The LSB's Information for Practitioners

The Standards of Lending Practice for personal customers

Money management

November 2021

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

Registered firms must be able to demonstrate to the LSB that they are adhering to the Standards of Lending Practice; however the LSB does not monitor compliance with the content of this document and as such, it is not intended to be prescriptive nor binding on registered firms. The LSB acknowledges that each registered firm will have its own way of demonstrating that it is adhering to the Standards without the need to refer to, or take account of, the content of this document.

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

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

Customer outcome: customers will be helped with managing their finances through pro-active and reactive measures. This will include those designed to identify signs of financial stress and to help them avoid falling into financial difficulty.

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 provide support and, where necessary, an appropriate solution.

MM1. Firms should pro-actively encourage customers to get in contact if there has been a change in their circumstances which may impact on their ability to repay their borrowing

Firm should use a range of appropriate contact points, throughout the product lifecycle, to encourage customers to contact and inform the firm if there has been a change in circumstances that may mean they are no longer going to be able to repay their borrowing as planned, or where they may have to pay more in fees and interest as a result of reduced or missed payments.

This may for instance include:

- Change in financial circumstances;
- Loss or change in employment;
- Any physical or mental health concerns;
- Bereavement or family loss.

Firms may, for instance, want to include reminders for customers to get in contact on any relevant help sections of their website or apps. Firms could also consider more targeted measures, such as check-ins and proactive interaction to engage those identified as being at risk (See MM2).

Area for consideration: Firms may wish to consider how to allow for customers to disclose sensitive information through a variety of channels. While some customers may prefer to talk to a member of staff directly about the challenges they are facing, some may find it easier to initially share details about such challenges via digital communication or reporting tools. Any recording of information should be consented to in line with GDPR requirements.

MM2. Firms should use information held about customers to identify those who are exhibiting signs of financial stress

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

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

Where a customer has a **personal loan** and the firm provides the customer with other products, such as a current account, firms should look to monitor the customer's activity across the relevant products and consider whether they are exhibiting signs of financial stress and would therefore benefit contact from the firm.

When engaging with a customer, examples of behaviours which may warrant further exploration of the customer's circumstances as they may be indicative of financial stress include:

- Comprehension difficulties
- Information processing issues
- Difficulty concentrating and lack of attention to detail
- Memory issues
- Highly-charged emotional responses
- Self-deception
- Low confidence
- Low levels of trust.

Limit increases

Firms should ensure that credit limit increases are only undertaken once they are satisfied that the customer is able to afford the repayments. Firms should not offer a customer, who is already in arrears, an increase in their credit card or overdraft limit, unless this is part of the agreed repayment plan. Where a customer requests an increase, they should not be offered more than they have requested. If a customer is offered an arranged overdraft, or an increase in their existing arranged overdraft limit, firms should tell the customer if the overdraft is repayable on demand. This means that the firm is able to request repayment of all or any part of the facility in question at any time during the life of the agreement, without having to point to any particular default on the part of the customer.

MM3. Firms should ensure that customers exhibiting signs of financial stress are offered appropriate information and support

Where a customer is identified as exhibiting signs of financial stress, or informs the firm they may be in financial stress, firms should ensure customers are offered appropriate information and support. When deciding what information and support is appropriate firms may want to consider:

- The potential scale of financial stress and whether the customer will likely fall into arrears without support;
- Whether signposting to financial management tools and information would be helpful or sufficient;

- Whether signposting to one or more third party charities would be appropriate; and
- Whether the customer may benefit from a conversation with an appropriately trained member of staff to help them further understand the support available to them

If a firm has been made aware of a specific issue that may have made a customer vulnerable or contributed to the customer's financial distress, for example the customer has disclosed they have a gambling addiction, the support or information provided to a customer should reflect that disclosure.

Area for consideration: Firms should consider whether customers experiencing financial stress could, if appropriate, be referred to free debt services, rather than signposted, including through warm transfers.

Area for consideration: Support available to customers varies across the UK. Firms may wish to consider how they might reflect the regional differences in the services available, for example referring customers to the appropriate organisations/sources of support for the nation they live in.

MM4. Firms offering a credit card product should, in line with industry best practice, help customers making regular minimum or low value payments to manage their finances through targeted interventions to inform customers of the implications of such repayment choices and provide access to support

Firms should apply the 'Best practice guidance: Engaging with customers making minimum or low value credit or store card repayments' available here.

The LSB, with the support of firms, UK Finance, and the Finance and Leasing Association (FLA), developed an updated approach to the 2010 industry agreement relating to credit and store card minimum payments. The 2010 agreement was developed by the UK Cards Association and FLA members, debt advice agencies, and the LSB as part of a package of commitments agreed with the then Department for Business, Innovation & Skills. Through this agreement, firms committed to writing to customers who have made six consecutive minimum payments in order to inform them that this is the most expensive way of paying for their borrowing.

The new guidance, which supersedes the 2010 agreement, retains the core focus that the engagement will help inform customers of steps they can take to reduce the long term cost of borrowing. It allows firms to move away from the more rigid six-month structure set out under the 2010 agreement and acknowledges that this engagement should be for customers who have not yet been categorised as being in persistent debt, i.e. at the 'PD18' stage or further.

Area for consideration: Firms should consider monitoring the number of customers in persistent debt and how customers respond to and engage with communications from firms on credit card repayments, to identify whether measures designed to reduce the number of customers in persistent debt are working effectively.

MM5. Firms offering credit card products should, in line with industry Credit Card Market Study information remedies, have in place processes to ensure:

a. Customers are prepared to make timely and informed decisions about the options open to them when a promotional rate comes to an end

b. Borrowing prompts help customers to take account of their spending and make informed decisions about how they use their credit card and avoid incurring over limit charges

c. Customers can set a more convenient payment date for future statements to enable them to exercise greater control over their credit card account

d. Customers are able to exercise greater control over how their credit limit is managed through the provision of clear information and easy ways to express their preferences regarding unsolicited increases in their limit

Firms can find the full detail of the Credit Card Market Study (CCMS) remedies here.

Each of the four information remedies consist of a customer outcome statement which sets out what the remedy should achieve for the customers. They also include an outline of the actions that firms will take to achieve the outcomes for their customers.

To support firms in implementing the remedies in the most appropriate manner, the LSB has included guidance as part of our Information for Practitioners. The guidance is not binding on firms but sets out how firms can demonstrate they are implementing the remedies in a manner that is appropriate and supports fair customer outcomes.

Implementation and monitoring

When implementing these four remedies, firms should have considered what good customer outcomes look like and should have in place processes to monitor and review the effectiveness of these remedies in helping to achieve good customer outcomes.

Firms' review processes should also consider whether the communications and language used could be improved or adapted to help ensure that customers can clearly understand the purpose of the communication, the options available to them, and the consequences of any decisions they may take as a result of receiving the communication.

When conducting relevant second and third line reviews, firms should look to consider the impact of the remedies on customer behaviour throughout the customer journey. In particular, firms may wish to use these reviews to:

- explicitly assess how the remedies are operating to change customer behaviour and to prevent financial detriment; and
- review the approach to complaints, the strength of communications and the focus of first line controls, including the ability to identify CCMS related complaints.

What might good practice look like? Firms setting high level objectives regarding the customer behaviour they would be anticipating from the introduction of the remedies.

What might good practice look like? Firms using information gained directly from the remedies to inform their understanding of customer behaviours, allowing adjustments to be made to communications or support measures offered.

The **promotional rate expiry** remedy sets out the following customer outcome:

Credit card customers on a promotional rate are better prepared to make timely and informed decisions about the options open to them when this rate comes to an end.

In applying this remedy, firms are expected to provide customers with a standalone written reminder of the expiry date of any promotional offer between two weeks and a month in advance. You can access the full details of the remedy here.

The purpose of the remedy is to ensure that customers are reminded of the potential increased cost once a promotional rate expires and to allow them time to make an informed decision about the options available to them ahead of the rate expiring.

There is an expectation that, where the appropriate contact details are held, firms will send information digitally. However, firms may wish to consider whether the reminder could be delivered to customers via a range of channels, including written, digital, and via SMS, and whether customer outcomes would be improved by communicating with customers across more than one channel. When deciding the form of communication, firms should also consider what is most appropriate for the customer, based on any information held by the firm.

There may be elements of a firm's customer base who do not take any actions in response to the reminder. Such customers will therefore be exposed to increased costs due to carrying a high line of credit into a standard product. Firms should consider whether they can identify customers who have not engaged and use alternative methods of engagement or communication to encourage customer action.

While some customers will be comfortable not taking any actions when a promotional rate expires, firms should consider the depth of information and guidance provided to customers and whether this is sufficient to enable them to make an informed decision.

Area for consideration: Firms could employ bespoke illustrations setting out the financial impact of a promotion ending, as this will help the customer to make an informed decision based on the information relevant to them.

What might good practice look like? Including details of the financial impact of moving to the non-promotional rate to customers in their communications, alongside indicating that the cost of borrowing will increase. This could result in a higher impact interaction and positive customer response to reduce their balance before the promotional period ends.

The **borrowing prompt** remedy sets out the following customer outcome:

Borrowing prompts help customers to take account of their spending, to make timely and informed decisions about how they use their credit card and avoid incurring an over limit charge.

In applying this remedy, firms are expected to contact a customer where they cross a threshold of between 80% and 95% of their available credit card limit and to remind them if charges will be applied if they exceed the limit. You can access the full details of the remedy here.

The purpose of the remedy is to ensure that customers are contacted in a timely fashion so that they are aware of the risks of exceeding their credit limit and are able to take actions to manage their finances.

There is an expectation on firms that they should employ clear and succinct messaging to customers, with easy to access to links to make payments or take other appropriate actions, such as to access support. These messages should be sent via a channel which is appropriate for the customer.

Borrowing prompts may work alongside a range of alerts including those for a balance update, a payment received, a payment due date, and spend tracking. Firms should consider the effectiveness of different forms of prompts, and their delivery, via a range of different channels, to ensure customers are informed in a timely and effective fashion.

Area for consideration: Firms could monitor customer behaviour immediately following the issue of borrowing prompts. This can put firms in a stronger position to understand the effectiveness of the prompts. Where firms are not doing this, the effectiveness of the prompts may not be completely understood. Knowing how customers are, or are not, responding to prompts may help firms in reviewing and improving implementation of the remedy.

What might poor practice look like? Firms do not take steps to review and strengthen communications or to ensure the prompts being issued in line with the remedy are understood by customers.

The **payment date charges** remedy sets out the following customer outcome:

Allowing customers to set a more convenient payment date for future statements enables them to exercise greater control over their credit card account.

In applying this remedy, firms should ensure that their systems and processes allow for a credit card customer to set a 'later than' payment date of their choosing. You can access the full details of the remedy here.

The purpose of the remedy is to give customers greater flexibility to move payment dates to align with their needs.

Payment dates are set by customers at the point of application, with subsequent customer requests to move their payment date allowed. Where limits are set on the number of payment date changes allowed, firms should adopt exception processes to allow further adjustments in certain circumstances.

Key to this remedy is the clarity of customer communications. Firms should use clear communications at appropriate points in the customer journey to raise awareness of the option for customers to change their payment date, or for them to retain the payment date originally advised at point of acquisition.

Area for consideration: Firms could be proactive in ensuring that customers being charged for late payments understand that they have the option to change their payment date to a date that may be more suitable for them.

Area for consideration: Firms could consider the reasons why a customer may wish to change their payment date when designing communications or planning engagement prompts on the option for payment date changes. For example, this could be due to a change in employment, or a desire to align with rent or mortgage payments.

The **unsolicited credit limit increases** (UCLIs) remedy sets out the following customer outcome:

Customers are able to exercise greater control over how their credit limit is managed through the provision of clear information and easier ways to express their preferences regarding unsolicited increases in their limit.

In applying this remedy to new and existing customers, firms should provide an 'active choice' around how customers would like to be assisted to manage any future increase(s) in their credit limit, with an option to either 'Opt-in' or 'Opt-out' following contact by the firm. You can access the full details of the remedy here.

The purpose of the remedy is to give customers greater control over any increases in their credit limit, including whether an 'Opt-in' or 'Opt-out' system works best when contacted about any such increase.

New and existing customers of the firm should be provided with an active choice which is positioned and communicated in line with the remedy's requirements. To ensure the choice is clear to the customer, firms should avoid relying on the 'Opt-in'/'Opt-out' terminology used in the remedy. It should also be clear to a customer that, where it is possible, if they do not make a choice they will be default to the 'Opt-in' option, in accordance with the remedy.

The use of 'Opt-in' and 'Opt-out' terminology can be confusing to customers, and it is important that the options made available under the remedy are clearly presented to customers.

For new applicants, a customer can ‘Opt-out’, this option means UCLIs can be applied unless a customer takes an action to reject it, or ‘Opt-in’, this option means customers can be contacted about credit limit increased but UCLIs cannot be applied without the customer activating them.

This means that when an UCLI is offered:

- Customer who chose the ‘Opt-out’ will be given the option to reject any UCLI
- Customer who chose the ‘Opt-in’ will be given the option to activate any UCLI
- All customers will also be given the option to opt-out of all future UCLIs or to change their existing ‘Opt-out’/’Opt-in’ preference.

Given the complex language of the remedies and the potential for confusion regarding the terms ‘Opt-out’ and ‘Opt-in’ firms should avoid using jargon. Alternative wording can be introduced to ensure customers are clear about the options and the implications of the choices they are making. Given the choice presented to customers requires clear explanation, firms should monitor the action customers take and review the language and communications used to ensure new and existing customers are provided with clear messaging which reflects the potential risks of UCLIs.

Firms should also consider monitoring outcomes for customers who may select different options, including customers who change their preference during the lifecycle of their account. Firms may also wish to consider how customers can benefit from education, at various points, as to the potential risks of credit limit increases and the appropriateness of their chosen option to ensure customers understand the implications of their decision. Steps to improve communications and to make the options for customers clear should be undertaken with a view to reducing the potential for persistent debt.

MM6. Firms should ensure that customer facing employees and third parties are sufficiently trained and skilled to help them to identify and deal with those customers who may be showing signs of financial stress

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

Firms should look to ensure customer facing staff are trained with the soft skills needed to support customers in making disclosures, particularly where such disclosures may trigger the firms to offer further support for the customer. Some customers may display varying degrees of cooperation when discussing their financial circumstances.

While some will be unwilling to engage in discussion, others may be more forthcoming with information but may, for example, be wary of disclosing the full extent of their situation as they lack an understanding of how the content of the conversation will be used by the firm. Therefore, the member of staff's ability to empathise and explore the customer's concerns about disclosing information is an important part of the process.

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

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

What might poor practice look like? The review process takes account of any improvements which could be made to call handling processes but omits to consider whether the customer is provided with the right support and whether the customer could have achieved a better outcome given their situation.

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

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

MM7. Where relevant, firms should signpost customers to available tools, whether provided by the firm or third parties, to assist with money management skills where they feel this would benefit the customer

The Standards on money management are focused on helping customers to manage their money and to help, where possible, avoid financial difficulty. As such, it may be appropriate and relevant to offer or to signpost customers to tools and support, including that provided by third parties, which may help them manage their money throughout the customer journey.

Offering tools to customers to help them manage their finances is a good way in which firms can demonstrate they are pro-actively managing their finances and can be a means of offering support to customers throughout the product lifecycle, not just once they are experiencing financial stress or in financial difficulty.

Example of tools that may be helpful include:

- Budgeting tools
- Repayment calculators
- Optional blocks or limits on spending (for example gambling blocks)
- Money coaching services

Firms may also want to consider how tools can be used encourage customers to get in touch with the firm where they may need support if they are vulnerable, at risk of experiencing or are in financial difficulty.

Area for consideration: Firms use customer data, including that available through Open Banking, to provide extra tools as part of a customer's account which enable them to more effectively monitor their use of the product.

What might good practice look like? Firms give consumers access to controls which enable them to better manage their spending, whether or not they are vulnerable. For instance, allowing customers to block payments to gambling sites and introducing friction where customers want to turn such a block off.

MM8. 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 may require help to manage their finances, especially those customers who are showing signs of financial stress

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

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

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

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

Area for consideration: Detailed case reviews can provide an in-depth understanding of the way in which an account has been handled. The topic could dictate the start and end point for the review, in terms of the actual activity or process to be scrutinised.