The Standards of Lending Practice

for personal customers

April 2021

Introduction

The Standards of Lending Practice for personal customers set out standards of good practice in relation to credit card, overdraft and unsecured loan products and services provided to customers, across the lifecycle from the initial design stage through to dealing with customers who find themselves in financial difficulty.

The principles for lending outline the overarching areas of focus for registered firms and underpinning these are the more detailed Standards of Lending Practice which are broken down into the following topics:

- Product and service design
- Product sale
- Account maintenance and servicing
- Money management
- Financial difficulty
- Consumer vulnerability

There is also a separate section on Governance and Oversight, which sets out the framework registered firms should have in place to ensure that the Standards are implemented and operate effectively.

The customer outcomes focused approach of the Standards acknowledges that there may be several ways to achieve the right customer outcome and that the best solution in a specific situation may differ depending on the customer's individual circumstances.

This approach allows for flexibility so that firms can achieve good customer outcomes through the adoption of high standards of lending practice while continuing to innovate and to deliver products and services that meet the evolving needs of consumers.

This customer outcomes focused approach is applicable across all delivery channels. The Standards have been drafted to be channel neutral which means that they can be consistently applied by firms whether engaging with customers via branch networks, telephony and online, or through digital only propositions. The LSB's oversight regime recognises this and focuses on how firms are demonstrating that they are meeting the outcomes regardless of the channel(s) used to engage with the customer during the course of the product lifecycle.

Each section contains both a 'customer outcome' and an overall statement of how a firm will achieve this; both are supported by a more detailed set of standards to enable firms to demonstrate how they achieve the desired outcome.

Alignment with statutory regulation

Registered firms are regulated by the Financial Conduct Authority (FCA) and will already be required to adhere to the Consumer Credit Sourcebook (CONC). For completeness, the Standards of Lending Practice also include where relevant, references to CONC and the Consumer Credit Act 1974, as amended (CCA). Firms will also need to comply with any relevant requirements of the General Data Protection Regulation (GDPR) and the Data Protection Act 2018 (DPA). The Governance and Oversight section acknowledges that the FCA's Senior Management Arrangements, Systems and Controls (SYSC) requires firms to have adequate governance arrangements in place. The intention is that the Standards of Lending Practice provide an overview of the entire lending process but adherence to any CCA, FCA, CONC or data protection requirement is outside of the LSB's oversight regime.

Application

The Standards of Lending Practice apply to credit card, charge card, overdraft and unsecured lending undertaken in the UK. The Standards apply to products, and any associated product information, communications, services, and support, delivered across all channels offered by registered firms. The Standards are applicable for any firm providing these products or undertaking associated debt collection activities.

Those firms which agree to adhere to the Standards should ensure that any third party or agent acting on their behalf adheres to these in relation to any products or services which are covered by the Standards of Lending Practice.

Statement of Lender and Borrower Responsibilities

The Statement of Lender and Borrower Responsibilities is a separate customer facing document which sets out registered firms' responsibilities to borrowers and what firms ask of their customers. A further consumer facing document, the Statement of Commitment and Borrower Responsibilities, sets out the responsibilities of registered firms undertaking debt collection activities and what those firms ask of their customers.

Both statements have been developed to sit alongside the Standards of Lending Practice. The relevant statement is available on registered firms' websites and customers may wish to read the Standards alongside these.

Principles for lending

Application

Below are the overarching principles that registered firms which lend, and/or undertake associated debt collection activities, to personal customers should use to govern their relationship with their customers.

The principles for lending and Standards of Lending Practice apply to:

- Credit card, charge card, overdraft and unsecured loan products.
- Registered firms and any third parties that retail and service the lending products listed above on behalf of a registered firm.
- In the event that a third party takes over responsibility for any products the customer has with a registered firm, the existing consumer protections will continue to apply.

Registered firms will ensure that their customers:

a. Are told about the lending products the firm has to offer. They will not face unreasonable barriers to accessing these and will be provided with clear information to enable them to choose a product that meets their needs.

b. Will be assured that firms are committed to promoting their products responsibly.

c. Are provided with clear information about how to apply for the different lending products a firm offers, what the application process entails, any implications for their credit rating, along with any other requirements a firm may have.

d. Are aware of the high-level basis on which the firm will make its decision to lend to them. If the customer's application is declined the main reason for this will be provided.

e. Will be provided with clear and understandable documentation along with information which clearly sets out both parties' rights and obligations during the lifetime of the product.

f. Will be supported if they anticipate, or a firm becomes aware, that they will have or are experiencing difficulty in repaying their borrowing.

g. Will know what happens when they have repaid their borrowing or do not require it any longer.

Product and service design

Customer outcome: customers will have access to products and services which have been designed to take into account the range of customer circumstances and needs throughout the customer journey.

Firms will achieve this: with systems and controls at the product and service design, delivery and review stages which will enable firms to assess how products are being accessed and used by customers, with a view to continually developing and improving both the customer journey and customer outcomes.

PD1. Firms should ensure that the product and service design stages take into account internal and external risks which could impact upon a customer's ability to maintain their repayments so that new products do not lead to unsustainable borrowing.

PD2. Firms should consider a broad range of customer circumstances and needs throughout the product design, approval and review stages. In particular, consideration should be given to:

a. the accessibility of products and the risk of exclusion, to help make sure that there are unnecessary barriers to using or accessing a product;
b. customer vulnerability, to help reduce the risk of vulnerable customers experiencing harm and to ensure to ensure that customers can be offered and have access to, appropriate support throughout the lifecycle of the product; and
c. the treatment of customers at risk of or experiencing financial difficulty, to help ensure that appropriate support will be available for those customers.

PD3. Firms should undertake both post-launch and cyclical product reviews to ensure that their products are, and remain, fit for purpose.

PD4. Firms should have in place processes to ensure that appropriate management information is collected to support the review of products and services offered to customers.

PD5. Firms should have processes in place to ensure that all product information and related materials, across all channels, are clear, fair and not misleading. This includes any material provided to third parties.

PD6. Firms should ensure all customer facing processes are as clear and as simple as possible to facilitate transparency and accessibility at both the point of application and the duration of the product.

PD7. Firms should ensure that, throughout the lifetime of the borrowing, customers are able to manage their product and communicate with their firm effectively across the channels offered.

PD8. Firms should ensure that customers are able to access support throughout the product lifecycle via an appropriate channel, including accessing support from a member of staff, where necessary.

PD9. Where products or services are designed to be accessed and used through digital channels, firms should consider what customer support or education can be offered to ensure customers can use the product effectively and securely.

PD10. Firms should ensure that design processes take account of regulatory requirements on data protection and the sharing of customers' data.

Product sale

Customer outcome: customers will only be provided with a product that is affordable and which meets their needs or requirements.

Firms will achieve this: with systems and controls that ensure the sales process, training and incentives promote the right behaviours and directs their employees, or their agents, to deliver the right customer outcome.

PS1. Firms should ensure that when a customer applies for a credit product, they are advised that checks will be made at, and information provided to, Credit Reference Agencies and that information may also be provided to Credit Reference Agencies during the life of the borrowing. [CONC 4]

PS2. Firms should ensure that customers are provided with sufficient information to enable them to decide whether the product they are applying for meets their needs and is suitable for their financial situation. [CONC 4]

PS3. Firms should ensure that the sales process, and any relevant product information presented to customers, is clear and delivered in a way that is suitable for the channel they are using.

PS4. If the customer's application is declined firms should, where possible, inform the customer of the main reason for this. Where information obtained from a Credit Reference Agency search is the main factor in the decision, firms should inform the customer that they are able to check their credit report from the relevant Credit Reference Agencies.

PS5. Where pre-application eligibility tools for credit products are offered, customers should be provided with clear information as to how the pre-eligibility check works and whether it will impact their credit file. Firms should also clearly set out the likelihood that a full application will be successful for the customer.

PS6. Before providing any form of credit, granting or increasing an overdraft or other borrowing, firms should assess, from the information available to the firm at the time, whether the customer will be able to repay it in a sustainable manner without incurring financial difficulty or experiencing significant adverse consequences. [CONC 5]

PS7. Firms' application processes should ensure that a customer is not at a disadvantage because they are serving/have recently served in the British Armed Forces.

PS8. When providing a credit card product, firms should present information about the main features of a credit card in a summary box, as set out in Industry Best Practice Guidelines.

Account maintenance and servicing

Customer outcome: customer requests will be dealt with in a timely, secure and accurate manner. Information provided to customers will be clear in terms of presentation and in clarifying any action that the customer needs to take.

Firms will achieve this: with systems, processes and controls that aim to provide an accurate view of the customer's relationship with the Firm and the relevant lending products they hold. Information held about, and sent to, the customer is up to date and that this is underpinned by appropriately skilled and knowledgeable staff.

AM1. Firms should provide customers, at the appropriate frequency, with statements which include~~s~~ sufficient information to allow the customer to manage their account.

AM2. Firms should ensure that where customers have access to an overdraft, they are supported to limit their use of the product, for instance, by allowing customers to reduce their limits and by having in place timely customer alerts.

AM3. Firms should provide credit card customers with written notice of any interest rate increase, unless this relates to a base rate tracker product, and how they can reject this if they wish to do so. The customer should be advised what happens to the account if they choose to reject the increase. [CONC 6]

AM4. Firms should proactively work to combat fraud and scams and, where appropriate, have processes in place to deal with unauthorised or fraudulent transactions and payments. If customer fraud is suspected; the burden of proof is on the Firm to prove this is the case.

AM5. Firms should inform customers of any changes to the interest rates and fees on their overdraft. To help the customer to compare costs, the old interest rates and fees should be included within the information provided.

AM6. Firms will maintain the security of customers' data and may share information about the day-to-day running of a customer's account(s), including positive data, with credit reference agencies where the Firm has agreed to follow the principles of reciprocity. [CONC 5]

AM7. Firms should ensure that where an individual provides a guarantee/indemnity or other security, they have access to regular financial information on their current level of liability.

Money management

Customer outcome: customers will be helped with managing their finances through pro-active and reactive measures. This will include those designed to identify signs of financial stress and to help them avoid falling into financial difficulty.

Firms will achieve this: with systems and controls that are capable of identifying, across the relevant products held, where customers may be showing signs of financial stress at any point in the customer lifecycle, and pro-actively engaging with the customer to provide support and, where necessary, an appropriate solution.

MM1. Firms should pro-actively encourage customers to get in contact if there has been a change in their circumstances which may impact on their ability to repay their borrowing.

MM2. Firms should use information held about customers to identify those who are exhibiting signs of financial stress.

MM3. Firms should ensure that customers exhibiting signs of financial stress are offered appropriate information and support.

MM4. Firms offering a credit card product should, in line with industry best practice, help customers making regular minimum or low value payments to manage their finances through targeted interventions which will help inform customers of the implications of such repayment choices and provide them with access to support which may help improve the customer's circumstances.

MM5. Firms offering credit card products should, in line with industry Credit Card Market Study information remedies, have in place processes to ensure:

a. Customers are prepared to make timely and informed decisions about the options open to them when a promotional rate comes to an end.
b. Borrowing prompts help customers to take account of their spending and make informed decisions about how they use their credit card and avoid incurring over limit charges.
c. Customers can set a more convenient payment date for future statements to enable them to exercise greater control over their credit card account.
d. Customers are able to exercise greater control over how their credit limit is managed through the provision of clear information and easy ways to express their preferences regarding unsolicited increases in their limit.

MM6. Firms should ensure that customer facing employees and third parties are sufficiently trained and skilled to help them to identify and deal with those customers who may be showing signs of financial stress.

MM7. Where relevant, firms should signpost customers to available tools, whether provided by the firm or third parties, to assist with money management skills where these would be of benefit to the customer.

MM8. Firms should undertake monitoring and assurance work to ensure that their policies and processes are designed, and are operating effectively, in identifying and supporting customers who may require help to manage their finances, especially those customers who are showing signs of financial stress.

Financial difficulty

Customer outcome: customers in financial difficulty, or in the early stages of the collections process, will receive appropriate support and fair treatment, across the different communication channels offered, in order to help them deal with their debts in the most suitable way.

Firms will achieve this: with systems and controls that are capable of identifying and subsequently, supporting customers in financial difficulty. Firms should be able to demonstrate that a sympathetic and positive approach has been applied when considering a customer's financial situation.

FD1. Firms should have triggers and processes in place to identify customers who may be in financial difficulty and should act promptly and efficiently to address the situation with the customer. [CONC 7]

FD2. Customers identified as being in financial difficulty should be provided with clear information setting out the support available to them and should not be subject to harassment or undue pressure when discussing their problems. [CONC 7]

FD3. 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 affordable and appropriate solution.

FD4. If an offer of repayment is made via the standard financial statement, this should be used as the basis for pro-rata distribution amongst creditors covered by the plan. [CONC 7]

FD5. Firms should have appropriate policies and procedures in place to identify and support vulnerable customers where this impacts on their ability to pay. [See also consumer vulnerability]

FD6. Firms should signpost customers who may be in financial difficulty to appropriate support and information which reflects their circumstances and, where appropriate, signpost customers to third parties offering free, impartial debt advice.

FD7. Firms should apply an appropriate level of forbearance, where, after having made contact with the customer, it is clear that this would be appropriate for their situation.

FD8. Where a customer remains engaged with the Firm and maintains their repayment plan, they will not be subject to unnecessary contact.

FD9. Firms should consider freezing or reducing interest and charges when a customer is in financial difficulty. [CONC 7]

FD10. All communication with the customer/their authorised third party will be undertaken in a clear and open manner, via the customer's/third party's preferred method of communication (where this is known, appropriate and available). [CONC 7]

FD11. Firms should take into account the customer's circumstances and consider whether it would amount to a fair customer outcome to pursue, or to continue to pursue, the amount owed.

FD12. Firms should follow a robust due diligence process when selecting third parties for debt sale or debt collection activities to ensure that customers will continue to be treated fairly, in line with the requirements of the Standards of Lending Practice.

FD13. Where third parties are used to undertake debt collection activities, firms should adhere to the governance and oversight requirements on outsourcing during the credit process/life cycle. [See GO7]

FD14. Firms should ensure that, when a customer's debt is sold, monitoring is undertaken at least annually where a firm continues to sell debt to a purchaser, and for a further two years after a firm has stopped selling debt to that purchaser.

FD15. Where a firm is aware that a customer has an ongoing mental health or critical illness that affects the customer's ability to repay their debt(s) or that a customer is terminally ill, the debt(s) should not be sold.

Consumer vulnerability

Customer outcome: inclusive products and services take into account the broad range of customers to which they may apply and contain appropriate flexibility to meet the needs of vulnerable customers. A vulnerable customer is someone who, due to their personal circumstances, are especially susceptible to harm. Where customers are identified as, or the firm has reason to believe that they may be, vulnerable, appropriate adjustments are made to ensure that their individual circumstances are accommodated to enable the customer, or their authorised third party, to manage their account(s).

Firms will achieve this: with systems and controls that are capable of assisting in the identification of customers who are, or may be, vulnerable, and by having appropriate measures, referral points and skilled staff to deal appropriately with the customer once identified.

CV1. Firms should have a vulnerability strategy, which defines its approach to the identification and treatment of vulnerable customers, through whichever channel they choose to engage.

CV2. Firms should have policies and processes governing the identification and treatment of vulnerable customers. These should take into account the channel(s) used by the customer, where the customer is within the customer journey, and the varying nature and characteristics of vulnerabilities.

CV3. Firms should ensure that their employees and their agents are sufficiently trained to help them to identify, and respond to relevant disclosures by, customers who may be vulnerable and to deal with these customers in accordance with their policies and processes.

CV4. When a customer is identified as vulnerable and susceptible to harm, a firm should ensure that its employees or its agents have the ability to offer appropriate support. Where circumstances require, referral and escalation points are in place and employees or agents are aware of how to access them.

CV5. Firms should develop appropriate materials to assist employees in the identification and subsequent monitoring of customers who may be vulnerable.

CV6. Where a firm is developing a new product or reviewing an existing product it should consider vulnerability as part of the design or review process, paying regard to target market, clarity, accessibility and the operation of the product.

CV7. Firms' sales policies and processes should take account of the impact vulnerability may have on a customer's ability to make an informed decision about a product and provide relevant support to customers during the credit application process.

CV8. Where customers in financial difficulty are considered vulnerable, they should be dealt with positively and sympathetically. [See also financial difficulty]

CV9. Firms should undertake monitoring and assurance work to ensure that the vulnerability policies, processes and controls are designed and operating effectively and delivering fair customer outcomes.

Governance and oversight

Customer outcome: customers will receive a fair outcome when taking out a consumer credit product and throughout the whole customer lifecycle, wherever the interaction with the customer takes place.

Firms will achieve this: with systems, controls and governance arrangements that ensure that there is effective senior management oversight of the Firm's achievement of the customer outcomes contained in the Standards of Lending Practice.

GO1. 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.

GO2. Firms should have an effective risk management framework appropriate to the size of the Firm to ensure that the Standards of Lending Practice are achieved.

GO3. 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.

GO4. Firms should have systems in place to ensure that any failure to adhere to the Standards of Lending Practice are identified, and assessed for materiality and root cause. Where the materiality threshold is met, these are reported to the LSB and remediated in a timely manner.

GO5. Firms should have processes in place to identify when changes to the Standards of Lending Practice are made and to ensure that these are effectively incorporated within policies, processes and systems.

GO6. Firms should ensure that when systems or processes are changed, or products are introduced or changed, the impact on meeting the Standards of Lending Practice is adequately assessed.

GO7. Where part of the credit process/life cycle is outsourced, firms should:

a. undertake effective and robust due diligence in selecting a third party to ensure that it can meet the Standards of Lending Practice and deliver the required customer outcomes; and

b. exercise effective ongoing oversight of the third party to ensure that it is meeting the Standards of Lending Practice and delivering the required customer outcomes.

GO8. Firms should have a robust complaints management process in place to deal with Standards of Lending Practice-related complaints and to undertake root cause analysis. [DISP]

GO9. Firms should assign an appropriately skilled and senior individual with accountability for overseeing that the Standards of Lending Practice are being adhered to and customer outcomes achieved, and for ensuring that remedial action is instigated where this is not happening.