Institution: Brunel University London		
Unit of Assessment: 17 Business and Management Studies		
Title of case study: Payday Lending and Personal Indebtedness		
Period when the underpinning research was undertaken: 2014 to 2017		
Details of staff conducting the underpinning research from the submitting unit:		
Name(s):	**Role(s) (e.g. job title):**	**Period(s) employed by submitting HEI:**
Professor Robin Jarvis	Professor - Accounting	01/2010 - present
Period when the claimed impact occurred: 2014 to 2019		
Is this case study continued from a case study submitted in 2014? N		

1. Summary of the impact (indicative maximum 100 words)

Prof. Jarvis' research has resulted in the introduction of a price cap on high-cost short-term credit (HCSTC) by the Financial Conduct Authority in January 2015, which subsequently led to a drop of 31.7% in both revenue and volume of loans by payday lenders in 2016. This has benefitted the most financially vulnerable people in the UK. Since the changes in regulation, ex-customers have received GBP400,000,000 in compensation from the biggest payday lender alone, and the number of payday lenders had dropped by 80% in 2018. Citizens Advice have seen a 50% decrease in consumers needing help with payday loan debts and StepChange Debt Charity reported a significant drop in clients. The UK payday loan industry is now only worth GBP220,000,000, down from the GBP2,500,000,000 in 2013.

2. Underpinning research (indicative maximum 500 words)

Prof. Robin Jarvis has conducted extensive research on the processes of accounting standard setting, financial reporting, and the UK payday lending market (Ref. 1; Ref. 2.; Ref. 3), supported by 2 grants from the Association of Chartered Certified Accountants (ACCA) (Grant 1; Grant 2).

In 2013, the payday loan market was worth GBP2,500,000,000 (equivalent to 10,000,000 loans taken by 1,600,000 consumers). This was up from GBP9,000,000 only 4 years before. This expansion put consumers at serious risk and many experienced significant debt problems as a result. This high number was accompanied by very high interest rates. For instance, the Guardian indicated at the time that the average interest rates for borrowers in payday lending contracts ranged between 1,000% and 4,000%. Citizens Advice saw a 1,000% increase in the number of people coming for advice about payday loans during that time.

These extreme numbers, supplemented by a call for action to overhaul the payday loan sector by the House of Commons' Business, Innovation and Skills Committee in December 2013 was the motivation for Prof. Jarvis' research (Grant 1; Grant 2).

In 2014, Prof. Jarvis began working with Mick McAteer who, at the time, was a trustee of the Financial Conduct Authority (FCA) and principal of the Financial Inclusion Centre, and Sarah Beddows, an independent consultant and later employed by the Bank of England. The objective of the research was to obtain a detailed understanding of the business models driving payday lending and the consequent consumer detriment in order to inform the debate in the UK about the rate capping of interest payments. This included an investigation of other regulatory interventions in the market in order to ensure satisfactory outcomes for lenders. The research involved an examination of the behaviours of payday lenders and an analysis of their corporate reports and other supporting documentation (Grant 1).

The key research findings were (Ref. 2):

- Establishing the nature of online Payday Lending business models as compared to their retail counterparts. The online businesses had lower operating costs but very high marketing costs. An important feature was sourcing the personal details of prospective borrowers.

- Customer Acquisition Costs: these included advertising on TV, internet advertising using internet optimising techniques primarily for new customers, discounting first loans and refer a friend. These costs were significantly representing nearly 20% of the sales value for most providers. These costs were recoverable after a customer's third loan which included high interest costs and default charges.

- The main 'cost' was bad debts representing approximately 50% of sales value whilst profits represented approximately 10%.

- The costs of defaults were not borne by the lenders, who operate profitably, but by borrowers through high charges and fees.

- Approximately 30% of loans are rolled over, meaning the borrower cannot repay a loan at the end of the stated term. This attracts further finance costs that tend to place the borrower into a cycle of needing to borrow.

- The research identified a number of issues leading to market failure, which included Market Competition, Information Asymmetry – adverse selection, financial capability and capacity to repay loans and the nature of borrowers suffering detriment from lending through Payday Lending companies.

This research (Grant 1; Ref. 2) was followed by an investigation into the wider personal credit market by the same research team in 2015 (Grant 2). The focus was on 3 vulnerable groups: self-employed workers, workers with low and variable earnings, and students. For example, payday lenders target university students with irregular income and charge them up to 1,294% interest. The use of smartphone apps, which allow students to receive GBP50-60 at the drop of a hat while on a night out, exacerbates the problem.

It was because of these toxic business operations that Prof. Jarvis' analysis focused on the business model of payday lending and examined what policy interventions should be taken to create greater financial resilience in the UK (Grant 2). The analysis recognised there is a need to change both the demand and the supply side of the short-term credit market (Ref. 3).

3. References to the research (indicative maximum of six references)

OUTPUTS:

Ref. 1 Collis, J., Jarvis, R. & Skerratt, L. 2017. 'The Role and Current Status of IFRS in the Completion of National Accounting Rules – Evidence from the UK', *Accounting in Europe*, 14:1-2, 235-247, DOI: 10.1080/17449480.2017.1300673

Ref. 2 Jarvis, R., McAteer, M. & Beddows, S., 2014. 'Payday Lending: fixing a broken market,' ACCA Technical Report. https://www.accaglobal.com/in/en/technical-activities/technical-resources-search/2014/may/payday-lending-fixing-a-broken-market.html

Ref. 3 Jarvis. R, McAteer, M & Beddows. S. 2016. 'Britain's debt, how much is too much? Policies to encourage savers and support the over-indebted,' ACCA Technical Report. https://www.accaglobal.com/.../Technical/fin/britains-debt.pdf

Ref. 4 Jarvis.R. 2018. 'Payday loans are part of a deeper problem that investors must help fix,' The Conversation. http://theconversation.com/payday-loans-are-part-of-a-deeper-problem-that-investors-must-help-fix-103244

GRANTS:

Grant 1 Jarvis. R, McAteer, M. and Beddows, S. 2014/2015. *An investigation of the Payday Lending market*, GBP10,000
Sponsor: ACCA

Grant 2 Jarvis. R., McAteer, M. & Beddows, S. 2015/2016. *An investigation into UK personal indebtedness with particular reference to Self Employed, the low paid and students*, GBP10,000
Sponsor: ACCA

4. Details of the impact (indicative maximum 750 words)

Impact on Regulation

Prof. Jarvis' research was highly influential in the introduction of the price cap on high-cost short-term credit (HCSTC) in January 2015 (E1; E3). The price cap consists of 3 caps: interest on the loan must not exceed 0.8% per day of the amount loaned; default charges are capped at GBP15.00; a borrower should never repay more than 100% of the amount borrowed.

The FCA has taken up every recommendation made by Prof. Jarvis, after ACCA and the Financial Services Consumer Panel made his research the basis of their contribution to the FCA consultation on the price cap (E1; E2). The Chair of the Panel at the time, states that the changes which subsequently occurred, namely the "regulation of the sector and demise of two high-profile providers…have shown the lasting impact of this ground breaking work" (E2).

Principles for Responsible Investments (PRI) confirm, the "pieces of research have demonstrated their innovative and transformative nature…at a critical time for individuals, households, industry and economies" (E3).

The introduction of the rate cap resulted in greater regulatory scrutiny. A year later the market has experienced approximately a 30% drop in volume and revenue in payday lending loans.

Impact on Consumers

In 2016, Citizens Advice published a report, which confirms that the changes the FCA had made to the regulation of payday lending led to a number of improvements in the market. Citizens Advice "found that the market had gone through significant changes with 38% of payday lenders having left and 45% fewer clients coming to Citizens Advice with a payday loan problem" (E7). Their findings also showed that 10% of consumers (equivalent to 160,000 people a year) who had previously used payday loans were now no longer able to apply for new loans in order to prevent the accumulation of further debt (E7). The report quotes a client who was turned down for a payday loan, "I am glad I didn't get accepted for payday loans as it forced me to change my behaviour" (E7). Likewise, 22% of the consumers surveyed in the report felt they were better off financially, and 29% indicated that the change in regulation has had a positive impact on their life (E7).

Citizens Advice has also seen a 50% decrease in consumers needing help with unaffordable payday loan debts: down from 16,000 people in 2013-2014 to less than 9,000 in 2017 (E8). The regulation on payday loans has been so successful that Citizens Advice called on the FCA in 2018 to urge them to extend the regulation to the doorstep lending market. Their research shows that it could save up to GBP123,000,000 in interest payments on up to 540,000 loans each year (E8).

Likewise, StepChange Debt Charity has seen fewer clients coming to them with HCSTC debts, down from 23.4% in 2013 to 16.1% in 2016. The average total amount owed on HCSTC by clients has also fallen from GBP1,647 in 2013 to GBP1,308 in 2016 (E9). Furthermore, of the clients surveyed in 2016, 60% had applied for a HCSTC loan since January 2015 and been rejected on at least 1 occasion (E9). This also had a tremendous impact on borrowers being subjected to cycles of debt. In the past, borrowers often turned to other lenders when they missed a payment for a different loan even though they were in a lot of debt already. As 2 former borrowers report, "I should have not been lent the amount as I already had a huge amount of credit to repay other creditors" and "I was in a lot debt anyway and the payday loan tipped me over the edge" (E9). However, the new regulations brought about by Jarvis' research decreased these perpetual cycles of debt and thus directly benefitted the most financially vulnerable people.

In 2019, the FCA published figures, which revealed that the number of payday lenders has fallen by 25% in 2018 while the number of payday loans has dropped 31.7% year-on-year. The figures show that 861,781 payday loans were taken out between January and March in 2019. This is a 31.7% drop (equivalent to 399,339 loans) in comparison to the first quarter of 2018 during which 1,261,120 loans were taken out. The data also showed a decrease in active payday loan firms which dropped by 24.5% in the first quarter of 2019, down from 94% to 71%. The income-streaming company Wagestream, says, "This sharp collapse in the number of payday loans taken out is fantastic news for UK consumers who, to their credit, are getting wise as to how expensive and toxic this form of borrowing is" (E6).

The payday loan industry in the UK is now only worth GBP220,000,000, down from the GBP2,500,000,000 in 2013. As of July 2018, there are 40-50 payday lenders in the UK, which is around 20% of the 200 lenders in 2013 and 2014 (E10). As of October 2019, payday lender Wonga, one of the biggest companies in the industry, had paid ex-customers GBP400,000,000 in compensation.

The change in regulation and impact on UK consumers has been so successful that other countries have taken notice. In 2018, the Danish Consumer Council (the oldest consumer organisation in Europe) used Prof. Jarvis' research to inform their decision-making process in the development of initiatives, which will protect consumers from excessive indebtedness in Denmark. The country is home to a substantial payday lending market, and Prof. Jarvis' research formed the basis for investigating effective regulation to ensure more financially stable consumers and sustainable business practices (E4; E5).

The impact Prof. Jarvis' research has had on the FCA price cap and payday lending market is a prime example for how strong regulation can significantly improve detrimental markets and bring considerable benefits to the most financially vulnerable people.

5. Sources to corroborate the impact (indicative maximum of 10 references)

E1 Letter from Senior Accounts Manager, Portland Communications (previously, Public Affairs Manager at ACCA)
E2 Letter from the Chair of the Financial Conduct Authorities Financial Services Consumer Panel
E3 Letter from the Head of Academic Research at Principles for Responsible Investments (previously, ACCA's Research and Knowledge Transfer Manager, 2007-2014)
E4 Letter from the President of the Danish Consumer Council
E5 Project Summary from the Danish Consumer Council
E6 *Number of payday loans taken out drops by a third*, YourMoney.com, 17 July 2019
E7 *Payday loans after the cap: Are consumers getting a better deal?* Citizens Advice Report, August 2016
E8 *Extending payday loan cap could stop thousands getting into spiral of debt*, Citizens Advice, 19 March 2018
E9 *Payday loans: The next generation of high cost short-term credit. Changes to the high-cost short-term credit market since the introduction of the price cap,* StepChange Debt Charity Report, 2016
E10 *The payday loans industry is worth £228 million in the UK*, paydaybadcredit.co.uk, 18 July 2018