



LSB Business Plan

2017/2020

As at 1 July 2017



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Executive summary

The strategic plan is a key document for the LSB. It sets out our vision, our mission and our aims; and it provides detail as to how we will achieve them. The three-year time horizon covered by the plan is challenging as we operate in a highly competitive environment, where adding value is paramount if we are to succeed and grow. For the benefit of the wider industry, we need organisations that oversee firms and seek to ensure that fair consumer outcomes are achieved, which is where the LSB has a unique place in setting high standards that complement the work of the FCA and covering areas that statutory protections do not reach.

This plan details areas that we will focus on in the next three years and the key actions we will take to ensure that personal and business customers are adequately protected and thus achieve our vision, mission and aims. The plan has developed from last year and there are many important activities that will take place over the next three years, in particular:

- **The Standards:** following launch of the Standards, in March 2017 for business customers and in July 2016 for personal customers, we will carry on working with firms and the industry to ensure the Standards continue to evolve.
- **Growth in Registered Firms:** we will seek to increase the number of Registered Firms by moving into other sectors, challenger banks and business lenders.
- **Increase in consumer protection:** the product scope of the Standards will be extended to capture more personal and business customers.
- **Home of self-regulation:** we will aim to build an organisation that will be the industry leader in voluntary self-regulation for conduct of financial services business.
- **Working with stakeholders:** FCA complementary working will continue to be an area of focus and a partnership programme with key stakeholders will be developed.
- **Governance:** the LSB is undertaking a review of the internal governance framework, which will consider Board composition, representation and stakeholder engagement, ensuring the governance arrangements reflect the evolution of the LSB's regime.
- **Funding:** the fee methodology is being reviewed and a revised approach will be in place for 2017/18; this will account for changes in the Standards and the addition of voluntary agreements.
- **Resources:** resources will be reviewed considering the additional work that the LSB is conducting and the potential growth in registered firms.
- **Profile:** we will be looking to increase the profile of the LSB through partnering with other organisations, leading on industry roundtables and providing thought leadership on emerging risks.
- **Adding value:** we will develop our insight and support services and deliver a balanced and proportionate compliance plan.

'At the heart of our strategy are the personal consumer and the business customer, seeking to ensure they receive a fair deal and adequate protection when, for example, they borrow money, seek to finance their business or fall into financial difficulty. To achieve this, we need firms to aspire to high standards of conduct and the collaboration of stakeholders across the industry who can provide challenge and support.'

Dave Pickering, LSB Chief Executive

Chief Executive's foreword

In July 2016, the LSB launched the Standards of Lending Practice for personal customers, which was a landmark document in the evolution of voluntary self-regulation, and the first output following Professor Russel Griggs' independent review of the Lending Code and his subsequent recommendations. The Standards represented a move away from rules-based regulation to one of high level principles and consumer outcomes, underpinned by a set of standards that firms should aim to achieve but leaving them with flexibility in how they might do this, placing the emphasis on the outcome rather than complying with a process.

The Griggs report also recommended that the Lending Code for micro-enterprises should be replaced by a separate code covering lending to small businesses and that the extent to which protections apply should be increased. In March 2017, the LSB launched the Standards of Lending Practice for business customers, which increased the number of businesses that now receive protection, with an increase in the turnover limit from micro-enterprise (€2m) to £6.5m; this aligns to where the banks are setting their ring-fencing thresholds.

The three-year strategy and plan outlined in this document contains the key elements designed to achieve the LSB's vision ('2020 Vision') and builds on the three-year plan presented to the Board in March 2016. We are now one year into a new regime following the launch of the Standards of Lending Practice for personal customers in July 2016. This plan is more than merely a continuation of last year's three-year plan and seeks to make a stepped change in the development of the LSB. It considers the impact that external events might have on the industry, consumers and ultimately, the organisation, such as the UK's decision to exit the European Union and key developments in the UK economy and regulatory framework, as well as more direct industry developments such as the creation of the new financial services trade body, UK Finance, the pace of technological change, the number of new entrants in the market and the access to alternative finance.

The Griggs review also highlighted two other areas, which this plan addresses. One is the plethora of voluntary industry agreements that have evolved over time and cover areas that extend beyond consumer credit, and which would benefit from being co-ordinated in one place; the other is the composition of the Board and the LSB's internal governance. Both topics will be addressed during 2017/18, with the plan setting out the progress that is being made with voluntary agreements and details of the governance review that started in March.

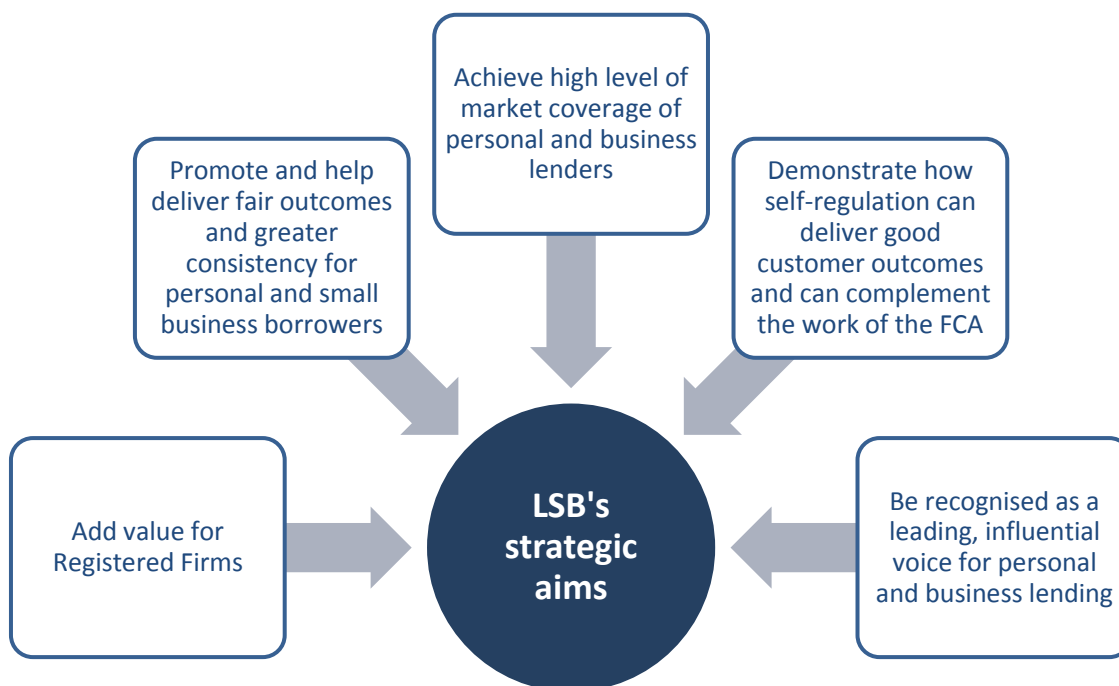
One of the key elements to the LSB's plan will, however, be how the LSB ensures that its core work – oversight of the Standards of Lending Practice – is delivered effectively and that the Standards become established good practice across all Registered Firms, as well as continuing to build a strong relationship with the FCA and other key stakeholders. Balancing priorities, being flexible and agile, enhancing our profile and extending the reach of the LSB are the key challenges ahead for the organisation.

LSB's vision and mission

Our vision is for the LSB to be the prime conduct self-regulatory body in financial services, ensuring that all personal and small business customers receive a fair deal from their lender. The LSB's mission is '*promoting fair lending*' and this is achieved through discharging its role of overseeing the achievement of the principles, customer outcomes and standards contained within the Standards of Lending Practice for personal and business customers and acting where Firms fail to achieve these.

Strategic aims

The LSB's strategic aims, designed to achieve the vision and mission, are to:



In developing this plan, the aims and the work to achieve those aims, account was also taken of the economic, industry and regulatory environment that the LSB will likely operate in over the next three years.

The LSB's remit is likely to evolve and expand, although certain basic principles remain of paramount importance, specifically:

- The integrity of the regime is maintained and that any growth is undertaken in a sustainable manner;
- Core to maintaining credibility will be ensuring that the Standards are being adhered to by Firms or, if not, that proportionate action is taken;
- The Standards continue to develop so that they keep pace with industry developments. The LSB will use its market intelligence, experience, results from its work, and relationships with its stakeholders to identify areas of potential detriment and recommend new or enhanced Standards or strengthening the information for practitioners;
- We will not duplicate the work of the FCA but as part of our insight and support work we may undertake specific requests from Registered Firms that include elements of CONC;
- As the complementary working with the FCA and the insight and support work develops this may result in the LSB undertaking work for firms which are not currently registered but we would only do so where it supports our overall vision and mission.

How we are achieving our strategic aims

Add value for Registered Firms

- Insight and support services
- Promoting good customer outcomes
- Oversight of voluntary agreements
- Development of industry best practice (information for practitioners)
- Participation in industry events (seminars, round tables)

Promote and help deliver fair outcomes and greater consistency for personal and small business borrowers

- Standards of Lending Practice for personal customers
- Standards of Lending Practice for business customers
- Extension of product scope
- Compliance oversight programme

Achieve high level of market coverage of personal and business lenders

- Measured and credible approach to extending market coverage to other sectors
- Full assessment of associated opportunities and risks
- Proportionate and risk-based oversight strategy

Demonstrate how self-regulation can deliver good customer outcomes and can complement the work of the FCA

- Governance review
- Broadening the scope of self-regulation
- Robust LSB Rules, including an effective disciplinary process
- Undertaking work that is complementary to the FCA's
- Strengthening the Standards of Lending Practice

Be recognised as a leading, influential voice for personal and business lending

- Stakeholder engagement
- Input into industry consultations
- Progressive thinking
- Partnership programmes

Compliance oversight strategy

The overall compliance oversight strategy was set out last year to coincide with the launch of the Standards and is split between assurance, development, and insight and support. The strategy places greater reliance on a Firm's internal governance and we will assess every Firm to gain an understanding of its risk management framework, its oversight arrangements and its internal monitoring and assurance capability.

The output from this will determine the level of oversight for that Firm; for Firms with a mature risk management framework this would mean that primary reliance would be placed on a new relationship management model supplemented with remote monitoring, which will be achieved through the assessment of available management information and other intelligence. For those Firms whose governance is still developing, or is not at a sufficiently mature level, the approach will be flexed to include more formal oversight. It is likely that the level of oversight for business lending will be more intense.

The approach is collaborative and proactive, significantly reducing the burden on Firms, is proportionate to the risk presented, yet is robust and independent. The emphasis is on supporting and challenging firms to help them meet the Standards.

Measuring our impact

We have a comprehensive set of metrics that are reported to the LSB Board to provide meaningful insight and to support the identification of emerging risks.

We are continuously looking at ways to enhance reporting and measuring added value to our Firms and, now that the Standards have been launched, the contribution that they are making to improved customer outcomes.