The LSB’s Information for Practitioners

The Standards of Lending Practice for personal customers

Money management

September 2020

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

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 Registered 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 Standard cross references to the Consumer Credit Act 1974, as amended (the CCA), the Consumer Credit Sourcebook (CONC) or other Financial Conduct Authority (FCA) requirement, the examples or suggestions which follow represents the LSB's view on how the Standard could be achieved but should not be considered to supersede the wording or intention of the CCA/CONC or the FCA.

This document will be kept under review and updated on an ongoing basis as the LSB gathers further examples of the work which is being undertaken by the industry in this area.

Update regarding the agreement on 'Contacting customers who are making frequent minimum/low payments' and the Covid-19 pandemic

The agreement on 'Contacting customers who are making frequent minimum/low payments' sets out the details relating to the minimum payment letter that firms are committed to sending to their customers, where customers have made frequent minimum, or low, payments.

In line with the Standards on money management, the LSB considers the agreement on 'Contacting customers who are making frequent minimum/low payments' to be a pro-active measure designed to help customers avoid falling into financial difficulty.

To ensure firms can focus on delivering the support customers need and to prevent customers receiving conflicting messages, the LSB recognises that firms may wish to temporarily suspend, for all customers, the sending of minimum payment letters under the agreement on 'Contacting customers who are making frequent minimum/low payments'. Where firms wish to do so, the suspension should come into effect no earlier than 25 May 2020.

Where a firm decides to suspend communications for all customers under the agreement, the suspension should be limited, and communications should be resumed from a date no later than 1 December 2020.

Firms should inform their LSB Compliance Manager that they intend to suspend issuing the letter and the date this will be effective from.

Firms should also ensure that, upon recommencement of the process, customers who would have received a communication under the agreement during the period of suspension, and who continue to meet the requirements for receiving a communication as set out in the agreement, are contacted.

1. Firms should ensure that the product design stage takes into account internal and external risks which could impact upon a customer's ability to maintain their repayments so that new products do not lead to unsustainable borrowing

Firms could consider a broad and realistic view of internal and external risks which may impact on the customer's ability to maintain product repayments to help ensure that new products do not lead to unsustainable borrowing. Firms may benefit from having frameworks in place which support new product design and any refreshes of existing propositions. This could include: considerations in respect of the target market and how validation of product features and usage is undertaken both pre and post launch, so as to ensure they are and remain fit for purpose.

Firms may find it useful to consider a broad range of internal and external risks and drivers for customer behaviour to help ensure that the products are designed to meet those needs without leading to unsustainable borrowing. Examples of areas for consideration include:

- internal account performance data, such as accounts which operate within the terms of the product verses those that breach them, and any identifiable trends, such as accounts falling into arrears at an early stage.
- ease of access for customers via the relevant sales channels and the alignment of checks and controls.
- customer feedback from a range of sources such as customer satisfaction surveys and complaints.
- application decline rates and the associated rationale.
- customer research to test the understanding and usefulness of the proposed product and features.
- wider economic factors, such as changes to the employment market, significant changes to the benefits system, changes to housing market and associated costs (such as rents) and potential Bank of England base rate changes and how this may impact the ability of customers to service the account.

2. Firms should undertake both post-launch and cyclical product reviews to ensure that their products are, and remain, fit for purpose

The LSB considers that post launch reviews and cyclical product reviews which take into consideration customer feedback as well as performance metrics, provide an opportunity to ensure the product is and remains fit for purpose. The product design framework could include a post launch review phase to ensure the product is being accessed, sold and operated as expected and where that is not happening appropriate actions can be implemented. The post launch review could also provide a valuable opportunity to review customer outcomes and identify any new risks.

What might good practice look like? Cyclical product reviews, conducted on a risk basis, could then form part of the 'business as usual' suite of controls to monitor performance, risks and track any trends.

3. Firms should monitor customers' credit card and overdraft limits to ensure that the customer is not exhibiting signs of financial stress and where relevant, offer appropriate support

As Firms already undertake periodical reviews of credit card/overdraft limits with a view to reducing where appropriate, monitoring of customer's limits could also allow for the early identification of customers who may be showing signs of actual or potential stress. The results of this may suggest that the customer would benefit from some form of contact from the Firm and appropriate action taken.

Where the decision is taken to reduce a customer's limit, Firms should give consideration to the impact that any reduction will have on their overall ability to manage their finances. Where the decision is made to reduce the limit, the LSB would suggest that the customer is encouraged to contact the Firm if this reduction is going to cause them immediate or future difficulties. Where appropriate, these customers may also benefit from signposting to sources of free, impartial debt advice.

Limit increases

Firms should ensure that credit limit increases are only undertaken once they are satisfied that the customer is able to afford the repayments. Firms should not offer a customer, who is already in arrears, an increase in their credit card or overdraft limit, unless this is part of the agreed repayment plan. Where a customer requests an increase, they should not be offered more than they have requested.

If a customer is offered an arranged overdraft, or an increase in their existing arranged overdraft limit, firms should tell the customer if the overdraft is repayable on demand. This means that the firm is able to request repayment of all or any part of the facility in question at any time during the life of the agreement, without having to point to any particular default on the part of the customer.

4. Firms should ensure that customer facing employees and third parties are sufficiently trained and skilled to help them to identify and deal with those customers who may be showing signs of financial stress

Firms will have a number of different techniques to ensure that staff have the appropriate skills and knowledge for their role. This includes the soft skills required to probe for further information in a positive and sensitive manner if there are indications that the customer may benefit from additional support in managing their finances.

The LSB is aware that Firms may have trialled contact strategies where some customers have been unwilling to engage in discussions around their financial situation. Others may be more forthcoming with information but may, for example, be wary of disclosing the full extent of their situation as they lack an understanding of how the content of the conversation will be used by the Firm. Therefore, the member of staff's ability to empathise and explore the customer's concerns about disclosing information is an important part of the process.

What might good practice look like? staff training could seek to examine differences in customer behaviour, for example, from those who want to quickly and efficiently access information to the more relaxed and chatty approach. This could then be used to develop approaches for different customer styles, covering how the customer might feel and react in a situation of stress so that staff can engage effectively to ensure their anxieties are addressed and their needs met.

Case reviews involving reviewing recorded calls can provide an opportunity for teams to assess how well they are doing. By listening to randomly selected calls and discussing how the call was handled, Firms can determine if there is anything that could have been done differently and whether the right customer outcome was achieved. Additional training and support could be provided to address any specific needs on an individual basis, or more widely, in relation to process improvements.

What might poor practice look like? the review process takes account of any improvements which could be made but omits to consider whether the customer is provided with the right support for their situation.

A blended learning technique can help to ensure that staff have the opportunity to put their new skills into practice and can demonstrate their competence though various exercises and knowledge checks. Shadowing related internal departments to see firsthand how those areas support customers can further embed understanding of pre-arrears and provide a valuable wider perspective.

What might good practice look like? firms could develop various aids and techniques for ensuring the knowledge is retained once training is complete. This could include posters acting as a reminder to staff of the different customer types and related techniques, desk aids, interactive colleague learning platforms or using the intranet to assist in identifying appropriate actions.

5. Firms should undertake monitoring and assurance work to ensure that their policies and processes are designed and are operating effectively in identifying and supporting customers who are showing signs of financial stress

Firms' compliance oversight and internal audit functions (whether internal or outsourced) could benefit from considering the risks to customer outcomes associated with the prevention of customers falling into financial difficulty across the product lifecycle and customer journey.

While firms are at different stages in the development of strategies designed to prevent customers falling into financial difficulties, they will benefit from having monitoring in place in respect of staff competence, which will trigger additional training as needed. At a policy level, local and cross operational initiatives could test the effectiveness of policies and provide an opportunity for improvements where needed.

Management information (MI) is routinely used to identify trends and measure performance through a quantitative review of key indicators. In the case of pre-arrears activity, MI can be used to track the level of contact, use of different channels and even response rates to particular activities which can then lead to refinements in the approach to improve the level of response. This quantitative approach does not readily lend itself to assessing whether positive customer outcomes have been achieved, particularly where the appropriate step might be to accelerate the move into collections, for instance if a customer lacked the level of affordability required to maintain payments to their account. In some instances a qualitative approach to monitoring the effectiveness of strategies and processes would provide a better understanding of performance in respect of customer outcomes and help to identify any areas that are not working so well.

What might good practice look like? mapping a customer journey, using real examples, from the point that the account is first opened to when it enters collections, could provide a clearer view of the strengths of the processes in place and highlight any opportunities to make improvements. This approach could be used to focus in on a particular aspect of the journey and be scaled to ensure a sufficient number of cases are reviewed to form an opinion.

What might good practice look like? detailed case reviews can provide an in-depth understanding of the way in which an account has been handled. The topic could dictate the start and end point for the review, in terms of the actual activity or process to be scrutinised.