltd
Cash 4U
Cash and Barter
Cash Central of UK Ltd
Cash Centres SW
Cash Converters UK Ltd
Cash Inn Ltd
Cash On Go Limited
CASH XPRESS LIMITED
Cashxchange Uk Ltd
Chandler Hart Ltd
Cheque Express (Staines) Ltd
Cheque Express (Telford) Limited
Chequers Leamington Spa Limited
Codeway Finance Ltd
DTW Associates Limited
Fast Investment Ltd
FCL (UK) Limited
Ferratum UK Ltd
Fidelity Works
Financial Retail Services Ltd
Forward Business Enterprises Ltd
FTMS Ltd
Full Pocket Ltd
Generaldirect Ltd
Henderson Finance (Northern) Ltd
Iain Alexander Tarn Christie and Catherine Christie
IC Loans Ltd
Indigo Michael Ltd
Instant Cash Services N. Ireland Limited
Jolly’s Pawnbrokers and Fine Jewellery
Kabayan Finance Ltd
Lion Supplies Limited
Merrydown Finance Ltd
Micro Lend UK Ltd
Microcredit Limited
Mint Finance (NE) Limited
Money In Advance Limited
Money Matters (London) Limited
Money Spinner York Limited
Monkey Dosh Ltd
MQ123 Ltd
MLJ Loans
My Money Partner Ltd
Northern Soul Limited
Nottingham Payday Loans
Oakam Limited
Onesys Financial Limited
PayBreak Ltd
PDL Finance Ltd
Peter Guy Knowlson
Pimlico Finance
Pocket Money Payday Loans Limited
Provincial Funding Ltd
Quid24 Ltd
Ramsdens Financial Limited
Rapid Cash Ltd
Raselle (Staple Hill) Ltd
Redwallet Ltd
Response Funding Limited
Riskinc Limited
Rogerstan Finance Ltd
Speedy Dosh Limited
Stagemount Ltd
Stonemere Finance Ltd
Swift Money Ltd
T.L.K. Edwards and Sons Limited
The Antique and Bargain Stores Ltd
The Cash Shop
The Cheque Shop Limited
The Lending Factory Ltd
The Lending Well Limited
The Quick Loan Shop Ltd
Think Finance (UK) Ltd
Tide You Over Limited
TMAdvances
Tower Capital Ltd
Tower Credit Limited
Trusted Cash Ltd
Turvers Ltd
UK Cash Services Limited
UK Fast Loan Limited
Umbrella Loans Ltd
Uncle Buck Payday Loans LLP
United Kash Ltd
V Gates Ltd
Value Finance Corporation Ltd
Whiston Services Limited
Yes Solutions Ltd

Group structure of large lenders

Introduction

1. This appendix sets out the group structure of the three largest payday lenders as at January 2015. CONC requires lenders to have a UK establishment[1] (that is, a UK branch or representative) but not necessarily an incorporated UK legal entity.

CashEuroNet

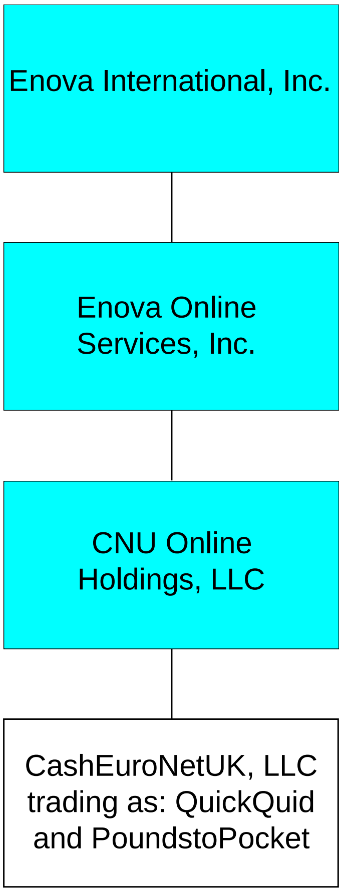
2. As of 13 November 2014, CashEuroNetUK's parent company, Enova International, Inc. (NYSE: ENVA), began trading on the New York Stock Exchange under the ticker symbol 'ENVA', following the completion of its spin-off from Cash America International, Inc.[2]

3. Figure 1 sets out the new Enova International, Inc. group structure as of 13 November 2014. The relevant trading entity is identified as a white box.

[1] CONC 1.2.5 R (1).
[2] Enova International celebrates first day of trading on NYSE.

FIGURE 1

Enova International, Inc. group structure and trading names



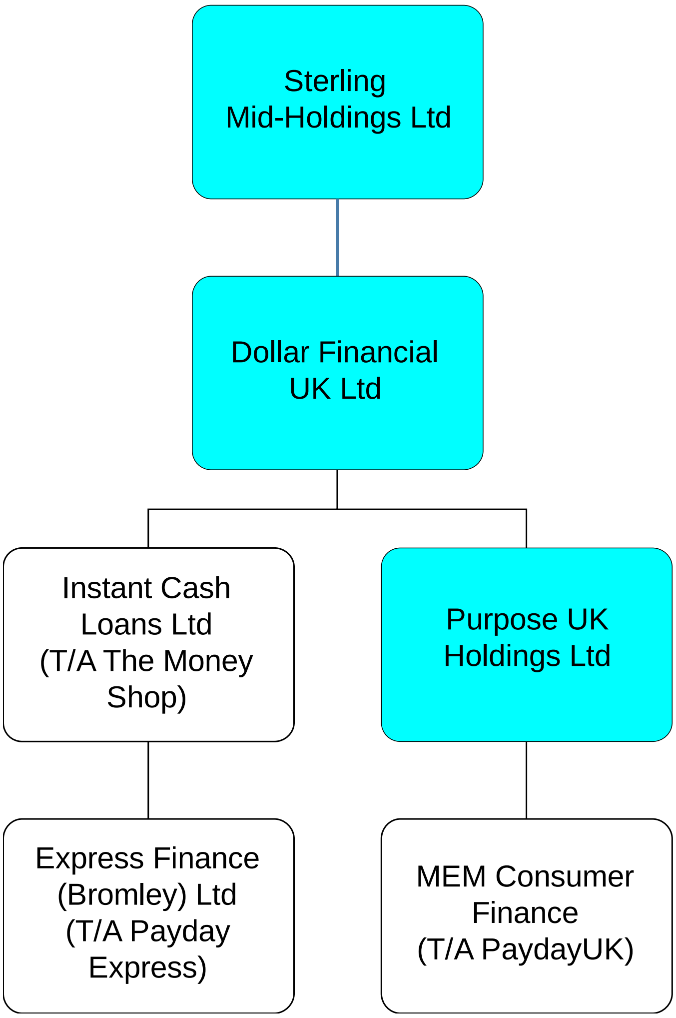
Source: CashEuroNetUK.

Dollar

4. The position of UK activities (and the three businesses operated by Dollar) within the overall Dollar group structure are set out in Figure 2. The relevant trading entities are identified as white boxes.

FIGURE 2

Simplified Dollar group structure and trading names



Source: CMA.

Wonga

5. The position of UK activities within the overall Wonga group structure are set out in Figure 3.

FIGURE 3

Wonga Group Limited corporate structure (principal companies only)

[✂]

Source: Wonga.

6. The above corporate structure was implemented [✂]. The primary Wonga Group trading companies relevant to Wonga's UK operations are:

(a) Wonga Worldwide Ltd: this is the holding company for all Wonga's lending and servicing operations;

(b) WDFC UK Ltd (Wonga): responsible for consumer lending activities within the UK; and

(c) Everline Financial Services Ltd: responsible for all business lending activities (as opposed to consumer lending activities) within the UK.

7. In addition there are a number of internal service companies which support these trading companies.

8. The position of UK activities within the overall Wonga group structure prior to [✂], is set out in Figure 4.

FIGURE 4

Wonga Group Limited corporate structure (principal companies only) prior to [✂]

[✂]

Source: Wonga.

9. The above corporate structure had been in place since [✂]. The primary trading companies of Wonga Group Limited were:

(a) Wonga Technology Ltd: based in Dublin, it developed Wonga's information systems, as well as providing customer care;

(b) WDFC SA: based in Geneva, it was primarily responsible for marketing, branding and loan-handling services;

(c) Wonga Worldwide Ltd: this was the holding company for all Wonga's lending operations; and

(d) WDFC UK Ltd (Wonga): responsible for all lending activities within the UK.

The role of lead generators in the payday lending market

Introduction

1. In this appendix we use the term 'lead generator' to refer to any party that acts as an intermediary between borrowers and lenders by collecting and passing to providers of payday loans details, including personal contact information, of individuals seeking loans.

Methodology and data gathering

2. We identified 130 lead generators offering services to UK payday loan customers as at July 2014. We selected around 40 lead generators from this group to receive a data request with the aim of gathering information from the ten largest and a representative sample of smaller lead generators. We sent the data request in August 2014 to the lead generators selected and received 32 replies. We identified 25 firms still operating as lead generators in the payday lending market, hereafter referred to as 'our sample'. We held seven response hearings with lead generators in our sample and conducted two further meetings and teleconferences to gather further evidence and discuss potential remedies. Evidence set out here relates to our sample discussed above.

3. Parties told us that the lead generation sector was 'fluid' and that the number of companies operating at any one time was variable. We considered our evidence base to be robust, however, because the companies included in our sample accounted for 85% of historical payments made by the major payday lenders to lead generators.

Structure of the appendix

4. The remainder of this appendix is structured as follows:

   (a) First, we discuss the different types of intermediary operating in the payday loan market and distinguish between lead generators and other intermediaries including PCWs and voucher sites.

   (b) We then summarise evidence gathered on the size and structure of the lead generation sector.

   (c) Next we provide an overview of the role of lead generators in the payday lending market.

(d) Finally we discuss the processes used by lead generators for collecting and selling leads, and differences in the role of pingtree operators, affiliates and fee-charging brokers.

5. We discuss customers' use of lead generators in Appendix 6.5 and the transparency of lead generator websites in Appendix 6.4.

Types of intermediary active in the payday lending market

6. We identified the following six types of credit broker/intermediary as being active in the payday lending market:

(a) PCWs, which provide information about payday lenders and lead generators for comparison purposes, but are not active in the application process.

(b) Voucher code sites, such as www.dealshare.co.uk, or websites which carry banner advertising and a click-through facility transferring applicants to lenders or lead generators.

(c) Pingtree operators, which are lead generators providing technology platforms[1] to auction the details of prospective borrowers applying for payday loans. Pingtree operators may operate websites themselves which collect details from applicants, or process applications submitted by marketing affiliates (see *(e)* below).

(d) Directory listings or database lead generators, which list payday loan lenders and lead generators in tabular format, or offer a search function, as a means to collect details of prospective borrowers searching for payday loans for onward sale to pingtree operators or processing in their own pingtree.

(e) Affiliates, which are generally marketing companies collecting customer data via a lead form (which is then passed to pingtree operators or lenders), or using lead forms on websites run by pingtree operators.

(f) Fee-charging brokers offering a service to manage an application for the user and potentially finding a payday lender for them for an upfront fee. Fee-charging brokers may contract separately with lenders for additional payment from the lender to the broker.

7. We defined lead generators as collectively *(c)* to *(f)* above. Whilst PCWs also direct customers to lenders (and in some cases lead generators), a borrower

[1] Technology platforms may work in conjunction with telephone call centres.

using a genuine price comparison site is choosing from a selection of loans using criteria that are important to the customer. In the case of voucher code sites, or websites carrying click-through advertising banners, no customer details are collected, and hence the intermediary is not involved in the credit application process.

8. We noted that some lead generators had started to develop models giving customers more input into the choice of lender or broker, such as Quiddicompare.co.uk (Quiddi), kwikcash.co.uk (Money Gap) and controlpayday.co.uk (Nouveau Finance). Money Gap told us that kwikcash.co.uk indicated to applicants details of any lenders which had pre-approved their application, thereby enabling the customer to choose a lender if there was more than one option available.[2] Nouveau Finance told us that controlpayday.co.uk would allow customers to indicate preferred lenders and that the resulting lead would then be offered to preferred lenders first, before being shown to the general pingtree panel.

9. The majority of lead generators' business models we reviewed, however, were based on the model whereby a lead is sold to lenders according to the most favourable commercial terms for the lead generator, rather than determined by the borrower concerned, or on the basis of the lowest cost of credit.

Size and structure of lead generator channel

10. Many lead generators operate in the UK payday loan market. Our analysis of payments made by the major payday lenders to lead generators showed that 130 lead generators were operating in 2012. Most lead generators were very small – only 45 companies accounted for a share of greater than 0.05% of the total payments made by the major lenders to lead generators in 2012.

11. Detailed company profiles of lead generators identified are included in Annex A. Table 1 shows information on the lead generators in our sample. [✂] was the largest lead generator in our sample and reported turnover of £[✂] million from the sale of leads to payday lenders in 2013, almost [✂] the size of [✂] and [✂], which generated turnover of £[✂] million and £[✂] million respectively. The three largest lead generators accounted for [50–60]% of our total sample's 2013 revenue. All three large lead generators operate pingtrees.

[2] We noted, however, that Money Gap told us that very few applicants were using the new functionality on kwikcash.co.uk.

TABLE 1 **Revenue of lead generators from sale of leads to payday lenders for the year ending 31 December 2013**

Lead generator	*Revenue (£m)*
9Global	[✂]
Cannon Finance	[✂]
D&D/T3 Leads	[✂]
EPL	[✂]
Eudore	[✂]
Interfinancial	[✂]
Knight Creative	[✂]
Lead Tree	[✂]
Lending Metrics	[✂]
Loan Machine	[✂]
Loan Partners	[✂]
Market Genomics	[✂]
Money Gap	[✂]
New Wisdom Solutions	[✂]
Nouveau Finance	[✂]
Pingtree Ltd	[✂]
Quiddi	[✂]
RevUp Media	[✂]
Sandhurst Associates	[✂]
Sigma	[✂]
Stop Go Networks	[✂]

Source: CMA analysis of lead generator template.

Note: Four lead generators did not provide revenue figures.

12. We identified two broad strategies operating in the lead generation sector for payday loans. Some lead generators work to build online brands to attract applications from customers, for example: Beeloans.co.uk (operated by Knight Creative); paydaypig.co.uk, (operated by Stop Go); and purplepayday.co.uk, (operated by Pingtree). One lead generator, Money Gap, had advertised its Cash Lady brand on television to create customer awareness. Other lead generators seek to attract leads from affiliates (a type of lead generator themselves), for example D&D generates all its traffic from affiliates, and both Loan Machine and Quiddi told us that around 90% of total leads collected were generated by affiliates.

13. We were told that there were more than 1,500 affiliates operating in the payday lead generation channel in the UK. Many affiliates are very small companies and may use the services of an affiliate network such as The Affiliate People to pass leads to pingtree operators. We identified New Wisdom, Swift Money and Sandhurst Associates as three affiliate companies operating widely in the sector.

14. The lead generators in our sample dealt with more than 43 million leads[3] in 2013 and sold more than 9 million of these applications to payday lenders for prices ranging from around £2 to more than £280 per lead.[4]

15. In the 12 months to July 2014 lead generators also sold more than 8.5 million leads to companies other than payday lenders.[5] There was evidence that some lead generators sold up to 30 to 40% of total leads to non-payday lenders, including fee-charging brokers and other businesses with an interest in leads such as those providing debt management products, debt consolidation services and credit scoring reports.

16. We also noted that pingtree operators regard affiliates as key suppliers but also competitors – for example, Pingtree Ltd told us that three of its top ten affiliate sites competed with its own consumer brands online. Lead generators also compete with their customers (lenders and other lead generators) in digital marketing including Paid and Organic search.

17. Our analysis indicated that the lead generators in our sample generated combined revenue of £[✄] million in 2013 from UK payday lead generation activities. Aggregate 2013 net profit from all activities (including in some cases operations in overseas markets and non-payday markets), was £[✄] million.

18. The revenue performance of the lead generators we analysed has been variable during the first six months of 2014: six operators experienced revenue declines of between 3% and around 60%; six lead generators increased revenue (by between 6% and more than 200%) on the comparable period in 2013. In our hearings, several lead generators told us that lenders had reduced their purchases from lead generators and that they expected the FCA's price cap to lead to further declines in lead volumes in the short term. Two lead generators, Quiddi and Pingtree, told us that over the longer term they thought that there could be partial recovery in channel profitability as the price of pay-per-click advertising on search engines (itself an important part of a lead generator's cost base) dropped.

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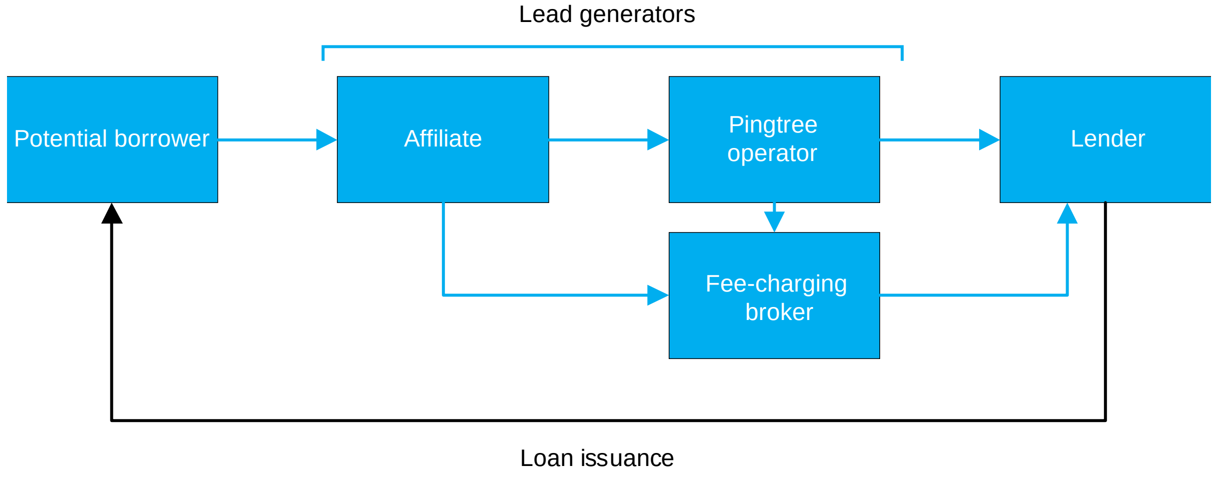
[3] Includes leads sold by pingtree operators and leads sold by lead generators directly to lenders only to avoid multiple counting of affiliate leads.
[4] Leads may fail to sell to payday lenders for reasons including: poor data integrity such as missing digits in mobile phone numbers; affiliates specifying a minimum commission which is too high for lenders; lead data not meeting the requirements of payday lenders such as the age of the applicant. If payday lenders choose not to buy leads, such leads may be sold to non-lenders such as other lead generators including fee-charging brokers, debt management firms and marketing companies.
[5] Data for Sigma relates to the period July 2013–August 2014.

The role of lead generators in the UK payday lending market

19. Figure 1 illustrates the role of lead generators in the payday lending market. In simple terms a potential borrower provides application details to a lead generator, creating a 'lead'. Where a lead generator supplies details to multiple lenders, customer details are then sold through an auction mechanism referred to as a pingtree.[6] If a lead is accepted by a lender the customer is transferred to the lender's website where the customer's debit card details are taken.

FIGURE 1

Simple schematic of the role of lead generators in the payday lending market



Source: CMA analysis.

20. If no lender accepts the applicant's details, the lead may terminate and the applicant is shown either a termination message or details of non-payday loan products and/or services. Non-payday loan products and services which may be offered to applicants include: credit products (for example, guarantor loans, log book loans, credit cards); debt management products; debt consolidation services and/or products from credit reference agencies. Alternatively the lead may be sold on from the 'bottom of the pingtree' to fee-charging brokers or marketing companies. Our analysis indicated that in the 12 months to July 2014 lead generators sold a total of more than 7.5 million leads to fee-charging brokers and around 1 million leads to marketing companies.

21. Our analysis of lead generators indicated that the operation of the market was significantly more complicated once the interrelationships between operators were taken into account. We identified four interrelationships:

[6] See paragraphs 2.146–2.150.

(a) Some lead generators buy leads that have been sold by payday lenders.

(b) Some pingtree operators sell to other pingtree operators (a secondary pingtree) or to a secondary cascade.

(c) Some pingtrees allow both payday lenders and brokers to submit bids to buy leads.

(d) Some leads not sold in the pingtree may be sold to marketing companies operating as affiliates. Potential borrowers may receive further offers of loans from these affiliates if they had not specified an opt-out preference for future marketing.

22. Considering first the role of lead generators in processing declined leads from payday lenders,[7] Money Gap submitted data which indicated that 36% of leads received in the last 12 months were 'lender declines'. Rev Up told us that 21% of leads collected in the last 12 months were applicants which had been declined by payday lenders.

23. Considering next the role of secondary pingtrees, and secondary cascades, Ratio told us that [50–60]% of leads collected in the last 12 months were from pingtrees. Quiddi told us that [30–40]% of its affiliate traffic was derived from [✂], itself a pingtree operator. Secondary pingtrees and cascades are used by pingtree operators which do not have relationships with the full spectrum of potential lenders. For example, leads from applicants looking for larger principal amounts, or longer loan durations, are passed from pingtrees based on single-payment payday loan lenders to those operating with instalment or guarantor lender relationships.

24. We then considered evidence that some pingtree operators have both payday lenders and brokers bidding in the pingtree. [✂], for example, told us that it had nine brokers on its pingtree, of which three were fee-charging brokers.

25. Finally we considered the role of lead generators buying leads 'from the bottom of the pingtree'. There was evidence that some lead generators focused on monetising lead data with, we considered, little expectation that applicants would be offered a loan. Stop Go Networks, for example, told us that marketing companies would 'hoover up' leads at this level. Loan Partners Ltd told us that all customers using its system 'find a solution'. We were told that leads could be sold for as little as 20 to 50 pence at this level of the pingtree, which contrasts with a typical price of around £70 for cost per funded

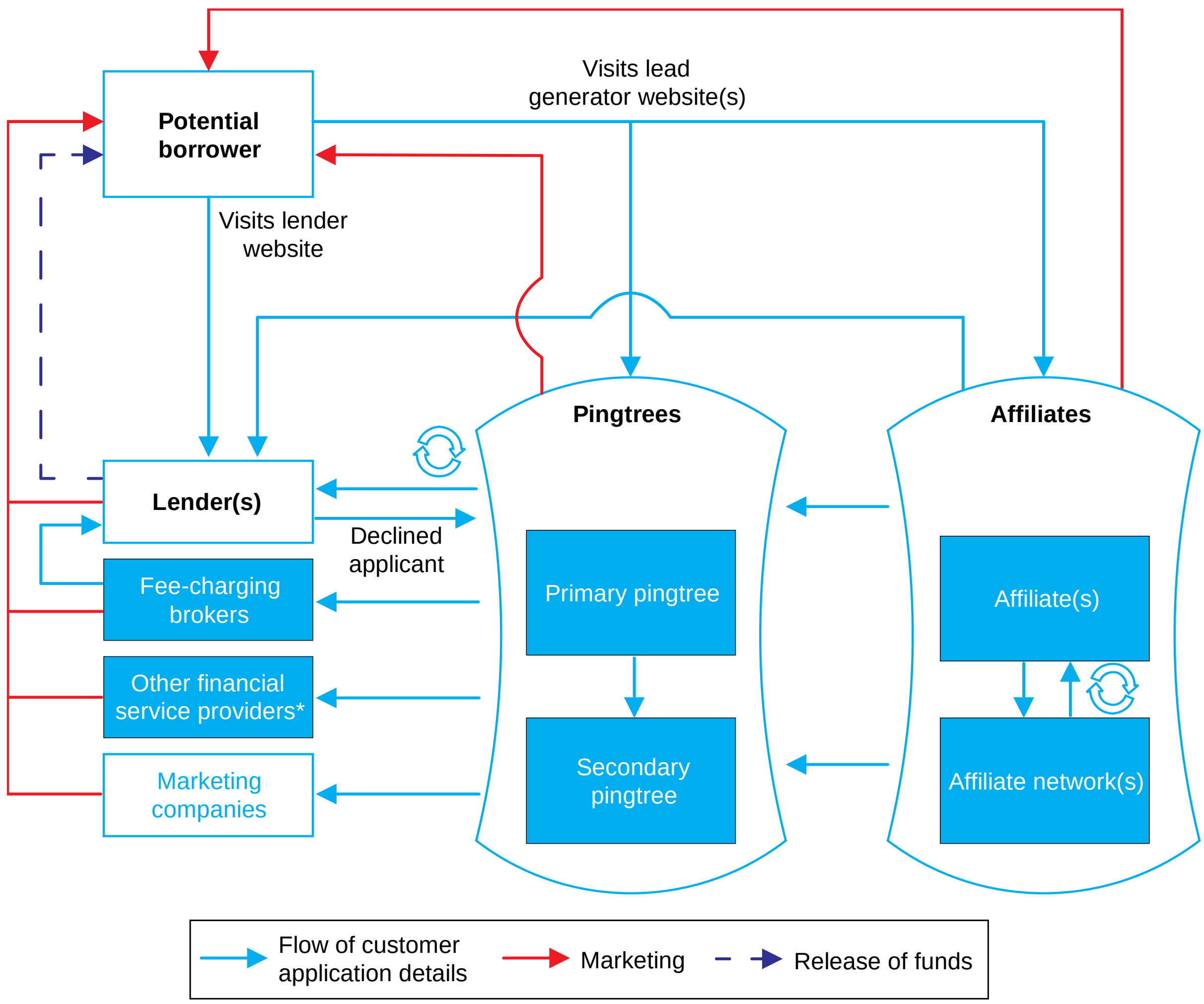
[7] We also noted that one lead generator (Sandhurst Associates) told us that it also received declined loan applications from other brokers.

(CPF) leads and £30 for cost per application (CPAp) leads[8] sold to lenders at the top of the pingtree in 2013. Lead prices are discussed further in paragraphs 48 to 51.

26. The more complex interrelationships of parties in the lead generation sector are illustrated in Figure 2.

FIGURE 2

Diagrammatic representation of the interaction between lead generators, lenders and potential borrowers



Source: CMA analysis.
*Including debt management and credit reporting services.
Note: Potential borrowers may also visit the websites of fee-charging brokers directly.

[8] CPF leads are those for which the seller receives payment when the applicant takes out a loan. CPAp leads are those for which the seller receives a payment when the lead is sold irrespective of whether the applicant takes out a loan.

Wider issues regarding the role of lead generators

27. We considered that the recycling of applicants' details through different elements of the lead generation channel discussed above was likely to contribute to the lack of transparency of the role of lead generators in the payday lending market that we had identified in our provisional findings.

28. There was evidence that complaints about the practices of some lead generators had increased. Citizens Advice told us that The Citizens Advice consumer service in England and Wales[9] had seen a 148% increase in service calls relating to credit broking[10] in Q1 2014/15 compared with the same quarter in the previous year. An analysis of Citizens Advice consumer service data of cases about credit brokerage for the period January 2014 to June 2014 indicated that in 4% of the cases it had reviewed, clients said that they had responded to unsolicited loans or texts, and in just under a quarter of cases (287), borrowers said that they had not contacted any credit brokers directly at all.

29. The Financial Ombudsman Service (FOS) has seen a significant increase in the volume of calls from consumers about problems they have experienced with credit broking services. In the period 6 April to 11 September 2014 the service received 12,980 enquiries about credit broking, exceeding the total for the previous financial year. Figures from the FOS relate to all types of credit broking enquiries, but a high proportion relate to broking services connected to payday loans. A common feature of calls to the FOS relate to consumers having paid a significant upfront fee to a broker, for example £70. In many of the enquiries that the FOS handled the consumer was not told about the fee and gave their bank details to the broker who requested them 'for verification'.[11,12]

30. We also noted data collected by the Information Commissioner's Office which indicated that payday loans and debt management were two of the three most complained about topics in spam text messages;[13] and the task force set up by Which? on nuisance calls and texts including a call for evidence regarding consent and lead generation in the direct marketing industry.[14,15]

[9] And in regions where the location of the client was not known.
[10] Credit broking in general.
[11] Financial Ombudsman insight report – *Payday lending: pieces of the picture*.
[12] We noted that whilst the FOS has a clear consumer protection focus, the issues raised by the FOS also indicate that some users of lead generators are not being provided with the information they need to make rational, well-informed decisions.
[13] http://ico.org.uk/enforcement/action/texts, see Spam texts by topic graphic.
[14] Which? campaign: Calling time on nuisance calls and texts.
[15] Call for evidence: Which? task force on consent and lead generation.

31. We were told that the actions of some lead generators were contributing to problems for customers:

(a) Money Gap told us that there was a need to stop fee-charging brokers misleading customers into providing card details for loan confirmation when card details were instead used to charge customers a fee.[16]

(b) Pingtree told us that it had concerns that there were instances in the lead generation sector of data manipulation, for example reducing the loan amount in lead forms on the expectation that a customer would be more likely to be accepted.

(c) Wonga told us that there should be a restriction on intermediaries such as lead generators from selling or providing customer details between themselves as this activity could result in customers receiving numerous unsolicited emails.[17]

(d) MYJAR told us that action should be taken against lead generators which undertook unauthorised sale of customer data, spam marketing communications and introductions to fee-charging brokers which did not lead to the provision of a loan.[18]

(e) Dominic Lindley told us that credit brokers should be prohibited from storing a consumer's details in their system and re-selling them to multiple lenders.[19]

How lead generators gather payday loan leads

32. Lead generators market their services in various ways including: *(a)* purchasing key words on search engines; *(b)* hosting or operating websites (including landing pages, directory listings and lead forms); *(c)* placing traditional online banner advertisements, including for example, on PCWs such as money.co.uk;[20] *(d)* inserting advertising material into contextually relevant websites such as internet fora, blogs, social media and newsletters; *(e)* search engine optimisation techniques such as embedding metadata in webpages or designing webpages to rank highly on search engines; *(f)* email marketing campaigns;[21] and *(g)* SMS messages.

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[16] Money Gap response to Remedies Notice, p2.
[17] Wonga Group Limited response to Remedies Notice, paragraph 7.17.
[18] MYJAR response to provisional findings and Remedies Notice, p10.
[19] Dominic Lindley response to Remedies Notice, p4.
[20] Including banner ads in comparison sites, for example [✂] told us that it had generated [✂]% of leads collected in the last 12 months from [✂].
[21] For example, [✂] told us that 15% of its leads were supplied by affiliates, most of which did not have websites but promoted by email marketing.

Online search

33. Online search is the main means by which most lead generators attract applicants to their websites. Swift Money, Market Genomics and Knight Creative told us that 100% of traffic to their websites was generated by search engine marketing. Pingtree told us that more than 50% of traffic to its own websites was generated by paid search and organic search marketing, with the remaining activity coming from a mix of display, email, returning customers and SMS marketing.

34. An analysis of Citizens Advice consumer service data about cases of credit brokerage for the period January 2014 to June 2014 indicated that most Consumer Service clients found a credit broker whilst searching for loans online (72% of the 1,208 cases where the case notes included information about how the client first came across the broker). In a further 4% of cases, clients said that they had responded to unsolicited loans or texts.

Search terms

35. Information supplied on the principal pay-per-click and organic search terms used to generate potential borrower traffic to lead generator websites indicated that the main priority of applicants was likely to relate to the payday product itself. Our analysis indicated that 60% of search terms were for ‘payday loan’ or ‘payday loans’ and variations on these terms including speed, online application, 12-month duration and ‘no-credit check payday loan’ (see Table 2). A further 7% of search terms related to the brands of specific payday lenders. Combining this 7% with the search term ‘direct lender’ shows that around 15% of search terms relate to applicants looking for a payday loan provider rather than a lead generator. 8% of search terms used by lead generators to attract applicants to their websites were for the brands of specific lead generators.

36. Of the 25 lead generators which replied to the questionnaire, 15 included their top five paid search terms. These have been grouped and ranked in Table 2.

TABLE 2 **Principal search terms used by lead generators**

Nature of search terms	*Examples of words included within search*	*Percentage of total search terms used (%)*
Payday loan and variations		60
Of which:		
Generic product	Pay day loan, Payday loans	38
Speed	Instant, Fast	12
Online	Online	8
Duration	12 month	1
Availability	No credit check	1
Payday brand	Wonga, Quick Quid, Pounds to Pocket	7
Direct lender	Direct lender	6
Specific lead generator	[✂]	8
Loan	Cash advance, online loans, cash loans	19

Source: CMA analysis of lead generator questionnaire.

37. There was evidence that some applicants used search terms to attempt to find lenders rather than lead generators. Knight Creative stated that it often saw requests, searches and questions relating to not wanting to use a ‘broker’.

38. Pingtree Ltd told us that:

(a) it did not believe the search term ‘payday loan broker’ was used by many customers and that this was not a term that it focused on; and

(b) the monthly average search volume for the term ‘payday loan broker’ on Google for the last 12 months was 40, which indicated that this was not a popular term used frequently by customers.

39. The amount that lead generators spent on Google AdWords was significant. Over the last 12 months the lead generators in our sample spent £[✂] million on Google AdWords, equivalent to 21% of their total revenue. Individual lead generator expenditure is shown in Table 3.

TABLE 3 **Lead generator spend on Google AdWords, 12 months to July 2013**

Lead generator	*Spend £m*
9Global	[✂]
Cannon Finance	[✂]
D&D/T3 Leads	[✂]
EPL	[✂]
Eudore	[✂]
Interfinancial	[✂]
Knight Creative	[✂]
Lead Tree	[✂]
Lending Metrics	[✂]
Loan Machine	[✂]
Loan Partners	[✂]
Market Genomics	[✂]
Money Gap	[✂]
New Wisdom Solutions	[✂]
Nouveau Finance	[✂]
PingTree	[✂]
Quiddi	[✂]
Ratio	[✂]
RevUp Media	[✂]
Sandhurst Associates	[✂]
SGE Loans	[✂]
Sigma	[✂]
Stop Go Networks	[✂]
Swift Money	[✂]

Source: CMA analysis of lead generator questionnaire.

Notes:
1. Revenue figures provided in US$ were converted at 0.612.
2. Data from Sigma relates to the period July 2013 to August 2014.

Lead form data capture

40. Having attracted a potential applicant to a website, most lead generators' websites ask customers to complete a form that generally captures all information needed by lenders to make a lending decision in principle.[22] Information includes personal details, details of income/expenditure, bank details and marketing opt in/out. We noted one exception, SGE Loans, where applicants enter a telephone number on an SGE Loans website and then receive a call back from an SGE Loans call centre employee who gathers information over the phone.

41. Lead forms typically fall into one of two categories:

(a) Pingtree operators can provide a hosted application form (known as an Iframe form) which affiliates can embed in their websites. The form allows applicants to submit loan applications to the pingtree operator to be sold.

(b) Affiliate websites can 'post' applications directly into a pingtree operator's Application Programming Interface (API). In this case the affiliate can

[22] Some lead generators are sometimes asked by lenders for additional information and lenders may make subsequent checks having accepted a lead.

attach various rules to a post to dictate which lenders the post/applicant is presented to.

42. Where a lead generator acts solely as an affiliate without operating a pingtree, leads are tracked using URL codes, a form of computer coding which indicates to the pingtree operator which affiliate provided the lead.

43. Many pingtree operators market their services to affiliates using affiliate programmes, an example of which is shown in Figure 3.

FIGURE 3

Screenshot of marketing to affiliates

AFFILIATE KITCHEN

Affiliate Kitchen provides access to a wide variety of starightforward and hassle free campaigns. We pride ourselves on being customer friendly and efficient and ensure all of our products reflect these values.

If you would like to partner with us in marketing to these campaigns we will reward you with industry leading commissions.

What we offer:

- Unlimited Commission
- Realtime online reporting system
- Extensive suite of marketing materials
- High conversion rates
- Post integration
- Dedicated affiliate team
- Data monetisation

Source: www.affiliatekitchen.com, accessed on 03/10/14.

How lead generators sell payday loan leads

44. Lead generators may sell some leads directly to lenders, for example SGE Loans told us it had direct relationships with [✂] and [✂].[23] Leads not sold directly to lenders enter a pingtree.

45. At a high level, the pingtree operates as follows:

    (a) lenders specify the characteristics[24] of potential customers which they wish to buy leads on (that is, have the opportunity to offer credit to directly) and the number of leads that they wish to purchase;

    (b) the lender which bids the most for a certain type of customer will be offered matching leads first; and

    (c) the lender then undertakes a risk assessment and must decide whether to purchase the lead at the bid price. If the lender chooses not to purchase the lead, the lender with the next highest bid is offered the lead.[25]

46. The typical operation of a pingtree is shown diagrammatically (with three lenders, A, B and C[26]) in Figure 4. When a lead is offered to a lender, the lender has a short window of a few seconds to undertake its initial risk assessment to decide whether to accept the lead. This restriction is imposed by the lead generator to ensure that a customer is passed to a lender before the customer decides to abort the process.

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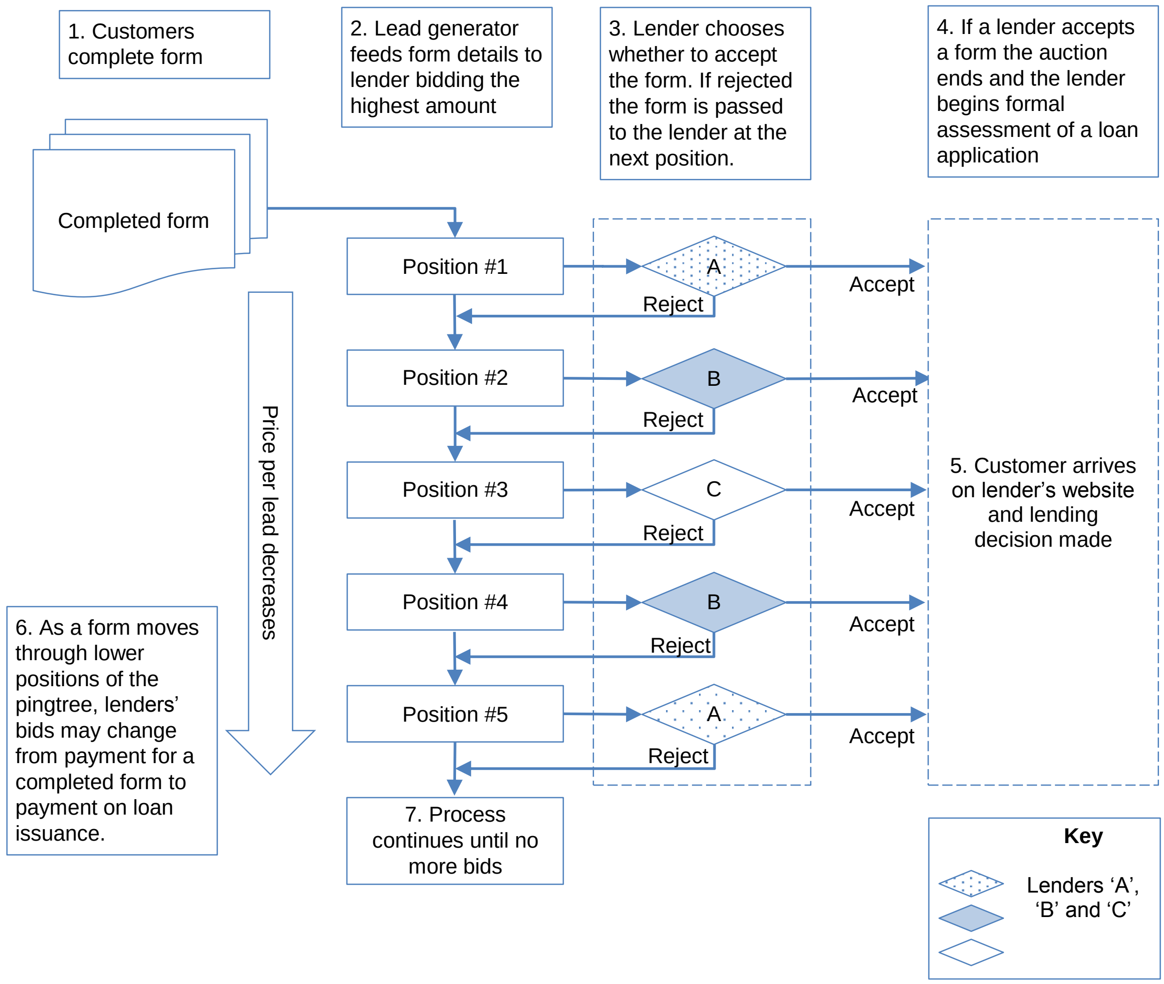
[23] For further evidence on lenders' use of affiliates, see paragraphs 7.40 & 7.41.
[24] Also known as 'qualifying criteria'.
[25] Passing on leads in this way is known as going down towards the bottom of the pingtree.
[26] Our analysis indicated that pingtrees typically operate with between 20 and 40 payday lenders.

FIGURE 4

Diagrammatic representation of the pingtree



Source: CMA analysis.
Note: In this example there are three lenders: 'A', 'B' and 'C'. Both lenders 'A' and 'B' occupy two positions each and the placing of these positions is based on the bid price for that customer's form. Our analysis indicated that pingtrees typically operate with between 20 and 40 payday lenders.

47. Data provided by lead generators indicated that the number of lenders bidding in pingtrees ranged from 2 to 71, with many pingtrees operating with between 20 and 40 lenders submitting bids.

Lead prices

48. Leads are generally sold on the most favourable commercial terms for the lead generator. In most cases it appeared that leads are sold to the highest bidder in the auction process, although three parties submitted that there were circumstances in which this would not be the case: Credit Benefit Services

indicated that a lender bidding for a higher volume of leads at a set price might be offered a lead in preference to a lender seeking a lower volume at a higher price. Stop Go Networks told us that it might choose to sell leads to a lender rather than a broker bidding a higher price in order to maintain good relationships with lenders. SGE Loans told us that in cases where its call centre employees discussed a number of loan offers with borrowers, the product chosen by the customer might be the 'best match' for the borrower, as discussed with the call centre employee.[27]

49. Our analysis of the evidence on lead prices received from lead generators was consistent with evidence from CashEuroNet.[28] CashEuroNet said that the price of the most expensive leads was close to £[✂] in 2013.[29]

TABLE 4 **Lead prices, 2013**

£

	Cost per funded leads	*Cost per application leads*
Range	2–280	0.35–70
Average maximum	70	30
Average	25	8

Source: CMA analysis of lead generator template.

50. Leads are sold on a CPAp basis – where the lead generator receives payment from the lender on sale of the lead; or on a CPF basis – where payment is dependent on the applicant taking out a loan with the lender which has bought the lead. In 2013 lead generators in our sample sold around 90% of leads on a CPAp basis.

51. Affiliates are typically paid a percentage representing the majority (generally ranging from 70 to 95%) of the amount that a pingtree operator receives from the party that purchases the lead. In some instances affiliates are paid on a 'per lead', 'per application' or 'per click' basis.

Fees charged by lead generators

52. Fees charged to borrowers by lead generators can take several forms including: membership fees, administration fees, application processing fees, brokerage fees, and service fees. SGE Loans charges a £99.99 'Premium Service' fee which gives borrowers access to a 'VIP' customer service telephone number and email address, vouchers and discount codes for retailers and restaurants. SGE Loans told us that [✂]% of its customers

[27] See also paragraph 8 for changes planned to some lead generator models.
[28] See paragraph 7.47.
[29] ibid, paragraph 7.47.

chose to pay the premium service fee in addition to the administration fee of £5. Premier Net told us that it charged applicants a one-off fee of £69.99 for a six-month period.[30] We noted that fees set out on the websites of other fee-charging brokers[31] ranged from around £45[32] to £70.[33]

53. We considered that the levying of fees was more likely to be clear to customers when details of fees were explained clearly to customers before proceeding with the use of a lead generator's services. Borrowers were generally less likely to understand the use of fees by lead generators where their details had been passed to fee-charging brokers from a pingtree. Evidence from Citizens Advice was consistent with this view.[34]

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[30] Premier Net told us that it offered an auto loan facility that could be used to place further loans.
[31] Not included in our sample.
[32] Midlandcash.com.
[33] Mymoneyfinder.co.uk.
[34] For example, in an analysis of Citizens Advice consumer service data about cases of credit brokerage for the period January 2014–June 2014, in 41% of cases where the client had not contacted a credit broker directly, the client had no idea how the credit broker had got their debit card details.

Lead generator companies: background

Introduction

1. This annex provides a description of the main lead generator companies identified in our analysis. It draws on publicly available material and that provided in response to our information requests.

2. Included below are descriptions of the following lead generator companies:

   (a) 9Global Inc

   (b) Credit Benefit Services LLC

   (c) D&D Marketing Ltd/T3 Leads

   (d) Digitonomy Ltd

   (e) EPL Web Solutions Ltd

   (f) Eudore Ltd

   (g) Interfinancial Ltd

   (h) Knight Creative Ltd

   (i) Lead Tree Global Ltd

   (j) Loan Machine Ltd

   (k) Loan Partners Ltd

   (l) Market Genomics LLC

   (m) Money Gap Group Ltd

   (n) MSM Credit Ltd/Cannon Finance Ltd

   (o) New Wisdom Solutions Ltd

   (p) Nouveau Finance Ltd

   (q) Perfect Data Solutions Ltd

   (r) Pingtree Ltd

   (s) Premier Net Solutions Ltd

(t) Quiddi Hub Ltd

(u) Ratio Network Ltd

(v) RevUp Media Ltd

(w) Sandhurst Associates Ltd

(x) SGE Loans Limited

(y) Sigma Capital Solutions Ltd

(z) Stop Go Networks Ltd

(aa) Swift Money

9Global

Interim permission number: 620071

3. 9Global is a US-registered company with offices in California and London. It entered the UK market in 2008 and operates 30 lead generator websites and one non-payday site. In 2013 it made total revenue of £[✂] million, of which £[✂] million related to lead generation.

Credit Benefit Services LLC

Interim permission number: 613854

4. Credit Benefit Services LLC is based in Atlanta, Georgia and operates 18 payday lead generator websites in the UK as well as several credit card comparison sites. As at August 2014 it was ceasing operations within the UK payday lending industry.

D&D Marketing/T3 Leads

Interim permission number: 641556

5. D&D Marketing Inc. operates under the name of T3 Leads. The company is registered in California and offers payday lead generation products in the UK, Canada, Australia and the US. Within the US D&D also offers mortgage leads and insurance lead products.

6. Created in 2005 D&D entered the UK market in 2010 where it now operates nine lead-generating websites, including www.igotfunds.co.uk. Total revenue for the UK was US$[✂] million in 2013.

Digitonomy Ltd

Company number: 08385135

Interim permission number: 658817

7. Digitonomy is a private company and was established in 2013. It operates several websites including www.little-loans.com and www.minute-money.co.uk.

EPL Web Solutions Ltd

Company number: 07505998

Interim permission number: 643001

8. Incorporated in 2011 as Easy Payday Loans, the company was renamed EPL Web Solutions in 2012. Mark Bertola is the sole shareholder. The company operates 24 payday lead generator websites and one multi-product site. Total revenue for 2013 was £[✄] million.

Eudore Ltd

Company number: 08598582

Interim permission number: 661016

9. Eudore was incorporated in 2013 and is owned and operated by one person. It had one website, www.searchpaydayloans.co.uk, which was purchased in 2013. (As at 9 January 2015, this website had closed.)

Interfinancial Ltd

Company number: 05448143

Interim permission number: 640077

10. Interfinancial was set up in 2004 and initially specialised in lead generation for loans greater than £5,000. It began working with payday loan leads in 2007 and began to generate payday leads in large numbers in 2012. [✄] Total revenue from UK payday lead generation was £[✄] million in 2013.

Knight Creative Ltd

Company number: 06200142

Interim permission number: 630129

11. Knight Creative, also operating as Leadspot and Payday Bubble, has been working in the financial lead generation industry since 2007 and moved into the payday market in 2012. The company primarily operates through two

websites and made total revenue of £[✂] million, of which [✂] was generated from payday lead generation activities.

Lead Tree Global Ltd

Company number: 08526321

Interim permission number: 662426

12. Lead Tree Global began operating in September 2013 and currently runs three payday lead generation websites. From its inception to July 2014 it has made total revenue of £[✂] million. Lead Tree Global shares directors and shareholders with DJS (UK) Ltd, a technology company. DJS (UK) Ltd holds interim permission licence 651003.

Loan Machine Ltd

Company number: 05517368

Interim permission number: 576459

13. Loan Machine began operating lead generation websites in 2009 and is privately owned. The company trades as Lead Affinity and currently operates five payday loan websites in the UK, as well as similar sites for mortgages and instalment products. Total revenue for 2013 was £[✂] million.

Loan Partners Ltd

Company number: 07844428

Interim permission number: 647985

14. Loan Partners was incorporated November 2011 and has been operating in the payday loan generation market since that time. It has 22 lead generation websites which made total revenue of £[✂] million in 2013.

Market Genomics LLC

Interim permission number: 644697

15. An American company, Market Genomics is involved in lead generation and affiliate marketing for a range of financial services. It entered the UK payday lead generation market in 2010. Market Genomics operates ten payday lead generation websites[1] which generated revenue of £[✂] million in 2013, [✂]% of total revenue.

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[1] Of which two websites actively generate leads.

Money Gap Group Ltd

Company number: 06617413

Interim permission number: 626678

16. The Money Gap Group Ltd was incorporated in 2008 and renamed from PDB UK Ltd in 2013. [✂], making total revenue of £[✂] million in the financial year ended June 2013. The Money Gap Group operates four payday lead generation websites including www.cashlady.com and www.kwikcash.co.uk. It is privately owned and has two shareholders, Avner and Michal Brodsky.

MSM Credit Ltd/Cannon Finance Ltd

Company number: 06877306/06955572

Interim permission number: 627569/629941

17. Incorporated in 2009, MSM Credit and Cannon Finance are owned by Simon Gilbert and Michael Valentine. Although both companies provide leads for the UK payday lending market, MSM Credit only works with lenders and affiliates within the UK, while Cannon Finance works with US and non-EU lenders. Our analysis also indicated that Reset Finance had common shareholders, however this company is now in liquidation.[2]

18. Cannon Finance and MSM Credit currently operate four lead generation websites in the UK. For the year ending March 2014 the companies made a combined total revenue of £[✂] million from UK lead generation.

New Wisdom Solutions Ltd

Company number: 06608388

Interim permission number: 633626

19. New Wisdom Solutions is a subsidiary of Jaak International Holdings Ltd, a company registered in the Isle of Man. New Wisdom was established in 2008 and entered the payday loan lead generation market in 2010. New Wisdom does not operate its own pingtree but is an affiliate with 39 websites. Total lead generation revenue for 2013 was £[✂] million.

[2] As per Companies House.

Nouveau Finance Ltd

Company number: 08470456

Interim permission number: 652989

20. Nouveau Finance was established in early 2013 and developed by its owner, Neil Griffiths. To the period 31 December 2013 the company was running six lead generation websites, as at 30 June 2014 this had increased to 15. Total revenue to April 2013 was £[✂] million.

Perfect Data Solutions Ltd

Company number: 07407815

Interim permission number: 644422

21. Perfect Data Solutions is a credit reference agency which began trading in payday lead generation in 2013. The company has one website, www.epayday.co.uk, which generated revenue of £[✂] in 2013; total company revenue was £[✂].

Pingtree/Quintessential Finance Group Ltd

Company number: 6511354/06898873

Interim permission number: 620815/631178

22. Quintessential Finance Group Limited is an international company based in the USA. In the UK, it owns Pingtree Ltd, [✂]. Pingtree was established in 2007[3] and purchased by Quintessential in 2011.

23. Pingtree operates six of its own lead generator websites in short-term lending, the most well known being www.purplepayday.co.uk. Pingtree also operates in the USA and Australia and in life insurance and personal loans. In 2014 Pingtree Ltd made total revenue of £[✂] million. Payments from payday lenders totalled £[✂] million for the year ended 31 December 2013.

24. Quintessential also owns several other companies within the UK. Loanmarketing Limited (company number 07197002) was purchased in 2013[4] and operates the website www.loanmarketing.co.uk. This is used for a variety of credit products, including loan brokerage. Total revenue for the financial year starting March 2012 was £[✂] million.

25. Quintessential told us that of the remaining subsidiaries: Aegina Ltd (previously known as Enhance Financial Services) did not undertake

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[3] www.pingtree.co.uk.
[4] Loanmarketing Ltd annual return.

regulatory activity, Claims Angel Ltd traded as a claims management company and that Myloan Ltd had never traded and had now been dissolved.

Premier Net Solutions Ltd

Company number: 08370412

Interim permission number: 657687

26. Premier Net Solutions was incorporated in 2013 and began selling leads in May 2014. Operating one website, www.loanrocket.com, it offers loans of up to £50,000 repayable over five years through payday loans, guarantor loans and credit cards. Premier Net Solutions is a fee-charging broker, with customers paying a fee of £69.99 to use its service.

Quiddi Hub Ltd

Company number: 07475476

Interim permission number: 645792/642188

27. Established in 2010 Quiddi Hub Ltd was known as Quiddi Ltd until 2014. Originally set up by three shareholders before growing to six, it was sold to private equity company ([✂]) in 2013. Quiddi operates 18 payday lead generation websites in the UK including one comparison website, www.paydayloancompare.co.uk. It has also branched out into other credit products with www.quiddicompare.co.uk covering credit cards, bank accounts, mortgages, utilities and insurance. Total revenue for 2013 was £[✂] million.

Ratio Network Limited

Company number: 07580462

Interim permission number: 649760

28. Ratio Network Limited was incorporated in 2011 and is privately owned by Marc Biles and Tara Mussell. Ratio is a software company which also operates a PCW, www.choose-wisely.co.uk. The assets and intellectual property that comprise Ratio were previously owned by The Richmond Group and were subject to a management buyout in 2013. Choose-wisely also features bank accounts, credit cards, prepaid debit cards and life insurance.

RevUp Media

Interim permission number: 635748

29. RevUp Media is an American company operating as a lead generator in the USA, UK, Canada, Australia and Spain. Rev Up entered the UK market in

2009 and now operates eight payday lending websites and two for longer-term products. Total UK lead generation revenue for 2013 was £[✄] million.

Sandhurst Associates Ltd

Company number: 06958589

Interim permission number: 641617

30. Sandhurst Associates began operations in 2009 and now runs over 130 affiliate websites, the majority of which (approximately 80) are used for company marketing, with the balance used by affiliates. The majority of these offer loans of up to £50,000 and therefore include multiple lending products as well as payday loans. Sandhurst participates in text marketing through several of these websites.[5] In 2013 UK payday lead generation generated £[✄] million in revenue, [✄]% of total revenue for the company.

SGE Loans Limited (SGE)

Company number: 07635446

Interim permission number: 633850, 645984

31. SGE Loans Limited (SGE Loans) is part of SGE Group which was incorporated in 2009 and operates a range of comparison websites including utilities, lending and gambling. It is privately held and made total revenue of £[✄] million in 2013.

32. SGE operates one specific payday lead generation website, www.sgepayday.com, and five multi-product websites. These cover many products including guarantor loans, car finance, personal loans and logbook loans. Total revenue for the lead generation business was £[✄] million in 2013.

Sigma Capital Solutions Ltd

Interim permission number: 651541

33. Registered in the British Virgin Islands, Sigma was established and began selling payday leads in 2012. As at September 2014 Sigma operated four lead generation websites and the company told us that the most successful of its websites was www.cashub.co.uk. In 2013 it made total revenue of £[✄].

[5] Sandhurst owns Hypercross Ltd, company number 07720400, which holds Interim Permission 646815

Stop Go Networks Ltd

Company number: SC380072

Interim permission number: 637235

34. Incorporated in 2010 as Payday Gap Ltd, the company's name was changed to Stop Go Networks Ltd in 2012. Stop Go currently has offices in Glasgow and New York, and is owned by Andrew Hynes and Martin Dixon.

35. The company currently operates 47 lead generator websites in the UK, with www.paydaypig.co.uk the most well known. It is also a marketing company, offering brand creation and website design, and made total revenue of £[✄] million in 2014.

Swift Money Ltd

Company number: 07552504

Interim permission number: 648992

36. Swift Money was formed in 2011 and has been in the payday lending lead generation market since that time. It is an affiliate rather than a pingtree operator and only has one website, www.swiftmoney.com. Total revenue for the year ending March 2013 was £[✄] million.

Methodology and approach

Introduction

1. On 11 June 2014 we consulted on a request for a variation of the terms of the reference, so that the relevant activities of credit brokers such as lead generators could be brought clearly within the scope of the investigation.

2. The CMA received 19 responses to this consultation, six of which commented directly on the request for a variation of the terms of reference, and 13 supported aspects of our proposed remedy relating to lead generators. None of the responses disagreed with the request. Of the six direct responses received five supported the request and one said that the terms of reference were a matter for the CMA alone.

3. Having considered the representations received, the CMA varied the terms of reference pursuant to section 135(1) of the Act on 22 July 2014.[1] Therefore, for the purposes of this reference:

> The definition of suppliers of payday loans and the associated definition of the market or markets shall also include credit-brokers[2] (and other intermediaries) such as lead generators who collect and pass on to providers of payday loans (generally for a fee) details, including personal contact information, of individuals seeking loans.

4. In view of the change to the terms of reference, on 22 July 2014 we invited around 50 lead generators, including pingtree operators, marketing affiliates and fee-charging brokers to comment on our provisional findings and Remedies Notice and therefore extended our deadline for comment to these parties. Non-confidential versions of responses can be found on our webpages.[3]

5. We identified 130 lead generators offering services to UK payday loan customers as at July 2014 using a combination of payday lender supplier list analysis and desktop research. In August 2014, we sent out a detailed questionnaire to around 40 lead generators requesting information about their

[1] www.gov.uk/cma-cases/payday-lending-market-investigation#variation-of-the-terms-of-reference.
[2] Credit brokers are persons who hold a permission under Part 4A of the Financial Services and Markets Act 2000 (FSMA) in respect of the regulated activity in article 36A(a) to (c) of the FSMA 2000 (Regulated Activities) Order 2001 (SI 2001/544) introducing potential borrowers to potential lenders.
[3] www.gov.uk/cma-cases/payday-lending-market-investigation.

businesses and UK activities, customers, competition and the FCA’s proposals to impose a price cap on the cost of HCSTC.

6. This specific information request was drafted in consultation with lead generators.[4] In addition to the responses received to our provisional findings, Remedies Notice and detailed questionnaire, we held seven response hearings and two meetings with lead generators. Non-confidential versions of summaries of the hearings have been published on our website.

[4] On 6 August 2014, lead generators were sent a draft data request for comment. A final data request for completion was sent to lead generators on 12 August 2014.

Law and regulation applicable to payday lending in the UK

Introduction

1. This appendix describes the law and regulation applicable to payday lending in the UK in four parts, as follows:

   - In Part 1, we discuss the institutions relevant to and tasked with the enforcement of payday lending in the UK.
   - In Part 2, we describe the regulatory framework and self-regulation.
   - In Part 3, we discuss the most recent regulatory developments including the price cap for HCSTC.
   - In Part 4, we provide a brief comparison with some other jurisdictions.

2. The principal legislation covering consumer credit in the UK is contained in the CCA and its implementing regulations[1] which also implement the CCD[2] and the FSMA and its secondary legislation, in particular, in the Regulated Activities Order 2001. Payday loans fall within the definitions of 'fixed-sum' and 'running account' credit agreements in section 10 of the CCA.[3] Most payday loans are fixed sum credit agreements.

Part 1: The institutions concerned with the regulation of payday lending in the UK

3. There are several bodies involved in the regulation of payday loans. These have changed during the course of this investigation and regulatory change is ongoing:

   - HM Treasury provides the main policy and legislative initiative in consumer credit having formally taken over responsibility from BIS on 1 April 2014.

[1] The Consumer Credit (EU Directive) Regulations 2010 (SI 2010/1010), the Consumer Credit (Total Charge for Credit) Regulations 2010 (SI 2010/1011), the Consumer Credit (Advertisements) Regulations 2010 (SI 2010/1012), the Consumer Credit (Disclosure of Information) Regulations 2010 (SI 2010/1013) the Consumer Credit (Agreements) Regulations 2010 (SI 2010/1014), the Consumer Credit (Amendment) Regulations 2010 (SI 2010/1969), Consumer Credit (Advertisements) Regulations 2010 (SI 2010/1970) and the Consumer Credit (Amendment) Regulations 2011 (SI 2011/11).
[2] Directive 2008/48/EC.
[3] Fixed sum credit is to be distinguished from running account credit, under which a borrower is enabled to receive cash from time to time up to the value of the credit limit.

- On 1 April 2014, responsibility for consumer credit regulation moved to the FCA from the OFT. On the same date, activities connected with consumer credit and consumer hire became regulated activities under the FSMA, along with the power to authorise, supervise and take enforcement action in relation to consumer credit activity.

- The FCA and the Advertising Standards Authority (ASA) are both concerned with the regulation of payday loan advertising.

4. In paragraphs 17 to 34 we discuss the role of the various bodies that are currently involved in the regulation of payday lending. However, an understanding of the history of regulation is an important context to the current regulatory regime, so we start by outlining the roles and actions of BIS and the OFT prior to 1 April 2014.

The roles and actions of BIS and the OFT before 1 April 2014

BIS

5. BIS had primary responsibility for government policy on 'Making consumer credit markets fairer' prior to November 2013. The Coalition Agreement set out the current government's commitment to curb unsustainable lending; to strengthen consumer protections; and to put in place a safe, fair regulatory framework for credit and personal insolvency.

6. In 2011, BIS commissioned a report from the University of Bristol (the Bristol Report) to inform understanding of the likely impact on lenders and consumers of introducing a variable cap on the TCC that can be charged in the short- to medium-term fixed-rate credit markets. The purpose of the research was not to make a recommendation to BIS on whether or not a cap should be introduced, but to provide an up-to-date evidence base that would help inform policy decision-making in this area. The Bristol Report[4] considered three short-term credit markets, namely payday lending (both high street and online), home credit and pawn broking. In its response[5] to the Bristol Report, the Government said that its main concern was with payday lenders. Its concerns were:

   - the relative speed and ease of access to payday loans;

   - the high cost of borrowing;

[4] University of Bristol, *The impact on business and consumers*, 2013.
[5] BIS, *Government response to the Bristol University report on high cost credit*, 6 March 2013.

- the way in which lenders assess the affordability of payday loans;
- the frequency with which loans are rolled over and the way in which this happens; and
- the levels of multiple and repeat borrowing.

7. On 6 March 2013, BIS announced a package of measures[6] aimed at tackling the problems in the high-cost credit market and arranged for the Consumer Affairs Minister to meet members of the industry in person and call them to account.

8. On 3 October 2013, BIS produced reports[7] on two surveys which it had commissioned to assess compliance with the payday lending good practice charter and codes of practice; and research conducted by Ipsos Mori for BIS on advertising of payday lending. The report on the charter and codes sets out the findings of surveys of more than 4,000 consumers and 44 payday lending firms. The advertising report provided qualitative research consisting of nine in-depth interviews and four focus groups held in Sheffield and London and considered customer responses to a range of advertising.

OFT

9. The OFT regulated consumer credit in the UK until 31 March 2014. Under the OFT regime, credit providers needed to be licensed and the OFT aimed to ensure that only those firms fit to hold or retain a licence did so and enforced licensing standards.

10. In addition to the basic licence application form, applicants for consumer credit licences intending to undertake higher risk activities were required also to complete the relevant parts of the Credit Competence Form. These higher-risk activities included consumer credit lending where this was secured/sub-prime and/or in the home and/or short-term, high-cost payday-type loans.

11. Under section 25 of the CCA, the OFT had a duty to ensure that licences are held only by businesses that are fit to hold them (known as the 'Section 25 Test'). In March 2010, the OFT published its Irresponsible Lending Guidance.[8] This guidance sets out the expectation that lenders will conduct a reasonable assessment of affordability and monitor repayments. If customers fall into difficulties with their repayments, the lender is expected to show forbearance in resolving the problem. These principles and the accompanying

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[6] www.gov.uk/government/news/government-takes-action-to-tackle-payday-lending-concerns.
[7] www.gov.uk/government/publications/payday-lending-research-reports.
[8] www.oft.gov.uk/shared_oft/business_leaflets/general/oft1107.pdf.

expectations of firms have been brought forward into the new regulatory framework.

12. As part of its responsibility for the consumer credit regime, the OFT launched a review of compliance by payday lenders with the relevant legislation and guidance, in particular the Irresponsible Lending Guidance, on 24 February 2012. In November 2012, the OFT published an interim report on the compliance review. The OFT's final report was published in March 2013.

13. In its March 2013 report, the OFT published the findings of its review of compliance by payday lenders with relevant legislation and OFT guidance, stating that it would write to 50 payday lenders (which it estimated accounted for 90% of the market), requiring them to take immediate steps to address areas of non-compliance and to prove within 12 weeks that they had done so or risk losing their licence. Some lenders[9] informed the OFT that they were leaving the payday market and others announced that they would continue to trade in other areas of business that require a credit licence and were required to provide an audit report to the OFT. In total, the OFT received audit reports from 46 lenders, including all those who retained a licence.

14. In addition to the 50 leading lenders, and following publication of the OFT's payday review report in March 2013:

- three firms engaged in payday lending had their licences revoked after their appeals against OFT determinations were either dropped or struck out by the First Tier Tribunal;[10] and
- a further four lenders have also surrendered their licences.

15. As part of its compliance review, the OFT conducted an advertising sweep of over 50 payday lending websites[11] and wrote to the main trade bodies in the payday lending market outlining areas where standards in advertising needed to improve.[12]

16. The creation of the CMA on 1 April 2014 has brought together the CC and the competition and certain consumer functions of the OFT. The OFT's main

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[9] www.oft.gov.uk/OFTwork/credit/payday-lenders-compliance-review/.
[10] Appeals to the First-tier Tribunal are against the decisions from government departments and other public bodies. The Upper Tribunal hears appeals from the First-tier Tribunal on points of law, i.e. an appeal made over the interpretation of a legal principle or statute. Further appeals may be made, with permission, to the Court of Appeal. (www.justice.gov.uk/about/hmcts/tribunals.)
[11] www.oft.gov.uk/shared_oft/Credit/oft1481e.pdf. This comprised all known large and medium-sized lenders including members of the four main trade bodies, new entrants to the industry and licensees that had been the subject of consumer complaints or enforcement action. The OFT also included a random sample of websites identified as a result of using search-engine terms such as 'quick cash loans' or 'adverse credit payday'.
[12] www.oft.gov.uk/shared_oft/Credit/oft1481e.pdf.

responsibilities for consumer credit, however, have passed to the FCA rather than the CMA, fulfilling the Government's intention of creating a single regulator responsible for conduct in financial services.

The institutions currently involved in the regulatory framework

HM Treasury

17. HM Treasury is the Government's economic and finance ministry, maintaining control over public spending, setting the direction of the UK's economic policy and working to achieve strong and sustainable economic growth.

18. HM Treasury now provides the main policy and legislative initiative in consumer credit, having formally taken over responsibility from BIS on 1 April 2014. In December 2013, the Government imposed a duty on the FCA to introduce a price cap to secure an appropriate degree of protection from excessive charges for borrowers of HCSTC by no later than 2 January 2015.[13] On 11 November 2014, the FCA published its final decision on the price cap and these rules came into force on 2 January 2015 (see further details in paragraphs 66 to 71 below).

FCA

19. From 1 April 2014, the FCA has taken on a number of functions equivalent to those previously carried out by the OFT, including the regulation of consumer credit generally including the payday lending industry.

20. The FCA also has the power to make general rules under section 137A of the FSMA, including the power to make rules limiting interest rates, associated charges and the duration of a credit agreement.[14]

21. As part of the transfer of consumer credit regulation, some aspects of the CCA regime have been repealed and replaced by the FSMA provisions and FCA rules. The retained CCA provisions will be reviewed by 2019.[15]

22. This transfer gave the FCA responsibility for firms that carry on consumer credit business. The FCA published new Rules and Guidance in its Consumer Credit sourcebook (CONC) on 28 February 2014. In large part these carried across into the FSMA regime the repealed CCA provisions and relevant OFT

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[13] Section 137C(1A) of the FSMA, inserted by section 131 of the Financial Services (Banking Reform) Act 2013.
[14] See section 137C of the FSMA.
[15] See Article 20 Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) Order 2013 under which the FCA must provide a report to HM Treasury by 1 April 2019 of a review of the remaining provisions of the CCA, among other things, to identify those provisions of the CCA which can be replaced by rules or guidance to be made by the FCA.

guidance, but with some additional rules in respect of HCSTC, i.e. payday lending and debt management services. Most of these rules and guidance came into effect on 1 April 2014, but with a transitional period until 1 July 2014 for some of the additional rules applying to HCSTC.

23. Firms which held an OFT consumer credit licence had to register for interim permission (IP) by 31 March 2014, and have been invited by the FCA to apply for authorisation during set application periods between 1 October 2014 and 31 March 2016. Firms with an interim permission are listed on the FCA's Consumer Credit Register. This register is a public record that contains information including a firm's basic details, a list of the regulated activities it has permission to carry on and its disciplinary history. If the FCA approves a firm's application for authorisation, these details will move to the Financial Services Register. The FCA also maintains a list of firms that were previously licensed by the OFT but do not have an interim permission.

24. In addition to its consumer credit responsibilities, section 6 of the Financial Services Act 2012 amended the FSMA to give the FCA a competition objective to promote effective competition in the interests of consumers. The FCA is required to identify and address competition problems and adopt a pro-competition approach to regulation. The competitive duty conditions the consumer protection objective and the integrity objective and means that as far as compatible with those two objectives the FCA must act in a way which promotes effective competition in the interest of consumers. Following a request from the FCA to the Chancellor that it be given additional powers to support its current statutory competition objective, a further amendment to the powers in the FSMA was made by the Financial Services (Banking Reform) Act 2013, conferring on the FCA the competition law powers contained in Part 1 of the Competition Act 1998 (i.e. powers to take enforcement action against anticompetitive agreements and abuses of a dominant position) and Part 4 of the Enterprise Act 2002 (i.e. powers to make market investigation references).[16] The competition powers will not be implemented before April 2015. To underline the importance of its competition functions, there will be a duty on the FCA to consider the use of its Competition Act powers before exercising certain powers in the FSMA.

25. The financial promotions regime under section 21 of the FSMA has been extended to include consumer credit by amendments made to the Financial Promotions Order.[17] In addition the FCA has been given a further new power (under new section 137S of the FSMA) to direct firms to withdraw or amend

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[16] Financial Services (Banking Reform) Bill Government Amendments: FCA Concurrent Powers, Briefing for Peers, HM Treasury, October 2013.
[17] Financial Services and Markets Act (Financial Promotion) Order 2005.

misleading financial promotions. Under the FSMA, a financial promotion is 'an invitation or inducement to engage in investment activity' that is made 'in the course of business' and is 'capable of having an effect in the UK'. That broad definition captures all promotional activity, including traditional advertising, telephone sales and face-to-face conversations, in relation to all products and services regulated by the FCA, subject to the exemptions set out in the Financial Promotions Order.

26. From 1 April 2014, the Consumer Credit (Advertisements) Regulations 2010, together with relevant aspects of OFT guidance, were replaced by the new FCA rules and guidance in Chapter 3 of the CONC sourcebook, and by the FCA Principle that financial promotions must be 'clear, fair and not misleading'.[18]

ASA

27. The ASA has the ability to act, in some circumstances, over advertising relating to payday lending, though it is not the lead regulator for financial advertising.[19] The ASA's work complements that of the FCA and previously the OFT by covering the 'non-technical' elements of financial marketing communications that are not subject to the 'technical' requirements of the FSMA.

28. 'Non-technical elements' include matters of serious or widespread offence, social responsibility and the truthfulness of claims that do not relate to specific characteristics of the financial product itself.

29. The ASA liaises with the FCA to ensure consistency of approach and to avoid double jeopardy.

30. Enforcement action by the ASA in 2013 included the banning of a Wonga advertisement, deemed irresponsible because it gave the impression that the use of a payday loan was something that might be done routinely and without sufficient consideration.[20] It also banned a Cash Lady advertisement, because it made references to past financial difficulties and implied that payday loans were more convenient and desirable than loans from high street banks.[21]

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[18] PRIN 7 and CONC 3.3.1R.
[19] See ASA submission to the consultation on high-level proposals for an FCA regime for consumer credit.
[20] www.asa.org.uk/Rulings/Adjudications/2013/10/WDFC-UK-Ltd/SHP_ADJ_232698.aspx.
[21] www.asa.org.uk/Rulings/Adjudications/2013/5/PDB-UK-Ltd/SHP_ADJ_219095.aspx.

31. The Financial Ombudsman Service (FOS) is the statutory dispute-resolution scheme set up by Parliament under the FSMA.[22] It also had powers under the CCA. The FOS provides consumers with a free independent service to help resolve complaints about regulated financial firms including payday lenders and, until 31 March 2014, consumer credit licensees.

32. Previously, the FOS made rules regarding the handling of consumer credit complaints under the consumer credit jurisdiction, with the approval of the FCA, and these were included in the FCA Handbook in the Dispute Resolution: Complaints sourcebook (DISP).[23] From 1 April 2014 firms carrying on credit-related regulated activities are covered by the FOS compulsory jurisdiction, under which rules are made by the FCA and set out in DISP.

33. Although payday loans account for only a small proportion of the cases[24] considered by the ombudsman service, in the 2013/14 financial year the FOS received[25] 794 complaints about payday loans – a 46% increase on 2012/13 (542 complaints[26]). According to the FOS, many of the complaints involve the lender's use of a CPA[27] – which allows the lender to collect payments directly from the consumer's bank account. Complaints involve payday lenders trying to take payments unexpectedly – or repeatedly attempting to take payments when the consumer has already explained that they do not have enough money to cover the debt. The FOS has also received complaints about unaffordable lending, and the debt recovery methods used by some payday lenders.

Part 2: Key aspects of the regulatory framework and the role of self-regulation

34. We next set out the key aspects of the regulatory framework. It is structured as follows:

- In paragraphs 35 to 37, we discuss the CCA (which gives effect for the most part to the CCD in the UK), which has been the principal piece of legislation regulating consumer credit lending and credit related activities

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[22] Financial Services and Markets Act 2000.
[23] FCA, *Reader's Guide: an introduction to the Handbook*, December 2013.
[24] In 2013/14, FOS handled 2,357,374 initial enquiries and complaints from consumers. A record 512,167 enquiries went on to become formal disputes. 78% of these cases – 399,939 disputes – related to payment protection insurance.
[25] www.financial-ombudsman.org.uk/publications/ombudsman-news/109/109-payday-lending.html.
[26] FOS Annual Review 2012/2013.
[27] See paragraphs 59–61 for further details.

in the UK and is now partially replaced and supplemented by FSMA and the FCA's CONC sourcebook.

- In paragraphs 40 to 44, we set out lenders' obligations to assess a customer's creditworthiness before issuing a loan.
- In paragraphs 45 to 47, we describe legal requirements concerning the form and content of advertisements that relate to the provision of credit.
- Paragraphs 48 to 50, we summarise lenders' obligation under unfair contract terms legislation.
- Finally in paragraphs 51 to 53, we consider the role of self-regulation.

The CCA and the CCD

35. The CCA has been the principal piece of legislation regulating consumer credit lending and credit-related activities in the UK and, since 1 April 2014, it has been partially replaced and supplemented by FSMA and FCA rules. The CCA sets out the range of consumer protection requirements for lenders and brokers in relation to the form, content and execution of credit agreements, pre-contractual and post-contractual disclosure requirements, default and termination, the taking of securities, and judicial controls over the enforcement of debts.

36. The CCA provides for rules requiring information to be given to borrowers before entry into a consumer credit agreement.

37. Annex B to this appendix sets out the salient requirements relating to the formation and termination of and withdrawal from consumer credit agreements.

38. The European Commission found that there had been little growth in cross-border transactions since the 1987 Consumer Credit Directive was adopted and significant barriers remained. It therefore decided to overhaul the 1987 Directive to ensure that its provisions would allow consumers and companies to take full advantage of a single consumer credit market. The 2008 CCD was adopted, replacing the previous Consumer Credit Directive. The objective of the 2008 Consumer Credit Directive is therefore to provide a harmonised EU framework in order to facilitate the emergence of a well-functioning EU internal market in consumer credit. It aims to provide a sufficiently high and equivalent level of consumer protection across the EU to foster consumer confidence in the provision of cross border credit.

39. The CCD therefore increased the harmonisation of EU rules on consumer credit across EU member states. It is a maximum harmonisation directive meaning that national authorities cannot introduce national rules within its scope that exceed or contradict the provisions of the directive, unless expressly permitted. The CCA gives effect to most of the CCD provisions in the UK. The CCD contains provisions specifying the standard information to be included in advertisements[28] and the requirements relating to the provision of pre-contractual information to enable borrowers to compare different offers and take informed decisions before the borrower is bound by any credit agreement[29] and to provide borrowers with adequate explanations to enable them to assess whether a product is suited to them and their financial situation.[30]

Lenders' obligations to assess customer's creditworthiness

40. The CCA placed requirements on lenders, filled out by the OFT guidance on affordability, for lenders to assess a consumer's creditworthiness before concluding a credit agreement. This should be based on 'sufficient information' obtained from the borrower where appropriate and from a CRA where necessary.

41. In its guidance,[31] the OFT advised that to make an accurate assessment of affordability for any customer, a number of 'affordability indicators' need to be taken into account, including:

- the type of credit product;
- the amount of credit to be provided and the associated cost and risk to the borrower;
- the borrower's financial situation at the time the credit is sought;
- the borrower's credit history;[32]
- the borrower's existing and future financial commitments;[33]

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[28] Article 4. This is now implemented by Chapter 3 of the Consumer Credit Handbook CONC.
[29] Article 5(1). Pre-contractual information must be presented using the Standard European Consumer Credit Information form and include the 'interest rate applicable in the case of late payments and the arrangements for its adjustment, and, where applicable, any charges payable for default' as well as a warning regarding the consequences of missing payments'. See CCD, Article 5(1) (l and m) and Regulation 8 of the Consumer Credit (Disclosure of Information) Regulations 2010.
[30] Article 5(6). This is now implemented by CONC 4.2.5.
[31] The OFT Irresponsible Lending guidance, paragraph 4.10.
[32] Including any indications of the borrower experiencing or having experienced financial difficulty.
[33] Including any repayments due in respect of other financial products and significant non-credit commitments.

- the impact of a future change in the borrower's personal circumstances;[34] and

- the vulnerability of the borrower.[35]

42. The CONC rules and guidance have replaced these obligations.[36] These do not specify what checks should be made, and it is for lenders to determine the appropriate methods in each case having regard to the amount of credit to be provided and the associated costs and risks to the borrower and where necessary to consult a CRA.

43. The CONC provisions make clear that an assessment of creditworthiness and affordability prior to entering into a regulated credit agreement must include consideration of the potential for the borrower's commitments under the agreement to impact adversely on the borrower's financial situation and ability to make repayments in a sustainable manner – in other words without undue difficulty, while meeting other reasonable commitments, without having to borrow further over the life of the agreement and out of income and savings.

44. To process the loan transaction, lenders may use customer data to carry out affordability assessments.

Advertising

45. The Consumer Credit (Advertisements) Regulations 2010 imposed requirements concerning the form and content of advertisements by lenders and credit brokers and implemented provisions of the CCD in relation to the form and content of advertisements that relate to the provision of credit. These have now been replaced by the financial promotion restriction in section 21 of the FSMA and by FCA rules[37] governing financial promotions (which include advertisements).

46. A financial promotion must include a representative example if it indicates an interest rate or an amount relating to the cost of credit. This must include the representative APR together with other cost information including the interest rate, any non-interest charges and the total amount payable. A representative APR must also be included if a financial promotion indicates in any way that

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[34] For example, this could include a known end date of current employment due to circumstances such as retirement or the end of a fixed-term employment contract – either of which may lead to a fall in the borrower's disposable income.
[35] For example, whether the borrower is known to lack – or is reasonably believed to lack – the mental capacity to be able to understand information and explanations provided to them and make informed borrowing decisions based on their understanding of such information and explanations at the time they are provided.
[36] See CONC 5.
[37] See CONC 3.

credit is available to persons who might consider their access to credit restricted, or that any of the terms on which credit is available (or the way in which credit is offered) is more favourable than in any other cases or by other lenders, or if the promotion includes an incentive to apply for credit or to enter into an agreement under which credit is provided. The example or APR must be given greater prominence than any 'trigger' information (i.e. information that triggers its disclosure) or any other information on the cost of the credit.

47. The representative APR must be a rate at or below which the advertiser reasonably expects that credit will be provided pursuant to at least 51% of agreements entered into as a result of the financial promotion.

Regulation on unfair practices

48. Under the Unfair Terms in Consumer Contracts Regulations 1999 (UTCCR), an unfair term is one which has not been individually negotiated and which, contrary to the requirement of good faith, causes a significant imbalance in the parties' rights and obligations to the detriment of the consumer (regulation 5). The assessment of unfairness must take into account all the circumstances attending the conclusion of the contract. That assessment may not relate to the definition of the main subject matter of the contract or the adequacy of the price or remuneration against the service supplied as long as the terms are in plain intelligible language (regulation 6). Unfair terms are not binding on consumers (regulation 8).

49. Qualifying bodies named in Schedule 1 to the regulations, for example the Consumers' Association, may apply for an injunction to prevent the continued use of an unfair contract term.

50. The UTCCR are not intended as a price control mechanism and therefore exclude from their scope the price paid for any service or goods. The extent of that exclusion for financial services was considered by the Supreme Court in a judgment of 2007. In *Office of Fair Trading v Abbey National plc and others*,[38] the ability of banks to make default charges on customers who made payments or to try to impose payments - out of an account with insufficient funds – was challenged as unfair and in the alternative a penalty contrary to common law and an injunction was sought. The Supreme Court held that the UTCCR precluded any assessment of the 'core terms' of a contract as unfair, and that the fees charged to consumers could not be challenged because

[38] [2008] EWHC 875 (Comm).

overdraft fees related to a bank's remuneration. The Court denied any reference to the European Court of Justice which ended the litigation.[39]

The role of self-regulation

51. In July 2012, following discussions between BIS and four trade associations representing over 90% of the payday and short-term loan industry, a Good Practice Customer Charter[40] was published by the four trade associations: BCCA, CCTA, CFA and FLA[41] (the trade associations).

52. The trade associations committed their members to explaining how loans work and the costs involved; increasing transparency about loan repayments so that consumers can make informed decisions and are not surprised by hidden payments; providing help for customers in financial difficulty by freezing charges and interest; undertaking robust credit and affordability assessments to ensure that loans are suitable for the customer's situation; and effective compliance monitoring by the trade associations to root out poor practice in the industry. The CFA's Code of Practice also introduced a limit of three rollovers per customer.[42]

53. Under the Good Practice Customer Charter, the trade associations require their members to provide an annual statement of compliance and to be subject to periodic independent compliance visits. Failure to comply with the Charter could result in firms being subject to written warnings, recommendations as to future conduct and expulsion from the trade association for more serious breaches. Furthermore, the CCTA's[43] and the CFA's[44] codes of practice state that they may expel any of their members who fail to comply with the code. To our knowledge, no sanction has ever been reported.

Part 3: Recent and expected regulatory changes

54. In this section, we set out a number of recent changes to the regulation of payday lending and the background to the requirement on the FCA to introduce a price cap.

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[39] [2009] UKSC 6.
[40] www.cfa-uk.co.uk/assets/files/PD&STL_Charter.pdf.
[41] FLA has only one member in this sector, which is Wonga.
[42] www.moneyshop.tv/CFA_Lending_Code_for_Small_Cash_Advances_25_July_2012.pdf. Point 4, f), iv) of the Code of Practice 'Members shall not allow customers to extend a short term loan on more than three occasions'.
[43] Annex C Code of Practice for bills of sale lenders (paragraphs 2.4 & 2.5).
[44] www.moneyshop.tv/CFA_Lending_Code_for_Small_Cash_Advances_25_July_2012.pdf.

Recent changes introduced by the FCA

55. As set out in paragraph 22, on 28 February 2014, the FCA published its new CONC sourcebook for the consumer credit market, including payday lending. Most of the rules came into effect on 1 April 2014, subject to a six-month grace period if a firm can demonstrate compliance with a corresponding rule under the CCA or OFT guidance. Some of the additional requirements listed below also came into force on 1 April 2014, while others were delayed until 1 July 2014 to allow firms time to amend systems and procedures.

56. Annex A contains a table which summarises when FCA new requirements come into force. Further details of the changes are provided in the FCA policy statement, which sets out in a table the main feedback on the draft CONC provisions and the FCA response on each and, in Appendix 1, the final CONC rules.[45]

Imposing a limit on rollovers

57. Within the CONC rules, rollovers are treated as a form of 'refinancing' and a definition of refinancing is provided. A loan is refinanced if the period for repayment is extended whether by agreement between the parties or otherwise, but excluding where the lender exercises 'forbearance' (in the narrow sense of refinancing without any ongoing interest charges and with non-interest charges limited to reasonable administrative costs). There are various ways in which a loan may be refinanced, but for instance the customer is required to pay all outstanding interest and charges and may also pay off some of the loan principal.

58. From 1 July 2014, HCSTC providers are precluded from refinancing an agreement (except by exercising forbearance as defined above) more than twice. The purpose of this restriction is to protect customers from spiralling debt while still providing them with some flexibility to extend their loans under certain circumstances.

Limiting continuous payment authority attempts for HCSTC

59. The majority of online payday lenders collect payments via a CPA, which is a way for creditors to take money from bank accounts under the terms of an agreement with the borrower and which typically enables the lender to take a payment at any time and in any amount it wishes.

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[45] www.fca.org.uk/your-fca/documents/policy-statements/ps14-03.

60. Using a CPA can be a convenient way for customers to pay their bills, as the money is automatically deducted and can help a customer avoid late payment or default charges. However, the OFT found evidence that some payday lenders appeared to have taken money from the accounts of their customers without warning. FOS has received complaints about lenders continuing to use a CPA after the borrower has sought to cancel it.

61. Under the FCA's new rules, HCSTC providers are limited, since 1 July 2014, to two failed CPA attempts, meaning that they cannot keep on trying to withdraw payment from a customer's account when the funds are not available. Instead, they are required to contact the customer to find out about their situation and whether they are in financial difficulty.

Prohibiting partial continuous payment authority payments for HCSTC

62. In addition, HCSTC lenders are prohibited from using a CPA to take part payments from the customer's account, unless in limited circumstances the customer expressly authorises this.[46] Rules carried across from OFT guidance also require a firm to use a CPA in a way which is reasonable, proportionate and not excessive, and not to request payment where the lender has reason to believe there are insufficient funds in the account.

Implementing a new risk warning

63. The FCA rules require lenders to include a risk warning in financial promotions for payday loans. This is targeted at consumers who could otherwise underestimate the risks and costs associated with not paying back a loan on time, and those consumers who would benefit from impartial debt advice. The warning is: 'Warning: Late repayment can cause you serious money problems. For help, go to moneyadviceservice.org.uk'[47] and must be shown prominently.

64. All payday lenders must now also clearly display this risk warning on all their financial promotions. Until 1 July 2014, the risk warning was limited to inclusion in electronic communications apart from communications on radio or television.

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[46] See the circumstances set out in CONC 7.6.14R (2).
[47] CONC 3.4.1R.

Providing debt help information

65. Payday loan companies must now provide consumers with information regarding where they can receive free debt advice before they refinance a payday loan. This must be by means of a tailored version of the arrears information sheet on the FCA website.[48]

Introduction of a price cap

66. Section 137C of the FSMA (added by the Financial Services Act 2012) ensures that the section 137A general rule-making power includes power to make rules to cap the amount of interest or charges that can be charged on specified loans or descriptions of regulated credit agreements.

67. This section was further amended by section 131 of the Financial Services (Banking Reform) Act 2013. This imposed a duty on the FCA to make such rules, to come into force by 2 January 2015, in relation to one or more description of regulated credit agreement appearing to the FCA to involve the provision of HCSTC. The general duties that apply to how the FCA is to exercise its powers under the FSMA[49] apply also to the design and making of these new rules to ensure that the design of the cap works in UK consumers' interests and fits the UK market.

68. The section sets out that the FCA must make these rules in order to protect consumers from excessive charges, and these rules must advance one or more of its operational objectives. In addition, the FCA was required to consult the Treasury before it published any draft rules, and report on the use of this power in its annual report. The FCA published its final decision on the rules on 11 November 2014 and they came into force on 2 January 2015.

Part 4: International comparisons

69. Some countries have introduced regulation specifically on payday loans. The table in Annex C provides some detail of the types of regulation and interest rate restrictions that exist in the EU, the USA, Canada, Japan and Australia.

70. In the USA, many states have regulated payday lending either by introducing a ban or by introducing a cap on the maximum charge for credit which can be made. In Canada, the government introduced a national cap on the TCC, but allows provincial governments to implement even lower limits in their own

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[48] Information sheet is at www.fca.org.uk/your-fca/documents/information-sheets/information-sheet-arrears and has to be tailored in accordance with CONC 6.7.20R.
[49] See section 137A & C of the FSMA.

area. Australia has also introduced a cap of 20% on the level of upfront fees a lender is able to charge relative to the amount borrowed. Regulation dealing with other practices, such as rollovers, very short-term loans and inadequate credit assessments, have been implemented in Japan and some provinces in Canada, including Ontario and British Columbia.

71. The table in Annex C indicates that there is considerable variation in the regulation of payday loans.

Summary of when FCA new requirements come/came into force

Date	*Rules*

1 April 2014	In relation to firms generally:
	• High-level rules – Principles for Businesses (PRIN), relevant provisions of Senior Management Arrangements, Systems and Controls (SYSC) and General Provisions (GEN)
	• Conduct rules – Consumer Credit sourcebook (CONC)
	    • carrying across CCA provisions plus OFT guidance as FCA rules or guidance*
	    • some material from existing industry codes
	• Financial services and Markets Act (FSMA) enforcement powers
	• Certain requirements to notify information to FCA in line with Principle 11 and chapter 15 of our Supervision manual (but not periodic reporting)
	
	In relation to HCSTC:
	• Risk warning in online and electronic financial promotions
	
	In relation to debt management:
	• Requirement to signpost free independent debt advice and ensure fees for debt management plans are spread

1 July 2014	In relation to HCSTC: • Additional rules on refinancing (rollovers) • Additional rules on CPAs • Risk warning on other financial promotions
1 October 2014	In relation to firms generally: • End of transitional period for CONC rules In relation to P2P platforms: • Adequate explanations requirements • Creditworthiness requirements • Notices of arrears and default sums • Right of withdrawal In relation to not-for-profit debt advice bodies grandfathered into limited permission on 1 April 2014: • End of transitional period for detailed client money rules In relation to HCSTC and home-collected credit: • Once authorised, PSD reporting requirements
2 January 2015	In relation to the price cap: • On 11 November 2014, the FCA published its final decision on the price cap and these rules came into force on 2 January 2015
1 April 2015	In relation to financial promotions: • End of transitional period for financial promotions in certain catalogues first communicated before 1 October 2014
1 April 2017	For debt management firms and some not-for-profit debt advice bodies: • End of transitional provision for prudential requirements that permits firms not to deduct certain items from their prudential resources

Source: FCA Policy Statement PS14/3/CMA.

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*Six-month transitional if firm can demonstrate compliance with corresponding rule (in specified CCA provisions, regulations or OFT guidance) which is substantially the same in purpose and effect to corresponding CONC rule.

Obligations relating to the formation, termination and withdrawal from consumer credit agreements

1. Creditors are required to assess the borrower's creditworthiness before granting credit or significantly increasing the amount of credit. The assessment must be based on sufficient information, obtained from the borrower where appropriate, and from a CRA where necessary.

2. Creditors must ensure that the borrower is provided with an adequate explanation of the proposed credit agreement, for example the particular features of the agreements, the cost and the consequences of failure to make payments, to enable the borrower to assess whether the agreement is suited to their needs and financial situation. It specifically requires the explanation to cover those features which might make the credit unsuitable for a particular type of use and features which may operate in an unforeseen way which may have a significant adverse effect. Where key information is provided face to face, then the full adequate explanation has to be made orally.[1] The borrower must be able to ask questions about the agreement, or to ask for further information or explanation.

3. These obligations were in section 55B and 55A of the CCA but on 1 April 2014 those sections were repealed and their content has been replicated in the CONC.

Pre-contractual information and agreements (section 55 of the CCA)

4. The Consumer Credit Act (Disclosure of Information) Regulations 2010, made under section 55 of CCA, require pre-contractual information to be given in good time before the borrower enters into the agreement. The information must be clear and easily legible, and the borrower must be able to take it away to consider it and to compare it with other offers if he wishes. In most cases the information must be provided in a standard format, the Standard European Consumer Credit Information form (SECCI), to aid comparability and consumer understanding. In the case of overdrafts, a different standard form may be used but is not mandatory.

Formalities of a credit agreement

5. Since 2011, creditors must provide borrowers with certain specified information in a pre-contract information form and the borrower should be

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[1] See CONC 4.2.5R (4).

advised by the creditor to consider this information before signing the agreement. This is to ensure that the borrower is fully aware of the cost of the agreement and of their legal responsibilities. Creditors must ensure that the borrower is provided with an adequate explanation of the proposed credit agreement to enable the borrower to assess whether the agreement is suited to their needs and financial situation.

6. Under section 60 of the CCA and the Consumer Credit (Agreements) Regulations 2010, the creditor must provide the borrower with the following information:

- the amount the customer is borrowing;
- the length of the agreement;
- the amount and frequency of payments;
- details of the customer's cancellation rights (if applicable) and other forms of protection and remedies available; and
- the total amount payable and the APR.

7. The agreement must be signed by or on behalf of the creditor and by the borrower. If this information is not provided in the manner prescribed by the Regulations or is not signed by both parties, the agreement is unenforceable without a court order.[2]

Information disclosure (section 60 of the CCA)

8. The Consumer Credit (Agreements) Regulations 2010 do not prescribe the form of the credit agreement, or the ordering of information. They prescribe the information that must be included in the document which the borrower signs. It must be clear and concise and easily legible. There are rules regarding the provision of copies of executed agreements. There is a right for consumers to request a statement of account for a fixed-term loan.[3] The statement can be requested at any time during the life of the agreement but not more frequently than once a month.

Online execution of agreements

9. The CCA (Electronic Communications) Order 2004 allows for the execution of CCA-regulated agreements online (or by other 'electronic communications')

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[2] See section 65 CCA.
[3] See section 77B CCA.

and permits creditors to send out copies of agreements and notices by electronic means where the borrower has agreed to this.

10. The Order sets out the amendments to the CCA and associated regulations needed to bring this into effect, including changes to the form of agreements to allow for electronic signatures. In each case, the creditor is required to specify the form of electronic communication needed to conclude the agreement. Electronic communication is widely defined, and includes email and online transactions. It also, in principle, includes telephone communications, although the creditor would still need to ensure that it had complied with the provisions of the CCA such as the form of agreements and delivery of copies of agreements. Although most notices can be sent electronically, it is not possible to take enforcement action unless a default notice has been sent by post.

Right of withdrawal (section 66A of the CCA)

11. The borrower can withdraw from an agreement within 14 days following conclusion of the agreement or (if later) once the borrower has received a copy of the executed agreement or notification of the credit limit on a credit card. The borrower must repay the credit and must also pay interest for each day the credit was drawn down.[4]

12. Under section 67 of the CCA, agreements not within section 66A are subject to a right of cancellation equivalent to the right in section 66A.

Ending the agreement and early payment

13. Under section 94 of the CCA, the borrower can settle a regulated consumer credit agreement early by giving 28 days' notice to the lender and paying the amount due less a rebate. The borrower is also entitled to information about the amount needed to settle. This has been extended from 1 February 2011 to provide a new right of partial early repayment.

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[4] Some lenders told us that in practice they did not charge interest in these cases.

Comparison of international regulation of payday loans

Country	*Legal status*	*Relevant regulator*	*Legislation*	*Notable regulatory measures in place*
Germany	Annual interest rates capped at a low level	Deutsche Bundesbank ('German Central Bank')	Court-based jurisprudence rather than statute The German Criminal Code	Interest rates are capped at no more than double the average market rate as calculated by the German Central Bank and in any event must not be more than 12% above the average of that rate. Contracts containing interest rates exceeding the caps are void. Rules prohibiting exploitation of borrowers are also contained in the section 291(2) of the German Criminal Code.
France	Annual interest rates capped at a low level	Banque de France ('Bank of France')	Article L313-3 du *Code de la Consommation*	APR capped at 1/3 above the average percentage rate applied by credit institutions during the previous quarter for loans of the same type and presenting a similar risk factor.
Australia	Regulated	Australian Competition and Consumer Commission	Consumer Credit Legislation Amendment (Enhancements) Bill 2012 Regulations to support the Consumer Credit Legislation Amendment (Enhancements) Bill 2012	Fees charged on loans less than $2,000 are capped. Credit providers can only charge the following fees: • A one-off establishment fee of not more than 20% of the loan amount. • A monthly account keeping fee of not more than 4% of the loan amount. • A government fee or charge. Default fees or charges; the credit provider cannot collect more than 200% of the amount loaned if you default – that is, fail to pay back the loan.
Japan	Regulated	Consumer Affairs Agency	Money Lending Business Act 2006 (phased implementation over three and a half years)	Qualification examinations for money-lending managers and requirements that qualified managers be present in all branches. 50 million yen asset requirement. Establishment of designated credit bureaux. Interest rate cap of 20%.
Canada (Federal)	Regulated	Regulated	Sections 347 and 347.1 of the *Criminal Code of Canada,* R.S. 1985, c. C-46	Criminal cap of the 'effective annual rate of interest … that exceeds sixty per cent on the credit advanced'. There is an exception if: *(a)* the loan is $1,500 or less and for 62 days or less; *(b)* the person is licenced or authorised under the laws of a province; and *(c)* the province is designated by secondary legislation. Examples of provincial legislation are given below.
Ontario, Canada	Regulated	Ontario Ministry of Consumer Services	Payday Loans Act, 2008	TCC cap of $21 per $100 borrowed. Payday lenders must be licensed and registered with the Registrar. Certain industry practices are prohibited, including 'rollover' loans. Payday loan customers have a two-day 'cooling off' period after taking out a loan.

Country	*Legal status*	*Relevant regulator*	*Legislation*	*Notable regulatory measures in place*
Nova Scotia, Canada	Regulated	Service Nova Scotia and Municipal Relations	Consumer Protection Act, 1989	TCC cap of $21 per $100 borrowed calculated on a $300 loan due after 14 days. Additionally, the maximum charge for missing a payment is $40 and customers may be charged up to 60% annual interest if they pay late.
British Columbia, Canada	Regulated	Consumer Protection BC	Business Practices and Consumer Protection Act, [SBC 2004] Chapter 2	Maximum charge of 23% of the principal amount. Advertising requirements, adequate explanation requirements, right of withdrawal, no multiple loans with single lenders, complete prohibition on rollovers, lending limit of 50% of net income and compulsory instalment loans.
Saskatchewan, Canada	Regulated	Consumer Protection Division, Financial and Consumer Affairs Authority of Saskatchewan	The Payday Loans Act, Chapter P-4.3 of *The Statutes of Saskatchewan, 2007,* (effective 1 January 2012) The Payday Loans Regulations, Chapter P-4.3, Reg 1 of *The Statutes of Saskatchewan*	Payday lenders may not charge more than $23 for every $100 borrowed under a payday loan agreement. This amount must include all fees whatsoever that may be directly or indirectly connected to your loan. Other measures include disclosure requirements and a right of withdrawal.
Alberta, Canada	Regulated	Service Alberta	Fair Trading Act, Revised Statutes of Alberta 2000, Chapter F-2 Payday Loans Regulation. Alberta regulation 157 / 2009	Maximum charges permitted of $23 per $100 lent. Prohibition on rollovers, advertising requirements, due date embargo, prohibition on additional fees and a prohibition on unauthorised withdrawals.
USA (Federal)	Generally legal on a federal level but loans to military personnel regulated	Consumer Financial Protection Bureau	Military Lending Act Dodd–Frank Wall Street Reform and Consumer Protection Act	36% per year rate cap on certain payday loans to military personnel. 32 states enacted safe harbour legislation for payday lenders and permit loans based on checks written on consumers' bank accounts at triple digit interest rates, or with no rate cap at all. A few examples of the regulation enacted by the remaining 18 states are included below.
New York, USA	Annual interest rates capped at a low level	New York State Banking Department	N.Y. Banking Law 340 et seq N.Y. Banking Law 373. N.Y. Penal Code 190.40	Small Loan Rate Cap Criminal law sets the civil usury cap at 16% per year and the criminal usury cap at 25% per year
Alaska, USA	Regulated	Alaska Division of Banking and Securities	Alaska Stat. §§ 06.50.010 et seq.	Loan Terms: Maximum Loan Amount: $500 Loan Term: Min: 14 days Maximum Finance Rate and Fees: $5 + the lesser of $15 per $100 or 15% Finance Charge for 14-day $100 loan: $20 APR for 14-day $100 loan: 520%
Maine, USA	Generally prohibited – supervised lenders only	Maine Office of Consumer Credit Regulation	Maine's UCCC applies. Me. Rev. Stat. tit. 9-A § 2-401	Small Loan Rate Cap 30% per year on amounts up to $2,000 or a fee of $5 for amounts financed up to $75; $15 for amounts financed $75.01–$249.99; or $25 for amounts financed of $250 or more

Pricing structures

Introduction

1. In this appendix, we provide further details of the pricing structures used by different lenders.

Products included in our review

2. For the purpose of our review, we examined the pricing structures as of October 2013 for 27 products offered by 11 major payday loan companies. These products are listed in Annex A. For ease of analysis and comparability, we grouped some products together and excluded others from our review. In particular:

   (a) While Dollar listed in its response to our market questionnaire six products that were sold in high street stores, these could reasonably be classified as two products – a cheque-based and a chequeless loan – marketed under three brands: The Money Shop in England, Robert Biggar in Scotland[1] and Duncanson & Edwards in Edinburgh. As prices did not vary across these brands and because these brands did not compete in the same local areas, we included just The Money Shop product in our analysis.

   (b) Global Analytics' Lending Stream Loan product was repaid over six paydays or 'cycles'. In most cases this means that borrowers faced either a weekly or monthly repayment structure. As these structures affected the pricing of the loan, the 'paid-weekly' and 'paid-monthly' prices of this product were presented separately for clarity.

   (c) We excluded two products of Ariste, Txt Me Cash and Payday is Every Day, as [✂] and these products had both the same product characteristics and pricing structure as Ariste's Cash Genie one-month loan.

   (d) We excluded H&T's KwikLoan and CashEuroNet's Pounds to Pocket as these long-term instalment products had long minimum durations and were rarely used by customers for borrowing terms of less than one month. However, we included SRC's long-term instalment product, Flex

[1] Glasgow, Aberdeen and Motherwell.

Loan (Speedy Cash), despite its long minimum duration as customers commonly used it for short-term borrowing by repaying early.

Interest and finance charges

3. Interest or finance charges represented the primary component of the price of payday loans and were calculated based on the agreed principal and duration of the loan. The charges themselves were generally expressed either as simple percentage interest rates or fixed prices in pounds per £100 of credit borrowed. The rates themselves were most commonly charged per day or per month, although this was not always the case (eg per 18 days for MYJAR's product).

4. The interest or finance charges of payday loans were typically based on simple interest rates charged per day or per month. For most products that charged a monthly rate, the borrower incurred the interest or finance charge for the full month even if the loan was repaid within a shorter period (for example, a borrower taking out a 'chequeless' payday loan with The Money Shop (Dollar) would pay monthly interest of £29.99 per £100 borrowed, irrespective of how long before their payday they took out the loan (up to the maximum loan duration). Products with daily interest rates were often flexible around a customer's repayment date (for instance, allowing early repayment without a penalty).

5. The most common structure for the main finance charge was a fixed monthly charge. Among the largest players, this included QuickQuid's PayDay loan (supplied by CashEuroNet) and all four loan products supplied by Dollar's three payday lending subsidiaries. However, it excluded Wonga's Little Loans and CashEuroNet's relatively new QuickQuid FlexCredit product, which carried daily interest rates of 1 and 0.82% respectively.

6. Repayment structure was another important distinction affecting the interest or finance charges applied to payday lending products. With the majority of products considered, borrowers had to repay the loan in a single repayment on the agreed date. In contrast, eight of the products we considered in this appendix[2] – six fixed-sum agreements and two open credit agreements – either could be or had to be repaid in multiple instalments. Where this repayment structure was flexible – that is, where a choice existed in terms of whether customers paid by instalment and/or the number of instalments over

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[2] These were: Ariste Holding Limited's Cash Genie three-month loan product; CashEuroNet's QuickQuid Payday and QuickQuid FlexCredit products; H&T's KwikLoan product; Lending Stream's Zebit Short-Term Loan, Zebit Instalment and Lending Stream Loan products; and SRC Transatlantic Limited's Speedy Cash Flex Loan and Speedy Cash Flex Account products.

which they would repay – the final price of the loan could depend on the chosen instalment structure. This was because in some cases the instalment payment went toward paying off the principal of the loan, which in turn reduced the interest charge incurred in subsequent periods.

7. The full range of interest rates and the basis on which they were applied are shown in Table 1.

TABLE 1 **Interest rates and finance charges by product**

Company name	*Brand*	*Product name*	*Rate and basis*
Ariste	Txt Me Cash	1 Month loan	£30.00 per £100 per month
	Cash Genie/Cash Genie Loans	3 Month Loan	£90.00 per £100 per 3 months
	Cash Genie/Cash Genie Loans	1 month loan	£30.00 per £100 per month
	Payday is Every Day	1 month loan	£30.00 per £100 per month
CashEuroNet	QuickQuid	FlexCredit	0.82% per day
	QuickQuid	Payday (Average rating)	£29.50 per £100 per month
	QuickQuid	Payday (Good rating)	£25.00 per £100 per month
	QuickQuid	Payday (Excellent rating)	£20.00 per £100 per month
CFO Lending	CFO Lending	Short Term Loan	£36.00 per £100 per month
	PayDay First	PayDay Loan	£36.00 per £100 per month
Cheque Centres	The Loan Store	Payday Loans	£29.99 per £100 per month
	Cheque Centre	Short Term Loan	£29.99 per £100 per month
Dollar	PaydayUK	PayDayLoan	£29.95 per £100 per month
Dollar	The Money Shop	Chequeless loan	£29.99 per £100 per month
	The Money Shop	Cheque-based loan	£29.85 per £100 presented
Dollar	PaydayExpress	PayDay Loan	£29.00 per £100 per month
Global Analytics	Zebit	Short Term Cash Loan (monthly)	25% per month
	Zebit	Short Term Cash Loan (weekly)	6.4% per week
	Zebit	Instalment Loan	11% per month
	Lending Stream	Loan (weekly)	8.90% per week
	Lending Stream	Loan (monthly)	34% per month
Harvey & Thompson*	Harvey & Thompson	Payday Loan (Cheque)	17.64% per 30 days
	Harvey & Thompson	Payday Loan (Debit)	20% per 30 days
	Harvey & Thompson	Online Payday Loan	20% per 30 days
	Harvey & Thompson	KwikLoan	59.17% per year
MYJAR	MYJAR	Cash Loan 18 day	£20.00 per £100 per 18 days
SRC	WageDayAdvance		£29.50 per £100 per month
	Speedy Cash	Flex account	0.82% per day
	Speedy Cash	Flex Loan	0.75% per day
	Speedy Cash	Payday Loans	£25.00 per £100 until payday
The Cash Store	Cash Store	Payday Loan	84% per year plus 23% regardless of duration†
Wonga	Wonga	Little Loan	1.00% per day

Source: CMA analysis.

*These products (except for KwikLoan) were charged on a 'per 30 days' basis (ie not on a daily rate) based on the answers provided by H&T in its response to the market questionnaire and on examination of the transaction data for its Payday Loan (Debit).
†In addition to an interest rate of 84% per year, a single-occurrence 'brokerage fee' also applied to The Cash Store's Payday Loan. However, as this fee was calculated as a proportion of the loan principal, it fell under our definition of an 'interest or finance charge'.

Faster payment and other transaction fees

8. A number of lenders charged additional fees which were incurred by the borrower at the time of taking out the loan. These fees could be compulsory or optional.

9. Two of the products within our review included compulsory flat fees – charges of a fixed amount that were incurred by the borrower on the date the loan was issued, and unrelated to any optional features of the product itself. Specifically, Wonga's Little Loans carried a fixed transaction fee of £5.50 and Ariste charged a compulsory fixed fee of £15 on its three-month Cash Genie product.[3]

10. In addition, a number of lenders charged customers additional amounts at the time of taking out the loan in return for some additional service that was not included as standard as a feature of the loan product. These optional services could be forgone at the borrower's discretion.

11. Most often, these optional fees were 'faster payment fees', paid in order to secure a reduction in the waiting time between the agreement of the loan and receipt of the loan principal. The payments services offered by lenders were discussed in greater detail in Appendix 2.1 (paragraphs 42 to 44).

12. The only other type of optional fee currently observed in the market was the set of card fees charged to those customers of The Cash Store Limited (Cash Store) who elected to obtain their loan via MasterCard.

13. In total, six payday lenders in our sample – Payday Express, CFO Lending, Ariste, WageDayAdvance, H&T and The Cash Store – currently charged optional fees on at least one of their products. Eight payday lenders – Wonga, CashEuroNet, The Money Shop, PaydayUK, Speedy Cash, MYJAR, Cheque Centres and Global Analytics – did not charge optional fees on any of their products. These optional fees thus applied to ten products in total: these are set out in Table 2.

[3] Ariste's compulsory fee was described by the lender as a faster payment fee.

TABLE 2 **Faster payment and other optional fees by product**

Lender	*Product*			
Company name	*Brand*	*Product name*	*Optional fee type*	*Fee amount £*
Ariste	Txt Me Cash	1 Month loan	Faster payment	20
	Cash Genie/Cash Genie Loans	1 month loan	Faster payment	20
	Payday is Every Day	1 month loan	Faster payment	20
CFO Lending	CFO Lending	Short Term Loan	Faster payment	15
	PayDay First	PayDay Loan	Faster payment	15
Dollar	PaydayExpress	PayDay Loan	Faster payment	15*
H&T	H&T	Online Payday Loan	Faster payment	7
The Cash Store	Cash Store	Payday Loan	Faster payment	5
	Cash Store	Payday Loan	Card fee	10
WageDayAdvance	WageDayAdvance		Faster payment	15

Source: CMA analysis of responses to the market questionnaire.

*The faster payment fee for Dollar's Payday Express loan was only charged to repeat customers – ie customers taking out a second or subsequent loan. As of 18 March 2014, Payday Express no longer offer a faster payment fee.

14. Faster payment fees ranged from £5 on The Cash Store's Payday Loan up to £20 on Ariste's one-month loan products. New customers were exempted from the £15 faster payment fee on Payday Express's payday product.

Top up and rollover charges

15. Top-up fees were additional flat fees incurred when a customer chose to 'top up' their loan during the course of the original loan term (see Appendix 2.1, paragraphs 33 to 37 for further details). Different lenders' approaches to top-up fees varied. For example, Wonga charged a £5.50 top-up fee and applied its standard interest rate of 1% per day to the additional amount (including the top-up fee) from the date of top-up to the repayment date. CashEuroNet did not charge any flat top-up fees. It told us that charges for top-ups were 'charged pro-rata based on the new principal balance of additional loan proceeds funded for the remaining term of the loan'.

16. Rollover charges referred to additional flat fees and/or further interest or finance charges incurred by the borrower on agreement with the lender to extend the duration of the loan beyond the original repayment date. As described in Appendix 2.1 (paragraphs 29 to 32), the availability and structure of rollover arrangements varied across lenders. Of the lenders included within our review, only Wonga charged a flat rollover fee (of £10) when agreeing an extension.

17. All products carried an interest or financing charge for the period of the rollover. In all cases, this interest or financing charge was calculated at the same rate as was charged on the original loan. Customers could be required

to repay all outstanding interest and/or fees when rolling over a loan. This was relevant from a pricing perspective: all else being equal, the overall cost of a rollover would usually be lower the greater the proportion of outstanding principal, interest and fees that was repaid at the point of rollover.

Late payment fees

18. Late payment fees referred to flat fees and/or interest or finance charges incurred by the borrower when they failed to make a repayment by the previously agreed time and/or date (where an extension has not been agreed). These late fees could be divided into:

(a) ‘immediate late payment fees’, which were flat fees incurred by the borrower on the first day the loan was considered late;

(b) ‘conditional late payment fees’, which were other flat fees associated with late repayment but only applied after certain additional conditions had been met; and

(c) ‘late interest or finance charges’, which were similar to the standard interest or finance charges except that they related to the overdue period only.

19. We note that some lenders, in some cases, exercised forbearance with respect to some or all of the late payment fees and interest associated with their products (for example, where customers agreed to a repayment plan).

20. Almost all payday loan products carried an ‘immediate late payment fee’ for late repayments. The full range of immediate late payment fees charged by each lender is set out in Table 3.

TABLE 3 **'Immediate late payment fees' by product**

Company	*Brand*	*Product name*	*Late fee charged the first day after payment is missed?*	*Amount £*
Ariste	Txt Me Cash	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	1 Month loan	Yes	15.00
	Payday is Every Day	1 Month loan	Yes	15.00
	Cash Genie/Cash Genie Loans	3 Month Loan	Yes	15.00
CashEuroNet	QuickQuid	FlexCredit	Yes	12.00
	QuickQuid	Payday	Yes	12.00
Cheque Centres	The Loan Store	Payday Loans	Yes	30.00
	Cheque Centre	Short Term Loan	Yes	30.00
CFO Lending	CFO Lending	Short Term Loan	Yes	25.00
	PayDay First	PayDay Loan	Yes	25.00
Dollar	PaydayUK	PayDayLoan	No	N/A
	PaydayExpress	PayDay Loan	No	N/A
	The Money Shop	Chequeless loan	Yes	29.00
	The Money Shop	Cheque-based loan	Yes	29.00
Global Analytics	Zebit	Short Term Cash Loan (monthly)	Yes	12.00
	Zebit	Short Term Cash Loan (weekly)	Yes	12.00
	Zebit	Instalment Loan	Yes	12.00
	Lending Stream	Loan (weekly)	Yes	8.00
	Lending Stream	Loan (monthly)	Yes	12.00
H&T	Harvey & Thompson	Payday Loan (Cheque)	Yes	25.00
	Harvey & Thompson	Payday Loan (Debit)	Yes	25.00
	Harvey & Thompson	Online Payday Loan	Yes	15.00
	Harvey & Thompson	KwikLoan	Yes	15.00
MYJAR	MYJAR	Cash Loan 18 day	Yes	25.00
SRC	Speedy Cash	Flex account	No	N/A
	Speedy Cash	Payday Loans	Yes	25.00
	Speedy Cash	Flex Loan	No	N/A
	WageDayAdvance		Yes	12.00
The Cash Store	Cash Store	Payday Loan	Yes	25.00
Wonga	Wonga	Little Loan	Yes	30.00

Source: CMA analysis of responses to the market questionnaire.

21. While these immediate late payment fees ranged in value from £8 to £30, the majority were grouped in two clusters: between £12 and £15 (14 products), and between £25 and £30 (12 products).

22. 'Conditional late payment fees' were typically applied following a specific event, including:

(a) when the length of the overdue period passed a certain threshold or thresholds;

(b) where an attempt by the lender to withdraw payment was declined by the borrower's bank; and/or

(c) where the lender deemed the loan to be in default or the borrower must be traced.

23. For example, Ariste applied a fee of £12 – in addition to its initial late payment fee of £15 – each time a borrower was sent a late payment notification letter. For its one-month products, the notification letters were sent on days 7, 23, 32 and 62 after the original repayment date, and for its three-month product, they were sent on days 7 and 23 after each instalment. Ariste also charged a fee of £30 for each unauthorised debit transaction (a 'chargeback') and a trace fee of £45 where Ariste had been advised that the customer no longer lived at that address but the customer had failed to respond to any of Ariste's contacts or advise a change of address.

24. The full range of these conditional late fees is set out in Table 4.

TABLE 4 **Conditional late fees by product**

Company	*Brand*	*Product name*	*Condition for additional flat late fees (excluding fees on first day late)*	*Amount £*
Ariste	Txt Me Cash	1 Month loan	7, 23, 32 and 62 days late	12.00
	Txt Me Cash	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Txt Me Cash	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	1 Month loan	7, 23, 32, 62 days late	12.00
	Cash Genie/Cash Genie Loans	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Cash Genie/Cash Genie Loans	1 Month loan	Trace fee	45.00
	Payday is Every Day	1 Month loan	7, 23, 32, 62 days late	12.00
	Payday is Every Day	1 Month loan	Unauthorized debit (‘chargeback’)	30.00
	Payday is Every Day	1 Month loan	Trace fee	45.00
	Cash Genie/Cash Genie Loans	3 Month loan	7, 23 days late after each instalment	12.00
	Cash Genie/Cash Genie Loans	3 Month loan	Unauthorized debit (‘chargeback’)	30.00
CashEuroNet	QuickQuid	FlexCredit	N/A	N/A
	QuickQuid	Payday	N/A	N/A
Cheque Centres	The Loan Store	Payday Loans	-	-
	Cheque Centre	Short Term Loan	-	-
CFO Lending Limited	CFO Lending	Short Term Loan	-	-
	PayDay First	PayDay Loan	-	-
Dollar	PaydayUK	PayDayLoan	7 days late	15.00
	PaydayExpress	PayDay Loan	7 days late	15.00
	The Money Shop	Chequeless loan	-	-
	The Money Shop	Cheque-based loan	-	-
Global Analytics	Zebit	Short Term Cash Loan	36 days late	10.00
	Zebit	Short Term Cash Loan	55 days late	40.00
	Zebit	Instalment Loan	34 days late	10.00
	Zebit	Instalment Loan	55 days late	40.00
	Lending Stream	Loan (weekly)	34 days late	10.00
	Lending Stream	Loan (weekly)	53 days late	40.00
	Lending Stream	Loan (monthly)	34 days late	10.00
	Lending Stream	Loan (monthly)	53 days late	40.00
H&T	Harvey & Thompson	Payday Loan (Cheque)	-	-
	Harvey & Thompson	Payday Loan (Debit)	-	-
	Harvey & Thompson	Online Payday Loan	-	-
	Harvey & Thompson	KwikLoan	-	-
MYJAR	MYJAR	Cash Loan 18 day	11 days late	25.00
SRC	Speedy Cash	Flex account	-	-
	Speedy Cash	Payday Loans	-	-
	Speedy Cash	Flex Loan	-	-
	WageDayAdvance		-	-
The Cash Store	Cash Store	Payday Loan	Payment not honoured	20.00
Wonga	Wonga	Little Loan	-	-

Source: CMA analysis of responses to the market questionnaire.

25. In addition to these flat charges, some loan products continued to accrue interest or finance charges on overdue balances until the borrower made full repayment. Additional late interest or finance charges applied to 20 products, including Wonga’s Little Loans and several of Dollar’s lending products, but excluding CashEuroNet’s QuickQuid Payday and QuickQuid FlexCredit

products. In some cases, these additional late interest or finance charges continued at the same rate as the original loan, while in others a new rate or charge applied. The full range of late interest rates on overdue balances is presented in Table 5.[4]

[4] For loan products with instalments, it was possible to accumulate significant late fees as the number of repayments that could be missed was greater than for a loan with a single repayment date.

TABLE 5 **Interest rates on overdue balances**

Company name	*Brand*	*Product name*	*Amount*	*Limit*	*Interest calculated on:*
Ariste	Txt Me Cash	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Payday is Every Day	1 Month loan	£30 per £100 per month or part-month	[✂]	Principal only
	Cash Genie/Cash Genie Loans	3 Month Loan	£30 per £100 per month or part-month	[✂]	Principal only
CashEuroNet	QuickQuid	FlexCredit	No late interest*	[✂]	N/A
	QuickQuid	Payday	No late interest*	[✂]	N/A
Cheque Centres	The Loan Store	Payday Loans	No late interest	[✂]	N/A
	Cheque Centre	Short Term Loan	No late interest	[✂]	N/A
CFO Lending	CFO Lending	Short Term Loan	1.20% per day*	[✂]	Principal only
	PayDay First	PayDay Loan	1.20% per day*	[✂]	Principal only
Dollar	PaydayUK	PayDayLoan	Daily interest based on 29% per calendar month	[✂]	Principal only
	PaydayExpress	PayDay Loan	Daily interest based on 29% per calendar month	[✂]	Principal only
	The Money Shop	Chequeless loan	0.81% to 0.89% per day depending on the number of days in the previous month. [✂]	[✂]	Principal only
	The Money Shop	Cheque-based loan	No late interest*	[✂]	N/A
Global Analytics	Zebit	Short Term Cash Loan (weekly)	25% per month	[✂]	Principal only
	Zebit	Short Term Cash Loan (monthly)	6.4% per week		Principal only
	Zebit	Instalment Loan	11% per month		Principal only
	Lending Stream	Loan (weekly)	8.9% per week		Principal only
	Lending Stream	Loan (monthly)	34% per month		Principal only
H&T	Harvey & Thompson	Payday Loan (Cheque)	0.56% per day	[✂]	Principal only
	Harvey & Thompson	Payday Loan (Debit)	0.67% per day	[✂]	Principal only
	Harvey & Thompson	Online Payday Loan	0.67% per day	[✂]	Principal only
	Harvey & Thompson	KwikLoan	-	[✂]	-
MYJAR	MYJAR	Cash Loan 18 day	1.11% per day*	[✂]	Principal only
	MYJAR	Cash Loan 18 day	25% flat fee of outstanding balance in lump sum when referred for debt collection	[✂]	
SRC	Speedy Cash	Flex account	No late interest*	[✂]	N/A
	Speedy Cash	Payday Loans	No late interest*	[✂]	N/A
	Speedy Cash	Flex Loan	No late interest*	[✂]	N/A
	WageDayAdvance		0.74% per day*	[✂]	Principal only
The Cash Store	Cash Store	Payday Loan	0.23% per day	[✂]	Full outstanding balance incl fees & interest
Wonga	Wonga	Little Loans	1% per day	[✂]	Full outstanding balance (but excl £30 late payment fee)

Source: CMA analysis of responses to market questionnaire.

*Products charging late interest rates that differed from the standard interest rate charged on the agreed period of the loan.

List of products included in the CMA's pricing analysis

TABLE 1 **Product codes**

Lender	*Product*	
Company name	*Brand*	*Product name*
Ariste	Txt Me Cash	1 Month loan
	Cash Genie/Cash Genie Loans	3 Month Loan
	Cash Genie/Cash Genie Loans	1 month loan
	Payday is Every Day	1 month loan
CashEuroNet	QuickQuid	Payday (Average rating)
	QuickQuid	Payday (Good rating)
	QuickQuid	Payday (Excellent rating)
	QuickQuid	FlexCredit
Cheque Centres	The Loan Store	Payday Loans
	Cheque Centre	Short Term Loan
CFO Lending	CFO Lending	Short Term Loan
	PayDay First	PayDay Loan
Dollar	PaydayUK	PayDayLoan
	The Money Shop	Chequeless loan
	The Money Shop	Cheque-based loan
	PaydayExpress	PayDay Loan
Global Analytics	Zebit	Short Term Cash Loan
	Lending Stream	Loan (weekly/monthly)
	Zebit	Instalment Loan
H&T	Harvey & Thompson	Payday Loan (Cheque)
	Harvey & Thompson	Payday Loan (Debit)
	Harvey & Thompson	Online Payday Loan
	Harvey & Thompson	KwikLoan
MYJAR	MYJAR	Cash Loan 18 day
SRC	WageDayAdvance	
	Speedy Cash	Payday Loans
	Speedy Cash	Flex Loan
	Speedy Cash	Flex Account
The Cash Store	Cash Store	Payday Loan
Wonga	Wonga	Little Loan

Source: CMA analysis.

Representative scenarios

Introduction

1. In this appendix we provide additional detail about the representative borrowing scenarios used in our analysis of payday lenders' pricing. We begin by discussing the loan values, loan durations, optional fee take-up and repayment behaviour that are used in our representative scenarios. We then present some additional detail on lenders' prices under the different scenarios.

Representative scenario characteristics

Loan value

2. Our analysis of the major lenders' transaction data indicates that:[1]

    (a) the mean loan amount varied across lenders from £163 to £326;

    (b) the modal loan amount was £100 for the majority of lenders;

    (c) the modal loan amount across lenders was also £100; and

    (d) the median loan value was £200.

3. Given its modal frequency and its reasonable proximity to the bulk of the distribution of loan values, we chose £100 as the loan amount for our representative scenarios. Loans of this value had the incidental advantage that comparisons of 'costs per £100' were relatively clear when considering loans of £100.

Loan duration

4. Our analysis suggests that a significant majority – 90% – of loans were for 34 days or less.[2] The most frequently-occurring loan durations were around 14 days and 28 to 30 days. On this basis, we chose 14 and 28 days as the durations of the lending scenarios that we considered.

[1] The analysis covers the 12 months to August 2013.
[2] The analysis covers the 12 months to August 2013.

Take-up of optional fees

5. The most common optional fee related to faster payments.[3] Based on the fee payments made by customers in the transaction data, we estimated take-up rates on optional faster payments for each of the products that carried them. These take-up rates are shown in Table 1.

TABLE 1 **Faster payment fee 'take-up' rates (where optional)**

Product (lender)	*Fee type*	*Fee rate £*	*Estimated percentage take-up*
Cash Genie/Cash Genie Loans – 1 month loan (Ariste)	Faster payment	20	[✂]
Cash Store Payday Loan	Faster payment	5	[✂]
CFO Lending Short Term Loan (CFO Lending)	Faster payment	15	[✂]
H&T Online Loan (Harvey & Thompson)	Faster payment	7	[✂]
Payday Express (Dollar)	Faster payment*	15	[✂]
PayDay First (CFO)	Faster payment	15	[✂]
Payday is Every Day (Ariste)	Faster payment	20	[✂]
Txt Me Cash (Ariste)	Faster payment	20	[✂]
WageDayAdvance	Faster payment	15	[✂]

Source: CMA analysis.

*This fee applied to repeat customers only.
[✂]

6. The table shows that the overall take-up of faster payment fees was high. Given this, we assumed that the borrower in each of our representative scenarios elected to pay for faster payment where the option was available.[4]

Repayment behaviour

7. Around a third of payday loans in 2012 were not repaid in full on or before their original repayment date. In addition to calculating the prices of different lenders on the assumption that a borrower repaid on time, we therefore also thought it was important to consider both a 'late repayment' scenario and a 'rolled-over loan' scenario.

8. According to our analysis of lenders' transaction data,[5] the average late repayment was made around 11 days after the original repayment date. We took this value of 11 days as the number of days of delay before repayment in our 'late repayment' scenario.

9. Analysis of lenders' transaction data indicated that, for all loans that were rolled over once, the median number of days between the original repayment

[3] The Cash Store's Payday Loan featured two other optional fees: a 'new card/load fee' and an 'ATM fee' of £10 and £2.50 respectively. We found that take-up of the ATM load and new card fee was [✂]. We excluded these fees in the representative borrower scenarios for this product.
[4] [✂]
[5] The analysis covers the loans issued in the period January 2012 to August 2013.

date and the new extended repayment date is 28 days.[6] We used this median value as the length of the extension in our 'rollover' scenario.

The four representative scenarios

10. On the basis of the above, we identified four scenarios which we considered to be representative of key patterns of borrowing behaviour observed among payday customers, namely:

(a) a customer took out a £100 loan for 28 days, which was repaid in full on time;

(b) a customer took out a £100 loan for 14 days, which was repaid in full on time;

(c) a customer took out a £100 loan for 28 days, which was rolled over for an additional 28 days before being repaid in full; and

(d) a customer took out a £100 loan for 28 days, which was repaid in full 11 days late (the median overdue period among loans repaid late).

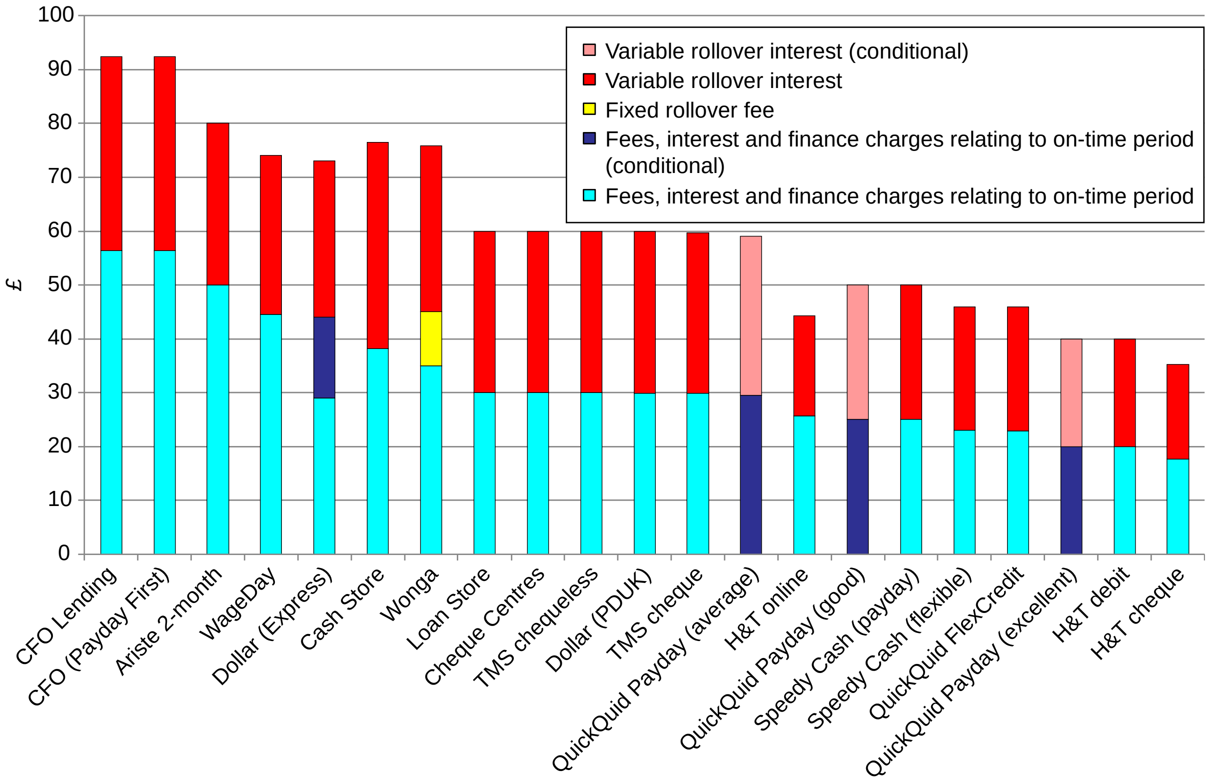
11. Taken together, we estimated that loans that were broadly equivalent to one of these four borrowing scenarios accounted for around 6% of all loans in our transaction data set. We considered that these examples allowed us to understand the pricing of lenders in a much larger proportion of short-term borrowing scenarios, however, given that the prices of different lenders typically varied linearly with the amount and duration of a loan. We considered the sensitivity of our findings to variation in these parameters in paragraph 4.34.

12. The prices of each lender under the first two of these borrowing scenarios are presented in Figures 4.1 and 4.2. Below we present the prices of each lender (as of October 2013) under the remaining two borrowing scenarios.

[6] The analysis covers the loans issued in the period January 2012 to August 2013.

FIGURE 1

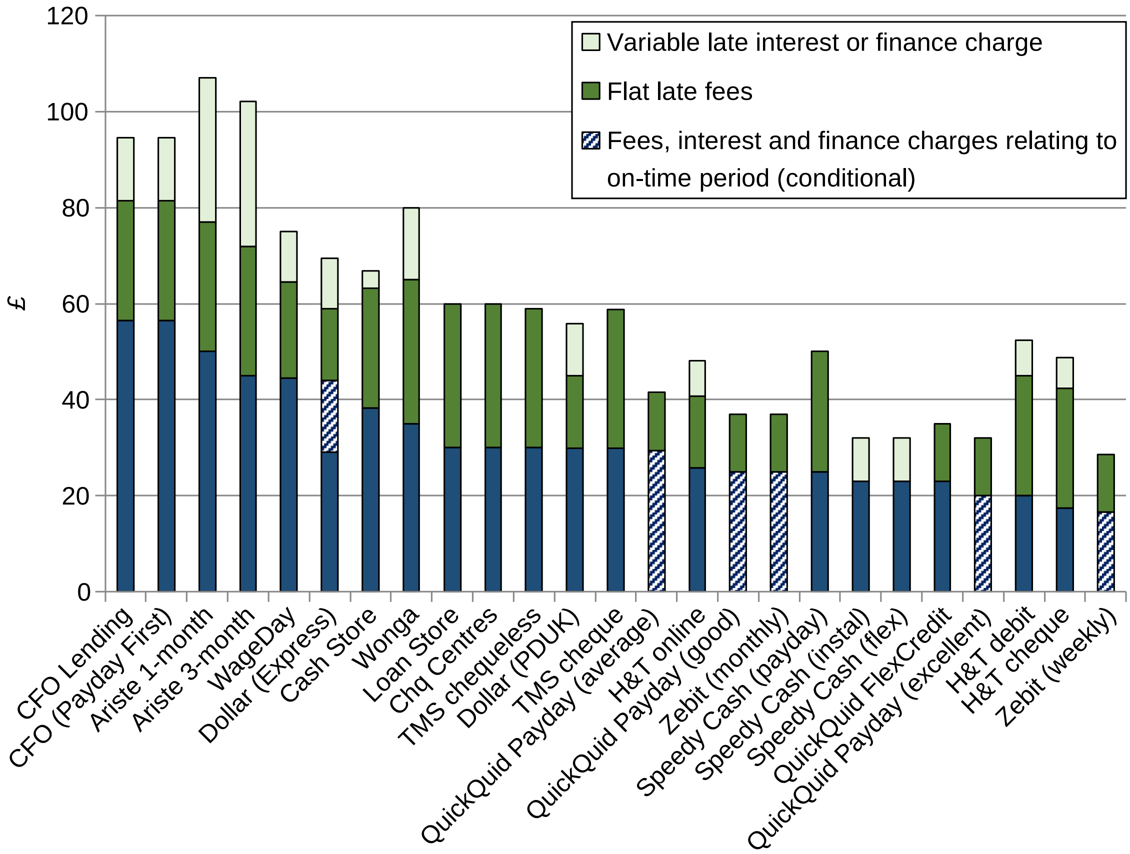
TCC for a £100 loan taken out for 28 days and extended for a further 28 days (Scenario 3)



Source: CMA analysis.
Note: Charges that varied by customer are shaded with darker blue, namely Payday Express (whose faster payment fee did not apply to new customers) and lighter red, namely QuickQuid Payday (for which the interest charge depended on the customer's risk tier).

FIGURE 2

TCC for a £100 loan taken out for 28 days and repaid 11 days late (Scenario 4)



Source: CMA analysis.
Note: Charges that varied by customer are shaded darker blue, namely Payday Express (whose faster payment fee did not apply to new customers), QuickQuid Payday (for which the interest charge depended on the customer's risk tier) and Zebit (for which the repayment structure, and therefore interest charge, was determined by the customer's pay cycle).

Prices over time

Introduction

1. In this appendix we illustrate the evolution of the prices of a number of products of the major lenders for the period January 2007 to October 2013.

2. The TCC illustrated in the figures for each product is based on the following assumptions:

   (a) a loan amount of £100;

   (b) a loan duration of 28 days (although for some products we also present TCCs for shorter loan durations);

   (c) the loan was repaid on time; and

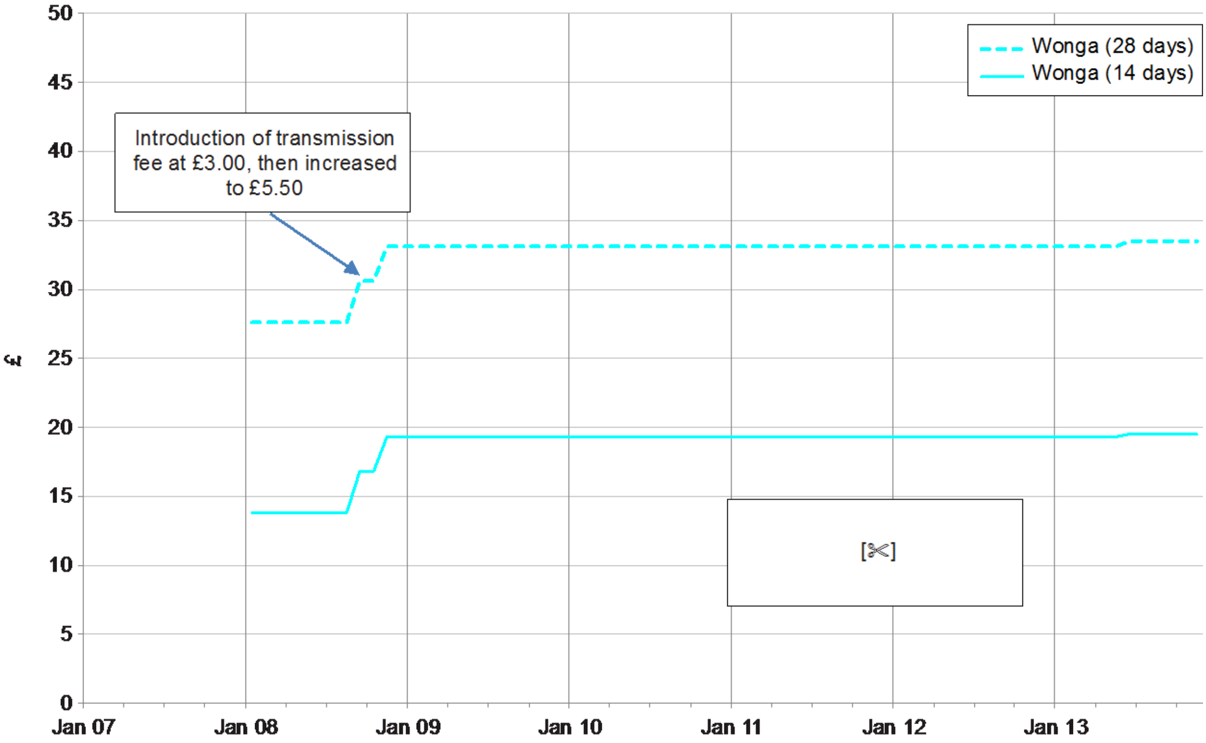
   (d) customers did not receive promotional rates.

3. Where faster payment fees are included, these are marked in the figures.

The development of lenders' prices, January 2007 to October 2013

FIGURE 1

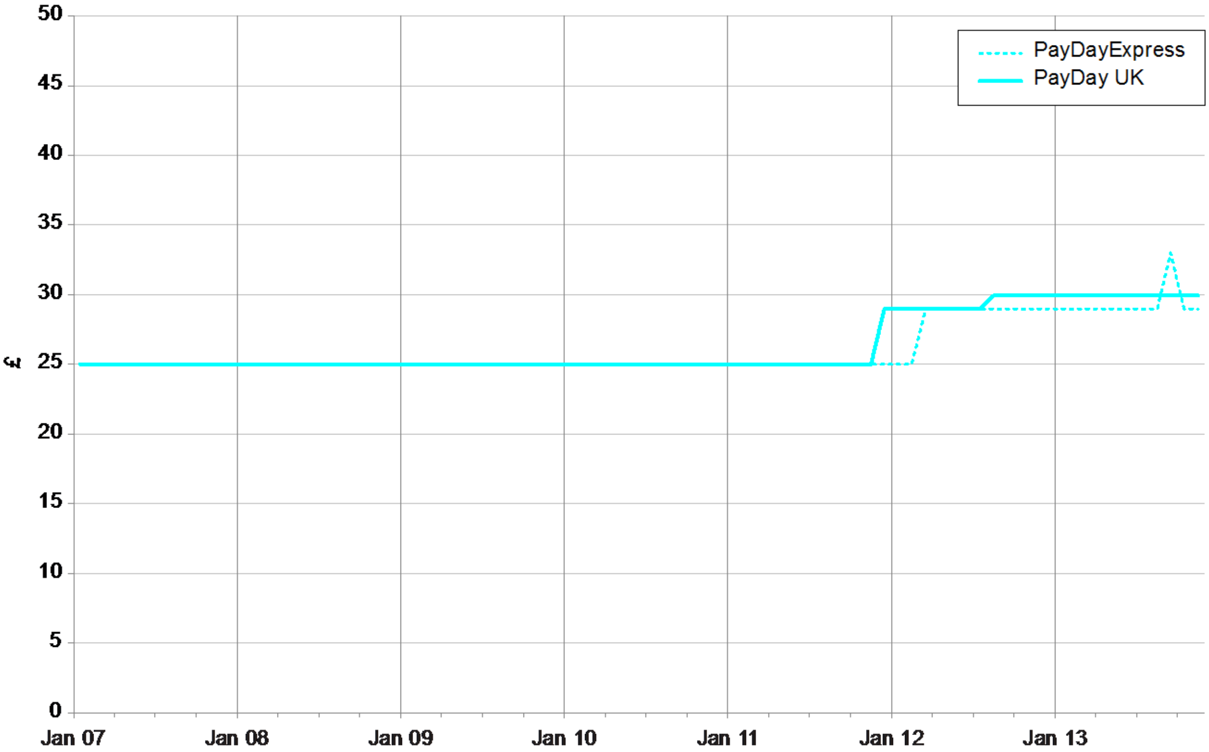
TCCs for Wonga, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 2

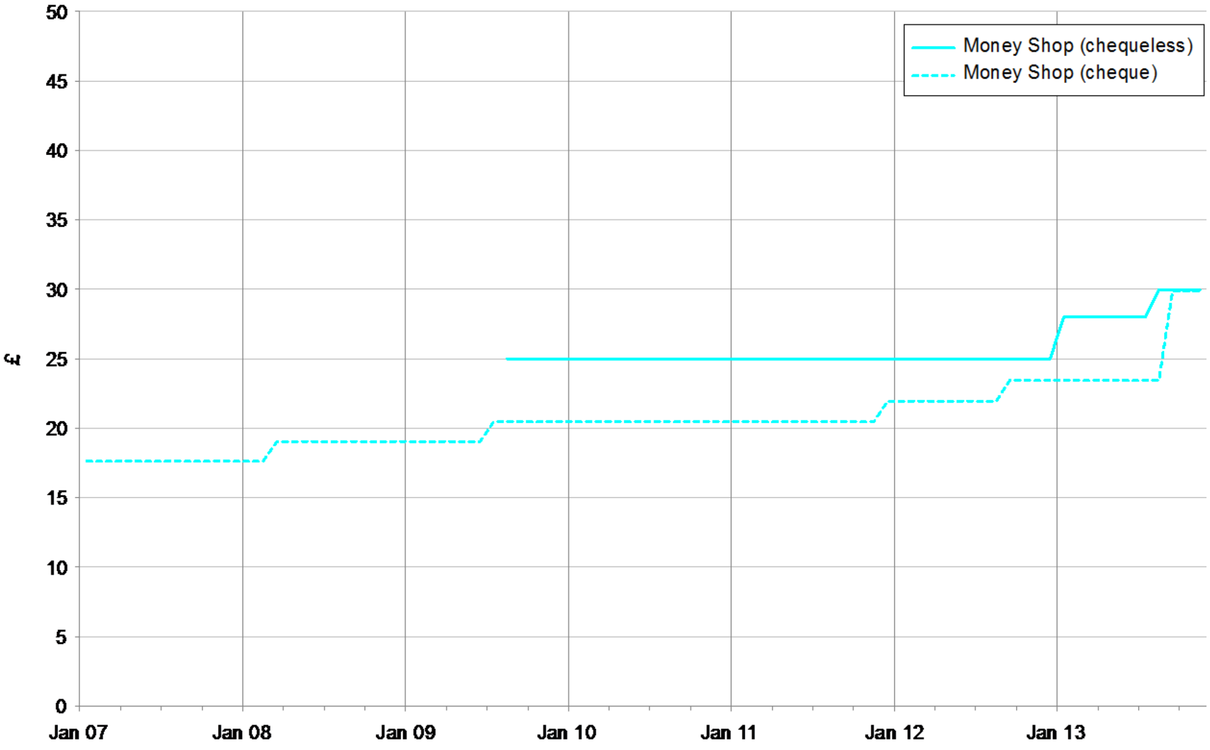
TCCs for PaydayUK and Payday Express (Dollar), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 3

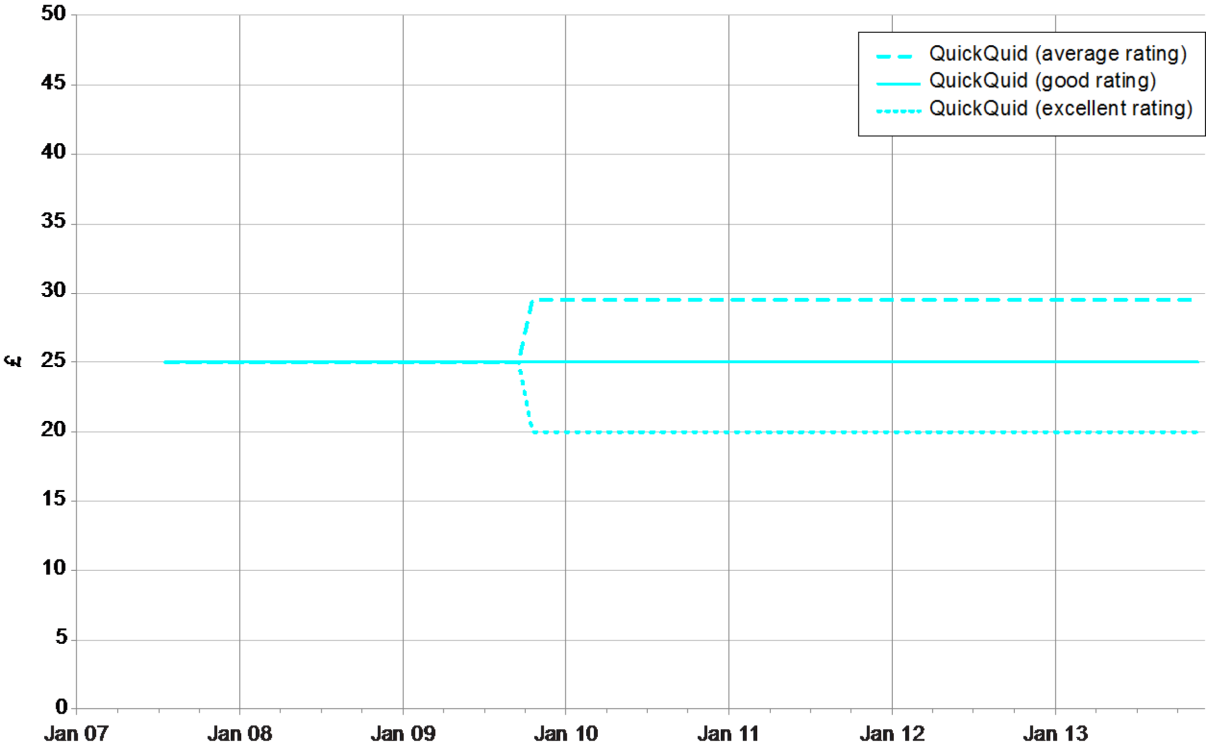
TCCs for The Money Shop (Dollar), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 4

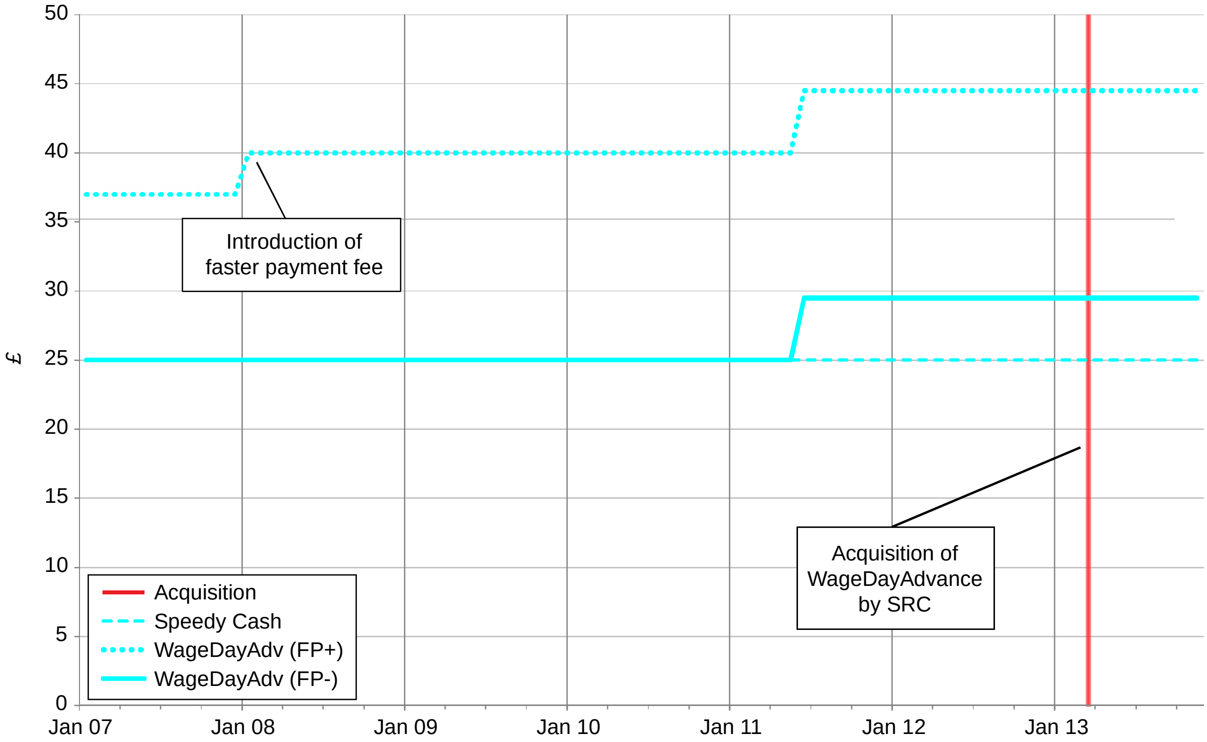
TCCs for CashEuroNet, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 5

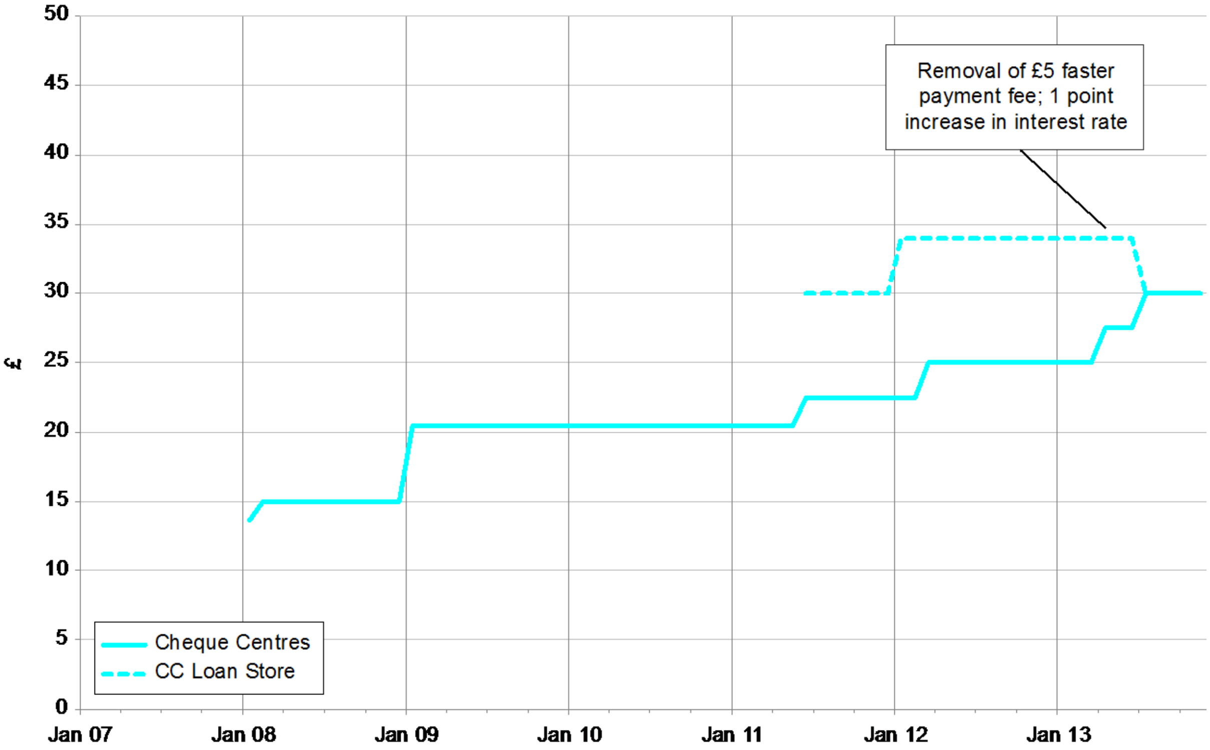
TCCs for WageDayAdvance and Speedy Cash (SRC), January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Notes:
1. Line marked “FP+” includes the £15 faster payment fee. The take-up rate of faster payments for this product in the transaction data was [✄]%.
2. SRC acquired WageDayAdvance in February 2013 (marked in the figure with a red vertical line).

FIGURE 6

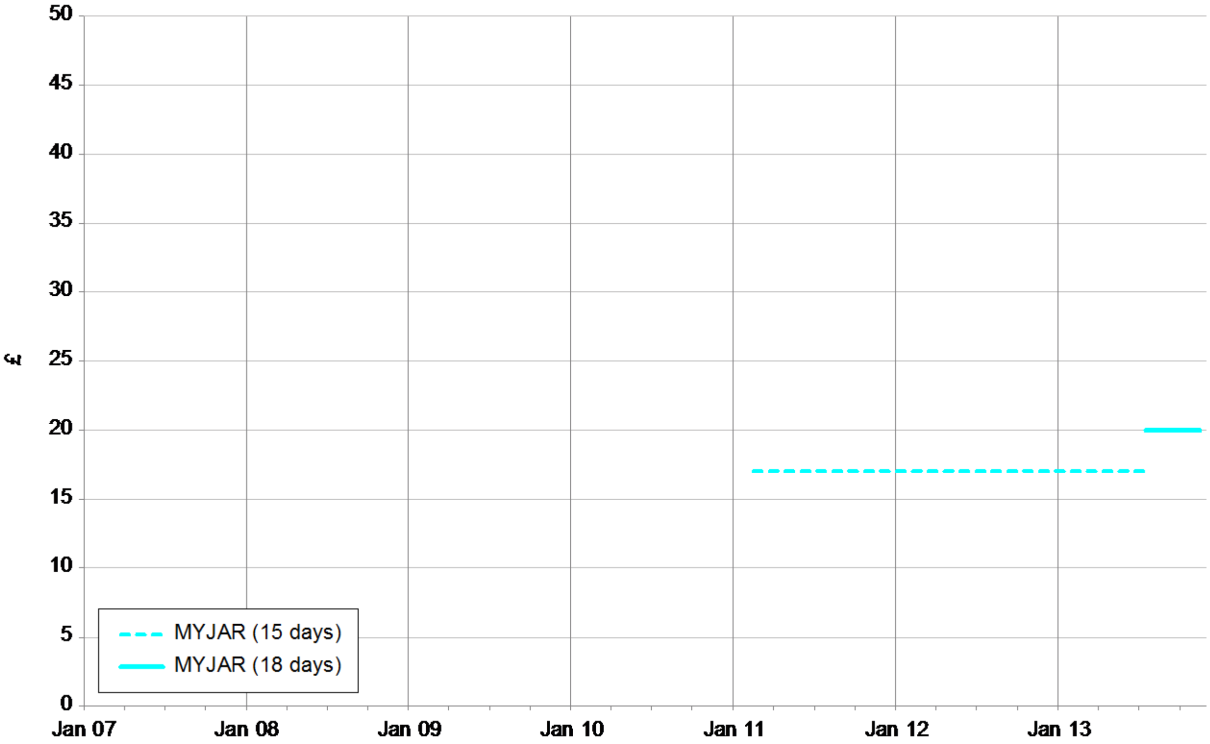
TCCs for Cheque Centres, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: The price of the Loan Store product included a faster payment fee of £5 during 2012 and the first half of 2013.

FIGURE 7

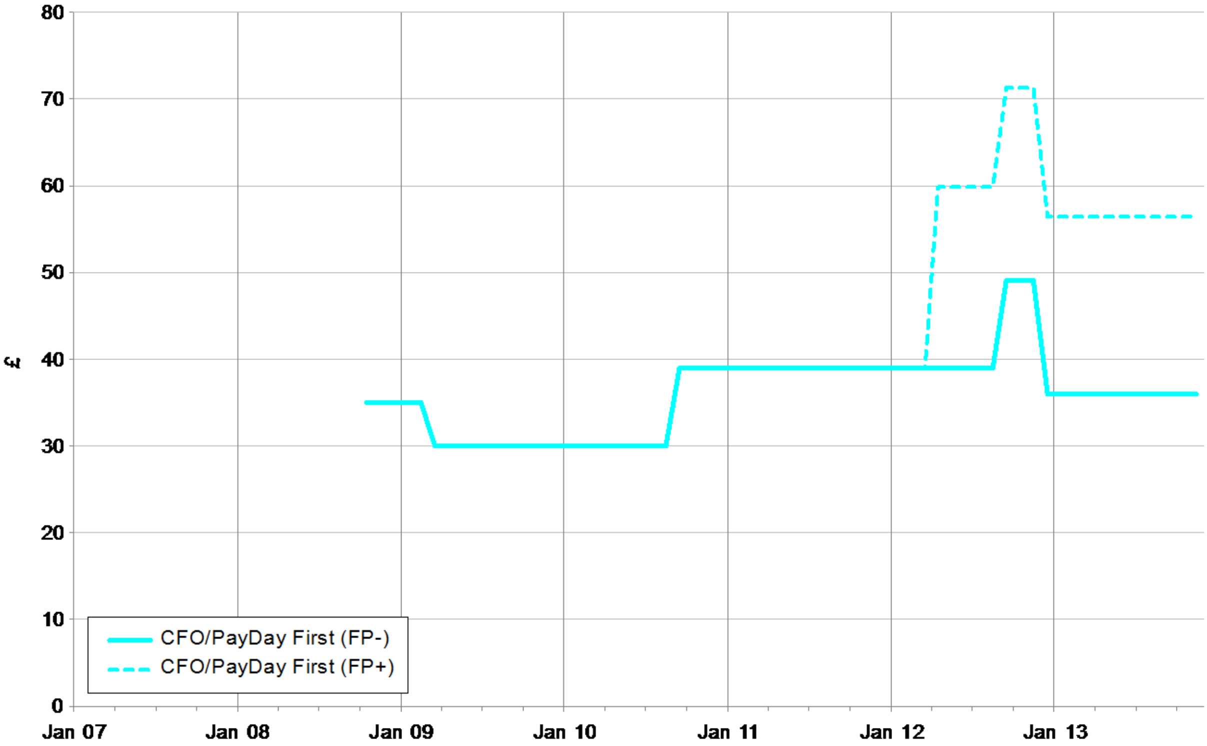
TCCs for MYJAR, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 8

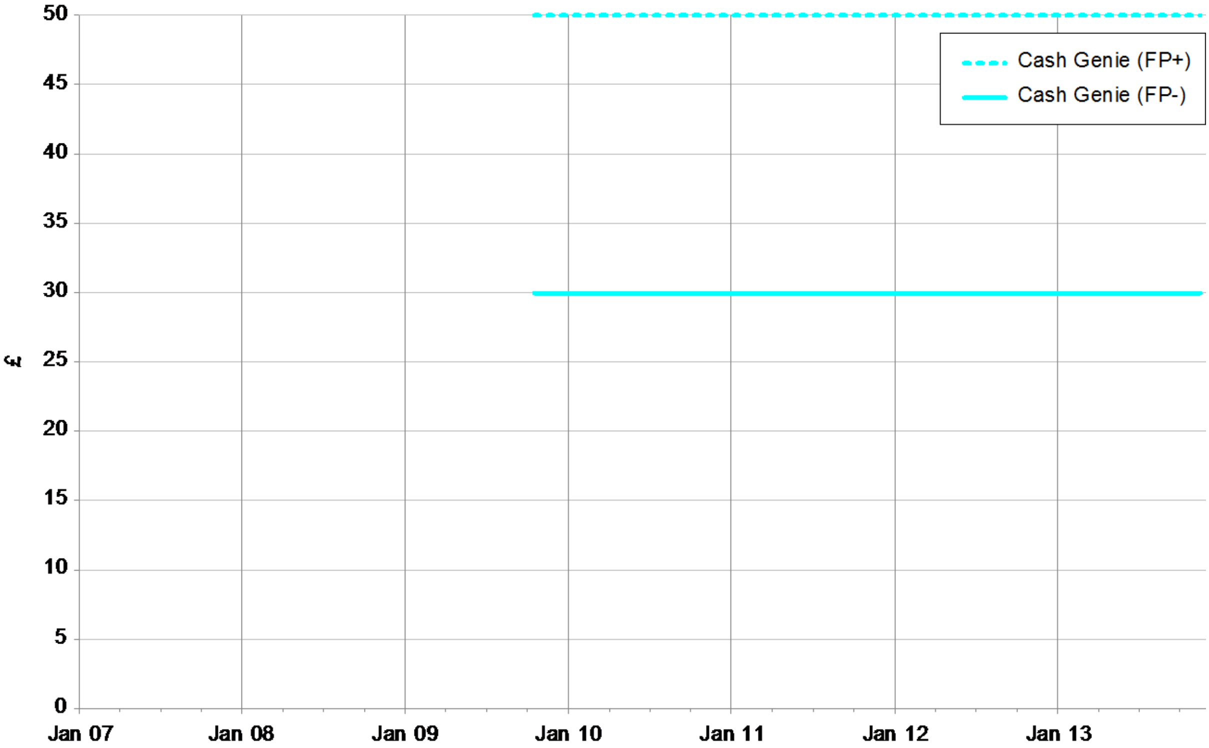
TCCs for CFO Lending, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Notes:
1. Line marked “FP+” includes faster payment fee, introduced in 2012 at £15. The take-up rate of faster payments for this product in the transaction data was [✂]%.
2. The scale in this figure differs from that for the other lenders, as CFO Lending’s price extended above £50 per £100 in the period.

FIGURE 9

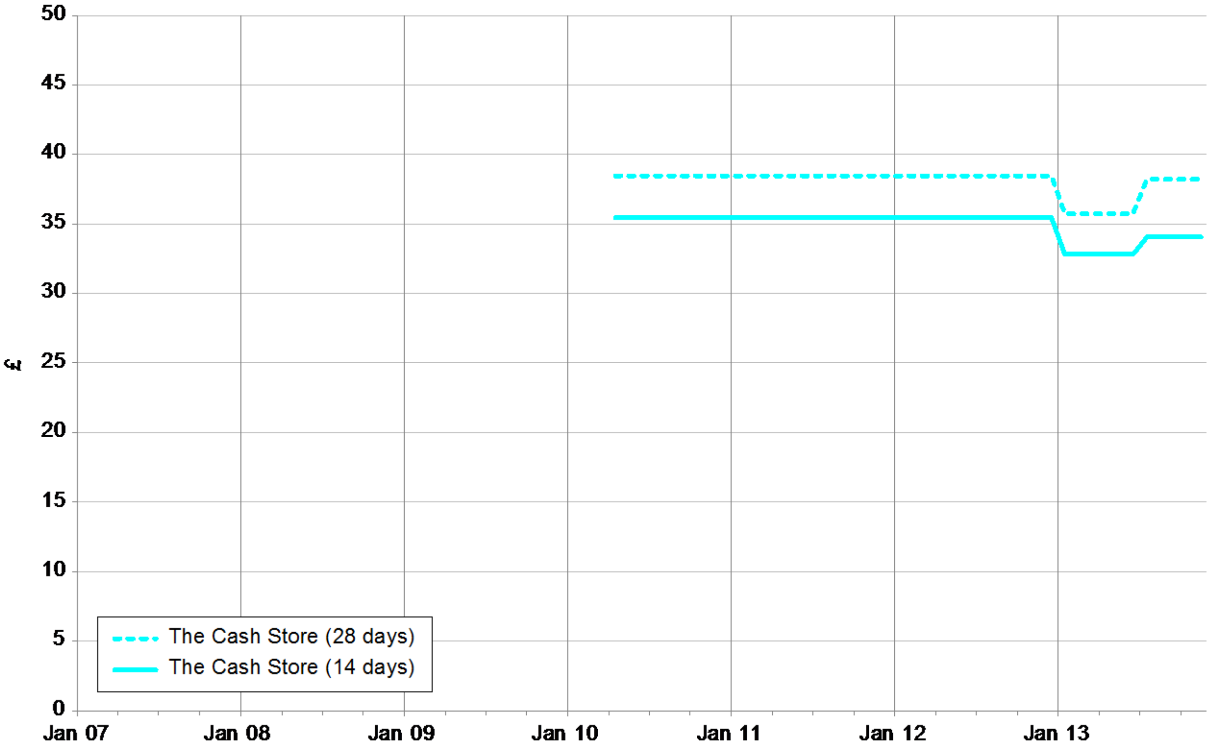
TCCs for Ariste, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: Line marked 'FP+' includes £20 faster payment fee. The take-up rate of faster payments for Ariste's products in the transaction data ranged from [✂]% to [✂]%.

FIGURE 10

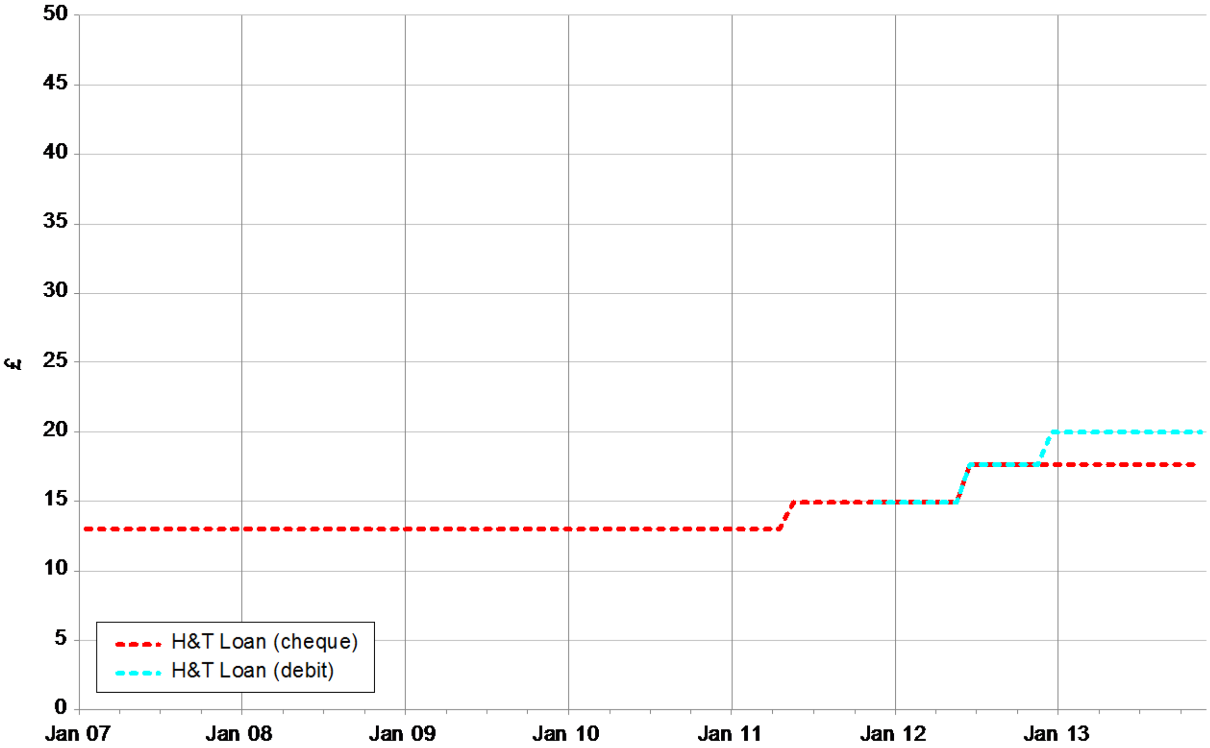
TCCs for The Cash Store, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 11

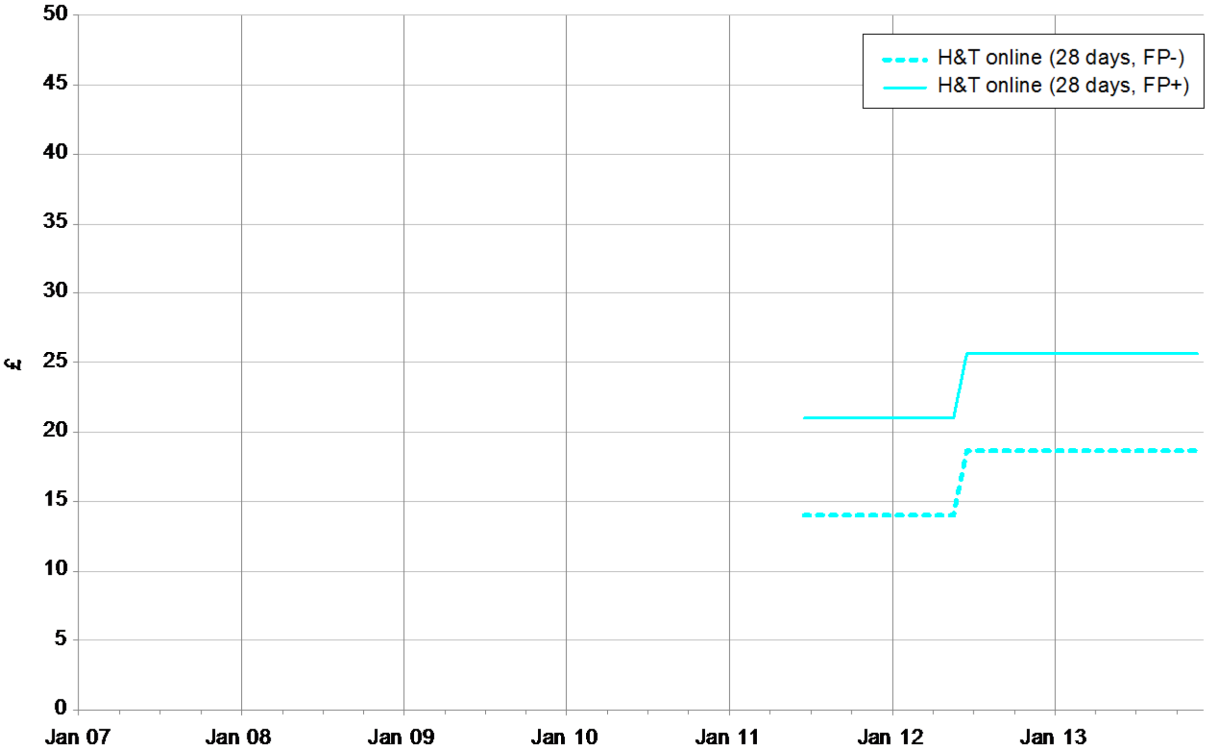
TCCs for H&T high street products, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.

FIGURE 12

TCCs for H&T online, January 2007 to October 2013



Source: CMA analysis of pricing information provided by the major lenders.
Note: Line marked 'FP+' includes faster payment fee of £7. The take-up rate of faster payments for this product in the transaction data was [✂]%.

Prices and shares of supply in different borrowing scenarios

Introduction

1. In this appendix, we describe the methodology underpinning our analysis of the relationship between different products' prices and the share of all payday loans that they capture.

Methodology

2. We calculated the price of each payday product under two of the borrowing scenarios discussed in Appendix 4.2: a £100 loan taken out for 28 days and repaid in full on time, and a £100 loan taken out for 14 days and repaid in full on time.

3. The shares of supply were calculated by recording the number of loans issued under each product relating to each borrowing scenario (eg taken out for 14 days, repaid in full on time), and then dividing this by the number of loans issued by all lenders which relate to the borrowing scenario. The period over which the shares of supply of different products were examined is the ten weeks from 1 April to 9 June 2013. This period was selected on the basis that, at the time of the publication of our provisional findings, it was the most up-to-date period within our transaction data set which was of a significant length, during which no price changes took place, and for which consistent transaction data was available for the most significant payday products available on the market. The period used for this analysis predates CashEuroNet's introduction of FlexCredit.

4. For the 14-day scenario, we included within our calculations of shares of supply all loans of length 13 to 15 days. For the 28-day loan, we included all loans from 27 to 31 days. Including a slightly wider range of loan durations than in the specific scenarios increased the representativeness of our analysis. However, we did not expand the range any wider, as in this case the calculated TCCs would have reflected less well the prices actually paid by customers.

5. For most products, the loan duration used for this analysis was the loan duration agreed when the loan was taken out. However, for products that could be repaid early and whose interest charges were calculated based on the actual loan duration (rather than the agreed loan duration), we used the actual loan duration. This applied to Wonga's Little Loans and the Speedy Cash Flex Account.

6. We included all loans ranging in value from £75 to £125 in our calculations of products' shares of supply. Including a slightly wider range of values around £100 reduced the sensitivity of our analysis to the fact that certain loan values could be relatively popular for certain products due to the product's structure (rather than due to customers' borrowing needs).[1] As in the case of the loan durations considered, we did not expand the range any wider however, as the calculated TCCs would then have provided a less accurate approximation of the actual prices paid by customers.

7. For QuickQuid Payday, prices depended on the risk tier assigned by CashEuroNet to a customer. Although we were not able to observe in our data set which risk tier each customer fell into (and so which TCC applied to each loan), we could combine information on CashEuroNet's internal risk scores and the overall distribution of loans across risk tiers to estimate the volume of loans (and their distribution of duration and value) within each risk tier.

8. The prices that we used in our analysis did not take into account any promotional rates offered by lenders, or customers who did not take up faster payment fees. We would expect any effect on our findings to be relatively small, given that the extent to which customers paid rates lower than the advertised TCCs as a result of either of these factors was limited.

9. Figures 4.7 and 4.8 set out lenders' shares of volume and their prices, calculated as per the description above. We also replicated the analysis for additional scenarios, focusing on lenders' shares of volume within certain subsets of payday loans – ie loans to relatively low-risk customers, loans taken out online and loans taken out by customers who were new to the lender. These results are presented in Figures 4.9 to 4.12.

10. Because lenders' shares of supply by product within each scenario were commercially sensitive, Figures 4.7 to 4.12 have been redacted. In order to provide an indicative example of the format of the charts contained in these figures, Figure 1 presents a similar chart based on the lenders' overall share of 2012 total loans issued (see Table 2.5).

11. In order to maintain confidentiality:

    (a) we used the midpoint of the ranged shares of supply presented in Table 2.5 to generate an indicative share of supply;[2]

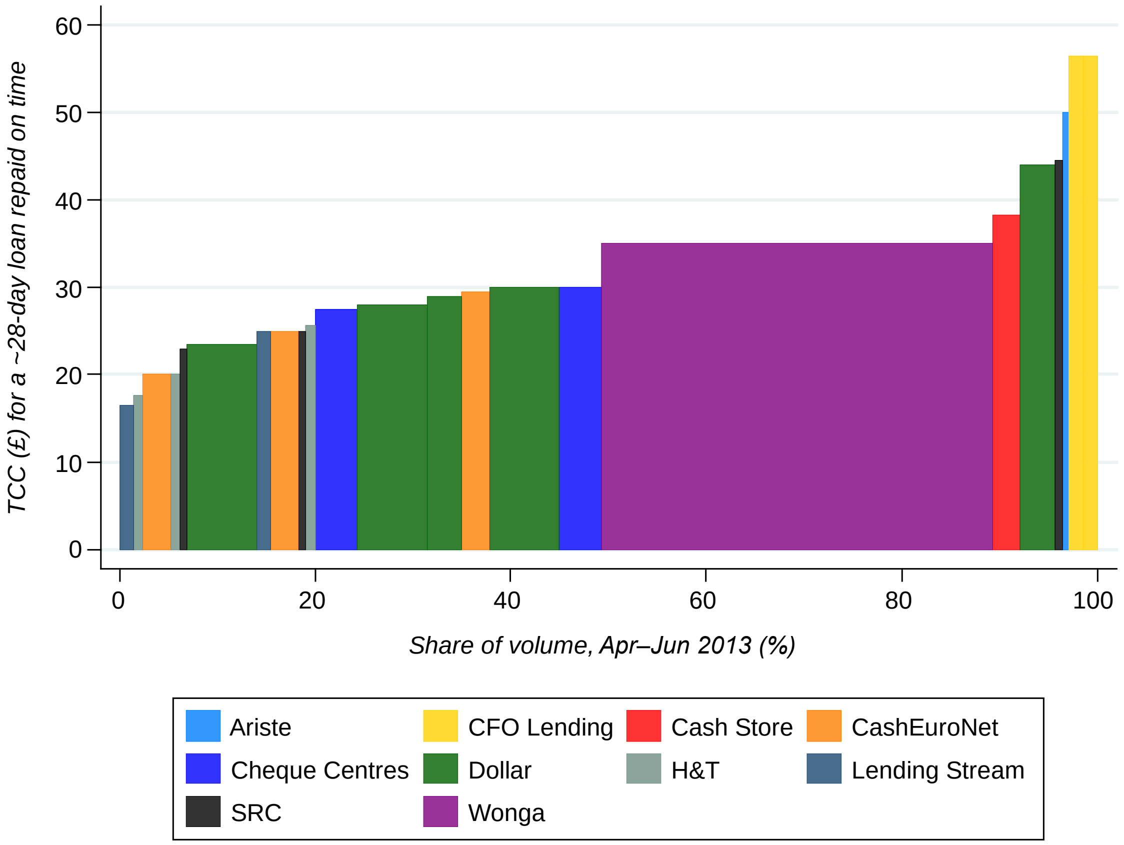
[1] For example, all new customers of MYJAR were restricted to borrowing exactly £100.
[2] For smaller lenders not appearing in this chart, we used a ranged share of supply of 0 to 5%.

(b) where lenders had multiple brands/products, we divided lenders' indicative shares of supply evenly between their brands and products; and

(c) where individual products had multiple 'formats' with different TCCs for different customers,[3] we divided those products' indicative shares of supply evenly between those 'formats'.[4]

FIGURE 1

Prices by indicative share of supply for loans of £100 for 28 days



Source: CMA.

[3] This included CashEuroNet's QuickQuid Payday risk-based price tiers, Lending Stream's Zebit weekly and monthly formats, and Payday Express's faster payment fee for repeat customers.
[4] The indicative shares of supply presented were rebased so that they summed to 100%.

Assessment of profitability

Introduction

1. This appendix presents our approach to assessing the profitability of the 11 major payday lenders.[1] It includes:

   (a) ROCE methodology: an outline of the ROCE methodology.

   (b) Overview of adjustments to ROCE calculations: our approach to adjusting the inputs of ROCE calculations to seek to ensure comparability of accounting information between lenders.

   (c) Treatment of asset values within the ROCE framework: our approach to incorporating intangible assets identified.

   (d) ROCE estimates: we set out our estimates of ROCE including further detail on adjustments discussed in *(b)* above and including our estimates for intangible assets.

   (e) ROCE sensitivity analysis: estimates of ROCE adjusted for customer acquisition costs and CRA data costs.

   (f) Our calculation of the WACC for the major payday lenders.

   (g) Responses received from parties regarding the cost of capital and our consideration of other benchmarks.

ROCE methodology

2. ROCE is usually expressed as profit before interest and tax as a percentage of financial debt plus equity shareholders' funds. We adopted this definition for our profitability analysis and adjusted levels of accounting capital employed for intangible asset values identified (see paragraphs 62 to 114). Following submissions by Wonga and Dollar, we also cross-referenced results for these two lenders with a more detailed review of the equivalent approach based on

[1] At the start of our investigation the 11 major lenders included Ariste, CashEuroNet, CFO Lending, Dollar, Cheque Centres, Global Analytics, H&T, MYJAR, SRC, The Cash Store and Wonga. As at December 2014 three lenders (Cheque Centres, CFO Lending and The Cash Store) had left the market and one lender (Ariste) had announced its intention to exit. The 11 major lenders were identified on the basis of their size in 2012 to 2013, the distribution channels they used and the products offered (see Appendix 2.5).

fixed assets plus working capital (also incorporating adjustments for intangible assets identified).

3. We based our analysis of ROCE on financial information for the 11 major lenders gathered from management accounts, published financial statements and data submitted by lenders in response to our financial questionnaire. For further details on our approach to gathering and analysing financial information from payday lenders, see Annex A. For further detail on cost issues and accounting issues considered, see Annex B.

4. In previous market investigations in the financial services sector, including Payment Protection Insurance,[2] Store Cards[3] and banking services to SMEs[4] the CC considered a return on equity (ROE) approach to be appropriate for the assessment of profitability.

5. In many other market investigations, including Home Credit, the CC assessed profitability using an ROCE approach. We considered that ROCE was the more appropriate returns metric in the case of payday lending. Factors supportive of an ROCE approach included the fact that there is no regulatory requirement for payday lending companies to hold a particular level of equity, and that payday lenders do not have access to internal equity funding from customer deposits for lending operations. In addition, many of the major lenders had received intercompany loans from parent companies during the period under review. We also took the view that in the light of adjustments required to costs (see paragraphs 61 to 113), ROCE was likely to be more robust than ROE because it did not require assumptions for adjusted tax and interest charges. We noted that AlixPartners had considered a range of alternative capital-based measures of profitability (including economic

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[2] The CC's analysis used a combination of economic profits and return on equity capital because it was judged that this afforded an economically meaningful picture of both the absolute and relative (in relation to the cost of capital) level of profits earned from PPI distribution. The economic profitability of PPI (the post-tax profits less a charge to reflect the cost of capital required to support this business line) was favoured since it was widely used in the banking industry as a key measure of business performance and shareholder value creation. The return on equity capital, being post-tax profits divided by equity capital was chosen because it gave an indication of the magnitude of returns in percentage terms and was widely used and reported in the banking industry. The choice of profitability metric was also dictated to a large extent by the availability of data (see *Payment protection insurance market investigation* (2009), paragraphs 4.66 & 4.67).

[3] ROE was chosen in the store cards market investigation because both the borrowing and lending decisions were core business operations, which indicated that return on equity was a more meaningful measure of profitability than return on capital (see *Store cards market investigation* (2006), paragraph 8.68).

[4] ROE was chosen for SME banking because customers' deposits and other customer accounts have a dual nature, being both a liability/means of financing lending activities and a retail product in their own right – that is, forming part of working capital. Accordingly the CC concluded that a cost of capital taking both equity and debt into consideration was not relevant for banks and the appropriate cost of capital was the cost of equity, and the appropriate profitability calculation was ROE. There are also regulatory requirements for banks to hold minimum levels of equity (see *The supply of banking services by clearing banks to small and medium-sized enterprises,* March 2002).

measures such as the truncated internal rate of return (IRR),[5] as well as accounting measures such as ROE). AlixPartners, however, stated that based on the limitations of each of these approaches it chose to adopt the methodology of ROCE adjusted for intangible assets.[6]

6. Table 1 shows the information submitted by parties on levels of debt and shows that debt levels at eight of the major lenders was appreciable between 2008 and 2012. There was evidence that interest rates were not based on the cost of borrowing for some lenders and that with internal funding arrangements, in some instances no cash was physically paid on capital provided by parent companies. We considered that if intercompany debt was regarded as quasi equity, profitability analysis based on ROCE rather than ROE would be more representative. This was consistent with evidence from CashEuroNet which said that intercompany debt should be treated as a form of equity.[7]

TABLE 1 **Debt as a percentage of capital employed, 2008 to 2012**

					%
	2008	*2009*	*2010*	*2011*	*2012*
Ariste	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres online	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar high street	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar online	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]
SRC	[✂]	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

7. When estimating levels of ROCE for payday lenders, in addition to the general considerations normally associated with conducting profitability analysis in market investigations, we sought to assess any industry-specific aspects of the payday lending market relevant to conducting such analysis. We identified the four areas of *(a)* the time period analysed and how this related to the industry life cycle; *(b)* the choice of profitability metric; *(c)* the relevance of

[5] The IRR is the discount rate at which, if applied to the calculation of cash flows across time, would yield a net present value (NPV) of zero. In practical terms this means that a truncated IRR calculation requires information on the cash flows for the period of time under consideration and asset values at the start and end of that period. We noted that the correct valuation of assets at the end of the period was subject to considerable uncertainty, and that VC firms often sought an exit via an initial public offering (IPO). In this context we noted uncertainties in the demonstration of asset values including Cash America's announcement of 26 July 2012 that it had withdrawn plans to launch an IPO of its Enova online lending business (see Enova IPO withdrawal) and news reports from June 2012 (see Wonga mulls US flotation) indicating that Wonga had historically considered an IPO.
[6] AlixPartners report, paragraph 1.3.1(a).
[7] CashEuroNetUK, LLC response to the profitability of payday lending companies working paper, paragraphs 3.2 & 3.3.

different business models to the analysis of profitability in payday lending; and *(d)* cost issues, in particular relating to measuring doubtful debt expenses. These issues are discussed in Section 4. Further detail relating to cost issues is included in Annex B.

Adjustments to ROCE calculations

8. Our assessment of profitability took place in a number of stages. In our preliminary analysis, we considered the financial information submitted by the 11 major lenders and sought to calculate their level of profitability. This preliminary analysis was published in a working paper entitled 'Profitability of payday lending companies' alongside our annotated issues statement and analysed levels of operating profit margins, ROCE and ROE on an accounting basis using information from financial statements, management accounts and responses to our financial questionnaire and financial template.[8]

9. In our working paper, we made several adjustments to EBIT to increase the comparability of data between lenders. We further noted that we would evaluate returns including intangible assets where there was clear evidence of a material distinction between historic and economic values.

10. Following publication of the profitability working paper, we received submissions from Dollar and Wonga detailing adjustments relating to ROCE analysis and from CashEuroNet regarding our approach to profitability analysis. The responses from lenders enabled us to finalise the adjustments we had proposed and (other than those relating to intangible assets) these are considered below. We discuss economic profitability taking into account intangible assets in the next subsection in paragraphs 61 to 113. Our sensitivity analysis of ROCE is set out in paragraphs 115 to 127 and takes account of additional intangible assets not incorporated into our profitability analysis – including customer acquisition costs and CRA data costs.

11. Whilst the updates described below relate to the specific companies concerned, we also considered if changes were relevant for other lenders and sought to maintain consistency across our analysis.

Parties' views on our preliminary profitability analysis

12. Three lenders made submissions regarding the profitability measures that we had considered in our preliminary analysis.

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[8] Our financial template was an Excel spreadsheet requesting financial information including profit and loss, balance sheet and simplified cash flow statements.

CashEuroNet

13. CashEuroNet said that intercompany debt should be treated as a form of equity and suggested that we should use a ROCE approach (rather than ROE) as the total returns to the shareholder from intercompany debt plus equity should be considered.[9] This view is consistent with our approach below.

Wonga's concerns and AlixPartners revised costs analysis

14. Wonga submitted that the ROCE measure suffered from significant draw-backs when applied to the payday lending sector, noting that 'Wonga's business model has relatively low capital intensity, such that even relatively modest changes in parameters such as rate of loan growth, default rates etc. can have significant effects on outturn returns'. Wonga provided analysis to illustrate that if the loan loss rate had been [✂]% rather than [✂]% in 2012, the resulting level of EBIT would have been £[✂] million rather than around £[✂] million.[10]

15. Wonga also expressed concerns that our preliminary estimate of its adjusted 2012 ROCE was too high because [✂].[11,12] We had said in our working paper that our adjusted ROCE was likely to be an overestimate, as information submitted by Wonga had not enabled us to assess accurately the proportion of the service charge which should be added back to ensure comparability between time periods for Wonga, and between Wonga and other payday lenders. For further details on the service charge, see paragraph 95.

16. Wonga commissioned a report from economic consultants AlixPartners. AlixPartners provided updated EBIT figures which reallocated group costs to the UK business using cost drivers, thus effectively shifting costs [✂]. Revised figures are shown in Table 2. On the basis of its revised cost allocation, AlixPartners calculated accounting ROCE.[13]

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[9] ibid, paragraphs 3.2 & 3.3.
[10] AlixPartners report, paragraph 7.1.3(e).
[11] [✂]
[12] Wonga response to the profitability of payday lending companies working paper, see title to paragraph 1.1.5.
[13] AlixPartners' method combined uplifted values for fixed assets with working capital averaged for the financial year in question and as such was equivalent to our approach which took equity and interest-bearing debt.

TABLE 2 **Analysis of cost adjustments for Wonga's service charge**

								£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

*Forecast as at September 2013.

17. Wonga also submitted that [✂].[14]

18. The AlixPartners report presented ROCE analysis of 20 companies including Wonga, and concluded that while calculated levels of ROCE are '[✂] the cost of capital that we had estimated, taking account of the wider interpretation issues identified in this response, including in relation to the appropriate benchmark measure they do not indicate any significant competitive concerns in the market'.[15]

Dollar's views on our preliminary profitability analysis

19. Dollar instructed economic and accounting firm FTI to review the data that it had previously submitted to us. FTI said that:

> We consider that ROCE and ROE are not appropriate measures of assessing profitability in this investigation. These measures are only appropriate for capital intensive industries, and we consider that Dollar is not. [✂][16]

20. Dollar argued that EBIT was a more appropriate measure to use to evaluate profitability than ROCE[17] and submitted analysis from FTI comparing Dollar's EBIT margin on revised costs with the payday lending comparator companies used in our beta analysis.

21. FTI undertook some adjustments to [✂] of £[✂] for the years from June 2009 to June 2013.

[14] Wonga response to the profitability of payday lending companies working paper, paragraph 2.2.4(c).
[15] ibid, paragraph 3.4.6.
[16] Dollar's response to the annotated issues statement and working papers, paragraph 6.3(iii-iv) and Appendix 9; Dollar's response to the provisional findings, paragraph 2.6.2(i).
[17] Dollar response to annotated issues statement and working papers, paragraph 6.3(iv) & (v).

22. FTI's margin analysis concluded that the weighted average EBIT margin of Dollar's retail operations during the period 2008 to 2013 (financial year ending June 2012) was [✂]% for high street operations and [✂]% for online operations.[18] This updated analysis contrasted with Dollar's initial submission [✂].

23. FTI's ROCE analysis concluded that the weighted average ROCE of Dollar's retail operations during the period 2008 to 2013 was [✂]% for high street operations and [✂]% for online operations.[19]

CMA consideration of Wonga's views on our preliminary profitability analysis

24. We considered Wonga's views of paragraph 14 carefully and took the view that the age or capital intensity of an industry were not, in themselves, problematic for the calculation of a meaningful estimate of ROCE. Despite asset intensity levels that were lower than some other industries, it was possible to calculate ROCE on reported levels of assets. As would be the case with other profitability approaches, the output of the calculation (in this case ROCE) would change with variations in the levels of inputs to the calculation (in this case the level of asset intensity/capital employed and EBIT). We did not regard the potential variability of a metric to the value of inputs into the calculation to be a valid reason for rejecting its use, and considered that the opportunity for an efficient firm to earn very high returns on a limited capital base was one of the factors that had enabled Wonga and other payday lenders to attract start-up funding and enter the market.

25. We acknowledged that there were high levels of asset turnover in short-term lending which meant that year-end balance sheets did not capture the full flow of assets utilised during the year.[20] However, we did not regard this characteristic of payday lending as preventing meaningful profitability analysis based on ROCE, and note that returns analysis is widely accepted in industries with high levels of stock turnover and negative working capital (such as grocery retailing).

26. We considered the industry ROCE analysis (see paragraph 18) undertaken by AlixPartners, acknowledging the caveats that applied to its approach. AlixPartners' ROCE analysis indicated that economic ROCE for the lenders examined [✂]. Figures included an assumption for intangible assets

[18] ibid, paragraph 6.3(ii).
[19] ibid, paragraph 6.3(ii).
[20] For example, the value of the loan book reported at year end does not reflect the level of all loans issued during the year.

equivalent to the ratio calculated for Wonga and were based on a methodology which AlixPartners named MEA 1.[21,22] Whilst we had some concerns with the sample used by AlixPartners and its approach to calculating ROCE, we considered that industry economic returns were unlikely to be below the levels indicated by this work.[23] We consider the value and treatment of intangible assets in paragraphs 36 to 60.

27. We compared AlixPartners' revised cost allocation (of paragraph 18) to the analysis that we had undertaken for WDFC UK which used three methods to estimate UK costs for 2012.[24] AlixPartners' cost reallocation was somewhat lower than in our analysis; however, we accepted the adjustments proposed because the various cost drivers applied appeared to represent a reasonable approach, and one which was based on detailed information from Wonga including, for example, examination of [✂]. For further detail on AlixPartners' revised cost analysis, see paragraph 97.

28. We did not agree with Wonga's view that the [✂]. We therefore considered that the level of [✂] shown in audited financial statements was the correct level on which to base our profitability analysis.

29. In our provisional findings, we had noted a concern that AlixPartners' use of Wonga Group asset figures for the years 2011 to 2013 included assets associated with Wonga's international operations and business lending products Everline[25] and PayLater, which were unrelated to its UK payday lending business. Our review of subsidiaries listed in Quickbridge (UK)'s financial statements had supported this view.[26] In its response to our provisional findings Wonga confirmed that [✂]. Wonga told us that [✂].[27] Since we had based our analysis on audited WDFC UK figures adjusted for the costs and fixed assets identified by AlixPartners for the years 2011 to 2013 (see paragraph 103) we considered that this approach was equivalent and the asset base was consistent with Wonga's view.

30. Finally we considered AlixPartners' suggestion that we should compare the profitability of payday lending with returns over time for other industries or other VC start-ups.[28] We took the view that it would have been impractical to

[21] AlixPartners' methodology 'MEA 1' did not include an amortisation adjustment to EBIT due to limited cost information and therefore underestimates profitability for the purposes of our investigation.
[22] AlixPartners report, paragraph 6.2.6, footnote 48.
[23] AlixPartners included several companies not included in our analysis. We noted that these companies were small and that AlixPartners' sample did not include CashEuroNet, one of the big three lenders in our analysis.
[24] *(a)* Analysis of supplier payments submitted by Wonga; *(b)* examination of Wonga Technology Ltd financial statements; and *(c)* a review of management accounts for the first nine months of 2012.
[25] Launched as Wongaforbusiness in May 2012. Wonga response to issues statement, paragraph 4.35(d).
[26] Quickbridge (UK) Limited was Wonga's holding company until 2010, after which it was renamed Wonga Group.
[27] Wonga's response to the provisional findings report, paragraph 3.9.
[28] AlixPartners report, paragraphs 7.1.4 & 7.1.5.

perform comparisons on a like-for-like basis, for example taking into account the risk profile of different industries or start-ups.

CMA consideration of Dollar's views on preliminary profitability analysis

31. In Dollar's initial financial template the company apportioned [✂]% of total costs for its high street operations to payday lending, an activity which had generated [✂]% of high street revenue in the year to June 2013. Dollar's initial cost allocation approach resulted [✂]. We said in our working paper that, whilst the methodology adopted might have aligned with Dollar's operational approach to its business, it was likely to under-represent payday lending profitability for our purposes. We reviewed FTI's revised cost analysis which used the [✂] as the basis for allocation of costs between the payday product and other high street products (for details see paragraph 67) and accepted that the adjustments proposed produced a result which was more representative of the profitability of payday products within Dollar's overall high street operations.

32. FTI's calculations also included holding company costs for Dollar Financial (UK) Limited comprising administration costs and interest costs. We were concerned, however, that this cost adjustment was likely to result in an underestimate of the profitability of UK payday operations for two reasons. First, Dollar's UK holding company listed 14 subsidiaries which were either international operations in Sweden, Spain, Finland and Poland, or non-payday businesses in the UK. We considered it likely that a potentially significant element of the administration and finance charges for the holding company might relate to these businesses. Secondly, [✂].[29] In view of these uncertainties we calculated Dollar's ROCE by estimating the UK portion of holding company administration costs and excluding holding company interest costs. For further detail, see paragraph 65.

33. Given that other cost adjustments proposed by FTI moved expenses from online to retail lending, or vice versa, we decided to group Dollar into one entity for the purposes of our analysis, an approach justified by the inter-dependency and potential difficulty of establishing an appropriate and accurate basis for cost and capital allocation between the three Dollar companies operating in the UK.[30]

34. As discussed in paragraph 23 we concluded that the age or capital intensity of an industry were not, in themselves, problematic for the calculation of a meaningful estimate of ROCE. We do not consider the variability of a metric to

[29] [✂]
[30] Dollar's figures include [✂].

inputs to be a valid reason for rejecting its use, and note that Dollar's proposed alternative EBIT measure would also be sensitive to changes in parameters such as default rates and growth rates. We recognise that the life stage of the industry may be relevant, however, when interpreting ROCE analysis, and discuss our consideration of this issue in Section 4.

35. We also considered, in view of FTI's comparative margin analysis (see paragraph 22), whether it was valid to compare EBIT margins calculated for payday lenders with profit margins for other forms of lending. We sent questionnaires to 25 non-payday-lending credit providers and received 16 replies with data that was sufficiently comprehensive for consideration.[31] Our analysis indicated that the average 2012 EBIT margin for home credit was 16% and was 11% for credit card providers. We had concerns, however, that data was not sufficiently representative of margins from other forms of credit to enable a comparison with payday lending data. In particular, it was not practical to undertake a more detailed analysis, including the detailed review of doubtful debt policies which would be necessary for such an analysis. We therefore also concluded that this EBIT comparison was unlikely to be informative for the purposes of a competition assessment of profitability.

Treatment of asset values within the ROCE framework

36. In this subsection we set out parties' views on assets and our views on intangible asset values. Our views on adjustments relevant to the replacement cost of assets are considered in Section 4 (see paragraphs 4.136 to 4.147).

37. Three parties submitted views on the value of assets.

Dollar's views on asset values

38. [✂] FTI submitted a value of £[✂] million for the intangible assets recognised on the acquisition of Payday UK in 2011, and stated that intangible assets for Payday Express and The Money Shop were likely to [✂] to those in Payday UK. Our analysis of FTI's calculations indicated that economic capital employed for the period 2010 to 2013 was between a multiple of [✂] and [✂] times the level of accounting capital employed.

[31] Including: five banks, three credit card providers, two credit unions, three home credit companies, two store card providers and one log book loan lender.

Wonga's views on asset values

39. AlixPartners calculated economic ROCE using several adjustments and considered the value of intangible assets using three methods and associated with the following categories: customer acquisition costs; knowledge of the customer base;[32] staff recruitment and training; regulatory costs; pre-incorporation costs; and start-up losses.[33] The methods adopted combined uplifted values for fixed assets with working capital averaged for the financial year in question and were therefore equivalent to our approach which took equity and interest-bearing debt. Both approaches included year-end cash balances from audited financial statements. AlixPartners' intangible asset valuations are set out below and our analysis indicated that economic capital employed for the period 2009 to 2013 ranged between a multiple of [✂] and [✂] times the accounting capital employed.

CashEuroNet's views on asset values

40. CashEuroNet said that it was:

> important to take account of the intangible value of the business which the UK operations rely upon but were built up before operations in the UK began including [✂].

CashEuroNet said [✂].[34]

CMA consideration of issues raised by parties on intangible assets

41. In the light of submissions from Wonga, Dollar and CashEuroNet we considered levels of adjusted ROCE taking into account the effect of incorporating intangible assets. The categories of intangible assets considered are discussed below.

42. In its response to our provisional findings, Wonga said that our approach was inconsistent with previous cases which had sought to estimate the maximum

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[32] Wonga believed that this was an asset as it was 'incurred in order to build the firm's capability to enhance sales in the future'.
[33] We observed that Wonga had made some other small changes to its 2012 figures when submitting 2013 figures, including an increase in the value of fixed assets of £[✂] and an adjustment to accrued interest for collections post year end. We accepted the fixed asset change in our adjusted ROCE analysis but disregarded the loan book figures in favour of audited 2012 balances for accounting capital employed, noting that the amended service charge cost allocation changes should have no impact on the interest accrual policy.
[34] On the basis of the information available to us, undertaking an estimate of the value of these assets would have required a significant number of judgemental assumptions. Our analysis therefore excludes these historic assets. We considered, however that this was unlikely to have significantly affected the results of our overall profitability analysis as a large proportion of any intangible asset generated would have been amortised prior to the period 2010 to 2013.

of plausible values in relation to intangibles.[35] As discussed in paragraphs 115 to 127 our consideration of profitability includes sensitivity analysis incorporating 100% of customer acquisition costs and 100% of CRA data costs. It is our judgement that this sensitivity analysis is sufficient to explore the maximum plausible value of intangible assets required in this case. We noted further that our use of 100% of CRA data costs incurred by lenders did not rely on an assumption regarding the extent to which costs should be included (unlike AlixPartners' analysis, which included an assumption [✂], see paragraph 48).

43. In its response to our provisional findings, Wonga also said that the exclusion of an intangible asset associated with customer knowledge costs from the asset base was inconsistent with the Home Credit market investigation.[36] As discussed in paragraph 49 the methodology adopted for considering the value of an intangible asset associated with knowledge of the customer base in our sensitivity analysis is consistent with the methodology for Home Credit. Our reasons for considering this category of intangible asset in sensitivity analysis, rather than our base case is set out in paragraph 48.

44. In its response to our provisional findings Wonga told us that 'the CMA does not deny that a separate customer knowledge asset exists, and indeed a separate customer knowledge asset was accepted in *Home Credit*. Moreover, the CMA argues elsewhere in its provisional findings that there are potential barriers to entry in the form of more established players' superior customer knowledge, implying the asset's existence (although from Wonga's perspective, this does not constitute a barrier to entry given that it is replicable – others could, and have, invested in it as Wonga has done)'.[37] We considered Wonga's view, and in particular if our approach to valuing intangible assets was inconsistent with our view that new entrants would face certain disadvantages relative to more established lenders.[38] As discussed in paragraph 4.140 the approach regarding the treatment of intangible assets is set out in our Guidelines.[39] We considered that our reasons for not capitalising customer knowledge costs meet the criteria set out in our Guidelines. Furthermore we judged that there was no inconsistency in a conclusion that costs associated with the general running of existing businesses may have created a barrier to entry.

[35] Wonga's response to the provisional findings report, paragraph 3.2(a).
[36] ibid, paragraph 3.2(c).
[37] Wonga's response to the provisional findings report, paragraph 3.5.
[38] We took the view that due to their greater reliance on new customers and the role of learning in the credit risk assessment process, new entrants are likely to face some disadvantages in their ability to assess credit risk for a period, which would put them at an initial cost disadvantage relative to more established providers (see paragraph 7.119).
[39] CC3, paragraph 14.

Customer acquisition costs

45. [✂] In our base case ROCE analysis we have not included a value for intangible assets associated with customer relationships for the following reasons:

(a) Whilst it may be possible to identify separately sums spent on marketing and customer acquisition, we did not consider that these costs have created an asset separate from any arising from the general running of the business (see Section 4 (paragraph 4.141)).

(b) For lenders using pingtree auctions (see Section 2), a significant proportion of leads bought do not translate into loans issued, and can therefore be considered wasted. It would be inappropriate to capitalise costs paid for unsuccessful leads.

(c) Our analysis of transaction data (see Section 6) shows that there is a large incidence of borrowers taking loans from multiple lenders, and that a significant number of customer relationships are not exclusive to a particular lender.

(d) There is evidence that the average duration of customer relationships, often around [✂] (see Section 7), is relatively short compared with other financial markets, which reduced the extent to which it made sense to capitalise costs incurred in acquiring new customers.[40]

46. In addition, we took the view that, notwithstanding the above, it was inappropriate to capitalise all customer acquisition costs identified by parties because a potentially substantial, but unknown, proportion of marketing costs would have been of a general nature to encourage existing customers to take out further or larger loans. Given the high levels of repeat borrowing we observed for all the major lenders, costs associated with retaining existing customers, rather than acquiring new customers, could be significant and would appropriately be treated as revenue expenditure.[41] Unlike previous analyses undertaken by, for example, Ofcom in the assessment of Sky's profitability, we saw no reliable basis on which to split marketing costs into those which might have created intangible assets associated with new customer relationships from those that had maintained existing relationships.[42]

[40] For example, in the CC's inquiry into SME banking customer relationships were judged to last seven years.
[41] See also report into SME banking, paragraph 2.303.
[42] See Oxera's report on BSkyB's profitability in the context of the Ofcom market investigation, pp15&19 and section 3.3.2 where Sky's management accounts identified retention marketing costs.

47. Given the difficulties in evaluating the proportion of marketing costs which have led to profitable loans from exclusive customer relationships, we considered that any partial cost figure we adopted in order to value an intangible asset in our base case would be unsupported by evidence. Our sensitivity analysis, which is set out in paragraphs 115 to 122 below, shows that notwithstanding the above, if we were to capitalise historic customer acquisition costs incurred by the major lenders, the resulting levels of ROCE would not be sufficiently different to change the conclusions of our profitability analysis.

Impairment costs and knowledge of the customer base

48. We did not accept the assumption[43] made by AlixPartners that [✂] costs (quantified as £[✂][44] for Wonga for the period 2007 to 2013) should be capitalised. This was for several reasons:

   (a) AlixPartners' adjustment was not based on a specific cost. We consider it fundamental to the analysis of intangible assets to identify expenditure required for running the business as being distinct from that which creates an asset, or 'the right of access to future economic benefits as a result of a past transaction or event'.[45] The principle of separately identifiable costs was adopted in the CC's SME banking report[46] and independently commented on by the Carsberg report, which stated that 'the Commission has been reasonable in insisting that the recognition of intangible assets should be restricted to assets that are specifically identified and associated with costs incurred'.[47] In the absence of any evidence on an appropriate proportion of bad debt costs that should be capitalised, we regard AlixPartners' use of [✂]% as an arbitrary valuation.

   (b) We consider that bad debts are in large part the cost of unsuccessful lending decisions. A firm lending money faces the basic operational risk that some of it will not be repaid. Bad debts can be seen as a normal business expense which efficient firms will seek to mitigate with strong operational procedures.

   (c) We were concerned that under AlixPartners' proposed approach it is possible that costs resulting from inefficiency or poor management could

[43] We note that AlixPartners mentioned that it did not have access to 'sufficiently detailed information to determine precisely the proportion of staff that should be allocated to developing Wonga's knowledge of customer creditworthiness or the cost of credit checks'. See AlixPartners report, paragraph 4.2.15.
[44] ibid, Table 4.18, p35.
[45] Report into SME banking, paragraph 2.249.
[46] ibid, March 2002.
[47] Carsberg report, paragraph 23.

be capitalised. This did not appear to be a sound methodological characteristic of this approach.

(d) We noted that one further limitation of this approach is that, for most lenders, the customers who generate the company's bad debts cease to be customers. Taken simply, the bad debts incurred do not relate to any knowledge of the remaining customer base, which is the asset we are seeking to value. Though knowledge of former customers' characteristics, or aspects of a customer profile deemed to be predictive of repayment behaviour, may provide some future value in guiding lending decisions to similar customers, this is essentially a speculative future economic value. Equally speculative is the hypothetical saving that the firm would make by not lending to a defaulting customer in the future.

49. We noted that in the Home Credit investigation the CC had not capitalised impairment costs, but estimated an intangible asset associated with knowledge of customers' creditworthiness. Asset estimates were made using a cost of £1.50 per customer, which represented the typical cost of customer data purchased from the three principal CRAs. The market reference value for data was assumed to operate for lenders selling data at the same price as it was purchased. We considered using this approach in our ROCE estimates, but concluded that it was inappropriate in the case of payday lending. As discussed in Section 7, the information that is available from CRAs suffers from various limitations, including the frequency with which it is updated, the level of detail available, and the completeness of records (records regarding repayment history may not be available for all lenders).

50. Given the limitations discussed above, we considered that historic spending by lenders on CRA data was unlikely to have created a separate asset associated with customer creditworthiness. Our sensitivity analysis in paragraphs 123 to 125 shows that, notwithstanding the above, if we were to capitalise the costs incurred by the major lenders on credit checking data,[48] this would not change the conclusions of our profitability analysis.

51. Finally, we considered whether an intangible asset should be recognised in view of costs incurred in developing the data-analysis capabilities of lenders, including the system and formulas or algorithms used to drive lending decisions. We concluded that as all three sets of reporting standards applied by the companies (UK GAAP, IFRS, US GAAP) allow expenses incurred in developing software to be capitalised, it was likely that the value of assets created was already incorporated in reported levels of assets,[49] and therefore

[48] Costs as reported in the financial template under 'credit searches and checks'.
[49] [✂]

already included in our analysis of accounting capital employed. In addition, we noted that it was possible that assets already recognised by lenders in accounting capital employed included development costs of websites, as well as loan-writing software, and therefore our approach could be considered conservative in this regard. This approach was consistent with evidence from CashEuroNet, which told us that [✂].

Recruiting and training costs

52. We considered the extent to which costs relating to recruiting and formally training new staff might have been incurred entirely for future rather than current benefit and whether skills acquired were likely to be of a general or specific nature. Figures submitted by Wonga did not make clear whether staff costs capitalised by AlixPartners related to permanent staff and the extent to which training costs related to formal activities rather than the salary costs of staff 'learning by doing'. Given that the sums were around [✂]% of total staff costs, it seemed likely that the major element of employee costs comprising salaries and related benefits had been appropriately treated as revenue expenses. We therefore accepted the recruitment and training intangible assets and associated amortisation charges estimated by AlixPartners. Amortisation rates were based on a useful economic life (UEL) of [✂], which was determined by reference to historic staff retention rates.

53. None of the other lenders had identified specific intangible values or relevant asset lives for recruitment and training. In order to ensure consistency of treatment between lenders, we assumed that [✂] and applied this ratio to costs identified from our financial template and, where possible, cross-referenced this to management accounts. Further details of our assumptions and methodology are discussed in paragraphs 90 and 109 to 113.

Regulatory costs

54. We did not agree that regulatory costs were appropriate for capitalisation because expenditure related to a lender's licence and compliance with the regulatory regime is necessary to run the business, and not additional to the costs necessarily incurred in running the business. This approach is consistent with that taken by the CC in the SME banking and Home Credit investigations.

Channel relationships

55. [✂] The channel relationships intangible asset value was based on analysis performed by [✂] as representing the fair value of the relationships with external parties which introduce new customers to PaydayUK. We did not

agree that an intangible asset for channel relationships should be incorporated based on a consideration of the criteria set out in Section 4 (paragraph 4.141).

Goodwill

56. We recognised that the appropriate treatment of goodwill[50] is open to debate. All three accounting standards used by the major payday lenders allow the inclusion of purchased goodwill as an intangible asset.[51]

57. By contrast, the methodology adopted by the CC in the Home Credit investigation[52] and a number of academic studies support the exclusion of goodwill. For example, Professor Alan Gregory's paper 'Excessive prices and the role of profitability analysis'[53] argues that 'If assets have been acquired as a result of an acquisition, then goodwill will typically be recorded as the difference between the acquisition cost of the asset and its "fair value" (in the historic accounting sense of the term)'. Professor Gregory stated further that:

> several problems can arise here. First, the acquiring firm may over-pay for the target firm,[54] meaning that goodwill may overstate the true economic value of the assets acquired. Second, some element of 'goodwill' may reflect the difference between value to the business of the assets acquired and their balance sheet value. Thus if we uplift the book values to MEAs[55] including goodwill as well would lead to double counting. Finally, a particular problem for regulators is that goodwill may simply reflect the present value of excess profitability in the firm acquired. For all these reasons, the general approach should be to exclude purchased goodwill from the calculations, but instead to estimate the MEAs of both tangible and intangible assets.

For the reasons stated above, our adjusted ROCE calculations do not include purchased goodwill. This approach is consistent with [✂] our use of book value for tangible assets (see Section 4 (paragraph 4.140)).

[50] Goodwill is the recognition of the difference between the price paid for a business and the fair value/net book value of those assets recognised in the financial statements.
[51] [✂]
[52] See Table 3.5 of the final report.
[53] OECD Policy Roundtables, Excessive Prices 2011
[54] The academic evidence on the long-run performance of acquiring firms is consistent with this. For a summary, see Agrawal and Jaffee (2000).
[55] The Modern Equivalent Asset (MEA) principle.

Consideration of other asset categories

58. Start-up losses prior to 2009 have been capitalised into our analysis of capital employed where relevant. This adjustment had the effect of slightly reducing the level of profitability observed for [✄].

59. Our analysis does not include an adjustment for leasehold stores.[56] This was for several reasons: firstly we considered that it would be impractical to obtain accurate estimates of the freehold value of stores offering high street payday loans given the numbers[57] and geographic diversity of store portfolios (see Section 5); secondly we noted the lack of data available on the appropriate proportion of rental payments attributable to the payday lending activities of high street lenders (as distinct from other products offered such as currency exchange and money transfer) for high street lenders other than Dollar;[58] finally we judged that the value of stores in a scenario which included the 'proxy freehold' value would be unlikely to reduce estimated levels of ROCE to below the cost of capital for high street lenders.[59] We therefore concluded that any adjustment would require the adoption of too many subjective judgements and even if undertaken would not change the conclusions regarding our profitability analysis.

Numerator adjustment

60. When capitalising intangible assets, the standard methodological approach having removed costs from EBIT (the numerator) is to replace them with a normalised depreciation charge calculated using an assumption for asset life. This was the approach taken by AlixPartners for Wonga's IT capitalisation adjustments, and we therefore accepted this adjustment.[60] FTI also

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[56] Lenders may have had the option to buy the freehold of stores under operation. If a lender had chosen to buy rather than rent stores the ROCE calculation would be based on a higher level of EBIT (no rent paid) and higher capital employed (fixed assets stated on the basis of freehold ownership).

[57] As at August 2013 The Money Shop operated 578 stores and Cheque Centres operated 496 stores. For details of other lenders see Appendix 5.5.

[58] For example the only cost Cheque Centres was able to provide relating to its payday loan products was the provision for doubtful debt.

[59] Our analysis indicated that for [✄] a value of £2 million per store would need to be added to capital employed for the weighted average ROCE for [✄] for the period 2009 to 2013 to reach the midpoint of our WACC calculation. From a review of freehold high street premises the current market value for freehold stores appeared to be less than £0.3 million. See www.daltonsbusiness.com/buy/service-businesses-for-sale/pawnbrokers-and-cashconverters, accessed 18 November 2014.

[60] See AlixPartners' schedule 2012 capitalisation of £[✄] million into capital employed net of £[✄] million amortisation charge. In its response to our provisional findings (paragraph 3.8), Wonga observed that we had rejected AlixPartners' treatment of the depreciation charge for IT. This adjustment was, however, included in our analysis. This was because AlixPartners' analysis included a numerator adjustment which accorded with our view that when calculating returns including intangible assets and therefore requiring an adjustment to capital employed (the denominator) it follows logically that an adjustment must also be made to operating profit (the numerator) to reflect that costs have been added to the asset base. The absence of a numerator adjustment in AlixPartners' more general analysis termed MEA 1 is, we considered, inconsistent with the inclusion of an adjustment to the denominator.

incorporated numerator adjustments in its analysis. By contrast, under AlixPartners' MEA 1[61] approach, AlixPartners argued that during a growth phase this approach generated results that were not meaningful because capitalising costs resulted in an increase to operating profits.[62] We did not agree with AlixPartners' MEA 1 approach because it was inconsistent with both adjustments made elsewhere and with accepted practice for intangible analysis, for example see Oxera's paper on assessing profitability, which states that if costs are capitalised into intangible assets, these costs have to be excluded from the operational cost base in order to avoid double-counting.[63] We also noted that AlixPartners' analysis under scenario MEA1b (which did not assume that the economic adjustments had no effect on operating profit) indicated economic ROCE levels generally higher than under the MEA 1 approach. Table 3 shows the results of AlixPartners' analysis under the three approaches considered.

TABLE 3 **AlixPartners' calculations of Wonga economic ROCE including adjustments for intangible assets, 2007 to 2013**

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*	*Weighted average*
ROCE (%)								
MEA 1	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 1b	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 2	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MEA 3	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Capital employed (average of year) (£m)								
MEA 1								
Accounting	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Intangible assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	

Source: AlixPartners report and AlixPartners profitability model.

61. Having considered parties' views on asset values and our approach to intangible assets, we now consider the detailed adjustments relevant for our analysis.

ROCE estimates

62. In this subsection we set our calculation of ROCE including intangible assets for the 11 major lenders.[64]

[61] AlixPartners' analysis valued intangible assets and calculated economic ROCE under three different approaches named MEA 1 (a bottom-up approach), MEA 2 (based on market-to-book rations of publicly listed payday lenders) and MEA 3 (which uplifted the asset base by 41.9%).
[62] AlixPartners report, paragraph 3.2.10(b).
[63] Assessing profitability in competition policy analysis: A report prepared for the Office of Fair Trading by OXERA, July 2003, paragraph 5.31.
[64] It was not possible to separate specific costs relating to payday operations from other costs in the case of Cheque Centres. Cheque Centres' submission included only doubtful debt expenses for its payday loan products.

Dollar's ROCE

Background

63. In order to calculate ROCE for Dollar's high street lending operation in our profitability working paper, the CMA adjusted reported EBIT to remove an estimate for non-payday-lending costs included in Dollar's original submission. This adjustment was considered necessary as Dollar's high street stores offer several products and services but Dollar's original submission had allocated all store costs to payday lending, therefore understating profitability for our purposes.

64. Following the publication of our working paper, Dollar undertook a reallocation exercise to assign store overhead costs between payday lending and other activities. This was completed by FTI, which identified the following adjustments.

65. [✂]

FTI adjustment 1: UK holding company costs

66. The three UK entities operated by Dollar are owned and operated by a holding company, Dollar Financial UK Ltd.

67. Holding company costs were allocated to online and high street based on [✂]. [✂] was then used to split costs allocated to high street between payday lending and other activities.

TABLE 4 **Allocation of holding company costs, year ending June**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Online	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 2: Reallocation of costs between online and high street other

68. [✂]

(a) [✂]

Other significant operating costs were therefore excluded, and figures for Cheque Centres were not comparable with other lenders in our analysis. We have excluded this lender from our analysis to avoid overestimating profitability levels for the major payday lenders.

TABLE 5 **Allocation of high street head office costs**

	2008	2009	2010	2011	2012	2013
						£'000
Online	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
High street – payday lending	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
High street – other activities	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: FTI Consulting Report.

(b) [✄]

TABLE 6 **Allocation of IT Support and Helpdesk costs**

	2008	2009	2010	2011	2012	2013
						£'000
Online	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
High street – payday lending	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: FTI Consulting Report.

FTI adjustment 3: Reallocation of high street costs from payday lending to other activities

69. In the original financial template for high street, all overhead costs, such as advertising, staff and premises, were allocated to payday lending unless directly attributable to other services. [✄]

70. Allocating all indirect costs to payday lending resulted in [✄]. [✄] and considered that costs should be shared by payday lending and other activities based on net revenue.

TABLE 7 **Reallocation from payday lending to other activities**

	2008	2009	2010	2011	2012	2013
						£'000
Costs transferred to other activities	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Costs remaining in payday lending	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: FTI Consulting Report.

FTI adjustment 4: Allocation of high street head office assets

71. In addition to reallocating high street head office costs to the online business (FTI adjustment 2), the associated underlying assets were also reallocated to online [✄].

TABLE 8 **High street head office assets transferred to online**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Assets transferred to online	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 5: IT system assets

72. [✂]. Based on the use of each system, and using the [✂] and [✂] recorded by the parent, FTI allocated [✂] to high street payday lending operations, [✂] to online and [✂] on the basis of [✂].

TABLE 9 **IT system assets allocated to online**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Assets allocated to online	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 10 **IT system assets allocated to high street**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Assets allocated to high street	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

FTI adjustment 6: Payday UK intangible assets

73. In 2011, Dollar UK purchased Payday UK (MEM) for £[✂]. However, while these assets were recorded by DFC under US GAAP, they were not recognisable in UK GAAP and are therefore not recorded in any UK company.

74. FTI submitted that these assets should be included in online assets and allocated technology, customer relationships and channel relationships using valuations prepared by [✂].

TABLE 11 **Additional intangible assets allocated to online (NBV)**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Assets allocated to online:						
– Technology	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
– Customer relationships	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
– Channel relationships	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Depreciation on assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Summary of FTI's adjustments

Effect on EBIT

TABLE 12 **Effect of FTI adjustments on online**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
UK holding company costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high street head office costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate IT Support and Helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PUK assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 13 **Effect of FTI adjustments on high street**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
UK holding company costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high street head office costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate IT Support and Helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate common costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Effect on fixed assets

TABLE 14 **Effect of FTI adjustments on online**

						£'000
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Original fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high street head office assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
PUK assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 15 **Effect of FTI adjustments on high street**

£'000

	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Original fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocate high street head office assets [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
IT systems	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

Total effect on ROCE – high street and online

TABLE 16 **ROCE before and after FTI adjustments**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Original capital employed – average	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Original ROCE	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – FTI adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

[✂]

Source: FTI Consulting Report.

CMA adjustments relating to Dollar's ROCE

75. We reviewed the FTI report and incorporated certain adjustments into our ROCE analysis.

76. The reallocation of costs and assets between online and high street in FTI adjustments 2 and 4 have not been incorporated into our analysis as we have looked at Dollar in total, therefore these adjustments net to nil.

CMA adjustment 1: High street payday lending working capital

77. [✂]

78. [✂] Whilst we could not verify the accuracy of the figures to other data sources such as management accounts or financial statements, we noted that the [✂] capital employed figures [✂] did agree to the original financial template.

TABLE 17 **Difference between original and FTI capital employed figures (before changes to EBIT)**

£'000

	2009	*2010*	*2011*	*2012*	*Total*
Dollar's original submission capital employed – average	[✂]	[✂]	[✂]	[✂]	[✂]
FTI capital employed – average (before any adjustments)	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: This adjustment was not required in 2013 as all information provided was for payday lending only.

CMA adjustment 2: Reallocation of high street costs

79. In Dollar's initial submission the company apportioned [✂]% of total costs for its high street operations to payday lending, an activity which had generated [✂]% of high street revenue in the year to June 2013. Dollar's initial cost allocation approach resulted in [✂]. We reviewed [✂] accepted that the adjustments proposed produced a result which was more representative of the profitability of payday products within Dollar's overall high street operations.

TABLE 18 **Reallocation of high street costs to online and other activities**

£'000

	High street					*Online*					*Total*				
	2009	*2010*	*2011*	*2012*	*2013*	*2009*	*2010*	*2011*	*2012*	*2013*	*2009*	*2010*	*2011*	*2012*	*2013*
Allocation of high street head office costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocation of IT support and helpdesk costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Allocation of common costs [✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: FTI Consulting Report.

TABLE 19 **Effect of high street cost reallocation on EBIT**

					£'000
	2009	*2010*	*2011*	*2012*	*2013*
Original EBIT	[✄]	[✄]	[✄]	[✄]	[✄]
EBIT adjusted for cost reallocation	[✄]	[✄]	[✄]	[✄]	[✄]

Source: CMA analysis.

CMA adjustment 3: Asset adjustments

80. FTI included [✄]. We agreed with this approach given the business requirement for IT systems and to ensure comparability with other lenders in our analysis.

TABLE 20 **Effect of IT system allocation on fixed assets**

					£'000
	2009	*2010*	*2011*	*2012*	*2013*
Original fixed assets	[✄]	[✄]	[✄]	[✄]	[✄]*
Fixed assets adjusted for additional IT systems	[✄]	[✄]	[✄]	[✄]	[✄]

Source: CMA analysis.

*[✄]

81. We have not incorporated the adjustment for purchased Payday UK intangible assets as discussed in paragraphs 45 to 47 and paragraph 55.

CMA adjustment 4: Holding company costs

82. FTI submitted that costs in Dollar Financial UK Ltd, the holding company, should be allocated to online and high street as costs were incurred for the benefit of subsidiaries, and would still be incurred if these operations were stand-alone entities.

TABLE 21 **Value of holding company costs allocated to high street and online**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Online	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
High street – payday lending	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
High street – other	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Total	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: FTI Consulting Report.

83. To investigate these costs further, the CMA reviewed Dollar Financial UK's financial statements[65] and obtained the following breakdown of costs.

TABLE 22 **Dollar Financial UK cost break-down, 2009 to 2013**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Administration expenses	6,356	11,217	15,505	8,401	[✂]	[✂]
Interest payable	6,304	4,293	12,723	21,303	[✂]	[✂]
Tax	76	5	6	3	[✂]	[✂]
Total costs	12,736	15,515	28,234	29,707	[✂]	[✂]

Source: CMA analysis.

84. This breakdown of costs shows the majority of costs related to interest. [✂][66]

85. [✂] This expense had already been accounted for in our ROCE calculations and therefore if we were to allocate head office interest to each entity, subsidiaries would effectively be charged twice.

86. Based on this evidence, we concluded that Dollar UK's interest expenses should not be allocated to its UK operations. [✂]

87. The financial statements also gave more information about the purpose of the holding company, notably:

> The principal activity of the company is that of a holding company and administration company for its trading subsidiaries Risicum OYJ, OK Money Poland Sp PL, Instant Cash Loans Limited, T M Sutton, Limited, MEM Consumer Finance Limited and Merchant Cash Express Limited.

88. Table 23 shows that [✂]. A review of the investments note in the 2013 financial statements shows that these companies are spread between the UK, Sweden, Finland, Spain and Poland and participate in pawnbroking as well as other lending. [✂]

89. Based on this evidence we considered that only administration holding company costs should be allocated to UK operations. [✂]

[65] Dollar UK Financial statements, 2010–2013.
[66] [✂]

TABLE 23 **Allocation of holding company administration costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*Total*
Online	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
High street – payday lending	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
High street – other	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	6,356	11,217	15,505	8,401	[✂]	[✂]

Source: CMA analysis.

CMA adjustment 5: Capitalisation of staff training and recruitment costs

90. [✂], we capitalised staff training and recruitment costs to ensure comparability between lenders (see paragraph 110).

91. For Payday Express, staff training and recruitment costs were provided by Dollar. Staff training costs were also provided for Payday UK, and recruitment costs were assumed to be [✂]% of total staff costs (see paragraph 111 for reasoning).

92. [✂], therefore staff training and recruitment was assumed to be [✂]% of total staff costs. Payday lending high street revenue as a proportion of total high street revenue was used to allocate costs to payday lending operations.

TABLE 24 **ROCE including capitalised staff costs**

							£'000
	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Total staff costs to be capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted for capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 25 **Total effect of adjustments – reallocation of high street costs, IT systems fixed assets, holding company administration costs, capitalisation of staff training and recruitment costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Original EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Original average capital employed	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Original return on capital employed	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted EBIT	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted average capital employed	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Adjusted return on capital employed	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Wonga's ROCE

93. AlixPartners included analysis on cost allocation and asset valuation it considered relevant for calculating Wonga's ROCE.

AlixPartners adjustment 1: Figures used

94. AlixPartners performed all calculations between 2007 and 2010 using Wonga Group figures, with 2011 and 2012 calculations performed on reallocated Group accounts. This approach differed from the original financial template used by the CMA in which Wonga submitted figures for Wonga.com only (renamed WDFC UK in 2012). AlixPartners' methodology resulted in greater capital employed and EBIT balances than the original financial template because fixed assets and cash balances were not included in Wonga.com but held at the Group level. Trade creditors and expenses were also impacted by the elimination of intercompany balances.

AlixPartners adjustment 2: Allocating the service fee

95. Wonga restructured its operations in 2012.[67] Wonga told us that 'a commercial hub was established in Geneva and this entity provided [✄] services to the international lending entities and the service fee charged [✄].[68]

96. [✄]

97. [✄] charged [✄] relating to the final quarter of 2012 and included this figure in the financial template under commissions to affiliates, lead generators and agents cost category. Wonga has indicated a service charge [✄].

TABLE 26 **Analysis of Wonga's service charge**

£'000

	2008	*2009*	*2010*	*2011*	*2012*	*2013*	*2014*	*2015*
[✄] service charge	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Revenue	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Service charge as % revenue	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Non-service-charge costs	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Non-service-charge % revenue	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Total costs % revenue	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: CMA analysis.

Note: [✄]

98. [✄]

[67] As set out in Appendix 2.6, Wonga [✄]
[68] [✄]

TABLE 27 **Effect of adjusted service fee on EBIT**

	[✂] *£'000*
Original service fee	[✂]
Original total costs	[✂]
Original EBIT	[✂]
Adjusted total costs	[✂]
Adjusted EBIT	[✂]
Movement in EBIT (%)	[✂]

Source: CMA analysis.

AlixPartners adjustment 3: Reallocation of cash

99. [✂]

AlixPartners adjustment 4: Additional intangible assets

100. AlixPartners submitted that Wonga also had intangible assets which did not meet accounting recognition standards and so were not recorded on the balance sheet.

101. The AlixPartners report identified the following intangible assets and their values:

(a) Marketing and customer acquisition costs: Wonga submitted that marketing and customer acquisition costs allowed Wonga to attract and retain customers and comprised marketing and staff costs, offline and online customer acquisition costs and ongoing affiliate commissions. A UEL of [✂] was assumed by AlixPartners based on customer retention analysis.

TABLE 28 **Value of marketing and acquisition intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

(b) Knowledge of customer creditworthiness: AlixPartners submitted that as Wonga learned more about its customers it was able to make better lending decisions and derive future benefits. The intangible asset associated with knowledge of customer creditworthiness was calculated by capitalising [✂] and was amortised over [✂]. AlixPartners assumed that the UEL of this intangible asset was longer than the intangible asset associated with marketing and customer acquisition costs because the

knowledge obtained by Wonga could still be used after a customer had ceased borrowing from the company.

TABLE 29 **Value of knowledge of customer creditworthiness intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

(c) Staff training and recruitment expenses: AlixPartners submitted that acquiring appropriate staff and improving the quality of the workforce also brings future economic benefits to Wonga. AlixPartners capitalised 100% of these costs with amortisation over [✂], based on staff retention rates.

TABLE 30 **Value of staff recruitment intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

TABLE 31 **Value of staff training intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

(d) Regulatory compliance and business continuity: AlixPartners submitted that by complying with all regulatory requirements Wonga ensured that it could operate into the future. All legal and professional services costs were capitalised by AlixPartners for 2011 and 2012, with the percentage of 2011 costs to total operating costs used to calculate the amount to be capitalised for 2007 to 2010. The 2012 ratio of costs to total operating costs was applied to calculate 2013 and a [✂] useful economic life assumed for amortisation purposes.

TABLE 32 **Value of regulatory compliance and business continuity intangible asset**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Capitalisation	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amortisation for the year	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Net book value	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

(e) Pre-incorporation costs: AlixPartners capitalised the opportunity cost incurred by the two founders of Wonga from earnings lost while researching and developing the business plan. AlixPartners assumed that both founders could have earned a salary of £[✂] each during this period. The total asset remained at £[✂] between 2007 and 2013 and was not amortised.

TABLE 33 **Total value of intangible assets (NBV)**

£'000

	2007	*2008*	*2009*	*2010*	*2011*	*2012*	*2013*
Marketing and customer acquisition costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Knowledge of customer creditworthiness	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Recruitment expenses	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Staff training	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Regulatory compliance and business continuity	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Pre-incorporation costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Total	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: AlixPartners report.

CMA adjustments relating to Wonga's ROCE

102. We considered submissions from Wonga and AlixPartners carefully and adjusted our analysis as set out below.

CMA adjustment 1: Wonga Group figures

103. AlixPartners used Wonga Group figures as a starting point for cost allocations, as opposed to the WDFC UK figures originally submitted. Group figures were subsequently used in cost allocations, as explained in paragraph 94. We accepted that Wonga Group figures were appropriate for the period 2007 to 2010 following a review of the corporate structure. During 2007 to 2009 the group comprised only Wonga.com and SameDayCash, a smaller payday lending operation, and therefore the Group represented total payday lending operations. Expansion appears to have begun in 2010 with the incorporation of Quickbridge Technology Ltd and Wonga Worldwide Ltd. However, these were dormant at the year end.

104. From 2011 onwards, other products and companies were launched and we considered that the group was no longer representative of only UK payday lending. We concluded that Group figures were no longer appropriate and therefore have continued to use the WDFC UK figures originally submitted in the financial template for 2011, 2012 and 2013.

TABLE 34 **Effect on ROCE on using Group figures***

			£'000
	2008	*2009*	*2010*
EBIT – original	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]
EBIT – Group	[✂]	[✂]	[✂]
Average capital employed – Group	[✂]	[✂]	[✂]
ROCE – Group	[✂]	[✂]	[✂]

Source: CMA analysis.

*Group EBIT and capital employed have been calculated from the Quickbridge UK Ltd (Wonga Group Ltd after 2010) financial statements, 2007–2010.

CMA adjustment 2: Service fee adjustment

105. [✂] We reviewed the reallocation bases and accepted the adjusted figures.

TABLE 35 **Effect of service fee adjustment on ROCE**

	[✂] *£'000*
CMA adjustment in Profitability working paper	
EBIT – financial template	[✂]
CMA adjustment for service charge	[✂]
CMA adjusted EBIT	[✂]
Average capital employed	[✂]
ROCE	[✂]
Adjusted for Wonga calculated service fee	
EBIT – financial template	[✂]
Wonga's adjustment for service charge	[✂]
CMA adjusted EBIT	[✂]
Average capital employed	[✂]
ROCE	[✂]

Source: CMA analysis.

CMA adjustment 3a: Fixed assets

106. AlixPartners' calculations included additional fixed assets in 2007 to 2010 above those recorded in the financial statements. These appear to be related to the capitalisation of 'internal development' which we considered to be IT systems. We therefore accepted this adjustment, calculating it as the difference between fixed assets and depreciation included in the Group financial statements.

107. AlixPartners' calculations also included fixed assets for 2011 and 2012 which were not originally recorded in the financial template. This was because WDFC UK did not own any fixed assets as these were held by other subsidiaries. We accepted the inclusion of fixed assets for these years. In its response to our provisional findings, Wonga observed that our analysis did not record any of the fixed assets used by Wonga's UK payday loans and hence led to an understatement of the underlying assets used in the provision of the UK Little Loans product.[69] The figures in Table 36, however, have been adjusted to include fixed assets held outside WDFC UK, and we therefore considered that the asset base calculated correctly took into account all relevant assets relating to payday lending in the UK, and excluded assets associated with overseas operations, Eveline and PayLater.

TABLE 36 **Effect on ROCE of additional fixed assets**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – adjusted for additional fixed assets	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
Average capital employed – adjusted for additional fixed assets	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]
ROCE – adjusted for additional fixed assets	[✄]	[✄]	[✄]	[✄]	[✄]	[✄]

Source: CMA analysis.

CMA adjustment 3b: Start-up losses and pre-incorporation expenses

108. Wonga argued that our analysis should incorporate Wonga's pre-incorporation costs (in the form of estimated salaries forgone by Wonga's founders prior to incorporation).[70,71] We updated our analysis to include these costs, capitalising figures provided by AlixPartners into 2008 capital employed and carrying this value forward in subsequent years of our analysis. We made a further adjustment to increase our estimate of Wonga's asset base by incorporating the start-up losses incurred by Wonga prior to 2009 and carrying this value forward in subsequent years of our analysis (see Table 37).[72]

[69] Wonga's response to the provisional findings report, paragraph 3.9.
[70] ibid, paragraph 3.12(a).
[71] AlixPartners report, paragraph 3.2.14.
[72] Start-up losses incurred by Wonga in 2007 and 2008 totalling £[✄] million and pre-incorporation costs quantified by AlixPartners at £[✄] – estimated using an assumption that the two founders of Wonga could each have earned a salary of £[✄] in the year leading up to Wonga's incorporation (the period of time they spent researching and developing the business plan).

TABLE 37 **Effect on ROCE of start-up losses and pre-incorporation expenses**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – adjusted for additional fixed assets	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for losses and salary forgone	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CMA adjustment 4: Capitalisation of staff training and recruitment costs

109. We also capitalised staff training and recruitment costs using the figures below.

TABLE 38 **Effect of staff costs intangible asset on ROCE**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Costs to capitalise	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted for capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted for capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted capitalised staff costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 39 **Total effect of adjustments – Group figures, adjusted for service fee, additional fixed assets and capitalised staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – total CMA adjustments	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Adjustments to other lenders

110. As described above, we incorporated an adjustment for capitalised staff training and recruitment expenses. To ensure consistency, this adjustment has also been made to all other lenders in our analysis on the following basis.

111. Of total staff costs in the financial template of each lender, total staff training and recruitment costs are assumed to be [✂]%. Our assumption in this regard is based on [✂] assumption and our analysis of costs across lenders' management accounts, which indicated that staff training and recruitment costs ranged from 4.5 to 5% of staff costs across 2009 to 2012.

112. We have then assumed a [✂] useful economic life for amortisation purposes.

113. For firms in operation prior to 2008, the starting point of our analysis, we used cost information provided by relevant parties to incorporate appropriate adjustments to our intangible asset analysis in order to reflect costs incurred prior to 2008.

Major lenders' ROCE

114. The following tables set out the original calculations included in our profitability working paper and our ROCE estimates, which are adjusted as discussed above and which incorporate intangible assets identified. In the case of Ariste, CashEuroNet, CFO, MYJAR and Wonga the effect of incorporating intangible asset adjustments is very slightly to increase ROCE in a very limited number of years of our analysis. For an explanation, see paragraph 60 relating to numerator adjustments. In all cases except one year for one lender[73] the effect of incorporating intangible assets is no more than a 1% increase in adjusted ROCE.

Ariste

TABLE 40 **ROCE before and after capitalisation of staff training and recruitment costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

[73] The effect on one lender in one year is a 3% increase in ROCE.

CashEuroNet

TABLE 41 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CFO Lending

TABLE 42 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Global Analytics

TABLE 43 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

H&T

TABLE 44 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

MYJAR

TABLE 45 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

SRC Transatlantic

TABLE 46 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

The Cash Store

TABLE 47 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

WageDayAdvance

TABLE 48 **ROCE before and after capitalisation of staff training and recruitment costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – original	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Sensitivity analysis

115. In order to perform sensitivity analysis, we considered the effect of capitalising *(a)* customer acquisition costs and *(b)* CRA data costs. We also considered how the incorporation of Wonga's 2014 forecast would affect the weighted average ROCE for the company for the period 2008 to 2014.

Customer acquisition costs sensitivity analysis

116. We have undertaken two scenarios to capitalisation of customer acquisition costs: capitalise 25% of costs, capitalise 100% of costs. Adjustments were calculated using costs from the financial template, specifically commissions to affiliates, lead generators and agents and advertising and promotion costs. Under each scenario, the resulting asset was amortised over [✂] years. Our approach to the asset life incorporated in this analysis is consistent with evidence that customers often remain with a lender for [✂] (see Section 7).

117. All sensitivity analysis was based on EBIT and capital employed after all CMA adjustments, including capitalisation of staff training and recruitment costs above.

118. The Cash Store has not been included in the sensitivity analysis due to incomplete information. We do not consider that the exclusion of this lender has altered the analysis in any material way, given the relatively small size of the lender concerned.

119. Table 49 shows that if we were to incorporate an intangible asset based on 100% of customer acquisition costs, the average ROCE for the major lenders during the period 2009 to 2013 would range from 16 to 47%.

TABLE 49 **Major lenders' ROCE post-capitalisation of 100% customer acquisition costs**

						£'000
	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Number of lenders	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE	45%	44%	47%	35%	16%	32%

Source: CMA analysis.

120. The following tables set out customer acquisition cost sensitivity analysis by individual lender analysed.

Ariste

TABLE 50 **ROCE after capitalising 25% of customer acquisition costs**

					£'000
	2010	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 51 **ROCE after capitalising 100% of customer acquisition costs**

					£'000
	2010	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CashEuroNet

TABLE 52 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 53 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CFO Lending

TABLE 54 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 55 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Dollar

121. Our analysis for Dollar is based on total Money Shop expenses allocated between payday lending and other activities based on revenue.

TABLE 56 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 57 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Global Analytics

TABLE 58 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 59 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

H&T

TABLE 60 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: [✂]

TABLE 61 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Note: [✂]

MYJAR

TABLE 62 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 63 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

SRC Transatlantic

TABLE 64 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 65 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

WageDayAdvance

TABLE 66 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 67 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

Wonga

122. Sensitivity analysis for Wonga was based on adjusted costs included in AlixPartners' analysis.

TABLE 68 **ROCE after capitalising 25% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 25% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

TABLE 69 **ROCE after capitalising 100% of customer acquisition costs**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE – 100% costs	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis.

CRA data sensitivity analysis

123. We also undertook sensitivity analysis on the effect of capitalising the costs incurred by major lenders for credit searches and checks (CRA data costs).

124. The total cost of credit searches and checks were taken from the financial template for each entity. 100% of costs were capitalised and a 30-month UEL assumed.

125. Table 70 shows that if we were to incorporate an intangible asset based on capitalising CRA data costs, the average ROCE for the major lenders during the period 2009 to 2013 would range from 17 to 44%.

TABLE 70 **ROCE sensitivity analysis post capitalising credit referencing costs, major lenders, 2009 to 2013**

£'000

	Pre-2009	*2009*	*2010*	*2011*	*2012*	*2013*	*2009–2013*
Amount capitalised	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
EBIT – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Average capital employed – adjusted	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
ROCE		34%	38%	44%	35%	17%	31%

Source: CMA analysis.

126. Table 71 sets out the levels of ROCE for the major lenders included in our analysis if we were to incorporate adjustments for intangible assets associated with both 100% customer acquisition costs and 100% CRA data costs. Our analysis indicates that if we were to incorporate additional

intangible assets, the resulting levels of profitability would not be sufficiently different to alter our conclusion on ROCE for the period 2009 to 2013.

TABLE 71 **Major lenders' ROCE sensitivity analysis post CMA adjustments and capitalisation of intangible assets associated with staff training, staff recruitment, 100% customer acquisition and credit referencing costs**

£'000

	2009	*2010*	*2011*	*2012*	*2013*	*2009–2013*
EBIT – adjusted	60,164	118,422	208,377	212,801	113,620	713,384
Average capital employed – adjusted	171,407	288,591	442,285	617,749	726,154	2,246,186
ROCE	35%	41%	47%	34%	16%	32%

Source: CMA analysis.

Sensitivity analysis incorporating Wonga's [✂]

127. Table 72 sets out our ROCE sensitivity analysis for Wonga for the period 2009 to [✂] incorporating estimates for the [✂] of the period. See Section 4 for a discussion of this analysis.

TABLE 72 **Sensitivity analysis [✂]**

[✂]

Source: CMA analysis.

Estimating the cost of capital

128. We have calculated a WACC for the major payday lenders using the CAPM. The Guidelines refer to CAPM as a widely understood technique with strong theoretical foundations.

129. Our calculation of the average pre-tax nominal WACC for the period 2008 to 2013 is between 7.9 and 12.7%. This is derived from an average pre-tax cost of equity of between 9.3 and 13.3%, a pre-tax cost of debt from 5.0 to 11.5% and gearing of 32%. Our estimate of the post-tax cost of equity is from 7.0 to 10.0%. The detail of the calculations is set out below.

TABLE 73 **Estimates of WACC parameters**

		%
	Low	*High*
RFR	3.0	4.0
ERP	4.0	5.0
Equity beta (number)	1.0	1.2
Cost of equity (post-tax)	7.0	10.0
Tax	25	25
Cost of equity (pre-tax)	9.3	13.3
Debt premium	2.0	7.5
Cost of debt (pre-tax)	5.0	11.5
Gearing	32	32
WACC	**7.9**	**12.7**

Source: CMA calculations.

130. We expressed our WACC as a range to take account of several factors which meant that our calculations could not be made with complete accuracy:

(a) None of the high street payday lenders had the supply of payday lending as its only activity – non-payday products accounted for between 44 and 96% of company revenue in 2012. The existence of these other activities meant that the corporate entity's cost of capital may be different from that of its payday lending operations.

(b) Data on betas is limited because out of the 11 major lenders, only H&T is listed. The parent companies of Dollar, CashEuroNet, Ariste and The Cash Store are listed, but the share price performance of parent companies is likely to be affected by investors' perception of group profits, including prospects of the significant non-payday and non-UK operations of these parent companies.

(c) The cost of debt for a company is largely determined by its credit rating. A company with a higher credit rating can borrow more cheaply than one with a lower rating. Credit ratings were only available for DFC and The Cash Store.

(d) Debt capital raised and provided by overseas parent companies to UK payday lending operations may have been made available on more favourable terms or additional interest could have been added to cover costs. These terms could have changed over the period under review. Parties told us that raising debt capital for payday lenders was difficult and

we note that DFC postponed its proposed $650 million bond issue in November 2013.[74]

131. The WACC is calculated using weights and costs of equity and debt in an appropriate capital structure. We calculated an estimate of pre-tax WACC on a nominal basis as this is the appropriate figure for comparison with historical ROCE. Historical ROCE is based on the accounting data of the major lenders, which has not been adjusted for the effects of inflation.

132. The pre-tax WACC is calculated from the following formula:

$$WACC = ((1 - g) \times Ke \times (1/(1 - t)) + (g \times Kd)$$

Where:

g is the gearing level (debt divided by the sum of debt and equity)

Ke is the cost of equity

Kd is the pre-tax cost of debt

t is the tax rate (weighted average for the major lenders)

Each of the elements of WACC is discussed below.

Gearing and capital structure

133. Our analysis of information submitted by the major lenders indicates that for the period 2008 to 2012 the weighted average gearing of the major lenders was 32%. We refer to gearing as the percentage (debt / debt + equity) based on the book values of debt and equity submitted by the parties. We have not attempted to incorporate market values of debt or equity for the major lenders due to the difficulties of obtaining data relevant to analysis in this area.

134. Our analysis indicated that gearing for the selected consumer lending comparables included in Table 74 (where full data is available for the period 2008 to 2013) averaged 37% based on historic book debt and historic market capitalisation figures from Bloomberg. The gearing of these companies was 34%, based on the book value of debt and market value of equity as at 30 May 2014.

[74] Bloomberg.

The cost of equity

135. We estimated the cost of equity following the Guidelines which state that we generally look to the CAPM when considering the cost of capital, but have regard to alternative models where appropriate.[75] There are limitations to the availability of data for this analysis, and the nature of the payday lending industry suggests that a wide range of estimates is appropriate.

136. The CAPM postulates that the opportunity cost of equity (Ke) is equal to the risk-free rate (RFR) plus the equity risk premium (ERP) multiplied by beta, where beta measures the extent to which the price of a particular share fluctuates with the market (referred to as systematic risk or non-diversifiable risk, that is, the sensitivity of returns to market returns).

ERP and RFR estimate

137. The ERP, calculated as the market return (Rm) less RFR, is the additional return that investors require to compensate them for the risk associated with investing in equities, rather than in risk-free assets.

138. The ERP is not directly observable from market data because the future payout from equities, unlike that on bonds held to maturity (other than in respect of default risk), is uncertain. In the past, the CC and sector regulators have used two methods to estimate the ERP: historical data showing the difference between the realised return on equities over the RFR; and forward-looking data relating to investors' current expectations of the ERP.

139. The arithmetic average of historical market returns over the last 112 years suggests a real market return (Rm) of around 7%; Fama and French's evidence[76] suggests a long-run real market return of 5.5%,[77] with a short-run return (since 1950) of 4.5%, although with less extensive statistical data. Forward-looking approaches suggest a market return of 5.5 to 6.5%. Based on this evidence, it would seem reasonable to use a range for the real market return of between 5 and 7%.

140. Using a range for real Rm of between 5 and 7% results in a range for the ERP of 4 to 5%, based on the low-end Rm of 5% minus the low end of the range of real RFR of approximately 1% and the high end of the estimate of Rm of 7% less the high end of the real RFR of approximately 2%.

[75] The Guidelines, Annex A, paragraph 16.
[76] E F Fama and K R French, 'The Equity premium', *Journal of Finance*, April 2002.
[77] This result is derived from an average dividend yield of 4.5% and dividend growth of 1% a year (Barclay's Equity Gilt Study data).

141. We estimate the nominal RFR for use in our WACC calculation referencing UK gilt yields (as they have negligible default risk) and forecast CPI as a measure of expected inflation over the period. In previous investigations we have taken the view that long-dated index-linked gilt yields are in principle the most suitable basis for estimating the RFR as they match the long (indefinite) maturity nature of equities. We have, however, tended to use medium-term gilt yields rather than long-term yields, as long-dated index-linked gilts have been affected by distortions (associated with, for example, pension fund dynamics). Assuming that the market return is likely to be more stable than the ERP and taking Rm of 5 to 7% indicates an RFR of 3 to 4%.

Beta estimate

142. The beta of a share measures the exposure of the company to systematic risk. It is only this form of 'non-diversifiable' risk for which investors require compensation. Non-systematic risk ('company-specific risk') can be diversified by investors. Hence it is only systematic risk that is relevant to the cost of equity of a company.

143. Data on betas was limited because, out of the 11 major lenders, only H&T is listed. Additionally, as noted above, none of the high street listed lenders have the supply of payday lending as its sole operation. This means that the beta for the UK payday lending business may differ from the company beta. We have therefore sought to use beta values for a variety of consumer lending businesses, shown in Table 74.

144. The observed beta range from Bloomberg for the period 1 January 2008 to 31 December 2013, taking account of daily, weekly and quarterly data, and examining both raw and adjusted betas, indicates a range for the median estimate of 1.0 to 1.1.[78]

145. There were a variety of financial year ends included in our financial analysis. We have therefore also examined beta values for the period January 2008 to December 2012 (as the majority of lenders use a December year-end) and July 2008 to June 2013 (Dollar uses a June year-end). Bloomberg data indicated that average beta values for daily, weekly and quarterly time periods

[78] Our analysis of Beta data weighted by market capitalisation indicated that results were significantly affected by the disproportionately large market values of two companies included in Table 74 (Capital One and Amex). The market capitalisation weighted beta for the period 2008 to 2013 ranged from 0.7 to 0.8 (excluding Capital One and Amex) and 1.4 to 1.7 (including Capital One and Amex). We did not adjust our WACC estimate to incorporate market-weighted beta data because we judged that whilst Capital One and Amex were useful comparators in general terms, these companies did not operate in the payday lending market, and a beta estimate that was not significantly affected by the heterogeneous nature of these companies was more suitable for our purposes.

and for both raw and adjusted beta over these time periods ranged from 0.8 to 1.2.

146. In its own calculations of WACC, Dollar used a beta of [✄] (re-levered using a [✄]% tax charge) for its UK operations (high street and online) for the financial year to June 2013, and [✄] and [✄] for 2012 and 2011 respectively, which falls [✄] the range of observed betas above. [✄] used a beta of [✄] based on a peer[79] average of [✄]. We note that Advance America is no longer listed, having been acquired by Grupo Elektra. H&T submitted a WACC calculation as at 7 October 2013 based on a comparable levered beta of [✄].

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[79] [✄]

TABLE 74 **Comparable consumer lending metrics, 31 December 2013**

Name	*Weekly beta adj*	*Daily beta adj*	*Quarterly beta adj*	*Weekly beta raw*	*Daily beta raw*	*Quarterly beta raw*	*Beta relative index*	*Gearing 2008–2013 (%)*	*Debt (local) current*	*Market cap (local) current*	*Free float*	*Market cap average 2008–2013 (£)*
Cash America Intl Inc	1.1	1.0	1.0	1.2	1.0	1.1	SPX Index	33	739,989,000	1,336,001,293	98	685,864,603
DFC Global Corp	1.4	1.1	1.1	1.5	1.2	1.1	SPX Index	58	1,042,000,000	357,763,471	97	362,094,954
Ezcorp Inc	1.1	1.1	0.8	1.1	1.1	0.6	SPX Index		247,299,000	678,145,325	93	618,451,372
H&T Group Plc	0.4	0.4	0.6	0.1	0.1	0.4	UKX Index	27	28,605,000	60,377,541	89	93,072,374
Cash Store Financial, The	0.7	0.5	0.5	0.5	0.3	0.3	SPTSX Index		128,367,000	n/a	72	79,788,471
Cash Converters Intl Ltd	0.7	0.7	1.3	0.6	0.6	1.5	AS51 Index	12	70,928,052	452,557,327	63	136,451,053
First Cash Finl Svcs Inc	0.9	0.9	0.6	0.8	0.9	0.4	SPX Index		190,352,000	1,528,141,187	93	678,055,794
Provident Financial Plc	0.7	0.7	0.5	0.6	0.5	0.2	UKX Index	41	1,284,600,000	2,945,407,206	99	1,500,439,657
Regional Management Corp	1.0	0.9	1.2	1.0	0.8	1.2	SPX Index		362,750,000	181,127,967	88	67,492,020
World Acceptance Corp	1.2	1.3	1.0	1.2	1.4	1.0	SPX Index	25	400,250,000	809,477,000	72	448,480,512
Capital One Financial Corp	1.6	1.6	1.6	2.0	1.8	1.8	SPX Index	59	39,739,000,000	45,257,651,280	99	15,343,429,650
American Express Co	1.4	1.4	1.5	1.5	1.5	1.8	SPX Index	53	60,351,000,000	96,862,377,447	100	35,333,734,350
Advance America Cash Advance Centers Inc	1.5	1.4	2.1	1.8	1.6	2.6	SPX Index		n/a			142,976,020
High	1.6	1.6	2.1	2.0	1.8	2.6						
Low	0.4	0.4	0.5	0.1	0.1	0.2						
Median	1.1	1.0	1.0	1.1	1.0	1.1		37				
S&U Plc	0.4	0.7	0.7	0.2	0.4	0.7	UKX Index		20,574,000	223,569,068	25	
QC Holdings Inc	0.9	0.3	0.9	0.8	0.7	0.9	SPX Index		24,082,000	39,575,518	25	
MCB Finance Group Plc	0.3	0.4	0.5	0.0	0.3	0.5	UKX Index		28,915,284	11,410,055	40	
Albemarle & Bond Holdings	0.4	n/a	0.6	0.1	0.4	0.6	UKX Index		43,501,000	n/a	57	

Source: Bloomberg and CMA analysis.

147. Within a CAPM framework, changes in gearing affect equity betas.[80] All other things being equal, a higher level of gearing will increase risk to both debt and equity holders, causing them to demand a higher return in exchange for making capital available. Hence, it may be necessary to adjust for gearing differences in order to make comparisons between equity betas, for example by calculating the asset beta (the beta at zero gearing). As discussed in paragraph 134, our review of Bloomberg data indicates that gearing levels for the major lenders and the consumer lending comparables have not diverged significantly over the period. Our assessment of the appropriate beta is therefore based on the equity betas for the comparable companies in Table 74.

Cost of debt

148. The cost of debt can be calculated as the sum of the RFR and the debt premium; however, when assessing historical costs on a nominal basis it can also be observed using actual debt costs. Our review of information submitted by parties indicates a range of debt costs of zero to 13.6%[81] between 2011 and 2012/13. If we exclude interest-free intercompany loans at the bottom of the range and the top-end estimate (which includes capital leases and other obligations as well as senior secured debt) from our analysis, this indicates a range of around 2 to 12% for the cost of debt submitted by parties.

149. In assessing the cost of external debt, we looked at credit ratings and recent corporate bond issues. Credit ratings were only available for DFC, rated B– by S&P and The Cash Store, rated D by S&P.[82] Coupon rates for recent debt issues by parent companies included a 3.25% DFC convertible bond; a 5.75% unsecured Cash America bond; and a private placing by The Cash Store in January 2012 at 11.5%. Excluding data on the convertible bond,[83] we consider that a range of 5 to 11.5% is a suitable reflection of the likely cost of debt for the period under review.

Tax

150. Our analysis of data submitted by parties indicates a weighted average tax rate of 25% for the major lenders for the period 2008 to 2012.

[80] The theory behind adjusting betas for gearing differences is that a company’s exposure to systematic risk increases for a given increase in fixed costs (eg interest payments on debt). As a result, the beta of a company increases as debt costs increase. This also applies to operating lease payments as they increase fixed costs, although they are not shown on the balance sheet.
[81] [✄]
[82] Bloomberg.
[83] Coupon rates on convertible bonds may be lower given the expectation of equity issuance at maturity.

Parties' views on the cost of equity and cost of capital

151. We sought views from the parties on the cost of equity and the cost of capital. There was little similarity in the opinions of the major lenders on the cost of equity and several parties told us that estimates were not routinely made in this area.

152. Of those major lenders which provided figures for the cost of equity, estimates ranged from 12.7[84] to over 40%,[85] with some concentration around 18 to 19%.[86] Of the major lenders which provided figures for WACC, estimates ranged from 9.85% pre-tax to 18% post-tax. For detailed views of parties, see below.

153. Wonga told us that it did not routinely estimate its cost of equity or capital as part of any evaluation process. Wonga noted that:

> the cost of capital is an ex ante concept of the required return of equity and debt investors whereas the profitability results the CC will 'presumably' calculate are likely to be based on outturn data or, in other words, be an ex post measure and that a comparison of outcome returns with the cost of capital is particularly inappropriate for start-up companies or immature industries where outcome returns could differ from the cost of capital for a variety of reasons. For example, it could reflect superior innovation, efficiency or quality. The CC itself has recognised the fact that difference between profitability and the cost of capital do not necessarily reflect market power.

154. Dollar provided internal analysis calculating the cost of equity for 2013 as [✂]% post-tax and [✂]% post-tax for online and high street lending respectively and the cost of capital for 2013 as [✂]% post-tax and [✂]% post-tax for online and high street lending respectively.

155. CashEuroNet assessed its cost of equity for [✂] at [✂] and WACC [✂].

156. Global Analytics said that, based on a shareholder base that favoured venture capital firms, its cost of equity could be between [✂] and [✂]% given return expectations over a five-year time horizon on a nominal pre-tax basis and estimated its cost of debt at [✂]%. The company told us that it was likely that the cost of equity had gone down over the past six years and suggested that a Series A/B investor might be looking for a [✂]x return on investment, while a

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84 [✂]
85 [✂]
86 [✂]

Series C/B investor might be seeing a [✄]x return. Global Analytics also said that its cost of debt capital had [✄].

157. MYJAR said that, based on conversations with potential investors in the sector, it believed the cost of capital to be [✄] (pre-tax) and that private equity investors sought returns of [✄].

158. The Cash Store told us that [✄] had determined a cost of [✄]. The company considered this to be a reasonable proxy for its UK operations [✄].

159. H&T calculated its cost of debt at [✄]% post-tax and cost of equity at [✄]% post-tax (7 October 2013) and said that it did not believe that these costs had changed substantially over the last six years. It suggested that it might be appropriate to include a small company premium of around 1 to 2% to the cost of equity for payday loan companies. It said that it was likely that new equity investment in the payday loans market would bear a substantial cost, certainly [✄]% net a year.

160. Some of the parties provided coupon rates for loans from banks and parent companies, including [✄] which told us that it had a £50 million facility at a margin of between 1.25 and 2.25% over LIBOR, and [✄].

161. We requested target rates of return from five VC companies which had provided start-up capital to [✄]. We received two replies, both of which indicated that target returns were [✄] initial invested capital under a successful scenario.

162. [✄]

163. Accel Partners invested £5.6 million in Wonga in June 2009, at which point Wonga had 2009 planned revenues of £11 million, and a small positive cash flow. Accel told us that in making investments in fledgling technology companies it targeted a return of at least [✄]x invested capital and historically had to wait an average of [✄]before it saw any return from an investment. Accel provided additional capital of £14 million to Wonga and told us that it 'maintained a return expectation of [✄]x aggregate invested capital in a scenario where the company executes well, but with potential for significant upside beyond that in a successful scenario, and still being hopeful for the targeted [✄]x'.

Consideration of other benchmarks

164. In the light of parties' views expressed regarding the appropriate approach to determining the cost of capital for payday lending, we also considered potential benchmarks associated with VC financing. Section 4 sets out our

consideration of the returns achieved by Wonga (as the largest lender funded by VC) and the benchmarks used by VC investors. Additional benchmark analysis considered as part of our investigation is set out below.

165. In our profitability of payday lending working paper we referenced an IRR of 15% from the BVCA[87] Private Equity and Venture Capital Performance Measurement Survey 2012 as a benchmark for returns achieved by VC funds.[88] BVCA's figure of 15% represents its long-term view of achieved returns based on both the ten-year IRR and the since-inception IRR.

166. Wonga told us that it 'agrees that returns achieved by the VC sector in particular provides a potential benchmark, but considers that the evidence on returns achieved by VC investors is more nuanced than the working paper suggests'.[89] Wonga referred to achieved returns of 41% as the annual IRR of the top-performing 10th percentile of post-1996 vintage funds.[90,91] We note that the equivalent figure for VC funds, as a subset within the 41% return achieved, is 9% (see Table 75), and that the driver of the 41% return for the top-performing funds in the overall sample was the high level of returns from the top-performing management buyout (MBO) funds.[92] We consider VC funds as the more appropriate reference point for Wonga, as this was the basis on which it had been funded, and we therefore concluded that 15% (see paragraph 167) was a more relevant benchmark.[93] Given the lower levels of returns from VC funds over this period, this benchmark could be seen as conservative.

TABLE 75 **Ten-year IRR by investment stage and subcategory, 1996 vintage funds onwards**

% a year

	Total	*Venture*	*Small MBO*	*Mid MBO*	*Large MBO*
Number of funds in total	152	55	14	64	19
Pooled average	13.8	–4.7	14.1	25.1	29.6
10th percentile	41.2	9.0	60.0	56.4	41.6

Source: BBCA Private Equity and Venture Capital Performance Measurement Survey 2012.

[87] The BVCA – The British Private Equity and Venture Capital Association – is the industry body for the UK private equity and venture capital industry. The BVCA had membership of over 500 and stated that it represented the overwhelming majority of UK-based private equity and VC providers and advisers as well as fund investors.
[88] BVCA report, p2.
[89] Wonga response to the profitability of payday lending companies working paper, paragraph 4.1.15.
[90] ibid, paragraph 4.1.15(a).
[91] BVCA report, p42.
[92] MBO funds returned 42–60%. Source: BVCA Performance Measurement Survey 2012, p42.
[93] In its response to our provisional findings (see paragraph 3.17), Wonga stated that data on the historic performance of VC funds failed to capture the reasonable expectations of early-stage investors in a new (and unproven) business model. We considered Wonga's view, however, we noted that MBO finance relates to private equity investment in mature and established companies (see Gordon Murray and David Lingelbach, University of Exeter Business School, *Twelve meditations on venture capital*, September 2009, p10). We therefore did not consider that the IRRs for MBO funds were relevant in the consideration of financing of new, young, early-stage companies with potentially high growth prospects such as Wonga in 2006.

167. We also considered whether there was evidence indicating the relevant time period to which different benchmarks might be applicable:

(a) Our analysis of the price paid by VC investors in Wonga over time indicates a significant shift in the perceived risk/reward ratio in 2010. [✂]. Our analysis indicated that either investors' perception of risk reduced and/or their expectations of likely levels of future profitability increased. To perform this analysis we examined the funding transactions of 12 VCs in Wonga during the period 2006 to 2010. The 2010 price paid is equivalent to [✂] times 2010 enterprise value to earnings before interest tax and depreciation (EV/EBITDA), which is [✂] – for example, the valuation report prepared by [✂] for Dollar's acquisition of Payday UK used a range of [✂] times 2010 EV/EBITDA for [✂] deals.

(b) Evidence from Wonga on its acceptance rate[94] for new customers also indicates that 2010 may mark a shift in the risk profile of the company. We viewed the doubling of the acceptance rate in 2010 and the limited change thereafter as indicative of Wonga's increased confidence in its lending model.

TABLE 76 **Wonga acceptance rate for new customer applications, 2008 to 2013**

						%
	2008	*2009*	*2010*	*2011*	*2012*	*2013*
Acceptance rate	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: Wonga.

(c) We noted that whilst Wonga's website 'slider' was innovative when introduced, it was subsequently widely copied across the industry and therefore cannot be regarded as a continuing innovation that might justify a higher benchmark.[95]

168. The [✂] value paid by VCs in 2010 and the considerable step up in acceptance rates indicated that it may be appropriate to view 2010 as an inflexion point in the risk profile of Wonga as a business.

[94] Acceptance rate for new customers based on the total number of applications by new customers processed by Wonga's risk engine.
[95] The CC considered the issue of innovation in its market investigation of Classified Directory Advertising Services (see final report, paragraph 7.99) and concluded that 'superior efficiency and innovation usually arise when a firm introduces, or invests in, a product or operating method that cannot be easily replicated by its competitors. If they were easily replicated, then the benefits of these products and methods would be competed out promptly'.

169. Our consideration of the case for a reduction in the appropriate benchmark level over time is supported by AlixPartners' view that the:

> success of Wonga's business model as well as those of other leading payday lending companies has reduced the risks facing new entrants by demonstrating the model's viability. Moreover, the proven feasibility of the model lowers the cost of finance for other market entrants, since investors would be expected to have lower hurdle rates due to a lower perceived risk.[96]

170. We considered that the appropriate benchmark through the period for companies funded by public equity and debt, was a WACC of 7.9 to 12.7%. Of the largest three lenders, we considered that both Dollar and CashEuroNet fell into this category. Dollar acquired three established companies: The Money Shop (established in 1998), Payday Express[97] (1999) and Payday UK[98] (2003). CashEuroNet set up its UK operation using know-how from CashNetUSA, which had been trading in the USA since June 2004 [✂] when CashEuroNetUK commenced operations in July 2007.[99] In our view, there was no evidence to suggest that anything other than the WACC would be the relevant benchmark in these circumstances and we noted that both Dollar and Cash America had internally-generated WACC estimates.

171. For a discussion of IRR targets relative to achieved levels of ROCE for Wonga see Section 4.

[96] AlixPartners report, paragraph 3.1.15.
[97] Express Finance was purchased by Dollar in April 2009.
[98] MEM was purchased by Dollar in April 2011.
[99] CashEuroNetUK, LLC response to the profitability of payday lending companies working paper, paragraph 3.8.

Process of data collection

1. This annex summarises the process we have followed to obtain financial information from the major payday lenders for use in our profitability analysis.

Stage 1: Design and issue of the financial questionnaire

2. We prepared a financial questionnaire and a financial template to gather financial information from 11 major payday lenders.

3. The Excel template contained one sheet comprising integrated summary financial statements – profit and loss, balance sheet and a simplified cash flow statement, and further detailed notes relating to various line items in the financial statements. The template requested financial information for five historical years and three forecast years.

4. The financial questionnaire included 54 questions on a variety of topics. These included company background, ownership structure, accounting principles, lending and collection processes, communication with customers, write-off and provision policies, cost allocation, cost of capital and growth predictions. Payday loans were defined to direct parties to the information required, and we specified that only UK operations were to be included.

5. The questionnaire and Excel template were issued as a draft on 5 September 2013 and we allowed parties four days to review and provide comments on the structure and content.

6. We updated the questionnaire and template to reflect parties' comments and incorporate other modifications that we felt appropriate, and issued a final version to the parties on 16 September 2013.

7. We allowed parties four weeks to respond and make submissions. During the response period we notified parties of minor modifications to the template.

Stage 2: Review and clarification

8. Between October and November 2013 we reviewed the submissions to our questionnaire and template. Where possible, we verified the information provided in the template for the last two financial years to management accounts provided by the entity, or publicly available financial statements from Companies House. We also reviewed the submitted information for any

unusual relationships or movements to seek to identify if any input errors had been made.

9. As the financial template was being verified, we also noted the set of accounting standards used by each company, important accounting policies and any information on intercompany transactions, funding and intangible assets. The accounting policies considered important for our analysis were revenue recognition, provision for doubtful debts, bad debt write-offs and capitalisation of intangible assets.

10. Each individual template was copied into one spreadsheet, the aggregation file. This made comparisons between companies easier and allowed for the calculation of totals and percentages. It also allowed for the standardising of the latest financial year. Each company has a different financial year end, from February to December, although the majority are December. To ensure that information was comparable and no distortion would arise through timing differences, any year-end dates falling between July 2012 and June 2013 were treated as '2012' for the purposes of our analysis.

11. On 28 November 2013 we issued further questions (supplementary questions) to parties. These primarily related to:

    (a) information provided in the financial template which could not be verified from the management accounts or financial statements. We requested a reconciliation, explanation or updated information in order to complete the verification process;

    (b) explanations for unusual movements between accounts, such as those between the doubtful debt expense and gross loan book;

    (c) requests for the provision for doubtful debts calculation, in order to understand the method used to calculate the provision, including the percentages applied;

    (d) information regarding accounting policies where this was not clear from the financial questionnaire or financial statements; and

    (e) questions confirming where amounts disclosed in the financial template relating to the loan book and doubtful debts provision included principal and/or accrued interest.

12. Several companies were also asked to resubmit the template due to incomplete information or the exclusion of divisions required for our analysis.

13. The majority of replies to supplementary questions were returned the first week of December. Where additional financial information had been received, this was used to verify figures in the financial template. Any new or updated financial templates were verified again using the process outlined above and added to the aggregation template with a comment on the change. Further information on accounting policies, or explanations for unusual movements, were noted with the original information.

14. Doubtful debt provision calculations were reviewed to understand how they worked and whether accrued interest was included. We also agreed the loan book, total provision calculated and any provision expense to the financial template. The conclusions from this review are included in our analysis on the provision for doubtful debts.

15. Following a review of the supplementary questions, further questions were issued to several companies. The majority of these were questions which had not been answered in the original financial questionnaire, template or supplementary questions. Explanations were also requested where new information had been provided which did not agree with the financial template. These questions were issued ad hoc as they arose but were primarily sent mid-December and received back in early January.

Step 3: 2013 financial template

16. As the majority of lenders have a 31 December year end, an updated financial template was sent to all lenders in March 2014 requesting 2013 information. Relevant information for lenders with financial years ending up to June 2014 was subsequently requested and incorporated into 2013 analysis. The 2013 template was based on that sent for prior periods with some additional questions and other sections removed. We also included the submitted 2012 information which was prepopulated to aid completion.

17. The majority of templates were received back from lenders mid-April 2014. From here, a new aggregation file was created for 2012 and 2013 data. The 2012 data received in the 2013 template was agreed back to the original financial template in order to identify differences. The majority of differences were known adjustments made by the parties and explained to the CMA; any other differences were followed up.

Cost and accounting issues considered for profitability analysis of the major lenders

1. This annex identifies the key accounting issues considered in performing our profitability analysis. Our detailed review focused on financial information for 2011 and 2012.

2. Where significant differences between lenders were identified, and an adjustment considered necessary, this has been discussed in paragraphs 62 to 122.

Naming conventions

3. Throughout this annex a combination of company and trading names are used, particularly where two brands operate under one company. To clarify:

   - 'Wonga' refers to the UK operation (WDCF UK) unless stated.
   - The Cheque Centres Group Limited refers to both Cheque Centre (high street) and Cheque Centre (online). These have also been split out where necessary.
   - Global Analytics, the parent of Lending Stream and Zebit, is only referred to as Global Analytics.
   - SRC Transatlantic is split between SRC and WageDayAdvance and is not referred to as one company.

4. Our detailed review of financial information covered the 2011 and 2012 financial years. For Dollar Financial companies, '2012' refers to the financial year ended 30 June 2013 and '2011' to 30 June 2012.

Cost issues

Doubtful debt expenses

5. The doubtful debt expense is an item in the profit and loss statement for the relevant financial year. For details on how this is expense is calculated, see Annex D.

Calculating the doubtful debt expense

6. In simple terms the expense is calculated by assessing the level of outstanding debt (loan principal and interest due) by repayment status and applying an assumption about the percentage of debt that will not be recovered. Typically the percentage of debt treated as doubtful increases as the loan becomes more overdue, as shown in the illustrative example in Table 1.

TABLE 1 **Illustrative example of method and assumptions used in the doubtful debt expense calculation**

Status of loans outstanding	*Percentage of loan outstanding included in provision %*
Current	15
Overdue by:	
1–15 days	60
16–30 days	70
31–60 days	80
60+ days	100

Source: CMA illustrative example.

Anticipated versus actual default

7. The doubtful debt expense is therefore a cost item which *anticipates* default, and is dependent on assumptions about the future collection pattern of loan principal made to customers and interest charges due to be paid. The doubtful debt expense differs from *actual* default experienced by lenders and is an indication of the level of *anticipated* risk at a specific point in time rather than a measure of the *actual* default cost experienced by a lender as loans pass through the collection cycle.

8. We have looked in detail at the assumptions underlying the calculation of the doubtful debt expense to gauge the extent to which this cost is comparable between the major lenders.

9. To aid our comparison of the policies used by lenders to calculate this expense, we constructed a hypothetical loan book based on the combined loan books of the 11 major lenders at the end of the last reported financial year.[1] This was not a precise exercise as we could only model the range of impairment policies in broad terms given limited data on the ageing mix of loans past due. However, we considered that this analysis provided a useful illustration of the extent to which costs varied due to the use of different

[1] The loan book at year end represents loans outstanding at year end including principal and interest and differs from new lending made during the year which is for the year as a whole and is principal only.

methods, as distinct from differences which arose due to the use of different assumptions, within a similar method.

10. The reason for examining methods and assumptions separately was that we might wish to make adjustments in our cost analysis for significantly different methods between lenders in order to increase the comparability of data. However, we were less inclined to adjust for differences in the assumptions used in cost calculations because assumptions are generally based on the actual historic collections experience of lenders (albeit that several of the major lenders do not have a long trading history on which to judge historic trends).

11. The requirement for judgement in calculating the doubtful debt expense can be illustrated with the example of the provision for doubtful debt at Express Finance (included in Dollar online), which rose in the year to June 2013, [✂]. Dollar told us that:

> Changes in [✂], following the adoption of the Code of Practice and OFT requirements, impacted both debt recovery during fiscal 2013 and our estimation of the future recovery of debt outstanding at the end of the fiscal year. In addition, increased competition in the market place [✂].

12. Our review of provisions policies indicated that in general terms the majority of lenders followed similar methodologies with the exception of:

    (a) [✂], which took a single percentage of lending and interest due;

    (b) [✂], which did not include a provision for current debt; and

    (c) [✂], which provided for loan principal only on instalment revenue,[2] which meant that, all else being equal, the doubtful debt expense was understated relative to the rest of the sample.

13. The lenders listed above did not account for a significant portion of the cost base under review and we therefore did not make adjustments to any cost analysis which was based on the doubtful debt expense.

Doubtful debt expense in context

14. Putting the doubtful debt expense into context, however, was not straight-forward. It is common for management and industry analysts to evaluate this

[2] [✂]

expense in relation to revenue, and the resulting percentages can appear high at around 40% for established lenders.[3]

15. The doubtful debt expense is a cost which is subtracted from revenue in calculating accounting profits; however, this cost is based on loan principal and interest. Revenue is not based on principal repayment, therefore comparing a cost which includes loan principal against revenue, which does not, may be a useful management tool for monitoring business performance, but does not provide a full picture on the level of risk experienced by lenders.

Principal loss rate

16. We considered the principal loss rate to be a better indicator of default risk. The principal loss rate is a cash on cash measure calculated as:

    = 1 – (loan principal collected / loan principal issued) for a given financial year

17. The principal loss rate had the advantage that it measured the actual cash loss to the business rather than an element of expected revenue forgone. It compared principal with principal and was not referenced to revenue levels which varied depending on the interest level charged by lenders.

18. The level of principal loan loss calculated for Wonga using this method was consistent with [✂].

19. Our analysis indicated that default costs, as measured by the principal loan loss rate, fell in 2012 on the prior year for most of the major lenders.

TABLE 2 **Principal loss rates for major lenders, 2011 and 2012**

		%
	2011	*2012*
Ariste	[✂]	[✂]
CashEuroNet	[✂]	[✂]
Cheque Centres high street	[✂]	[✂]
Cheque Centres online	[✂]	[✂]
Dollar – EFL	[✂]	[✂]
Dollar – MEM	[✂]	[✂]
Dollar high street	[✂]	[✂]
Dollar online (combined)	[✂]	[✂]
Global Analytics	[✂]	[✂]
H&T	[✂]	[✂]
MYJAR	[✂]	[✂]
SRC	[✂]	[✂]
The Cash Store	[✂]	[✂]
WageDayAdvance	[✂]	[✂]
Wonga	[✂]	[✂]

Source: CMA analysis.

[3] [✂]

20. We recognised that this analysis had some limitations in that it may over-estimate the cost of default for loans which are rolled over and where default charges and/or rollover fees may compensate the lender for loss of loan principal.

21. Wonga submitted that our approach to calculating the principal loss rate could be distorted by the timing of cash flows on loans if payments were received from late customer payments, repayment schedules and debt collection agencies, or if the principal lent was changing year on year.[4] We noted that our calculation for Wonga's principal loss rate at [✂]% for 2012 was close to Wonga's figure of [✂]%[5] and that no other lenders had raised concerns about our methodology. We took the view that our approach was consistent with the cash flow to the business during a financial year and that it enabled consistent calculations to be made for all lenders in our analysis.

Accounting standards

22. We also reviewed the accounting standards in use by the major lenders. Accounting standards are based on where the company is physically registered and whether it is listed on a stock exchange. Of the 11 companies included in the profitability analysis, three different sets of accounting standards were used:

  (a) UK Generally Accepted Accounting Practice (UK GAAP): UK GAAP applied to UK-registered companies only. Although very similar to US GAAP and IFRS, these rules were designed for smaller companies and therefore have less disclosure and reporting requirements.

  (b) International Financial Reporting Standards (IFRS): any company listed on the London Stock Exchange or Alternative Investment Market (AIM) must comply with IFRS. These are accounting rules set by an inter-national body and used around the world to prepare financial statements. They are designed for larger businesses, therefore non-listed UK companies can choose to apply UK GAAP or IFRS.

  (c) United States Generally Accepted Accounting Practice (US GAAP): this set of accounting rules only applies to companies registered within the USA. Listed companies must also comply with the Sarbanes-Oxley Act (SOX) and Security and Exchange Commission (SEC) rules.

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[4] Wonga response to the profitability of payday lending companies working paper, paragraph 2.4.9.
[5] ibid, paragraph 2.4.3.

23. The above sets of accounting rules were very similar and all had the same major requirements, such as the use of accrual accounting and similar revenue recognition policies. Differences did remain, however, including how items were capitalised, the disclosures required and how calculations, such as the doubtful debts provision, were made.

TABLE 3 **Accounting standards by company**

Company	*UK GAAP*	*IFRS*	*US GAAP*
Ariste	✓		
CashEuroNet			✓
CFO Lending	✓		
Cheque Centres Group Limited	✓		
Dollar	✓		
Global Analytics			✓
H&T		✓	
MYJAR	✓		
SRC	✓		
The Cash Store			✓
WageDayAdvance	✓		
Wonga		✓	

Source: CMA analysis of data provided by parties.

Accruals versus cash accounting

24. The accruals basis is an accounting method whereby income and expense items are recognised and entered into the books as they are earned or incurred, even though they may not have been received or actually paid in cash. The accruals basis aims to match income with expenses.

25. The other main accounting method, the cash basis, only recognises transactions when cash is received from customers or paid to suppliers. The primary difference between these methods is timing – both record the same transaction for the same amount, but they may be recorded in different accounting periods.

26. Under the accruals basis, interest revenue from a loan is generally recognised over the life of the loan, rather than at the beginning or end of the lending period. In practice, this means that interest revenue can be spread across multiple accounting periods. For example, where an accounting period is one 30-day month and the loan period is 45 days, interest revenue for the first 30 days will be recorded in the first month, and interest revenue for the remaining 15 days recorded in the second month.

27. Under the cash basis, interest revenue would only be recorded when cash was received. If interest and principal were to be repaid together at the end of the lending period, no interest revenue would be recognised until this point. Using the example above, the total interest income on a 45-day loan would

only be recorded in month 2, when cash is received. It would not be recorded across both months.

Recognising interest revenue

28. There are two accrual accounting revenue recognition methods used by the payday lending companies reviewed in this investigation:

(a) Accrued Interest method. Interest income is recognised as revenue as it is earned over the life of the loan. The corresponding amount is added to the customer's outstanding balance, increasing the total loan receivable asset.

(b) Deferred Income method. Under this method, the expected interest receivable on a loan is recognised/recorded at the same time as the principal, before it has been earned. The corresponding amount can be recorded as a liability, taken directly to revenue, or recorded as a reduction of the asset:

- Deferred income liability: the corresponding amount to the interest receivable asset is recorded as a liability on the balance sheet, creating a nil effect. As interest is earned over the life of the loan, the revenue is recognised in the profit and loss statement (P&L) and the liability decreased until all revenue is recognised and the liability is nil.
- Revenue: the interest receivable is recorded as revenue in the P&L although it has yet to be earned. At the end of the accounting period an adjustment is made to the balance sheet and P&L for any unearned revenue. This is very similar to the above method except the adjustment is only made at period end, rather than when interest is incurred.

29. For an illustrative example of how interest revenue would be recorded under each method, and how this would affect the balance sheet and P&L, see Annex C.

TABLE 4 **Interest revenue recognition methods by company**

Company	*Accrue interest*	*Defer income*
Ariste	✓	
CashEuroNet		✓
CFO Lending		
Cheque Centres Group Limited		
Dollar		✓
Global Analytics	✓	
H&T	✓	
MYJAR	✓	
SRC		✓
The Cash Store	✓	
WageDayAdvance	✓	
Wonga	✓	

Source: CMA analysis of data provided by parties.

Note: [✂]

Other revenue

30. As well as interest, payday lenders also charge a variety of fees such as loan origination, late fees and non-sufficient funds fees. The latter fees are usually grouped into 'default fees and interest' and can be treated differently from origination fees:

(a) Loan origination fees: in line with the interest revenue policies above, we noted that companies recorded these in two ways: allocated over the expected life of the loan, or recognised immediately.

(b) Default fees and interest: these can also be recognised differently but are primarily recognised as revenue only when it is likely that the amount will be recovered.

TABLE 5 **Loan origination fees and default fees and interest recognition policies by company**

Company	*Loan origination*			*Default fees and interest*		
	Accrue/defer with interest income	*Immediate recognition*	*When received*	*When expected to be recovered*	*Immediate recognition*	*When received*
Ariste	✓			✓		
CashEuroNet	✓			N/A		
CFO Lending		✓		N/A		
Cheque Centres Group Limited		✓			✓	
Dollar		✓				✓
Global Analytics			✓			✓
H&T	✓			N/A		
MYJAR		✓			✓	
SRC		✓		N/A		
The Cash Store	✓				✓	
WageDayAdvance	✓					✓
Wonga	✓			✓		

Source: CMA analysis of data provided by parties.

Notes:
1. For H&T this table applies to the payday loan products only. Interest and fee revenue for the instalment loan (KwikLoan) is only recognised when cash is received. [✂]
2. N/A = information not supplied.

Provisions for doubtful debt (expense item charged to the profit and loss account)

31. The provision for doubtful debt is an accounting estimate of the portion of a debt that may not be collected, and is taken to recognise credit risk and ensure that assets are not overstated. The provision is recorded against the loan book in the balance sheet with the year-on-year movement an expense in the P&L. Although all sets of accounting standards require this provision, neither include a specific accounting standard on how it must be calculated. This is left to management's judgement, with the provision usually based on historical collection patterns. It is the largest expense in the P&L, and therefore has a significant impact on net profit.

32. Payday loans are not individually significant enough for impairment provisions to be assessed on a case-by-case basis, therefore they are usually grouped. This can be done in any number of ways but is usually on similar credit risk characteristics, such as number of days in arrears, loan size or month in which the loan was made.

33. Given that each payday loan company is different, they will have their own unique provisioning policy based on assumptions and rates relevant to their own loan book. This makes comparing the doubtful debt expense between companies difficult as the percentages used to create the provision, and how the loan book is assessed, differs across lenders.

34. For further clarification on how the provision for doubtful debts is calculated, and its impact on the P&L and balance sheet, see Annex D for an illustrative example.

35. On reviewing the doubtful debt provisions, we found that there were two distinct groups when providing for doubtful debts:

   (a) Provide for both principal and accrued interest. Evidence submitted showed that this can be presented as one provision or as two separate provisions, depending on whether companies can separate their loan book between accrued interest and principal.

   (b) No doubtful debt provision is calculated. Several companies do not prepare a calculation for doubtful debts at period end. Instead, they have a strict write-off policy where any overdue debt, both principal and interest, is immediately written off to the doubtful debts provision. Therefore the doubtful debts expense in the P&L will be 100% overdue debt, less any funds subsequently recovered.

TABLE 6 **Method of providing for doubtful debts, by company**

Company	*Provide for doubtful debts?*	*Method*	
		Principal and interest	*Overdue debts only*
Ariste	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]
Cheque Centres Group Limited	[✂]	[✂]	[✂]
Dollar	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]
SRC	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]
WageDayAdvance	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by parties.

Note: H&T provides for principal only on KwikLoan products. Cheque Centres Group Limited charges a flat fee on its loans rather than interest. For analysis purposes, we have included this fee as interest income.

TABLE 7 **How provisioning and loan information was presented to the CMA in the financial template**

Company	*Expense*		*Balance sheet provision*		*Gross loan book*	
	Separate expense for interest, separate expense for principal	*Expense recorded together*	*Principal and interest together*	*Separate provision for interest, separate provision for principal*	*Principal only*	*Principal and interest*
Ariste	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CashEuroNet	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
CFO Lending	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Cheque Centres Group Limited	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Dollar	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Global Analytics	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
H&T	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
MYJAR	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
SRC	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
The Cash Store	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
WageDayAdvance	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]
Wonga	[✂]	[✂]	[✂]	[✂]	[✂]	[✂]

Source: CMA analysis of data provided by parties.

Note: Ariste has only provided for principal and interest since April 2012.

36. Given the above differences, any comparison of the doubtful debts provision and expense for each company must be considered carefully. The majority of provisioning policies are based on assumptions and rates relevant to each loan book, which is in turn influenced by company lending and collection policies.

37. The provision for doubtful debt calculations received from the companies varied greatly in detail. While some were able to provide full calculations, showing percentages applied to overdue debt by number of days, and a breakdown between accrued interest and principal, others provided an average percentage used across the loan book, with no explanation of how it differed by the age of the loan.

38. In order to illustrate the impact assumptions have on the provision for doubtful debts, we have taken the percentages applied to overdue debt for each company and applied these to a hypothetical loan book. As shown in Annex E, these assumptions lead to large variations in the doubtful debt provision required, and ultimately revenue.

39. Due to the importance of the loan book and doubtful debt provisions for our analysis, we requested that companies confirm that the total new lending and loan collection activity recorded in the financial template was for principal only. All companies confirmed that this was correct, except for [✂] and [✂], indicating that their figures for total new lending and loan collection activity also included accrued interest. No response was received from [✂].

40. Given the impact the provision expense has on profit, we also looked at how it affects tax calculations. Lenders are most likely to be covered by HMRC's loan relationship rules, which cover 'money debt, arising from a transaction for the lending of money'.[6] These rules outline that debt write-offs can only be claimed as deductible expenses when the expense is from an impairment loss or the company has released all or part of the debt. Any expense related to the revaluation of debt, that is, the costs of a general doubtful debts provision, cannot be claimed.[7] This means that only debts the company is certain will not be paid, and has written off, can be included as an expense in its tax calculation. As has been shown, the majority of companies analysed in this annex do calculate a general provision. However, it will not affect taxable profit.

Write-offs

41. Unlike the provision for doubtful debts, a write-off, or bad debt, is an amount the company knows will not be collected. Each company will have its own criteria for when a loan is written to bad debts, which can include time spent in arrears or knowledge of the customer's circumstances, such as bankruptcy or death.

42. When loans are written off, this expense can be treated in two ways. A bad debt, an amount the company is certain will not be collected and has not provided for, will be recorded as an expense in the P&L. Other write-offs will not go through the P&L as they have already been provided for in the

[6] HMRC guidance: *CFM30140 – Loan relationships: a short guide: the meaning of 'loan relationships'.*
[7] HMRC guidance: *CFM41040 – Deemed loan relationships: money debts other than discounts: trade debts: restrictions on write-down.*

provision for doubtful debts expense. Rather, the provision for doubtful debts recorded in the balance sheet will decrease, as will the loan book.

43. It is possible for cash to be recovered even when a loan has been written off for accounting purposes. Indeed, many finance companies will 'write off' a loan for accounting purposes while actively trying to recover the debt. When this occurs, the cash received can either be recorded as revenue or as a reduction to the bad debt expense already incurred.

TABLE 8 **Write-off policies by company**

Company	*Number of days after default that loan written off*
Ariste	[✂]
CashEuroNet	[✂]
CFO Lending	[✂]
Cheque Centres Group Limited	[✂]
Dollar: MEM	[✂]
Dollar: Express Finance	[✂]
Dollar: Instant Cash Loans	[✂]
Global Analytics	[✂]
H&T	[✂]
MYJAR	[✂]
SRC	[✂]
The Cash Store	[✂]
WageDayAdvance	[✂]
Wonga	[✂]

Source: CMA analysis of data provided by parties.

44. Again, the difference between policies makes the provision for doubtful debts expense difficult to compare. Write-offs and recoveries will be much higher for a company writing off loans on default than one which waits 180 days.

Information technology systems and website assets

45. Given the importance of information in providing payday loans, many companies have spent considerable amounts building loan-writing software and websites. All three sets of reporting standards applied by the companies (UK GAAP, IFRS, US GAAP) allow expenses incurred in developing software, including websites, to be capitalised as an asset and depreciated over its economic useful life. It is also worth noting that companies using UK GAAP must record capitalised development costs as tangible (fixed) assets, while IFRS and US GAAP allow these as intangible assets. However, all three sets of standards state that any research costs must be expensed.

46. UK GAAP, US GAAP and IFRS all have a specific research and development accounting standard identifying when research ends and development begins. However, this is often more difficult to separate in practice and the standards are open to interpretation, therefore some companies have stricter capitalisation policies than others. For example, WageDayAdvance does not capitalise

staff costs, often a significant proportion of development costs, while others do.

47. In addition to capitalisation policy disparities, other differences relating to IT systems can affect cost comparisons between companies. Some companies do not own their software, using parent company systems or a third party provider. How parent company software is recorded differs between companies, as some are charged licensing fees while for others it is included in management charges. Where specific UK adjustments are made to the system, these can also be capitalised or expensed. Depreciation policies for capitalised assets will also impact total costs.

48. Table 9 shows which companies capitalise IT expenditure and where this is recorded on the balance sheet. Where possible, the amount capitalised and expensed in 2012 is also recorded.

TABLE 9 **Information technology systems and websites accounting policies by company**

Company	*IT systems held on balance sheet?*	*Tangible or intangible asset?*	*Amount capitalised 2012 £'000*	*Amount expensed 2012 £'000*
Ariste				
CashEuroNet				
CFO Lending				
Cheque Centre (high street)				
Cheque Centre (online)				
Dollar: MEM				
Dollar: Express Finance		[✄]		
Dollar: Instant Cash Loans				
Global Analytics				
H&T				
MYJAR				
SRC				
The Cash Store				
WageDayAdvance				
Wonga				

Source: CMA analysis of data provided by parties.

*[✄]
Note: All companies will have expensed some portion of IT costs.

Intercompany management fees and charges

49. The largest payday lenders within the investigation are all subsidiaries of larger corporations. As such, they are charged management fees or other intercompany charges from the parent company which can cover a variety of costs. Depending on what these charges relate to, including or excluding them from our analysis could be misleading and create distortions.

50. When reviewing the intercompany charges, we distinguished two categories:

(a) Direct costs. Charge directly relates to providing payday loans. For example, some companies outsource customer service activities to another subsidiary within the group. Such charges are often calculated using a driver such as number of loans written and are therefore attributable to providing payday loans. Although these costs can be directly traced, they still need to be evaluated to ensure that the value is reflective of the activities involved, and the allocation method is comparable to prior periods.

(b) Indirect costs. Charge indirectly relates to providing payday loans. Parent companies often allocate a portion of corporate overheads to other companies within the group, such as group director fees or internal audit. These are usually allocated on a pro-rata basis, like proportion of group revenue, and not directly related to individual activities. Including these intercompany charges could distort profitability if they are not a true reflection of the costs incurred in providing payday loans.

TABLE 10 **Intercompany management fees and charges by company**

Company	*Management fees charged?*	*2012 amount £'000*	*Allocation basis*	*From*	*For*
Ariste					
CashEuroNet					
CFO Lending					
Cheque Centre (high street)					
Cheque Centre (online)					
Dollar: MEM					
Dollar: Express Finance			[✄]		
Dollar: Instant Cash Loans					
Global Analytics					
H&T					
MYJAR					
SRC					
The Cash Store					
WageDayAdvance					
Wonga*					

Source: CMA analysis of data provided by parties.

*[✄]

51. Another issue raised by management fees and intercompany charges is the way in which they are allocated. For example, where the expense is based on personnel expenses, it is not known whether this is an appropriate indicator of activity. Management fees can also be a way of shifting costs to more profitable from less profitable businesses to take advantage of differing tax rates. This is where transfer pricing agreements are used.

52. Transfer pricing is primarily applied by multinational companies providing goods and services between subsidiaries in different tax jurisdictions. In order to stop profits being moved to countries with lower tax rates, transfer pricing

ensures that prices charged between related parties are similar to those charged between unrelated parties.[8] Guidance on the principles of transfer pricing and accepted calculation methods are outlined in the OECD's Transfer Pricing Guidelines for Multinational Enterprises and Tax Administrations, which is used internationally for tax legislation.[9] HMRC frequently undertakes audits of transfer pricing and can recalculate the tax provisions if it believes that calculations are incorrect.[10]

Financing

53. As cash-intensive businesses, access to finance is extremely important to payday loan companies. During our review we identified two primary means of funding: intercompany borrowings and shareholder loans. This makes comparisons between the interest expense, and potentially profits, for each company more difficult. Interest rates and repayment terms between group companies ('internal funding') may not be based on the cost of borrowing for the lender. It could be more favourable to the borrowing company, or additional interest could be added to cover costs. It should also be noted that the parent companies of these groups operate in different countries, affecting their access to credit which in turn will affect the interest rate charged.

54. Of the 11 companies analysed, only two have external sources of finance. The majority of independent companies have raised cash through equity or debt issuance.

55. Intercompany funding may also have an impact on cash flows as it is possible that no physical payment of interest is made. It is common for subsidiary companies in any industry to accrue interest as it is incurred but add the amount owing to the total loan payable. No cash is physically paid to the lender. This is an important difference between those with external and internal funding, as companies with external sources of finance are contractually obliged to pay.

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[8] HMRC guidance, *INTM412040 – Transfer pricing: legislation: rules: the arm's length principle*.
[9] ibid.
[10] ibid.

TABLE 11 **Financing arrangements by company for the financial year 2012**

Company	*Source of financing*	*Outstanding amount £'000*	*Interest rate*	*Interest expense £'000*	*Repayment terms*
Ariste					
CashEuroNet					
CFO Lending					
Cheque Centre (high street)					
Cheque Centre (online)					
Dollar: MEM					
Dollar: Express Finance			[✂]		
Dollar: Instant Cash Loans					
Global Analytics					
H&T					
MYJAR					
SRC					
The Cash Store					
WageDayAdvance					
Wonga					

Source: CMA analysis of data provided by parties.

*[✂]

Allocation of expenses

56. In order to assess the financial performance of payday lenders, we need to consider the extent to which the revenue and costs analysed are related to payday loans rather than other products. This can be difficult to ascertain where companies offer more than one loan product. For example, many high street lenders will also offer other services such as pawnbroking or foreign currency. While revenue is often recorded by product, costs may be more difficult to attribute to products, and the total cost of running a store, such as rent and staff, would need to be allocated across the products offered.

57. Expenses are often allocated based on the revenue generated by a product, but it is also an area of judgement. We compared payday lending costs submitted by parties as a proportion of total costs with payday revenue as a proportion of total revenue. For these calculations we have excluded the provision for doubtful debts expense as this is a direct cost, and in most cases has already been verified with other documentation. We would expect the expense and revenue proportions to be similar.

TABLE 12 **Proportion of payday revenue and costs as a proportion of total revenue and costs excluding the doubtful debt expense as submitted by parties**

%

Company	*Payday expenses as a percentage of total expenses*	*Payday revenue as a percentage of total revenue*
Ariste	[✂]	[✂]
CashEuroNet	[✂]	[✂]
CFO Lending	[✂]	[✂]
Cheque Centre (high street)	[✂]	[✂]
Cheque Centre (online)	[✂]	[✂]
Dollar: MEM	[✂]	[✂]
Dollar: Express Finance	[✂]	[✂]
Dollar: Instant Cash Loans	[✂]	[✂]
Global Analytics	[✂]	[✂]
H&T	[✂]	[✂]
MYJAR	[✂]	[✂]
SRC	[✂]	[✂]
The Cash Store	[✂]	[✂]
WageDayAdvance	[✂]	[✂]
Wonga	[✂]	[✂]

Source: CMA analysis of data provided by parties before adjustments outlined in the profitability working paper.

Illustrative comparison between accrued interest, deferred income and immediate recognition accounting methods

Loan amount: £100

Interest: 25% per month

Loan period: 2 months

For simplicity, no other fees are charged

P&L: Profit and loss

BS: Balance sheet

Step 1: Loan is provided to customer in cash, receivable accounts created

General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	↑£100 (BS)	↑£100 (BS)	↑£100 (BS)
Interest receivable asset	-	↑£50 (BS)	↑£50 (BS)
Deferred revenue liability	-	↑(£50) (BS)	-
Interest revenue	-	-	↑(£50) (P&L)
Cash on hand	↓£100 (BS)	↓£100 (BS)	↓£100 (BS)
	Only the loan principal is recognised as an asset because no interest income has been earned yet	The loan principal and expected interest from the loan are recognised immediately. However, as no interest revenue has actually been earned, it is also recorded as a liability	The loan principal and expected interest from the loan are recognised immediately. The interest revenue is recognised at the same time as the receivable
Summary: Loan provided			
Total loan and interest receivable	100	150	150
Total deferred revenue liability	-	(50)	-
Total revenue	-	-	(50)

Step 2: Interest revenue recognised at the end of month 1

General Ledger account	**Accrued Interest method**	**Deferred income: deferred liability**	**Deferred Income: Revenue**
Loan receivable asset	-	-	-
Interest receivable asset	↑£25 (BS)	-	-
Deferred revenue liability	-	↓£25 (BS)	↑(£25) (BS)
Interest revenue	↑(£25) (P&L)	↑(£25) (P&L)	↓(£25) (P&L)
	One month of interest revenue has been earned and recognised, creating an interest receivable account in the balance sheet	One month of interest revenue has been earned and can now be recognised. This increases interest revenue and decreases the liability	An adjustment is required at period end for any unearned revenue. As two months of revenue have been recorded but only one month has been earned, revenue for the second month is treated as a liability and removed from revenue for the period
Summary: End of month 1			
Total loan and interest receivable	125	150	150
Total deferred revenue liability	-	(25)	(25)

Total revenue	(25)	(25)	(25)

Step 3: Interest revenue recognised at the end of month 2

General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	-	-	-
Interest receivable asset	↑£25 (BS)	-	-
Deferred revenue liability	-	↓£25 (BS)	↓£25 (BS)
Interest revenue	↑(£25) (P&L)	↑(£25) (P&L)	↑(£25) (P&L)
	The second month of interest revenue is earned and recognised, increasing the interest receivable and interest revenue accounts	The second month of interest revenue is recognised, leaving the deferred revenue account at 0	The second month of interest revenue has now been earned, therefore the deferred revenue liability created in month one is reversed and revenue recognised
<u>Summary: End of month 2</u>			
Total loan and interest receivable	150	150	150
Total deferred revenue liability	-	-	-
Total revenue	(50)	(50)	(50)

Step 4: Repayment

General Ledger account	*Accrued Interest method*	*Deferred income: deferred liability*	*Deferred income: revenue*
Loan receivable asset	↓£100 (BS)	↓£100 (BS)	↓£100 (BS)
Interest receivable asset	↓£50 (BS)	↓£50 (BS)	↓£50 (BS)
Deferred revenue liability	-	-	-
Interest revenue	-	-	-
Cash on hand	↑£150 (BS)	↑£150 (BS)	↑£150 (BS)
	The loan principal of £100 and interest expense of £50 is repaid in cash, decreasing the loan and interest receivable assets and increasing the bank account.		
<u>Summary: After repayment</u>			
Total loan and interest receivable	-	-	-
Total deferred revenue liability	-	-	-
Total revenue	(50)	(50)	(50)

Cash Flow effect			
	Accrued Interest method	*Deferred income: deferred liability*	*Deferred income: revenue*
End of month 1	Cash out £100	Cash out £100	Cash out £100
End of month 2	Cash in £150	Cash in £150	Cash in £150

Although the three revenue recognition methods outlined above record revenue and loan assets at different times, the period-end balances will be the same across all methods.

Illustrative example of relationship between the doubtful debt provision, balance sheet and profit and loss

1. This is to clarify how the doubtful debts provision is calculated, and its impact on the balance sheet and profit and loss statement.

Beginning of year 1
- Gross loan book: £200,000
- Year-end doubtful debts provision: £5,000

Step 1: Calculate the doubtful debts provision required for the year
Management believe that based on historical rates, 15% of the loan book will not be collected

Doubtful debts provision required: £30,000

Step 2: Calculate the additional doubtful debt provision expense for the year

Required doubtful debts provision:	£30,000
Current doubtful debts provision:	£5,000
Difference	£25,000

The additional £25,000 will be recorded in the P&L as the doubtful debts expense.

Effect on profit

Revenue	£400,000
Less doubtful debt expense	£25,000
Gross profit	£375,000

Step 3: The value of the loan book in the balance sheet will be shown net of the provision for doubtful debts

The loan book will be presented as £170,000:

Gross loan book	£200,000
Less provision for doubtful debts	£30,000
Net loan book	£170,000

During year 1
Gross loan book: £225,000
Doubtful debts provision: £30,000
Bad debts: £10,000

Step 1: Write-off the bad debts from the loan book
Loan book: ↓£10,000 to £215,000

Step 2: Deduct the bad debts from the doubtful debts provision
Doubtful debts provision: ↓£10,000 to £20,000

No additional expense is recorded in the P&L as these loans were already caught in the doubtful debts provision made at the beginning of the year.

The loan book will be presented as:

Gross loan book	£215,000	
Less provision for doubtful debts	£20,000	
Net loan book		£195,000

End of year 1

- Gross loan book: £250,000
- Doubtful debts provision: £20,000

Step 1: Calculate the doubtful debts provision for the year
Management have reviewed their assumptions and now believe that 10% of the loan book will not be collected

Doubtful debts provision required: £25,000

Step 2: Calculate the additional doubtful debt provision expense for the year

Required doubtful debts provision:	£25,000
Current doubtful debts provision:	£20,000
Difference	£5,000

The additional £5,000 will be recorded in the P&L as the doubtful debts expense.

Effect on profit

Revenue	£400,000
Less doubtful debt expense	£5,000
Gross profit	£395,000

Step 3: The value of the loan book in the balance sheet will be shown net of the provision for doubtful debts

The loan book will be presented as £225,000:

Gross loan book	£250,000
Less provision for doubtful debts	£25,000
Net loan book	£225,000

Illustration of the impact different assumptions used in the provision of doubtful debts calculation have on revenue and the net loan book

TABLE 1 **Hypothetical loan book**

Ageing category	*Total loan book*	*Principal*	*Interest*
Current	[✂]	[✂]	[✂]
1–15 days	[✂]	[✂]	[✂]
16–30 days	[✂]	[✂]	[✂]
31–60 days	[✂]	[✂]	[✂]
61–90 days	[✂]	[✂]	[✂]
91–120 days	[✂]	[✂]	[✂]
121–150 days	[✂]	[✂]	[✂]
151–180 days	[✂]	[✂]	[✂]
	[✂]	[✂]	[✂]

[✂]

TABLE 2 **Results by company**

Company	*Provisioning method*	*Provision required (D)*	*Net loan book (A) – (D) (*	*Provision expense (E) = (D) – (C)*	*Revenue post-provision charge (B) – (E)*	*Provision as % of loan book (D)/(A)*	*Expense as % of revenue (E)/(B)*
Ariste							
CashEuroNet							
CFO Lending							
Cheque Centres (high street)							
Cheque Centres (online)							
Dollar: MEM							
Dollar: Express Finance			[✂]				
Dollar: Instant Cash Loans							
Global Analytics							
H&T							
MYJAR							
SRC							
The Cash Store							
WageDayAdvance							
Wonga							

Characteristics of payday loans and other credit products

Background

1. As described in paragraph 2.16, we have defined payday loans as short-term, unsecured credit products which are generally taken out for 12 months or less, and where the amount borrowed is generally £1,000 or less. Some of the key defining characteristics of payday loans are:

   (a) Amount of loan – this is typically less than £1,000.

   (b) Loan duration – this is typically a month or less, but can be up to a year for some products, particularly instalment products.[1]

   (c) No need to provide security – payday loans are unsecured loans.

   (d) Payment and repayment method – when customers take out a payday loan online the loan amount is deposited in their bank account, making the money available for paying bills and withdrawing as cash. With high street payday loans customers can receive the funds in cash or as a credit to their bank account. Loans are often repaid through the use of CPAs and customers of some high street lenders can repay loans in cash in-store.

   (e) Speed of application, approval and transfer – successful applicants generally receive the funds on the same day, often within an hour (or less) of their application. Customers using high street payday lenders can receive the cash immediately after approval.

   (f) Ability to roll over loans – many payday loan products allow customers to roll over their loan. The exact terms on which these facilities are offered, and the terms used to describe them, vary, but the common effect is to allow the customer to extend the duration of their loan beyond the originally agreed repayment date.

   (g) Top-up facilities – some payday loan products allow the borrower to increase or top up their loan before the end of the loan term.

2. In this section we discuss the extent to which other credit products have similar characteristics to payday loans.

[1] Rollovers and refinancing may also result in the extension of the effective loan period of shorter-term loans.

Credit cards

3. Credit cards allow cardholders to pay for goods and services on credit, up to an agreed limit. The credit facility allows the cardholder to have a revolving balance, which can be paid off over time. If balances are not repaid in full, the cardholder will be required to make a minimum monthly payment. Gross credit card lending was estimated to be £139 billion in 2012[2] and there were an estimated 31 million credit card holders and around 61 million cards in issue, meaning that the average credit card customer had two cards.[3] On a group basis, in 2012 the five largest credit card issuers were Barclays, LBG, HSBC, MBNA and RBS Group. Together, they were estimated to have around three-fifths of the market, by share of customers. Other notable suppliers included Tesco, Capital One and American Express.[4]

4. Comparing the attributes of credit cards with payday loans, we find that the two credit types share many characteristics, although there are some differences:

   (a) Amount of loan – customers can borrow sums less than £1,000 by purchasing items on their existing credit cards or can apply for credit cards with limits of less than £1,000. Barclays said that Barclaycard offered a revolving credit facility of £250 to £10,000. Capital One said that its minimum was £200 and maximum £12,000. MBNA told us that its minimum was £500 and its maximum was £20,000.[5] NewDay[6] told us that for new customers its minimum was £100 and £1,600 was the maximum.

   (b) Payment and repayment method – unlike a payday loan, money borrowed on a credit card is not credited to the customer's bank account. However, customers are able to make purchases with their credit card.[7] Many credit cards also allow cash withdrawals. Repayment is generally from the customer's bank account, although the amount borrowed is not repaid via a CPA, as is typically the case with payday loans.

   (c) Credit cards do not offer rollovers in the same way as payday lenders. However, the ability to revolve credit gives customers flexibility over when they repay, implying that credit cards share this characteristic with payday loans. Evidence from our survey showed that some customers dislike

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[2] Mintel, *Credit Cards – UK – July 2012*, p11.
[3] ibid, p21.
[4] ibid, p14.
[5] This was the outlying range based on policy parameters. It was possible, by exception, to establish a credit limit beyond these parameters.
[6] NewDay operated the Aqua, Marbles and Opus credit card brands in the UK (www.newday.co.uk).
[7] Barclays told us that Barclaycard had launched a facility for customers to transfer money from their credit card to their bank account.

credit cards precisely because of the perceived risks of being able to revolve their debts.[8]

(d) Like payday loans, credit cards are unsecured loans.

(e) Speed – like payday loans, customers who already have an existing credit card with available credit can use the funds on the same day. Customers who apply for a credit card typically will not be able to access the funds on the day of application and the time period between application and card delivery varies. Barclays told us that the minimum was [✄] days; Capital One told us that it was [✄] days; LBG told us that it was [✄] days; RBS/NatWest told us that it was [✄] days; and HSBC said that it was a minimum of [✄] days. MBNA told us that for its Amazon-branded cards customers could spend immediately after approval, but only on Amazon's site.

(f) Top-up facilities – like payday loans, customers can spend additional amounts if they have not reached their existing credit limit.

5. However, credit cards differed from payday loans in terms of the repayment period. Credit card customers are only required to pay a pre-specified minimum amount every month and can revolve the debt, extending the payback period.

Overdrafts

6. Overdraft services can be applied for by customers with current accounts other than a basic bank account. There are two kinds of overdraft: authorised and unauthorised.[9] Authorised overdrafts are agreed between the customer and the bank and allow the customer to continue spending up to this agreed limit. According to the British Bankers' Association, in September 2013 £7.8 billion was being borrowed on authorised overdrafts from the major high street banks.[10] Unauthorised overdrafts are not pre-agreed between the customer and the banks and banks will typically charge additional fees for this service.

7. As with credit cards, we found that overdrafts share many of the characteristics of payday loans.

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[8] Research into the payday lending market report – results of quantitative and qualitative research undertaken by TNS BMRB, p85.
[9] The terms arranged and unarranged, and planned and unplanned, are also used.
[10] September 2013 figures for the high street banks. The British Bankers' Association data covered Santander, Barclays, HSBC, Virgin Money, Lloyds and RBS.

(a) Amount of loan – customers can borrow less than £1,000 or more through authorised overdrafts. For example, Barclays told us that customers could apply for authorised overdrafts of up to £5,000. Unauthorised overdrafts also allow customers to borrow for certain types of transactions, but the amounts depend on the creditworthiness of the customer. For example, RBS/NatWest told us that [✄]. HSBC told us that [✄]. Barclays told us that it did not provide unarranged overdrafts, but instead offered a Personal Reserve service. This was a service that gave customers an extra agreed amount which could be used if they had occasional need to go overdrawn or exceed an arranged overdraft limit. Personal Reserves of between £150 and £2,500 were available to eligible current account customers.

(b) Payment and repayment method – both authorised and unauthorised overdrafts result in available credit being added to customers' bank accounts and are therefore similar to online payday loans. Cash withdrawals can be used to replicate the cash from high street payday lenders. Repayments are made by depositing funds in the account, similar from the perspective of a customer to repaying a payday loan via a CPA.

(c) Rollovers – authorised overdrafts are typically open-ended credit arrangements, with customers having an overdraft facility until it is removed by the bank. Since there is no specific repayment date overdrafts cannot be rolled over in the same way as payday loans, but they allow customers to extend the duration of their borrowing and therefore can be seen as offering a similar service to rollovers. Unauthorised overdrafts are typically shorter-term arrangements, with banks often honouring a few payments before rejecting others. Unauthorised overdrafts therefore do not allow customers to roll over a debt. For example, LBG told us that it tried to avoid customers staying in their unplanned overdraft for an extended period as that was not what the service was designed for. It would contact customers who went over their unplanned limit by £100 and discuss a possible repayment plan. More generally, a customer's unplanned overdraft could be removed as part of the monthly scoring/limit assignment process.

(d) Like payday loans, overdrafts are unsecured loans.

(e) Speed – like payday loans, customers with an existing authorised overdraft and available credit can use the funds on the same day. Similarly, unauthorised overdrafts allow funds to be used on the same day. When customers have to apply for an authorised overdraft the evidence from banks showed that the funds would be available quickly. Barclays, HSBC,

LBG and Santander told us that the funds would be made available immediately. RBS/NatWest told us that [✂].

(f) Top-up facilities – like payday loans, customers can spend additional amounts if they are below their authorised overdraft credit limit. Unauthorised overdraft limits cannot be increased in the same way.

8. However, overdrafts also differ from payday loans on the payback period. Authorised overdrafts typically run over an extended period and can extend indefinitely. Unauthorised overdrafts typically cover a shorter period. Santander told us that the average time a customer spent in unauthorised overdraft was three days. RBS/NatWest told us that in a typical month 'new into excess accounts', where customers were charged excess fees, were charged on average for three days. LBG told us that of those customers who used an unauthorised overdraft, [✂]% stayed in their overdraft for [✂].

Other credit products

9. Table 1 summarises our comparison of other credit products with payday loans.[11]

[11] Guarantor loans was not included in the table.

TABLE 1 **Comparison of payday loan characteristics with those of other credit products**

Characteristic	*Are credit union loans similar?*	*Is home credit similar?*	*Are logbook loans similar?*	*Is pawnbroking similar?*	*Is peer-to-peer lending similar?*	*Are personal loans similar?*	*Is retailer credit similar?*
Amount	Yes – £100–£7,500	Yes – £50–£2,500	Yes – £200–£50,000	Yes – £5–£100,000	No – minimum of £1,000	No – minimum typically £1,000*	Yes – £150 upwards
Payback period	Yes – some one-month loans	No – minimum 14 weeks	Yes – minimum six months	Yes – customers can repay at any time up to seven months	Yes – minimum six months, but typically longer§	No – typically one year†	No – revolving credit
Payment and repayment method	Yes – paid and repaid through bank account	No – cash sum lent is paid back in cash	Yes – paid and repaid through bank account	No – cash sum lent is paid back in cash	Yes – paid and repaid through bank account	Yes – paid and repaid through bank account	No – credit only for purchases from retailer
Rollovers	No – new loan required	No – customers can miss payments at no extra cost	No – new loan required	Yes – customers can roll over their loan at any time in the contract period	No – new loan required	No – new loan required	Yes – can revolve the debt
Secured/unsecured	Yes – unsecured loan	Yes – unsecured loan	No – logbook required	No – pawn required	Yes – unsecured loan	Yes – unsecured loan	Yes – unsecured loan
Speed	Some – instant to 7 days	No – average 5 days to 2 weeks	Yes – minimum 1 hour	Yes – 5–15 minutes	No – 48 hours from application to reception	Yes – funds available in around an hour	Yes – funds available in 15–30 minutes
Top-up facilities	Yes	Yes – customers can refinance/renew loans	No – new loan required	No – new pawn required	No – new loan required	No – new loan required	Yes – if have available credit

Source: CMA analysis.

*Airdrie Savings Bank offered a personal loan of £550. HSBC also lent smaller amounts to its customers through its flexiloan credit product. This allowed customers to borrow up to £500 and gave them flexibility over how they repaid the loan.
†Airdrie Savings Bank offered Express loans repaid over a maximum of six months.

10. None of the seven products is similar across all the characteristics, but all share some characteristics with payday loans:

(a) Credit union loans involved similar small, unsecured credit which was paid and repaid through bank accounts, offered top-up facilities and was available for shorter terms (including in some cases one-month loans). However, they sometimes could not be obtained quickly and did not offer the ability to refinance the credit (although some lenders may allow customers to repay an existing loan and take out a new loan in a short period of time). In addition, a customer would need to meet the membership criteria of a particular credit union in order to be able to borrow from them.

(b) Home credit loans involve similar unsecured small amounts with top-up facilities. However, payment and repayment is made in cash, rollovers are not available, payback is generally over a longer period and it takes longer to obtain the loans.

(c) Logbook loans offer customers the option of borrowing funds, using the logbook of their car as security. Logbook loans involve similar small amounts with a short payback period. The loans can be obtained quickly and are paid and repaid through bank accounts. However, borrowers must have a car they can use as security and rollover and top-up facilities are not available.

(d) Pawnbroking loans involve similar small amounts, can have a similar payback period, offer rollovers, and can be obtained quickly. However, they do not offer top-up facilities, borrowers must have an item of value they can use as security, and payment and repayment is made in cash.

(e) Peer-to-peer loans are unsecured and are paid and repaid through bank accounts. While some loans are for six months, they are typically for longer and are for larger sums. In addition, they cannot be obtained quickly and do not have rollover or top-up facilities (although customers may be able to use a loan from another lender to repay an existing loan).

(f) Personal loans are unsecured, can be obtained quickly and are paid and repaid through bank accounts.[12] However, they typically involve larger sums, have a longer payback period and do not have rollover or top-up facilities.

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[12] We recognise, however, that customers' perceptions are that bank loans take longer to obtain than payday loans, see for example Research into the payday lending market report – results of quantitative and qualitative research undertaken by TNS BMRB, p85.

(g) Retailer credit could involve borrowing similar unsecured small amounts and the funds could be made available quickly. However, the credit had to be spent with a specific retailer and the payback period could be longer than for payday lending, as the credit generally operates in a broadly similar way to a credit card.

11. The results suggest that of this set of products, credit union loans and retailer credit share the most characteristics with payday lending.

The prices of payday loans and other credit products

Background

1. In this appendix we describe the method we have used to compare prices between payday loans and other forms of credit.

2. We compared prices (as of December 2013) for the four borrowing scenarios discussed in paragraph 4.18. These four scenarios are where a customer:

   (a) takes out a £100 loan for 28 days and pays back on time;

   (b) takes out a £100 loan for 14 days and pays back on time;

   (c) takes out a £100 loan for 28 days and then rolls over the loan for 28 days; and

   (d) takes out a £100 loan for 28 days and pays back 11 days late.

3. We recognise that the cash flows associated with these borrowing scenarios may not always be capable of being precisely replicated with other credit products. For example, the minimum loan term available from the home credit provider Provident is 14 weeks and a loan of £100 would involve 14 weekly payments of £10. Consequently, these results should be seen as illustrative of the relative costs of borrowing using different credit products, rather than exact comparisons. More detail on the scenarios and the results are provided below.

Scenario 1

4. Scenario 1 consists of a borrower taking out a £100 loan for 28 days and paying back on time. For comparison purposes, we adopted the following scenarios for the other credit products:

   (a) **Authorised overdrafts**. The borrower enters the authorised overdraft on day 0, going £100 overdrawn. The borrower exits the authorised overdraft on day 28, returning to a zero balance. The costs of authorised overdrafts were calculated for Barclays, Halifax, HSBC, Lloyds Bank, RBS/NatWest[1] and Santander.[2]

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[1] We used the RBS/NatWest select account.
[2] We used the Santander 123 account.

(b) **Unauthorised overdraft**. The borrower enters the unauthorised overdraft on day 0, going £100 overdrawn. The borrower exits the unauthorised overdraft on day 28, returning to a zero balance. The costs of unauthorised overdrafts were calculated for Halifax, HSBC, Lloyds Bank,[3] RBS/ NatWest and Santander. For Barclays, calculations were based on the use of the Personal Reserve service, which is Barclays' alternative to an unauthorised overdraft.

(c) **Credit and store cards**. The borrower makes a purchase of £100 on day 0 with their credit or store card. The borrower repays on day 28, returning to a zero balance. The costs were calculated for Barclays, Capital One, MBNA, NewDay[4] and Topshop.[5] In this scenario we have assumed that the credit and store card borrower does not incur any interest as the debt is not revolved.[6]

(d) **Credit unions**. The borrower takes out a loan of £100 from the credit union which is repaid after 28 days.

(e) **Home credit lenders** do not offer 28-day loans and therefore the cost of credit is based on borrowing £100 for 14 weeks – the minimum loan duration – and paid back in 14 weekly repayments. The costs were calculated for Provident Personal Credit.

(f) **Pawnbrokers**. The borrower pawns an object on day 0 and repays the loan on day 28. The costs were calculated for Fish Pawnbrokers.

Scenario 2

5. Scenario 2 consists of a borrower taking out a £100 loan for 28 days and paying back on day 14. For comparison purposes, we adopted the following scenarios for the other credit products:

(a) **authorised and unauthorised overdrafts, credit and store cards and pawnbrokers** – as scenario 1, except the payback date (ie the date on

[3] LBG told us that the scenarios we used were unrepresentative of how customers used unauthorised overdrafts, as they were designed to support customers for short periods of time.
[4] Two figures were calculated for NewDay, based on the minimum and maximum interest rates offered on their Acqua credit card.
[5] Two figures were calculated for Topshop, based on the minimum and maximum interest rates offered on their Topshop store card.
[6] The exact charges incurred using a credit card or store card to borrow for 14 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that 14 days' interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.

which the customer stops being overdrawn and returns to a zero balance) was changed from day 28 to day 14;[7]

(b) **credit unions**, as scenario 1, as the minimum loan duration offered by London Mutual Credit Union is for a month; and

(c) **home credit** – as scenario 1.

Scenario 3

6. Scenario 3 consists of the borrower taking out a £100 loan for 28 days and then rolling over the loan for 28 days, paying back on day 56. For comparison purposes, we adopted the following scenarios for other credit products, based on assuming a month was 28 days:

(a) **authorised and unauthorised overdrafts and pawnbrokers** – as scenario 1, except the payback date was changed from day 28 to day 56;

(b) for **credit and store cards**, we assumed that the debt was revolved for 56 days and therefore 56 days' interest was due on the £100 borrowed;[8]

(c) for **credit unions**, we assumed that the loan was for 56 days, with repayment made in two equal payments: one on day 28 and one on day 56; and

(d) **home credit** – as scenario 1.

Scenario 4

7. Scenario 4 consists of a borrower taking out a £100 loan for 28 days and paying back 11 days late on day 39. For comparison purposes, we adopted the following scenarios for the other credit products:

(a) **authorised and unauthorised overdrafts and pawnbrokers** – as scenario 1, except the payback date was changed from day 28 to day 39;

(b) for **credit and store cards**, we assumed that the debt was revolved for 39 days and therefore 39 days' interest was due on the £100 borrowed. In

[7] The exact charges incurred using a credit card or store card to borrow for 28 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that 28 days' interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.

[8] For credit cards, we calculated a monthly interest rate and applied this to the average monthly balance. For store cards, we calculated a daily interest rate and applied this to the daily balance. The exact charges incurred using a credit/store card to borrow for 56 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. If we were to assume that zero interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.

addition, to match more closely the late payment fees incurred by a payday loan customer in this scenario, we assumed that the customer incurred one late payment fee;[9]

(c) for **credit unions**, we assumed that the loan was for 56 days, with repayment made in two equal payments: one on day 28 and one on day 56; and

(d) **home credit** – as scenario 1.

Results

8. Our analysis suggests that borrowing using a payday loan was typically significantly cheaper than using an unauthorised overdraft. Payday loans were, however, generally substantially more expensive than the other forms of credit considered under all scenarios, apart from home credit. Borrowing using a payday loan was typically cheaper than using home credit in scenarios 1 and 2 (the shorter scenarios), but more expensive than using home credit in scenarios 3 and 4 (the longer scenarios). This was influenced by the minimum loan term for Provident's home credit product, which was substantially longer than 28 days.[10]

9. Table 1 sets out the range of prices we observe for the different credit alternatives in greater detail.

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[9] For credit cards, we calculated a monthly interest rate and applied this to the average monthly balance. For store cards, we calculated a daily interest rate and applied this to the daily balance. The exact charges incurred using a credit/store card to borrow for 56 days will depend on the relationship between the purchase date and the statement date and the card company's charging policy. For example, one lender told us that in scenario 4 no interest and charges would be due if the balance were cleared on day 39. If we were to assume that zero interest was charged on the amount borrowed, this would not change the general conclusions we draw from this analysis.
[10] In principle, a customer might borrow from the Provident on a longer, cheaper term and then get a rebate within 28 days, which would cause the relative price of using home credit to decline relative to the price of a payday loan.

TABLE 1 **Comparison of pricing of different credit options**

							£
	Payday loans	*Authorised overdrafts*	*Unauthorised overdrafts*	*Credit & store cards*	*Credit union*	*Home credit*	*Pawn-broker*
Scenario 1 – borrow for 28 days and pay back on time							
Minimum	16.50	1.35	26.39	0.00			
Median	29.85	7.22	89.00	0.00	2.00	40.00	5.60
Maximum	56.40	28.00	100.00	0.00			
Scenario 2 – borrow for 14 days and pay back on time							
Minimum	11.35	0.68	25.70	0.00			
Median	29.25	6.61	72.50	0.00	2.00	40.00	2.80
Maximum	56.40	14.00	86.70	0.00			
Scenario 3 – borrow for 28 days and roll over for 28 days							
Minimum	35.28	2.71	27.79	2.58			
Median	59.90	14.45	178.00	4.97	3.01	40.00	11.20
Maximum	92.40	56.00	200.00	6.74			
Scenario 4 – borrow for 28 days and pay 11 days late							
Minimum	28.50	1.89	26.94	13.78			
Median	55.78	13.71	147.50	15.43	3.01	40.00	7.80
Maximum	107.00	39.00	173.94	16.66			

Source: CMA analysis.

Note: No minima and maxima are given for home credit and pawnbroker loans as we only had pricing data for one supplier.

Evidence from credit reference agency records on borrowers' use of other sources of credit

Introduction

1. This appendix sets out evidence on the use of other sources of credit by payday loan customers. Our assessment is based on information provided by a CRA ([✄]) for a sample of payday loan customers.

2. The appendix is organised as follows:

   (a) We describe the data that we used for our analysis.

   (b) We set out our findings relating to payday loan customers' use of other credit products.

   (c) We examine the extent to which customers with credit cards had credit available on those accounts when taking out a payday loan.

3. Our main findings are:

   (a) In 2012, around half of all payday customers in our sample had a credit card and around half had an overdraft of more than £20. More than two-thirds had either a credit card or an overdraft of more than £20. Relatively few customers used other sources of credit such as personal loans or home credit.

   (b) In many cases, payday loan customers with a credit card did not have sufficient credit available to use that card instead of taking out a payday loan. In particular, we estimate that in 65% of cases, when taking out a payday loan, the borrowers in our sample either had no credit card, or had no credit available on their credit cards. In 82% of cases, the borrowers in our sample either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.

Description of the data set

4. Our analysis is based on a sample of over 3,000 customers taking out payday loans in 2012, selected from the transaction data submitted by the 11 major lenders. Further details of how this sample was constructed, and the steps taken to match customers across lenders' databases, are provided in Appendix 6.2.

5. A number of CRAs were asked to provide information on the different credit products used by each customer in the sample in the period 1 January 2012 to 31 August 2013. In our analysis, we primarily focused on the information provided by one CRA, [✂], which was chosen because it had the most extensive coverage for a number of key credit products.[1] The information provided by [✂] covered over 90% of the customers in our original sample. To the extent that a customer's credit history is not fully documented in the CRA's database, our results may underestimate customers' usage of other credit products.

6. Because our sampling was based on a random selection of loans, and not customers, it contains a disproportionate number of heavy borrowers relative to the overall population of payday loan users. We consider it useful to look at the extent of use of other credit products among this weighted sample as it reflects the greater relative importance of heavier borrowers to lenders. However, at certain points in this appendix we also refer to results based on a sample reweighted to give additional prominence to lighter users of payday loans, which is representative of the average payday customer in 2012 irrespective of the number of loans they took out. Further details of this re-weighting are provided in paragraph 2.49.

Use of other credit products

7. For payday loan customers who took out a payday loan in 2012, we analysed the credit products other than payday loans they had used in 2012, including whether that customer had an authorised overdraft greater than £20 in the year, whether the customer had any active credit cards in the year,[2] and whether the customer took out any home credit loans, personal loans or other types of loan (such as a logbook loan) in the period.

8. Figure 1 shows that 52% of payday loan customers in our sample had an active credit card[3] during 2012 and 55% had an overdraft balance greater than £20. A smaller proportion of customers used other credit products, such as personal loans – around 25% were recorded in our data set as not having used any other credit product. A slightly lower proportion of customers were found to use other types of credit when we considered the reweighted sample.[4]

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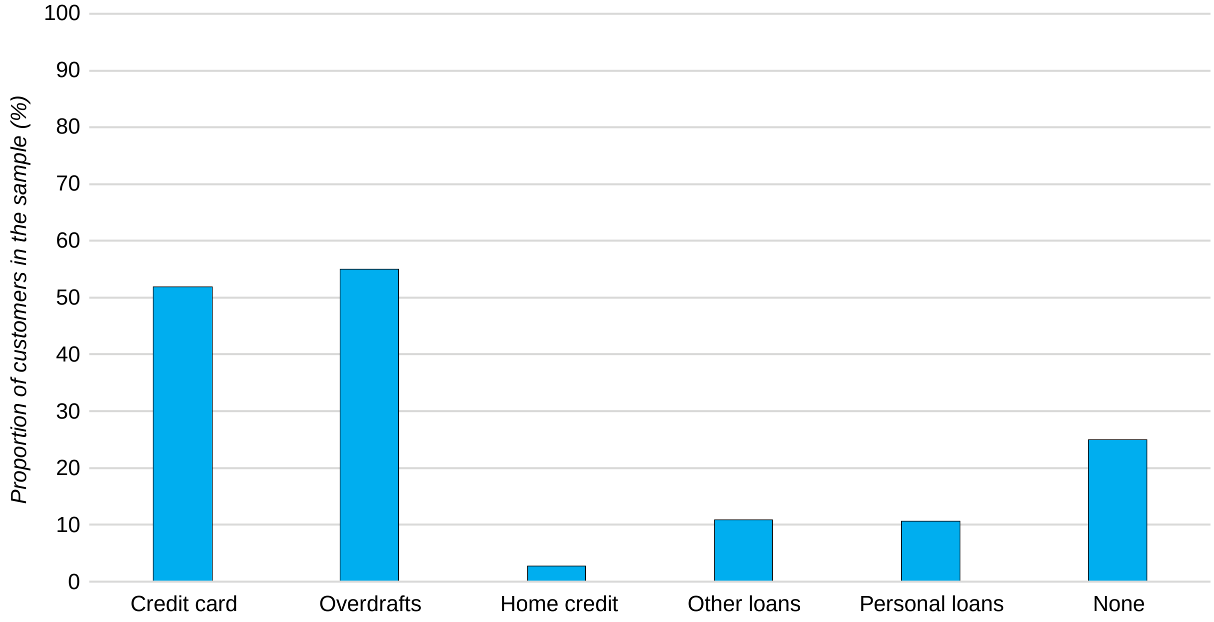
[1] To obtain information on personal loan usage we also used information provided by [✂].
[2] A credit card was assumed to be active if the start date of that card was in 2012, or the start date was prior to 2012 and a balance update was recorded in 2012.
[3] 47% of customers had a credit card for which the balance, as reported in credit record updates, changed at some point during 2012.
[4] Using this sample, we found that in 2012, 46% of customers had an active credit card and 52% an overdraft. 29% had used no other source of credit.

FIGURE 1

Payday loan customers' use of other credit products



Source: CMA analysis of data provided by CRAs.
Notes:
1. These results are based on a sample of 3,228 payday customers in 2012.
2. Overdrafts refer to customers with overdraft balances greater than £20 in the period.
3. Because information on personal loans was unavailable in the [✂] sample, personal loan information was obtained from [✂].

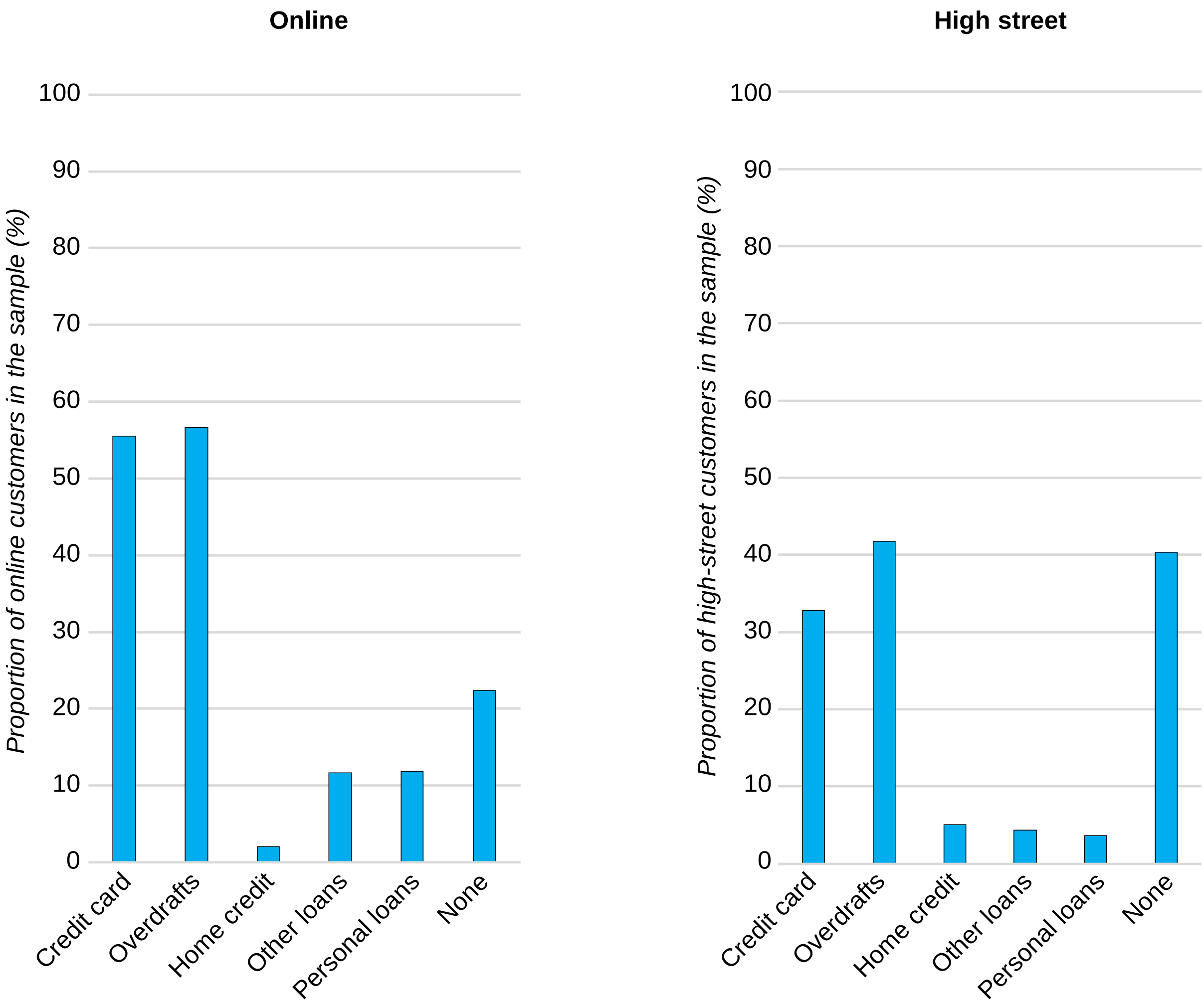
9. We also considered combined usage of credit products other than payday loans. We found that 72% of customers used either an active credit card or an overdraft in 2012, and 35% had used both. Again, this result is broadly similar if we reweight the sample.[5]

10. When comparing online payday customers with high street payday customers, we found that online payday customers were more likely to use alternative credit sources. Our results are set out in Figure 2. Specifically, in 2012, 78% of online customers and 60% of high street customers used another credit product. Again, we find broadly similar results when we use the reweighted sample.[6]

[5] Using the reweighted sample, we found that in 2012, 67% of customers used either an active credit card or an overdraft, and 30% used both.
[6] Using this reweighted sample, we found that in 2012, 74% of online customers and 62% of high street customers used another credit product.

FIGURE 2

Use of other credit products among customers who had only borrowed online or on the high street



Source: CMA analysis of data provided by CRAs.
Notes:
1. These results are based on a sample of 414 high street payday customers (ie individuals who only took out payday loans on the high street) and 2,448 online payday customers (ie individuals who only took out payday loans from online lenders). 366 payday customers who used both channels are excluded from this analysis.
2. Overdrafts refer to customers with overdraft balances greater than £20 in the period.
3. Information on personal loans was obtained from [✂].

Credit availability on credit cards

11. Our results suggest that a significant proportion of payday loan customers use (or have used) credit cards. We considered the extent to which customers actually had credit available on their cards when taking out a payday loan. We did this by taking each payday loan in the sample that was issued in the period from 1 April 2012 to 31 March 2013, and for those customers with

credit cards, seeking to estimate the total amount of available credit on all of their credit cards at the point at which the loan was taken.[7]

12. Available balances were estimated by comparing customers' outstanding balances with their corresponding credit limits. CRA records of credit card balances are typically updated on a monthly basis (and sometimes less frequently), which means that it is generally not possible to observe a customer's credit card balances at the exact point at which a payday loan is issued. For this reason, we assessed credit availability by taking every payday loan in the sample, and considering the most up-to-date balance information that was available for each credit card held by that customer.

13. In 62% of cases, the date on which a credit card's balance was recorded in our data was no more than 30 days before the payday loan was issued. In 81% of cases, the date of the update was within three months of the loan being issued.[8] Wonga told us that there was scope for significant error because customers' credit balances might have changed between updates.[9] However, we considered that the preceding balance updates would represent a useful guide to available balances at the time at which a payday loan was taken out, and did not see any reason to expect a systematic tendency to exist for available balances to increase prior to the payday loan being taken. Rather, we considered that the significant delay for some loans suggested that we may be including in our analysis some cards which – although active at some point in 2012 – had become inactive by the time at which the payday loan was issued. This may cause us to overestimate the extent to which payday loan customers have credit available on their credit cards.

14. We find that in most cases customers did not have significant amounts of credit available on their credit cards when taking out a payday loan. Looking at all payday loans taken out by customers in our sample, we estimate that:

    (a) In 49% of cases, customers did not have a credit card when the loan was issued.

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[7] It was not possible to carry out a similar assessment for overdrafts, because of limitations in the data available for these products.

[8] Our approach to defining whether or not a card is considered to be active is more cautious than that taken in the analysis set out in the presentation on 'Use of other credit products', where we excluded any credit cards for which no balance updates were recorded subsequent to the payday loan being issued (on the assumption that these cards were no longer active at the point at which the payday loan was issued). These cards are not excluded in the analysis presented in this appendix. This drives the difference between the estimates of the delay between balance updates and loans being issued that are presented here, and those set out in the presentation.

[9] Wonga's response to the CMA repeat borrowing and customers' use of multiple lenders working paper of 10 April 2014, p3.

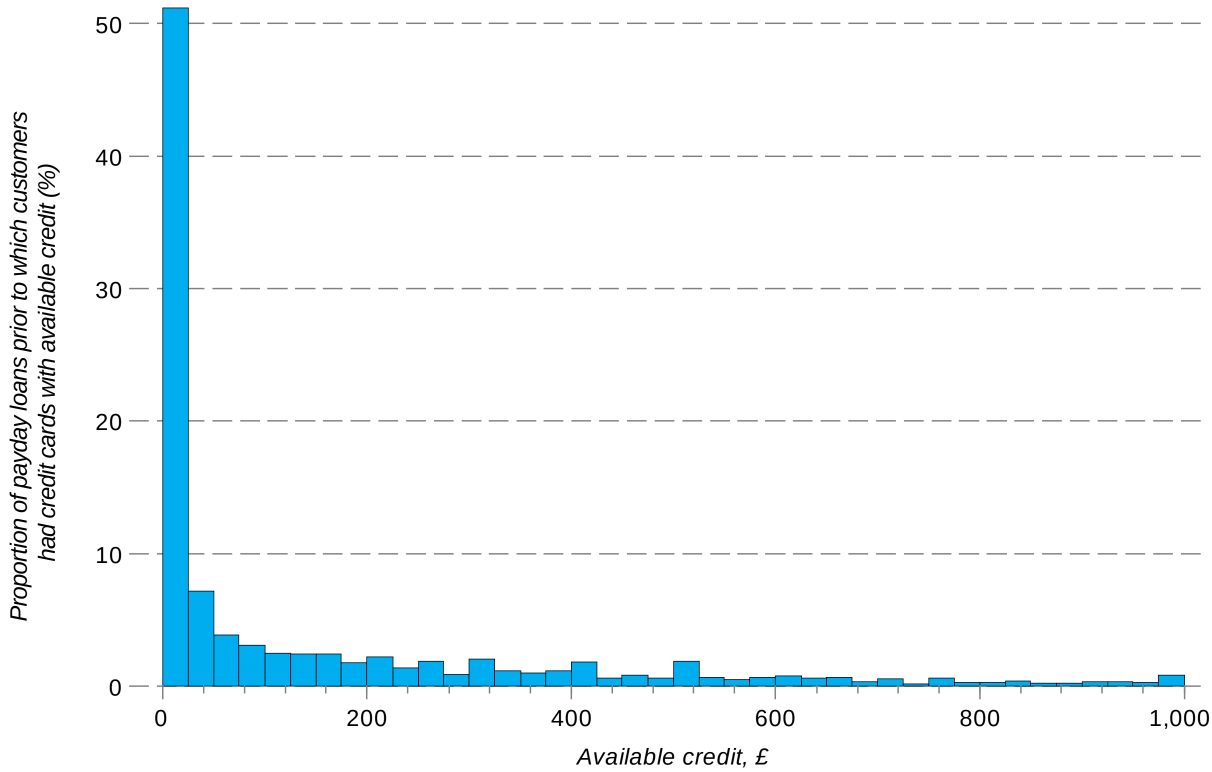
(b) In 65% of cases, customers either did not have a credit card, or did not have any credit available on their cards.

(c) In 82% of cases, customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.[10]

15. Figure 3 sets out in detail the distribution of the amount of credit available on credit cards, for those customers who had credit cards prior to taking out a payday loan.

FIGURE 3

Amount of credit available on credit cards at the point of the most up-to-date balance updates available prior to the loan being taken



Source: CMA analysis of data provided by CRAs.
Note: This chart excludes customers with more than £1,000 of available credit (approximately 8% of all loans).

16. Results based on our sample reweighted such that it is representative of the population of payday loan customers, irrespective of the number of loans taken out, are again similar. In particular:

[10] If we exclude credit cards where the gap between the card's balance being updated and the loan being issued was greater than or equal to 90 days (on the assumption that these cards were inactive), then we find that in 86% of cases customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed.

(a) In 51% of cases, customers did not have a credit card when the loan was issued.

(b) In 67% of cases, customers either did not have a credit card, or did not have any credit available on their cards.

(c) In 83% of cases, customers either did not have a credit card, or had less credit available than the amount that was ultimately borrowed using the payday loan.

Lenders' submissions on competition between payday loans and other credit products

Introduction

1. In this appendix we summarise the submissions of payday lenders on the extent to which they compete with providers of other credit products.

Payday lenders' submissions

2. CashEuroNet said that the most important alternative borrowing options available to customers included: borrowing from other online payday lenders; taking bank overdrafts (including unauthorised overdrafts); drawing down credit cards; borrowing from informal sources, such as family and friends; and paying the late fees charged by utility and other service providers. It said that its survey showed that [✂] of its customers had used other lending sources in the past three years. The results are shown in Figure 1.[1]

FIGURE 1

Sources used to borrow money in the last three years

[✂]

Source: CashEuroNet.

3. CashEuroNet also said that it monitored overdraft pricing and competed with unauthorised overdrafts, pawnbrokers and home-collected credit. It said that it was strongly affected by the actions of other credit providers and it believed that the recent growth of payday loans was linked to a decline in unauthorised overdrafts – customers had learnt that unauthorised overdrafts fees were more expensive than payday loan fees.

4. In response to the CC's working papers, CashEuroNet carried out a short survey of a sample of its customers. Customers were asked how often they had run up unauthorised overdrafts during a 12-month period before and after their adoption of payday loans. The results were that [✂]% of respondents had used an unauthorised overdraft before their payday loan, and [✂]% had done so afterwards. It said that this suggested that payday loans and unauthorised overdrafts were used as substitutes by survey respondents. CashEuroNet also added that certain credit unions provided loan products

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[1] Response to issues statement, pp2 & 3.

that were similar to payday loans in terms of speed of funding, that subprime credit cards were a particularly close substitute for payday loans, and that some home credit providers offered loans comparable to instalment loans.

5. CFO Lending told us that other credit products affected the size of the overall payday loan market. For example, the lending policy of credit card providers could mean that they were in direct competition with CFO Lending. It told us, however, that typically customers would have been turned down for this type of credit and were therefore looking for alternatives that met their needs.

6. Cheque Centres told us that customers considered the payday product against a range of other options, from pawnbroking to unauthorised overdrafts. For those with assets, and facing financial pressure, a payday loan provided a rational choice in many circumstances.

7. Dollar said that products that might be said to impose a competitive constraint on payday loans included, but were not limited to, authorised and unauthorised overdrafts, revolving credit, short-term instalment loans (three- to six-month terms), rent-to-own and possibly pawnbroking and home credit. Dollar told us that it monitored the performance of [✂] firms.

8. H&T told us that the key alternative to a payday loan was an overdraft (frequently unauthorised).

9. Microlend said that it competed with high street banks, lenders and other financial institutions.

10. SRC told us that the actions of other credit providers did affect its business, but it could not measure this as it did not do any tracking or analysis.

11. ThinkFinance told us that it competed in a market that was wider than payday loans and included all forms of higher-cost credit, rapid access to cash, and alternative credit options that consumers accessed outside mainstream credit cards. This included payday loans, bank overdrafts (especially unplanned bank overdrafts which were the highest-cost credit one could take on), pawnbrokers, precious metal exchanges, doorstep loans (home credit), and possibly more. It said that the fully unregulated world of illegal loan-sharking should not be ignored as it was a real alternative that some consumers would turn to should other forms of credit not be available to them.

12. Wonga said that: *(a)* 18%, ie almost one-fifth, of online payday customers compared the costs of loans from non-payday providers before choosing to take out their loan (as found by a Bristol University study); *(b)* customers perceived payday loans as functionally similar to other types of short-term credit; *(c)* payday lenders perceived themselves to be competing against

mainstream and other credit products; *(d)* industry commentators treated payday loans as an alternative to unauthorised overdrafts; and *(e)* this was consistent with how Wonga viewed its business. Wonga cited Airdrie Savings Bank, which was offering express loans to existing customers, and credit card companies, which were refining their credit assessments.

13. Wonga said that it had created a proposition which competed head-on with the banks by delivering improved customer service and convenience. [✂]

14. Wonga said that the case for recognising a wider market for short-term credit was enhanced by the fact that the cost of alternative sources of credit such as unauthorised overdrafts or credit cards could be compared. As noted above, the Chartered Institute for Securities & Investment identified that £200 borrowed from a payday lender would cost £66 compared with a charge for borrowing the same amount by way of an unauthorised overdraft of £84.22 for Lloyds Bank and £110 for NatWest. Customers also considered and evaluated other features of short-term credit beyond price such as the potential impact of payment delinquency.

15. Wonga told us that it monitored the cost of unauthorised overdrafts and compared itself with credit cards for cash advances. [✂]

16. Wonga told us that [✂].

17. In response to our working papers, Wonga said that the distinctions between credit products based on product characteristics were blurring as the market evolved and innovated. This had created a chain of substitution across loan products. Wonga cited economic research published by the Federal Reserve Bank of New York that it said showed banks altering their overdraft charges in response to entry by payday lenders.[2]

18. MYJAR stated that it saw itself as being in direct competition with providers of overdrafts and credit cards. It sought to compete with these credit providers on the basis of speed of service, accessibility, transparency and fairness. MYJAR said that in addition to overdrafts and credit cards, store cards were also products that were relatively readily available for the purchase of goods at the time of shopping.

19. Lending Stream told us that it considered itself in a different category from other credit providers such as pawnbrokers, credit card providers and providers of overdraft facilities, and did not compete with them directly. For individual customers, it was possible that Lending Stream was in the same

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[2] Competition and Adverse Selection in the Small-Dollar Loan Market: Overdraft versus Payday Credit, Federal Reserve Bank of New York Staff Reports, Staff Report no 391, September 2009 (revised December 2009).

consideration set as some of these other providers, but it did not actively try to compete with other types of credit.

20. The Cash Store told us that it did not see itself as competing directly with credit cards and overdrafts, as these lenders practised more stringent underwriting based on credit scoring. It served the customers that these lenders could not assist. It saw pawnbroking as significantly different from payday lending and it felt that consumers who chose a payday loan knew the difference. Therefore, it did not see itself as a direct competitor. Furthermore, the trending it saw in its loan volumes and sales did not suggest that the actions of other credit providers negatively affected it.

Non-payday lenders' submissions

21. Barclays told us that its customers who had used a payday loan did not typically have any large overdraft available. It said that payday loan customers were on average 6.5 times more likely to go into arrears than non-payday-loan customers. Barclays typically processed a very broad range of internal and external data every month to enable it to calculate how much it would be willing to lend to each customer (a 'pre-approved limit'). If a customer then requested an amount of credit which was within this pre-approved limit, then they would be granted that credit, effectively instantly, subject to the customer confirming their acceptance of the relevant terms. Customers who had used a payday loan within the past 12 months were likely to be treated differently and would be unable to benefit from pre-approved limits through this automated system. Instead, payday loan users were assessed manually [✂].

22. HSBC told us that it had seen an increasing proportion of its customers using payday loans over time and an increasing proportion of these customers were using payday loans in consecutive months. Its historical analysis suggested that even customers who had used payday loans 18 months previously continued to default at higher rates than average customers, suggesting that payday lending did not fix a short-term need. [✂] Potential albeit not verified reasons for this were: *(a)* convenience of the payday lender; *(b)* perceived lower costs for small value loans; and *(c)* not wanting to be seen to use overdraft facility. [✂]

TABLE 1 **HSBC acceptance and rejection rates for identified payday loan customers**

		%
Product	*Acceptance rate*	*Rejection rate*
Current Account—Overdraft Limit Review	[✂]	[✂]
Credit Card—Limit Review	[✂]	[✂]
Credit Card—New Card	[✂]	[✂]
Personal Loan	[✂]	[✂]

Source: CMA analysis based on HSBC's historical (ie pre-2012) data.

23. LBG told us that of its customers, [✂] had received at least one payday loan credit into their current account(s) in the tax year April 2012 to March 2013. Of these customers, [✂]% had a current account that offered an overdraft facility (as at March 2013) and [✂]% had spent at least one day in excess of their agreed overdraft limit in the 12-month period (including those customers with no overdraft facility). These customers were in excess of their agreed overdraft limit for an average of [✂] days over the 12 months.

24. LBG told us that payday loan customers tended to be in the higher-risk, higher-indebtedness end of its customer base. LBG internal research from April 2012 suggested that of the Lloyds Bank customers who used payday loans, [✂]% would be rejected if they applied for a personal loan. For HBOS customers using payday loans, the figure was [✂]%. Follow-up research in July 2012 gave rejection figures of [✂]% for Lloyds Bank and [✂]% for Halifax.

25. LBG provided some analysis of payday loan use by HBOS customers. This showed that most customers using payday loan companies either did not have an authorised overdraft, or were already heavily using their authorised overdraft. However, there was still some appetite from HBOS to lend further amounts to two subsets of these customers.

26. RBS/NatWest told us that [✂]. RBS/NatWest told us that [✂].

27. A large bank ([✂]) told us that 4.4% of its retail customers had evidence of an active payday loan facility or had taken or applied for a payday loan facility in the last 12 months. Of those customers, 80% were currently in arrears on other credit facilities with 73% having a registered default, county court judgment or insolvency marker. It told us that customers with recent payday loan activity had default rates up to ten times higher than those customers without payday loan activity.

Local overlap and concentration

Introduction

1. To the extent that customers have a preference for high street lenders, then it may be relevant to understand how competitive conditions vary across different local areas. To do this, in this appendix we considered the extent of overlap between the operations of the different high street lenders.

2. We began by presenting evidence on the distance that customers travel to take out a payday loan. We then presented figures on the number of stores operated by high street lenders and how near these stores were to each other, allowing us to build up a picture of how concentrated the supply of high street payday loans was at a local level.

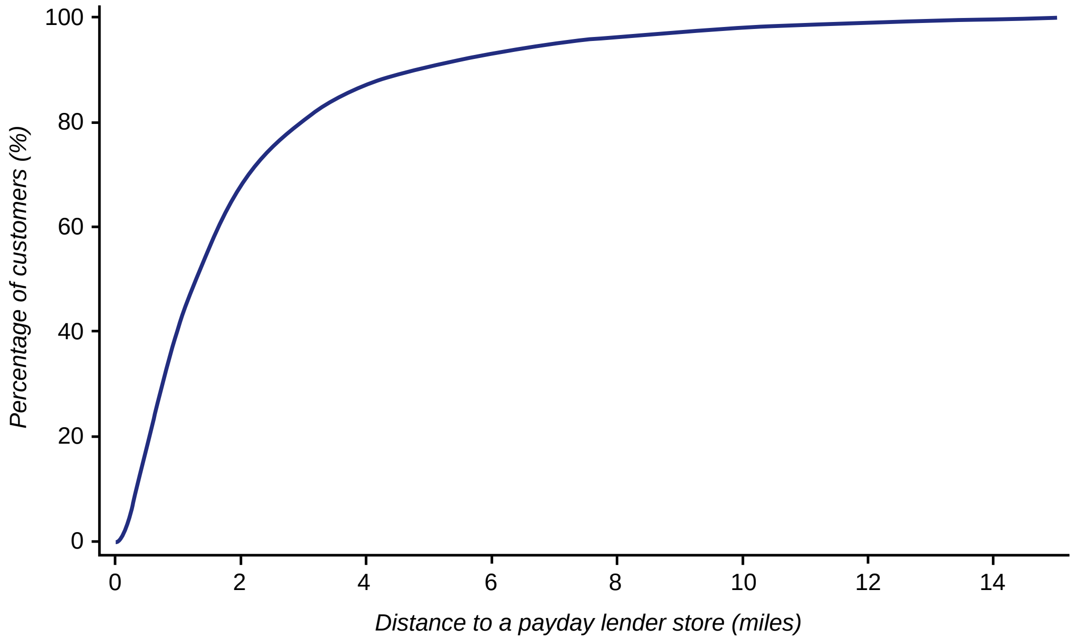
Distance travelled to stores

3. Using information on customers' postcodes, we found that the great majority of borrowers travelled a relatively short distance to take out their loan. Figure 1 shows the cumulative distribution of straight-line distances (ie not road distances, which will be higher) between the addresses of all customers taking out loans from five of the largest high street lenders in the 12 months to August 2013[1] and the stores from which they took out their payday loan. The data shows that around 80% of loans were taken out by customers that were located within 3.2 miles of the store and 95% by customers within 9 miles.[2] Customers' willingness to travel appeared similar across different lenders.

[1] Since August 2013 some of the largest high street lenders (Cheque Centre, H&T and The Cash Store) have exited the market, either through cessation of payday products or complete closure (see Appendix 4.5 for further details). The figures presented in this appendix, therefore, may not necessarily reflect the current situation of the market. In any case, as we noted in paragraph 5.77, competitive conditions were unlikely to vary significantly by location, primarily because online lenders (who account for the majority of loans issued) are likely to constrain high street lenders in a similar way across the UK.
[2] We also investigated the number of stores of the same lender that customers used. We find that the most customers used only a single store of a lender: on average, customers used 1.09 stores of the same high street lender in the 12 months to August 2013.

FIGURE 1

Cumulative distribution of distance travelled to reach the store



Source: CMA analysis.
Note: The distribution of distances between customer and store address is shown for all loans issued by five of the largest high street lenders (The Money Shop, Cheque Centres, Speedy Cash, H&T and The Cash Store) in the 12 months to August 2013.

Lenders' store locations

4. We also considered the geographic distribution of the stores of the high street lenders. Table 1 summarises the number of stores operated by five of the largest high street payday lenders. Maps of the locations of these stores are provided in Annex A.

TABLE 1 **High street payday lending: number of stores as of August 2013**

	Lender					
	Cheque Centre	*The Money Shop*	*H&T*	*Speedy Cash*	*The Cash Store*	*Other lenders*
Number of stores	496	578	194	23	29	89

Source: Main parties' responses to market questionnaire and responses to small lender questionnaire.

5. The maps show that the two largest high street lenders in August 2013, The Money Shop and Cheque Centres, both operated large numbers of outlets, with stores spread across the UK. H&T also operated a substantial number of stores across England and Scotland. The Cash Store had a relatively small number of stores primarily in the North of England, while Speedy Cash operated a similar number of branches, primarily in larger cities in England.

6. In order to assess the extent of overlap between different lenders' operations, we calculated, for each store, how many rival high street lenders operated nearby stores.[3] We used a threshold of 3.2 miles, on the basis that 80% of payday loans were taken out by customers located within 3.2 miles (straight-line distance) of the store from which they borrowed, and on the assumption that most customers would be unwilling to travel a distance further than this to take out a payday loan.[4] Our results are set out in Table 2.

TABLE 2 **Overlap between lenders' stores as of August 2013**

	Cheque Centres	*The Money Shop*	*H&T*	*Speedy Cash*	*The Cash Store*	*Small lenders*	*All lenders*
Zero rival fascia within 3.3 miles	69 (13.9%)	48 (8.4%)	1 (0.5%)	0 (0%)	0 (0%)	5 (5.6%)	123 (10.0%)
One rival fascia within 3.3 miles	139 (28.0%)	156 (27.2%)	3 (1.6%)	0 (0%)	1 (3.4%)	8 (9.0%)	307 (25.7%)
Two rival fascias within 3.3 miles	125 (25.2%)	131 (22.9%)	68 (35.2%)	1 (4.3%)	0 (0%)	20 (22.5%)	345 (24.5%)
Three rival fascias within 3.3 miles	106 (21.4%)	107 (18.7%)	59 (30.6%)	6 (26.1%)	19 (65.5%)	18 (20.2%)	315 (20.5%)
Four rival fascias within 3.3 miles	54 (10.9%)	128 (22.3%)	60 (31.1%)	14 (60.9%)	7 (24.2%)	35 (39.3%)	298 (18.6%)
Five rival fascias within 3.3 miles	3 (0.6%)	3 (0.5%)	2 (1%)	2 (8.7%)	2 (6.9%)	3 (3.4%)	15 (0.7%)

Source: CMA analysis.

Note: This analysis covered a total of 1,403 stores operated by high street lenders as of August 2013. This is lower than the total in Table 1, due to missing postcode information for a small number of stores.

7. We found that around 90% of the stores operated by high street lenders were located within 3.2 miles of a store of at least one rival high street lender.[5] As is evident from an inspection of the maps showing the distribution of The Money Shop and Cheque Centres stores, this was primarily because of the very significant overlap in the location of the operations of these two lenders. A substantial proportion (nearly two-thirds) of the stores of high street lenders were located within 3.2 miles of two or more rival lenders.

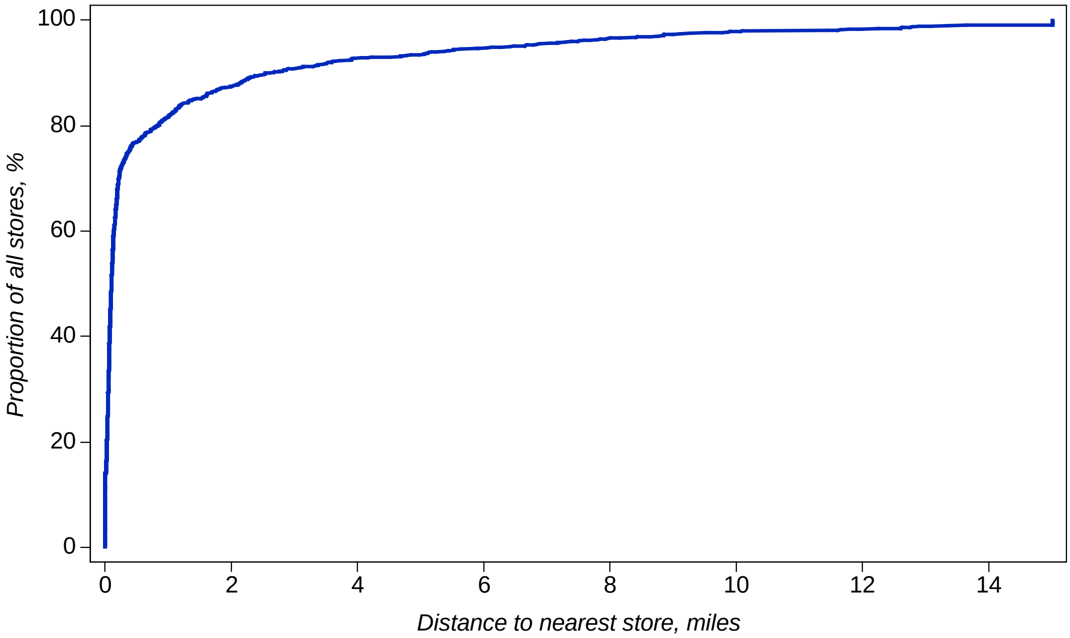
8. Finally, we investigated the distribution of distances from the store of each lender to the nearest store of a rival lender. Figure 2 shows the cumulative distribution of the distances between all lenders' stores and the nearest store of a rival lender. The figure suggests that 51% of lenders' stores were within 0.1 miles of the store of another lender. 82% of stores are within 1 mile of a

[3] For example, if an H&T store had two The Money Shop stores and one Cheque Centres store nearby, it would be classed as having two lenders nearby.
[4] Evidence submitted by payday lenders also suggested that customers generally do not travel long distances to a payday lender's store. The Cash Store told us that the majority of its customers used public transport and therefore anything over a 20-minute travel time to a location from the customer's home address was thought to be too long. [✂] research showed that 30% of customers travelled less than a mile and 90% of customers travelled less than 9 minutes.
[5] When a threshold of 5 miles is used, 7% of stores were found not to have any nearby rivals. When the distance was set to 2 miles, the figure is 13%.

rival lender. The mean distance between a lender's store and the nearest store of a rival was around 1 mile.

FIGURE 2

Cumulative distribution of straight-line distances between lenders' stores and the nearest store of a rival high street lender

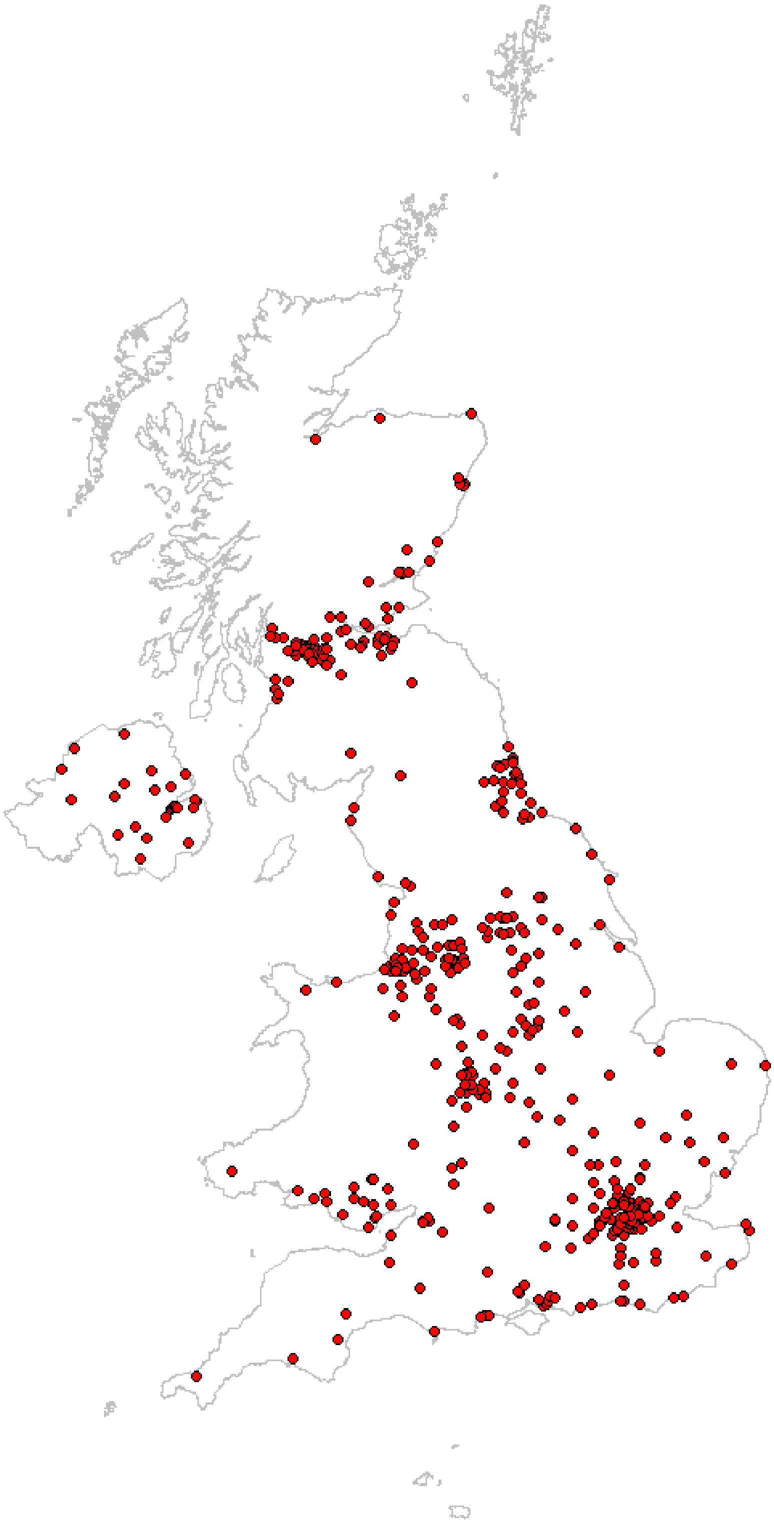


Source: CMA analysis.
Notes:
1. This analysis covered a total of 1,403 stores operated by high street lenders as of August 2013. This is lower than the total in Table 1, due to missing postcode information for a small number of stores.
2. In addition to those shown in the chart, there were a further 13 stores with the nearest store of a rival located further than 15 miles away (0.9% of all stores). The maximum distance from a store to the nearest store of a rival lender was around 34 miles.

Maps of local operations

FIGURE 1

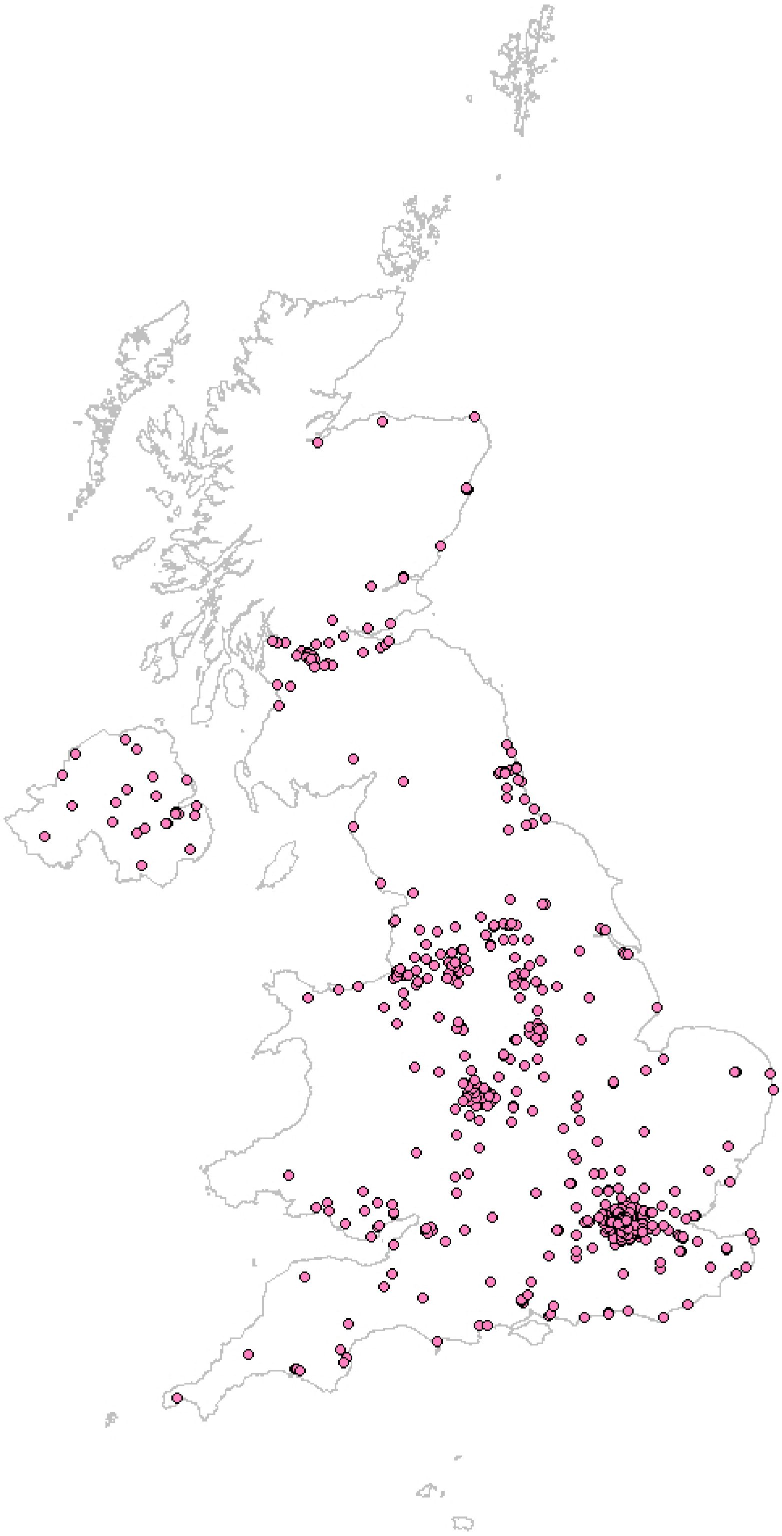
Cheque Centres locations



Source: CMA analysis.

FIGURE 2

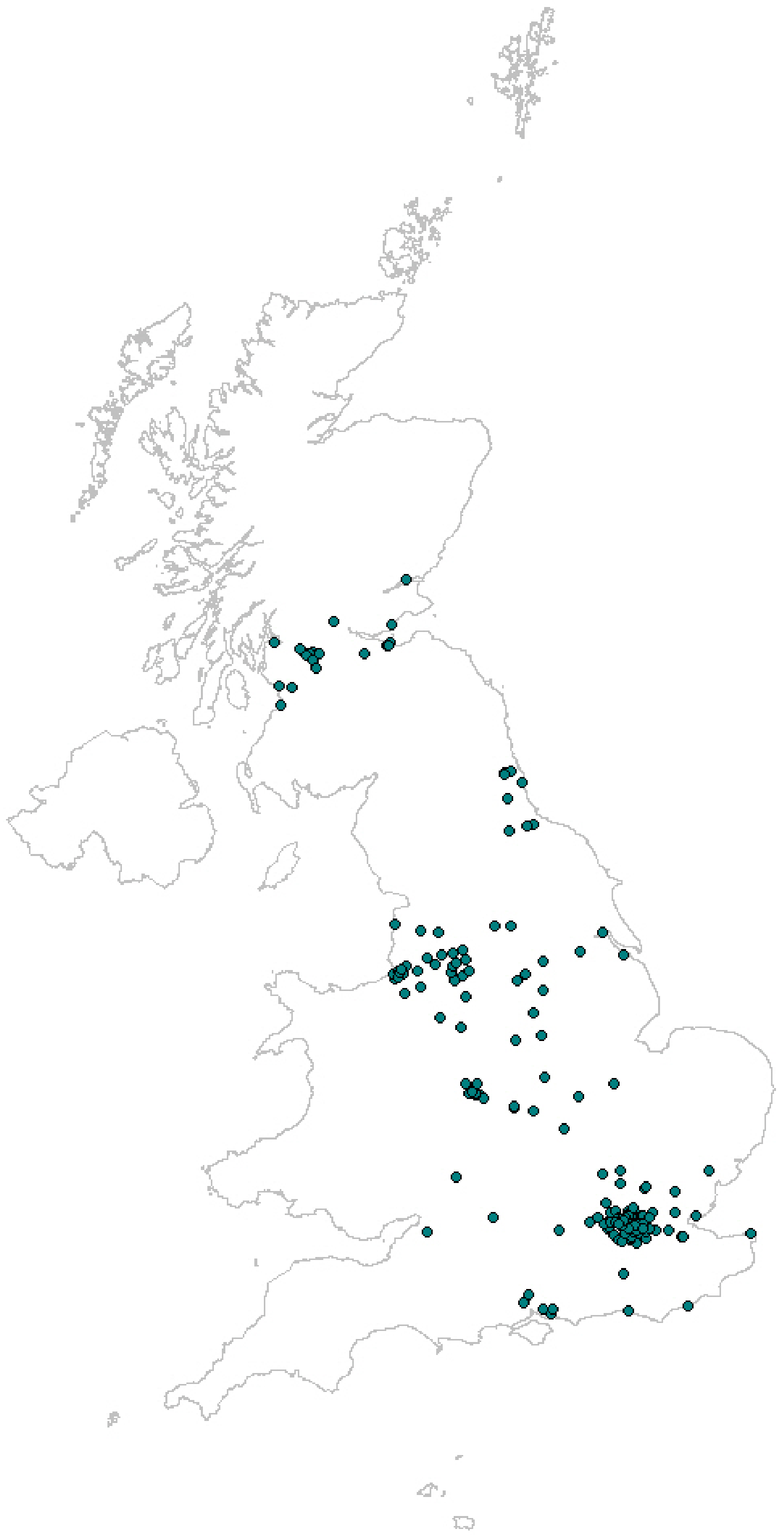
The Money Shop locations



Source: CMA analysis.

FIGURE 3

H&T locations



Source: CMA analysis.

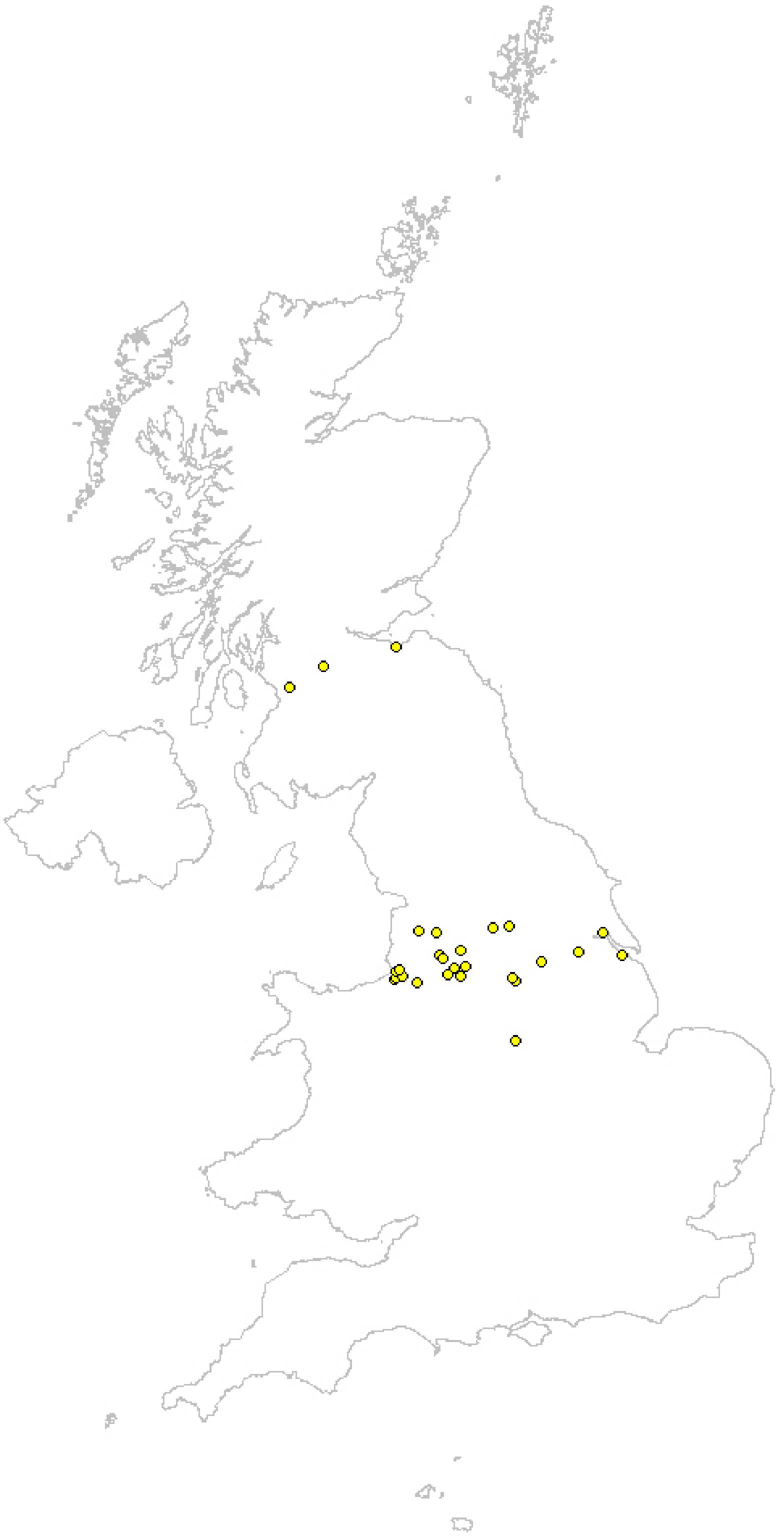
FIGURE 4

Speedy Cash locations

Source: CMA analysis.

FIGURE 5

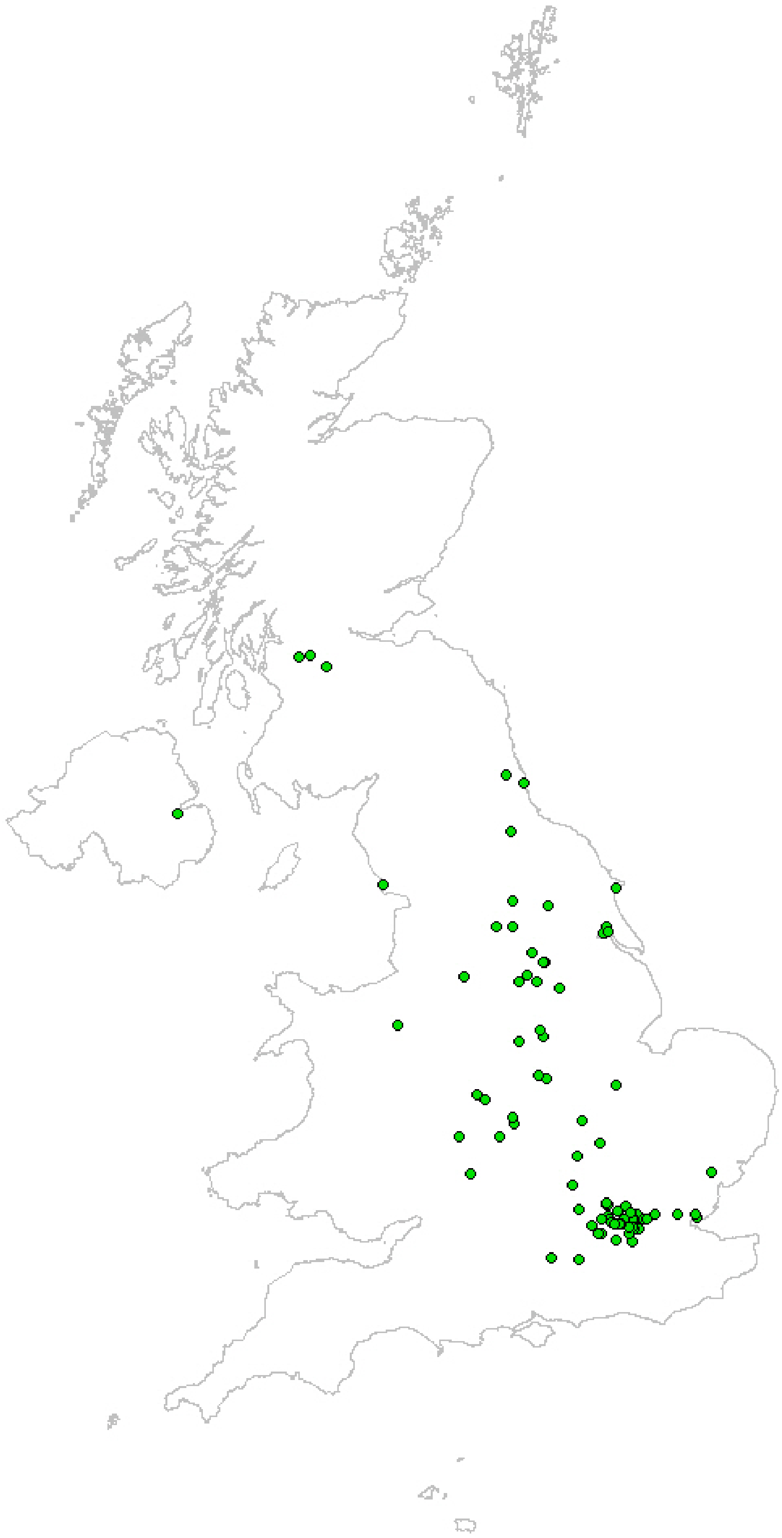
The Cash Store locations



Source: CMA analysis.

FIGURE 6

Other lenders



Source: CMA analysis.

Factors affecting customers' likelihood of shopping around

1. In this appendix, we investigate the relationship between customers' characteristics and their likelihood of shopping around. Using the responses to our customer survey, we analysed econometrically the characteristics that were most commonly associated with whether a customer reported having shopped around.

2. The main findings are:

   (a) Online customers were significantly more likely to report having shopped around than customers who borrowed from high street stores.

   (b) Customers who attributed most importance to the speed of getting the loan tended to report having shopped around less frequently than customers placing more value on other factors when taking out their loan.

   (c) A higher level of education and familiarity with financial concepts were positively correlated with the probability of a customer reporting having shopped around.

   (d) We did not find the amount of the loan to have any statistically significant effect on the probability a customer reported having shopped around.

   (e) Previous experience with payday loans appeared to have, if any, a limited (and positive) effect on the probability that a customer reported shopping around.

3. The appendix is structured as follows. First, we briefly describe the econometric methodology. Second, we discuss the data and the explanatory variables used in the model. Third, we present the main results. Finally, we discuss some robustness checks that we carried out.

The methodology

4. The aim of the analysis is to examine how the probability that a customer reported having shopped around for their loan in our customer survey[1] was affected by customer and loan characteristics. Given that our dependent variable was binary (whether or not a customer reported having shopped

[1] This was based on customers' responses to the question of whether they compared pros and cons of different payday lenders. However, as discussed in Section 6 (see paragraphs 6.25 & 6.26), evidence from the qualitative research suggests that even when they reported having shopped around they might not have carried out a thorough comparison and as a result they might have failed to identify the best-value offer.

around), we estimated the model using a probit analysis. Probit models are typically used when the outcome of the dependent variable is binary as in that case OLS (Ordinary Least Regression) produces predicted probabilities which are not constrained between 0 and 1.

5. The model specifies that:[2]

$$p_i = \Pr[y_i = 1 \mid X] = \Phi(X_i'\beta)$$

That is, the probability of customer *i* (p_i) shopping around (ie Y taking value of 1) conditional on a set of explanatory variables (X, where β is the vector of coefficients associated with the explanatory variables) is given by $\Phi(\cdot)$, the cumulative distribution function of the error term, ε, at given values of the independent variables ($X_i'\beta$). In the probit model, the error term is assumed to be normally distributed with zero mean and variance equal to 1.

Data

6. Our analysis was based on the responses to our customer survey. The survey sample consists of 1,560 payday loan customers who took loans from the 11 major lenders between 1 September 2012 and 31 August 2013 and/or between October and December 2013.[3] The sample covered online and high street customers as well as new and repeat customers.

7. The data from the survey has been weighted back to the population based on channel of purchase used (online/high street), number of loans (new/repeat customers) and identity of the lender (separate for the customers of the largest lenders and combined for those taking out loans from smaller companies). For the purposes of weighting, the 'population' has been defined as customers in the transaction data set provided by the 11 major lenders (see Appendix 2.2 for further details of this data set).[4]

Dependent variables

8. Our dependent variables were based on customers' responses to two questions:

> Did you shop around between payday lenders – for example, compare some of the pros and cons of different payday lenders – before you applied for your loan?

[2] See Cameron and Trivedi, *Microeconometrics; Methods and applications*, 2005, Chapter 14.
[3] See TNS BMRB survey report, p8.
[4] ibid, p9.

and, for those customers who did not report having shopped around:

> Now think about *all* the times you have taken out a payday loan. Have you *ever* shopped around to compare some of the pros and cons of different payday lenders?

9. We ran two separate regressions: *(a)* with a variable indicating whether a customer reported shopping around for the most recent loan as the dependent variable, and *(b)* with a variable indicating whether a customer reported shopping around for any loan (either the most recent loan or any loan previously taken out) as the dependent variable.

10. According to our survey, 27% (421) of the customers reported having shopped around for the most recent loan and an additional 13% (200) reported having shopped around in the past, although not for the most recent loan.

Explanatory variables

11. As part of the survey, several different pieces of information about customers were collected, covering a wide range of aspects: socio-demographic characteristics of the customers, the context in which they took out payday loans, their borrowing behaviour, their familiarity with financial concepts and the loan terms (amount and costs) for the most recent loans they took out. In addition, further information was available from our transaction database.

12. We included a number of different independent variables in our models, to reflect factors which might in theory influence the likelihood that a customer will shop around. These variables, based in part on the discussion of barriers to shopping around set out in Section 6, included:

    (a) Socio-demographic characteristics: in particular, we included variables reflecting respondents' income and level of qualification/education.[5,6]

[5] We also considered customer age and gender. However, both these characteristics do not have a significant effect on the likelihood of shopping around.
[6] We considered a set of dummy variables indicating the highest level of qualification obtained by the customer (ie university degree, diploma in higher education, A-level, GCSE). Only university degree and higher education diploma had a significant effect on the probability of shopping around, therefore only those two variables were included in the final model. Furthermore, since the marginal effects of these variables were very similar, the two variables were combined into one dummy variable indicating whether a customer has a university degree or a higher education diploma.

(b) Level of financial literacy: as proxy for customers' familiarity with financial concepts, we included a variable indicating whether a customer was able correctly to calculate simple interest rates.[7]

(c) The context in which the loan was taken out: in order to proxy for the extent to which a customer felt under pressure, we included a variable indicating whether the respondent reported that they could definitely not have gone without the loan.[8]

(d) The channel through which customers took out the loan (online vs high street): we included a variable giving the purchase channel used for the most recent loan (in the model with shopping around for the most recent loan as dependent variable) or the channel mainly used by the customer (in the model with shopping around for any loan as the dependent variable).

(e) The speed of obtaining the loan: we included a variable to test whether customers who reported speed as the single most important factor when taking out their payday loan are more or less likely to report having shopped around for their loan than customers who reported any other factor.

(f) The amount of the most recent loan: to test whether a relationship existed between customers' propensity to shop around and the amount that they could potentially save, we included a variable giving the value of the most recent loan, as recorded in lenders' transaction data.

(g) Borrowing behaviour: to understand the impact on the likelihood of a customer shopping around of their previous experience with payday loan products, we included in our model the number of loans that a customer reported having taken out previously.

(h) Uncertainty as to whether a loan will be approved or not: to proxy for the uncertainty facing a customer we considered various different measures: whether a customer reported having been rejected for a previous payday loan, whether the customer reported having been turned down for other forms of credit in the past, or whether they have experienced any debt problem (eg bad credit rating, county court judgment) in the last five years. Since these three variables are correlated with each other, we

[7] We checked through a chi-squared test that financial literacy and level of qualification/education are not closely correlated.
[8] See Question QPDSA4 of our survey questionnaire.

included just one in our preferred specification, namely whether or not a customer had been rejected for a payday loan in the past.[9]

Main findings

13. The coefficients of the model were estimated using the Maximum Likelihood Estimation technique. The estimation was carried out separately for the dependent variable based on the most recent loan (Regression 1) and the dependent variable based on whether customers had ever shopped around, either for the most recent loan or for any previous loan (Regression 2).

14. Estimates of the effect of a change in any one explanatory variable depend on the values of the other explanatory variables in the model. A common approach is to estimate the sample average of the marginal effects, ie the average of the marginal effects calculated at each value of the explanatory variables.

15. Table 1 shows the average marginal effects of Regression 1. The strongest predictor of whether or not a customer reported shopping around for their most recent loan was the channel of purchase, with high street customers less likely to shop around than online customers. The importance a customer attributed to speed when taking out their loan also negatively affected the likelihood that they reported shopping around for that loan.[10] Shopping around appeared to be more likely (positively correlated) when customers held a university degree or a higher education diploma, and when they understood simple financial concepts. Other variables do not have a statistically significant effect on the probability of shopping around in our model.

[9] However, as robustness checks we also ran the model using the alternative two variables (see paragraph 17 for further details).

[10] We also ran a specification that included a dummy variable for each of the factors indicated by customers as the most important when shopping around (ie reputation, cost of loan, ease of application process, repayment flexibility, the amount of the loan, the purchase channel) but not for speed. The coefficients associated with these variables reflect the higher or lower probability of shopping around by customers who indicated one of those factors relative to the probability of shopping around of customers who reported speed as the most important factor. Only the coefficients associated with ease of application process and repayment flexibility are statistically significant, and the marginal effects associated with both explanatory variables are positive. This may somewhat further support the finding that when customers attributed primary importance to speed they were less inclined to shop around.

TABLE 1 **Factors explaining the likelihood a customer reports shopping around for their most recent loan – Regression 1**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.212***	0.037
Most important factor _ speed	–0.062**	0.030
Log (number loans)	0.017	0.015
Importance of loan	0.026	0.029
Being refused for PDL before	0.048	0.034
Log (amount of loan)	–0.012	0.019
Financial literacy	0.148***	0.041
Higher education	0.122***	0.029
Log (income)	0.034	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[11] Pseudo R2 = 0.067, Log-Likelihood = –573.29.

16. The results of Regression 2 are presented in Table 2. As Regression 2 was intended to investigate customers' attitudes towards shopping around looking beyond their most recent loan, loan-specific characteristics (the amount of the loan and the perceived importance of the loan) were not included in this specification. The results are largely consistent with those in Regression 1. The channel of purchase had the largest effect on the probability a customer reports shopping around, and when customers attributed most importance to speed when taking out their payday loan, they were less likely to report having shopped around. By contrast, financial literacy and higher level of education were positively correlated with the probability of shopping around. The results of two regressions differ in relation to:

(a) the variable capturing whether a customer was rejected for a previous loan is statistically significant and positively correlated with the likelihood of shopping around. This may reflect some customers having previously had to shop around in order to finding a lender that would approve their application; and

(b) variables capturing a customer's experience with payday loans (the number of loans taken out) and income were positively related with the probability a customer reports having ever shopping around, and these effects are statistically significant. However, the size of these effects is small.

[11] The number of observations were less than the sample size (1,560). This was mainly due to a number of customers refusing to provide their income details.

TABLE 2 **Factors explaining the likelihood a customer reports having shopped around for any loan – Regression 2**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.249***	0.037
Most important factor _ speed	–0.107***	0.031
Log (number loans)	0.054***	0.016
Being refused for PDL before	0.100***	0.035
Financial literacy	0.215***	0.040
Higher education	0.090***	0.031
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[12] Pseudo R2 = 0.09264, Log-Likelihood = –630.61.

17. We performed some checks to assess the robustness of our model. Full results are presented in Annex A. In particular:

(a) As discussed in paragraph 12*(h)*, there are various variables which could be used to capture customers' uncertainty about whether they will be approved for a loan, and they are all highly correlated. Our preferred specification includes the explanatory variable based on whether customers reported having been rejected for a previous payday loan. Nevertheless, we also estimated the model using information on (i) whether customers reported having been turned down for other forms of credit in the past, and (ii) whether they experienced any debt problem (eg bad credit rating, county court judgment) in the last five years. These models produced similar estimates to those reported in Tables 1 and 2.[13]

(b) We also ran the regressions using both a logit model[14,15] and a standard OLS model. The estimated marginal effects had the same sign and similar magnitude as those derived using the probit model.[16]

[12] See previous footnote.
[13] See Tables 1, 2, 5 & 6 in Annex A.
[14] This model assumes that the error term has a standard logistic distribution rather than a normal distribution as with the probit.
[15] Logit and probit models use different scale factors and as a consequence logit coefficients are usually larger in magnitude than those generated using a probit model. As the average marginal effect measure is scaled similarly across models, it can be used for comparison purposes. See Cameron and Trivedi, *Microeconometrics; Methods and applications*, 2005, section 14.3.7.
[16] See Tables 3, 4, 7 & 8 in Annex A.

Results of robustness checks

Regression 1 – Factors explaining the likelihood a customer reports shopping around for their most recent loan

TABLE 1 **Model with the variable indicating whether customer has been turned down for other forms of credit as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.215***	0.038
Most important factor _ speed	–0.067**	0.031
Log (number loans)	0.017	0.015
Importance of loan	0.027	0.030
Turned down for other credit	0.050	0.032
Log (amount of loan)	–0.014	0.019
Financial literacy	0.132***	0.041
Higher education	0.118***	0.030
Log (income)	0.037	0.032

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 851,[1] Pseudo R2 = 0.067, Log-Likelihood = –567.44.

TABLE 2 **Model with the variable indicating whether customer has experienced any debt problem as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.209***	0.037
Most important factor _ speed	–0.061**	0.031
Log (number loans)	0.020	0.015
Importance of loan	0.015	0.030
Debt problem	0.025	0.031
Log (amount of loan)	–0.017	0.019
Financial literacy	0.163***	0.042
Higher education	0.115***	0.030
Log (income)	0.037	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 853,[2] Pseudo R2 = 0.066, Log-Likelihood = –563.41.

[1] See footnote 11.
[2] See footnote 11.

TABLE 3 **Logit model**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.221***	0.040
Most important factor _ speed	–0.061**	0.031
Log (number loans)	0.016	0.015
Importance of loan	0.027	0.029
Being refused for PDL before	0.047	0.034
Log (amount of loan)	–0.013	0.019
Financial literacy	0.148***	0.042
Higher education	0.123***	0.029
Log (income)	0.035	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[3] Pseudo R2 = 0.067, Log-Likelihood = –573.06.

TABLE 4 **Ordinary Least Squares model**

Explanatory variables	*Average marginal effects*	*Standard error*
High street purchase	–0.191***	0.035
Most important factor _ speed	–0.061**	0.030
Log (number loans)	0.015	0.015
Importance of loan	0.027	0.029
Being refused for PDL before	0.048	0.035
Log (amount of loan)	–0.013	0.019
Financial literacy	0.139***	0.039
Higher education	0.129***	0.031
Log (income)	0.036	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 862,[4] R2 = 0.077.

[3] See footnote 11.
[4] See footnote 11.

Regression 2 – Factors explaining the likelihood a customer reports having shopped around for any loan

TABLE 5 **Model with the variable indicating whether customer has been turned down for other forms of credit as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.251***	0.037
Most important factor _ speed	–0.103***	0.031
Log (number loans)	0.061***	0.015
Turned down for other credit	0.055*	0.033
Financial literacy	0.189***	0.041
Higher education	0.092***	0.031
Log (income)	0.068**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 867,[5] Pseudo R2 = 0.0869, Log-Likelihood = –625.19.

TABLE 6 **Model with the variable indicating whether customer has experienced any debt problem as a proxy for uncertainty about approval**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.246***	0.037
Most important factor _ speed	–0.113***	0.031
Log (number loans)	0.062***	0.016
Debt problem	0.066**	0.031
Financial literacy	0.226***	0.041
Higher education	0.082***	0.031
Log (income)	0.055*	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 869,[6] Pseudo R2 = 0.0902, Log-Likelihood = –621.56.

TABLE 7 **Logit model**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.255***	0.038
Most important factor _ speed	–0.105***	0.031
Log (number loans)	0.055***	0.015
Being refused for PDL before	0.099***	0.035
Financial literacy	0.221***	0.041
Higher education	0.089***	0.031
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[7] Pseudo R2 = 0.0932, Log-Likelihood = –630.23.

[5] See footnote 11.
[6] See footnote 11.
[7] See footnote 11.

TABLE 8 **Ordinary Least Squares model**

Explanatory variables	*Average marginal effects*	*Standard error*
Mainly using high street	–0.241***	0.037
Most important factor _ speed	–0.106***	0.031
Log (number loans)	0.054***	0.016
Being refused for PDL before	0.102***	0.036
Financial literacy	0.219***	0.040
Higher education	0.091***	0.032
Log (income)	0.063**	0.031

Source: CMA analysis on customer survey.

Notes:
1. Statistical significance: ***significant at 1%, **significant at 5%, *significant at 10%.
2. Number of observations = 878,[8] R2 = 0.012.

[8] See footnote 11.

Use of multiple lenders

1. This appendix sets out our analysis of the borrowing patterns of payday loan customers, and the circumstances under which borrowers use multiple lenders. Our analysis is based on a sample of customers randomly selected from the transaction data of the major lenders.

2. A substantial proportion of payday loan customers have used multiple lenders. We find that much of the use of multiple lenders that we observe is likely to take place as a result of customers being constrained in their ability to return to their previous lender for additional credit. In particular, on a large proportion of those occasions where we observe customers changing lenders, the customer already has a loan with the previous lender outstanding. Furthermore, borrowers often appear to change lenders following repayment difficulties with a previous loan. In only a minority of occasions where we observe customers changing lenders, customers did not appear to be constrained from returning to the same lender by either of these two scenarios.

3. The appendix is organised as follows:

   (a) First, we describe the data that we used for the analysis.

   (b) Second, we investigate payday loan customers' borrowing patterns, and the most common conditions under which use of multiple lenders takes place.

   (c) Third, we discuss comments submitted by some lenders in relation to our analysis.

Description of the data sets

4. To construct our sample we randomly selected 3,250 payday loans issued in 2012 from the transaction data submitted by the 11 major lenders.[1] Each customer identified was then matched across the lenders' transaction databases using a combination of their last name, postcode and date of birth.[2] This allowed us to generate a single database of all loans issued to the

[1] A small number of customers that were recorded as having taken out loans fraudulently were later excluded from this sample. This affected around 1% of customers in the sample.
[2] The matching process has some limitations: first, customers may have changed address during the period considered; second, there may be inaccuracies (or small differences) in the way a customer's name is recorded. Both may result in failing to match a customer across the lenders' transaction data, and ultimately may lead to underestimate the extent to which customers take out multiple loans and/or use multiple lenders.

customers in the sample by the 11 major lenders in the period January 2012 to August 2013.

5. To gain a complete picture of the loans taken out by the sampled customers, we integrated the transaction data collected from the 11 major lenders with information provided by five CRAs: Callcredit, Experian, Equifax, Lending Metrics and Teletrack. The CRAs were asked to match the customers in their sample to their own databases and provide any records of payday loans issued to these individuals between January 2012 and August 2013. Information on payday loans issued by those lenders for whom transaction data was not available was then taken from the records provided by the CRAs and added to our data set.[3]

6. We note some limitations affecting the CRA data:

   (a) The information held by the CRAs may be incomplete, to the extent that lenders do not provide details of all loans that they have issued to one of the five CRAs from which we collected information. This may affect the completeness of our records of loans issued by smaller lenders.

   (b) The information provided by the CRAs on smaller lender loans is generally less rich than that available in the transaction data collected from the major lenders (for example, often information about the repayment date of loans is incomplete – see paragraph 18 for details of the assumptions about the duration of loans issued by smaller lenders that we have made as a result of this).

   (c) Comparing loans appearing in the transaction and the CRA data, we observe discrepancies in recorded loan volumes for some lenders. This is most likely to be driven by the way rollovers and top-ups are treated in the two data sets. In general, we consider the transaction data to be the more reliable source, and have relied on this as our primary source of information on payday loans taken out by customers in the sample.

7. Lenders other than the 11 major providers accounted for approximately 10% of the loans issued in 2012 (see paragraph 2.84). Therefore any limitations associated with the data collected from the CRAs are likely to have, if any, only a minor effect on our results.

8. Given the sampling methodology, the probability of a customer being included in the sample is proportionate to the number of loans issued to that customer. As a consequence, the results of our analysis are representative of the

[3] We dropped any duplicates – instances where a loan issued by the same lender on the same day to the same customer were recorded by multiple CRAs.

population of payday loan customers in 2012, weighted by the number of loans those customers took out. The behaviour of higher-frequency borrowers will therefore play a greater role in driving the results of our analysis than the behaviour of lower-frequency borrowers.

9. We consider it useful to use this sample for our analysis as it reflects the greater relative importance of heavier borrowers to lenders. Nevertheless, we also considered how the results of our analysis vary if we reweight our sample to give additional prominence to lighter payday loan users, such that the sample is representative of the average payday customer in 2012 irrespective of the number of loans they took out.

10. On average, a customer in the sample took out 11.6 loans in 2012. Of the loans in our sample taken out in 2012, 81% were issued by online lenders and 19% were issued by high street lenders.[4] 76% of customers borrowed only online, 13% borrowed only from high street lenders and 10% used both channels.[5]

11. The final consolidated data set contained a total of 53,343 loans, issued by 68 different lenders in the period January 2012 to August 2013. 91% of loans were issued by the major 11 lenders, and 9% were issued by smaller lenders.

Patterns of borrowing from multiple lenders

12. We considered the borrowing patterns of payday loan customers, and the circumstances under which borrowers use multiple lenders.

13. More than half (55%) of payday customers in our sample borrowed from more than one payday lender in the period April 2012 to March 2013.[6] Breaking this result down to a loan level (as illustrated in Figure 1), of all loans issued in the 12 months to March 2013:[7]

    (a) 3% were the first loan that we observed a borrower taking out in the entire period covered by our data set;

[4] We could not establish the channel for 0.35% of the loans issued in 2012 because either the lender who provided the loan was active in both channels (and we do not have information about which particular product was used), or we could not identify the channel in which the lender was operating.
[5] Customers who only borrowed from high street lenders are more likely to have used only one lender than customers who used only online lenders. Customers who borrowed from both online and high street lenders used a larger number of lenders on average.
[6] For the scope of this analysis we considered products belonging to the same group as different lenders (for example, Dollar operates three subsidiaries in the UK, namely: PaydayUK, Payday Express and The Money Shop; we treated them as separate lenders). This may tend to overstate the extent to which customers use multiple lenders and change between lenders.
[7] We allowed for a three-month window before any loan in the sample, so that we could observe the loan history prior to the beginning of our analysis period. This subset of our data set contained a total of 3,094 customers who took out 36,073 loans in the period.

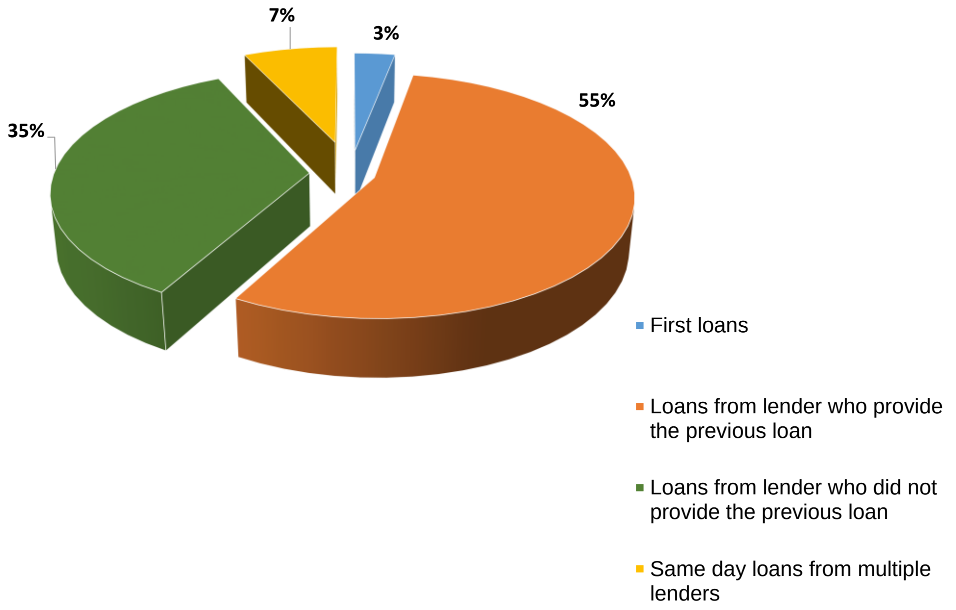
(b) 7% of loans were issued on the same day as another loan from a different lender;

(c) 55% were loans from the same lender that provided the previous loans; and

(d) 35% were loans from lenders that did not provide the previous loans.

FIGURE 1

Loans issued between 1 April 2012 and 31 March 2013, by type



Source: CMA's analysis on the transaction and CRA data.

14. A significant proportion of loans are taken out from a different lender from the one used previously. One factor that may drive payday loan customers to change lenders is if their previous supplier would be unwilling to grant them further credit. In this section, we consider the extent to which those occasions where we observe borrowers changing lenders are likely to be driven by credit constraints with the existing lenders.

15. We identified two common scenarios, in which we considered that borrowers would generally be constrained in their ability to return to the same lender for additional credit:

(a) First, customers are likely to be constrained in their ability to take out further credit from a lender if they already have a loan outstanding with that lender. In particular, most lenders will not issue a customer a new loan if they already have a loan outstanding.[8] One exception is that some lenders allow customers to top up existing loans – this is discussed in greater detail in paragraphs 32 to 36.

(b) Second, a customer may be constrained in their ability to borrow further amounts from a lender if they repaid their previous loan late, or did not repay it at all. This is discussed in greater detail in paragraph 6.33*(b)*.

16. We discuss in the following sections the extent to which each of these borrowing scenarios is observed among customers in our sample. Then, we discuss the extent to which we observe customers changing lenders when neither of these scenarios applies.

Changing lender when customers have outstanding loans with other lenders

17. We begin by considering the extent to which, where customers in our sample change providers, this takes place while they have loans outstanding with their previous lender.

18. In order to determine whether a loan was still outstanding at a given point in time, we use the actual repayment date of that loan as recorded in our transaction data (ie the date on which the loan was repaid in full, after any rollovers or top-ups). Where information on the actual repayment date was not available (for instance, for loans which were never repaid in full), we used the original agreed repayment date (plus 22 days for any rollover).[9] Where information on the original agreed repayment date was not available (most commonly for loans made by smaller lenders), we assumed a repayment date of 22 days.

19. We found that the extent to which payday customers borrow while they have loans outstanding with a previous lender is very significant. In particular, in the period April 2012 to March 2013, 54% of customers in our sample took out a loan while there was another loan from a different lender still outstanding[10] (ie 'multisourced') on at least one occasion. This affected nearly all (97%) customers that used more than one lender. 37% of all customers in the sample multisourced more than half of all of their loans.[11]

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[8] For example, this applies to Wonga, CashEuroNet, Dollar, MYJAR, Cash Genie (Ariste), H&T, Cheque Centres, Speedy Cash (SRC) and WageDayAdvance (SRC).

[9] 22 days is the average loan duration in the transaction data set for the period September 2012 to August 2013 (see 'Customer and transaction level descriptive presentation', slide 26).

[10] Or on the same day as another loan from a different lender.

[11] In some cases a lender will not be able to lend the sum a customer requires, which may encourage the customer to take out several loans from different lenders on the same day. 7% of loans were taken out on the same day as another loan from a different lender, and 530 customers (17%) took out loans in such a manner at least once.

20. Heavier borrowers (ie borrowers who took out a greater number of loans in the period) tended to multisource more frequently than customers who took out a smaller number of loans. Table 1 shows that of the loans to customers who took out more than 15 loans, 63% were issued when there was another loan outstanding, while the equivalent figure for customers who took out one to five loans was 23%.

TABLE 1 **Proportion of multisourced loans by group of customers according to total number of loans**

Group of customers according to total number of loans	*% of customers*	*% of loans*	*% of 'multi-sourced' loans*	*No of lenders used*
1–5 loans	29	8	23	1.5
6–9 loans	22	14	28	2.1
10–15 loans	25	26	39	2.5
>15 loans	24	52	63	4.1

Source: CMA analysis of the transaction and CRA data.

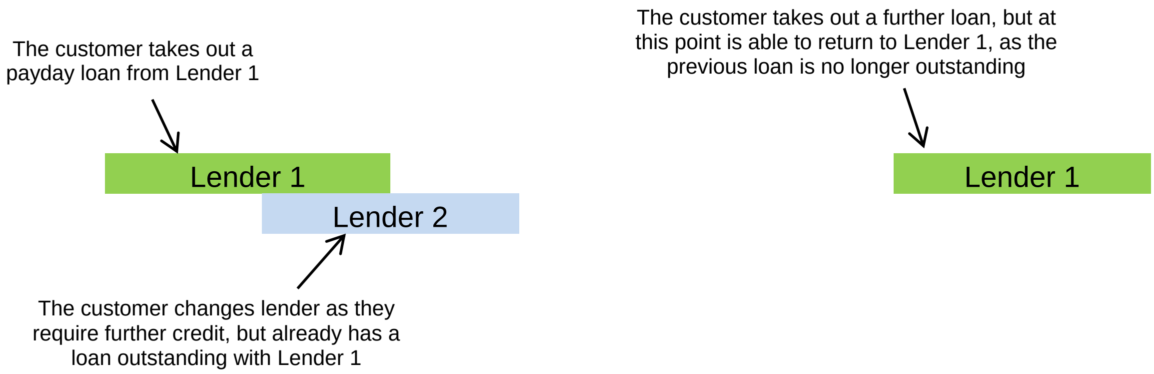
21. We considered what proportion of those occasions on which customers changed lenders in the period took place when a customer already had a loan outstanding, and so where the borrower was likely to be constrained in their ability to return to the original lender for a further loan. We found that this accounted for most of the occasions on which customers changed lender in our sample: specifically of all occasions on which we observed borrowers changing lenders (35% of the loans in our sample),[12,13] 90%[14] took place while they had a loan outstanding with their previous lender.[15]

22. In addition, a further proportion of those instances where we observe borrowers changing lenders are likely to be driven by multisourcing, in so far as these occasions reflect borrowers returning to a lender which was not available when the previous loan was taken. This scenario is illustrated with an example in Figure 2.

[12] See paragraph 13.
[13] 7% of loans were issued on the same day as another loan from a different lender (see paragraph 13). These loans are likely to reflect situations where customers' use of multiple lenders is driven by the inability of taking out the sum they require from a single lender. We note that 5% were instances in which the loans issued on the same day were from lenders other than that providing the previous loan. However, almost all of these instances occurred when the previous loan was still outstanding. As we discuss above (see paragraph 15), these are likely to represent instances of multisourcing where a borrower is constrained in their ability to return to the same lender for additional credit.
[14] That is, 31% of the loans in our sample.
[15] This proportion falls to 87% if we allow one-day overlap (ie taking out a loan from a new lender on the repayment day of a loan from the previous lender), and to 86% if we allow two-day overlap.

FIGURE 2

The impact of multisourcing on the customer borrowing patterns



Source: CMA.

23. We estimated that of all occasions on which we observed borrowers changing lenders (35% of the loans in our sample), in 5%[16] of cases this took place when the customer did not have any outstanding loans, but represented a return to a lender with which a customer had a loan outstanding when they took out their previous loan.

Changing lender following a repayment problem with a previous loan

24. We next considered the extent to which customers changed providers subsequent to experiencing a repayment problem with a previous loan.

25. We found that 22% of the loans in the sample were either never repaid in full, repaid in full late but not rolled over,[17] or – for loans issued by smaller lenders for which only information from the CRAs was available[18] – were marked as having entered arrears.

26. Our analysis suggests that customers are significantly more likely to change lender following a repayment problem with the previous loan. 71% of loans that followed a repayment problem were taken out with a different lender, whilst 34% of loans that did not follow a repayment problem were with a different lender.[19]

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[16] That is, 2% of the loans in our sample.
[17] We do not classify a loan as problematic if the loan was rolled over but then repaid in full.
[18] Some CRAs did not provide us with a detailed information on whether a particular loan was in default, or just had one or more missed payments.
[19] If we consider only loans which were never repaid in full or – for smaller lenders – loans which were marked by CRAs as entering arrears, then in 80% of those cases where a customer took out a loan subsequent to this, that loan was taken out with a different lender. The equivalent figure for loans that were not preceded by a repayment problem (ie they were repaid in full or – for smaller lenders – they were not marked by CRAs as entering arrears) with the previous loan was 35%.

27. We considered the proportion of those occasions where we observed customers changing lenders in the period which took place subsequent to a borrower experiencing a repayment problem. Taking those instances where customers had no outstanding loan and borrowed from a lender who did not provide the previous loan (3.3% of the loans in our sample), we found that in 35%[20] of cases customers experienced some form of repayment problem on their previous loan.

Changes in lender that do not appear to be driven by lack of availability of credit

28. As stated, we observed customers changing lender in the sample (35% of all loans in our sample). Bringing together the scenarios discussed in the previous paragraphs, we found that of all the loans in our sample:

    (a) 31% were multisourced (ie taken out where a loan was already outstanding with the previous lender);

    (b) 1.9% were instances of customers returning to a lender that was unlikely to have been available when they took out their previous loan; and

    (c) 1.2%[21] were instances where changes in lender took place when no loan was outstanding and following a repayment problem with the previous loan.

29. This implies that only in a very small proportion of those occasions where we observed a borrower changing lender (accounting for less than 1% of the loans in our sample), this was likely to have taken place where neither the customer had an outstanding loan or had experienced a repayment problem with the previous loan. On at least 9% of those occasions,[22] customers applied for the loan through a broker/lead generator rather than directly with the lender.

30. Considering the entire sample, 6% of customers changed lender at least once in the period on an occasion where the customer did not have an outstanding loan and had not experienced a repayment problem with the previous loan.

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[20] That is, 1% of the loans in our sample.
[21] These loans are additional to the multisource instances mentioned in paragraph 28*(a)*, but they overlap to some extent with the loans described in paragraph 28*(b)*. In other words, categories *(b)* and *(c)* are not mutually exclusive.
[22] Information on whether a customer applied directly to a lender or through a broker/lead generator is missing in the transaction data for some lenders. Therefore, this figure only provides a lower bound estimate of the loans coming through brokers/lead generators.

31. As a sensitivity check, we reproduced our estimates using a reweighted sample of customers, such that the sample was representative of the average payday customer in 2012 irrespective of the number of loans they took out. Further details of how the reweighting was carried out are given in paragraph 2.49. We found that when the reweighted sample was used, it remained the case that a very large proportion of the use of multiple lenders that we observed took place where the customer had an outstanding loan or had experienced a repayment problem with the previous loan. Specifically, using the reweighted sample, we found that only 4% of customers changed lender at least once in the period on an occasion where the customer did not have an outstanding loan and had not experienced a repayment problem with the previous loan (compared with a total of 42% of customers who had used more than one lender in the period).

Parties' comments

32. Lenders raised some concerns in relation to the methodology we used to identify occasions where customers are likely to be restricted in their ability to return to an existing lender. These concerns can be summarised as follows:

(a) Some products offer top-up or open credit facilities. Given this, customers who already have a loan outstanding with a lender may nevertheless be able to borrow additional amounts from that same lender, provided that customers have not exhausted their credit allowance.[23] As a result, in some cases multisourcing may reflect customer preferences for products offered by different lenders, rather than necessarily representing an instance where customers are forced to change lender in order to obtain additional credit.

(b) Customers who do not repay loans are likely to encounter difficulties in taking out subsequent loans from any lender because lenders will be able to observe the fact that they have not repaid previous loans by accessing their CRA records.

(c) Customers who repaid late may still borrow from existing lenders, and will not be constrained from returning to the same lender provided that they repaid the loan in full.

33. Relating to the first point, we note that it is fairly common for lenders to issue additional credit to a customer when a loan is already outstanding. For

[23] Related to this, CashEuroNet and Dollar pointed to the fact that many customers borrowed less than their credit limits – see the presentation 'Customers and their loans – presentation based on analysis of the transaction data', slide 25. As set out in the notes to that slide, there are certain limitations with the data used to calculate these proportions, so these estimates should be treated with caution.

example, in the 12 months to August 2013, [✂]% of Wonga loans and [✂]% of CashEuroNet loans were topped up. Given this, it is possible that in some cases customers who multisource their loan may have been able to return to the previous lender for additional credit, and so a borrower's decision to change lenders when they already have a loan outstanding with a previous lender may not exclusively reflect limited credit availability.

34. We considered, however, that this was unlikely to be the case for most occasions of multisourcing. This is because many customers will be unable to top up their loan to the required amount, either because their product does not offer this functionality, because they have borrowed at or close to their credit limit when first taking out a loan, or because they have already topped up their loan to the fullest extent possible.

35. We used our data set to help understand the extent to which customers who multisource their loans are likely to have access to additional funds by topping up an existing loan or drawing down from an open credit facility.[24] Our ability to estimate available balances was limited, because information was typically not available on either the credit limit available to each customer, or on when and by how much a loan had been topped up. Nevertheless, using information for a small sample of lenders,[25] we estimated that in the majority of cases (more than 60%) where we observed borrowers taking out a loan with another lender when they already had a loan outstanding with a lender which offered top-up facilities, the difference between the original amount borrowed by that customer and their original credit limit was not large enough to cover the amount subsequently borrowed from the other lender.

36. We also noted that, to the extent that customers are required to repay the full loan amount on the repayment date of the existing loan, topping up may not be a suitable alternative to taking out a loan with another lender, even when further credit is available with the existing lender. This will particularly affect borrowers who require additional credit towards the end of their original loan period: even if these individuals do have the capacity to top up their loan, if they do so, they may be required to repay the total amount borrowed within an unfeasibly short period of time.

37. In relation to point *(b)*, we note that where customers fail to repay their previous loan and are as a result unable to take out a loan with an alternative lender – not just their existing provider – this will not affect the findings set out

[24] Facilities that allow customers to adjust (incrementally increase) the loan amount up to some limit by: Wonga, CashEuroNet (Pounds to Pocket and QuikQuid Flexicredit), Dollar (Payday Express and The Money Shop), The Cash Store, Pay Day Loans and KwikLoan (H&T) and SRC (SpeedyCash Flex Loan) (see paragraph 4.201).
[25] [✂] Our estimate is therefore based on the other lenders that offered top-up facilities.

in this appendix in that we are investigating patterns of borrowing behaviour that do take place (ie where borrowers are successful in being approved for a loan). More generally, we noted that different lenders may have different strategies in relation to the customer risk profiles that they are willing to accept, and that the information available via CRAs suffers from a number of limitations (see paragraphs 7.103 to 7.107), which means that an alternative lender will generally not have as good visibility of a customer's repayment history as their previous lender.[26]

38. Regarding point *(c)*, we acknowledged that some lenders may be willing to approve an application for additional credit in cases where a customer has previously repaid their loan late (although a history of late repayments is likely to affect the likelihood that a lender approves an additional loan, or the amount that it is willing to lend). Assuming that all customers who repaid their previous loan late would be able to return to their previous lender for additional credit has only a small effect on the estimates set out in paragraphs 29 and 30

39. In particular, excluding these cases, we estimate that it remains the case that in less than 1% of all the loans in our sample, a customer changed lender where the customer did not have an outstanding loan and had repaid their previous loan in full (though perhaps late). Considering the entire sample, 9% of customers changed lender at least once in the period when we exclude these scenarios.

[26] For example, although some steps are being taken by CRAs and lenders to develop real-time data (see paragraphs 2.166–2.171), at present there is generally a lag before information about a customer's repayment performance is recorded on a borrower's credit record.

Product features highlighted in payday lenders' advertising materials and on lenders'/lead generators' websites

1. In this appendix, we consider the key product features emphasised by payday lenders and lead generators in their advertising materials and on their websites.

2. To do this, we reviewed two sets of evidence:

   (a) the main messages on the home webpage of each of the major payday lenders; and

   (b) the Adword text associated with lenders' and lead generators' advertisements generated by some Google search terms.

3. Table 1 lists those messages that were most prominent on the home webpage of the major payday lenders as of May 2014. The headline was selected as particularly prominent by virtue of its font size, colour or positioning on the screen – or a combination of these – and therefore inevitably contained an element of subjective judgement.

TABLE 1 **Comparison of key aspects of advertising by payday lenders**

Lender	*Websites*	*Main 'benefit' emphasised on website home screen*
Ariste	www.cashgenieloans.co.uk	'Payday loans online from a trusted short term lender'
CashEuroNet	www.quickquid.co.uk	'If approved – cash sent 10 minutes after approval'
	www.quickquidflexcredit.co.uk	'If approved, borrow as needed up to your credit limit!'
CFO Lending	www.paydayfirst.com	'The online service offering up to £600 to your account'
	www.cfolending.com	'The online service offering up to £600 to your account today'
Cheque Centres	www.chequecentre.co.uk	'Need Cash? Borrow from £50–£1000 Terms and Conditions apply'
Dollar	www.paydayuk.co.uk	'Cash when you need it! Borrow between £100–£1000 today'
	www.paydayexpress.co.uk	'Bridging the gap between your paydays'
Global Analytics	www.lendingstream.co.uk	'Get the cash you need for life's unexpected moments Upon approval, – Fund transfer initiated within 4 minutes – Borrow up to £1500 – Repay over 6 months'.
H&T	www.handtpawnbrokers.co.uk/services/kwikloan/	'Need a helping hand? We can get you the cash you need today!'
MYJAR	www.myjar.com	'No rollovers. Never have. Never will.' 'We keep it simple with easy to understand loans. Borrow £100, pay back £120, 18 days later.'
Speedy Cash	wwwuk.speedycash.com	'Competitive Payday Loan Rates Fast 1st Time Application: Secure, confidential & no faxing required'
WageDayAdvance	www.wagedayadvance.co.uk	'Making any day your wage day' '3 quick easy steps' 'Quick and secure online application' 'Same day £80 to £750 payout possible' 'High acceptance rate'
Wonga	www.wonga.com	'We can send you up to £400 within 5 minutes of your loan being approved. We can get you the cash you need today!'

Source: CMA analysis based on website information as of 6 May 2014.

Notes:
1. Cheque Centres' headline is based on a website review on 7 February 2014 (the payday homepage was not operational on 6 May 2014).
2. All information is taken directly from lenders' websites.

4. As the table shows, speed ('quick loans', 'cash sent few minutes after approval') – together with the amount of loan, the ease/simplicity of applying and the trustworthiness of the provider – were key themes emphasised by lenders. Only MYJAR's advertisement mentioned price (through the phrase 'borrow £100, pay back £120').

5. We also noted one instance of a lender emphasising a 'high acceptance rate' (WageDayAdvance).

6. Table 2 presents the results of the analysis of the wording of Google Adword advertisements generated by the search terms ‘payday loans’ and ‘payday loan’ (which were among the most common searches related to the payday lending sector).[1] For lenders and lead generators appearing on the first 100 listings in Google search results, we recorded (on 6 May 2014) the Adword text associated with these terms.

TABLE 2 **Google Adword advertisements**

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Active Securities	https://secure.247moneybox.com	Lender	247Moneybox.com are leading providers of payday loans, pay day loans, payday loans uk, cash loans	Organic
Ancora Capital Ltd	www.redwallet.com	Lender	Short term and payday loans, with excellent rates.Online 24 hours with a quick approval and fast funding.	Organic
CashEuroNet	www.quickquid.co.uk/	Lender	Apply for a payday loan £50–£1000. 1999% APR Representative.	PPC
	www.quickquid.co.uk/payday-loans-uk.html	Lender	Apply for QuickQuid payday loans and, if approved, have cash sent within 10 minutes after approval.	PPC
	www.poundstopocket.co.uk/12-month-payday-loans.html	Lender	Apply at Pounds to Pocket using our online application for 6 to 12 month payday loans and see if you're approved.Loans up to £2000 for approved customers!	Organic
CashOnGo Ltd	www.peachy.co.uk/payday-loans	Lender	Searching for a Payday Loan? We have the answer. Peachy specialize in instant Payday Loans of up to £500.	Organic
	www.peachy.co.uk/Payday-Loan	Lender	Get up to £500 – No hidden fees Repay in up to 4 months	PPC
CFO Lending	www.paydayfirst.com/	Lender	Payday loans online lender from £75 – £600.Get cash today with an instant decision cash advance payday loan, payout direct to your bank account.	Organic
Dollar	www.paydayuk.co.uk	Lender	Get a Payday Loan with Payday UK No Transfer Fees, Apply Now!	PPC
	www.moneyshop.tv/	Lender	Is Payday Not Coming Fast Enough? Apply Online or in Store Today	PPC
	www.paydayuk.co.uk	Lender	PaydayUK offers payday loans, which can help with short-term financial emergencies.Apply now and you could have the cash you need for your emergency	Organic
Emergency Cash Ltd	www.wizzcash.com/payday-loans/	Lender	The 3 month payday loan – an exciting new breed. A 3 month loan is a normal loan repaid over 3 months. This option offers customers greater flexibility because ...	Organic
Moola Loans	www.moolaloans.co.uk/	Lender	Loans from £50 – £1000 in 15 mins No calls, no fuss, instant decision	PPC
SRC	www.wagedayadvance.co.uk/	Lender	High acceptance. 3 simple steps No Fuss.Payday loans since 2004	PPC

[1] According to the information submitted by Google, the average monthly searches of these terms in the UK in 2013 were [✂] for [✂] ([✂] overall in 2013) and [✂] for [✂] ([✂] overall in 2013).

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Think Finance	https://sunny.co.uk/payday-loans	Lender	Learn about payday loans and their alternatives from Sunny's experts. Our loans are designed to help you get back on your feet financially.	Organic
TideUover	www.tideuover.com	Lender	Tide U Over are a direct payday loan lender offering short-term loans to cover your unexpected emergencies. We are one of the most trusted payday lenders ...	Organic
Wonga	www.wonga.com	Lender	Short-term cash loans between £1 – 1000. ... Payday Loans Alternative – Wonga.com ... We can send up to £400 within 5 minutes of your loan being approved	Organic
	www.wonga.com/money/payday-loans-alternative	Lender	We're different to traditional payday lenders, like quick quid and others, because we put you in control of your loan. You can use the sliders below to decide	Organic
EPL Web Solutions Ltd	www.paydayknight.com/	Lead generator	Fast payday loans. Borrow up to £1000 in 15 minutes. Instant decision, no hassle, no fuss, no joke.	Organic
Eudore Limited	searchpayday loans.co.uk	Lead generator	A payday loan search engine comparison site helping people to apply for a loan in an easy, quick, and straight forward way. Search over 35 lenders with ONE ...	Organic
Loansprofit.co.uk	Loansprofit.co.uk	Lead generator	Loansprofit.co.uk facilities you offering Payday Loans No Debit Card, Bad Credit Loans, Same Day Loans, Instalment Loans, 6, 12 Month Loans, Payday Loans …	Organic
Nouveau Finance	www.fast-online-payday.co.uk/	Lead generator	Get a short term loan with fast-online-payday. Let us match you to a Lender that is right for you.	Organic
	http://www.3-monthpaydayloans.co.uk/	Lead generator	With the assistance of 3 month payday loans no fees no guarantor scheme, it is quite helpful to improve your fiscal status. So, get 3 month loan and borrow ...	Organic
	www.2monthpaydayloans.co.uk/	Lead generator	2 Month Payday Loans UK offering a diversified range of no credit check loans and 2 to 12 month loans and cash for 60 days to meet your financial urgencies	Organic
	www.e6monthpaydayloans.co.uk/same-day-payday-loans-for-people-on-benefits.html	Lead generator	Come to us here at E6 Month Payday Loans where one can quickly visit for fetching feasible funds as soon one need to cope up with the unplanned	Organic
			Same day payday loans for people on benefits are served either with online easy manner or with available process to a citizen of United Kingdom. Apply now	Organic
Payday Boss	www.paydayboss.co.uk/	Lead generator	When you are faced with unexpected bills and repayments that you just weren't prepared for, it is easy to be caught short before payday. Life before the Internet, ...	Organic
Payday Panda	www.paydaypanda.co.uk	Lead generator	UK payday loans from £100 up to £1000 can be in your account today! Apply online now for fast cash.	Organic

Lender name/lead generator name	*Website address*	*Lender/ lead generator*	*Adword text*	*PPC/ organic*
Perfect data solutions	epayday.co.uk	Lead generator	With the use of cutting edge technology, ePayday makes it possible for you to apply payday loan through our licensed and regulated lenders as fast as possible.	Organic
PingTree Limited	www.purplepayday.co.uk/Deposit	Lead generator	Up To £1,000 Deposited Today!	PPC
Premiernetloans.co.uk	www.ukteachersonline.co.uk/	Lead generator	Get a cheap UK payday loan.Get up to £1000 Instantly! NO Credit Check! No Hidden Fees! Apply in few min!	Organic
Quiddi Hub Limited	littlepaydayloans.co.uk/	Lead generator	Little Payday Loans from £100 up to £750: Apply in minutes: Cash in under 24 hours.	Organic
Shoppaydayloans.co.uk	www.shoppaydayloans.co.uk/	Lead generator	At shoppaydayloans you can get instant payday loans online for 3, 6, 12 month via direct UK lenders. Quick & easy loan process bad credit OK, no credit check ...	Organic
Swiftmoney	www.swiftmoney.com/	Lead generator	Payday Loan In 10 Minutes – Instant Decision, No Fax, No Calls. Very High Approval, No Credit Check	PPC

Source: CMA analysis based on search carried out on 6 May 2014.

Note: All information is taken directly from Google searches.

7. Most lenders and lead generators had a single advertisement in the first two pages of Google search results. However, there were some exceptions. Some of the lenders had both a pay per click (PPC) and an organic advertisement, and one lead generator (Nouveau Finance) had four websites in the first two pages.[2]

8. The most common themes covered in the Adword texts were speed and loan amount available, and only CashEuroNet's and Wonga's advertisements referenced other competitors or price:

   (a) Five of the 12 lenders, and 11 of the 12 lead generators, listed in Table 2 had advertisements that mentioned the speed of the application process. This included instances where either the text mentioned the exact application time (ie 10 minutes, 24 hours etc) or where it explicitly emphasised the speed of the application process through phrases (such as 'instant decision', 'quick approval' etc).

   (b) Five of the 12 lenders, and 5 of the 12 lead generators, had advertisements that referenced specific loan amounts.

[2] This included cases where the lead generator had advertisements for webpages that strictly may not be part of the lead generator's website (eg affiliates), where the webpage's main functionality was limited to redirecting to the lead generator's homepage.

(c) Only Wonga compared its product with a competitor (QuickQuid's (CashEuroNet)), and only QuickQuid (CashEuroNet)'s advertisements referred to the APR of its product.

(d) One lender (WageDayAdvance) and four lead generators[3] emphasised the high acceptance rate, that they did not perform a credit check, or that they targeted individuals with bad credit ratings.

9. Other aspects (like loan duration, flexibility, customer support, etc) were mentioned, but less frequently.

[3] Swift Money, premiernetloans.co.uk, Shoppaydayloans.co.uk and Loansprofit.co.uk.

Review of the websites of payday lenders and lead generators

Summary

1. As part of our assessment of how effectively payday loan customers are able to shop around, we reviewed (as of April 2014) the websites[1] of a number of:

   (a) large online lenders, in order to assess what information on payday offers is available online and how transparently this information is presented; and

   (b) lead generators, in order to assess the information provided by these lead generators about the services that they offer.

2. For the websites of the major lenders, our observations are as follows:[2]

   (a) Key information about loan terms (covering the TCC, speed of the process, loan duration, maximum and minimum loan amount) was typically available on each lender's website, and could be found in a small number of mouse-clicks or 'page down' commands.

   (b) The information was also in general clearly presented (using font of normal size and weight).

   (c) However, we noted a number of cases where information on late payment fees and/or interests was unclear or incomplete.

3. For lead generator websites, our observations are as follows:

   (a) All lead generators provided information on the price of a loan for representative examples, and this information was easy to access (though the examples provided will not necessarily reflect the price of the lender on to which a customer will ultimately be referred).

   (b) Visually the homepages of lead generator websites looked similar to those of the lenders themselves. Most sites presented sliders, inviting prospective customers to indicate the size of the loan they are seeking and its duration. None of the websites reviewed revealed the fact that a

[1] Our analysis was carried out in the last week of April 2014. Our observations are therefore based on the information available on the websites we reviewed in that period.
[2] Our review does not cover other/smaller lenders.

provider was a lead generator in the company or product name or the title of the website.

(c) While all lead generator websites at some point informed visitors that they are a credit broker (in varying degrees of prominence and clarity), there was considerable variability in how the lead generators described the service they offer on their websites:

(i) The most common approach from the sample was to talk in terms of 'matching' customers with a loan provider.

(ii) Several went further and referred to saving customers the need to search or shop around, which could be open to misinterpretation by customers; some customers could interpret the wording used on several of the sites (including the references to avoiding the need to shop around) as meaning that they were being matched with the 'best-value' loans for them.

(d) Very few of the sites set out clearly that they were remunerated by the lenders when they forwarded an application and we did not see any examples of lead generators clearly explaining the mechanism through which they sold their lead (ie an auction whereby the lead was sold to the lender who offered the most favourable terms to the lead generator, eg to the highest bidder).

Lenders' websites

Methodology

4. We reviewed a sample of the 11 major payday lenders' websites.[3] Where a lender offered more than one product, we selected its most common online product (with the exception of CashEuroNet and Dollar for which we reviewed the online information on two products each). We limited our review to lenders offering loans online.

[3] See Appendix 2.5 for details of these lenders.

TABLE 1 **List of lenders' websites surveyed***

Lender	*Product*	*Website homepage*
Ariste	Cash Genie – 1-month loan	www.cashgenieloans.co.uk/
CashEuroNet	QuickQuid Flexicredit	www.quickquidflexcredit.co.uk/
CashEuroNet	QuickQuid Payday	www.quickquid.co.uk/
CFO Lending	Short Term Loans	www.cfolending.com†
Dollar	PaydayUK	www.paydayuk.co.uk/
Dollar	PaydayExpress	www.paydayexpress.co.uk
Global Analytics	Lending Stream Loan	www.lendingstream.co.uk
MYJAR	MYJAR	https://myjar.com/
SRC	Speedy Cash	http://wwwuk.speedycash.com/
SRC	Wage Day Advance	www.wagedayadvance.co.uk/index.aspx
Wonga	Little Loans	www.wonga.com/

Source: CMA.

*Includes websites that operated on 28 April 2014.
†Redirects to 'www.paydayfirst.co.uk'.

5. For each website we measured whether information was available – and how accessible that information was – on the following loan terms:

   (a) rate of interest and total cost of loan;

   (b) default charges and late payment fees;

   (c) speed of process (application, approval, funds transfer upon approval) and faster payment services (FPS) charges;

   (d) minimum and maximum amount of loan; and

   (e) minimum and maximum duration of the loan.

6. In order to assess the accessibility of information about each of these product characteristics, we recorded the number of clicks (or 'page down' button presses) from the homepage needed to reach the information, and also how clearly the information is presented (we looked at the font size and weight (normal, bold, grey/faded)).

Observations

Interest rate and total cost of loan

7. Information on interest rate (annual rate or APR) was typically shown in the homepage or could be found within a single mouse click. The interest rates were generally clearly laid out (no small or scarcely visible font).

8. Most websites we investigated also provided clear information on the total cost of the loan, and enabled website users to calculate how the costs changed when the relevant terms of the loan changed (typically, the amount borrowed but also the number of instalments or loan duration when this option

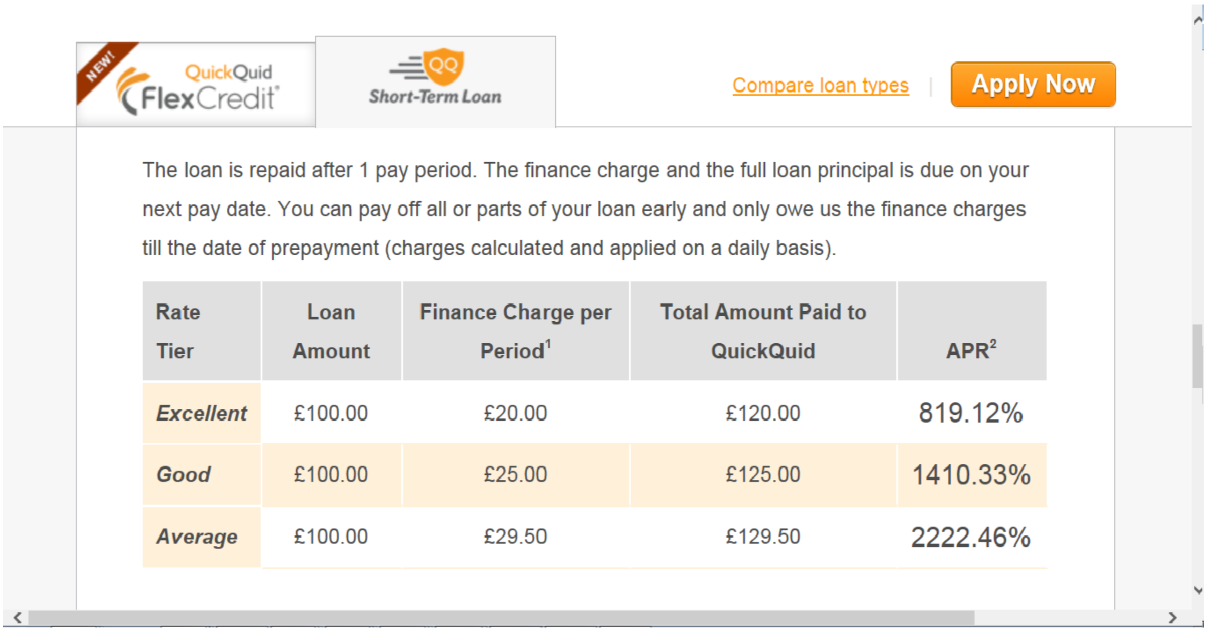
was available). Five out of the 11 websites had a slider which allowed flexing the terms of the loan and seeing how the TCC changed accordingly.

9. There were a few exceptions:

(a) QuickQuid Payday (CashEuroNet)[4] provided a table showing the total cost for a £100 loan and how this varied depending on the creditworthiness of the customer and on the number of periods over which the customer chose to repay the loan. But it did not allow a website user to see how the costs changed when the amount of the loan varied.

FIGURE 1

Screenshot of QuickQuid Payday's rates and terms



The loan is repaid after 1 pay period. The finance charge and the full loan principal is due on your next pay date. You can pay off all or parts of your loan early and only owe us the finance charges till the date of prepayment (charges calculated and applied on a daily basis).

Rate Tier	Loan Amount	Finance Charge per Period[1]	Total Amount Paid to QuickQuid	APR[2]
Excellent	£100.00	£20.00	£120.00	819.12%
Good	£100.00	£25.00	£125.00	1410.33%
Average	£100.00	£29.50	£129.50	2222.46%

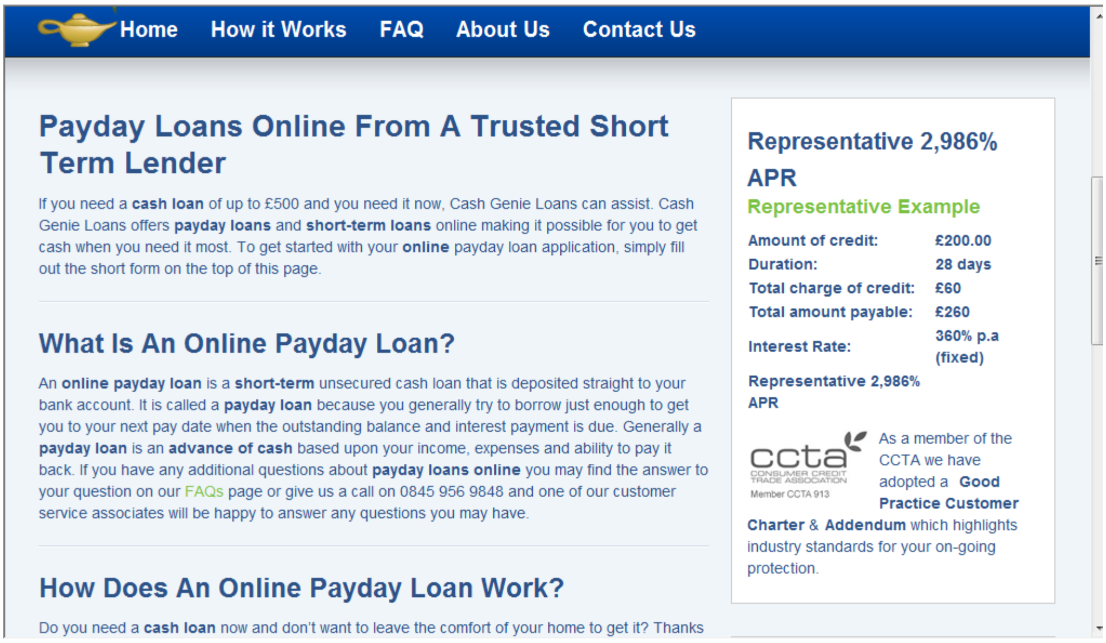
Source: CMA. Website accessed 28 April 2014.

(b) Cash Genie – one month (Ariste),[5] Lending Stream (Global Analytics)[6] and WageDayAdvance (SRC) provided representative examples of the total cost of a loan (to varying levels of detail).

[4] See Figure 1.
[5] See Figure 2.
[6] See Figure 3.

FIGURE 2

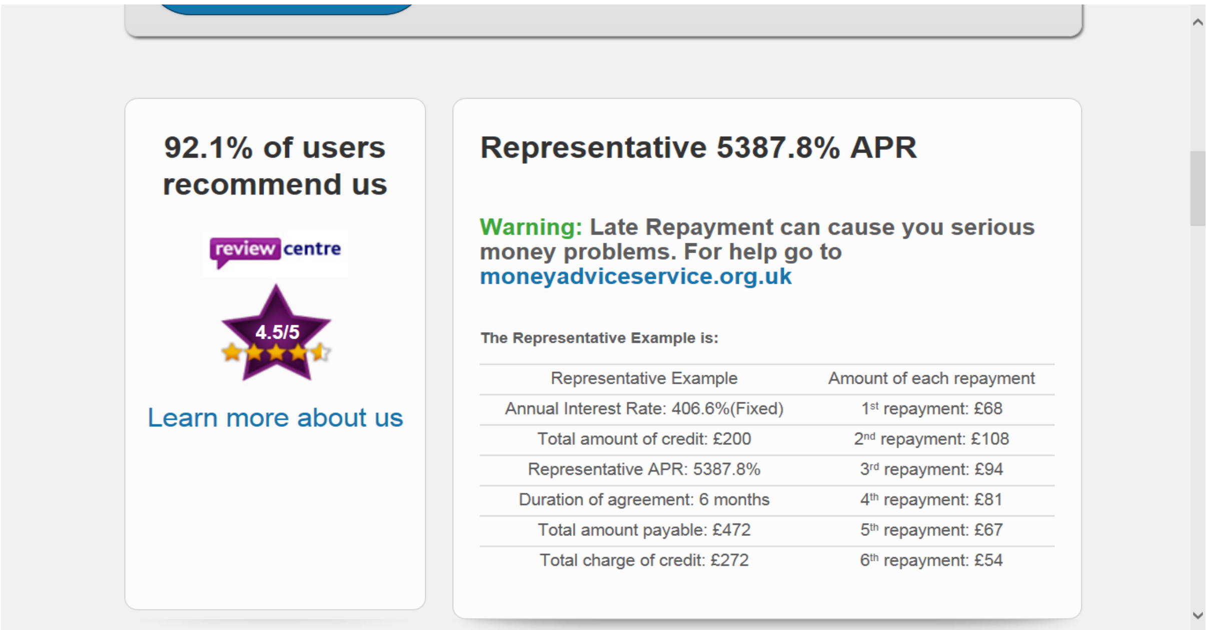
Screenshot of Cash Genie's homepage



Source: CMA. Website accessed 28 April 2014.

FIGURE 3

Screenshot of Lending Stream's Homepage



Source: CMA. Website accessed 30 April 2014.

10. When there were compulsory fees that apply to every loan, these were included in the total cost figures. This was the case for Wonga, which generally charged a £5.50 transaction fee on each loan. None of the other products we surveyed charged additional compulsory fees. Optional charges,

such as FPS[7] fees, were not included in the total cost figures (see paragraph 18 for further details of the ease of accessing information on these fees).

11. Information was in general readily accessible either on the homepage or a few clicks away from the homepage. Table 2 summarises the results.

TABLE 2 **Accessibility and clarity of the information on total costs of loan**

Product	*No of clicks from the homepage*	*No of pages down*	*Font size (big/normal/ small)*	*Font weight (grey-faded/ normal/bold)*	*Slider*	*Does TC include all compulsory fees?*
Cash Genie – 1-month loan	0	1	Normal	Bold	N	Y
Lending Stream	0	3	Normal	Normal	N	Y
Little Loans	0	0	Normal	Normal	Y	Y
MYJAR	1	1	Normal	Normal	N	Y
PaydayExpress	0	0–1	Normal	Normal	Y	Y
PaydayUK	0	0	Normal	Normal	Y	Y
QuickQuid Flexicredit	0	0	Normal	Normal	Y	Y
QuickQuid Payday	2	3	Big	Normal	N	Y
Short Term Loans	0	0	Normal	Bold	Y	Y
Speedy Cash	2	1	Normal	Normal	N	Y
WageDayAdvance	0	0–1	Normal	Normal	N	Y

Source: CMA analysis.

Default charges/late payment fees

12. Most of the websites we surveyed provided some information on default charges and late payment fees.

13. Information was in general accessible within one or two mouse clicks from the homepage, and/or one or two ‘page down’ button presses, and clearly laid out using fonts of normal size and weight. However, we noted some limitations in the way lenders presented information on default charges and late payment fees.

14. First, this information was rarely presented on the same page as the slider (if any) or the total cost of the loan was displayed. Table 3 showed the results of our assessment of the accessibility of information on default charges/late payment fees for each website.

[7] FPS is a payment service that reduces clearing time and enables payments made via electronic telephone banking, Internet banking and standing order to be completed quickly.

TABLE 3 **Accessibility and clarity of the information on default charges/late payment fees**

Product	*No of clicks from the homepage*	*No of pages down*	*Website section*	*Same pages as slider/TCC?*
Cash Genie/Cash Genie Loans – 1-month loan	2	1	Rates & terms	N
CFO Lending Short Term Loans	1	1	Our charges	N
Lending Stream	0	3	Homepage	Y
Little Loans	2	1	How it works	N
MYJAR	1	1	How	N
PaydayExpress	2	2	FAQ	N
PaydayUK	1	2	Our charges	N
QuickQuid Flexicredit	1	2	Rates & terms	N
QuickQuid Payday	2	1	Rates & terms	Y
Speedy Cash Payday Loans	2	1	Rates & terms	N
WageDayAdvance	1	2	Charges	Y

Source: CMA analysis.

15. Secondly, we found some instances where late fee information was unclear or incomplete:

(a) Short Term Loan (CFO Lending) indicated that a fixed fee of £25 was charged in case of a missed payment together with default interest on any overdue payment but it did not specify how much the default interest was.

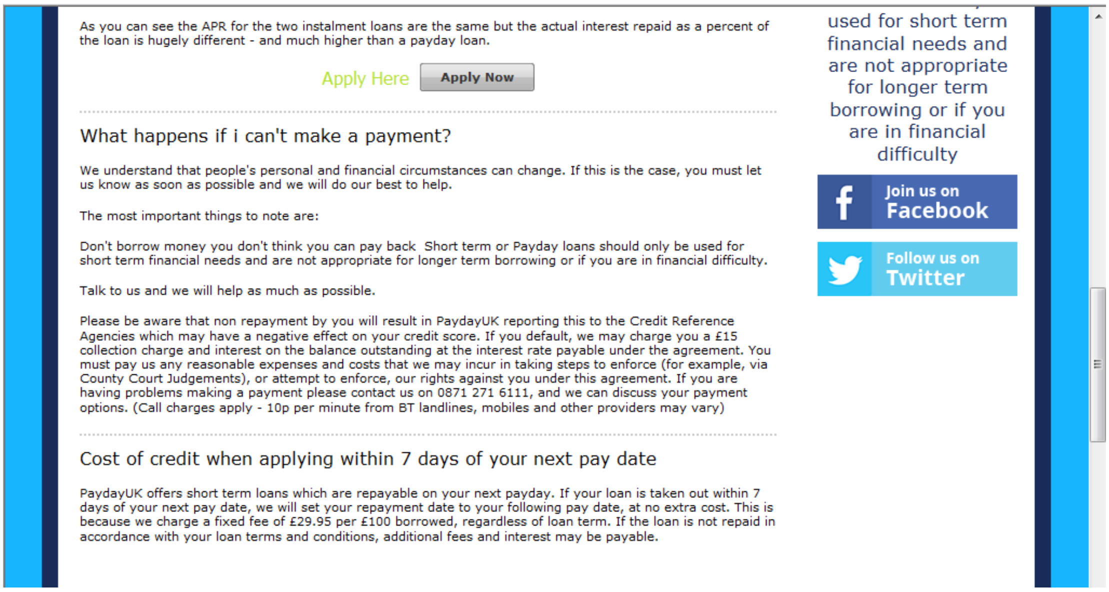
(b) PaydayUK (Dollar) said on its website that ‘If you do not repay your loan on the due repayment date we may charge ... interest on the outstanding balance at the interest rate payable under the agreement until you repay us’. It was not immediately clear what the interest rate payable under the agreement was as PaydayUK charges £29.95 per £100 borrowed. On late payment, PaydayUK applied an interest rate of 0.98% per day.

16. Thirdly, there were also some instances where late fees, or links to access information about these fees, were presented in a smaller or less prominent font:

(a) Payday UK (Dollar) adopted a relatively small font to report information on default charges.

FIGURE 4

Screenshot of Payday UK's 'our charges' webpage



As you can see the APR for the two instalment loans are the same but the actual interest repaid as a percent of the loan is hugely different - and much higher than a payday loan.

Apply Here Apply Now

What happens if i can't make a payment?

We understand that people's personal and financial circumstances can change. If this is the case, you must let us know as soon as possible and we will do our best to help.

The most important things to note are:

Don't borrow money you don't think you can pay back Short term or Payday loans should only be used for short term financial needs and are not appropriate for longer term borrowing or if you are in financial difficulty.

Talk to us and we will help as much as possible.

Please be aware that non repayment by you will result in PaydayUK reporting this to the Credit Reference Agencies which may have a negative effect on your credit score. If you default, we may charge you a £15 collection charge and interest on the balance outstanding at the interest rate payable under the agreement. You must pay us any reasonable expenses and costs that we may incur in taking steps to enforce (for example, via County Court Judgements), or attempt to enforce, our rights against you under this agreement. If you are having problems making a payment please contact us on 0871 271 6111, and we can discuss your payment options. (Call charges apply - 10p per minute from BT landlines, mobiles and other providers may vary)

Cost of credit when applying within 7 days of your next pay date

PaydayUK offers short term loans which are repayable on your next payday. If your loan is taken out within 7 days of your next pay date, we will set your repayment date to your following pay date, at no extra cost. This is because we charge a fixed fee of £29.95 per £100 borrowed, regardless of loan term. If the loan is not repaid in accordance with your loan terms and conditions, additional fees and interest may be payable.

used for short term financial needs and are not appropriate for longer term borrowing or if you are in financial difficulty

Join us on Facebook

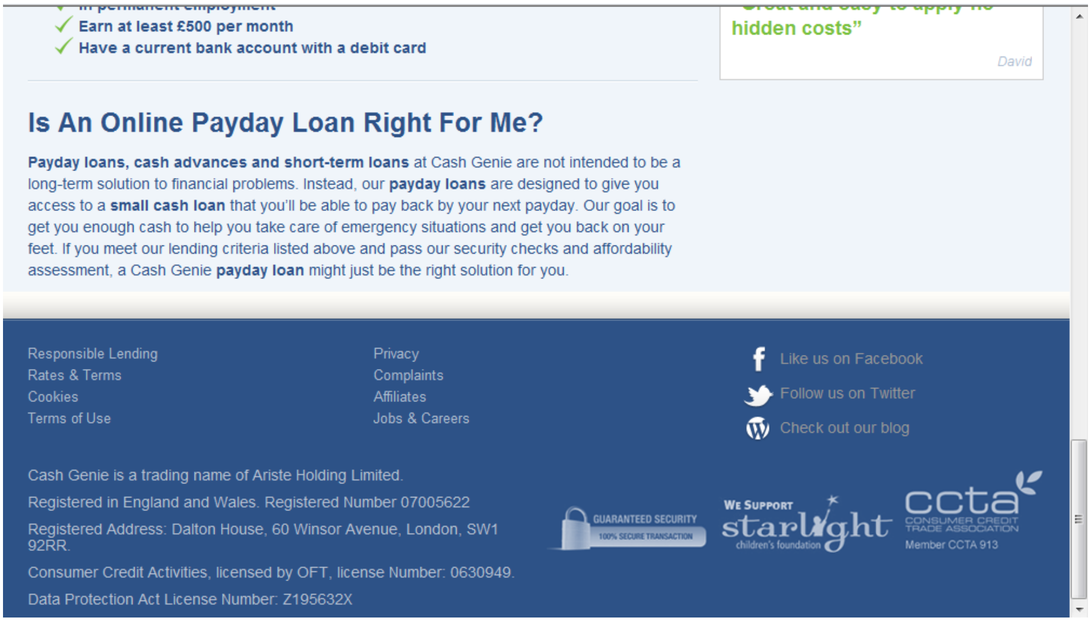
Follow us on Twitter

Source: CMA. Website accessed 28 April 2014.

(b) Cash Genie (Ariste)'s information on default charges was shown under the 'Rates & Terms' link which was displayed at the bottom of the homepage in a small and faded font.

FIGURE 5

Screenshot of Cash Genie's 'Rates & Terms' webpage



✓ Earn at least £500 per month
✓ Have a current bank account with a debit card

hidden costs"

David

Is An Online Payday Loan Right For Me?

Payday loans, cash advances and short-term loans at Cash Genie are not intended to be a long-term solution to financial problems. Instead, our **payday loans** are designed to give you access to a **small cash loan** that you'll be able to pay back by your next payday. Our goal is to get you enough cash to help you take care of emergency situations and get you back on your feet. If you meet our lending criteria listed above and pass our security checks and affordability assessment, a Cash Genie **payday loan** might just be the right solution for you.

Responsible Lending
Rates & Terms
Cookies
Terms of Use

Privacy
Complaints
Affiliates
Jobs & Careers

Like us on Facebook
Follow us on Twitter
Check out our blog

Cash Genie is a trading name of Ariste Holding Limited.
Registered in England and Wales. Registered Number 07005622
Registered Address: Dalton House, 60 Winsor Avenue, London, SW1 92RR.
Consumer Credit Activities, licensed by OFT, license Number: 0630949.
Data Protection Act License Number: Z195632X

GUARANTEED SECURITY 100% SECURE TRANSACTION

We Support starlight children's foundation

ccta CONSUMER CREDIT TRADE ASSOCIATION Member CCTA 913

Source: CMA. Website accessed 28 April 2014.

Speed of the process and faster payment services charges

17. The speed of the process was an area where customers could find it more difficult to compare different lenders' products using the information presented on their websites. Lenders usually did not indicate how long the approval process could take. However, many emphasised the speed of money transfer post-approval: lenders often advertised that money was transferred to the customer's account a few minutes after the approval (eg 4, 5, 10, 15 minutes upon approval).

18. In our sample, currently two lenders charged a fee for FPS.[8] In both cases information on FPS fees was easily accessible and clearly presented, although not included within the TCC reported on those pages.

Minimum and maximum amount of loan

19. The information on the minimum and maximum amount of loan was available on lender websites and, in general, it was easily accessible either on the homepage or one or two mouse clicks from the homepage.

20. However, website users could find it more difficult to determine how much new customers and existing customers could borrow. Although the information was available in the description of loan terms given on websites, we could expect customers often to infer the maximum amount of loan that they could borrow from the slider (where websites used sliders). However, whether a slider reflected the range available to either new or existing customers varied between lenders. For example, the Little Loans and QuickQuid Flexcredit sliders only showed the amount available to new customers. By contrast, the Payday UK and Payday Express (both belonging to Dollar) sliders reflected the range available to repeat/existing customers. With the exception of Little Loans (Wonga), which specified above the slider that existing customers could borrow more than that implied by the slider, lenders clarified the difference in maximum loan amount offered between new and existing customers in a different section of their website ('Rates & Terms', 'How it works', 'FAQ', etc).

Minimum and maximum duration of the loan

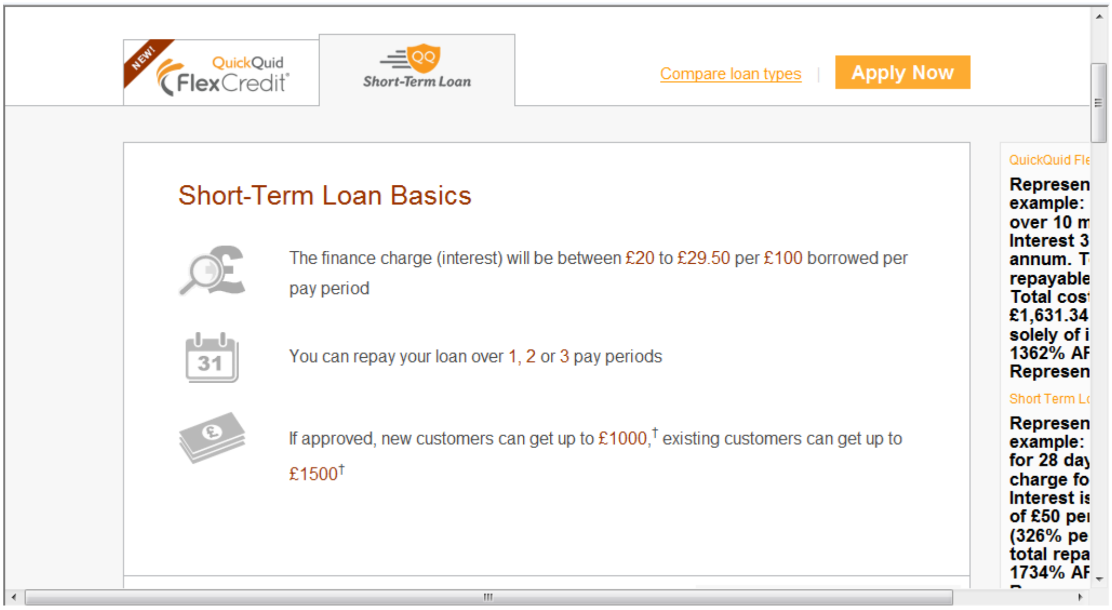
21. Information on the duration of the loan was also in general easily accessible from the homepage of the websites we reviewed. Those products for which

[8] WageDayAdvance (SRC) and Short-Term Loan (CFO Lending). Payday Express (Dollar) also charged a faster payment fee but only to repeat customers – ie customers taking out a second or subsequent loan (see Table 2 in Appendix 4.1). Cash Genie (Ariste) charged a faster payment fee until very recently (it removed the fee in late May 2014).

the repayment was not strictly linked to the payday (for example, QuickQuid Payday (CashEuroNet in Figure 6 below) set out clearly (typically on the homepage or a few clicks from it) the duration of the loan and the options available to customers.

FIGURE 6

Screenshot of QuickQuid Payday's 'Rates & Terms' webpage



Source: CMA. Website accessed 28 April 2014.

Lead generators' websites

Methodology

22. We reviewed a sample of ten lead generator websites, which were identified by selecting providers which appeared most prominently in the pay-per-click advertisements (PPC) and organic search results generated by a number of payday-related search terms. Specifically, we analysed the Google results (displayed on the first page) for the following queries: 'payday loans', 'payday', 'payday lenders', 'payday loan lenders', 'payday loan direct' and 'compare payday'. For each of these terms we recorded the results generated by Google (both PPC and organic search results) across 23 days during the period January to April 2014. The websites included in our review are set out in Table 4.

TABLE 4 **List of lead generator websites surveyed**

Website name	*Website homepage*
Bee loans	www.beeloans.co.uk/
Blueseapayday	www.blueseapayday.co.uk
Compare Payday	www.comparepayday.co.uk/
Doshnow	www.doshnow.co.uk
iCash Advance	www.icashadvance.co.uk/
Kwikcash	www.kwikcash.co.uk/
Mypaydaylender	www.mypaydaylender.co.uk/
Payday Pig	www.paydaypig.co//
Purple payday	www.purplepayday.co.uk/
Very merry loans	www.verymerryloans.co.uk

Source: CMA.

23. For each site, we reviewed the following:

(a) the information provided about the price of a loan; and

(b) the ease with which lead generator websites could be distinguished from those of lenders, and how the lead generators described their services.

24. As with our review of lender websites, we also recorded how accessible information was in terms of the number of clicks (or 'page down' button presses) from the homepage needed to reach the information.

Observations

Information on the price of a loan

25. All the lead generator websites that we reviewed provided price information for a representative example, in the form of an APR and the associated total amount repayable. The representative examples given by each of the websites are set out in Table 5. In some cases lead generators used sliders[9] or tables[10] to present information on total cost.

[9] For example, Beeloans, IcashAdvance, MyPayDaylender, VeryMerryLoans, Blueseapayday,PurplePayday and PaydayPig.
[10] For example, Blueseapayday, MyPayDayLender and PaydayPig.

TABLE 5 **Representative prices displayed by the lead generator**

Lead generator	*Representative example*
Beeloans.co.uk	Representative APR 1737% Representative example: Borrow £300 for 30 days, Amount payable – £375, Interest – £75, Interest rate (pa) – 1737% APR (variable).
Blueseapayday	Representative 1974% APR .On this page and elsewhere on this website we use 1974% APR as an example rate. This example is based on a loan of £50 over 30 days and a fixed interest rate of 359%. This equals a total amount of £64.75. This is for example only.
Compare Payday	Representative 2,670% APR Representative example: Borrow £200 for 28 days Total in one repayment: £258 Interest payable: £58 Interest rate pa: 378% (fixed)
Doshnow	2327.87% APR Representative Representative example: Borrow £200 for 28 days, Payable £258 single payment Total interest: £58, Interest Rate: 378%, Representative APR: 2708.9%
Icashadvance.co.uk	Representative example: Borrow £300 for 30 days, Amount payable – £375, Interest – £75, Interest rate (pa) – 1737% APR (variable)
Kwikcash	Representative example: Borrow £500 for 28 days Representative 2,670% APR Interest payable: £145 Total in one repayment: £645 Interest rate pa: 378% (fixed)
Mypaydaylender.co.uk	Online loans are designed to be fast, hassle-free, and get you what you need when you need it. Figuring out interest is much the same, fast and hassle-free. Basically, all you have to worry about is a flat rate fee for every £100 you borrow, and that flat rate is only £25 per every £100. So, for example, if you needed £400, the total amount to be repaid would simply be £500; could it be any easier?
Payday Pig	Representative example: If £100 borrowed for a period of 31 days at an interest rate of 296% variable per annum, total amount repayable by one payment is £125. 1737% APR Representative.
Purplepayday.co.uk	Representative example: £320 borrowed for 28 days. Annual interest rate of 446.3% (fixed). Total amount repayable by one repayment is £419 (£96 interest and £3 transmission charge).
Verymerryloans.co.uk	Borrowing = £50 Interest = £1.63 Total to repay = £51.63

Source: CMA. Websites accessed 28 April 2014.

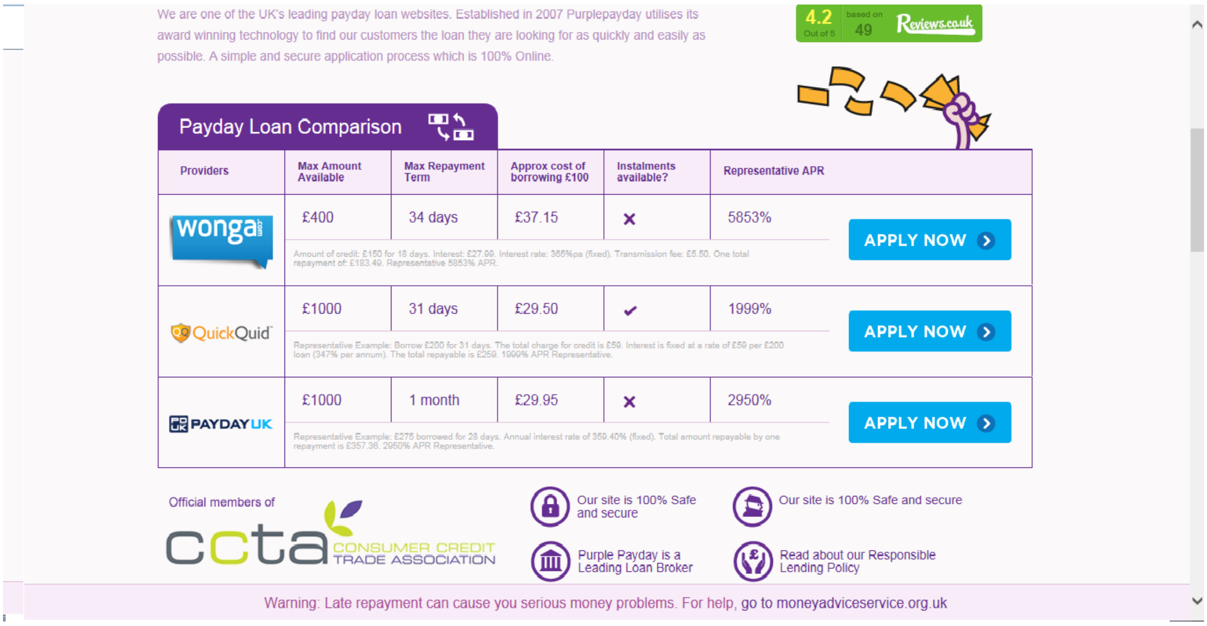
26. The examples provided by lead generators will not necessarily reflect the price that a customer will pay, as this will depend on the lender that they are actually referred to from the lead generator's panel. Only Blueseapayday stated clearly that this is the case (by including the text 'Example only, lenders fees may vary' under its slider).

27. We also noted a case where the description could be confusing: MyPayDaylender referred to a flat rate fee of £25 for every £100 but there was no mention that this was only a representative example.

28. Purplepayday provided a table that compared the 'Approx monthly cost of borrowing £100' for three lenders, namely Wonga, QuickQuid and PaydayUK (see Figure 7 below). Linked to each lender in the table there was an 'Apply now' button which could give customers the impression that they would apply directly to the chosen lender whereas in reality these buttons were linked to the application page of the lead generator.

FIGURE 7

Screenshot of Purple payday's 'Payday Comparison' table, on its homepage



Source: CMA. Website accessed 29 April 2014.

Distinguishing between the websites of lenders and lead generators

29. Visually the homepages of lead generator websites looked similar to those of the lenders themselves (presenting visitors with similar options and content). To some extent this could simply reflect the fact that both types of website were collecting payday loan applications.

30. None of the websites reviewed stated that a provider was a lead generator in the company or product name or the title of the website. As recorded in Table 6, most sites presented at least one slider, which – in a similar way to those on lender websites – invited prospective customers to indicate the size of the loan they were seeking and its duration.

TABLE 6 **Presence of sliders on lead generator websites**

Lead generator	*Slider (amount)*	*Slider (term)*
Beeloans.co.uk	Yes (£50–£750)	Yes (5–31 days)
Blueseapayday.co.uk	Yes (£100–£1,000)	No
ComparePayday.co.uk	No	No
Doshnow.co.uk	No	No
Icashadvance.co.uk	Yes (£50–£1,000)	Yes (5 days–3 months)
Kwikcash	No	No
Mypaydaylender.co.uk	Yes(£100–£1,000)	No
PaydayPig.co.uk	Yes (£100–£1,000)	No
Purplepayday.co.uk	Yes (£50–£1,000)	Yes (1–45 days)
Verymerryloans.co.uk	Yes (£50–£1,000)	Yes (7–45 days)

Source: CMA. Websites accessed 29 April 2014.

31. All lead generator websites we reviewed informed visitors at some point that they are a lead generator. Different websites presented this information with different prominence. Table 7 reported how lead generators described the service that they offered on their websites. As shown, there was considerable variability in how the lead generators described the service they offered on their websites:

(a) Many (although not all) lead generators referred to offering a credit brokerage service.

(b) The most common approach to describing the specific service provided among the lead generators reviewed was to talk in terms of ‘matching’ customers with a loan provider.

(c) Some went further and referred to saving customers the need to search or shop around (eg Beeloans), which could be open to misinterpretation by customers. In particular, given the lack of detail that was provided, some customers could interpret the wording used on several of the sites (including the references to avoiding the need to shop around) as meaning that they were being matched with the ‘best value’ loans for them.

TABLE 7 **How lead generators describe their services**

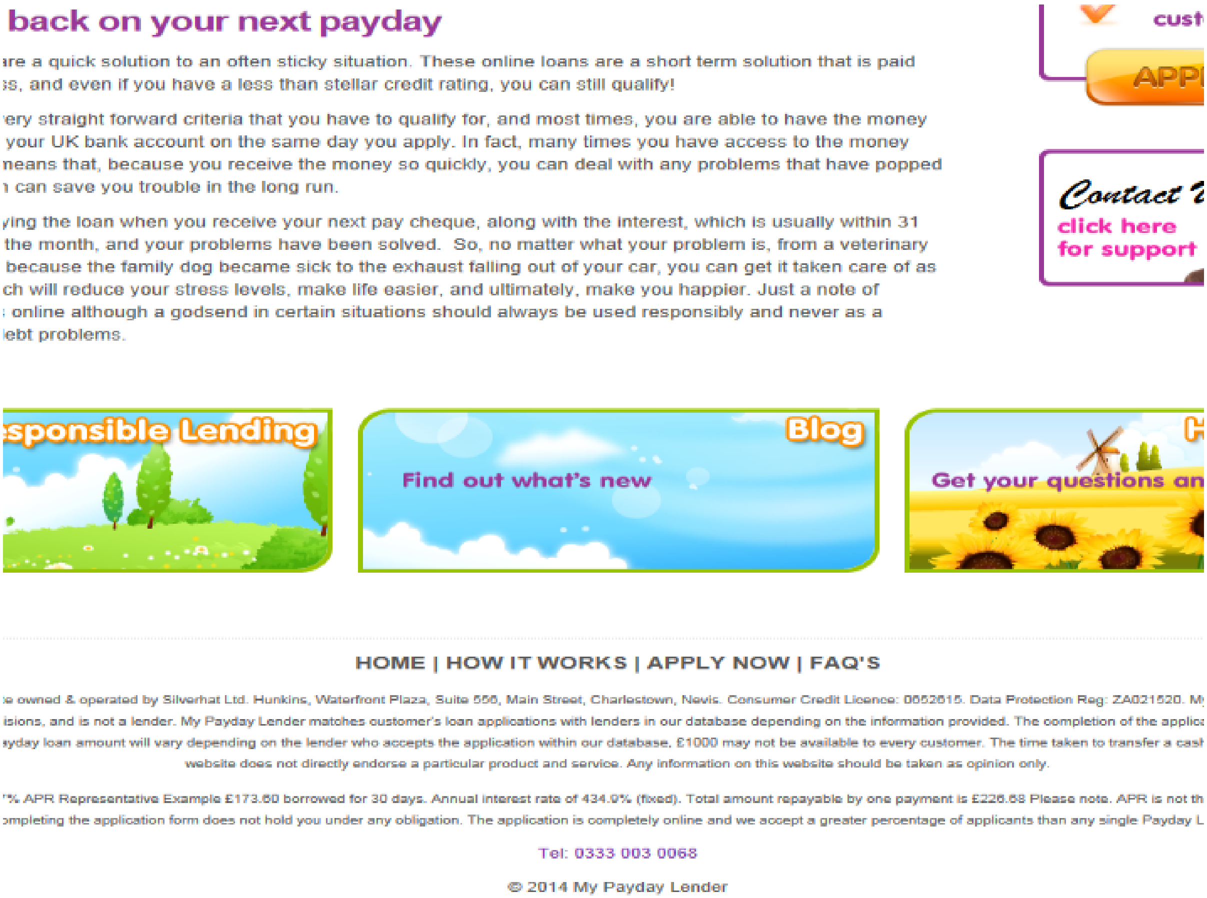
Lead generator	*How they describe their service*
Beeloans.co.uk	At Bee Loans, we use specialist systems to automatically talk to a large panel of payday loan lenders and match your details with their criteria for payday loans. This means that finding a payday loan is quick, easy, and hassle-free. We take the stress away from finding a payday loan, as the process is 100 per cent online, and ensures you don't need to shop around—search over 40 payday loan lenders with one click.
Blueseapayday.co.uk	Blue Sea Payday is a loan broker not a direct lender. We never charge you for the service we provide or take money from your account.
Comparepayday.co.uk	Money Gap Group Limited operate and own the credit brokerage site, **Comparepayday.co.uk**. Money Gap Group Limited is not a lender nor does it provide credit to consumers. If you decide to apply on this site, your application will be shown to a variety of our lending partners to consider. We receive a commission from the lenders we work with after successful applicants are passed on from this website. Approval is subject to status and all applicants must have reached 18 years of age or older. The information provided on this website is for the purpose of explaining the lending process and should not be considered financial advice.
Doshnow.co.uk	As the UK's leading loan brokers, we are dedicated to your satisfaction and want you to understand the loan process and financial implications. Working with one of the UK's largest lender networks we've been successful in finding loans for many hard-working customers. Fees, interest and APR will vary by lender between 299% to 4559%. In addition to interest on the principal loan amount, some lenders will charge fees which are explained in your loan agreement and are sometimes optional. Additional fees are also sometimes charged if you require your loan fast-tracked and deposited same day.
Icashadvance.co.uk	At iCashAdvance.co.uk, we use our specialist technology and close lender relationships to match you with the right product for you. Whether it's £50 or £5000 you need, we can find you funding.
KwikCash	KwikCash is a non-charging broker, which means that your application will be free and we will not charge you anything, whether or not we find you a loan. This is because we charge a fee to whichever lender you are matched with, so we do not need to charge you anything for it.
Mypaydaylender.co.uk	My Payday Lender does not make payday loan or credit decisions, and is not a lender. My Payday Lender matches customer's loan applications with lenders in our database depending on the information provided. The completion of the application form does not guarantee approval of a loan. The payday loan amount will vary depending on the lender who accepts the application within our database, £1000 may not be available to every customer. The time taken to transfer a cash advance loan may vary. This website does not directly endorse a particular product and service. Any information on this website should be taken as opinion only.
Paydaypig.co.uk	Payday Pig ® is a loan broker and we never charge you for the service we provide or take money from your account.
Purplepayday.co.uk	We are one of the UK's leading payday loan websites. Established in 2007 Purplepayday utilizes its award winning technology to find our customers the loan they are looking for as quickly and easily as possible
Verymerryloans.co.uk	At VeryMerryLoans we see ourselves in a very lucky position in that we can help improve the lives of those around us. Right back in the early days when we were planning the company we outlined that amongst an excellent team and clever technology we wanted to be known as a fair, honest and professional lender. But above all else, we wanted to put the customer at the heart of everything we do.

Source: CMA. Websites accessed 29 April 2014.

32. In addition, lead generators' service descriptions could be unclear and hard to find. For example, MyPaydayLender's description (see Figure 8) was difficult to read because it appeared in small font at the bottom of its homepage.

FIGURE 8

Screenshot of MyPaydayLender's service description on its homepage



Source: CMA. Website accessed 30 April 2014.

33. We noted an instance where the description was very unclear about the nature of the service provided by the lead generator. VeryMerryLoans described itself as a lender in certain parts of its website, and then described itself as a credit broker in other places. For example, the description found in the 'About us' section (see Table 7) suggested that it was a lender ('we wanted to be known as a fair, honest and professional lender') but the text in the 'Terms and Conditions' section revealed that it was actually a payday loan intermediary (see Figure 9).

FIGURE 9

Screenshot of VeryMerryLoans' 'Terms and Conditions' website section

support@verymerryloans.com

Our Services

On our Site we act as Intermediary between You and Lenders who will offer the loans subject to a successful application. We do not lend or provide loans or any form of finance to Clients. Once a Client enters into an agreement with us and accepts our Terms and Conditions and Privacy Policy, we act as a broker for the purpose of finding such Client a loan or other form of finance.

We shall endeavour to search through our panel of lenders to provide you with a range of loans and/or other financial products. We do not represent the interests of or act on behalf of any Lender. We may receive a fee for introducing you to a Lender.

We provide no warranty, assurance or guarantee as to whether any Client will receive an offer of finance or the terms upon which any finance may be offered. All decisions to provide or offer a Client a loan or other financial product lies solely with the Lender. All interest rates, loan/finance amounts, repayment periods and all other terms are at the Lender's sole discretion. We have no influence or control over the terms of any loan or financial product. All examples on our Site are for information purposes only to help Clients understand the kinds of financial products which may be offered by Lenders through our Site.

It is your responsibility to contract directly with the Lender to obtain any loan or financial product. We are not and will not be a party to this arrangement and have no liability, rights or obligations in relation to the provision of any loan or financial product by a Lender to you. The Lender will have their own terms and conditions so please read those carefully before entering into a contract with them.

Our Clients are protected under the Consumer Credit Act 1974 (as amended) (Credit Act) and we only work with Lenders who are licensed by the Financial Conduct Authority (FCA).

Checks and references

We do not at any time carry out any credit checks on our Clients.

However, Lenders may use external credit reference agencies and credit scoring services to ascertain your eligibility for a loan or finance product. Whether you are eligible for a loan or finance product is at the Lender's sole discretion.

Source: CMA. Website accessed 30 April 2014.

34. Kwikcash was the only website that set out the nature of the financial remuneration that the lead generator earned for forwarding an application,[11] but we did not see any example of lead generators making clear that the lead will be sold through an auction to the lender which pays most. None of the websites provided visitors with any details of the lenders included on their panel.

Additional evidence on lead generators' website

35. As part of our additional evidence-gathering following the variation of the terms of reference, we reviewed a wider sample of lead generators' websites to extend and complete the sample we had previously examined. We also collected further views from various parties on the transparency of lead generator websites.

Further review of lead generator websites

36. As at August 2014 the lead generators we identified[12] used 282 websites to collect application details from potential borrowers. Lead generators told us that 125 of these sites were the main portals used by applicants. Our review

[11] See Table 7.
[12] See Appendix 2.7.

of these main websites indicated that only 3% stated clearly prior to the point at which a customer could enter their details that the service provided was that of lead generator or broker rather than direct lender.[13] Additionally our review indicated that 22% of the main websites did not state anywhere that the firm was a broker or lead generator.

37. We also looked qualitatively at the following aspects of the transparency of lead generator websites:

(a) how the role of lead generators is described to applicants; and

(b) pricing information.

How the role of lead generators is described to applicants

38. Our further review of lead generators' websites showed that very few lead generators set out in detail the nature of the basis on which applications are processed. Terminology included payday loan 'provider', 'applications service', 'loan matching service' and 'consumer application system', all of which are likely to be ambiguous to applicants.

Pricing information

39. Some lead generators told us that the representative APR (RAPR) on their websites was based on an average of the panel of lenders and in some cases specifically used the APR that at least 51% of applicants had been offered using their site.

40. Pingtree told us that it updates this information quarterly.

41. SGE Loans told us that the RAPR was that of the median product that applicants were offered and supplemented this information with a table setting out RAPRs for the different products such as payday loans, guarantor loans, secured loans.

42. Nouveau Finance told us that it used the RAPR of the lender purchasing the majority of leads and if there were two or more lenders purchasing high volumes, the lender with the highest APR was used.

43. Loan Partners told us that its RAPR was based on the level at which 51% of applicants could expect to borrow.

[13] 125 websites, reviewed between 11 and 18 September 2014.

44. Lead Tree told us that its RAPR was based on the average RAPR of 51% of short-term loans given to customers by its lending panel.

45. However, we considered that the prices displayed on websites operated by at least five lead generators did not necessarily reflect the weighted average of the panel of lenders to which leads were sold, for example:

(a) Market Genomics told us that the RAPR on its websites was based on the mid-point of a regular survey of the RAPRs of the lenders to which leads were sold.

(b) Quiddi told us that it took a simple average of lenders' APRs and updated it on a monthly basis.

(c) D&D told us that its RAPR was based on the interest rates of all the lenders it worked with and that it was updated every six months or earlier if lenders changed.

(d) Loan Machine told us that the pricing information on its websites was a 'guide of around £25 per £100 borrowed'. We noted that Loan Machine collected 94% of its leads via affiliates and the firm was not able to provide the names of its top ten affiliates. It therefore seemed unlikely that its affiliates were using RAPR information that reflected the leads sold via Loan Machine's pingtree.

(e) Sandhurst Associates told us that the APR of 527% on its homepage was an average of all the products available via its pingtree (including un-secured loans, guarantor loans and payday loans), but was not weighted to take account of the relative volumes of leads sold by product. Sandhurst Associates told us that it generated more unsecured loan leads than payday leads and therefore estimated that the APR was higher than the weighted average offered to applicants.

46. We also considered instances where lead generators' websites indicated that the loan found by the lead generator was either the 'best value' or the 'best option' (see Bling Bling Loans, EPL and Nouveau Finance screenshots in Annex 1). We noted that whilst it was possible that the highest-bidding lender did offer the best value or best option, this description would not be valid in all cases.

Parties' views about transparency

47. Several parties submitted views on the transparency of lead generator websites:

(a) The CFA told us that many customers were confused about whether they were dealing with a lender, broker or lead generator and that information provided should be improved.[14]

(b) money.co.uk told us that lead generators were not transparent about their lending panel or the way in which leads were allocated; they were often unclear about cost before application; and they were also often unclear that they were brokers/lead generators rather than lenders.[15]

(c) One lead generator (D&D Marketing) told us that it did not believe any lead generator described the background process of the sale of leads other than mentioning that the lead would be processed through a panel of lenders.[16]

(d) One lead generator (Knight Creative) told us that it was working on a model and software which would allow the customer to pick from a panel of lenders. Lenders would have already screened applicants and provisionally accepted the borrower and it believed that this would give the customer a fairer approach to the product.

(e) One lead generator (Stop Go Networks) told us that it would not be in its interest to appear to be a lender because this would detract from the service offered to borrowers. We noted, however, that paydaypolarbear.co.uk[17] (one of Stop Go Network Limited's sites), included text referring to 'loads of benefits and advantages over other short term lenders'.

(f) One lead generator (Money Gap) told us that it did not see transparency as an issue because lenders charged similar interest so the financial impact of applying via a broker rather than direct was minimal.[18]

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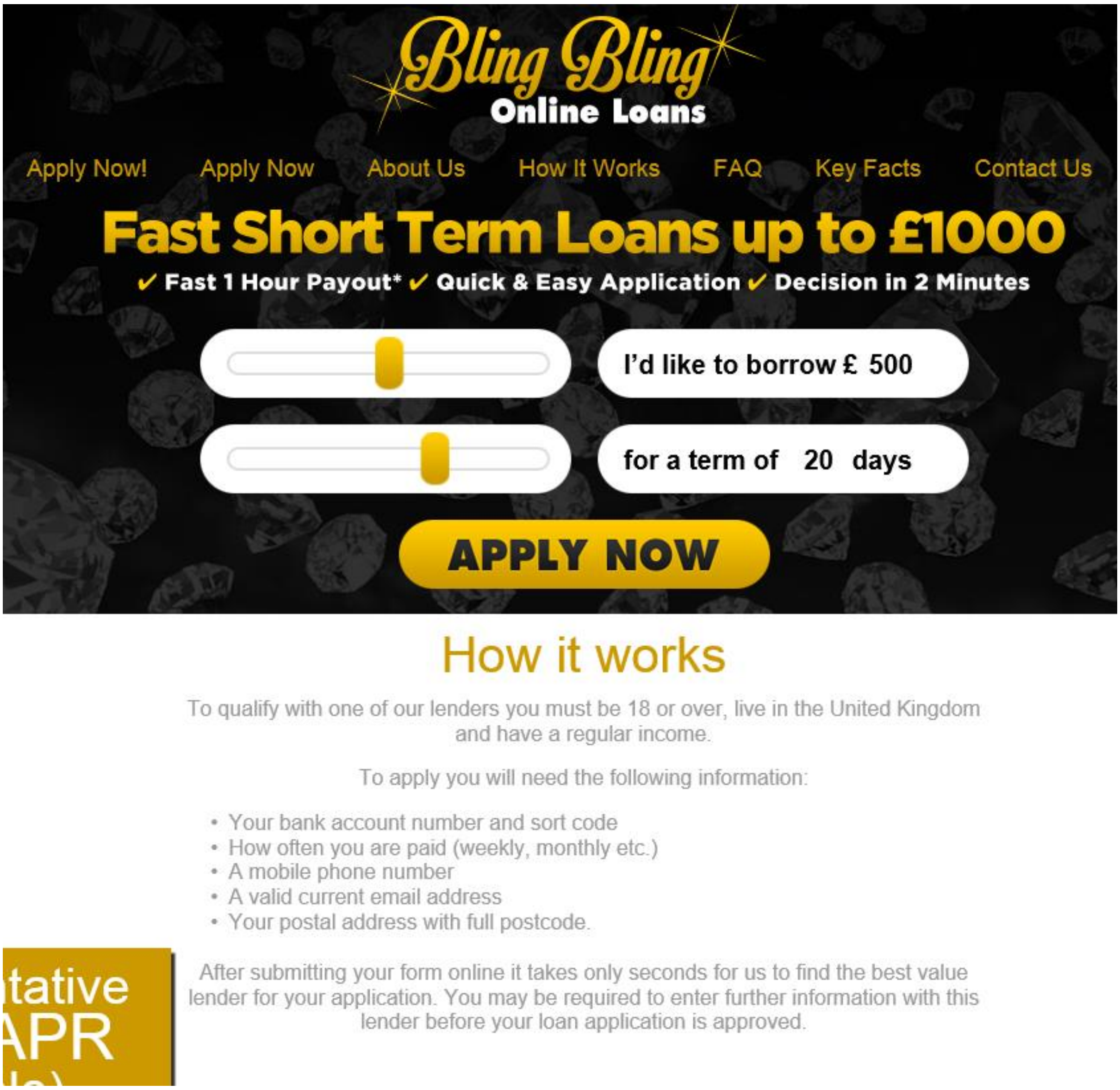
[14] Consumer Finance Association response to the Remedies Notice.
[15] money.co.uk response to Remedies Notice, p2.
[16] This statement was provided by D&D in response to a question regarding whether the operation of its pingtree was made clear to customers who were using affiliate websites for loan applications.
[17] Accessed on 7 October 2014.
[18] Money Gap response to Remedies Notice, p2.

Screenshots

1. Figure 1 indicates that Bling Bling Loans states that it takes only seconds to find the 'best value' lender for your application.

FIGURE 1

Bling Bling Loans screenshot

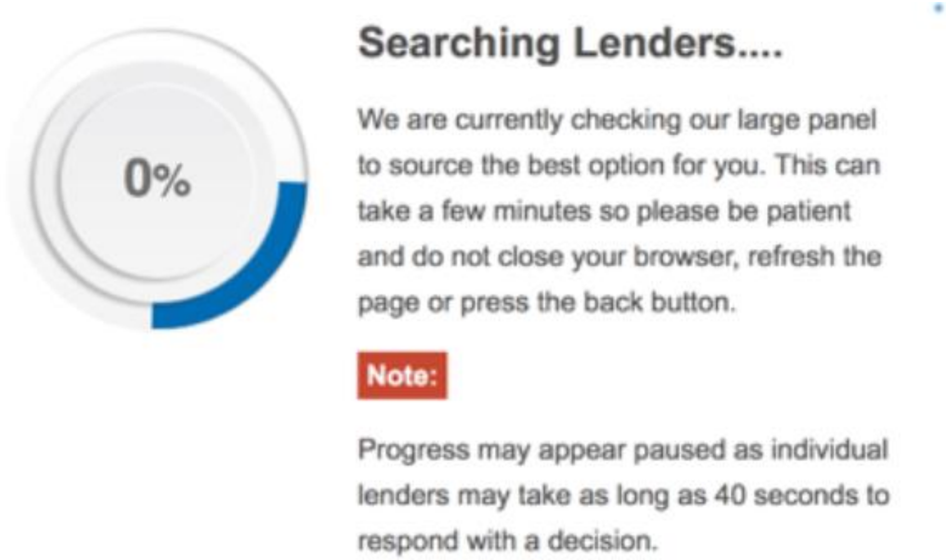


Source: www.blingblingloan.co.uk, operated by Sandhurst Associates, accessed 10 September 2014.

2. Figure 2 shows a screenshot from EPL stating that the website is checking for 'the best option' for you.

FIGURE 2

Screen shown to applicants, indicating ‘best’ option

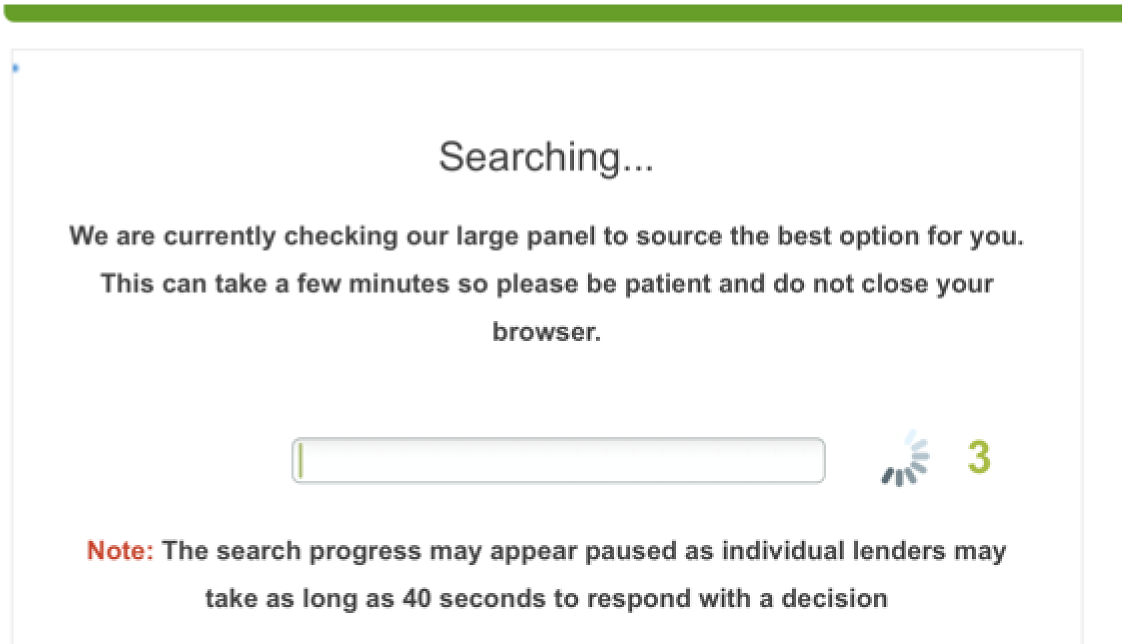


Source: EPL.

3. Figure 3 shows a screenshot from Nouveau Finance stating that a search for the ‘best option’ is taking place.

FIGURE 3

Screen shown to applicants, indicating ‘best’ option



Source: Nouveau Finance.

4. Figure 4 indicates that www.cubloans.co.uk describes itself as a good loan company.

FIGURE 4

Screenshot of Cub Loans home page

Source: www.cubloans.co.uk operated by Sandhurst. Accessed on 10 September 2014.

5. Figure 5 shows the entire home page of www.quid-squid.co.uk with no mention of the nature of the service provided.

FIGURE 5

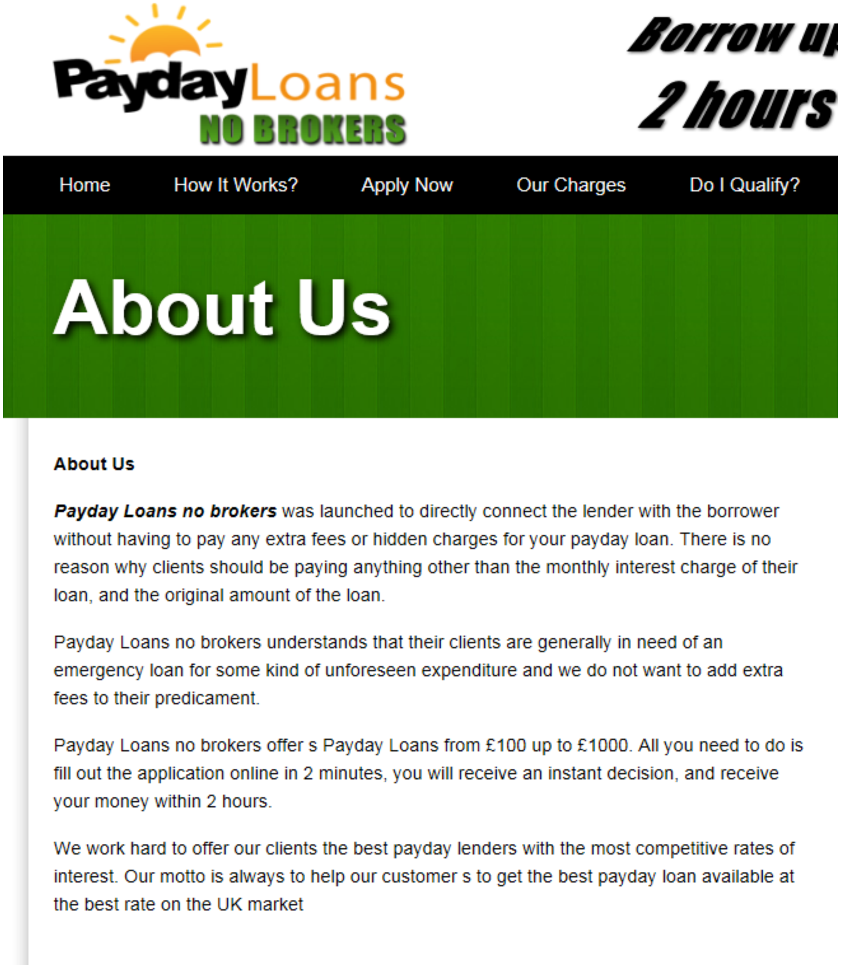
Screenshot of quidsquid.co.uk

Source: www.quid-squid.co.uk accessed on 4 July 2014.

6. Figure 6 shows the lead generator Payday Loans No Brokers.

FIGURE 6

Screenshot of homepage



About Us

Payday Loans no brokers was launched to directly connect the lender with the borrower without having to pay any extra fees or hidden charges for your payday loan. There is no reason why clients should be paying anything other than the monthly interest charge of their loan, and the original amount of the loan.

Payday Loans no brokers understands that their clients are generally in need of an emergency loan for some kind of unforeseen expenditure and we do not want to add extra fees to their predicament.

Payday Loans no brokers offer s Payday Loans from £100 up to £1000. All you need to do is fill out the application online in 2 minutes, you will receive an instant decision, and receive your money within 2 hours.

We work hard to offer our clients the best payday lenders with the most competitive rates of interest. Our motto is always to help our customer s to get the best payday loan available at the best rate on the UK market

Source: www.paydayloansnobrokers.co.uk, accessed July 2014. As at 17 September 2014 website suspended.

Payday loan borrowers' use of lead generators

1. This appendix sets out the additional evidence we have gathered, following the variation of the terms of reference, regarding customers' use of lead generators.

The extent to which borrowers use lead generators to find payday lenders

2. Our analysis of the patterns of borrowers' use of lead generators using transaction data (see Annex A) showed that in total 41% of borrowers in our sample used a lead generator at least once and almost one-third of these borrowers (12% of the total) used a lead generator more than once.

3. Borrowers are relatively more likely to use a lead generator when moving between lenders as opposed to when they first enter the market. 28% of borrowers used a lead generator to find their very first online lender and around two-thirds of borrowers used a lead generator to find a subsequent online lender.[1] This effect appeared to be primarily driven by the fact that [✂], are chosen by name more often by borrowers as their first lender on entering the market, combined with the relatively [✂] online lenders on lead generators compared with other lenders.

Reasons why customers use lead generators

4. There are a number of circumstances in which borrowers might take out a payday loan by using a lead generator's website (see paragraphs 6.100 to 6.111). For example:

   (a) Some borrowers may consciously choose to use a lead generator because they wish to apply to multiple lenders simultaneously, possibly in order to minimise the uncertainty that they will find a lender who is willing to lend to them.

   (b) Some borrowers may consciously choose to use a lead generator on the false expectation that lead generators are searching the market for the best deal available for them.

   (c) Some borrowers may be driven primarily by a desire to obtain credit from any available source and may not make any clear distinction between

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[1] This is consistent with the results in our provisional findings where a borrower used a lead generator 40% of the time when finding any major online lender.

lenders or lead generators. Such customers may, for example, type a generic term (eg ‘payday loans’) into a search engine and then click on either a lender or a lead generator’s website that appears in the search results.

(d) Some borrowers may look for lenders and they may mistake lead generators for lenders.

5. The evidence we presented in paragraphs 6.107 to 6.111 suggests that there is often a lack of transparency in how lead generators describe the service they provide. Lead generators’ websites often look very similar to those of the lenders themselves and, although many lead generators inform customers somewhere on their site that they offer a brokerage service, the information about what they are and the nature of the service they offer is in many instances not clearly and prominently presented (see paragraphs 6.107 and 6.108).

6. As a result of this lack of transparency, the evidence suggests that a substantial proportion of customers that use lead generators do not understand the nature of the service that they are being provided, and/or whether a particular site is a lender or a lead generator. In particular, of those respondents to our customer survey who had applied through lead generators/brokers, two-thirds mistakenly told us that they applied directly to a lender (see paragraph 6.106).

7. We explored further evidence of the reasons why borrowers use lead generators by considering:

(a) lead generators’ and third parties’ views provided in response to our information request, Remedies Notice and at hearings; and

(b) analysis of our transaction data.

Lead generators’ and third parties’ views

8. The majority of lead generators told us that applicants used lead generators knowingly to: minimise the number of applications required; maximise the chance of getting a loan; or to minimise the effect that multiple searches might have on their credit score.

9. Money Gap submitted details of a customer survey (see Table 1), the results of which indicated that 22% of customers chose to use the company for ‘ease

of use' and 7% for the speed of application. Only 2% of customers indicated that a higher acceptance rate was the reason for their choice.[2]

TABLE 1 **Details of Money Gap customer survey, 2012**

		%
	Why did you choose us?	*What could we improve?*
Ease of use	22	9
Quality of site	9	
Speed	7	7
No reason	7	
Reputation	6	
Received email	4	
Search engine	4	
Lower APR	4	2
Don't know	4	6
Recommended by a friend	3	
Higher acceptance rate	2	7
More information		3

Source: Money Gap.

10. Money Gap asked applicants how its service could be improved. Customer responses showed that the highest ranking factor was 'easier application' with 9% of customers citing this as the most important factor. We considered that the survey data was not particularly compelling evidence that customers were deliberately choosing Money Gap because it was a broker rather than a lender.

11. However, a number of other lead generators indicated that customers' use of lead generators was not always the result of an active and conscious search for a broker. Other lead generators indicated that some customers preferred to apply directly to payday lenders:

    (a) Ratio told us that, having spoken to customers, it did not appear that potential borrowers were approaching their loan application with a mindset seeking to minimise the time it took to apply for a selection of loans.

    (b) RevUp Media said that it believed potential borrowers were still more comfortable applying with direct lenders.

    (c) Knight Creative stated that there was an even split between those wishing to use a lead generator to search the market and those wishing to deal directly with a lender.

[2] Money Gap's survey was sent to around 1 million customers and results were based on 500 responses.

(d) Swift Money told us that it considered applicants were looking for a loan rather than actively searching for a broker.

(e) Money Gap told us that there were instances when applicants terminated phone calls when it became apparent that the service offered by Money Gap was that of a lead generator. Money Gap considered that in many cases this was because customers feared being charged a fee.[3]

12. money.co.uk, one of the major comparison websites in the payday loan market, submitted that further regulation would be beneficial because ping-trees and brokers were easily and frequently confused with direct lenders. money.co.uk added a disclosure in December 2013 on its site explaining when the supplier listed on its comparison table is not a lender. It said that this was done because, based on search results, potential borrowers seemed to be looking for direct lenders, rather than brokers (though it noted that some borrowers were more willing to go to a broker because they felt this increased their chance of getting a loan).

13. Dollar told us that the drop-out rate of applicants who were offered loans through pingtrees indicated that customers used lead generators to shop around.[4] CashEuroNet told us that some customers shopped around and this view was supported by [✂] for leads purchased from lead generators, which averaged less than [✂]% for QuickQuid.[5] However, no evidence was provided as to whether borrowers who drop out of the application process went on to take out a payday loan from another lender, or if they stopped the search altogether. One lead generator (Quiddi) suggested an alternative explanation, namely that applicants dropped out of the application process because they had not been offered a loan suitable for their purposes after the principal amount was lower than they required.

14. We also noted that applicants may be using pingtrees to access additional funds. Premier Net told us that it sat below the 'prime' payday lenders on the pingtree and that most leads it bought were from applicants who had previously used these lenders and were now looking for loans from other lenders to borrow additional sums, or repay existing loans.

Transaction data analysis

15. To gain some additional insight into the explanations for the observed extent of use of lead generators, we also looked at the borrowing behaviour of

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[3] Money Gap is not a fee-charging broker.
[4] Dollar's response to the provisional findings, paragraph 2.7.1.
[5] CashEuroNet's response to provisional findings, paragraph 3.9.

payday loan customers, and in particular the relationship between factors that could impact on a borrower's uncertainty about loan approval and their use of lead generators.

16. Our analysis of transaction data (see Annex A) indicated that the likelihood of borrowers using lead generators does not generally depend on whether a customer had experienced a repayment problem with their previous loan – a factor that is likely to increase uncertainty about approval of any future loan. This suggests that difficulties in finding a lender, and a consequent desire to apply to many lenders simultaneously, may not be the prime factor causing borrowers to use lead generators.

Conclusion on reasons why customers use lead generators

17. On balance, we concluded that while some borrowers may consciously use lead generators to apply to multiple lenders simultaneously, possibly in order to minimise the uncertainty that they will find a lender, a significant proportion of borrowers either misunderstand what lead generators are and/or the nature of their service, or do not make a clear distinction between lenders and lead generators.

18. This finding is consistent with other evidence we discussed in our provisional findings:

(a) A substantial proportion (two-thirds) of those customers in our survey who had applied through lead generators/brokers on their most recent loan mistakenly told us that they applied directly to a lender.[6]

(b) Distinguishing between lenders and lead generators is far from straight-forward as the web text accompanying the web search results for 'payday lending' or related terms, the product or company name, or the website title will very rarely identify the target website as belonging to a credit broker rather than a lender. In addition, credit broker websites are often very similar to those of the lenders themselves.[7]

[6] See paragraph 6.106.
[7] See paragraph 6.107 and Appendix 6.4, paragraphs 29 & 30.

Further analysis of the use of lead generators

Summary

1. This annex sets out the methodology and the results of our analysis of payday loan borrowers' use of lead generators based on the transaction data. The analysis provides additional insight as to the circumstances in which borrowers take out a payday loan by using a lead generator.

2. In this annex we use information on around 200,000 customers from the 11 major payday lenders, who took out at least one online payday loan and took out their first payday loan between June and August 2012, in order to investigate patterns of lead generator use in greater detail. We find that:

   (a) In total, 41% of borrowers in our sample used a lead generator at least once and almost one-third of these borrowers (12% of the total) used a lead generator more than once.

   (b) Borrowers are relatively more likely to use a lead generator when moving between lenders as opposed to when they first enter the market. 28% of borrowers used a lead generator to find their very first online lender and around two-thirds of borrowers used a lead generator to find a subsequent online lender.[1] This effect appeared to be primarily driven by the fact that [✂], are chosen by name more often by borrowers as their first lender on entering the market, combined with [✂] online lenders on lead generators compared to other lenders.

3. We also considered some further evidence on the reasons why borrowers use lead generators. We find that there is only a small difference in the likelihood that a borrower came to their new lender via a lead generator or not depending on whether a borrower had experienced a repayment problem with their previous lender. This suggests that uncertainty about loan approval, and a consequent desire to apply to many lenders simultaneously, may not be the prime factor causing borrowers to use lead generators.

4. The annex is organised as follows. The first section sets out some background information on the data used for our analysis. The second section sets out some descriptive statistics regarding the extent to which payday loan customers use lead generators to find lenders. The third section presents

[1] Approximately 40% of borrowers used a lead generator to find an online lender (either their very first payday lender or any subsequent online lender).

some further evidence relating to the reasons why customers use lead generators.

Data

5. Our analysis is based on detailed transaction data collected from the major payday lenders, as described in Appendix 2.2. To provide a complete picture of individuals' borrowing behaviour across different suppliers, borrowers were matched across lenders' databases on the basis of their surname, date of birth and postcode (see paragraph 2.48).

6. We focus our analysis on a single cohort of payday loan customers – those taking out their very first payday loan from one of the 11 major lenders between June and August 2012 who took out at least one loan from an online lender. We then analysed how many of the loans issued to these individuals in the subsequent year (ie up to 31 May 2013) were taken out via a lead generator, and the characteristics of those loans. Our final sample covered 186,722 customers taking out 943,871 loans.

7. Note that our data does not allow us to determine exactly which lead generator a lender acquired a given lead from. Nevertheless, information provided by lenders confirms that the great majority of payday loans acquired by online lenders came via lead generators of the form described in paragraphs 2.130 to 2.134 and elsewhere in our provisional findings.

8. Our data set does not include:

   (a) Loans issued by providers other than the 11 major lenders from which we collected transaction data. These lenders are likely to account for around 10% of all loans issued in the period.[2]

   (b) Loans issued by [✄], which was unable to provide information on whether or not a loan was issued via a lead generator.

   (c) Loans issued by some lenders. [✄] were unable to provide information on whether or not a loan was issued via a lead generator for some of its product types.[3]

9. We also excluded borrowers who took out multiple payday loans from a different lender on the same day during the period (6% of all borrowers in the

[2] See paragraph 2.84.
[3] Loans under (b) and (c) account together for around 11% of all loans in the period.

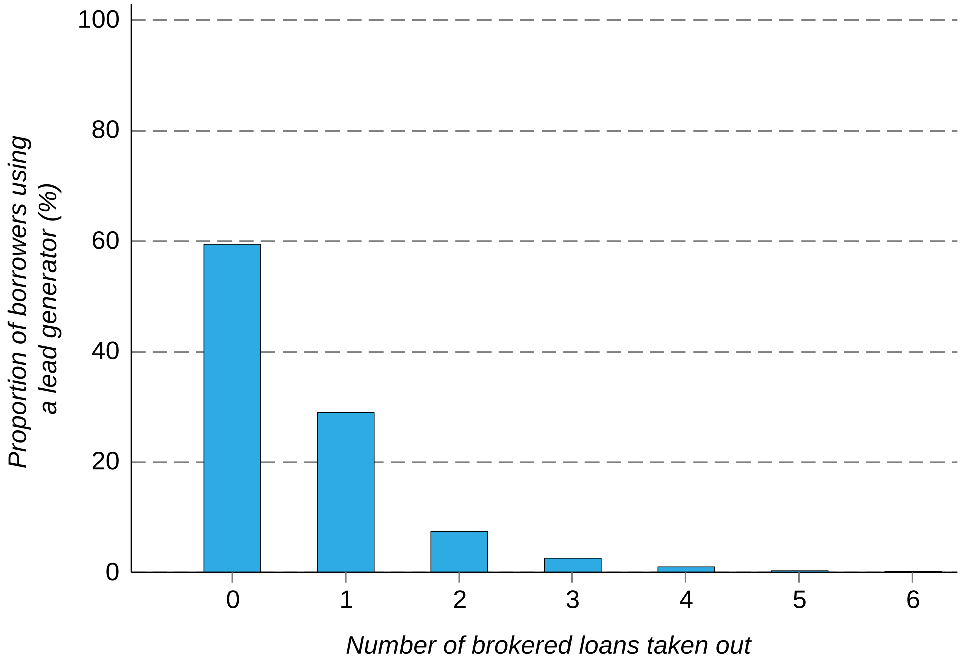
sample). This is because the order in which these borrowers took out their loans from lenders is not determinable in the data set.[4]

The extent of lead generator usage among payday loan customers

10. A single individual will often be a customer of more than one lender, and may use lead generators on multiple occasions. In our sample, 41% acquired at least one loan via a lead generator. Of these individuals 29% used a lead generator to source just one loan, 7% used lead generators to source two loans and 4% used lead generators to source three or more loans (see Figure 1 below).

FIGURE 1

Number of times online borrowers found a lender through a lead generator in the period June 2012 to May 2013



Source: Transaction data of the 11 major payday lenders.
Note: This graph excludes borrowers who used lead generators for more than six loans, which account for under 0.001% of the sample.

11. In almost all cases where borrowers used a lead generator they used them to find a new lender. Looking just at the very first online payday loans taken out by the borrowers in our sample (ie a payday loan customer's first online loan from any of the 11 major lenders), we find that 28% of borrowers found their initial lender via a lead generator. A much higher proportion of payday loan customers, 68%, used a lead generator to find any subsequent online lender.

[4] See paragraph 11 for further explanation of why we looked at the order in which borrowers took out loans with different lenders.

This effect appeared to be primarily driven by the fact that [✂] are chosen by name more often by borrowers as their first lender on entering the market, combined with [✂] online lenders on lead generators compared with other lenders.

12. Payday loan customers taking out their first online loan via a lead generator are shown to take out fewer loans but use a greater number of lenders in the subsequent year than other borrowers. On average, borrowers taking out their very first online loan via a lead generator went on to take out 2.67 further[5] loans in the remainder of the period. 35% used more than one lender. Applicants who took out their first online loan directly from a lender went on to borrow a further 4.66 loans on average, and 26% used more than one lender in the period.

13. Borrowers who have applied to an online lender via a lead generator are also less likely to return to the **same** online lender for further loans than borrowers who have applied directly.[6] Table 1 shows how many additional loans borrowers took out with their first online lender, depending on whether that first loan was taken via a lead generator or not, and split by the total number of loans taken out by the borrower.[7] It shows that borrowers returned to the same lender less often when borrowers took out their first online loan via a lead generator than when they applied directly to the lender. For example, looking at borrowers who took out no more than five loans in the period, those individuals that sourced their very first online loan through a lead generator on average returned 0.64 times to the same lender for additional loans. In contrast, those borrowers that took out their first online loan directly from the lender returned for an additional 1.07 loans on average.

TABLE 1 **Average number of additional loans taken from the first lender when the first loan is taken out via a lead generator and when it is not, split by the total number of loans taken out by the borrower**

	First loan	
Total number of loans taken out	*Through lead generator*	*Directly from lender*
0–5 loans	0.64	1.07
6–10 loans	3.69	5.82
11+ loans)	7.57	11.34

Source: Transaction data of the 11 major payday lenders.

[5] In addition to a first loan.
[6] Note that, in contrast to when borrowers move between lenders, it is very rare for borrowers to use a lead generator when returning to a lender that they have already borrowed from, irrespective of whether the borrower first found that lender via a lead generator.
[7] The total number of loans taken out with the lender providing the very first loan may also depend on the total number of loans a borrower ultimately took out in the period considered. We controlled for this by looking at average repeat use of the same lender within relatively homogenous groups of customers (that is borrowers who took out overall a roughly similar number of loans).

Reasons for using lead generators

14. As discussed in paragraph 4 of this appendix, there are a number of circumstances in which borrowers might take out a payday loan by using a lead generator’s website.

    (a) Some borrowers may consciously choose to use a lead generator because they wish to apply to multiple lenders simultaneously, possibly in order to minimise the uncertainty that they will find a lender who is willing to lend to them.

    (b) Some borrowers may consciously choose to use a lead generator on the false expectation that lead generators are searching the market for the best deal available for them.

    (c) Some borrowers may be driven primarily by a desire to obtain credit from any available source and may not make any clear distinction between lenders or lead generators. Such customers may, for example, type a generic term (eg ‘payday loans’) into a search engine and then click on either a lender or a lead generator's website that appears in the search results.

    (d) Some borrowers may look for lenders and they may mistake lead generators for lenders.

15. Only the first set of circumstances (point (a) above) reflects a conscious and informed use of the service that lead generators provide. The other circumstances listed in paragraph 14 entail either some form of misunderstanding as to what lead generators are and/or the nature of their service, or a lack of customers’ engagement in making a clear distinction between lenders and lead generators. To gain some additional insight into which of these explanations was more likely to explain the observed extent of use of lead generators, we looked at the borrowing behaviour of individuals taking out their online loans via lead generators, and in particular the relationship between factors that could impact on a borrowers’ uncertainty about loan approval and their use of lead generators.

16. The main factor we looked at is whether borrowers had experienced repayment problems with their previous loan, who as a consequence we would expect to perceive greater uncertainty about loan approval.[8]

17. Table 2 compares the difference in lead generator use on online[9] payday loans between two groups: those borrowers who had a repayment problem[10] on their previous loan[11] and those who had no repayment problem on their previous loan.

18. The first line in the table shows that those with repayment problems are slightly more likely to use a lead generator. 62% of borrowers with a repayment problem on their previous loan use a lead generator to find their second lender. This is somewhat higher than for borrowers who had not previously had a repayment problem, of whom 59% use a lead generator. The second, third and fourth lines show no substantive difference in lead generator usage between the two groups: when finding their third lender, around 72 to 73% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan; when finding their fourth lender, around 78 to 79% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan; and, when finding their fifth lender around 81 to 82% of borrowers used a lead generator irrespective of whether they experienced a repayment problem with the previous loan.

TABLE 2 **Use of lead generators on online loans and repayment problem with the previous loan**

		% of borrowers using a lead generator for online loans	
Lender used	*No of Observations*	*With no repayment problem on the previous loan*	*With repayment problem on the previous loan*
Second	24,294	59	62
Third	15,061	72	73
Fourth	7,071	78	79
Fifth	2,920	82	81

Source: Transaction data of the 11 major payday lenders.

[8] Past repayment problems are an imperfect indicator of the extent to which the use of lead generators is being driven by uncertainty about access to credit. The repayment profile of borrowers that find a lender via lead generators and those that go to a lender directly, will ultimately be a function of the lenders' credit-scoring procedures: the criteria used, and the positions in the pingtree that they take. This may lead to some convergence in the repayment profile of successful applicants that find their lender via a lead generator and those that apply directly.
[9] For borrowers who use both online and high street lenders, we still record repayment problems on high street loans but we do not include lead generator usage on high street loans in our final results.
[10] Here 'repayment problems' is defined as either never repaying a payday loan in full or repaying in full late – but not 'rolling' a loan over.
[11] Where their previous loan may have been taken out on either the high street or online.

19. Overall, these results suggest lead generator usage is only slightly more prevalent among borrowers who had past repayment problems than among borrowers who had had no repayment problems in the past. This indicates that the uncertainty borrowers face around loan approval is not the main driver for lead generator usage.[12]

20. We considered that the entire repayment history of an individual, rather than just the performance of the previous loan, could affect the likelihood that a borrower would use a lead generator to find an online lender.[13] This might be relevant, for example, if uncertainty about whether or not a customer is approved for a loan increases with the number of times that they have experienced repayment problems with previous loans. However, when we look at whether lead generator usage is greater for borrowers who had a repayment problem with *any* previous lender[14] we find a similar result: borrowers who had a repayment problem when using a previous lender are only slightly more likely to use a lead generator than those borrowers who had had no previous repayment problem.[15]

[12] While some borrowers' repeated use of lead generators suggests that they are consciously using them, we found that borrowers who had previously used lead generators did not use them to a much greater (or lesser) extent than those who had not used a lead generator before. This indicates that – even though borrowers are more likely to use a lead generator to find a lender when they have previously borrowed from other lenders – past experience with lead generators does not influence borrowers' propensity towards lead generators in the future. We also note that our consumer survey evidence (see paragraph 6.111) suggests that borrowers are often unable to identify a lead generator even after they have used it. This confirms that the observed pattern (ie borrowers' greater use of lead generators when moving between lenders than when first entering the market) is driven by borrowers taking out their very first loan from established brands, which rely on lead generators to a very limited extent, and from other less well-known lenders, which rely more heavily on lead generators, when moving away from their first lender (see paragraph 11).

[13] In particular, the uncertainty about approval may be expected to increase with the number of times a borrower defaults (or has some form of repayment problem) and this in turn may affect their propensity to use lead generator.

[14] Any lender means any past lender used either online or on the high street.

[15] When moving between lenders, borrowers who had repayment problems with a previous lender used a lead generator 70% of the time whereas those borrowers who had had no repayment problems used a lead generator 66% of the time.

New entrant case studies

Introduction

1. In this appendix we discuss the recent experiences of two new entrants into the payday lending sector: Provident Financial (which launched its Satsuma product in November 2013) and Elevate (which launched its Sunny product in August 2013).

Provident Financial – Satsuma

2. Provident Financial describes itself as ‘one of the UK’s leading suppliers of personal credit products to the non-standard lending market’. Provident Personal Credit, part of Provident Financial, supplies home credit to 1.7 million customers in the UK through a network of local agents. Vanquis Bank, a subsidiary of Provident Financial, supplies credit cards to around 1 million customers. Vanquis advertises a representative APR of 39.9%, and its customers tend to be higher credit risk than typical credit card customers.

3. Provident launched its ‘Satsuma Loans’ product in November 2013. This is an instalment product, allowing new customers to borrow amounts between £100 and £300, and repeat customers amounts up to £800. Loans are offered for either a 13- or 26-week period, and are paid back weekly through the use of CPA. A £100 loan for 13 weeks costs £140.01 in total, a weekly amount of £10.77. Customers do not repay late charges – if payments are missed, then the debt is extended until all payments have been made.

4. Provident told us that increasing regulation (from the OFT, FCA and CC) to stamp out poor behaviour in the payday sector, along with its approach based on its long experience with home credit customers, meant that now was a good time to launch the Satsuma product. It said that it saw a clear separation between the customers of its core business that it was serving with home credit and with Satsuma. Customers of slightly higher credit quality, and who were dealing less in cash, were being lost from its home credit business, and it was these customers who Provident was seeking to retain with the Satsuma product.

5. Provident told us that it would rely on a mixture of different sources to generate new business, including advertising on television and lead generators. It would keep the mix of different sources under review – adapting its reliance on lead generators depending on the quality of applicants and the cost per customer. In addition to these standard channels, Provident’s other products

would also provide a source of customers – as well as customers declined from its credit card products at Vanquis Bank, it would be able to generate some leads from customers visiting its home credit website looking for an online product.

6. In an investor presentation, Provident referred to its competitive advantage in its marketing reach, citing its 'financial firepower, existing lead generation capabilities/relationships and links to Vanquis Bank declines'. It referred to branded search as being the key to success, and set out its plans for the Satsuma brand.

7. In terms of credit risk assessment, while Provident referred to the need to 'feel its way' in terms of how much to lend and how long for, it noted that the weekly cycle of its product allowed it to learn more quickly than it would otherwise be able to. In the same investor presentation referred to above, it referred to Provident's advantage in collecting and underwriting instalment products due to its experience with home credit and the Vanquis Bank, as well as its stock of 6 million home credit customer records. It would build on these advantages, together with additional data from credit bureaux, in order to build a bespoke scorecard.

8. Provident was planning on using its existing customer services and call centres in Bradford and Chatham, which currently served its home credit and Vanquis Bank customers.

9. Provident told us that the development of its Satsuma product was progressing well. It had deliberately moderated the volume of new loans issued as it built the capacity to support more rapid development, and because of the uncertainty introduced by the impending price cap. Between the product's launch in November 2013 and the end of May 2014, Provident had written around [✂] loans, compared with initial expectations of around [✂]. It had an acceptance rate of around [✂]% of applications. It forecast that it would write [✂] loans in 2015, although this was very dependent on the outcome of the proposed price cap. In July 2014 Provident told us that the business was still loss-making, but its aim was to break even [✂] and then continue to grow.[1]

Elevate – Sunny

10. Elevate (previously Think Finance, Inc) is an established US online lender, offering instalment loans, lines of credit or rent-to-own. It entered the UK market in 2011 with the acquisition of Fortress Group UK Ltd, a UK payday

[1] Provident Financial PLC response hearing summary, paragraph 2.

lending company offering a product called ‘1 Month Loan’. The acquisition was made in order to understand UK-specific risk factors and the UK compliance regime better. Elevate has since withdrawn the products previously offered by Fortress, and in August 2013 launched a new product, ‘Sunny’.

11. Using this product, customers are able to borrow amounts of between £100 and £1,000, with a flexible loan duration of between three days and five months. Loans of a month or less are repaid in a single payment – longer loans are repaid in monthly instalments. Sunny is unusual in that it uses risk-based pricing. Lower-risk customers may qualify for monthly interest rates of 15%, compared with a monthly interest rate of 29% for most customers. Sunny does not levy any transaction fees or late charges.

12. As of early 2014, Elevate was issuing around [✂] to [✂] new loans per month. Its gross revenue in the first two months of 2014 was around £[✂], approximately half of forecast levels.

13. Elevate is using a number of different strategies in order to acquire new customers. Its television and display advertising budget for 2014 was around £[✂] (relative to a total marketing budget of £[✂]). Despite this relatively large expenditure, it told us that it expected that it would take some time for it to capture a significant brand awareness, given the established brands of larger lenders. It said that television was a very expensive acquisition channel compared with others, and that customer acquisition costs for previous entrants using television had been much lower.

14. Elevate told us that the existing advertising regulations were causing it difficulties when trying to advertise its lower prices. This was due to Sunny’s tiered interest rates, which meant that lower rates were offered only to certain customers, making it difficult to emphasise these rates in its marketing. It would only be able to include its lower rates in its APR representative example if more than half of its customers paid that rate.

15. Elevate said that it was now using its fourth generation of risk models to assess applications for its Sunny product. Each iteration in the development cycle of these models – collecting performance data, analysing this information and implementing improvements – took around three to four months to complete. Given that it had only recently entered the market, Elevate was still very conservative with who it offered loans to. It expected its models to be quite a bit better in a year’s time. Elevate said that shortly after launching Sunny it experienced a large spike in applications of low quality. It believed that this was driven by customers who were already active in the market becoming aware of a new lender and applying after they had been rejected by

other lenders.[2] Elevate said that while it was actively using information from three CRAs, this information was not on its own powerful enough to give a complete picture of affordability.

16. Elevate said that in the past firms could operate with an off-the-shelf system, but now that the market was developing, companies needed in-house risk models and technical expertise to compete with the larger firms.

17. Elevate said that at present the balance of new to repeat borrowers was skewed towards new borrowers as they sought to build up their customer base.[3]

18. Elevate told us that although it was incurring significant losses, it was making progress, and was comfortable that it would eventually turn profitable. It said that many companies would not have had the stomach to last so long – Elevate was willing to do so given its experience in the sector in the USA.

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[2] Elevate Credit International Limited response hearing summary, paragraph 5.
[3] ibid, paragraph 5.

Customer detriment

Introduction

1. In this appendix we provide a description of the nature of the detriment that is likely to have arisen as a result of the AEC that we have identified, and provide some estimates of its potential scale. Our estimate of the potential scale of the detriment is based on the prices observed in the market between 1 April and 9 June 2013, ie before the implementation of the FCA's price cap in January 2015. The implications of the price cap for customer detriment are discussed in paragraphs 8.09 to 8.13.

2. We identified two sources of customer detriment which are likely to have arisen as a result of the AEC:

   (a) Some customers pay more for their loan than they would if price competition were more effective. The extent to which different groups of customers overpay for their loan is likely to vary: for example, customers who currently use relatively expensive lenders could be expected to suffer a particularly large detriment.

   (b) There is likely to have been less innovation on pricing (eg in relation to the introduction of risk-based pricing) than we would observe in a market in which price competition were more effective.

3. We discuss each of these two sources of detriment in turn below.

Higher prices

4. We have found that payday lenders are not subject to an effective competitive constraint when setting their prices. As a result, the price of taking out a payday loan has generally been higher than it would be in a well-functioning market, to the detriment of payday loan customers.

5. We have sought to derive an indicative estimate of the extent to which payday loan customers may overpay for their loans prior to the introduction of the price cap. Our analysis is structured as follows:

   (a) First, we discuss the price level that might be expected if competition were working more effectively, and in the absence of a price cap.

   (b) Second, we describe the methodology that we have used to calculate how much customers are overpaying relative to this competitive benchmark.

(c) Third, we present our estimates of the scale of the implied customer detriment.

Competitive benchmark

6. We considered how much lower prices might be in the payday lending market if price competition were more effective.

7. As discussed in Section 4, in our review of payday lenders prices, we observed a degree of clustering among payday lenders around a headline price of £30 for a customer borrowing £100 for around one month. The primary competitive benchmark that we have used is one in which the price of a typical payday loan falls from £30 to £25 per £100 for a one-month loan as a result of more effective price competition. We considered a price reduction of this magnitude to be a realistic and relevant benchmark because:

   (a) It is similar to the price paid by some customers for some of the cheaper products currently available on the market, such as CashEuroNet's FlexCredit product.[1]

   (b) A monthly interest rate of 25% was charged by Dollar's online businesses until late 2011/early 2012. Dollar told us [✂]. In addition, Dollar continued to offer the discounted monthly interest rate of 25% to customers coming via the more competitive environment of moneysupermarket.com.[2]

8. A price reduction from £30 to £25 per £100 for a one-month loan would represent a fall of 16.7% in percentage terms. Our analysis of the major lenders' profitability in the period between 2008 and 2013, as set out in Section 4, suggests that efficient lenders would have been able to retain reasonable levels of profitability in the face of a decline in revenue of this order of magnitude, even without altering their risk thresholds. We noted that recent and anticipated regulatory developments in the market are likely to reduce lenders' profitability compared with historical levels. The extent of customer detriment and scope for price reductions following the introduction of the price cap and other regulatory changes in the payday lending market is discussed in paragraphs 8.12 and 8.13.

9. We also considered two further benchmarks to test the sensitivity of our results to the assumptions used: £27.50 and £22.50 per £100 for a one-month

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[11] In its response to the provisional findings (paragraph 7.5(a)), Wonga said that it was unclear whether the pricing structure adopted by CashEuroNet would be sustained, or whether it was designed to drive penetration in an initial launch phase. However, we saw no evidence to suggest that the rate was temporary, and noted that it continued to apply more than a year after the product's introduction.

[2] In its response to the provisional findings (paragraph 7.5(a)), Wonga argued that Dollar's temporary promotional price was unlikely to reflect a sustainable level of competitive prices. However, we noted [✂].

loan (declines of 8.3% and 25.0% respectively in percentage terms). A higher price point may be more relevant if lenders' cost structures mean that they could not supply payday loans profitably at the £25 level, even in a more competitive environment. A lower price point may be more relevant if we consider that the lowest prices on offer in the market – for instance, those offered by Speedy Cash or those offered by CashEuroNet to customers using money.co.uk – are more representative of the prices that we might expect to see in a market in which competition was working more effectively.

Calculating how much customers are overpaying

10. In order to generate an indicative estimate of how much customers overpay for their loans, we compared the prices paid by payday loan customers with these competitive benchmarks.

11. We began by calculating the price of each of the major lenders' products for a loan repaid on time for each duration between 1 and 31 days. Loans longer than 31 days – which account for a relatively small proportion of all loans – were excluded from this analysis because of the complexity associated with calculating comparable TCCs across lenders for these longer durations.[3]

12. Because TCCs vary depending on the size of the loan, we based our TCC calculations on the average loan value taken out by customers at each given duration. So, for example, if we consider a product with a fixed monthly interest rate of 30% and no other fees or charges; and if the average value of loans taken out for 28 days using that product was £200; we would calculate the average TCC for this product and this duration as £60 (ie 30% x £200). For the same product, if the average loan value for 29-day loans was £220, the average TCC used for this product and this duration would be £66 (ie 30% x £220).

13. Having calculated TCCs for each product, we then compared these with the competitive benchmark to estimate the amount that customers overpay using that product for different loan durations. As described in paragraphs 7 to 9, we considered three levels of prices for a typical one-month loan that we might expect in a more competitive market: a 'mid-price' case of £25.00 per £100, a

[3] This complexity arises because some traditional 'monthly' payday products allow some customers to take out loans for slightly longer than one month without incurring a second month's interest charges, while others do not. The TCC of a given loan for more than 31 days will therefore depend on whether the lender makes an allowance of this type. Approximately 17% of all loans made in 2012 had durations of more than 31 days. This comprises both traditional monthly payday products that allow some customers to borrow for a few days more than a month, and flexible or longer-term products.

'low-price' case of £22.50 per £100 and a 'high-price' case of £27.50 per £100.

14. The extent to which customers overpay in total will depend on how (if at all) price reductions vary by lender, and the extent of price dispersion which persists in the presence of more effective price competition. We used two different scenarios when specifying our competitive benchmark:

(a) In the first scenario (Scenario A), we assume that price dispersion would not persist if customers were more responsive to variation in prices, such that no lender would set its prices above the competitive benchmark. Lenders that currently charge beneath this price point continue to do so.[4]

(b) In the second scenario (Scenario B), we assume that price dispersion persists in line with that which we currently observe in the market, but that all lenders' prices fall by a given percentage (including those lenders with relatively inexpensive products). The scale of the reduction in prices applied to each lender is proportionate to the relative difference between the typical price of £30 per £100 per month and the benchmark price. That is, all lenders' prices are 16.7% lower in the 'mid-price' case, 25.0% lower in the 'low-price' case and 8.3% lower in the 'high-price' case.

15. This results in a range of six different 'counterfactuals' against which we can estimate the extent to which customers may be overpaying for their loans, which vary according to the assumptions made regarding the overall magnitude of the reduction in prices in a more competitive environment, and how this varies across lenders. These counterfactuals are set out in Table 1. Note that the most likely scenario would fall somewhere between these cases, but that our expectation would be that there would be a significant reduction in price dispersion if price competition were more effective, as relatively expensive products would no longer be viable unless they offered particularly attractive non-price features.

[4] In its response to the provisional findings (paragraph 7.5(b)), Wonga argued that this assumption was unjustified, because the price dispersion currently observed in the market reflected different lenders' different pricing structures, and significant differences in non-price attributes, rather than a lack of competition. We noted, however, that the evidence presented in section 4 suggests that the price dispersion that we observe in the market is not simply driven by differences in lenders' risk appetites, or non-price product characteristics. Instead, this dispersion is likely to be driven – at least in part – by the barriers to shopping around and switching set out in section 6, which insulate lenders' from competitive pressure.

TABLE 1 **Counterfactuals used to estimate customer detriment associated with high prices**

Benchmark price	*No lender sets prices above the benchmark*	*All lenders reduce their prices by a fixed percentage*
£22.50 per £100 month	Scenario A (low)	Scenario B (low)
£25.00 per £100 per month	Scenario A (mid)	Scenario B (mid)
£27.50 per £100 per month	Scenario A (high)	Scenario B (high)

Source: CMA.

16. Having calculated the overpayment associated with each product and loan duration, we next sought to estimate the average overpayment by a payday loan customer, taking into account the market shares of different products and the variation in the loan amounts and durations of customers. To do this, we began by considering all loans issued by the major lenders in the period 1 April to 9 June 2013[5,6] (excluding loans which were never repaid in full[7] and loans longer than 31 days in duration). For each loan, we calculated the difference between the TCC for that product and loan duration and each of the competitive benchmarks, before summing these overpayments across loans. This total was then divided by the total number of loans to get the average amount overpaid per loan.

17. We did not include in our analysis any fees incurred after the loan is agreed – for example, late fees, top-up fees or rollover fees. This is because of the complexity associated with comparing these fees across lenders for different potential borrowing scenarios. By excluding these fees, we are likely to under-state for some customers the extent to which they are overpaying for their loan (potentially by a substantial amount for some customers, given the extent of variation that we observed in the late fees used by different lenders).[8] Note that excluding loans of duration longer than 31 days (see paragraph 11) may also cause us to underestimate the amount that customers overpay for their

[5] This period was selected on the basis that it is the most up-to-date period within our transaction data set which is of a significant length, during which no price changes took place, and for which complete transaction data were available for the most significant payday products available on the market. The period used for this analysis pre-dates CashEuroNet's introduction of FlexCredit.
[6] The price cap will likely reduce the size of the market (see paragraph 4.170). However, the FCA estimated that the reduction is likely to be relatively limited (ie. the value of loans would reduce by 4%). Therefore, the impact on the detriment estimates would be limited if we used the expected volume of loans issued following the cap introduction as the basis for our estimates.
[7] We exclude loans that were never repaid in full, as while these customers may be overcharged as a result of a lack of competition, the extent to which they suffer detriment as a result of this will vary, given that they do not repay the amount owed.
[8] In its response to the provisional findings (paragraph 7.5(c)), Wonga argued that it was not possible to conclude that excluding these fees would cause us to understate the extent to which customers were overpaying for their loans, as this would depend on the relationship between pre- and post- due date fees for different lenders, which had not been explored by the CMA. However, we considered that the fact that we exclude these fees will un-ambiguously reduce our estimates of the price paid by some payday loan customers for their loans – and so absolute size of any overpayments made by these individuals – as we will be excluding some part of the charges incurred from our calculations.

loans, to the extent that these loans have a higher value on average, and so would be expected to be associated with a larger overpayment.[9]

18. The TCCs that we used in our analysis also do not take into account any promotional rates offered by lenders, or customers who do not take up faster payment fees. While this may cause us to overestimate the extent of over-payment for some customers, we would expect any effect to be small, given that the extent to which customers pay rates lower than the advertised TCCs as a result of either of these factors is currently limited.

Estimates of possible detriment

19. Table 2 sets out our estimates of the average amount overpaid per loan in our sample under each of the six counterfactual scenarios. In the 'mid-price' case (ie a reduction in the typical price of a payday loan from £30 to £25 per £100 per month), we estimate overpayments of between £5 and £10 per loan, or between 9 and 17% in percentage terms. Looking across all of the different counterfactuals, the lowest detriment estimated is an overpayment of £2.74 per loan, and the highest is an overpayment of £14.14 per loan.

TABLE 2 **Average overpayment per loan relative to each of the counterfactuals**

Benchmark price	*Average overpayment per loan*	
	Scenario A	*Scenario B*
Low – £22.50 per £100 per month	£8.26 (14.6%)	£14.14 (25.0%)
Mid – £25.00 per £100 per month	£5.35 (9.5%)	£9.43 (16.7%)
High – £27.50 per £100 per month	£2.74 (4.9%)	£4.71 (8.3%)

Source: CMA.

Note: Total number of loans included in analysis = 1,273,573.

20. We considered the overall extent to which customers may be overpaying for their loans across the payday lending sector, by extrapolating these average per-loan savings to the total number of loans issued in 2012 which were repaid in full. In doing so, we do not take into account any impact of increased price competition on the total number of payday loans issued.[10]

21. As described in Section 2, we estimate that around 10.2 million payday loans were issued in 2012 and, of these, around 88% or 9.0 million were ultimately

[9] In its response to the provisional findings (paragraph 7.15(a)), Wonga argued that the effect might go the other way, and that excluding these loans might cause us to understate overpayments, to the extent that the prices of longer duration loans were less dispersed. However, no reason was provided by Wonga as to why this might be the case, and we noted in any event that loans of duration longer than 31 days accounted for a relatively small proportion of all loans.
[10] The number of loans might increase, to the extent that lower prices attract further customers, or decrease, to the extent that lower prices cause lenders to tighten their risk thresholds, as it becomes unprofitable to supply customers with a higher expected risk at a lower price point.

repaid in full.[11] Our estimates of total annual overpayment under the different assumptions regarding the competitive counterfactual are presented in Table 3. Estimates of the average overpayment per customer are also presented (these are derived by dividing the total annual overpayment by the estimated number of customers in 2012, 1.8 million).

TABLE 4 **Annual overpayment**

Benchmark price	*Estimated annual overpayment*		*Average overpayment per customer*	
	Scenario A *£m*	*Scenario B* *£m*	*Scenario A* *£*	*Scenario B* *£*
Low – £22.50 per £100 per month	74	127	41	71
Mid – £25.00 per £100 per month	48	85	27	47
High – £27.50 per £100 per month	24	42	14	24

Source: CMA.

Note: Total number of loans included in analysis = 1,273,573.

22. We note that the average overpayment per loan and per customer set out in Tables 3 and 4 are likely to vary for different customer groups. To the extent that we would observe less price dispersion in the presence of more effective price competition, then customers using lenders that are relatively expensive for a given set of borrowing criteria, or taking out loans in scenarios in which lenders' prices are particularly widely dispersed, are likely to overpay for their loans by a relatively large amount. This is likely to include customers who are currently paying upfront fees such as faster payment charges (as these customers often pay the most for loans repaid on time);[12] customers who are using products with monthly interest rates for loans of shorter durations (which are typically relatively expensive compared to products with daily interest rates);[13] and customers who repay their loan late (given the substantial difference between the default charges of the cheapest and most expensive lenders).[14]

23. In its response to our provisional findings, Wonga argued that our assumption that the price of a typical payday loan would fall 'as a result of more effective price competition' ignored the likelihood that an increased focus on price-based competition would result in reduced competition on non-price factors.[15] However, we did not consider that effective competition between payday lenders on price and non-price product attributes were mutually exclusive, or that effective competition on prices would imply less pressure on lenders to

[11] We use the estimate for 2012, because it includes both the major and smaller payday lenders. However, this may cause us to underestimate the total extent to which customers are overpaying for their loans, given that market volume continued to grow in 2013, albeit at a reduced rate.
[12] See Figures 4.1 & 4.2.
[13] See paragraph 4.35.
[14] See paragraph 4.31.
[15] Wonga's response to the provisional findings, paragraph 7.9.

innovate on non-price product attributes of their products. Rather, we considered that in the absence of barriers to shopping around and switching, customers would give due consideration to both price and non-price product attributes in making their choice of loan provider.

Greater innovation on pricing

24. A second source of detriment would exist if payday lenders have innovated less on prices than they would have in the absence of the AEC that we have identified. There are two key areas of pricing innovation which we considered were likely to be undeveloped relative to the level that we would expect in a market in which price competition were more effective: risk-based pricing, and the use of flexible pricing models.

25. Under risk-based pricing, the interest rate paid by a borrower depends on their risk of default as assessed by the lender, with less risky customers paying lower prices. In a market in which price competition was effective, we would expect lenders to make use of risk-based pricing, as suppliers competed to win and/or retain groups of lower-risk borrowers by offering these customers lower rates to reflect the lower cost of supplying them. In contrast, in the presence of the features that we have identified, customers are unresponsive to variation in prices, weakening any incentive for lenders to use prices to target low-risk groups with discounted rates.

26. We considered there to be significant scope in the payday lending market for greater use of risk-based pricing, given the large difference in risk between certain groups of customers (eg first-time and repeat customers). Although a number of lenders reported that they had either considered or were considering introducing risk-based pricing, it remains uncommon to observe lenders offering different rates to customers of different risk. Only one of the major lenders offers risk-based pricing (CashEuroNet, which introduced three different price tiers in 2009), and we are also aware of one new entrant, Elevate, which offers reduced rates to lower-risk borrowers who make successive timely repayments, or participate in training on financial awareness.

27. One potential drawback associated with risk-based pricing which was highlighted by some lenders is the resulting increase in the complexity of prices. Increased use of risk-based pricing might also have the effect of increasing prices for higher-risk customer groups, to the extent that current prices imply cross-subsidisation from less to more risky customers. In relation to this Wonga told us that risk-based pricing may not be commercially viable for a lender trying to expand to serve additional customers with lower credit-

worthiness than existing customers.[16] Despite this, we would generally expect stronger incentives for lenders to use risk-based pricing to lead to more efficient market outcomes, as the costs of supplying different groups of customers came to be better reflected in the prices paid.

28. A second possible area of pricing innovation which may be less developed relative to the level that we would expect in the absence of the AEC relates to the use of flexible pricing models that better reflect the cost of serving customers with different borrowing requirements. One particular example is the greater use of daily pricing, rather than prices charged per month or part-month.

A number of lenders – including two of the largest – already offer flexible products with daily interest rates. Nevertheless, the majority of products in the market continue to use the traditional model (in the sense that customers are charged monthly interest, even though many borrow for shorter periods than this) and these products continue to command a material share of shorter-duration loans issued in the payday lending market (see Section 4). In the absence of the AEC, we would expect lenders to face a greater incentive to introduce prices that reflected the diversity in the borrowing requirements of different borrowers, and monthly products with fixed rates to become less common.

[16] Wonga's response to the provisional findings, paragraph 7.18(a).

Financial Conduct Authority letter responding to the Competition and Market Authority’s provisional price comparison website remedy

During the course of the investigation we engaged regularly with the FCA.

During these discussions (after the publication of our PDR), on 18 December 2014 the FCA formally set out its position on the PCW remedy discussed in our PDR. On 19 December 2014 we published an additional consultation on an amendment to the remedy to implement it through the FCA Authorisation scheme rather than through a separate accreditation scheme.

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18 December 2014

Dear Simon

Payday market investigation PCW remedy

I am writing regarding the provisional decision on remedies of the Payday Lending Market Investigation, in which you found strong evidence on the adverse effects on competition in the payday lending market. I am aware that your work has taken place against the backdrop of substantial change in this market, and our own work in relation to high-cost short term credit including the price cap, and I appreciate the constructive engagement that has taken place between our organisations. We look forward to continuing to work with the CMA to consider and respond to its final recommendations.

As part of the provisional decision you proposed a remedy creating an Order on payday lenders to publish their product information on at least one accredited price comparison website (PCW). In support of that Order you also proposed a recommendation that the FCA establishes and administers an accreditation scheme for payday lending PCWs. Following careful consideration of the proposed remedy, I wanted to suggest some changes to the recommendation which I believe will improve its operation and effectiveness.

The objectives

As you know, the FCA supports the objectives of the remedy. Reducing difficulties for consumers in shopping around, and increasing transparency of fees and charges, are both consistent with our objectives of promoting competition and securing an appropriate degree of protection for consumers.

Implementing the objectives

We recognise that the establishment of a voluntary accreditation scheme for payday PCWs is one way to pursue the stated objectives. However, as payday lending PCWs would be effecting an introduction between a potential borrower and a lender they are already likely to require our permission as credit brokers.[1] Creating a voluntary accreditation scheme of this type would therefore create a two-tiered regulatory system.

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[1] Credit broking is a regulated activity under article 36A of the Financial Services and Markets Act 2000 (Regulated Activities) Order 2001 (*SI 2001/544*) (RAO).

All authorised PCWs would be held to certain standards while those PCWs which opted for accreditation would need to comply with additional higher standards.

There are existing principles, conduct rules and guidance that apply to authorised credit brokers. Therefore our view is that getting the standards right for all authorised payday loan PCWs would be a more effective way of achieving the desired outcome. Therefore, we suggest that we review our existing rules and guidance which apply to payday PCWs and consider how best to establish appropriate standards for all PCWs operating in this sector, for example by adding to the existing rules and guidance. **To that end, I am writing to ask the Payday Lending Market Investigation Group to consider revising its proposed remedy to recommend that the FCA uses the tools at its disposal to improve the standards of all authorised PCWs, rather than proposing an accreditation scheme.**

The advantage of a regulatory approach would be that it would enable us to set the standards for PCWs operating in this sector, supervise effectively against these standards, and where appropriate use our full range of enforcement powers to take action against firms which are not complying. We would of course keep the standards under review as the market develops.

In developing proposals to raise the standards for payday PCWs we must comply with the requirements of FSMA to consult and carry out a cost-benefit analysis and act in accordance with our regulatory principles, which include proportionality.

We would also like to raise some additional points of detail for you to consider when setting out your final remedy:

- We are concerned in this context that we might find it difficult to include requirements on PCWs banning payday loan banner advertisements from their payday loan comparison pages. In addition, our existing rules require that advertisements and other financial promotions be fair, clear and not misleading. We therefore think this should address your concern that consumers' attention should not be drawn away from the product rankings by banner advertisements.

- We would be supportive of the Order containing protections for payday lenders who may be unreasonably excluded from all PCWs. Including a protection such as this, supplementing that already afforded under competition law, could be particularly beneficial for new entrants by reducing the risk of exclusionary behaviour by incumbents.

- We consider that ranking credit products by reference to the total amount payable is the more appropriate measure and should provide the same ranking as for total cost of credit.

Finally, I want to take this opportunity to re-iterate that we remain supportive of the objectives of the remedy and we are fully committed to working together to promote effective competition and secure appropriate protection for consumers.

Yours sincerely,

Mary Starks

Director of Competition

Summary of views on remedies

Introduction

1. This appendix summarises the evidence we received in response to our Remedies Notice and views on remedies submitted by parties in response to our provisional findings and Notice of a request for a variation of the terms of reference. Views on remedies received in response to the PDR are included in Section 9.

2. We have not duplicated written responses in their entirety but identify key aspects of those responses, neither do we in this document provide commentary on the evidence and arguments submitted. Where issues overlap more than one remedy we have sought to group these issues as appropriate under a single remedy and this evidence is then drawn upon in our consideration within our decision.

General comments

3. Dollar told us that all remedies should apply to all providers of consumer credit to ensure competition was not restricted or distorted.[1]

4. Wonga noted the importance of adopting a holistic approach with respect to other regulatory interventions by the FCA either announced or planned, or future interventions (such as on RTDS).[2]

5. Wonga identified a number of new regulatory burdens on its business as a result of the FCA assuming responsibility for the regulation of consumer credit. [✄][3]

Consumer Credit Directive

6. Wonga noted that as that the CCD prescribed for maximum harmonisation, the UK could not introduce national provisions diverging from those in the Directive in relation to matters falling within the scope of the Directive.[4] It was not clear to Wonga at this stage whether the CMA's proposed remedies (in

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[1] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 6.1.
[2] Wonga response to Remedies Notice, paragraphs 1.3–1.12.
[3] ibid, paragraphs 1.13–1.16.
[4] ibid, paragraph 1.17.

particular Remedy 3 – measures to help customers assess their own creditworthiness) were incompatible with the Directive.[5]

Price comparison websites

Design and basis of comparison

7. The responses we received emphasised the use of the TCC in presenting and comparing any information on price and that borrowers should be able to specify the value, duration and other features of a loan. However, some responses noted that the need to ensure a simple, well-designed and accessible design was important. Some challenges identified included the presentation of risk-based products.

8. We structure the points raised as:

   (a) facilitating specifying and searching for a loan;

   (b) facilitating comparison; and

   (c) general design comments.

Facilitating specifying and searching for a loan

9. CashEuroNet told us that customers should be able to set a duration and type of product and compare those products (for example, a three-month, multiple-instalment loan) and apply other filters.[6] Wonga stated that customers should be able to specify the duration, value and structure (ie instalment vs traditional) of the loan.[7] Additional filters could be included to identify online lenders, lenders offering instant payment and those allowing early repayment.[8]

10. Dollar told us that a consumer should be able to specify the duration of the loan; value of the loan; TCC; whether the loan was instalment or single payment; whether the lender was a member of a trade association; and other features such as fast payment options, method of payment, default changes and whether the processing service was 24 hours/seven days a week.[9]

[5] ibid, paragraphs 1.18.
[6] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.4.
[7] Wonga response to Remedies Notice, paragraph 3.24.
[8] ibid, paragraph 3.24.
[9] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.5.7.

11. Uncle Buck told us that the website needed sufficient functionality to allow consumers to search on any or all of those factors which they might consider in assessing loan providers, and that it concurred with the suggestions put forward by the CMA.[10]

12. The CFA told us that customers should be able to specify the duration and value of the loan, repayment structure and possibly payment flexibility (ability not to incur repayment charges) and customer reviews (which should be verified customers).[11]

13. Islington Debt Coalition told us that the inclusion of a filter for faster payment options should not be allowed unnecessarily to influence a borrower's choice.[12]

14. The Money Charity told us that borrowers should be able to specify the value of the loan and the date on which credit would be provided.[13] To allow customers to access high street loans, the ability to enter a postcode should be included.[14]

15. UK Credit told us that customers should be able to specify the loan value and their monthly affordable budget. Specifying the amount a customer could afford to repay each month would then filter appropriate loans. Remaining loans could then be filtered on a number of other factors, such as repayment structure, monthly interest rate, ability to make lump-sum payments/settle early, payment speed, APR (for loans with a duration of 12 months or longer), fees and charges, and the borrower's credit profile (good, fair, bad).[15]

16. A PCW operator told us that we should be careful not to have too many filters for the user to use otherwise there would be a risk of the tool becoming too complex to use. A user should be able to specify:[16]

    (a) the type of loan required (payday, instalment, line of credit, personal loan);

    (b) the amount of loan required;

    (c) the duration the loan was required for;

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[10] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p2.
[11] CFA response to Remedies Notice, pp2&3.
[12] Islington Debt Coalition response to Remedies Notice, pp2&3.
[13] The Money Charity response to provisional findings and Remedies Notice, paragraph 11.
[14] ibid, paragraph 12
[15] UK Credit response to Remedies Notice, p2.
[16] A PCW response to Remedies Notice, pp1&2.

(d) self-assessment of the borrower's own credit profile (poor/average/good/don't know); and

(e) whether they required funding the same day or not.

Facilitating comparison

17. Dollar told us that providing a comparative cost of different loans taken out for different periods was fraught with difficulties. One way to do so was by a comparison of charges on the basis of TCC per £100, but any such comparison should incorporate a facility which enabled a customer to compare the TCC for different loans over different periods of time and which thus enabled a customer to make a meaningful assessment of the cost of that loan by reference to the period of time over which the borrowing took place.[17]

18. Uncle Buck told us that it should be clear what the total cost per £100 was (including for instalment loans), and the total amount to be repaid. The order of ranking should be flexible to enable full and complete comparisons of the products available.[18]

19. UK Credit told us that its preferred basis of comparison was TCC, total amount repayable and whether fees and charges were applicable for late payments/default.[19]

20. Wonga stated that using APR as the basis for comparison was inappropriate[20] and that APR was not even a useful indicator of the cumulative cost of taking out multiple loans over the course of a year.[21] Wonga considered the TCC for the specific loan (ie taking into account loan amount and duration) to be the most appropriate.[22] By default, products should be ranked by TCC.[23]

21. A PCW told us that if the purpose of a comparison site was for the consumer to get the best-value loan, loans should be ranked in order of the total amount repayable and that ranking by total cost of the loan might encourage lenders to price more competitively in order to increase their exposure on the comparison site by featuring higher up the list.[24]

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[17] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.5.8.
[18] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p2.
[19] UK Credit response to Remedies Notice, p2.
[20] Wonga response to Remedies Notice, paragraphs 3.9–3.14.
[21] ibid, paragraph 3.13.
[22] ibid, paragraph 3.25.
[23] ibid, paragraph 3.27.
[24] A PCW's response to Remedies Notice, p2.

22. The CFA told us that the cost of a loan should be displayed as a charge per £100 and the total amount to be repaid. Customers should be able to determine how the results were sorted.[25]

23. Islington Debt Coalition told us that a PCW should include both TCC and the total amount to be repaid and that loans should be ranked on APR and total cost of loan.[26]

24. The Money Charity told us that the comparative cost of a loan should be displayed as an amount rather than a percentage, as this was the easiest method for customers to understand.[27]

General design comments

25. Wonga stated that to appeal to customers, any PCW would need to be simple, comprehensive,[28] accurate, comparable, visible and easily accessible,[29] unbiased and permanent.[30]

26. Wonga stated that any move to risk-based pricing would make it difficult for a PCW to compare prices effectively or efficiently.[31]

27. The CFA suggested more innovative ways of presenting the cost of loans, such as the use of charts.[32]

28. The Money Charity told us that if a site allowed the pass-through of customer details (to the extent they had been entered) it would make it easier for borrowers to progress from finding the best value loan to taking out the loan, which would mean the PCW was competing with lead generators.[33]

29. Global Analytics told us[34] that a PCW should:

(a) enable risk-based pricing by integrating with CRA systems to share data to lenders;

(b) provide a comparison matrix to account for different durations showing the value of monthly instalments so that the customer could see repayment

[25] CFA response to Remedies Notice, p3.
[26] Islington Debt Coalition response to Remedies Notice, p3.
[27] The Money Charity response to provisional findings and Remedies Notice, paragraph 13.
[28] That is, to have the functionality to allow the comparison of products with different structures.
[29] That is, the site should be easily found from lenders' websites and should place high in search rankings.
[30] These characteristics are expanded upon in Wonga's submission. Wonga response to Remedies Notice, paragraph 3.6.
[31] ibid, paragraph 3.9.
[32] CFA response to Remedies Notice, pp2, 3 & 13.
[33] The Money Charity response to provisional findings and Remedies Notice, paragraph 24.
[34] Global Analytics response to Remedies Notice, p3.

amounts to best manage their cash flow in addition to the total cost of capital;[35] and

(c) have clear process for ranking and filtering search results – this was particularly important if the PCW did not have the ability to provide an actual price for variably priced products.

30. Global Analytics told us that a ceremonial but secure website that drove little traffic, such as lenderscompared.org, might cost £1 million to build and around £200,000 to operate annually. Adding in real-time price comparison functionality, advanced search functionality, and broad participation by lenders would require a significant technology investment and ongoing maintenance.[36]

31. The Money Advice Trust (MAT) told us that information on fees for late payment or rolling over loans should definitely be included on the price comparison site.[37]

32. My Home Finance told us that cost should be shown as a monetary amount broken into capital and interest.

Operation, promotion and funding models

33. Responses varied on the operational model. There was broadly a consensus that the operator should be independent (though some parties told us the lenders should have input), but views on the commercial relationship between a PCW operator and lenders differed. Parties differed on which body would be appropriate to operate a single stand-alone PCW or provide governance and whether this should be a public body, a trade association or a commercial PCW operator.

34. Parties identified that promotion of a site could be expensive but that leveraging an existing brand could reduce this. Views were mixed on whether lenders should be required to provide links to a PCW.

35. Dollar told us that if the CMA were minded to require that a payday-specific website were to be created, the website should be established with the full involvement of lenders in relation to its design and governance and should be

[35] For example, if Lender W presents the customer with a £100 loan that is one month in duration and Lender L presents a similarly-sized loan with six months' duration, Global Analytics recommended that monthly payments relative to the customer's discretionary monthly income (income less expenses) be shown in addition to the total cost to borrow the amount.
[36] Global Analytics response to Remedies Notice, p7.
[37] MAT response to Remedies Notice, p7.

funded by all lenders in proportion to their revenues, that is, a similar approach to that adopted in the Home Credit investigation.[38]

36. Dollar told us that the most effective means of enabling payday loan customers to compare and to shop around for short-term lending would be to adopt measures which would ensure that payday lenders participated in existing PCWs operated by existing commercial operators, such as moneysupermarket.com. Such PCW operators had the required insight into the PCW market together with the appropriate expertise and market presence.[39]

37. Global Analytics told us that lenders should not be required to promote the comparison site, but lenders could choose to do so. It noted that the cost of developing a brand would likely be expensive (and noted that [✂] spent £15 million per year on marketing). It told us that the UK Government should require all major search providers to provide a top-of-results link to the comparison site at no cost to the Government.[40]

38. Uncle Buck told us that it would not be appropriate for a consumer group, advice service or trade association to host the site.[41]

39. UK Credit told us that television and radio advertising would assist in raising the profile of the site and this could be further enhanced by instructing all lenders, captured by the scope of the site, to provide a link or details of the site on all of their advertising and marketing communications.[42]

40. Wonga stated that the website needed to be commercially viable on a stand-alone basis in the medium to long term, and that it would only be appropriate and proportionate for payday lenders to provide specified upfront funding to cover expenses for a defined period only.[43] Wonga suggested that the site could be financed on a pay-per-funded loan basis.[44]

41. Wonga stated that it might be more cost-effective for an existing PCW to operate the site to reduce development costs and to have an existing brand presence.[45]

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[38] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.5.17.
[39] ibid, paragraph 3.5.3(ii).
[40] Global Analytics response to Remedies Notice, pp6&7.
[41] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p2.
[42] UK Credit response to Remedies Notice, p2.
[43] Wonga response to Remedies Notice, paragraph 3.15.
[44] ibid, paragraph 3.16.
[45] ibid, paragraph 3.17.

42. Wonga suggested three methods of promoting a PCW,[46] being:

(a) lenders providing a reminder or link on application and settlement or on any periodic statement;

(b) requiring lead generators to include a link; and

(c) the use of an established PCW.

43. A PCW told us that it was extremely important that the website should be operated by an organisation that had considerable exposure to the short-term lending market and in particular in working with payday lenders. The company reputation must be considered alongside its current/past activities with the market. The site should be funded through a pay-per-click model with all lenders paying the same amount. The PCW should pay a proportion of these monies to debt charities.[47]

44. Debt Advice Foundation told us that the cost of maintaining and promoting such a site would be extremely high. It told us that searches for terms that one might expect to bring up a link to lenderscompared.org.uk did not bring up either a normal link or an advertisement. It said that this would suggest that significantly more promotion and optimisation of a payday loan comparison site would be needed if it were to be recognised, understood and used by borrowers.[48]

45. Islington Debt Coalition told us that a PCW should be independent of lenders and be clear how it was funded. It told us that if the market had not led to the creation of a PCW then external funding might be necessary or at the least that a government-led governance body be put in place. The PCW could be funded using a registration fee and lenders should be required to link to it in addition to a media campaign.[49]

46. My Home Finance told us that the PCW should be operated by a not-for-profit entity funded through a levy on lenders and that any levy should be waived for not-for-profit entities.

47. The Money Charity told us that requiring lenders to include a link to the website on their own websites and in communication with customers, with appropriate text explaining what the website offered, would raise awareness

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[46] ibid, paragraph 3.18.
[47] A PCW response to Remedies Notice, p4.
[48] Debt Advice Foundation response to Remedies Notice, p1. Debt Advice Foundation used the search term ‘provident loan’.
[49] Islington Debt Coalition response to Remedies Notice, p2.

of the website among existing payday customers.[50] The operator of the website would need a reasonably large advertising budget, particularly in the initial period of its operation, to reach existing and potential payday customers, as the ideal time for someone to use the site was before they visited an individual lender (by which point they might have already effectively decided which product to take).[51]

48. The Money Advice Service (MAS) did not think that overseeing a payday loan PCW would fit well with the approach it was taking to supporting consumers.[52]

49. MAT said that the PCW should be seen as completely independent from the payday lending industry and seen as providing impartial, accurate information. It suggested that all loan companies and lead generation/credit brokers should be required to prominently display links to the website on their home page using prescribed wording. Search engines needed to return the website prominently when searches were made for common terms using search engine functionality such as Google AdWords.[53]

50. Google told us that many users of PCWs would simply type the name of the PCW (eg ‘Moneysupermarket’) into their browser address bar or into a search engine, rather than using a generic phrase, such as ‘insurance price comparison’.[54] However, as awareness and use of a new PCW increased (eg through recommendations in internet blogs or discussion forums), this itself was likely to improve the site’s ranking in Google search results.[55] Google told us that its search algorithms responded to PCWs in exactly the same way that they did to any other web content.[56] For these reasons, Google did not accept that there was any need to ‘encourage’ Google to display the payday lending PCW in its search results. Indeed, it could be counterproductive to try to do so. For example, any attempt to distort Google’s search algorithm artificially would result in less relevant content being returned in response to users’ queries, it would allow the manipulation of search results, and would harm the value of Google’s service for users.[57]

Panel of lenders and products

51. Broadly, parties agreed that brokers and lead generators should be excluded from a PCW. Parties differed on whether non-payday products could be

[50] The Money Charity response to provisional findings and Remedies Notice, paragraph 30.
[51] ibid, paragraph 31.
[52] MAS response to provisional findings and Remedies Notice, paragraph 11.
[53] MAT response to Remedies Notice, p6.
[54] Google response to provisional findings and Remedies Notice, paragraph 30.
[55] ibid, paragraph 33.
[56] ibid, paragraph 36.
[57] ibid, paragraph 37.

included and whether all lenders should be compelled to appear on a PCW, or whether the PCW should be compelled to include all lenders.

52. CashEuroNet thought that a [single authorised] PCW should include all authorised lenders. It thought that the inclusion of lead generators could confuse customers.[58]

53. Dollar told us that all authorised high-cost short-term lenders should be required to participate in a PCW. Credit unions should be permitted (but not required) to participate.[59]

54. Dollar said that the most effective form of a PCW would be one that allowed the comparison of a number of different types of credit products. Furthermore, by restricting the range of products featured on a website to payday loans only, the CMA would make it more difficult for consumers to find the right product to meet their needs. In addition, a PCW which compares different types of financial products would go some way to addressing the CMA's concerns (albeit not accepted by Dollar) that payday loans faced weak competition from other forms of credit.[60]

55. Dollar did not believe that it would be appropriate for lead generators and other intermediaries to be permitted to participate. Lead generators offered potential access to a number of different products, many of which might not ultimately be available to a borrower (since the lead may not be purchased from the lead generator). Such offers would be subject to different terms and conditions. It was difficult to envisage a way in which a lead generator's offer could be simply and effectively incorporated into a PCW.[61]

56. Global Analytics told us that all loan types should be included in order to provide the customer with their range of options and affordability. Since all instalment loans could be prepaid at any time with no prepayment penalty, the search functionality and related results, even for borrowers looking for a less than one month loan, needed to include longer-term instalment loans. Otherwise, it was conceivable that lenders would create bespoke duration products solely for the purpose of bolstering search results.[62]

57. Global Analytics told us that the site could include additional statistics with respect to historical participation in the comparison site, such as approval rate, number of loans/customers funded, number of years in business,

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[58] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.3.
[59] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.5.14.
[60] ibid, paragraph 3.5.3(i).
[61] ibid, paragraph 3.5.15.
[62] Global Analytics response to Remedies Notice, p4.

number of FOS complaints in the last year, 'Review Centre' ratings, and other important customer service features (hours of operation).[63]

58. Uncle Buck told us that only lenders with Interim Permission or Full Authorisation should be allowed to participate (and specifically that lead generators and brokers should be excluded and that the site should have flexibility to show different sorts of products in a meaningful way).[64]

59. A PCW told us that all authorised lenders should participate in a PCW. This would help instil trust both for the website and for the lenders themselves. A website would be devalued if a lender that offered exceptional rates/service was not on the website.[65]

60. UK Credit told us that an unbiased and effective price comparison site would be welcome, however, the scope should be broader than just the payday lending market as such a narrow product approach might give the impression that payday lending was supported by the publisher or simply restrict the customer's focus into thinking that alternative products were not available.[66]

61. The CFA identified the participation of sufficient lenders as a 'challenge' to establishing a PCW as well as the necessity to accommodate different sorts of products.[67]

62. Islington Debt Coalition agreed that intermediaries should be excluded.[68]

63. The Money Charity told us that any FCA-authorised lender offering high-cost short-term credit should be required to participate, and any other authorised lender offering unsecured loans of less than 12 months' duration should be allowed to opt in for inclusion.[69] Lead generators and other intermediaries should not be included in the comparison table, as they did not provide credit.[70]

64. The MAS told us that we should consider widening the scope of the comparison table considerably to include alternative products (eg credit builder credit cards, credit union loans, authorised overdrafts) and alternative courses of action where appropriate.[71] In the MAS's view, the key message for consumers should be that there may be a cheaper and less risky

[63] ibid, p4.
[64] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p2.
[65] A PCW response to Remedies Notice, p3.
[66] UK Credit response to Remedies Notice, p2.
[67] CFA response to Remedies Notice, p2.
[68] Islington Debt Coalition response to Remedies Notice, p7.
[69] The Money Charity response to provisional findings and Remedies Notice, paragraph 22.
[70] ibid, paragraph 23.
[71] MAS response to provisional findings and Remedies Notice, paragraph 10.

alternative to taking out a payday loan and they should consider their options carefully.[72]

65. MAT told us that all lenders that offered products that met the definition should be required to participate, but lead generators and credit brokers should be excluded from the site but be required to provide links to the site with prescribed wording on risk warnings and give information on the site in any marketing, calls, texts and websites.[73]

66. Transact told us that lead generators should be excluded from a comparison website.[74]

Other barriers

67. A number of parties identified the potential effect that the policies of search engines could have on the promotion of a PCW.

68. [✂] would welcome the intervention of the CMA to encourage the inclusion of payday loans on PCWs [✂].[75]

69. Wonga noted the potential difficulty of a generic PCW hosting payday lending comparison tables due to advertising rules imposed by search engines.[76]

70. Uncle Buck told us that a key challenge would be to ensure that the website was not 'blocked' or impeded in its promotion or awareness by the actions of search engines. This could be ameliorated by a requirement for lenders to display the website address on some of their materials to raise awareness.[77]

71. UK Credit told us that one of the main challenges for establishing an effective price comparison site would be obtaining and maintaining the accuracy of data with new lenders joining and leaving the market on a regular basis. It would be possible to overcome this by instructing each lender to submit data on a regular basis and by a defined date. FCA-authorised lenders would be quite used to collating and submitting product data to the regulator on a regular basis.[78]

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[72] ibid, paragraph 8.
[73] MAT response to Remedies Notice, p6.
[74] Transact response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.
[75] [✂]
[76] Wonga response to Remedies Notice, paragraph 3.20.
[77] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p1.
[78] UK Credit response to Remedies Notice, p2.

Comments on effectiveness

72. A number of parties told us that a PCW would not be effective in addressing the features and provisional AEC we provisionally found.

73. The Association of British Credit Unions Limited (ABCUL) told us that it was doubtful of the potential for measures such as price comparison sites to address competition shortcomings because of the nature of our provisional findings (such as the inelasticity of demand). It noted that the CC had required the creation of a PCW for home-collected credit but told us that since its creation, home-collected credit had become, if anything, more expensive, with the largest lender – Provident Financial – raising its typical APR from 189% to 272%. ABCUL said that in home-collected credit very similar dynamics to those in payday lending were at play whereby borrowers were insensitive to price movements by virtue of limited borrowing options and, therefore, no amount of extra disclosure and comparability was likely to result in meaningful improvements in price competition.[79]

74. Debt Advice Foundation told us that it believed that the factors that discouraged current borrowers from shopping around would also discourage them from using a comparison website. The evidence shows that speed and convenience of access to cash was the prime driver, so any additional perceived barriers were likely to be rejected.[80]

75. Islington Debt Coalition told us that the specification of the scope of remedies would need to be considered to ensure that lenders did not engineer products to avoid regulation. It identified the risk that if borrowers made multiple applications from a PCW, their credit rating might be affected.[81]

76. MAT said that it was not convinced that a PCW would have a particularly beneficial effect. It referred to the PCW established by the CC and that it did not have the prominence it would need to influence consumer choices.[82]

Third party research and reports

FCA

77. In November 2013 the FCA began a thematic review in relation to the sale of home, travel and motor insurance through PCWs. It published its findings in

[79] The Association of British Credit Unions Limited response to Remedies Notice, p2.
[80] Debt Advice Foundation response to Remedies Notice, p1.
[81] Islington Debt Coalition response to Remedies Notice, p2.
[82] MAT response to Remedies Notice, p5.

July 2014.[83] The FCA evidence base included a number of sources including a specifically commissioned piece of customer research.[84]

78. Although the FCA thematic review was on general insurance and not personal finance, we reviewed the FCA's findings for issues which would be relevant in commissioning or accrediting a PCW, though we are conscious of the extent to which a general insurance product can be tailored relative to a credit product.

Utility of PCWs

79. Many participants in the FCA's customer research identified significant benefits from using a PCW and 'there was little doubt' that they encouraged consumers habitually to 'shop around' for the lowest-cost general insurance quotes they could find. The PCWs were perceived to allow consumers to achieve in minutes what would otherwise take hours, and make a potentially boring and difficult job, relatively painless by presenting complex information in a simple and accessible way.[85]

80. Similarly, many participants found the volume of information and number of variables around GI products confusing or potentially overwhelming. Therefore, they tended to use the PCW in a way that would simplify the process and help make the purchase decision more manageable. As a result, many actively avoided engaging with the product options in detail.[86]

Presentation of information

81. The FCA found that found that PCWs had not always taken reasonable steps to provide sufficient, clear and consistent information to enable consumers to compare the available options and make an informed decision. This was evidenced in the way information was presented, the limitations of policy summaries and the 'more information' options on most of the PCWs. Instead of providing information, some PCWs would provide prompts such as 'check with insurer' or 'check the policy'. The extent and quality of information provided through policy summaries and 'more information' options also varied widely, both between different PCWs and products on the same PCW.[87]

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[83] FCA, Price comparison websites in the general insurance sector, TR14-11.
[84] Atticus, on behalf of the FCA, Price comparison website: Consumer market research, April 2014.
[85] ibid, p7.
[86] ibid, p8.
[87] FCA, TR14-11, op cit, p8.

82. The FCA concluded that it was difficult to compare policies other than on grounds of price.[88]

Clarity of role

83. The FCA found that found that the PCWs often did not make clear what role they were performing when providing quotes for insurance products or the nature of their service. This was because this information was rarely provided at an appropriate time or formed part of the quote journey, but was instead found in other locations on their website (such as within terms and conditions or other generic firm information).[89] Similarly PCWs generally did provide information on the basis on which they were paid but it was not always easy to find, as the information was provided separately from the quote process, in disclosures found elsewhere on the website.[90]

84. The FCA's customer research found that 'less sophisticated buyers' mistakenly believed that they had received advice or guidance in the course of arranging their insurance. The research indicated that this may be less likely to occur if the PCWs clearly stated the basis on which they were providing their service and did so as part of the quote journey, rather than relying on consumers finding this information elsewhere on the site.[91] Some customers mistakenly believed that the PCWs had delivered tailored quotes unique to their individual circumstances, due to the personal questions asked.

Conflicts of interest

85. A number of PCWs in the FCA's sample were part of a wider group that included brokers and/or insurers and the FCA examined customers' reactions when told of this relationship.[92] The FCA found that many expressed concern that such a relationship may potentially bias results and undermine the assumed and expected impartiality of the PCWs and the search results they provide.[93]

Due diligence

86. The FCA found that PCWs carried out due diligence on companies listed on their panel but some PCWs only undertook this when the provider initially

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[88] FCA, ibid, p8.
[89] FCA, ibid, p12.
[90] FCA, ibid, p13.
[91] FCA, ibid, p12.
[92] The FCA sought participants' reactions to the statement 'the price comparison website may be owned by or is part of the same company as the insurance provider'.
[93] FCA, TR14-11, op cit, p13.

joined their panel and did not assess periodically if the providers continued to hold the appropriate permissions. The nature and extent of due diligence also varied between PCWs.[94]

Other design issues

87. The FCA noted a number of issues around the management and sharing of personal data.[95]

Consumer Focus

88. In 2012, Consumer Focus commissioned mystery shopping of PCWs by eDigitalResearch.[96] We note that this research did not include any personal finance products but did cover 99 PCWs in a number of markets.[97]

89. Broadly, the research found that:

(a) PCWs were not particularly good at saying how the search results had been ordered.

(b) Being able to reorder the search results is useful, as it allows consumers to view the list in a variety of ways. Similarly, if a consumer decides they do not want a particular type of product, being able to filter out some of the results and home in on those of interest, is also useful.

(c) On PCWs for train fares, package holidays and insurance additional fees and charges were not always displayed in a comparison.

(d) Not all sites were transparent on disclosing when price updates had taken place or how often they were updated.

(e) Very few PCWs offered the ability to report 'rogue or fraudulent' traders.

(f) 'Accredited' PCWs (with accreditation from a trade association for example) did not necessarily ensure a PCW offered better services than a non-accredited site.[98]

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[94] ibid, p14.
[95] ibid, pp14–16.
[96] eDigitalResearch, Comparing comparison sites – Price comparison website mystery shopping report for Consumer Focus.
[97] The 99 sites includes multiple counts of PCWs which offer a comparison service to a number of markets.
[98] The research found that in energy and telecoms accredited sites tended to be 'better' than non-accredited sites, though in other markets this was not the case.

90. The research used the Consumer Protection from Unfair Trading Regulations as a benchmark. The relevant considerations were:

(a) prices must be accurate;

(b) prices must be up to date;

(c) details of the product must be comprehensive;

(d) site owners must not misrepresent their independence;

(e) site owners must not post fictitious recommendations; and

(f) site owners must be open about suppliers who have paid for prominence.

91. In 2013 Consumer Futures published a report on consumer perceptions and experience[99] of PCWs. The report considered in detail aspects of web design and user experience.

92. Some of the key findings which might be transferable to a payday lending PCW included:

(a) A key reason for negative experiences with a PCW was the lack of opportunity to customise or tailor the search.[100]

(b) Less than half of non-internet users were aware of the existence of PCWs but 93% of internet users were.[101]

(c) Users of PCWs have high levels of confidence in them, with 94% of customers stating they were fairly (73%) or very (21%) reliable.[102]

(d) Sites that rank by a variable other than price are liable to cause confusion.[103]

(e) Customers may review a ranked list of lenders and choose the first familiar brand and distrust deals perceived to be 'too good to be true'.[104]

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[99] RS Consulting on behalf of Consumer Futures, Price comparison websites: consumer perceptions and experiences, Findings from qualitative and quantitative research.
[100] ibid, p59.
[101] ibid, pp13&25.
[102] ibid, p48.
[103] ibid, p49.
[104] ibid, p50.

(f) Some consumers are interested in alternatives to price being used for ranking comparison results, as well as more filters, which would limit the number of options presented on-screen.[105]

(g) Some consumers are aware and may be wary of the order of listing being affected by commercial agreements with the PCW.[106]

(h) Some 70% of customers who were aware of accredited PCWs were influenced to some extent in their choice of PCW by the existence of accreditation.[107] Customers who were unaware of accreditation schemes considered sectoral regulators or consumer organisations like Which? to be appropriate bodies to accredit PCWs.[108]

(i) Consumers said that accreditation gave them an extra level of reassurance, they did not actively seek this out, and did not miss it when it is not there. Nor are they likely to reject a PCW they have used because it is not accredited.[109]

(j) Consumers' willingness to enter more personal details to customise their search depends to a certain extent on the type of product they are looking for. Consumers are more willing to answer detailed questions about themselves and their usage of a product or service when purchasing products that they understand need to be customised for them.[110]

(k) Some consumers voiced concern about the possibility that details submitted to PCWs will be sold on to other companies without their knowledge, leading to unsolicited contact from a range of different companies.[111]

(l) Around two-thirds of users of PCWs stated they reached a PCW by either entering the site's URL directly or searching for that specific site. Just under one-third of users reached PCWs by using generic PCW search terms.[112]

(m) 83% of those aware of PCWs could name one or more of the four largest without prompting.[113]

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[105] ibid, p51.
[106] ibid, pp55–58.
[107] ibid, p59.
[108] ibid, p61.
[109] ibid, p60.
[110] ibid, p30.
[111] ibid, p31.
[112] ibid, pp19&20.
[113] ibid, p14.

Transparency of additional fees and charges

93. Parties supported transparency in fees and charges and the lenders that responded tended to consider their own presentation to be appropriate and that other lenders should be required to be as transparent. Some parties noted that the need for a specific remedy would be subject to the FCA's consultation on its proposed price cap note.

94. Comments on the presentation of additional fees and charges focused on ensuring that they were made obvious to a borrower early on in the process.

95. Parties differed in their views on scenario-based examples as although they were simple to understand and could have impact, they would necessarily only relate to certain conditions and could prove misleading.

96. The costs of changing the presentation of additional fees and charges were not considered to be significant.

General comments on the remedy

97. CashEuroNet told us that it supported the CMA approach to improving customer awareness of additional charges and fees but noted the need to consider the impact of the FCA price cap.[114]

98. Dollar told us that it supported any proposal to require lenders to provide clear and timely disclosure to customers of the total amount payable if the loan was not repaid on time. It already provided this information to customers in a clear form and in some detail in its adequate explanation and SECCI documentation in accordance with its legal obligations. Equally consistent and clear information should be provided by all lenders. It would welcome enforcement of this requirement.[115] It was supportive of any proposal which required that lenders' websites showed such costs in a clear and transparent fashion which did not obscure or omit relevant information.[116]

99. Global Analytics told us that fees and charges, per the most recent FCA guidelines, were presented very prominently in all marketing material along with the new risk warning.[117]

100. Uncle Buck told us that following the OFT's review of payday lending, the transparency of default and other charges appeared to have improved on

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[114] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.5.
[115] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.6.1.
[116] ibid, paragraph 3.6.2.
[117] Global Analytics response to Remedies Notice, p7.

lenders' websites. However, Uncle Buck believed that it should be made mandatory for these charges to be displayed and easily accessed from the home page, so the requirement could be for there to be a link from the home page to this information and for proper information about when charges were levied to be included.[118]

101. Wonga considered that its website presented all charges transparently but agreed that lenders should display clear information.[119]

102. Transact told us that that payday lenders must present information around fees and charges more prominently.[120]

Presentation

103. Wonga told us that further information on charges and fees could be incorporated into the user journey before accepting a loan.[121]

104. Debt Advice Foundation told us that it agreed that lenders should provide clear, upfront disclosure and that the remedy stipulated the position and size of the information. Because of the use of mobile devices Debt Advice Foundation said it was vital that this information was not relegated to the bottom of a long page through which customers would rarely scroll.[122]

105. Think Finance[123] told us it was undertaking research that might result in dramatically simplifying the presentation of poorly understood financial information, providing borrowers with realistic scenarios, highlighting the consequences of late payment and hidden fees over time.

106. UK Credit told us that the potential for charges to be applied should be provided in the website as an early indicator and then by the lender to the customer before any purchasing decision was made.[124]

107. The Money Charity told us that disclosure should be presented as early as possible in the lending process.[125]

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[118] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p3.
[119] Wonga response to Remedies Notice, paragraph 4.8.
[120] Transact response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.
[121] Wonga response to Remedies Notice, paragraph 4.6.
[122] Debt Advice Foundation response to Remedies Notice, p1.
[123] In September 2014, as part of a restructure at Think Finance Inc, the UK business has been re-registered under a new name 'Elevate Credit International Limited'.
[124] UK Credit response to Remedies Notice, p4.
[125] The Money Charity response to provisional findings and Remedies Notice, paragraph 41.

Scenario-based examples

108. Dollar told us that it believed that the introduction of scenarios where payment had not been made on the originally agreed date would not be helpful or informative to consumers, unless the scenario was taken at a sufficiently distant date from the due date (for example, 60 days past the due date) such that variations in lenders' models would not be misrepresented. Dollar's principal concern would be that in attempting to present clear information about possible default charges, consumers could be unintentionally misled about the imposition of default charges and that their decision-making might be influenced by inaccurate information.[126]

109. Uncle Buck told us that it did not believe the use of scenarios would be beneficial as the permutations were too great and arguably being required to show cost scenarios removed flexibility in the lender's toolbox where fees and interest may be waived on a case-by-case basis.[127]

110. Wonga told us that any disclosure of late fees using standardised scenarios could only ever be indicative as they depended on the circumstances of each loan.[128]

111. Islington Debt Coalition told us that scenario-based examples should be used and stated that on a PCW the total cost of a loan after having rolled it over once would be a helpful comparison.[129]

112. My Home Finance told us that it was impossible to specify late costs without risking misleading customers, however, a case study could be used as a warning.

113. The Money Charity told us that demonstrating fees and charges using example scenarios was a clear and relevant way to indicate to customers the amount they could have to repay.[130] It suggested three possible scenarios:

    (a) Repayment in full, on time – the 'as intended' scenario.

    (b) Repayment in full, a certain number of days late.

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[126] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.5.11.
[127] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p3.
[128] Wonga response to Remedies Notice, paragraph 4.6(b).
[129] Islington Debt Coalition response to Remedies Notice, p3.
[130] The Money Charity response to provisional findings and Remedies Notice, paragraph 43.

(c) The ‘worst case’ scenario – where the borrower has rolled over the loan in full and incurred all relevant default fees.[131]

114. MAT told us that it supported the demonstration of fees and charges in different scenarios because this was likely to have more impact at the outset when the consumer was initially looking at the cost of the loan. It was not convinced that the information would have the desired effect if presented in a notice prior to progressing to complete the full application or immediately prior to accepting the loan offered, as there was a possibility that the consumer would feel ‘committed’ to that particular loan at these stages, and the warning information would be disregarded.[132]

Cost of remedy

115. Dollar told us that any measure which simply required lenders to disclose fees and charges on their own websites should not be particularly expensive or time-consuming as responsible lenders continually reviewed and updated their sites. Any measure which required new development or amendment of existing documentation would incur more resource, the level of which was very difficult to predict at this stage.[133]

116. Global Analytics told us that there had been little incremental cost in the existing disclosure regime and would therefore see minimal costs in any new disclosures. However, it was possible that different lenders might implement these disclosures differently and might not comply with certain standards and give them an unfair advantage. It told us that when customers applied online, they demanded a smooth and simple user experience and when they did not get it, they would drop out of the process, and this made additional process steps (including disclosures) more expensive to the lender. Disclosures were very important in the process, but must conform to uniform standards across all lenders.[134]

117. Wonga had not calculated the cost of including additional disclosure but considered it would be possible without a major redesign.[135]

[131] ibid, paragraph 44.
[132] MAT response to Remedies Notice, p7.
[133] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.6.6.
[134] Global Analytics response to Remedies Notice, p8.
[135] Wonga response to Remedies Notice, paragraph 4.12.

118. UK Credit told us that the provision of information relevant to fees and charges should be no more onerous or costly than the provision of any other item of information.[136]

Comments on effectiveness

119. ABCUL told us that it was doubtful of the potential for measures such as further information disclosures to address competition shortcomings because of the inelasticity of demand and that many payday lenders were already very transparent about the fees they charged.[137]

Measures to help customers assess their creditworthiness

120. Parties were broadly supportive of improving the ability of customers to shop around without impacting on their ability to ultimately access credit, but a number of technical issues were identified that could be potential barriers.

121. Broadly the issues identified were:

- *(a)* the differences in lending processes for different lenders;
- *(b)* the stage at which credit checks are undertaken;
- *(c)* the cost of undertaking additional credit searches;
- *(d)* the impact of removing the visibility of credit searches;
- *(e)* the difference in content of application and quotation searches;
- *(f)* providing a meaningful and non-misleading indication of the likelihood of acceptance; and
- *(g)* the technical challenge of integrating lenders' systems with a PCW or other aggregator.

122. However, some lenders (and in particular those that currently offer variable pricing) currently used quotation searches in their lending processes and did not see as many practical challenges.

123. We received differing evidence from parties on the difference in content between quotation and application searches.

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[136] UK Credit response to Remedies Notice, p4.
[137] The Association of British Credit Unions Limited response to Remedies Notice, p2.

Distinguishing between eligibility, creditworthiness and affordability

124. Dollar told us that the requirements of CONC might be undermined if an indication were to be given as to the likelihood of granting credit prior to appropriate checks being undertaken. Although affordability and creditworthiness checks were distinct assessments and procedures (in that someone who had a good credit record may well not meet the affordability criteria and vice versa), there was overlap between the two processes in that an indication of a customers' creditworthiness may well give rise to an unwarranted expectation on the part of the customer that they also meet the affordability criteria.[138]

125. Wonga told us that because of how lenders made lending decisions and that a large number of applications were rejected for reasons other than creditworthiness, it considered that there was limited benefit in providing customers with an indicative credit score or confidence index ahead of an application, because it would not be sufficiently reliable as an indicator of the likelihood of ultimate loan approval.[139]

Use of credit searches

126. CashEuroNet used quotation searches in its application process; where an applicant was offered a loan it notified its CRA.[140] Wonga used [✂] when a customer applied for a loan.

127. Dollar told us that it would support the enforcement of quotation searches rather than application searches in relation to applications made via lead generators (as multiple footprints may in such a case result from multiple applications by the lead generator rather than the applicant, and were therefore not a reliable indicator of 'credit hungriness').[141]

128. Equifax told us that from its understanding of the market it believed the practice of using quotation searches varied from lender to lender and was also dependent on whether the application was made direct to the lender or via a credit broker. It understood it was not uncommon for credit checks to be performed as early in the process as the lead generation stage, at the point the leads were being sold to the highest bidders.[142]

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[138] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.1.
[139] Wonga response to Remedies Notice, paragraph 5.7.
[140] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.10.
[141] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.8.
[142] Equifax response to Remedies Notice, paragraph 6.

129. Equifax told us that the type of data returned to the lender on a quotation search was the same as that on an application search. In practice the potential difference in the actual data returned to the lender would be related to the different timing of the searches. An application search, typically performed at a later stage in the process, would be more likely to show other recent credit activity relating to the customer's interest in a payday or other credit facility, either in the form of other application searches or recently acquired loans.[143]

Significance of credit searches in rejecting applications

130. Wonga told us that only [✄]% of the loan applications it currently declined were rejected on the basis of credit risk assessments. The majority of the declines were based on other criteria, in particular those relating to identity and fraud verification.[144]

Significance of the number of previous searches

131. One lender ([✄]) provided us with details of the link between the acceptance rate of applications by borrowers who had been subject to different numbers of credit searches in the past three months and also the average standard CRA credit score for customers with a given number of searches.

FIGURE 1

[✄]

132. Dollar told us that a record of the number of application searches made against a potential borrower would show the degree of 'credit hungriness' of a potential borrower. In its experience, [✄]. In so far as it might be proposed that there be a prohibition on application searches, Dollar would [✄].[145]

133. Dollar told us that it did not consider that there would be any advantage in elevating guidance on the use of quotation searches into a rule since such a change was unlikely to lead to any real benefit and was therefore likely to be ineffective as a remedy and thus disproportionate. If such action were to be taken, it should be adopted in relation to all consumer credit lending products, not just payday lending since it would be both disproportionate and

143 ibid, paragraph 7.
144 Wonga response to Remedies Notice, paragraph 5.6 (c).
145 Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.8.

discriminatory (particularly bearing in mind the size of the sector) to include only payday lending products in this remedy.[146]

134. Global Analytics told us that prohibiting the visibility of credit searches to lenders, even within the context of real-time updates of credit facilities, would significantly and adversely affect customer outcomes due to an increase in poor lending decisions and fraudulent activity.[147]

135. Uncle Buck told us that the credit search 'footprint' was a useful tool for lenders to gauge a consumer's search behaviour although we recognise that current pingtree models used by lead generators may lead to a number of searches being recorded against a consumer's file.[148]

136. Wonga told us [✂].[149] Wonga told us [✂].[150]

137. Equifax told us that in mainstream credit, a lender's assessment of previous 'credit' or 'application' searches often formed an important element of the credit risk and fraud risk assessment process.[151] There was a risk that if application searches were not visible to lenders, a number of applications could be made by the customer and provisional approval obtained on multiple applications without lenders realising this. Unless lenders were always to check the real-time database for newly issued loans immediately prior to loan completion, the risk of unaffordable lending remained, with multiple loans being opened in quick succession.[152]

138. Experian told us that visible application searches helped identify credit-hungry individuals, which may be an early warning sign of an individual becoming over-extended and that they also played an important role in identifying patterns of potential fraud.[153]

139. The Money Charity told us that its understanding was that 'footprints' relating to credit searches were currently needed so that lenders could assess how likely the customer was to have opened further lines of credit in the period between the credit report being updated. As such developments in real-time data should reduce the need for third parties to be able to see searches.[154]

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[146] ibid, paragraph 3.7.9.
[147] Global Analytics response to Remedies Notice, p9.
[148] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p3.
[149] Wonga response to Remedies Notice, paragraphs 5.21 & 5.27.
[150] ibid, paragraph 5.6 (a).
[151] Equifax response to Remedies Notice, paragraph 2.
[152] ibid, paragraph 9.
[153] Experian response to provisional findings and Remedies Notice, p4.
[154] The Money Charity response to provisional findings and Remedies Notice, paragraph 51.

Methods of improving transparency of likelihood of acceptance

140. CashEuroNet told us that if it 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.[155]

141. CashEuroNet told us that that it was not necessary to potentially mislead customers with low-quality indicators of creditworthiness, as applications for loans could be made relatively easily.[156] Furthermore, it told us that it needed 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.[157]

142. Dollar told us that using a CRA's standard credit score as a tool for likely acceptance would not be workable or effective. Any such indicative 'credit score' would be so hedged by caveats, it would be almost meaningless. Credit scores between CRAs were not comparable and lenders' scorecards were continually being revised and updated, so to arrive at 90% (or any other percentage) was highly likely to be misleading and inaccurate.[158]

143. Dollar told us that it might be appropriate for payday lenders to be required to include links to independent websites such as Credit Expert and Noddle in order to enable customers to undertake individual credit checks by means of an independent website which was unconnected with any specific application for a loan.[159]

144. Global Analytics told us that an alternative to a PCW would be to require high-cost short-term credit lenders to perform a quotation search (at lower cost to the lender than currently offered by the CRAs) so that each customer got a specific approval and quotation that enabled them to shop around.[160]

145. Uncle Buck told us that it did not think that lenders should be required to provide indicative credit scores as there were a number of practical issues with this that could cause confusion for consumers as well as being potentially

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[155] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.14.
[156] ibid, paragraph 8.10.
[157] ibid, paragraph 8.9.
[158] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.14.
[159] ibid, paragraph 3.7.5.
[160] Global Analytics response to Remedies Notice, p6.

misleading – the fact that scores from different CRAs would not be comparable and that scorecards were continually being updated and refreshed being just two.[161]

146. Wonga told us that there would be little difference in volume of information that a customer would need to provide to get an indication of the likelihood of being offered a loan.[162]

147. The Money Charity told us that applying to a lender was in practice the only way to determine whether a borrower would be accepted by a lender. At present the use of visible credit searches was a significant barrier to borrowers' ability to shop around. However, the development of RTDS would reduce the need for application searches (rather than quotation searches), allowing customers to shop around by applying (and getting a definite outcome) rather than other methods which might only indicate that a borrower was likely to be accepted for a loan.[163] However, not all customers would go to the effort of submitting multiple applications to determine who would lend to them, and so the Money Charity would welcome the introduction of the use of an indicative credit score.[164] However, access to a borrower's own credit score was limited or would force the borrower to incur costs.[165]

148. The General Consumer Council for Northern Ireland (the Consumer Council) told us it agreed with the proposal that consumers should be able to perform a quotation search without affecting their credit rating, so that their ability to access credit would not be affected, and that this should be elevated to a rule by the FCA and not just guidance.[166]

149. MAT said that it would not generally support any measures that made it easier to take out a payday loan, which it would appear could be the possible consequence of prohibiting the visibility of a credit search by a lender. However, MAT would welcome the ability of a consumer to undertake a quotation search without affecting their ability to access credit. Therefore, it might be helpful if the guidance on this point in the FCA handbook was changed from guidance to a rule.[167]

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[161] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.
[162] Wonga response to Remedies Notice, paragraph 5.9.
[163] The Money Charity response to provisional findings and Remedies Notice, paragraphs 51–53.
[164] ibid, paragraph 57.
[165] ibid, paragraph 60.
[166] The General Consumer Council for Northern Ireland response to provisional findings and Remedies Notice, p7.
[167] MAT response to Remedies Notice, p7.

Integration with a PCW

150. CashEuroNet told us there was 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 credit-worthiness assessment.[168] Wonga told us that that there were a number of technical and operational issues around attempting to incorporate eligibility assessments with a PCW. Technical issues related to the bespoke lending processes and decisions undertaken by lenders and how this would be integrated, and how any indication of likelihood would be presented on a consistent basis across lenders.[169]

151. Dollar told us that there was considerable merit in ensuring that any newly established PCW was relatively simple, uncomplicated and user friendly in order to enable customers to compare different types of credit facilities and that the integration of an eligibility check would detract from this principal objective. Dollar also considered that it added to the complexity and expense of this proposal without establishing any sufficiently countervailing benefit.[170]

152. Wonga stated that PCWs requiring large amounts of personal data were less likely to be used and that any integrated assessment of eligibility would necessarily require a quantity of information.[171] Any PCW would need to be designed to interface appropriately with lenders' websites.[172]

153. UK Credit told us that the challenges of incorporating an eligibility check into a PCW would be significant. The check would be reliant upon manual input from the customer. If the customer inputs could be electronically verified this would provide a valuable tool as the customer would only be presented with loans for which they were potentially eligible. Incorporating electronic verification would be extremely difficult at the point of enquiry due to the customer permissions required to conduct such searches.[173]

154. Experian told us that if a payday loan PCW were developed, it should be relatively easy to integrate quotation searches into it.[174]

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[168] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.11.
[169] Wonga response to Remedies Notice, paragraph 5.24.
[170] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.16.
[171] Wonga response to Remedies Notice, paragraph 3.8.
[172] ibid, paragraph 3.22 (b).
[173] UK Credit response to Remedies Notice, p5.
[174] Experian response to provisional findings and Remedies Notice, p4.

Customer understanding of credit checks

155. Dollar told us that it supported the proposal to require lenders to state explicitly on their website and on any form requiring customers to enter their details whether they would undertake any form of credit check, and at what stage. To that end, Dollar would be prepared to state explicitly on the home page of its website whether and when a credit check would be undertaken in relation to any application. In addition Dollar would also be content to include a general informative paragraph about the objective and possible consequences of any credit searches undertaken.[175]

156. Uncle Buck told us that it was a requirement of the Data Protection Act to inform consumers that a credit check would be carried out.[176]

157. UK Credit told us that lenders should be obliged to inform the customer if they would conduct a credit search, what type of credit search would be performed, the implications of a 'hard' search (if there would be a 'hard' search) and at what stage(s) in the process it would be undertaken.[177]

158. The Debt Advice Foundation told us that credit scoring was currently considered to be a 'dark art' and as a result encouraged customers to feel that they were not in control of their own finances and stopped them even trying to understand how credit worked. Every effort should be made to ensure that customers had access to full information without jeopardising any future decision about a loan. It told us that if a customer were to be tested for risk, then they were entitled to know what the tests were. It should be made clear that every lender had different criteria, and that those criteria might change depending on a range of factors.[178]

159. Equifax told us that it supported the use of quotation searches prior to conducting an eligibility assessment and that it did not think that it was always clear to the customers in this market exactly what type of CRA search was being performed and when in the process this took place. Equifax would welcome the need for brokers and lenders to improve clarity.[179]

160. Experian told us that it was essential that a consumer was clearly informed of the type of search that would be undertaken and that as a credit search involved the processing of personal data, this notification and the provision of

[175] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.7.2.
[176] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p3.
[177] UK Credit response to Remedies Notice, p4.
[178] Debt Advice Foundation response to Remedies Notice, p2.
[179] Equifax response to Remedies Notice, paragraph 4.

other information would in any event be required in order to comply with the Data Protection Act 1998.[180]

161. Experian's view was that whilst UK consumers were becoming increasingly aware of credit file issues generally (including the difference between an application search and a quotation search), this was a vital issue and there was still a long way to go. It had been working on public education campaigns to improve awareness.[181]

162. The Money Charity told us that there was a need for much greater awareness of credit checks and credit scores among all consumers, and that it would welcome initiatives to improve consumers' understanding of these.[182]

163. The CFA told us that that lead generators should not be advertising loans with 'no credit checks' given that the lenders they supplied used credit checks.[183]

Real-time data

164. Uncle Buck told us that increased data sharing would only be of benefit if it was applied across the whole consumer credit industry, so as to provide a more accurate picture of a consumer's financial position.[184]

165. Wonga told us that it was fully supportive of moves to improve RTDS between CRAs and payday lenders and considered it beneficial for all payday lenders to be required to share data on a real-time basis. Wonga said that requiring other credit providers also to share data in real time would further improve the quality of CRA data.[185]

166. 118 118 Money told us that it believed that the introduction of real-time credit data-sharing was fundamental to the promotion of competition within the sector and encouraging new market entry. To the extent to which real-time data allowed customers better to understand their chances of obtaining credit 118 118 Money would also support it. 118 118 Money told us that to comply with its obligations to perform an affordability assessment, information from a CRA based on monthly updates could not be sufficient to undertake a credit-worthiness assessment.[186]

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[180] Experian response to provisional findings and Remedies Notice, p5.
[181] ibid, p5.
[182] The Money Charity response to provisional findings and Remedies Notice, paragraph 58.
[183] CFA response to Remedies Notice, p11.
[184] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.
[185] Wonga response to Remedies Notice, paragraph 5.18.
[186] 118 118 Money response to provisional findings and Remedies Notice, pp13&14.

167. 118 118 Money told us that it would much prefer to have comprehensive real-time data available, such that it would know precisely the extent of a borrower's outstanding liabilities. If real-time data was adopted, the need for application searches would cease to exist, but in the absence of that possibility, application searches constituted a second-best option. 118 118 Money believed that restricting the use of application searches was addressing the symptom and not the cause of the problem.[187]

168. 118 118 Money told us that Callcredit had launched MODA within a closed user group of lenders, [✂]. With respect to real-time data, 118 118 Money told us that the only effective answer was for a regulatory solution to be imposed which required complete open access on fair and equitable terms.[188]

169. Experian told us that it believed that a real-time system could only be at an optimum where the updates were truly 'real time' rather than on a daily or 24-hour basis. With a system with daily updates it might be that a consumer had applied for multiple payday loans online within the 24-hour period following the most recent update, which would mean that those applications would not be visible to any other lender considering a loan application in that same period.[189]

170. Equifax told us that for a real-time solution to be truly effective, data must be shared with all relevant CRAs to ensure there was a robust real-time database check available to all payday lenders, irrespective of which CRA a lender selected as their preferred agency.[190]

171. The Consumer Council told us that RTDS would be a very welcome development, to ensure that payday lenders did not give further credit to people who were already indebted and struggling to pay back loans. It would allow decisions to be made on the most up-to-date information, and enable better-informed lending based on consumers' current outgoings and liabilities.[191]

172. The Money Charity told us that improvements in real-time data would obviate the need for application searches, which left footprints.[192]

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[187] 118 118 Money supplementary response to provisional findings and Remedies Notice, p1.
[188] 118 118 Money response to provisional findings and Remedies Notice, p11.
[189] Experian response to provisional findings and Remedies Notice, p3.
[190] Equifax response to Remedies Notice, paragraph 1.
[191] The General Consumer Council for Northern Ireland response to provisional findings and Remedies Notice, p8.
[192] The Money Charity response to provisional findings and Remedies Notice, paragraphs 51–56.

Cost of remedy

173. CashEuroNet told us that creditworthiness assessments were a key part of innovation in this sector and that 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.[193] Wonga told us that the cost of developing an eligibility indicator would be disproportionate given the lack of evidence that there was a problem which needed to be remedied.[194] Wonga noted that there would be additional costs arising from requiring an additional credit (quotation) search for every customer requesting an indication of eligibility.[195]

174. Global Analytics told us that it did not currently do quotation searches. Whilst acknowledging that a quotation search could have the benefit of encouraging the applicant to shop around, there could be additional costs to lenders.[196] Quotation search fees at the bureau, however, must be dramatically reduced in order for this to be a viable method.[197]

175. Wonga told us that there was a risk that providing an initial indication might be misleading and could negatively impact customers and lenders.[198]

176. Equifax told us that consideration would need to be given as to how in practice a restriction on the visibility of searches would be enforced, assuming it only applied to payday lenders. If the CRAs were to be required to categorise and filter credit searches depending on who the enquiry originated from and for what purpose, there would likely be new and significant systems and control changes required.[199]

Summary of borrowing

177. A number of lenders noted that information on the costs of borrowing were available through other channels. Some parties thought that any statement or summary of borrowing costs should be provided only on the request of

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193 CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.12.
194 Wonga response to Remedies Notice, paragraph 5.10.
195 ibid, paragraph 5.11.
196 Global Analytics response to Remedies Notice, p10. Global Analytics gave the example that if they approved [✄]% of applications with a per-search cost of £[✄], and they were forced to do a search on every site visitor, it would cause its data costs to go up by £[✄]% or £[✄] per person lent to. This cost would be in addition to other costs already incurred by GA in assessing acquiring the customer and assessing their affordability.
197 ibid, p10.
198 Specifically, some customers who were given a low indication of acceptance might have been accepted but could be deterred from applying. Other customers might apply having received a positive indication but then rejected for other reasons. Wonga response to Remedies Notice, paragraph 5.12.
199 Equifax response to Remedies Notice, paragraph 3.

borrowers and that unsolicited distribution might be undesirable for some borrowers.

178. Views of parties on the frequency of distribution of a statement differed, with different parties supporting frequencies ranging from monthly to annual and with differing trigger points.

179. Parties noted the potential cost of postal distribution of a statement and lenders preferred electronic distribution, though some noted that this might not be appropriate for high street lenders. A number of parties suggested that the method of distribution should be determined by the borrower.

Existing ways of communicating borrowing history

180. Dollar stated that there were existing rules in relation to the provision of similar statements and that the requirement to send a periodic statement had always featured as part of the CCA. Under the amendments made to the CCA in 2006, creditors had been required since 2008 to send annual statements on fixed-sum credit agreements where a customer still had a balance on their account 12 months after the loan had been taken out.[200]

181. Dollar told us that it already sent statutory annual statements to its customers under fixed-sum agreements where this requirement was triggered. For running account agreements, periodic statements were required. Customers also had the right to request a statement on their account and ad hoc statements were provided in response to such a request.[201]

182. Wonga told us that every customer had access to loan information through the 'My Account' section of its website.[202]

183. Wonga said that regular statements of borrowing costs to customers was a sensible approach to increase transparency and awareness of the total cost of borrowing.[203]

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[200] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.8.1.
[201] ibid, paragraph 3.8.1.
[202] Wonga response to Remedies Notice, paragraph 6.3.
[203] ibid, paragraph 6.5.

Content

184. Dollar told us that the information to be included in an 'on request' statement should include details of the number and value of loans, together with total interest costs plus any fees or charges.[204]

185. Wonga told us that to provide meaningful information, a summary could contain the number of and the value, cost and duration of each loan taken out in the period, and the value and number of loans outstanding at the statement date.[205] A standard method of presentation might be necessary to assist comparison.[206]

186. Wonga told us that it would be prudent to require lenders to provide information in the periodic statements on where financial advice could be obtained.[207]

187. Global Analytics told us that lenders should not be required to market price comparisons in any way, such as through reference to a PCW on a statement.[208]

188. Islington Debt Coalition told us that the summary should include a link to the MAS.[209]

189. The Money Charity told us that the following information should be included on the statement:[210]

(a) the amount lent to the individual in the period;

(b) the amount the individual has repaid in the period (including charges and interest); and

(c) the amount the individual has outstanding (including principal, charges incurred but not yet paid, and the amount of interest they would repay if they repaid any outstanding principal on time).[211]

190. The Consumer Council told us that it would be concerned that linking in the statement of borrowing costs to the comparison website could lead to the

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[204] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.8.6.
[205] Wonga response to Remedies Notice, paragraph 6.10.
[206] ibid, paragraph 6.5.
[207] ibid, paragraph 6.11.
[208] Global Analytics response to Remedies Notice, pp13&14.
[209] Islington Debt Coalition response to Remedies Notice, p5.
[210] Each of these should be given as a total figure and broken down into its constituent parts, which would also help raise awareness of additional fees and charges, albeit only after they have been incurred (The Money Charity response to provisional findings and Remedies Notice, paragraph 70).
[211] The Money Charity response to provisional findings and Remedies Notice, paragraph 69.

temptation of taking out further loans and that other credit products did not link to price comparison sites.[212]

191. MAT told us that the information would need to be presented in a prescribed format to ensure consistency of approach and to allow for easy comparison. As well as information on the number of loans, the length of the loan, the total interest, and fees and charges over the relevant period, it would be useful to include sources of free debt advice in the statements and links to free, independent information such as the PCW.[213]

Frequency

192. Wonga thought that statements every 6 or 12 months would be more suitable than more frequent statements because customers might disregard such regular statements, particularly if they were receiving similar statements from a number of lenders at around the same time.[214]

193. Islington Debt Coalition told us that a monthly frequency would be consistent with banks and credit cards.[215]

194. The Money Charity thought that a quarterly statement with an annual summary at the end of each financial or calendar year would provide regular updates without overburdening the industry.[216]

195. MAT told us that a statement should be sent out at least quarterly and that given the nature of the typical timescale of a payday loan, it could be argued that the statement should be sent more frequently than this.[217]

Determining a trigger point

196. Dollar told us it would only be supportive of a statement if the statement was provided at the specific request of the customer.[218] If statements were unrequested, it could give rise to issues in relation to customer confidentiality because a statement could be sent to an outdated address (which Dollar

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[212] The General Consumer Council for Northern Ireland response to provisional findings and Remedies Notice, p8.
[213] MAT response to Remedies Notice, p8.
[214] Wonga response to Remedies Notice, paragraph 6.6.
[215] Islington Debt Coalition response to Remedies Notice, p6.
[216] The Money Charity response to provisional findings and Remedies Notice, paragraph 64.
[217] MAT response to Remedies Notice, p8.
[218] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.8.6.

thought likely, given the mobility of its customers) or to an existing address to which customers would prefer it not to be sent.[219]

197. Dollar also told us that post-contractual information was required to be sent in certain circumstances, for example Notices of Sums in Arrears and Notices of Default Sums. Where relevant, these also provided information on the cost of borrowing.[220]

198. Uncle Buck told us that a statement might have more impact if it was either *(a)* on request; or *(b)* required to be given to customers with a certain number of loans over a certain period of time, for example five single-period loans in a 12-month period.[221]

199. Wonga considered that any customer who had an outstanding balance at the date of the statement, or who had taken out a loan during the statement period, should receive a statement.[222]

200. Wonga said that receiving statements from payday lenders on or around the same date would enable the customer readily to compare their loans by lender across the period covered by the statements.[223]

201. Global Analytics told us that statements should be sent to borrowers taking out more than two loans in a period of six months and should continue until this was no longer the case or the customer chose to opt out of receiving them.[224]

202. The Consumer Council told us that it that it would be useful for consumers to receive periodic statements of their borrowing costs and that the statement could be produced monthly, and cease once the full and final payment had been made. Where possible it could be done electronically, as this was how the vast majority of consumers appeared to access payday loans.[225]

203. Islington Debt Coalition told us that all borrowers should receive a statement related to the interval of the instalments of their loan until the loan was repaid.[226]

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[219] ibid, paragraph 3.8.2(ii).
[220] ibid, paragraph 3.8.3.
[221] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.
[222] Wonga response to Remedies Notice, paragraph 6.7.
[223] ibid, paragraph 6.9.
[224] Global Analytics response to Remedies Notice, p13.
[225] The General Consumer Council for Northern Ireland response to provisional findings and Remedies Notice, p8.
[226] Islington Debt Coalition response to Remedies Notice, p6.

204. The Money Charity told us that customers should cease to receive a statement once they had completed a relevant period without having any loans outstanding. However, these customers would receive an annual summary even if no additional loans had been taken out in the intervening period.[227] The date the statements were sent and the period they covered should be the same for all lenders to help customers with loans from multiple lenders to understand the overall cost.[228]

Method of distribution

205. CashEuroNet told us that any summary should be provided online or through email, as this was likely to be most appropriate for online payday customers.[229]

206. Dollar told us that where possible, the statement should be provided through customer log-in functionality.[230] Dollar told us that online operations might well be able to implement such a remedy more effectively and at a lower cost by incorporating the requirement into a borrower's personal payday loan account page. However, Dollar said that for high street lenders there were likely to be issues around confidentiality, effectiveness and disproportionate cost bearing in mind the uncertainty of any benefit to customers.[231]

207. Global Analytics told us that the statement could be made available to customers online on the website or through customer care at all times, with emails sent every two months and a physical statement sent every six months.[232]

208. Uncle Buck told us that providing information to customers on the periodic cost of borrowing could be handled within the 'customer log-in' functionality of many lenders' websites, though for retail providers a hard copy solution might need to be adopted.[233]

209. Wonga told us that because it offered an online account facility it considered that the most appropriate method of distribution of the statement to its customers would be online and that customers could be emailed to inform

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[227] The Money Charity response to provisional findings and Remedies Notice, paragraph 66.
[228] ibid, paragraph 68.
[229] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.16.
[230] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.8.6.
[231] ibid, paragraph 3.8.5.
[232] Global Analytics response to Remedies Notice, p13.
[233] Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.

them of the availability of a statement.[234] Wonga stated that online distribution might not be appropriate for high street customers.[235]

210. The Money Charity told us that for customers who took out an online loan, an email statement seemed appropriate; for high street customers there should be the option to receive a statement by email or post.[236]

211. MAT told us that customers should choose the method of delivery.[237]

212. CashEuroNet told us that providing a summary online or via email would minimise costs.[238] Wonga told us that the cost of implementing a summary of borrowing though its existing customer account pages would be modest.[239]

213. Islington Debt Coalition told us that electronic distribution would be cheaper.[240]

Comments on effectiveness

214. Dollar told us that it was concerned that periodic statements were unlikely to be effective in achieving the CMA's aims. It noted that the CMA's assessment of a similar remedy in the home credit market was that it had been of 'limited effectiveness' and delivered 'relatively little benefit for some credit customers'.[241]

215. Global Analytics told us that such information was already presented to customers while processing the loan in a very clear manner. As a result, it deemed such steps unnecessary and potentially confusing to customers, and since customers tended to have loans with multiple lenders, receiving information in such a staggered manner might be unmanageable for customers.[242]

216. The Debt Advice Foundation told us that most people who were routinely seeing payday loans as their best option were likely to take little notice of this kind of information, and for those who were borrowing to cover social spending, it would be seen as completely irrelevant because the total cost of

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[234] Wonga response to Remedies Notice, paragraph 6.8 (a).
[235] ibid, paragraph 6.8 (b).
[236] The Money Charity response to provisional findings and Remedies Notice, paragraph 67.
[237] MAT response to Remedies Notice, p8.
[238] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.16.
[239] Wonga response to Remedies Notice, paragraph 6.12.
[240] Islington Debt Coalition response to Remedies Notice, p6.
[241] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 3.8.4.
[242] Global Analytics response to Remedies Notice, p12.

their loans was not a significant factor to them, only the speed and convenience of accessing cash. It thought that for those worried about borrowing, a statement would increase anxiety and guilt.[243]

217. MAT told us that whilst it did not object to this idea in theory, it did not see that the remedy would have the desired effect on competition.[244]

Lead generators

218. Money Gap Group (Money Gap) told us that regulation of lead generators was sufficient, however enforcement did not exist or was not sufficiently strong. It had seen brokers misleading customers and charging fees by pretending to be a lender. It did not see the transparency of lead generators as a problem because lender rates were usually around £30 per hundred borrowed so the financial impact of having taken out a loan via a lead generator rather than a lender was minimal. It had introduced a model which allowed customers to compare lenders which had provisionally approved their application, and chose the one that matched their needs. Money Gap told us that a declaration by a lead generator regarding the service they provided to customers and the relationship they had with lenders should be in a prominent position on their websites with a link to more information.[245,246]

219. SGE Group told us that CONC 3.7.4 should be a rule not guidance and that lead generators should be required to make a declaration as to the service they provided to customers and the relationship they had with lenders. It told us that the declaration should appear as a mandatory footer on all website pages.[247]

220. CashEuroNet told us that it welcomed measures that increased the transparency of the role of lead generators in the payday lending market.[248]

221. Wonga told us that lead generators should be subject to the same minimum transparency requirements standards as payday lenders. It told us that lead generators should be obliged to disclose (in a prominent way) the nature of their service, the relationship they had with lenders, and to make clear to

[243] Debt Advice Foundation response to Remedies Notice, p3.
[244] MAT response to Remedies Notice, p8.
[245] Money Gap Group response to Remedies Notice, p2.
[246] Money Gap also told us that its experience of operating in the Australian payday lending market, where customers were forced to click through a dialogue box asking whether they were sure they wanted to proceed, had significantly increased the rate at which customers dropped out of an application. We noted, however, that Money Gap considered the regulatory disclosure in Australia overwhelmed borrowers. Money Gap thought that a prominent reference on a lead generator’s website to a more detailed explanation of the operation of the pingtree would be more effective than a short disclosure pop-up. Alternatively a borrower could be required to complete a tickbox to confirm they agreed to the terms and conditions.
[247] SGE Group response to Remedies Notice, p7.
[248] CashEuroNet response to provisional findings and Remedies Notice, paragraph 8.17.

customers that they were not lenders. It told us that given lead generators introduced customers to payday loan providers, lead generators should be obliged to publish the same financial 'risk warning' as payday lenders on their websites and in other promotional material.[249]

222. Dollar told us that greater transparency was required in relation to the role of lead generators. It told us that lead generators should be required to set out the nature of the service they provided on the initial pop-up frame as well as their home page and, in particular, make clear that the service did not necessarily result in them being provided with a payday loan which amounted to the best value for them. It told us that existing FCA guidance regarding transparency should be replaced by binding obligations, enforceable by the FCA and that the FCA should require brokers (as well as lenders) to display their interim permission or full authorisation permission number on their website in the form of a link to the FCA website.[250]

223. money.co.uk told us that existing regulation was not sufficient to ensure that clear information was provided to customers regarding the relationship between brokers and lenders. It told us that it was important to distinguish between the different types of credit broker when considering possible remedies. It told us that a declaration by lead generators should include information about the basis on which a customer was introduced to a lender, what the cost of credit would be from the cheapest and most expensive lenders that the intermediary sold applications to and an explicit statement that cheaper loans might be available from other lenders.[251]

224. My Home Finance told us that intermediaries should explain their exact role, how they matched borrowers with lenders (including whether lenders bid for borrowers), and the cost of credit and the details of fees paid by lenders. My Home Finance told us that a declaration by lead generators should be enforced by requiring intermediaries to make a declaration and by prohibiting lenders from using intermediaries that did not display an appropriate declaration.

225. A PCW told us that existing regulation was not sufficiently clear.[252] It told us that lead generators, affiliates and brokers should be required to make a declaration as to the service they provided so that customers could make an informed decision as to whether they would like to make use of a credit broking service or if they would prefer to source a loan directly from a lender.

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[249] Wonga response to Remedies Notice, paragraphs 7.2 & 7.3.
[250] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraphs 3.9.1 & 3.9.2.
[251] money.co.uk response to Remedies Notice, pp1–3.
[252] A PCW response to Remedies Notice, p6.

It told us that the declaration should include a full explanation of how customer details were passed to lenders and other brokers or organisations.[253]

226. MYJAR told us that lead generators should be required to display prominently their status as a broker and not a lender, and set out clearly and prominently how the process of passing customer details to lenders worked.[254]

227. Uncle Buck told us that it should be very clear to consumers who they were dealing with and that lenders and introducers/brokers should not appear on the same page on PCWs and that the FCA should undertake a more comprehensive review of lead generator/introducer websites with regards to compliance and transparency of offering. Uncle Buck told us that lead generators should be obligated to route the application to the most relevant lenders for that particular applicant's circumstances, based on a variety of factors, and should be required to display a declaration describing the service they provided. Any lead generator failing to display such a declaration should be prohibited from acting as a lead generator until such a declaration was clearly shown. In addition, there should be requirements on lenders only to work with reputable lead generators that fulfilled any obligations placed upon them.[255]

228. The CFA told us that the information that was provided to consumers should be improved to ensure that it was clear from the outset what type of firm a consumer was dealing with and that it was very important that the customer knew that the lead generator was not shopping for the lowest price and that they merely sold to the highest bidder.[256]

229. Global Analytics told us that brokers fulfilled a vital function in the market by making customer acquisition more affordable for lenders.[257] It told us that parts of CONC were sufficient but others (CONC 3.7.4) should be elevated from guidance to a rule and that there should be strict and severe enforcement of the rules.[258] It said that customers should choose the basis on which brokers matched them to credit providers.[259] Global Analytics did not agree with prohibiting the sale of customer information by lenders as it helped customers find a loan at the time of their need.[260]

230. The Consumer Council told us that there was a need for very clear information to be provided by brokers from the outset, highlighting the fact that

253 ibid, p7.
254 MYJAR response to provisional findings and Remedies Notice, p10.
255 Uncle Buck response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p5.
256 CFA response to Remedies Notice, p10.
257 Global Analytics response to Remedies Notice, p2.
258 ibid, p14.
259 ibid, p15.
260 ibid, p16.

they were a brokerage service, and did not directly provide the loans. Any costs associated with their service should be clear and upfront – it would expect robust action to be taken against companies which did not meet these legal requirements.[261]

231. The Debt Advice Foundation believed the remedy to be nowhere near strong enough to counteract the negative activity of many lead generators. It would urge a regulation regime in which the lenders were held responsible for the activity of the lead generators which supplied them. It supported similar rules to those that were put in place to regulate the way in which a credit card company bore a responsibility for the actions of outsourced debt collectors.[262] The Debt Advice Foundation also told us that it agreed that declarations should be carried by lead generators and brokers, and that it was stipulated that that these should appear at the top of the home page and that lenders should be prohibited from using intermediaries that did not display an appropriate declaration.[263]

232. Dominic Lindley told us that to avoid scope for regulatory arbitrage any remedy aimed at credit brokers would need to ban authorised lenders from accepting leads unless they were from authorised brokers, and that the CMA should consider a ban on authorised lenders selling on customers' details. Dominic Lindley told us that credit brokers should be prohibited from storing a consumer's details in their system and re-selling them to multiple lenders and that the consumer's details should only be used in connection with their original application for credit.[264]

233. Islington Debt Coalition told us that existing regulation should be sufficient but required enforcement action, including the use of fines and penalties, as at present it was not always clear that such sites were not lenders and a statement of their nature should be required.[265] Furthermore, the CFA told us that the FCA should conduct a regular trawl of websites to identify firms that were not describing themselves correctly.[266]

234. Money Advice Scotland told us that existing regulation was not sufficient to ensure that clear information was provided to customers on the relationship between brokers and lenders[267] and it encouraged the CMA and FCA to take

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[261] The General Consumer Council for Northern Ireland response to provisional findings and Remedies Notice, p9.
[262] Debt Advice Foundation response to Remedies Notice, p3.
[263] ibid, p4.
[264] Dominic Lindley response to Remedies Notice, pp3&4.
[265] Islington Debt Coalition response to Remedies Notice, pp6&7.
[266] CFA response to Remedies Notice, p10.
[267] Money Advice Scotland response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p4.

stronger and more decisive action to tackle rogue firms in this sector, by introducing new rules if necessary.[268] Credit intermediaries should be required to declare specifically the services they provided and the relationship they had with lenders and this should be presented clearly on the landing page of a firm's website.[269]

235. MAT told us that it did not agree that existing regulation was sufficient and that FCA guidance should be strengthened in this area and at the very least made into binding rules. It agreed with the proposals that would require clarification of the basis on which the consumer would be introduced to the lender, the cost of credit from the cheapest and most expensive provider, and the suggestion that an explicit statement should be made telling the consumer that cheaper loans may be available from other lenders. It told us that all intermediaries should be required to make such declarations and lenders should also be prohibited from using non-compliant intermediaries. These measures should be enforced by the FCA. It told us that search engines such as Google could be required to limit allowing lead generators to operate by restricting the purchase of ad words for payday lending to fully regulated lenders. It agreed that lenders should be prohibited from selling or providing customer details to third parties.[270]

236. The Money Charity thought that CONC should be sufficient to ensure that clear information was provided to customers. Whilst it agreed that the presentation of intermediaries' websites would be difficult for borrowers to distinguish from lenders, it thought that enforcement action and a thematic review by the FCA would be appropriate.[271] It did not think the onward sale of details should be prohibited but that customers should be informed and given the option to opt out.[272]

237. Transact agreed that lead generators and other intermediaries should state explicitly the nature of their business and their commercial relationship with lenders. Further, intermediaries should be forced to make clear the service they were providing and indicate to the customer prominently the existence of a commercial relationship with a lender that might affect a lead generator's impartiality.[273]

238. UK Credit told us that the emphasis should be on the introducer to make the declaration. The lender could be obliged to create such an obligation in any

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[268] ibid, p3.
[269] ibid, p4.
[270] MAT response to Remedies Notice, p9.
[271] The Money Charity response to provisional findings and Remedies Notice, paragraphs 73–75.
[272] ibid, paragraph 77.
[273] Transact response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, pp4&5.

introducer contract and be liable if it failed to create such an obligation. The declaration should be provided in plain English and inform the customer:

(a) on what basis the customer was being introduced to a lender (set fee/ highest bid/tail end commission);

(b) whether or not the customer had been offered the cheapest loan available based upon total amount repayable (this may not be the most suitable product but would produce a consistent measure); and

(c) that alternative lenders and lending products were available (and that they may be more suitable for the customer).[274]

Additional remedies

239. With regard to the prohibition of additional fees:

(a) Dollar agreed with the CMA and told us that in light of the proposed price cap any such remedy would be duplicative, onerous and disproportionate;[275] and

(b) Wonga agreed with the CMA that there was no merit in the CMA considering additional restrictions on fees and charges, noting the anticipated FCA price cap and the potential distortion to the market.[276]

240. With regard to the potential accreditation of lender websites:

(a) Dollar told us that it agreed with the decision not to accredit websites. Furthermore, it told us that all lenders with Interim Permission were required to include the GEN4 disclosure on their website – 'Authorised and Regulated by the Financial Conduct Authority' – and that it did not believe any further requirement was justified. It thought that lenders belonging to trade associations should disclose this (although not necessarily on the home page).[277]

(b) Wonga agreed with the CMA that such an accreditation system would not be effective for the reasons outlined in the Remedies Notice.[278]

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[274] UK Credit response to Remedies Notice, p6.
[275] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraph 4.2.
[276] Wonga response to Remedies Notice, paragraphs 8.2–8.6.
[277] Dollar response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, paragraphs 4.3–4.4.
[278] Wonga response to Remedies Notice, paragraph 8.7.

(c) MAT agreed that the accreditation by the FCA of lender websites should not be taken forward.[279] It suggested that the periodic statement adopt something similar to the new requirements on utility companies, which must indicate on regular customer statements if they believed a cheaper tariff was available.[280]

241. Wonga told us that the CMA should consider making a recommendation to the FCA (and the Government, as appropriate) that the price cap should be subject to a periodic review so that there was an opportunity to remove the capping mechanism if any package of CMA remedies was successful in stimulating additional price competition such that the price cap was no longer needed and/or deemed disproportionate in light of the changed market conditions.[281]

242. ABCUL told us about the work of the Pew Institute into different models of regulation of payday lending in individual states in the USA which concluded that the Colorado model of prohibiting 'bullet' or single payment loans led to lower charges. ABCUL told us that Pew's recommendation was that the principal factor producing better outcomes was loan affordability and that, to this end, payments should be limited to 5% of a borrower's monthly salary.[282]

243. The Debt Advice Foundation thought that advertising for single-instalment loans should be banned other than online (as 83% were taken out online[283]); this would also significantly reduce marketing costs for the major players, allowing the potential for product price reduction.[284]

244. Money Advice Scotland told us that it welcomed the possible remedies proposed; however, its view was that they would only go a small way to resolving problems in the payday loan market. Over the medium to long term, it called on Government, regulators and all market participants to divert more resource to improve levels of financial capability within the public. In the shorter term, they would welcome further efforts to increase the availability of alternatives to payday loans.[285]

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[279] MAT response to Remedies Notice, p10.
[280] ibid, p8.
[281] Wonga response to Remedies Notice, paragraph 1.11.
[282] The Association of British Credit Unions Limited response to Remedies Notice, pp2&3; The Pew Institute has undertaken various pieces of research into short term credit.
[283] Based on our provisional findings.
[284] Debt Advice Foundation response to Remedies Notice, p5.
[285] Money Advice Scotland response to provisional findings, Remedies Notice and Notice of a request for a variation of the terms of reference, p3.

Remedy design issues on measures to help customers shop around without unduly affecting their ability to access credit

1. This appendix sets out in greater detail our consideration of the design issues relating to a potential remedy for improving the ability of borrowers to establish the likelihood of being offered a loan.

2. This appendix is structured as follows:

   (a) credit searches and their role in the payday loan application process;

   (b) ways in which borrowers can assess their own creditworthiness; and

   (c) encouraging the development and use of 'real-time' data sharing.

Credit searches and their role in the payday loan application process

3. An overview of the process for applying for and taking out a payday loan is provided in our final report. Here we focus on a specific aspect of that process relevant to this remedy option, namely the role of CRAs and the products that they offer to payday lenders to help them in assessing whether or not to offer credit to a particular borrower.

4. CRAs supply credit providers with a range of data products. These include application and quotation search products (collectively 'credit search' products), as well as other data products such as identity verification, fraud and anti-money-laundering data, income verification and a number of specific modules or 'blocks' of data which group similar variables together.[1]

5. We were told that credit searches were among the most expensive data product that lenders could purchase from a CRA. Because of this, in any lending decision they are typically the last piece of third party information to be purchased and the purchase of credit searches is only undertaken for

[1] There is currently no specific regulation that requires the use of credit searches, but consumer credit regulation requires the performance of an affordability check before making an offer of credit (CONC 5.2.2). That affordability check is likely to require the use of some CRA data, though not necessarily a credit search, although a credit search would be the principal method of establishing what credit facilities have been issued by other lenders, providing an assessment of existing financial commitments. As a competition authority, we are not directly concerned with the performance of affordability and eligibility checks other than their impact on determining the supply of, access to and the cost of credit; we consider their regulation to be the responsibility of the FCA. As outlined above, our concern is that their design and implementation does not penalise rational behaviour.

applicants who have not already been excluded as a result of some other aspect of the assessment of eligibility, affordability or creditworthiness.[2]

6. In our hearings we were told that a typical application process would be designed by a lender to filter applications using the ‘cheapest’ data first. Prior to the use of any external data, lenders will use the information submitted by applicants to filter them according to the lender’s criteria (such as income and employment status). Lenders would then use their own data to establish whether or not an application had been submitted by the applicant previously and whether the application had been unsuccessful and why. A panel of data might then be purchased from CRAs (both the primary and any secondary CRA) either as a single large data set or in successive ‘blocks’ as the application proceeded.

7. Because of this sequential use of data in increasing order of cost, and because a small proportion of applications might be approved for loans, only a minority of all payday loan applications are subject to a credit search and the proportion rejected as a result of credit searches, as opposed to other information, would be lower still.[3]

8. We asked lenders and CRAs about the pricing of CRA products. We found that there was a significant variation in the pricing structures, which are individually negotiated between each lender and the CRA(s) that they use. We found that the marginal cost of an additional credit search varied significantly, either as a result of the volume of searches purchased by a lender, or the particular CRA that lenders used. Broadly, however, we were told that the marginal cost of a quotation search varies from 10 pence to £1. Contracts between lenders and CRAs were typically structured such that the average cost of a search reduced with increased volume of searches. We were not aware of any difference in the cost of quotation and application searches (where the two provided the same context). However, in some circumstances where two searches were performed on the same individual, the marginal cost of the second search would be lower.

Quotation and application searches

9. As set out above, there are two main forms of credit search – quotation and application search. As the names suggest, quotation searches have been

[2] For example Dollar told us it considered credit searches to be relatively expensively. Dollar response hearing summary, paragraph 28.
[3] For example, Dollar told us [✂] (Dollar response hearing summary, paragraph 28). CashEuroNet told us that it used internal data and then fraud checks before undertaking a credit search (CashEuroNet response hearing summary, paragraph 22). Global Analytics told us [✂] (Global Analytics response hearing summary, paragraphs 27 & 28). Wonga told us that only [✂]% of applications were rejected on the basis of a credit risk assessment (Wonga response to Remedies Notice, paragraph 5.6 (c)).

developed for situations where potential borrowers are seeking quotations for credit (for example, if the cost of the credit depends on a potential borrower's credit score), whereas application searches are used to help lenders establish whether or not to accept a potential borrower's application for credit, as part of the credit application process.

10. In our PDR we stated that from a borrower's perspective, the principal defining feature of a quotation search is that other than the lender requesting the search and the CRA that the lender requested the information from, no other third party is able to see the search. In response to our PDR, Callcredit notified us that visibility of quotation searches to third parties is supported by existing guidance in this area. Callcredit's quotation search records can be seen by other lenders, but measures are in place to prevent any inadvertent use of quotation search information when assessing creditworthiness, so that consumer ability to access credit is not affected. Quotation searches are clearly differentiated from credit application searches, and are excluded from the aggregated counts of searches used to build credit scorecards.[4]

11. In contrast, an application search will be visible to any third parties that subsequently undertake a credit search.[5] This difference is sometimes described in terms of leaving a 'footprint' on a customer's credit file. All credit searches are recorded by a CRA but may not leave a visible footprint to third parties. Quotation searches may be described as either not leaving a footprint or leaving a 'soft footprint' on a potential borrower's credit file, while any application searches are described as leaving a ('hard') footprint because of their visibility to third parties.

12. We then considered what the difference between application and quotation searches was with respect of their content. Most of the CRAs we contacted told us that quotation searches did not differ in content from application searches. One CRA (Teletrack[6]) told us that it did not offer quotation searches because its customers (predominantly short-term lenders) had never requested them, but it was in the process of developing them. Where a lender undertook a quotation search, it would need subsequently to undertake an application search to ensure that no subsequent credit events had occurred and so that other lenders were aware that the customer had applied for credit.[7]

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[4] Callcredit response to the PDR
[5] Credit searches will typically provide credit information relating to a defined period of time, and thus after a number of months or years these searches will cease to be included in the content of a credit search.
[6] Teletrack response hearing summary, paragraph 9.
[7] Absent 'real-time' data sharing with CRAs, the existence of a new loan would only be updated on a monthly cycle, whereas the application search would be immediately visible.

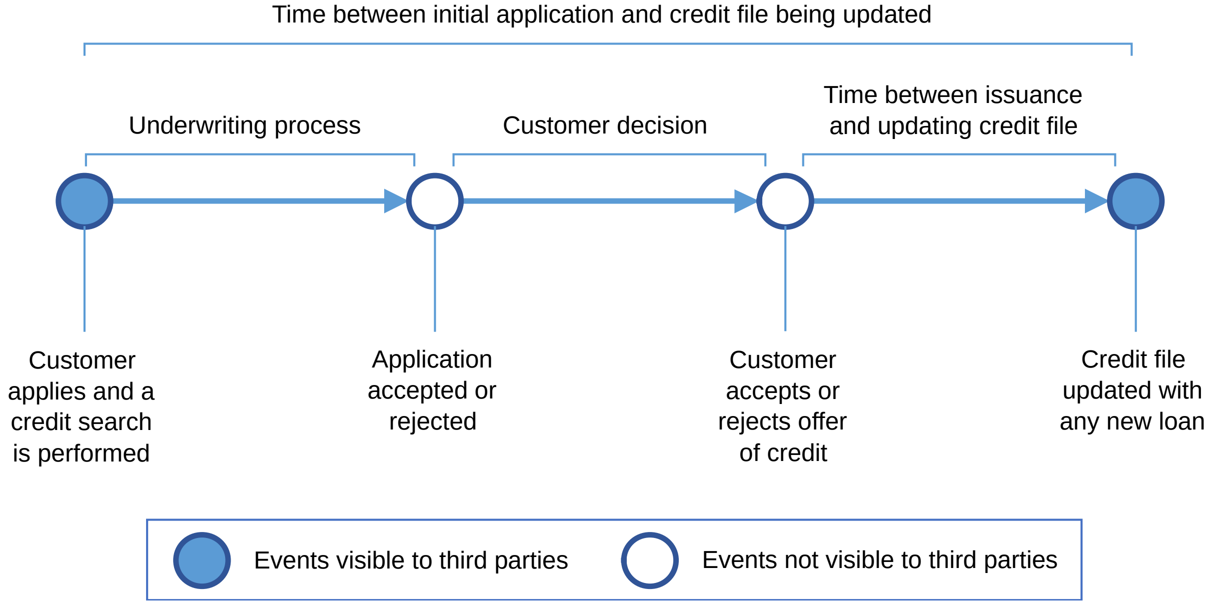
13. Experian told us that whilst it had standard credit data offerings, users of its data (such as lenders and insurers) often had specific data requirements (based on factors such as the sectors they were operating in and their risk appetite) and Experian sought to provide tailored credit data configurations in response to these requirements. As a result, the data supplied to each customer who requested a credit search could differ. Experian told us that quotation searches were a relatively recent development within the CRA industry and that there was not a standard definition of the data that was included, but that the desire to offer quotations quickly and for the purposes of shopping around meant that Experian's customers did not typically request the same volume of information. Experian's standard quotation search offering was based on far less data than a full search. Because of this, and because quotation searches are offered for very different reasons from full searches, the results of the two types of search were not directly comparable.

14. Following an application search, no further amendment is made to a potential borrower's credit record (and hence no further information is visible to a third party) until a loan is issued to that borrower. Because of this, in general it is not possible to differentiate from a potential borrower's credit record between a situation in which a potential borrower has been rejected on the basis of a credit search and one in which a potential borrower has been offered credit and has decided not to proceed with that offer (for example, because they had found a better offer elsewhere).[8] Figure 1 illustrates this graphically. The visibility to third parties of whether or not a credit account has been taken out is subject to *(a)* the speed of underwriting decision once the search has been made, *(b)* the point at which a borrower accepts the offer of a credit account, and *(c)* the frequency with which the CRA database is updated.[9]

[8] We understand that some CRAs do, however, receive and share a greater range of events on a customer's credit file. We were informed by LendingMetrics that the first point at which its platform updated a borrower's credit record was at the point that an automated offer of credit was made (before funds were released) and that it considered its system unique among CRAs (LendingMetrics response hearing summary, paragraph 4).
[9] As noted, the historic frequency of lenders updating CRAs with credit information has been monthly.

FIGURE 1

Visibility of credit decision-making



Source: CMA analysis.

15. We have been told by lenders and CRAs that the presence of application searches by a potential borrower is commonly used by lenders as a risk indicator.[10] This perception of increased risk relates to the uncertainty of whether or not an offer of credit has been made (and if so, whether a credit account has been opened) following an application search. The greater the number of application searches that are made by a potential borrower in a short period, the greater the perceived potential risk. This is because an excessive number of searches may indicate a credit-hungry (or even fraudulent) potential borrower, seeking credit from multiple sources at the same time. However, we note that a similar pattern might also arise if a potential borrower searches the market for the best-value loan product available to them, by means of taking out applications with a number of lenders.

16. Given the scope for legitimate borrower search activity to be interpreted negatively by lenders, we next considered the ways in which potential payday loan borrowers are able to assess their own creditworthiness and likelihood of being granted credit by individual lenders.

[10] See Appendix 1.1 for a number of submissions on this point.

Ways in which borrowers can assess their own creditworthiness

17. At present, most payday lenders do not use quotation searches. We are aware of one large payday lender (CashEuroNet)[11] which currently uses quotation searches; this is in part because it offers a variable priced product, such that a credit search may be required in order to inform a potential borrower about the price they would pay for a loan.[12]

18. Consequently, the only way that a potential borrower can currently establish whether or not they are likely to be accepted for credit by most payday lenders is to make an application for credit from that lender. As discussed above, this is likely to leave a footprint on their credit file (unless they have been rejected by that lender before the credit checking stage).

19. We noted that individuals are able to review their credit history online using services offered by some CRAs. These services may be offered on a free trial with an ongoing subscription thereafter, though some are offered free of charge. These services may also provide some form of indicative credit 'score'. However, we were told that these scores do not readily correlate to a lender's assessment of whether to lend to a potential borrower and that generally lenders will not purchase a standard score or rating from a CRA, preferring to analyse raw data.

20. Individuals may also request a statutory credit report for a nominal fee.[13] However, this does not provide any contextual information such as an individual's credit score.[14] Our review of CRA websites found that these reports were not always promoted with equal significance to subscription-based products.

21. We also noted that some services are offered in other credit markets (for example, personal loans), integrated into PCWs, which provide a potential borrower with some indication of the likelihood of being accepted for a particular product by using various filters.[15] These services require lenders to share profiles of borrower attributes that must be met in order to obtain credit. The accuracy of the indication provided by such services also depends on the level of information shared by the lender to the service provider. We are unaware of any such service currently being offered in the payday market.

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[11] CashEuroNet response hearing summary, paragraph 21.
[12] We understand that this was a result of needing to comply with CONC guidance.
[13] Currently £2.
[14] Consumer Credit Act 1974, section 158. Since 2010, statutory credit reports are available online.
[15] HD Decisions provides this service to a number of PCWs. Barclays and some other banks and building societies offer an eligibility assessment using a quotation search.

Evaluation of potential measures to enable borrowers to search the market without adversely affecting their access to credit

22. Against this background, we considered what measures might be put in place to enable potential borrowers to search the market without adversely affecting their access to credit. We identified the following areas in which further action could be taken to help address the AEC and thereby benefit borrowers:

    (a) ways to help potential borrowers evaluate the likelihood of obtaining credit without having to carry out a full credit application;

    (b) greater transparency of information about the use of credit searches; and

    (c) increased use of quotation searches as an alternative to application searches.

Ways to help potential borrowers evaluate whether they are likely to obtain credit without having to carry out a full application

23. The assessment of creditworthiness varies considerably by lender and involves bespoke credit risk assessments that are designed by individual lenders. A lender's decision to offer credit will also include various filters for eligibility based on age, income and employment status as part of the regulatory affordability assessment that must be carried out. For these reasons, there are some practical limitations on the extent to which it is possible for potential borrowers to have certainty about whether they will get credit from a particular lender without, in effect, going through the lender's application process.

24. While a 'perfect' solution is not necessarily available, we expect that potential borrowers would value some early indication on their likely eligibility. This could alleviate concerns about being approved for a loan and as a consequence could stimulate them to focus on other aspects of lenders' offers. It could also help potential borrowers to focus on the offering of lenders who are more likely to offer them credit.

25. In particular, information about eligibility – and the likelihood of obtaining credit from particular sources – could add additional value to the services provided to potential borrowers by PCWs; this would allow potential borrowers to filter results by lenders that would be willing to offer them a loan, thereby further improving the potential borrowers' experience when shopping around. Various technological options could be developed to deliver this functionality – these might be based on the 'smart search' technology used for PCWs in other markets or some other mechanism such as the technology currently used by lead generators to operate their platforms.

26. We have decided to recommend that the FCA use the full range of its powers to encourage lenders to participate actively in initiatives that enable potential borrowers to evaluate their own creditworthiness and likely eligibility for payday loans. We considered whether to place a formal obligation on payday lenders to participate in such initiatives, for example through an Order. We also considered including a requirement to provide this functionality as part of the accreditation criteria for payday loan PCWs. However, we took the view that such obligations or criteria would be very difficult to specify with sufficient flexibility, given the fact that the technology to deliver such initiatives is still evolving and that, over time, the market may be able to develop such a solution; hence we concluded that a recommendation to the FCA was likely to be a more effective means of achieving our aim.

Greater transparency of information about the use of credit searches

27. In our provisional findings we did not specifically review the transparency to the potential borrower of information about the extent to which (or when) credit searches were used by lenders. However, as our remedies package is designed to encourage borrowers to shop around – and given the need to ensure that borrowers are not deterred from shopping around by concerns about impairing their access to credit – we considered whether borrowers would benefit from greater transparency of information available to them on the use of credit searches.

28. Lenders typically make a declaration on their use of CRAs and their use of credit searches. Because of the filtering and loan approval process adopted by lenders, our understanding is that a relatively small proportion of applications are subjected to a credit search (see paragraph 7). To the extent to which this proportion is affected by fraudulent applications, then 'genuine' borrowers are more likely to be subject to a credit search.[16] It is also not evident to potential borrowers whether or not a credit search has been performed at the point at which their application has been declined. This means that potential borrowers whose application is declined do not know if they have had a credit search performed on them unless they *(a)* know which CRA the lender uses and *(b)* have an account with that CRA to allow them to review their credit file (or request a statutory credit report by post).

29. Because the existence of multiple credit searches on an individual's credit file might reduce that individual's ability to access credit (see paragraph 14), we see benefit in ensuring that all applicants are aware of whether a credit check has been performed if their application is rejected. By providing this

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[16] It is not clear if this is a significant issue across the market.

information to potential borrowers, they will be aware if credit searches have been undertaken by lenders and will have a better understanding of the potential impact of those searches on their credit rating. We acknowledge that there might be potential risks allowing fraudulent applicants to be made aware of this fact,[17] although we also note that this information is potentially available (at a fee) to users who subscribe to CRA services and hence this risk is relatively low. We considered that such a disclosure would be best implemented by means of a recommendation to the FCA, which would be in the best position to weigh up any potential risk in terms of fraudulent application, to the extent to which this is material, and to integrate such a disclosure with other obligations on lenders at the point at which a customer has been turned down for credit.

Quotation searches

30. As set out above, quotation searches typically gather a similar set of information as application searches. Quotation searches have the advantage of generally not leaving a visible footprint on CRA databases and therefore they are less likely to discourage potential borrowers from shopping around. We therefore considered whether lenders should be required to conduct a quotation search, rather than an application search under certain circumstances (eg before a potential borrower was committed to taking out credit from a particular provider, or at a potential borrower's request) or whether there were other ways of encouraging greater use of quotation searches in situations where potential borrowers were not committed to using a particular lender.

31. We considered the evidence provided by Callcredit that its quotations were visible to lenders conducting an application search (although were not factored into standard credit scores).[18] We considered that if all CRA quotation searches operated in the same manner this would not necessarily be an issue that would reduce the utility of quotation searches, as there would be no corresponding application search on a borrower's credit file, but, the visibility of quotation searches could still potentially be used an indicator of credit hungriness by a lender if it was built into its lending decisions and could potentially act as a barrier to accessing credit, however we recognised that Callcredit had developed safeguards on the access to and use of a borrower's history of quotation searches.

[17] By allowing fraudulent applicants to establish if a credit check has been performed, they may be able to establish the nature of initial screening checks and make subsequent applications using this information.
[18] See paragraph 10.

32. We considered that there were a number of potential costs associated with always requiring quotation searches to be used by lenders. Lenders may be required to pay additional fees to CRAs – for example, they may have to conduct both quotation and application searches on potential borrowers who ultimately take out a loan with them, though we considered that the extent of such incremental costs had been exaggerated by some lenders who have submitted evidence to us.[19]

33. In addition, given the integration of credit searches into lenders' decision-making processes, we considered that there were other potential costs which could be significant, principally the development cost of amending lending processes[20] and the impact on credit risk assessment from losing visibility of those potential borrowers who were aggressively hunting credit.

34. Given this, and the volume of other changes currently being implemented by payday lenders, we have decided not to mandate the general use of quotation searches. Rather we consider it more appropriate to recommend to the FCA that it work closely with lenders, CRAs and operators of accredited PCWs to encourage greater use of quotation searches, so that payday loan borrowers can effectively search the market for the best available loan for them, without adversely affecting their credit record.

35. In particular, we see significant benefits to the effectiveness of price competition in requiring the use of quotation searches where lenders offer products with multiple price points (for example, based on a finite number of tiers of risk or on a continuum, or where a lender offers multiple products that are ostensibly the same other than price). This is consistent with guidance in place at present and we propose recommending to the FCA that it consider whether this should be elevated to a rule. We are conscious that this guidance is specified for all types of consumer credit and acknowledge that the FCA is likely to wish to consider this wider context in evaluating this remedy.

36. The evidence we have gathered indicates that there is no general consistency in either the availability, format or visibility of quotation searches for different CRAs, and that imposing a requirement to use quotation searches in their current format may not be a fully effective remedy to facilitate borrowers to

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[19] For example, Global Analytics told us that requiring a quotation search for all applications would significantly increase the cost base of a lender and the price paid by borrowers. It was suggested that if [✂]% of applications were rejected, [✂] quotation searches would need to be purchased for every loan issued, and that this would require the cost of credit for a successful borrower to include an additional £[✂] relating to the unsuccessful applications of others (Global Analytics response to Remedies Notice, p11). In our Remedies Notice it was not our expectation that every application would require a quotation search but that where an application search is currently used, a quotation search would be used instead. We do not think that this example of an additional £9 of cost is realistic, given the use of other CRA data as outlined above.
[20] Experian told us that its quotation search was not the same as its application search for a range of reasons. See paragraph 12 above for greater detail.

shop around. However, because of their use in multiple credit markets we are not in a position to make recommendations on their content and use, and consider it appropriate for the FCA to lead in developing their use in this and other credit markets.

Customer research

37. As part of our research on possible remedies we asked borrowers about the benefit of being able to establish whether they would be offered credit by a given lender whilst shopping around using a PCW.

38. Among inexperienced users in particular, there was relatively low awareness of why establishing eligibility[21] might be useful, and the impact of multiple credit searches (as a result of being turned down). When they were told about this, there was a desire for this to be more widely publicised.[22]

39. Once aware that applying for a loan (the presence of a search) would be noted on their credit record, customers were mostly willing to trade off the hassle of entering personal information against securing an indication of the likelihood of approval. However, bad experiences with brokers – who were rarely recognised as such – fuelled discomfort with providing personal information on payday lending sites. This had led to the association of price comparison sites for payday loans with credit score deterioration, and lack of data security.[23]

40. There was support for the idea of details, once entered, being transferred over to a lender site for application. This was in regard to personal information as well as the specific loan entered. Whereas many felt this would encourage them to use the eligibility search function, others felt it was 'nice to have' and that an indication of eligibility was an incentive in itself. [24]

41. Given that speed was often of the essence, customers were quite clear that if information was not transferred from the comparison site to a lender of their choice, they would be less likely to use the comparison site in the future. This was because customers were very reluctant to spend very much time taking out a loan.[25]

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[21] That is, the likelihood of being accepted on any ground, not just 'eligibility criteria.'
[22] Customer research, p26.
[23] ibid, p26.
[24] ibid, pp26&27.
[25] Customer research, pp26&27.

42. There was not a clear preference for the way in which eligibility information should be presented, although overall customers preferred clear and simple options that were easy to interpret.[26]

Encouraging the development and use of 'real-time' data sharing

43. Next, we considered issues related to the development of real-time (or near real time) data-sharing schemes and their use by payday and other lenders.

Data sharing – current state of play

The extent of data sharing in relation to payday loans

44. Most lenders will have commercial relationships with one or more CRAs. Lenders will typically use one CRA as their primary provider of credit information[27] (in addition to the lenders' own lending data). CRAs may use additional CRAs for specific types of data or where a potential borrower's credit file is 'light'.[28] Some CRAs may also resell another CRA's data through its own interface.[29]

45. At present, there is no obligation on lenders to share data with CRAs from which they do not also receive data. We were told that in other credit markets, lenders shared data with at least three CRAs (typically the largest) and that this extent of sharing was of the order of perhaps 97 to 98% of all credit markets.[30]

46. We were told by CashEuroNet that it did not share with more CRAs as there was no net benefit to it or its customers of doing so.[31] Teletrack told us that there was a tendency in the industry to see this data as the intellectual property of lenders and that any sharing would offer rivals a competitive advantage.[32] Equifax told us that lenders' reluctance to share their customer data stemmed from the fact that they thought their data might be abused or misused in some way or they might lose customers as a result.[33] However,

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[26] ibid, p28.
[27] The data held by CRAs and offered to their customers (ie lenders) includes a wide range of information which may also include identity and income verification services.
[28] That is where the CRA has little or no credit information on an individual. The volume of data held on an individual is determined, for example, by the relationships that the individual's bank has with CRAs.
[29] Such relationships tend to exist between a mainstream CRA and a niche provider of specialist information.
[30] Equifax response hearing summary, paragraph 2.
[31] CashEuroNet response hearing summary, paragraph 28. CashEuroNet told us that it chose not to share data with CRAs that it had not requested data from. CashEuroNet identified that there would be additional costs in sharing data more widely without benefits to CashEuroNet 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.
[32] Teletrack response hearing summary, paragraph 18.
[33] Equifax response hearing summary, paragraph 2.

during our hearings a number of lenders informed us that they were increasing the number of CRAs they were sharing with.

47. We are unaware of any sharing of information between CRAs, though there are some commercial arrangements (generally between a large/mainstream CRA and a smaller/niche CRA) for CRAs to resell each other's data or products.

Real-time data sharing

48. The FCA has encouraged the high-cost short-term credit[34] industry to work with CRAs to use 'real-time' data. We understand that the current definition/specification of 'real time' being offered or implemented by CRAs varies from near instantaneous data provision to daily/nightly batch updates. We understand that the FCA considers daily updates to be a significant improvement in the frequency of data sharing.

49. In its consultation paper,[35] the FCA identified a target that lenders accounting for 90% of lending transactions and 90% of market share, measured by revenue, would be sharing data with CRAs in real time. In its subsequent policy statement it noted that lenders with a market share of 90% and accounting for around 85 to 90% all transactions were sharing data in real time (including on a daily basis) and would be monitoring the use of real-time data as part of its authorisation and monitoring processes.[36]

50. We note, however, that the extent of sharing of data in real time is currently limited by some CRAs to only those parties which provide data to the CRA in real time (and pay for a real-time service) whereas other CRAs make data available in real time to all their customers.[37] The FCA told us that it would like to see lenders sharing with at least two CRAs. Having given a very clear steer of what it expected from players in the market, both in terms of the frequency of information provided and the number of agencies to whom it was provided, the FCA told us that if it did not see evidence of progress by November 2014 it would consider introducing data-sharing requirements.[38] The FCA has stated that not all lenders were sharing with more than one CRA in real time but it was not pursuing any specific regulatory action.[39]

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[34] This includes payday loans.
[35] FCA, CP14/10.
[36] FCA, PS14-16.
[37] That is, lenders and other financial institutions.
[38] FCA response hearing summary, paragraph 28.
[39] FCA, PS14-16.

51. Furthermore, the richness of data that is shared in proposed or current real-time sharing platforms appears to vary significantly.

52. We were told that the pricing structure for real-time products from one CRA (Callcredit) included significant upfront fees.[40] It was put to us that the minimum revenue guarantees (and termination penalties) charged by some CRAs to access real-time information were significant, especially for new entrants and smaller lenders. Where a lender wished to enter the market on a small scale to collect initial application data to develop its lending models, it might be forced to choose not to adopt a real-time solution at the outset. Furthermore, lenders were required to provide 90 days of lending data before they could use the service, which would exclude new entrants using the system. However, we understand that as new products are launched by other CRAs, subsequent new entrants and smaller lenders may have a greater choice between the offerings of different CRAs.

53. We were told by Teletrack[41] that the proportion of credit agreements where information was shared with multiple CRAs was significantly lower than in more established credit markets. We considered that even where RTDS existed, there would be residual uncertainty whether or not a borrower had been issued with a loan, because a lender could not be certain that its CRA's data set was complete. As a result, lenders would incur greater costs in either obtaining credit searches from multiple CRAs for no certain benefit, or the increased credit risk would be reflected in the price of credit offered.

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[40] [✂]
[41] Teletrack response hearing summary, paragraph 18.

Remedy design considerations relating to the proposed obligation on lenders to provide a summary of borrowing costs

Introduction

1. This appendix sets out in order:

   (a) a summary of the findings of our customer research in respect of a summary of borrowing;

   (b) our considerations on the possible methods of notification or distribution of a summary; and

   (c) the design objectives of the presentation of that information on an individual's cost of borrowing.

Customer research

2. In this section we document some of the findings from our customer research.

3. Our research found that borrowers' initial reaction to the idea of receiving a statement of borrowing were negative or neutral, as customers recognised that it could be uncomfortable or distressing to confront their spending. However, it was also perceived as a means of helping borrowers to 'keep on top of their finances', and potentially to deter others who were relying too heavily on payday loans.[1]

Content

4. Participants in the survey said that they wanted each loan to be itemised so that they could see the amount borrowed, any interest and late fees paid, and the total amount repaid. They would also want to see the grand total borrowed and the total interest charged, across multiple loans if applicable. There was an expectation that there would be signposting to both money management/ debt advice as well as the independent price comparison site, included with the statement.

[1] Customer research, p40.

Presentation

5. Although the value of statements, particularly for heavier borrowers, was accepted in principle, customers felt they would be fairly easy to ignore.[2]

6. Our research found that in order to ensure that customers looked at their statement, there was agreement that many would need to be forced to do so. Requiring customers to look at their statement at the point of taking out a new loan was envisaged as effective. On the other hand, linking to the statement after taking out a loan was seen as 'too late'; by this point in the journey customers did not want to engage further with payday loans and would be unlikely to read the statement.[3]

Notification or distribution of a summary

7. We considered how best to distribute the summary to borrowers. We identified three main potential channels:

   (a) post;

   (b) email; and

   (c) a web interface linked to a borrower's account.

8. We did not consider SMS (text messaging) to be a practical option for conveying the summary itself. We considered that the limitations of SMS message length (typically 160 characters) mean that it would be ineffective in communicating any meaningful information in respect of borrowing history but that it would be a potentially appropriate method for notifying borrowers of the availability of a summary.

9. A summary distributed by post would be an accessible format and would avoid the need for a borrower to have access to a mobile phone or the internet. We considered that providing a copy of the summary in hard copy would allow customers to consider the cost of their borrowing and would also be readily accessible. However, we were conscious of the cost to lenders of distributing the summary by post and that for online lenders and borrowers this was not the usual method of communication, which may lead to the assumption that it was 'junk' mail. Furthermore, we considered that this would

[2] ibid, p41.
[3] ibid, p41.

place the onus on borrowers proactively reviewing the summary and would not give assurance that a borrower had reviewed the statement.[4]

10. We then considered the use of email to send the statement. We had some concerns in respect of ensuring that borrowers received and read the email and also data protection which we discuss below.[5] There was also a risk that such an email could be profiled as spam by ISPs and email providers. However, as with SMS, we thought that email could be a useful way of notifying customers of the availability of the summary.

11. The final option we considered was to require online lenders to integrate a summary into a customer's account profile. A number of lenders told us that they either offered a similar facility, or their technology could be adapted with relatively little cost to provide this information.[6]

12. By integrating the summary into the existing lending process, it is certain that borrowers would be presented with the summary (and lenders could incorporate recording a borrower's declaration into the application process).

13. We considered that online distribution of a statement would not necessarily be an appropriate means of distribution for high street borrowing. We considered that the provision of a hard-copy statement would be an appropriate alternative.

14. We considered that access through an online portal would allow lenders to record a declaration by a borrower that they had reviewed the summary before an additional loan would be issued. For loans issued in high street premises, a borrower could request the statement and sign a declaration of receipt.

Considerations of data protection and security and accuracy of contact details

15. We were informed by Dollar that payday loan customers changed their mobile phone numbers on a regular basis. Similarly Dollar told us that its customer base was often transient with respect of their contact details with customers potentially changing telephone number every two to three months.[7]

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[4] By divorcing the receipt of the summary from the usual loan application channel, we were concerned that any requirement to 'tick' or affirm receipt of the statement would be less likely.
[5] Paragraphs 15 & 16.
[6] Parties that referenced providing borrowers with an account management facility included: Dollar response hearing summary, paragraph 37; CashEuroNet response hearing summary, paragraphs 29 & 30; Wonga response hearing summary, paragraphs 49 & 50; Elevate Credit International Limited (formerly Think Finance UK) response hearing summary, paragraph 32. Dollar told us that its facility could easily be expanded to show any previous borrowing.
[7] Dollar response hearing summary, paragraph 38.

16. Because of the perceived transience of customers, issues relating to data protection would in part be linked to the length of time between a loan being issued (at the point at which personal information was most likely to be correct) and the point at which a summary was sent:

   (a) With respect to changing telephone numbers, we considered that there was a risk that on changing telephone number customers would either sell or share a SIM card or that a number would be recycled.[8]

   (b) With any summary sent by post, there was a possible danger of a customer moving. We considered this to be a less significant risk.

   (c) With respect to short-lived email addresses, whilst this would reduce the effectiveness of the remedy, it did not necessarily give rise to a concern with respect to data protection. Instead we identified the overall security of the email account as the most significant risk.

Design objectives

17. We considered that for a summary to be effective it should:

   (a) be provided on a timely basis;

   (b) be accurate;

   (c) present financial information in clear, understandable terms;

   (d) include only content that is relevant and meaningful to a borrower;

   (e) provide the ability for a borrower to identify more detailed information and signpost where this information can be obtained; and

   (f) avoid directly associating the repayment of a loan with the need to take out a further loan.

18. We considered that lenders may choose to assess the extent to which borrowers are using the statements, either through affirmative acknowledgement of review or by monitoring click-throughs from emails notifying the borrower of the availability of the summary, to the summary on a lender's website (using a hyperlink to a URL that would track an individual's journey to

[8] Numbers are typically recycled once a phone has not been used for six months. See Ofcom: Pay as you go mobile – use it or lose it.

the website). If a lender chose to send the summary by email, the opening of the email could be tracked using web beacons[9] or other means.

19. Any summary should be presented in the most appropriate format for an individual borrower. We consider that presentation of this information on a secure website, email, post or hard copy in store to be possible methods of distribution subject to a lender's consideration of taking appropriate data protection methods. Figure 1 shows an example of how this information might be presented using a customer's online account. Figure 2 shows the same page but with additional information on previous loans expanded.

20. Where a lender does not distribute the summary directly to a borrower (such as by providing it in a borrower's account online, or in hard copy in-store), a lender should ensure that a borrower is made aware of the availability of the statement. An example of how this might be communicated via SMS is shown in Figure 3.

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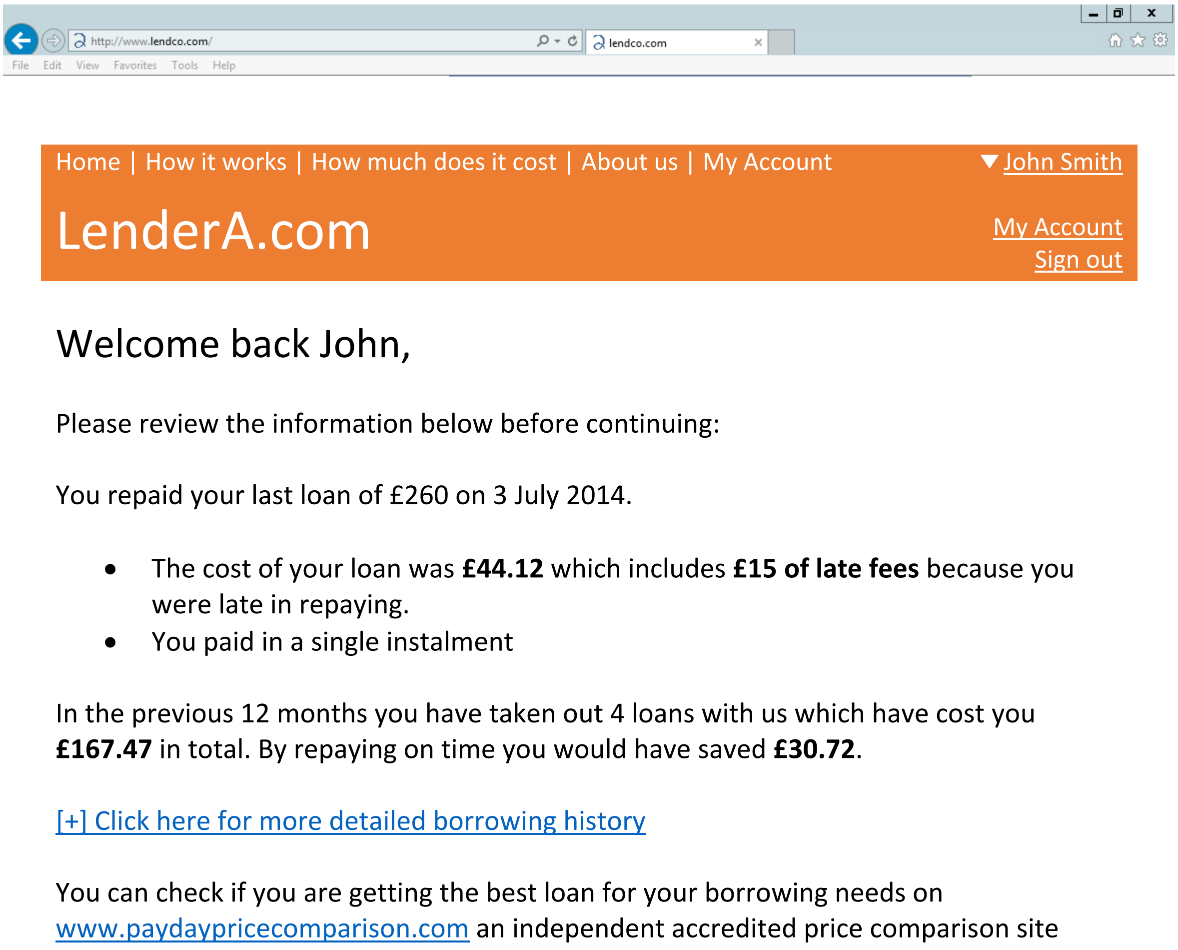
[9] The embedding of a graphic hosted on a website in an email. When the email is opened (assuming it is not opened in plain text format), the graphic is accessed and it is possible to track that the email has been opened.

FIGURE 1

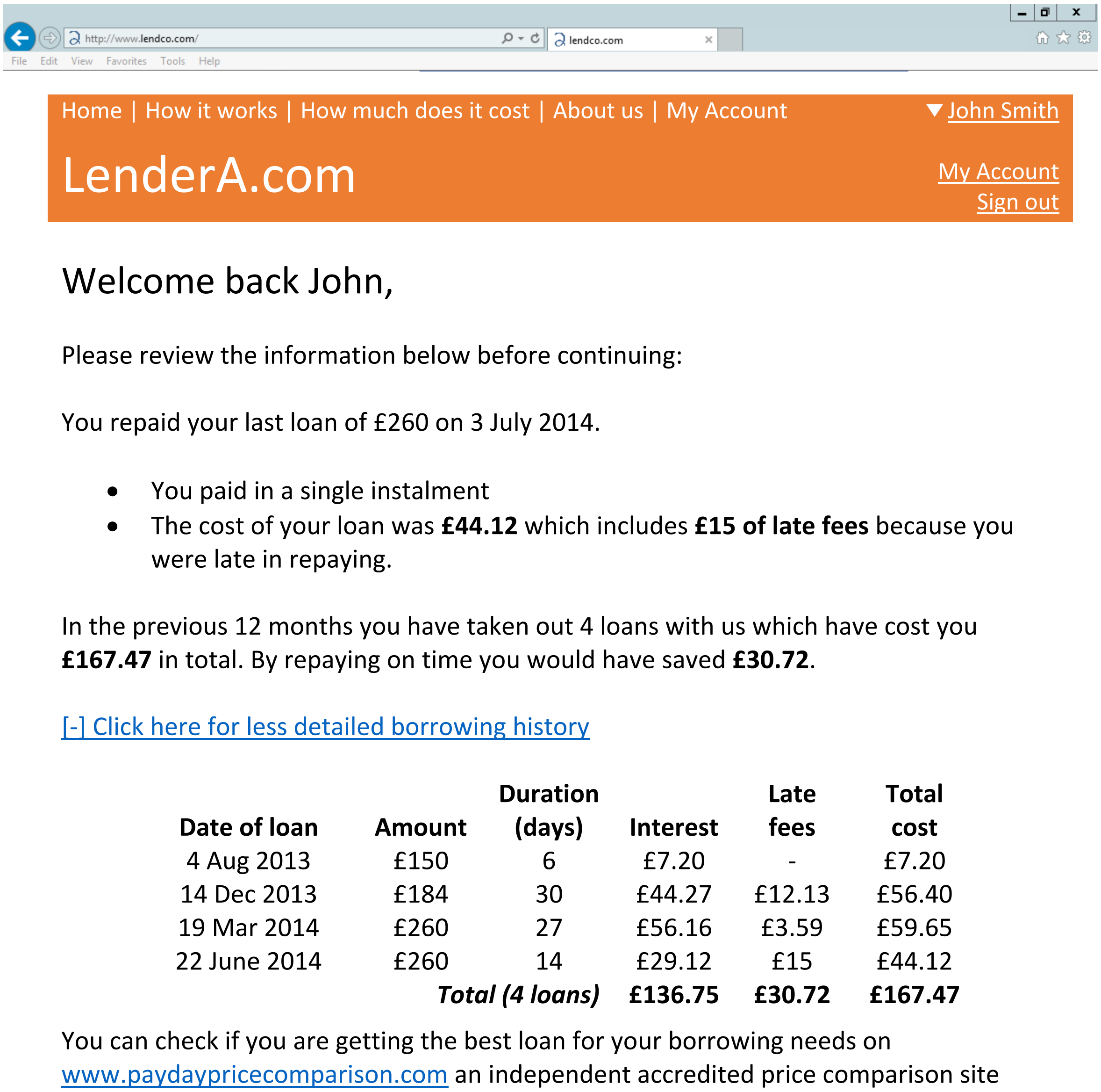
Example presentation of a summary of the cost of borrowing provided through a borrower's account



Source: CMA.

FIGURE 2

Example presentation of a summary of the cost of borrowing provided through a borrower's account with expanded summary of previous loans



Home | How it works | How much does it cost | About us | My Account

▼ John Smith

LenderA.com

My Account
Sign out

Welcome back John,

Please review the information below before continuing:

You repaid your last loan of £260 on 3 July 2014.

- You paid in a single instalment
- The cost of your loan was **£44.12** which includes **£15 of late fees** because you were late in repaying.

In the previous 12 months you have taken out 4 loans with us which have cost you **£167.47** in total. By repaying on time you would have saved **£30.72**.

[-] Click here for less detailed borrowing history

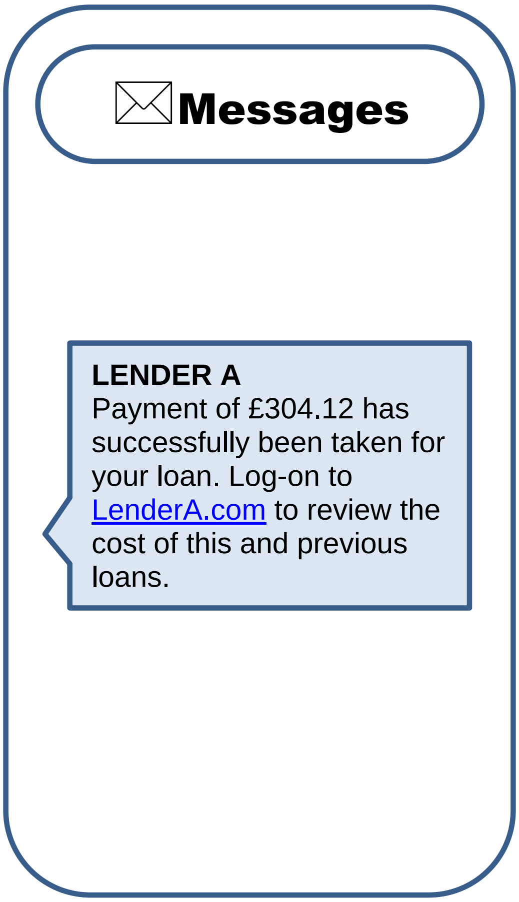
Date of loan	Amount	Duration (days)	Interest	Late fees	Total cost
4 Aug 2013	£150	6	£7.20	-	£7.20
14 Dec 2013	£184	30	£44.27	£12.13	£56.40
19 Mar 2014	£260	27	£56.16	£3.59	£59.65
22 June 2014	£260	14	£29.12	£15	£44.12
		Total (4 loans)	**£136.75**	**£30.72**	**£167.47**

You can check if you are getting the best loan for your borrowing needs on www.paydaypricecomparison.com an independent accredited price comparison site

Source: CMA.

FIGURE 3

Example presentation of the availability of a summary by SMS (130 characters)



Source: CMA.

Australian Government requirement for warning in small amount credit contracts

Regulation 28XXB

1. Regulation 28XXB of the Australian National Consumer Credit Protection Regulations 2010 places a requirement on licensees to include a warning on their website(s) as shown below.

28XXB Small amount credit contracts – requirements for warning on licensee's website

For paragraphs 124B (1) (b) and 133CB (1) (b) of the Act, the requirements for a licensee's website are as follows:

(a) a hyperlink, in the form of a boxed icon and the words 'Warning about Borrowing', must appear on the homepage and any webpage which contains information about the benefits or characteristics of small amount credit contracts and be displayed in a size that is not smaller than it would appear on the webpage using Arial font and 12 points in size;

(b) the hyperlink must be in the form shown in Schedule 8;

(c) the hyperlink must open a warning;

(d) the warning must:

  (i) be as set out in Schedule 9; and

  (ii) use the typeface known as Arial; and

  (iii) unless otherwise illustrated in Schedule 9, be displayed in a size that is not smaller than it would appear on the webpage using Arial font and 10 points in size; and

  (iv) include the words 'WARNING – Do you really need a loan today?':

    (A) at the start of the warning; and

    (B) in bold font; and

  (v) include the words 'This statement is an Australian Government requirement under the *National Consumer*

Credit Protection Act 2009', displayed in a size that is not smaller than it would appear on the webpage using Arial font and 8 points in size;

(e) an identical warning must immediately appear when a person clicks on an access point or link that would take the person to a webpage where the person can apply for a small amount credit contract;

(f) an application form for a small amount credit contract must not be able to be accessed until the identical warning is closed or acknowledged.

Example for paragraph (f)

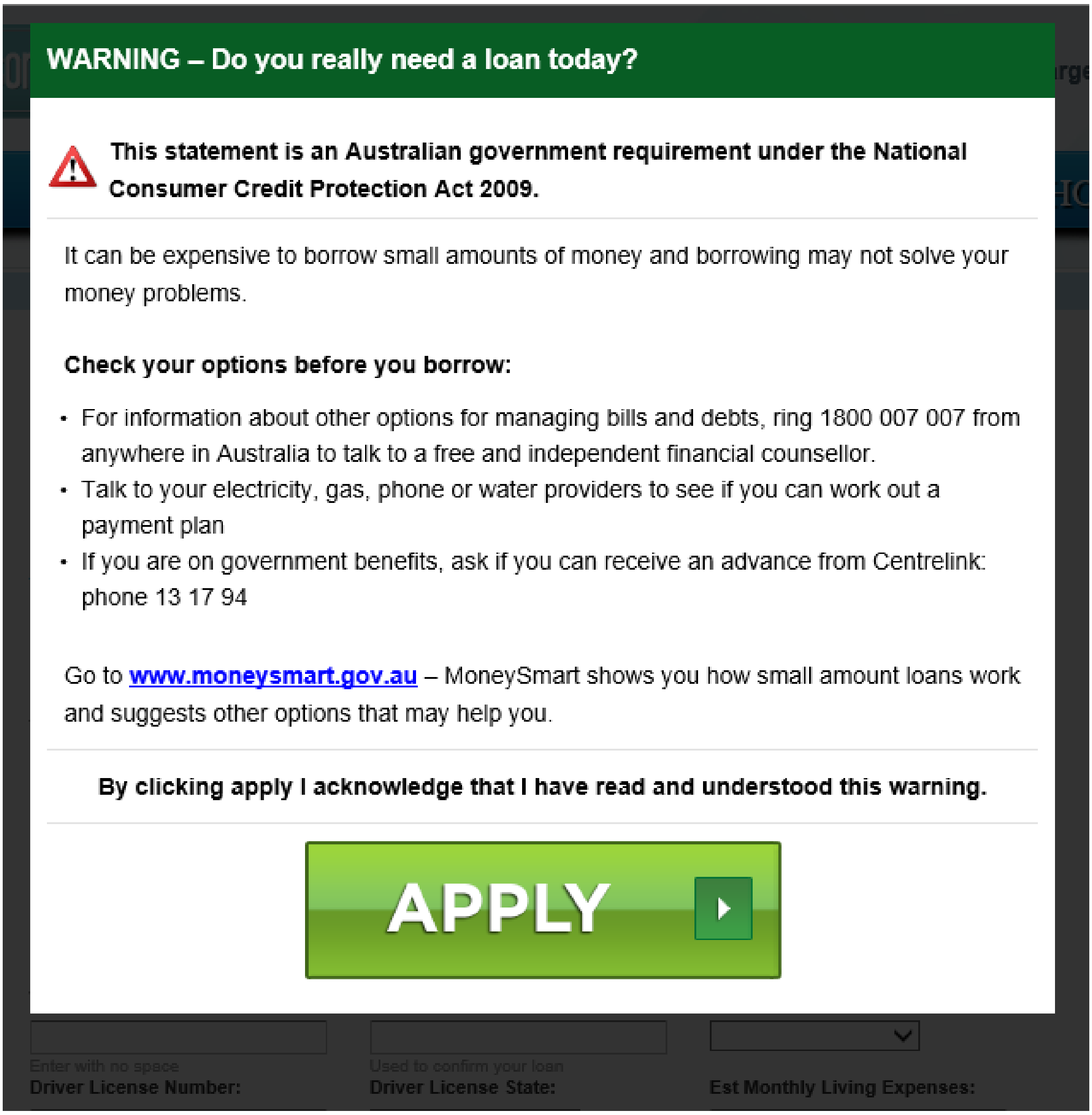
The acknowledgement can be done by clicking on a 'progress with application' button offered on the page.

(Source: www.comlaw.gov.au/Details/F2012L02429. Accessed on 3/10/14.)

2. Figure 1 shows an example of the warning in use on a lead generator's website. We noted that the dialogue box was placed prior to the point at which an applicant could enter their details, and required an interactive acknow-ledgement from customers before proceeding with an application.

FIGURE 1

Example of warning in use in Australia



Source: www.pay-dayloans.com.au (operated by Pingtree PTY Ltd). Accessed 19 September 2014.

Glossary

ACORN	Acronym for A Classification of Residential Neighbourhoods. A geodemographic information system categorising some UK postcodes into various types based upon census data and other information such as lifestyle surveys. The population is divided into six categories from Affluent Achievers (25.1%) to Not Private Households (22.4%). Those categories can also be subdivided into 18 groups and 62 types.
Act	Enterprise Act 2002.
AEC	Adverse effect on competition, as set out in section 134(2) of the **Act**.
Affiliate	Persons or companies that generate traffic using, for example, banner advertisements or a **PCW** and then pass these customers on to **lender**s or **lead generator**s, who then seek to collect from these individuals customer information which can be sold to a lender.
AlixPartners	AlixPartners UK LLP, a business advisory firm. It carried out work on the payday lending industry on behalf of **Wonga**.
APR	Annual percentage rate.
Ariste	Ariste Holding Limited, a payday lender. Trading as Cash Genie, it is a subsidiary of EZCORP Inc.
ASA	Advertising Standards Authority.
BACS	Bankers' Automated Clearing Services, a payment service through which transfers take three working days to clear: they are entered into the system on the first day, processed on the second day, and cleared on the third day.
BCAP	British Code of Advertising Practice.
BCCA	BCCA Limited (formerly the British Cheque and Credit Association), a trade association for providers of unsecured short term loans such as payday, instalment and guarantor

	loans; credit brokerage; and third party cheque cashing services.
BIS	The Department for Business, Innovation and Skills.
Bristol report	In 2011, **BIS** commissioned a report from the University of Bristol to inform understanding of the likely impact on lenders and consumers of introducing a variable cap on the total cost of credit that can be charged in the short- to medium-term fixed-rate credit markets. The purpose of the research was not to make a recommendation to **BIS** on whether or not a cap should be introduced, but to provide an up-to-date evidence base that would help inform policy decision-making in this area. The Bristol report considered three short-term credit markets, namely payday lending (both retail and online), home credit and pawnbroking.
BVCA	The British Private Equity and Venture Capital Association.
CA98	Competition Act 1998.
Callcredit	Callcredit Information Group, a trading name of Callcredit Limited, a **CRA**.
CAPM	Capital asset pricing model.
CashEuroNet	CashEuroNet UK, LLC, a payday lender. Trading as QuickQuid, Pounds-to-Pocket and FlexCredit, it is a subsidiary of Cash America International, Inc.
CBT	Contribution before tax.
CC	Competition Commission. (As from April 2014, the functions of the CC, including those in relation to pre-existing market investigations under the **Act** such as the payday lending investigation, have been taken over by the **CMA**.)
CCA	Consumer Credit Act 1974.
CCD	Consumer Credit Directive (2008/48/EC). Adopted by the European Parliament in June 2008.
CCF	Credit Competence Form.

CCTA	Consumer Credit Trade Association, a trade association representing all businesses involved in consumer credit.
CFA	Consumer Finance Association, a trade association representing the interests of major short-term lending businesses operating in the UK.
CFO Lending	CFO Lending Limited, a payday lender.
Cheque Centres	Cheque Centres Group Limited, a payday lender operating on the high street and online. The online operation was known as The Loan Store until 2013.
Citizens Advice	A registered charity and Government-funded provider of consumer education; providing advice, advocacy and education to consumers in Great Britain.
CMA	Competition and Markets Authority. As of 1 April 2014, the competition functions of the **CC** and the **OFT** under the Enterprise Act 2002 are the functions of the CMA. The previous functions of the **CC** on this investigation are now the CMA's.
CONC	The FCA Consumer Credit sourcebook.
CP13/10	FCA Consultation Paper 13/10: Detailed proposals for the FCA regime for consumer credit (October 2013).
CP14/10	FCA Consultation Paper 14/10: Proposals for a price cap on high-cost short-term credit (July 2014).
CPA	Continuous payment authority, also referred to as recurring pre-authorisation. A method by which customers can authorise merchants, including lenders, to debit their account via their debit card at the point of sale. CPA requires the long number on the front of the card and the three-digit security code on the reverse. Merchants accepting payments via this service must comply with the operating regulations of the card scheme provider (eg Visa, MasterCard etc), which may prohibit, among other things, excessive use. Most online lenders agree a CPA with customers to enable them to take payment on a customer's repayment date.
CPA attempt	A single attempt by a merchant to utilise a **CPA**.

CPAp	Cost per application, the basis on which lead generators sell customer applications if payment is received from lenders for a completed application form.
CPF	Cost per funded, the basis on which lead generators sell customer applications if payment is received from lenders once a customer has taken out a loan.
CPRs	Consumer Protection from Unfair Trading Regulations 2008 (SI 2008/1277).
CRA	Credit reference agency. CRAs collect and sell information relevant to the financial standing of individuals, which lenders can then use as a relevant input to their credit risk assessments. A number of CRAs operate in the payday lending sector in the UK, including **Experian**, **Equifax**, **Callcredit, LendProtect** and **LendingMetrics**. Account data is provided to CRAs by **credit provider**s, private companies (such as utility companies) and professional associations on a reciprocal basis. The information is compiled by the CRA into a single file for each individual.
Credit Benefit Services	Credit Benefit Services LLC, a lead generator.
Credit broker	Credit brokerage is defined in article 36A of the **RAO**. In general terms, it includes the effecting of introductions of individuals desiring to obtain credit or goods on hire to consumer credit businesses or consumer hire businesses. It is also credit brokerage to introduce individuals to other credit brokers. Many **lead generator**s and **lead aggregator**s may be classed as credit brokers for the purpose of regulating consumer credit.
Credit provider	A person who grants or promises to grant credit in the course of their trade, business or profession.
Decision Date	The date on which the **FCA** publishes its decision on the new standards applicable to **payday loan PCW**s. This will be published in the form of a Policy Statement.
DFC	Dollar Financial Corp. The ultimate parent of **Dollar**.
Dollar	Dollar Financial UK Limited. As the context requires, Dollar should be read as a reference to Dollar Financial UK

Limited and its subsidiaries collectively or any one or more of those companies. Dollar has three subsidiaries supplying **payday loan**s in the UK, namely Instant Cash Loans Limited, Express Finance (Bromley) Limited and MEM Consumer Finance Limited. These subsidiaries trade as The Money Shop, Payday Express and Payday UK respectively.

DPA	Data Protection Act 1998.
DWP	Department for Work and Pensions.
EBIT	Earnings before interest and tax.
Elevate	Elevate Credit International Limited, formerly Think Finance (UK) Limited, a payday lender.
Equifax	Equifax Ltd, a **CRA**.
Experian	Experian Limited, a **CRA**.
Extension facility	Any facility offered by lenders whereby a customer can make any repayment (ie including one or more instalment repayments) at a date later than that originally agreed with the lender. Extension facilities include, but are not limited to, **rollover**s and instances of **forbearance**.
Fall-back PCW	An authorised **payday loan PCW** which online lenders would be required to create or commission in the event that no authorised **payday loan PCW** exists by the **Obligation to Publish Date**. The application for authorisation of the fall-back PCW must be submitted within 6 months of the **Obligation to Publish Date**. Where that cannot be done but demonstrable progress to that end has been made, the **CMA** may allow an extension of up to 6 months.
FCA	The Financial Conduct Authority, which assumed responsibility for the regulation of consumer credit, including **payday lending**, from April 2014.
FCA Handbook	Contains rules and guidance made by the **FCA** using powers under the **FSMA**. The provisions contained in the handbook apply to **FCA**-regulated firms.
Fixed-sum credit	Under section 10(1) of the **CCA**, fixed-sum credit is any facility under a consumer credit agreement, other than a

	running account credit facility, whereby the borrower is enabled to receive credit (whether in one amount or by instalments).
FLA	Finance and Leasing Association, a trade association for the asset, consumer and motor finance sectors in the UK.
FOS	Financial Ombudsman Service.
Forbearance	Where a lender and customer agree to keep a loan agreement open and unpaid on the due date, the customer is not considered to have defaulted, and the customer is not charged further interest, fees or charges for the additional time.
FPS	Faster Payment Service. A payment service which allows payment times to be reduced to a few hours or less, significantly faster than the three days required by the long-established **BACS** service. Faster Payment Service is a trading style of Faster Payments Scheme Limited, a not-for-profit joint venture owned and operated by a number of well-known financial institutions.
FSMA	Financial Services and Markets Act 2000.
FS(BR)A	Financial Services (Banking Reform) Act 2013.
FTI Consulting	A business advisory firm. FTI reviewed data submitted to the **CMA** on behalf of **Dollar**.
Guidelines	*CC guidelines for market investigations: Their role, procedures, assessment and remedies, CC3 (Revised)* (April 2014). These Guidelines have, with effect from 1 April 2014, been adopted by the **CMA**.
Global Analytics	Global Analytics Holdings Inc, a payday lender trading as Lending Stream and Zebit.
H&T	Harvey & Thompson Limited, a payday lender.
HCSTC	High-cost short-term credit
High street lender	A **lender** supplying **payday loan**s from a retail store.
HMT	HM Treasury.

Home Credit report	The **CC**'s report on the investigation into the supply of home credit in the UK, November 2006.
ICO	Information Commissioner's Office.
Irresponsible Lending Guidance	*Irresponsible lending: OFT guidance for creditors* (updated February 2011).
Instalment product	These products allow customers to repay the principal in more than a single repayment. Instalment loans are often for longer periods than single repayment loans.
IRR	Internal rate of return.
IVA	Individual voluntary arrangement.
Laps IT	A trading name of Lending Software Solutions Ltd. Laps IT provides LAPS, the Loan Application Processing System, an electronic loan management system.
Late loan	A late loan is a loan whose final repayment date is later than its original due date, but the loan is not rolled over.
LATSS	Local authority trading standards services.
Lead aggregator	A person or company that collects and processes customer information from multiple parties, such as **affiliate**s and **lead generator**s, for the purpose of selling that information on to **lender**s. The sale of these leads may take the form of an auction or **pingtree**. A lead aggregator may or may not be a **lead generator** itself.
Lead generator	A person or company that contracts with **lender**s to provide potential customer applications (or 'leads') in return for a fee for each lead provided. Like **credit broker**s more generally, **lead generator**s must be authorised by the **FCA** to carry out consumer credit activities. Lead generators may also act as **affiliate**s or **lead aggregator**s.
Lender	A supplier of **payday loan**s.
LendingMetrics	LendingMetrics, a **CRA**.
LendProtect	LendProtect UK Limited, a **CRA**.

Major lenders	The 11 major lenders included in our core analysis operate 16 separate companies in the UK and market loans under around 22 different brands. The 11 major lenders are **Ariste**, **CashEuroNet**, **The Cash Store**, **CFO Lending**, **Cheque Centres**, **Dollar**, **Global Analytics**, **H&T**, **MYJAR**, **SRC** and **Wonga**. Between them these lenders provide a range of **single repayment** and **instalment product**s available online and on the high street.
MAS	Money Advice Service, a statutory body for improving people's understanding and knowledge of financial matters and their ability to manage their own financial affairs. Its statutory objectives were defined in the Financial Services Act 2010. On 30 May 2014 **HMT** published the terms of reference for a review of MAS's activities and functions.
MAT	Money Advice Trust, a charity providing debt advice.
MEAV	Modern equivalent asset value, the cost of replacing an existing asset with a technically up-to-date asset.
Money.co.uk	A UK **PCW**. Money.co.uk is a trading name of Dot Zinc Limited.
Money Gap	Money Gap Group Limited, a lead generator.
Moneysupermarket	MoneySupermarket.com Group plc, a UK **PCW** (moneysupermarket.com).
Multisourcing	Where a **payday loan** customer takes out concurrent loans from multiple **lender**s.
MYJAR	TxtLoan Ltd, a payday lender trading as MYJAR.
Oakam	Oakam Ltd, a payday lender.
Obligation to Publish Date	The Obligation to Publish Date is the later of 12 months after the **FCA** publishes its decision or the date the **FCA**'s new standards become effective.
OFT	Office of Fair Trading.
OFT compliance report	*OFT Payday Lending Compliance Review: Final Report* (March 2013).

Online lender	A **lender** supplying **payday loan**s via a website.
Overdraft	A product usually supplied as part of a current account service whereby a customer can withdraw cash beyond the amount held in the account, taking their balance below zero. Overdrafts may be authorised or unauthorised.
P2P lending	Peer-to-peer lending, the practice of lending money to unrelated individuals, without going through a traditional financial intermediary such as a bank or other financial institution. This lending takes place online on P2P lending companies' websites using various different lending platforms and credit checking tools.
PAT	Profit after tax.
Pay-per-click advertising	An internet advertising model used to direct traffic to websites, in which advertisers pay the publisher when the advertisement is clicked. Some search engines allow advertisers to sign up online, create advertisements and select keywords relating to these advertisements. They can then submit bids to the search engine based on the maximum they are willing to pay per click or for an overall campaign for a particular key word search. Pay-per-click advertisements usually appear at the top and to the right of the results page and are distinct from organic search results, the ranking of which are not determined by a commercial process.
Payday lending	The provision of small-sum cash loans marketed on a short-term basis, not secured against collateral, including (but not limited to) loans repayable on the customer's next payday or at the end of the month and specifically excluding home credit loan agreements, credit cards, credit unions and **overdraft**s.
Payday loan	We have defined payday loans to be unsecured loans which are generally taken out for less than 12 months, and where the amount borrowed is usually less than £1,000 (excluding home credit loan agreements, credit cards, credit unions and **overdraft**s). The 'traditional' payday loan involves a relatively small-sum unsecured loan repayable on the customer's payday. There are though a range of

	loan products currently available offering customers relatively small-sum loans, with different amounts of flexibility regarding when repayments are made. For example, an increasing number of products allow repayment in a small number of instalments.
PBT	Profit before tax.
PCI	Pre-contractual information.
PCW	Price comparison website. A website which, as its primary business, gathers and presents price and/or non-price information about different suppliers' products in order to allow users to compare those products. Price comparison websites generally provide a means for customers to contact the provider of the chosen product.
PDL Finance	PDL Finance Limited, a payday lender trading as Mr Lender.
PECR	Privacy and Electronic Communications (EC directive) Regulations 2003.
Pingtree	An automated auction whereby a **lead generator** or **lead aggregator** seeks bids for the details of individuals applying for a payday loan.
Planned overdraft	An **overdraft** for which the customer agrees a credit limit with the **credit provider** in advance. These overdraft products are sometimes called 'authorised overdrafts'.
Principal loss rate	A measure of risk which takes into account the proportion of the principal lent which is recovered. It is defined as 1-(loan principal collected/loan principal issued) for a given financial year.
Provident Financial	Provident Financial Group, a payday lender.
PS14/3	FCA Policy Statement 14/3: Final for consumer credit firms (February 2014).
Quiddi	Quiddi Hub Limited, a lead generator.
RAO	Financial Services and Markets Act 2000 (Regulated Activities) Order 2001/544.

RAPR Representative **APR**.

RAR Risk-adjusted revenue.

Ratio Ratio Network Limited, a lead generator.

Refinance To extend, or purport to extend, the period over which one or more repayment is to be made by a customer whether by:

- *(a)* agreeing with the customer to replace, vary or supplement an existing regulated credit agreement;
- *(b)* exercising a contractual power contained in an existing regulated credit agreement; or
- *(c)* other means, for example granting an indulgence or waiver to the customer.

Repeat customer A customer of **payday loan**s that returns to the same **lender** for additional credit.

Repeat loan A **payday loan** taken from a lender by a customer who has previously taken out a loan with the same lender.

Revolving credit A facility whereby, once a running account is opened, the customer may draw against their credit limit for the duration. The repayment structures of individual drawdowns are often structured like single repayment loans or instalment loans but are variable and can be changed at any time.

ROCE Return on capital employed. Profit before interest and tax as a percentage of financial debt, equity shareholders' funds and intangible assets identified.

ROE Return on equity.

Rollover A loan is 'rolled over' if the loan (or part of the loan) is not repaid on the date originally agreed (excluding where a lender grants the customer **forbearance**), but where the customer is not considered to have defaulted as a further agreement to extend the repayment period has been entered into between the customer and the lender. The customer may pay all outstanding and unpaid fees, finance charges or interest at the time the rollover is executed but in all cases, some or all of the loan principal is carried forward after the date of the rollover.

RTDS	Real-time data sharing. Arrangements between CRAs and lenders whereby certain aspects of a customer's borrowing behaviour is updated on a daily, or more frequent basis.
Running account credit	Under section 10(1) of the **CCA**, running account credit is a facility under a consumer credit agreement whereby the borrower is enabled to receive from time to time from the **credit provider** cash, goods and services (or any of them) to an amount or value such that, taking into account payments made by or to the credit of the debtor, the credit limit is not at any time exceeded.
SCOR	Steering Committee on Reciprocity.
SECCI	Standard European Consumer Credit Information.
SEO	Search engine optimisation.
SGE	SGE Loans Limited, a lead generator.
Single repayment product	**Payday loan** products where the principal is repaid in full on a single agreed repayment date. Single repayment products are generally (though not exclusively) linked to an individual's payday; a loan will cover the period up to the day on which a customer is next paid. For some products, if the customer's payday is within a very short period, the loan term will carry over until the next payday.
SRC	SRC Transatlantic Limited, a payday lender trading as Speedy Cash and WageDayAdvance.
Stop Go Networks	Stop Go Networks Limited, a lead generator.
Survey	TNS BMRB Research into the payday lending market: Final report (2013–2014).
TCC	Total cost of credit. The total amount in pounds that a customer would pay if they took out and repaid a loan in particular circumstances.
Teletrack	Teletrack UK Ltd, a **CRA**.

TFEU	Treaty on the Functioning of the European Union.
The Cash Store	The Cash Store Financial Limited, a payday lender.
TNS	TNS BMRB, a market research company. Conducted the **payday lending** customer survey on behalf of the **CMA**.
Top-up	A loan is 'topped up' if, in addition to the initial amount lent, the **lender** allows the customer to increase or top up their loan before the end of the loan term. These facilities work on the principle that a customer might choose to borrow or be borrowing less than the amount they are approved for or the **lender** is willing to underwrite, and so is given the opportunity to 'top up' to this higher amount during the course of the loan term.
Total Amount Payable	The **TCC** plus the loan amount.
TPS	Telephone Preference Service.
Transaction data	Data collected from the **major lenders** relating to their customers and the loans taken out by those customers. Appendix 2.2 provides an overview of this data.
TSOs	Trading Standards Officers.
UCPD	European Unfair Commercial Practices Directive 2005 (2005/29/EC).
UK GAAP	Generally Accepted Accounting Practice in the UK, the body of accounting standards and other guidance published by the UK Accounting Standards Board.
Unplanned overdraft	An **overdraft** for which the customer has not agreed a credit limit with the **credit provider** in advance. These overdraft products are sometimes called 'unauthorised overdrafts'.
UTCCRs	Unfair Terms in Consumer Contracts Regulations 1999 (SI 1999/2083).
VC	Venture capital.
WACC	Weighted average cost of capital.

Which?	The Consumers' Association, which uses the brand 'Which?', is a registered charity. It has a wholly-owned trading subsidiary called Which? Ltd, which is registered as a company in England and Wales. Which? conducts independent and extensive tests of hundreds of products and services every month, and publishes the test results in its commercial magazine and on its website.
Wonga	Wonga.com Ltd, renamed WDFC UK Ltd in 2012. A payday lender and subsidiary of Wonga Group Limited. WDFC SA provides services to WDFC UK and is also a subsidiary of Wonga Group Ltd.