

FCA publishes “Dear Chair” letter 12 July 2022

The FCA has published a “Dear Chair” letter as a result of its review into SME collections and recoveries.

The letter was written to all Chairs of retail banks with SME customers to make sure the issues raised are given the appropriate attention at both board and executive level. The FCA urges action on fair treatment of SMEs during collections and recoveries in light of rising cost of living affecting both consumers and small businesses. The letter highlights their concerns and expectations.

Dear Chair letter applies to:

- Retail banks with regulated SME lending
- All regulated firms offering lending to individuals and relevant recipients of credit (“RRCs”).

The FCA found several instances of poor practices in customer services such as:

- Gaps in policies and procedures.
- Staff training that did not adequately cover conduct requirements.
- Manual interventions within systems which appeared to make delivering fair customer outcomes more difficult.
- Absence of outcomes testing or quality assurance that considered whether customers had received fair outcomes from the end to end treatment they received.
- Poor record keeping, incomplete customer files not able to determine if the customer had received a fair outcome based on the records.
- Customers providing information indicating characteristics of vulnerability that were not considered or suitably responded to.

As a result the FCA is urging the whole sector to take action. Where borrowers are treated as if they have a regulated credit agreement, either by requirement or voluntarily, the FCA states that firms should be able to demonstrate they are meeting the following standards :

- Policies and procedures are clear with adequate information to support staff to make judgements when required;
- Systems and controls should be arranged to assist with the delivery of fair customer outcomes;
- Firms should be able to accurately maintain records and be able to use such records to test whether they have delivered fair outcomes. Firms should also be able to produce customer records to the FCA without gaps in a timely manner;
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- Firms should be able to demonstrate forbearance and due consideration are being offered in accordance with CONC 7.3.4R (where it applies).




- Where CONC 7.2.1R applies, the firm must establish and implement clear, effective and appropriate policies and procedures for the fair and appropriate treatment of customers, who the firm understands, or reasonably suspects, to be vulnerable.
- The management of third parties should be subject to a suitable risk framework that helps ensure fair treatment of SMEs.
- The FCA encourage all firms to carry out both quality assurance and customer outcomes testing for customer processes. This assurance should follow a holistic approach so that the customer's overall outcomes are understood and these are assessed for fairness. There should be clear evidence that root cause analysis is effectively identifying opportunities to improve customer outcomes;
- Staff should receive suitable training that equips them to effectively support SME customers to receive fair outcomes during collections and recoveries;
- Senior management should receive effective MI that allows holistic oversight of SME customer treatment during collections and recoveries;

- Senior managers responsible for collections and recoveries should have suitable levels of awareness and oversight of SME customer matters including treatment during collections and recoveries.

The FCA advises the letter should not be viewed as a list of rules, but allow firms to ensure they are compliant and demonstrate all customers are protected and receive fair outcomes. The FCA will continue to monitor outcomes and use their powers of enforcement when necessary.

The FCA clarifies:

“We want firms to put treating customers fairly, including SME customers, at the heart of what they do. Given the current pressures placed upon SMEs due to the adverse impacts of Covid19 and the cost of living crisis. it is crucial that firms consider how they will ensure fair customer outcomes” 

HOW WE CAN HELP

Auxillias can support its clients in a number of ways to meet with the FCA's expectations.

- Our team can conduct a gap analysis against the FCA's standards and help you build an action plan of any changes that may be needed.
- We can work with you to draft updated policies and procedures that meet the regulators expectations.
- We can review your quality assurance processes to ensure they are effective
- Auxillias Training can provide onsite or virtual training to your teams and managers on arrears management, forbearance and customer vulnerability as well as a range of other regulatory topics.
- We can conduct regular ongoing audits of your collections arrangements to give you peace of mind that you continue to adhere to best practice

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