INTO THE MAINSTREAM:
The Australian Payday Loans Industry on the Move

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The Australian payday industry has experienced remarkable growth since the establishment of the first payday outlet on Queensland’s Gold Coast in 1998. Due to the industry’s prominence in the consumer finance market, criticism from some quarters including consumer advocates and the federal government resulted in regulation of the industry in March 2013. Since then, marked changes have taken place within the industry including the restructuring of the domestic market, augmentation of the little-researched online small loans market and a widening of the customer base. As the industry moves towards the mainstream of consumer finance, we believe that traditional views about the role of the industry must be updated to better reflect these developments. This will be essential to inform the much-anticipated policy debate ahead of the federal government review of the industry set to commence in July 2015.

The common expression ‘payday lender’ refers to credit providers who offer small, short-term, unsecured loans. A payday loan is referred to in legislation as a Small Amount Credit Contract (SACC), and this term is extensively used within the industry. The Australian market is comprised of lenders that are purely dedicated to the SACC loan product and others offering a wider array of loan options. These include $2,000 to $5,000 Medium Amount Credit Contract (MACC) loans, other unsecured and secured personal and specific purpose loans, as well as pawn-broking services.

This paper provides an overview and discussion of the industry post-regulation and summarises the initial findings of a research project into the growth of the Australian online SACC lender sector. Our research has involved both qualitative and quantitative research methodology including interviews with industry stakeholders and lenders from shop-front and online sectors as well as analysis of available secondary data such as market research reports from financial databases. We have produced a ‘snapshot’ of online payday providers that was captured in May 2014. This database was generated through an internet search of websites offering SACC loans. Terms such as ‘payday loan’, ‘quick cash’, ‘easy cash loan’, ‘cash advance’, and ‘emergency money’ were used to search for providers. Links to our online survey of borrowers were recently displayed on a number of lender websites. An analysis of the survey data will be published later this year.

As it expands, the industry is progressively moving from the fringe into the mainstream of consumer finance in Australia. Despite the recent introduction of restrictive government regulation in 2013, our research shows that the industry has recovered through innovation in product design, marketing and delivery. This expansion can be seen in emerging trends including: the decline of some small independent providers; the consolidation of major payday providers; the emergence of a split market between low-income high street borrowers and a little known, yet thriving, online sector which caters for somewhat higher income earners; greater internationalisation; and integration of the payday sector with banking capital and retail finance. As such, the popular perception of the twentieth-century ‘loan shark’ operating at the margins
of society is out of step with the new position occupied by SACC loan providers in the Australian consumer finance market. With the government set to conduct an extensive review of this market in July 2015 (National Consumer Credit Protection Act 2009 (Cth) s 335A), informed policy formulation in this area requires a reassessment of the notion that the industry remains on the margins of consumer credit.

**Growth of international markets**

By all measures, the industry is on the rise, internationally and domestically, and it is positioning itself as a significant component of consumer credit. For example, the number of loan outlets in the United States rose from 200 in 1990 to 25,000 in 2007 — more than McDonald’s and Starbucks combined (Bianchi 2012). Fourteen million Americans access these loans each year, generating $4.7 billion in revenue for the industry (Trihouse Enterprises 2014; Burtzaff and Groce 2011). Total revenue of the US payday industry is currently valued at $11 billion (IBISWorld 2014a). Across the Atlantic, a million households take out at least one loan per month in the United Kingdom, with loan volumes projected to be worth $4.2 billion to $5.5 billion by 2014 (Datamonitor 2010; Populus 2013). The industry has experienced similar growth patterns in Canada, New Zealand and Australia (Cagney and Cossar 2006; CPLA 2013; Marston and Shevell 2014).

**Growth and diversity in the Australian payday loans market**

After an explosion in the number of lenders over the past decade from virtually non-existent levels, the industry has undergone a recent consolidation in Australia. In the 1950s many money lenders in Australia saw their businesses close as they struggled to secure financing from banks and employment increased after the Great Depression. However, by the 1990s, payday lenders in Australia re-emerged, rapidly responding to shifting economic conditions including, but not limited to, greater financial deregulation (Anderson 2013). In 2001, only 12,800 loans were being written per month by the 82 lending businesses operating at the time (Packman 2014). The subsequent decade has witnessed a twenty-fold increase in these numbers. By 2011, one study valued the sector at $800 million and estimated that 1.1 million Australians (15 per cent of the adult population) were taking out three loans per year on average (Banks et al. 2012). Figure 1 illustrates the market size of payday loans, measured as annual growth rates, compared with other related financial industries in Australia.

**FIGURE 1: Annual revenue growth rate (2009–14)**

![Graph showing annual revenue growth rate](image)

*Sources: Data derived from: IBISWorld Market Research Reports 2014a, b, c, d, e & g; Australian Payday Industry data retrieved from IBISWorld 2014f — Cash Converters Company Report Industry Average section.*
The industry is characterised by heterogeneity in terms of operational size, product diversity and customer markets. Some lenders have a national chain of shop-front outlets, such as Cash Converters (141), City Finance (146), Money3 (70) and Cash Stop Financial Services (30). A shrinking number of standalone lenders run one or two shopfronts. Revenue growth for the two ASX-listed lenders (Cash Converters and Money3) has been robust, while other shop-front networks such as Cash Stop Financial Services have been stagnant. Nimble, an emerging online-only lender, increased revenue in their second year of operation by 46 per cent to $12.7 million.

**FIGURE 2: Total revenue of selected payday loan companies, 2008–13**

![Graph showing total revenue of selected payday loan companies from 2008 to 2013.]

*Sources: Data retrieved from: IBISWorld Market Research 2014f; Dun & Bradstreet 360 Reports 2014a, b, c; Cash Converters and Money3 Annual Reports.*

All of the larger firms in the payday industry have significant business operations outside the SACC loan area, and new, as well as many established lenders, see the SACC product as an entry point rather than the mainstay of their business. For example, Cash Converters, despite maintaining significant business in the SACC loan markets, dedicates only 40 per cent of their franchise to financial services, with the rest directed towards retail sales of second-hand goods (IBISWorld 2013f). This heterogeneity and product diversification also extends to the expanding online sector. Of all online lenders identified as providing SACC loans, nearly half (33) also offered MACC loans; 14 advertised commercial loans, and personal loans of up to $10,000 were available through 12 sites.

The online Australian SACC market appears to be dynamic and growing. Our research found that in May 2014, SACC products were directly available through 65 sites, while six sites promoted links to other providers. Of all identified online companies offering SACC loans, 22 also had a shopfront presence. Cash Converters, a major shop-front lender, reported that the value of their approved online cash advances in the March 2014 quarter was 160.9 per cent higher than in the corresponding period in 2013 (Cash Converters 2014a).

Our study suggests that the continued development of the online sector is changing the traditional borrower demographic profile. Research conducted prior to the recent regulatory changes and the rapid increase of online lending found that most shop-front customers were not employed and had very low incomes (Banks et al. 2012; Connolly et al. 2011). However, data collected from online databases and our interviews with lenders strongly suggest that there has been segmentation in the market between higher-income customers who take out loans online and lower-income income borrowers of high street SACC products. All online-only lenders in our study require applicants to be employed whereas most shop-front outlets do not. Previous studies had similar findings, with reports that customers had an average salary of $65,000, a similar figure to other online companies who reported customer average annual incomes of $55,000 (Kitney 2014a). Data soon to be published by the National Financial Services Federation will clarify the extent of this market segmentation trend.
Interviews conducted with lenders also strongly indicate that market efficiency has been gained in the online segment through new technology, such as the use of loan management software (LMS). These technologies electronically process applications and give online providers a competitive edge. Our research interviews also disclosed the three main types of loan management software used in Australia as Min-IT, LAPs and FIN power, with some lenders developing their own unique models.

The key differences between these systems appear to be how the risk-assessment of borrowers is undertaken. In the Min-IT system, the borrower applies for a loan online, and then the lender decides on the suitability of the applicant. If approved, the borrower’s details and contract details are placed within the system. This process is unlike the LAPS system, which was imported from the UK, where after applying for a loan, a credit check is carried out by software accessing third-party databases such as VEDA (a data analytics business that assesses creditworthiness) and reviewed by separate software programs to determine the suitability of the applicant. One lender disclosed how software has been created to check bank statements of borrowers electronically, such as Bankstatements.com.au, to review overdraft frequency. Figure 3 provides a breakdown of each lender in the study and which method was utilised for borrowers’ applications.

FIGURE 3: Online SACC application processes

Complementing the online sphere is the emergence of mobile device access to SACC loans, a major innovation which the online-focused lenders we interviewed claim increases borrowing frequency. In our study, a leading online-only lender reported that 60 per cent of their organisation’s borrowers use an iPhone, and that four in every five computer-based purchases come from an iPad instead of a traditional desktop. As a result, the industry is developing a range of new SACC lender ‘Apps’ as a mechanism to consolidate borrowers. One online-only lender considered that they dealt with a more ‘sophisticated customer’ compared to the typical high street patron, one who was highly adept at online banking and online retail purchasing. These claims complement other financial studies on online payday lenders such as Nimble, who reported that two-thirds of its online loans are attained through mobile devices, and that they expected app-based loan requests to rise by 74 to 80 per cent in the next year (Kitney 2014a).

Discussion: Discontinuation, consolidation and growth in online markets

The growth of the payday industry has been accompanied by a highly charged policy debate between consumer and welfare advocates and the industry. In Australia, the debate centres on two connected issues: cost and risk. Consumer advocates argue that loan fees are too high and low-income customers risk becoming caught in a cycle of repeat borrowing (Ali et al. 2013). The industry maintains that the higher costs are commensurate with the greater risks of default in this segment of the market and that they are simply meeting strong demand (Infosys Technologies Ltd 2008).
The ongoing debate has resulted in two phases of legislative reform of the industry; the National Consumer Credit Protection Act (NCCP) 2009 and, more recently, amendments of the NCCP by the Consumer Credit Legislation Amendment (Enhancements) Act 2012. The NCCP, seen as a watershed by industry, instigated a shift from state-based to Commonwealth law, and a national credit licensing regime overseen by sole regulator Australian Securities Investment Commission (ASIC). By 2013, the later Act capped interest rates on payday loans at 4 per cent per month, restricted establishment fees to 20 per cent of the principal, and prohibited concurrent loans and the refinancing of any existing loan. These regulations also included more stringent risk assessment measures such as enhanced eligibility requirements, necessary provision of borrower bank statements, and mandatory borrower notices (NCCP s 117). If a borrower received the majority of their income through Centrelink payments, repayments on a SACC loan could not exceed 20 per cent of their income, referred to as the ‘protected income amount’ (National Consumer Credit Protection Regulations (Cth) reg 285).

It seems many providers that existed prior to the changes in legislation, which were rolled out during 2013, have been unsuccessful at readjusting their business models in line with the new regulatory environment. An industry body representative we interviewed reported a trend towards membership discontinuations of smaller operators, with their records showing that as of 7 May 2014, the number of small independent lenders had dropped from 248 prior to the 2013 regulations to 31. As part of the July 2015 review, discussion will focus on the whether a creation of a national database of small amount credit contracts should be pursued as a means of tracking these and other industry developments (NCCP s 335A).

Our study also shows that the second trend to emerge in the payday industry concerns the consolidation of larger companies within the market. These providers have acquired struggling payday companies, created new franchises, or expanded internationally. Companies that exhibit this trend include large players such as Cash Converters. For example, in 2013 Cash Converters reported a 46.4 per cent slump in net profit to $9.8 million (Cash Converters, 2013) but have subsequently been reported to have regained momentum (Cash Converters, 2014a). Despite more restrictive regulation, over the past year they have: acquired eight new stores locally within Australia, taking its shopfront offices from 56 to 64; acquired a 25 per cent stake in NZ Cash Converters; and expanded internationally to establish new stores in Mexico and Latin America (Cash Converters 2014b). As Peter Cummins, Managing Director of Cash Converters said, ‘The UK market remains tough but now it seems we are emerging from the transitional issues resulting from the new Australian regulatory requirements and our loan products are once again seeing good rates of growth’ (Cash Converters 2014b). Similarly, Money3 struck a deal with Cash Store Australia to acquire the rights of 41 out of its 60 outlets, including 30,000 customers (Kitney 2014b).

Although pre-dating the latest regulatory restrictions, the listing of two larger SACC provider companies, Cash Converters (1997) and Money3 (2007) on the ASX, signals both an acceptance of these companies as mainstream investment vehicles as well as a potential future consolidation within the market. Money3 advised the ASX in 2014 that its profit before tax of $4.4 million was up 100 per cent, and it was expecting ‘strong earnings growth in the immediate future’ (Money3 2014). These developments again reflect trends taking place internationally, most strikingly in the US where EZ Corp (Nasdaq), Cash America (NYSE), QC Holdings (Nasdaq), First Cash Financial Services (Nasdaq) and Advance America Cash Advance (NYSE) are publicly-listed companies (Trihouse Enterprises 2014).

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The continued growth of the online SACC category has challenged prevailing assumptions about borrower demographics in consumer credit markets. Providers in the credit industry are traditionally grouped into one of two categories, ‘mainstream’ and ‘fringe’ lenders. The former include the traditional mechanisms for credit such as banks, building societies, credit unions and national finance companies, with strong bank affiliations or ownership. The latter category has traditionally referred to the provision of small personal loans, to those people who have less ability to borrow from mainstream credit facilities (Infosys Technologies Ltd 2008). A 2014 report by National Australia Bank and the Centre for Social Impact concluded that 16.4 per cent of the adult Australian population are without access to mainstream financial services (Connolly 2014), providing an insight into why disproportionately high levels of low-income Australians borrow from ‘fringe’ lenders.

However, our research indicates that a striking feature of the online sector appears to be the continued rise in the higher-income market as distinct from the traditional low-income, shop-front SACC borrower. Some of the lenders we interviewed reported that the legislative changes required an extension in both the amount and loan period of new SACC loans, compared with previous lending practices. The common practice of writing short-term loan contracts of less than 16 days was banned under the Consumer Credit Legislation Amendment (Enhancements) Act 2012. Consequently, the new SACC loan period (16 days to a year) has somewhat encroached on previous medium-term loan structures — an issue raised by some lenders as a key reason why SACC loans have begun to attract a wider consumer market.

The emergence of online product offerings has accelerated this trend of penetration into a higher income segment of the market. Despite the innovative use of a range of data sources, the capacity of online-only systems to assess risk — especially for low-income customers seeking smaller loans — remains inferior to the highly interpersonal risk evaluations and loyalty attachments which occur at shop-front stores. One executive of a large company we interviewed considered that online-only lenders have yet to develop a profitable risk assessment business model that can cater for the lower-income segment of the small loan market. The increasingly innovative use of big data, however, may reverse this trend. For example, one online lender discussed how large retailers were building richer customer profile databases which they were progressively leveraging as a way to enter the online market for consumer finance, and similar risk-based products like insurance. This is a business trend previously documented about US payday companies (Consumer Federation America 2009).

Although online providers can avoid the rental and operational costs associated with shop-front outlets, the lenders we interviewed did not see this reduction in costs as the main driver of the online sector. Rather, the acceleration in growth relates to the reduction in processing times for risk-assessment, approval times, and electronic funds transfer; the combination of these factors appears to have delivered a dynamic business model. One online-only lender reported that borrower data is collected from third-party sources, processed within 15 minutes, and then approved or declined, with the money being transferred directly into the borrowers account within an hour. Foregrounding trends likely to occur in Australia, the ease of applying and receiving online loans in the UK, especially among employed and younger borrowers, has led to seven out of 10 customers only ever taking out an online loan (TNS BRMB and Competition Commission 2014).

One facet of the payday industry that has not been widely discussed is the continued growth of ‘lead generation’ websites as an adjunct to the online sector. Lead generators often market themselves as online payday lenders or present as loan comparison sites, but they do not lend and as such do not require a credit license. Instead they sell the information of applicants, using a bidding platform, to lenders in the market. Some lenders also act as lead generators, monetising declined applicants by referring them to other lenders. Leads are processed through the lender’s LMS software to determine suitability, such as a customer’s credit rating and default history. The ‘quality’ of the lead generates higher prices, but determining the exact basis and measure of ‘quality’ is difficult as there is considerable variation between lenders on risk allocation and other lending criteria. According to a leading online-only lender, the average price for a lead is $90 to $120, though successful lead bids range from $2 to $350.
Our study found that the big players in lead generation include 9global (a US-based company), Vibration media, and finder.com.au. In the US, lead generation business has biannual conferences of up to 15,000 participants, indicating that it is a significant industry in its own right. Our research on lead generators operating in the Australian online SACC sector found 55 sites. Most lenders we interviewed expect the lead generation sector to grow rapidly in Australia.

**New frontiers: Banking, retail and increased internationalisation**

As small lenders specialising in SACC loans are attempting to gain economies of scale, established businesses already operating on the basis of scale, in particular mainstream retailers, are moving into the small amount personal loans market. Teaming up with GE Money, Australian retail chain Coles recently announced its entry into the personal loans market, preparing to offer small loans and credit cards (Lynch 2014). This development mirrors what has already taken place in America, with family group retail giant Wal-Mart partnering with Progress Financial Corp, a supplier of unsecured credit (Dudley 2013).

Alongside these changes, the SACC loan market has become more integrated with mainstream banking through finance capital and shareholdings in listed companies. The major shareholders of Cash Converters International at 2013 include Colonial First State Investment, Commonwealth Bank, JP Morgan and HSBC. In addition, out of the two major bank service providers of Cash Converters, one is part of the ‘big four’ commercial banks in Australia, Westpac Banking Corporation. HSBC, another substantial shareholder over the past few years, is itself heavily integrated as a major shareholder in all big four Australian banks, showing the integration of these two areas of finance.

Finally, the process of internationalisation is accelerating both here and overseas. For example, Cash Converters has acquired a franchise license in Scotland to assist expansion of its current holdings of 700 stores in 21 countries (IBISWorld 2014f). However, lenders have reported the entry into the Australian SACC landscape of international players such as American Pawnshop, a major player in the US industry, UK-based Paid International, Norwegian-based Credit 24 and US/UK owned Loan Ranger.

**Conclusion**

Contrary to popular perceptions, this study has shown that the SACC industry is not only showing immense buoyancy in a post-regulatory environment but also responding with conspicuous innovation in loan product and business technology. Key factors underpinning this growth of consumer finance include the consolidation of major lenders, the rise of an online market and new borrower demographic, and greater institutional integration between the payday sector and finance capital. A key finding of this paper is that these changes warrant a new conceptualisation of the SACC loan industry as one which is increasingly moving into the mainstream. This should also help to inform both the prospective government review of the industry and public debate in this area. With the industry undergoing continuous and rapid change, further research is required to build on the initial findings presented in this paper.

**References**


