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Dear Chief Executive

The rising cost of living – acting now to support consumers

As consumers across the country are affected by the rising cost of living it is critical that lenders meet the standards we expect to support their borrowers, including those in financial difficulty. We want to ensure that our expectations of you are clear and to urge you all to support your customers.

We need to engage and work effectively as an industry to understand the changing pressures on consumers – now and in the uncertain months ahead. We must ensure that the financial services sector serves customers – especially those who might struggle with their finances during this time.

Understanding the changing pressures on consumers

Many consumers will feel the impact in their personal finances, but we are particularly concerned that consumers least able to bear the rises will be hardest hit. While the headline average inflation rate is at 9% and rising, the Institute of Fiscal Studies estimates that the poorest households may face average inflation rates as high as 14%. This is in the context of a quarter (27%) of the population having low financial resilience, a figure likely to increase over the coming months.[1]

At the same time, we expect to see higher demand for credit, although rising interest rates, and lower disposable income, may make borrowing less affordable, or unavailable, for some. Firms will also see a wider group of consumers in financial difficulty, who will find it harder to pay their debts. Some of these consumers will be in vulnerable circumstances or may be experiencing financial difficulty for the first time. Firms need to remain alert to the changing situation of their customers and target their efforts in response.

[1] Financial Lives Survey - https://www.fca.org.uk/publications/research/financial-lives-2020-survey-impact-coronavirus and internal analysis.

Consumers in vulnerable circumstances are feeling the greatest impact

If consumers face increasing difficulty paying bills or repaying debts, the impact on them is unlikely to be purely financial. Consumers will be more likely to face pressures on their physical and mental health, which in turn could exacerbate the impact of their financial difficulties. Over half of the population (55%) feel that their health has been negatively affected by the rising cost of living (YouGov/Royal College of Physicians)[2], and those with low mental capacity, or who may struggle to access support, will be least able to respond to these challenges. Firms' frontline services will have to deal with more customers presenting with a complex range of vulnerable circumstances and non-financial knock-on effects of the rising cost of living.

Treating borrowers fairly

In this economic context, it is vital that you treat borrowers fairly. This applies to both existing and new customers. Our Principles set out the standards we generally expect of firms and our Rules in MCOB 13, CONC 6, 7 and CONC 5D set out our requirements and expectations of firms when dealing with borrowers in financial difficulty.

We consider that our Tailored Support Guidance (TSG) for mortgages, consumer credit and overdrafts which was issued to address exceptional circumstances arising out of coronavirus, is also relevant for borrowers in financial difficulties due to other circumstances such as the rising cost of living. Based on our rules, and Principles 6 and 7, it provides further guidance on our expectations of firms when supporting borrowers and providing tailored forbearance and debt help to those in financial difficulty.

In addition, our Vulnerable Customer Guidance (VCG) sets out our view of what firms should do to comply with their obligations under our principles and ensure they treat customers in vulnerable circumstances fairly.

Our expectations of firms

We expect you to:

- Provide your customers with an appropriate level of care and support. The level of care needed for customers who have characteristics of vulnerability may be different from that for others and you should take particular care to ensure they are treated fairly. Our VCG makes clear what the standards set by our Principles mean for firms.
- Give borrowers in financial difficulty appropriate tailored forbearance that is in their interests and takes account of their individual circumstances.
- Support borrowers showing signs of financial difficulty or struggling with debt, by making them aware of and helping them access money guidance or free debt advice.
- Ensure that any fees and charges levied on borrowers in financial difficulty are fair and do no more than cover your costs.
- Make sure your approach to taking on new borrowers takes account of the financial pressure they may be facing and the impact on their expenditure.

[2] https://www.bmj.com/content/377/bmj.o1231

- Consider what more you can do to encourage mortgage borrowers to think about switching to a less costly option where that is available.
- Help consumers avoid falling victim to scams or illegal money lending.

This is not an exhaustive list of our expectations.

Findings from our review of outcomes for borrowers in financial difficulty

It is important that you ensure your firm is meeting its specific obligations to borrowers in financial difficulty. To help you do this we are also sharing the emerging findings from our extensive programme of work looking at this.

We have included examples of behaviour that results in poor outcomes for borrowers in an annex at the end of this letter, along with a summary of our specific expectations of lenders when supporting borrowers in financial difficulty. Our findings show that many of the firms reviewed need to improve the experience and the outcomes their customers receive to meet our expectations.

Our review identified that most firms did not consistently:

- Explore customers' circumstances fully to provide help and support that was appropriate and tailored to their specific individual circumstances.
- Identify the specific needs and circumstances of customers with vulnerable characteristics to provide help and support that took account of these.
- Help customers in financial difficulty access money guidance or free debt advice.

The review covered most retail lending portfolios and we found these issues applied widely across the consumer lending market so the findings are relevant to all firms. We are already asking many firms who were part of the review to make changes to ensure that customers in financial difficulty receive the help they need. Firms that do not meet the standards we expect risk further regulatory challenge, including possible enforcement action.

Embedding the Vulnerable Customer Guidance

We welcome the work that firms are carrying out to embed the Vulnerable Customer Guidance. However, recent work with retail banks has also raised concerns that firms generally have more to do to ensure they are treating customers in vulnerable circumstances fairly so that they experience outcomes as good as those of other customers. The rising cost of living is likely to lead to an increase in consumer vulnerability – exposing more consumers to a greater risk of harm – making it even more important that firms implement the VCG properly. We have published our findings from this work today.

We identify areas where we expect to see improvement from firms in applying our guidance to ensure they are treating customers in vulnerable circumstances fairly.

Relevance to small business customers

We are also concerned about the treatment of small business customers. The expectations in this letter may also apply to these customers, who will be facing similar challenges.

Relevance to exempt BNPL products

Some regulated firms also offer consumer credit products including buy-now pay-later (BNPL), that are exempt from regulation. Given the rising cost of living and the factors explained above, we strongly encourage authorised firms offering these unregulated products to follow the guidance in this letter in relation to those products.

For the same reasons, we are also sending a copy of this letter to several unauthorised firms offering exempt BNPL, and similar products, so that they can see our expectations for authorised lenders and strongly encouraging them to follow the guidance in relation to exempt credit products.

Next Steps

We continue to monitor outcomes and carefully scrutinise firms and will use our supervisory and enforcement powers to take further action as necessary.

We will publish the detailed findings from our work on borrowers in financial difficulty later this year and we plan to consult on the future of the TSG, and that may include changes to our Handbook.

Our expectations in this letter are based on our existing principles, rules and guidance, which we are applying to ensure that firms act in their customers' interests. Later this year, we will finalise any rules in relation to the Consumer Duty, but we are not waiting for the Duty to come in before we act to improve consumer outcomes.

Please consider the content of this letter and the annex and take action where necessary to ensure your firm is well placed to support your customers now, and as the situation becomes more challenging in the months ahead.

We look forward to working together as we did during the pandemic to promote fair outcomes for all consumers including those in financial difficulty. We are contacting industry representative bodies today to invite them to a roundtable in July to discuss what more firms can do to best support customers during this time.

If you have any questions regarding the content of this letter, please contact your usual firm supervisor or the FCA Supervision Hub.

Yours faithfully

Sheldon Mills
Executive Director

Annex: Findings from our work on Borrowers in Financial Difficulty and our expectations of all firms

During our multi-firm work on Borrowers in Financial Difficulty, we have seen examples of firms delivering good outcomes. However, we have also identified examples where firms are not considering or taking sufficient account of customers' individual needs or circumstances or providing appropriate tailored forbearance.

This work has included four surveys of over 400 lending firms, consumer research and deep dives with a sample of 63 firms, covering a range of firm sizes and lending portfolios. We looked at a number of areas including training and competence, oversight and quality assurance as well as customer outcomes. We will provide detailed findings later this year.

We believe the findings from our work are relevant to all lenders providing forbearance to borrowers in financial difficulty including those borrowers who have not yet missed payments.

We know that many customers are reluctant to engage with lenders when they are facing financial difficulty. We found that some firms were working hard to encourage engagement by their customers. We saw examples of positive communications setting out the benefits of engagement including personalised information on the customer's position and options that might be available to help. We also saw examples of firms tailoring communication channels to customers' preferred method.

However, we also found that some firms are:

- Not doing enough to encourage customers to engage with them. For example, we saw some firms failing to adopt certain methods of communication. Some would not make outbound calls, or prevented customers calling them, others only accepted email or did not allow customers to email them. We also saw examples of customers contacted multiple times with standard, non-tailored or unsupportive messages.
- Not doing enough to understand their customers' circumstances, including characteristics of vulnerability, and not tailoring forbearance to reflect these. As a result, these firms are unable to demonstrate why forbearance arrangements made are appropriate.
- Failing to consider a range of forbearance options. Typically, these firms are making arrangements to pay with customers without establishing if these are appropriate or affordable. This is leading to recurring broken arrangements.
- Not discussing the potential benefits of money guidance or free debt advice or helping and supporting borrowers to access these.
- Not investing enough to ensure they have well-trained staff capable of having complex conversations with customers in financial difficulty and able to tailor forbearance to customers' individual circumstances.
- Focusing quality assurance on point in time processes rather than outcomes. Also, where issues are identified they are not always remediated.
- Applying fees inconsistently and in circumstances which compound financial difficulty with little consideration of how these fees would be paid.

You must ensure that your firm is complying with its obligations. You should ensure your firm:

- Encourages and facilitates customers to engage by:
  - using a **range of communication channels** to access the help and support they need in a way and at a time that suits them
  - setting the **right tone** in these communications by explaining the benefits of engaging early when at risk of or in financial difficulty and emphasising the support the firm can provide
  - enabling all customers including those who may be more vulnerable to discuss their needs and **responding flexibly** to these needs and circumstances.
- Ensures any **forbearance agreed is appropriate taking account of a customer's individual circumstances by:**
  - considering and taking account of both current and expected financial and personal circumstances **including any characteristics of vulnerability**.
  - **offering a range of options** to support customers beyond arrangements to repay arrears, for example temporarily accepting reduced payments of interest and/or capital, waiving or freezing interest and extending loan terms.
  - only **putting in place arrangements to pay that are sustainable**.
  - **regularly monitoring and reviewing** all customers' arrangements, to ensure these remain appropriate.
  - being aware that in consumer credit cases, where an **unprompted customer repayment arrangement** has been accepted, and there are indications that the arrangement is not sustainable (e.g. missed payments), a review of the arrangement should take place.

  You may wish to consider different ways of **engaging effectively** with borrowers to fully understand their circumstances.
- **Has well trained and competent staff** who are capable of having high quality conversations with customers in financial difficulty, including those with characteristics of vulnerability. Management should have good oversight of the quality of conversations with customers and the outcomes they receive, including by outsourced providers.
- **Has sufficiently resourced forbearance operations to respond appropriately** and quickly to the numbers of customers in financial difficulty needing support.
- **Has adequate oversight of the customer experience and customer outcomes.** Quality assurance is more effective where it focuses holistically on a customer's journey through financial difficulty, including the quality of the support they receive throughout this journey, as well as the outcomes they get. This provides a fuller picture of whether customers get fair and appropriate outcomes overall.

- **Identifies quality issues**, and acts to correct errors and **ensure staff** get appropriate feedback, as well as appropriate training and support, to **build and develop their understanding, knowledge, skills and competency**. This should focus on reducing the risk of the same mistakes happening again.

- **Ensures charges and fees for those in arrears or payment shortfall, including any for missed payments, only reflect the cost your firm incurs**.

Given the added cost of living pressures we would also like to see firms discussing the benefits of money guidance and free of charge debt advice in conversations with customers, as well as signposting these in communications.

Firms should ensure their policies and processes are fit for the current cost of living pressures and are fully prepared with experienced management and staff to cope with the potential increasing numbers of borrowers in financial difficulty.