

ANNUAL REVIEW

2018



The Lending Standards Board

Our vision

To ensure all personal and small business customers receive a fair deal from their lender.

Our mission

We promote fair lending by overseeing the achievement of principles, customer outcomes and standards and acting where firms fail to achieve these.

Our Standards

Our Standards of Lending Practice (the Standards) for both personal and business customers cover loans, credit and charge cards and overdrafts. In addition to this, our Standards for small business customers also now cover commercial mortgages and asset finance.

Personal and small business customers of our registered firms are protected by standards which focus on fair customer outcomes.

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EXECUTIVE SUMMARY

Our vision

“To ensure all personal and small business customers receive a fair deal from their lender.”

LSB’s strategic aims



Promote and help deliver fair outcomes and greater consistency for personal and small businesses borrowers



Achieve a high level of market coverage of personal and business lenders



Demonstrate how self-regulation can deliver good customer outcomes and complement the work of the FCA



Be recognised as a leading, influential voice for personal and business lending



Add value to Registered Firms

Our Key Achievements

- Increased protection for personal customers, by completing a review of our personal Standards.
 - Increased protection for SMEs, with the Standards of Lending Practice for asset finance launched.
 - Increased protection for SMEs, with commercial mortgages added into scope of the Standards of Lending Practice.
 - Increased the diversity in our registered firms by registering our second FinTech firm.
 - Increased protection for customers by overseeing the implementation of four of the FCA's Credit Card Market Study remedies.
 - Increased protection for customers by publishing our first summary report on banks' application of the Access to Banking Standard.
 - Increased protection for vulnerable customers by completing a review of the Vulnerability Taskforce principles and recommendations.
 - Increased understanding on the impact of vulnerable circumstances on people running small businesses with the publishing of ground-breaking research in partnership with the Money Advice Trust.
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Our Ambitions for 2019

Continue to add value for our registered and new firms by:

- Overseeing the personal and business Standards and extending their scope into areas where there is a risk of customer detriment.
 - Evolving the role of voluntary standards, working with the FCA and other key bodies to identify areas where the LSB can be the effective oversight body.
 - Increasing our profile, reach and influence with government and regulators.
 - Taking on responsibility for additional voluntary standards and further developing our insight and support services.
 - Increasing protection for SMEs to £25M turnover.
 - Taking on the Governance role for the APP scams CRM Code, supporting the industry in helping to protect victims of these crimes.
 - Increasing the number of signatories to the Standards and the CRM Code.
 - Developing Insight & Support and emerging risks forum to other parts of the retail financial services ecosystem enabling the LSB to share more best practice amongst registered firms.
 - Gaining recognition for the Business Standards from the FCA.
 - Working with the FCA and PSR to provide a complementary regime of self-regulation thus improving efficiency.
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CHAIRMAN'S FOREWORD



The Lending Standards Board believes that, while statutory regulation is essential to provide consumer protection, voluntary self-regulation helps also to build trust. We are there to complement the work of the FCA and other regulators. But because our registered firms sign up to the codes and standards we oversee, customers can be assured that they are truly committed to ensuring fair outcomes for consumers.

As Britain leaves the EU, the establishment of such voluntary standards will become all the more important, not only to ensure that UK consumers continue to enjoy protection, but to facilitate trade deals with other nations. Our partnerships with UK Finance and consumer bodies, with the FCA, other regulators and government will also be of increasing importance.

Small businesses will need support to thrive in this new and challenging environment and so the development of the Standards to include vulnerability and to cover asset finance are important

The LSB itself has adapted to these new challenges. The governance review completed in 2017 moved us away from the sponsorship model to appoint a fully independent board, which now includes Liz Barclay (former consumer journalist), Professor Elaine Kempson and Graham Peacop, former CEO of the UK Cards

“ As Britain leaves the European Union, the establishment of voluntary standards will become all the more important, not only to ensure that UK consumers continue to enjoy protection, but to facilitate trade deals with other nations. ”

Association. We will be appointing new board members over the coming months who, while independent of the sectors we oversee, have an understanding of those sectors.

Barbara Moorhouse, Margaret Bloom and Jonathan Rees step down from the board in 2019 and I want to thank them for their dedication to the LSB over the years. They have seen the organisation through an exciting period of transition and their expertise and guidance has been essential in helping us navigate this change.

I am delighted to report that we have appointed Dave Pickering – well-respected for his expertise in retail financial services, governance and especially in the field of risk, audit and compliance – as permanent CEO.

All of this contributes to our ability to deliver on our vision that all customers receive a fair deal from their lender and, while adding value to our registered firms, leading debate and offering an influential voice.

I want to thank the staff at LSB who have devoted their energy and expertise to ensure that we remain a highly credible organisation at the forefront of voluntary self-regulation. I am looking forward to the year ahead and working collaboratively with our registered firms, regulators, consumer organisations and others to help build trust in financial services.

CHIEF EXECUTIVE'S REVIEW



Three things we can all agree on, I think, are that:

- We are in a constantly changing world;
- We are having to balance significant competing priorities;
- We need to add value.

With that in mind, I am going to focus briefly on how these are reflected in the work of the LSB in 2018 and in our plans for 2019.

The LSB set out three years ago to be the home of voluntary standards for retail financial services. I am delighted to say that we are getting there. The key for us has been to maintain our focus on our core strength – lending – while broadening into other areas where the LSB's skills can help provide solutions for our firms in areas of potential customer harm.

2018 has seen the LSB take on responsibility for oversight of the Access to Banking Standard, as well as making good our promise when we launched the Standards of Lending Practice for business customers in 2017 that we would increase product scope. We have launched a separate set of Standards covering asset finance and commercial mortgages are now covered by the Standards. In 2019 we

will be extending the SME protection to cover all businesses with a turnover of up to £25 million, and our thematic work on business lending will start in earnest – having Standards that are not independently overseen and enforced lack credibility.

We have continued to progress work in the personal space, opening a consultation on the personal Standards, the outcome of which will be seen in 2019, overseen the implementation of the FCA's credit card market study information remedies and undertaken the first in depth independent thematic review on how firms are handling consumer vulnerability.

Vulnerability leads me on to our insight and support work, which is where we offer a combination of value added services to firms and provide a forward look for the industry. We issued a landmark report in 2018 in the House of Lords investigating the impact of vulnerability on SMEs. This was another industry 'first' and we will be leading on this area in 2019 as we look to build on our initial research.

Our insight and support work has really taken off in 2018 and this report sets out some of the exciting work we have undertaken with two leading organisations in the debt advice space. Word seems to be getting out on insight and support which is increasing demand. A challenge for us, yes, but a nice one to have as it shows how we are meeting the needs of firms and adding value.

On that note I will let you read on. Before you do, I would like to thank all of our registered firms and partners for their continued support and to ask you to keep challenging us; and to say a heartfelt thank you to the fantastic team at the LSB, whose ability to deliver in deeply challenging circumstances is remarkable.

2018: A REVIEW

Our vision is to ensure all personal and small business customers get a fair deal from their lender. We help to build trust in the industry by collaborating with stakeholders and by helping firms deliver fair outcomes. We continue to look to innovate and remain relevant by expanding into new areas and are committed to adding value.

We have gradually increased our reach to reflect the constantly changing world of financial services, extending it significantly within the Small and Medium Enterprise (SME) sector and continuing to move beyond consumer credit in personal lending into other areas of conduct in retail financial services.

Oversight of our registered firms

The independent oversight of our registered firms remains at the heart of our work – ensuring the Standards of Lending Practice are being adhered to. Each firm has undergone a risk assessment review to assess the adequacy of their own internal governance arrangements for the personal Standards, and we are in the process of repeating this exercise for the business Standards. At the end of those reviews each firm will have its own maturity rating which allows us to determine our oversight strategy for them. Each firm is allocated a dedicated compliance manager, which provides firms with direct access to industry expertise.

We have begun our thematic review work on the business Standards, beginning with how firms are managing SMEs in financial difficulty. Find more details of our planned work in *'The Future'* section of this report.

Complementing the work of the FCA: Credit Card Market Study remedies

The LSB aims to complement the work of the statutory regulator to add value to both firms and customers. Following its market study into how consumers use their credit cards and whether the market is working well, the FCA announced a package of measures intended to provide greater consumer protection. Responsibility for the oversight of the four information remedies was assigned to the LSB: expiry of a promotional rate; prompts for customers who are nearing their limit; allowing customers to request a 'later than' payment date; and enabling customers to exercise greater control over unsolicited increases in their limit. We have overseen the implementation of the remedies and will be completing a further piece of work in 2019 to assess how effective they are.

Demonstrating the value of self-regulation: Access to Banking Standard

The LSB believes that voluntary self-regulation can provide fairer treatment for customers and build trust. In September, we published our first summary report¹ on banks' application of the Access to Banking Standard, the agreement reached by the banks to ensure that customers are better informed about a branch closure and the reasons behind it. Key findings and recommendations included improvements to the information provided to customers to understand the effects of a branch closure in their area (the impact assessment document), identification

¹www.lendingstandardsboard.org.uk/access-to-banking-standard-summary-report/

of, and support for, customers in vulnerable situations, enhancements in staff training, and continued assistance following a closure. We will continue to work with the industry to support firms in implementing the actions and enhancements highlighted in this report, to make sure that any of the areas in the current standard that are not being met are addressed; we will of course maintain our oversight of future closure programmes.

Review of the Vulnerability Taskforce principles and recommendations



Vulnerability is an increasingly important topic for the industry, consumer bodies and regulators, as it becomes the focus of attention when assessing the delivery of fair customer outcomes given its far reaching impact on individuals. UK Finance established a Taskforce which published a report - 'Improving Outcomes for Customers in Vulnerable Circumstances'- and the Taskforce asked us to carry out an independent review of the implementation of principles and recommendations contained in the publication². In October we published a [summary report](#)³ of our findings.

We found that firms wanted to do the right thing, along with support from senior and executive management. All of the firms had

implemented policy and procedures for dealing with vulnerable customers, although they are at different stages in implementing the principles and recommendations. We assessed progress towards achieving these as ranging from 'satisfactory' to 'substantial'. We recommended a number of enhancements as well as good practice which we believe will enhance implementation and consistency of approach. Individual reports have been issued to firms and action plans received. We are monitoring progress and will check again in a year's time.

Principle 1 - flexible response: Employees should be empowered to make decisions and step outside of standard processes if this provides the right customer outcome, enabling people to take ownership and 'do the right thing'.

Principle 2 - awareness of support: Employees should be reminded regularly of the support organisations that can assist customers in vulnerable circumstances.

Principle 3 - bereavement: Employees dealing with bereaved customers should be trained on the wider spectrum of vulnerable circumstances so that they can help customers better.

Principle 4 - communication: Clear communication of team functions and titles avoids the risk of causing confusion and ensures that customers are referred to the correct place for assistance.

Principle 5 - third party support: Empowering employees to be flexible can help customers who need help from a third party to operate their account.

Principle 6 - fraud and scam education: Education can help prevent customers from falling victim to fraud and scams. Initiatives aimed at certain populations of customers, for example visits to care homes, or joint events run in branches with members of local police forces, helps raise awareness of fraud protection measures.

Principle 7 - oversight: Oversight programmes should include an element of soft skills testing covering assessments based on tone of voice, listening and hearing what customers need, and showing empathy.

² www.bba.org.uk/publication/bba-reports/improving-outcomes-for-customers-in-vulnerable-circumstances

³ www.lendingstandardsboard.org.uk/financial-services-vulnerability-taskforce-principles-and-recommendations-review-of-progress-towards-implementation/

Review of the Standards of Lending Practice for personal customers

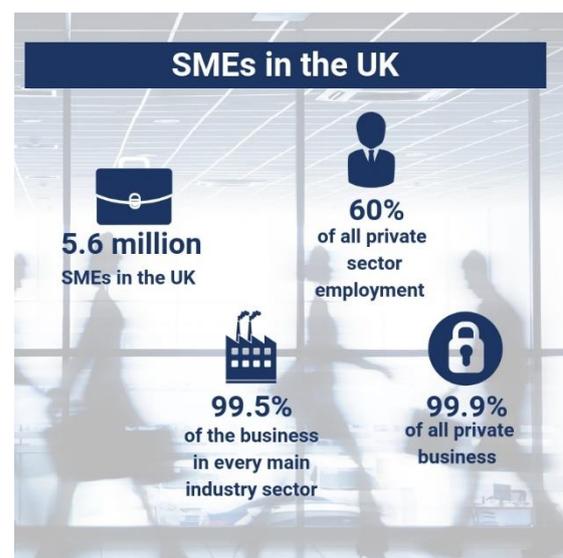
To keep pace with changes in financial services we have completed a review of our Personal Standards **which cover c.90% of the personal lending market**, consulting with registered firms, industry and consumer bodies. To reflect areas of emerging risk, and the increase in the number of FinTechs operating in the UK, we particularly sought views on how the Standards can embrace new digital ways of working and how we can capture good practice related to financial inclusion. We found support for the creation of financial inclusion standards and for the view that the personal Standards are fit for purpose for encompassing digital customer journeys. We will publish the outline of the review in autumn 2019.

Focus on Standards of Lending Practice for business customers

Our business Standards have been a major focus for us in 2018. When we launched them in March 2017 we still operated in our traditional territory of loans, overdrafts, credit and charge cards, although with an increased threshold of £6.5m turnover (up from €2m). In June 2018 we launched the Standards of Lending Practice for asset finance products

offered to business customers, as well as bringing commercial mortgages into scope of the Business Standards. This provides greater protection to SMEs borrowing from our registered firms. It also strengthens the voluntary self-regulation regime. We now have 21 registered firms signed up to our Business Standards, **covering approximately 96% of the SME lending market**.

Our registered firms have undertaken a gap analysis to assess which Standards are being met, and where further work is needed in relation to the new products. The Standards apply to new products as of 1 October 2018, except where firms require further time to meet them following their gap analysis.



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⁴ www.fsb.org.uk/media-centre/small-business-statistics

Insight and Support

Insight and Support is in its third year. Throughout 2018 we have developed our Insight and Support service, which has resulted in the creation of a range of services including benchmarking, workshops, business reviews and practitioner support.

As part of our work in this area we have completed the first year of a three year review for a major debt charity to ensure that their governance, policies and procedures result in positive outcomes for clients.

We are also delighted to be working with the Single Financial Guidance Body (now Money and Pensions Service) to conduct an independent evaluation of the

implementation process and effectiveness of the Standard Financial Statement (SFS).

We plan to increase engagement with our registered firms and partner organisations through scheduled, value adding activities such as training and workshops, together with bespoke packages designed to meet the needs of individual organisations. We aim to extend our training programmes through the delivery of online training over the next 18 months.

The key to insight and support is that it is client driven and provides access to industry expertise. It has been very well received and demand is increasing.



“ We have always appreciated LSB’s encyclopaedic knowledge and ability to communicate equally well with both experts and those less familiar with the topic. The Insight and Support team is an authority in its field and is highly respected, all at the same time as being one of the most friendly and collaborative teams you could wish to work with **”**

Senior Manager,
Leading Advice Body

“ I find it is quite alright to question yourself and seek validation from a critical friend.

LSB has been that critical friend to my project. While supporting our work and ensuring that we capture all important points they also help us not to lose the main point.

I feel our working relationship has added great value in my project **”**

Project Manager,
Leading Advice Body

Registration of new firms

In line with our strategic aims we have continued to encourage new firms to register with us. Indigo Michael Limited, trading as SafetyNet Credit, is our latest registered firm, and the second FinTech company to register with us. We hope that more FinTechs will see that registration with the LSB can help their business meet their regulatory requirements, grow commercially and deliver value and fairness to customers.

We will continue to prioritise the registration of new firms to increase our market coverage and broaden the range: more challenger banks especially in the SME space, debt collection agencies, other alternative lenders and FinTech. We are engaging with peer to peer lenders and investigating how our Standards could benefit those firms and the customers they serve.

“ Our innate strengths as a FinTech lender are innovation and serving customers with the latest technology and convenience. What the LSB is able to add to this relationship is not only the validation of our regulatory compliance but sharing of knowledge and best practice across the industry. We view this as another line of defence in our ongoing efforts to continually achieve the best outcomes for our customers ”

- Rob Ashton, CEO Indigo Michael Ltd -

Researching topics that matter

Small businesses are essential for a flourishing UK economy so understanding the nature and impact of vulnerability on the people who run them is essential.

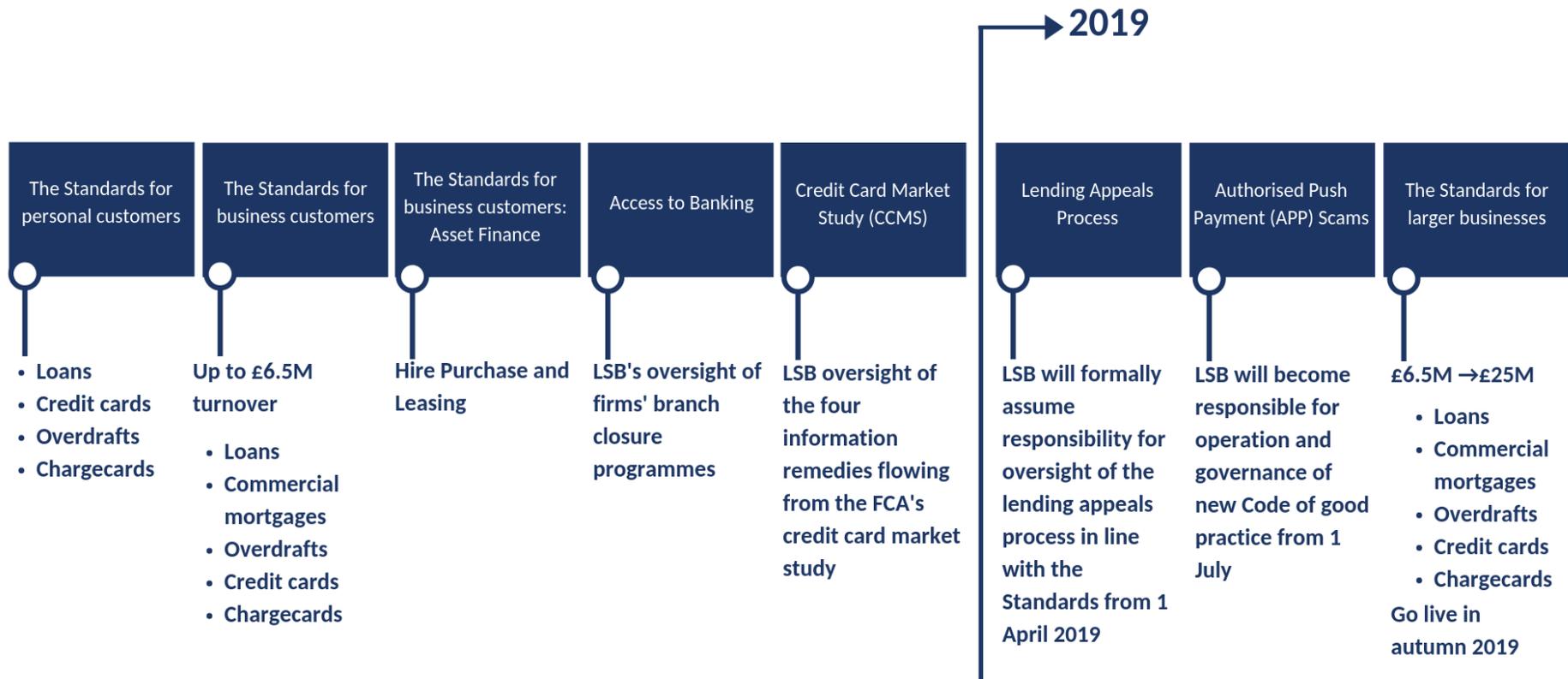
In July we published a ground-breaking [report](#),⁵ in partnership with the Money Advice Trust (MAT), which explored the impact of vulnerable circumstances on people who run small businesses. The report draws on insight gathered from our registered firms, as well as interviews with money advisers and clients of Business Debtline, the UK's dedicated free debt advice service for small business owners.

The report concluded that while progress is being made, there is more that can be done to support business customers in vulnerable circumstances. The findings are being used to stimulate debate and increase firms' understanding of how vulnerability might affect their business customers. We held a roundtable for firms in September 2018, and this was followed by joint hosting of roundtables with MAT at the 2018 Labour and Conservative party conferences where the findings were discussed.

Our firms are identifying the main actions they can take to address the findings and we will be updating our information for practitioners with the good practice identified. We will also work with firms to assess where they can improve, including periodic oversight to ensure good practice has been implemented and embedded.

⁵www.lendingstandardsboard.org.uk/supporting-business-customers-in-vulnerable-circumstances/

The home of voluntary Standards: Timeline for current portfolio



THE FUTURE

Time moves on and the needs of customers evolve rapidly. The economic forecast for the UK is far from certain as it is still deliberating on how it will exit from the EU. Alongside this are changes in markets, and in consumer behaviour, as many customers become more comfortable with digital services and more firms enter the FinTech space. This needs to be balanced with the fact that consumers' needs vary widely. For firms to meet those needs they must understand their customers and be able to tailor their services, for both business and personal customers.

We are evolving our own activities to meet these changes, including further extending our reach of registered firms and developing our Insight and Support services. In addition, we continue to expand our activity outside of lending, becoming the natural home for voluntary standards and codes across financial services. We will continue to consult with our stakeholders to make sure we can protect customers and support and challenge our registered firms.

Development of our Personal Standards

Following completion of the review of our Standards for personal customers we will be proposing a light-touch approach to future updates. Our main focus will be on where the Standards can support firms to improve outcomes for customers in key areas such as financial inclusion, vulnerability and where their loans have been sold to another provider. Our approach will be collaborative and include workshops with registered firms to ensure pragmatic solutions are developed.

Development of our Business Standards

We are continuing to evolve the Business Standards and have established a working group to create assess how the Principles for Larger Businesses may be adapted to cover lending to businesses up to £25 million turnover. As part of this we intend to strengthen the protection for businesses in difficulty by incorporating the Institute for Turnaround's statement of principles for business support units into the Standards, and considering the recommendations contained within the FCA's report on RBS's Global Restructuring Group (GRG).

We will continue our engagement with the All-Party Parliamentary Group on Fair Business Banking and to play an active part in its contracts working group.

Following publication of Simon Walker's review into the complaints and alternative dispute resolution for SMEs⁶ we are supportive of banks' proposals to offer access to alternative dispute resolution to more SMEs (with annual turnover between £6.5M to £10M) and to review cases outside the historic remit of the FOS. We also welcome the independent steering group, with input to the design and implementation of the scheme by a wider group of stakeholders, and the establishment of an Independent SME Advisory Council. These positive moves by the industry complement our Standards of Lending Practice for business customers, which set high standards of behaviour for lenders in the treatment of SMEs. Our Standards represent industry good practice and the FOS, with its proposed increased remit of reviewing complaints from firms with

⁶ www.ukfinance.org.uk/review-into-the-complaints-and-alternative-dispute-resolution-adr-landscape-for-the-uks-sme-market/

up to £6.5M annual turnover, will be able to use the Standards as industry best practice in its adjudications. We would hope that this will encourage more firms to commit to the Standards and send out the message that the industry is able to self-regulate effectively.

FCA recognition of the Business Standards

Another priority is to gain increased industry and regulatory recognition for our work, including the submission of our Business Standards to the FCA for public recognition. This is part of the FCA's new approach of assessing and recognising codes that set out proper standards of conduct for unregulated markets and activities.

Continuing our themed reviews

As part of our oversight strategy we will be completing more focussed assurance work related to the Business Standards during 2019, particularly in areas of potential high risk. The first review is in the area of financial difficulties, with a summary report to be published in Spring 2019. This will be followed by reviews of debt sale and transparency at point of sale. If, during the course of our work, we identify additional areas of high risk we will adjust our plans accordingly.

Emerging Risks

We will continue to investigate areas where self-regulation, supported by independent oversight, may be an appropriate defence against emerging risks of increased consumer detriment. We will identify possible gaps based on our knowledge of the industry and collaboration with UK Finance, consumer organisations and other stakeholders and, of course, listening to registered firms. This initiative will provide registered firms with

early notification of potential issues. Developing this aspect of our work is key to our plans for 2019.

Continuing to demonstrate the benefits of self-regulation and complementing the work of the FCA

In line with our commitment to demonstrating how self-regulation can deliver good customer outcomes and complement statutory regulation we will continue to identify where we can add real value – plugging regulatory gaps and raising standards. We will build on our successes: assessing the implementation of the Vulnerability Taskforce principles and recommendations, and our assessment of banks' application of the Access to Banking Standard. We will also continue our oversight of the FCA's Credit Card Market Study remedies through an effectiveness review later in 2019.

Contingent Reimbursement Model Code (CRM) Authorised Push Payment (APP) Scams

The APP Scams Steering Group has agreed a voluntary Code of good practice which aims to better protect customers and reduce the occurrence of APP fraud. Scams involving APPs occur when consumers are tricked into authorising a payment to an account that they believe belongs to a legitimate payee – but is controlled by a scammer. The Code sets out the agreed principles for greater protection of consumers and the circumstances in which they will be reimbursed.

The Code will become effective on 28 May 2019. We will be responsible for the ongoing operation and governance of the Code from 1 July 2019.

Code of Conduct for open banking

We are pleased to be working in partnership with the industry to investigate the need for a new code of conduct for open banking, the secure way to give providers access to your financial information, helping consumers and small businesses manage their finances better, using data to identify more suitable and affordable solutions. Such a code would identify and create conduct standards to drive innovation, improve customer outcomes and build consumer trust. It would cover areas such as data ethics, security and communication. The code could ultimately be used beyond the nine largest banks and building societies in Great Britain and Northern Ireland (the CMA9⁷) and financial services, by organisations using open banking in other sectors. We have set up a working group to discuss and initiate the development of a possible code, which we will progress in 2019.

External Engagement

Increasing our profile as a leading influential voice within financial services is crucial if we

are to make sure that all personal and small business customers receive a fair deal. We are reviewing our communications and external engagement strategy to increase our ability to work in partnership with the industry and other change-makers, such as government, regulators and consumer organisations. This will include a full refresh of our website which will improve the user experience as our remit expands.

Increasing our research activity

In line with our strategic aim of being recognised as a leading, influential voice for personal and business lending, we will do more research. Working with registered firms, this will focus on areas of emerging risk and on increasing insight.

We will increase our collaboration with a broad range of stakeholders, making more links between firm practices, customer experiences and the wider policy environment – maximising the relevance and impact of our work.

⁷ Based on the volume of personal and business current accounts.