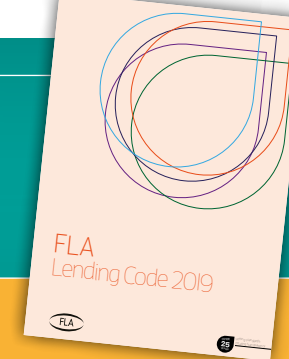


LENDING CODE REPORT

ANNUAL REPORT FOR 2019



Setting standards, creating transparency

While this report was being drafted, the significant impact of COVID-19 began to affect FLA members and their customers across the UK. During 2020, the Lending Code Group will be considering how the Lending Code can help support the response to the pandemic and customer protection.

CHAIRMAN'S STATEMENT



Gordon Bell
Chairman

On behalf of the Lending Code Group, I am pleased to introduce our Annual Report for the year ending 2019.

2019 marked my first full year as Chairman of the Lending Code Group. In looking back at previous Annual Reports, a characteristic seems to be a reflection on the fast pace of regulatory change across the markets the FLA represents. The same holds true for 2019.

First, in terms of the administration of the Lending Code, we were pleased to build on the existing expertise of the Group by welcoming several new consumer and industry representatives. This ensures there is a good balance of informed views when overseeing compliance with the Code; there is always a majority of consumer interest members.

In addition, I have very much appreciated the support the FLA's new Director General, Stephen Hadrill has given to the work of the Lending Code Group. The FLA's continuing promotion of the Lending Code underscores how important industry codes are for delivering good customer outcomes and new initiatives quickly and efficiently.

In that respect, the Lending Code met the pace set by the Financial Conduct Authority's regulatory work during 2019. The successful implementation of new Lending Code provisions for Unsolicited Credit Increases (UCIIs) for catalogue and store card members, agreed with the FCA and monitored by the FLA, proved a highlight. The regulator's implementation of a new supervision and enforcement model based on 'portfolios' of firms, has also given the Code Group food for thought as we consider how we can continually improve compliance monitoring with the Lending Code.

Seventy-eight firms now subscribe to the Code, which together provide over a third of consumer credit in the UK. Overall compliance with the Code remained strong across the year, with five full Compliance Visits undertaken, as well as eight shorter visits specific to UCLI implementation monitoring. I was pleased to take part in one of the Compliance Visits and see their benefit in identifying good practice to build into the Lending Code.

It leaves me to thank the Lending Code Group and the Code Compliance Team for all their support and insight over the course of 2019.

DIRECTOR GENERAL'S STATEMENT



Stephen Hadrill
Director General

One of my first acts as the newly-appointed Director General of the FLA was to meet with the Lending Code Group, as the Code plays an important role in the FLA's overarching purpose namely to grow sustainable and trusted markets for consumers and businesses. The breadth of insight on consumer and industry matters displayed by the Group is incredibly valuable when overseeing effective compliance with the Code.

The successful implementation of UCLI provisions under the Code in 2019 demonstrated just how quickly industry codes, in agreement with the regulator, can deliver new consumer protections. This is particularly important given the difficulty of modernizing some aspects of the regulatory regime. The Consumer Credit Act is in urgent need of updating. It constrains how quickly lenders are able to provide assistance to customers in financial difficulty. We are pressing both the Financial Conduct Authority and the Government to make this change a priority, especially in light of the extensive support lenders are extending to their customers due to Covid-19.

I have been impressed with the commitment that FLA members have shown towards the Lending Code in 2019. With 78 member firms now subscribing, the Lending Code covers a significant and influential proportion of the UK consumer credit market. As we review the Code during 2020/2021, we will ensure the Code delivers trust and fairness while also facilitating innovation in the way services are provided to customers. We will also be looking at how easy it is for consumers to access and understand the Code.

I would like to thank our Chairman, Gordon Bell and the Lending Code Group representatives for their insight and commitment across 2019.

MONITORING THE CODE

Statement of Compliance

In 2019 there were 78 firms subscribing to the Lending Code, a condition of being a member of the FLA.

Monitoring compliance with the Code is an important aspect of the work of the Lending Code Group, which comprises both consumer representatives and industry practitioners.

It is an annual requirement for all relevant FLA members to complete a Statement of Compliance (“the Statement”) to confirm that they comply with the Code’s provisions. This Statement is signed by the CEO of each firm.

This involves members undertaking an audit of their operations and alerting the FLA of any breaches of the Code and also any Code provisions which they may have found particularly difficult throughout the year. Members are also encouraged to share examples of best practice, for use by the wider membership.

The Compliance Statements are reviewed in detail and the findings considered by the Lending Code Group. Each firm will receive feedback on their Statement, identifying any action required (together with time lines), where appropriate.

Compliance Visits

Each year the Lending Code Group chooses around eight firms to receive a Compliance Visit. These firms are selected based on the FLA’s risk model which considers matters such as the number of identified breaches, time in membership, the size of a firm, any regulatory action being taken by the FCA or other regulators, and the information provided in the firms’ Statement.

Compliance visits are undertaken by an Independent Reviewer, who checks that the processes and procedures in place comply with the provisions in the Code.

In 2019 there were five full compliance visits. In addition, the Independent Reviewer undertook eight shorter visits which were specific to the recently added provisions on Unsolicited Credit Limit Increases (UCLIs) for Store Card and Catalogue firms. It was agreed with the FCA in December 2018 that these UCLI provisions would be incorporated in the Lending Code, rather than within CONC rules or guidance, and the FLA would be responsible for monitoring member firms’ implementation with the new provisions. These were successfully implemented, and the FLA provided regular updates to the FCA on firms’ implementation processes and outcomes of the UCLI-specific compliance visits.

Complaint Data

While the FLA no longer provides a Conciliation Service under the Code (as complaints can be referred to the Financial Ombudsman Service), as part of the compliance process members are asked to provide high-level complaints data. This provides insight on the issues or trends firms may be seeing and if there are any areas that members, the FLA or the Code Group might need to monitor.

We asked members for their Top 5 complaint categories, the main ones of which are shown in Figure 1. The categories show little change over the past few years; however, we expect to see a reduction in PPI complaints in 2020 given that the FCA’s deadline for submitting a complaint of this type was August 2019.

Top 5 Complaint Categories (Fig 1)



Financial Ombudsman Service

The Lending Code Group also requested information on how many complaints members received within the 12 month period (January 2019-December 2019); and, of those, how many were referred to the Financial Ombudsman Service (FOS). This also included feedback on what proportion of the complaints referred to the FOS were overturned in favour of the customer.

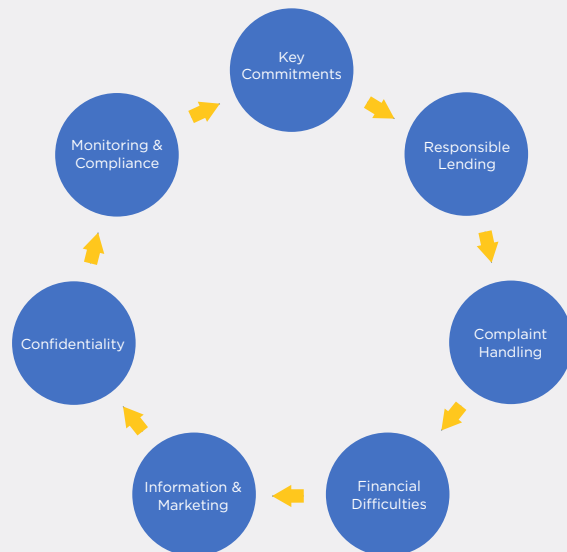
The majority of complaints received were resolved by FLA members to the satisfaction of the customer. Less than three per cent of the total number of complaints received by members were referred to FOS, and of these, a quarter of decisions were overturned. This compares with an average overturn rate of 50% by FOS when considering all banking and credit complaints.

During 2020, the FLA is introducing further guidance and training for members on effective complaint handling.

Compliance Monitoring Areas

The Statement also monitored members' compliance with the General Commitments included in the Code (Figure 2), together with product-specific requirements.

Fig 2



Enforcement Action

The FLA's Compliance Team deals directly with minor Code infringements and works with members to ensure that policies and procedures are changed to deliver compliance with the Lending Code.

There were no serious breaches of the Code in 2019.

Disciplinary Action

The Lending Code Disciplinary Panel is independent of the industry and deals with serious instances of non-compliance with the Lending Code. It is convened only 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 2019.

FLA 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 Limited

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 to the Group)

Will Atkinson, Senior Policy Adviser

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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