Standards of Lending Practice for business customers

Themed Review - Financial Difficulties

Summary Report

2019

Contents

Introduction

The treatment of business customers in financial difficulties or early collections is an area of focus for the Lending Standards Board (LSB) due to the ongoing challenges presented by the economic environment, the publicly reported issue of treatment of businesses in turnaround situations and the impact that it has on business customers.

The *Standards of Lending Practice for business customers* (the Standards) which replaced the micro-enterprise provisions of the Lending Code, are composed of nine main areas and follow the customer journey. These set out standards of good practice in relation to lending to business customers, across the lifecycle from the product design phase to the initial offering of the product through to dealing with business customers who find themselves in financial difficulty**.** At the time of this review the Standards covered small business customers from micro-enterprise through to businesses with a turnover of up to £6.5m.

Following the launch of the Standards, it was intended that ongoing assurance work would be undertaken to understand how Firms are meeting these requirements.

Objectives and scope

The objective of this work was to understand how Firms are meeting the Standards of Lending Practice for business customers in financial difficulty or in the early stages of the collections process.

The assessment process considered the key controls that the Firms have in place to ensure the Standards are being followed and the correct customer outcome is achieved. The scope of the review encompassed all business customers afforded the protections of the Standards i.e. Micro-enterprise businesses through to those with a turnover up to £6.5m, for both secured and unsecured borrowing.

This review included an assessment of:

- The governance, controls and oversight in place to ensure adherence to the Standards;
- The staff training programme provided to front line staff and specialist teams (where relevant);
- The extent to which internal systems, policies and processes allow for a flexible response to take account of individual customer circumstances;
- The monitoring and oversight completed to assess the effectiveness of the policies, processes, training and controls in place;
- The policies and procedures in place to assist business customers in financial difficulty, including forbearance, turnaround and vulnerability.

Approach

To complete the assessment, we reviewed the way Firms manage and treat business customers approaching, or already in, financial difficulty.

Six Firms were involved in this review. Initial meetings were held with the Firms to gain a high-level understanding of the structure and functions in place to deal with business customers in financial difficulty. This was followed up with a detailed information request, which enabled a desk-based review of key policies, procedures, training and sample customer documentation, together with output from any recent assurance and audit work.

Onsite visits were completed from over a six month period to May 2019. The visits provided us with an opportunity to obtain further details of the governance, controls and oversight arrangements in respect of the Standards. The time was spent with key personnel involved in the management of businesses in financial difficulty to validate the information previously submitted and conduct an element of outcomes testing through call and file reviews.

The report splits our findings and observations into three categories as follows:

Category	Action or response required
Non-adherence	Firms are not adhering to an element or elements of the Standards and remedial action is required.
Enhancement	Firms have made progress with, or are meeting the Standards, but there are opportunities for strengthening adherence or enhancing existing processes to improve outcomes; Firms are encouraged to consider implementing these and providing a rationale if they choose not to adopt.
Good practice	Good practice examples have been observed and are presented for Firms to consider; no further action is required if Firms decide not to adopt.

1. Executive summary

Across all Firms visited, it was apparent that significant work has been undertaken to promote a culture supportive of business customers in difficulty, which is directed and led by executive and senior management. Internal policies and procedures are designed to incorporate and embed the Business Standards, oversee business customer accounts and behaviours, identify any potential or actual financial difficulties and then take appropriate action.

Each Firm had established governance structures in place to allow for the dissemination and reporting of performance in relation to the Standards and the management of customers in difficulty. However, we did identify a need to enhance the oversight, quality assurance (QA) and testing undertaken, with a focus on conduct. To ensure the effectiveness of information reported and, consequently the quality of decision making, steps should be taken to review and fully embed the current practices. Good governance correlated with good practice in the treatment of business customers.

Whilst there are clear triggers in place across all Firms to ensure action is taken at the earliest opportunity, our review found that this was not always happening. Two Firms had self-identified this as an issue and were working to put further controls in place to ensure that triggers allowed for the prompt identification of businesses in financial difficulty and that the support provided was timely and appropriate.

Firms typically employ two models for managing business customers; a ‘one – to – one’ relationship management model for those customers with higher turnover, significant lending exposure or complex business model and a ‘one customer to many agents’ model for smaller businesses. In particular, relationship managers are skilled in working with business customers across all stages of a customer journey and demonstrated valuable knowledge of different sectors. We found both models for managing business customers to be appropriate.

Firms’ direction to all staff and business customers is that communications will be constructive, positive and empathetic with clear support for viable turnaround plans. Even though staff demonstrated a genuine desire to act in this manner, we identified a need for enhanced soft skills training, particularly within the lower end of business banking. Improvements are required in the ability to question and probe business customers to fully understand their circumstances and to be clear about the expectations and obligations during, and at the end of, interactions.

Despite Firms having vulnerability policies in place, our review identified that policies together with processes and training were not always tailored to business customers and there was a heavy reliance on leveraging from the approach for personal customers. It is important that the differences are recognised, and the approach is adapted accordingly. There is the potential for detriment to occur if Firms do not have business focused procedures, bespoke training, appropriate recording of information and referral for tailored treatment. Wider considerations of vulnerability that apply to business customers include economic and competence factors as well as the impact of a change to a customer’s personal circumstances.

Opinion

Whether a Firm's book is large or small, fair customer outcomes must be at the centre of all customer interactions. Ensuring the Standards are embedded will enable Firms to demonstrate that correct outcomes are achieved.

A rating structure was applied to all Firms visited. A fair proportion of the Firms demonstrated a good level of adherence to the Standards resulting in fair outcomes in most instances. However, there are Firms that require more significant corrective action to ensure the Standards are being complied with, and correct outcomes are consistently achieved.

We acknowledge the important activity undertaken by Firms in this area and believe that there are significant levels of good practice and enhancement that can be applied across the industry to ensure improvements continue to be made.

Summary Findings

Non-adherence

We identified a number of instances of non-adherences across the Standards indicating that further work is needed to ensure business customers are receiving appropriate support and fair treatment.

Management information - System constraints resulted in weaknesses in the oversight of business customers. Key information was not being captured such as complaints and vulnerability for business customers which was having an adverse effect on the management of risk.

Oversight and assurance - We saw examples where a significant amount of time had elapsed since the completion of assurance and audit reviews. This was typically at the Firms where weaknesses in the quality of customer interaction were identified.

Reference to the Standards of Lending Practice - The explicit consideration and reference to the Standards of Lending Practice should be enhanced across all Firms to ensure heightened awareness of the Standards. Reference to the Standards needs updating in customer correspondence, supporting literature and internal documentation. Any breaches that meet the materiality threshold must be reported to the LSB and remediated in a timely and effective manner.

Training – Training needs to be strengthened to ensure customer interactions are effective and the correct outcomes are achieved.

Customer interaction - Firms must explore business customers' circumstances in a skilful manner in order to ensure the customer's situation is understood and the most appropriate support is offered in a timely manner. This was more prevalent within the lower end of business banking and improved training and oversight would ensure the agent is able to explain and deliver appropriate and sustainable support.

Communication - Firms must make it clear to business customers, during and at the end of each interaction, the commitments that have been made and the expectations of the business customers.

Forbearance - Firms are inconsistent when exploring the customer's circumstances and this could affect the ability to identify and agree appropriate forbearance. Business customers may not know that forbearance is available and, without the correct engagement, opportunities to discuss this option could be missed. The level of forbearance that is appropriate will depend on timely, robust analysis of the financial well-being of the business and the prospect of recovery. Therefore, the initial, and continued, suitability of forbearance must be subject to sufficient scrutiny to ensure business customers receive the correct support.

Audit trail - The audit trail of the customer journey needs to be better evidenced and requires strengthening. This will ensure that a single view of all interactions is available, a complete picture of the ongoing relationship has been established and all actions are recorded.

Vulnerability - Vulnerability policies, processes and oversight across most Firms need to be reviewed to ensure they are sufficiently focused on business customers, taking into consideration the effects of vulnerability on both the customer and the business. This should then translate into the provision of appropriate training and support. We would expect this to be reflected in the control framework, in particular the effectiveness of management information and quality assurance. Wider considerations of vulnerability that apply to business customers include economic and competence factors as well as the impact of a change to a customer's personal circumstances, in relation to the operation of the business.

Enhancement

Good progress was evidenced against a number of the Standards however further enhancement is required to ensure fair customer outcomes are consistently being achieved.

Early intervention - All Firms had triggers that are used to identify business customers experiencing financial difficulty. However, this was not always being utilised at the earliest opportunity to help manage and provide appropriate specialist support to business customers.

Contact - To encourage contact with business customers, outbound calls should not be presented as 'withheld number'. Some business customers are reluctant to answer calls that are displayed anonymously and the opportunity to start effective communications in a timely manner can be lost.

Third parties - Firms should ensure that its Credit policy has an agreed approach to recommending professional third parties, including completion of due diligence checks on named providers.

Communication - Although Firms work with business customers to support turnaround plans there were examples where the tone and content of statements made by agents could be improved. Firms need to take care to ensure all communications are appropriate and align to a culture that promotes empathy, is sympathetic, constructive and positive.

External debt agencies - An improvement in the timeliness and understanding of the services each agency provides would help to tailor the support offered to business customers. This would increase the effectiveness of the interaction, improve customer awareness of the support that is available and, ultimately, ensure business customers take advantage of all options when needed.

Good practice

There were instances where Firms were proactive in enhancing and improving adherence to the Standards.

Reporting - In some Firms, there was activity and reporting explicitly against the Standards of Lending Practice .

Internal knowledge sharing - We identified good examples of where relationship managers spent time with specialist support teams. This enabled them to gain an appreciation of the functions involved throughout the customer journey from onboarding through to recoveries.

Industry awareness - The exploitation of sector specific knowledge results in an informed and empathetic interaction which is beneficial to business customers experiencing financial difficulty.

Customer interaction - In a number of Firms, the relationship manager retains contact with the customer during periods when financial difficulty is experienced, and the customer has been transferred to specialist support. This continuity provides useful support and improves communication throughout the customer journey.

Turnaround - Building a suitable transition period into the action planning process gives a good indication of whether the activity undertaken has been successful and has embedded effectively, or if further efforts are required. This re-enforces the customer's relationship with the Firm and can avoid the need for further specialist support.

Communication - We saw good examples of websites that are easy to navigate, and contain information detailing the extra support that business customers may need in the event of financial difficulty.

2. Detailed Report

Governance and oversight

2.1 Controls and oversight

Firms should have adequate governance, policies, processes, management information and controls to enable effective oversight of adherence to standards and delivery of fair customer outcomes.

The governance arrangements at most Firms enabled any emerging or identified issues relating to business customers in financial difficulty to be reported and discussed. The various forums provide good governance of both conduct and credit risk and have an appropriate focus on customer outcomes.

Policies, processes, management information and controls, in most cases, provide a control framework that enables effective oversight to be discharged. Comprehensive reports detailing various credit matters including data relating to those in arrears and financial difficulty are provided through governance structures.

Senior management were knowledgeable of the customer base experiencing financial difficulties, the number of accounts affected and trends across the different sectors.

In general, the three lines of defence model employed across the Firms provides appropriate controls over each business unit's performance and identifies areas for improvement. We saw examples of thematic reviews, independent call quality testing, file sampling, and outcome based testing undertaken to check the efficiency of the process and customer journey and to complement the first line assurance checks. However, we did identify areas where weaknesses were compromising the effectiveness of the oversight.

Non-adherence:
In one Firm, system constraints resulted in key information not being captured such as complaints and vulnerability for business customers. System improvements are underway to ensure these weaknesses are not having an adverse effect on the management of risk.

There were instances where a significant amount of time had elapsed since the completion of 2nd and 3rd line reviews of business customer financial difficulties. This was typically at the Firms where significant weaknesses in the quality of customer interaction were identified. This needs to be addressed to ensure fair customer outcomes are achieved and the responsibilities of effective governance are met.

The level of conduct based quality assurance differed in Firms. Limitations in the QA being conducted correlated with instances where weaknesses in the treatment of business customers were identified. The strengthening of QA will ensure the Standards are being applied and customer circumstances are fully explored.

Good Practice:
Whilst we recognise that Firms aim to embed the requirements of the Standards into their policies and procedures, in some Firms, there was activity and reporting explicitly against the Standards of Lending Practice.

We noticed that the change from the Lending Code to the Standards of Lending Practice had not been incorporated into all correspondence and internal documentation reviewed.

Non-adherence: The explicit consideration of, and reference to, the Standards of Lending Practice should be enhanced across all Firms to ensure awareness of the Standards is heightened and fair outcomes are consistently achieved. Any breaches that meet the materiality threshold must be reported to the LSB and remediated in a timely manner. There were a number of instances where customer correspondence, supporting literature and internal documentation needs to be updated to correctly reference the Standards of Lending Practice.

2.2 Training

Firms should ensure that their employees and their agents are adequately trained to deliver the Standards of Lending Practice's customer outcomes, and that any incentive schemes are driving the right behaviours to ensure fair customer outcomes.

Minimum training requirements and associated competency frameworks are present in all Firms visited and, in a number of cases, these have been recently strengthened following internal review activity. The training completed by the first-line and specialist support teams include areas that should ensure business customers in financial difficulty are treated in a way that leads to fair customer outcomes. Successful completion of the training is monitored with corrective action undertaken where necessary.

The training is supplemented by ad-hoc materials, for example on emotional distress, suicide and financial abuse, and there are knowledge-sharing programmes in place across specialist teams, first line teams and recoveries.

Good practice: A number of Firms have specialist support units that focus on industry sectors with the intention of providing insight and building knowledge. Time is also spent with industry experts such as Insolvency Practitioners to gain knowledge which is subsequently shared through the teams. We identified good examples of where relationship managers spent time with specialist teams to gain an overall appreciation of the functions involved throughout the customer journey from onboarding through to recoveries and exit from the Firm.

Weaknesses were identified in some Firms where additional training is required to provide staff with the ability to question and probe business customers. This will enable them to fully understand the customer's circumstances, how this is affecting the running of their business and their borrowing. An appropriate solution can then be identified, and the best outcome achieved.

Non-adherence: Soft-skills training and the ability to question and probe business customers more to fully understand their situation needs to be enhanced. This was more prevalent within the lower end of business banking. This would, in turn, enable the agent to explain and deliver flexible, appropriate and sustainable support.

Financial Difficulty

2.3 Triggers and process

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 were able to demonstrate that internal policies and procedures have been designed to identify any potential or actual financial difficulties. These are focused on ensuring business customers receive the appropriate level of support with the aim to bring them back to 'good book'.

Accounts typically move through a risk grading structure which tracks indications of financial difficulty and weakening financial positions. This enables a clear view of the business customer book and effective, regular credit monitoring to be applied. For business customers with significant levels of lending exposure and higher turnover, the monitoring takes the form of regular credit reviews, regardless of whether there are indications of financial difficulty. We saw the use of 'watch lists' which include a comprehensive range of factors, such as excess levels and missed payments, that enable the Firms to identify and act on accounts that require intervention and specialist support.

The customer contact models operated by the Firms are applied according to the size of the business turnover, the nature of the business and amount of lending. Business customers with a larger turnover and exposure usually benefit from 'one – to – one' relationship management whereas the smaller businesses are typically handled in a 'one to many' model, albeit with appropriately trained staff. We found that effective operation of either model was conducive to business customers in financial difficulty being handled appropriately and in a timely manner.

Triggers and associated controls are in place across all Firms to ensure timely and appropriate intervention. However, two Firms had self-identified that the control framework needed to be improved to ensure monitoring arrangements are strengthened and the correct support is provided to business customers as soon as possible.

Enhancement: All Firms had triggers that are used to identify business customers experiencing financial difficulty. However, this was not always being utilised at the earliest opportunity to help manage and provide appropriate specialist support to business customers.

It was evident that where signs of financial difficulty were identified in the 'one – to – one' model, proactive steps were taken to raise the matter with the customer and to agree appropriate strategies to address their financial situation. In all cases, regardless of turnover and lending exposure, Firms used a variety of approaches to encourage the customer to make contact. We did notice that some outbound calls were being presented to business customers as 'withheld numbers' which could be a barrier for some business customers who are reluctant to answer anonymous calls.

Enhancement: To encourage contact with business customers, outbound calls should not be presented as 'withheld number'. Some business customers are reluctant to answer calls that are displayed anonymously and the opportunity to start effective communications in a timely manner can be lost.

The support offered by Firms is based on understanding the customer's business, the issues they face and agreeing a suitable action plan. This was typically followed by specialist teams or individuals within the Firms working with the customer to make sure action plans were implemented, effectively embedded and ultimately successful.

Good Practice:
In a number of cases, the relationship manager retained contact with the customer during periods when financial difficulty was experienced, and the customer had been transferred to specialist support. This continuity with the relationship managers provides useful tailored support exploiting the Firm's knowledge of the business customer and improves communication throughout the customer journey.

Firms may recommend or require customers to engage with third parties, such as restructuring agents or business consultants, as part of the forbearance and business turnaround process. It is important that appropriate levels of due diligence have been undertaken to ensure the third parties deliver a service that is reflective of the Firm's values and required service levels whilst allowing customers the option to engage the services of their own advisors.

Enhancement:
Firms should ensure they have an agreed approach to recommending professional third parties, including completion of due diligence checks on named providers.

2.4 Information

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.

All Firms displayed a clear commitment to communicating with business customers who are in financial difficulty in a manner that demonstrates empathy, is sympathetic, constructive and positive with the aim of returning the business to viability in a timely and cost-effective manner. The communication is tailored to the customer's specific circumstances and, particularly in the relationship management model, draws on specific sector knowledge.

Communication is delivered through various channels including face-to-face, telephone calls, e-mail, online and provided in brochures and supporting correspondence. We did not encounter any instances where pressure was being exerted through performance measures or remuneration to close any exchanges before the customer's circumstances have been adequately explored and follow up activity agreed.

However, issues were identified in relation to the application of this approach and the quality of information provided to business customers. It is essential that a consistent level of clarity is provided during and at the end of any interaction. Communication must be clear, accurate and enable the correct support to be provided. During a number of visits, we identified a gap between action plans being established and the effective communication of those plans and commitments. In some cases, interactions were not clearly understood or effective in setting objectives and, as a result were unnecessarily prolonging the period of financial difficulty.

Non-adherence: Firms must clearly explain what is expected of business customers and the commitments they are entering into to resolve their financial difficulties. This information should be provided during any discussions and followed up in writing, as a clear reflection of the meeting. This will ensure the customer understands the approach that is being taken and how this will aid their circumstances.

Firms were not always able to demonstrate a consistent audit trail of customer contact and detailed commitments which would ensure a single, comprehensive view is recorded and available.

Non-adherence: All significant communications need to be recorded, preferably in a similar manner, to ensure an appropriate audit trail is established. This will aid future discussions and provides evidence that appropriate action has been recorded and taken on a timely basis.

A continuity of relationship management was seen when business customers were referred to specialist teams thus promoting an approach that was supportive and demonstrated a significant commitment and ownership of the issues that needed to be addressed.

2.5 Empathy

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 and mutually acceptable solution.

We found that, across the Firms, staff demonstrated a genuine desire to ensure that business customers in financial difficulty were managed appropriately with care and empathy. In particular, relationship managers built positive relationships with business customers. Where a business is identified as being in difficulty, we saw evidence of the Firms allowing business customers time to resolve issues, both operationally and financially, with support provided as necessary.

Good practice: We saw examples of good practice where Firms would draw upon sector specific knowledge to ensure that the strategies and approaches were appropriate, timely and empathetic. The exploitation of sector specific knowledge results in a more informed and empathetic interaction which is beneficial to business customers experiencing financial difficulty.

However, in some Firms we were unable to evidence staff consistently demonstrating skilful recognition and understanding of the customer's circumstances. Issues included limited probing of a business customer's circumstances to ensure a complete picture was established, an emphasis on business customers offering information and driving the conversation rather than it being obtained by the agent, and information, which had previously obtained, being repeated by the customer resulting in an inefficient and frustrating customer experience.

Non Adherence: If Firms do not effectively identify and understand business customers circumstances or changes in circumstances, they will be unable to provide the most appropriate support. This could result in

customer detriment, unfair outcomes and business customers remaining in financial difficulty for longer than is necessary.

There were examples where the tone of statements made by agents could be deemed to be adding undue pressure when discussing their financial situation and proposed approach.

Enhancement:
Firms need to take care to ensure the tone and content is appropriate and align to a culture that promotes empathy, is sympathetic, constructive and positive. This will encourage an open and constructive interaction.

2.6 Forbearance

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. Firms should ensure that the solution offered does not exacerbate the customer's situation.

Most Firms used income and expenditure forms to assess affordability with an emphasis on the payment of priority debts. Once affordability had been established, a range of forbearance measures were offered to provide temporary payment relief. These included stopping or reducing payments for an agreed period and reducing interest rates. The Firms were able to demonstrate a flexibility in applying forbearance within defined mandates.

Non-adherence:
Firms are inconsistent when exploring the customer's circumstances which could affect the ability to identify and agree appropriate forbearance. Business customers may not know that forbearance is available and, without the correct engagement, opportunities to discuss this option are missed. Improved training and quality assurance would address the issues identified during our testing and action has been agreed to address the weaknesses identified.

Reports are used to provide analysis in respect of number of accounts with forbearance applied, asset quality, industry segment, amount of time spent in difficulty and the effectiveness of action taken.

Independent oversight of forbearance is completed in the majority of Firms to monitor the effectiveness and adapt the action depending on the progress made. We evidenced examples where, through independent review or ongoing contact, further information was established, and alternative strategies explored.

We also identified instances where business customers had been in long term financial difficulty and action was needed to ensure plans and forbearance were still appropriate.

Non-adherence:
The level of forbearance that is appropriate will depend on timely, robust analysis of the financial well-being of the business and the prospect of recovery. Therefore, the initial, and ongoing, suitability of forbearance should be subject to sufficient scrutiny across all Firms to ensure business customers receive the correct support and they are not continuing with a situation that is not beneficial to their circumstances.

2.7 Turnaround plans

If a Firm is aware that a customer is, or suspects that they are, in financial difficulty but is able to uphold their borrowing commitments to the Firm, the customer should be given the opportunity to take action to turnaround the business.

The direction to all staff and business customers across all Firms visited is that communications will be constructive, positive and sympathetic with clear support for viable turnaround plans. These are plans that have typically involved expert advice such as from accountants, the issues have been identified and priorities have been agreed. In general, there are no time limits applied that could have an adverse effect on the achievement of the turnaround plans and each case is treated on its own merits.

Firms' industry-specific knowledge and experience are used to enable an informed judgement on the feasibility of business customers' proposed turnaround plans and to ensure the correct level of support is being provided

2.8 Support for turnaround plans

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

If a Firm does not believe that the rescue plan will succeed, the reasons are explained, and other options considered. Staff are generally experienced credit managers with the ability to establish strategies designed to turnaround the business customers situation and help the business resolve any financial difficulties.

Once in place, turnaround plans are reviewed by first-line and monitoring functions on a regular basis, with the frequency of review influenced by the nature of the business and conduct of the account. If a customer's circumstances change whilst plans are in place, further reviews are completed, information is obtained, and actions are adjusted.

We found that timescales were adjusted and were applied in a sympathetic manner to give business customers a reasonable opportunity to implement the adjusted plans.

Once the account has returned to financial health, Firms monitor the effectiveness of action plans for a period to ensure the issues have been genuinely resolved.

Good Practice:
Building a suitable transition period into the action planning process gives a good indication that the activity undertaken has been successful and has embedded effectively, or conversely that further efforts are required. Whilst this does not wholly prevent business customers experiencing future financial difficulties it re-enforces the relationship with the Firm and can avoid the need for further specialist support.

2.9 Withdrawal of support for turnaround plans

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.

As noted above, all Firms use their expertise and work with business customers to ensure the turnaround plans are viable and achievable. If this situation deteriorates, Firms are clear, both in their ongoing communications and ultimately in any communications involving the transfer to a recovery situation.

All Firms were able to demonstrate that any withdrawal of support and associated actions, such as appointing an administrator, are communicated in writing and in a timely manner. All options are explored to ensure the best outcome for the customer is achieved.

2.10 Vulnerability

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

Overall, we found the handling of vulnerability for business customers across the Firms was not as developed as the approach to vulnerability for personal customers. Some Firms had built on the progress made for personal customers to develop their approach to vulnerability in the small business context.

Although we evidenced some tailoring of processes and staff training there were weaknesses across the majority of Firms in this area. This included the need to have more focused vulnerability procedures, targeted training to support the identification and management of businesses in vulnerable situations, the development of systems to record information and the availability of specialist support.

The risk of detriment occurring is heightened if clear action is not taken to understand how vulnerability can impact a business customer and therefore provide the support that is required.

Non-adherence: Vulnerability policies, processes and oversight across most Firms need to be reviewed to ensure they are sufficiently focused on SME customers, take into consideration the differences between the effects of vulnerability on both personal and business customers, and translate into the provision of appropriate training and support. This needs to be reflected in the control framework, in particular the effectiveness of quality assurance and management information across all lines of defence ensuring vulnerable business customers are identified, managed and recorded appropriately.

Some Firms did have a specific vulnerability hub for business customers which had been developed with input from specialist teams and had specific vulnerability considerations such as whether the party with the vulnerability has influence in the running of the business and whether the business sector was vulnerable due to economic impacts. This was re-enforced by regular mandatory training and the engagement of external third parties such as Macmillan Cancer Support, Age UK, the Money Advice Trust, StepChange and Safetalk.

Good practice:
Utilising the experience of the specialist teams to help shape the support and training available for dealing with vulnerability and ensuring the focus is on business customers enables a more effective approach.

Our visits highlighted frequent inconsistencies in how effectively the Firms explored the customer's circumstances ensuring that the most appropriate approach had been taken and clearly articulating processes and next steps.

Non-adherence:
Firms must explore the business customers circumstances in a skilful manner in order to ensure the customer's situation is understood and the most appropriate support is offered. Failure to do so could lead to customer detriment and an unfair outcome.

2.11 Advice and external support

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.

Across the visits to all Firms, we saw examples of business customers being referred to sources of free debt advice. Correspondence, together with leaflets that are issued throughout the customer journey and, in particular, when business customers are transferred into one of the support units, outline the Firm's approach, detail any agreed action and signpost external support.

Websites have also been developed to include the support available from the Firms themselves, as well as the help that the external agencies can provide.

Good practice:
We saw good examples of web sites that are easy to navigate with the pages on financial difficulty detailing the extra support that business customers may need. In one particular example there are sections on improving cashflow, early warning signs, directors' responsibilities, and insolvency with further development underway to include a cashflow tool.

However, our review found that improvements could be made in the timeliness of the provision of external contact and in the understanding of the support that could be offered. Business customers should be signposted to appropriate organisations at the early stages of collections to ensure any necessary support can be provided as soon as possible. Failure to do so results in opportunities for the business to seek free advice, at an appropriate time before their debt escalates, not being maximised.

Enhancement:
An improvement in the timeliness and understanding of the services each agency provides would help to tailor the support that's offered to business customers. This would increase the effectiveness of the interaction, improve customer awareness of the support that is available and ultimately ensure business customers take advantage of all options available to them.

3. Next Steps

Individual action plans have been agreed with all six Firms involved in the thematic review and these will be tracked through to completion by the Lending Standards Board.

We will be completing a follow up review with each Firm where issues have been identified. This will take place once all actions have been completed and embedded to ensure full adherence to the Standards. It is our intention to complete further thematic work focussed on specific elements of the Standards where we feel appropriate.

For those Firms not involved with this thematic review we will discuss the content of the summary report to ascertain if there are any actions needed to be taken to ensure that the Standards are being applied effectively.