Provident Financial

UK home credit
Peter Crook
Managing Director
Provident Financial
UK home credit

Agenda

- Business overview
- Market trends
- Key priorities
- Multi-channel distribution
- Customer segmentation
- Product development
- Credit and arrears management
- Field efficiency initiatives
- Technology enhancements
- Summary
Overview

- Leading provider of home credit
- Unique relationship-based service
- Cash generative business
- Market conditions competitive
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UK home credit: management

Peter Crook
Managing Director

UK home credit board of directors

- Dave Spiers
  Finance Director
- Chris Graham
  Marketing Director
- Mike Palmer
  Operations Director
- Charles Taylor
  Credit Director
- Phil Kettle
  Business Support Director
- Paul Thrustle
  IT Director
- Steve Shaw
  Human Resources Director
Peter Crook
Managing Director

- Graduated in economics
- Qualified chartered accountant
- MBA
- Halifax plc - various roles held between 1990 and 1997
- Barclaycard, finance director, 1999
- Barclaycard, managing director, 2000
- Barclaycard, managing director UK consumer finance, 2004
- Provident Financial
  - managing director of UK home credit, September 2005
  - appointed to the board, March 2006
Dave Spiers
Finance Director

- Graduated in finance and economics
- Qualified chartered accountant
- MBA
- Provident Financial, UK home credit:
  - management accountant 1991-1993
  - senior management accountant 1993-1995
  - head of strategic marketing 1995-1997
  - marketing director 1997-2000
  - finance director 2000-2002
  - operations director, product development and credit management 2002-2004
  - finance director 2004-current
Overview

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<table>
<thead>
<tr>
<th>Total</th>
<th>customers</th>
<th>1.5m</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>employees</td>
<td>2,725</td>
</tr>
<tr>
<td></td>
<td>agents</td>
<td>11,755</td>
</tr>
</tbody>
</table>
## Field organisation

<table>
<thead>
<tr>
<th></th>
<th>Divisional operation managers</th>
<th>Regional operation managers</th>
<th>Area managers</th>
<th>Development managers</th>
<th>Agents</th>
</tr>
</thead>
<tbody>
<tr>
<td>Count</td>
<td>7</td>
<td>30</td>
<td>194</td>
<td>1,136</td>
<td>11,755</td>
</tr>
</tbody>
</table>
## Products

<table>
<thead>
<tr>
<th></th>
<th>Borrow</th>
<th>Repay</th>
</tr>
</thead>
<tbody>
<tr>
<td>Cash loan</td>
<td>55 weeks</td>
<td>£100</td>
</tr>
<tr>
<td>Vouchers</td>
<td>25 weeks</td>
<td>£100</td>
</tr>
</tbody>
</table>

NO EXTRA CHARGES   NO DEFAULT INTEREST
Customer profile

- Female: 70%
- Male: 30%
- Socio-demographics: C1/C2, D, E
- Age groups: all ages well represented
- Tenure: rent 77%, own home 23%
Market trends

- Recent macro-economic environment:
  - rising income levels
  - minimum wage and tax credits
  - low interest rates
  - stable unemployment
- Customers’ circumstances changed:
  - increased competition from remote lenders
  - greater access to other credit products
  - alternative use of credit products alongside home credit
- Home credit competitors under pressure
Market trends

- Current macro-economic environment:
  - unemployment and CCJ’s increasing
  - mainstream banks lending criteria tightened
- Focus on credit quality
  - affordability is key
  - new and existing customer credit scoring essential
- Home credit provides an advantage to remote credit products
  - agent service and customer relationship
  - flexible product design
Customers and credit issued

- **Customer numbers (000)**
- **Credit issued (£m)**

- **Years:** 1992 to 2005

- **Credit issued and customer numbers trends:**
  - Credit issued shows a steady increase from 1992 to 2001, followed by a slight decline.
  - Customer numbers also show a steady increase from 1992 to 2005.
Growth is the key priority

- 2003 onwards, decline in customers
- 2005 issue growth from longer, larger loans
- 2006 growth in customers in June
- Growth in issue without growth in customers isn’t sustainable

Key priority is to grow by recruiting and retaining profitable customers
Changes to deliver growth

- New distribution channels
- Improved customer segmentation
- Product innovation
- Enhanced credit and arrears management
- Streamlined field organisation
- New ways of working enabled by technology
Evolution of the business model

- Build on key strengths and capabilities:
  - agent force
  - national field coverage
  - flexible, simple, transparent approach
- Evolution via:
  - multi-channel distribution
  - customer segmentation
  - product development
- Supported by:
  - improved lending decisions and arrears management
  - people, process and technology development
Chris Graham
Marketing Director
Chris Graham
Marketing Director

- Graduated in Managerial and Administrative studies
- Chartered Institute of Marketing Diploma
- MBA
- Previous marketing roles at HSBC and First Direct
- Provident Financial, motor insurance:
  - marketing manager 1994-1998
- Provident Financial, UK home credit:
  - head of marketing 1998-2002
  - marketing director 2003-current
Customer recruitment

- Agents produce majority of new customers

94% customer satisfaction
Attracting new customers through marketing

- Supplement valuable source of agent recommendation
- Additional approaches required for growth
  - direct response activity
  - internet
  - partnerships / affinity
  - face-to-face sales
- Success seen through customer growth in June 2006
Direct mail

- Strong growth
- Targeting models developed
- Test and learn: creative

Response
Experian / Third parties

Conversion
internal data

Targeting
Internet

- Important source and response handling vehicle
- Growth area
- Specialised internet marketing resource
Partnerships

- Retailers
- Mail order
- Finance & loan companies
- Credit card providers
- Brokers

Coverage combined with high density is key competitive advantage
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Face-to-Face

- Shopping malls
- High footfall areas
- Specialist 3rd parties

Customer opportunities
Sales & retention activity

- Strong sales & retention via direct customer contact
- Core activity: mailings to customers

**Targeting**
modelling & seasonality

**Control**
behavioural scoring

**Frequency**
continual test

**Creative approach**
continual test
Customer segmentation

- Creation of customer insight team
- Drive customer relationship management via data modelling
- Customer proposition development to:
  - maximise profitable sales
  - maximise customer retention
Optimised targeting

Products TYPE
- Card
- Remote collect
- Monthly home credit
- Loan Term

Models
- Propensity
- Reducer
- Attrition
- New customer
- Life time value

WHO & WHEN

Channel
- Direct mail
- SMS
- Phone
- Agent/DM/held
- Email

Segmentation strategy

Optimised targeting
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Example programmes

New customers

Loyalty

Retention
Genuine relationship management

Centrally data driven  One to one relationship

SALES, LOYALTY, SATISFACTION
Longer, larger loans

- Rationale:
  - customers using other credit sources for larger amounts
  - desire for larger amounts from UK home credit
Longer, larger loans

- Progress:
  - launched in 2005
  - significant sales generated
  - credit quality maintained
Plastic card developments

Rationale

• Plastic has significant kudos appeal in sub prime market
• Practical value:
  • easy purchase transaction
  • access to other means of purchase: telephone, internet
• Combine with core home credit benefits:
  • simplicity
  • transparency
  • certainty
• Powerful proposition
Store-specific plastic

- Key retailer partnerships:
  - Argos
  - Woolworths

- Key seasonal sales times:
  - Christmas/January sales
  - Easter
  - back to School

- Customer benefits:
  - flexible offer
  - controlled, fixed value so can’t overspend
Visa

- Developed in conjunction with Vanquis Bank
- Debit card, \textit{not} a credit card
- Fixed value loaded onto non-personalised Visa card
- Customer can use until value spent
- Recruitment and retention potential
Charles Taylor  
Credit Director

- Graduated in Theoretical Physics
- Certificate of Advanced Mathematics
- MSc in Operational Research
- CCN (became Experian), various roles 1984-1995
- Consultancy, own business, managing director 1996-1999
- Experian, director of strategic consultancy 2000-2002
- Consultancy, own business, managing director 2003-2004
- Provident Financial, UK home credit:  
  - credit director 2005-current
Enhanced credit management

- Historically, new customer decisions driven by agents
  - multi-channel scoring for new customers recently introduced
  - lend more to lower risk and less to higher risk customers
- Behavioural scoring system introduced in 2002
  - credit granting decisions for existing customers
  - assists less experienced agents
  - recently improved the tool
  - optimises profitability
- Historically, arrears process driven by the field
  - segmented, structured approach introduced
  - support using telephone and letters
Credit Management Enablers

- Credit scoring for new customers
- Behavioural scoring
- Structured arrears process
Credit Management Enablers

- Credit scoring for new customers
Credit scoring for new customers

- Phase 1 has just been rolled-out across all channels
  - agent
  - internet
  - contact centre
- Uses internal data only
- Accessed through a free phone number
- Agents like it
Credit scoring for new customers

- Phase 2 will be rolled-out in H2 2006
- Considers much more data
- Applies to all new customers
- Powerful tool to identify new customer behaviour:
  - top 10% have less than 5% chance of going bad
  - bottom 10% have more than 60% chance of going bad
Credit scoring for new customers

- Introduces segmented lending strategy
- Agents can lend more generously to lower risk customers
- Ability to grant small sum credit remotely e.g. for loans < £300
- Greater control over credit policy
Credit Management Enablers

- Behavioural scoring
Behavioural scoring

- Categorises existing customers into five risk grades (A to E)
- Avoid lending to grade E, cautious with grade D
- Recently improved using new data:
  - 17% of risk grade C will be treated as risk grade D
  - 25% of risk grade D will be treated as risk grade C
  - 20% of risk grade D will be treated as risk grade E
- Move lending away from riskier customers
- Due to be implemented in H2 2006
Credit Management Enablers

- Structured arrears process
Structured arrears process

- Arrears management historically locally driven
- Major field process
- Structured arrears process introduced to target visits intelligently
- Segmented strategies based on nature of arrears
- Central telephony and improved letters to support manager visits
Structured arrears process

- Workflow system identifies appropriate action
- Use low cost methods where possible
- Low risk customers receive friendly reminders
- Actions escalate as a customer fails to respond
- Phase 1 rolled-out, May 2006
**Structured arrears process**

- Phase 2 currently being developed
  - scorecard to identify riskier customers
  - remote payment ability
- Use champion/challenger to target the use of:
  - visits
  - telephone calls
- Ongoing refinements
Credit Management Enablers

- Credit scoring for new customers
- Behavioural scoring
- Structured arrears process
Peter Crook
Managing Director
Streamlined field organisation

- Combine field management and administration of two brands:
  - Provident Personal Credit (PPC)
  - Greenwood Personal Credit (GPC)
- Improved efficiency, reduced costs
- Supports growth through a single management and cost structure
- Integration of management structure completed ahead of plan
- Now operating with:
  - 82 home credit areas
  - 14 GPC locations
  - 98 PPC locations
- Effectively doubled the number of GPC locations
What is Insight?

- Replaces old paper administration processes
- Technology for agents and managers using ‘Focus’ platform
- Improved customer service
- Reduction of costs
- Platform to improve agent effectiveness
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Summary

Now

Collect Thursday to Tuesday
Two hours of paperwork
No round order
Limited information
Old-fashioned
Customer and sale risks

Future

24/7
Easier balancing
Record of date / time
More information
Professional image
Reduces risks

Future

Easier balancing
Record of date / time
More information
Professional image
Reduces risks
Day 1 agent benefits

- Best collection times
- Credit scoring on-line
- More flexible week
- Card payments
- Professional insight
Insight

Attract better agents → Create more time

Enabling Profitable Growth

Bigger agencies → Handle more customers
Insight: the benefits

- Better technology
  - wider use
  - resilient
  - cost effective
- Detailed work on processes
- Importance of managing change
**Timeline**

- **2006**
  - Jan
  - Mar
  - Apr
  - Jun
  - Jul
  - Sep
  - Oct
  - Dec

- **2007**
  - Jan
  - Mar
  - Apr
  - Jun
  - Jul
  - Sep
  - Oct

- PCs in branches
- New arrears process
- New customer scoring
- PPC & GPC Merger
- Insight development
- Insight test
- Begin Insight roll-out

**Provident Financial**

**UK home credit**
Points of differentiation

- vs home credit lenders
  e.g. Cattles, LSB, S&U
  - Product range
  - Multi-channel distribution
  - Leading edge technology
  - Coverage with density

- vs mainstream lenders
  e.g. Capital One, Barclays
  - Sub-prime experience
  - Community based
  - Superior customer service
  - Simplicity & transparency
Future developments

Collections

Home

Remote

Home

Issue

Remote

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PROVIDENT Personal Credit

Vanquis Bank
Summary

- Long established business with good competitive position
- Proven business model now evolving via innovation of:
  - distribution channels
  - customer segmentation
  - product development
  - credit and arrears management
  - ways of working enabled by technology
- An attractive mix of strong cash generation and growth potential