

FCA warning for Motor Finance firms



The latest FCA Dear CEO letter published on the 12 April 2024 is a reminder to motor finance firms to maintain adequate financial resources.

Due to the ongoing DCA complaints review, the FCA has discovered that firms are adopting different approaches to address the potential impact of past DCA usage on their financial resources. The FCA expect firms to assess their position. They anticipate this assessment should involve preparing for extra operational costs related to a rise in complaints and, where necessary, covering the costs of resolving those complaints.

The Dear CEO letter reiterates that all firm authorised under the Financial Services and Markets Act 2000 must meet the FCA's Threshold Conditions and Principles for Businesses, which require firms to have appropriate resources (see COND 2.4 Appropriate resources and PRIN in the FCA handbook). The FCA have set out more detail in their framework for assessing adequate financial resources (FG 20/1), including the need to cover potential redress liabilities.

Firms must:

- **assess the adequacy of their financial resources** – proportionate to the scale and complexity of regulated activities plus consider the risks and potential liabilities including the impact of making any capital reduction, such as dividend payments, on a firm's ability to meet potential future liabilities that may arise from historic use of DCA arrangements.
- **Firms must ensure accuracy of financial statements and regulatory reporting** – Consider issues that are relevant, such as Financial Ombudsman Service decisions or court judgments that could have an effect. Identify any issues from the review of historical motor finance commission arrangements. If needed, involve external auditors.
- **make adequate disclosures to the FCA** – Regulated firms should be open and cooperative with the FCA under Principle for Businesses 11. They must disclose any information that they should reasonably know. Detailed rules can be found in SUP 15. Firms must inform the FCA immediately if they may not have enough financial resources in the future, or before taking actions that could significantly impact their capital or harm consumers. The FCA also expects firms to notify them if they are involved in litigation related to motor finance commissions that may be subject to appeal.
- **make adequate disclosures to group stakeholders, if applicable** – Firms that form part of a larger organization should communicate with the relevant stakeholders within the group to ensure they have a comprehensive understanding of FCA intervention and its potential effects.
- **deal with DCA complaints and subject access requests appropriately** – Continue to investigate complaints involving a DCA to ensure firms acting promptly to resolve complaints if they decide the pause should be lifted and complaint handling should resume.



Ongoing supervision from the FCA

The FCA will oversee the financial resources of firms by using regulatory reporting and ongoing supervisory engagement, and they may request additional data if necessary.

- They may intervene if firms have not assessed their financial resources or are at risk of not having enough.
- The FCA will also monitor the volume of DCA related complaints firms receive.

As we know, during the 37-week pause, firms are not required to provide a final response within 8 weeks, but they must still comply with the relevant rules in Appendix 5 of the Dispute Resolution: Complaints Sourcebook (DISP App 5).

Next steps

The FCA have made it clear it's committed to providing an update on the next steps by 24 September 2024, and will extend the review and complaint pause if necessary.

Firms can find more information on what they need to do on the FCA motor finance complaints page:

<https://www.fca.org.uk/firms/information-firms-motor-finance-complaints>

How we can help

Auxillias is continuing to support a number of lenders, brokers and dealers assisting various departments from sales to complaints handling teams. This could be by way of providing consultancy support to help bridge the gap in the business whilst allowing the business to carry on as usual, provide complaints handling support whilst we await the outcome of the FCA's review, or upskilling staff through our number of training academy programmes.

Should you require any areas of support please do get in touch.



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