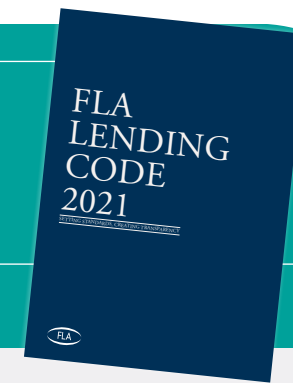


LENDING CODE REPORT

ANNUAL REPORT FOR 2022



Setting standards, creating transparency

CHAIR'S STATEMENT



Gordon Bell
Chairman

I am pleased to introduce the Lending Code Annual Report for 2022. This year marked the thirtieth anniversary of the Lending Code. While this is a significant milestone to celebrate, it is important that the Code continues to evolve in line with regulatory practice.

Cognisant of the challenge that members face in preparing for implementation of the Financial Conduct Authority's Consumer Duty, and the regulator's data collection requirements practices, the Lending Code Group have begun to advise on a review of compliance processes under the FLA Lending Code to ensure that they are clear, efficient, user-friendly, and rigorous. This review will take place over 2023-24 and be undertaken in close consultation with Lending Code signatories.

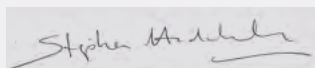
In 2022, 78 members subscribed to the Lending Code. I can report that overall compliance with the Code remained strong throughout the year. Our Independent Code Reviewer undertook seven visits, which were selected as part of our risk matrix model. These visits were conducted as hybrid meetings (remote and in-person), which allowed for greater flexibility in timing and approach. Further refinements to the Code Visit process will be a key focus for the Lending Code Group in 2023.

I was pleased to see examples of good practice, gleaned from member compliance returns, highlighted in our 2021 report. The 2022 Compliance Statement newly contained a voluntary question asking for examples of good practice under the Code. The response rate to this question was high, and anonymised examples are provided across the following pages.

Sharing good practice in this way promotes the Lending Code as a learning opportunity for the FLA's membership. Additionally, it allows the Lending Code Group to advise the FLA on opportunities for developing good practice guides and toolkits for members.

May I extend my thanks to the Lending Code Group for their work across the year. I look forward to working with consumer and industry representatives to continually drive improvements to this established and influential industry code.

DIRECTOR GENERAL'S STATEMENT



Stephen Hadrill
Director General

Since the Lending Code's inception thirty years ago, all FLA members providing consumer, motor or mortgage finance have signed up to the Code as a condition of full membership. 2022 is an important anniversary. We are proud of the integral role the Lending Code plays within our Association and in our engagement on it with Government, regulators, and consumer groups.

It is crucial, however, that the Code continues to be trusted and evolves to meet new regulatory approaches and external challenges. The FCA's focus on data collection, alongside implementation of the Consumer Duty, poses significant resource challenges to members. I am therefore pleased that the Lending Code Group is turning its considerable expertise towards how we might renew our compliance processes to be more efficient and user-friendly to members, whilst remaining rigorous.

Another priority is to continue our work in collecting and sharing good practice uncovered during compliance processes. As I wrote last year, this important information continues to 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 would like to thank our Chair, Gordon Bell, the Lending Code Group and the Code Compliance Team for their stewardship of this enduring industry code across its thirtieth year.

2022 IN REVIEW

Across 2022, a key focus for the membership has been preparing for implementation of the FCA'S Consumer Duty. The Duty represents the most significant step by the regulator since the introduction of the Handbook in 2014. The shift towards evidence-based regulation has required the commitment of significant resources by firms. More than 300 members joined a workshop and conference explaining how the Duty impacts different stages of the credit life cycle, and a new suite of training courses has been launched. The Lending Code Group will continue to advise on the implications of the Consumer Duty for the Lending Code.

The impact of cost-of-living increases has been an additional focus. Across 2022, the FLA held a series of workshops for members on **Navigating the Cost-of-Living Crisis**, which brought together insights from the regulator, debt advice providers, and existing good practice from our membership to help shape an effective response. A key insight from members is the need to effectively manage resource within teams to deliver targeted forbearance. Feedback via the Compliance Statement indicated that firms are enhancing training for staff to enable them to provide the right support to customers.

THE FUTURE OF CREDIT PROJECT

A new project on **The Future of Credit** was launched by the FLA in 2022, focusing on the value of credit to consumers and the wider economy, how access to credit is changing, and how the sector is evolving with new models and products.

Our research found that, for many, credit is functioning effectively and valued for the flexibility and freedom it provides. However, consumers are also keenly aware of a loss of control if credit becomes unmanageable or they have difficulties with repayments. Therefore, the future of credit must be built on a deeper relationship of trust between lenders and consumers and where lending decisions are explained fully. We are investigating how to boost this relationship through four principles: education and customer understanding, control, flexibility and personalisation.

The report was published in February 2023 and will help inform discussions with the Government, regulators, and commentators on the future shape of the industry.



MONITORING THE CODE

Statement of Compliance

As a condition of membership, all FLA members providing consumer or motor finance must comply with the Lending Code. The Chief Executive of each FLA member company covered by the Lending Code is asked to sign an annual Statement of Compliance to confirm that they are compliant with the Code's provisions. Before doing so, member companies are asked to conduct an audit of their operations so that information about how they ensure they comply with the Code can be included in the Statement.

Compliance Statement Review Visits

As part of the monitoring procedures in place under the Code, inspection visits are undertaken to member firms. The inspections are carried out by an Independent Code Reviewer to ensure that members' day-to-day processes and operations are implemented and comply with the provisions of the Lending Code.

The Code Group selects members to visit using a risk model, influenced by the Statement of Compliance, the size of the company, length of FLA membership and other relevant factors.

Seven visits were carried out in 2022.

Code Compliance Review

In 2022 the Lending Code Group decided that a review of the Code Compliance process was prudent. This work is still ongoing, but it was highlighted that although the systems that are currently in place work well, there are areas that could be improved upon, for example related to the Annual Statement of Compliance and the Annual Compliance visits.

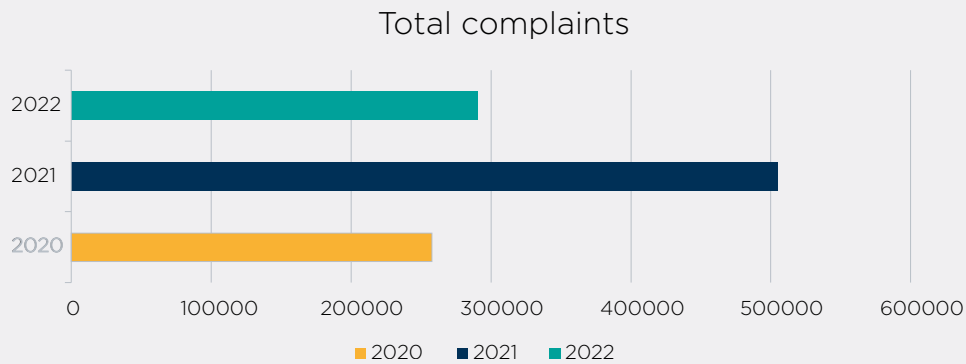
We need to ensure that work is done efficiently. Firms are increasingly asked by the regulator to make significant system changes and compile new processes and procedures. This is in addition to all the information requests required throughout the year.

To keep the Lending Code and the FLA Code Compliance process relevant and effective, we are undertaking a review of how we approach Code Compliance and we will be liaising with members on this across 2023.

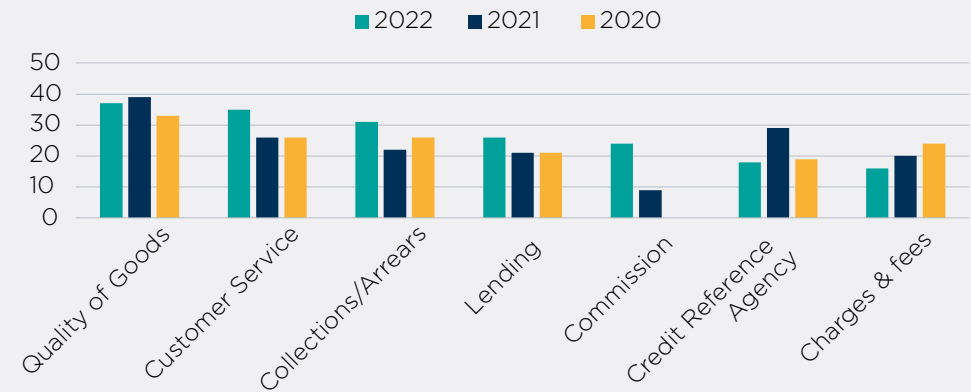
MONITORING THE CODE

FOS Statistics

The total number of complaints involving FLA members received in 2022 was almost half that in the previous year and below pre-pandemic levels. Of the total complaints received, 5.9% were referred to the FOS. We continue to engage with FOS the trends in complaints that our members see and how members can help reduce the number of referrals.



The rise in commission-related complaints referred to FOS is accounted for by the number of complaints relating to motor finance commissions and disclosure referred by claims management companies. FOS's final decisions are awaited in these complaints.



MONITORING THE CODE

Good Practice

In 2022 we asked members if they would provide us with examples of good practice. We are keen to understand and learn of new methods that firms are adopting to improve their services, fix issues for their customers, and embed the requirements of the upcoming FCA Consumer Duty.

We are pleased that so many firms responded to our request and some of the examples can be found below:



By listening to our customers, we have been able to improve how we communicate with them. Our customers have told us (through surveys, conversations, and their actions) that they appreciate being able to contact us through messaging services such as WhatsApp. We have therefore invested time, money and people into developing a platform that allows us to “chat” to our customers in this way.



An annual “Team Recognition Award” encourages operational teams to focus on process improvements that improve the customer experience. Teams have the opportunity to submit their initiatives which are reviewed by a panel of senior leaders, this includes a presentation to demonstrate how the initiative has delivered a tangible improvement.



We conduct detailed quality assurance reviews of all colleague engagements with our customers, which provides the opportunity for continually improving colleague development and enhancing business practices. In a similar way, responding to customer complaints and expressions of dissatisfaction through ongoing root cause analysis also enables us to identify issues and take proactive actions, and creates a working environment culture that strives to deliver excellent customer service.



Investment in the development and implementation of our new Customer Relationship Management system has allowed us to introduce more sophisticated flagging whereby all customers requiring extra support, regardless of being in financial difficulties, can now be highlighted within our systems. With consent from the customer, we can now record high level support needs which are simple and easy to identify for our customer care staff to ensure customers only have to ‘tell us once’ when disclosing a support need or vulnerability even where they are not experiencing financial difficulties.



We are dedicated to building a customer centric culture across the whole organisation, empowering well-connected teams with all the resources they need to be in control and go the extra mile for every customer. We have developed Customer Attitudes to help drive this forward and have deeply embedded this within our organisation. We are shaping our digital future by mastering cutting-edge tools that support and enable us to deliver outstanding, compliant customer services using tools that allow drivers to take control through a user-friendly digital platform. In addition, we are committed to sustainable maintenance principles, ensuring our services are not only excellent but also environmentally responsible. Together, these initiatives represent our ongoing commitment to providing exceptional customer experiences, leveraging digital advancements, and promoting sustainability throughout our company.

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 Ltd

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

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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