PAYDAY LENDING MARKET INVESTIGATION

Summary of hearing with Wizzcash held on Friday 21 March 2014

Background

1. Wizzcash was founded by a group of private investors who believed that an opportunity existed to offer an alternative to the industry standard, short-term, payday loan product. It was hoped the product would avoid the negative press coverage many of these loans attracted while maintaining a profitable business.

Product

2. Wizzcash began trading in September 2012. It offered a three-month loan product, with interest charged at the current monthly rate of 22% or 0.7233% per day. This contrasted with the industry standard loan duration of one month and a daily interest rate of 1%.

3. It offered the three-month product as it believed that where an individual had cash-flow problems, the issue was unlikely to be confined to a period of one month. The three-month schedule allowed the repayment of smaller sums over a longer period, unlike a standard payday loan, which was typically repaid in one lump sum. If a person applied for a loan on the 10th of the month, and was paid on the 25th of the month, the first month would only comprise 15 days and the total duration of the loan would be 75 days, rather than 90 days. If a person applied for a loan on the 26th of the month, the loan would last 110 days. In both cases, the daily interest rate would be 0.7233%.

4. The loan calculation worked in a similar way to that of a mortgage in that the initial payments were made up of more interest than capital. Towards the end of the loan the repayments would comprise more capital than interest. Contrary to expectations, Wizzcash had not had many queries regarding the proportion of capital and interest that comprised the monthly payment. If a customer wanted to repay the loan early, interest would only be charged until the day of full repayment, with no penalty charges incurred. Around a quarter of its customers repaid their loans early, usually just after a month into the agreement.

5. Wizzcash made it clear that loans could be repaid early without incurring penalty fees and that repaying the loan early significantly reduced its cost. Its

early repayment facility compared favourably to its rivals, with a £100 loan incurring a £22 monthly charge against its competitors' charge of £30. Repayments could be made by logging on to Wizzcash's website or via telephone.

6. Wizzcash's investors wanted a successful business, but at present were not pushing the company to drive loan volumes. They wanted to develop an understanding of the market and broaden their knowledge of defaults and different credit risks. This conservative approach would not persist forever, though a change in strategy was not currently envisaged.

Loan process

7. Wizzcash generated a large volume of (mainly) organic traffic and currently made hundreds of loans each month, with the monthly figure varying from [✂]. Its own cash-flow position was an important consideration when authorising loans, as was the quality of applicants. It did not set monthly targets and had a low rate ([✂]%) of acceptance against applications.

8. Wizzcash's initial risk model was based on a template and set of rules integrated into the IT systems provided by the backend software partner with which it worked. The software partner was not a credit specialist and it worked with credit reference agencies to make its lending decisions more robust. Wizzcash initially worked with Experian, but due to software compatibility issues it switched to Equifax, which offered a more granular and detailed overview of a customer's credit history. It also worked with CoreLogic, a company that facilitated the risk assessment needs of payday lenders.

9. Wizzcash used a company called LAPS-IT for its backend software. LAPS-IT had its own credit system, called DAS, which was based on its own lending operation. It collated data regarding customers that were applying for a similar product as that offered by Wizzcash, which was in contrast to the data provided by other credit reference agencies that offered more traditional products and provided limited read across for Wizzcash.

10. Wizzcash would like more real time intelligence and the DAS credit system did enable it to identify applications that were at the underwriting stage. This meant that a couple of hours later it could run the report again and see if the loans were accepted or rejected.

11. In the future Wizzcash would like to bring the data analysis in-house and not rely on external assistance. Specialists in the short-term loan market had approached Wizzcash, though it was not inundated with requests.

12. Wizzcash's current loan process was a combination of automation and manual underwriting skills, but in the future, it would like to see the whole process fully automated. The vast majority of declined loans were based on an automated assessment, but if an applicant successfully negotiated this stage, the process would continue manually.

13. Around 30% of Wizzcash's business was returning customers. These applicants would undergo the same credit checks again, with the payment performance regarding their previous loan an important consideration in the assessment. Customers were only allowed to have one loan at a time but they could have a higher amount than that received previously. Affordability checks would be run again, however.

14. In 2013, Wizzcash made around [✂] loans totalling £[✂] and the average figure was £260. The highest loan made was £700 and a £1,000 loan was available to returning customers, though this sum had never been authorised. People did not always get the amount they asked for and if the underwriter felt they could not afford what they had requested, Wizzcash could offer a lower amount.

15. A loan would only be funded once an applicant's employment situation was confirmed. If the loan was agreed during business hours, it would be funded by 'Faster Payments', which usually took 10 to 15 minutes. Faster Payments cost around 15 pence per transaction, though Wizzcash's initial research had identified companies charging £5.

16. Wizzcash believed that a number of the larger lenders in the market created a false impression regarding the time it would take to receive payment of a loan. Wizzcash said that it was careful to stress to customers that once authorised, a loan could be received within 15 minutes, but only after all background checks were completed.

Marketing

17. Wizzcash did very little marketing. Its focus was on organic growth and people searching for 'payday loans' had helped it achieve a high ranking on Internet search engines. It did not use 'pay-per-click' and instead engaged in organic search activities such as content marketing, running blogs and linking to sites that agreed to this. It believed traffic generated by organic searches was of a better quality than paid-for traffic and the applicant was usually a better person to fund.

18. It was important to maintain the high ranking and it had engaged a marketing agency on a monthly fee to assist this. The agency was under strict

instructions not to engage in underhand practices used by other loan providers to influence their ranking. If Google identified a company engaging in any such practices, it would alter its algorithms so that the company would receive a lower ranking and received a reduced number of leads.

19. Some of the larger price comparison websites did not allow short-term lenders to advertise, though there were affiliate-type models that did. Wizzcash's success with organic search meant that it was not under pressure to engage with the affiliates and could reject approaches that it received. It had tested one affiliate, but the quality of traffic it received was not as good as the organic traffic it received. Comparison websites also ranked companies according to what they were prepared to pay per click, not the APR they offered.

20. The flow of leads Wizzcash received through searches for 'payday lenders' was at a level to keep the business sustainable, but the Wizzcash name did not generate a high level of success on search engines. Television advertising would be the next step to develop the brand, though this was expensive, costing around £100,000 for a three-month campaign. Funding for this type of campaign was built into the business plan, but Wizzcash's success had meant that this had not yet proved necessary.

Defaults

21. The initial default rate on loans was higher than Wizzcash had anticipated. This figure had been reduced in the last six months to about 10 to 12% of total loans and ultimately it would like to achieve a default rate of less than 10%.

22. Around 25 to 30% of customers had repayment issues with their loans. Reasons varied as to the cause, but included financial difficulties, losing their debit card or providing incorrect bank account details.

23. The charges levied on defaults were in line with the Office of Fair Trading's guidance, which stipulated that interested could be charged for 60 days after the expiry of the three-month loan period, at which point it was frozen. There was also a default charge of £20 if a payment was missed, though this would be waived if payment was made the next day or if the borrower had been in touch with Wizzcash to explain their circumstances. All of the charges were transparent and explained in the legal guidance contained in the loan documentation.

24. A reminder email and text message was sent to all customers three days before a payment was due. When people had been in difficulties meeting repayments, in some instances interest payments had been cancelled and

people had just repaid the outstanding capital. In other cases, people had been allowed a monthly repayment that was less than required, for example paying £40 instead of £100.

Future plans

25. The high ranking Wizzcash had achieved on search engines had helped it achieve a higher volume of traffic than originally anticipated. However, the quality of the traffic was not as high as it had hoped and the number of loans it authorised was lower than it wished. It would reconsider this conservative approach to its lending criteria. Going forward, it was possible that some people who were denied a loan might be successful in the future.

26. The vast majority of loans that were declined occurred at the automated stage of the process. To understand this process better and develop an understanding of the data it received, Wizzcash received external advice and it was hoped that its decision-making would be improved.

27. In 2014, it hoped to achieve around [✂] loans, though this might not be feasible given the number of current regulatory investigations and [✂] might be a more realistic figure, which would account for a loan book value of around £[✂] million. Reaching a total of [✂] loans would get the business close to profitability.

28. There was uncertainty regarding future regulation, but retraining and recruiting staff in light of possible regulatory developments would increase overheads.

29. Wizzcash decided upon a three-month, instalment business plan as it wanted to stagger the volume of business it conducted. If it had authorised [✂] loans straight away, funding would have been an issue as would cash flow if defaults were high. The three-month period also meant that a payment was expected after the first month, which allowed it to see how the loan was progressing.

30. When setting the monthly interest rate of 22%, Wizzcash sought to undercut what was already available, though it realised it could not compete against the high street banks. The intention was to attract customers based on the price it offered, rather than promising quick payment of a loan.

31. Wizzcash targeted the payday loan market, but had considered alternative products that sat outside the short-term, high-cost lending product, such as the guarantor loan model. The high volume of applications it received put Wizzcash in a fortunate position in that it could tap into these contacts to develop its business.

Regulatory developments

32. Current regulatory changes such as the continuous payment authority (CPA) and rollovers would impact differently on Wizzcash. Rollovers were not a major issue as it did not offer these, though it was seeking further clarity on the issue.

33. CPAs posed more of a concern and were used more often than originally intended, on average around five times per customer. CPAs could work very well, but were open to abuse by rogue companies.