

## Chief Executive Officer's Review



**Paul Smith**

Chief Executive Officer

**We have continued to invest in technology to support our strategic plan to offer customers a broader range of products and the ability to access credit more flexibly.**

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**Our strategy to build a digital platform that spans all our products and services is underway. This strategy will exploit the existing platforms and bring new features to our customers.**  
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In addition to the successful introduction of the Morses Club Card in April 2016, we are delighted to have launched our new online instalment product, Dot Dot Loans in March 2017.

We have a number of developments planned for the coming year as part of our expansion into customer rewards, customer communication channels, social media, and financial and card-related services.

We remain confident in our outlook, with a strong pipeline of territory builds for our growth plan, and continue to see attractive acquisition opportunities in the Home Collected Credit (HCC) and the wider non-standard finance markets.

### **Growth Strategy**

The HCC business has benefited from a strong pipeline of territory builds. These are opportunities where experienced agents join us to build customer growth in specific areas. These agents already have an excellent grasp of what it takes to build good relationships with customers, thus representing a key source of premium-quality growth.

### **Technology**

A strong technology platform brings a number of advantages. Our core underwriting system for HCC has a fully developed automated credit control engine at its centre. This not only enhances good decision making on the doorstep but allows the business to maintain compliant and highly personalised customer service.

Our mobility platform integrates fully with our core underwriting system, and provides highly developed functionality to our field teams and agents. This has led to increased efficiency gains and has virtually eradicated paper from the operation, as well as giving us highly controlled impairment.

Our strategy to build a digital platform that spans all our products and services is underway. This strategy will exploit the existing platforms and bring new

features to our customers. Crucially, our technology platform increases our potential to develop products and services and to embed regulatory compliance, to make it simpler as well as enforceable and auditable. It means that training in processes, procedures and behaviours can be delivered online, with minimal disruption to daily operations and management in the field.

### **Acquisitions**

Acquiring smaller businesses within the HCC sector is still achievable, but careful assessment of the quality of the business, timing and pricing are important factors in securing acquisitions at the right price. For the first time, due to the acquisition of Shelby Finance Limited, we are now able to purchase online instalment loan competitors, giving us more options to consider when selecting potential targets. This important activity will remain one of our focal areas for 2017/18.

### **Online Instalment Loan Product**

As well as accelerating our IT platform capabilities, the purchase of Shelby Finance Limited has also provided us with the valuable benefit of full approval by the regulator in this very large market sector. Retraction by competitors, toxic brand associations and the need for our competitors and

new entrants to take volume risks, form a part of the competitive landscape. The fact that we suffer none of these disadvantages means that we are well-positioned to enter this market.

### HCC Market Conditions

The HCC competitive environment continues to reduce, although at a slower rate than in previous years. Consumer demand continues its modest growth. The key drivers to out-performing the sector are technologies that will lower costs, increase capacity, improve productivity, enforce good compliance adherence and improve our relevance and appeal to younger, digitally confident consumers. Morses Club has already invested in all of these technologies and is reaping the rewards described, with 8% overall growth in loans, 10% growth in high-quality cohorts and 5% growth in the under-35 market.

The business is now in a position to lower the cost to serve in both HCC and online lending markets and to improve its productivity. Overheads as a percentage of revenue have already started to fall, reducing to 56.9% from 58.9% in FY16. There is capacity for the business to grow using the existing field resource, with an increase of up to 28% in the ratio of customers to a business manager.

### Technology and Customer Service

We have continued to concentrate on using technology to help drive further improvements to the customer experience. The efficiency of our agents and managers has been a key focus. As a result of our investment in better technologies we can now devote more management time to delivering the right outcomes for customers, helping those in difficulty and supporting agent development. The agents themselves now face far less manual administration with the eradication of paperwork and the ability to sign loan agreements on their tablet. This in turn eases the business operation, improves work-life balance and enhances loyalty to Morses Club, thus reducing agent churn.

Digitising our business has brought many planned and subtle advantages in addition to those already detailed. The fact that every part of the lending and collecting process is digitally and geographically time-stamped means that we can deliver enhanced management reporting from our data warehouse. This makes us a much more transparent organisation.

The platform has also allowed us to automate credit decisions based on policy with minimal levels of intervention or management overrides. This ensures responsible lending and sound compliance, as evidenced by our controlled impairment and the increase in the proportion of debt in our best performing arrears bands.

The installation of tailored risk management systems and complaint management systems illustrate how we have adopted the same systematic approach in these areas, too. Our committee structures, risk framework, corporate governance policies and our high-quality executive and non-executive Board structure all culminate in an approach closely resembling that of a large, main market PLC. I am proud that we are equipped and empowered by robust, systematised processes managed by highly skilled and ethical management teams.

The fact that we are developing our technology for customer interface and customer use is a hugely positive aspect of the business. The outcome for the customer is that Morses Club is more accessible as a financial option in their daily life. For the first time in our history, we can gather detailed data on the spending behaviour of our customer base. This helps us significantly in designing even better value-added services for our customers, which in turn will improve customer acquisition (particularly amongst younger age groups) and retain more high-quality customers.

### Regulatory Context

I believe that the best way to create a positive relationship with the regulator is to focus on the customer. Our improvements and investments have been made with our customers' satisfaction in mind. It is however no accident that the developments in which we have invested also enable us to be more productive, reduce our operating costs, re-use technology many times over for the same investment case and, of course, to attract and retain customers. The primary vision of better customer outcomes via technology investment will be the key to maintaining a harmonious relationship, something which I believe we are on course to achieve.

### Marketing

Morses Club has been in existence for over 130 years and has strong brand loyalty and identity. Our website traffic demonstrates that this positive brand awareness reaches beyond the HCC market into the wider, non-standard credit market, too. This will be a major advantage to us as we grow our brand and reputation in, and potentially beyond, the online instalment market.

### Morses Club Card

Morses Club Card is our pre-paid Visa debit card which allows customers to receive loans via card rather than cash. The card allows customers to pay for goods and services electronically as well as access cash via cash machines, free of charge. Further benefits of the card include greater security for agents and customers, as the cards are PIN protected. In addition, customers have access to an online portal, a mobile app as well as the opportunity to earn cashback from selected retailers.

### E-loans

We have made a strong start in our diversification strategy. Our online lending brand launched in March 2017. A fully interactive customer portal and downloadable mobile app will mean easier, two-way communication with customers. As the delivery and awareness platforms continue to develop, we will be able to take much larger strides into customer retail benefits (such as discounting and cashbacks). Our expansion of our Morses Club Card base, the portal and app platforms will allow us to offer simple financial services to our customers and we will encourage our customers to share their experience of Morses Club on social media, improving our reputation and relevance with emerging, younger markets.

### Market Opportunities

The Board remains vigilant to market developments that could help accelerate our strategy and augment our vision. We are currently reviewing several growth and diversification opportunities and our horizon-scanning capabilities will ensure that we identify and evaluate these opportunities as they emerge.

### Paul Smith

Chief Executive Officer

27 April 2017