RFS:

The Landscape Post Covid

While the real impact of COVID-19 has yet to play out, firms are now starting to wrestle with the immediate aftermath of an unprecedented global pandemic and plan for what lies ahead.

Losses are already being suffered from loan defaults and repayment holidays and this is likely to increase as more customers find themselves in financial difficulty. Customer vulnerability will also be on the rise from the disruption of family life, job losses and direct illness.

Many lenders have played a big role in facilitating the government bounce back loan schemes for businesses. Over the forthcoming months this new stream of business is likely to be administration heavy as firms continue to handle large numbers of applications and manage the collection and recovery of debts.

FCA will continue to monitor existing requirements and issue new guidance in direct response to the developing situation. At the same time PPI is still to be resolved and previous regulatory priorities such as consumer credit and economic crime remain high on the agenda.

The insurance industry is also under challenge in relation to business interruption products, which could result in far reaching action.

Meanwhile firms are wrestling with the redeployment of resources and remote working, while accelerating digitalisation and automation to meet customer demand and create operational efficiencies.

In this report RFS highlights some of the key features of the post COVID-19 landscape.

BBLS/CBILS

Bounce Back Loan Scheme (BBLS) and Coronavirus Business Interruption Loan Scheme (CBILS) payments were arranged very quickly in order to respond to the unprecedented needs of British businesses.

This means that in some cases payments were made with very little due diligence or fixed processes in place.

Many firms are yet to establish how loans will be serviced as they fall due. Programme design, oversight and delivery as well as call and case handlers and outcome testers will all be required. The very unusual and specific nature of BBLS and CBILS also presents an opportunity to offer a fully outsourced solution to providers.

Mortgages/Payment Holidays

In response to the COVID-19 pandemic, mortgage lenders introduced payment holidays and increased flexibility for customers for up to three months.

Treatment of mortgage customers after the end of the payment holiday has been a hot topic for providers. Some have raised concerns that the mortgage holiday has just postponed a problem that will continue to exist. The payment holiday programme has been described as kicking the can down the road as interest has continued to stack up and many people are in a worse financial position now then at the beginning of the payment holiday period. Additional concerns for lenders include the impact of future infection rate spikes, whether additional forbearance measures are appropriate, and the marked increase in customers who fall into the 'vulnerable' pot.

Lenders will need additional customer contact specialists, collections and recoveries expertise, additional support for vulnerable customers including resource with specific training.

Some lenders will also require consultancy or third-party assurance that their strategy, policies and procedures in this area are compliant are fit-for-purpose.

NEXT PAGE
Vulnerable Customers
Business Interruption Test Cases
Outcome Testing
GI – Unfair Pricing Practices

Vulnerable Customers
The FCA have recently released additional guidance on the treatment of vulnerable customers. Firms will be reviewing and, in some cases, amending their processes to better service their vulnerable customers.

This may include additional training for staff and empowering staff to make decisions and follow different processes where a vulnerable customer has been identified.

Early identification of vulnerability is also an area of key importance as more customers than ever will fall into this category and many firms find the identification of vulnerable characteristics challenging.

Support in establishing policies and procedures for firms to readily identify vulnerable customers as well as the provision of training are services clients continue to request.

A further area where firms may require support is ensuring that they have an appropriate range of communication channels for contacting customers as the FCA have identified this an a key area for ensuring vulnerable customers receive fair outcomes.

Firms who succeed in the fair treatment of vulnerable customers often have specialist teams and monitor/report on vulnerable customer levels within their business.

Business Interruption Test Cases
A test case has been heard relating to the wording of business interruption insurance policies, particularly those held by SME businesses.

The aim of the test case is to resolve contractual uncertainty around the validity of many BI insurance claims related to the COVID-19 pandemic, and ensure policyholders are treated fairly by insurers and insurance intermediaries.

The judgement is likely to be available in mid-September and will be legally binding on relevant insurers.

Sixteen insurers utilise the specific types of wording that is in question. The judgement will not be applied retrospectively but dependent on the outcome of the test case they may be required to amend their approach to BI claims and review and amend their policies going forward. It is also likely that dependent on the outcome, mis-selling claims will be brought.

The judgement will provide persuasive guidance for the FCA when assessing the fairness with which insurers have acted/continue to act and for the FOS when reviewing related complaints.

Outcome Testing
The FCA has made fair outcomes for consumers, firms and markets a key focus of their regulatory approach.

In order to align their approach with the regulator, many firms will want to begin or expand their outcome testing programmes. Outcome testing is an independent function which sits outside traditional, linear quality models and straddles the second and third lines of defence.

Outcome testing is key driver of process improvement and disruption and has been deployed successfully by major UK institutions to evidence to the FCA that they are achieving fair customer outcomes.

RFS have proven expertise in designing, building and successfully managing large scale outcome testing projects that provide assurance and insight to board members.

GI – Unfair Pricing Practices
The FCA have completed a market study on pricing practices in the home and motor insurance sectors.

The outcomes of the study identified that consumers were being disadvantaged by pricing practices particularly the disparity of treatment between new and existing customers.

1 in 3 consumers who paid high premiums showed at least one characteristic of vulnerability, such as having lower financial capability. For consumers who bought combined contents and building insurance, lower income consumers pay higher margins than those with higher incomes.

The FCA are currently considering what remedies can be imposed to improve the market for consumers.

These may include scrutinising product governance strategies and interventions that remove conditions required for price discrimination.

NEXT PAGE
Commission Disclosure
SM&CR
Consumer Credit/Irresponsible Lending
DB Transfers

Commission Disclosure
Commission disclosure is emerging as a hot topic across a wide range of financial services products from protection, consumer credit and investments.

Lack of commission disclosure in relation to protection products is being assessed on a retrospective basis with redress being paid to customers' who were not aware of high levels of commission contributing to the price of the products they purchased.

New rules for motor finance commissions, including the banning of discretionary commission models will be introduced in 2021. Other consumer credit providers are facing changes to the way they must disclose commission. Some providers will struggle to implement the changes correctly without support.

SM&CR
Firms will be assessed on how effectively thy have implement the SM&CR and how this has impacted on the provision of fair outcomes. They key culture drivers are purpose, leadership, approach to rewarding and managing people, and governance. Firms will have to evidence how their approach has mitigated conduct risk across their business.

Consumer Credit/Irresponsible Lending
Irresponsible lending is an area of pressure for operators in the consumer credit market.

Borrowing to meet day-to-day critical living needs is not sustainable and consumers who rely on credit in this way are less likely to be able to pay back what they owe and are likely to have paid more for the privilege.

The FCA is looking closely at how firms assess the suitability and affordability of products and how firms protect a cohort of customers who by their very definition and more likely than not to be vulnerable.

As the demand for borrowing is strongly linked to economic factors and downturn, the demand has increased as a result of the pandemic.

Consumer credit firms are already facing a deluge of complaints relating to irresponsible lending practices. With many complaints being directed by claims management companies.

In an extreme case, one client has seen their bill for complaints rise from just over £100,000 to over £120,000,000 in the space of a year.

Consumer credit businesses in general, tend to be behind the curve on regulation and compliance as they only came under FCA regulation for the first time in 2014.

DB Transfers
The FCA has identified significant risk of harm in the pensions and retail investment markets. The risk in this are has been compounded by the introduction of pension freedoms in 2015 and the general shift towards Defined Contribution pensions.

Consumers now have more responsibility for complex investment decisions and may be susceptible to tempting but risky products and poor advice.

Some consumers are exposed to more investment risk than they expected or can absorb, including from sales of high-risk products and risk disguised in an investmentwrapper.

Many advisers have found it extremely difficult or even impossible to obtain insurance against advice given in relation to Defined Benefit transfers.

The FCA have confirmed their commitment to ensuring distribution networks function in a way that protects the consumer from poor practices so will be scrutinising governance arrangements, oversight of ARs and the quality of advice. Some will require advice on how to evidence fair outcomes to the regulator.
Firms may also be required to review their back books with redress activity being particularly challenging as transfers out of Defined Benefit schemes cannot be 'unstitched' as with other products.

NEXT PAGE
Economic Crime
Second Wave PPI

Economic Crime

The FCA have commitments under the UK's National Economic Crime Plan and one area of specific focus is money laundering. The regulator will take enforcement action, including against firms whose practices lend themselves to money laundering activities. Enforcement actions will include s166 reviews and reviewing/remediating KYC and CDD procedures and records.

The FCA are considering extending their financial crime data return to more firms, who may need support in completing these returns and ensuring they have appropriate procedures in face to produce meaningful M.I. in this area.

The regulator is also focusing on fraud where the customer is a direct victim. Following the introduction of pensions freedoms, more individuals have access to capital lump sums and this group has been identified at being particularly high risk – on average losing 22 years of pensions savings.

The ScamSmart campaign focuses on the following areas - pensions, investments, online fraud and loan fee fraud.

Firms will need to ensure they can evidence that their systems and process identify and mitigate the risk of fraudulent activity in these areas where possible.

Second Wave PPI

The Plevin ruling means that many customers who have received partial or no redress in relation to PPI claims could be due additional compensation – even in cases where the customer is not disputing whether the product was mis-sold.

Failure to disclose extremely high levels of commission created an 'unfair relationship' between the parties.

Any customer who made a PPI claim before the deadline and received partial or no redress may eligible for further redress Other individuals can take their cases to the small claims court and have done so successfully.

Claims management companies are driving this second wave of PPI and this will result in additional business support needs in areas such as: Calculations, data gathering, project design/management, customer contact, case decisioning, quality assurance/outcome testing and CMC liaison.

Further action from the regulator can also be expected in the future with clients requiring support on s166 activity and FCA relationship management.

RFS have continued to support clients through COVID-19 by responding quickly to the emerging situation and scaling up and down as operational requirements have demanded.

We also have the capability to deploy resources remotely while assuring high levels of security.