MARKET RESEARCH

Payday loans in the United Kingdom

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PAYDAY LOANS UNITED KINGDOM

BASIC INFORMATION

The beginning of the payday lenders is United Kingdom start with singed Consumer Credit Act 1974 and the lenders must have a licence from the Office of Fair Trading (OFT) to offer consumer credit. OFT is dissolved from 2014 and now its responsibilities have been passed to the Financial Conduct Authority. The Consumer Finance Association (CFA) is the principal trade association representing the interests of major short-term lending businesses operating in the UK.

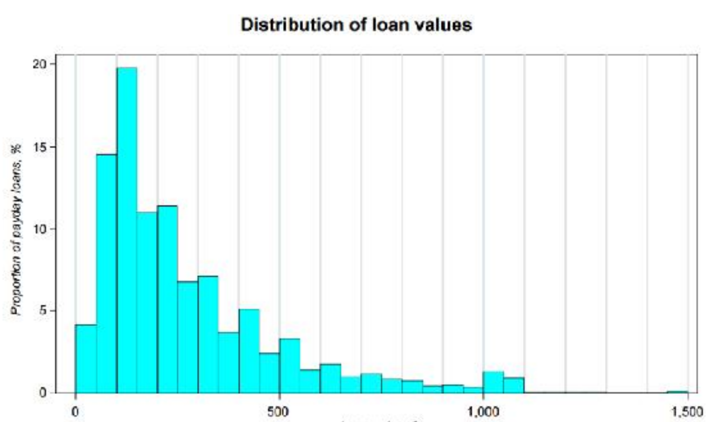
- The average size of a payday loan is £260.
- The average duration is 22 days.
- If borrowers do not repay their loans on time, default charges must not exceed £15.

INDUSTRY & MARKET OVERVIEW

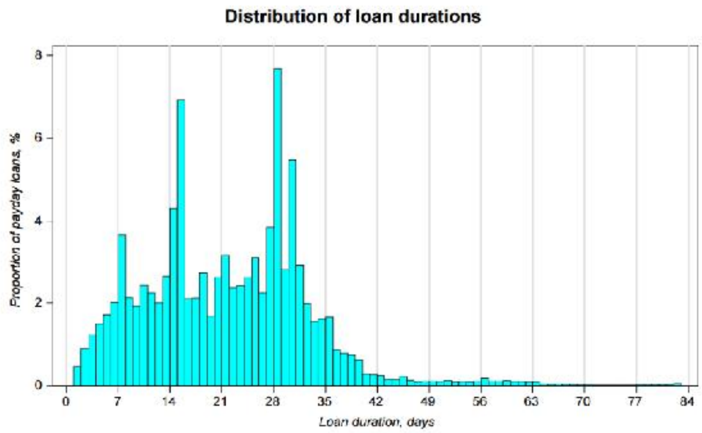
A report named Credit 2.0 (from July 2015) was published by the Consumer Finance Association, a trade association that represents short-term lenders in the UK. It provides a great overview of the payday loans market. Payday lending market investigation (February 2015), done by CMA (Competition and Markets Authority), also provides extensive information on the industry. Below are presented the analysis that we made.

The UK consumer credit industry is probably the most developed and competitive in the world. It is also a growth engine for the economy. The UK short term loan market continues to grow. The OFT (Office of Fair Trading) estimates that the market was worth between £2 to £2.2 billion in 2011/12, which corresponds to between 7.4 and 8.2 million new loans this is up from an estimated £900 million in 2008/09.

The average size of a payday loan is £260. The single most common amount borrowed was £100: amounts of £50, £150, £200 and £300 were also relatively common. Around 25% of all payday loans were for £100 or less, half were for £200 or less, and 90% were for £570 or less. The chart below is based on 1 year (August 2012-2013).



If we look at the duration of the payday loan, the average duration is 22 days. 10% of customers borrowed for a week or less, 90% for 34 days or less, and within this distribution we observe that loan durations of around a month (ie 28 to 31 days) and around a fortnight (ie 13 to 15 days) were particularly common. The average duration of a loan was slightly shorter online (21 days) than for high street customers (24 days).



According to The Guardian (2013), there are the facts about payday industry.

No.	Fact
1	3 Lenders which account for more than half the market by turnover and loan value
2	4 Number of lenders Citizen Advice has asked the OFT (Office of Fair Trading) to shut down immediately
3	5 How many lenders have pulled out of offering payday loans since the Office of Fair Trading gave them 12 weeks to improve
4	11 Number of payday loan shops and pawnbrokers open on just one high street in summer 2012
5	15 Minutes Wonga says it takes to get cash to borrowers
6	25 Average cost in pounds of borrowing £100
7	48 Percentage cap on lending costs in Australia
8	50 Percentage of payday lenders' revenue that came from the 28% of loans that were rolled over
9	51 Amount in pounds one lender charges borrowers for a loan of £100
10	80 Number of payday loans some clients of National Debtline had taken out
11	240 Number of lenders operating in the market
12	265-270 Amount in pounds of the average loan, according to OFT research. This was typically taken over 30 days
13	550 High street branches opened by the Money Shop by October 2012
14	1,657 Amount in pounds of the average payday loan debt of clients of StepChange Debt Charity. The average client's net monthly income is £1,379
15	5,853 Wonga's recently updated representative APR
16	7,221 Number of people StepChange saw with five or more payday loans in 2012
17	20,013 Number of calls to National Debtline about payday loans in 2012
18	8.2m Estimated number of loans taken out in 2011/12
19	62.4m Pre-tax profits in pounds made by the largest payday lender, Wonga, in 2011
20	2.2bn Value in pounds of the industry in 2011/12, according to the OFT, up from £900m in 2008/9

In today’s ‘instant’ society, everything is geared towards the here and now. Social media, 24-hour news channels and the facility to pay for anything and everything online, has created a demanding society. People are armed with smartphones and tablets and want things quite literally at their fingertips.

Short-term loans have a role to play in ecommerce. Consumers trying to buy the last available tickets for a gig, for the theatre or a football match are using short-term loans. People desperately trying to book a seat on a plane for a last minute holiday deal that has just been advertised, turn to a short-term loan provider. If they wait they will either miss out altogether or the deal will be gone and the price will have risen significantly. These are just some of the reasons why people are choosing to use short-term loans. The shift to the ‘instant society’ has happened at a time when people are feeling pressure on their finances like never before. Managing the peaks and troughs of income and expenditure is a monthly headache for millions of people. Significantly, for many of these people, the ability to access short-term credit saves them from bigger debts in non-credit areas such as utility bills, council tax and other payments. Short-term credit provides a valuable service for the consumers of the ‘instant society’, helping them to manage their finances in a way that suits them.

COUSTOMERS CHARACTERISTICS

During a CMA research, customers were asked what they had used their most recent short-term loan for.

- 53% of those surveyed said that they had used the money for living expenses (such as groceries and utility bills),
- 10% of customers said the money related to a car or vehicle expense and
- 7% said general shopping such as clothes or household items.

Not surprisingly, short-term loan customers were often using the money to cover emergency expenditure or larger than average bills. While it is concerning for some that people are using credit to pay for household essentials, this may not be entirely accurate. Further analysis reveals that unplanned expense, such as a school trip or a birthday gift, has a significant impact on a tightly-controlled budget. When asked how a short-term loan was used, people recall that they needed to pay bills or buy groceries at the end of the month, which is, in fact, a knock on effect of an unrelated expense earlier in the month.

It is also unsurprising that some users of short-term loans have variable incomes.

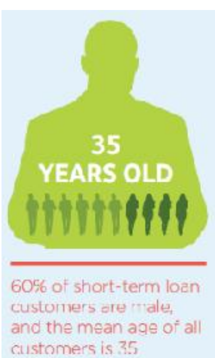
- 23% of customers stated that this was case.
- 93% of those who said their need was due to a change in financial circumstances thought this change was temporary,
- 5% expected the change to be permanent.

This challenges the assumption that these customers are vulnerable, may already be in a financial difficulty and therefore are using short-term loans for the wrong reasons. In reality these consumers understand their finances and are borrowing to effectively manage a change in their circumstances.

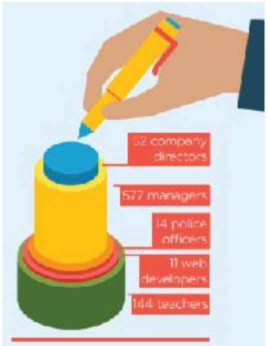
Short-term loan customer stereotype

Short-term loan customers are frequently stereotyped but in reality are average people facing some of the challenges of living and working in Britain. The debate in recent years has focused on whether these consumers are financially vulnerable or credit savvy.

The Competition and Markets Authority (CMA), which began a review of the short-term loan market in 2013, identified people's need to smooth out financial budgetary peaks and troughs over a short period of time and with the economic recovery not yet reaching workers' pockets, there is a continuing demand for short-term loans. The CMA research also provided new insight into short-term loan customers.



It found that customers were more likely to be male and were younger than the UK population as a whole (71% were aged 18 to 44 compared with 46% of the population). 60% of short-term loan customers are male, and the mean age of all customers is 35. There is a slight differentiation between online customers and high street customers, with 35 being the mean age for online customers and 38 for high street customers. Short-term loan customers are also more likely to be working full-time than the population as a whole, and to live in larger households (as a result of having children). This reflects the fact that customers are predominantly working age. In 2014, CMA findings showed that 36% of all payday customers had a net household income of less than £18,000, 37% of customers had a net household income of £18,000 to £36,000 and 28% of customers had a net household income of greater than £36,000. This compares to a national average of £25,057.



Example of some customer types who applied for a short-term loan March - May 2014

Short-term loan customers come from all walks of life and as a result hold a variety of jobs across a wide range of industries. Extracts from lender data on the occupations of customers that had applied for a loan between March and May 2014, show that 52 company directors took out short-term loans. In addition, 577 customers were managers, 14 were police officers, 12 were legal secretaries, 11 were web developers, 12 were quantity surveyors and 144 were teachers. Lenders also provided credit to people on traditionally lower incomes such as sales assistants, restaurant staff, care assistants, cleaners and administrators.

The CMA research revealed that there are differences in the demographics of short-term customers, dependent on whether they borrowed online or from a high-street loan store. High-street customers tend to be less affluent than their online counterparts and as result borrow a smaller amount of money on average (£180 vs £290). 12% of customers have borrowed both online and on the high street. However there remains a core group of customers that will not move from the high street into the online market. Online customers are more likely to have a credit card, store card or savings account. Customer groups that were significantly more likely to have used high street lenders included: women; older customers; social renters; those in part-time work; alone parents; those with no academic qualifications; and those on low incomes. High street customers tend to have fewer credit options. Short-term loans provide a vital service to them. However, many customers do have other options and have therefore chosen to use a short-term loan because it is the most suitable option for their needs.

COMPETITION

While screening the competition in UK we came across different sources with different lists of Payday Lenders in UK. According to some sources the largest payday lender in the United Kingdom is Wonga, which in 2014 was estimated to have a market share of between 30% and 40%. Wonga Group Limited is made up of a number of international financial services businesses. The second largest lender is Dollar Financial Group, which operates The Money Shop network, as well as online lending platforms Payday Express, Payday UK, and Ladder Loans. Dollar Financial acquired Payday UK in 2011, then the UK's largest online lender, and suggested The Money Shop's network could grow from around 350 shops to around 1200. DFC Global is one of the largest and most diversified providers of non-standard consumer financial products in the world.

Below to this overview here is a database with 49 companies that we have made by searching the market. In this table is present the name of the company, the number of locations and the type of license.

No.	Company	Locations	Type
1	Soiza Studio LTD	2	Introducer A.R.
2	Instant Cash Loans Limited	10	Regulated
3	Butler Westbury Limited	1	Regulated
4	Divine Securities Services Ltd	1	Regulated
5	Perseus Tech LTD	1	Unauthorised
6	Perseus Tech LTD	7	Interim Permissions
7	Apsam Web Services	1	N/A
8	Three Rose Lions, Llc	1	Interim Permissions
9	Global Response Partners LLC	1	Interim Permissions
10	Wage payment and Payday Loans Limited	1	Interim Permissions
11	Link Metric Ltd	1	Interim Permissions
12	Online Capital Limited	1	Interim Permissions
13	Mortgage Top Ups Limited	1	Interim Permissions
14	Eudore Limited	1	Interim Permissions
15	Maxwell Ernest Mccabe	1	Interim Permissions
16	Revnet LLC	1	Interim Permissions
17	Niall Julian Rice	3	Interim Permissions
18	Interfinancial Limited	1	Interim Permissions
19	Evolution Banking Limited	1	Interim Permissions
20	Evolution Money Limited	1	Regulated
21	Evolution Lending Limited	2	Regulated
22	Capital Select Limited	1	Interim Permissions
23	Season Marketing Ltd	10	Regulated
24	DJS	1	Regulated
25	Indigo Michael Ltd	2	Interim Permissions
26	WDFC UK Limited	1	Regulated
27	Elevate Credit International Limited	1	Regulated
28	Cash On Go Ltd	2	Regulated
29	CashEuroNet UK, LLC	4	Regulated
30	Western Circle Limited	2	Regulated

31	Emergency Cash Limited	1	Regulated
32	MYJAR Limited	1	Regulated
33	Amigo Loans Ltd	1	Regulated
34	Nouveau Finance Limited	13	Regulated
35	MMP Financial Limited	2	Interim Permissions
36	Oracle Insurance Brokers Ltd	4	Regulated
37	Ecashwindow Limited	1	Regulated
38	PDL Finance Limited	1	Regulated
39	BB Credit Ltd.	2	Interim Permissions
40	Response Funding Limited	2	Regulated
41	RevUP Media, LLC	8	Interim Permissions
42	Active Securities Limited	1	Regulated
43	Malcolm Gordon Beverley	6	Interim Permissions
44	Amaze Media	2	Interim Permissions
45	Ferratum UK Ltd	1	Regulated
46	Swift Money Ltd	1	Interim Permissions
47	Fidelity Works Ltd	4	Regulated
48	Mediablanket Ltd	7	Interim Permissions
49	Blue Pearl Finance Limited	1	N/A

Because in UK there are many online directories of comparison sites we try to research some of them, from which we can find lists of current payday loans companies. We listed the first 3 different companies of each site.

1. **www.allpaydaylenders.com** - gives independent ranking and reviews on loan lenders and loan companies. They are only intended for informational use and do not constitute professional advice. They have over 25 direct payday lenders (not Brokers) in UK, below are the first 3:
   - SafetyNetCredit – with Representative APR: 68.7%. Loan term from 1 to 40 days and cost to borrow £100 for 30 Days £24.
   - 247 Moneybox - with representative APR: 1,291.8%. Loan term 1 month and cost to borrow £100 for 28 days £22.40.
   - Satsuma Loans – with Representative APR: 1,575%. Loan term is 13 - 52 weeks and cost to borrow £200 for 13 weeks £86.26.
2. **www.thelenderslist.co.uk** - is an online directory comparing payday loan direct lenders and instalment loans for customers looking to borrow up to £50,000, they compare over 25+ direct lenders in the UK. Below are the first 3:
   - The Quick Loan Shop - Loan value available is £100 to £2000. Representative APR is 1269.7% and loan length is up to 18 months.
   - MYJAR - Loan value available is £100 - £2500. Representative APR is 1270% and the loan length is 12 Months.
   - Drafty Payday Credit Loans - Loan value available is £50 - £1000. Representative APR is 89.7% and the loan length is ongoing, provided repayments are made on time.
3. **quiddicompare.co.uk** - was set up in 2012 and is currently one of the largest loan and finance comparison sites in the UK. At the moment there are 9 payday lenders listed, below are the first three:

- MrLender – The loan amount is from £200 to £1000. Min term is 3 months and maximum 6 months. Representative APR is 1248.5%.
- QuickQuid – The minimum loan amount is £50 and the maximum £1000. The minimum term is 1 month and the maximum 3 months. Representative APR is 1270%.
- Vivus - The minimum loan amount is £100 and the maximum £500. The minimum term is 10 days and the maximum is 41 days. Representative APR is 1270%.

COUNTRY REGULATION

The Consumer Finance Association (CFA) is the principal trade association representing the interests of major short-term lending businesses operating in the UK. CFA members are committed to responsible lending and are keen to continue to improve the reputation of the industry through close engagement with the regulator. Indeed, by driving industry improvements and best practice through its voluntary Code of Practice, the CFA paved the way for the FCA's statutory regulation.

The Financial Conduct Authority (FCA) is the governmental body that oversee the payday loans industry. In order for company to be able to offer consumer credits, it must be authorized by the FCA. FCA took the consumer credit regulation from the Office of Fair Trading (OFT), and created the Consumer Credit Register. All companies previously registered within OFT, got a status of "**interim permission**" – and in order to continue operate they ultimately have to apply for "**full authorization**".

In April 2014 FCA took over regulation of consumer credit, prompting dramatic changes in the short-term loan industry. It is an independent non-governmental body that regulates the financial services industry in the UK.A range of measures was introduced to tighten regulation of the industry. As a result the short-term credit market now looks dramatically different to how it appeared as little as two years ago.

- Lenders have made significant changes to the way they promote their loans, such as displaying risk warnings on all financial promotions and running strict enhanced affordability checks.
- Collection processes are as transparent as possible and are highly regulated with a limit on the number of times a loan can be extended (two 'rollovers')
- Limit of two unsuccessful attempts at collections using Continuous Payment Authority (a payment method where funds are deducted from a borrower's bank account).
- the cost of borrowing fall and will never have to pay back more than double what they originally borrowed
- For all high-cost short-term credit loans, interest and fees must not exceed 0.8% per day of the amount borrowed.
- If borrowers do not repay their loans on time, default charges must not exceed £15.

Since April 2014 Equifax has witnessed a significant increase in lender interest in developing robust affordability procedures. Lenders want to be able to accurately verify income via electronic means and use real-time data to ensure they are not placing borrowers into a position where they will become over-indebted by taking out a loan. The number of approved loans has decreased as a result in some cases by up to 40%, however repayment rates have improved as lenders only accept those applicants that can afford the loan. The regulations have also been overlaid with the introduction of a price cap that has been applied to the industry from the 2nd of Jan 2015. The cap covers the initial cost of the loan, a cap on the total amount of interest and a cap on the default fees that can be charged.

The changes the FCA has introduced since taking control of the regulatory regime have had a significant impact. Some lenders decided they could not operate under the new rules and have already left the market. This is a trend that is likely to continue over the next year as lenders opt out of full authorization from the FCA. The FCA has not been afraid to show its teeth in policing the industry. The lenders that have remained in the market are taking remedial action to address historic practices viewed as unacceptable in the new regulatory environment. In February 2015 the CMA published the final report of its market investigation into the sector. This included further measures that will be applied to the industry. Online lenders will need to list their loans on a price comparison site authorized by the FCA. All lenders will be required to provide existing customers with a summary of their cost of borrowing. This tells customers the cost of their most recent loan as well as all borrowing from the lender over the last 12 months and how late repayment affected the cost of credit.

With so many requirements placed on the industry within such a small amount of time, it has been difficult to identify the drivers of the change. However it is clear that the industry today is markedly different from its headline grabbing peak of 2013. Data collected from CFA members shows that lending in March 2014 was down 54% on the previous year. A year later, lending had dropped by 68% on the peak of the market in 2013. Equifax has also noted similar reductions in short term lending during this time period and in the last year the market has continued to shrink. The new regulations, such as the rollover cap and the price restrictions, will undoubtedly lead to further restrictions on loan approval rates.

Lenders have also embraced new technology to continue to offer loans that meet the expectations of modern consumers. Short-term loan companies are now leading the credit industry in the development of real-time data sharing to allow for smarter, more robust lending decisions that provide a better picture of a borrower’s entire financial situation quickly. Real time systems have been developed by the major credit reference agencies including the Real-Time Exchange by Equifax and Moda by Call Credit. These solutions can provide much more up to date information than traditional credit files that are usually only updated every 30 days.

All CFA members are signed up to at least two of the real time data solutions. Equifax has seen a shift in the market toward much wider sharing of data as the industry now recognizes the importance that data sharing provides in helping all lenders lend responsibly. As ecommerce grows and consumers expect instant decisions, this is an area that the wider consumer credit industry should seek to embrace. The more lenders that supply customer transactional data, the more sophisticated and intelligent the lending decisions become for the entire industry.

SOURCES

- http://www.cfa-uk.co.uk/information-centre/payday-facts-and-research/payday-facts-and-research/the-payday-lending-market.html
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- https://assets.publishing.service.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf