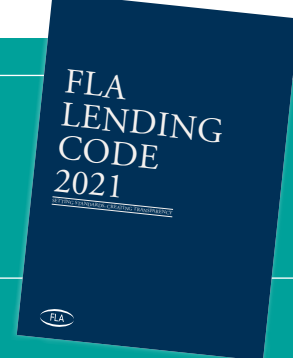


LENDING CODE REPORT

ANNUAL REPORT FOR 2021



Setting standards, creating transparency

CHAIR'S STATEMENT



Gordon Bell
Chairman

I am pleased to introduce the Lending Code Annual Report for 2021. While the challenging circumstances of the COVID-19 pandemic remained at the front of our minds, we were able to closely advise on changes to the online format and presentation of the Code that will improve its visibility, usability, and accessibility.

In 2021, 80 members subscribed to the Lending Code. I can report that overall compliance with the Code remained strong throughout the year. Due to the pandemic, our Independent Code Reviewer continued with remote compliance visits, again allowing us to undertake the full complement of eight visits. Given the flexibility afforded by the remote approach, we envisage continuing with a hybrid model (remote and in-person) for compliance visits in the future.

While Lending Code provisions are regularly reviewed for relevance and effectiveness in delivering consumer protection, an important part of the Lending Code Group's work across 2021 was to advise on how the Code could be made more visible, usable and accessible for users.

We were therefore pleased to see the development of a new, interactive version of the Lending Code, designed to allow Code users to access relevant Code provisions quickly and easily.

In last year's Annual Report, I argued the need to capture and share examples of good practice by FLA members arising from the difficult circumstances of the pandemic. Some examples of this good practice are highlighted in this report. Across 2022, the Lending Code Group will consider how best to consolidate this approach, which will complement the FLA's own programme of work on developing good practice guides and toolkits for members.

2022 marks the thirtieth anniversary of the Lending Code. I look forward to working with consumer and industry representatives on the Lending Code Group to continually drive improvements to this established and influential industry code.

DIRECTOR GENERAL'S STATEMENT



Stephen Haddrill
Director General

All FLA members providing consumer, motor or mortgage finance must adhere to the Lending Code as a condition of full membership. The Code has evolved over its near-thirty-year lifespan to encompass new approaches to regulation. In that respect, the Financial Conduct Authority's emphasis on principles-based regulation (enhanced by the introduction of the New Consumer Duty) represents a key area of focus for future evolution of the Code. The FLA will also continue to promote good practice in broker commission disclosure.

During 2021 we have reflected on the impact of the COVID-19 pandemic and what lessons can be drawn for consumer protection into the future. The Lending Code Compliance Statement process proved an effective tool in helping us to understand what members did, and how. This background will help the FLA determine where such good practice can be properly shared across the industry and how it can shape effective and proportionate consumer protection. I am pleased that the Lending Code Group will be considering how best to consolidate and

communicate examples of good practice in the year ahead, alongside its critical role in monitoring compliance with the Lending Code.

I would like to thank our Chair, Gordon Bell, the Lending Code Group and the Code Compliance Team for their work this year, particularly in respect of their continuing attention to the compliance monitoring framework during the pandemic, and their careful focus on practical improvements to the operation of the Lending Code.

2021 IN REVIEW

2021 saw the launch of a new interactive Lending Code on the FLA's website, which allows users to click through to information about lending products and the Code's general commitments quickly and easily. The full version of the Code is available for those who wish to print or save a copy. In addition, a Frequently Asked Questions document has been produced which provides an overview of the Lending Code. It is available for members to host at a relevant section of their own website.

The 2021 Lending Code Compliance Statement carried a specific section focusing on how firms adapted their systems and processes in the context of the pandemic. It is testament to the agile and flexible response by firms at the outset of the pandemic in March 2020 that many policy changes remain embedded in 2021, and that all systems and controls appear to be effective.

In addition, the move toward hybrid working models may well have driven improvements to customer service. Most firms indicate that they will retain hybrid working post-pandemic. A dispersed workforce has spurred the move to a wider range of customer communications channels, while flexible hours allowed improved customer contact outside traditional working hours. Firms note that a dispersed workforce and hybrid working patterns have allowed access to a wider pool of quality candidates for roles.

A full complement of eight remote Compliance Visits was undertaken by our Independent Code Reviewer in 2021. Remote visits again proved to be effective and efficient for firms.



30 YEARS OF THE LENDING CODE

2022 marks the Finance & Leasing Association's 30th anniversary. The FLA Lending Code has also been in place from the outset and has been reviewed and updated on 10 occasions since the initial version in 1992.

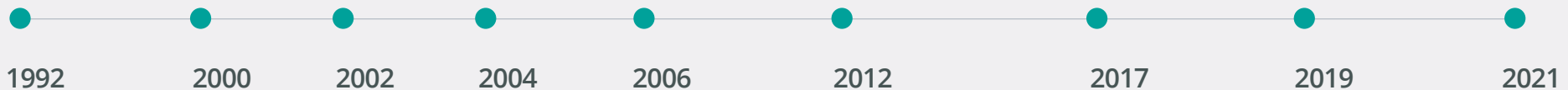
In 1992, 42 members signed up to the Lending Code. We now have over 83 member subscribers.

The Code was originally produced to set out standards of good practice and summarise how customers can expect to be treated by FLA members.

In 2014 the Financial Conduct Authority (FCA) was set up to oversee regulation in the financial services industry and many of the regulatory rules now embedded within FLA members were based on provisions in the Code.

In recent years we have also introduced new Code provisions in collaboration with the FCA, rather than have additional rules in the FCA Handbook, together with the production of good practice guides which sit alongside the Code.

The need to complete an annual Statement of Compliance has been in place since the Code's inception. This activity is carried out by the FLA Compliance Team; however, we use an Independent Reviewer, with extensive experience and knowledge of the Code, to undertake around eight member visits each year. Members report that they find these visits extremely useful, and the FLA Lending Code plays an important part in firms' compliance and audit processes.



MONITORING THE CODE

Statement of compliance

All FLA members providing consumer, motor or mortgage finance must comply with the Lending Code as a condition of membership. An annual Statement of Compliance is sent to each member for completion by or on behalf of the Chief Executive. This involves members undertaking an audit of their operations, alerting the FLA to any breaches of the Code, and highlighting any Code provisions that might have been found particularly difficult during the year.

Compliance visits

Compliance Statement Review visits are an integral part of monitoring compliance with the Code. The visits are undertaken by an independent Reviewer, who checks that the processes and procedures in place comply with the provisions of the Code. An assessment of the market risks, information from the annual Compliance Statement, the size of the company and its time in FLA membership are all factors which are used in deciding which members should receive a visit. Eight inspections were carried out in 2021.

In 2021, FLA Lending Code Compliance Visits were again undertaken remotely by the independent Reviewer.

Best Practice

Members are also encouraged to provide examples of good practice which could be shared amongst the FLA's membership. Some examples from the 2021 compliance statements are shown below:

Members have made changes and enhancements to their systems and processes to allow for a smoother customer journey which have included online budget planners, payment portals and chat functions to name a few. Feedback from customers has been very positive.

"During Covid-19 the business introduced an electronic portal to assess customer financial information where they had declared financial hardship. This gave customers more options when completing income and expenditure, including the use of open banking."

"We introduced a payment portal to allow customers to view their account and pay invoices 24/7 to avoid any anxiety with bills should they receive a collections letter out of hours."

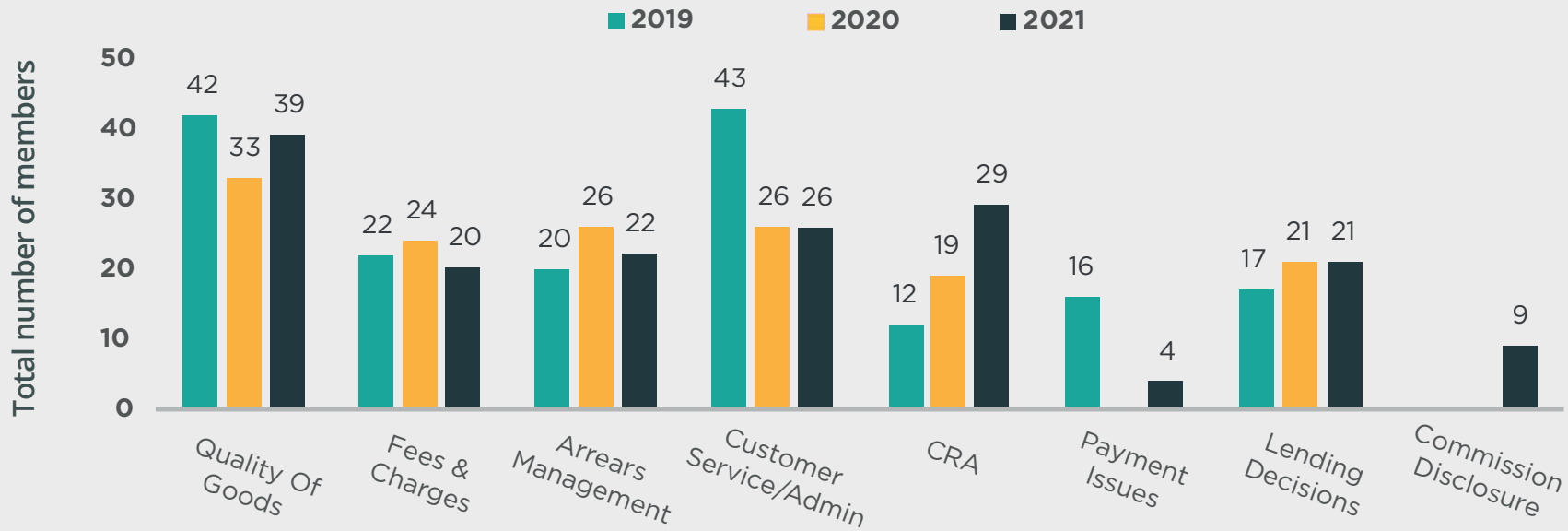
"We are planning to set up Regional Hubs to facilitate the management and integration of a dispersed workforce"

"We have enhanced our contracts system to take payment plans with a larger timespan (previously we were only able to set payment plans for a maximum of 365 days).

This prevents the manual intervention of the collector having to check each letter before it is sent to the customer whilst scripts are created for the system to amend the due dates."

MONITORING THE CODE

Whilst the FLA does not have a complaints or conciliation service for consumers [it does in relation to the Business Code], we do ask members for information regarding complaints they have received over the previous 12 months. This exercise is useful to see if there are any emerging trends that the FLA can look to assist members with. Members provided the following top 5 complaint categories received in 2021.

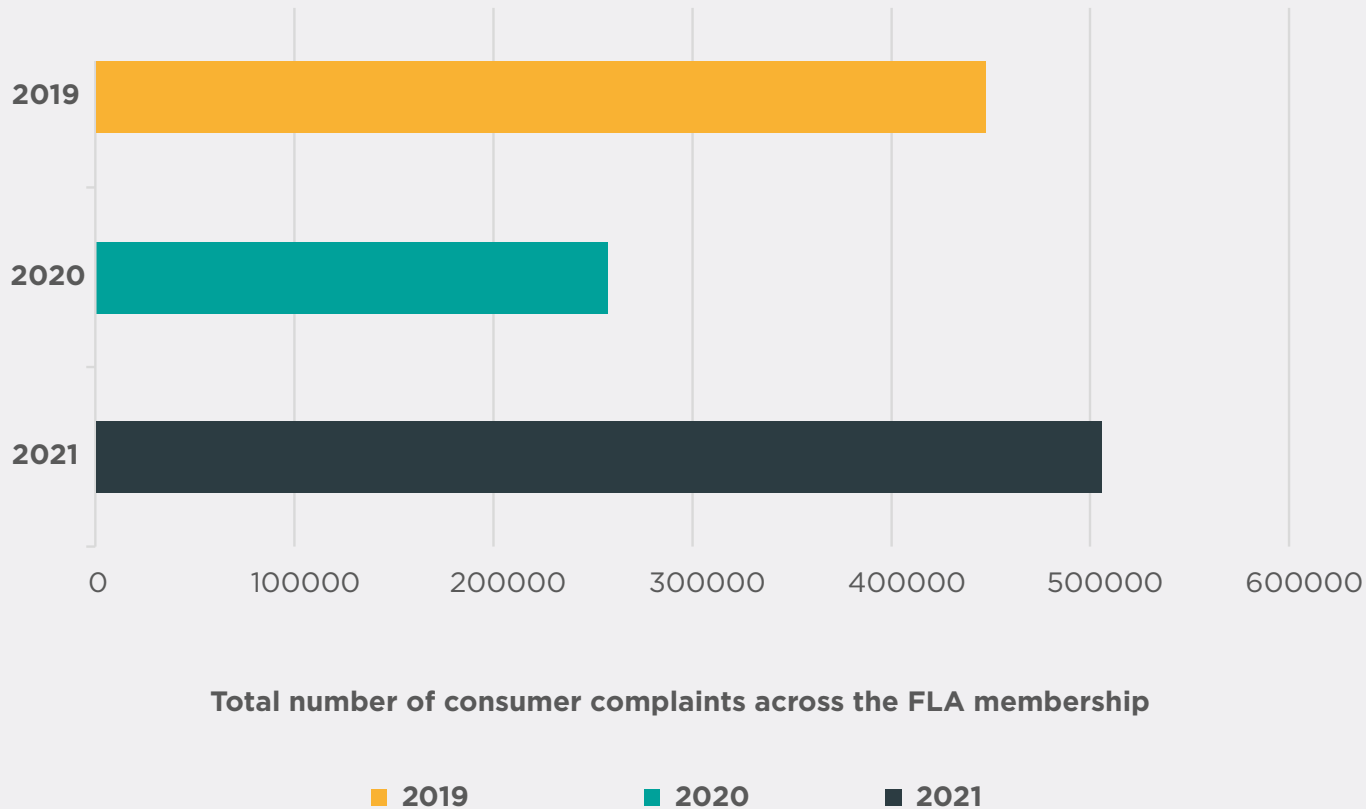


MONITORING THE CODE

FOS Statistics

Of the total amount of complaints received by FLA firms in 2021, 3% were referred to the FOS. This is a decrease on the 2020 figures where 4.5% were referred to the FOS. During 2021 the FLA worked closely with the FOS on sharing early insights on complaint trends to assist with complaint prevention strategies and good practice. In 2020 the FLA launched a Complaint Benchmarking Service for members as part of its research and statistics offering.

Total Complaints



THE LENDING CODE GROUP

FLA Lending Code Group

Gordon Bell, Lending Code Group Chairman

Nick Lord, Consultant, Money Advice and Personal Finance

Frances Harrison, Consumer Affairs Specialist

Helena Wiesner, Consumer Affairs Specialist

Claire Whyley, Consumer Research and Policy Specialist

Jonquil Lowe, Personal Finance Expert

Industry Practitioners

David Evison, Compliance Manager, Shop Direct Finance Company

Jo Pearson, Head of Customer Outcomes, Collections & Recoveries, NewDay Ltd

Roy Dale, Regulatory Policy Manager, BNP Paribas Personal Finance

Mike Potter, Director of Mortgage Lending, The Paragon Group of Companies plc

FLA Staff (providing secretariat support)

Will Atkinson, Senior Policy Manager

Patsy Calnan, Code Compliance Officer

Hanifa Teladia, Code Administrator

More Information:

For more information on the FLA Lending Code or the Code Group please visit:

<https://www.fla.org.uk/consumer-information/lending-code/>

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