

'Payday loans: An improved market?'

Part 1 - Overview of the trends in the Payday Loans market

March 2016



Executive Summary

The High Cost Short Term Credit (HCSTC) Market, more commonly referred to as the 'payday loan' market, has undergone significant regulatory reform over recent years. To understand the impacts that these changes have had on consumers we have launched a programme of research to examine changes in the market and what these have meant for UK consumers.

In this first report, we look at Citizens Advice data and available market data to understand what changes have taken place.

Key findings

Initial analysis of the payday loan market has revealed a number of changes following the significant regulatory interventions:

- Citizens Advice has seen a significant reduction in the numbers of clients with payday loan problems since the introduction of the price cap in January 2015:
 - A 45 per cent reduction in clients accessing advice about payday loan issues, which is in contrast to the trend with all debt advice which has remained stable and all advice given which has increased slightly.
 - An 86 per cent reduction in clients contacting our consumer service regarding payday loans between 2013 and 2016.
 - A 61 per cent post cap reduction in unique users accessing payday loan content on the external website.
 - Our expert advice team had 29 complex cases referred to them on payday loans leading up to the cap and have had zero cases since the cap.
- Since the 2013 peak there has been significant change in the makeup of the payday loan market which may have driven out irresponsible lending practices:
 - 42 per cent of the 126 firms, who were operating in the market in 2013, have received full authorisation to carry out payday loan or installment loan activity.
 - 20 per cent remain active in the market awaiting the outcome of their authorisation application
 - 38 per cent of firms have exited the market either through withdrawing, not applying for authorisation or going into liquidation.
- We have found a change in focus of the advice that clients are seeking regarding their payday loan or provider:
 - Liability for debt and dealing with repayments remain the highest proportion but have reduced in line with the overall trend.
 - There has been a proportionate increase in issues regarding debt collection practices and court claims for debt or enforcement.
 - We also identified reductions in issues in relation to the use of continuous payment authorities and complaints or redress.

In addition our analysis has shown some problems around payday loans have remained constant despite regulation. These have remained constant across the two years:

- Clients who come to us regarding problems with payday loans are highly likely to have complex cases with multiple other issues.
- Only 8 per cent of clients who sought advice on payday loans had this as a sole issue.
- 87 per cent had one or more other debt (non payday debt) issues.
- Payday loan clients were also likely to have benefit and tax credit issues, benefit and tax credit issues, and housing issues.
- Many payday loan consumers stated they have either a disability or long term health condition.

The analysis also re-affirmed what we know about clients likely to utilise payday loans. The average type of customer remains:

- Younger (20 to 35 years of age)
- Single with or without dependent children
- Employed (including full time and part time) or unemployed but seeking employment
- Tenants in either private rented accommodation, housing associations or council tenants and
- On very low income, with household income being less than £1,500 per calendar month.

In conclusion, it appears that the stronger regulation of the market has led to a reduction in consumers suffering from sub-standard firm behaviour. There are still examples of consumers suffering detriment as a result of taking out a payday loan. We will explore the types of detriment in our second report to understand this impact in more detail. It is hard to ascertain if this is down to firms leaving the market or from those that have remained improving their practices. Our view on the shift in market participants does indicate that there has been an improvement in lending practices shown by the fact that 42 per cent have been fully authorised after rigorous review. We also found that approximately 38 per cent of the 2013 market participants have left the market and therefore can no longer mistreat consumers.

Interestingly it is evident from examining our data that the anticipation of the price cap had a significant impact as the industry prepared for the change. The results of this are shown in the sharp downward trend in clients seeking advice in the period leading up to the cap. This is not unique, as industry often reacts early to upcoming big regulatory changes to best position itself for the post regulation environment.

While we are able to conclude that our clients are having fewer issues now than previously regarding their payday loans, this analysis does not allow us to understand

how the stricter approval rules around payday loans affect clients' other credit choices and debts. We can see that clients who have payday loan problems have multiple debt issues, but we have not been able to yet identify the issues that those who have been refused credit since the rule tightening have. We will be exploring the access impacts of the changes in a later report to answer this key question.

About the Citizens Advice service

The Citizens Advice service provides free, independent, confidential and impartial advice to everyone about their rights and responsibilities. It values diversity, promotes equality and challenges discrimination.

The service aims:

- to provide the advice people need for the problems they face
- to improve the policies and practices that affect people's lives.

Citizens Advice is the membership body for local Citizens Advice in England and Wales. There are over 300 member organisations in England and Wales giving advice from about 3,500 locations including high street bureaux, libraries, courts, prisons, GP's surgeries and hospitals. Of the 28,500 people who work for the service, over 22,000 of them are volunteers and nearly 6,500 are paid staff. In the last year, the Citizens Advice service helped 2.1 million people with 6.6 million problems.

Citizens Advice and Citizens Advice Scotland jointly run the Citizens Advice Consumer Service (formerly Consumer Direct), which provides consumers and small businesses with advice about problems with goods and services. The Consumer Service database also provides a source of intelligence for Trading Standards Services across Great Britain and national regulators.

Introduction

Payday loans, also known as high cost short term credit (HCSTC) products, have been a credit option for consumers in the UK since 2006. Payday loans were developed and marketed to solve a particular issue for consumers as a one-off loan for unexpected expenses or luxury items. In reality they were mainly used to service everyday expenses like groceries, bills and costs associated with car ownership. Historically these payday products were convenient and easily accessible. Customers of payday loan companies tended to be young, more likely male, in employment, with families and have a lower household income than the national average.¹

The use of payday loans dramatically rose from their introduction to the market up until 2013, where at their peak they were estimated to cover approximately 400 firms serving 1.6 million customers, 10 million loans and a market value of £2.5 billion.² The market was dominated by a small number of firms with 88 per cent of payday revenue being held by 10 companies and a further 21 companies accounting for a further 11 per cent.

In September 2012 Citizens Advice launched a campaign about payday loans after a ten-fold increase in the number of clients with problems with payday loans. The evidence gathered highlighted that payday loan companies were not treating consumers fairly and in some cases breaking rules regarding responsible lending. The campaign raised issues around appropriate affordability checks, repeated rolling over of loans and inappropriate use of continuous payment authorities.

The payday loan campaign highlighted the issues in this market and, alongside a large amount of other negative press, led to a large number of changes. These ranged from an introduction of a set of new rules, tighter monitoring through an overhaul of the regulatory regime from the Office for Fair Trading to the FCA and banning of inappropriate advertising.

Under the new FCA regime the changes continued at pace with a significant number of high profile redress schemes by the large lenders, firm business models being adapted, firms exiting the market and introduction of a price cap for interest rates and charges on these products. All of this has made the HCSTC an evolving market that has changed how it interacts with consumers and how it services the need for credit. The majority of firms have transformed their offering from short term products to potentially more sustainable installment loan options.

¹ CMA payday investigation final report - February 2015. Available at: https://assets.digital.cabinet-office.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf

² FCA payday price cap consultation July 2014 available at <http://www.fca.org.uk/news/fca-proposes-price-cap-for-payday-lenders>

The effect of the direct changes had an immediate impact on the market as the FCA estimated that by November 2014, just six months after the regulatory change, the volume and value of lending had reduced by 35 per cent. This was driven by a 20 per cent reduction in application volumes and a 50 per cent reduction in acceptance rates. These reductions point to a society less tolerant of these products and firms tightening up their lending practices.³

There were also a number of other changes external to the payday market that, coupled with lower access to payday loans, could potentially put consumers at greater risk of not coping with everyday priority debts. The FCA's HCSTC price cap aimed to standardise the charges and interest that these products charge, to lower levels, to reduce the risk of spiralling debt, improve consumer protection and reduce the detriment that consumers suffer.

Now a year on we must understand the success of the changes and any potential unintended consequences that may have occurred. To do so, we are exploring the market in a series of research reports on the impacts that the changes have had for consumers.

We will seek to answer the following questions:

- Have the recent changes in HCSTC policy affected consumers' access to credit?
- Are the recent changes putting increased strain on consumers' financial resilience?
- Is the market shrinking forcing consumers to take out other forms of credit?
- Are consumers who are still able to access payday loans suffering less detriment as a result of changes in the market i.e. removal of firms, redress schemes, improvements in practice?
- Are the firms that have remained in the market evidencing improved practice for their customers?
- What are the alternatives to payday loans and where will consumers turn in future to access credit?

This first installment is our look at the general trends that have been seen within the market, examining the market both pre and post price cap. It looks at Citizens Advice data sets to understand what our clients are experiencing in the payday market, examining trends in clients that come to us for advice, the payday loan firms they used and any problems they experience.

³ FCA payday price cap final rules November 2014 available at <http://www.fca.org.uk/news/fca-confirms-price-cap-rules-for-payday-lenders>

Methodology

We have used a number of Citizens Advice data sources as well as external market data including:

- Statistical data from the Consumer Service about payday loans for the period 1 April 2013 to 31 January 2016. The data was identified by using the term 'Payday Loans' and significant market firms. A number of cases that appeared to be about credit brokerage activity were removed during the cleaning of the data.
- Statistical data from local Citizens Advice services in England and Wales about payday loan debts for the same period. This data was analysed using a technique called statistical process control to develop run charts, which show observed data in a time sequence, to examine trends in the advice given and to highlight abnormal events that fall outside of the expected variation of the data. This technique allowed us to identify where trends in the data were significant events. Monthly averages were used to look at the pre and post cap differences to allow for seasonal and natural variations in the results.
- Google Analytics data from April 2013 to December 2016 on the number of page views and unique users of the information on payday loans on our public website.
- We used the CMA payday investigation final report⁴ to identify the key firms that were operating in the payday loan market in 2013. From this, we compiled a list of 126 firm entities that were operating at this time. We then utilised the Financial Services register held by the FCA to track their permission regarding to carrying out high cost short term credit activity. This was used to make a judgement on the market trends relating to firm engaging in payday loans.
- We searched and analysed our resource directory used to record cases that have required expert debt advice due to their complexity, to identify payday loan cases.

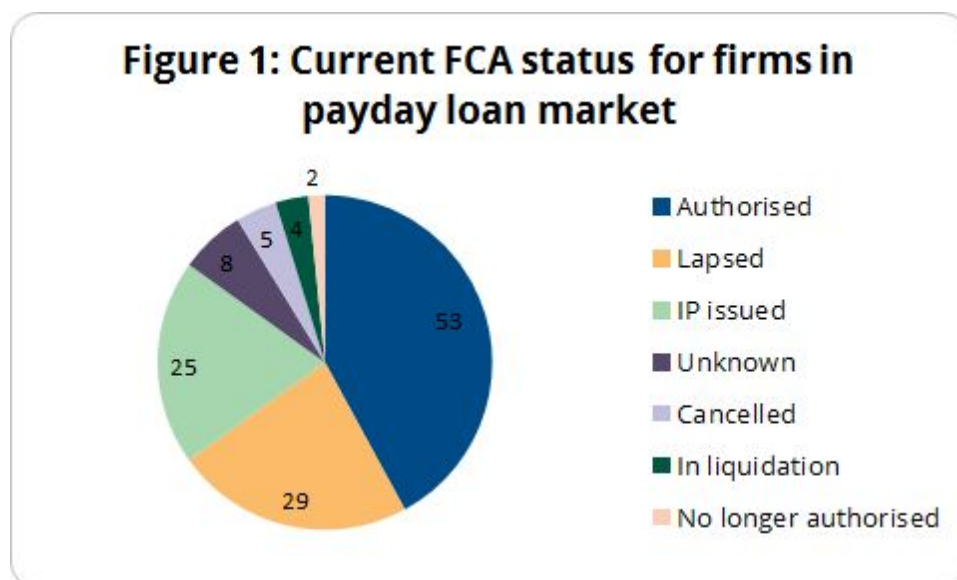
⁴ CMA payday investigation final report - February 2015. Available at: https://assets.digital.cabinet-office.gov.uk/media/54ebb03bed915d0cf7000014/Payday_investigation_Final_report.pdf

Analysis of the payday loans market

Regulation of the HCSTC market led to a rapid reduction in the volume and value of lending. More than a year on, what has happened to the market of firms itself? There is no definitive view of the payday loan market and the firms offering these products, but a number of publications have attempted to estimate this including the FCA price cap consultation and the CMA payday loan market investigation.

There is consensus around the majority of the market share; approximately 90 per cent is held by a small number (11) of large firms. There is less consensus as to the remaining parts of the market. In order to analyse the market changes we have used the CMA data which identifies some 126 firm entities that were operating in the market as at October 2013 and were included in their market investigation. According to the CMA's analysis these firms covered 99 per cent of the pre-regulation market.

By utilising the FCA financial services register, which documents details about regulated firms operating in the financial services industry, we were able to track these firms. The chart below (figure 1) shows the status of each of these firms as of 18 March 2016 in relation to high cost short term credit activity. It is worth noting that some of the firms now authorised are operating installment loan products rather than traditional payday products.

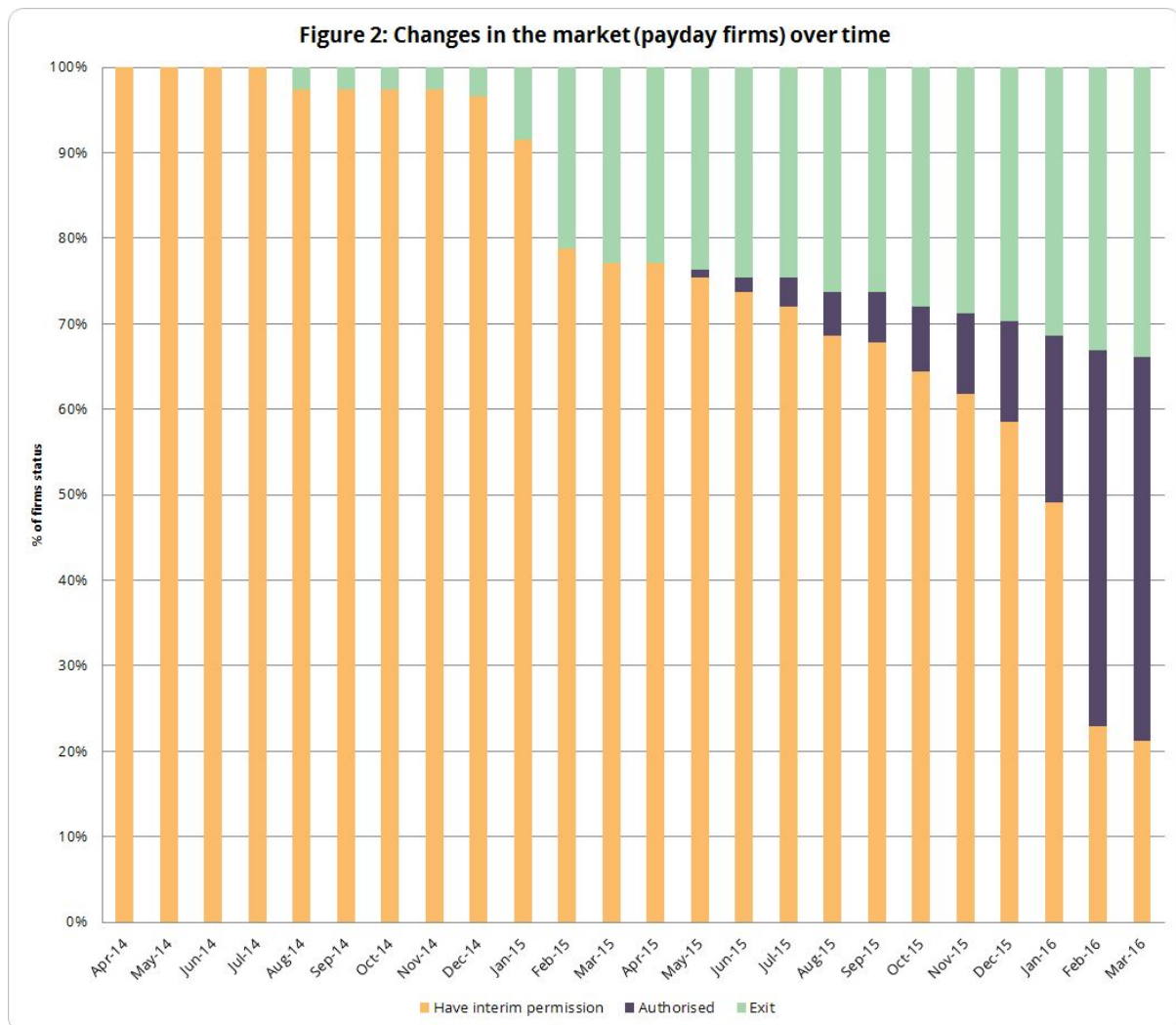


▲ Figure 1: Breakdown of current status by firms identified as offering payday loans by the CMA in October 2013. This is accurate as of the 18th March 2016 based on the financial services register.

This shows that 42 per cent have so far been granted full FCA authorisation for carrying out HCSTC activity. A further 20 per cent are still active in the market utilising their interim permission while they are going through the authorisation process. A third, 33 per cent, of the firms have exited the market with the majority having lapsed their interim permission, meaning they have not chosen to apply for full

authorisation. A further 4 per cent cancelled their permissions and formally exited the market. There were 8 firms we were unable to track via the financial services register.

There are a number of key periods where the market has shifted which are evidenced in the graph below (figure 2). February and March 2015 was the main period where firms exited by lapsing the interim permission by not applying by their authorisation application deadline. January and March 2016 has accounted for the biggest increase in authorised firms and reflects the FCA timescales of processing applications within 12 months from the application date.



▲ Figure 2: Trend over time of current status by firms identified as offering payday loans by the CMA in October 2013. 8 firms removed due to no record available. This is accurate as of the 18th March 2016 based on the financial services register. Exit includes lapsed, cancelled, in liquidation and no longer authorised from figure 1.

Analysis of payday loans problems

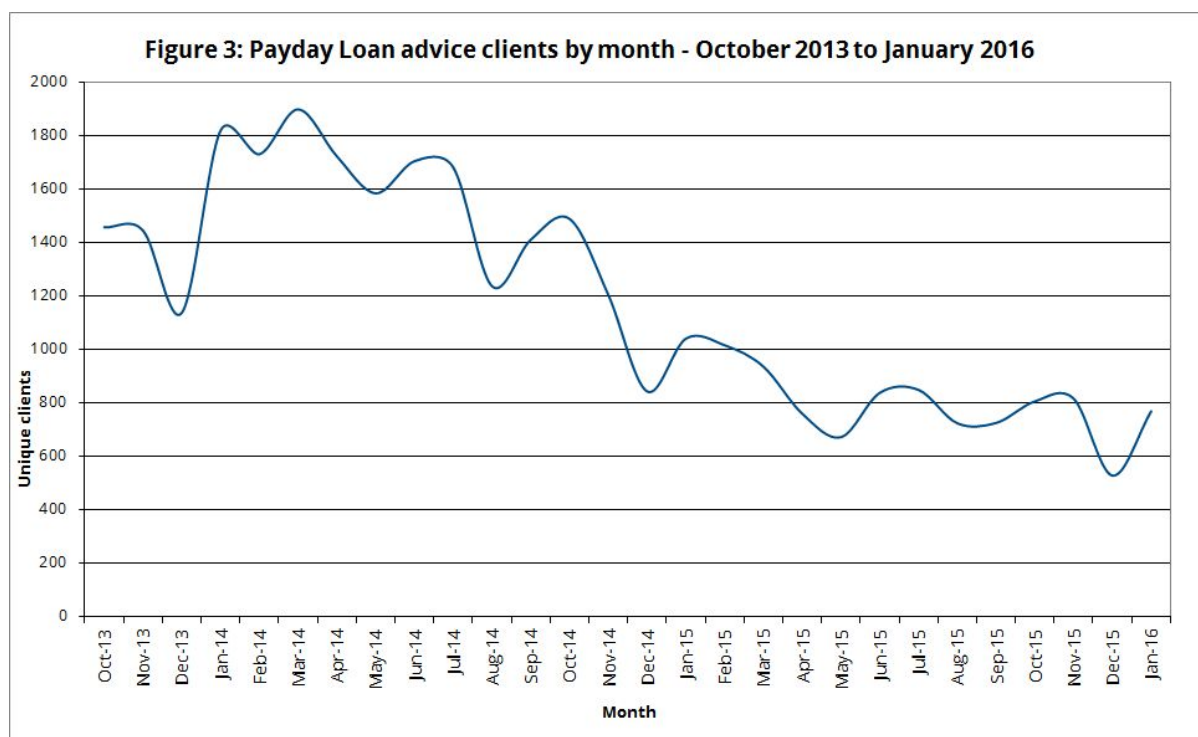
Trends in issues seen by Citizens Advice

Through analysing information collected using our case recording system,⁵ we are able to examine trends in advice that Citizens Advice gives about payday loans. This gives an indication of the prevalence and nature of issues related to payday loans that occur over time.

We introduced a code for payday loan debts in April 2013 and the Citizens Advice network had a single case management system in place from October 2013. We have used the timeframe for October 2013 to January 2016 to ensure consistency. For any analysis labelled as pre-cap this refers to the period from October 2013 to December 2014, while analysis labelled as post-cap this relates to the period from January 2015 to January 2016.

Payday loan clients

As can be seen from the graph below (figure 3) there has been a significant downward trend in the number of clients that we have seen for advice since the introduction of the payday price-cap on 2 January 2015.

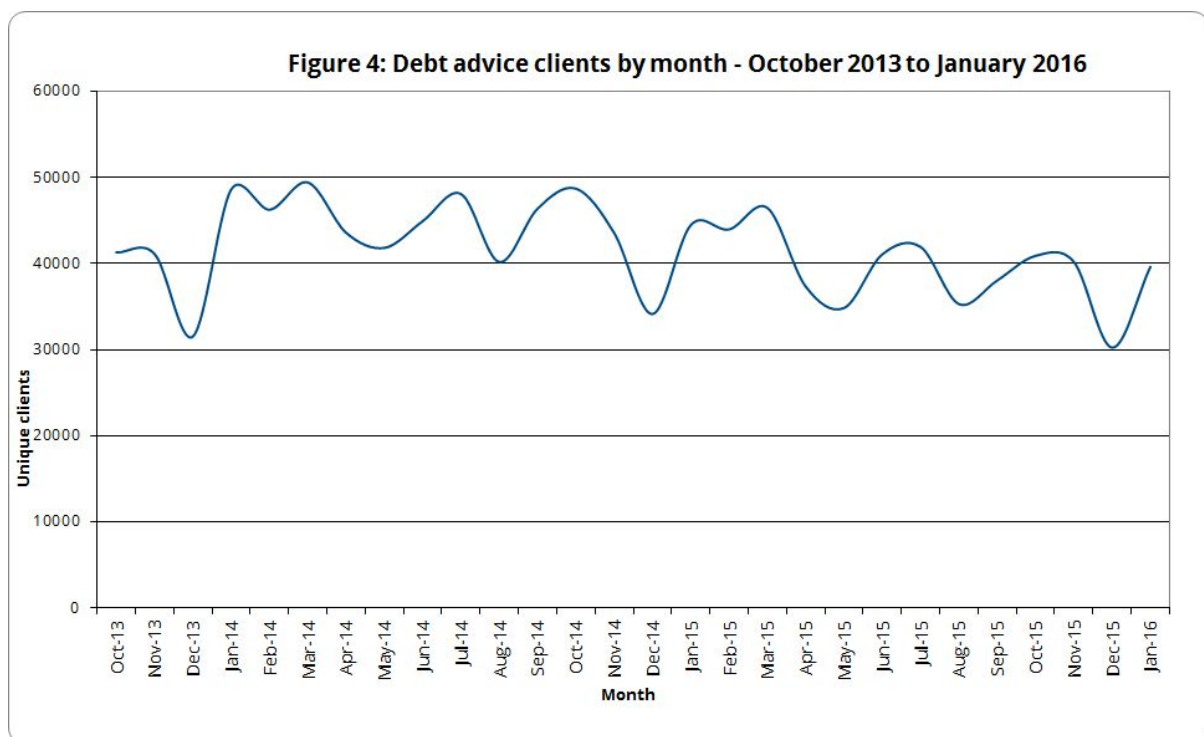


▲ Source: Citizens Advice.

⁵ The Citizens Advice network uses a single database for recording case information. The records contain information about the client e.g. gender, age, ethnicity and details of their issue and the advice given. The advice given is coded using advice issue codes which form a common set of identifiers for the type of advice given.

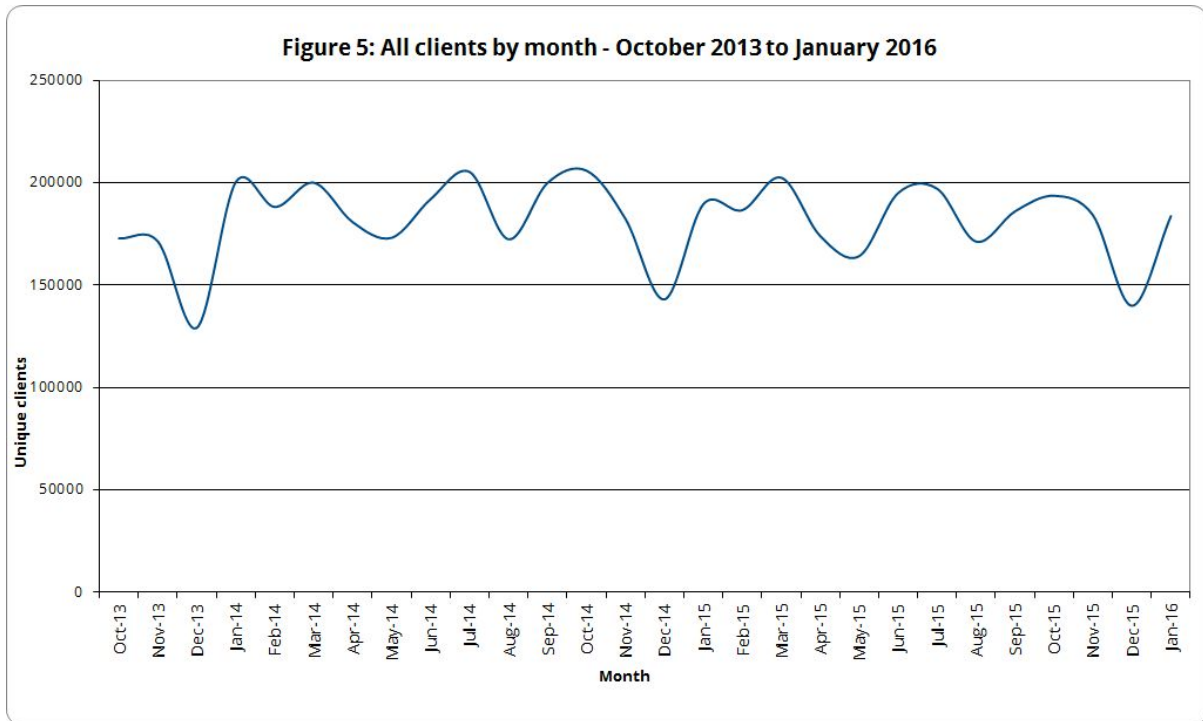
The period between January 2014 and November 2014 saw a sustained period of clients seeking advice about payday loan debts. This has dropped off since the changes in regulation indicating that potentially fewer clients are experiencing detriment as a result of practice by firms. The reduction in numbers of clients seen with payday loan debt issues since the price cap introduction is a 45 per cent reduction based on the monthly average from 1,491 to 806. This is based on the individual clients we saw whereas figure 6 looks at the number of issues, the same client could have been to us for advice multiple times and multiple issues.

It is interesting to compare this with the trends in terms of the number of clients visiting for debt advice in total. As can be seen from the graph below (figure 4) when using the same pre and post-cap timelines and looking at all debt advice the trend is not consistent with that of payday loan debt clients as there has been a consistent trend over period. The average number of clients seen per month remains relatively stable through the period with just a slight reduction in the monthly variation from the mean recently.



▲ Source: Citizens Advice.

When comparing the number of clients seeking payday loan advice and advice as a whole (figure 5), we can see that the significant reduction in payday advice is not reflected in a similar reduction in those seeking all advice. The number of clients seeking advice overall has seen a small increase in the period since the price cap came into force.

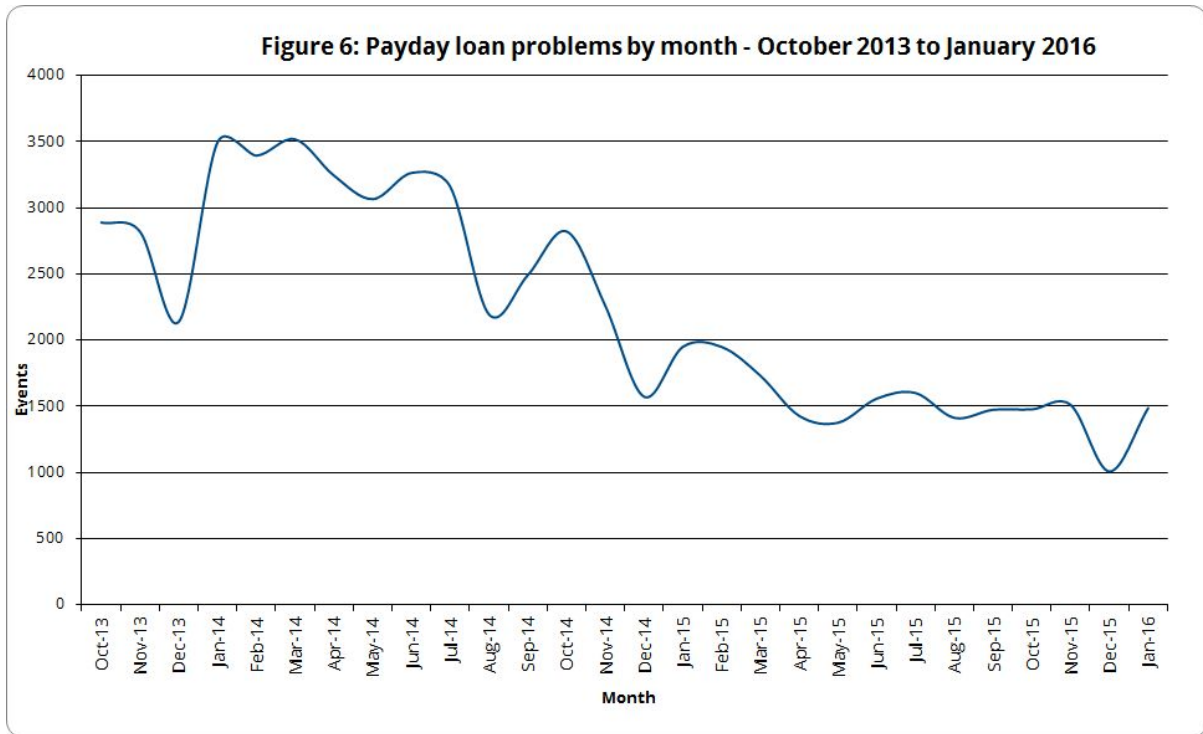


▲ Source: Citizens Advice

Payday loan problems

As well as looking at the number of clients who have accessed advice we analysed the number of problems that related to payday loan debts. A single client could have multiple issues relating to their payday loan debt(s).

As can be seen from the following graph (figure 6) we have also seen a significant fall in the number of payday loan debt problems, this is consistent with the trend in terms of number of clients. The final six months of the data also indicate that the falling trend for payday loan problems could continue longer as there have been fewer payday events than the mean during this period.

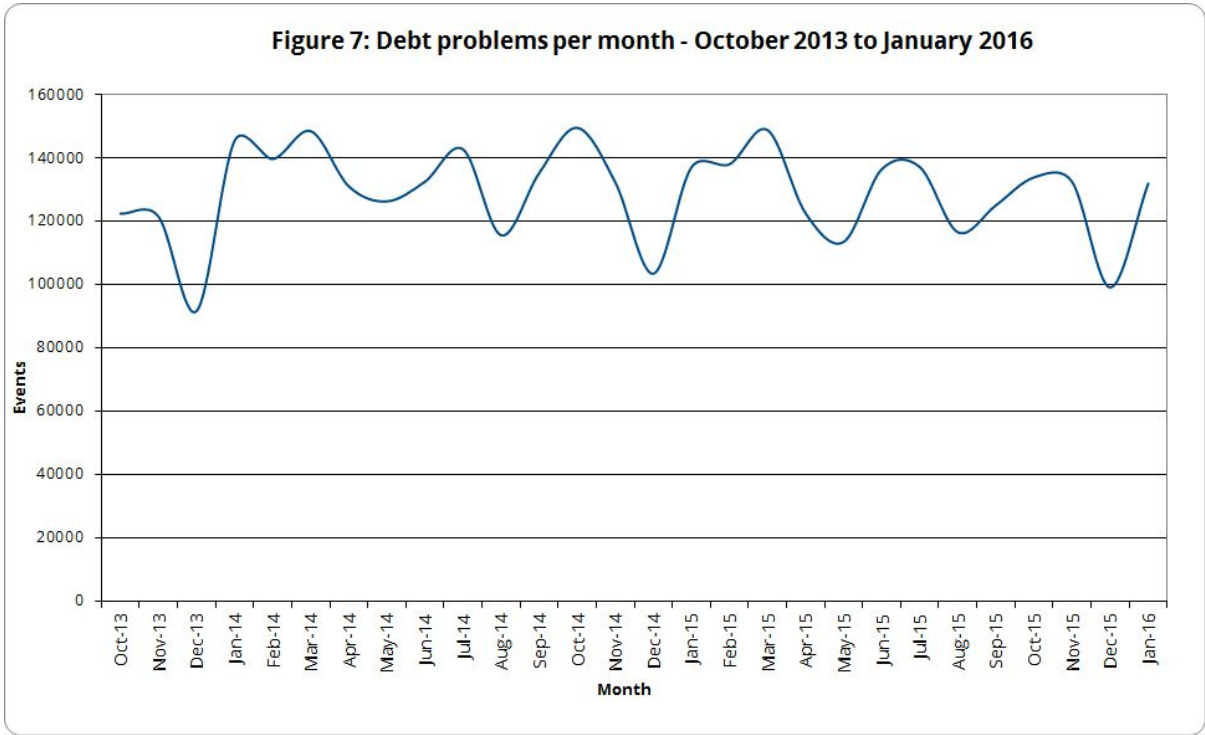


▲ Source: Citizens Advice

The period between January 2014 and November 2014 saw a sustained period of advice given regarding payday loans. This has fallen by 45 per cent since the changes in regulation, from a monthly average of 2,821 to 1,534.

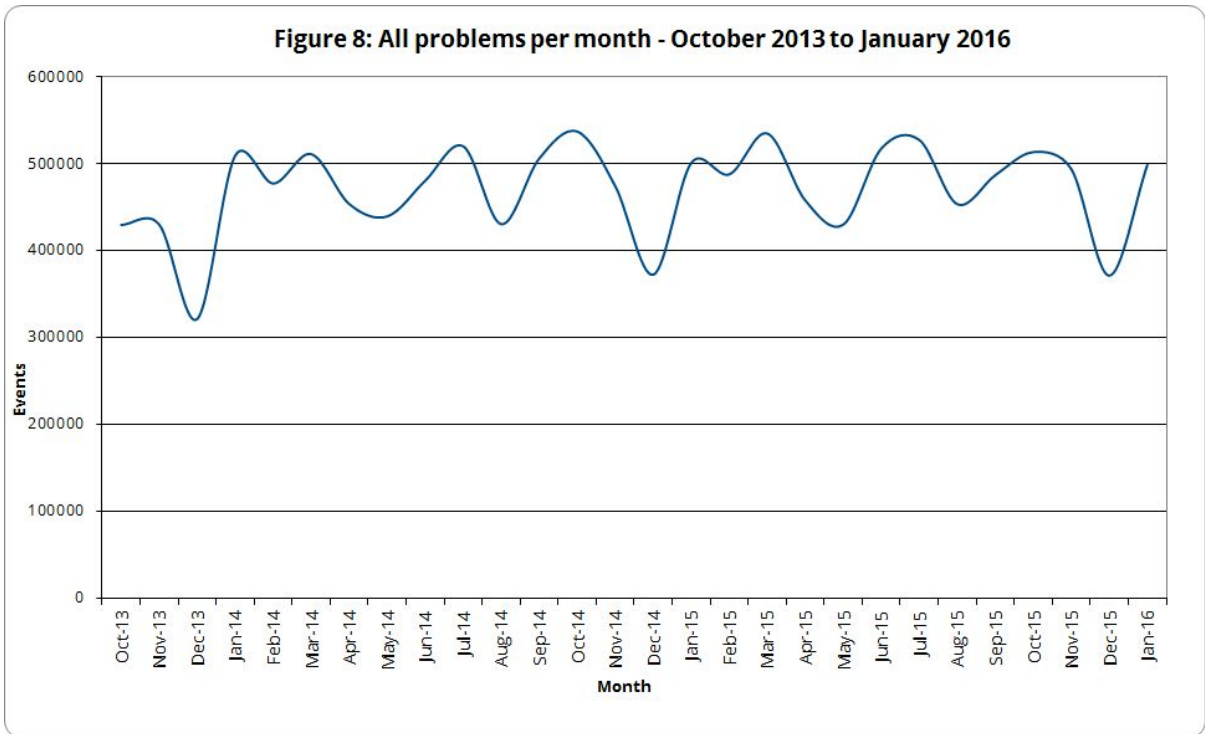
Again it is interesting to compare this with the trends in terms of the number of debt problems as a whole. As can be seen from the graph below (figure 7) when using the same pre and post-cap timelines and looking at all debt problems the trend is not consistent with that of payday loan problems. Debt problems as a whole have been relatively stable.

Looking at clients and problems together gives us understanding of the number of problems per client. We have seen a stable trend, of 1.8 problems per client pre-cap and 1.9 problems per client post-cap, with slightly more variation recently. This indicates that the downward trend in events and clients is related and we are seeing fewer clients with similar amounts of issues than we were prior to the price cap.



▲ Source: Citizens Advice

In contrast to the trend of number of problems per client for payday loans the same analysis for all debt advice shows a slight increase in average events per client in 2015 than prior to 2015. The change of 2.89 to 3.26 events per client shows a small upward trend. This indicates that for non payday loan debts the clients seeking advice have more debt issues than previously.



▲ Source: Citizens Advice

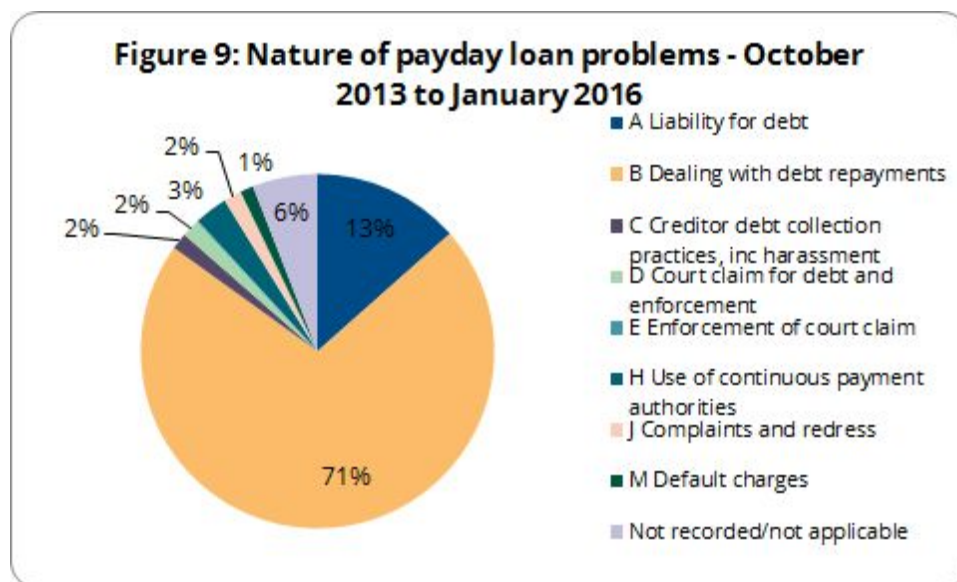
When looking at all Citizens Advice clients we can see a 5 per cent increase in the number of problems per client since the start of 2015.

Problems with payday loans

In order to understand the nature of the problems clients are having with payday loans, we now turn to look at the most detailed level of our case recording system. Each payday loan problem is assigned a code from the following list:

- liability for debt;
- dealing with debt repayments;
- creditor debt collection practices, inc harassment;
- court claim for debt and enforcement;
- enforcement of court claim;
- use of continuous payment authorities;
- complaints and redress and
- default charges.

The graph below (figure 9) shows the split between these categories across all the payday loan problems between October 2013 and January 2016.

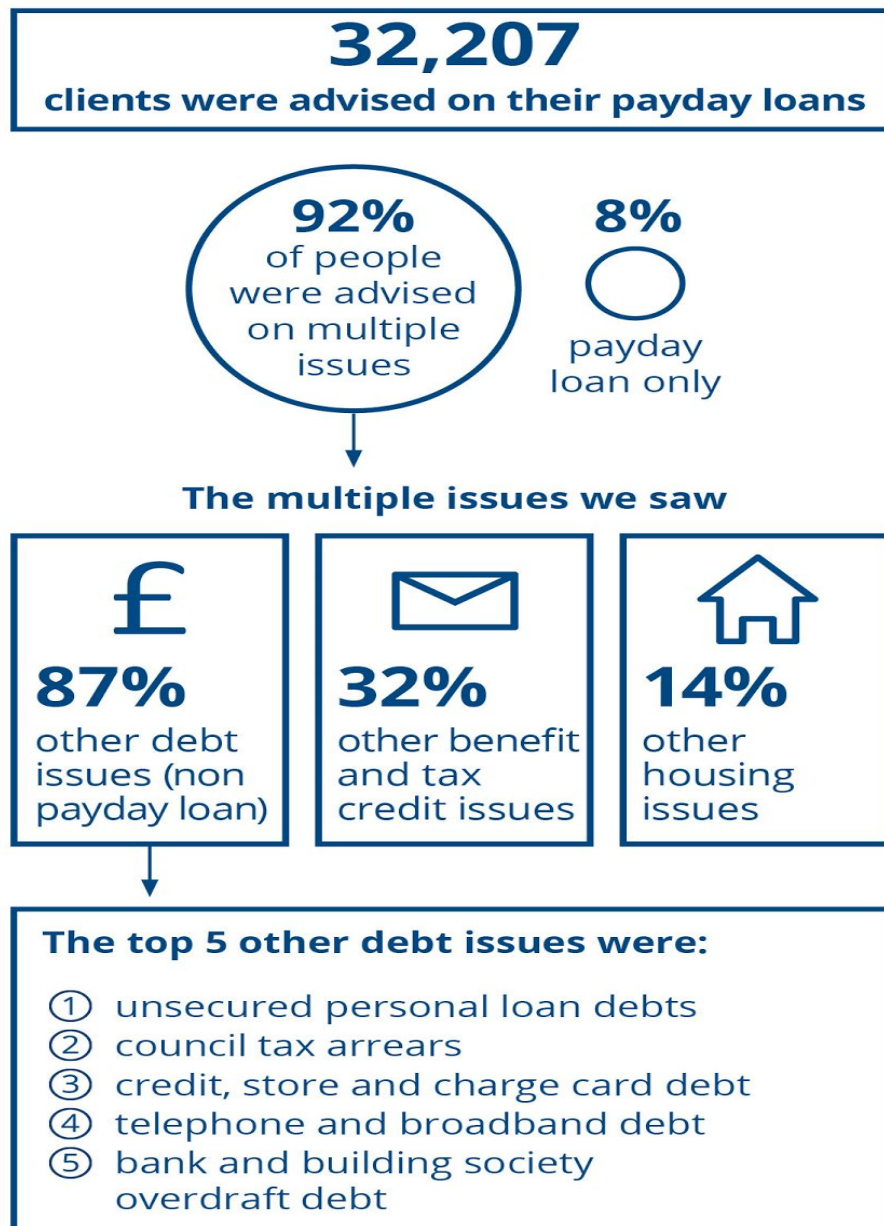


▲ Source: Citizens Advice.

The most common problem with payday loan debts is dealing with debt repayments, at 71 per cent and liability for the debt (13 per cent). These are in line with what we see across all our debt advice as the majority of debt clients come to Citizens Advice for help in repayment of their debts. The two main problem types are consistent when comparing pre and post-cap data sets. We will explore firm behaviours in more depth as part of our second installment of this programme to test if the types of detriment being suffered are consistent since the introduction of the cap.

Payday loans and other issues

Clients who seek our advice regarding payday loans tend to have a number of other problems. The link between payday loan debts and priority debts⁶ and any impact the payday changes have had will be explored in more detail in our third installment of this programme regarding clients access to credit. The summary below shows the breakdown of the main other problems of the payday loan clients we saw between 2013 and 2015.

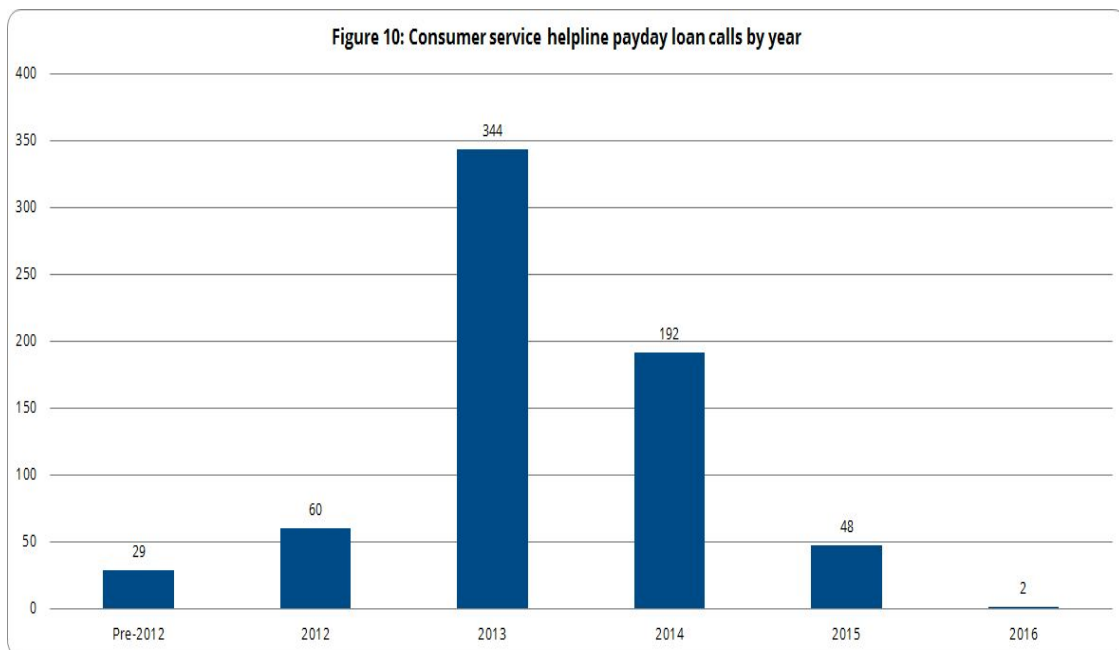


⁶ Priority debts are those that carry the most serious consequences if they are not paid. They include mortgages, rents and debts secured against homes; council tax and energy bills.

Trends in Consumer Service data

We also looked at data from our Consumer Service helpline⁷ which again showed that there had been a significant decrease in the number of enquiries pre-cap to post-cap, from 625 to 50. We selected cases based on the purchase date of the loan rather than utilising the date of the call in order to get a more accurate picture of whether the loan was pre or post regulation. This did reduce the sample from 981 calls regarding payday loans to 675 as the purchase date was not recorded in 306 cases. The Consumer Service data shows a significant reduction with the figure below (figure 10) showing the year on year reduction from the 2013 and 2014 peaks. These cases are less complex debt issues as those with complex cases will seek more in depth in debt advice.

We know from our previous reports about the payday loan market⁸ that the main issues were regarding firms lending practices, use of continuous payment authorities and multiple roll-overs. Analysis of the 50 Consumer Service cases since the cap reveals issues have been concerned with aggressive debt collection practices, not agreeing appropriate repayment plans and unauthorised payments being taken by the firm or third parties. As part of our second installment we will be examining the issues that clients are facing in more detail to understand if they have changed since the cap.



▲ Source: Citizens Advice. Note: 2016 is only based on 2 months data.

⁷ Since April 2012 Citizens Advice has run the Consumer Service (previously Consumer Direct) providing advice to consumers in England, Wales and Scotland by phone and email. In 2012/13 the service dealt with 880,000 enquiries. Any member of the public can call in relation to pre-shopping advice, information on consumer rights, advice on specific problems, and referral or signposting to other organisations. The data is captured and coded using a consistent structure.

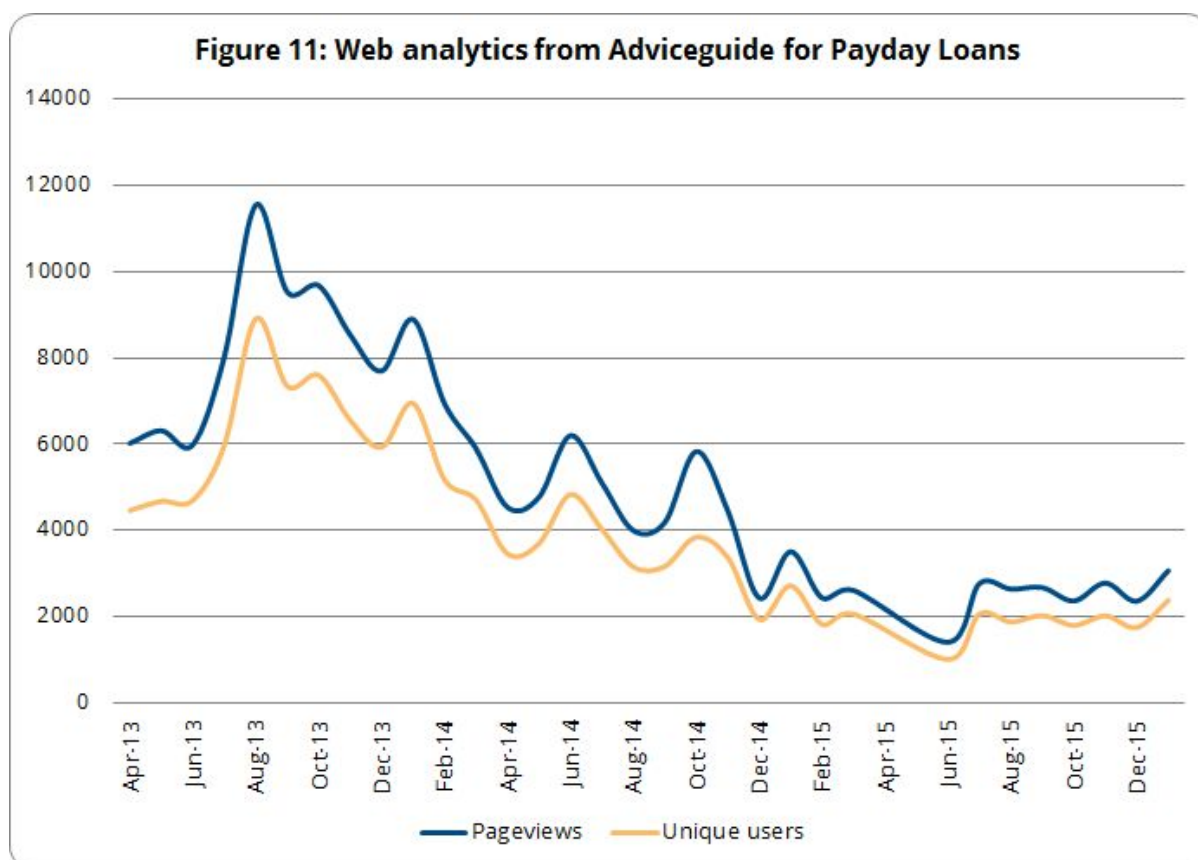
⁸ Citizens Advice payday loan campaign September 2012 to April 2014. Available at: https://www.citizensadvice.org.uk/Global/Migrated_Documents/corporate/payday-loans-campaign-summary-pdf.pdf

Trends in Website Data

The Citizens Advice website contains information on a wide range of issues and is visited by around 22 million people each year. We examined the four main pages relating to payday loans which have remained constant over the period of the analysis:

- A payday loans landing page with general information
- Payday loans reasons to complain about your lender
- Making a complaint
- A template letter to complain about your lender

Since April 2013 these four main pages have seen 133,619 page views from 99,332 unique users. If we then include all of the related payday loan pages that have been available on our public website over the period, which include pages like updates on lending rules, blogs on payday loans and access to a payday questionnaire, these figures rise to 167,303 pageviews from 127,607 unique users. The trends for all payday related web traffic is shown at figure 13 below.



▲ Source: Citizens Advice. Monthly trend data of web page views and unique users between April 2013 to January 2016 for payday loan pages on the Citizens Advice website. Note data not available for April and May 2015 due to switching of web sites.

As can be seen, the trends in people viewing web pages related to payday loans has been falling consistently since August 2013 with a small levelling off in the second half of 2016. This shows that web access trends are following the same trend as clients gaining advice on payday loans.

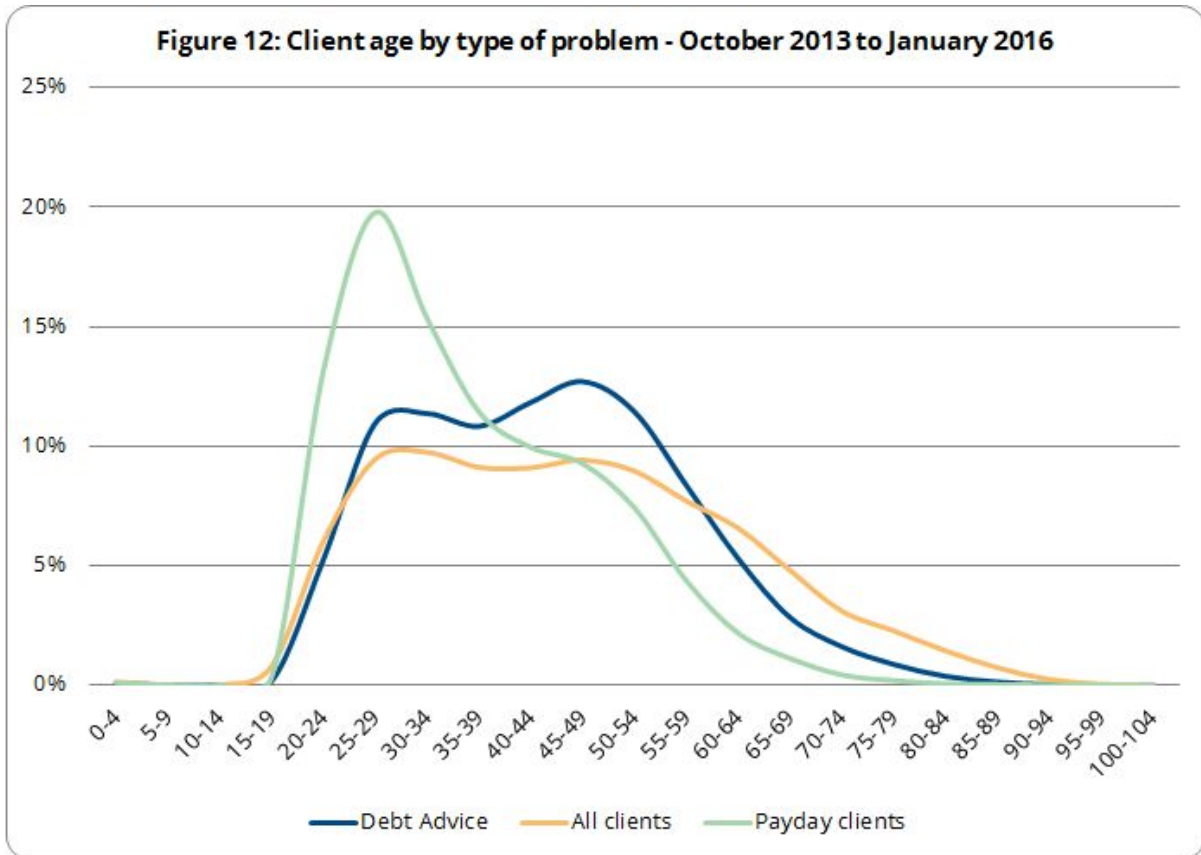
The majority of the page views are to the landing page, as is to be expected and is driving the reduction in views. The three other main pages regarding payday complaints have been steady across the whole period with a couple of spikes in clients accessing the letter to complain about a payday loan, notably August 2013, October 2014 and a slight upward trend between August 2015 and January 2016. The trends are the same when looking at both unique users and pageviews.

Payday loan client characteristics

Through analysing information collected using our case recording system we are able to analyse key characteristics of the clients who seek advice from the Citizens Advice service regarding their payday loan debts. We compared the profile of Citizens Advice clients as a whole and with all debt clients in order to understand if the profile of those with payday loan issues differs. One characteristic not analysed below is region. This is because the debt advice we give is capacity driven rather than demand driven, meaning this is more an indicator of where we have larger debt advice contracts.

Age

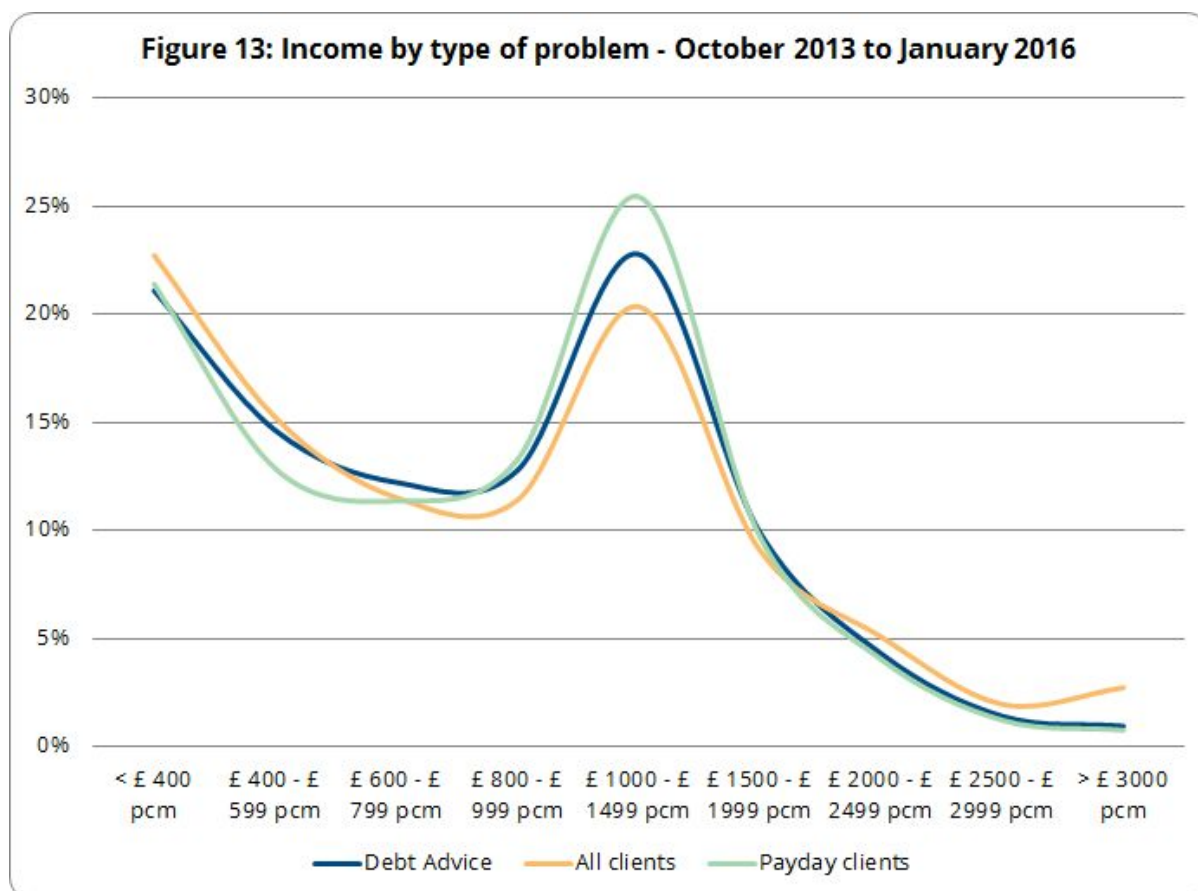
Clients that seek advice from Citizens Advice regarding payday loans are more likely to be younger than our clients who ask for advice with other forms of debt. This is shown by the graph below (figure 12) with a significant spike for payday clients in the 25 to 29 age bracket and fewer older clients than for other advice. Debt advice clients also tend to be younger than all Citizens Advice clients, but it is not as stark as for payday clients. This is further evidenced by the fact that 98 per cent of payday loan debt clients are of general working age (20 to 64) against 85 per cent for all clients. Also 51 per cent are under 35 years of age compared to just 29 per cent for all clients. There is no change in the age profile of payday loan clients when comparing pre and post-cap data sets.



▲ Source: Citizens Advice. Note: excludes not recorded.

Income

The three groups compared follow a very similar profile in terms of their income, with the majority of clients earning between £1,000 and £1,499 per calendar month. The spike for both all debt and payday loan debt clients is slightly more prominent than for all Citizens Advice clients driven by a lower instance of clients with household incomes greater than £2,000 per calendar month. Eighty five per cent of payday clients had total monthly household incomes of less than £1,500 per calendar month compared with 81 per cent for all clients and 83 per cent for debt clients. Only about 2 per cent of payday loan and debt clients had household incomes of more than £2,500 a month compared to 5 per cent for all Citizens Advice clients.



▲Source: Citizens Advice. Note: excludes not recorded, 50 per cent were not recorded for payday loan clients (n=14960).

Other factors

We also examined a number of other demographic factors, some of the key findings were:

- Gender - More women than men, access the Citizens Advice service, with a 53 per cent to 42 per cent female to male split. This is consistent for payday clients with a 54 and 44 per cent split respectively.
- Disability - Around a third of payday loan debt clients had either a long-term health condition or were disabled. This remained reasonably consistent between the pre and post cap periods with just a small increase in long term health conditions since the cap.
- Household type - Payday loan clients were much more more likely to be single with or without dependent children but significantly less likely to be a couple with no children or non-dependent children, compared to all Citizens Advice clients.
- Occupation / employment status - Payday loan clients are more likely to be employed full-time compared to the two other groups. Payday clients are also significantly less likely to be retired and self employed compared to all Citizens Advice clients.
- Tenure type - Payday loan clients are more likely to be tenants (whether in the private or social rented sector), compared to Citizens Advice clients as a whole.

Payday loan clients are significantly less likely to own their home outright or be in the process of buying a home, while there is a higher likelihood that they are staying with relatives or friends when coming for advice.

Conclusion

This report has found a shrinking High Cost Short Term credit market, with 38 per cent of firms exiting the market since tighter regulations came into place. Citizens Advice has also seen a significant reduction in the clients with payday loan problems. This includes a 45 per cent reduction in the number of clients with payday loan problems accessing face to face, phone or webchat advice, an 86 per cent reduction in clients contacting our consumer service regarding payday loans and a 61 per cent post cap reduction in unique users accessing payday loan content on the Citizens Advice website. Although the number of clients with payday loan problems has fallen, the number and type of issues with payday loans per client has remained constant pre-and post regulation. This raises questions as to whether the reduction in numbers of problems with payday loans is mostly due to the shrinking of the market and whether firms that continue to trade have improved their practices.

In addition, questions on the wider impact of these changes remain. Where are consumers who no longer have access to payday loans sourcing credit? What are alternative source of credit and how sustainable are they? Are those still able to access payday loans being treated fairly? If detriment is still present has the nature of the detriment changed? And are consumers really better off without payday loans? Our next report in this series will seek to answer these questions.