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Mission and Strategy
for the **2020s**

Driving fair customer outcomes

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1. EXECUTIVE SUMMARY

The LSB is now 10 years old.

Our mission is to drive fair customer outcomes within financial services through independent oversight.

The LSB covers both personal and business customers of financial services. We are independent in our approach to setting standards and to overseeing compliance with those standards. The Standards and Codes we set and oversee currently cover:



For the purposes of this document, references to 'consumers' refers to personal and business customers.

Our key stakeholders have confidence in the LSB, and as a result our scope has extended over our first decade beyond lending to personal and micro-enterprise customers to embrace new areas of the market. Organisations representing consumers trust the LSB to set demanding standards and to report independently on compliance across participating firms. Firms themselves value the independence of our oversight, our focus on customer outcomes, the clarity and candour of our reporting and the insights we provide into good practice. Regulators see the LSB and self-regulation as a valuable complement to statutory regulation.

We are now looking to build on the credibility we have gained in our first decade by raising the bar higher on standards for financial services in our second decade. We aim to achieve fair outcomes for consumers, both business and personal, by:

- **Setting high standards:** setting and enhancing outcome standards for customers within financial services. The LSB will draw on the evidence of its oversight work to develop the Standards and Codes for which it is already responsible. We shall set standards in new areas where the LSB's rigour can add value for consumers and where the industry and regulators support our involvement.
- **Delivering independent oversight:** providing robust and independent oversight of the Standards and Codes for which we are responsible. The LSB will continue to undertake a programme of compliance work which gives assurance that our Standards are being adhered to, which highlights good practice and which ensures breaches are identified and remedied.
- **Reaching wider:** leading thinking within the industry by undertaking research, by disseminating good practice and by broadening the range of firms to which the Standards apply. The LSB will commission research and draw on its oversight work to raise firms' awareness of what approaches improve outcomes for consumers, including how technology can be harnessed to improve services. We shall also encourage new firms to embrace our Standards and oversight in order to increase our coverage of the market and the number of consumers benefiting from the Standards.
- **Raising awareness:** raising the profile of the LSB's work and of the Standards and Codes we oversee so that firms see the advantages of registering with the LSB, so that the boards and senior executive teams of participating firms set store by our findings in developing their services for customers and so that organisations working with consumers are informed about our work and its implications. We also want consumers themselves to have a clearer understanding of what standards they should expect when using relevant services.

2. OUR FIRST DECADE

The LSB was established in 2009 when it succeeded the Banking Code Standards Board (BCSB). The LSB's remit was then, and has remained, to protect consumers of financial services through the setting and oversight of standards by which firms have agreed to be bound. The focus was initially on lending to personal and micro-enterprise customers, particularly on unsecured loans.

Over the decade, and particularly following the transfer of the regulation of unsecured credit to the FCA in 2014, the LSB has gained steadily in scope, credibility and maturity. The scope of its work has broadened to embrace new services and a wider range of firms. The LSB's own governance has deepened so that it is now fully independent of the industry. The LSB's principal stakeholders – consumers, financial services firms and the regulators – have come increasingly to rely on, and to trust, the LSB's independence.

A. BROADENING SCOPE

The LSB's initial focus on personal lending demonstrated the ability of self-regulation, backed by robust and independent oversight, to improve outcomes for customers. On the strength of this track record, the industry and regulators have increasingly seen self-regulation as a way forward in other areas where swift and flexible action is needed to address new risks to consumers, particularly vulnerable consumers. Where statutory regulators focus on the supply side of the provision of financial services, the LSB has focused on what those services should deliver for customers – the demand side in other words.

Accordingly, the LSB began work on developing the Standards of Lending Practice for business customers in October 2016 through a series of workshops that included registered firms, challenger banks that were not registered with the LSB, UK Finance and the British Business Bank. We consulted business trade bodies (Federation of Small Businesses, Institute of Directors) and the All-Party Parliamentary Group on Fair Business Banking.

The resulting Standards of Lending Practice covered loan, overdraft, credit card and charge card products provided to businesses which have a turnover of up to £6.5m. Commercial mortgages were brought into scope in 2018. A separate set of Standards of Lending Practice focusing on asset finance products (hire purchase and leasing) provided to businesses were launched in June 2018.

From November 2019 the scope of the business Standards – and hence the greater consistency of treatment they promote – expanded further to include businesses with a turnover of up to £25 million, so providing protection to almost all small and medium-sized enterprises (SMEs).

The LSB's remit has also expanded beyond the provision of credit and lending to include oversight of:

- the Access to Banking Standard which governs the process of bank branch closures since May 2017;
- the information remedies flowing from FCA's Credit Card Market Study of 2016; and
- the Contingent Reimbursement Model (CRM) Code governing the reimbursement of consumers who lose money as a result of push payment scams. The LSB assumed responsibility for the Code from July 2019.

Alongside this wider remit, the LSB has steadily increased its coverage of relevant markets as more firms have come on board. 23 of the largest firms in the market for personal lending are registered with the LSB; the LSB oversees 16 firms in the market for small business lending; and 9 providers, accounting for over 85% of authorised push payments, are registered with the LSB¹.

B. DEEPENING GOVERNANCE

Since its establishment the LSB has been funded by fees paid by participating firms. This reflects the LSB's oversight of standards – going beyond statutory regulation – which firms have agreed to adhere to. Participating firms also recognise, however, that the LSB's effectiveness depends on its operational independence and independence of judgement. Accordingly, following a governance review in 2017/18, the LSB's Board no longer includes representatives of the industry, but is fully independent. The Board consists of six independent non-executive directors, including the Chair, and the Chief Executive, who is appointed by the Board. While working closely with the industry, consumer groups and regulators, the LSB makes its own decisions about the targeting of its oversight activity, about the resources it should deploy to ensure the robustness of its judgements and about the publication of its findings.

1. UK Finance press release, 27 November 2019 - <https://www.ukfinance.org.uk/press/press-releases/app-scams-voluntary-code-seven-launch>

C. ENGAGING STAKEHOLDERS

The LSB maintains strong relationships with its key stakeholders: consumers, both personal and business, organisations representing consumers; the financial services industry and, in particular, participating firms and the regulators.

We ensure that organisations representing consumers or consumer advocates are fully consulted in our work on the development of the Standards and Codes for which we are responsible. For example, the Advisory Group on the Code governing authorised push payment scams has equal representation from consumers and from the industry. We seek to ensure that our Standards and Codes are written in accessible language.

While maintaining our independence, we also seek to ensure that the LSB's work supports the industry in improving outcomes for its customers. So, for example, to inform our strategy for the decade ahead, the LSB commissioned research into the views of participating firms in Summer 2019. The research demonstrated that firms see the LSB primarily as a regulator, not an advocate, and value the independence of our compliance work. Firms also welcome the LSB's willingness to engage in dialogue about good practice and would like to see us publish more about the findings of our work.

We are also clear that we should complement statutory regulation, not duplicate it. To this end, we maintain a continuing dialogue with the regulators who value the LSB's capacity, in partnership with the industry, to move quickly and flexibly to address risks to consumers and to clarify the standards which should be met.





3. OUR SECOND DECADE: CHALLENGES FOR THE 2020s

The LSB's core role of setting and overseeing Standards to improve outcomes for consumers will remain just as relevant in the 2020s. We expect, however, the environment in which we operate to change, perhaps radically, and, accordingly, that the LSB will need to adapt to meet new challenges.

The most far-reaching of those challenges will be the impact of technology on the delivery of financial services, changing the way existing services are delivered to consumers by mainstream providers and opening innovative services by new entrants to the market. The LSB will also face the challenges of:

- the growing expectations of customers themselves, but also the greater risks they face as consumers make more far-reaching financial choices;
- the evolution of frauds and scams which will place consumers at continuing risk; and
- promoting fair treatment for business customers and maintaining access to finance for those customers through the economic cycle.

A. FINTECH: OPPORTUNITY & CHALLENGE

Fintech is opening the financial services market to new entrants and changing the way in which many services are delivered. The focus of technology is on sectors where the LSB has expertise, with investment concentrated on banking and payments and on credit and lending².

For many consumers, the growing accessibility of online services, mediated by the use of open banking, offers greater ease and convenience. Consumers have a wider choice of provider and of service. Where consumers choose to take advantage of the sharing of personal information promoted by open banking, providers can offer better value products matched to an individual's circumstances.

These developments also bring new challenges, however, particularly for customers in vulnerable circumstances. As the provision of banking services moves increasingly on-line, traditional branches become uneconomic. Branch closures can, however, prove difficult for customers who have no access to online services or who rely on cash for day-to-day living. With consumers accessing services online from a wider range of providers, it follows that no single provider has an overview of consumers' financial circumstances. That can make it harder to detect vulnerability and the on-set of financial difficulty.

2. UK Fintech: on the cutting edge: an investigation of the international FinTech sector by E&Y for HM Treasury, 2015

As new entrants to the market develop innovative ways of providing credit, payment and other services, consumers also face the challenge of weighing the risks of unfamiliar business models.

B. RISING CUSTOMER EXPECTATIONS AND RISING RISKS

Consumers' own expectations are rising. Many consumers now expect to be able to access financial services online and to receive real time responses to requests for credit or for loans. They also expect their financial providers to be able to protect them from fraud and from scams by using artificial intelligence and analytical capabilities to spot unusual transactions.

Simultaneously, consumers are bearing more financial risk than ever before, but not necessarily with matching financial confidence and capability. The liberalisation of retirement saving in particular has had the effect of transferring accountability for complex decisions about building, and drawing down on, retirement savings to consumers. The broader opening up of the market for other financial services has created more choice for saving and borrowing, but that choice can be bewildering for many consumers, especially when firms sit on or close to regulatory perimeters.

C. FRAUDS AND SCAMS

As we have seen with authorised push payment scams, new technology opens new opportunities for fraudsters. In the first half of 2019, losses as a result of unauthorised frauds totaled just over £400 million; just over £200 million was lost as a result of authorised push payment scams³. These frauds and scams evolve rapidly in response to the defences put in place by financial services businesses. Consumers are often the unwitting victims. It will be important, therefore, that financial services firms take prompt action to prevent successful scams with effective warnings and good analytical detection, but also protect consumers who are scammed through no fault of their own.

D. ACCESS TO FINANCE FOR SMES

SMEs account for roughly three-fifths of employment and half of turnover in the UK private sector⁴. Their continuing access to finance on fair terms is, therefore, critical to the productivity challenge facing the UK economy. This has recently been recognised by the SME Finance Charter, sponsored by the UK Government and supported by many financial services firms, which sets out five key pledges to which participating firms are committed. One of these pledges is that *'we'll treat you fairly at all times'*. Adherence to the LSB's Standards of Lending Practice for business customers provides the strongest possible guarantee of fair treatment at all stages of the economic cycle. But the LSB's Standards have yet to be tested when the economy is under stress and when issues of vulnerability and forbearance will assume greater importance.

3. UK Finance Press Release, 26 September 2019

4. Federation of Small Businesses statistics: <https://www.fsb.org.uk/media-centre/small-business-statistics>



4. THE LSB'S STRATEGY FOR MEETING THE CHALLENGES OF THE 2020s

The LSB's strategy for the 2020s reflects these challenges. We strongly believe that we can continue to add value for both consumers and the industry. To do so, the LSB itself will need to be ambitious and effective. We shall:

- set **high standards** to reflect what we learn from our oversight work and to respond to the new opportunities and challenges of the market, including the growth of fintech;
- deliver **independent oversight** to provide assurance that standards are being met, to highlight good practice and to ensure weaknesses are remedied;
- ensure **wider reach** by taking a thought leadership role and by disseminating good practice through our publications and events and by expanding our market reach; and
- **raise awareness** of the LSB's work so that new entrant firms embrace our Standards and our findings are increasingly influential both within participating firms and among organisations representing and supporting consumers.

A. SETTING HIGH STANDARDS

The LSB will ensure that its Standards and Codes keep pace with the changing financial services market and with rising consumer expectations. We shall also see to it that our standards reflect the findings of our own oversight work. In particular, we shall ensure our Standards protect consumers in vulnerable circumstances and that the development of new technology by the industry does not disadvantage them. This includes ensuring that firms are more responsive to the needs of these customers and better at identifying customers in difficult situations.

We shall write all our Standards in straightforward language so that they are clear and accessible to the public and industry alike. We shall continue to focus on outcomes for customers.

The LSB will be open to setting and overseeing Standards in new areas of the financial services market, but will only do so where:

- the LSB's oversight can demonstrably promote better outcomes for consumers and the standards themselves focus on outcomes;
- firms themselves are committed to delivering those outcomes and fully support the LSB oversight as a means of doing so, including the LSB's ownership of the Standards themselves;
- the LSB's oversight will complement statutory regulation, not duplicate it;
- the LSB has the capacity and expertise to be effective in its oversight role; and
- the LSB's oversight is cost-effective i.e. the LSB can recover the reasonable costs of its work from the participating firms through its fees.

B. DELIVERING INDEPENDENT OVERSIGHT

Rigorous, independent oversight is the LSB's core competency and core contribution to improving outcomes for the customers of financial services. To underpin the LSB's oversight in the 2020s, we have commissioned an independent review of our approach which is published separately on our website. www.lendingstandardsboard.org.uk

The review makes recommendations about both the cycle of oversight work and the methodology to be employed in order to ensure that the LSB is able to give assurance about compliance with our Standards both across the industry and in individual participating firms.

Consistent with the review's recommendations we shall:

- undertake compliance work in every firm against each relevant standard over a four-year cycle so that firms have up-to-date feedback on their own performance against the standards and consumers can have assurance that a participating firm will meet the standards in delivering services. Although we shall aim to cover all firms over the cycle, we shall prioritise any firms giving cause for concern each year;
- to inform this work, consult firms about re-introducing an annual, light touch self-attestation regime to confirm compliance with the Standards and Codes or to identify any breaches;
- undertake system-wide reviews of compliance with the Standards or with key aspects of the Standards annually in the light of an analysis of risk. We shall set out in our annual business plan what Standards these thematic reviews will cover;
- sample transactions and service delivery to meet the recommendations of the review to ensure that the evidence-base for our work is sufficient to support robust conclusions, but does not involve unnecessary work and cost; and
- publish reports summarising the findings of our reviews, including reports of all thematic reviews, to highlight good practice and to identify weaknesses in need of remedy.

To undertake our compliance work, we shall employ people who are fully independent, who have experience of oversight and who have a good understanding of the services covered by our Standards.

C. REACHING WIDER

The LSB will be a thought-leader within the industry. We shall build on the evidence delivered by our oversight work to raise standards of service delivery for both personal and business customers. We shall do this, in part, by extending our reach beyond participating firms. To this end, we shall:

- run conferences, seminars and workshops to disseminate the findings of our oversight work and, in particular, to publicise good practice and to highlight areas in need of improvement;
- aim to be constructive participants in public discourse about the services we oversee, including by establishing an active presence on social media; and
- commission research where this can add value and shed light on approaches which improve outcomes for customers, including into the use of new technology and of data-mining to personalise services and to enhance responsiveness to customers in vulnerable circumstances.

We shall also support new firms to adhere to our Standards where this can contribute to fair outcomes for consumers. We shall focus on those firms which have not yet committed to the Standards but which have a significant share of relevant markets or which are pioneering new models of service delivery with the potential to capture increasing market share. To this end we shall keep closely informed about developments in the markets for which we set and oversee standards.

D. RAISING AWARENESS

The LSB's profile must be higher if we are to be as influential as we want to be in ensuring fair outcomes for customers. Our findings and recommendations must matter both within and outside firms.

For firms not yet registered with the LSB, particularly new entrants to the market, engagement with the LSB provides access to the latest insights into service delivery and valuable external oversight and challenge. We shall ensure that these benefits are well understood by non-participating firms.

Within firms already registered with the LSB, we enjoy strong relationships, but these relationships tend to focus on firms' own second-line risk functions. We shall work in the decade ahead to ensure that boards and senior executive teams also see the value of active engagement with the LSB's work which provides key assurance about the quality of service to customers. The re-introduction of self-attestation, signed off at senior level, will provide powerful support in this respect.

We also want to extend our reach among organisations representing, advising or working with consumers. Firms' adherence to our Standards and our oversight of those Standards provides important assurance about the quality of service. This should be one factor informing the advice which consumer organisations or consumer-facing organisations give those seeking their help. We shall, therefore, engage proactively so that these organisations have a full understanding of the work that we do and have full confidence in us as a regulator and in the robustness of our regular reviews and the published reports based on them.

Finally, we shall modernise our website to make it easy for consumers to find the Standards themselves so that they can be better informed about what outcomes to expect from a service. We shall ensure that the Standards continue to be written in accessible and plain language.



5. ENHANCING THE LSB'S CAPACITY: OUR PEOPLE

In taking forward our strategy, the LSB's most important resource will be our people. We want those people to be enthused and motivated by the LSB's mission, to be outward-looking in orientation and to be versatile and proactive in delivery. We will continue to develop the skills and experience of all those people who work for the LSB. Our team has the opportunity to make a real difference on behalf of consumers.

Against this background, it will be the LSB's strategy in the decade ahead to:

- enable our people to work across both a range of firms and across the different standards and codes for which the LSB is responsible so that they have unrivalled knowledge of, and insight into, the industry;
- empower our people to engage effectively with our stakeholders in participating firms and beyond so that they are valued interlocutors;
- equip our people with transferable compliance and other skills which will enable them to take their careers forward if they choose to move on from the LSB;
- undertake annual surveys of our people to measure engagement and to ensure that we are living up to our values and aspirations; and
- set salaries at the LSB by benchmarking our roles against median salaries in equivalent roles in the industry in order to be able to attract and retain people with the skills we need to be effective and credible in our oversight role.

6. CONCLUSION

In this Mission and Strategy statement, we have set out our ambition to ensure, through rigorous and independent oversight of self-regulated standards, the advancement of consumer well-being and protection. We have set out how we plan to set high standards, deliver independent oversight of those standards, reach wider and raise awareness. These are the four pillars of a strategy which, while ambitious, we believe to be realistic and which will help us towards our vision over the coming decade.

But we can only achieve that vision working in partnership with our key stakeholders: those tasked with the maintenance of statutory regulation of financial services, those coming forward with the provision of those services and those organisations giving a voice to consumers of those services. We hope that they will each examine the ambitions set out in this document, tell us whether they are appropriate and realistic, and help us turn our vision into reality.





Visit our website to access a wealth of information about our work and how we support firms in driving fair outcomes for their customers.



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