

# UK Point of Sale Finance Market Insight Report 2018

## Summary

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## About this report

### What does the report contain?

- This report focuses on the UK market for point of sale, or POS, finance.
- Also known as retail finance, in-store credit or store instalment credit, it refers to loans provided by, or on behalf of, a retailer to enable a consumer to make a specific purchase.
- This new edition of the report has been updated and extended to take into account recent growth in the market, comment on new entrants including PayPal and to revise our market size estimates and 5-year forecasts.
- The report quantifies the market size in loans outstanding, new lending and loan provider revenues, historical growth rates and levels of industry profitability. It also includes an in-depth analysis of the relevant drivers of industry growth setting out historical trends and available forecasts.

### What are the objectives of this report?

- This report aims to answer a series of questions on the POS finance market:
  - How does the market work? What changes have there been recently?
  - What would be the impact of an interest rate rise?
  - Which types of retailers use it most frequently?
  - How does it compare with alternative and substitute forms of finance?
  - What role has new technology played in the market?
  - What is the market size and historical growth rate, in terms of total loans outstanding, new lending and lender revenues?
  - What future growth can be forecast? What are the risks to future market growth?
  - What hard evidence is there to support views of historical and forecast POS finance market growth? What are the POS finance market drivers and how have they trended?

- How does the market compare with those in other countries?
- Who are the main finance providers and principals, which are most widely used by retailers, how have they performed?
- In simple terms, what do they each do, who do they work for and how do they operate?
- The report is intended for:
  - Operators of point of sale businesses themselves
  - Investors in these businesses
  - Retailers
  - Market regulators and policymakers
  - Banks, analysts, consultants and other parties with interests in the sector

### What are the sources and methodology?

- Interviews with senior-level contacts in the consumer credit industry
- A survey of the top 1025 UK retailers to establish whether they were using this form of finance and which providers they used
- A case study on retailers in the city of Salisbury
- Extensive research into published industry sources
- In-depth analysis of the macroeconomic environment and relevant market drivers
- Financial analysis of the accounts of companies in the industry
- Information from these sources has been synthesised and presented clearly and concisely with extensive use of charts and tables to illuminate points and support conclusions
- Market forecasts have been constructed using simple assumptions which are clearly stated. Supporting evidence is provided for our assumptions but readers can easily flex them to model alternative scenarios.

## Summary

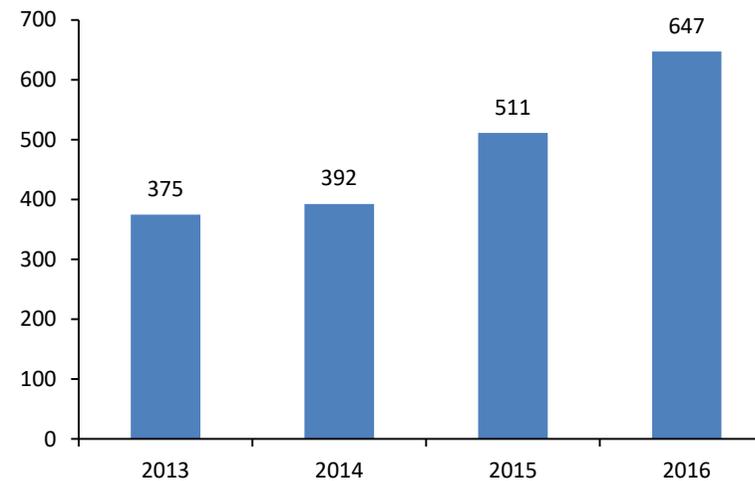
### Market background

- Point of sale (POS) finance – also called retail finance, in-store credit or store instalment credit – refers to fixed-term loans provided by, or on behalf of, a retailer to enable a consumer to make a specific purchase.
- At present, many retailers choose to subsidise the cost of the credit as a promotional expenditure and offer “interest-free credit” or “zero per cent finance”.
- It is used by both national retail chains and independent shops, most commonly in the home and furniture, jewellery and electricals sectors.
  - Loans are generally set up as personal loans, not secured on the asset and without a lease arrangement.
  - Interest-free loans are generally for 3-12 months with an APR of 0% (i.e. no additional fees are charged)
  - Charged-for loans are generally for periods of 12-60 months with an APR of 15-20% being typical.

### Market growth and drivers

- The market for POS finance has grown quickly in recent years with new lending now over £5bn per year. The combined revenue of leading lenders approached £650m in 2016
- It has been driven by trends in a range of demand and supply factors, including:
  - The appetite of consumer for purchasing the kinds of items which tend to be financed in this way, which is likely to be related to the overall level retail sales but with more of an emphasis on discretionary purchases (big ticket leisure items) and furniture
  - Consumer confidence in driving larger, discretionary purchases
  - The overall performance of the economy as a driver of both retail sales and consumer confidence
  - The level of housing transactions, which tends to drive big ticket purchases such as furniture

Total market POS revenues / £m



Source: Company accounts, Apex Insight Analysis

- The availability of this form of credit, influenced to an extent by overall unsecured consumer borrowing levels
- Pricing of POS finance loans, particularly the current wide availability of interest-free deals.
- The impact of technology on the market with new apps enabling far quicker decision-making and higher application acceptance rates.
- The impact of the ongoing shift of retail from the high street to online
- The impact of regulations on the market.

### Competitive landscape

- The market consists of retailers, broker platforms and lenders.
- In addition to most large retailers in the relevant retail sectors, around 7,000 independent retailers, including online-only stores, currently offer POS finance.

## UK Point of Sale Finance: Market Insight Report 2018 – Summary

- Broker platforms are becoming increasingly important, including Deko (Pay4Later), V12 (part of Secure Trust Bank), Klarna and Divido as the most established, with several new entrants in the last year.
- Key lenders dealing direct with retailers include Barclays Partner Finance, Close, BNP Paribas (Creation), Hitachi Capital, Ikano Bank and recent entrant, PayPal Credit.
- Lenders operating mainly through broker platforms include Conister Bank, Honeycomb, Lending Works, Omni, Paybreak and Secure Trust (via V12).
- Some larger retailers provide the finance from Group companies, including Home Retail Group and Shop Direct (Argos), often alongside other options including store cards.
- Most operators have grown in recent years, and aggregate margins across the sector grew steadily – until a decrease in 2016 coincided with the need to step up compliance efforts to meet the FCA's regulatory requirements.

## Outlook

- The outlook for the market remains positive, however, expectations for overall economic growth and hence, consumer appetite for borrowing and retail spending, have been revised downwards in the last couple of years:
  - GDP forecasts have been lowered since the Brexit referendum
  - The depreciation in sterling has led to higher inflation
  - The housing market is more uncertain
- We see the key risk to the market being if, as a result of high inflation or otherwise, interest rates were to rise significantly. As well as potentially damping down demand, this could also lead to retailers without FCA authorisations, who are only able to offer exempt credit, having to suspend their POS solutions.
- Other key risks to market growth include UK macroeconomic performance, a significant fall in the housing market reducing demand for big-ticket purchases, the development of new potential substitutes given UK fintech innovation and possible further regulation of POS finance products.

## About Apex Insight

### Company background

- Apex Insight is an independent provider of research, analysis and advice
  - Founded in 2012 by a team with experience of working in strategy consulting and the transaction advisory team of a Big 4 firm
  - Focus on a range of services markets including consumer credit
  - Publish market reports and carry out consulting work to address more specific requirements

### Consulting services

#### *Commercial / operational due diligence*

- Experience of leading c.150 commercial due diligence reviews on behalf of private equity and corporate acquirers / vendors.
- Work includes assessment of market attractiveness, competitive position, customer relationships, information systems and operational performance.

#### *Custom market analysis*

- Research and evaluation of your required market to your desired scope.
- Market quantification, competitor insight and intelligence, analysis of drivers and forecasts

#### *Primary research*

- We have deep experience in conducting face-to-face interviews with senior-level decision-makers and managing large-scale surveys, plus even more experience in analysing findings to provide insights and actionable results

#### *Growth strategy*

- Outward looking and fact-based: market entry strategies, search and screening programmes for new partners, customers or acquisition targets, benchmarking.

### Related research

- UK Consumer Debt Collection and Debt Purchase Market Insight Report 2018 (January 2018)
- UK Car Dealer Point of Sale Finance: Market Insight Report 2017 (August 2017)
- UK High-Cost Short-Term Credit (including Payday Lending): Market Insight Report 2017 (May 2017)
- Credit Reference Agency Services: Market Insight Report 2016 (July 2016)
- Rent-to-Own Retail: UK Market Profile and Forecast 2015 (September 2015)
- Home Credit: UK Market Profile and Forecasts 2015 (September 2015)
- Pawnbrokers and High Street Loan Stores: UK market profile and forecast 2015 (August 2015)
- European Peer-to-Peer Lending: Market Insight 2015 (June 2015)

### Research subscriptions

- For clients who require access to multiple reports.
- Can be tailor-made to meet individual requirements cost-effectively

## About Apex Insight: example consumer credit research and consulting clients



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## About the Market

### POS finance is consumer credit for the purchase of specific goods or services

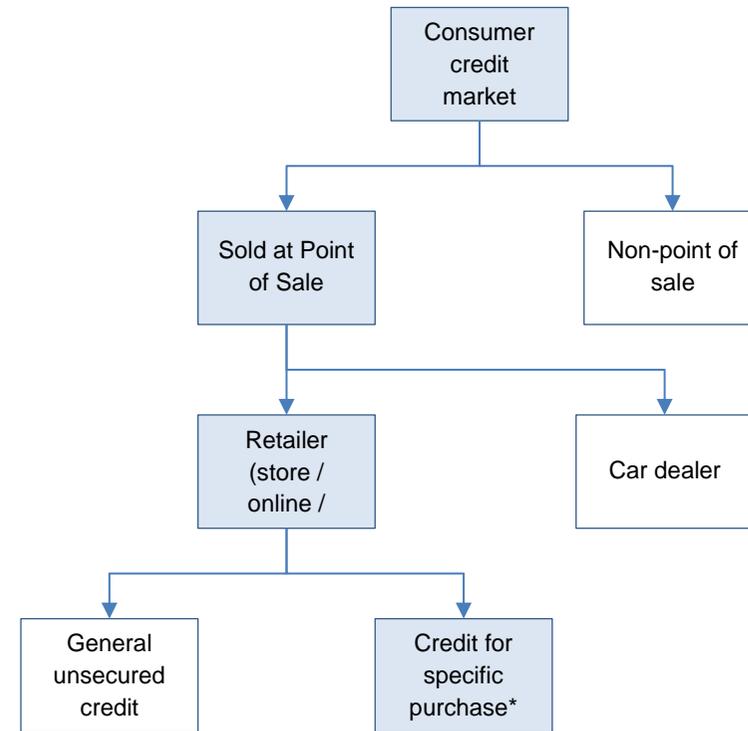
- Point of sale (POS) finance – also called retail finance, in-store credit or store instalment credit – refers to loans marketed by retailers to enable their customers to purchase specific items.
- The amount borrowed is paid by the lender direct to the retailer, less fees and any interest charges that the retailer agrees to pay.
- It is fixed-term credit, meaning that the amount borrowed must be repaid by a certain date to meet the terms that have been promoted.
- This report includes all retail POS finance, including both store and online. It excludes car finance, although an overview of that sector is provided in our summary of adjacent markets. POS finance excludes revolving (not fixed-term) credit including store cards, general store credit and online credit lines.
- Some retailers offer both fixed-term, product specific POS alongside revolving credit (for example by providing POS credit through a store card account) and the distinction between them may not always be evident to the consumer.

### POS finance is provided as unsecured personal loans

- POS finance is provided in the form of unsecured personal loans, with ownership of the item being purchased being held by the consumer and not the finance company.
- Despite the lack of loan security, we understand that default levels for POS finance are lower than for general unsecured lending that is not for a specific item.
- Section 75 of the Consumer Credit Act 1974 usually applies to POS finance, except where the retailer is also the provider of the credit (which is rare). Section 75 makes the provider of credit liable in certain circumstances for some problems with goods or services obtained using credit. In practice, the credit provider will pass the cost of such liability

back to the retailer, although in doing so it must consider the risk that the retailer could go out of business during the life of the credit agreement.

### Scope of Point of sale (POS) finance market – types of credit



In scope

Source: Apex Insight analysis

\*Includes paid-for interest and interest free