

# **Financial Services Federation Recovery Conference**



## KEY FLA MARKETS STATS

- The FLA is the leading trade body for the UK asset, consumer and motor finance sectors
- 2019 FLA members provided £140 billion of new finance to UK businesses and households
- Nearly £105 billion was in the form of consumer credit
- £45 billion or so in motor finance
- FLA members funded over 91% of private new car registrations in 2019
- Over £35 billion of finance was provided to businesses (including £20 billion to SMEs) and the public sector to support investment in new equipment
- Members include banks, subsidiaries of banks and building societies, the finance arms of leading retailers and manufacturing companies, and a range of independent firms.

## PRESENTATION STRUCTURE

- In this presentation I will briefly cover off the following:
  - ❖ The economic effect of COVID on our markets
  - ❖ The UK regulator (The Financial Conduct Authority (FCA) response and Government response)
  - ❖ FLA's response in the form of member guidance (in both our consumer and motor markets) as well as keeping members updated of regulatory developments
  - ❖ Other current topical issues for FLA members e.g. CCA reform/Digital ID/Open banking, SMCR, Affordability, Commission Structures and there are, no doubt others across our markets; and
  - ❖ Future motor and asset developments helping the road to recovery and the Government/Regulators role



## EFFECT OF COVID ON FLA MARKETS

### Industry Trends:

- In August overall new business provided by FLA markets **fell** by 13% compared with the same month in 2019
- Consumer car finance market reported new business up 8% by value and 1% by volume
- FLA consumer finance overall fell in August by 11% compared with the same month in the previous year
- The asset finance market provided new business in August 18% lower than in the same month in 2019.

## **EFFECT OF COVID ON FLA MARKETS**

### **Business Finance**

- In the first eight months of 2020, new business contracted by 30% compared with the same period in the previous year

### **Consumer Finance**

- In the first eight months of 2020, new business in this market was 21% lower than in the same period a year earlier
- The retail store and online credit sector reported new business in the eight months to August 2020 down by 8% compared with the same month in the previous year.
- The credit card finance and personal loans sectors together reported new business in the first eight months of 2020 22% lower than in the same period in 2019.

## EFFECT OF COVID ON FLA MARKETS

### Motor Finance

- In the eight months to August 2020, car finance new business fell 27% by value and 29% by volume compared with the same period in 2019
- In the first eight months of 2020, the number of new car registrations overall fell by 33.2% compared with the same period in 2019 (Society of Motor Manufactures and Traders - SMMT figures)
- SMMT's latest outlook published on 27 July 2020 suggested new car registrations would fall by 30.6% in 2020 as a whole to 1.603 million, and rebound by 26.9% in 2021 to reach 2.035 million

## GOVERNMENT / REGULATORS RESPONSE

- Since March, FCA have intervened to support consumers during this period of uncertainty
- Payment Deferrals – up to 6 months across consumer credit products
- Temporary Guidance, including payment deferrals and refrain from repossessing homes, vehicles and other goods (until at least early 2021 and potentially beyond)
- Firms have provided over 1.8 million mortgage payment deferrals and over 1.7 million personal loan and credit card payment deferrals.
- After payment deferrals more tailored solutions, including waiving interest
- Credit Reference Agency reporting (CRA's) suspended during the 3-6 months payment deferrals. To prevent affecting the ability to access credit
- Asset – 220,000 deferrals and Government backed schemes to help industry and customers. However, more support needed for non-banks

## FLA's RESPONSE

- FLA have provided:
  - Fast moving regulatory developments
  - Lobbying in relation to payment deferrals and the need for firm support
  - Guidance in response to the regulator's changes
  - Continued to run meetings, events, conferences and training remotely via Zoom/Microsoft Teams
- Key guidance provided by FLA to date includes:
  - COVID 19 Complaints Handling Guidance/Toolkit
  - COVID 19 Communications Guidance
  - COVID 19 Credit Reference Agency Guidance



## FLA's RESPONSE

### ➤ And in motor:

- COVID-19 guidance for vehicle collection, delivery, distribution, storage and technical service
- Conducting vehicle repossessions during the COVID-19 pandemic
- Guidance on COVID-19 and the movement of vehicles

## CURRENT TOPICAL ISSUES FOR FLA MARKETS

### ➤ **Consumer Credit Act (1974)**

- Parts still regulate consumer credit.
- 40 plus years old and not fit for purpose for the modern digital age
- Prescriptive and difficult for consumers to understand e.g. Information Requirements
- Draconian enforcement for minor technical breaches
- FLA lobbying for it to be changed

### ➤ **Digital ID**

- Reduce the cost of on-boarding and reduce and ML
- Even more important in a non face-to-face environment (e.g. COVID)
- FLA are pushing for a single Digital ID that could be used across FS

## CURRENT TOPICAL ISSUES FOR FLA MARKETS

### ➤ **Open Banking**

- UK at the forefront of OB both domestically and internationally
- But not without its challenges
- Still a lack of customer awareness and take up
- OB continues to evolve, albeit it at a moderate pace

### ➤ **SMCR- The Senior Managers and Certification Regime (SMCR)**

- Now rolled out across all of consumer credit
- Individual accountability and responsibilities
- Across all key areas
- For key critical roles there is a certification regime now too
- All SM's need to be vetted and approved by the regulator.

## CURRENT TOPICAL ISSUES FOR FLA MARKETS

### ➤ **Affordability**

- Big issue for the regulator i.e. can/could the consumer afford the loan/car etc..
- Onus on the firm to do the right checks
- How these checks were done is currently the issue e.g. bank statements used?
- Some cases now ending up in the UK Courts and being driven forward by Claims Management Companies

### ➤ **Commission Structures**

- Biggest single policy issues in motor finance for last few years
- FCA have recently changed the rules on discretionary commissions
- FLA have been providing member guidance and have welcomed these changes

## FUTURE DEVELOPMENTS

### Motor

- **Transition to zero carbon** - Ending the sale of new diesel, petrol and hybrid vehicles by 2035 in line with the UK's zero carbon strategy (potentially as early as 2030)
- The funding of Electric Vehicles (EV's) potentially a problem for lenders due to CCA legislation
- Other major issue is the affordability of EVs due to their price tag
- May need Government Guarantee/Intervention

## **FUTURE DEVELOPMENTS**

### **Net Zero for Asset – Core Govern aim**

- Will need specialist financing and leasing sector help
- Will need Gov support for 'Green Finance Guarantee' to support move to low emissions vehicles
- Plug in grants for commercial low emissions
- Accelerated charging infrastructure targets and;
- lenders to access capital allowances for their fleet of vehicles

### **UK Gov and regulators role**

- Green and sustainable finance key for FCA/Gov
- FCA is introducing rules requiring premium listed companies to make better disclosures about how climate change affects their business
- And as part of its commitment to net zero and Green Finance, the UK Government will issue its first Sovereign Green Bond in 2021
- Implement a green taxonomy – a common framework for determining which activities can be defined as environmentally sustainable



## Global pandemic – are we still in crisis or recovery?

- What happened - role of lenders as 'shock absorbers' and role of governments as 'safety net'
- What happened – impact on lenders and customers
- What are our future challenges – role of lenders as 'pistons of recovery'



## Finance as a 'shock absorber'

- Preparedness – collaboration, coordination and cooperation between governments, business and community
- Government economic stimulus packages supported business activity and jobs, put a floor under the economy, and cushioned business and consumer confidence
- Central bank and financial regulators – liquidity and market interventions, regulatory actions
- Lenders kept people in their homes and SMEs operating = 'hibernation strategy'
- Australian banks' 'unquestionably strong' status pre-crisis positioned them to support customers and allowed regulatory forbearance
- Lessons and hindsight – crisis (i.e. GFC, prudential rules) and recessions (i.e. interest rates, consumer behaviour)



## What happened for lenders and customers?

### **Immediately**

- Finance industry shifted quickly
- Financial hardship applications spiked in April and May
- Finance industry engaged with governments on 'roadmaps'
- Acceleration of digitisation
- Rational and emotional consumer behaviour

### **Now**

- Lenders now seeing reductions in the amount of deferred loans
- Low interest rates is seeing customers shop around for refinancing deals
- Emerging issues for lenders, customers, governments, policy and regulatory debates, financial markets, economy



## 'Shock absorber' to 'pistons of recovery'

- Access to credit is critical to economic recovery – enabling investment and supporting jobs and growth
- Challenges in the system – Australia, globally
- Additional government initiatives are necessary but not sufficient for enabling investment – finance is the key
- Diverse sector – large and small lenders will optimise recovery