The Money Charity response to the LSB's 'The Standards of Lending Practice Personal Customers Review'

The Money Charity is the UK's leading financial capability charity.

We believe that being on top of your money means you are more in control of your life, your finances and your debts, reducing stress and hardship. And that being on top of your money increases your wellbeing, helps you achieve your goals and live a happier more positive life as a result.

Our vision is for everyone to be on top of their money as a part of everyday life. So, we empower people across the UK to build the skills, knowledge, attitudes and behaviours, to make the most of their money throughout their lives.

We believe financially capable people are on top of and make the most of their money in five key areas:

- Planning (including budgeting)
- Saving
- Debt
- Financial services products
- Everyday money (including wages, cash, bank accounts)

Introduction

1. The Money Charity welcomes the review and reframing of the 'Standards of Lending Practice' from the Lending Standards Board (LSB). As the UK's financial capability charity we believe it is essential that the standards are reviewed and kept up-to-date with the changing nature of the credit market, ensuring the standards are fit for purpose for both firms and their customers.

2. We welcome and commend the review, and comment in more detail below on a number of the issues raised. However we continue to urge the LSB to be clearer about the function and purpose of the standards, when a lot of the content is already covered by the FCA or other regulators. As such, firms have to meet this regulation regardless of whether they wish to sign up to the LSB standards.

3. The LSB standards therefore, should go above and beyond regulations already in place, setting apart the firms who sign up to them, from those who don't. Whilst there are some areas in which the standards in their current form do this, we are concerned that without embracing this more thoroughly, they risk becoming obsolete with the FCA now responsible for consumer credit regulation.

4. Moreover, for simplicity and clarity, The Money Charity recommends that the LSB standards simply state that all firms who sign up to them are expected to comply with relevant regulatory requirements. Whilst we previously stated this in our 2015 consultation response to the Independent Review of the Lending Code, we believe this is still a necessary change in order to keep the Lending Standards relevant, meaningful and clearly going above and beyond current regulation.

5. We also make a number of smaller points and recommendations in the questions below, which we believe would lead to a clearer and more structured set of standards.

Q1. How can the Standards further encompass the digital journey?

6. There are a number of opportunities to include standards on open banking, something which firms will need to be clear and open about, and which many customers will be interested in. For example, open banking could be included as an example of how third parties will be communicated with for point (10) in the 'Financial Difficulty' section. If included in point (7) in the 'Account maintenance and servicing' section on data security and sharing, it could be a clear divergence from just abiding by The FCA's Consumer Credit Sourcebook (CONC)

Q2. How could we seek to capture good practice in relation to financial inclusion?

7. It is good to see LSB look at how their subscribers could improve financial inclusion in their product delivery and design. The Money Charity not only welcomes such a move, but believes LSB could dedicate a section of its standards to financial inclusion. Guiding firms on how to improve financial inclusion to reach those who may be digitally excluded or lack a certain level of financial capability would be a great step towards setting the LSB standards apart from current regulation.

8. Under the principles for lending, a number of clarifications and additions could be made to make sure firms know exactly how to approach the issue of financial exclusion.

9. Firstly, principle (a) should make clear that "unreasonable barriers" also includes physical barriers to accessing credit, such as travelling long distances to a bank branch. Physical barriers are often forgotten about when talking about customers struggling to access credit, but with an increasing number of branch closures, it is important that firms still provide for customers that want to meet face-to-face and receive credit products in person. This would combat the high number of people who are digitally excluded, and therefore often financially excluded as well.

10. The principles should also explicitly state that eligibility criteria for a product must be clear and understandable. Often customers apply for credit products which, if they knew the eligibility criteria to be approved for the product, they would never apply for. This then leads to their application being rejected and their credit score reduced for no discernible reason. By making eligibility criteria for products clear and easy for a customer to understand whether they should apply, this would decrease the negative impact on their credit record.

11. The principles should also state that all subscribers should make sure the data which informs their decisions on approving credit products is up-to-date and taken from a number of different and diverse sources. Often, decisions can be made to deny a credit product to a customer due a thin record at a Credit Reference Agency (CRA). The CRAs can rely solely on traditional credit based models, ignoring other regular payments like rent. It is critical that current credit score models use inclusive and alternative data, which do not aim to lower the bar for credit ratings, but use new models that take into account irregular incomes and living patterns for example. Research from [Responsible Finance](#)found that UK households could be an extra £1,770 per year better off for basic everyday goods and services if the barriers to mainstream and affordable firms put up by credit scoring models were removed. Furthermore, 57% of people surveyed were at risk of being turned down for mainstream credit, a third of them being in full time employment. Introducing a standard which requires subscribers to ensure assumptions made in credit scores are based on fact, and that the models used are diverse and up-to-date would help lower the levels of financial exclusion in this space.

12. When dealing with the identification and management of vulnerable customers, the standards could be clearer that firms should ensure front-line staff have the highest level of listening and language skills, in order to identify signs of vulnerability, and communicate with empathy and understanding. In doing so, firms will ensure that signs of vulnerability will be caught when customers with potential vulnerabilities communicate with front-line staff at all times.

Q3. Are there any wider industry themes which could be explored further within the Standards?

13. Whilst the standards and industry themes explored in the paper are sound and welcome, we would reiterate that the LSB standards need to evolve beyond just the regulations set up by the likes of the FCA. The standards should be set to go above the current regulations, setting its subscribers apart from those that simply follow regulations. We believe focusing more on issues of financial inclusion and financial capability and clearly defining vulnerabilities, creating an individual sections for the first two would be a strong step in that direction for LSB.

Q4. Is there any other feedback you wish to provide?

14. We commend the focus on customer vulnerability and difficulties. As the UK's financial capability charity, we believe that customers should be able to be in control of their finances and debts, subsequently reducing their stress levels and improving wellbeing. Recent research from Citizens Advice found that 74% of people who came to them with debt worries found it also affected their mental health. Furthermore, many young people are leaving education an entering the world of work with low financial capability and confidence. The FCA Financial Lives survey found that 55% of 18-24 year olds have debts, with the age group being the least confident about managing their money. Therefore, it is great to see LSB acknowledge and work on this emerging area where regulation is currently not. The standards would be much more useful to subscribers if LSB led the way on areas such as financial vulnerability and inclusion.

15. We are also happy to see a whole section dedicated to money management, an area we dedicate a lot of time to in our work. However, the content of the section actually has little to do with money management. Many points are more focused on product design and the way in which firms should deal with customers facing financial difficulty. Again, this is an area which the standards could lead on, putting it head and shoulders above current regulation. We would recommend expanding point (4) to include training front-line staff to at least minimum levels of financial capability. In order to expand and lead on money management, the standards could also include a point on firms providing financial education as a product feature, ensuring the information presented is adequate for different levels of capability.

16. Principle (d) which states that if a customer's application is declined the main reason for this will be provided if requested, could go further. We suggest that the main reason for the decline should be provided upon contacting the customer to inform them of the application rejection, regardless of whether or not this is asked for. This would help in particular those with poor credit scores, who do not have the financial confidence to request a reason for being denied a product. These customers are often financially excluded, and without understanding the reasons, cannot take action to resolve the issues.

17. We would question the specific inclusion of standard (6) in the product sale standard with regards to ensuring a customer is not disadvantaged because they are serving or have served in the British Armed Forces. It would make much more sense to state that people with irregular living and income patterns should not be unfairly disadvantaged because of this (which would include those who have served or are serving in the armed forces).

18. We also believe the 'Financial Difficulty' standard should include a point on making forbearance options clear to customers. Doing so early on in the customer journey would ensure customers fully understand the options available to them. Firms should utilise case studies and real life examples as many customers don't actually understand what forbearance is.
19. We believe several standards could also be included in the financial difficulty and vulnerability sections, leading to better outcomes for consumers. For example, digital channels should prompt customers to share when they face difficulty or when they may be considered a vulnerable customer. Through self-identification as either vulnerable or facing financial difficulty, the firm will be alerted to any potential harm to a customer at an early stage.

20. We commend point (3) in the 'Financial Difficulty' section with regards to firms demonstrating an empathetic approach to the customer's situation. Whilst it is not very detailed, it does go beyond CONC and therefore stands out as something more than just abiding by current regulation.

21. There are concerns around the absence of the 'Breathing Space' option. The previous LSB Lending code included the option for customers facing severe financial trouble to enter a period of frozen repayments and interest rates in order to find a solution to the problem debt, whether that be a repayment plan, debt relief order or bankruptcy. The Money Charity believes this is one way in which the code stood out for subscribers, as a way to go above and beyond for their customers. The fact that the Treasury has taken evidence for the effectiveness of a 60 day breathing space shows the effectiveness of LSBs 'breathing space' option. It is important that these original and advanced points remain in the LSB.

22. Finally, we would argue that point (11) in 'Financial Difficulty' actually belongs in the 'Consumer Vulnerability' section. The point for firms to take into account the customer's circumstances and consider if it would be fair to pursue the amount owed, is talking much more about whether a customer is vulnerable, rather than in financial difficulty.