

# LENDING CODE REPORT

## ANNUAL REPORT FOR 2015

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 2015. The report sets out the work undertaken last year by the Group.**

Over the course of 2015, FLA members continued their work in embedding the FCA's new regulatory regime for consumer credit, while at the same time preparing and submitting their detailed applications for FCA authorisation. This has placed huge demands on firms' time and resources and we were pleased to see that members remained committed to adhering to the Lending Code when also facing major additional regulatory requirements.

Eight firms were visited by the Independent Code Reviewer over the course of the year. These visits provide an ideal opportunity to explore in detail how firms comply with the Code and talk about how best practice can be achieved. Following each visit, firms receive a detailed report which highlights, where appropriate, where further compliance action is required. Overall, the level of compliance remains extremely high. As the FLA's membership grows,

the compliance visits also ensure that new members get a clear insight early on into the standards which are required.

The Code Group has continued to play a pivotal role in the operation and development of the Code. Their thoughtful advice and support has been invaluable.

I would also like to thank the Code Compliance Team at the FLA for their dedication and energy in dealing with complaints and compliance with the Code.

The annual Code Compliance Statements, compliance visits and complaint monitoring provide a valuable insight into the operation of FLA members



**Geoffrey Woodroffe**  
Chairman

## STATEMENT BY THE DIRECTOR GENERAL

**Twenty-two years after its introduction, the Lending Code continues to play an important role in setting standards in the consumer credit sector.**

As the FCA's new regulatory framework for consumer credit continues to evolve, impending regulatory changes will have important implications for the content of the Code.

Of course, the result of the recent referendum on the UK's membership of the EU will also have an impact on future regulation, and the size and scope of the resulting changes will not be clear for some time.

Prior to the result of the referendum, the FCA was already reviewing the retained provisions of the Consumer Credit Act (CCA). It is required to report to HM Treasury by April 2019. After 40 years on the statute book, the CCA is seriously out of date and in many ways works against the interests of customers. We are pressing the FCA and the Government to use this opportunity to ensure the consumer credit regime is fit for purpose, and reflects how lenders and consumers want to do business in the 21st century.

Against this background of regulatory change, it is also clearly sensible to review the Lending Code itself. We are therefore discussing with FLA members how the Code may need to change in future, and will be consulting regulators, consumer groups and the Government as part of the process.

After another year of excellent work to ensure compliance with the Lending Code, I would like to thank Professor Woodroffe and the Lending Code Group for their expertise and support, the FLA's Code Compliance Team for their comprehensive compliance monitoring, and FLA members for continuing to support high industry standards.



**Stephen Sklaroff**  
Director General

# REVIEW OF 2015

2015 was every bit as busy and challenging for firms as 2014. As the new regulatory regime introduced by the FCA continued to evolve, firms had to continuously adapt. At the same time, firms were preparing for, and then undergoing, the rigorous process of obtaining FCA authorisation. Nevertheless, throughout this period of change, FLA members have maintained their commitment to the Lending Code.

## Changes continue unabated

The FCA has acknowledged the task facing it in getting to know the consumer credit markets. Building on the work done in 2014, the FCA has been studying the credit card market in detail and has overseen the transfer of second charge lending from the new credit regime to the (different) Mortgage Conduct of Business rulebook.

The FCA also started work in 2015 to explore a series of broad themes affecting the consumer credit market as a whole. It launched research on the way credit-worthiness was assessed, on the identification and treatment of customers in the early stages of arrears, and on staff incentivisation and remuneration.

Alongside all this, the FCA faced the substantial task of authorising some 37,500 consumer credit firms. By December 2015, the majority of applications had been received. The task of assessing these applications continued into 2016 and may even spill into 2017.

Although much of the focus has been on adapting to the new FCA regime, many firms have had other, wider, regulatory changes to consider. In 2015 the Consumer Rights Act came into force. In many respects this consolidated existing consumer protection legislation, but it also brought changes and firms have needed to take steps to

reflect these in their practices and procedures. The result of the recent referendum has of course introduced the prospect of possible further regulatory change, although the extent is currently hard to gauge.

It is, however, almost certain that the FCA will continue with its review of the retained provisions of the Consumer Credit Act, with the aim of deciding which should remain on the statute book, which should be transferred into the new rulebook, and which should be amended or dropped. The FCA is also expected during 2016 to report on the outcome of its various pieces of research on the credit markets. All of this may bring further changes

to the regulatory environment. FLA members, with their continuing commitment to the principles of the Lending Code, are well placed to meet them.

# 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, details of whom can be found at the end of this report.

## Statement of Compliance

It is a requirement of the Lending Code that all relevant FLA members annually complete a Statement of Compliance ("the Statement"). Members are required to undertake an audit of their operations in order to provide accurate information to demonstrate that their organisations comply with the provisions of the Lending Code.

Members are also encouraged to provide information about any Code breaches or difficulties they have encountered during the year, and to provide examples of good practice which can be shared with other FLA members.

## Compliance Statement Review Visits

Compliance Statement Review visits are an integral part of monitoring compliance with the Code. The visits are undertaken by an independent Reviewer, who checks that the processes and procedures in place comply with the provisions of the Code. An assessment of likely risks, information from the annual Compliance Statement, the size of company, and its time in FLA membership are all factors which are used in deciding which members should receive a visit. Eight inspections were carried out in 2015.

## Enforcement Action

The Lending Code Group can take enforcement action, when required, if members consistently fail to meet the Lending Code's provisions. The FLA's Compliance Team will usually deal directly with minor infringements, and will work with members to ensure that policies and procedures are changed

in order to avoid similar problems in future.

If a serious breach occurs, members may be subject to one or more of the following:

- A written warning;
- A request for written submissions regarding compliance; or
- A meeting with the member to discuss non-compliance.

The Code Group can refer more serious Code breaches to the Disciplinary Panel if the above measures prove unsatisfactory.

There were no serious breaches of the Code in 2015.

## Disciplinary Panel

The Lending Code Disciplinary Panel is a committee, independent of the industry, which 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 2015.

## FLA Conciliation Scheme

The FLA operates a Conciliation Scheme. This service is free to consumers who have a dispute with a full FLA member, and who have been unable to reach a satisfactory resolution through the firm's own internal complaints procedure.

The FLA secretariat liaises with the firm concerned to see whether a satisfactory resolution can be found. If this is not possible, consumers are often signposted to agencies or organisations who may be able to assist them.

The FLA is only able to deal with complaints which concern the provisions of the Lending Code, and it cannot make decisions or award compensation.

## Number of Complaints in 2015

The total number of complaints received in 2015 was 183. Of these, 166 were referred to members. The remaining 17 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.

A target of 56 days for dealing with complaints has been set by the FLA Lending Code Group. In 2015, 142 cases (86%) were resolved within this timeframe.

As in the previous two years, complaint numbers fell again in 2015 (see Figure 1), reflecting the fact that more consumers chose to submit a complaint to the Financial Ombudsman Service.

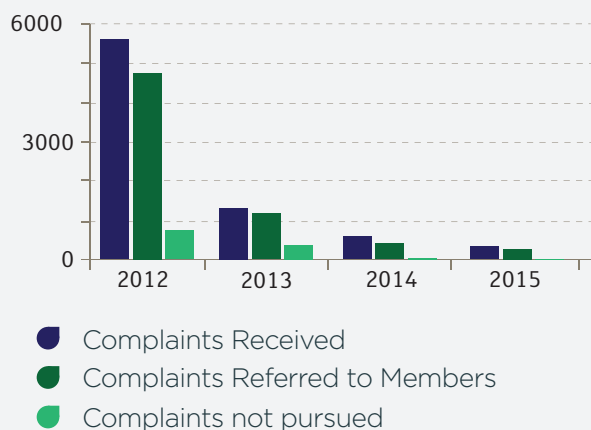


Figure 1: Complaints received, referred to member and not pursued

## Source of Complaints in 2015

In 2015, the majority of complaints were received directly from consumers: 179 (or 96%) (Figure 2). The remaining complaints were received either from a Claims Management Company (CMC) or from other sources including family members. These numbers may indicate a greater awareness on the part of consumers that the services of a Claims Management Firm (many of whom charge a fee) are not necessary, and that complaints can be referred to firms directly.

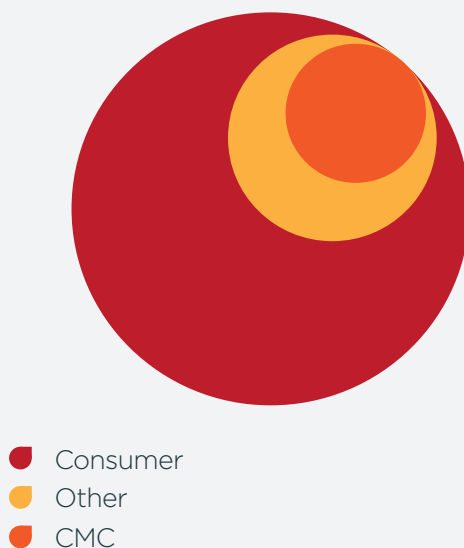


Figure 2: Source of complaints

## Types of Complaints in 2015

In 2015, there was a shift in the types of complaint received. In previous years, Insurance Cover (including PPI), has been the main source of complaints. But in 2015 the main reason for consumer complaints was Quality of Goods. The next largest categories of complaint were Insurance and Arrears. The remaining complaints consisted of other types - for example, Default Charges, Lack of Information, and complaints related to the Credit File (see Figure 3).

25% of all complaints referred to members in 2015 were resolved in the customer's favour. This represents a small increase from the previous year, when the figure was 21%.

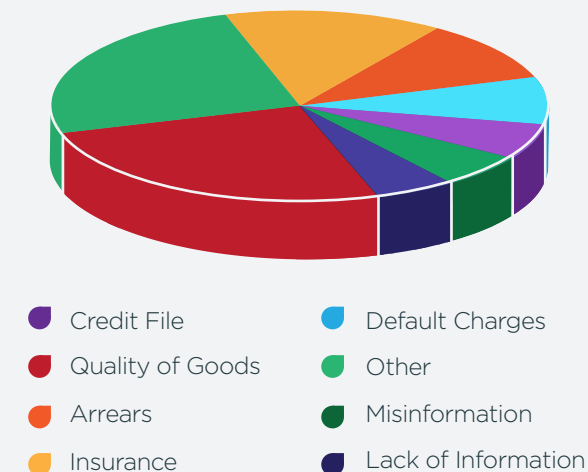


Figure 3: Types of complaints

# 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  
**Wendy Carpenter**, Compliance Manager, Hitachi Capital (UK) PLC  
**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)**  
or contact:

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