Provident Financial plc
Trading Statement
27 May 2020

Provident Financial plc, the leading provider of credit products to consumers who are underserved by mainstream lenders, has published a trading statement this morning covering the period from 1 January to 30 April 2020, unless otherwise stated.

Highlights

Operational adaptations to Covid-19 are underpinned by strong capital and liquidity positions

- Our businesses have adapted well to the unprecedented challenges of Covid-19 and our operational response has been swift and effective.

- The Group's priority was to keep supporting our customers through implementing new lending and collections practices. Tighter underwriting standards across the Group saw new business volumes reduce in April, however, there are signs of a modest recovery in May.

- The Group's capital and liquidity positions remained strong, with regulatory capital of c.£710m equating to a CET1 ratio of c.33.4% and a surplus above the minimum regulatory requirement of c.£190m[1]. Total Group liquidity, including Vanquis Bank, stands at c.£1.2bn[2].

- Vanquis Bank adapted well to Covid-19. By mid-April, c.80% of contact centre colleagues were working remotely. Customer spending has contracted, in line with peers, but the take-up of payment holidays has been modest.

- Moneybarn has remained open to new business, enabling brokers to keep serving customers and, indeed, lending to key workers has accounted for c.40% of new business.

- CCD has fundamentally adapted its operations in response to Covid-19. All home credit collections are now being carried out remotely and are tracking at over 80% of pre-Covid expectations.

Malcolm Le May, Group Chief Executive, commented:

"During these challenging times, the Group has adapted quickly and efficiently. Our priority has been to keep supporting the financial needs of our customers, whilst safeguarding our colleagues, by implementing new lending and collecting practices, the results of which have been encouraging. I would like to thank my colleagues for their perseverance and hard work over recent weeks in continuing to support our customers.

Our capital and liquidity positions remain extremely strong. We believe we have the strongest and most diverse funding options in our sector, a key competitive advantage for us.

Despite 2020 being a difficult and unprecedented year, the combination of our customer offering, together with our robust balance sheet, mean that I remain confident in the group's ability to become a broader banking group for the financially underserved population, whilst generating attractive returns for our shareholders over the medium-term."

Capital and Liquidity

The Group has strong capital and liquidity positions, comprising:

- Regulatory capital of c.£710m at 30 April 2020, equating to a core CET1 ratio of c.33.4% and headroom of approximately £190m[1] above the minimum regulatory requirement. This is before taking into account the capital conservation buffer of approximately £50m, which is held and may be used in the event of a stress scenario such as the one currently being experienced in the UK.
- Total headroom on committed facilities and surplus cash and liquid resources amounts to approximately £1.2bn[2]. This includes approximately £1bn of liquid resources held by Vanquis Bank, with its ongoing access to the retail deposits market, versus c.£200m in respect of their Individual Liquidity Requirement.

During the first quarter, the Group repaid an outstanding balance of £50m for a loan facility with M&G, half of which was an early repayment ahead of a contractual obligation in January 2021, and also repaid a £25m bond. There are no further contractual maturities of the Group's facilities until the second half of 2021.

We have not accessed any of the Government funding schemes put in place by HM Treasury or the Bank of England such as the Coronavirus Large Business Interruption Loan Scheme (CLBILS) or TFSME. However, this option remains open to us in the future.

The macroeconomic provisions held by Vanquis Bank and Moneybarn have been updated, in accordance with IFRS 9, to incorporate conservative unemployment forecasts. It is our intention to publish further detail on the assumptions adopted as part of our interim results, which we expect to announce in August.

On 27 March 2020, we announced that the Board has decided, given the uncertainties, that the 2019 final dividend of 16.0p per share would no longer be proposed at the Annual General Meeting (AGM). The cash and capital impact is approximately £40m. This was clearly a difficult decision, and it was not one taken lightly. It is our intention to maintain a strong capital position whilst facing unprecedented levels of uncertainty in order to support business stability and growth, when the opportunity arises. Future dividend decisions will be taken as and when conditions normalise.

As part of the Group's wider response to Covid-19, the Board and senior management have agreed to reduce their pay by 20% for three months from April onwards.

[1]Regulatory capital headroom is calculated based on the group's Total Capital Requirement (TCR) of 24.5% (which has reduced by 1% due to the reduction in the counter cyclical buffer from 1% to 0%) and includes the dynamic transitional adjustment for IFRS 9 of approximately £15m (the dynamic transitional adjustment for IFRS 9 allows 70% of new stage 1 and 2 provisions since the adoption of IFRS 9 to be reversed in line with the transitional arrangements for IFRS 9).

[2]Total liquidity as at 26 May 2020.

Vanquis Bank

Vanquis Bank adapted its operations well to the Covid-19 crisis. By mid-April, c.80% of Vanquis contact centre and 100% of head office colleagues were working remotely. Contact centre staff have been able to continue using dialler technology to support customers and SMS communications have been increased. Approximately 1% of Vanquis staff have been placed on Government furlough.

Underwriting standards have been tightened significantly in response to Covid-19. As a result, during the period, new customer bookings have been reduced by approximately 75% and the Credit Line Increase programme has been temporarily paused.

We are working on recalibrating our decisioning scorecards with a view to recommencing normal levels of lending as soon as possible.

As set out in the preliminary results announcement in February, customer spending began to trend down at the end of 2019 and this continued during the first two months of this year. This trend has been significantly exacerbated by the Covid-19 crisis with customer spending through April and May being around 60% of normal levels, in line with peers. As a result, receivables are now approximately 10% lower than at December 2019.

We are focused on supporting our customers through the Covid-19 crisis. Approximately 3% have so far been granted payment holidays and, based on current take-up rates, this may trend to a moderately higher level by the end of July when the three month holiday period ends. In addition, customers with the Repayment Option Plan (ROP) product have been utilising the ability to freeze their account. We have not applied any credit line decreases to our customer accounts for Covid-19 reasons.

Moneybarn

Moneybarn has remained open to new business throughout the Covid-19 crisis, enabling brokers and dealerships to continue offering loans to our customers. Lending criteria were tightened with extra checks put in place to ensure affordability, fraud mitigation and a reduction in acceptance rates for the highest risk tier that we lend to.

In early May, some contact centre staff were moved back to the office, under strict social distancing measures, which enabled inbound and outbound call volumes to increase. This has seen customer contact rates improve. Approximately 50% of the workforce have been retrained to help with customer queries and steps have been taken to make collections more straightforward over the telephone. Across Moneybarn, around 5% of staff have been placed on Government furlough and a similar number have been redeployed into other customer facing roles.

The level of payment holidays is around 22% of Moneybarn customers. The rate of increase has slowed in recent weeks and positive customer outcomes remain the primary focus.

New business volumes during January and February remained strong, and were consistent with 2019 growth trends, as were the first three weeks of March. For April, new business volumes fell significantly, before starting to recover in May. As a result, new business volumes have reduced by approximately 20% year to date at the end of April. Key workers have accounted for around 40% of new business volumes recently, reflecting the Group’s wider purpose to support our customers with their everyday financial needs.

Since the start of Covid-19, impairment has increased due to increased arrears and a prudent approach to the treatment of payment holidays, which are starting to stabilise. The period end receivables for April was consistent with that at December 2019.

Consumer Credit Division (CCD)

Home credit

The business and its customers have also adapted well in response to the Covid-19 crisis. Significant changes to lending and collecting practices have been delivered quickly and successfully, whilst colleagues have been unable to visit customer homes.

At present, collections across home credit are over 80% of normal levels, which shows the resilience of the relationship model underpinning home credit.

Lending to existing customers was paused whilst the ability to disburse loans into customer bank accounts was introduced for Home Credit UK in early April and for the Republic of Ireland (ROI) in early May. For existing customers, lending decisioning and affordability checks have been adapted for Covid-19.

Provident Direct was rolled out nationally by the end of March, several months ahead of schedule. This enables Customer Experience Managers (CEMs) to support customers with the additional option of direct repayment via continuous payment authority. Provident Direct is currently available to existing customers only and represents approximately 35% of repeat lending volumes. Overall, lending to existing customers is currently c.30% of expected volumes.

Lending to new customers was paused following the Government lockdown. New customer lending in Home Credit UK restarted in mid-May with a cautious approach including tighter credit decisioning and an adapted model for Covid-19.

Collections levels have remained resilient throughout the period. Prior to Covid-19, approximately 25% of collections in the UK and 5% in the ROI were made via card payments or other remote methods. Since the Covid-19 restrictions were introduced, all home credit collections have migrated to remote methods. To support this, we have implemented the capability for CEMs to take customer payments over the telephone and extra payment cards have been distributed to customers who still wish to make cash payments.

The cost reduction programme continues to deliver initiatives to further reduce operating expenditure. In addition, further cost savings are being achieved from reduced activity during the Covid-19 restrictions, including c.12% of staff from across CCD currently being on Government furlough.

Receivables declined in the first quarter in line with seasonal trends, as collections outweigh new lending. However, the significantly reduced lending volumes as a result of the Covid-19 restrictions, combined with good customer repayment levels, has seen the receivables book decline by c.33% since December 2019 at the end of April.

Satsuma

Lending in Satsuma has been temporarily paused during the Covid-19 crisis whilst the effectiveness of the digital channel, under the current circumstances, is reviewed. All applications are now being referred to Provident. Collections in Satsuma remain robust and are broadly in line with pre-Covid expectations, even after accounting for the impact of some customers choosing to take a payment holiday. Restarting lending in Satsuma remains under constant review.

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