Provident Financial plc
Home credit – Update on transition to a new operating model
20 June 2017

The migration to a more efficient and effective home credit field organisation, which involves employing Customer Experience Managers (CEMs) to serve customers rather than using self-employed agents, together with streamlining the field management structure, is nearing completion. The recruitment of approximately 2,500 full time CEMs is now virtually complete, the necessary training will be completed shortly and the testing of the core routing and scheduling software to support the switch over to the new operating model in early July is at an advanced stage.

There has been no change to the underlying credit quality of the home credit receivables book since the announcement of the reorganisation on 31 January 2017. However, the business has experienced higher operational disruption than planned due to reduced agent effectiveness through the period of transition. In particular, the business has been running with an increasing number of vacant agencies due to attrition. Recent vacancy levels have been 12% which is more than double the rate anticipated.

The higher operational disruption has manifested itself in two ways. Firstly, adverse collections performance and, secondly, adverse sales penetration and customer retention.

At the Capital Markets Day on 4 April 2017, the shortfall in contribution, primarily from weaker collections through the period of transition, was estimated at approximately £15m in the first half of the year. Recent collections performance has deteriorated, particularly through May, and the effect has been reassessed at up to £40m. With the vast majority of new field based roles having been filled, June collections performance is stabilising. However, the switch over to the new operating model in early July will deliver a significant step-up in resource and direct control over the field organisation, including all collections activities. From this point the rate of collections will begin to normalise.

Reduced agent effectiveness and attrition have also resulted in a progressive deterioration in sales penetration into the existing customer base and customer retention. As a result, credit issued for the five months to May was £37m below the prior year and may continue to show some further softness as the primary focus of the field organisation will be on collections over the coming weeks. This will have an adverse impact on profit performance through the remainder of the financial year.

The impact of higher operational disruption on collections performance and sales is forecast to reduce the 2017 pre-exceptional profits from the Consumer Credit Division to around £60m (2016: £115m). The one-off exceptional charge of approximately £20m in respect of redundancy, retention and training costs remains in line with previous guidance and will be reflected in the first half results.

The board remains confident that the strategic rationale for the transition to the new operating model remains valid. It will enable the business to enhance the customer experience by managing every aspect of the customer relationship. This will translate into improved sales conversion, improved collections and a more cost efficient business, albeit from a weaker starting position than planned.

All of the group’s other businesses continue to trade in line with internal plans.

Vanquis Bank has continued to experience a very strong flow of new account bookings in the second quarter of 2017, benefiting from the initiatives put in place in the second half of 2016. Similarly, Moneybarn has continued to deliver strong new business volumes. Satsuma is developing well, generating a good flow of new business and further lending supported by the roll-out of the new mobile app in April. A further trading update will be provided on 25 July as part of the interim results.

Peter Crook, Chief Executive, commented:

"I am disappointed to report higher than expected operational disruption from the migration of the home credit business to a new operating model. Nonetheless, the strategic rationale for the change remains strong and I am confident that it will deliver the substantial benefits previously communicated."

This announcement includes inside information.

An analyst conference call will take place at 8.00am BST on Wednesday 21 June 2017. UK number: 08445 718931 / International number: +44 (0) 207 1928016 / Conference code: 1866850.

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