



Standards Development Project

Digital

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Background

Digital innovation has remained a high priority in the financial sector as customers continue to embrace high performance technological alternatives to the traditional banking channels. There is well documented research to show that Fintech¹ is generally having a positive impact on customers' financial health, through increasing their financial awareness and enabling them to have more control over financial choices.

The most prominent areas of digital development for Registered Firms, insofar as they relate to the Standards of Lending Practice (the Standards), are financial promotions and communications, product sale, and account maintenance. These areas have already undergone significant development over the last few years, and it is anticipated they will continue to grow further.

This research project extended across the whole customer journey, as defined in the Standards, and includes: credit card, loan and overdraft products. We considered specific customer segments, such as vulnerable customers, armed forces and use of the Power of Attorney, to understand the considerations and constraints Firms face when developing their digital capabilities and how any challenges are managed.

Objectives and scope

This Standards Development Project (SDP) sought to identify areas where the Standards and the LSBs Information for Practitioners may benefit from enhancements to ensure that the protections provided take account of the technological advancements available via digital channels throughout the customer journey. We also aimed to identify examples of good practice, which firms may wish to take into consideration when developing their digital capabilities.

The scope of this research included the following:

- Review the Firms' horizon scanning of technological advancements and the Fintech market more generally to gain an understanding of the processes and considerations when firms are looking to develop their digital capabilities.
- Understand the key considerations for Firms when designing new or enhancing existing digital capability, including the process for engaging and working with the Fintech sector.
- Understand the internal review processes that assess the extent to which digital capability is and remains fit for purpose, particularly when integrated within existing legacy systems and processes.
- Identify the manner in which Firms assess customer outcomes, from design through to launch and beyond.

¹ Financial technology (Fintech) is an economic industry composed of companies that use technology to make financial services more efficient.

- Identify and review the effectiveness of Firms' financial promotions and communications activity within digital channels, in terms of the clarity and pace of information for the customer.
- Identify and review Firms' digital product sales channels and their effectiveness at enabling products to be purchased without negative customer outcomes.
- Identify and review the effectiveness of the range of digitally enabled account maintenance and servicing activities and the extent to which these are integrated into the Firms' 'back office' processes.
- Review the extent to which data analytics is used within the digital journey to understand customer behaviours and touch points which could lead to negative customer outcomes.

Methodology

Our approach to this project has been research based and included participation from four Registered Firms, including major banks and credit card companies, as well as consulting with Fintech to obtain additional insight. This was supported with access to subject matter experts within the various firms, to discuss details of the approach taken to developing digital solutions and assurance mechanisms which ensure positive customer outcomes are achieved.

Executive summary

Digital technology has become integral to our everyday lives and banking apps are a great example of the benefits of Fintech in improving a customer's financial health. With quick and easy access to their accounts these apps provide a greater sense of control for customers, which in turn enable better financial decisions. To allow us to understand how the industry is progressing with digital innovation we conducted some research into various Fintech products and capabilities aligned to the Standards. This ensured that when discussions were held with our Registered Firms, we could identify how and where these digital developments were having an impact.

This report provides details of the findings from that research coupled as well as drawing on wider intelligence obtained through general engagement with Registered Firms and the wider industry, supported by LSB's view on what constitutes good practice. We will be evaluating the findings and the recommended good practice for incorporation into the LSB's Information for Practitioners.

The key findings from our research are:

- Change management frameworks have evolved to become more agile and responsive to changes in the digital landscape, taking a customer centric approach to testing which puts development teams in direct contact with the end user.
- Analytics were used to review and identify improvements needed to either process, or product to ensure this was still fit for purpose as a digital proposition.
- Third parties are becoming more prevalent as suppliers of the technology required when providing a fully digital customer experience. Firms need to ensure sufficient controls and checks are in place for oversight of the third parties.
- The Firms we spoke to have introduced various mechanisms to support customers in engaging with the new technologies, understanding the benefits of doing so and accessing information to answer any questions or concerns raised.
- Firms have developed frictionless application journeys, with support in the form of information buttons and information pages. However not all customers were able to have seamless journey, such as Armed Forces personnel, who were instead sometimes required to provide specific information by phone.
- Increasing numbers of customers are opting to receive their statements digitally.
- Firms provide a range of information and support aimed at customers in financial difficulties via their web pages, helping customers to gain an understanding of their situation through the use of budget planners and explore options for support from their lender or via charities and organisations that offer free, independent money advice.
- Innovative digital technologies are providing a range of tools to assist vulnerable customers in accessing their accounts and engaging with their lender. Firms have focused on the needs of vulnerable customers by specifically including them when developing new technologies.

Summary findings and recommendations

Change management

As digital offerings are developed Firms are adapting the frameworks which ensure this change is controlled. These frameworks are becoming more agile and include a number of shorter timeframes to allow for analysis and feedback to be reflected in the next phase. This allows for the customer to be visible throughout the process whilst also providing flexibility to adapt and 'course correct' if issues are identified.

Good practice

Incremental steps towards a developmental aim can provide an opportunity for Firms to assess the customer's reactions to the new functionality and identify any areas which have not performed as expected using tolerances or performance metrics to measure the effectiveness of the development. This can also help to identify if there is need to 'course correct' prior to moving to the next stage or even if there is a detrimental impact, initiating remedial actions.

Product development

The switch to digital technologies, in all walks of life, continues at a pace helped by more and more innovative ideas. As consumers we can decide to what extent we adopt these technologies but simply making them available is sometimes not enough on its own, particularly for digitally or financially excluded borrowers who are at risk of being left behind. The Firms we spoke to have various initiatives in place to assist customers in understanding the choices that are available and how they might benefit from them:

- Alerts and prompts to help customers keep track of their account are applied on an auto enrolment basis. This ensures customers benefit from the information provided regarding their accounts but customers have the choice to opt out of these alerts if desired.
- Simple user guides can provide high level information and where it is provided digitally, it can replay how the feature works and the benefits that can be realised. Some challenger banks have taken a 'gamification' style approach to their design and functionality to encourage interest and engage with their demographic.
- Some Firms have provided a tech space within their branches, complemented by access to support staff, which allows customers to experience and understand the digital offerings available.
- Help lines can also provide 1-2-1 support for customers who need extra help when trying to complete a transaction online. Firms who review the types and volumes of calls received can use this information to further enhance their digital offering.

Good Practice

There are a number of ways in which Firms can help customers, particularly those who are digitally or financially excluded, to gain confidence and start engaging with technologies that may be of benefit to them, including those listed above.

Digital strategies should consider the information and support needs of all customers, along with the mechanisms that will enable Firms to assess the effectiveness of what is provided.

Third Parties

We felt that the Standards sufficiently capture the requirements in respect of third parties, to ensure that good customer outcomes are achieved with a proportionate approach to ongoing oversight and assurance.

Financial promotions

Terminology and presentation of information is constantly changing and making it more difficult for customers to compare and contrast the product features and work out how much a product costs. As an example of how Firms have addressed this challenge, The UK Cards Association's Summary Box Best Practice Guidelines assist in ensuring Firms make credit card features and costs more explicit. Technology can also play its part by use of application programming interfaces (APIs), to map actual customer data and account usage information against a potential new product so the customer can easily see how the new product compares with their existing one. Multiple sources of data can also be collated to provide an aggregated view of someone's financial situation which in turn can then be used to support achievement of any financial goals, such as a savings target. The CMA have recognised the benefits of APIs, which will start to be realised with their foundation remedy 'the development and adoption of an open API standard' during 2017/18².

Product Sale

The number of ³customers who now choose to engage with their lender digitally far outweighs face to face and telephone interactions combined, with a large proportion of banked customers digitally enabled.

Our research found that Firms aimed to provide a frictionless customer journey through the sales process. Integrated break points provided firms with an opportunity to engage with the customer in respect of any non-standard requirements, such as additional questions regarding their income. Firms

²https://www.gov.uk/government/uploads/system/uploads/attachment_data/file/544942/overview-of-the-banking-retail-market.pdf

³https://www.bba.org.uk/wp-content/uploads/2016/07/TWWBN3_WEB_Help-at-Hand-2016.pdf

also provide additional guidance through use of ‘i’ buttons during the application process as well as a ‘frequently asked questions’ (FAQ’s) section of their web pages.

Whilst there is information and guidance available for customers, the digital customer journey felt fixed with little opportunity for customers to flag any specific needs or circumstances without exiting the process. Firms advised that in general the customer would need to be pro-active in flagging any special circumstances or issues which may impact their ability to either use or be assessed through the digital process. This self-reporting approach at application stage appears to be counterproductive especially when compared to Firms’ own strategies such as attempting to proactively identify vulnerable customers.

Armed forces

The Standards state that ‘application processes should ensure that a customer is not at a disadvantage because they are serving or have recently served in the British Armed Forces.’ This is an area where industry, including the BBA and The UK Cards Association, continues to engage constructively with the Ministry of Defence and other key parties in seeking to identify opportunities to improve processes for service personnel. Whilst there is no evidence of British Armed Forces being disadvantaged when applying through a digital channel, our research does suggest that online processes do not always fully support these applications and instead they must be submitted by another means.

Good practice

Where Firms are not able to offer fully digital journeys for specific customer segments, such as the Armed Forces, with a BFPO address, clear information and instructions should be provided to ensure the customer understands what is required to enable them to navigate through the process without any detrimental impacts. This may involve an explanation of the process and timescales involved.

Account servicing and maintenance

Most Firms now offer customers the ability to operate their accounts through online and mobile banking. The demand from mobile apps has been for functionality such as enabling balances to be checked and payments made, whereas online, customers expect to be able to undertake a whole range of transactions.

Firms are also starting to integrate other features into their digital capabilities such as payment reminders and alerts. One firm is exploring the way transactional information is displayed by placing more emphasis on particular pieces of information and drawing it to customer’s attention, therefore maximising its usefulness.

For those customers who operate their accounts via online and mobile banking, research has indicated that they will typically check their balance three times more often than those customers who rely on paper statements.

More customers are opting to receive their statement digitally with Firms prompting customers to access the information once it is available. This delivery method allows for both convenient and timely access by customers whilst, where technology allows, Firms are able to analyse if and when the statement has been accessed. Some Firms have implemented additional controls to check that digital statements have been accessed. Where this has not happened for a period of time, i.e after three months, the customer is contacted to confirm they wish to continue receiving digital statements.

Good practice

A paper statement arriving prompts the customer to review it and at the same time see any key messages and notices. For customers who have opted to receive their statements digitally, Firms should consider providing prompts to remind them to access their statement once it has been issued. These prompts could include email, SMS, digital account alerts or a combination of these.

Money management

It is accepted that digital technologies are effective in enabling consumers to manage their finances. By giving customers a range of tools and options, that provide quick and easy access to their accounts, customers can see how much money they have and are therefore able to make better informed financial decisions. Wider industry developments in this area include forecasting tools which can tell the customer how much available cash they have that month by using information about regular payments and credits from the previous period.

Evidence suggests that automated alerts can help to prevent customers from falling into arrears by highlighting the potential need for action and prevent fees and charges from being incurred; this has been recognised by the FCA through its Credit Card Market Study and the FCA's occasional paper on Mobile banking⁴. The most common type of alerts are text alerts, which are either set against the utilisation of the credit facility or against transactions which have been or are about to be debited to the account. Despite efforts to promote these alerts, not all customers may recognise the benefits of having them or are aware that they exist.

Good practice

Where a Firm offers alerts to assist customers in maintaining control of their account, these could be offered on an opt-out basis (at the Firms discretion, based on the types of alerts) at account opening. This will increase the take up of alerts whilst still allowing the customer to retain control of what information they do or do not wish to receive. We understand this has been raised as a remedy under the CMA retail banking order.

⁴ [FCA occasional paper 10](#)

Financial difficulties

There is a level of apprehension in admitting to being in financial difficulties which can sometimes result in customers not accessing support at an early stage. Digital channels can allow easy access to helpful information at a time that is convenient and pertinent to the customer. Some Firms have recognised the benefits in making their financial assistance pages accessible without the need for customers to log in to their account. In addition, we have seen evidence of Firms extending their web chat facility to allow engagement with customers viewing the financial difficulties pages of their website. Although the information provided to customers at this point is generic in nature it does allow the Firm to tailor messages and information to any specific queries. Indications are that this approach is proving to be a successful gateway to customers accessing full financial difficulty support earlier.

Good practice

Firms should make financial difficulties information readily accessible via digital channels so that customers can access it at a time that is convenient for them. This should encourage customers to take positive steps towards addressing their financial situation, which may include accessing free debt advice and engaging with their creditors, as early as possible.

The LSB has, in its other work, reviewed a number of systems which aim to assist customers in engaging with the financial difficulties processes via a digital channel instead of by telephone. The primary benefit for customers is the ability to easily access their account at a time that is convenient. This in turn benefits the Firm as it can allow for early engagement with customers, which, as mentioned previously, can sometimes be a challenge. Used correctly, digital channels can offer a convenient method for customers to provide key details regarding their financial situation, the underlying causes of any difficulties and potentially agreeing an affordable repayment plan.

The online route would tend to lend itself to the more financial savvy customer, who knows what they can afford each month and do not need to discuss their finances in more detail. However Firms need to have adequate controls in place to ensure the correct customer outcome is achieved when the interaction is via a digital channel only; for example, reviewing a sample of income and expenditure (I&E) forms to ensure the numbers make sense, building in a review period to ensure the plan is still working, intervening where the plan breaks and building sense checks into the I&E, which can be flagged as warning indicators. If robust controls are not in place this could mean customers are able to set a repayment plan without any form of affordability oversight.

The protections offered by the Standards for customers in financial difficulties should be equally and consistently applied, regardless of the channel. Firms with a digital offering for the setting of repayment plans should have adequate checks and controls in place to ensure these are affordable and sustainable with the correct customer outcomes being achieved.

Vulnerability

Vulnerability is key area of focus for all Firms and work continues to ensure that vulnerable customers are being identified and supported throughout the customer journey regardless of the channel. Digital capabilities are providing innovative ways to support vulnerable customers using a variety of tools; for example, customers can access their account using voice recognition or their fingerprints, SignVideo allows customers to use British Sign Language to facilitate 'conversations', and software is now being used to convert text on a screen to speech.

Our research found that whilst there are pockets of great innovation in the wider sphere of digital banking, some of the more routine activities are proving more difficult to digitise when it comes to vulnerable customers. The Firms involved in this project, and the wider industry, are fully aware of the challenges and are working on various initiatives to both identify and assist vulnerable customers in the digital space.

Good practice

The inclusion of vulnerable customer impact assessments within the design, development and piloting stages of digital services will allow Firms the opportunity to explore how the new functionality supports their needs; whilst providing an opportunity to consider if any adjustments to the final design and functionality would be beneficial.

Conclusion and next steps

Overall it was found that the Standards did not detract from achieving good customer outcomes where digital technologies were concerned. We have identified several examples of good practice which Firms may wish to take into consideration when developing their digital capabilities.

The recommendations contained in the report, supplemented by more specific detail, will be reviewed with a view to capturing any areas of good practice that have been identified within the Information for Practitioners.

We recognise that this report is the start of our thinking in this area and we would like to develop it further, with a view to building up good practice in relation to the Standards. As such, we will be convening a discussion group in late spring or early summer, and would welcome participation from firms who have an interest in working with the LSB on the next phase of our research. Please visit our website for details on how to register an interest in taking part.