

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

May 2021

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Product information

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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 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

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

² Where there is customer contact.

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 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.

When offering products under a government backed lending scheme, firms may be required to provide customers with certain information or materials regarding it. Firms should try and ensure such information is presented to the customer in an appropriate manner for the channel they are using.

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]

The requirements of the DPA 2018 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

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.

Firms offering products as part of a government backed lending scheme should look to provide customers with clear information about the scheme, the eligibility criteria and details of how any guarantee works. In doing so, firms may have to provide customers with certain information and materials designed for the scheme. Firms may also, depending on the scheme and products provided, be providing their own material or information about the products they are offering under the scheme. Where this is the case, firms should ensure all information is consistent and should look to ensure customers know where to access general information about the scheme, such as via relevant website pages or FAQs.

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Product sale

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Customer outcome: business customers will only be provided with a product that is deemed affordable and which meets the requirements of the business

Firms will achieve this: with systems and controls that ensure the sales process, training and incentives promote the right behaviours and direct their employees, or their agents, to deliver the right customer outcome

1. Firms should ensure that customers are provided with clear guidance on the information and documentation they will need to submit during the application process

Firms offer a variety of information on their websites regarding the application process for a business loan, credit card or overdraft. This is a useful starting point for the customer to explore the product options on offer and to understand whether any eligibility criteria apply for example, if a business current account is required, and what information they will need to provide to support their application.

The LSB recognises that firms will have their own requirements as to the information and documentation they will request during the application process. The type and level of information required will be driven by the complexity of the borrowing, size and sophistication of the business itself. Firms may have eligibility criteria, for example, relating to the entity type and business sector and the LSB would expect this to be clear to the customer.

Consideration could be given as to how this information is presented to the different customer types, taking into account size and sophistication, for example for businesses who are towards the lower end of the scope of the Standards. This could include providing a rationale for the information requested or outlining how the Firm will take this into account during the application process. For example:

- whether there are any other business interests, explaining that this information will help the firm to understand what commitments the business or key members of the management team have, which enables the firm to assess how much attention and focus the business will have.
- whether or not security is available and if some form of appropriate security would be sought, such as guarantees, property or other assets that are easy to value and realise – an explanation of which may be appropriate to the customer’s situation.
- the owner’s investment in the business, which would show the owner’s investment relative to the bank’s proposed investment.

2. Firms should inform the customer of the likely time it will take for a lending decision to be made. Following receipt of the required completed documentation, Firms should ensure that customers are kept informed of the progress of their application

The range of customers caught under the new Standards of Lending Practice has increased and within this group there will be varying degrees of sophistication across the different business models, in terms of maturity, size and their understanding of the lending process. Some may lack awareness of the additional requirements which are attached to business lending or may not have accounted for the fact that it can take time for the firm to process their application. Ensuring that the customer is

informed of the likely length of time it will take for a decision to be made at the outset will help to aid the customer's understanding of the lending process, regardless of the size or sophistication of the firm.

Wherever possible, the LSB would encourage firms to keep customers updated on the progress of their application, particularly where for example, security is required or the lending has a layer of complexity which will increase the time required to process the application. This Standard is not intended to be overly onerous on firms, the focus is on ensuring that the customer is aware of how long it may take for them to receive a decision and ensuring they remain informed during the process.

There may be situations where it isn't possible to provide a definitive timeframe. However, the LSB would expect that firms are able to provide an indication of the timeframe within which a customer can expect to know whether their application has been successful or not. This can be flexed where required if the lending decision goes beyond the initial timeframe. In these circumstances, the LSB would expect that the customer is kept informed of progress and that firms will be proactive rather than reactive, informing customers of any delays or promptly requesting any additional information which may be required to support the customer's application. Firms are encouraged to be as open as they can as to the reason for the delay and any potential new dates which may apply.

3. Where applicable, customers are informed that checks may be made at Credit Reference Agencies and that information may also be provided to Credit Reference Agencies during the life of the borrowing

When considering smaller business customers, some may lack understanding of how Credit Reference Agencies (CRAs) fit into the application process and that, by applying for business related lending, information is recorded on their credit file. When a customer applies for a product covered under the Standards of Lending Practice, they should be told whether searches will be made at CRAs, whether a record of any search will be retained at the CRA and, if so, that this could impact on their ability to obtain finance elsewhere. The business customer should also be told if the details of the account, if opened, will be passed to CRAs and that the information will be accessed and used by others. This will include information about the running of the account such as the limit and balances as well as payment performance.

4. Before providing any form of credit, granting a limit or increasing the customer's borrowing, Firms should assess, from the information available at the time, whether the customer will be able to repay it in a sustainable manner without incurring financial difficulty

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. On 27 April 2020, changes to the criteria firms are required to apply when considering

businesses for a loan under CBILS were announced.

Products offered under CBILS

The criteria for assessing affordability of a product under CBILS is different to that set by the Standards. When considering an application for a CBILS product firms should ensure that processes for assessing whether the product is affordable for the business align with the requirements of the scheme. Firms should consider the range of information available to them, examples include: the performance of the business prior to the Covid-19 outbreak; a view of how the loan will be repaid in due course, relying on judgement in the absence of financial forecast information; and the general prospects for the sector in which the business operates once the effects of the pandemic have receded.

Firms are reminded that they should only request information relating to the performance of the business where the customer might reasonably be able to provide the requested information at speed. The LSB recognises that some business customers may wish to provide the firm with forward-looking financial and business plans. If a business customer chooses to do so, this information can be used to support the better assessment as to the appropriateness of lending under the Government's schemes, the level of borrowing and duration required and the affordability of the financing applied for.

Products offered under BBLs

It is recognised that this product does not require firms to assess whether the product is affordable for the business, firms will therefore apply the terms of the scheme over the requirements set out in this section of the Standards.

The LSB considers participating firms' compliance with the requirements of the Government's schemes to be compliant with this provision of the Standards of Lending Practice. In line with the requirements of the wider Standards, the LSB would expect participating firms to continue to ensure that the customer is provided with clear information on how the product works and its key features (see also paragraph 7, Product sale).

Firms should request the level and detail of information required to fully assess the customer's ability to repay borrowing without it causing the customer financial difficulties. Taking into account the actual and/or anticipated turnover of the business, existing debt commitments and any known future changes which could be reasonably expected to have a significant financial impact on the customer, to ensure that the business can service any debt. This assessment will take into account whether any security is provided, although, the LSB would not expect a firm to lend to a customer based on the level of security provided alone.

Firms may also require additional information to satisfy themselves that the customer can meet their obligations as they fall due. The LSB acknowledges that firms may have additional requirements in place, depending on the type and level of borrowing requested and any information the firm already has about the customer, taking into account the size and sophistication of the customer. Firms may wish to consider the following factors:

- why the business wants to borrow the money
- the length of borrowing
- the business plan and annual accounts
- the business's cash flow, profitability and existing financial commitments
- any personal financial commitments which may affect the business

- how the customer has handled their finances in the past
- information from credit reference agencies and, with the customer's permission, others, such as other lenders and the customer's landlord (where relevant)
- credit scoring
- any security provided
- any future changes which could be reasonably expected to have a significant financial impact on the customer
- personal indebtedness indicators
- total credit exposure
- adverse information e.g. CCJ/bankruptcy.

Where firms are offering products as part of a government backed lending scheme, firms may be expected to take into account wider considerations that reflect government policy and to ensure the customer's circumstances meets the appropriate criteria for lending. Given the nature of guarantee schemes, it may be the case that firms are able to, at their discretion, disregard certain considerations which might have otherwise meant the customer would not be eligible for finance. Where this is the case, firms should still rely on a range of appropriate information to consider whether the lending is affordable.

5. If a Firm offers a product which includes an indicative quotation facility, it should provide the customer with clear information as to what this is, and that any quotation provided will be linked to the customer's financial circumstances

Firms may wish to consider whether they can offer business customers the ability to obtain indicative price quotations for the lending products provided. Doing so will enable customers to better determine whether products available are affordable and suitable for their needs.

Where a firm offers an indicative quotation facility relating to a product captured under the Standards of Lending Practice, the LSB would expect the customer to be informed that the headline rate may not be available and any quotation will be linked to the business' financial circumstances as known to the firm and where relevant, CRAs, prior to the customer commencing a formal application.

The LSB would expect where a customer asks for an indication of the likely interest rate for a product, the firm should either:

- as industry best practice, provide an indicative quotation, in respect of which any credit search undertaken is not registered as a full application search at CRAs i.e. it is not used by lenders in their risk assessment; or
- inform the customer that it does not offer an indicative quotation facility and ensure that the customer is aware that, if they proceed, an application search will be registered at the CRA(s).

6. Firms providing a credit card product should present information about the main features of a credit card in a summary box form, where appropriate

There will be some customers for whom the provision of the summary box information will not be appropriate; however for customers who are at the smaller end of the Standards scope and for those who fall under CONC and CCA oversight, due to the way the business is structured, this information should be provided in line with the Best Practice Guidelines (issued by The UK Card Association, now part of UK Finance).

The primary objective of the summary box is to provide the customer with consistent and succinct summary of the key features of the credit card they are considering and to enable to customers to compare different products more easily. This should be provided to the customer prior to their acceptance of the agreement.

Before a relevant customer enters into the contract for a credit card (and when they accept the product for the first time) they should be given information relating to the following:

- an explanation of how interest is calculated and charged; for example, whether it is charged on the full statement balance or only on any balance remaining after the customer has made the monthly payment;
- where relevant, with details of the interest and exchange rates to be applied or, if reference interest and exchange rates are to be used, the method for calculating the actual interest and the relevant date and index or base for determining such reference interest or exchange rates;
- this information must be provided either in good time before the customer is bound by the contract, or where the contract is concluded at the payment service user's request, using a means of distance communication, immediately after the conclusion of the contract;
- details of how monthly payments are applied to any outstanding balance across transaction types including promotional offers;
- an explanation of recurring transactions;
- details of charges for the day-to-day running of the account, including any annual fee, dormancy fee, charge for exceeding credit limit, charge for delayed monthly payment, charges for overseas transactions, cash withdrawal fees for card usage at an ATM or over the counter, fees for any cash equivalent transactions, balance transfer fees, returned payment fees due to insufficient funds, and any other applicable fees;
- the distinction between being the principal cardholder and an additional cardholder should be explained i.e., that the principal cardholder is responsible for all spending, including that by additional cardholders, and is responsible for repayments on the credit card;
- the interest rates applicable to different types of transactions (e.g., purchases, balance transfers, credit card cheque transactions and cash transactions) and the ways in which customers will be told about changes in interest rates; and
- sufficient details to enable customers to pay on time, including via automated payments. Registered firms should also ensure that, where customers are offered the facility to pay by cheque by post, sufficient time is given to allow payments to be made in time, taking account of the postal delivery system and the length of the clearing cycle.

7. At the point of sale, firms should provide clear information to the customer regarding the key features of a product and any breakage or early repayment fees/costs associated with it. This information should be made available to the customer upon request, throughout the lifetime of the borrowing

This Standard follows on from paragraph 5 of Product Information and is intended to ensure that there is a consistent approach to the provision of information around the key features and costs associated with the use of the product. The intention is that the customer should be in a position to make an informed decision and have opportunities to review and ask questions should they need to do so, as they move through the application process.

Issues relating to lender's explanations of break costs, customers' awareness of their existence and the associated costs, are well documented. Historically, where disclosure of break costs have been made and detailed information provided, there has been evidence to suggest that some customers may not have understood what the term meant or how these costs would be applied to their loan.

The provision of clear information on the way the product works and the costs associated with it, will enable the customer to assess whether the business will be able to sustain the borrowing. This could include informing customers that, for fixed rate loans, if they decide to pay early or cancel the fixed interest rate, that they may have to pay breakage cost in addition to other fees such as early repayment fees. This information also raises early awareness of the costs, which the customer may not have been taken into account, and prompt them to consider what impact these could have, on the business at a future point in time. The customer should be able to request information on the costs associated with repaying their loan early throughout the life of the product.

8. Firms should inform the customer if any security, for example, a guarantee/debenture/indemnity, is required to support the borrowing or other liabilities and the reason why. The level of security required by the Firm should be appropriate to the amount borrowed

Customers may not always understand why they are required to provide security to support their borrowing and the LSB would encourage firms, where security is required, to provide the customer with a clear explanation as to why this makes the proposition feasible. This could also include an explanation as to why the particular type of security is required relative to the customer's circumstances. Firms should take into account the size and sophistication of the business when considering the level of explanation needed.

The LSB would not expect a firm to require security which is excessive when considered in light of the level of the customer's borrowing. However, if the only security the customer can offer is in excess of the figure being borrowed, this does not preclude the security from being taken. However, the LSB would expect firms to explain to the customer what this means in terms of their situation and the implications for them if the business was unable to pay. The customer could also be encouraged to seek legal advice to ensure that they fully understand their obligations under the agreement.

Where the firm requires security to support a business's borrowing or other liabilities, it should confirm what is needed in writing. The LSB would expect that any documentation provided should be

easy to understand and avoid technical language whenever possible. The customer should have the opportunity to discuss with the firm anything about which they are unsure.

Where a guarantee is provided, the LSB would expect firms to tell the guarantor the extent of their liability, including the addition of interest and charges after demand has been made. Where independent legal advice has been given, it may be assumed that the solicitor will have explained the nature of all monies and continuing security, if appropriate. Depending on the nature and structure of facilities, firms may choose to explain these features to those customers who have declined independent legal advice (and should always do so when requested by any guarantor).

9. Firms should ensure that the customer is provided with clear information on the circumstances under which the security will be released. The security should not be relied upon beyond the life of the borrowing

This Standard follows on from paragraph 8 and the LSB would expect that where security is taken, the customer is informed that this will not be retained beyond the life of the borrowing without their consent. It should be made clear that the security will be released once the facility is repaid – unless contrary instructions are received from the customer.

10. Firms should confirm the conditions of any facility in writing and recommend that the customer seeks independent advice before accepting the facility

Independent advice can help the customer to make an informed decision about the agreement they are looking to enter into and enable them to better understand their obligations under it. The exact conditions will be dependent on the circumstances of the borrowing but the LSB would consider that the following is included as appropriate:

- the amount and purpose of the facility;
- whether the facility is for a particular period or whether it is repayable on demand;
- details of repayments;
- the interest rate and any other charges for the facility, and whether these are variable;
- when the facility will normally be reviewed;
- the existing or new security and guarantees, including any minimum values to be maintained;
- what sort of circumstances will lead to an earlier review or require repayment;
- the information the customer will need to give before they can use the facility; and
- what action the firm will take if repayments are not met.

The customer should be encouraged to obtain independent advice before accepting the facility to ensure that they understand their liabilities under the agreement.

11. Firms should ensure that customers are kept informed of the estimated timescales which may apply to the issuing of facility letters or for obtaining any security that may be required to support the borrowing

The LSB's expectation is that customers are kept updated of the progress of their application so that they are better placed to understand when they will have formal notification of their borrowing and any conditions which may be attached to it. Customers may not have an understanding of the legal element which sits around the process of obtaining security and that this can take time to complete

The LSB recognises that the timescales will be dependent on the individual circumstances, level and complexity of the borrowing and that while an indication can be provided, the firm may have to go beyond this. The Standard does not preclude firms from flexing any timescales provided, but the intention is that the customer is aware of how their application is progressing and when they can expect this element of the process to be completed. This will allow them to better manage onward elements which may be required, such as obtaining legal advice in relation to the facility letter.

12. Before a customer accepts the facility, firms should agree with the customer as to what form of monitoring information they will require about the business' performance and how often this will be required.

The nature of business lending means that the size and experience of the business customer can vary from highly qualified and experienced individuals running a large company to a sole trader who has recently set up in business or who maybe hasn't required any additional funding up until now. Information such as management accounts and/or cashflow projections may be requested on a regular basis and will require time and potentially costs, to prepare if, for example, information is required from external sources such as accountants. Therefore, ensuring that the customer is aware of these requirements means they can factor this into their internal processes.

The type of monitoring information will depend on the form of the lending and firms will have a view on what is appropriate in the circumstances, examples include:

- a comparison of the forecasts with actual results;
- progress on important aspects of the business plan, such as contract renewals;
- revised cash-flow forecasts;
- major capital spending proposals;
- annual accounts and regular management accounts;
- details of how much the customer owes creditors, and are owed by debtors, and for how long these have been due; and
- evidence that the customer is meeting any special conditions agreed.

Firms will have their own monitoring requirements, in addition to, or instead of the above depending on the type of lending, complexity of the business and risk to the lender. Firms should ensure that the customer understands what is expected of them and if further down the track, additional information is required, which is on top of what has been agreed, the LSB would expect firms to provide customers with a reasonable amount of time to provide this. Firms should confirm in writing what information is to be provided and by when.

13. If an individual or a business agrees to be a guarantor or to provide an indemnity, the Firm should make the individual/business aware of their obligations under the agreement and that they have the option to seek legal advice, should they wish to do so

Firms may accept a guarantee or other form of security provided by another person to support the business' liabilities. It is important that guarantors or granters understand the full nature of their commitment and the potential implications of their decision, to do this firms should ensure that a guarantor has the option to seek independent advice. The LSB recognises that some guarantors may not wish to do so, or in the example of a director providing a guarantee for their own business, that they understand what they are committing to. In these circumstances the LSB would encourage firms to document that the customer has been provided with the opportunity to seek advice but has declined to do so.

The LSB would expect that guarantors are told that by giving the guarantee or other security they may become liable instead of, or as well as, the customer and told what their liability will be, including the addition of interest and charges after demand has been made. When independent legal advice has been given, it may be assumed that the solicitor will have explained the nature of all monies and continuing security if appropriate. Depending on the nature and structure of facilities, firms may choose to explain these features to those customers who have declined independent legal advice (and should always do so when requested by any guarantor).

Firms may wish to go further than what is covered in this section and actually get a potential guarantor or granter who refuses to take legal advice to sign a declaration to that effect. In any case, the recommendation to take independent legal advice and the potential consequences of their decision should be stated clearly on all appropriate documents that the guarantor or granter is asked to sign.

14. Firms should not accept unlimited guarantees for an individual/business unless it is to support the customer's liabilities under a merchant agreement; however other forms of unlimited third party security may be taken, if available

In order to ensure that the individual is able to identify the limit of their liabilities under any guarantee they have provided, registered firms should not take an unlimited guarantee from an individual other than to support a customer's liabilities under a merchant agreement where a lender will offer unsecured advances of cash, based on future credit and debit card sales. In this context, unlimited guarantees are permitted. 'Unlimited' applies to the capital amount of the loan and excludes interest, charges and arrears etc. An explanation of this should be covered in the guarantee/indemnity or other security documents that the guarantor is asked to sign.

Where other forms of unlimited third party security are available this can be taken, provided that the limit of the granter's liability is explained in a side letter. This is to avoid the need to take fresh security, with the associated expense and inconvenience to customers, each time a facility changes.

In the case of limited companies, which are part of the same group structure, firms may continue to take unlimited guarantees from the constituent companies in support of borrowing by other companies in the group.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Product sale

Declined applications

May 2021

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, declined applications.

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: business customers whose applications are declined are provided with the right of appeal and are aware of the alternative sources of finance available

Firms will achieve this: with systems and controls that promote the right behaviours to ensure that their employees, or their agents, are able to treat declined business customers fairly and appropriately

- 1. If an application for a product is declined, the Firm should ensure that it understands the reason(s) behind it in order to be able to convey, where appropriate, this information to the customer. As a minimum, the customer should be provided with the primary reason in writing as to why they have been declined**
-

This Standard is seeking to ensure that firms have processes in place to enable them to better understand the reason why a customer's application has been declined and that this information can in turn be used to facilitate a 'better conversation' with the customer. That is, one which enables the firm to provide an explanation which is beyond a 'computer says no' scenario. The firm is therefore able to offer more specific information to satisfy the customer's enquiry as to why the firm has been unable to lend to them. The expectation is not that firms are required to disclose information regarding underwriting policies, scorecards, risk appetite etc, but there should be a sufficient understanding to enable the customer to be provided with an appropriate level of information which will satisfy their enquiry as to why they have been unsuccessful. Firms may wish to consider the size and sophistication of the business customer when deciding the appropriate level of information.

In line with established industry practice on a lending appeals process, the LSB would encourage firms to support declined customers, in as far as possible, to understand how their application could be improved with a view to making a new or revised application. This could include non-exhaustive examples such as: consideration as to whether the level of information provided by the customer was appropriate, if the business plan could be developed or whether the customer could have demonstrated a greater understanding of how their business will operate within their chosen market place etc so that they are able to put forward the strongest case they can.

Where an application is declined on the basis of affordability, the firm could consider whether the individual would benefit from a referral to, where offered and appropriate, free, independent debt advice for example, business debt line. The LSB acknowledges that not every decline will be on the basis of a lack of affordability but where the information available to a firm suggests that the business may be showing financial stress, and appropriate for the circumstances, they may benefit from a referral.

- 2. If the application was declined due to information obtained from a Credit Reference Agency search, firms should either:**
 - a. apply the requirements of s157 of the Consumer Credit Act for relevant customers; or**
 - b. provide the customer with the names of the Credit Reference Agencies used by the firm**
-

Some business customers may lack understanding of how Credit Reference Agencies (CRAs) fit into the application process and how the process of applying for credit requires that information is recorded on their credit file. Firms may wish to direct the customer to any information produced by

the firm or directed to relevant pages of the firm's website which explain how credit referencing works.

- 3. Firms should inform the customer of their right of appeal and have fair and effective processes in place to review a decision to decline an application. These should, as a minimum, reflect the Lending Appeals process**
-

The LSB would expect these firms to offer customers a right of appeal and opportunity for the decision to decline to be reviewed in a way which aligns with the Lending Appeals process.

This means firms should have processes in place to ensure that customers can have their applications reviewed by another individual within the firm. Customers should have the results of an appeal communicated back to them within 30 days.

Where an appeal is not successful, firms may wish to consider how else they can support the customer. For instance, by providing alternative sources of finance that are suitable for the customer's circumstances.

- 4. Firms may, where appropriate, signpost a declined customer to alternative source of finance or third party. The customer should be made aware that the signposting is not an indication that any subsequent application would be successful**
-

Firms may have arrangements in place with third parties which enables them to provide a signpost to another lender or raise awareness about the financial solutions they may wish to consider. The customer should be informed that the third party will undertake its own assessment and that what has been provided is a signpost to an organisation which may be able to help, subject to relevant affordability checks etc.

- 5. Firm who are designated banks under the Small and Medium Sized Business (Finance Platforms) Regulations 2015 should offer a customer declined for finance the opportunity for their details to be referred to government designated finance platforms**
-

Firms to whom these regulations apply will already be aware of their obligations under Small and Medium Sized Business (Finance Platforms) Regulations 2015, which can be found at: http://www.legislation.gov.uk/uksi/2015/1946/pdfs/uksi_20151946_en.pdf

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Product execution

May 2021

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 execution.

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: information provided to business customers will be clear in terms of presentation and in clarifying any action that the customer needs to take. Business customer requests will be dealt with in a timely, secure and accurate manner

Firms will achieve this: with systems, processes and controls that aim to provide an accurate view of the customer's relationship with the firm and the relevant lending products they hold. This should be underpinned by appropriately skilled and knowledgeable staff

- 1. If a customer has been provided with product that has a promotional feature, the customer should be notified of its expiry date/withdrawal in a clear and timely manner and how this will impact, where relevant, upon the costs associated with using the product**
-

A promotional feature may include: an introductory rate or feature of a credit card or loan product, such as a credit card which is 'fee-free' for the first year or a payment holiday at the outset of a loan.

Where a promotional feature is coming to an end, the customer should be notified of the expiry of this offer. For the purposes of credit card customers, the notification could be shown on the front of the customer's statement or in a separate, prominent personal notification to the customer. If there will be a change to the interest rate on the customer's credit card, they should be provided with an early warning of how this will impact upon the costs associated with using the card.

A timely reminder that the promotional rate is coming to end will prompt customers to consider whether they need to take some form of action or will act as a reminder to the business customer to consider how the end of the promotional feature will impact on the overall cost associated with the product.

When providing a credit card product to customers, CONC requirements may apply.

- 2. Where a firm offers a fixed rate lending product, clear information should be provided to the customer on any breakage costs associated with the product and how this will be calculated. The customer should have access to this information during the period of the borrowing**
-

This Standard is focused on ensuring the customer has the information they need to understand the financial implications associated with redeeming their loan early. Information provided to the customer during the sales process will have set out whether the product contains a breakage cost and what this means. Where a firm offers a fixed rate lending product, it should ensure that the customer is provided with clear information setting out what a breakage cost is, how and when it will apply and how this will be calculated. During the life of the borrowing, the customer should be able to access the information required to enable them to understand how the cost will be calculated and what the cost will be.

Depending on the level of borrowing, firms may be able to provide defined break costs. If this is not possible, firms may wish to provide a worked example of how the fee is calculated to further aid customer's understanding of this element of their product.

3. Firms should provide customers with written notice of any changes in interest rates or charges. This requirement does not apply where the increase related to a published rate, for example, base rate or other benchmark

This Standard is seeking to ensure that business customers are better prepared to take account of changes in interest rates or charges and that they have an opportunity to consider whether this will have an impact on the business' ability to maintain its repayments. Advanced notification can enable customers to plan ahead and consider the impact a change on, for example, their variable rate loan may have on their financial situation.

Providing customers with this information can also help to identify any early indications of financial stress as it may prompt the customer to make contact with the firm, should the business be concerned about the impact of a rate increase, or change to a charging structure may have on their ability to maintain their financial commitments. Firms may wish to consider how the provision of this information links into any monitoring work which is undertaken and, from the information the firm has on the performance of the business, whether an increase will impact upon its ability to maintain its financial commitments. If so, firms should engage with the customer with a view to understanding the nature of the issue for example, whether it is a short term cash flow situation or whether there is a longer term issue which will impact on their ability to maintain their commitments. Firms should encourage customers to engage with them and set out any support which may be available.

The requirement does not apply where the customer is provided with a variable rate which is linked to Bank of England base rate or any other benchmark or reference rate. Where changes are to the customer's advantage, the LSB would expect that, in the interests of transparency, customers are advised of the change but accept that firms may well make immediate changes in this regard.

4. Where a customer's borrowing is linked to an interest rate benchmark and this will be transitioned to an alternative rate, firms should ensure that customers are provided with timely notification of when this change will become effective

To ensure customers are provided with timely notification of a change to an alternative benchmark or reference rate, firms will have to consider what information customers will need to be given as part of this process of transition and how best to engage a customer throughout the transition, taking into account customers' specific circumstances.

To help ensure fair customer outcomes, firms may wish to refer to any available best practice guidance, where it is relevant. For instance, where firms are transitioning customers with LIBOR-linked products onto new reference rates, they may wish to refer to the Best Practice Guidance produced jointly by the LSB and UK Finance. This guidance can be found at: <https://www.lendingstandardsboard.org.uk/resources/best-practice-guidance-transition-from-libor-for-sme-customers/>

5. Firms should have processes in place to deal with unauthorised credit card transactions. If customer fraud is suspected, the burden of proof is on the firm to prove this is the case

When considering a customer's claim that they have not authorised a transaction on their credit card account, the burden of proof lies with the firm and not with the customer. It is recognised that for the purpose of the business credit card product, there will be a number of cardholders linked to one account. The LSB would expect the firm to provide proof where it has reason to believe that the customer has provided authorisation.

Firms will have policies and processes in place regarding unauthorised credit card transactions for business customers caught under CONC/CCA.

Firms should consider a customer's claim on the basis of the individual circumstances. The LSB would expect that unless the firm can show that the customer has acted fraudulently, the customer's liability for their credit card being misused should be limited as follows:

- if someone else uses the card details without the customers/cardholder's permission, and the card has not been lost or stolen, the customer will not have to pay anything;
- if the card is used before the customer/cardholder has received it, the customer will not have to pay anything.
- in the event that card details are used by someone else without the customer's/cardholder's permission, for a transaction where the customer/cardholder does not need to be present, the customer will not have to pay anything.
- where a credit card transaction has not been authorised by the customer/cardholder, any interest or other charges that may have been applied as a result of the transaction should be refunded.

6. Firms will maintain the security of customer' data but may share information about the day-to-day running of a customer's account(s), including positive data, with credit reference agencies where the Firm has agreed to follow the principles of reciprocity

Firms can provide Credit Reference Agencies (CRAs) with default information about a customer's debts if:

- the customer has fallen behind with their payments
- the amount owed is not being disputed by the customer (a customer dispute is relevant if it refers to the amount of money owed by the customer and is genuine, reasonable and unresolved) and
- the customer has not made a proposal that satisfies the firm for repaying the debt following the firm's formal demand.

The customer should be given further notice of the intention to disclose the information at least 28 days before the disclosure is made, for example, when a default notice or formal demand is given. At the same time, customers should be provided with an explanation about how default information registered against them may affect their ability to obtain credit in the future. This notice means that customers have 28 days to try to repay or come to some arrangement with the firm before default information is passed to the CRA.

The requirement to share data does not apply in specialist customer segments, where sharing CRA data is not always appropriate. Firms should ensure that data is up-to-date, accurate and complete before it is passed to credit reference agencies and where discovered, any errors are addressed and corrected promptly.

7. Firms should ensure that where an individual provides a guarantee/indemnity or other security, they are able to request information regarding their current level of liability, as long as the customer gives their permission and confidentiality is not breached

This Standard applies to situations where an individual offers some form of security such as a personal guarantee or indemnity. The intention being, that the individual providing the guarantee or security is able to access information regarding their level of liability from the firm so that they can assess the likelihood of being called upon to pay. If the individual requests confidential financial information (with the exception of the current level of liability), such as details of balances, copy statements, etc, we would expect that firms seek the customer's consent before providing this information. Firms should also tell the guarantor the extent of their liability, including the addition of interest and charges after demand has been made.

The customer should be made aware that if they want the firm to accept a guarantee or other security from another individual that the firm may ask for permission to give confidential information about the customer's finances to the person providing the guarantee or other security, or to their legal adviser.

8. Firms should comply with the customer's request to co-operate with their professional adviser(s) during the lifetime of the relationship. All communication with the customer/their adviser will be undertaken in a clear and open manner

This Standard is intended to ensure that a customer's professional advisors - legal, financial or otherwise - are not prohibited from participating in discussions with the firm. Having a third party present can support the customer during their engagement with their lender providing, for example, explanations, clarifying points of discussion etc. The LSB would expect firms to fully co-operate with the customer's adviser, at whichever stage of the relationship the customer is at. The LSB recognises that there may be circumstances where the customer will not be present and that the firm may need to ask for the customer's consent to engage with the adviser.

9. Firms should ensure that any changes to the terms of the customer's agreement are fair and transparent. The customer should be provided with clear information regarding the reason for the changes and provided with a reasonable amount of time to seek further clarification, or where appropriate, alternative sources of finance

Customers should be told how they will be notified of changes to terms and conditions when they take out their borrowing. The purpose of this Standard is to ensure that customers are treated fairly and are provided with clear information, which is communicated within an appropriate timeframe, to enable them to consider how any changes will impact upon their business.

The LSB recognises that amendments to the terms of the agreement may be required for a variety of reasons and in line with PRIN, the LSB would expect a firm to have regard to the information needs of its customers, and communicate with them in a way which is clear, fair and not misleading.

The Standards apply to a wider range of customers than its predecessor, the Lending Code, did and therefore what is a reasonable amount of time will depend on the individual circumstances and may take into account a number of factors such as, the terms of the agreement, the sophistication of the customer and the amount and complexity of the borrowing.

Where a firm wants to make changes to a customer's agreement which has no fixed end date, for example, a credit card or bank account, and the customer can end the relationship without any charge, it should tell the customer when these changes will be made. If the customer decides to close their bank or credit card account, they should be provided with details of how to do this and any implications of doing so.

For customers caught under CONC/CCA, such notice must be given at least 30 days before the change takes effect. Further requirements in relation to this customer group is outlined within CONC/CCA, firms may also wish to consult the Information for Practitioners on the Standards of Lending Practice for personal customers: <https://www.lendingstandardsboard.org.uk/the-standards-for-personal-customers/>

10. Where a change is made to the relationship management process which will impact on the customer, firms should provide the customer with advance notice, and the reason for the change. Where this will require action from the customer, they should be allowed sufficient time to complete this, taking into account the channel currently used

This Standard is intended capture wholesale change where the customer may be moving from a relationship managed environment to telephony based, or where a business has matured and/or undergone significant growth which warrants a relationship managed approach. It is not intending to capture changes due to a change in personnel, where there hasn't been a change in the channel through which the customer's account is managed.

As a minimum, the LSB would expect the customer to be provided with not less than two month's notice in order to provide time to consider what other options, if any, they wish to pursue. Firms may wish to take into account information which is known about the customer prior to the change in approach, this could include non exhaustive examples such as:

- whether the customer is experiencing financial stress
- whether any applications are in train and if there would be a benefit to have these concluded prior to the move
- where known, any significant changes to the overall control of the business which may warrant a longer lead in time to prevent additional impact on the business customer
- whether the firm knows, or has reason to suspect that the customer may be vulnerable.

This information could be used to more closely manage the transition or may prompt the firm to consider whether the customer would benefit from additional support.

The move to a new channel may require changes in the type and regularity of information provided by the business customer to the firm. The LSB would expect that where these changes place additional obligations on the customer, that any timeline associated with this is agreed with the customer and that they are provided with an explanation of why this is required.

11. Firms should comply with a customer's request to have access to the basic information held by the Firm about their products/accounts. The request should be dealt with in a timely and efficient manner

This Standard is intended to capture the requirement for banks to respond to requests from their customers in an open and transparent manner, in relation to information it holds about the customer's products. It is not intended that the customer is provided with access to sensitive information relating to, for example, risk appetite, internal monitoring or underwriting policies, but they should be provided with sufficient amount of information to answer their query in an open and transparent way.

This could include information regarding the application or operation of covenants, guarantees, security, or other forms of information which will help the customer to understand what their obligations and liabilities are. Other examples may include repayment history, information held on the performance of the business or other information required to enable them to effectively manage their account/products with the firm. The LSB acknowledges that not all information held by firms is suitable for disclosure but would encourage firms to consider any request from the customer in the spirit of this Standard.

12. Firms should ensure that requests for a Deed of Priority or Wavier are dealt with quickly and efficiently, in line with the industry protocol

The protocol sets out the requirements regarding a request for Deed of Priority or Waiver which reflects the industry's commitment to making sure the process of responding to the request for a Deed of Priority or Waiver is handled as quickly and efficiently as possible, and to ensure a customer is given a response as quickly as possible as regards the agreement to proceed with the request or otherwise.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Credit monitoring

January 2021

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 credit monitoring.

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: business customers will be supported by pro-active and reactive measures designed to identify signs of financial stress³

Firms will achieve this: with systems and controls that are capable of identifying, across the relevant products held, where customers may be showing signs of financial stress at any point in the customer life-cycle, and pro-actively engaging with the customer to agree an appropriate solution

This section of the Standards of Lending Practice is seeking to ensure that customers who may be at risk of falling in financial difficulties are identified and supported at an earlier stage so that pre-emptive action can be taken.

1. Firms should ensure that customers understand what information will be required to allow the Firm to monitor the business' performance and how and when this should be provided

The information required by firms to monitor business performance may vary, depending on the size of the business, the level of borrowing provided to the customer and the firm's approach to customer segmentation. In practice, this means that some firms may not request any information from businesses as part of the credit monitoring process, relying instead on internal account performance and external credit data, particularly, where the relationship is managed at arms-length, through a transactional only model.⁴

Where monitoring information is required, registered firms are encouraged to be transparent and clear about what information is required from the business customer, when this must be provided by, and how this will be used by the firm. This information should be relayed to the customer at the very outset of the relationship so that they understand what is required of them through the duration of their banking relationship. The LSB would encourage firms to guide customers to relevant information on their websites or to external sources, to support the customer in providing this information. This may be more relevant to customers who are at the smaller end in terms of the scope of the Standards or for start-ups/very young businesses.

Where appropriate, firms may consider the use of covenants to formalise the requests for monitoring information. The LSB considers this to be a business decision, however where covenants are used, the customer should understand their obligations under the agreement, particularly in respect of providing information and the frequency of the request, including, where applicable, an understanding of how the monitoring information will be used to monitor other financial covenants which may be required, and the consequences of non-adherence.

³ The customer has not yet defaulted but information available to the firm suggests that the business may be showing signs of financial difficulty.

⁴ Where the business is not relationship managed.

2. Firms should provide customers with the ability to opt-out of an unsolicited increase in their borrowing limit(s)

Enabling customers to opt-out of unsolicited increases in their borrowing can provide customers with a greater deal of control over their finances, which may be of benefit to smaller or new businesses or for those which are, or maybe, showing signs of financial stress where it may be more appropriate to explore the reasons behind this before deciding upon any further increase in borrowing limits.

Firms are encouraged to periodically review a business customer's credit card limit to ensure that it remains appropriate for their situation and that they are not showing signs of financial distress. 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, (given sufficient notice).

3. Firms should ensure that a sufficient level of monitoring, underpinned by appropriate triggers and processes, of a customer's borrowing is undertaken to help determine if the customer is exhibiting signs of financial stress. Where relevant, firms should engage with these customers in a sensitive and supportive manner

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.

Firms offering products under CBILS and BBLS will have adapted or introduced new processes, as appropriate, to meet the requirement of the schemes. It is therefore recognised that firms may not have access to the same level of information as they would under their usual terms of lending and will have reduced visibility on the financial situation and previous performance of the business. Due to the automatic interest and principal holiday provided to borrowers under the terms of BBLS, the LSB would not expect firms to apply this requirement of the Standards to this product during this period.

Products offered under CBILS

Firms will have to rely on any information made available during the application process and internal MI to inform the level of monitoring that could be undertaken. If monitoring is undertaken and the customer exhibits signs of, or informs their firm that the business is in financial distress ahead of the first repayment falling due, the LSB would expect the firm to engage with the business in line with existing policies and processes.

Products offered under BBLs

The way this product is designed to operate, and in the absence of a relationship management model, means that firms will have very little/if any information about the business upon which to base monitoring activity, ahead of the customer's first repayment date falling due. The LSB acknowledges that firms providing this product will be unable to meet this provision as drafted in the initial 12 months of the agreement and, as above, the monitoring requirements set out in the Standards are not considered applicable. This is because the information that customers are required to provide at the point of application under the BBLs is not enough to allow firms to undertake the sufficient levels of monitoring required under paragraph 3.

If, after a customer has accessed funding, a firm does identify a customer as showing signs of financial distress, the LSB would expect the firm to take reasonable steps to support the customer in line with the provisions set out in this section of the Standards and/or paragraphs 3 to 7 of the Standards on the treatment of customers in financial difficulty. This may be the case where a customer informs a firm that the business is showing signs of financial distress, or where a firm becomes aware of such signs through any systems and processes that they have in place (in line with the Standards) to enable them to identify and support business customers showing signs of financial stress.

The LSB recognises that many firms will look to automate, and use digital journeys for, their engagement with BBLs customers. Firms should ensure that when customers do engage, for instance if they look to make use of the PAYG support options, processes are in place that will help firms identify customers who may be experiencing financial stress and who may need additional support.

To help identify and to support such customers, firms offering PAYG support options to customers should, as part of the customer journey, ask questions about customers' financial situations and use filtering or triaging to identify and to offer support to customers who need it. For customers experiencing financial difficulty and in need of additional support, firms should enable customers to engage with an appropriate member of staff about their circumstances.

In addition, automated processes and digital journeys should allow for the possibility of manual intervention at any point, to enable those customers who need additional support to opt-out of the digital journey, to access information and support, and, where necessary, to engage with an appropriate member of staff.

Firms should ensure that any support offered is permitted under the guarantee agreement for the scheme and is in line with any relevant guidance or directions that may be issued by the UK Government from time to time.

For businesses that are relationship managed, the knowledge of the firm, coupled with the regularity and type of contact, lends itself to a more direct relationship with the customer where the opportunity to identify potential signs of financial stress are greater. Firms should ensure that these opportunities to engage with the business are fully optimised. This may be achieved through setting a business review date, providing the firm with an opportunity to identify and query deviations to business performance, profile and strategy, based on a review of historic and current financial performance against projected performance, including any significant changes to the core management team.

Where a review process exists, Firms should ensure that their staff document the observations made through the review, and that where there is evidence of financial stress, further action is taken to support the business. Depending on the structure and remit of the relationship manager's role and the availability of specialist teams, the support may be offered through the relationship manager or via escalation to a specialist team. Where there is a specialist team in place, Firms should ensure that the structure and remit of these teams, including the triggers for referral, are firmly understood by staff.

Where the relationship is managed through a transactional only model, firms may not have access to regular business and financial information to identify whether a business is showing signs of financial stress, particularly where the regularity in customer contact is limited. Firms must explore the different types of information or data it does have access to, including any relevant information obtained about the customer at the product sale stage, supported by internal account performance data including business income and expenditure, and where available, the use of external credit information.

The firm may also wish to use the product renewal process to assess the suitability of the product based on patterns of utilisation, business strategy, its ongoing needs and repayment history.

A registered firm's approach to identifying and supporting customers at risk of financial difficulty may vary, depending on the firm's business model, its approach to customer segmentation, the distribution channel by which the customer is serviced and the nature and regularity of the interaction. It is important to recognise the diversity in firm's operating models, and the scope and breadth of the distribution channels and servicing models offered. We recognise that not all firms will offer a digital, transactional only model, whilst others may opt to service their entire business customer base through a bespoke, relationship managed proposition. Firms should factor this into their decision making, when determining the most appropriate approach to pro-actively identifying and engaging with customers. Where the firm offers more than one distribution channel, firms should seek to streamline their approach to ensure all businesses, irrespective of the size and type of facility, are identified and supported through whichever channel they engage.

Developing and defining meaningful behavioural and product triggers can help drive a predictive and pre-emptive approach to identifying customers at risk of financial difficulty. Whether the approach derives from internal account performance or external credit data, the triggers and the supporting parameters for identifying customers at risk, should be bespoke and built around the firm's core operating model. This could be supported by a pro-active contact strategy, which utilises and explores a range of contact methods and distribution media to ensure that customers are appropriately notified, that the contact is timely, and the customer is receptive to the offer of support.

We acknowledge that there may be challenges to engaging with customers, with some business customers more receptive to engaging in discussions around their situation, while others may be less likely to disclose the full extent of their situation, for fear that this information may have a negative or adverse impact on the view the firm has on the business. Whilst the type and method of contact is key here, firms should consider how the message will be received by the customer, how the information will be used and what action they would like the customer to take. The tone of voice and construct of the message is critical to relaying the content of a message to encourage meaningful contact, build transparency and strengthen trust.

Whilst a pro-active strategy is useful in encouraging contact and engaging with businesses, some customers may choose to contact a firm, where they self-identify that they require support. The notification to a firm may follow a change in circumstance, for example, the loss of a key contract impacting a business's ability to maintain further repayments to the firm, an increase in business expenditure or the depletion in business performance. Firms should ensure that they have appropriate mechanisms and support structures in place to fully support these customers, and that they are not turned away.

The LSB would encourage firms to raise awareness of the type of support it can offer its customers who are, or may be, experiencing financial stress. The provision of information is critical to building trust, ensuring transparency whilst dispelling any concerns that the contact is focused on exacerbating the business' financial situation. The LSB would encourage firms to direct business customers to appropriate sources of information. This may include information on the firm's website, for example, through a dedicated section detailing its approach to supporting customers at risk of difficulty, with details of the support available and contact information, should the customer wish to engage further with the firm. This could also be supported by web chat facilities should the customer wish to explore the availability of support. The provision of web chat facilities, offers the business an opportunity to contact the firm discreetly, though where possible, the firm should encourage the customer to engage in a fuller discussion around their circumstances. Depending on the structure and remit of the support available, the firm may wish to direct the customer to a specialist team, with the knowledge and skills to offer the right level of support, at the right time.

Whilst the list below is not intended to be exhaustive, it sets out the types of triggers that firms may look out for which may suggest that a customer is experiencing financial stress:

- missed/delayed payments;
- regularly overdrawn without agreement/exceeding the agreed overdraft limit;
- large increases or decreases in turnover;
- business is trading at a loss;
- inadequate economic or financial structure;
- insufficient cash flow to meet financial obligations;
- inability to obtain further funding or refinancing;
- persistent losses;
- the business suddenly loses a key customer or employee;
- a large part of the business is sold;
- the customer does not keep to conditions set out in the loan agreement, without adequate rationale;
- the customer does not supply agreed monitoring information on time; and
- another creditor brings a winding-up petition or other legal action against the business.

Firms should exercise discretion as to whether the event would result in contact with the customer based on the parameters set by the firm, and where relationship managed, their knowledge of the business customer.

Firms should also be aware of the link between credit monitoring and customer vulnerability – establish the similarities in approach and how these customers should be dealt with in a positive and sensitive manner.

4. Where appropriate, Firms should initiate a timely review of the customer's re-financing needs and an assessment of what needs to be in place ahead of any term loan expiry to maximise the prospect of successful re-financing

Where a lending agreement contains a refinancing facility provision, individual firms will have their own processes in place as to how and when any review is undertaken, and the timings will vary from firm to firm.

5. Firms should ensure that relevant customer facing employees and relevant 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 should invest in staff training to ensure that customer facing employees and third parties have the appropriate skills and knowledge for their role to support the identification of triggers and to encourage fuller conversations with a business customer. This should be underpinned by a comprehensive training and competence framework, to ensure knowledge is maintained and to encourage consistency in the level and depth of training delivered.

Whilst section 4, above, refers to the development of system based triggers which may derive from a combination of account performance or external credit data, Firms should have mechanisms in place to identify instances where information is volunteered by a customer. Some customers may offer this information directly, others may approach the conversation with a degree of reticence, or in a much softer and less overt way, evidenced through the customer's actions or conversation with the firm. Training may be based on information volunteered by the customer during conversation such as 'business expenditure has increased significantly,' 'we have noticed a decline in sales performance,' which may or may not be supported by discrepancies in internal account performance. This should be supported by softer behavioural triggers which, whilst not obvious, may indicate that the business requires further support. Whilst we recognise that not every trigger may result in a customer being identified as being in financial stress, they are clues which should be probed and explored further to encourage a complete understanding of the customer's situation, based on a 'tell us once' approach.

Firms should develop triggers to assist staff in the identification of business customers at risk of financial difficulty. 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. This is reinforced by the fact that not all customers will be forthcoming with information because of the perceived consequence on the business, or for fear that the information may be shared more widely.

Relationship managers have a unique insight into how a business is operating and information provided by the customer regarding their business can be used to support conversations with customers who appear to be showing signs of financial stress or where account information or a change in the operating environment suggests that the business may be at risk of difficulties. However, there are challenges to engaging with customers on this topic and some may be 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, an ability to empathise and explore the customer's concerns about disclosing information is an important part of the process, supported by an explanation of how the information will be used.

Case reviews involving reviewing recorded calls, where these are available, can provide an opportunity for relationship managers 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.

A blended learning technique, using elements of theory and practical examples can help to ensure that staff have the opportunity to put their new skills into practice and can demonstrate their competence through various exercises and knowledge checks. Where specialist teams exist, the opportunity to shadow internal departments to see first-hand how those areas support customers can further embed understanding of pre-arrears and provide a valuable wider perspective whilst strengthening awareness of the specialist teams and their role and remit.

Firms could develop various aids and techniques for ensuring the knowledge is retained once training is complete. This could include desk aids, interactive colleague learning platforms or using the intranet to assist in identifying appropriate actions, underpinned by the need to ensure the delivery of fair outcomes.

6. 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

While firms are at different stages in the development of strategies, designed to prevent customers falling into financial difficulty, consideration should also be given to its ongoing evaluation, to ensure that the strategy continues to operate in a manner that is conducive to the delivery of fair customer outcomes. This may be achieved through the:

- ongoing review and assessment of the design and operational effectiveness of policies, processes and training, along with an assessment of the internal control framework;
- use of case reviews to test the full customer journey, forming a view on the overall effectiveness of the firm's strategy, the response to a situation and the appropriateness of the solution offered. 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, whilst highlighting any opportunities for improvement;
- the development of customer feedback mechanisms to explore the practical impact of the current structures in place.

Firms should consider the risks to customer outcomes associated with the prevention of customers falling into financial difficulty and this should be factored into a firm's assurance and oversight plans, across the three lines of defence.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

**Treatment of customers in financial
difficulty**

January 2021

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 financial difficulty.

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: business customers in financial difficulty, or in the early stages of the collections process, will receive appropriate support and fair treatment, in order to help them deal with their debt(s) in the most suitable way

Firms will achieve this: with systems and controls that are capable of identifying and, subsequently, supporting business customers in financial difficulty. Firms should be able to demonstrate that a sympathetic and positive approach has been applied when considering a customer's financial situation

This section focuses on the treatment of businesses in financial difficulty and includes a dedicated section on business support units. The LSB recognises that not all firms have business support units in place and where they are, there is not one model which is applied consistently across registered firms. Customers may move in and out of financial difficulty/business support units during the course of their relationship with the firm. For ease of reference, a separate set of Standards for business support units can be found below. However, firms will apply a consistent approach to the treatment of businesses in financial difficulty, regardless of where responsibility for the relationship with the customer sits within the firm.

1. **Firms should have triggers and processes in place to help identify customers who may be in financial difficulty and should act promptly and efficiently to address the situation with the customer**

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.

For products offered under CBILS, firms will have access to a limited range of information, depending upon the type and level of information the customer was able to provide at the application stage and what, if anything, is known about the business. However, it is recognised that in the absence of a pre-existing relationship with the customer, the ability to identify financial difficulty may only arise at the point the customer misses a payment.

For products offered under BBLs, it is acknowledged that under the terms of BBLs, firms are not required to obtain any current or historic information on the performance of the business. Therefore, firms may be unaware as to whether or not the business is in financial difficulty during the initial 12 months of the agreement.

The scheme has been designed as a mass market product without a relationship management model which means that even where there is a pre-existing relationship with the business, firms will be unable, due to the way the scheme operates, to take this information into account at the point of lending. In addition, the application of an automatic interest and principal holiday means that firms will be further limited in the types of information which would normally feed into the triggers and processes already in place to identify signs of potential or actual financial difficulty. It is recognised that, based on the information that customers are required to provide to firms under the BBLs,

firms, at the point of application and for the first 12 months of the agreement, will be unable to identify if a customer is in financial difficulty unless proactively contacted by the customer.

If, after a customer has accessed funding, a firm does identify a customer as showing signs of financial difficulty, the LSB would expect the firm to take reasonable steps to apply the provisions set out in paragraphs 3 to 7 of the Standards on the treatment of customers in financial difficulty. This may be the case where a customer informs a firm that the business is showing signs of financial difficulty, or where a firm becomes aware of such signs through any systems and processes that they have in place (in line with the Standards) to enable them to identify and support business customers in financial difficulty.

To encourage a consistent and fair approach to supporting BBLs customers, on 24 September 2020, the Government announced the introduction of Pay As You Grow (PAYG) measures. PAYG measures are available to all customers, not just those experiencing or at risk of financial distress or difficulty. However, the LSB recognises that PAYG support measures will provide many customers experiencing financial difficulty with the forbearance they need.

Firms offering PAYG support options to customers should, as part of the customer journey, ask questions about customers' financial situation and use filtering or triaging to identify and to offer additional support to customers who need it. This may include customers who need further information to enable them to make decisions regarding the use of PAYG support measures or may include customers who are in financial difficulty and need further discussions about what support might be appropriate for their circumstances. Firms should ensure that they are able to act promptly and efficiently to address the situation with the customer. Firms should enable customers in financial difficulty and in need of further support to engage with an appropriate member of staff to discuss their circumstances.

Firms should ensure that any support offered is permitted under the guarantee agreement for the scheme and is in line with any relevant guidance or directions that may be issued by the UK Government from time to time.

As set out in the BBLs guarantee agreement, the LSB would expect firms to apply the requirements of the Standards when carrying out recoveries activity where the debt collection is unregulated, unless directed otherwise by the UK Government.

The LSB recognises that, should the Government issue new guidance or directions, firms may need to review or adapt their approach to supporting customers or to undertaking recoveries activities.

Firms will have access to a broad range of information on their business customers, depending on the size and type of business and how the relationship with the customer is managed. For those firms which operate a relationship managed model, there may be opportunities for early identification of financial difficulties during any monitoring activity or engagement with the customer.

For smaller businesses, changes in personal circumstances such as a loss of a key employee, a breakdown of a relationship, bereavement, a serious accident or illness could also impact on the customer's ability to effectively manage the business' finances. Where the firm is made aware of these changes, the LSB would expect the firm to engage with the customer with a view to understanding whether the changes in circumstance are, or may be likely to, have an impact on the day to day running of their business.

A firm should consider what information it has available to it that might indicate that a customer is at risk of, or may be, experiencing financial difficulties. Such illustrative triggers may include:

- loss of a significant source of income such as a key contract
- a significant increase in financial commitments
- frequent requests to change terms of the borrowing
- failing to meet repayments or other commitments on time
- regular requests for increased borrowing
- frequently returning items on a current account
- frequent incurrence of unarranged overdraft/late payment/over-limit fees
- being informed that another lender or creditor requires immediate repayment
- the customer goes overdrawn without agreement;
- the customer goes over their agreed overdraft limit, especially more than once;
- longer term cash flow shortages which do not reflect seasonal fluctuations
- there are large increases or decreases in the business's turnover
- the business is trading at a loss
- the business suddenly loses a key customer or employee
- a large part of the business is sold
- a facility is used for purposes other than those agreed with the firm
- the customer does not keep to conditions set out in the loan agreement
- the customer does not supply agreed monitoring information on time; and
- another creditor brings a winding-up petition or other legal action against the business.

2. Firms should have appropriate policies and procedures in place to identify and support vulnerable individuals where this impacts on the customer's ability to pay

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 Loan 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.

Given the requirements of CBILS, it is acknowledged that unless there is a pre-existing relationship with the business, firms will have limited access to information on both the business and the circumstances of the business owner.

As set out in the Standards, the impact of the individual's vulnerability on the business customer's relationship with their registered firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability.

For lending under BBLs, it is recognised that unless this information is proactively provided by the customer, firms may be unable to identify such customers at the point of origination. However, if at any point during the course of the relationship with the customer, a firm becomes aware that a

customer is, or may be, in a vulnerable situation the LSB would expect the firm to act in accordance with the relevant Standards.

The LSB recognises that many firms will look to automate, and use digital journeys for, their engagement with BBLs customers. Firms should ensure that when customers do engage, for instance if they look to make use of the PAYG support options, that there is the possibility of manual intervention at any point in the customer journey, to enable customers who may be in vulnerable circumstances to opt-out of a digital journey, to access information and support and, where necessary, to engage with an appropriate member of staff.

This standard is seeking to support firms in identifying and addressing situations where an individual within a business either is, or the firm has reason to suspect that they may be, vulnerable. This can be applied to a sole trader, partnership or to an individual within a limited company. The impact of the individual's vulnerability on the business customer's relationship with their firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability. Firms will be at different stages of developing an approach to business customers and vulnerability and the applicability will depend on the individual circumstances of the person.

Being in financial difficulty can be a stressful situation for a customer who is not vulnerable, therefore when dealing with a business customer who has been identified as, or the firm has reason to suspect that they may be, vulnerable there is a greater need to fully understand their circumstances in light of their business. Having the structures and processes which allow staff to investigate situations fully, and equipping them with the knowledge, confidence and skills to question and explore circumstances appropriately will enable them to identify the likely support needs of the customer.

Firms should ensure, that, when they become aware of a vulnerability, the impact is fully considered on the individual and where applicable, the business and its ability to meet and maintain ongoing financial commitments. Firms should remain alert to the fact, that, whatever the vulnerability, the way in which a person might handle or respond to a situation can vary, based on personal circumstance, and the size and structure of the business, relative to the individual's day to day responsibilities and the nature and permanence of the situation.

The LSB would suggest that, wherever possible, firms seek to establish a single customer view. It is acknowledged that for some, the ability to implement this across the organisation may be hampered by legacy systems particularly where there are multiple product holdings. Where possible, consideration should be given to manual workarounds to help firms to ensure that multiple accounts can be linked so that correspondence and account activity is coordinated. For some business customers, the Money Advice Liaison Group's (MALG) Debt and Mental Health Evidence Form (DMHEF) may be appropriate. This provides a standardised approach for third parties and creditors to share relevant information about the customer's mental health condition from health and social care professionals. In line with current industry practice, firms should consider the DMHEF if it is presented by the customer or, with the customer's consent, their adviser or medical practitioner.

3. Customers identified as being in financial difficulty should be contacted and provided with clear information setting out the support available to them, the next steps and where relevant, with any action they are required to take. They should not be subject to harassment or undue pressure when discussing their financial situation

Where a customer is identified as being in financial difficulties they should be contacted and provided with clear information to enable them to engage constructively with the firm. This contact should seek to enable the firm to understand the customer's situation through appropriate questioning, the outcome of which can be used to determine how to best manage the customer's borrowing with the firm. Where appropriate, there may also be a benefit to signposting relevant customers to free, impartial debt advice.

The LSB recognises that for some products firms will be able to use automated processes to offer support to customers. The LSB would expect firms to ensure that any such processes provide customers with clear information about the support available and that the processes use appropriate questioning to support the customer with any actions they may look to take. The LSB would expect firms to ensure that, at any point during an automated process, there is the possibility of manual intervention to enable a customer to opt-out of a digital journey, to access information and support, and, where necessary, to engage with to an appropriate member of staff to discuss their circumstances.

When a customer is identified as being in financial difficulty, firms should take a view as to the appropriate level of intervention/support required, this will be dependent upon the individual customer's circumstances and the information obtained. The conversation may identify that the business is expecting a change in income in the foreseeable future, for example the award of a significant contract or the payment of high value invoices which will have a positive impact upon the finances of the business.

The LSB would expect that customers are made aware of the next steps in the process, for example, the application of forbearance and how this could work or what the potential outcome of the situation could entail. Firms should provide this information in an appropriate form and in plain English, avoiding the use of any technical or legal language, wherever possible. Where customers are required to undertake any action as a result of the contact, that this is made clear to them with any agreed timescales or requests for additional information documented.

4. Firms should demonstrate an empathetic approach to the customer's situation; listening to and acting upon information provided by the customer with a view to developing an appropriate and mutually acceptable solution

Where a firm identifies that a business customer is in financial difficulty or the customer self-discloses that the business is struggling, the firm should engage with the customer with a view to understanding the business' overall situation and work with the customer to develop an appropriate solution.

This solution could take a number of forms; it could be for the customer to agree to cut down on non-essential expenditure, or a more formal arrangement following, for example, an independent review of the business. Such an arrangement might set out a detailed restructuring or repayment programme, including new facility agreements and what happens if the customer does not meet the agreement. If the plan includes an agreement to accept smaller loan repayments than stipulated in the original

documentation, the firm should tell the customer whether this is regarded as ‘falling behind with repayments’ and whether information will be passed to credit reference agencies.

Before agreeing an appropriate solution with the customer, the firm should have sufficient information regarding the customer’s financial situation to enable it to assess whether any proposed plan is affordable for the business. This can be achieved through appropriate questioning, as well as listening to and acting upon the information provided by the customer and consideration of any information the firm has on the business itself. The LSB would expect that where a customer is unable to make repayments that are sufficient to meet a lender’s minimum requirements for a repayment plan, the customer is given clear information on the effect this will have on their position and the options open to them. The LSB acknowledges that it may not always be possible for a firm to agree a solution which enables the business to continue its relationship with the firm or that the most appropriate outcome is that the business enters winding up proceedings. In these circumstances, the LSB would expect firms to provide a clear explanation as to why the business can no longer be supported and allow the customer the opportunity to consider their options or seek professional advice.

When developing a repayment solution with a customer who has been identified as vulnerable, but who is able to set-up or continue to maintain a plan, firms may wish to give consideration to the financial impact that the vulnerability may have. Taking account of the cost of travel to hospital, medication, and the impact of any reduction in income will help to ensure a plan is reflective of the customer’s current situation. Identifying this expenditure will also help the firm to assess whether any proposed repayment plan is affordable and sustainable. Where a vulnerable customer is unable to set up a plan, firms should consider placing the account on hold and agreeing regular reviews with the customer to check in on their situation.

A firm may suggest that an independent review of the customer’s business is undertaken in order to provide an independent view of the future prospects of the business. In these circumstances, the firm should explain the reasons for the review, what it thinks should be done and how the review will take place, including who should carry out the review and whether there are any costs associated for the customer. If a customer’s business is reviewed, the LSB would expect the firm to discuss with the customer (and where relevant, their advisers) the information provided before reaching any conclusions or taking any action.

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

For lending under BBLs, the LSB recognises that firms will look to offer customers support through the PAYG measures announced by the UK Government. While firms may look to automate and use digital journeys to offer customers support and forbearance, firms should still ask customers questions about their circumstances to help them identify customers who may need additional support. For instance, the customer may need further information to enable them to make decisions regarding the use of PAYG support measures or may need further discussions about what support might be appropriate for their circumstances.

In addition, the LSB would expect firms to ensure that, at any point during an automated process, there is the option for manual intervention to enable a customer to opt-out of a digital journey, to access information and support, and, where necessary, to engage with an appropriate member of staff.

Where a customer engages with the firm to discuss accessing support as a result of financial difficulty, firms should seek to understand the customer's situation and to identify any wider financial difficulties a customer may be experiencing. Taking into account a customer's situations, firms should try to develop an appropriate and mutually acceptable solution with the aim of helping the customer to deal with their debt(s) in the most suitable way. The LSB recognises that the PAYG support options will provide appropriate solutions for most BBLs customers.

There may be circumstances where, having taken into account the customer's situation, offering PAYG support would not be sufficient to meet the needs of the customer's situation. Where this is the case, firms should consider alternative forms of support or forbearance for customers. This may particularly be the case where a customer is in arrears. Where alternatives to PAYG are considered, firms should try to ensure they have sufficient information regarding the customer's financial situation to enable assessment of whether any proposed plan is affordable for the business.

The LSB recognises that the PAYG support measures have been designed to be offered in such a way that use of PAYG support options remains the customer's choice even where the customer has engaged with the firm and discussed alternative support or forbearance.

5. Firms should apply an appropriate level of forbearance where, if after having made contact with the customer, it is clear that this would be appropriate for their situation. Firms should ensure that the solution offered does no exacerbate the customer's situation

The type of forbearance applied will depend on the firm's assessment of the customer's individual circumstances and what is appropriate for the business. For example, forbearance could take the form of: a term extension, application of breathing space, payment holiday, refinancing of an existing facility or other, as appropriate. Firms should ensure that the solution offered does not make the customer's situation worse, for example, agreeing to restructure a loan which attracts a higher rate of interest than the customer's current arrangement. While the restructuring itself may potentially resolve the situation in the short term, the cost of the revised agreement would mean that the overall borrowing may not be sustainable in the longer term.

The LSB would encourage firms to consider reducing or stopping interest and charges when a business customer evidences that they are in financial difficulties. Such a reduction/suspension decision could be based upon an assessment which indicates that the customer is unable to make repayments sufficient to meet contractual terms. The LSB would consider it inappropriate for interest and charges to continue to be taken where the result would be that the repayment period for the customer becomes excessive. In forming a judgement on what might be excessive, a firm should take into account the type of product and the individual circumstances of the business customer.

The LSB's view is that concessions should not be arbitrarily withdrawn irrespective of a customer's ability to pay or without any evidence of a change in the customer's circumstances. Expiry of a repayment arrangement should not automatically lead to the withdrawal of concessions. However, this does not rule out regular reviews and if a customer's position has improved then interest and charges can be reintroduced.

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

For lending under BBLS, the LSB recognises that firms will look to offer customers support through the PAYG measures announced by the UK Government. While firms may look to automate and use digital journeys to offer customers support and forbearance, firms should still ask questions about their circumstances to help them identify customers who may need additional support. For instance, the customer may need further information to enable them to make decisions regarding the use of PAYG support measures or may need further discussions about what support might be appropriate for their circumstances.

Where a customer engages with the firm to access support as a result of financial difficulty, firms should seek to understand the customer's situation and to identify any wider financial difficulties a customer may be experiencing. Where alternatives to PAYG are considered, firms should try to ensure they have sufficient information regarding the customer's financial situation to enable assessment of whether any proposed plan is affordable for the business.

The LSB recognises that the PAYG support measures have been designed to be offered in such a way that use of PAYG support options remains the customer's choice, including in scenarios where firms may reasonably believe the business to be unviable. To help ensure the best outcome for the customer and to ensure they are treated fairly, firms should provide customers with clear information about the support available.

In addition, where a firm is aware that a customer has accessed PAYG support and subsequently remains in financial difficulty, firms should consider the customer's current situation and look to offer appropriate support and develop a mutually acceptable solution, acting on any information that is provided by the customer.

6. If a Firm is aware that a customer is, or suspects that they are, in financial difficulty but is able to uphold their borrowing commitments to the Firm, the customer should be given the opportunity to take action to turnaround the business

There may be circumstances where a customer meets one or more the triggers set out under section one above, but is able to maintain their borrowing commitments to the firm. The LSB would expect that in these circumstances, the customer is given an opportunity to demonstrate that they can trade out of any short term difficulties they may be experiencing. The decision to do so will be based upon consideration of the information the firm has regarding the business but where the business is viable and is able to meet its financial obligations, the LSB would expect that it is able to continue to trade.

The decision to do so could be subject to regular monitoring and review of the circumstances which is sufficient to enable the firm to understand the financial health of the business. Any additional reporting requirements should not be so onerous on the customer that it makes the turnaround plan unsustainable. The LSB would expect the customer and the firm to agree any timelines which may apply.

- 7. Firms should guide the customer to appropriate advice which reflects their circumstances and level of borrowing. Where appropriate and available, the customer will be signposted to a third party offering free, impartial debt advice**
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Where a customer is signposted towards independent advice, this should take account of the size and sophistication of the business and should reflect the borrowers' circumstances, that is the advice provided would be at a cost which is appropriate for the level of the customer's borrowing. For example, a sole trader or sole director of a small company would not be sign posted towards a firm which is more appropriate for a larger, more corporate business where the costs would be disproportionate to the size and needs of the customer.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Portfolio management

July 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 portfolio 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 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: when debts are sold, impacted business customers will be treated fairly and all communications regarding the sale, and what this means for the customer, will be transparent and provided in good time. Where business customers are suffering from mental health or critical illness, the customer's debt will not be sold.

Firms will achieve this: with systems and controls to ensure that only eligible business customers are transferred to a third party and appropriate due diligence is undertaken on the firm before a sale, which demonstrates that the customer will be treated fairly.

Unless otherwise stated, the following Standards apply to the sale of performing and non-performing debt. The following Standards apply to the sale of debt at the portfolio level.

1. Firms should follow a robust due diligence process when selecting third parties for debt sale or debt collection activities to ensure that customers will continue to be treated fairly, in line with requirements of the Standards of Lending Practice and the relevant contractual terms

This standard is intended to ensure that where a customer's debt is sold or passed to a debt collection agency, that the customer will continue to be treated in line with the standards that firms apply under the Standards of Lending Practice. Customers therefore have comfort that while the debt is no longer being administered by the firm, the protections offered by the standards will continue to be met.

The due diligence process for selecting third parties for debt sale or debt collection should be sufficiently robust to satisfy the firm that the third party can meet the requirements of the Standards of Lending Practice. Whilst we do not specify the level of due diligence that should be undertaken, this should be comprehensive for the firm to gain assurance that the protections offered by the Standards will continue to be met by the third-party, and should be proportionate to the risk associated with the materiality of the outsourced arrangement and the provider.

For the purposes of the Standards, areas assessed through a firm's due diligence may include the following:

- an assessment of compliance against the Standards of Lending Practice for business customers relative to the activity undertaken by the third party;
- an understanding of the business strategy, model and culture,
- an assessment of governance and oversight arrangements in place including quality assurance activity, compliance and internal audit and the outputs of any recent reviews.
- this may be supported by a review of policies and processes, training and incentive schemes, and the approach to dealing with vulnerable customers.

Firms may support this assessment with a review of third party compliance with contractual terms, relevant FCA regulation, data protection and, where applicable, adherence to relevant codes of practice that may apply to the customer's borrowing. Whilst we do not prescribe the approach to due diligence, this should be sufficient for the firm to assure itself that the Standards are being met and the right outcomes are being achieved through appropriate systems and controls to minimise the risk of customer detriment. In addition to this firms may also wish to consider how it will ensure a smooth transition of customer accounts to a new outsourced provider, including what might happen when a vulnerable customer is identified or on service termination. Firms should also refer to the relevant paragraphs of Governance and Oversight for further guidance.

he LSB would expect that adherence to the Standards of Lending Practice forms part of all third party contracts and firms should ensure that the outcomes for handling financial difficulty cases are applied by such agents, through due diligence and periodic audit and review. The due diligence should be reviewed where there is a change to the relationship, which the firm considers to be material.

Firms should consider the benefit of receiving regular reports/updates from the outsourced provider to provide comfort that the outsourced provider is operating within the terms of the service agreement and that the Standards are being achieved. This may include: the identification of qualitative and quantitative performance targets; the evaluation of performance through service delivery reports or an independent review by its compliance or internal audit function, including any remedial action, and escalation processes for dealing with inadequate performance. The frequency of information exchange should be determined by the firm, and should be proportionate to the risk presented by the outsourcer.

2. Firms should ensure that where the decision is made to sell a customer's debt and the contractual terms require the customer's consent to do so, this is obtained prior to any sale taking place

One of the key elements of the Standards is to ensure that customers are provided with appropriate information, at the right time to enable them to better understand what changes are required or are being undertaken to the way they interact with their lender. Where a customer's contract and/or terms and conditions provide for the customer's consent to the sale of their debt, this should be obtained prior to any sale taking place.

- 3. Where an agreement allows for a Firm to sell a customer's debt without their consent, Firms should ensure that:**
- a. the customer is provided with reasonable notice that the Firm intends to sell their debt and provided with clear information as to what the sale means for the product(s) that they hold with the Firm and;**
 - b. if the relationship with the customer will be serviced by the third party, full contact details for the purchaser are provided**
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The requirement here is for firms to ensure that customers are aware that their debt will be sold and understand what that means in terms of their relationship with their lender. The LSB's expectation is that customers know what is happening and the guiding factor is to ensure a seamless and uninterrupted customer experience and a fair outcome.

Firms may wish to have regard to the audience and business type and form of borrowing when communicating with impacted customers. The customer should be provided with a contact point should they wish to discuss the matter further.

Where the relationship will be serviced by the third party, the customer should know in advance who the third party is and provided with contact details. This is to prevent customers from being contacted out of the blue.

4. If an individual⁵ has provided appropriate and relevant notification of an ongoing mental health or critical illness that affects the customer's ability to repay their debts, or the Firm is aware the individual is terminally ill, the debt(s) should not be sold

The LSB acknowledges that it may not always be possible for a firm to know whether a customer is vulnerable but where the firm is aware, the Standards of Lending Practice prohibit the sale of debt where there is evidence of an ongoing mental health problem or critical illness that affects the customer's ability to repay their debt. Where vulnerability is identified by the firm, which impacts upon the customer's ability to repay their debt, the LSB would expect that these accounts are ring-fenced and not sold.

Vulnerability can occur at any time during a customer's relationship with their lender, including post debt sale but pre-transfer. Where a firm becomes aware that the customer is vulnerable (this refers to the individual who is able to exert significant influence over the way the business is run)⁶ the debt should be ring-fenced and excluded from the sale.

Responsibility for managing such accounts should be agreed between the creditor and the purchaser up front, though any decision should give due consideration to:

- assessing each case on its merits, which may include having regard to the nature and longevity of the customer's situation; and
- the customer experience and risk to customer outcomes.

5. If a Firm sells non-performing debt, it should take appropriate and reasonable steps to ensure that the third party, to whom the customer's debt has been sold, deals with the customer in a manner that is consistent with the relevant requirements of the Standards of Lending practice and the relevant contractual terms

Where the decision is made to sell non-performing debt, the LSB would expect firms to ensure that the customer continues to be treated in line with the requirements of the Standards of Lending Practice for business customers.

Firms should be able to satisfy themselves that the third party to whom they have sold customers' debts, continue to deal with such customers in a manner that is consistent with the relevant requirements of the Standards of Lending Practice and the contractual terms of the agreement between the firm and the customer.

The results of these steps should be used to satisfy the firm and the LSB, that all of the relevant requirements of the Standards of Lending Practice in respect of the debts sold are being adhered to. If instances of non-compliance are identified, firms should be able to evidence that appropriate action has been taken to remedy any breakdown of control or customer detriment.

⁵ A person who, when taking into account information available to the firm about how the business is structured and operates, is able to exert influence over the way it is run.

⁶ See also section on vulnerability.

- 6. Where a debt is sold and during the lifetime of the original agreement⁷, a dispute arises between the customer and the third party which the parties are unable to resolve, Firms should ensure that they have processes in place to allow the customer access to the Firm's complaints procedure.**
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The intention of this Standard is that customers are able to have recourse to their lender, if they are unable to resolve a dispute with the third party which purchased their debt. Firms should ensure that where a debt is sold, the customer has an access point into the firm's complaints process and should ensure that processes are in place to enable customers to do so.

⁷ Subject to industry practice over the retention of personal data under data protection legislation.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers

Customers in vulnerable circumstances

May 2021

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 vulnerability.

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: inclusive products and services take into account the broad range of business customers to which they may apply and contain appropriate flexibility to meet the needs of customers who may be, or are in, a vulnerable situation. Where customers are identified as, or the firm has reason to believe that they may be, vulnerable, appropriate adjustments are made to ensure that their individual circumstances are accommodated to enable the customer, or their authorised third party, to manage their account(s)

Firms will achieve this: with systems and controls that are capable of assisting in the identification of customers who are, or may be, in a vulnerable situation, and having appropriate measures, training, referral points and skilled staff to deal appropriately with the customer once identified

The following Standards have been drafted to support firms in identifying and addressing situations where an individual within a business either is, or the firm has reason to suspect that they may be, vulnerable.

These Standards can be applied to a sole trader, partnership or to an individual within a limited company. The impact of the individual's vulnerability on the business customer's relationship with their registered firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability. Firms will be at different stages of developing an approach to business customers and vulnerability and the applicability of the following standards will depend on the individual circumstances of the person.

- Reference to an *individual* means a person who, when taking into account information available to the firm about the how the business is structured and operates, is able to exert significant control over the way in which it is run.
- Reference to *vulnerability* is in relation to the individual rather than the business itself, for example, a business in financial difficulty would not necessarily be considered to be vulnerable for the purposes of these Standards.

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 Loan 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 Covid-19 pandemic has driven the need to develop products to facilitate fast and efficient lending to impacted businesses with responsibility for the design and application of the products sitting outside of firms' control. The terms of lending for the schemes requires firms to make lending decisions outside of their normal processes and with access to a limited amount/no information on the performance of the business. Similarly, firms are unlikely to have information on the business owner's personal circumstances which may impact on the running of the business. The LSB recognises that firms' ability to apply particular elements of the Standards may be reduced. This is

particularly relevant in relation to the application of the Standards on customers in vulnerable circumstances. As set out in the Standards, the impact of the individual's vulnerability on the business customer's relationship with their registered firm will depend on a number of non-exhaustive factors such as: the legal structure of the business, its sophistication, the role and level of responsibility of the individual within it and the extent of the individual's vulnerability.

The LSB recognises that when lending under BBLs, firms may not have the ability to identify an individual in vulnerable circumstances, especially where customers primarily engage through digital or automated channels. However, where a customer has shared information that enables the firm to identify that a customer may be experiencing vulnerability, appropriate support should be offered.

To enable customers who may be in vulnerable circumstances to speak to staff and to get the support that they need, firms should ensure that when customers do engage, for instance if they look to make use of the PAYG support options, that there is the possibility of manual intervention at any point in the customer journey, to enable customers who may be in vulnerable circumstances to opt-out of a digital journey, to access information and support and, where necessary, to engage with an appropriate member of staff.

It is recognised certain aspects of the products are determined by the Government, and as such firms will have a limited role in the design and review process. Given this, the LSB accepts that firms cannot reasonably be expected to give full consideration to the design or review of products offered under CBILs and BBLs.

1. Firms should have a vulnerability strategy, which defines its approach to the identification and treatment of individuals considered to be vulnerable, through whichever channel the customer chooses the engage

The treatment of customers in vulnerable circumstances, at all stages of the product lifecycle, is critical – starting with the culture and business model of a firm, the design and targeting of a product or service and its promotion and sale, through to the ongoing product and account servicing relationship with the customer, taking account of any change in circumstance, including any debt collection or debt sale activity. The LSB recognises that inclusive financial services are, in general, good for all consumers and that a consistent approach to vulnerability across the firm is critical to ensuring the delivery of fair outcomes.

The FCA definition of vulnerability refers to customers who, due to their personal circumstances, are especially susceptible to harm, particularly when a firm is not acting with appropriate levels of care. The definition acknowledges the strong interplay between the individual circumstance, situation and the actions and processes of firms, with the expectation that firms establish policies, processes and controls which ensure the fair treatment of customers in vulnerable circumstances, at every stage of the customer journey. It is widely accepted that vulnerability is not a static state limited to a certain group of people and that anyone can encounter a situation that might make them more susceptible to detriment, particularly where this affects a person's ability to make or communicate an informed decision, or maintain existing financial commitments. This experience is no different for an individual consuming products and services in a business capacity or ultimately the business, where the individual is integral to its successful running. In our view, whether engaging as a personal customer

or a business, firms should seek to support all customers to ensure they are given the helping hand they need to cope with a difficult circumstance, through whichever channel they choose to engage.

Factors such as mental and physical health, caring responsibilities and life changing events can put anyone in a vulnerable situation. This is supported by an understanding that whatever the vulnerability, the impact, or the way in which a person might handle or respond to a situation can vary.

The LSB acknowledges that not all businesses have the same needs, resources and capabilities, with some more sophisticated than others, this can vary based on factors such as borrower type and size. Practically this means that the impact of a change in circumstance for one director or partner in a business can vary depending on the size and structure of the business, their day to day management responsibilities (in particular, their position in the context of the business' core operations), the impact that the vulnerability may have on the business' operation, its workforce its income and cash flow and the overall availability of resource.

Firms must ensure, that when they become aware of a vulnerability, the impact on the individual is fully considered, and where applicable, the impact this has on the day to day running of a business, and the ability to meet and maintain ongoing financial commitments. Firms should remain alert to the fact, that, whatever the vulnerability, the way in which a person might handle or respond to a situation can vary, based on personal circumstance, and the size and structure of the business, relative to the individual's day to day responsibilities and the nature and permanence of the situation.

2. Firms should undertake monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively and delivering fair outcomes

As firms document and develop their vulnerability strategies, consideration should also be given to their ongoing evaluation, to ensure that they continue to operate in a manner that is conducive to the delivery of fair outcomes. This may be achieved through the: ongoing review and assessment of the design and operational effectiveness of policies, processes and training, along with an assessment of the internal control framework, including the quality of first line quality assurance checks; testing the full customer journey, through using case reviews to form a view on the overall effectiveness of the firm's strategy, response to a situation and appropriateness of the solution offered and the development of customer feedback mechanisms to explore the practical impact of the current structures in place.

3. Firms should have policies and processes governing the identification and fair treatment of individuals in vulnerable circumstances. These should take into account the channel, where the individual is within the customer journey and the varying nature and degrees of permanence of different vulnerabilities

Vulnerability can manifest itself in a number of different ways, such as an inability to work for a period of time, a reduced understanding of alternative products, or an inability to make informed financing decisions, where the capacity to evaluate products and services is impaired. Businesses are people led and run, and are therefore they are critical to a business ongoing success, and it is in this context that an individual's vulnerable circumstance and the impact that it may have on a business, should be simultaneously explored and understood.

Whilst the Standards reference vulnerability in the context of an individual, and not a business, the impact that a business in difficulty may have on an individual involved in the day to day running and management of a business, should not be overlooked. This could include: loss of a key contract or a customer, poor business performance, or loss of key staff. Firms should be able to identify customers who are, or it suspects are in a vulnerable situation, irrespective of whether this derives from an individual circumstance or the business.

When considering the impact vulnerability can have on a business, firms should fully explore the impact of the personal vulnerability on the individual, this should be considered along with their role and their importance in the context of the day to day management of the business and the degree to which the individual is able to exert significant control over the way in which it is run. For the purposes of this assessment, consideration should be given to:

- The customer's state of mind: how does the vulnerability impact their ability to understand or make informed financing decisions in relation to new applications for finance or reviewing the suitability of existing products held. Consideration should also be given to the extent to which the vulnerability might compromise the individual's ability to make informed business decisions and how this might impact the business' financial obligations with the firm. Particularly where the situation limits the individual's ability to continue meeting its key strategic and operational objectives.
- The customer's finances: focusing on their ability to manage existing commitments, and the impact the situation may have on current and future business income and expenditure, and the business' ability to maintain contractual and financial repayments.

These should be reviewed in the context of the individual and their role and significance in relation to the business and the legal structure of the business and its level of sophistication. This should be underpinned by a firm understanding of the type of vulnerability, the degree of impact and its permanence and presentation.

4. **a. Firms should ensure that their employees and their agents are sufficiently trained to help them to identify vulnerability and deal with the individual in accordance with their policies and processes, with appropriate escalation points, where the circumstances require this**
 - b. When an individual is identified as potentially vulnerable, a Firm should ensure that its employees or its agents have appropriate referral and escalation points and are aware of how to access them**
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Staff training is integral to embedding a firm's vulnerability strategy, to ensure policies and procedures are implemented and drive a consistent approach to the identification of customers in vulnerable circumstances, and the support and guidance that is offered. Firms should consider the appropriate mechanism and approach to delivering training in the most effective way to ensure that the key messages from the training are firmly rooted and can be evidenced in practice.

The fair treatment of customers should be at the forefront and conscience of everyone's minds, and the training should be conducive to achieving this. This may be achieved in some instances through a dedicated induction programme, with a specific module on vulnerability, supported by real-life examples of business related customer encounters, covering a broad range of vulnerabilities. The training should highlight the support that is available to business customers, with an understanding of how the firm would expect staff to respond to these situations, with reference to policy and procedural guidance.

Training could take the form of a bespoke online based training module on vulnerability, using scenarios to increase understanding of the different types of vulnerability and the corresponding needs of customers to ensure that vulnerability remains an active consideration in the execution of everyone's role and at all stages of the customer journey. This could be supported by role specific training to help bring the concept of vulnerability to life, using practical examples and the different types of situations staff may come across in the execution of their day to day role.

Firms could develop triggers to assist staff in the identification of business customers who may be vulnerable. This could be underpinned by targeted and role specific staff training to bring the concept of vulnerability to life, illustrated through the use of practical examples and the types of situations staff may come across. Training should be based on information volunteered by the customer during conversations such as, references to life or work events which appear to have had a significant impact on the customer's ability to cope and softer behavioural triggers, which, whilst not obvious, may indicate that the customer requires further support. This includes: signs of agitation, little to no communication despite previous regularity in contact, tone of voice, questions which indicate the customer does not understand what is being explained and placing reliance on a third party for support, where there are no existing mandates or authorities in place. Whilst we recognise that not every trigger may result in a customer being identified as vulnerable, they are clues which should be probed and explored further to encourage a complete understanding of the customer's situation, based on a 'tell us once' approach.

Whilst training on the different types of vulnerability is key, the importance of softer skills such as the ability to listen, empathise and question is integral to a well-functioning vulnerability strategy. This is reinforced by the fact that not all customers will be forthcoming with information, particularly at the point of borrowing, as there is a fear that this may adversely impact the customer's ability to apply for finance, or for fear that this information may be shared more widely, with a perceived consequence on the individual or on the reputation of the business. The answer is by no means definitive and should

be considered on a case by case basis, but listening and questioning skills are critical in determining the impact of personal vulnerabilities on the individual, and their business to ensure the right level support is offered, at the right time.

Firms should seek to build structures and processes to allow staff to investigate situations fully, and equip them with the knowledge, confidence and skills to question and explore circumstances appropriately, with a view to identifying impact and likely support needs. However, a successful approach to identifying triggers also hinges on the frequency and quality of interaction with the business, the level of trust and the firm's knowledge of them, and the regularity and depth of monitoring undertaken by the firm.

For businesses that are relationship managed, the model provides a sound basis to identify customers in vulnerable circumstances. The hallmarks of an effective relationship are built on trust and customer knowledge, which enable the regular exchange of information between the business and the relationship manager. The frequency of information exchange and the type of interaction can vary based on factors such as the size of the business and a firm's own criteria and method of customer segmentation, but at a minimum this is likely to take place on annual basis. This means that in most cases, the relationship manager is well placed to identify a change in circumstance and question or pre-empt the impact a change may have on the business in the normal course of the relationship, without exacerbating the situation or causing the business any alarm.

Most businesses will have an annual review date which is fixed from the date of sanction. This usually provides the relationship manager with an opportunity to identify changes to the business profile from a financial and non-financial perspective and will typically focus on assessing historic financial performance against current performance; whilst assessing product utilisation against expected use. Relationship managers may also have responsibility for pro-actively managing arrears within their portfolio, where there are indications of a declining financial position. Triggers or indicators may include: persistent losses, missed or delayed payments, excesses and over-limits. Firms could use this opportunity to understand whether any changes may be attributed to a vulnerable situation.

Whilst there are clear benefits in training all staff to identify, manage and deal with vulnerability, some firms may wish to explore the availability of a dedicated specialist team, with greater levels of training, knowledge and the flexibility to make decisions. The Standards do not require firms to establish a specialist team to deal with vulnerability, but where there are specialist teams in place, firms should ensure appropriate mechanisms exist to refer the customer to appropriate support. We consider this decision to be a commercial one; but the outcome should be that customers have easy access to support. As firms develop their approach, there is merit in evaluating the benefits of both approaches to ensure that there are fair and efficient structures in place, designed to suit the firm's business model (taking account of resourcing, capacity and driven by the need to achieve a consistent customer experience), to manage those customers identified as requiring further support. In all cases, staff should be encouraged to exercise discretion, thinking practically about the implications of their actions, being guided by their determination to resolve a situation, and deliver a fair outcome. This could then be reflected in the firm's recruitment strategy and balanced by appropriate targets and measurement systems, which support the fair treatment of business customers in vulnerable circumstances.

Depending on the frequency and type of interaction and the distribution channels by which the business is serviced, the opportunities to identify vulnerability early on may be limited, particularly where the customer does not have regular contact or where they are not forthcoming with this information. Statistics show that more and more customers are transacting digitally, limiting

opportunities for firms to engage in face to face or telephone contact. This generally sits at odds with most firms' strategies for identifying and dealing with vulnerability, which place a reliance on face to face or telephone contact with their front-line teams. Whilst there are clear challenges to identifying vulnerability digitally, the benefits of maintaining a digital platform mean that in most instances firms have access to an array of transactional information on customers, which, with the correct data analytic tools, can help decipher trends and flag up anomalies and drive a pro-active contact strategy. Firms should ensure a consistent approach to identifying and managing vulnerability, irrespective of the channel through which the business customer chooses to engage.

In the case of a business current account, these anomalies may relate to a significant change in transactional activity, excessive use of an overdraft facility which sits outside the business' expected usage which may indicate that there has been a change in circumstance, or where internal and external data sources show potential signs of financial stress, where the underlying cause may be attributed to vulnerability.

Whilst early identification of vulnerability is key to managing a detrimental impact on a business, firms may encounter some situations where the impact of an individual vulnerability has already had a financial bearing on the business. In these circumstances, declining business performance, evident through a review of financial accounts or missed repayments may be a useful indicator of a change in situation, where further probing is required. Irrespective of the indicator, getting to the root cause of the decline in business performance is key here and if there is any additional support or guidance that the firm can provide this should be forthcoming.

Other indicators may include:

- Regular increased borrowing requests coupled with a sense of urgency which may indicate that the business is in distress, or an indication that the business is poorly managed;
- Regularly exceeding credit card/overdraft limits;
- Large increases or decreases in the business's turnover;
- The business is trading at a loss;
- The business suddenly loses a key customer or employee
- The customer does not keep to the conditions set out in the loan agreement and is in breach of covenant;
- Following regular submission of financial information, the customer suddenly stops providing information; or
- A winding up petition or other legal action is taken against the customer.

The shift in employment dynamics is undoubtedly a positive one, reflecting a peak in entrepreneurial drive as people choose to set up their own business, but for others, it is the outcome of the social and economic environment in which we live, where factors such as high unemployment and increased redundancies offer no other viable alternative. Whilst many will go on to run successful businesses, for some, factors such as limited financial capability, can make them more susceptible to detriment particularly where this impacts their ability to make informed business decisions. In some cases, it may be a combination of a number of factors, exacerbated by limited financial capability and the lack of business and strategic knowledge, stemming from the absence of expert or professional advice for business specific information and support. These factors may make it difficult to decide on business financing needs, resulting, in some instances, in poor and costly choice of product. Firms should seek to simplify product information to aid comparison, to enable the customer to make an informed borrowing decision – could firms be doing more to help create a level playing field?

Firms should also ensure there is a read-across for business customers, by sharing areas of best practice, based on lessons learnt in the personal space, to drive firm-wide improvements and deliver consistencies in the treatment of both personal and business customers – offering a firm-led strategic response to vulnerability.

5. Where appropriate, Firms should develop triggers and management information to assist employees in the identification and subsequent monitoring of individuals who may be vulnerable

Developing triggers can support front line staff in identifying signs of potential vulnerability. This could be underpinned by targeted training which involves educating staff on potential vulnerability triggers and customer impact. Customers or third parties may volunteer information, whether consciously or not, when interacting with a firm and these opportunities should not be lost.

Each customer is different as is their ability to cope, therefore it isn't possible to list all of the examples of information which the customer may provide or which could have a detrimental effect upon the customer. However, such examples could include life events such as the breakdown of a relationship or bereavement which may affect their ability to meet their housing costs/other commitments or even the ability just to cope with the day to day living.

Training on identifying and exploring information volunteered by the customer during conversations could take account of the more overt, situation such as: being in receipt of a disability allowance, being off work for a period of time, or a drop in income. The customer may also use phrases such as: 'I cannot cope', 'I'm having difficulties managing at the moment', 'I'm struggling to get back on my feet'.

There are also softer behavioural triggers, which, whilst not obvious, may indicate that the customer requires further support. These include: signs of agitation, tone of voice, questions or answers which indicate the customer does not understand what is being explained or placing reliance on a third party for support, where there are no existing mandates or authorities in place. Whilst the LSB recognises that not every trigger may result in a customer being identified as vulnerable, they are indicators that could be probed and explored further to encourage a complete understanding of the customer's situation. The information should be recorded, with the customer's consent, to facilitate a 'tell us once' approach, where appropriate.

Not all customers will be forthcoming with information, particularly during early interactions, as there may be a fear that this could adversely impact the customer's ability to apply for credit, or the perception that the information may be construed negatively when setting up a repayment plan at the collections stage. Alternatively, customers may simply believe that the firm does not need to know such personal information about them and lack understanding of how any information they provide will be used. Therefore, the importance of softer skills such as the ability to listen, empathise and question in a sensitive and patient manner is critical to a successful vulnerability strategy.

Customers should be provided with a clear explanation of how any sensitive information they wish to disclose might be used and the circumstances in which it might be shared across the firm, for example that it will be used to ensure that products and services offered to the customer take account of their circumstance and are appropriate for their needs.

6. Where a Firm is developing a new product, or reviewing an existing product, it should consider vulnerability as part of the design or review process, paying regard to target market, clarity, accessibility and the operation of the product

Firms are encouraged to ensure that vulnerability is integral to their processes and is not approached as a ‘tick box exercise’ and that this can be evidenced through the product design, development and launch processes/stages. Firms should ensure that product limitations and risks are drawn out clearly to assist a customer’s understanding of a product. This could be accompanied by adequate staff training for customer facing channels and consideration of all content distributed via marketing channels, to assist customers in making a balanced and informed decision on a product, having regard to their contractual obligations. Where products are being reviewed, the LSB would encourage firms to assess how the product is performing in terms of accounting for vulnerability and whether any adjustments are required.

Where firms are offering products under a government backed lending scheme, firms may have a limited role in the design or review of it. However, where firms have flexibility over how they offer products under a scheme, firms should consider what design and review processes are appropriate, whether products and customer journeys are accounting for vulnerability, and whether any adjustments could be made to improve outcomes where customers may be vulnerable.

7. Firms’ sales policies and processes should take account of the impact vulnerability may have on an individual’s ability to make an informed decision about a product and provide relevant support during the application process

Firms should have mechanisms in place to support customers identified as vulnerable, however, there is a challenge in ensuring that the customer is given sufficient information to help make a balanced and informed decision. Vulnerability can take many forms, and the needs of customers may also vary, which can make it extremely difficult for staff to manage, particularly where sales policies and processes do not account for vulnerability at the point of sale.

The stress associated with being in a vulnerable situation may have an adverse effect on a person’s emotional state and cognitive ability. This may include general feelings of anxiety, the feeling of being unable to cope, being too upset to talk, finding it difficult to concentrate and assimilate information to help make and communicate an informed decision. Firms could provide further training and guidance to staff which may include:

- Educating staff on the types of support the firm can offer in cases where vulnerability is identified at acquisition; this may include: giving customers the time to reflect on the information they have received, encouraging the customer to bring an adviser or other third party to a face to face meeting, or defining referral points for a specialist team to engage with the customer;
- In cases where the firm has concerns over product suitability, and depending on the type of business and the way this relationship is managed by the firm, the customer insists they want that product, having escalation points for those decisions to be considered in greater detail including, for example, considering further avenues of support. Where there remain concerns over the customer’s ability to understand, make or communicate an informed decision following the offer of further support, a decision not to lend may, in the circumstances, be considered an appropriate outcome.

- Strengthening quality assurance frameworks to ensure staff are assessed on the quality of their sales, on a non-advised basis, reflecting this requirement in staff objectives and targets;
- Increasing use of mystery shops and feeding the outputs of this into strengthening existing processes.