

LENDING CODE REPORT

ANNUAL REPORT 2018



Setting standards, creating transparency

CHAIRMAN'S FOREWORD

On behalf of the Lending Code Group, I am pleased to introduce our Annual Report for the year ending 31 December 2018.

As the newly appointed Chairman, I am conscious that the past twelve months has seen significant change - both on the regulatory front and also to the membership of the Lending Code Group. My predecessor, Professor Geoffrey Woodroffe, sadly passed away in July after many years of service to the Group. He was a highly respected consumer advocate and a strong supporter of the role industry Codes can play in enhancing consumer protection.

Over the past 12 months, the Financial Conduct Authority continued its work looking at both individual credit markets, as well as sector-wide issues. These included new rules for creditworthiness assessments, the ongoing review of High-Cost Credit and a report on the motor finance market. To reflect this work, new provisions have been included in the Code to provide motor finance customers with useful information on issues such as mileage limits. Catalogue and store card customers will also be given more choice on how they receive Unsolicited Credit Limit Increases - including the option not to receive them.

Seventy-five firms now subscribe to the Code, who together provide over a third of consumer credit in the UK. Overall compliance with the Code remained strong in 2018 and eight firms were visited by the Lending Code Group's independent reviewer. These visits provide an opportunity for both parties to discuss compliance with the Code's provisions in detail and explore where improvements might be made. Importantly, they provide an opportunity to feed good practice into the management of the Lending Code. I would like to thank the Lending Code Group and the Code Compliance Team for their knowledge and insight over the course of the year.



Gordon Bell
Chairman

STATEMENT BY THE DIRECTOR-GENERAL

Despite the fast pace of regulatory change, FLA members' commitment to the Lending Code remains strong.

The Review of the Code during 2018 demonstrated once again how Codes of Practice can be used to introduce additional consumer protection faster than changes to the statutory regime would allow. By engaging with the Financial Conduct Authority on new measures in the catalogue credit, store card and motor finance sectors, the industry reaffirmed its commitment to good practice and was able to introduce effective and efficient consumer protection measures.

The FCA's final report on their review of the Consumer Credit Act supported change in many of the areas we have long suggested, including to Modifying Agreements, Voluntary Terminations, unenforceability sanctions and the information provided to consumers. This momentum for change now needs to be maintained, as the Act no longer fits with how 21st century consumers want to apply for, and manage, their credit.

Support for the Code is at its highest level ever, with 75 member firms now subscribing. The Code Review reinforced firms' commitment to remain ahead of the regulatory curve and the Code now includes additional measures to complement FCA regulation. Further changes are planned later in 2019.

We were very sad to hear the news of Professor Woodroffe's death last Summer. His contribution to the development of the Lending Code over a 20-year period was exceptional. We have welcomed Gordon Bell as the new Code Group Chairman and look forward to working with him.

I would like to thank the Lending Code Group and the Code Compliance Team for their work this year and to commend the FLA's members for their continued commitment to the Code in 2018.



Stephen Sklaroff
Director General

REVIEW OF 2018

The review of the FLA Lending Code delivered new protections for consumers, across a variety of different credit products.

One of the core benefits of the Lending Code is that it allows FLA members to deliver proportionate, effective and efficient consumer protection, which complements the statutory regulatory regime overseen by the FCA.

The 2018 review of the Lending Code resulted in the inclusion of important new consumer protection measures, agreed with the FCA, for catalogue credit, store card and motor finance customers, covering issues such as credit limit increases and the information customers receive when applying for credit. Continued change in the credit markets requires firms to be adaptable and the Lending Code plays an important role in helping them.

The FCA's extensive programme of regulatory reform continued unabated, as firms embedded new rules on creditworthiness assessments while preparing for the introduction of the new Senior Managers & Certification Regime. The FCA also reviewed how Buy Now Pay Later products work in practice; sought feedback on whether there should be a formal Duty of Care in financial services; looked at the potential for rule changes to deliver fairer pricing models; and explored how the Consumer Credit Act might be updated after nearly 50 years in operation.

FLA members do business under a diverse and changing regulatory landscape. The Lending Code remains an invaluable, influential and adaptable tool for delivering consumer protection.

MONITORING THE CODE

Statement of Compliance

FLA members who provide motor and consumer finance are required to comply with the Lending Code as a condition of full FLA membership. They must also confirm, annually, their compliance with the Code.

The Statement of Compliance is an important aspect of the Lending Code Group's work in monitoring compliance with the Code.

Before final sign-off of the Compliance Statement by their CEO, member firms are required to undertake an audit of their operations. This provides us with accurate information about how each member firm complies with the Code. It also provides members with the opportunity to set out any difficulties they may have with the Code, as well as identifying areas of good practice in their business.

71 members were required to complete the 2018 Compliance Statement, which consisted of 28 questions. The Statement asked members to respond to questions on compliance with the General Commitments included in the Code (see Figure 1), together with product-specific requirements.

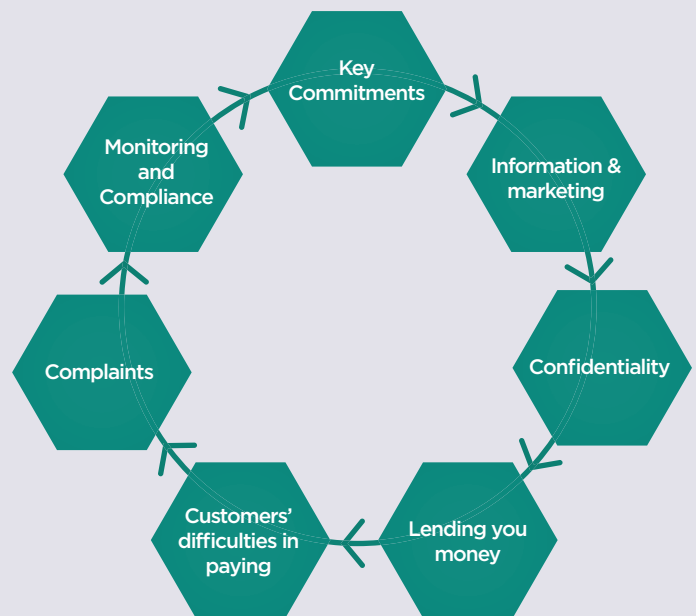


Figure 1: Areas covered in the Annual Compliance Statement.

Compliance Statement Review Visits

Compliance Visits are an important part of the FLA Code monitoring process. Every year the FLA's Independent Reviewer undertakes these inspections. These visits ensure that firms processes and operations comply with the provisions of the Code.

The Code Group uses a risk-based model to select firms for Compliance Visits. The risk model is based on the responses provided in members' Compliance Statements, and also considers other factors such as length of FLA membership, time elapsed since a firm's previous Compliance Visit, and any concerns raised about particular credit products or market practices.

Eight Compliance Visits were carried out in 2018.

Enforcement and Disciplinary Action

The Lending Code Group can choose to take enforcement action, when required, against members who consistently fail to meet the provisions of the Code. Minor infringements are generally dealt with by the FLA Code Compliance Team.

For serious breaches of the Code the Group can:

- Issue a written warning;
- Request a written submission on compliance from the member; and
- Request a meeting to discuss non-compliance.

There were no serious breaches of the Code in 2018.

The Disciplinary Panel

The Lending Code Disciplinary Panel is only convened when the Code Group's efforts to resolve a breach of the Code have been unsuccessful and where a member's action in not resolving the issue may lead to reputational damage to the Code or serious consumer detriment.

It was not necessary to convene the Disciplinary Panel in 2018.

Monitoring Complaints

In 2017 the FLA ceased offering a conciliation service. This is because most consumer agreements fall within the jurisdiction of the Financial Ombudsman Service, which can make decisions and award redress. However, the Code Group monitors the types of complaints FLA members are receiving, to ensure the Code is up-to-date. Each year, as part of the Compliance Statement process, we ask for members' top complaint categories. These are shown in Figure 2.

2018 saw a further reduction in PPI complaints. This may be because of the imminent FCA deadline for submitting PPI complaints. The other categories retain the same rank as 2017.

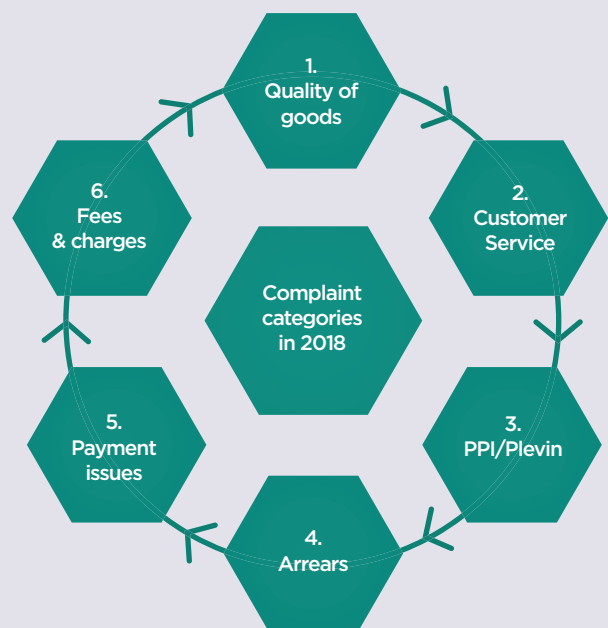


Figure 2: Ranked complaint categories - 2018 Compliance Statement.

FLA LENDING CODE GROUP

FLA Lending Code Group

Consumer Representatives and Legal Experts

Gordon Bell, Lending Code Group Chairman (from January 2019)

Nick Lord, Consultant, Money Advice and Personal Finance

Frances Harrison, Consumer and Financial Policy Advice Specialist

Helena Wiesner, Consumer Affairs Specialist

Claire Whyley, Consumer Research and Policy Specialist

Jonquil Lowe, Personal Finance Expert (from March 2019)

Industry Practitioners

David Evison, Compliance Manager, Shop Direct Finance Company Limited

Carolyn Cockwell, Senior Regulatory Compliance Manager, Barclaycard

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 & Leasing Association

Imperial House

8 Kean Street

London

WC2B 4AS

Tel: 020 7836 6511

