Standards for all: Delivering good outcomes regardless of size

Part 1: Governance

Introduction

Regardless of a firm's size or the resources it may have available, good governance is a vital component of achieving better customer outcomes. This is because a firm's governance structure underpins how it works on the first line, and governance also affects how senior management understand how the firm is treating its customers and delivering its services.

For some smaller firms or new entrants to the market such as start-ups or fintechs, it may seem that governance processes can hinder innovation or the speed of delivery. It may also appear that to deliver everything that is required for governance best practice requires a lot of spare capacity or dedicated teams. This is not the case, and a firm's governance should neither slow down its adaptability or pace of delivery, nor take teams away from their core roles. Rather, it should work in tandem with the organisation's goals and structure, in order to deliver safeguards and oversight to improve outcomes.

This piece on governance is the first part of our insight series, Standards for All. This series aims to make two key points. Firstly, that the Standards and registration to the LSB is designed for any applicable firm keen to implement best practice and deliver better customer outcomes. Secondly, the series looks at how this can be achieved regardless of size or the resources available.

If you have any questions about this or would like to know more about the LSB, please contact us using the details at the end of this piece.

Governance – considerations for firms

It is important for firms to not only do the right thing by their customers but to be able to demonstrate that they have done so. Senior management within the firm need to have confidence that they are delivering the Standards through 'systems, controls and governance arrangements' that give them effective oversight.[1]

There are a number of important factors to consider when it comes to those governance arrangements. Examples of these considerations are detailed below:

[1] LSB, Standards of Lending Practice (Governance and oversight – Firms will achieve this:)

Policies and processes

A firm's policies and processes should set out its approach in relation to the various stages of the product and customer journey. The policy should express the firm's aims and strategy, along with any applicable details such as risk appetites or process owners within the firm. The process supports the policy and explains how the strategy described in the policy should be delivered. For example, a vulnerable customer policy may define vulnerability and explain that the firm is committed to supporting those in vulnerable situations. The process would then explain how that support would be given, for example, whether a customer identified as being vulnerable would go to a specialist support team or if a marker should be attached to the account.

It is important for firms to consider the frequency of reviews and ownership of policies and processes. This is especially true for new firms or those which are introducing new products or services at pace, for example, fintechs or start-ups. Without regular reviews, it is possible that key documents like policies and processes become outdated or reflect non-current practice. If there is no ownership of the reviews and policies, there is a risk that they will slip through the gaps and be missed. This can be the case in small or new firms, where there are staff taking on a number of different roles and responsibilities. In such situations, it may not be clear who should be looking at various polices without it being discussed, agreed, and laid out within the policy itself.

Policies and procedures should be reviewed for accuracy and also clarity. If documents are unclear in what should be delivered and how, it is likely this confusion will be reflected on the first line. This could lead to staff taking different approaches and customers receiving inconsistent outcomes. Some processes may be, by their nature, technical and relatively dry. In these situations, it can be valuable to produce supporting guidance to make them more engaging for first line staff.

Risk management frameworks

Risk management frameworks should provide senior leadership with a view of the risks facing both the firm and customers, and frameworks should include the steps being taken to mitigate those risks. The Standards explain that these frameworks should be 'appropriate to the size of the firm'[2] and so they are not expected to be exhaustive lists of speculative events. Instead, the risks affecting good customer outcomes should be identified and consideration given to what counters them.

Due to the evolving nature of risk, it is impossible to simply list all the risks down at the start of the year and leave it at that. This is because risks will become apparent at various times, and events may also occur that were unforeseeable when planning the framework. For

[2] LSB, Standards of Lending Practice (Governance and oversight - GO.2)

example, many businesses would not have a plan in place for a national lockdown event prior to the onset of coronavirus. For this reason, emerging risks need to be continually monitored and any framework updated accordingly. Having risk owners for each department or section of the customer or product journey can help with this.

There is no value in firm's identifying risks but not taking any steps to mitigate them. Risk frameworks should include links to details about what is in place to either mitigate the risk or what would occur should the risk crystallise. Some risks (such as the coronavirus example mentioned above) may be out of the control of the firm and so steps cannot be taken to mitigate it. However, steps can be taken to plan what would be done in response to any such external risk happening, for example, how flexible working could be initiated.

Firms should gain insight from its behaviour on the first line to improve how it identifies and manages risk. For example, if there were service outages at a digital only provider but these were not reflected in the risk plan, it may show that the right risks are not being captured and considered. By looking at data and information relating to when things go wrong (for example, complaints, incident logs, or other breach management tools), risk owners can see if their current approach is collating the right risks.

Identifying failures

It is impossible to conduct a business of any kind without things occasionally going wrong. In relation to financial services, this may include times when either the product or service delivery does not perform as expected and there is a bad customer outcome as a result. When this occurs, it is important that the firm has a way of recording and monitoring any breaches having a negative impact on customers.

It is important to do this so that corrective actions can be put in place to prevent such breaches happening again. Firms should have in place a breach log or similar document that records when material issues occur. The level at which a breach is recorded should be decided by senior management and laid out within a related breach policy.

It is unnecessary to record relatively minor events where something has gone wrong. For example, if a simple admin issue on one account resulted in a complaint, this would be resolved with the customer but would not constitute a breach for internal recording and reporting. However, if there was a process issue whereby notes were not correctly attaching to customer accounts, this would need to be recorded.

Alongside details of the breach and the action taken to resolve it, breach logs should show whether actions are ongoing or closed, and there should be regular updates to the log by the owner of the breach. This means having a named person attached to each breach, with it being their responsibility to see the resulting action through to completion. Breach logs should also record what the incident is in breach of, for example, an internal policy, statutory regulation or law, or one of the Standards of Lending Practice.

For registered firms, any breach of the Standards must be reported to the LSB. This would be done by informing your firm's dedicated LSB Compliance Manager. They would then work with you to ensure that appropriate corrective actions are put in place and resolved within a reasonable timescale. If you had any questions around what constituted a breach of the Standards or the steps needed to put it right, your Compliance Manager would be able to assist you.

Management information

Management information (MI) plays a key role in informing senior management and other staff about how the firm is conducting its business. When the right information and data points are being collated and reported, it can act as a way of identifying areas for further probing and examination. For example, if a firm is regularly reporting how many customers are entering arrears on a monthly basis, a large increase or drop in this number should act as a prompt for further inquiry. Without this data being collated, it may be much later until any issues with the process are identified.

For firms who are unsure how to best use MI, it is important to start by considering two things, firstly, what do you wish to capture and secondly, what information is available. By considering these two points it is likely that you can build out MI in a way that can inform the wider business of how it is interacting with its customers.

To illustrate this, let us consider how firms currently capture MI in relation to vulnerable customers. It may be that there is no 'vulnerable customer flag' or similar marker and, as a result, there is not regular reporting on how many customers are being identified as vulnerable. There may though be other ways to get an idea of this figure, for example, by looking at how many customers opt within a month to change how the firm contacts them or how many third parties were appointed that month. By bringing a wide range of related data points like this, it may be possible to build a 'vulnerability dashboard.' This means that even without a clear indicator like a 'vulnerable customer flag', firms can create a good picture of that customer base using information that is already available to them.

As previously mentioned, an important part of MI is to monitor trends and act on anything that looks outside of what is normal. When creating dashboards or other MI management tools, it is important to outline what these parameters are. Using techniques such as RAG ratings can be useful to show at a glance when data is outside of its usual range. These parameters should be regularly reviewed to ensure their effectiveness, especially when dashboards are first introduced and 'what is normal' is not definitively known.

Change management

For new entries to the market, fintechs or other digital providers, change management will form a central part of ensuring that they deliver better outcomes. Whenever a product is launched or changed, or if there is a change to a platform or service, it is essential to good

governance that this change is managed and monitored. This reduces the risk of there being unintended consequences as a result of the change.

Change management does not need to involve a separate department or team dedicated to it. It is instead about how firms involve product design and other teams involved in the launching of new products or service change. Firms should have a structure to decision making prior to any change that considers the potential impact from various perspectives, be it technological (for example, how will the change affect the platform and what are the knock-on effects), any people risk (i.e. do staff need new training as a result of the change), and customer impact. The customer impact is of course a central part of change management as without properly considering all the potential customer outcomes, there is a likelihood that some segments of customers may be left behind.

For example, when making changes firms should consider not just the target audience but all of the types of customer who may access the service. This includes considering how any vulnerable customers could be impacted by the change. If your firm has vulnerability specialists or specific teams, it could be useful to involve them in the change process to get the view of the customer at the earliest stage. If such teams are not in place, then utilise the knowledge of your first line customer contact teams. These colleagues see and understand the various customer types who interact with the firm and may have valuable insight on how the change would work in practice.

Complaints

No firm likes to have complaints made against them; however, complaints can be used as an opportunity to learn and continually develop your products and services. How this is done will depend on the structure of your firm. For example, if there is a dedicated complaint handling team, then firms should consider how they are both handling complaints and then utilising the insight gained from them. If complaints are handled on the first line, perhaps with input from line management if they are escalated, firms should think about how they both guarantee quality and conduct root cause analysis (RCA). Conducting RCA is a requirement of the Standards due to the important insight and development opportunities it provides.[3]

Wherever complaints sit within the business (whether a dedicated team, within the first line or in the compliance team etc.), there should be efforts to collate and use the insight gained. Regular reporting of complaint numbers, types, and outcomes should go up through to senior management to provide them with a view of both what is being received and how they are being addressed. Using information such as uphold rates, average redress amounts, and Financial Ombudsman referrals can be a useful way of measuring how complaints are being resolved. There are of course limitations with this headline data and so customer journey reviews focusing on complaints can also be hugely valuable.

When looking into complaints, it may become apparent that a process failed or a training need was identified. In these situations, it is important that this information is fed back into

[3] LSB, Standards of Lending Practice (Governance and oversight - GO.8)

the business within appropriate timescales. If a process failure, this would involve speaking to the owners of the process or section of the product journey. Where a training need is identified, there should be a link between the complaints handlers and those requiring the training so that appropriate feedback can be given and any knowledge gaps addressed.

The next section of Standards for All will look at the role that assurance plays in ensuring better outcomes. If you have any questions about this piece or would like to know more about how the LSB can assist your firm, please contact us using the details below.

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