

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Product information

May 2020

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 sale.

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

Update to take account of measures introduced by the Government to support lending to SMEs impacted by the Covid-19 pandemic.

HM Government has established the Coronavirus Business Interruption Loans Scheme (CBILS) and Bounce Back Loan Scheme (BBLs) to support the continued provision of finance to SMEs throughout the Covid-19 pandemic. It is recognised that registered firms are prepared to support business customers experiencing disruption caused by the coronavirus pandemic, and in doing so may be prepared to offer products under CBILS and BBLs in reliance on the Government guarantee under each scheme.

The Government, as part of these initiatives, has drafted portions of the documentation that firms are required to provide when lending under these schemes. It has also set requirements relating to the disclosure of information relevant to the products and the associated documentation. The LSB considers these to be compliant with this section of the Standards.

1. Firms should ensure that all financial promotions, across all channels, are clear, fair and not misleading. Where relevant, this also 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.

Where products are advertised on a comparison websites, Firms should ensure that the 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 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 employees/agents are 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 employee¹ 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 a Firm appreciation of the 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.

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 provider², or where it has reason to believe that employees may require further support. This may include those employees that are new to a role or returning to work after a prolonged period of absence. In some instances, an enhanced level of supervision can help to

¹ Employed for the purpose of the Firm's business.

² Where there is customer contact.

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 internal or external changes in the product or service offering, including any changes 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.

3. Firms should ensure that customers are provided with clear and understandable information which enables them to decide whether the product they are considering applying for meets their needs and is appropriate for the type of business they are engaged in

The key consideration for Firms is 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 situation, this may depend on factors such as their size and set up, the availability of a professional adviser and the quality and structure of the management team – firms should use the knowledge of their business customers to determine the information necessary for the customer to make an informed decision. 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. Firms should ensure that the information provided is clear and consistent in the level and depth of information across all channels, to prevent the risk of information discrepancies, ensuring that information is presented in a clear and factual way, 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 sheets may support the Firm in delivering a consistent message to customers on the product or service on offer.

- 4. Firms should ensure that the customer's consent is sought prior to sharing any business or personal details with a third party or an alternative source of finance. [Data protection legislation]**
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The requirements of the DPA are covered by the Information Commissioner's Office which can be found on the ICO's website: <https://ico.org.uk/>

- 5. Firms should ensure that clear information is provided as to how the product on offer works: its key features and the associated costs for example, charges, interest and any breakage or early repayment fees/costs**
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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 breakage or early repayment costs will apply to their product through information 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 breakage and early repayment fees are and how they may apply to their fixed rate loan product at a future point in time. If not, there is an opportunity for them to undertake further research, seek professional advice or ask for clarification from the Firm.