



Front of mind Joanne Davis

Forbearance fundamentals

Key findings from the FCA's Coronavirus Linked Forbearance Review



The FCA released a final report on 25 March 2021 following a review of mortgage and consumer credit firms' implementation of the FCA's Tailored Support Guidance ("TSG", released in November 2020), and the operational readiness of firms to support customers in financial difficulty.

The FCA requires all lenders to review their findings and assure themselves they have implemented the TSG within their firm, and we have set out below the key findings of the FCA.

FCA supervisory work

Where customers are moving from temporary payment deferrals to tailored support, the FCA is, and will continue, to undertake supervisory work to ensure firms are delivering on the outcomes:

- Ensure customers receive appropriate forbearance after consideration of individual circumstances
- Support customers through periods of payment difficulties and

uncertainty by considering other debts and essential living costs

- Firms to recognise vulnerability and respond to needs of vulnerable customers
- Firms to have systems, processes and adequately trained staff
- Customers to receive support in managing their finances, including through self-help and money guidance. Firms should signpost or refer customers to debt advice.

Appropriate forbearance

Firms are required to ensure forbearance strategy are tailored to customers individual needs and circumstances.

Firms are required to have appropriate policies and processes in place, and ensure improvements are made in areas such as how firms assess their customers' personal financial circumstances, quality assurance ("QA") and oversight of third parties. Also, to include specific TSG guidance and training of staff on new processes.

FCA's requirements

The FCA would like to see certain processes adopted, including keeping a note of or in some way acknowledging the following:

- Reasons the customer has missed a payment(s) or is unable to make a future payment
- The current financial position
- Customers' ability to meet priority bills
- Customers' other debts
- Disposable income to meet debts
- Future changes to financial position

Firms should ensure that payment arrangements (other than changing the regular payment date of a loan) are not agreed without an exploration of the customer's circumstances.

Understanding customers' finances

Firms should support customers through periods of payment difficulties and uncertainty due to coronavirus by considering other debts and essential living costs, and importantly ensure payment is likely to be sustainable.

Consumer credit – when determining disposable income

Firms should use an Income & Expenditure ("IE") unless a customer makes an unprompted proposal. Customers should not be pressured and have a process for when IEs may not be appropriate ie where there is no income or circumstances have not changed.

Sense check of IEs

Firms should sense check and challenge IE information provided to ensure it is realistic. This can be done by:

Using data – ONS statistics;

SFS trigger figures to compare customer stated outgoings to ‘average’ figures for certain customer types; or

Information collected through open banking.

Remember, not to delay – particularly where documentary evidence is required to support the customer’s financial position.

Regular reviews

These need to be conducted to ensure circumstances have not changed, although firms may have to adopt methods to try and overcome the issue of where customers are reluctant to engage.

Looking at unnecessary obstacles, firms should avoid complicated logins and return emails to progress to next steps, and they should also avoid multiple boxes to reveal additional text to help inform users’ decision-making.

Examples to assist customers:

- Let customers know what information or documents will be required to hand
- Allow customers to record any vulnerabilities when starting online journey
- Embed third party budgeting tools within the firm’s digital offering and providing a seamless approach
- Make sure contact details for debt advice and non-digital support clearly presented throughout
- Offer pop-up boxes giving additional help when dealing with questions
- Provide details of customer’s disposable income remaining after completion of the online IE with an explanation of the figure. Allow for editing if requires updating.
- Monitor of click rates and surveys so that the firm can identify aspects of the online journey for improvement.

Recruitment: if firms recruit extra less experienced staff who may have to work remotely, then firms will require oversight of the arrangements in place and undertake QA.

The role of QAs

Firms are required to undertake end-to-end QA to build up an understanding of what has occurred before and after engagement, to ensure full understanding is reached when assessing the outcome achieved. This can include:

- Listening to one call
- Reviewing how arrangement was agreed
- Additional training

Further concerns

Financial value collection targets and/or efficiency targets linked to variable pay

The FCA is concerned that schemes which incentivise agents to collect payments from customers may encourage poor behaviour and lead to unfair outcomes through unsustainable arrangements and reminds credit firms of rules and guidance on remuneration in CONC 2.11.

Due regard for Principal 6

On treating customers fairly, the FCA as also expressed concerns on:

- Incentivising staff to take a high number of calls risks not taking the time to consider customers’ needs.
- Whether any incentive schemes in place may lead to poor behaviour.
- Prioritising collection of payments rather than agreeing fair and sustainable forbearance options.

Review Incentive Schemes

These need to be aligned with delivering forbearance that is appropriate to customers’ individual circumstances.

Automated customer contact

The automated approaches can be helpful but must be clear in signposting of non-digital support or the recording of new vulnerabilities.

Avoid:

- leading questions
- default repayment plans that had not been tailored, nor assessed as specifically appropriate, to the customer’s individual circumstances.

Websites must be:

- Easy to read and navigate
- Updated regularly.
- Capable of giving customers access to digital tools ie IE in preparation for calls.

The FCA is encouraging firms to present information about debt advice in a helpful manner which enables customers to understand the availability of alternative sources of assistance, such as Debt firms or wellbeing content.

Essentially, ensuring customers in financial difficulty receive fair and appropriate support remains a key priority, and the FCA requires that:

- Support provided to customers is appropriate for their personal and financial circumstances.

- Customers in financial difficulty are treated fairly throughout their journey, including during litigation or the debt recovery process.
- Vulnerable customers are treated fairly in line with FCA guidance.
- Robust and reliable Quality Assurance is undertaken and that findings are acted upon.
- Newly recruited staff continue to be supported to improve outcomes for customers.
- A wide range of forbearance options are considered early on for customers, and
- Automated approaches to providing forbearance deliver benefits to customers.

The FCA also says, “Where we have identified concerns with a firm’s approach, we will be following up through the usual course of our supervisory work, taking robust action to stop and prevent harm.”

Lenders should check that their operational procedures have captured all of the FCA requirements under its Tailored Support Guidance as the FCA findings paper is an extremely useful document on its expectations.

How can Auxillias help?

Auxillias have been supporting firms implement collections and recoveries policies, procedures, and good practices as well as training staff in dealing with customers, to include implementing and regularly reviewing outcomes whether that be CONC 7 compliance for non-Covid cases, or the FCA Covid related guidance notes. ■



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