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**Terms of Reference**

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| Standards Development Project | Digital | July 2016 |

Digital innovation has remained a high priority in the financial sector as customers continue to demand high performance technology alternatives to the traditional banking channels. This technology is also increasing customer awareness and enabling them to have more control over their financial choices with [[1]](#footnote-1)Regtech developments delivering the regulatory protections.

This Standards Development Project (SDP) seeks to identify areas where the Standards of Lending Practice (SLP) may benefit from enhancements to ensure that the protections offered take account of the technological advancements provided via digital channels throughout the customer journey.

1. **Purpose and Objectives**

To identify recommendations for updates to the existing SLP or identify new Standards, which will ensure customers are as protected via a firm’s digital channels as they are via other channels. The recommendations should be proportionate and supportive of the benefits that can be realised through digitally enabled capabilities (see [[2]](#footnote-2)Consumer Digital Index), and the positive impact this can have on consumers’ financial health.

This SDP will seek to:

* Review the firm’s horizon scanning of technological advancements and the [[3]](#footnote-3)Fintech market more generally to gain an understanding of the processes and considerations when firms are looking to develop their digital capabilities.
* Understand the key considerations for firms when designing new or enhancing existing digital capability, including the process for engaging and working with the Fintech sector.
* Understand the internal review processes that assess the extent to which digital capability is and remains fit for purpose, particularly when integrated within existing legacy systems and processes.
* Identify the manner in which firms assess customer outcomes, from design through to launch and beyond. The areas of focus could include the following:
	+ Customer outcomes focused assurance MI and monitoring
	+ Complaints analysis
	+ Customer feedback
	+ The effectiveness of customer support options
* Identify and review the effectiveness of the firms’ financial promotions and communications activity within digital channels, in terms of the clarity and pace of information for the customer.
* Identify and review the firm’s digital product sales channels and their effectiveness at enabling products to be purchased without negative customer outcomes.
* Identify and review the effectiveness of the range of digitally enabled account maintenance and servicing activities and the extent to which these are integrated into the firm’s ‘back office’ processes.
* Review the extent to which data analytics is used within the digital journey to understand customer behaviours and touch points which could lead to negative customer outcomes.
1. **Scope**

This research project extends across the whole customer journey, as defined in the SLP, and includes all products covered by the SLP; credit cards, loan and overdrafts. Given the wide scope of the review the SDP will be split into a number of phases in order to ensure sufficient detail and focus can be applied to each phase and recommendations can be made in a timely manner.

The most significant areas of Fintech development are currently in relation to financial promotions and communications, product sale, and to a lesser extent account maintenance. These areas have undergone major change over the last few years, with both existing and challenger banks investing heavily in developing frictionless customer journeys which satisfy the demands for faster and more innovative ways to bank. This pace of change could present challenges where unforeseen issues manifest themselves much later in the development cycle than would ordinarily be seen for change implemented at a steadier pace. The first phase of this project will, therefore, focus on these areas.

In terms of products, while current accounts appear to have been the subject of the greatest Fintech advancements, there is benefit in simultaneously reviewing all products to provide longer term efficiencies by not having to revisit SLP sections at a later date.

1. **Approach**

Fintech and Regtech developments are fast paced and innovations tend to be kept under wraps until such time as the functionality is ready for general release. This makes it more challenging to maintain a current view of digital developments and, more importantly, to understand the impact this could have on customers. Developments are also more prevalent and innovative in the ‘start-up’ sector with challenger banks typically moving away from traditional banking processes and providing an end to end digital offering.

In order for us to gain a contemporary view we will engage with experts from the Fintech industry, both from within and beyond our registered firms. The FCA has also established a Regtech programme of activity with the same broad aim of developing understanding and identifying areas which could lead to increased customer risk. Maintaining a watching brief over the FCA’s Regtech agenda will provide an opportunity to align our thinking and provides the potential to address joint concerns via the SLP at a pace that is commensurate with that of Fintech and Regtech innovation.

The customer’s experiences are central to understanding the impact of digital technology and so we will also seek to understand how regulation generally is impacting upon the customer experience in terms of disclosure requirements and the confidence that can be placed on Regtech solutions. As well as reviewing the firm’s own internal conduct MI to we will also consider other sources of information and research, and engage with the Financial Ombudsman Service to fully understand the customer impacts and any risks which could be addressed through the SLP.

1. **Output**

The findings and recommendations from this project will be summarised in a report that will be published on our website in December. We will consider how the output can inform the development of the SLP and the LSB’s supporting information for practitioners, ensuring that they are pragmatic, customer focused and, as far as can be reasonably achieved, future-proofed.

The SLP review group (Content and Form) will be engaged at the final review stage, following which the final recommendations can be provided to the SLP sponsors for consideration and sign-off, and the LSB will update its supporting information for practitioners.

The future phases of the digital SDP are indicated below. The timing and ordering of these phases will be determined by the output from this initial phase.

## Schedule

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| **Key dates** | **Activity** |
| July 2016  | Initial engagement with selected firms to discuss the terms of reference and explain the areas we wish to explore further |
| July – August 2016 | Discussions with a variety of start-ups and challenger banks |
| August – October 2016 | On-site discussions with the registered firms’ subject matter experts and operational members of staff |
| October – November 2016 | Final considerations and drafting |
| November 2016 | Board report |
| November – December  | Publication of findings |

## Future phases

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| **Phases** | **Details** |
| Money Management & Financial Difficulty | Money management and financial difficulty customer journeys will need to be evaluated. Once completed the most appropriate firms will be approached and invited to participate |
| Consumer Vulnerability | It is expected that the new Standards will have been fully embedded at this stage and therefore fully integrated within the firm’s digital offerings |
| SME  | The SME Standards will have been launched by this time and a similar approach to the Personal Standards will be adopted. The first areas to be reviewed will be those where risk is deemed to be greatest, taking into account the need for any new Standards to be incorporated within existing operations |

1. [Regulatory Technology](https://complyadvantage.com/) (Regtech) is the use of new technology to facilitate the delivery of regulatory requirements. [↑](#footnote-ref-1)
2. <https://www.accenture.com/t20160218T103231__w__/us-en/_acnmedia/PDF-5/Accenture-Banking-Lloyds-Bank-UK-Consumer-Digital-Index-2016.pdf> [↑](#footnote-ref-2)
3. Financial technology (Fintech) is an economic industry composed of companies that use technology to make [financial services](https://en.wikipedia.org/wiki/Financial_services) more efficient. [↑](#footnote-ref-3)