



Review of the Standards of Lending Practice for business customers

Consultation document
June 2023



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1. Introduction

The [Standards of Lending Practice for business customers](#) (the business Standards) were launched in 2017. They provided a clear framework of protections for small and medium sized enterprises (SMEs) with a turnover of up to £6.5m when using loan, overdraft and credit card products.

Prior to 2017, the Lending Code was in place which set out protections for both personal and micro-enterprise customers. The Standards of Lending Practice for business customers, which superseded the relevant provisions of the Lending Code, extended and enhanced protections to a wider range of business customers. In doing so, the Standards also focused attention on achieving fairer customer outcomes, from the initial product offering and application process through to account servicing, portfolio management and identifying and responding to signs of financial stress.

Further enhancements to the business Standards took place in 2019, with the scope of the protections being extended to SMEs with a consolidated turnover of up to £25m. Commercial mortgages and provisions relating to portfolio management and use of turnaround units were also brought within the protections of the Standards.

Independently overseen by the Lending Standards Board (LSB), the primary self-regulatory body for the banking and lending industry, the business Standards continue to set the benchmark for good lending practice and provide important protections for the 5.5 million SMEs in the UK.¹

There are currently 17 [registered firms](#) comprising 34 brands signed up to the business Standards. This includes the largest retail banking groups, specialist lenders and debt collection firms currently lending to, or carrying out related activities for, businesses customers.

The business Standards have been formally [recognised](#) by the Financial Conduct Authority (FCA) under its industry code recognition process since 2020, giving lenders and their business customers confidence that the Standards are being used to support firms in ensuring they are observing 'proper standards of market conduct' in relation to unregulated activities.

¹ [Business population estimates for the UK and regions 2022](#), UK Government, October 2022

About this review

The LSB has a mission to drive fair outcomes for personal and business customers within financial services through independent oversight. We achieve this by setting and maintaining Standards and Codes focused on customer protection.

As the governing body for the business Standards, we aim to ensure that the Standards remain effective and continue to provide the right framework to deliver fair customer outcomes, particularly in light of the legacy impacts of the pandemic and the challenging economic environment in which small and medium-sized businesses are now operating.

As a result, we are undertaking this review of the business Standards to consider where updates or expansions may be required to reflect wider developments in the provision of financial products to the SMEs. We will also take account of any findings from our ongoing oversight work linked to the Standards.

Our review, launched with the publication of this consultation, will explore how the Standards can further emphasise the expectations on firms in relation to inclusion, sustainability and support for business customers in financial difficulty. The review will also consider whether the Standards require further development to take account of the channels used by firms to offer products to, and engage with, business customers. In addition the review will encompass our recent work on [green finance](#) and learnings from our insight activity on [inclusion within the lending space](#).

Through this consultation process, we are seeking feedback from our registered firms, firms which are not yet signed up to the Standards but are engaged in the provision of financial products to SME customers, industry stakeholders, and those representing SMEs, to understand how we can further enhance our Standards to ensure they continue to deliver fair outcomes for business customers.

Set out in this consultation is further context and questions on the key areas we are seeking feedback from firms and stakeholders on. These questions cover:

- **The impact of economic and regulatory developments**, looking at whether any changes in the business lending landscape should be taken into account when setting best practice on the treatment of business customers.

- **The protections provided by the business Standards**, looking at whether the protections in the Standards continue to reflect industry best practice.
- **Opportunities to develop new best practice and guidance**, exploring whether the business Standards could build on more recent areas of focus for the industry, such as inclusion and sustainability. This also considers whether the way in which products are provided to customers is fully reflected within the Standards.
- **The scope of the business Standards**, looking at whether the products covered by our business Standards, or wider Standards framework, are appropriate or whether the product scope could be expanded to ensure consistent protections for business customers when accessing and using finance.

We would welcome responses to the questions raised in this consultation and any related feedback by **5pm on Thursday 10 August 2023**.

Further details of how to respond to this consultation are set out in section 3 on **next steps**.

2. Our consultation

The Standards of Lending Practice for business customers set protections for customers throughout the lifecycle of their borrowing journey. The Standards have provided lenders and debt collection firms with a solid foundation on which to develop practices which ensure customers avoid unnecessary harm and receive fair outcomes when accessing and managing their borrowing.

The following sections outline key areas of focus for this review and set out questions to help inform our understanding of how the Standards could be enhanced to ensure they continue to represent best practice in ensuring fair outcomes for business customers. While we have set out a range of questions in this consultation, further comment, discussion and representations from respondents are encouraged where they may help improve outcomes for business customers.

2.1 The impact of economic and regulatory developments

There have been a range of economic and regulatory developments in recent years that could shape best practice in relation to lending to SMEs.

Businesses of all sizes are likely to have encountered challenges since the turn of the decade. Having navigated the implications of Brexit, the challenges of the pandemic, and the economic fallout of the war in Ukraine, SMEs are now faced with the current task of running their business against a backdrop of interest rate and inflationary pressures, labour shortages and continuing supply chain issues.

During that time, the use of finance by SMEs has adapted and changed. Lending to small businesses remains high and gross bank lending in 2022 was the second highest on record.² In the current economic environment, there is a risk that business customers may increasingly find themselves in financial difficulties. Two fifths of SMEs believe their business may be in financial difficulties in a year's time.³

² [Small Business Finance Markets 2022/23](#), British Business Bank, March 2023

³ [BBRS shares research into SME attitudes to banking and the economy](#), BBRS, April 2023

Business borrowing has, at least temporarily, been impacted by the government-backed lending schemes launched during the pandemic. The Bounce Back Loan Scheme alone saw around 1.5 million business customers taking out government guaranteed loans.⁴ These schemes saw a shift in borrowing behaviour with many firms placing a greater reliance on the digital journey and, through the Pay As You Grow options, standardised and self-service support or forbearance options for customers.⁵

Business customers are increasingly accessing and using products through digital only or digital first channels. This has been seen, for instance, in the relative success of Open Banking for business customers and the range of existing firms and new entrants offering a wider range of products alongside the more traditional forms of lending. As part of this review, we would welcome views on whether the Standards could be updated to better support a wider range of lenders, including smaller firms, newer market entrants, and digital-first lenders. This is with a view to ensuring the Standards framework is applicable to all firms providing products and services to SMEs to work towards ensuring good outcomes for their customers.

Question 1: Taking into account recent economic developments and changes in the business lending environment, are amendments required to ensure that the Standards continue to set the right level of protections for customers?

Question 2: Could the business Standards be updated to better support a full range of lenders, including smaller firms, newer market entrants, and digital-first lenders to work towards ensuring good outcomes for their business customers? If so, how?

There have been a number of recent regulatory initiatives that could have an impact on the business banking landscape. These, for instance, include:

⁴ [HM Treasury coronavirus \(COVID-19\) business loan scheme statistics](#), HM Treasury, July 2021

⁵ The LSB issued temporary updates, which were recognised by the FCA, to take account of the Coronavirus Business Interruption Loan Scheme and the Bounce Back Loan Scheme. These temporary updates, which reflected the requirements of the scheme, have now been removed as the schemes are now closed to new customers and all customers have moved passed the initial interest and repayment free period.

- HM Treasury's consultation on the reform of the Consumer Credit Act 1974;
- the introduction of the FCA's new Consumer Duty; and
- the outcome of the FCA's review of the thresholds for SMEs to be able to refer complaints to the Financial Ombudsman Service (FOS).

For the Standards to remain effective they must take account of, and where necessary, adapt to changes in the wider regulatory environment while continuing to provide appropriate protections for business customers. While the outcome of some of the legislative and regulatory changes is not yet known, it is important that we take account of them as part of this review process.

It is our view that firms adhering to the requirements of the business Standards are in a good position to be able to demonstrate how they are already working towards good outcomes across the customer journey. However, we recognise that changes in regulation should, where appropriate, be reflected in our Standards and supporting guidance.

Thresholds

Two of the above developments may impact on whether the thresholds for the protections set out in the Standards are appropriate. Firstly, the FCA has asked for views to inform its review of whether the thresholds for SMEs to be able to refer complaints to the Financial Ombudsman Service remain appropriate.⁶ Currently this is set as a turnover of up to £6.5 million and therefore aligns with the lower threshold for the Standards.

In its recent consultation on reform of the CCA 1974, HM Treasury sought views on the current scope of the CCA in relation to business lending. This question reflects wider discussions on the appropriate balance of protections provided for customers in the business lending space.

The Standards take account of the range, type and sophistication of SMEs which fall within scope and as such apply a turnover threshold. This applies as follows:

- For lending to small businesses that have **an annual turnover of no more than £6.5 million** the

⁶ [Call for Input: SME access to the Financial Ombudsman Service](#), FCA, March 2023

Standards apply in their entirety. This is based on a customer turnover in its last financial year (exclusive of VAT and other turnover related taxes) and does not apply where customers have a complex ownership structure (for example, businesses with overseas, multiple, or layered ownership structures).

- For lending to businesses **above the £6.5m threshold with an annual turnover of no more than £25 million**, the LSB expects firms to be able to evidence how the customer outcome, set out at the front of each section, has been achieved. For some business customers, the relevant section may apply in its entirety whilst for others, only particular elements may be applicable. This approach provides firms with discretion as to how the required outcome is achieved; based on their understanding of the business customer, their sophistication, and the complexity of the products being accessed.

To ensure the business Standards are providing protections that are fair and appropriate and that SMEs who require the benefit of these protections are captured, we would welcome views from respondents on whether the thresholds set out in the Standards continue to be appropriate.

Question 3: Recognising that the regulatory and legislative landscape continues to change, how can the LSB ensure that the Standards continue to reflect best practice and support good outcomes for business customers?

Question 4: The business Standards set out best practice for lending to business customers with a consolidated annual turnover of up to £25 million, with firms given discretion to apply the Standards more flexibly for larger customers with turnovers between £6.5 million and £25 million. Does this approach remain appropriate based on the range and types of SMEs captured by the scope of the Standards?

2.2 The protections provided by the Standards of Lending Practice

The business Standards, which are outcomes focussed and apply across digital, web-based, branch

and telephony networks used by firms to deliver products and services to SMEs, cover the following areas:

- Product information
- Product sale
- Declined applications
- Product execution
- Credit monitoring
- Treatment of customers in financial difficulty
- Business support units
- Portfolio management
- Customers in vulnerable circumstances
- Governance and oversight

The Standards are supported by the [Information for Practitioners](#) which provides firms with non-binding guidance and best practice to support the delivery of good customer outcomes.

An overview of firms' commitments under the Standards is provided to customers accessing products covered in the form of the [Statement of Lenders and Borrower Responsibilities](#) (SLBR). For debt collection activities, firms may instead provide the [Statement of Commitments and Borrower Responsibilities](#) (SCBR).

Since launching the business Standards in 2017, the LSB has undertaken oversight activity and engaged with stakeholders across a range of areas to ensure the protections provided continue to be set at an appropriate level and reflect industry best practice. This included temporary amendments being made in 2020 to ensure that the Standards took account of the way in which the government backed lending schemes operated to enable customers to access finance more quickly.

We are seeking feedback on whether the Standards continue to set appropriate protections across the whole customer journey. We particularly welcome views and insights in relation to the following key areas:

Business customers in vulnerable circumstances

This [section](#) of the Standards sets requirements on the identification of, and support for customers where an individual's vulnerability may have an impact on the way the business operates, its relationship with the firm or its ability to meet its liabilities as they fall due. Our recent [customer vulnerability review summary report](#) set out areas where improvements were required to firms' processes to better support business customers identified as being vulnerable. Record keeping, staff training, support options and communication were all areas identified as having scope for improvement.

We are seeking views on whether further enhancements are required to the requirements within this section to ensure that firms are able to identify and provide appropriate support to business customers in vulnerable circumstances.

Declined applications

The standards on [declined applications](#) require firms to ensure that they have processes in place to enable business customers to have the right of appeal in the event their application is declined. This requires firms to 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 which sets the expectation that firms should have processes in place to allow applications to be reviewed and the results of an appeal being returned within 30 days. There are also clear expectations set around both signposting declined customers to alternative sources of finance and offering customers the opportunity for their details to be referred to government designated finance platforms.

We are seeking views on whether the requirements of the Standards are working as they should, recognising that lending under government business support schemes will have had an impact on 'BAU' lending in recent years. This is with a view to understanding whether customers are receiving the right information and support in the event their application is declined.

Business support units

The Standards covering [business support units](#) were introduced in 2019 to ensure lenders are applying a consistent and fair approach to the treatment of business customers in financial difficulty, particularly where customers have been referred to a firm's business support unit (where these are

in place). In the Standards, business support units, or turnaround units, refer to any specialised unit or team within a firm that has been set up to work with business customers who are experiencing a credit deterioration but are looking to return a business to viability.

The LSB recognises that not all firms have such units in place and, where they are, there will be different ways firms provide support to customers. Given the more recent introduction of these standards and an increased focus since 2019 on the ensuring appropriate support is provided to business customers who may be, or are experiencing financial difficulty, we would welcome views on whether the expectations set on firms regarding business support units reflect current best practice.

Product sale and the use of personal guarantees

The Standards on [product sale](#) cover the provision of information to business customers to ensure that the product(s) they are provided with is affordable and meets the needs of the business. This section also includes provisions relating to taking and releasing of security, including personal guarantees.

The Standards require firms to tell their customers whether any security is required to support the borrowing and why. Firms should also ensure that customers are aware of their obligations when providing any required security, and that they have the option to seek legal advice prior to signing any facility agreement.

Research by the Business Banking Resolution Service (BBRS) found that 30% of SME directors have acted as a personal guarantor for a loan that the business has taken out.⁷ Our recent engagement with stakeholders has highlighted some of the challenges that customers have previously faced when firms have required security for lending. Albeit these issues, in the main, tend to focus on historical cases. For instance, issues have arisen where historic guarantees remain in place against individuals who no longer have an association with the business, as highlighted in a recent example published by BBRS.⁸

We would welcome views on whether revisions to the existing requirements or further guidance in relation to the taking and releasing of security in business lending is needed.

⁷ [BBRS shares research into SME attitudes to banking and the economy](#), BBRS, April 2023

⁸ [Customer testimonial: "They showed me compassion during an anxious time"](#), BBRS, December 2022

Question 5: Do the existing requirements of the Standards ensure there are appropriate protections in place for business customers throughout the whole customer journey, including where business customers:

- (a) Are applying for products covered by the Standards.
- (b) Are declined for lending.
- (c) Are accessing and managing their borrowing.
- (d) Require additional support due to a key person in the business being vulnerable.
- (e) Require support due to potential, or actual, financial difficulty. This covers pre-arrears, financial difficulty and the use of business support units, where relevant.
- (f) Are engaging with a third party that has either purchased their debt or is undertaking debt collection activities on behalf of the lender?

If not, how could the protections set out in the Standards be improved?

2.3 Opportunities to set out new best practice

The review of the business Standards also provides an opportunity for the LSB to consider whether there is new or emerging best practice that could be taken account of within the Standards or accompanying guidance for firms.

We welcome views from respondents to this consultation as to whether the business Standards or the supporting guidance should be updated to capture best practice in the following areas:

Product and service design

[The Standards of Lending Practice for personal customers](#) (personal Standards) set out standards on product and service design. These are focused on the design and review of the products and services offered by firms. They also capture good practice on inclusive design; delivering products and services through the variety of channels and business models that firms offer; and on reviewing and developing products and services to ensure they are supporting fair outcomes for customers.

This product design approach for lending products has now also been reflected in the broader FCA Consumer Duty. The introduction of similar requirements, as those contained in the personal Standards, into the business Standards could provide the same end-to-end focus for business lending and help firms ensure a consistent approach to product and service design across all regulated and unregulated lending.

We would like to understand how the application of such requirements could be applied within the business lending space and the benefits this could bring to the types of businesses that fall within scope of the Standards.

Diversity and inclusion

Our recent report: [Inclusion in Business Banking and Credit: disability and other access needs](#) highlighted the importance for firms to ensure they are doing what they can to promote access to products and services to customers with disabilities and other access needs. The report outlined ways in which firms can develop upon their existing approach to inclusivity and provided guidance on how firms can better support new and existing customers. We also recently launched our [Access for d/Deaf customers in banking and credit](#) report, which raises awareness of the challenges being faced by d/Deaf customers in relation to their banking needs.

Research from the Centre for Research in Ethnic Minority Entrepreneurship (CREME) has also highlighted the barriers faced by ethnic minority businesses.⁹ The research outlines how ethnic minority groups appear to be disproportionately affected when it comes to financial resources.

As set out in our [business plan for 2023/24](#), inclusion and inclusive design is a key area of focus for the LSB this year. We welcome views on how the Standards can seek to incorporate requirements which ensure that firms are better able to identify and support customers across a range of support needs. For instance, as part of the product design and review processes, we want to consider how firms can ensure that their products and services work well for all customers and any barriers are addressed.

Sustainability

We recently conducted research into the use of green finance products by SMEs in order to support

⁹ [Time to change: A blueprint for advancing the UK's ethnic minority businesses](#), CREME, May 2022

them to achieve their Net Zero ambitions. Our report, entitled [Business customers and green finance](#), highlighted how firms can utilise existing provisions within the Standards to support their customers seeking or using green finance.

Our research highlighted the good work already being seen across the industry, with many banks offering tools on their websites to help SMEs understand their carbon footprint. Our report also provided registered firms with guidance on how applying the Standards to relevant products ensures that a focus on good customer outcomes are at the centre of any work being undertaken on sustainability.

It is clear that more work needs to be done, particularly when it comes to ensuring fair and consistent product information and reporting requirements as firms continue to develop more sustainable finance propositions. We would welcome views on the role the business Standards and the LSB could play in supporting sustainability in financial services.

Question 6: How can the business Standards better support good customer outcomes through the introduction of new standards or guidance relating to:

- (a) Product and service design.
- (b) Ensuring that products are accessible and inclusive, taking account of the different experiences and needs of business customers.
- (c) Sustainability.
- (d) Any other areas.

We would particularly welcome any insight that would support the development of good practice standards or guidance.

2.4 The scope of the Standards

The business Standards apply to loan, commercial mortgage, overdraft, and credit card products.

The Standards therefore currently provide a framework of protections for business customers across the products most widely used by SMEs.¹⁰ A further set of Standards focusing on asset finance is also in place but are outside of the scope of this review.

Business customers have access to a broader range of finance options and alternative lending products beyond those currently covered by the Standards. Some of which are made available to customers through finance providers other than the main high street banks and lenders. The types of finance available to business customers but which sit outside of the Standards include products such as invoice finance, peer-to-peer lending, buy-now pay-later (BNPL) products, trade finance, and syndicated lending.

It is important that all providers of finance put in place appropriate protections for their business customers. Our Standards set out best practice for lending to customers and provide firms with a clear framework of protections that is underpinned by independent oversight. In line with the LSB's mission to drive fair outcomes for customers, it is important that we use this review to consider both whether:

- the products within scope of the Standards should be extended; and
- whether there are products or services where the LSB's Standards framework could be extended to drive consistency of protections to SMEs accessing finance.

Invoice Finance

After bank loans and asset finance, invoice finance is a key means by which firms can access finance that does not fall within the scope of the Standards. Invoice finance has generally accounted for over 10 per cent of new funding for UK SMEs.¹¹ Having introduced standalone Standards on asset finance in 2018, invoice finance remains a key source of SME financing that does not fall within the scope of the Standards.

It is estimated that more than 45,000 businesses used some type of invoice finance in 2021, equating

¹⁰ [SME Finance Monitor](#), BVA BDRC, March 2023

¹¹ [SME finance in the UK: past, present and future](#), UK Finance, December 2018

to one percent of all businesses.¹² Developing Standards and applying our accompanying oversight to this product would ensure there is a consistent approach to the protection of SME customers across the main sources of commercial finance being used in the UK.

As there is an existing Standards Framework for Invoice Finance and Asset Based Lending (IFABL), established by ABFA in 2013 and incorporated into UK Finance in 2017, the LSB recognises that any work we undertake in this space would need to take account of the existing protections put in place through the IFABL Standards Framework.

Question 7: Is the current scope of products covered by the Standards of Lending Practice for business customers appropriate?

Question 8: Are there areas where the LSB should consider expanding the scope of products covered by the Standards to improve protections for business customers?

Question 9: Would you be supportive of the LSB developing or extending the Standards of Lending Practice for business customers to cover invoice finance? If so, what factors would the LSB need to consider to ensure that any such Standards would be effective in supporting our mission to ensure fair customer outcomes?

¹² [How many companies in the UK use invoice finance?](#), Invoice Funding, December 2021

3. Next steps

Following this consultation, the LSB will undertake work to review the feedback received to determine whether changes should be made to the Standards, or further guidance developed, to ensure they continue to reflect best practice for lending to business customers in the UK.

We will also engage with the FCA throughout the process to ensure that the Standards can continue to be recognised as an industry code of best practice.

How to respond

Firms signed up to the Standards of Lending Practice for business customers, financial service providers offering products to SMEs, trade bodies, SME representatives, and stakeholders involved in the provision of finance to SMEs more generally will have an interest in the LSB's review of the business Standards and may want to respond to this consultation.

The full list of questions can be found in Appendix I of this document. We would encourage respondents to share any insight they can that supports their response to this consultation.

We would welcome responses to the questions raised in this consultation and any related feedback by **10 August 2023**.

Please send responses and any supporting information to businessstandards@lstdb.org.uk.

Confidentiality

From experience, we know that the responses submitted may include sensitive operational information and will be provided on a confidential basis. We are grateful for the openness of these responses and the nature of the information provided which allows us to fully explore the issues raised throughout this consultation. The LSB has, therefore, taken the decision not to publish responses we receive to this consultation. However, the LSB may include an overview of feedback in subsequent publications and may, in due course, publish a list of those organisations who have responded.

Should an organisation wish not to be identified as having responded to the consultation, please indicate this clearly in the response. The LSB will not publish or share details of any individuals who submit a response or engage in the review.

This consultation document does not contain any legal advice to any person or firm and is no substitute for formal legal advice required by any person or firm. The LSB does not accept any legal responsibility or liability for the actions or omissions of any person or firm in relation to or in reliance on this consultation document.

Appendix I: Full list of consultation questions

Question 1: Taking into account recent economic developments and changes in the business lending environment, are amendments required to ensure that the Standards continue to set the right level of protections for customers?

Question 2: Could the business Standards be updated to better support a full range of lenders, including smaller firms, newer market entrants, and digital-first lenders to work towards ensuring good outcomes for their business customers? If so, how?

Question 3: Recognising that the regulatory and legislative landscape continues to change, how can the LSB ensure that the Standards continue to reflect best practice and support good outcomes for business customers?

Question 4: The business Standards set out best practice for lending to business customers with a consolidated annual turnover of up to £25 million, with firms given discretion to apply the Standards more flexibly for larger customers with turnovers between £6.5 million and £25 million. Does this approach remain appropriate based on the range and types of SMEs captured by the scope of the Standards?

Question 5: Do the existing requirements of the Standards ensure there are appropriate protections in place for business customers throughout the customer journey, including where business customers:

- (a) Are applying for products covered by the Standards.
- (b) Are declined for lending.
- (c) Are accessing and managing their borrowing.

- (d) Require additional support due to a key person in the business being vulnerable.
- (e) Require support due to potential, or actual, financial difficulty. This covers pre-arrears, financial difficulty and the use of business support units, where relevant.
- (f) Are engaging with a third party that has either purchased their debt or is undertaking debt collection activities on behalf of the lender?

If not, how could the protections set out in the Standards be improved?

Question 6: How can the business Standards better support good customer outcomes through the introduction of new standards or guidance relating to:

- (g) Product and service design.
- (h) Ensuring that products are accessible and inclusive, taking account of the different experiences and needs of business customers.
- (i) Sustainability.
- (j) Any other areas.

We would particularly welcome any insight that would support the development of good practice standards or guidance.

Question 7: Is the current scope of products covered by the Standards of Lending Practice for business customers appropriate?

Question 8: Are there areas where the LSB should consider expanding the scope of products covered by the Standards to improve protections for business customers?

Question 9: Would you be supportive of the LSB developing or extending the Standards of Lending Practice for business customers to cover invoice finance? If so, what factors would the LSB need to consider to ensure that any such Standards would be effective in supporting our mission to ensure fair customer outcomes?