FCA regulated fees and levies: Rates proposals 2019/20
Response by the Finance & Leasing Association (FLA)

Introduction

The Finance & Leasing Association (FLA) is the leading trade association for the UK consumer credit, motor finance and asset finance sectors. FLA member companies include banks, the finance subsidiaries of major manufacturers and independent finance firms. They offer credit services to customers from all social groups, via credit and store cards, personal loans, point of sale finance, motor finance and a number of other consumer credit products, as well as a wide range of leasing and hire purchase services to businesses of all sizes.

In 2018, FLA members provided £137 billion of new finance to UK businesses and households, £45.8 billion of which helped consumers and businesses buy new and used cars, including over 91% of private new car registrations. £104.2 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £32.6 billion of finance was provided to businesses and the public sector to support investment in new equipment, representing over a third of UK investment in machinery, equipment and purchased software in the UK last year.

We welcome the opportunity to comment on FCA's recent regulated fees and levies rate proposals for 2019/20.

General Comments

The proposed fees and levy rates will result in yet another significant increase in the fees charged to some FLA member firms. This is due, in part, to the increases in funding for both the new Money and Pensions Service (MAPS) (in particular, the new Devolved Authorities supplementary fee) and the Financial Ombudsman Service (FOS).

This follows a major rise last year on the previous year's fees (due to the introduction of a higher 'debt advice' levy), which we discussed in detail with the FCA and members' concerns late last year – see response to Q6 below for more detail. In conclusion, it's hard to see the rationale for the scale of the increases for some of FLA's member firms.

Our particular concerns relate to two aspects in this year's proposals, which we address in more detail in response to Questions 4 and 6. These are:

- The Financial Ombudsman Service (FOS) general levy for Consumer Credit firms with full permission,
- The Money and Pensions Service (MAPS) 'debt advice levy' for Consumer Credit Lenders in both England and the Devolved Authorities.

We now address the specific questions posed where we still have concerns:

Q4: Do you have any comments on the proposed method of calculating the tariff rates for firms in each fee-block towards the CJ levy and our proposals for how the overall CJ levy should be apportioned?

We have serious concerns with the Financial Ombudsman Service (FOS) general levy proposals for Consumer Credit firms with full permission. These changes are set out in the table below:

Financial Ombudsman Service general levy for Consumer Credit Firms with full permission

	FOS (Compulsory Jurisdiction) general levy fee block	Rate per £1,000 of consumer credit income over £250,000 plus minimum fee
2018/19	I020 Consumer credit full permission	0.01
2019/20	I020 Consumer credit full permission	0.308

This proposed increase in the rate for Consumer Credit firms with full permission (fee block 1020) from 0.01 to 0.308 is significant. For one of our large motor captives alone this represents a 3,000% increase in the general levy they will pay. For another smaller consumer credit lender it is a c 2,500% increase. We also note that the proposed contribution to this levy from Consumer Credit firms overall with full permissions has increased from 3.2% of the levy total (across all Industry Blocks in 2018/19) to 20% in the current proposals.

Whilst our members acknowledge that the compulsory FOS levy will increase due to the inclusion of SMEs complaints within scope, this appears to be inequitably assigned to fee block holders across the 13% of firms who FCA estimate will pay beyond the minimum level. We know that a proportion of these firms have very few complaints referred to FOS (and low uphold rates), despite large customer bases.

Despite what FOS has said in this CP, the reasons for this significant increase in the proportion of resources that FOS expects to devote to cases from firms in their fee bloc remain unclear. FOS has suggested £8.7 million is related to one-off costs (including the establishment of the two new jurisdictions for SMEs and CMCs). In the case of the new CMC jurisdiction (£2.2m), we are not quite sure why Consumer Credit as opposed to CMC firms are paying for this?

As for the remainder of the new £20million fee (c. £11.3m), we are told that this is for a ‘change in product mix’ and ‘increased demand’. The former appears to be stated almost every year and does not explain the reason/s or justification for this large increase. We also have a couple of concerns with the ‘increasing demand’ justification. Firstly, the increase in demand for consumer credit will be reflected in the increased income from the higher number of cases paid at £550 per case - so we question why there is a need to increase the levy as well? Firms would arguably be paying twice for the same thing. And secondly, in the post- PPI world where the number of cases should decrease dramatically, logically we think this should lead to a future reduction in the levy below current levels. We also note that FOS is still sitting on larger reserves than it needs.

Q6: Do you have any comments on the proposed 2019/20 rates for the MAPS debt advice levy?

It is disappointing that the FCA are proposing to continue to use the same methodology as last year, which uses a firm's *value* of lending as opposed to *income*. We raised serious concerns with this methodology last year in our response to CP 18/34 (see attached) and at a meeting with the FCA. Despite this, not only has the methodology remained the same but the cost to some firms (particularly in the motor finance and debt buyers/purchaser's markets), has been further increased by a new Devolved Authorities levy (refer to table directly below). This has added just under an extra £4 million to Consumer credit lending firms already excessive levies for 'debt advice' in England:

Money and Pensions Service levy

2018/19	MAS-CC03 MAS debt advice - UK Consumer cr. lending	113.945 per £m or part £m of value of lending	
2019/20	MAPS –CC03 MAPS debit advice - England Consumer cr. lenders	109.793 per £m or part £m of value of lending	Combined rate 125.229 per £m or part £m of value of lending
2019/20	MAPS –CC03 MAPS debit advice – Devolved Authorities (Scotland, Wales & Northern Ireland) Consumer cr. lenders	15.436 per £m or part £m of value of lending	

As the table above shows, this issue is amplified by the introduction of the Devolved Authorities levy. This has increased the 'debt advice' levy from 113.945 per £m or part £m of value lending in 2018/19 to 125.229 per £m or part £m of value lending in 2019/20 when you add the new Devolved Authorities fee of 15.436 per £m or part £m of value of lending. This levy, when combined with the debt advice levy for England, represents an increase of 23% in just one member firm's 'debit advice' levy alone (fee block CC03).

For this same firm, their full financial guidance levy across **all** the applicable fee blocks (A000, A019, CC02, CC03, CC03) is now more than double their FCA periodic fee across all applicable fee blocks. Similarly, their total fees bill collected by the FCA has more than doubled between 2017/18 to 2019/20 from just under £1 million to just shy of an estimated £2 million if these draft proposals remain unchanged.

In another not atypical member example, the compounded effects of these proposals is such that the 'debt advice' levy is greater than their base FCA regulatory fee, even though few, if any, of their customers have the need for any debt advice, due to the nature of their lending products and their customer base. This same FLA member has similarly seen large increases in their total regulatory fees over recent years. For the period 2017-19, on similar regulated consumer credit income, their fees have almost doubled again, mainly due to the MAPS ‘debt advice’ levy.

Q8: Do you have any comments on the proposed 2019/20 rates for the Devolved Authorities’ debt advice levy?

Refer to our response to Q6 above.

Conclusion

We are very concerned that no progress has been made in relation to the ‘debt advice’ levy methodology first raised by MAS last year and now being temporarily taken forward by its successor body the Money and Pensions Service. This is despite us and other key stakeholders raising their concerns over its inequality. It’s also disappointing that there isn’t even acknowledgement of the issues and concerns already raised, beyond noting that FCA plan to have further discussions in this respect. However, this doesn’t help firms who are currently paying a ‘disproportionate’ amount for ‘debt advice’ based on their lending returns which are not representative of the sums actually lent due to their business models – for example, for motor finance this may include ‘balloon payments’ never made and for debt purchasers debt lent but never recovered.

There is also, again, no justification for the 50/50 split in this ‘debt advice’ levy between Home Finance and Consumer Credit Lending. We would like to know what the basis is for this split. Is it the cost/amount of work done by debt advice providers? Or is it the amount of debt that the advice relates to? And what, if any, account has been taken of advice in relation to non-FCA regulated debts (such as ‘council tax’, ‘utilities’ etc.) for which our members should not be paying. And more importantly has a full analysis been done of the difference between using ‘income’ as opposed to ‘lending’ as a criteria and possibly even other methodologies for a fairer allocation of funding of ‘debt advice’ across consumer credit. We support the provision of debt advice to customers and the industry is willing to help fund this – but on a more proportionate basis.

If a full cost allocation analysis has not already been undertaken, we would urge that it is carried out and reflected in the proposals for change in this year’s November consultation. In the meantime, we would **urge** the FCA to look at a transitional cap on firm contributions for the MAPS ‘debt advice’ element, with the balance being collected by an increase in the rate for the rest of the sector populations across both home finance and consumer credit lending. Failing this, the FCA may want to consider a future rebate for those affected once a fairer methodology has been worked out later in the year. Again this could be financed across all remaining firms in these sectors.

FLA, 30 May 2019