

LENDING CODE REPORT

ANNUAL REPORT FOR 2014

Setting standards, creating transparency



CHAIRMAN'S FOREWORD

On behalf of the FLA's Lending Code Group, I am pleased to introduce our Annual Report for the year ending 31 December 2014. The report sets out the work undertaken last year by the Group.

FLA members faced another extremely busy year in 2014, following the transfer of consumer credit regulation from the Office of Fair Trading to the Financial Conduct Authority in April 2014. This involved firms having to comply with the requirements of the new FCA Consumer Credit Rulebook (CONC), as well as additional standards governing disclosure, systems and controls. This has been a significant exercise for both the industry and the FCA, undertaken within a very short timeframe.

The Lending Code had been updated to include changes required as a result of the move to FCA regulation, but it still contains protections additional to those provided by the new FCA regime.

The Code Conciliation Scheme has continued to assist consumers in dealing with their complaints in an efficient and timely way.

I would like to thank the Code Group for all their advice and support throughout the year, and also the Code Compliance Team at the FLA which has worked exceptionally hard in monitoring compliance with the Code.



Geoffrey Woodroffe
Chairman

STATEMENT BY THE DIRECTOR GENERAL

Alongside the Financial Conduct Authority's new regulatory regime for consumer credit, the FLA's Lending Code has continued to provide additional consumer protection measures in a format which customers can readily understand.

When the FCA finalised its new Consumer Credit Rulebook in early 2014, many of the requirements set out in the FLA's Lending Code were included. This has helped in delivering consistency across the credit industry, and was recognition of the important role played by the Code in promoting good practice standards.

As firms continue to embed the FCA's new regulatory framework for consumer credit, there will need to be further debate about the role industry Codes of Practice may play in future - for example, in adding further clarity to the FCA's rules, where required. A review of the FLA Lending Code will be undertaken in this context during 2016.

A huge amount of work has been undertaken over the last year in monitoring compliance with the existing Code, and I would like to thank Professor Woodroffe and the Code Group for their expert oversight and commitment, the FLA's Code Compliance Team for all their efforts, and FLA members for their continued support for the Code over what is now two decades.



Stephen Sklaroff
Director General

REVIEW OF 2014

2014 saw the introduction by the Financial Conduct Authority of a new regulatory regime for consumer credit, and the pace of regulatory change during the year was unprecedented. Firms have been busy ensuring that all the new FCA requirements were in place, while at the same time maintaining their commitment to the FLA's Lending Code. Many of the Code's standards have now been incorporated into the FCA's new Consumer Credit Rulebook. The industry has welcomed this – not least because it reaffirms the Code's robust approach to consumer protection.

A new regulatory era

The FCA has been open about its need to gain a fuller understanding of how the different consumer credit products and sectors work in practice, now that it has an additional 50,000 firms under its regulatory remit. It has worked hard to gain that understanding. The FCA's initial focus was on High Cost Short Term Credit (HCSTC) and fee-charging debt management companies. New HCSTC price controls were implemented, and action to improve practice in the debt management sector continues, especially as regards appropriate repayment plans.

The FCA has also been active in reviewing consumer credit advertising across the industry. Cases of non-compliance were dealt with quickly. The regulator welcomed the collaborative

approach firms adopted in this regard. The FCA also sought to address poor practice by some fee-charging credit brokers by publishing new rules without prior consultation. This was unprecedented and the industry hopes it will not happen often. Further changes to the new Rulebook were also consulted upon, reflecting the need for amendments following the very short period of time within which the new rules were finalised.

The FCA's drive to enhance its knowledge of the sector looks set to continue during 2015, as it undertakes a credit card market study, reviews how lenders undertake affordability and credit worthiness assessments, transfers second charge mortgage lending from the new credit regime into that for first-charge mortgages, examines

how lenders treat customers in financial difficulties, and considers how lenders remunerate their staff and brokers.

One of the biggest challenges for the FCA remains processing 50,000 authorisation applications by April 2016. The authorisation periods began in October 2014 and just over 14,000 applications have been processed to date. The FCA has mounted an extensive communications campaign to ensure that firms know exactly when they need to submit their applications and what information will be required. The FLA has been working closely with its members to help them prepare.

The FLA has established an effective working relationship with the FCA, and is beginning to explore how the

FLA Lending Code can complement FCA regulation in the future.

MONITORING THE CODE

The Lending Code Group

The FLA Lending Code Group monitors compliance with the FLA Lending Code, and comprises consumer representatives, legal experts, and industry practitioners. A list of Code Group members can be found on the final page of this Report.

Statement of Compliance

The Lending Code requires that all relevant FLA members complete an annual Statement of Compliance ("the Statement"). 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. Members are also encouraged to provide examples of good practice which could be shared amongst the FLA's membership.

Compliance Statement Review Visits

Compliance Statement Review visits are an important part of the Lending Code, and are carried out

by an independent Reviewer. The Reviewer monitors the processes and operations of each firm to ensure that the provisions of the Lending Code are being met. The FLA uses a risk model to assess which members should receive a visit, together with any information gathered from the most recent compliance statement. Other factors may include the period a company has been in membership, when they last received a visit, and the size of the company.

A report is sent to the member on completion of the visit, highlighting any recommendations or necessary actions to be taken. Compliance with these is then monitored by the FLA Compliance Team.

Eight inspections were undertaken in 2014.

Enforcement Action

If members consistently do not meet the FLA Code provisions, the Lending Code Group will take enforcement action, if required. Minor infringements are dealt with by the FLA Compliance Team. More serious breaches of the Code will be subject

to one or more of the following:

- a written warning;
- a request for written submissions from the member regarding compliance; or
- a meeting with the member to discuss non-compliance.

The Code Group can refer serious breaches to the Disciplinary Panel if the above measures prove unsatisfactory (see below).

There were two serious breaches of the Code in 2014 and appropriate action was taken.

Disciplinary Panel

As mentioned above, disciplinary matters arising from non-compliance with the Lending Code can be dealt with by the Lending Code Disciplinary Panel.

The Panel will convene if the efforts of the Code Group (see above) to resolve the breach have been unsuccessful, and it is shown that the breach may lead to serious consumer detriment or significant reputational damage to the Code.

The Disciplinary Panel may:

- impose a formal or informal warning;
- make recommendations as to future conduct;
- recommend to the Board that the member is expelled from the FLA.

The Disciplinary Panel was not required to convene during 2014.

FLA Conciliation and Arbitration Scheme

The FLA offers a Conciliation and Arbitration Scheme to any customer who has a dispute with a full member of the FLA, and has been unable to reach a satisfactory resolution through the firm's own internal complaints process.

Complaints can only be considered for breaches of the FLA Lending Code, and the FLA cannot award compensation or make decisions in respect of complaints. Typically, the FLA secretariat liaises with the firm to try to resolve the complaint to the satisfaction of both parties. The scheme is free, and complaints can be received via the post or on-line.

Number of Complaints in 2014

The total number of complaints received in 2014 was 377. Of these, 345 were referred to members. The remaining 32 included resolved cases on which FLA conciliation was not required, or the complainant decided not to pursue the complaint further. The FLA Lending Code Group has set a target for all complaints to be dealt with within 56 days. In 2014, 321 cases (93%) were resolved in this timeframe. The volume of complaints in 2014 continued to fall following the reduction seen in 2013 (see Figure 1). This reflects the fact that many customers prefer to take their complaints direct to the Financial Ombudsman Service (FOS), which can of course award redress.



Figure 1: FLA complaints received, referred to member or not pursued.

Source of Complaints in 2014

2014 saw an increase in the number of cases received directly from consumers (339 cases or 90% of all complaints received). There was a decrease in complaints brought on a customer's behalf by Claims Management Companies (27, or 7%). The remaining 11 cases (3%) were received from friends or relatives, solicitors, MPs or other organisations such as Citizens Advice. (See Figure 2).

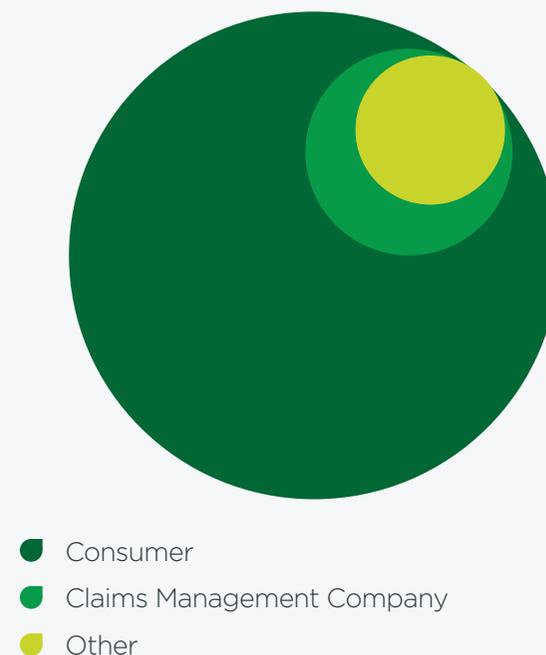


Figure 2: Source of complaints

Types of Complaints in 2014

Complaints received under the Code are categorised (see Figure 3). In 2014, the main areas of complaint related to Insurance (78 cases, including PPI complaints), Arrears (77 cases) and Quality of Goods (67 cases). These categories together represented 59% of all complaints received in 2014.

21% of all complaints received in 2014 were resolved in the customer's favour, a significant increase on the previous year's figure of 12%.

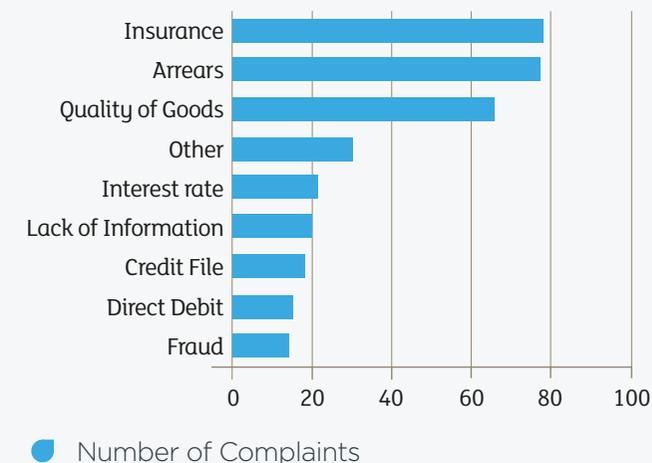


Figure 3: Main complaint categories including PPI

FLA LENDING CODE GROUP

Consumer Representatives and Legal Experts

Professor Geoffrey Woodroffe, (Chairman), Solicitor, Consumer Law Expert

Nick Lord, Consultant, Money Advice and Personal Finance

Frances Harrison, Consumer and Financial Policy Advice Specialist

Helena Wiesner, Consumer Affairs Specialist

Sally Coles, Consultant and Trainer, Money Advice

Claire Whyley, Consumer Research and Policy Specialist

Industry Practitioners

David Evison, Compliance Manager, Shop Direct Finance Company Limited

Carolyn Cockwell, Senior Regulatory Compliance Manager, Barclaycard

Wendy Carpenter, Compliance Manager, Hitachi Capital (UK) PLC

Mike Potter, Group Compliance Officer, The Paragon Group of Companies PLC

FLA Staff (providing secretariat support to the Group)

Henry Aitchison, Senior Policy Adviser

Patsy Calnan, Code Compliance Officer

Hanifa Teladia, Senior Code Administrator

More Information:

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

www.lendingcode.org.uk

or contact:

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