



Circling sharks

Wonga's collapse is arguably a victory for increased regulation, but deeper changes are still needed to protect the vulnerable

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The UK's biggest payday lender Wonga has gone into administration, despite efforts to stay afloat and a £10 million cash injection from a group of their shareholders, including venture capital funds Balderton Capital and Accel Partners.

The collapse represents a huge fall from grace for the company, which in 2012 was widely publicised to be exploring a US stock market flotation that would have valued it at more than \$1 billion (£770 million). However, since then they have faced increased criticism that their short-term, high-interest loans prey on the vulnerable.

Wonga first had its wings clipped by the Financial Conduct Authority (FCA) in 2014, when the regulator found that Wonga's debt

collection practices were unfair and ordered it to compensate 45,000 customers, at a cost to the firm of £2.6 million.

Following the fine, regulators cracked down harder on the industry and the FCA ruled that, from January 2015, customers must face stricter affordability checks, as well as setting a price cap that slashed the typical interest rate down to a maximum of 0.8% per day and stating that nobody should ever have to repay more than twice the amount borrowed. They also required every lender to go through an authorisation process. This increased regulation contributed to pre-tax losses of almost £65 million for Wonga in the 2015/16 tax year.

A wolf in sheep's clothing

Wonga had always heavily defended itself against criticism, distancing itself from other

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payday lenders and insisted that it has been 'transformed' following the 2014 decision.

Indeed, it went as far as to insist that it was not a loan company, but rather a maverick technology company that just happened to sell loans. The smartphone technology employed by the firm, alongside the large scale advertising campaign featuring friendly puppet grandparents, made loans desirable and attracted customers who may never have sought out a loan otherwise. As Mick McAteer, founder of the not-for-profit Financial Inclusion Centre, said: 'They were flogging [credit] and they created demand for it.'

At its peak Wonga had a million customers. But scandals, including letters from fake legal firms when chasing debts, and advancing a host of unsuitable loans, hit the Wonga brand and its popularity – with customer numbers falling by almost half to 575,000 in 2014.

The nadir of this was the revelation that an 18-year-old, Kane Sparham-Price, committed suicide within hours of Wonga completely emptying his bank account. There was no suggestion that Wonga acted unlawfully in their actions, or was aware it had left Sparham-Price penniless, but it certainly did not help its public image. A coroner's report called for a change to payday loan rules to prevent similar deaths.

Rising claims

In recent months, claims for compensation had soared, with each having a financial impact – costing the company £550 per claim to process, whether the borrower's claim is upheld or not.

Many of these came from claims-management companies – one of which, PaydayRefunds, stated it alone had entered about 8,000 claims against the lender in the last six months. Mike Smith, director of Companydebt.com, believes that this was the final nail in Wonga's coffin: 'Writing off over 300,000 debts after the FCA ruled Wonga had not adequately assessed its customer's ability to meet the repayments cost the firm some £220 million.

'In my opinion, Wonga's initial success was a direct result of them exploiting a loosely regulated market. It was partly the enormous revenues it created in that period, and the slew of copycat firms who copied its business model, that prompted a regulatory change.'

Paul Stanley, regional managing partner (North West) at insolvency practitioners Begbies Traynor, agrees. 'Regulations

brought in by the FCA undoubtedly dealt a major blow to Wonga,' he says.

'Imposing the price cap and limiting people's repayments forced the entire payday loan industry to re-examine their business models and Wonga certainly was not the first casualty and it may not be the last.

'The administrators cited redress payments as the key issue which gave the management team no option but to place the firm in administration.'

Prior to entering administration, a spokesperson for Wonga said: 'Wonga continues to make progress against the transformation plan set out for the business. In recent months, however, the short-term credit industry has seen a marked increase in claims related to legacy loans, driven principally by claims management company activity.

'In line with this changing market environment, Wonga has seen a significant increase in claims related to loans taken out

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before the current management team joined the business in 2014.' Anyone who has made a claim that has not been resolved is now unlikely to receive compensation.

Schadenfreude

Companies collapsing are normally treated with dismay; the loss of jobs and impact on the economy are rightfully saddening and many recognisable names have been mourned and eulogised by the public who will miss their presence. However, it seems that Wonga's death has been greeted with almost universal glee. This ignores the very real impact that it has on more than 500 employees who face job losses.

During the company's heyday, Justin Welby, the archbishop of Canterbury, pledged to 'compete' Wonga and other payday lenders out of existence, through the expansion of credit unions, while the Church of England called the company 'morally wrong'. It was later found to

have indirectly staked around £75,000 in Wonga through an investment fund.

Following the news of Wonga's collapse, Welby's charity the Just Finance Foundation, welcomed the news, with Canon Paul Hackwood, a trustee of the foundation, saying: 'Today we are seeing the result of the much-needed tougher financial regulations starting to bite.'

The founder of MoneySavingExpert.com, Martin Lewis, went as far as to say the firm's collapse was a cause for celebration: 'Normally when firms go bust, the fear is diminished competition. Not here.

'Wonga's payday loans were the crack cocaine of debt – unneeded, unwanted, unhelpful, destructive and addictive. Its behaviour was immoral, from using pretend lawyers to threaten the vulnerable, to pumping its ads out on children's TV.'

Protection needed

Wonga may have been the figurehead of the industry, but it was by no means the only company offering such dubious services and although the main provider has gone the demand for such services remains.

With around two million people paid the minimum wage, 5.5 million self-employed and an estimated five million employed in the gig economy, it is not difficult to see that low and unpredictable pay is still a feature of British working life, which will result in many still seeking out loans from unsuitable or unsavoury means.

Sights may be set on cutting back on existing firms, which may seek to break into the gap Wonga has left in the market. Stella Creasy MP tweeted 'Wonga's customers need to be first in queue for protection for the administrators – and believe me Amigo Loans, Vanquis, Oakum et al... you are all in my sightline to hunt down.'

Peter Swabey, policy and research director at ICSA, commented that 'Although in some respects the failure of Wonga might be welcomed, the concern has got to be who or what will take its place in providing short-term finance for those in need.

'The sharks will be circling and it may be that regulators, like police chief Brody in *Jaws*, will find themselves saying "we're going to need a bigger boat".'

A holistic system of better employee rights and financial regulation is needed to protect the vulnerable from the sharks – both in terms of the short-term, high-interest loan companies themselves but also from the working and pay conditions that lead people to seek out 'help' from such firms. [n](#)