

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

November 2022

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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 information.

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

1. Firms should ensure that all financial promotions, across all channels, are clear, fair and not misleading. This 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.

Firms should ensure that any 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 small 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 products are designed/developed in a manner that ensures fair customer outcomes and that all risks associated with the product are fully understood and managed appropriately

This Standard seeks to ensure that products designed and offered by firms are fair and transparent, meet the needs of its target market, and deliver fair customer outcomes. When developing a product firms should have mechanisms in place to identify the target market, taking into account the customer's characteristics, needs and objectives. This may be informed by customer data or research, and where available, information on outcomes from similar products. This information should be factored into product design, including but not limited to, the complexity of the product features, marketing material, distribution channels, the medium by which the product is sold¹ and where

¹ Advised or non-advised

applicable, the use of intermediaries to ensure the product reaches its target market and delivers fair outcomes. In line with section 9 of the Standards of Lending Practice, Firms should, where practicable, consider the needs of a customer in a vulnerable situation, or those customers that may be at a greater risk of detriment. Firms should ensure that all risk and issues associated with providing the product to customers are identified, evaluated and managed appropriately, at an early stage within the process and that appropriate controls are in place to minimise the risk of unfair outcomes. Firms may achieve this through a documented risk assessment, which should be kept under regular review, with mechanisms in place to ensure the controls remain effective.

Suitable governance arrangements should be in place to ensure oversight and challenge through the product design and review process. Firms may achieve this through dedicated forums, with sufficient seniority and accountability, which demonstrates that the customer is at the forefront of their decision making.

Where firms are offering products under a government backed lending scheme, firms may have a limited role in the design of it. However, where firms have flexibility over how they offer products under a scheme, firms should consider how products will be offered within the parameters of the scheme.

3. Firms should undertake regular product reviews at regular intervals to ensure that their products are, and remain, fit for purpose based on product performance

Regular product reviews are vital in ensuring a product remains fit for purpose, meets the customer's needs and delivers fair customer outcomes. The LSB expects that product performance is reviewed regularly. The frequency and depth of the product review should provide the firm with a sufficient degree of comfort that the product is distributed and accessed appropriately, performing as expected and continues to deliver the right outcome. The periodicity of reviews should be informed by the risks associated with the product, for example, a product deemed a higher risk to customer outcomes may be subject to more regular review. Where available, the review should be supported by an assessment of available data and management information. Data may derive from a number of sources, and whilst this list is non exhaustive, it may include: sales data and application decline rates, data from customer dashboards and other product performance data which the firm may consider relevant. Firms may also seek more qualitative data sources, including the outputs from customer satisfaction surveys and complaints, or discussions with sales and distribution teams who may be able to offer insight into the product which may not be evident through a review of quantitative data alone.

This could include reviewing accounts which operate within the terms of the product compared with those that have breached, and any identifiable trends such as accounts falling into arrears at an early stage. Wider economic factors may also be taken into consideration, for example changes in regulation within specific markets, potential Bank of England base rate changes or inflation rates. These should be assessed for the impact they may have on the ability of customers to maintain repayments towards the product.

Where firms are offering products under a government backed lending scheme, firms may have a limited role in the design or review of it. Firms may wish to undertake reviews of the products and consider whether changes can be made, within the parameters of the scheme, to ensure they remain fit for purpose.

Where the product is not performing as expected, firms should seek to understand root cause, with a view to implementing and monitoring appropriate actions to improve product performance.

4. Firms should ensure that product reviews take into account internal and external risks which ensure that any changes do not lead to unfair outcomes for customers

Active product management is key to ensuring that a product continues to deliver fair outcomes for customers through its lifecycle.

Internal and external risk factors such as wider environmental influences can have the potential to impact on a product for example, the product may no longer operate as expected, or there is a greater propensity to impact customer outcomes. These risks may emerge from the product itself during a review, or from other similar products where the firm has found that there is an increased likelihood that an issue may be more systemic. Irrespective of source, firms should ensure that they have mechanisms in place to ensure that these risks are identified, assessed and managed appropriately so that the product does not lead to unfair outcomes or unsustainable borrowing. Any associated actions are documented, escalated where appropriate and followed through, with clear oversight of risks and actions.

Where firms are offering products under a government backed lending scheme, firms may have a limited role in the design or review of it. Firms may wish to undertake reviews of the products and consider whether changes can be made, within the parameters of the scheme, to improve customer outcomes.

5. Customer facing employees should be 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 employee² 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 its risks and benefits so this can

² Employed for the purpose of the firm's business.

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 provider³, or where it has reason to believe that employees may require further support. This may include those employees that are new to role or returning to work after a 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 changes to the product or service offering, including any external developments 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 Where there is customer contact.

6. Where a Firm works with intermediary partners, the Firm should ensure that the intermediary is competent and knowledgeable about the range of products, across all channels, on offer to customers

The Standard seeks to ensure that customers receive the same level of transparency and clarity of information from an intermediary as they would from the firm directly. Firms should seek to ensure that there are synergies between the information the firm provides to an intermediary and the information the customer receives. Firms should satisfy themselves that intermediaries are provided with information and training to an appropriate level to enable them to have a comprehensive understanding of the products and services on offer, including key features, and an appreciation of the risks and benefits so this can be present to the customer in a fair and balanced way to enable an informed product decision.

Firms may wish to consider broadening the requirements of Standard 5, (Customer facing employees should be trained and knowledgeable about the range of products, across all channels, on offer to customers) to their intermediaries 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. Firms should also have appropriate controls in place to manage the risk of product bias by ensuring intermediaries share the focus on providing information in a way that is clear, fair and comprehensible, and meets the needs of the customer.

7. Where relevant, customers should be made aware of the relationship between the Firm and any intermediary and whether the arrangement includes any payments or commissions

Transparency with regards to the relationship between a firm and intermediary, including payments or commissions, is important in ensuring that the customer is given all the relevant information they need to make an informed choice when taking out a product. The customer should have full knowledge of who they will be dealing with when it comes to their product, who is providing their product and whether their repayments contribute to an intermediary's commission – this is particularly important as this means not all of the customer's monthly payment is used to repay their asset, and customers should be aware of this.

Firms are encouraged to be as clear as possible when making customers aware of relevant relationships to ensure business customers of varying degrees of sophistication can understand how the relationships work and what effect this has on them as the customer.

8. Customers will be provided with clear and understandable information which enables them to decide whether the product is appropriate and meets the needs of the business

This Standard is seeking 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 business. 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. The LSB acknowledges that not all firms will operate a direct model for the sale of asset finance products, with some managing sales through the use of intermediaries. Where firms operate an intermediary model, mechanisms should be in place to ensure that there are synergies in the information provided to customers, as if the firm is engaging with the customer directly firms should ensure that where possible, the information provided is clear and consistent across all channels, to prevent the risk of information discrepancies, 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 or information sheets may support the firm, and their intermediaries 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.

9. The customer's consent should be sought prior to sharing any business or personal details with a third party or an alternative source of finance [Data protection legislation]

Information on compliance with data protection legislation can be found on the Information Commissioner's Office's website: <https://ico.org.uk/>

10. Customers should be provided with clear information as to how the product on offer work, its key features and the associated 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 early termination or early repayment costs will apply to their product, including information on what might happen at the end of a lease, through

material 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 early termination and early repayment fees are. 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

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.

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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 only be provided with an appropriate and affordable product 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. The customer should be 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 an asset finance product. 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 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 trading history, asset class and/or 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, for example for businesses who are towards the lower end of the £6.5m 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. The customer should be informed 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.

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. The customer should be made aware that when they apply for a product, checks may be made at Credit Reference Agencies and that information may also be provided to Credit Reference Agencies during the life of the relationship

Some business customers 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 an asset finance product, an assessment should be made, from the information available at the time, as to whether the customer will be able to maintain their payments or rentals in a sustainable manner without encountering financial difficulty

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. Firms may wish to consider the following factors:

- why the business requires the asset
- the industry within which the business operates
- the length of the agreement
- 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.

What might good practice look like? Firms investigating current cashflows via bank statements and up to date management information, to ensure that the customer has sufficient headroom to comfortably absorb the additional regular repayment profile.

What might poor practice look like? Firms provide asset finance based only on historic accounting information and/or a previous record of maintaining regular payments.

What might good practice look like? Undertaking an appropriate assessment of the circumstances of the business to understand whether the customer's financial situation allows them to sustain their repayments rather than solely relying on whether or not security will be provided.

What might poor practice look like? An over-reliance on the intrinsic value of the equipment or the fallback position of any guarantor, or on any additional security provided.

What might poor practice look like? Firms failing to undertake enhanced due diligence, not taking sufficient steps to understand the business model and the financial circumstances of a customer. For example, were this the case, a firm might not identify where a customer's business model is dependent on a limited number of major clients.

Where firms are offering asset finance 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. Where a quotation facility is offered, the customer should be made aware that any quotation is based on information known about the customer at the point in time, how long it is valid for and that it may be subject to change

Firms may wish to consider whether they can offer business customers the ability to obtain indicative price quotations for the asset finance 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).

What might good practice look like? CRA searches are only made after providing the customer with a clear explanation of the impact on their credit file and an opportunity to opt out of proceeding further.

What might poor practice look like? Firms undertake CRA searches without making the customer fully aware that these will show on their credit file regardless of whether or not any credit is facility is granted or utilised.

6. At the point of sale, the customer should be provided with clear information regarding the key features of the product, what options are available to them at the end of their primary agreement and what action, if any, they will need to take

This Standard follows on from paragraph 10 of Product Information and is intended to ensure that there is a consistent approach to the provision of information around the key features 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.

The provision of clear information on the way the product works will enable the customer to assess whether the business will be able to sustain the agreement and ensure the customer fully understands the features of the product and how the agreement will run. Firms should provide clear information on the options available to the customer at the end of their primary agreement for example, extending the agreement into a secondary term, purchasing the asset at the end of the agreement for a nominal sum, or selling the asset to a third party, enabling a customer to plan ahead.

What might good practice look like? Ensuring that all charges and fees are specifically mentioned in any quotation to ensure that the customer is fully aware of the total cost of the product.

What might good practice look like? Validating the key features of a product with each customer with reference to the original quotation.

What might poor practice look like? A firm fails to highlight, in any indication or quote, additional charges which may be covered in the terms and conditions, such as; Annual Fees; Documentation or Administration Fees.

What might good practice look like? Steps are taken to ensure the customer understands the implications of key terms used in quotations. For instance, explaining to the customer whether or not they will eventually own the equipment concerned, or will be committed to paying further sums should they wish to retain its use, including how much and for how long.

What might poor practice look like? Customers are not provided with an explanation of the meaning and implications of terms used in indications or quotations. For example, a three year 'Minimum Term Rental' which implies it ends in 36 months, but in fact it may just roll on until cancelled by the customer in accordance with the notice period stated. Other examples are the terms 'Lease' or 'Rental' themselves, which many customers may not realise do not give them title to the equipment they are funding.

What might good practice look like? Firms obtaining copies of customer quotations originally provided by agents, dealers, or brokers to ensure that the product eventually provided does match perceived customer expectations.

What might poor practice look like? A firm devolves responsibility for key feature clarity to agents, dealers, or brokers without subsequent customer validation.

7. The customer should be provided with clear information to enable them to understand the total cost of the product. This information should be made available to the customer upon request, throughout the lifetime of the relationship

The requirements of this Standard extend to any information provided to the customer by a third party such as an intermediary or broker.

The LSB expects firms to ensure that the customer is fully informed of the cost of the agreement and are able to determine whether the product is suitable for their business. The provision of clear information as to the total cost of the product enables the customer to assess whether the business will be able to maintain their contractual repayments through the life of the agreement.

The customer should be given an opportunity to seek further clarification and, seek professional advice. It also prompts the customer to consider what immediate impact these costs may have on the business.

What might good practice look like? Firms clearly provide customers with information regarding interest rates by providing explanations of how they are calculated, e.g. Flat Rate/Nominal Rate etc., or the total cost of the product where relevant, by including all fees and charges and any potential for the rental payments to automatically roll on. In addition, firms inform customer of how they can access and review this information during the lifetime of the agreement.

What might poor practice look like? Customers are provided with facilities at rates which bear little relation to initial advertising or any previous indications, without a clear explanation as to why. For

instance, setting out why they did not meet the credit assumptions built into the adverts and clarifying in advance the actual interest rate now to be applied.

8. Where the agreement allows for early termination, the customer should be provided with clear information regarding the costs associated with this

The requirements of this Standard extend to any information provided to the customer by a third party such as an intermediary or broker.

This Standard seeks to ensure that where the customer's agreement permits early termination, and the customer opts for this, they are clear on the total cost of the likely exit fees for terminating the agreement early and what this might mean for the customer. Firms should ensure that this information enables the customer make an informed decision about the suitability of asset finance product, taking into account the potential costs associated with it.

What might good practice look like? Customers are aware if no early settlement facility exists and firms have established with the customer the best finance period to suit their requirements. If an agreement allows for early settlement or termination, customers are able to understand how it works and what the extra cost would be.

What might poor practice look like? Firms are silent on the subject of early settlement, or what the discount might be, other than in the terms and conditions, especially when a customer indicates at the outset that they might wish to settle early.

9. The customer should know what will happen to the asset at the end of their agreement and what action, if any, they need to take

The requirements of this Standard extend to any information provided to the customer by a third party such as an intermediary or broker.

The LSB expects firms to have controls in place to ensure customers are provided with sufficient information on what will happen to the asset at the end of their agreement and what might this might mean for the customer in the context of their business. Information should be communicated at an early stage, prior to the customer entering into the agreement to ensure the customer has a comprehensive understanding of their contractual obligations including any actions they are obligated to take, and the implications this may have on the business.

What might good practice look like? Firms take appropriate steps to make sure the customer fully understands the intended outcomes and costs of any financial product they enter in to. This is beyond solely relying on the customer reading the small print in the terms and conditions.

What might poor practice look like? It is not readily clear to a customer at the outset what the situation will be at the end of the agreement concerned. For instance, a customer cannot easily identify if, at the end of the agreement, they will own the equipment and if any additional charges would be required for such a purchase. If a customer will not own the asset, it is not clear what the cost would be if they return it, or what further rentals may fall due should they wish to retain it.

10. The customer should be informed if any additional security is required to support the borrowing and the reason why. The level of security required should be appropriate to the amount borrowed

The requirements of this Standard extend to any information provided to the customer by a third party such as an intermediary or broker.

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.

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).

What might good practice look like? Where additional security is required in order to provide the financial product concerned, firms have and maintain evidence of discussions with the customer and/or security provider regarding worst case outcomes in exercising such additional security and under what circumstances they might arise.

What might poor practice look like? Firms do not discuss clearly with a customer, or security provider, the possible implications of additional documentation requirements, such as Personal Guarantees; Charges over Property; and Cross Company Guarantees.

What might good practice look like? A firm only takes extra security in some proportion to the perceived risk involved.

What might poor practice look like? A customer is led to believe taking extra securities is a routine market requirement when in fact customers might reasonably expect to obtain facilities elsewhere without having to provide them.

What might poor practice look like? Seeking security well beyond reasonable parameters in relation to the finance being offered and the related risk.

11. Where additional security is taken, beyond the asset itself, this should not be retained beyond the life of the agreement without the customer's consent

This Standard follows on from the requirements of Standard 10, where security is taken, the customer is informed that this will not be retained beyond the life of the finance agreement 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, intermediary or authorised third party.

12. The conditions of the facility should be confirmed in writing and the customer should be allowed time to seek independent advice, if they wish to do so

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;
- where relevant, when the agreement 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;
- what happens at the end of the agreement; including where relevant the prospect of a secondary term, or return of asset;
- 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.

13. The customer should be kept informed of the estimated timescales which may apply to the issuing of the agreement or for obtaining any additional 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.

14. Before a customer accepts the agreement, the customer should be told what form of monitoring information, if any, they will be required to provide 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 size and form of finance 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.

15. If an individual or a business agrees to provide an additional security, they should be made 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.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

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 or intermediary. As a minimum, the Firm should provide the primary reason for the decline in writing**
-

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 offer an asset finance product. 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. Where possible, the firm should communicate their decision, and any associated rationale in a durable medium, allowing the customer to make an informed decision around next steps.

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. If the customer has applied through an intermediary, where possible, this information should be communicated to the customer's representative.

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. Where the Firm is able to identify that the application was declined due to information obtained from a Credit Reference Agency search, the customer should be directed to obtain a copy of the information held about them from the relevant Credit Reference Agencies, prior to making any further applications**
-

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. If a business customer's application is declined, they should be advised of the main reasons why their application has been unsuccessful, and where this relates to a

information obtained from a CRA, the customer should be told which CRA(s) the firm uses and how to get a copy of the information the relevant CRA(s) hold about them. The customer should be provided with 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. Where appropriate, the customer may be signposted to alternative sources 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 asset finance provider 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 platform

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 – Asset Finance

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. Customers will be provided with written notice of any change in interest rates (where relevant), fees or charges which affect the cost of their product. This requirement does not apply where the increase relates 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, where relevant. Advanced notification can enable customers to plan ahead and consider the impact a change on their agreement 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 the 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.

- 2. Firms will maintain the security of customers' 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.

3. Where individual provides a guarantee/indemnity or other security, they should be 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.

What might good practice look like? Firms take steps to ensure that the customer or providers of security are aware of how, at any time, they can refresh their understanding of their own liabilities or potential exposures.

What might poor practice look like? Firms do not make clear where such enquiries should be directed and staff are either unclear how to help customers or are unresponsive to such enquiries when received.

4. Firms should comply with a 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.

5. Any changes to the terms of the customer's agreement should be 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.

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.

6. Where a customer is relationship managed and a change is made to this process which will impact on the customer, they will be provided 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 to 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 months' 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.

7. 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.

What might good practice look like? Easy access is provided for the customer/security providers to obtain, as appropriate, information such as balances outstanding; early settlement figures; copies of invoices/statements etc. within reasonable time frames.

What might poor practice look like? Firms have insufficient resources or unsuitable systems which limit their ability to respond to the customer’s request in a reasonable timeframe, and staff are not sufficiently trained to deal with such routine customer enquiries promptly.

8. In line with the industry protocol, requests for a Deed of Priority or Waiver should be dealt with quickly and efficiently

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.

9. Ahead of the expiry of their primary agreement, the customer should be aware of what will happen to the asset and what action, if any, they need to take

Firms should ensure that the customer is notified of the steps it may take at the end of the primary agreement. This information should be communicated in a clear and timely manner, to allow the customer to make an informed business decision. The timing of this notification, should allow the customer a reasonable opportunity to weigh up their options and seek alternative arrangements, should they wish to do so.

Where the customer has the option to extend their agreement into a secondary period for a rental amount or the agreement allow for a purchase or sale of an asset firms should ensure that the customer has time to make and communicate this decision based on the needs of the business.

What might good practice look like? The customer is given sufficient notice prior to the end of any agreement, as to what will occur or what options will then be available. The options presented reflect what was agreed with the customer at the outset of the agreement.

What might poor practice look like? A firm only contacts the customer with any options available right at the end of a Lease or Rental agreement, leaving very little time for the customer to consider their options. This results in the customer feeling pressurised to make a decision or incurring additional costs while they consider the options. This may particularly happen where customers may wish to retain use of the equipment but may have no contractual right to do so.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

Credit risk management

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 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 stress

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 and pro-actively engaging with the customer to agree an appropriate solution.⁴

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. The customer should be told what information, if any, 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.⁵ Whilst the LSB acknowledges that the transactional nature of asset finance products may limit the ability to pro-actively identify customers at risk of financial difficulty, Firms should ensure that there are mechanisms in place to provide timely support to customers, for example building early warning triggers which prompt the firm to contact the customer, such as a missed payment or by encouraging customers to approach the firm for early assistance.

Where monitoring information is requested, 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 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.

⁴ The customer has not yet defaulted but information available to the Firm suggests that the business may be showing signs of being in financial difficulty.

⁵ Where the business is not relationship managed (expand definition)

2. As appropriate, a sufficient level of monitoring of a customer's borrowing should be undertaken to help determine if the customer is exhibiting signs of financial stress. Where relevant, appropriate support should be offered

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 at the product sale stage, supported by internal account performance data including business income and expenditure, the use of early warning triggers, 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.

3. Firms should have appropriate triggers and processes in place to help identify customers who are showing signs of financial stress and should engage with these customers in a supportive and open manner

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, others may opt to service their entire business customer base through a bespoke, relationship managed proposition and there may be some customers that are managed through a third party such as a broker or an intermediary. 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 stream-line 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 or their intermediaries may look out for which may suggest that a customer is experiencing financial stress:

- missed/delayed payments;
- regularly overdrawn without agreement;
- 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. Firms should ensure that relevant customer facing employees 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 where appropriate, 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.

What might good practice look like? Specific training is provided so that staff can recognise early vulnerability indicators and what steps they should take if such factors become evident, this training includes case studies that are relevant to the products staff may deal with. Supporting material is accessible and well understood by collections staff who can be seen to apply them in practice.

What might poor practice look like? Collections staff do not show empathy to the customer and are not trained on how to respond to, and deal with, customers who engage but who tell them of problems or difficulties in meeting their liabilities.

5. Where a customer is identified by an intermediary as showing signs of financial stress, a referral process should be in place which enables the Firm to deal with the customer in line with its policies and processes

This Standard seeks to ensure that where a customer relationship is managed through an appointed intermediary, there are clear processes in place for the intermediary to notify and refer customers showing signs of financial difficulty to the firm. This is to ensure that the firm is able to support the customer at an early stage, in line with their policies and procedures, through the application of tailored solutions.

As this referral means the firm and customer may not have had a direct relationship, firms should make use of all information and data available to them to create a view of the customer's finances.

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 – Asset Finance

Financial difficulty

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 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.

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

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, but are not limited to:

- loss of a significant source of income such as a key contract
- a significant increase in financial commitments
- frequent requests to change terms of their 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 their agreement
- the customer does not supply any agreed monitoring information on time; and

- another creditor brings a winding-up petition or other legal action against the business.

What might good practice look like? Firms have systems in place to monitor their portfolios for continually late or missed or bounced payments and where appropriate, there is pro-active contact to establish the customer's circumstances. Where practical, firms run watch lists with CRAs or have prior arrangements in place with larger customers to enable them to submit management information at agreed intervals.

What might poor practice look like? Firms are entirely reactive to missed payments and respond by applying moral or contractual pressure on customers. This may include, pre-emptively threatening repossession, visits by agents, or legal action, without trying to establish causes or circumstances or the best way forward.

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

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 LSB recognises that the causes of a vulnerable situation can be multiple and complex. For the purpose of the Standards, a business in difficulty is not, in and of itself, deemed vulnerable, however in practice, a vulnerable situation is not always clear cut. Vulnerability may not derive from personal circumstance alone but from a number of sources, including the business itself, or external environmental and economic factors. The impact of the vulnerability on the business customer's relationship with their firm may 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. For further information firms should refer to Section 10 – Vulnerability.

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.

What might good practice look like? Staff are trained to understand the various drivers of vulnerability which may impact on a customer's ability to pay and are aware of the approaches which could be taken to support such customers across a range of likely circumstances.

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, by an intermediary or a firm 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. Firms should ensure that all customers are treated fairly and in line with their policies and procedures.

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.

What might poor practice look like? Staff repeatedly pressure customers to pay but having little or no understanding of the impact of such pressure on the customer, nor of the various steps which could be taken to assist the customer to extricate themselves from the problem in the most cost-effective way.

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 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 agreements and what happens if the customer does not meet the agreement. If the plan includes an agreement to accept smaller 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 reduced repayments through 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 to provide a 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.

5. If, after exploring all the options open to the customer, it is clear that recovery of the asset is required, the Firm should ensure that the customer is provided with clear information as to what this entails

Where a firm has exhausted all other options, the firm may seek to recover the asset. Where this may be the case, firms should ensure the customer is made aware of this as soon as possible to give them enough time to prepare; the removal of an asset could have a significant impact on the business, and where practical, the firm should seek to provide reasonable notice.

This Standard aims to ensure that customers are provided with appropriate information in a clear and comprehensible manner to enable them to understand what actions are being taken by the firm. As much detail should be passed onto the customer about why the asset is being recovered, including the method and timescales for doing so and the implications this has on their agreement and any further action the customer might need to take.

The LSB would expect firms to maintain an empathetic approach to the customers situation, and, where appropriate, direct the customer to professional advice.

6. Firms should seek to ensure that any recovery agents acting on their behalf demonstrate appropriate levels of conduct and deal with the customer in a professional and open manner

The LSB acknowledges that asset recovery may not always run smoothly, firms should satisfy themselves that recovery agents will conduct themselves in a professional and open manner and the customer will continue to be treated fairly throughout the process.

Firms should ensure that in line with the requirements of Standard 9, Governance and Oversight, they undertake effective and robust due diligence in selecting a third party to ensure that it can meet the Standards and deliver the required outcomes. This should be supported by oversight of the third party from which the firm should be able to derive a sufficient degree of comfort that fair outcomes are being achieved. The LSB expects that customers identified as being in vulnerable circumstances are appropriately supported in line with the Standards of Lending Practice – Vulnerability. Firms should ensure that there are appropriate mechanisms in place to identify and deal with any known or suspected breaches of the Standard. This may be achieved through a documented contract, with minimum service level agreements and regular relationship meetings.

7. 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

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. 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.

8. If a Firm is aware that a customer is, or suspects that they are, in financial difficulty but is able to maintain 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.

9. Firms should work with and support a customer's turnaround plan where the Firm believes that it has a good chance of succeeding

Where a customer proposes a turnaround plan which will enable the business to trade out of its difficulties, the LSB would expect that the firm gives due consideration to the customer's plan and where the firm believes that this could succeed, the customer is given an opportunity to demonstrate that the proposed plan is viable.

10. If a Firm is unable to support a turnaround plan, the customer should be notified of the reasons why and given a reasonable period of time to consider the options open to them

The LSB acknowledges that there will be circumstances where it is not possible for the firm to support a business' turnaround plan and in these situations, the customer should be told why the firm is unable do so. The LSB would expect that the firm engages with the customer in an open and constructive way

and is clear as to the reasons why it cannot support the plan, what options, if any, are open to the customer and what the next steps in the process are.

The LSB would expect the firm to advise the customer when it will withdraw its support, applying a reasonable period of time for the customer to seek advice or alternative sources of finance and help the customer and where relevant, their advisers, to consider other options.

11. 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

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 – Asset Finance

Portfolio management

March 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.

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, where responsibility for the day to day customer relationship transfers to the third party.

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 the 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.

The 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 where a debt sale is considered to have a customer impact, that customers are made aware that their debt has been, or will be sold, and understand what that means in terms of their relationship with their lender/funder. 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.

The notification requirements apply where, as a consequence of the sale, there will be a change in the customer's day-to-day relationship with the firm. If the debt is sold, but the firm will continue to be the point of contact for the customer, and there is no other customer impact, the requirements of this Standard do not apply. The Standard is not requiring firms to notify customers that their debt *could* be sold, as this would not be appropriate from either a firm or customer perspective, but it is instead seeking to ensure that customers are made aware that there will be a change in their relationship with

the firm. Where the relationship will be serviced by the third party, the customer should know who the third party is and provided with relevant contact details.

The Standard has been drafted to allow flexibility for firms to notify the customer either pre or post transfer to the third party, however firms are not required to provide notification prior to the completion of a sale to the third party.

Firms may wish to have regard to the audience, business type and form of financing when communicating with impacted customers. The LSB would also expect the customer to be provided with a contact point within the firm, should they wish to discuss the matter further.

4. If an individual 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 Firm should consider whether it is appropriate to sell the debt(s)

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 ringfenced 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

⁶ See also section on vulnerability.

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.

- 6. Where a debt is sold and during the lifetime of the original agreement, 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.

The LSB's Information for Practitioners

The Standards of Lending Practice for
business customers – Asset Finance

Vulnerability

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 information for practitioners has 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. For the purposes of the Standards, vulnerability is referred to in relation to an individual.

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. An effective vulnerability strategy should be underpinned by a culture of care, which promises to do the right thing for the customer. The achievement of this goes beyond adherence to policy; firms should lead by example and ensure employees feel empowered in making the right decisions, with performance management frameworks that support and promote the values of mutual trust, care, and respect.

The FCA’s 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/s are 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 particularly the case where it affects a customer's ability to make, or communicate an informed decision, or engage with the market.

While the Standards refer to vulnerability in respect of the individual, rather than a business itself, the LSB recognises that the causes of a vulnerable situation can be multiple and complex. For the purpose of the Standards, a business in difficulty is not, in and of itself, deemed vulnerable, however in practice, a vulnerable situation is not always clear cut. Vulnerability may not always derive from personal circumstance alone but from a number of sources, including the business itself, or external environmental and economic factors. Firms may find that there is often a direct link between a business in, or at risk of financial difficulty and the personal susceptibility of the owner/s to vulnerability, factors which may sometimes stem from outside of their control. Firms should be alert to these factors, to ensure that where they become aware of a vulnerability the customer is adequately supported.

The LSB recognises 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 nature and permanence of the situation and the overall availability of resource. Firms must ensure, that when they become aware of a vulnerability, the impact on the business and individual is fully considered including their ongoing ability to meet and maintain ongoing business and financial commitments.

2. Firms should undertake appropriate monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively and delivering fair customer 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 running a business, and not the business itself, 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 is because vulnerability can be driven by a number of factors to do with the business itself or broader economic factors, not just personal circumstance. In practice, this could include: a personal bereavement or illness, loss of a key contract or a customer, poor business performance due to broader economic factors, or loss of key staff.

The LSB recognises that the complexities of running a business, coupled with external market conditions, mean that these drivers may not exist in isolation. The interaction between personal, business and external market conditions may cause or exacerbate a vulnerable situation and limit the owner's ability to engage with the market or increase their risk of harm. Firms should have processes in place 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.

The LSB encourages firms to use a broad range of data to support the identification of customers in vulnerable circumstances. This may include proactively monitoring external indicators such as economic and market conditions, which may enable firms to pre-emptively step in and offer timely intervention.

When considering the impact vulnerability can have on a business, firms should have regard 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.
- The nature and longevity of the vulnerability: how the vulnerability impacts the customer day-to-day and their ability to engage with the market or interact with the firm, including where the situation limits the individual's ability to enable the business to continue meeting its key strategic and operational objectives.
- The sustainability of the business: 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 sales or service volumes and contractual and financial repayments as they fall due.

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. Our expectation is that firms should consider every situation on its own merit.

- 4. Firms should seek to ensure that where an intermediary identifies an individual as potentially vulnerable, this information is passed to the Firm, with the customer's consent, and it is taken into account during interactions with the individual**
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This Standard seeks to ensure that a customer in a vulnerable situation is identified and supported by the firm, irrespective of where the customer relationship originated. The LSB would expect firms to treat information they receive about a customer in a vulnerable circumstance from an intermediary as if they would if the customer had a direct relationship with the firm, subject to satisfying the requirements of the data protection legislation. Firms should satisfy themselves that, at a minimum, intermediaries are able to identify customers in vulnerable situations, and with the customers consent, are referred to the firm for further support and assistance. Firms may achieve this through dedicated vulnerability training or a due diligence framework which ensures the intermediary has processes in place to identify, seek and record explicit consent in line with the GDPR with a sensitive referral process. Firms may consider this requirement as part of ongoing oversight to ensure it is fully embedded across all third parties including intermediaries. These controls should be documented in a firm's policy and process, to ensure consistency in application.

- 5. a. Firms should ensure that their employees 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 have appropriate referral and escalation points and are aware of how to access them**
-

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. 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.

Building staff capability, along with staff training, is critical in empowering staff to handle difficult conversations with confidence knowing that they are fully supported in making the right decisions. Firms should seek to build on the work carried out in the personal space, whilst considering ways in which this material might be adapted to develop vulnerability training in the area of business lending. This can be achieved through:

- The development of a bespoke computer-based training module on vulnerability, using scenarios to increase understanding of the different types of vulnerability and the corresponding needs of business customers highlighting the importance of considering vulnerability in the execution of everyone's role. Material should be regularly refreshed with controls in place to monitor completion;
- Training on conversation models, to support the implementation of the TEXAS and IDEA models, to assist staff in handling vulnerability disclosures and to probe situations fully, whilst documenting the customer's support needs;
- Delivering role-specific training using practical examples and the different types of situations staff may come across day to day. The use of role play may help to bring the concept of vulnerability to life. Staff are encouraged to break the conversation down, to identify areas where they could have probed further, or asked a question in a different way.
- Building case studies based on 'real life' customer encounters to illustrate, and bring to life, the support that is available through the firm, with reference to policy and procedural guidance. Case studies may be a positive way in breaking down some of the perceived barriers in implementing the policy, empowering staff to make the right decision based on the customer's needs;
- Creating a centralised repository of information to assist staff in identifying and supporting customers in their day-to-day role, for e.g. this may be achieved through a dedicated vulnerability hub. This hub may operate as a one-stop-shop, where the information is accessible through the firm's intranet site, enabling staff to retrieve and recall useful material to support their interactions with customers.

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.

6. 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 proactive and reactive triggers can support front line and back office staff in identifying signs of potential vulnerability. This could be underpinned by targeted, role specific training which involves educating staff on potential vulnerability triggers and customer impact illustrated through the use of practical examples and the types of situations staff may come across. 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 or business events such as the breakdown of a relationship or bereavement which may affect their ability to meet their commitments or even the ability just to cope with the day to day living which may have a direct impact on their business.

The LSB acknowledges that 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, the product is transactional only, or where the customer is not forthcoming with this information particularly during early interactions. This may stem from a fear that volunteering information could adversely impact the customer's ability to apply for finance, or the perception that the information may be construed negatively. 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. In some cases this might be exacerbated by the denial of a personal or financial situation, in the hope that if the customer perseveres there may be light at the end of the tunnel for their business. 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. Firms should delve deeper to improve their understanding of key reasons why customers may be reticent in volunteering information. Customer engagement activity could provide firms with this insight including the use of customer case reviews, or engaging with customers already identified by the firm as being in a vulnerable situation to understand if there is anything more the firm could have done to support early disclosure. Findings can be used to support timely customer disclosure and provide opportunity to engage and probe further.

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.

Enhancing digital and branch literature to raise awareness of the support that is available to small businesses and how that information may be used might also help encourage self-disclosure, along with firms branding and marketing strategies, which may help tackle some of the perceived stigmas around divulging sensitive information.

Statistics show that more and more customers are transacting digitally and in the case of some asset finance providers operating models, through an intermediary - limiting opportunities for firms to engage in face to face or telephone contact with the customer. 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 seek to change the dialogue by re-articulating the challenge presented by digital channels as an opportunity and think of innovative ways in which digitalisation can support proactive identification of customers in vulnerable circumstance. Firms should ensure a consistent approach to identifying and managing vulnerability, irrespective of the channel through which the business customer chooses to engage. Given these limitations firms should consider the benefits of supplementing a reactive approach with a data driven activity, to support the proactive identification of business customers that may be vulnerable and therefore at an increased risk of harm.

In the case of an asset finance product, these anomalies may relate to a missed payment or where internal and external data sources show potential signs of financial stress, where the underlying cause may be attributed to vulnerability. Monitoring external indicators such as political, economic or market conditions may be a useful mechanism for the firm to pre-empt the risk of adverse impact on their business customer base. Where relevant, the LSB would encourage firms to use this information to offer timely intervention and support.

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. Firms should have pre-delinquency triggers in place to identify customers at risk of financial harm. This could be supported by a proactive contact strategy to encourage early intervention and the timely provision of help and assistance. In these circumstances, where available, 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.

Depending on the customer relationship, other indicators may include but are not limited to:

- 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 agreement and is in breach of the terms;
- A winding up petition or other legal action is taken against the customer.

Irrespective of the indicator, getting to the root cause of the decline in business performance is key and if there is any additional support or guidance that the firm can provide this should be forthcoming.

This could include:

- proactively engage with the business;
- undertake a business review with a view to questioning and deciphering the root cause of the financial situation;
- comprehend the factors contributing to this position to ensure the provision of timely support;

- understand whether there is any evidence of a vulnerable situation, whilst considering the impact this has on the individual running the business and their ability to continue trading in the foreseeable future;
- consider if there is any support that can be offered to minimise the impact of any detriment; and
- identify opportunities to sign-post the business customer to external sources of support where relevant. This may include information on relevant third sector organisations;
- exploring the option to refinance a product, provided this does not exacerbate the customer's difficulties or indebtedness.

Whilst asset finance products tend to be transactional in nature, the LSB acknowledges that some customers may have a broader product holding with a firm, and depending on the firm's method of customer segmentation, more likely to be relationship managed. For those 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 a number of factors such as the size of the business and a firm's own criteria and method of customer segmentation, but at a minimum was 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. 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 and in some cases is supported by a visit to the business premises. 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.

Firms should continue working with their frontline teams to offer guidance on recording explicit consent and dealing with disclosures from a customer or a third party. This guidance has typically included:

- Acknowledging the courage it takes for a customer or a third party to call a firm notifying them of a customer's vulnerability;
- Adopting a 'can do' attitude, recognising that a sensitive approach to handling the call is key, and that by proceeding with the call the firm may help alleviate some stress;
- Preventing disclosure of account information or transactional data, but noting down any unverified disclosures from a third party in a factual manner so that this information is visible, where possible, at a single customer level;
- If systems do not allow for a single customer view, ensuring there is a manual work-around to allow staff to identify each account the customer holds, to coordinate account activity and correspondence, and prevent conversations from having to be repeated;

- Giving full consideration to any action that needs to be taken by the firm to prevent the account from deteriorating. This should be supported by an explanation of any appropriate action taken. This may include an explanation on how the account will operate; for example, ‘the account will be placed on hold; this will mean that during this time no interest and fees will apply.’
- Recognising that evidence is not a prerequisite and is only requested where it is felt that this information will assist the firm in understanding the customer’s situation better and to help the customer. Where evidence is requested, firms ensure they do not follow a rigid process, giving consideration to alternative forms of evidence.

Vulnerability may occur at any point in the customer product lifecycle and is not something that is confined to financial difficulty. There is merit in firms undertaking deep dives on cases where vulnerability has been identified. Tracing the case back through the customer journey will help firms to understand if there is anything that it could have done earlier on and so inform the firms understanding of vulnerability in the context of small businesses including the key factors that can give rise to vulnerable situations and whether there have been missed opportunities to encourage early identification.

7. 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. The targeting and design of a product is integral to providing an inclusive service, whilst building appropriate protections to minimise the risk of customer harm. 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.

Firms should ask themselves the following:

- What are the needs of a business customer in vulnerable circumstances, how can we factor these in, and does the product meet these needs?
- Are there features and risks with the product that a customer may have difficulty in comprehending?
- How might this impact the sales and distribution of the product acquired through a direct or intermediary model, and are there any enhancements that need to be made to the process or the customer journey?
- Is there enough flexibility in the process?
- What are the information needs for customers identified as being in a vulnerable situation?
- Is there a need for enhanced training for staff to ensure the product is sold appropriately?

- What mechanisms are in place to ensure the product is targeted in the right way?
- What happens if a customer's situation changes, and how would these circumstances be factored into the servicing of a product and the support that the firm is able to offer?

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 for customers who may be vulnerable.

8. 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, (whilst considering ways in which these measures could extend to third party intermediaries) 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.
- Where an asset finance product is offered through an intermediary, where possible, firms should seek to ensure that intermediaries have processes in place to identify and support customers in vulnerable situations.