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CashEuroNetUK, LLC: Response to Statement of issues dated 14 August 2013

Note that in this public domain version of the response, in a few instances, where deemed necessary, some information has been removed. Such instances are marked clearly with the notation [X].

1. Introduction

CashEuroNetUK, LLC (CashEuroNetUK) welcomes the opportunity to respond to the Competition Commission's (CC's) Statement of issues on the payday lending market investigation. We set out below some of our views on the characteristics of the market, the role of consumer research and the two theories of harm. In our response to the Statement of issues, we make the following key points:

a) **Characteristics of the market**

In our experience, customers focus on interest rates/cost-of-credit, flexibility and service when deciding to take out a QuickQuid loan.

b) **Theory of Harm 1: Impediments to customers' ability to search and identify the best value product, and switch supplier**

Whilst CashEuroNetUK supports the CC's decisions to focus on the important issue of customers' ability to search, identify the best value product, and switch supplier, our evidence suggests the behaviour of consumers supports the notion that the payday market is a highly competitive market.

c) **Theory of Harm 2: Market power and barriers to entry**

Whilst new entrants to the online lending market face barriers typical to those faced by any new lending business in a healthy market (such as access to capital, systems and underwriting model development, early loan losses and customer acquisition costs), CashEuroNetUK does not consider this to be a plausible theory of harm as further described below. Additionally, there are a significant number of competitors, turnover and market shares of the various firms have changed over time and there would appear to be few barriers to either entry or expansion for any party with access to capital and a willingness to invest start-up capital to establish the business.

2. Characteristics of the market

CashEuroNetUK welcomes the CC's focus on understanding the characteristics of the relevant market. Payday lending products have been developing rapidly, in response to changing consumer demand, and the CC is right to seek to improve understanding of the needs and motivations of customers. In this section, we provide some evidence regarding the

development of payday lending, short term borrowing options available to consumers and significant changes due to competition in the market.

a) **Development of payday lending**

Regarding the development of payday lending, it should be noted that UK Government legislation facilitated the development of the payday lending market; it is not simply an import from the United States, as suggested in the Statement of issues.¹ The Cheque Act 1992 introduced Account Payee crossed cheques as the norm (replacing the “open” cheque which could be used much in the same way as cash), which could only be paid into the payee’s bank account. This promoted the development of third party cheque cashing businesses for those who had no bank account. As bank account usage grew, particularly with the introduction of basic bank accounts to enable Government to pay benefits directly into bank accounts to replace the Post Office Giro, cheque cashers offered delayed presentation of personal cheques where a customer was given value for a cheque drawn on his or her personal bank account, but this was not cleared by the business for a contracted period of time – in effect enabling a consumer to draw today upon money due to him or her in the near future. Store-based payday lenders offering such services began to multiply since the product was extremely popular. A trade association, the British Cheque Cashers’ Association was formed in 1994 to represent such businesses. It is clear, therefore, that the development of payday lending in the UK was not dependent on US-based companies that came to the UK later.

b) **Short term borrowing options available to consumers**

There are a wide range of short term borrowing options available to CashEuroNetUK customers, including overdrafts, credit cards, personal loans, home credit, payday loans and borrowing from family and friends. In our experience, the options that are at the forefront of the minds of our customers when they are assessing whether to take out a CashEuroNetUK loan are those options aimed at providing small sums for short periods of time that offer sufficient flexibility. The most important alternative borrowing options include:

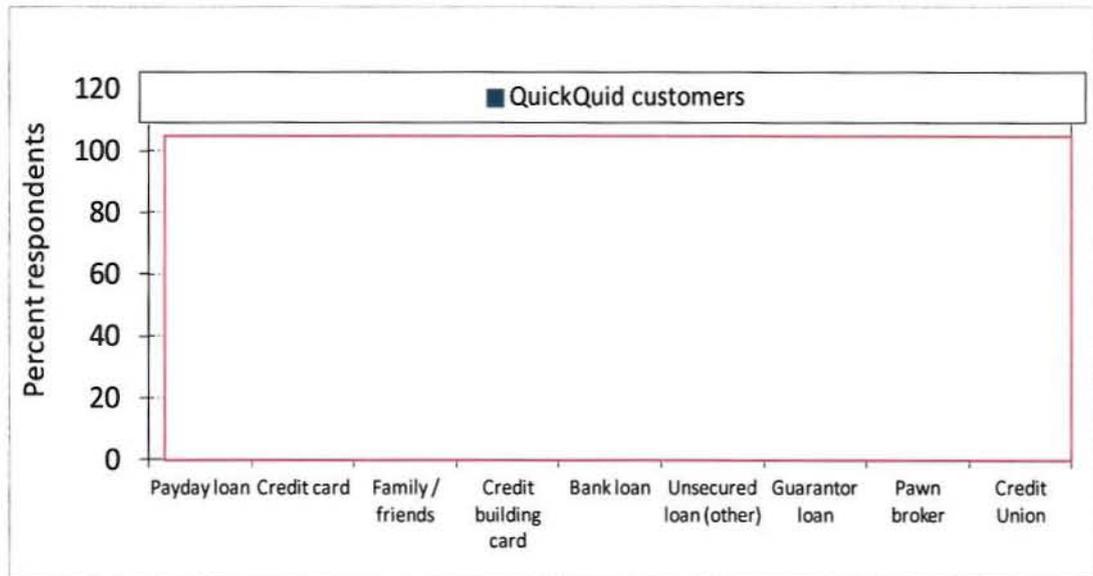
- i. borrowing from other online payday lenders;
- ii. taking bank overdrafts (including unauthorized overdrafts);
- iii. drawing down credit cards;
- iv. borrowing from informal sources, such as family and friends; and
- v. paying the late fees charged by utility and other service providers.

This understanding of our customers’ primary alternatives was confirmed by the Bristol University study, which found informal loans and overdrafts to be the most likely alternative

¹ See Paragraph 11.

options for customers choosing online payday loans, followed by credit cards.² Market research commissioned by CashEuroNetUK to better understand the competitive pressure that it faces also highlighted the importance of these alternative borrowing options, as summarised in Figure 1.

Figure 1: Sources used to borrow money in last three years



[✕]

c) **Significant changes due to competition in the market**

The competitive pressure facing CashEuroNetUK has resulted in a number of significant changes to prices, terms, quality of service and product innovation over the past five years. Specific examples include:

- i. CashEuroNetUK was the first internet payday lender to offer a 24/7 call centre service (launched in 2008). In response, numerous other lenders have expanded call centre hours and some have expanded to 24/7 service as well; PayDayUk and TxtLoan (now trading as My Jar) have implemented 24/7 service.

The funding time for approved internet payday loans has decreased consistently over time. Early options for funding internet payday loans included mailed cheques or DDI deposits that would result in the customer being funded in as much as two days. By 2007, most loans were funded the day after approval. Over the next several years, lenders made banking arrangements that would allow for same-day funding, and later, one-hour funding from the time of approval. Current bank systems will allow for funding of customer loan proceeds in as little as 5 minutes after the lender approves and sends instructions to the bank. Speed of funding is a feature which distinguishes

² See Bristol University, 'The impact on business and consumers of a cap on the total cost of credit' (2013), Appendix Table 23, 'Options customers would consider if they needed to borrow a similar amount of money to their most recent short-term fixed-rate loan for a similar purpose'.

payday loans from some other short term credit options, although we note that speed no longer distinguishes between different online payday loan providers, as most of the lenders now offer similar speed of funding.

- ii. Over the past seven years, the cost of expedited funding a payday loan has decreased. As faster funding options became available, lenders started charging expedited funding fees for the service. Early expedited funding costs started with a lender charge of £15 for CHAPS payments. Later, the customer would typically have the choice of next-day funding at no additional cost or 1 hour-or-less-funding for a typical fee of £5.50 - £12. In 2010, CashEuroNetUK introduced industry-first free expedited funding of one-hour-or-less. A recent review shows that PaydayUK, TxtLoans (t/a My Jar), Next Credit and Everyday Payday now all have free expedited funding.
- iii. In addition to the innovations of CashEuroNetUK described above, other new entrants such as TxtLoans (t/a My Jar), Lending Stream and Think Finance have created new business models that differed from the models of existing payday lenders at the time they entered the market.
- iv. Price competition also led to CashEuroNetUK introducing risk-based pricing tiers in 2009 in order to be able to offer lower prices to customers with better credit scores (according to CashEuroNetUK creditworthiness models).
- v. The introduction of FlexCredit in 2013 was also a response to price competition, as the daily interest rate pricing structure used by [X]. FlexCredit allows CashEuroNetUK to compete for these short period loans, as discussed further below.

In our experience, the market in which CashEuroNetUK operates is highly competitive and rapidly developing, as evidence provided in this response shows.

3. Theory of Harm 1: impediments to customers' ability to search and identify the best value product, and switch supplier

The CC's Statement of issues states that consumer behaviour will be very important for driving competition in this market. In particular: 'customers need to be both willing and able to: access information about the various offers available in the market; assess these offers to identify the good or service that provides the best value for them; and act on this assessment by switching to purchasing the service from their preferred supplier'.³ All of these aspects of consumer behaviour are of critical importance to CashEuroNetUK in presenting our products to our customers, and we believe that consumers are well placed to make and act upon good decisions with regard to our products.

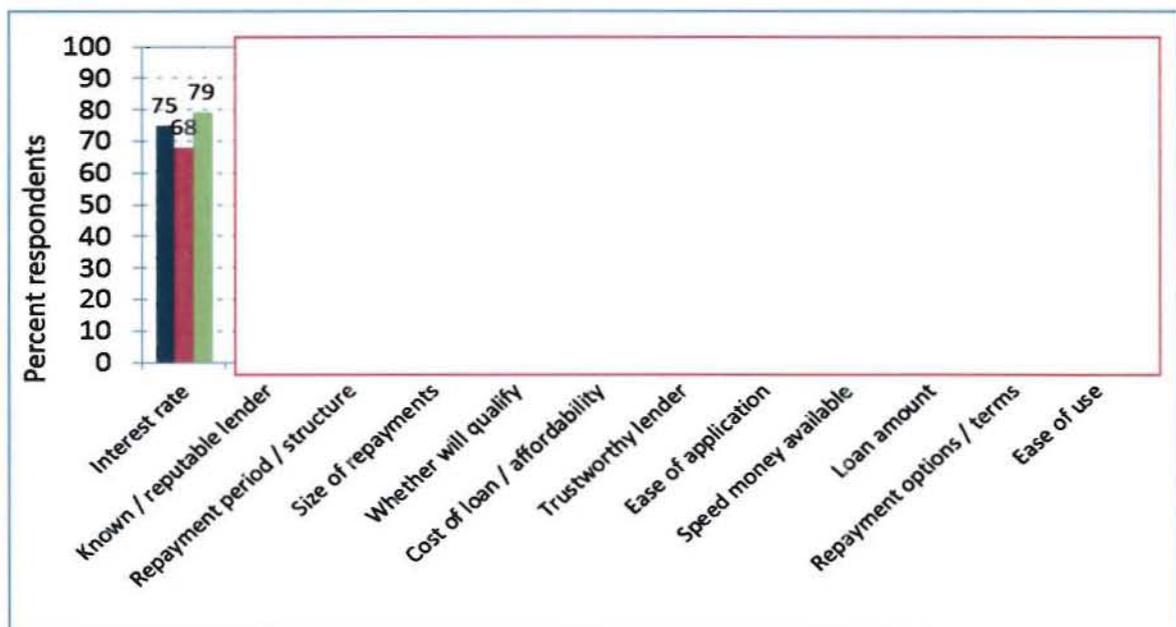
a) Consumer research

Given the importance of consumer behaviour in this investigation, CashEuroNetUK agrees with the CC that there needs to be high quality and in-depth research of the consumer decision making process to support the analysis of the CC.

³ Paragraph 55.

In order to maintain our competitive position in this rapidly changing market, we conduct market research into the characteristics of payday products that are most important to our customers. An example of the output of this market research is provided in Figure 2. In contrast to the stated reasons of “speed” and “inability to find a loan elsewhere”, our study of both payday and non-payday consumers shows “interest rates” as the primary criteria when selecting a lender. Surveyed consumers were distributed between payday loan customers and a control group of consumers who had never taken a payday loan. Although the payday loan user audience was more likely to value speed and approval for a loan (qualification), all consumers gave substantially more weight to the lenders reputation and the loan repayment period/structure.

Figure 2: Unaided drivers of reasons for choosing credit product by audience



[X]

Note: This survey was based on a sample/panel size of [X] respondents from an online panel (panel members being all survey participants) with roughly half being payday loan users and half being “near prime” individuals who have not used a payday loan in the past three years.

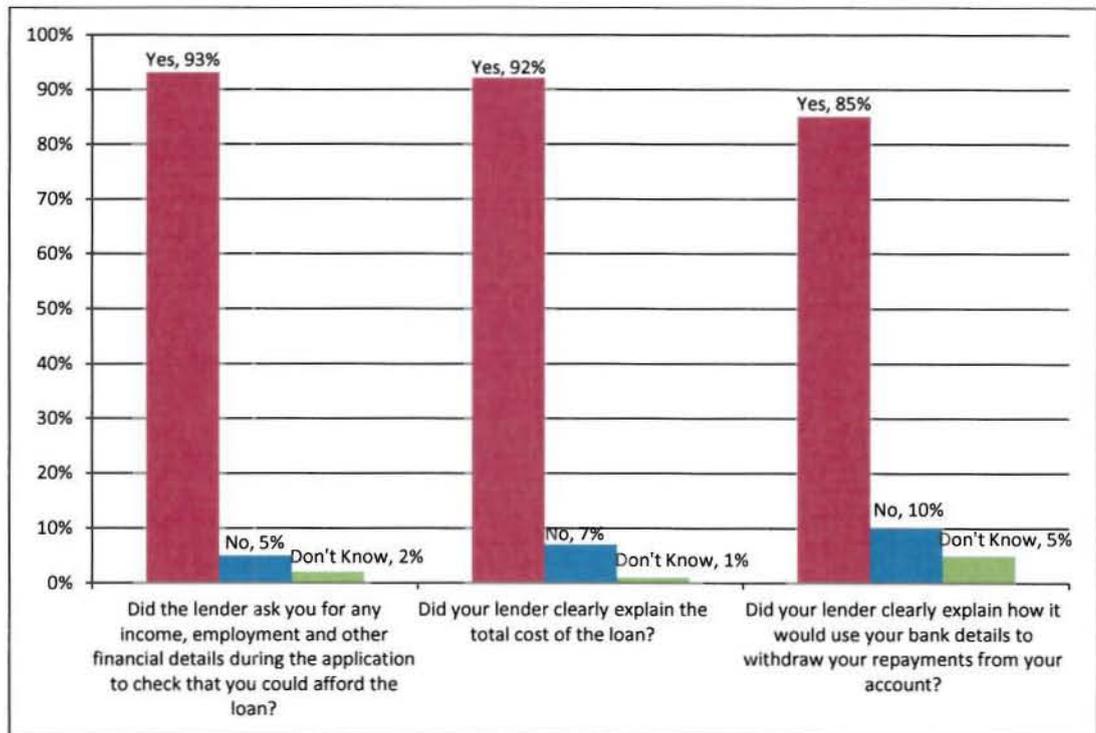
The speed at which money is made available was put forward by [X] of payday user respondents as a driver of choice. This remains an important factor, that our research suggests relates to the desire to avoid penalties from late payments owed to utility companies and other service providers, but it is a lower factor overall because rapid availability of money is provided by all the main payday lenders and therefore is not a driver of choice between different online payday loan options, even if it is an important factor when consumers consider some other credit options (as the CC highlights⁴).

⁴ Paragraph 36.

Whilst well-designed and in-depth consumer research should be enlightening for the CC, poorly-designed consumer surveys can be very misleading. As regards the BIS PDL customer survey referenced by the CC,⁵ we would caution that this survey is flawed. Specific concerns about this survey include: a) selection of survey participants was likely biased due to self-selection by an unrepresentative large sample of dissatisfied payday customers looking to complain; and b) no attempt was made to establish a control group or encourage non-self-selected participation from the 1,000,000+ PDL customers that are not under agreement with debt charities. Any results should be regarded sceptically as a result.

In order to establish a fair control group, the Consumer Finance Association (CFA) conducted a separate YouGov survey with a more open and representative subject group. These results below are more representative of the actual lending experience of PDL borrowers.

Figure 3: Selected CFA survey results



Source: CFA survey

The CC identifies three specific issues regarding consumer behaviour,⁶ including: accessing information; identifying best value offers; and switching suppliers. We address each in turn below.

b) **Accessing information**

Our experience is that our customers do access information about various offers available for short term credit options before making their choice. We see evidence of this in our data

⁵ See Paragraph 17.

⁶ See paragraph 56.

on the number of potential customers who access our website through ‘pay-per-click’ adverts brought up by Google search results [X]

Table 1 presents some of the July 2013 results for pay-per-click new customers. The first row shows that some [X] new customers clicked through to CashEuroNetUK after searching for ‘payday loans’ on Google. Of these, some [X] entered their details in order to receive a quote for the loan (which is determined by risk-based pricing and therefore requires customer details). At this point, over [X] of customers drop out of the process, with only [X] signing the contract. Following further declines and withdrawals, [X] customers were issued loans, [X] of the original total. The large reduction in the number of customers represents both CashEuroNetUK’s affordability assessments and customers pulling out of the process in order to shop around for a cheaper loan.

Table 1 also presents similar results for Google searches of brand names (such as [X]), which is another common search term. It is worth noting that even if a consumer searches for [X], other payday lending sites are listed, which could lead the consumer to shop around elsewhere.

Table 1: Pay-per-click new customer waterfall data

Search term	Landings/ clicks	Details entered	Contract signed	With- drawals	Declined	Loans issued
‘Payday loans’	[X]	[X]	[X]	[X]	[X]	[X]
Brand terms*	[X]	[X]	[X]	[X]	[X]	[X]
‘Cash advance’	[X]	[X]	[X]	[X]	[X]	[X]

Source: CashEuroNetUK analysis of pay-per-click customers. Note: *brand terms refers to terms such as [X].

c) **Identifying best value offers**

Our customers have available to them comparisons of different products that allow for relatively simple identification of the best value offers. At the time of writing, the first organic (non-sponsored advert) result on a Google search for “payday loans” is the price comparison site money.co.uk⁷ which provides a clear and simple comparison of representative APRs, loan amounts, maximum terms and repayment costs for £100 loan for a large number of different payday loan providers. CashEuroNetUK itself provides what we hope is a very clear explanation of all of our charges on the ‘rates and terms’ page of the website.⁸

We also believe that we provide our customers with good transparency of the charges that they have paid. Our Accounts page provides full information about the charges that apply both to the customer’s current loan and for their previous loans, on the ‘Loan history’ page.

The fees that our customers pay for loans do depend on their actions. In order to address concerns that some of our customers may end up facing higher costs than they originally expected, due to extending loans multiple times (beyond what they had originally intended),

⁷ Go to <http://paydayloans.money.co.uk/>

⁸ <https://www.quickquid.co.uk/fee-schedule.html>

we have introduced limitations on the number of extensions (now restricted to two extensions). Moreover, our call centre staff are not incentivised to encourage customers to extend loans and are not able to offer any extensions—extensions can only be applied for through the website and are only offered when the customer has answered a number of specific questions that enables us to further assess whether they can afford an extension.

We also believe that our customers typically select our product when it makes best sense for their circumstances, and choose competitors products when those competing products make better sense. For example, before CashEuroNetUK introduced the FlexCredit product, a consumer seeking a loan for less than [X] would typically face lower fees [X] (which charges per loan period, although discounts are provided for early repayment). Our customers make it clear to us that they expect the most competitive prices. Our call centre staff record reasons given by customers for not choosing our products (when this occurs), and lower prices offered by competitors (for their particular loan requirements) is frequently provided as a response. See representative sample of customer feedback in Exhibit A.

d) **Switching suppliers**

Our experience also suggests that our customers are quite willing and able to switch suppliers when it is in their interests to do so. Our market research has investigated which loan providers our customers used for their previous loan, and has identified that a large proportion of them were using alternative online payday lenders. Figure 4 below provides survey data on the previous loan company used before taking out the current QuickQuid loan. Strikingly, more [X] suggesting a high degree of switching.

Figure 4 – [X]

[X]

Note: The responses of less than five percent of the [X] respondents to this question (those in the sample who have previously used a payday loan company) are not recorded in Figure 4.

A high degree of switching should not be surprising, as there are no early termination charges. On the contrary, many payday loan products provide a discount for early repayment, including CashEuroNetUK. The customer is free to take up an alternative or additional product with a new supplier at any time.

Given this evidence on consumer behaviour, CashEuroNetUK believes that the market for payday loans is highly competitive. We need to maintain our competitiveness in terms of price, terms and service innovation, or we will lose market share.

4. Theory of Harm 2: market power and barriers to entry

In the view of CashEuroNetUK, the OFT conclusion that the market for payday loans is concentrated to an extent that could affect competition between firms was mistaken. The market for payday loans involves many different competing firms and market shares are changing rapidly as firms compete on price, quality of service, innovation and other factors. There is no market power and the rapidly changing structure of the sector proves that there are

few barriers to entry or expansion that would be atypical for any start-up and growing consumer loan business.

Data recently collected on the turnover of the top ten competing payday loan companies⁹ reveals that this sector has been characterised not only by rapid growth but also a high degree of contestability, as new firms have been able to increase their turnover rapidly. According to these data, the relative positions of the lenders changed over the 2010 to 2012 period, with some of the smaller lenders having grown rapidly. For example, new entrants such as TxtLoans (My Jar) and CFO Lending (Capital Finance One) and PDL Finance Ltd (Mr Lender) have grown substantially in only a few years of operation. Since 2009 and 2010, small-and-medium sized lenders have reached a level of expertise and profitability to allow greater access to capital that will allow for further expansion of market share. There is no evidence that their growth has been impeded by other market participants.

Table 2: Total Turnover Growth Rate 2010-2012 for Top 10 payday lenders operating in UK market, 2010-2012

	Increase in Turnover from 2010-2012	2012 Turnover	2011 Turnover	2010 Turnover	Mkt Share 2012	Mkt Share 2011
Wonga	544%	£309,290,000	£184,674,000	£56,905,000	32.43%	32.53%
CashEuroNetUK	322%	£198,101,370	£136,641,000	£61,582,080	20.77%	24.07%
The Money Shop	181%	£172,315,000	£128,648,000	£95,094,000	18.07%	22.66%
Payday UK, MEM	205%	£123,112,910		£60,057,811	12.91%	0.00%
Payday Express	242%	£51,763,131	£34,426,778	£21,411,180	5.43%	6.06%
Wage Day Advance	248%	£39,518,114	£34,186,270	£15,917,076	4.14%	6.02%
Lending Stream, Zebit	0.00%		£32,743,910	£10,394,823	0.00%	5.77%
MyJar (Txt Loan)	2049%	£22,419,439	£4,623,231	£1,093,898	2.35%	0.81%
Capital Finance One, CFO	2485%	£19,635,755	£6,462,295	£790,112	2.06%	1.14%
Mr Lender, PDL Finance	1749121400%	£17,491,214	£5,287,659	£1	1.83%	0.93%
		£953,646,933	£567,693,143	£323,245,981	100.00%	100.00%

CashEuroNetUK sees little reason to expect this picture of rapid change will end, and few, if any, barriers to entry or expansion will arise, as long as an appropriate regulatory regime is in place. The CC noted three possible reasons for barriers to entry or expansion,¹⁰ which are considered in turn below.

a) Marketing expenditure

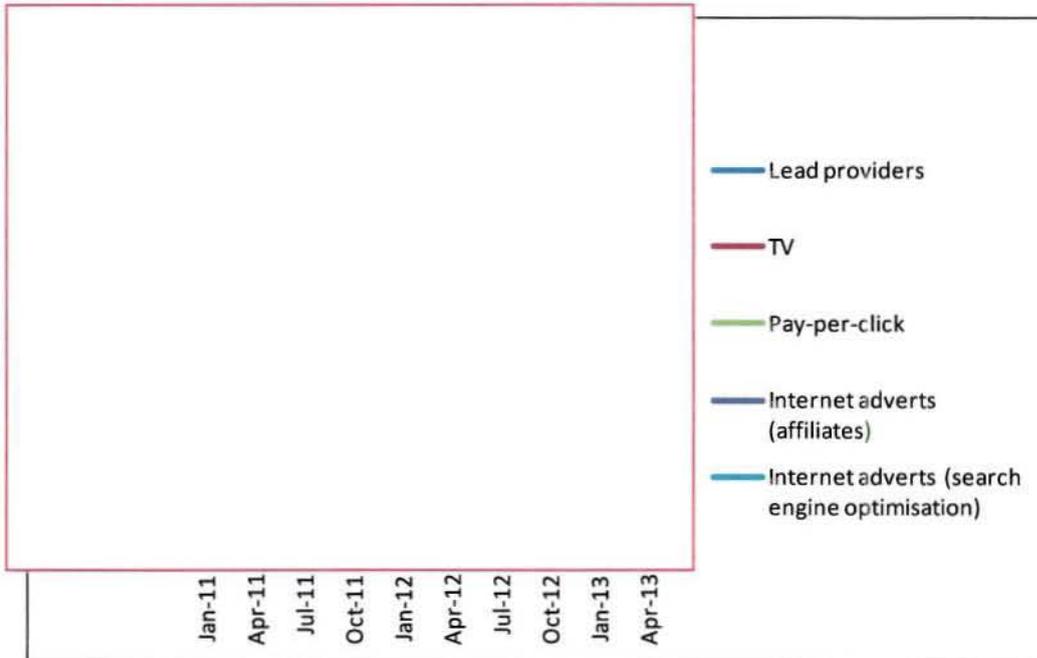
Marketing and advertising expenditure by larger payday lending companies does not create a barrier to entry or expansion as there are a wide range of different forms of advertising and marketing available to new entrants. The Internet provides many possible channels to customers, in addition to more traditional forms of advertising on TV, magazine or outdoor.

CashEuroNetUK alters its own marketing expenditure on a continual basis to most efficiently seek the best customers, which shows the wide range of options available, as shown in Figure 5.

Figure 5 – CashEuroNetUK monthly marketing expenditure

⁹ The Bureau of Investigative Journalism, 'High cost credit: get the data', September 5th 2013. Available at: <http://www.thebureauinvestigates.com/2013/09/05/get-the-data-the-top-ten-payday-lenders/>

¹⁰ See Paragraph 72.



Source: CashEuroNetUK

b) **Regulatory regime**

CashEuroNetUK believes that an effective regulatory regime does not need to create barriers to entry and expansion that could affect competition in a market. OFT compliance action has led some firms to exit payday lending, but there remain many firms seeking to comply with regulation and competing fiercely. CashEuroNetUK believes that the FCA should be well placed to enforce a regulatory regime that is both effective in ensuring compliance but does not unduly limit competition.

c) **Technology**

Technology is a core element of the CashEuroNetUK business model, but it does not represent a barrier to entry, as other firms have developed advanced payday lending technologies as well. Further, new market entrants have access to a variety of off-the-shelf technology solutions that were unavailable as recently as 2007. The larger payday lenders do not restrict access for any potential new entrant to banking facilities or credit rating agencies. The technology at the heart of payday lending does not differ fundamentally from other forms of consumer credit, it is just focused on a particular customer segment that many traditional lenders do not provide services to.

5. **Conclusion**

CashEuroNetUK expresses its gratitude to the CC for taking the time to consider the above response to the Statement of issues. Should the CC wish to discuss in further detail any of the points have raised, CashEuroNetUK would be more than happy to discuss with the CC.

Exhibit A

"Customer wanted to know what the repayment amount for a £350.00 with a 20% discount would be adv 1 period loan for this account it would be £420.00. Customer said it was to high and said [X] repayment was £404.00."

CashEuroNetUK Representative notes on applicant call

"Customer states that he uses a competitor that is less expensive in fees."

CashEuroNetUK Representative notes on applicant call

"Customer stated that she already received loan from another company [X] for cheaper."

CashEuroNetUK Representative notes on applicant call

"Customer asked if the rate she has was the best since rate for £200 is £50 and with [X] it is £29. Customer ended chat"

CashEuroNetUK Representative notes on customer call

"Customer stated that he has loan with [X] but he need to compare. AST37 Customer requested call back tomorrow!"

CashEuroNetUK Representative notes on applicant call

"I am curious as to what you can do to retain my business. I have just looked at a £250 loan with quickquid and the finance charge is £62.69. The same loan with [X] would only charge me a finance fee of £51.78

[X], which would be 21 days if I were to accept today.

QuickQuid does not, I believe you could benefit from reviewing your policies"

Live chat transmission from applicant

"Please cancel my loan request, this is a ridiculous amount of "red tape" for such a piffling amount. I will go back to one of your competitors who, quite frankly, treat this transaction as what it is, A PAYDAY LOAN, NOT a mortgage."

Peter XXXXXXXX"

Live chat transmission from applicant

"Customer called to ensure loan did not process, he did not want a loan with us, stated already processed a loan with competitor because the finance charge was cheaper"

CashEuroNetUK Representative notes on applicant call

More examples available on request.