

# LENDING CODE REPORT

ANNUAL REPORT FOR 2016

Setting standards, creating transparency



## CHAIRMAN'S FOREWORD

**On behalf of the FLA Lending Code Group, I am pleased to introduce our Annual Report for the year ending 31 December 2016. The report sets out the work undertaken last year by the Group.**

2016 was a period of continuous regulatory change for FLA members, as firms went through the FCA's detailed authorisation process and contributed to the regulator's work focusing on early arrears handling, staff remuneration policies and how lenders undertake affordability and creditworthiness assessments. Credit card providers were also heavily involved in the FCA's Credit Card Market Study.

Six firms were visited by the Lending Code Group's independent Reviewer over the course of the year. These visits allow both the firms and the Reviewer to discuss in detail how the Code's provisions have been implemented in practice and to share areas of good practice. Each firm subsequently receives a comprehensive report providing an overview of their compliance with the Code and where, if necessary, any changes may be required.

The level of compliance across FLA member firms remains very high.

The Code Group has continued to play a central role in ensuring there is a clear framework in place for monitoring compliance with the Code. I greatly appreciate and value the expertise and insight of members of the Group. I would also like to thank the Code Compliance Team at the FLA for their support and hard work in managing the complaints scheme and the compliance oversight process. The compliance visits and the annual Statements of Compliance continue to prove highly effective in ensuring compliance with the Code.



**Geoffrey Woodroffe**  
Chairman

## STATEMENT BY THE DIRECTOR GENERAL

**The FCA recognises the important role codes of practice play in setting standards.**

Over the course of 2016, a detailed review of the Lending Code was undertaken to ensure it remained fit-for-purpose and worked effectively alongside the FCA's regulatory requirements in the Consumer Credit Sourcebook. During the review, FLA members confirmed their strong support for the Code and the role it has played for 25 years in setting good practice standards. The updated Lending Code 2017 was approved at the FLA's AGM in May and will be introduced in September 2017.

The FCA has acknowledged that industry codes of practice continue to form an important part of the regulatory framework, and has asked for the new informational remedies proposed as part of the Credit Card Market Study to be included in the FLA's Lending Code. These remedies will provide consumers with additional information to help them manage their accounts more effectively.

As the FCA completes the process of authorisation, it now faces the challenge of supervising, effectively, 35,000 consumer credit firms. We have called on the FCA to improve communications so firms are fully aware of regulatory changes in a timely manner and are better able to raise queries with experienced FCA staff. The FCA accepted such changes were needed in its Mission statement published in April 2017.

Compliance with the Code remains high and I should like to thank Professor Woodroffe and the Lending Code Group for their wise counsel, the FLA's Code Compliance Team and FLA members for their continued support for the Code.



**Stephen Sklaroff**  
Director General

# REVIEW OF 2016

The FLA's Lending Code has been in place for 25 years, during which time it has been regularly updated to reflect regulatory and market changes. 2016 saw another round of detailed consultation with FLA members, resulting in a revised Code which was formally approved at the FLA's AGM on 16th May 2017. It will come into effect on 1 September 2017.

Voluntary codes can add detail and nuance to rules and regulations, helping firms to implement them in ways which reflect the needs of particular markets and customers. We are encouraged that the FCA and consumer groups have recognised this by indicating their support for our Lending Code.

Given the amount of regulatory upheaval that firms have encountered since the FCA assumed responsibility for consumer credit regulation, last year's review was designed to simplify and streamline the Code. A major addition was the three "informational remedies" which we agreed with the FCA should be provided to credit card customers, following the FCA's Credit Card Market Study. Members' compliance with these new provisions will be monitored along with the rest of the Code.

In consulting members on proposed revisions to the Code, we also suggested that the time had come to close the Conciliation Scheme, as the number of complaints received from customers had fallen significantly in recent years. Customers are able to refer their complaints direct to the Financial Ombudsman Service. Members agreed this was a sensible change and the Scheme will therefore close on 1 September 2017. Members will update their own documentation accordingly.

We have been encouraged by the strength of support for the Code expressed by members, consumer groups and the regulator. We are pleased that it continues to be well-regarded and conscientiously implemented by members, to the benefit of the industry and its customers.

# MONITORING THE CODE

## The Lending Code Group:

The FLA Lending Code Group monitors compliance with the FLA Lending Code. The Code Group comprises consumer representatives, legal experts and industry practitioners, whose details can be found at the end of this report.

## Statement of Compliance:

All FLA members providing consumer or motor 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; firms undertake an internal audit of their operations and the Code's provisions as part of the process. New firms wishing to join the FLA must also confirm compliance with the Code as part of their membership application.

## Compliance Statement Review Visits:

Compliance Statement Review visits are an important part of monitoring compliance with the

Code. The visits are undertaken by an independent Reviewer, who checks that the company's processes and procedures comply with the provisions of the Code. An assessment of likely risks, information from the annual Statements of Compliance, the size of company, and its time in FLA membership are all factors which help decide which members should receive a visit. Six inspections were carried out during 2016.

## Enforcement Action and Disciplinary Panel:

The Lending Code Group is responsible for deciding what enforcement action is necessary, should any member firm consistently fail to meet the FLA Code's provisions. Minor infringements are usually dealt with by the FLA Compliance Team. There were no breaches of the Code in 2016 which needed enforcement action.

The Lending Code Disciplinary Panel reports to the FLA Board and deals with serious instances of non-compliance with the Lending Code. It is only convened if the Lending Code Group has been unsuccessful in resolving a breach of the Code which may cause consumer detriment and/or reputational damage to the Code. The Disciplinary Panel was not required to convene during 2016.

## FLA Conciliation Scheme:

In recent years, the number of complaints received by the FLA Conciliation Scheme has fallen significantly. This is mainly because the majority of complaints are referred to the Financial Ombudsman Service which (unlike the FLA Scheme) is able to award compensation. In light of the declining numbers and the fact that consumers are well protected under the FOS complaints process, the FLA Conciliation Scheme will close from 1 September 2017.

## Number of Complaints in 2016

As indicated above, the number of complaints has fallen once again and the total received in 2016 was 146. Of these, 120 were referred to members. The remaining 26 were cases where FLA conciliation was no longer required - for example, where a duplicate case had been received or the consumer no longer wanted to pursue the complaint. (See Figure 1).

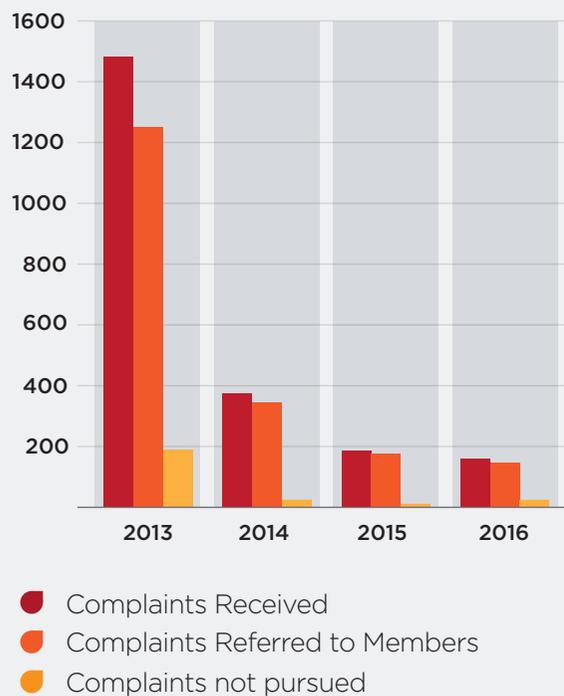


Figure 1: Complaints received, referred to member and not pursued

## Types of Complaint in 2016

Of the complaints received, the majority were categorised as Quality of Goods (28) and Lack of Information (24). This was followed by Arrears, with a total of 15 cases. The remaining complaints were a combination of PPI, Direct Debit disputes and Default Charges. (See Figure 2).

Although the figures are reducing, 27% of complaints received in 2016 were resolved in the customer's favour, an increase compared to the previous two years.

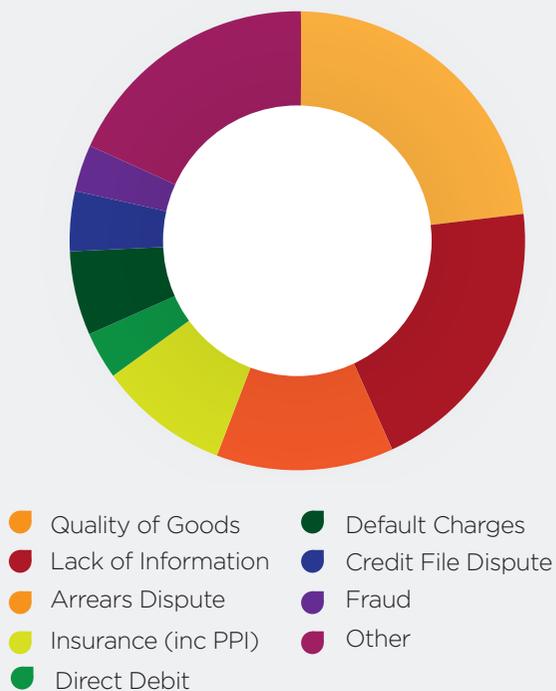


Figure 2: Types of Complaints 2016

## Source of Complaints in 2016

In 2016 of the complaints pursued, 112 complaints were received from consumers, 7 from a family member or relative and only one from a Claims Management Company.

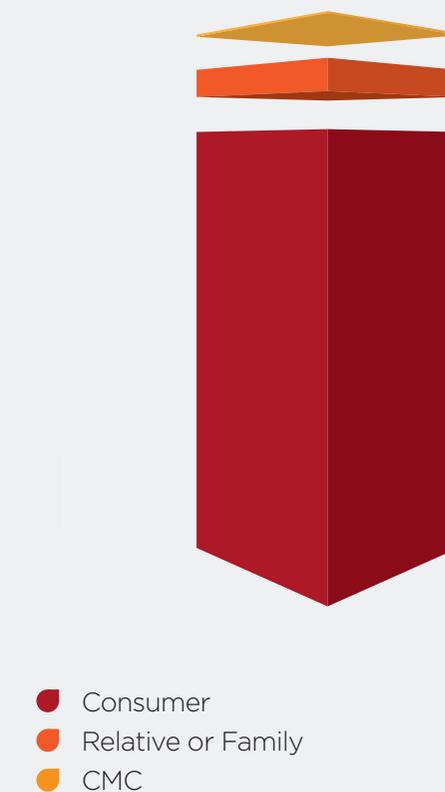


Figure 3: Source of Complaints 2016

# 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  
**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 to the Group)

**Henry Aitchison**, Senior Policy Adviser  
**Patsy Calnan**, Code Compliance Officer  
**Hanifa Teladia**, 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](http://www.lendingcode.org.uk)**  
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