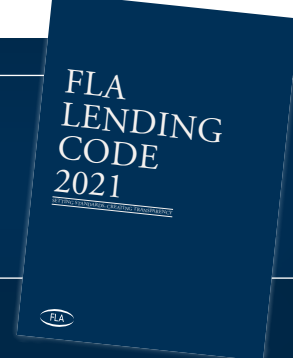


LENDING CODE REPORT

ANNUAL REPORT FOR 2020



Setting standards, creating transparency

CHAIR'S STATEMENT



Gordon Bell
Chairman

On behalf of the Lending Code Group, I am pleased to introduce our Annual Report for the year ending 2020.

In what was an extraordinarily challenging and disruptive year for consumers, regulators, FLA members and the markets they represent, the Lending Code Group was able to continue its full range of activities across 2020. May I first thank the representatives of the Lending Code Group for their adaptability, commitment, and insight throughout this period. My thanks also go to the FLA's Code Compliance Team for effectively supporting the Group's work during a difficult year.

The introduction of new forbearance requirements by the FCA in response to the pandemic created significant resource and operational challenges for the 78 firms which subscribe to the Code. I am therefore pleased to report that overall compliance with the Code remained strong across 2020. The required move to remote Compliance Visits allowed our Independent Code Reviewer to undertake a full complement of eight visits. While we await the return to normal meetings, remote meetings proved an efficient and effective method to manage the significant resource challenges the

pandemic placed on firms.

There are lessons to be taken from this most difficult year. The first is that novel circumstances can spur new and innovative approaches to achieving better consumer protection. The second is that there needs to be some way of capturing the specifics of those innovations. The Lending Code Group continues to be an excellent forum for distilling these new approaches and continually improving not only the quality of protections under the Lending Code, but also its visibility, usability and accessibility. In that respect, I look forward to leading the Group's work through 2021 and beyond.

DIRECTOR GENERAL'S STATEMENT



Stephen Haddrill
Director General

The Review of the Code during 2020 was primarily focused on ensuring consumers can easily access the commitments and protections included within it. A new more consumer-friendly and interactive version of the Code has been developed, together with Frequently Asked Questions – both of which were launched on 1 June 2021. The new format was developed in consultation with consumer groups and members, and I would like to thank the Code Group for all their input during the design stage.

As part of the Review, we also seized the opportunity to improve some of the language in the Code to make it much clearer. This is very much a work in progress, but it was a good start which we will build on in future reviews. The Code requires firms to provide customers with clear information and so it is important the Code itself follows this commitment.

With 78 firms now subscribing to the Lending Code, it continues to play a central role in our promotion of good practice standards. All members providing consumer, motor or mortgage finance must adhere to the

Code and the updated Code includes new targets to further promote the professionalism of motor dealers and brokers over the next four years.

I would like to thank our Chair, Gordon Bell, the Lending Code Group and the Code Compliance Team for all their work this year, particularly in ensuring that the compliance monitoring framework remained robust despite the challenges of the pandemic.

2020 IN REVIEW

The COVID-19 pandemic spurred new ways of working for members. As part of the Lending Code compliance monitoring process, the Code Compliance Team sought feedback from firms on how they adapted their business to the needs of consumers.

Members indicated that the first lockdown in March 2020 posed immediate challenges in terms of adapting working environments to ensure the needs of customers and staff were being met. This involved consideration and rebalancing of customer service staffing and resource requirements to meet forbearance demands. Members noted this sometimes relied on relocation of staff from other areas of the business.

While ensuring customers had support and help where necessary, firms were also keen to ensure that the wellbeing of their employees was addressed and many members put additional support in place for their staff.

The Lending Code Group decided that the FLA Lending Code Compliance visits would continue in 2020. A full suite of eight visits was undertaken remotely by the FLA's Independent Code Compliance Reviewer. Moving to virtual visits required firms to provide additional information to cover aspects of the visit that would, in normal circumstances, be viewed or discussed in an onsite visit.

The lessons learned from the year will provide a foundation for careful reflection on new and innovative approaches to monitoring compliance with the Lending Code compliance in the future. The Lending Code Group will also reflect on good examples of consumer protection emerging from 2020 in their broader oversight of the Lending Code.

Statement of compliance

It is a requirement of the Lending Code that every year all relevant full FLA members complete a Statement of Compliance (“the Statement”) to confirm that they comply with the Code’s provisions. In 2020, 78 members were signatories to the Code.

Before signing the Statement, members are required to undertake an audit of their operations so that they can provide accurate information about how their organisation complies with the Code. This process helps to identify any difficulties members may have encountered throughout the year, which should then be disclosed in the Statement. This is used by the Group to identify areas where additional information or guidance might be needed. Members are also encouraged to provide examples of best practice so that they can be shared with the wider membership. The high level of compliance reported in the 2020 Statements is a strong indicator of members’ continuing commitment to the FLA Lending Code.

Compliance visits

In 2020, FLA Lending Code Compliance visits were undertaken remotely by the Independent Code Compliance Reviewer. This presented new challenges, as separate virtual meetings had to be arranged across all compliance staff members who would have usually met together with the Reviewer in an onsite visit. Additional information was also requested, to ensure there were no gaps in the factors considered as part of a Compliance Visit.

MONITORING THE CODE

Other areas of the Annual Statement focused on:



Additional information gathered

With staff transitioning to working from home at the beginning of 2020, we were interested to see how members managed throughout the year and we tailored questions within the Statement to capture what particular issues arose due to the COVID-19 lockdown.

Compliance monitoring

- Firms confirmed that monitoring was still undertaken as normal. There were also instances where firms had to adapt to support the needs of the business, particularly when firms were implementing the new Payment Deferral Scheme within tight timescales. Enhanced and additional monitoring was undertaken following the Covid-19 regulatory updates from the FCA.

Training

- All members confirmed that Lending Code-specific training has been carried out as usual, albeit via on-line learning through Teams or Zoom.

Vulnerability

- In discussion at the FLA's Vulnerability Committee, the majority of members indicated that the pandemic had not changed the way in which they deal with vulnerable customers, as existing processes had already been determined to remain fit for purpose. Over the past few years, updating and adapting vulnerability policies has been a key priority.
- Due to the specific nature of some vulnerabilities and the impact of COVID-19, additional guidance has been created by some firms to assist customers with payment deferrals, payment plan arrangements and longer-term forbearance. Firms were also preparing for the publication of the FCA's final Vulnerability Guidance and had shared examples of good practice for inclusion in the final document.

MONITORING THE CODE

Complaint categories

Each year we ask members for their Top 5 complaint categories. Fig 1 shows that categories such as PPI have significantly reduced, following the FCA's PPI complaint deadline in August 2019. Complaints about Quality of Goods and Customer Service have also reduced. Customer complaints in 2020 focused on Credit Reference Agency reporting, lending decisions, arrears management, fees and charges.

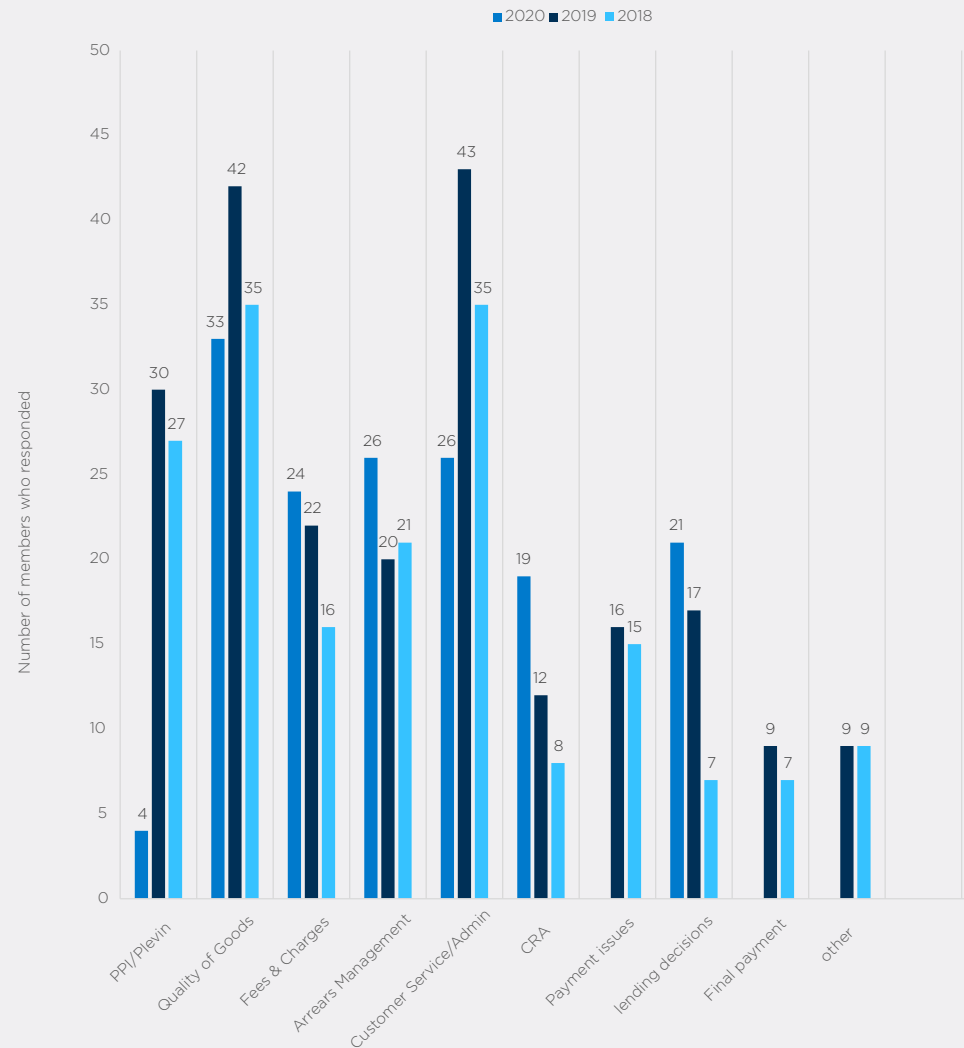
Financial Ombudsman Service (FOS)

Members were asked to provide complaint data; including:

- The number of complaints received in 2020,
- The proportion of those complaints that were referred to the FOS; and,
- Of those referred, how many were overturned in the customers favour

Of the total amount of complaints received by firms in 2020, 4.5% were referred to the FOS. This is an increase on 2019 figures where less than 3% were referred to FOS. However, in 2020, 20% were upheld in the consumers favour, which was a 4% decrease on the previous year. During 2021, the FLA will work closely with members and FOS on sharing early insights on complaint trends to assist with complaint prevention strategies and good practice. The FLA has also launched a Complaint Benchmarking Service to support this work.

Fig 1: Complaint Categories



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

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/>

Or contact:

The Finance and Leasing Association

Imperial House

8 Kean Street

London

WC2B 4AS

Tel: 020 7836 6511

