

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

Product information

March 2019

This document has been produced by the LSB and provides non-exhaustive examples of the approach Registered Firms (Firms) may wish to take into consideration when seeking to adhere to the Standards of Lending Practice for business customers (the Standards) on product information.

Registered Firms must be able to demonstrate to the LSB that they are adhering to the Standards of Lending Practice; however the LSB does not monitor compliance with the content of this document and as such, it is not intended to be prescriptive nor binding on Registered Firms. The LSB acknowledges that each Firm will have its own way of demonstrating that it is adhering to the Standards without the need to refer to, or take account of, the content of this document.

Where a reference is made to the Consumer Credit Act 1974, as amended (the CCA), the Consumer Credit Sourcebook (CONC), other Financial Conduct Authority (FCA) requirement or wider legislation, the examples or suggestions which follow represent the LSB's view on how the Standard could be achieved.

This document will be kept under review and updated to reflect examples of good practice being undertaken across the industry in this area.

Customer outcome: all product information presented to business customers will be clear, fair and not misleading and enable the customer to understand the key features of the product, such as the interest rates, fees and charges that apply.

Firms will achieve this: with systems and controls at product design, financial promotion and product review stages that assess product performance and ensure product information is clear, fair and not misleading.

1. Firms should ensure that all financial promotions, across all channels, are clear, fair and not misleading. This includes material provided to comparison websites

The FCA's Principles of Business (PRIN) require Firms to pay due regard to the interests of its customers and treat them fairly, to have regard to the information needs of its clients, and to communicate information to them in a way which is clear, fair and not misleading. The LSB's view is that this could take the form of:

- presenting information in plain language and wherever possible avoiding the use of technical or legal language;
- the way the communication or financial promotion is being made e.g. email, text message, branch, web material, direct mail or letter;
- the type and complexity of information that is being presented and the risks associated with the product, the actions the information might elicit from the customer, the channels by which the information is accessible and the passage of time, if any, since the information was last provided; and
- the appropriate format and content of the communication based on its intended audience.

Firms should ensure that any information provided to, and subsequently displayed on, price comparison websites is consistent with that which would be contained on the Firm's own website. Information should be complete, accurate, and not misleading, with reference to the information small businesses need to make an informed decision. This should include the price of the product and its main characteristics, with the risks, costs and benefits presented in a way that is clear and prominent along with an explanation of any promotional offers, its end date and the conditions on which the offer is made.

2. Firms should ensure that products are designed/developed in a manner that ensures fair customer outcomes and that all risks associated with the product are fully understood and managed appropriately.

This Standard seeks to ensure that products designed and offered by Firms are fair and transparent, meet the needs of its target market, and deliver fair customer outcomes. When developing a product Firms should have mechanisms in place to identify the target market, taking into account the customer's characteristics, needs and objectives. This may be informed by customer data or research, and where available, information on outcomes from similar products. This information should be factored into product design, including but not limited to, the complexity of the product features,

marketing material, distribution channels, the medium by which the product is sold¹ and where applicable, the use of intermediaries to ensure the product reaches its target market and delivers fair outcomes. In line with section 9 of the Standards of Lending Practice, Firms should, where practicable, consider the needs of a customer in a vulnerable situation, or those customers that may be at a greater risk of detriment. Firms should ensure that all risk and issues associated with providing the product to customers are identified, evaluated and managed appropriately, at an early stage within the process and that appropriate controls are in place to minimise the risk of unfair outcomes. Firms may achieve this through a documented risk assessment, which should be kept under regular review, with mechanisms in place to ensure the controls remain effective.

Suitable governance arrangements should be in place to ensure oversight and challenge through the product design and review process. Firms may achieve this through dedicated forums, with sufficient seniority and accountability, which demonstrates that the customer is at the forefront of their decision making.

3. Firms should undertake regular product reviews at regular intervals to ensure that their products are, and remain, fit for purpose based on product performance.

Regular product reviews are vital in ensuring a product remains fit for purpose, meets the customer's needs and delivers fair customer outcomes. The LSB expects that product performance is reviewed regularly. The frequency and depth of the product review should provide the Firm with a sufficient degree of comfort that the product is distributed and accessed appropriately, performing as expected and continues to deliver the right outcome. The periodicity of reviews should be informed by the risks associated with the product, for example, a product deemed a higher risk to customer outcomes may be subject to more regular review. Where available, the review should be supported by an assessment of available data and management information. Data may derive from a number of sources, and whilst this list is non exhaustive, it may include: sales data and application decline rates, data from customer dashboards and other product performance data which the Firm may consider relevant. Firms may also seek more qualitative data sources, including the outputs from customer satisfaction surveys and complaints, or discussions with sales and distribution teams who may be able to offer insight into the product which may not be evident through a review of quantitative data alone.

This could include reviewing accounts which operate within the terms of the product compared with those that have breached, and any identifiable trends such as accounts falling into arrears at an early stage. Wider economic factors may also be taken into consideration, for example changes in regulation within specific markets, potential Bank of England base rate changes or inflation rates. These should be assessed for the impact they may have on the ability of customers to maintain repayments towards the product.

Where the product is not performing as expected, Firms should seek to understand root cause, with a view to implementing and monitoring appropriate actions to improve product performance.

¹ Advised or non-advised

4. Firms should ensure that product reviews take into account internal and external risks which ensure that any changes do not lead to unfair outcomes for customers.

Active product management is key to ensuring that a product continues to deliver fair outcomes for customers through its lifecycle.

Internal and external risk factors such as wider environmental influences can have the potential to impact on a product for example, the product may no longer operate as expected, or there is a greater propensity to impact customer outcomes. These risks may emerge from the product itself during a review, or from other similar products where the Firm has found that there is an increased likelihood that an issue may be more systemic. Irrespective of source, Firms should ensure that they have mechanisms in place to ensure that these risks are identified, assessed and managed appropriately so that the product does not lead to unfair outcomes or unsustainable borrowing. Any associated actions are documented, escalated where appropriate and followed through, with clear oversight of risks and actions.

5. Customer facing employees should be trained and knowledgeable about the range of products, across all channels, on offer to customers.

This Standard refers to training in the context of an employee² of a Firm, and any third-party agents that may act on their behalf. Whilst this obligation does not extend to broker or intermediary firms, some Firms may wish to consider broadening this requirement to gain comfort that any product marketed and sold by a broker or intermediary is conducive to the attainment of these Standards and the delivery of fair customer outcomes. This may be considered through a Firm's due diligence policy and process and could be considered through the application of the governance and oversight Standards.

Firms should ensure that staff are trained to an appropriate level to enable them to have a comprehensive understanding of the products and services on offer, with the skills, knowledge and expertise needed to discharge the responsibilities of their role. Firms may benefit from defining and establishing a minimum benchmark for what they mean by a trained and knowledgeable employee in the context of their role requirements, to ensure there is a consistency in standards across the employee population. Firms may look to formalise their requirements through a training and competency framework, to inform both the recruitment and selection of employees and their ongoing performance management.

This could be supported by appropriate training covering the breadth of the Firm's product and service offering, with a comprehensive understanding of its key features, and its risks and benefits so this can be presented to the business customer in a fair and balanced way to enable an informed borrowing decision. What the Firm may consider appropriate will differ based on the complexity of the product, the target audience and the business customer's level of sophistication. Whilst the LSB recognises that most products will be sold on a non-advised basis, Firms should have appropriate controls in place to manage the risk of product bias by ensuring that employees are appropriately focused on providing information in a way that is clear, fair and comprehensible, and meets the needs of the business customer.

² Employed for the purpose of the Firm's business.

To support the implementation of training and the ongoing assessment of competence, Firms should ensure that there are appropriate controls in place to supervise employees. This may be achieved through an independent monitoring and quality assurance framework, assessing: adherence to policies and procedures, the extent to which training has been fully implemented, the level and depth of employee knowledge and its practical application to ensure that the right outcomes are being achieved, though this list is not intended to be prescriptive. Whilst the scope and type of assessment will differ based on role requirements, for sales staff, some Firms may achieve this through sales observations or customer file reviews. Whilst the method and type of assurance is for the Firm to decide, they should be guided by the need to ensure the fair and consistent attainment of the correct customer outcomes in line with the Standards of Lending Practice.

Firms may also wish to consider the level and depth of supervision to ensure that this is appropriate for the population of staff that they are assessing. In these instances, Firms may wish to consider introducing a risk based approach, to ensure a greater degree of supervision is applied to those situations where there is a higher risk of customer detriment, for example, where the Firm uses a third-party out-sourced provider³, or where it has reason to believe that employees may require further support. This may include those employees that are new to role or returning to work after a prolonged period of absence. In some instances, an enhanced level of supervision can help to mitigate the potential for customer harm, by ensuring that any employees identified as higher risk are appropriately monitored until the Firm can satisfy itself that the level of knowledge and training is appropriate and that ongoing competence is maintained. Firms should have clear procedures setting out its approach to supervision, and the criteria for enhanced supervision, where the Firm considers it appropriate. Any areas of improvement or weakness identified through the assurance checks should be dealt with in a timely manner, with a clear plan of action. Firms should also consider remediation action where the outputs of the assessment highlight evidence of poor customer outcomes or an increased risk of customer detriment.

An employee's training needs are not static and so consideration should be given to the need to ensure training needs are regularly evaluated and reviewed. This is to ensure that the training delivered is fit for purpose and takes account of any changes to the product or service offering, including any external developments in regulation, legislation or standards. The overarching aim of this is to ensure that the information provided to the business customer is accurate and reflective of current practice and that staff are kept abreast of recent developments. This may also help to evaluate the effectiveness of the training to ensure it meets the Firm's objectives and remains fit for purpose.

6. Where a Firm works with intermediary partners, the Firm should ensure that the intermediary is competent and knowledgeable about the range of products, across all channels, on offer to customers.

The Standard seeks to ensure that customers receive the same level of transparency and clarity of information from an intermediary as they would from the Firm directly. Firms should seek to ensure that there are synergies between the information the Firm provides to an intermediary and the information the customer receives. Firms should satisfy themselves that intermediaries are provided with information and training to an appropriate level to enable them to have a comprehensive understanding of the products and services on offer, including key features, and an appreciation of the risks and benefits so this can be present to the customer in a fair and balanced way to enable an informed product decision.

³ Where there is customer contact.

Firms may wish to consider broadening the requirements of Standard 5, (Customer facing employees should be trained and knowledgeable about the range of products, across all channels, on offer to customers) to their intermediaries to gain comfort that any product marketed and sold by a broker or intermediary is conducive to the attainment of these Standards and the delivery of fair customer outcomes. Firms should also have appropriate controls in place to manage the risk of product bias by ensuring intermediaries share the focus on providing information in a way that is clear, fair and comprehensible, and meets the needs of the customer.

7. Where relevant, customers should be made aware of the relationship between the Firm and any intermediary and whether the arrangement includes any payments or commissions.

Transparency with regards to the relationship between a Firm and intermediary, including payments or commissions, is important in ensuring that the customer is given all the relevant information they need to make an informed choice when taking out a product. The customer should have full knowledge of who they will be dealing with when it comes to their product, who is providing their product and whether their repayments contribute to an intermediary's commission – this is particularly important as this means not all of the customer's monthly payment is used to repay their asset, and customers should be aware of this.

Firms are encouraged to be as clear as possible when making customers aware of relevant relationships to ensure business customers of varying degrees of sophistication can understand how the relationships work and what effect this has on them as the customer.

8. Customers will be provided with clear and understandable information which enables them to decide whether the product is appropriate and meets the needs of the business.

This Standard is seeking to ensure that customers are provided with appropriate information at the right time and in an appropriate medium to enable them to make an informed decision. The provision of clear information regarding eligibility criteria, documents or information required to undertake an application, key features and costs of the product will enable customers to make an initial decision as to whether the product on offer is suitable for the needs of the business. Customers will have varying degrees of sophistication and understanding of how different products work, and whether they are right for their business. The provision of clear information, written in plain English, wherever possible, avoiding the use of technical or legal language and displayed in a clear and comprehensible form will support customer's understanding of the information being provided. Where possible, Firms should seek to avoid the risk of information asymmetries, where there is an imbalance in the information provided to the customer versus the information or knowledge held by the Firm. This is to ensure that the customer is empowered to make a decision, with a clear and informed understanding of a product, and how it relates to their business needs.

Firms should give appropriate consideration to the method and medium of presenting information across the different channels of entry. This will differ across each firm and their business model but may include: digital, telephony, branch and relationship managed propositions where this is available. The LSB acknowledges that not all Firms will operate a direct model for the sale of asset finance products, with some managing sales through the use of intermediaries. Where Firms operate an intermediary model, mechanisms should be in place to ensure that there are synergies in the information provided to customers, as if the Firm is engaging with the customer directly Firms should

ensure that where possible, the information provided is clear and consistent across all channels, to prevent the risk of information discrepancies, to allow the customer to weigh up the risks and benefits of a product or service, irrespective of the channel through which they choose to engage.

The use of fact or information sheets may support the Firm, and their intermediaries in delivering a consistent message to customers on the product or service on offer.

9. The customer’s consent should be sought prior to sharing any business or personal details with a third party or an alternative source of finance. [Data protection legislation]

Information on compliance with data protection legislation can be found on the Information Commissioner’s Office’s website: <https://ico.org.uk/>

10. Customers should be provided with clear information as to how the product on offer work, its key features and the associated costs.

At this stage, the Standards are focused on ensuring that the customer is able to determine whether the product they are being offered could meet the needs and requirements of their business. The provision of clear information on the way the product works and the costs associated with it will enable the customer to better assess whether the business will be able to sustain the borrowing. This could be achieved through highlighting whether any early termination or early repayment costs will apply to their product, including information on what might happen at the end of a lease, through material provided on the Firm’s website or by providing the customer with relevant information during any initial early conversations.

The provision of this information will encourage customers to consider whether they understand what the early termination and early repayment fees are. If not, there is an opportunity for them to undertake further research, seek professional advice or ask for clarification from the Firm.