Creating more choice to deliver a better experience

"Our relentless focus on meeting our customers' needs combined with strong cost control and good capital management drove a very positive financial and operational performance in 2023."

Gerard Ryan
Chief Executive Officer

How would you sum up performance in 2023?

At a very high level, I believe our business has had one of its most successful years ever. Our strategy to regrow the portfolio at a sensible pace is being very well executed and, during 2023, we combined this growth with excellent operational effectiveness, very strong cost control and good capital management. As a result, we have outperformed our own expectations in terms of portfolio quality and delivered profit before tax of £83.9m, well ahead of our original plan for the year.

I want to record up front that the results we delivered in 2023 are due to the tremendous work of our colleagues, all of whom are dedicated to providing greater financial inclusion for underserved consumers in our markets. It is one thing to have a clearly articulated strategy, but a good strategy is nothing unless the appropriate skills, capabilities and dedication are there to deliver it. I feel very fortunate to lead a business where that is absolutely the case.

How are you delivering on your goal to increase financial inclusion?

The short answer would be through a dedicated team of over 21,000 colleagues. The truth is that our purpose of building a better world through financial inclusion is our raison d'être, and so we focus everything we are doing on that outcome. We have made it very clear that we are a specialist provider of finance, and we therefore do not get distracted by areas that do not help us achieve our purpose. From the products we design and how we deliver them to our customers, to the conversations we have with customers who may be having difficulties with their repayments, we work as a team to provide solutions that work for those we serve.

How is the transformation in Poland progressing?

There is no doubt that adapting to new regulations in Poland was our single biggest challenge of the year. In addition to the much lower total cost of credit cap, which was effective for the full year, we also needed to apply much more stringent affordability regulations that came into effect in May 2023. The response of our Group and Polish colleagues has been nothing short of outstanding. Our new credit card product is proving to be a huge success, and by the end of 2023 we had issued 130,000 cards. What's even more pleasing is that the customer response to the credit card has been overwhelmingly positive. For nearly two-thirds of our customers, this is their first credit card, and they are now reaping the benefits of being able to transact online and in retail outlets.

Right now, we are currently operating under what is known as a small payment institution licence and are engaging with the Polish financial supervision authority, the KNF, which is assessing our application for a full payment institution licence. This would enable our Polish business to issue more credit cards in Poland.

Just as we were about to go to press with our 2023 results, we received a communication from the KNF, setting out their interpretation of how the existing rules on consumer finance should be applied to credit cards provided by non-bank financial institutions. In short, they suggest that the non-interest related costs applicable to cards should be covered by one of the existing caps that apply to instalment loans in Poland. Applying a cap in this way could have a significant impact on our Polish business, and we estimate that it could reduce the Group's profit before tax in future years by up to £10 million. Clearly this is very unwelcome news and the KNF's interpretation does not align with the consistent legal advice we have had as to how credit card costs should be governed. We do have a very good track record of adapting to new regulation, and I have no doubt that once we have clarity on how this area should be regulated, we will adapt our products and processes to both comply and deliver our target returns for the business.

How has the cost-of-living crisis impacted customers and their need for credit?

Whenever I spoke with shareholders and other stakeholders during the first half of 2023, I explained that we were positively surprised at how consistent customer repayment behaviour had been, and that to some extent we were still trying to understand why. In the face of the worst inflation we have all experienced for several decades, we were not seeing any material change in our customers' payment patterns. By the end of quarter three, we reached the conclusion that the key drivers for this were threefold: first, whenever we provide finance, we always do so on the basis of affordability; second, despite the fact that inflation is high, unemployment continues to be at record low rates and pay is increasing, creating more disposable income; and finally, our operational execution has been excellent. As for our customers' credit needs, I believe they continue to be somewhat cautious, particularly in Europe, where uncertainty caused by the war in Ukraine and high inflation are having a negative impact on confidence levels. Reflecting this, we will continue to maintain careful management of our credit risk profile to ensure customers are not overburdened. Taking all of this into account and excluding Poland, where we expected lending to contract, we delivered 8% growth in lending in 2023.

Is competition increasing?

Competition is certainly evolving, both geographically and in terms of the propositions being offered. In Mexico, we have seen the arrival of a number of international players, most of which are operating payments services, but a few are now beginning to look at the lending sector. I believe our Mexican customers are unlikely to be their prime target, given their lower disposable incomes and bank account penetration. In Europe, we have observed the demise of a number of smaller players in Poland due to regulatory changes, and more broadly, an increased focus on payday lending, and Buy Now, Pay Later businesses continuing to take market share but struggling to make a profit.

A number of UK non-bank financial institutions have failed due to regulation. Is this likely to happen in your markets?

There were some very UK-specific circumstances that, in my view, applied to almost all of these failures: new regulation that was applied retrospectively, an ombudsman process with a minimum tariff of more than £700 per reviewed case, and claims management companies who looked at the combination of these two factors and saw an opportunity to create a completely new industry that would generate huge profits for the owners at the expense of the financial institutions and their customers. In addition, it is clear that some of these institutions were making excessive returns based on lending to some of the most disadvantaged consumers in the country.

If I contrast this context with our own experience, there are striking differences: our regulators tend to introduce regulation that is forward-looking, cases going to some form of independent arbitration are either free or have a de minimis fee, and the returns we are making balance the needs of all our stakeholders. For these reasons, I believe we are unlikely to see a repeat of the UK experience in our markets.

ProviSmart – our new credit card

Piotr was offered a ProviSmart credit card having been a Provident home credit customer in the past.

> "The new credit card is a very good idea. I can withdraw cash anytime and have used the card for shopping in store. The credit I took recently helped pay to redecorate my home and I also bought some presents for my grandchildren."

Better choice

In addition to our credit card offering, customers in Poland can access almost all of our full suite of products from instalment home credit loans, fully-remote digital credit and our value-added services including healthcare cover and educational packages. Based on the initial success of our credit card in Poland, we will explore the option of introducing this product in our other home credit markets.

Better experience

Our new credit card has been designed specifically to meet consumer and regulatory requirements in our Polish market. Whilst most of our customers normally deal in cash, the credit card provides very real benefits and a modern credit offering. In addition to the initial cash draw down, increasingly our customers are using their credit cards to buy goods online, in stores and to take out cash at ATMs.

£500

average ProviSmart balance

953,000

ATM, retail and online transactions made by our credit card customers in 2023

A strong investment proposition

IPF is a global consumer credit business delivering financial inclusion for millions of people and having a positive impact on society. Our strategy combined with market-leading brands, personal customer relationships and digital innovation, position us uniquely to take advantage of increasing demand and deliver a RoRE of between 15% and 20%.

1 Market leading and financially inclusive

Specialist financial services business providing a range of credit products and value-added services to millions of underserved consumers in a responsible way.

2 Substantial opportunities for sustainable, long-term growth

Increasing consumer demand and a broad range of products and distribution channels offer attractive, sustainable growth prospects.

3 Effective risk management

Successful track record of managing key risks including credit, regulation, competition and liquidity. Well-developed risk management framework and processes aligned to strategic objectives.

4 Strong financial profile

The Group is profitable, resilient and cash generative with a robust balance sheet and funding position to invest in our strategic plan and deliver growth.

5 Delivering attractive, sustainable returns

Our financial model focuses on sustainable portfolio growth to deliver a RoRE of 15% to 20%, which supports a progressive dividend payout ratio of at least 40% of earnings.

6 Significant future value

A great value business comprising three profitable divisions with attractive long-term growth prospects, proven returns and higher valuation potential.

>£1bn

profit before tax delivered since listing in 2007

>£220m

dividends paid since listing in 2007

15-20%

target RoRE

How are you making it easier for customers to engage with IPF?

As part of our refreshed Next Gen strategy, more details of which can be found on pages 20 to 25, our intention is to increase our reach to appeal to more consumers by expanding our geographic footprint, increasing our product range and growing the number of channels through which customers can access our offers. In 2023, we established new areas in Mexico and we will continue this expansion in 2024 by starting to serve new customers in Mexicali. Our new credit card in Poland has proven to be very popular with customers, as have the new value-added services we included in our range. Based on our initial success in Poland, we will look at the option of having a credit card in our other home credit markets. As for distribution channels, we are delighted that our retail partnerships model is now established, and we are providing access to finance for consumers at the point at which they are making purchases retail outlets.

There is another key element to improving access to our services for our customers, and that is through the use of technology. We are investing in technology to improve our customer journey, digitising as many of the steps of the onboarding process as possible, and shortening the time from when a prospective customer first approaches us to when they get a decision on their app and get funds delivered to them. In Mexico home credit, this has helped us reduce the "time to yes" from 24 hours in 2021 to around five minutes in 2023. In addition, we are converting more leads to loans through instant messaging technology and building mobile apps to allow our customers to take more control of their accounts, whether that be looking at when their next payment is due, or seeing if we have a new offer available for them. The Providigital app has helped us improve loan approval times from two days to around 15 to 20 minutes.

Are these investments making your business more efficient?

Although our primary aim is to improve our customer's experience of interacting with us, there is no doubt that there are significant internal spin-off benefits for us. For example, our call centre colleagues are already able to dedicate more time to speaking with new customers because existing customers, who would have called us with their queries, are self-serving via our mobile apps. Another example would be digitising the onboarding process in Mexico, which has resulted in a lot less paper being processed and, by definition, that can only be good for the environment. We are firmly of the view that investing in technology for the benefit of our customers ultimately provides big benefits for the business as well.

How are you supporting local communities?

An important part of delivering on our purpose is our commitment to the communities where our customers and colleagues live and work. We focus on the issues that are important to our stakeholders, namely financial inclusion and education, through our global community programme, Invisibles, which supports underprivileged and excluded people in society. These activities also provide a valuable platform to engage with colleagues, customers, local governments and NGOs. In 2023, we invested more than

£893,000 in our communities. In Poland, our team created an award-winning financial education programme for 200 Ukrainian women who are one of the most 'invisible' groups in the financial sector in Poland. They were also recognised for a financial fairy tale 'Money does not grow on trees' which was distributed to 14,000 schools, youth clubs and childcare centres. Each of our businesses also commissioned social studies highlighting those groups in their particular markets that are marginalised and used these findings as a platform to engage with politicians and NGOs to build awareness of the issues these people face. More details of our community support can be found on pages 56 to 58.

How are you engaging colleagues?

Our colleagues are fundamental to achieving our strategy and it is vital that they are engaged and understand the positive impact they have on our customers and the business. We create opportunities to develop skills and capabilities, undertake feedback surveys, host conferences and business updates and run an extensive global care plan to support engagement. The results of our Global People Survey, which we ran across the Group in May 2023, delivered very positive results and, although I am a born optimist, even my expectations were soundly beaten. We had a response rate of 95% from our 21,000 colleagues and exceptionally high scores around the four strands we align our culture to – pride, care, challenged and inspired – details of which are on page 54. I think any business would be justly proud of these and for me it is a clear indication that we, as the IPF community, believe in our purpose of building a better world through financial inclusion. With an inspiring purpose and consistent communication around our strategy and operational execution, I believe high levels of engagement should be the expected outcome. That's not to say that it is easy, but it is certainly worth all the time and effort we put into it.

What funding options are you exploring?

We run a very conservative balance sheet, and this has stood to us in good stead when very testing times arrive, whether that be the 2008 financial crisis or the pandemic in 2020. We target an equity to receivables ratio of approximately 40%, and at the year end that stood at 56%. Our team did an excellent job of funding the balance sheet in 2023, successfully extending around £146m of debt facilities, and we are heading into 2024 feeling positive about our funding options. Whilst our Eurobond is not due until November 2025, it is likely we will refinance this earlier, and at that time we will look at all available options. With a very clean portfolio and a strong balance sheet, I'm confident that we will have a number of choices as to our future funding structure.

What are your key priorities for the future?

We intend to stick to what we are excellent at, and that is providing finance options to consumers who are underserved. Our Next Gen strategy sets out the three pillars we will be focused on for the coming years, namely, providing more products and channels, becoming a smarter and more efficient business, and finally, becoming a data driven, technology-enabled provider to our customers.

Gerard Ryan
Chief Executive Officer

Strategy in action

Expanding home credit in Mexico

Laura lives in Tijuana and was one of our first customers to take a home credit loan to support her business shortly after we launched in the region.

"I've found Provident to be a reliable company and although I didn't believe it at first, I got my money very quickly. It's a great thing to have for enterprising women who are looking to own their own business."

Better choice

Provident is the only home credit operator in Mexico. Expanding our home credit offering into new regions in this highly-underserved market offers a new financial choice to consumers and supports our plan to capture the significant growth potential in Mexico.

Better experience

Our customers in our new regions of Tijuana and Tampico can take advantage of the benefits of home credit – small sum loans repaid in affordable chunks over the course of around 8 to 12 months, the convenience of a customer representative visiting them at home to collect repayments, and a sympathetic approach and no additional fees charged if they take longer to repay their loan. Our digitising strategy has also improved the time it takes to approve a credit application and for customers to receive their loan.

716,000

customers served by Mexico home credit

5 mins

to approve a customer