LSB
STANDARDS OF LENDING PRACTICE
BUSINESS CUSTOMERS

Driving Best Practice for Lenders' SME Customers

Review of Registered Firms' Adherence to the Standards of Lending Practice for Business Customers

December 2024

Foreword

Report Ratings Scale

Minor	Moderate	Major	Severe

* Full glossary of ratings can be found on page 24

Since their introduction in 2017, the Standards of Lending Practice for business customers have provided crucial protections for UK SMEs. These pioneering Standards set an independent benchmark for how financial services firms should treat SME customers, offering the only independently assessed safeguards for many UK SMEs.

This report summarises the findings of our latest review of how firms are putting the business Standards into action. The results emphasise how effectively the Standards are driving improvements in firms' treatment of SMEs, identifying areas of best practice, shortcomings, and the corrective actions taken where needed.

Our review uncovered 102 instances where firms have fallen short of the Standards' requirements, revealing gaps that are now being addressed. But the findings also showcase numerous examples of firms achieving strong compliance and delivering good outcomes for SME customers, highlighting how the Standards push the financial services sector to make consistent improvements.

In summary, we found:

Performance Overview: Out of 16 registered firms, no firm received a 'red' rating, and only three reviews were rated 'amber.' Encouragingly, over half (59%) of identified issues have already been addressed by firms. We are monitoring firms' progress on the remaining findings.

Areas for Improvement: Common issues include support for customers in financial difficulty, the identification of, and support for, vulnerable customers, and internal governance. Dynamic factors like staff training require ongoing attention to maintain compliance.

Room for Growth: Only four firms achieved a 'green' rating, indicating the need for continued efforts to uphold and improve standards.

The UK's financial services sector faces new risks and opportunities as customer needs, technology, and the wider landscape evolve. The Chancellor's November 2024 Mansion House speech, for example, emphasised the importance of balancing innovation with customer protections. Regulatory reforms may accelerate sector changes, increasing the need for robust oversight to safeguard customer outcomes.

The Lending Standards Board (LSB) plays a critical role in bridging the gap between innovation and customer protection. The business Standards provide independent assurance, driving better customer outcomes without the need for statutory oversight. Despite the introduction of the FCA's Consumer Duty in 2023, which some firms have opted to also apply to SMEs, the Standards remain vital as the FCA does not conduct oversight beyond its regulatory perimeter – a perimeter which excludes a significant number of SMEs.

The completion of this review is not an endpoint. The LSB will continue working with firms to address outstanding issues and adapt to emerging risks.

The LSB's mission is to ensure SMEs achieve the right outcomes when engaging with financial services. By setting best practice frameworks and providing independent oversight, the LSB supports sector growth while ensuring SMEs receive fair treatment. And by challenging firms to improve, the LSB helps foster trust and resilience in a sector critical to the UK economy.

Emma Lovell, LSB Chief Executive

Contents

Information on this Review

This review includes all firms registered to the LSB's business Standards (at the time the review was conducted) and assesses their compliance with the requirements of these Standards. The business Standards set the benchmark for good lending practice for business customers and include requirements on:

- Governance & Oversight
- Product Information
- Product Sale
- Declined Applications
- Product Execution
- Credit Monitoring
- Financial Difficulty
- Portfolio Management
- Customers in Vulnerable Circumstances

Firms Covered by this Review

- AIB Group (UK) Plc
- Atom bank
- Barclays Bank Plc
- Barclays Bank UK Plc
- Bank of Ireland (UK) Plc
- Co-operative Bank Plc
- Cynergy Bank Ltd
- HSBC UK Bank Plc
- Lloyds Banking Group
- National Westminster Bank Plc
- Northern Bank Ltd
- Santander UK Plc
- Triodos Bank UK Ltd
- TSB Bank Plc
- Unity Trust Bank Plc
- Virgin Money UK Plc

Executive Summary

102

findings across 16 registered firms

59%

of findings already closed

Broadly, this review finds that firms registered with the business Standards are generally demonstrating a good level of adherence to the Standards – though some improvements are required to ensure good customer outcomes are achieved consistently.

In total, the review identified 102 findings across the 16 registered firms reviewed where action from a firm was required to bring them into compliance with the Standards. All firms had at least two findings.

At the time of publication, 60 findings (59% of all findings) had been resolved by firms. Work continues on resolving the outstanding 42 findings. Remediation steps proposed by firms can include projects such as refreshed or redesigned training, followed by a period of enhanced Quality Assurance to ensure changes are having the intended impact; as such, it can take some time for the closure of a finding to be achieved.

Good practice

Across the reviewed firms there were some examples of high levels of compliance with the Standards, or stand-out good practice. The low level of findings for Product Execution and Declined Applications, in particular, suggest that firms have been able to operationalise effective processes and policies, combined with equipping employees with appropriate skills and knowledge to support business customers through these phases of the customer journey.

Product Execution – Only two findings in the whole review related to firms' adherence with Product Execution requirements. This area of the Standards sets out how firms should have effective systems, processes and controls in place to provide an accurate view of a customer's relationship with them and the lending products they hold. This includes how firms communicate changes in terms and conditions or products' promotional features, or how customers can request information from their lender.

Declined Applications – Just four findings related to the Declined Applications requirements, which set out how firms should clearly explain to business customers why lending applications have been unsuccessful. Notably, this is a common compliance gap for firms entering Interim Registration with the LSB, so it is positive to see the business Standards are delivering consistency for customers on this issue across fully registered firms.

Vulnerability – Through our on-site testing, we also evidenced some stand-out good practice from a small number of registered firms with respect to support and assistance provided to vulnerable business customers and business customers with additional care needs. For example, we found that some firms are exploring ways in which they can provide additional support for business customers who have a visual or hearing impairment. For these customer journeys, we could evidence customers being able to interact with their financial services provider through a variety of formats, including braille, audio or by selecting different font sizes and colours. The LSB's May 2024 report – Access for Deaf Customers in Banking & Credit – highlighted how deaf accessibility tools had proliferated across the sector following a 2023 LSB report on the challenges that deaf customers face.

Areas of Concern

The review also identified a number of key themes where improvements are either commonly required or where a particular focus is needed to enhance current practices.

Treatment of customers in financial difficulty – Financial Difficulty was the area of the Standards where the most findings were identified, though findings typically weren't as severe in nature as they were elsewhere. Findings for these requirements were also much more likely to be associated with 'People' than was the case for other parts of Standards – these issues occur where a firm's employee hasn't put processes or policies into action effectively. A number of processes require attention to support SMEs in financial difficulty, including improvements to affordability assessments and the quality of customer communications, as well as better signposting to support mechanisms.

Identification of, and support for, customers in vulnerable circumstances – The Standards' Vulnerability provisions had the third-highest number of findings in this review. These findings tended to be more severe than those associated with most other parts of the business Standards. 'Systems' and 'Policies' were more common Root Cause issues for these findings than they were for other areas of the Standards ('Process' was the most common Root Cause for the Standards as a whole). The improvements required from firms on Vulnerability are linked to weaknesses identified within the level and depth of Management Information (MI) being recorded, the ability for customers to self-declare support needs, as well as the proactive identification of vulnerabilities and how firms escalate issues where there is a need for support.

Governance & Oversight – Along with Vulnerability, Governance & Oversight was the only other area of the Standards with more than one major finding; it was also the area which had the highest proportion of moderate or major findings and had the second highest number of findings overall. The Governance & Oversight provisions of the Standards place requirements on firms to ensure they have sufficient internal policies and processes to ensure their adherence to the Standards on a day-to-day basis – the need for improvements in this area underscores the importance of independent oversight.

One area within Governance & Oversight where firms demonstrated particularly poor performance were the policies and controls linked to the record keeping of interactions with SME customers. This was more significant for relationship-managed customer segments (where firms allocate a dedicated team or employee to support the business), and issues included how firms record and maintain vulnerability disclosures for those customers that make them.

While these issues were present across a majority of registered firms, there were still examples of firms being able to evidence adherence to these parts of Standards. These firms had well-established and embedded processes designed to support SME customers in financial difficulties and to support those in vulnerable circumstances. Some firms also provided evidence of effective recording of customer conversations and good maintenance of customer records. Where firms were taking the right steps on these areas of the Standards, there was evidence that employees were aware of the expectations of their roles, and of the support available to assist SME customers at all stages of the customer journey. There was a clear correlation between effective and regular training and good customer outcomes being achieved.

Action Required on Key Findings

Financial services firms should ensure that they have robust processes and policies in place to mitigate the risks and issues identified above, supported with effective training that provides all applicable employees with the skills and knowledge to support business customers in these areas. This should be overlayed with a control environment that identifies issues and which provides visibility of customer outcomes to accountable and senior stakeholders.

Following the LSB's reviews, firms now have comprehensive action plans in place designed to remedy the shortcomings in their control frameworks, governance arrangements and operational effectiveness that are preventing them from delivering good outcomes on a consistent basis.

Most Common Findings and Root Causes

Findings were most common in relation to Financial Difficulty (31 findings), followed by Governance & Oversight (24) and Vulnerability (19).

Findings tended to be more severe for Governance & Oversight (79% of findings were moderate or major), Credit Monitoring (75%) and Vulnerability (74%). By contrast, while it had the highest number of overall findings, 61% of the Financial Difficulty findings were moderate or major – a relatively high proportion of Financial Difficulty findings were caused by People issues, a Root Cause which had a lower proportion of moderate or major findings.

The Root Cause of findings was most commonly Process (70 findings), followed by People (15), System (nine) and Policy (eight).

As with Financial Difficulty, Vulnerability findings were much less likely than in other areas of the Standards to have been caused by Process issues: System, in particular, was a disproportionately common Root Cause for this part of the Standards.

Closure Rates

Closure rates are higher for moderate (67% closed) and major (57%) findings than they are for minor findings (46%) – it is encouraging that firms have focused on addressing the more significant challenges to ensuring good customer outcomes.

Closure rates are lowest where the Root Cause was a Policy (50%) or System (44%) issue. Policy issues commonly occurred where a firm had weaknesses in documented procedure – either firms did not have documented policies linked to the Standards' requirements, or key actions were not documented in procedures or guidance. As noted above, System issues were common in the handling of vulnerable customers, and for actions associated with product sales. For the most part, these issues were linked to weaknesses with the recording of vulnerability (such as the lack of prominence of vulnerability flags on internal systems) and the ability for customers to self-disclose their care needs. These issues were linked with the actions for Product Sale, where we also identified weaknesses in customers' ability to self-disclose vulnerabilities at the lending application phase of the customer journey.

Next Steps

The LSB will continue to monitor firms' progress towards resolving any outstanding findings identified as part of this review.

The business Standards are kept under regular review to ensure they continue to provide an appropriate level of protection for SME customers. Following a 2024 consultation on the Standards' scope and effectiveness, changes were made to the Standards to enhance protections in relation to personal guarantees.

This review of firms' application of the business Standards does not include Ipsum Capital, iwoca, or Cambridge & Counties Bank. These firms had not yet achieved full registration with the business Standards before the review work was completed. These firms will be included in future reviews.

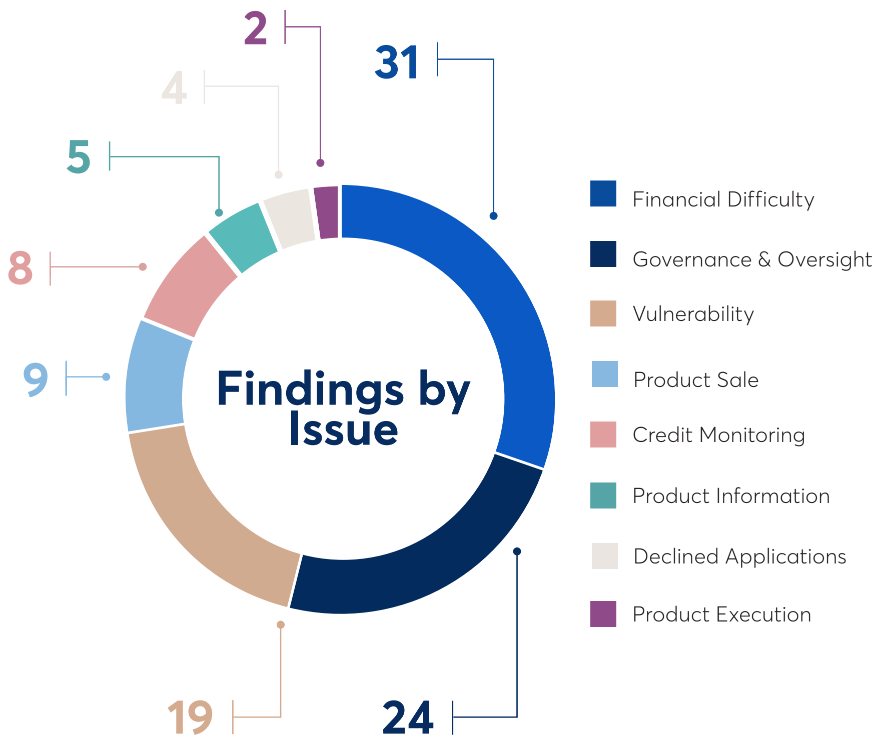
Alongside the business Standards, the LSB announced plans for a new inclusive Code for Ethnic Minority-led Businesses in September 2024. This Code will launch in 2025.

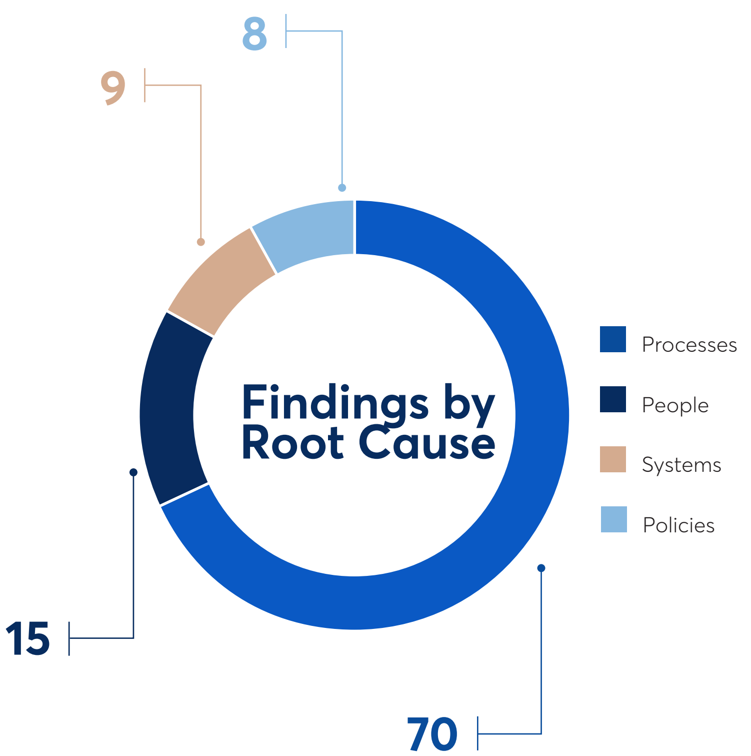
The LSB's business Standards continue to serve a crucial role in setting and upholding best practice for UK SME lending. This is a role valued by SMEs themselves: in a September 2024 survey, conducted by Opinium, 88% of SME respondents said it's important that financial service providers are subject to independent oversight by bodies like the LSB, 76% of SME respondents supported the idea of more financial service providers becoming registered with the LSB and adhering to our Standards and Codes, 68% said they would be more likely to trust a company that is registered with the LSB, and 65% said that, if they knew a financial services provider was registered with the LSB, they would be more likely to choose them over one that isn't.

88%

of SME respondents in an Opinium survey said it's important that financial service providers are subject to independent oversight by bodies like the LSB

Key Findings & Statistics



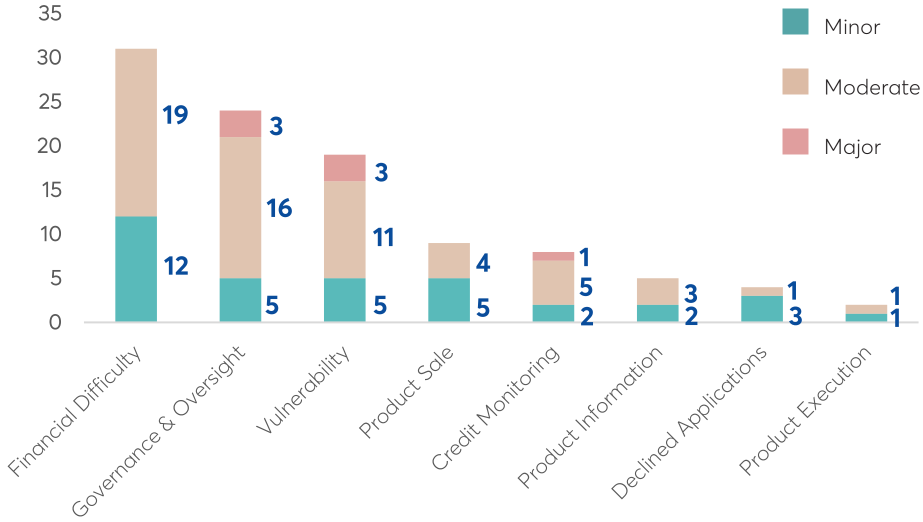


6.4
average findings
per registered firm

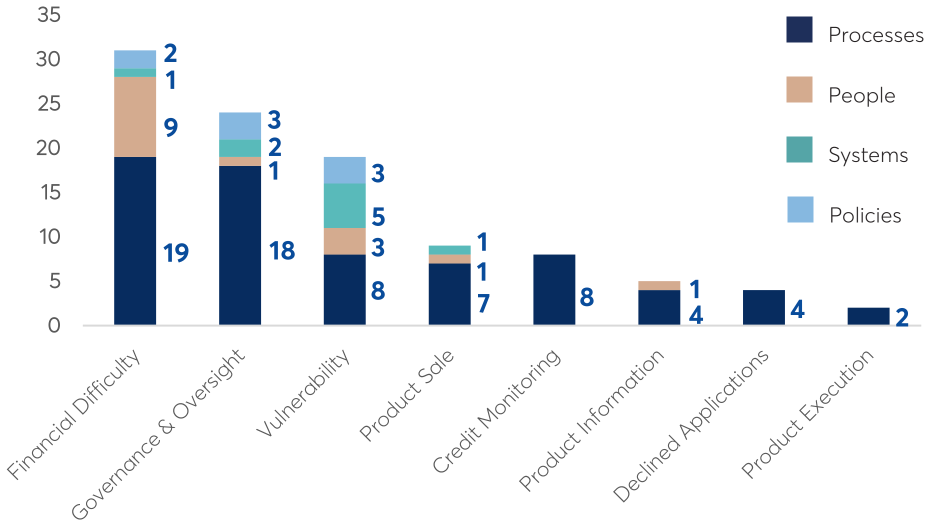
34%
of findings were minor

57%
of major findings
already closed

Issues by Severity of Findings

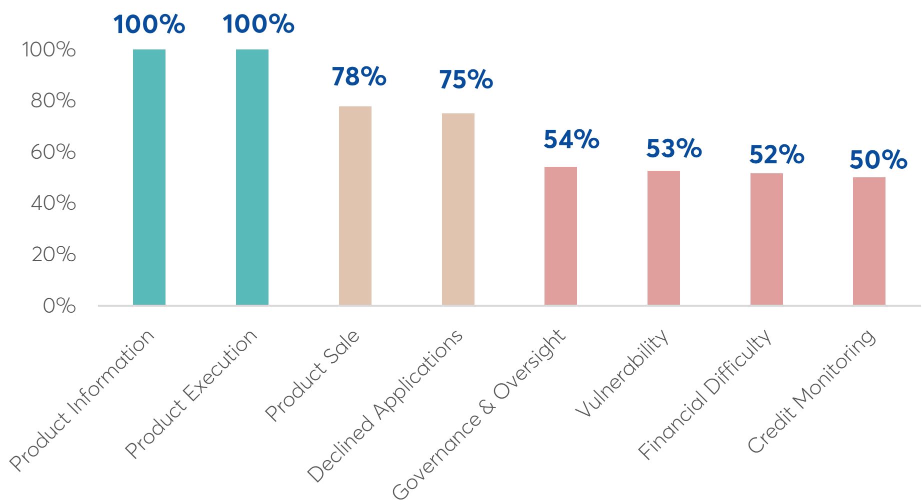


Issues by Root Cause

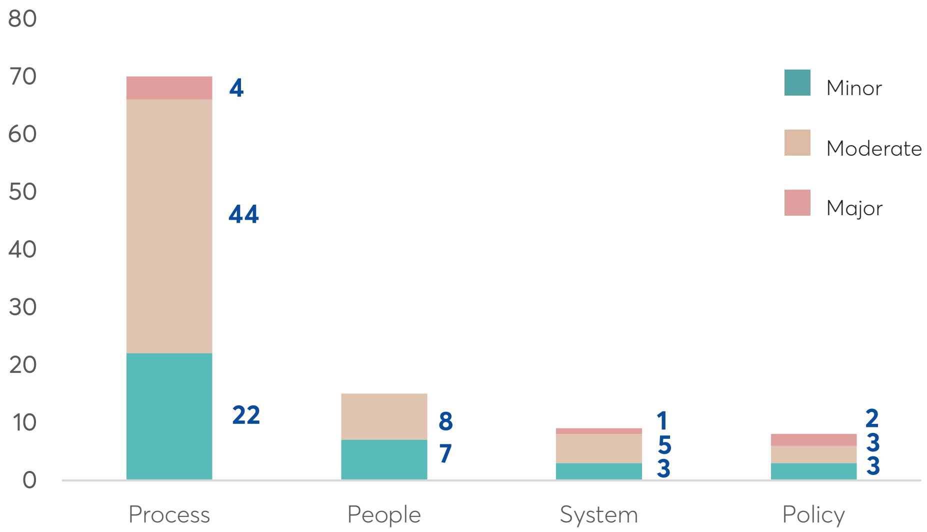


Closure rates are higher for moderate and major findings than they are for minor findings – it is encouraging that firms have focused on addressing the more significant challenges to ensuring good customer outcomes.

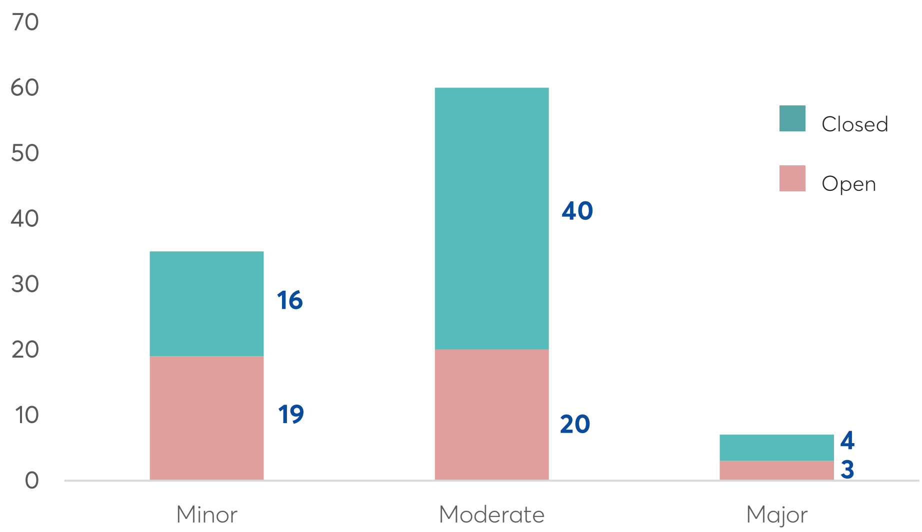
Issues by % of Closed Findings



Root Causes by Severity



Severity of Findings by Status



History of the Business Standards

2017

1

Standards launched, superseding the relevant micro-enterprise provisions of the Lending Code. The Standards set out a framework of protections across the lifecycle of lending products provided to SMEs with a turnover of up to £6.5m.

2019

2

Further enhancements to the business Standards took place, with the scope of the protections being extended to businesses with a consolidated turnover of up to £25m. Commercial mortgages and provisions relating to portfolio management and use of turnaround units were also brought within the protections of the Standards. The framework of protections provided across commercial mortgage, loan, overdraft and credit card products for business customers is the only one of its kind in place specifically focused on ensuring good outcomes for business customers accessing and using finance.

2020

3

Business Standards first recognised by the FCA. This FCA scheme recognises industry codes which cover otherwise unregulated activities.

2023

4

FCA recognition of the Standards renewed.

2024

5

LSB consultation on the business Standards found that they continue to set appropriate levels of protections for business customers.

Standards of Lending Practice for business customers - Asset Finance

Although out of scope for the purposes of this review, there are also a set of Standards focused on **asset finance** which provide protections for business customers with a consolidated turnover of up to £6.5m when accessing asset finance products.

Key Theme One

Customers in Financial Difficulties

30%

of all findings related to the treatment of customers in financial dificulty

61%

of findings in this space were moderate

52%

of findings in this space have already been closed by registered firms

The sections below provide more detail on the areas of the business Standards where firms must make improvements to ensure they are consistently delivering good outcomes for UK SMEs.

Customer Communications

The business Standards requirements:

Business 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.

Expectations

Information provided to business customers in financial difficulty should be clear in terms of presentation and in clarifying any action that the customer needs to take.

Firms should ensure that communications are consistent across all channels. Firms are expected to provide enough detail and guidance within their communications so that the customer is fully aware of what needs to take place and be actioned by them, to prevent the customer's financial situation deteriorating further.

Findings

Where issues occurred, it often related to automated processes or the use of template customer communications. Over-reliance on automation could lead to some firms' customers receiving incorrect, unhelpful or misleading communications from their lender, potentially compounding the stress of the situation for customers. Even where the timing of communications was appropriate, automated content risked not being useful for customers.

Good Practice

Some firms allow frontline employees more autonomy to tailor letters to customers in financial difficulty to better accommodate certain situations and scenarios. This is overlayed with appropriate Quality Assurance and Quality Checking to ensure that this is undertaken correctly and in line with internal policy.

Areas of Concern

There were many examples across our testing where the content of automated communications issued to customers in financial difficulty were deemed to be poor and uninformative. This was due to the lack of information provided to the customer and direction as to what exactly was required from them.

In some examples, where an automated letter was due to be issued, and where manual contact had been made with the customer just before this point, we found that there was an inability to pause or stop communications being issued. This resulted in some customers still receiving communications detailing discrepancies on their account when they had been recently resolved by the customer with the firm's knowledge.

Since the LSB's review work with firms, we have seen registered firms respond by taking steps to rectify the identified issues. Improvements include:

- Reviewing and updating communications to ensure that the correct level of detail is provided to customers. This has focused on providing more clarity where action is required from the customer, including, but not limited to, how the customer should provide information, the timeframe in which this information should be received and the consequences of not providing the information.

- Reviewing and enhancing current contact strategies and to include more pro-active attempts to contact customers by telephone to supplement the written approach. These steps are designed to increase engagement where customers have been non-responsive to written communications.

Forbearance

The business Standards requirements:

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.

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.

Expectations

For business customers who are at any stage of financial difficulty, from pre-arrears to the collections phase, it is important that there is an assessment undertaken to ensure the affordability of the commitments to the lending firm.

This ensures that undue pressure is not applied to the customer with respect to repayment proposals that are unaffordable or unsustainable. It also ensures that the customer's full circumstances can be considered when tailoring a solution to best support the customer and their business moving forward.

Findings

The inconsistency around how forbearance treatments were used by employees within firms was a particular issue across our reviews. We observed that employees within individual firms were agreeing forbearance with customers without the evidence of any detailed understanding of their financial situation. Conversely, employees at the same firms would be undertaking a more thorough and detailed assessment of affordability. This raises concern as a firm's employees should be subject to the same training and guidance; inconsistencies therefore suggest an ineffective embedding of training and process requirements.

The most common Root Causes for actions relating to the handling of financial difficulty were Processes (19) and People (nine) – the inconsistency on forbearance was responsible for a high proportion of these particular findings, underscoring the importance of embedding training and guidance effectively.

Good Practice

Some firms utilise specific forums and committees to assess affordability concerns of more complex and sophisticated business customers. In these examples we saw effective escalation processes where frontline employees could highlight concerns to senior members of the team. The forums and committees were designed to ensure a greater analysis of the business is undertaken and to also ensure heightened monitoring is provided to assist the business allowing for more agile intervention through the use of tailored forbearance solutions.

Areas of Concern

Our reviews highlighted inconsistencies in affordability assessments at firm level. For example, we identified cases where probing around affordability was very detailed and included the use of an Income & Expenditure (I&E) report, but we also evidenced cases at the same firms where a light-touch approach to assessing affordability was adopted. Although we appreciate that a full assessment may not always be required, in some examples the light touch approach did not enable the firm to fully understand the customer's circumstances. This increases the risk of poor and inconsistent outcomes for customers.

Where further information relating to the business customer's financial situation was requested, such as a completed I&E report, we evidenced a lack of proactiveness from firms when it came to obtaining and chasing the requested information from the customer. This resulted in customers not engaging with the firm and falling silent for many months before a similar and repetitive conversation was held at a later point. In some instances, this prolonged the time taken to reach a suitable resolution with the customer.

Advice & Signposting

The business Standards requirements:

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, independent debt advice.

Expectations

When a customer is identified as being in financial difficulty, firms should provide the appropriate level of intervention or support. This will be dependent upon the individual customer's circumstances and the information obtained. Where appropriate, there may also be a benefit to signposting customers to free, impartial debt advice.

Available support for business customers should also be easily accessible across all engagement channels and consistently provided at appropriate points in the customer journey to ensure the most benefit and impact for the customer.

Findings

Signposting for SME customers stands out as a particular weakness across registered firms, whether this is signposting to internal or external resources. As has been established through the LSB's Insights programme, signposting can play a crucial role in helping customers accessing the support they need, that is timely and relevant to their particular needs. There were very few examples of effective signposting for SME customers across the review.

Areas of Concern

There was a noticeable lack of consistency in how business customers are informed and signposted to both internal and external support.

Sample testing across registered firms identified that signposting was generally vague and, where scripted, could be rushed or lacking in impact. Customer interaction and engagement with signposting in these instances was low, preventing meaningful conversations and offers of support.

SME customers were signposted to organisations that would not be able to assist them due to their specific needs and business structure.

Since the LSB's review work with firms, we have seen registered firms respond by taking steps to rectify the identified issues. Improvements include:

- Work on refreshing and enhancing the support mechanisms that firms have available for their customers.
- Some firms have investigated using external guidance from specialists to understand what additional support is available for business customers in financial difficulty.
- Providing employees with direct support from subject matter experts or senior employees and greater accessibility to information, to ensure that they are equipped with the necessary guidance to provide the best possible support for customers in financial difficulty

Key Theme Two

Customers in Vulnerable Circumstances

19%

of all findings related to vulnerability

74%

of findings in this space were moderate or major

53%

of findings in this space have already been closed by registered firms

Self-Disclosure of Vulnerable Circumstances

The business Standards requirements:

Firms should have a vulnerability strategy, which defines its approach to the identification and treatment of individuals considered to be vulnerable, through whichever channel the customer chooses to engage.

Expectations

For many customers, disclosing personal circumstances, which may cause them to be vulnerable, to someone at their bank or lender can be a daunting task. There can also be a perception among business customers that disclosure of a vulnerability could affect lending decisions negatively, and therefore business customers may not wish to disclose their vulnerability or support needs on this basis.

Firms should consider different ways in which they can support the disclosure of vulnerability and support needs by business customers. This could be by developing self-disclosure platforms or tools where customers can safely and privately inform the financial services firm of the extra support they require at any point in the business relationship. This could also assist with those customers who are reluctant to disclose vulnerability in human-to-human interactions with firms. Firms should also look at key messaging within earlier phases of the customer journey (including product sale and lending applications) and provide transparency, so that customers are fully aware that the disclosure of vulnerability will not be held against them by a financial services firm – but may instead ensure the firm is better equipped with the information required to deliver the right outcome for the customer.

Where firms do offer self-disclosure platforms and tools, these should be prominent, easy to find and accessible for business customers.

Findings

Effectively recording customers' vulnerabilities can play a key role in supporting vulnerable customers and ensuring they are able to access the right outcome. Once these vulnerabilities are recorded, it is important that information is available to a firm's employees so that they can treat the customer appropriately – and to avoid a situation where a customer keeps having to make the same disclosures over and over again to different firm employees. In this review, we found that firms do not always take the required steps to gather information on vulnerabilities from customers; even where efforts are made and self-disclosure tools are available to customers, they are not always easy to find, especially within online and digital journeys. Issues with how firms store and use information on customer vulnerabilities are covered in the Governance & Oversight section (see page 21).

Good Practice

A small number of firms raise awareness of their self-disclosure tool and other vulnerability support through other key customer messaging and communications (for example, outside of the application process through messaging included within engagement letters and prompts within online and web customer journeys).

Areas of Concern

Across most firms' online application journeys, there is limited effort to ascertain any information surrounding vulnerability or support needs.

In some cases, we evidenced that, while firms did have the ability for customers to self-disclose vulnerabilities or support and care needs via a web or digital application, there were not any visible prompts, links or signposting to inform the customer where this was located or how to use the platform during a lending application journey.

Following our review work, some firms have responded by exploring how they can use built-in links within their application journey to help provide a more seamless process for customers, without customers having to drop in and out of online applications when seeking to disclose their support and care needs.

Identification & Recording of Vulnerability

The business Standards requirements:

Firms should ensure that their employees and their agents are sufficiently trained to help them to identify vulnerability and deal with the customer in accordance with their policies and processes, with appropriate escalation points, where the circumstances require this.

Expectations

Employee training is integral to embedding a firm's vulnerability strategy, to ensure policies and procedures are implemented and to drive a consistent approach to the identification of customers in vulnerable circumstances, and the support and guidance that is offered.

Firms should consider the appropriate mechanism and approach to delivering training in the most effective way to ensure that the training is fully embedded and can be evidenced in practice. Training should focus on key areas that are designed to support business customers in vulnerable situations, such as the identification and recording of vulnerability.

Systems and controls should be designed to support the firm's approach to identification and recording of vulnerability, to ensure that skills and knowledge provided within training can be executed correctly.

Findings

A combined 58% of all actions for the Vulnerability provisions in the Standards were caused by issues identified within Processes and People.

The recording of vulnerability was a particular issue for firms. Predominantly, this was caused by constraints with case management platforms and more specifically the absence of an effective and prominent flag for employees that can highlight previously disclosed vulnerability and support needs. In some examples, we evidenced firms requiring employees to navigate multiple case management platforms, which resulted in vulnerability flags being missed.

For the 19 actions identified with registered firms' handling of vulnerable customers, 26% of those actions were caused by system constraints or issues with the current system's functionality.

Areas of Concern

Within our testing, we encountered a small number of cases where employees did not acknowledge either subtle indicators of vulnerability, or indeed where customers self-declared a vulnerability. The disconnect between documented strategy and what was evidenced via sample testing appears to be linked to the poor embedding of training and understanding.

Across reviews there were varying degrees of effectiveness and efficiency as to when vulnerability is recorded. While firms had developed strategies and processes to allow flags to be raised or other indicators, the prominence of such flags on case management systems was sometimes hard to locate. This resulted in a lack of awareness of a customer's previously disclosed vulnerability when they re-engaged with the firm. This can significantly affect the handling of a particular case and can impede the ability to provide the customer with a good outcome.

In some instances, Quality Assurance controls had also failed to identify the weaknesses with recording vulnerability.

Since conducting these reviews, we have seen some firms use real life examples of where subtle or less obvious disclosures have been made by customers to raise awareness of these types of cases and to build the necessary experience and support needed to deal with these interactions.

Referral & Escalation

The business Standards requirements:

When an individual is identified as potentially vulnerable, a firm should ensure that its employees or its agents have appropriate referral and escalation points and are aware of how to access them.

Expectations

Firms should have robust and well-developed procedures for providing additional care and support for business customers that are displaying greater signs of vulnerability. The escalation of these cases and related procedures should be well defined and understood by frontline employees. The support being provided at the point of escalation should be constantly reviewed to ensure that it is continuing to provide appropriate support and good customer outcomes.

Findings

Specialist teams can have a significantly positive impact on customer outcomes, but the transition to these teams is not always communicated effectively with customers. Even where firms have effective policies in place, these are not always put into action by employees – this suggests some training and oversight challenges which firms will need to address.

Good Practice

Where a firm utilises a specialist support team or similar, the quality of conversation was noticeably improved with a focus on providing tailored support and a solution for the customer and business.

Areas of Concern

During our testing, we evidenced that the customer is not always explicitly informed about the transition to a specialist team or support function and the reason for this. Clear communication is important so that the customer has total clarity as to the current status of their account and with whom they need to engage going forward.

Within some firms, employees did not always escalate cases, which would have been of benefit to the customer, but which was also misaligned to the firms' own procedures and expectations.

Although these findings relate to vulnerable case referrals, firms should also consider other stages of the customer journey where it would be helpful to inform the customer of a status change. For example, a switch from a business contact relationship to a relationship managed model, or a transition to a collections or recoveries position within the firm.

Vulnerability Management Information (MI)

The business Standards requirements:

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.

Where appropriate, firms should develop triggers and management information to assist employees in the identification and subsequent monitoring of individuals who may be vulnerable.

Expectations

Firms should have the ability to assess and monitor the outcomes being provided to business customers in vulnerable circumstances. This may be achieved through the ongoing review and assessment of assurance activity across a 'three lines of defence' model. Effective triggers and controls should be developed, which provide visibility of key risks and concerns with the support being provided to this cohort of customers.

Findings

Where firms perform well on identifying and supporting vulnerable customers, they are making effective use of the information available to them; where firms are less effective at providing this support, a key factor is their failure to gather, assess, or share information in a meaningful way. In these instances, we often found MI and data analysis are presented at too broad a level, resulting in it being difficult for firms to use the data to drive forward actions or decisions to improve customer treatment and support.

Forty-two per cent of actions linked to vulnerability were a result of firms' processes requiring improvement. Across many firms, these included necessary improvements to the quality of MI being produced and the visibility of outcomes being received by vulnerable business customers.

Good Practice

Where firms' internal reporting of vulnerable customers was effective and mature, we were able to evidence a comprehensive suite of MI that allowed stakeholders to have confidence in the support being provided to vulnerable customers. These firms would present information via a specific 'vulnerability dashboard' or similar, with accompanying documentation to explain both the quantitative and qualitative elements, with focus on both emerging risks and good outcomes. The MI would be reviewed by a specific vulnerability risk committee. Where this approach was adopted, the focus was on the management of customers in vulnerable circumstances, allowing for specific nuances of vulnerability to be discussed.

Areas of Concern

Some firms demonstrated a limited visibility of vulnerable customers and associated outcomes. Where this was the case, general reporting to committees and forums for this customer cohort was uninformative and deemed ineffective. During our review we identified reporting data associated with vulnerability being delivered at a very high-level. For example, the total number of vulnerable customers within business lending, or only illustrating Quality Assurance (QA) performance by noting how many cases had either passed or failed the QA process. The absence of any meaningful conclusions from the MI meant that, within some firms, we were unable to gain assurance that the Standards were being adhered to, or whether senior stakeholders knew how their customers were being supported.

Key Theme Three

Governance & Oversight

24%

of all findings related to governance and oversight

79%

of findings in this space were moderate or major

54%

of findings in this space have already been closed by registered firms

Record Keeping

The business Standards requirements:

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.

Expectations

Effective and robust record keeping of business customer accounts is essential to ensure that customers are receiving good outcomes. Having procedures in place to capture all meaningful and pertinent interactions with the customer ensures that a detailed record is maintained, which can be reflected upon at a later point to ensure that the most appropriate course of action is applied in all situations. Detailed record keeping also allows the firm to monitor the quality of interactions with its customers and obtain visibility on the outcomes being provided.

Good Practice

Some firms have developed a 'customer contact form' or similar for employees to complete during or after engagements with business customers. This ensures that there is consistency around how customer engagements are recorded and allows monitoring and assurance activity to be undertaken regarding the activity. We evidenced in these cases a more consistent approach to the information being recorded including dedicated fields to capture financial difficulty and vulnerability, along with prompts to record other pertinent discussion points.

Where telephone interactions with customers were recorded, particularly in relationship managed segments, we were able to evidence that these firms had greater visibility and insight into the outcomes that were being provided to these customers. In most cases this was overlayed with independent Quality Assurance and Quality Checking monitoring. We appreciate that this may not be possible in all circumstances, but firms should consider the benefits of having processes in place to ensure these interactions are recorded, where possible.

Findings

Most firms will segment their business customers based on exposure thresholds or lending volume. Business customers with a higher overall exposure or more complex model tend to be handled through a relationship managed model. In most cases, the record keeping issues or weaknesses have been identified within these customer segments and operating models.

We found that the issues with recording customer interactions were often directly caused by the lack of documented formal procedures around this process. This resulted in a lack of awareness among operational colleagues as to the minimum expected requirements. Controls that are being used to monitor engagements within relationship managed models also required significant improvement across many firms.

This is supported through our analysis of the Root Cause of actions relating to the reviews completed. Process and People were the primary Root Cause of 79% of all Governance & Oversight actions recorded.

While the points raised are focused mainly on relationship managed customer segments, registered firms should ensure that they consider the impact across all areas of business banking. For example, there were some instances with firms' processes for reviewing their records on personal guarantees associated with business lending. Inadequate record keeping on personal guarantees raises a risk that lenders and guarantors may have very different understandings of whether the guarantee is still in place and who is providing the guarantee. Throughout our testing, we have been able to evidence a direct correlation between effective and efficient record keeping and good customer outcomes.

Areas of Concern

Across multiple firm reviews, we evidenced examples where relationship managers had engaged with customers but had not recorded the interaction. As noted above, in most cases this was due to a lack of formal procedure detailing expectations around recording customer engagement. The lack of record keeping means there is no evidence of how the Standards are being followed. More importantly, a lack of audit trail provides no assurance that customer circumstances are being fully considered, particularly in areas such as vulnerability or where the business customer may be struggling financially.

There were instances where a firm's general poor record keeping had an impact on, for example, their ability to keep accurate information on the status of a personal guarantee. There were isolated examples where processes for reviewing guarantees, or other forms of security, could be working more effectively to ensure that information held remains current and, where lending is repaid or where there are changes at director level, that these are taken into account.

Following the review work summarised in this report, and the 2023-24 consultation on the business Standards, the LSB announced a number of enhancements to the provisions in the Standards on personal guarantees. Among the changes is a requirement for firms to provide guarantors with regular reminders that a guarantee remains in place. This will ensure lenders can maintain up-to-date records on who is liable for a guarantee and will help guarantors keep track of any liability.

Management Information (MI)

Expectations

Firms should have effective processes in place to record data and analysis of outcomes that are being provided to business customers across all key areas of the customer journey. The data should be presented to accountable stakeholders within the firm, with the ability to highlight and escalate concerns and risks as they arise. The MI that is collated should be continuously assessed for its effectiveness and provide visibility of outcomes being provided across all areas of the Standards.

Findings

Some firms did not have robust or mature MI reporting infrastructure in place that would have provided visibility of the outcomes being provided for all areas of the Standards. For some firms where they did have MI in place, this was deemed to be immature in its development and would have been ineffective in illustrating outcomes being achieved.

Areas of Concern

Some firms were unable to obtain an aggregated view of business customer outcomes due to the fact that they utilised shared services to support both personal and business lending. For example, some firms will operate support units which handle both personal and business customers. This is more common for the handling of customers in financial difficulty or customers in vulnerable situations. In these examples, firms were unable to separate data effectively to evidence outcomes being provided to business customers alone.

In some reviews, we evidenced that firms do not collate MI for all key areas of the Standards (for example, there was evidence of less mature MI for Product Sale, Declined Applications, Product Execution and Product Information). This means that some firms do not have visibility of customer outcomes in all situations and that these firms cannot effectively demonstrate full adherence to the Standards.

If you are interested in registering with any of the LSB's Standards or Codes, please contact insight@lstdb.org.uk

LSB STANDARDS OF LENDING PRACTICE BUSINESS CUSTOMERS

Enhanced Protections for SMEs Coming Soon

New first-of-its-kind inclusive lending Code

We are developing a new Code to drive essential improvements in access to finance for Ethnic Minority-Led Businesses (EMBs). The Code's development follows the publication of the LSB's 2023 report on the barriers to finance faced by EMBs, which also underscored the crucial role that financial institutions can play in unlocking these businesses' untapped potential. The new Code is expected to be available in early 2025, and will be open to firms across the financial services sector.

Updates for the Standards

Following an industry-wide consultation on the Standards, we recently strengthened provisions for SMEs using personal guarantees. Further guidance to accompany the Standards is also being developed to support firms in emerging areas in business lending, such as the use of digital channels to deliver lending products and green finance, to ensure the Standards reflect, and are responsive to, the changing economic and business environment.

Glossary

Report Ratings Explained

An overall rating is applied to each compliance report for individual registered firms. The rating is based on the number and materiality of each finding identified during the review.

Green

The control framework and governance arrangements in place are designed and operating effectively to ensure that the correct outcomes are achieved. Only minor observations for improvement have been identified.

Yellow

The design and/or operation of the control framework and governance arrangements in place need some improvement to ensure that the correct outcomes are consistently achieved. Some management weaknesses have been identified, which present a low to medium risk of the Standards not being complied with and poor customer outcomes. These weaknesses require further consideration by management to assess the risk to outcomes, with action taken as necessary.

Amber

The design and/or operation of the control framework and governance arrangements in place need significant improvement to ensure that the correct outcomes are consistently achieved. Some significant management weaknesses have been identified, which present a medium to high risk of the Standards not being complied with and poor customer outcomes. These weaknesses require management attention to ensure the risks to outcomes are adequately mitigated.

Red

The design and/or operation of the control framework and governance arrangements in place are deficient and do not provide any assurance that the correct outcomes are being achieved. Several significant management weaknesses have been identified, which present a high risk of the Standards not being adhered to resulting in consistently poor customer outcomes. These weaknesses require urgent management attention to ensure the risks to outcomes are adequately mitigated.

Individual Finding Rating Definitions

Individual findings are assigned a materiality rating of 'Minor', 'Moderate', 'Major' or 'Severe'. The criteria for each rating is determined by the following definitions:

Minor

Low impact on customer outcomes. No breach, or an immaterial 'Minor' technical breach, of the Standards of Lending Practice identified. Resolving the finding(s) presents an opportunity for the firm to enhance existing systems, controls, strategy or policy/procedures, and enhance customer outcomes.

Moderate

Systems, controls, strategy and policies/procedures exist and are aligned to the Standards of Lending Practice; however, some improvements are needed to ensure that fair customer outcomes are consistently being achieved. Medium impact on customer outcomes and/or 'Moderate' breaches have been identified. Action required by management to resolve and customer remediation needed as appropriate, where any detriment or customer harm has occurred.

Major

Major weaknesses in the firms' systems, controls, strategy, or policies/procedures have been identified which require significant improvement to ensure that fair customer outcomes are consistently being achieved in line with the Standards of Lending Practice. High impact on customer outcomes and/or 'Major' breaches have been identified which could become systemic without the implementation of adequate controls. These weaknesses require urgent management attention to ensure the risks to outcomes are adequately mitigated, with relevant customer remediation to be taken.

Severe

Severe weaknesses in the firms' systems, controls, strategy, or policies/procedures have been identified leading to a significant number of issues and 'Severe' breaches of the Standards of Lending Practice. Systemic incidents of poor customer outcomes and actual, or high potential for, customer detriment have been identified. Urgent management action required to ensure the crystallised risks to outcomes are addressed and mitigated, along with customer remediation carried out on all impacted accounts.