SPOTLIGHT ON

FINANCE & INSURANCE

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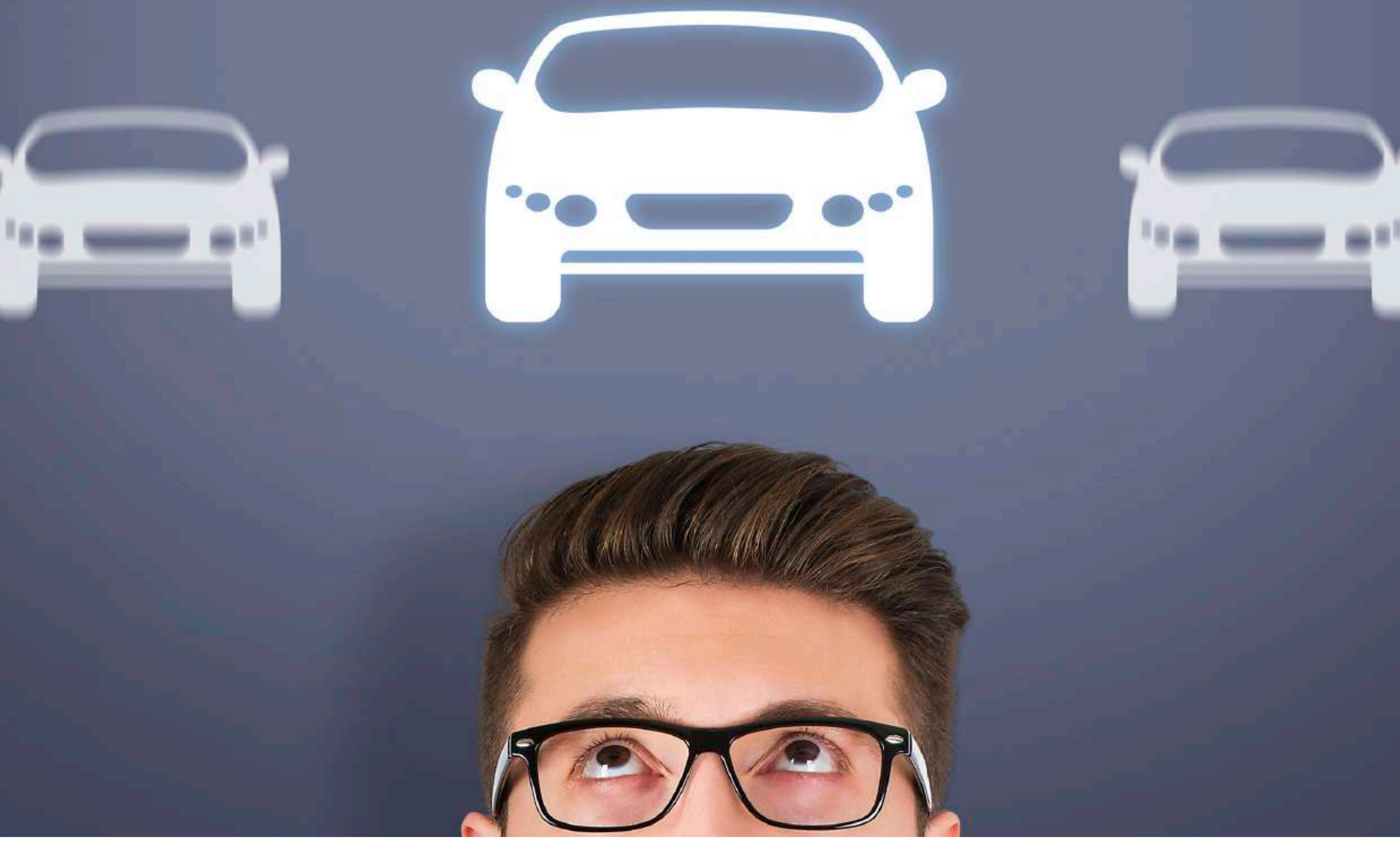

WELCOME

Motor retail's provision of point of sale finance and insurance is undoubtedly a critical driver of the new and used car markets. Few consumers can choose to jump into their next car without the industry's purchase and leasing solutions to help them. For dealers specifically, the importance of F&I's generation of additional profits to improve a dealership's bottom line cannot be ignored.

It's a sector whose visibility has been elevated in recent years, partly due to the presence of a powerful and extremely active regulator in this marketplace, the Financial Conduct Authority. There has never before been such a high level of professionalism with which consumer credit and insurance is now provided. Technology, such as electronic signature facilities, is playing a crucial role too in smoothing the point of sale process to leave customers feeling less fatigued and more empowered.

The FCA's drive for further cultural change in the industry continues, however, and with the new Consumer Duty now just a few weeks from introduction, no automotive manager can afford to relax. The potential risks from failure are substantial.

As you'll read in the following pages, legal experts and finance houses are working closely with their retailer partners to ensure implementation plans run to schedule, and to check robust processes will ensure the customer is front of mind continually in the months and years ahead.

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INSIDE

Be prepared for **what's coming next**

The new Consumer Duty sets higher and clearer standards of consumer protection across financial services and requires firms to put their customers' needs first.

At Black Horse, we understand that regulatory changes can feel overwhelming for dealerships. With the Duty coming into effect on 31st July 2023, we want you to have the right tools and resources to feel confident in this changing environment.

The new Consumer Duty regulations are designed to encourage a higher standard of conduct across the industry. It will hold sales teams accountable for delivering good outcomes for all retail customers. This is a positive move to enhance the way we all operate and communicate with customers.

To help dealers like you feel better prepared for what's coming next, we have a range of free tools and resources.

LetsULearn platform

Use our free learning platform to help develop your skills. Our learning pathways are regularly reviewed and updated so you can stay up-to-date with the latest regulations and insight.

Financial Promotion guidelines

Our Financial Promotions guide gives you a summary of the FCA's rules on Consumer Credit. This is to help dealers make sense of the regulatory requirements for Financial Promotions across all communications. But whatever your situation, always seek independent legal advice as well.

Vulnerable Customers guidance

Give your team the skills they need to recognise potentially vulnerable customers based on their circumstances – either permanent or temporary.

"Consumer Duty is about ensuring we're all doing the right thing for our customers. They should expect finance options that offer fair value and are fit for purpose, backed by helpful customer service. We are always aiming to deliver the best customer experiences and outcomes that continually enhance the industry's reputation."

Tim Smith,
Head of Motor Finance
at Black Horse

To find out more, contact your Black Horse Account Manager or visit **blackhorse.co.uk/dealer/better-way/letsulearn-premium**

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Consumer Duty and the current economy

Despite a very different economy when plans for Consumer Duty rules were first announced, the FCA is sticking to its original timescales, says *Matt de Prez*

When the Financial Conduct Authority (FCA) decided to wage a war on harmful practices within the finance industry, the UK economy was in a very different place to where it is now.

The cost-of-living crisis was barely getting into its stride in the summer of 2021, and it wasn't until early 2022 when Russia launched its attack on Ukraine that living costs really started to soar.

Keen to make an impactful start to her tenure as Prime Minister, Liz Truss, along with then Chancellor of the Exchequer Kwasi Kwarteng, added more fuel to the fire with the announcement of the mini-budget in September. The 'impact' felt delivered another toxic blow to public finances.

Economic uncertainty reached unprecedented heights as a result and, combined with existing new car and component supply challenges, resulting from the aftermath of the Coronavirus outbreak, the resilience of the automotive sector was pushed to its limits. Truss' tenure was short-lived as a result.

At the time of writing, the Bank of England base rate sits at 4.25% and is edging ever closer to heights not seen since the 2007 financial crisis, thus impacting the ability of consumers to finance new cars.

Dealers have remained buoyed by unprecedented demand for new and used cars, driven by three years of covid-impacted supply constraints. The new car market is showing signs of a return to growth but the knock-on effects will be felt in the used car space for years to come.

FCA FORGING AHEAD WITH CONSUMER DUTY IMPLEMENTATION

The FCA has not faltered in its ambition to deliver the Consumer Duty within its original timeframe, despite the rapidly changing face of both the UK economy and automotive retailing.

The Consumer Duty is aimed at creating higher standards for consumers and improving competition in the retail financial services market. Within the motor retail sector, this will predominantly impact dealerships providing financing and insurance products.

As most dealerships distribute finance products, either to facilitate or complement the vehicle sale, they must also ensure that they are meeting the higher standards and expectations the FCA have laid out.

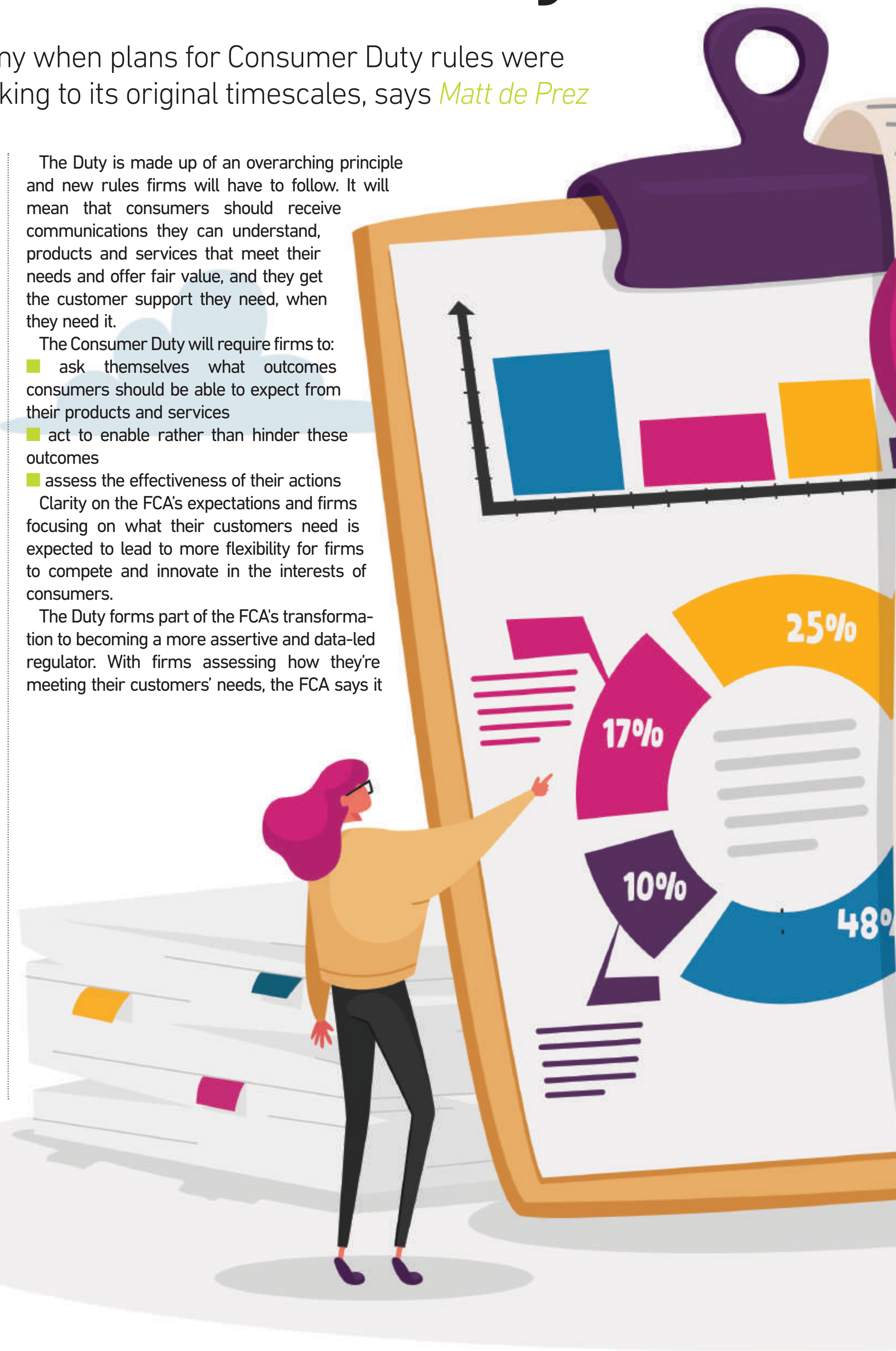
The Duty is made up of an overarching principle and new rules firms will have to follow. It will mean that consumers should receive communications they can understand, products and services that meet their needs and offer fair value, and they get the customer support they need, when they need it.

The Consumer Duty will require firms to:

- ask themselves what outcomes consumers should be able to expect from their products and services
- act to enable rather than hinder these outcomes
- assess the effectiveness of their actions

Clarity on the FCA's expectations and firms focusing on what their customers need is expected to lead to more flexibility for firms to compete and innovate in the interests of consumers.

The Duty forms part of the FCA's transformation to becoming a more assertive and data-led regulator. With firms assessing how they're meeting their customers' needs, the FCA says it



will be able to quickly identify practices that don't deliver the right outcomes for consumers and take action before practices become entrenched as market norms.

THE "IDEAL SOLUTION TO THE CURRENT CRISIS"

Perhaps unwittingly, in the consumer duty, the FCA has struck upon a regulatory regime that is arguably ideally suited to support firms and customers through the current crisis. The FCA highlighted this link in a letter to motor finance providers in March this year (see panel, overleaf).

The FCA made the point that, while its work on the consumer duty pre-dates the crisis, the duty is "...particularly important as consumers face increasing pressures on their household finances." The FCA also explained that the crisis "...underlines the need for high standards and strong protections" and the duty offers such higher standards. The duty should also enable consumers to "...make informed, effective decisions" and allow consumers to "...act in their interests and pursue their financial objectives".

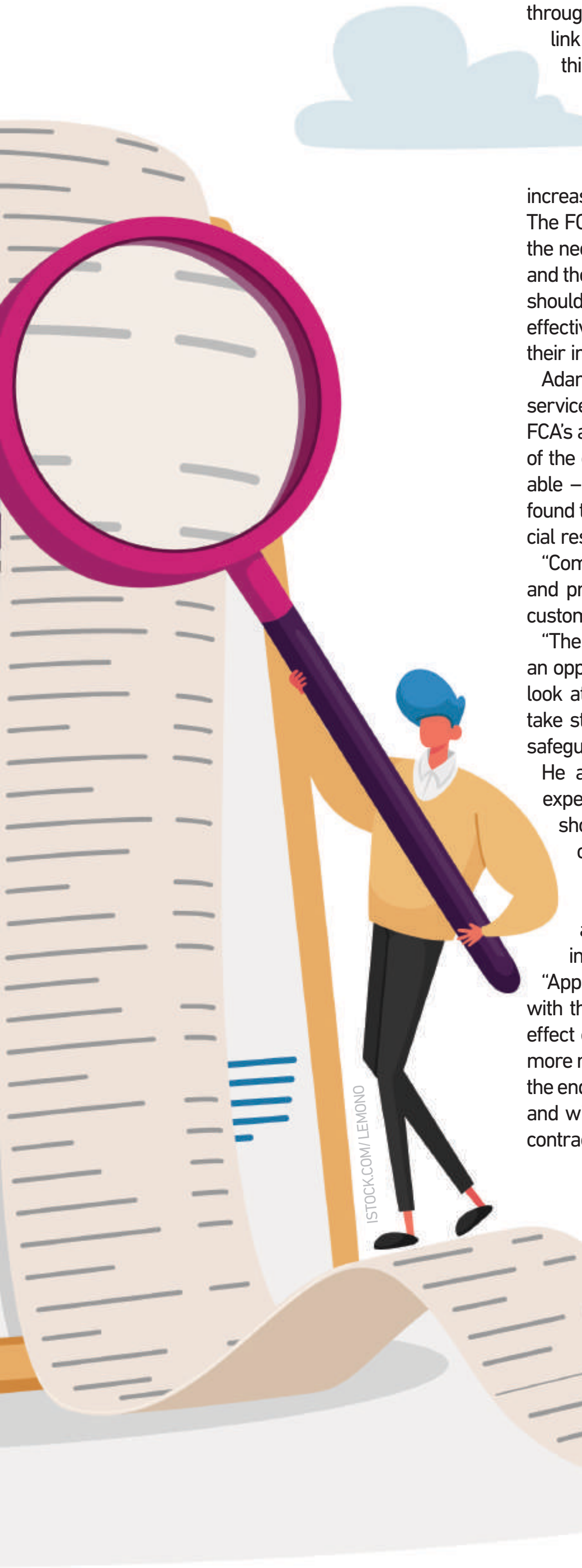
Adam Edwards, partner & head of financial services regulation at Freeths, says: "On its face, the FCA's assessment of the duty seems fair. The effect of the crisis is that more consumers will be vulnerable – in its 2022 Financial Lives Survey, the FCA found that one in four adults in the UK had low financial resilience.

"Compliance with the duty should equip dealers and providers with the tools to support and serve customers showing characteristics of vulnerability.

"There is also a strong argument that the Duty is an opportunity for product providers and dealers to look at their products and sales processes and to take steps to improve customer experience and to safeguard their own position in the longer term.

He added: "At its simplest, improved customer experience throughout the lifecycle of products should, in turn, support sales growth as customers will be able to better understand their financing and insurance options and will see the products they purchase performing as they expect, which could increase both initial product uptake and repeat custom.

"Approaching affordability and forbearance in line with the requirements of the Duty should have the effect of reducing default rates. This could result in more repeat business as more customers will reach the end of their contract terms without arrears and will then be ready and able to enter into contracts on new vehicles."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CONSUMER DUTY'S FOUR PRINCIPLES

The Consumer Duty comprises three key elements: A new Consumer Principle; cross-cutting rules requiring retailers to act in good faith, avoid foreseeable harm and help consumers achieve their financial objectives.

There are also four consumer outcomes: Consumer Understanding, Price and Value, Product and Services, and Consumer Support.

Richard Barnwell, financial services advisory partner at BDO, outlines the key considerations for dealers in each case:

CONSUMER UNDERSTANDING

During the sales process, the FCA considers that retailers have an advantage over consumers as they can choose where, when and how to display information regarding their products without customers knowing all the details. Retailers need to evidence that they are transparent in their offerings, providing clear and concise information at the right time of the sales journey for customers to make informed decisions. For example, for insurance sales, customers must be able to understand the insurance being offered in terms of areas such as coverage, claims process and exclusions.

In most cases, insurance and financing is provided by a third party, usually under an agency arrangement and retailers will need to make sure that they work with the financing/ insurance companies to understand the products being sold.

PRICE AND VALUE

The FCA has historically raised concerns that commission models are not always consistent with delivering fair value, highlighting retailers should not be remunerated in a way that prevents them from acting in the interests of customers, potentially causing customers to pay significantly more for their motor finance or insurance. In addition, with higher inflation and a cost-of-living crisis, the FCA has emphasised that lending must be affordable. In particular, motor finance providers must ensure that there are processes in place to check potential buyers can afford the finance being offered.

PRODUCTS AND SERVICES

Retailers need to consider any particular needs or vulnerabilities of customers in their target market and evidence that they have processes which can be tailored to specific consumers.

CONSUMER SUPPORT

Retailers providing finance and insurance must provide frictionless processes in dealing with customers. For example, it should be as easy to complain, switch or cancel products or services as it was to buy them. Retailers should be looking at feedback from customers and staff as well as working with lending and insurance firms to see how service can be improved and ensure they are working in the best interests of vulnerable customers.

DON'T WORRY ABOUT COST, FOCUS ON TIME AND COMPLIANCE

The Consumer Duty is a process of improvement, not simply an implementation exercise. That means that after the July 31 deadline, dealers can't take their foot off the pedal.

James Tew, CEO of iVendi, explains: "It doesn't just stop on the 31st, it just happens to be the deadline to make sure that you've got all the controls and monitoring in place to measure these outcomes.

"It's a lot of time and it's a lot of work. On the back of that, it's a good job dealers are profitable because if they were losing a lot of money in the current market, then you could get a lot of problems."

In the current economic climate, it could be tempting for dealers to shy away from investing time and resources in preparations for the duty.

But to do that would be a false economy, according to Edwards.

He says there is an opportunity to not only increase sales but to protect businesses from future claims and complaints, including Financial Ombudsman Service complaints.

"The Duty requires firms to act in good faith towards customers, to avoid foreseeable harm and to support customers to pursue their financial objectives. Acting in line with these obligations and delivering against the consumer outcomes – products and services, price and value, consumer understanding and consumer support – should significantly reduce the risk of complaints and, in the longer term, lead to more resilient businesses.

"While there are costs involved in making required changes to business practices, ultimately, the Duty presents an opportunity for providers and dealers to take a fresh approach and getting ahead of the curve and ensuring compliance with the Duty is simply good business sense," Edwards explains.

Tew adds: "Over the last two years there has been record profits for a number of dealers so even though the economy generally is bad, for dealers it's been a good couple of years.

"From that perspective I think the greater challenge is timings. You've got the processes that will need to change, there'll be training needs and probably system changes. And I think it's the timescales where the most challenges are.

"There is going to be cost for everybody implementing this, but ultimately the interest rate cost is the biggest burden that the consumer has to pick up in this.

"I think, ultimately, if you're trying to get better outcomes for customers, one way to define a better outcome would be a better price. But it's not all about price, it's all about the value of the product and making sure that the right product fits the right customer. There are lots of ways of defining what a good outcome is for a consumer."

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There is a clear risk involved, if dealers don't comply. Lenders will be left with little choice but to put remedial steps in place and ultimately could end their relationship with a dealer if the Consumer Duty requirements are not being met.

"I think that's the kind of conversation that not many lenders will want to have, but clearly they're going to have to put a process in place that says if the dealer doesn't support this, then they cannot be seen to be working with that dealer.

"That's why it gets so important, because finance, value-added products income and insurance products are fundamental to the success of a dealership," Tew says.

EFFECTIVE USE OF DATA "CRITICAL"

The FCA wants the new duty to achieve and demonstrate "fair value" and "value for money", but like much of the principles-based regulation it does not provide explicit definitions or parameters.

THREE STEPS TO CONSUMER DUTY IMPLEMENTATION

In March, the FCA assessed the challenge facing all firms in preparing for the Consumer Duty implementation deadline and highlighted three steps to be taken:

- **Effective prioritisation: Firms should make sure they are prioritising appropriately, focusing on reducing the risk of poor consumer outcomes and assessing where they are likely to be furthest away from the requirements of the Duty.**
- **Embedding the substantive requirements: When reviewing their products and services, communications and customer journeys, firms must identify and make the changes needed to meet the new standards.**
- **Working with other firms: To implement the Duty on time, many firms need to work and share information with other firms in the distribution chain. Some will need to accelerate their work.**

This principles-based approach gives firms and the regulator latitude and proportionality, but crucially it allows for evaluation and evolution.

The downside, according to David Robinson, regulatory director at Konexo, is that what seems fair and reasonable today, may not be the case when viewed with the benefit of hindsight.

He says: "As you will see, such an approach to regulation puts the onus on firms to demonstrate that positive outcomes are being reached and this can only be achieved through the effective use of data. Dealers need to ensure they have a fair and transparent panel of lender products to offer to customers, showing compliant processes and value to the end consumer."

They will largely be reliant on IT system providers in both the showroom and digital space to provide data such as audit trails that capture and can demonstrate compliant selling across a panel of lenders; data on market finance rates to ensure dealer offerings remain competitive; and sufficient insight across all their lending partners to produce accurate representative examples.

Rob Severs, senior VP product and insight at iVendi, says that proving customer needs were being put first could only be achieved by monitoring a number of essential metrics over the longer term.

He explains: "Management Information (MI) will play a key part in helping both lenders and retailers prove compliance and show continuous improvement when it comes to Consumer Duty.

"It provides the data and insight to help better understand how good vehicle buyer outcomes are being delivered and where improvements need to be made."

SPONSOR'S COMMENT

By Tim Smith, head of Black Horse Distribution

As sales of new battery electric vehicles increase, larger volumes of electric vehicles are now entering the used car market. And we are at the start of the market transitioning towards more sustainable fuel options.

The growing pains of the new EV market are well documented with factors like government support levels, charging infrastructure and price adjustments predominating. The price of charging has also been hugely impacted by global events, which make it a challenging environment. Used car buyers currently see the big move to an EV as a more expensive option at a time when living costs are painfully high.

There is a lot to work through to ensure we hit the emissions goals that are so critical to all of our futures. And at Black Horse we are keen to support dealers and consumers more widely to ensure we help make used electric vehicles mainstream.

We are currently launching and developing innovative finance offers to help dealers get consumers interested in used EV options. And we are also delighted to be entering two teams into the EV Rally in July this year to show how used EVs can be a good value purchase. The EV Rally includes around 50 EVs setting off from Cardiff, where they will embark on a five-day, 1,200+ mile "e-Rally" taking in all of the capital cities of the UK, and relying solely on the public charging infrastructure across a mixture of motorways, A-roads, B-roads, towns, cities and countryside.

Team Blackhorse will be the first used vehicle finance provider to participate in used EVs… and we look forward to sharing our stories across social media and at events along the way.

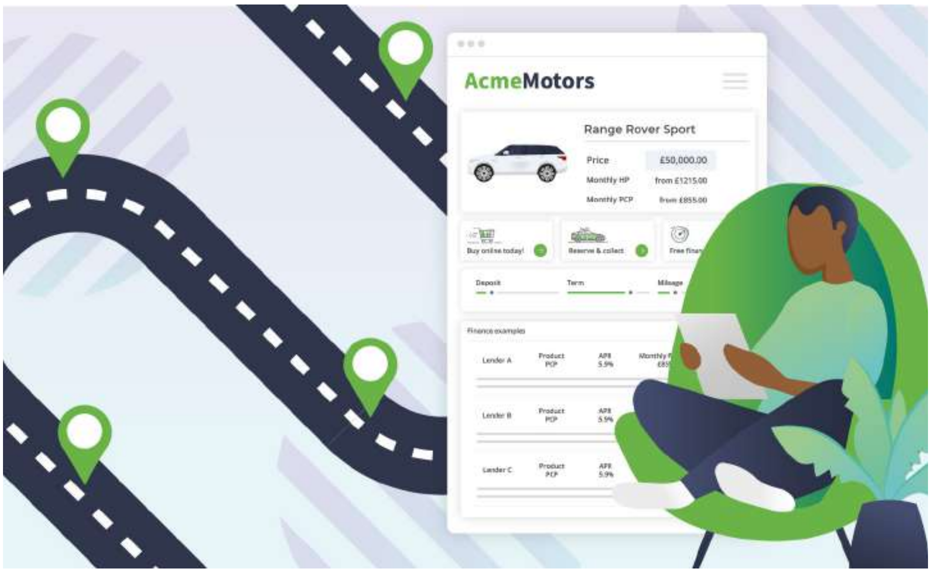
So, be sure to watch out for further details on our progress with raising the profile and developing the offers that will all contribute to creating a sustainable future.

Management information crucial to Consumer Duty for dealers, says iVendi

Compiling accurate and timely management information (MI) will be crucial for dealers and lenders in meeting new FCA (Financial Conduct Authority) Consumer Duty responsibilities, says iVendi.

Rob Severs, Senior VP Product and Insight at the motor retail technology market leader, explained that proving customer needs were being put first could only be achieved by monitoring a number of essential metrics over the longer term.

He said: "MI will play a key part in helping motor retailers prove compliance and show continuous improvement when it comes to Consumer Duty. It provides the data and insight to help better understand how good vehicle buyer outcomes are being delivered and where improvements need to be made."



Examples of MI which should be tracked for the motor retail sector included the volume of rejections, complaints, customer feedback and outcomes of sales reviews, he said, adding: "It's a question of identifying the right metrics for your business and introducing processes that ensure they are accurately measured and regularly monitored, with clear lines of responsibility being created. Our advice is that dealers make a checklist to ensure that the MI they are compiling meets basic requirements."

Dealers will mostly be product distributors, so a key outcome for them will be ensuring they have a fair and transparent panel of lender products to offer to customers, showing compliant processes and value to the end consumer. They will largely be reliant on IT system providers in both the showroom and digital space to provide data such as audit trails that capture and can demonstrate compliant selling across a panel of lenders; data on market finance rates to ensure dealer offerings remain competitive; and sufficient insight across all their lending partners to produce accurate representative examples.

For lenders – also a crucial partner in

Consumer Duty: the four key principles

Consumer Duty responsibilities are measured by the FCA in four key areas, says Rob Severs – and management information (MI) will prove crucial in all of them.

1. Product and services outcomes

Rob said: "Responsibility number one is to clearly define a target market for each motor finance product and assess why it is suitable for individuals. Especially, vulnerable customers who might choose the product must be identified. All of this needs to be established and evidenced through MI while regular reviews should be used to measure outcomes and drive future improvements."

2. Price and value outcomes

This is all about ensuring that the customer gets fair value. Rob explained: "Essentially, the price of motor finance must be reasonable. Lenders should undertake and provide a value assessment, and this must be done on a routine basis."

3. Consumer understanding outcomes

Rob said: "Communications must be created for consumers that allow them to make informed decisions prior to the point of sale. The key point here is to ensure that customers, especially those that are vulnerable, understand the product. This must be tested on a regular basis with improvements made where necessary."

4. Customer support outcomes

The principle here is to support customers throughout relationships and ensure they are in no way disadvantaged. Rob said: "There should be regular reviews of organisational services such as call monitoring and complaints using MI to make sure that these objectives are being met."

Consumer Duty compliance – a key outcome should be that applications from its target customer base increase while volumes of rejections decline, showing systems and intermediaries are introducing their products correctly.

Also, because they are classed as product manufacturers, lenders will rely on distributors to provide low level MI for each lender finance product including conversion rates at each stage of the customer journey; product suitability questionnaires to ensure target market conversion and filtration of non-target customers prior to application; data showing testing of consumer product understanding prior to application; accuracy metrics on any consumer soft search algorithms; for rate-for-risk products, MI on the rates initially offered to customers against those accepted by the customer; and activity logs showing introducer-declared showroom activities.

Rob concluded: "Tracking Consumer Duty MI could, potentially, be done manually but, as with any process of this kind, technology will deliver exponentially more effective results with greater accuracy and speed in reporting formats that are easy to understand.

"We are already working with motor retailers to put these in place through our Connected Retailing platform. Because of our systems and our experience, this has the added bonus of ensuring not just that the new FCA guidelines are being met but also data protection and consumer rights laws and regulations. All compliance needs are gathered in one place."

Rob Severs is iVendi's Senior VP Product and Insight

About iVendi and Connected Retail

Since 2009, iVendi has been digitally transforming the way vehicles are bought and sold, uniting online and showroom sales processes into a single, seamless vehicle buying journey. The company is the acknowledged market leader in this Connected Retailing concept, with solutions linking together the consumer, retailer and lender to create an experience that meets and exceeds the expectations of even the most demanding digital customers. Each month, this cutting-edge technology is used by around five million consumers alongside thousands of motor retailers, manufacturers and finance providers.

Be ready for tomorrow, today

Our innovative digital tools and flexible finance products are designed to surpass the high expectations of today's consumer.

- Interactive finance calculator with monthly payment search
- Purchase anytime with our online application
- Comprehensive insurance proposition and bespoke multichannel contact platform
- Supported by our market leading customer retention proposition

All available free of charge to our supporting retailers

To find out more visit: www.dealer.santanderconsumer.co.uk

Santander Consumer Finance | **Together, we make it possible**

Santander
Consumer Finance

Together we make it possible.

Santander Consumer Finance (SCF) has established itself as a leading global player in the consumer finance sector over the past decade. A key part of our success has come from our customers, the partnerships we have with our dealers and motor manufacturers.

At SFC, we understand the need to continually develop our business proposition so, together, we can help you prosper.

Our goal is to be the most admired automotive finance brand in the UK, admired by our manufacturer partners, our dealer partners and of course, by our customers. So how do we set about doing that?

Offering great retail finance products and campaigns together with a competitive wholesale funding programme is a given. We believe being the best is about delivering a holistic business proposition, one that adds value to your business and makes us an indispensable partner.

SCF is committed to being a leading force in the market, detailed below are three key services we offer, to support our manufacturer and dealer partners.

Online loan application

Our end to end finance journey encompasses all of our technology, providing a simple, secure and compliant process, allowing customers to apply for finance when it suits them.

Calculator

Our Santander Consumer Finance branded web calculators are available for you to use on your website, showroom or wherever convenient to you and your customers. The calculator provides real time, accurate and up-to-date finance quotes for both Conditional Sale and Personal Contract Purchase with the ability to search by monthly payment.

Insurance

Our market leading insurance proposition has been designed to help you deliver on sales performance whilst ensuring first-class customer outcomes. Our Santander Consumer branded insurance offering, in partnership with GardX, has been designed to offer top quality customer features at competitive retail prices. Our offers include GAP Plus Insurance, Cosmetic Repair Insurance, and Combined Tyre & Alloy Wheel Protection. We recognize that many customers do not purchase these products within the showroom, so we are pleased to offer two new optional sales channels, digital and telemarketing. Providing your customers with a chance to buy at their convenience from all three of these channels: In dealership, Buy online and via Telemarketing.

Our market leading tools have been designed to help you deliver on sales performance whilst ensuring first-class customer outcomes, which means supporting dealers and manufacturer partners on offering the best deals to our valued customers. Our commitment is helping you to prosper.

> ***"Whilst Santander Consumer can be rightly proud of its track record in the UK, we cannot be complacent. As an organisation we must remain focussed on delivering a market leading proposition across all business areas and channels we operate in, as well as identifying future growth opportunities.***
>
> ***Rest assured, Santander Consumer is here to stay and is commitment to working with our partners to provide our mutual customers with not just good, but great outcomes."***
>
> Stewart Grant, Commercial Director, Santander Consumer Finance.

Growth, it's what we do

Visit our website at:
www.santanderconsumer.co.uk

Confidence lacking as Consumer Duty deadline looms

One in two dealers still feel unready and many look to their suppliers for more support. *Matt de Prez* reports

With just a few months until the July 31 deadline for dealers to implement the Consumer Duty, collaboration with finance partners and suppliers must be a top priority.

Exclusive research carried out for AM by APD Global Research shows that a little more than half of dealers are 'ready' for the FCA's new Consumer Duty responsibility.

The data reveals that just 52% of dealers are confident that they have sufficient processes and procedures in place to meet the implementation deadline.

Of those that are 'ready', less than half (44%) said they understand the issues involved, although 59% believe they have a "well-developed" implementation plan.

Only a quarter (26%) of those respondents claimed to have received 'proactive' help from their finance partners.

In a letter to dealers, finance providers and brokers, in March, the FCA outlined that many firms need to work and share information with other firms in the distribution chain, highlighting that some firms "may need to accelerate their work on this important aspect of implementation".

Of the dealers that said they aren't ready for the implementation of Consumer Duty, 44% said it was because they don't have a sufficient understanding of the requirements.

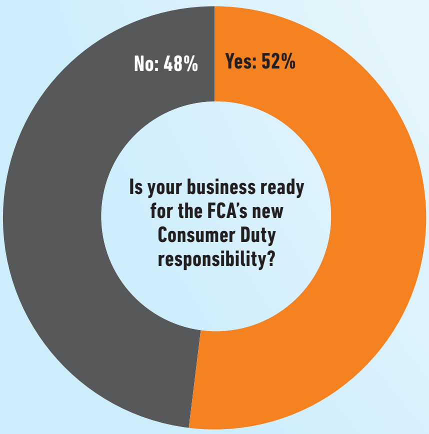
The majority (56%) blamed out of date systems, while a quarter (26%) said they weren't getting enough support from their finance providers. A third of dealers that believe they are not ready for Consumer Duty admitted they didn't have a well-developed implementation plan.

Sue Robinson, chief executive of the National Franchised Dealers Association (NFDA), says dealers should not underestimate the volume of work involved with consumer duty.

The NFDA suggests that dealers stick to a time-bound plan and review their progression accordingly, to avoid a "bottle neck" of work closer to the implementation deadline.

Robinson adds: "The majority of dealers are asking for guidance and consistency. With numerous third-party relationships, everyone is trying to get their style of evidencing in place and this is difficult with partners who cannot support all requests in a small window.

"We believe it is essential that all parties – lenders, brokers and dealers – work together to deliver the unified goal of good consumer outcomes by implementing fully new Consumer Duty rules."



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"TOO MUCH CONFIDENCE"

Preparation for the Consumer Duty remains very dynamic. Car retailers were required to get an implementation plan for new Consumer Duty regulations approved at the highest level of the business, by October 31, 2022.

Ahead of the deadline, the FCA outlined that senior management and board members "should be fully aware of how the new consumer protection measures impact all areas of their organisation".

While implementation plans were completed for the October deadline, Tara Williams, chief revenue officer at AutoProtect Group, believes this provided too much confidence to dealers that time was on their side for the July 31 launch.

She says: "We are now closing in on the April 30 deadline for providers' communication to their distribution chain, and much is still awaited to enable dealers to finalise gap analysis and action plans before the July 31 launch of the Consumer Duty itself."

The Consumer Duty impacts both finance & insurance and insurance businesses are more comfortable with their preparation than lenders, according to Williams, as they have worked under regulatory product governance requirements since 2018.

Williams adds: "The good outcomes from 'Product and Service' and 'Price and Value' are already evidence-able and embedded across the industry. Dealers are on board with their requirements as a distributor and the sourcing/provision of all data required to allow distributer outcomes to be met.

It would appear, however, that there is still a way to go for motor finance."

A SHORT TIME TO MOBILISE

Firms need to be clear on their roles in the distribution chain and meet their commitments under the duty. Finance providers and those brokering finance (including dealerships) need to consider their respective roles, i.e. whether they are acting as manufacturer, distributor or are co-manufacturers and distributors.

Firms are manufacturers if they create, develop, design, issue, manage, operate, carry out, or (for insurance or credit purposes) underwrite a product or service. There may be multiple manufacturers for a single product or service.

A firm would be considered a co-manufacturer where they can determine or materially influence the manufacture of a product or service. This would include a firm that can determine the essential features and main elements of a product or service, including its target market.

As an example, if a lender negotiates an APR price-point with a dealer or broker firm, the firms may need to consider whether the lender is making the pricing decisions or if the dealer or broker has a material influence on this.

Where firms collaborate in this way, they must have a written agreement outlining their respective roles and responsibilities to comply with the rules in this section. The FCA expects the agreement to be a confirmation of which firm is responsible for meeting different aspects of the rules under this outcome. So, in the event of a problem, it is clear which firm is accountable.

By the end of April, finance manufacturers should have completed all reviews necessary to meet the outcome rules and shared necessary information with their distributors.

James Tew, CEO of iVendi says: "Three months might sound like a long time, but it will fly. And bear in mind we're into month four of the year already, this year is flying. So, there will be lots of meetings between lenders and dealers, with the lenders deciding exactly what they're expecting from their introducers and then for the introducers to implement these changes. That will also apply to system providers.

"This is the biggest regulatory change in 22 years and, I think, the penny dropped with the lenders a while back but I don't think that particular penny has necessarily dropped with a lot dealers yet as to what they have to do and to the importance of making sure that there are good outcomes for customers, how those good outcomes will be achieved, and how the good outcomes will be measured."

Why offering 'flexible prime' motor finance is crucial for dealers

By Paul Burgess, CEO, Startline Motor Finance

The cost-of-living crisis means more and more people are being declined for motor finance. The reasons for this are obvious and understandable – frontline lenders, especially, have become more cautious about to whom and how much they lend at a time when personal finances are under a considerable amount of pressure.

So where do you turn when your prime lender says no?

In too many dealers, the applicant is passed off to a broker, meaning a loss of control over the customer journey. This is something that is not just far from ideal in terms of ensuring service standards but could also create future issues around Consumer Duty.

Increasing numbers of motor retailers are constructing lending panels that offer a range of finance providers, products and credit appetites to suit the profiles of different car buyers. Each of these lenders will tend to be experts in credit scoring their particular target customer base, offering the best possible solution for each. It's a way of meeting a wide range of needs as exactly as possible.

Startline's position within these panels is as something we call a flexible prime lender, a position we hold for more than half of the UK's top 50 franchise and 70% of independent dealers.

"We have some hard lending rules, but, in areas where others take a black-and-white approach, we examine the applicant in more detail"

Typically, we offer motor finance to more than one-in-three people who have been turned down by prime lenders. Our flexible approach to finance uses a market-leading scorecard, sophisticated technology and human insight to offer thoughtfully constructed products, highly competitive rates and terms, and customer service standards comparable with the very best our sector has to offer.

Essentially, we work to look at the applicant as an individual. Of course, we have some hard lending rules, but, in areas where others take a black-and-white approach, we examine the applicant in more detail. This isn't just important because of the conditions created by worsening personal finances but also thanks to longer term factors such as falling home ownership rates and ongoing growth in contract and temporary working.

Obviously, these issues have recently become more acute and many dealers are asking whether the products and credit appetites that have worked for their customers in the past remain relevant through the remainder of this year and beyond? Certainly, we are seeing a considerable number rethink the structure of their motor finance options in light of recent experiences and have helped them to create something that better answers their needs in 2023.

We know from years of experience that a successful graded lending panel of the kind in which we play a key role for many motor retailers is highly effective when it comes to maximising outcomes for dealers and importantly, for car buyers, too. More recently, it is proving to be the best approach for the cost-of-living crisis.

ABOUT STARTLINE MOTOR FINANCE

Founded in 2013, Startline is one of the UK's leading motor finance companies, providing flexible solutions to around half of the top 50 franchise dealers and 70% of the top 50 independent car retailers measured by turnover, as well as accounting for more than 2% of the motor finance market by volume.

We aim to deliver market-defining levels of customer service, compliance, innovation and insight.

The company is headquartered in Glasgow where it employs more than 170 people and has a comprehensive sales presence throughout the UK.

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startline

He added: "If we break it down, we've got relationships with 60-plus different lending brands. We think there are probably about 10,000 rooftops that will have people in there, all of which will be having customer facing conversations and all need to be trained. As dealers work with multiple lenders, you can actually see there's a massive mobilisation that needs to take place over a very short period of time."

DEALING WITH STICKING POINTS

On the back of the FCA's call for action, there are three sticking points for dealers to address as they finalise their implementation plans:

1. Developing the rigorous process and controls they must have in place, along with training to "define, monitor, evidence and stand behind the outcomes their customers are experiencing." In addition, the FCA clearly stated that credit brokers, including dealers, "will be treated as 'manufacturers' if they have a role in the design or operation of a product or service."

It brings an additional compliance burden that had not been widely anticipated. At the same time, dealers have highlighted that in terms of support, lenders have been slow in their communication and hesitant with advice.

2. To understand and adapt to the future relationship between lender and dealer. In the letter to lenders, firms were advised by the regulator that "we continue to see challenges for the market, particularly around the control of dealer networks and oversight of these by the lender." Lenders will need to increase their oversight of their dealers. The letters reference monitoring point of sale compliance with the CONC rules and commission models as areas where lenders need to be hands-on.

3. Finally, in delivering the customer-led culture demanded. Not because dealers are not customer-centric, far from it, but because the regulator recognised that "the higher standard of the Duty and the shift to focusing on customer outcomes will require a significant change in many firms' culture."

Delivering on the requirements will involve the 'hard' process and controls factors and softer culture elements, all delivered in partnership with insurance providers and what can often be a roster of lenders and even brokers. An additional challenge is that lenders may have differing interpretations of the Consumer Duty requirements, not least of all dependent upon their credit risk appetite.

DATA IS INFORMATION, INFORMATION IS INSIGHT

David Robinson, regulatory director at Konexo, says you can't improve what you don't measure. He advises that firms should put processes in place to collect, collate and evaluate data effectively and warns this may require "fundamental alterations" to data infrastructure and management information.

"A root and branch approach is needed to capture how products are manufactured and distributed. From governance and design at inception, through to the sale process, settlement and closure, firms will need to capture the relevant data points to understand the consumer journey. This is a truly holistic strategy," he said.

Commission, interest rates, pricing, fees, term, cancellation rates, consumer survey feedback and complaints data will all need to be analysed. This wide range of data needs to build a picture of evidence, to be used to inform next steps and show that the firm is acting to ensure good customer outcomes.

He said: "We have seen that not all firms that are covered by the Consumer Duty have started to put these mechanisms into place. Nonetheless, when the Consumer Duty comes into force, they will need to be compliant. Responsibility for ensuring this compliant status rests largely on the shoulders of the senior managers; as the FCA states 'the more senior and more relevant the role, the more we will expect of them to deliver good outcomes to customers'."

THE FCA HAS BEEN PRETTY CLEAR IN OUTLINING WHAT THEY'RE EXPECTING TO SEE, SO THERE'S PLENTY OF THINGS THAT DEALERS CAN DO TO GET THE FRAMEWORK IN PLACE NOW. HOWEVER, THERE MAY WELL BE A DEGREE OF CONTENT MISSING WHICH IS DUE FROM THE LENDERS.

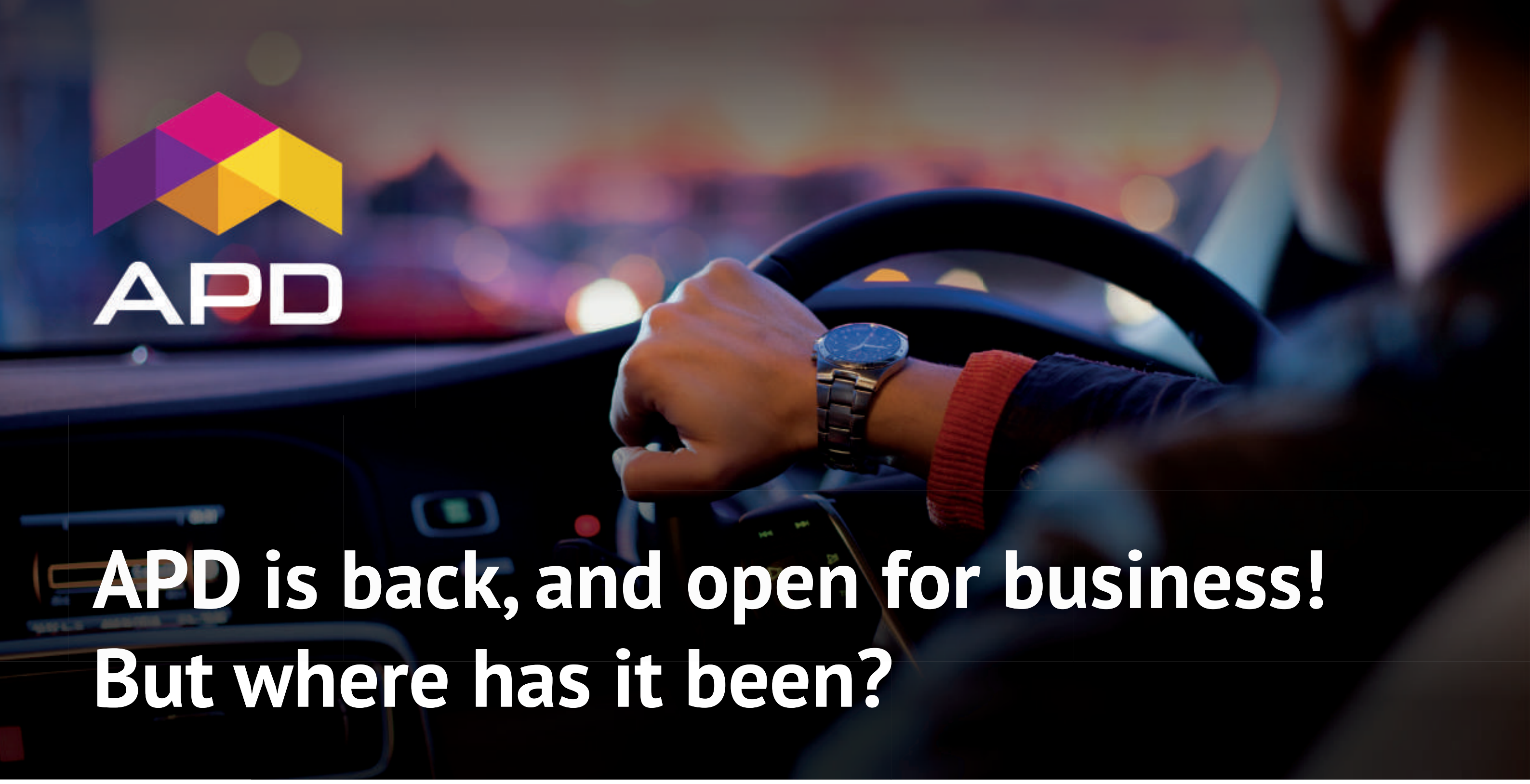
JAMES TEW, IVENDI CEO

CURRENTLY, FRANCHISED DEALERS ARE IN LINE WITH THE PRESCRIBED DATES OF THE NEW CONSUMER DUTY RULES. DEALERSHIPS ARE REVIEWING THEIR INTERNAL PROCESSES AND THOSE OF THEIR PRODUCT PROVIDERS TO ENSURE THAT BY THE END OF APRIL THEY CLEARLY UNDERSTAND THE STRUCTURE AND ARE READY FOR IMPLEMENTATION.

SUE ROBINSON, NFDA CHIEF EXECUTIVE

WE ARE VERY BUSY ENHANCING THE AVAILABILITY OF DATA AND SUPPORTING THE CLOSE WORKING PARTNERSHIPS WITH OUR DISTRIBUTORS. OUR ICOMPLY TEAM ARE SUPPORTING A RAPID INCREASE IN CLIENTS WHO NOW HAVE THE CONSUMER DUTY VERY MUCH ON THEIR RADAR. DEALERS MAY WANT INFORMATION FROM THEIR LENDERS/INSURANCE SUPPLIERS, BUT THESE SUPPLIERS ALSO NEED INPUT FROM DEALERS, AND THE CLOCK IS TICKING.

TARA WILLIAMS, CHIEF REVENUE OFFICER, AUTOPROTECT GROUP



APD is back, and open for business! But where has it been?

The Automotive sector is in the midst of its greatest industrial shift in over a century.

This shift reaches far beyond electric and hydrogen power trains and the phasing out of traditional internal combustion engines.

Data has become the most valuable asset to OEMs and Retailers looking to drive profitability. Those with the ability to harness and interpret data, both from internal and external sources, are best placed to succeed in this new age of Automotive.

For the last four years, APD have been investing heavily in their products and services to meet the Industry 4.0 demands of Automotive Retail, building on existing expertise to create integrated SaaS solutions and education materials for clients to drive profitability in a period of significant market change. These provide businesses a total understanding of how their operations are performing against industry benchmarks. APD have now opened its doors in order to share their capabilities across the Automotive sector as a whole.

Back in 2018, John Waring, APD CEO, saw there was a seismic change on the horizon – one where data, particularly data surrounding business performance, would become increasingly valuable.

Throughout this decade, the only constant in new and used car sales has been that the market is turbulent and unpredictable. A new element of dynamism must be incorporated by OEMs and Retailers so they can become agile and remain profitable.

Using the company's collective knowledge and experience within the market, APD have curated a complete end-to-end portfolio of technology-first solutions, designed to deliver a greater level of insight and access to data, identifying areas for improvement within an Automotive Retail business.

ProfitPlanner+

ProfitPlanner+ is the latest version of APD's financial planning tool, providing a cloud-based solution that offers dealers greater access to their budget – fast.

Developed to simplify finance planning and intergrate with existing DMSs or accounting systems, pulling data direct from the source, whether a dealer wishes to use their trial balance or the previous year's financial/performance figures as a base, ProfitPlanner+ streamlines the process.

With increased accessibility, managers are able to be more integrated in the process, seeing directly how their department contributes to the overall profitability of the dealership, offering greater accountability.

ProfitPlanner+ also incorporates the capacity to produce monthly forecasts for both Retailers and OEMs to view, providing an accurate representation of sales, finances and stock requirements. Available as a standalone product, its greatest value comes when integrated with APD's iCIS and Executive Insight solutions, offering real-time performance dashboards and reporting.

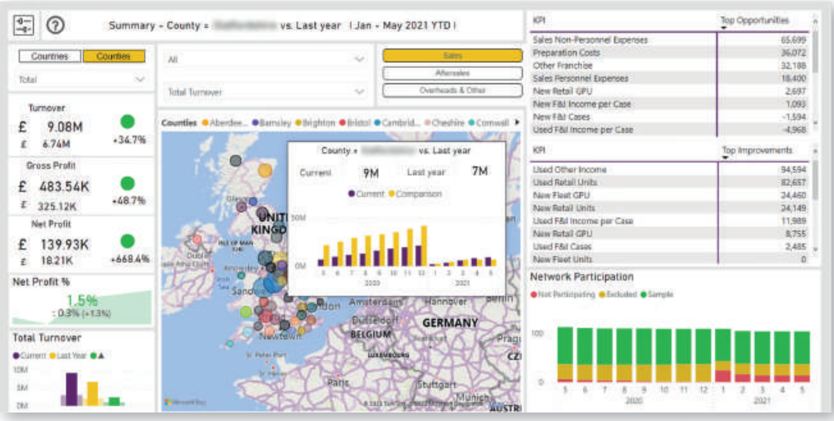
Executive Insight

What good is having access to a vast volume of data without seeing it in a digestible format, one that makes sense to the way your company is run? Executive Insight (EI) is a configurable dashboard platform that allows personalisation to meet specific user requirements and integration of third-party data to provide extensive single view, with in-depth analysis.

APD has invested in the development of its own data warehouse, building the structures to enable EI to find insights and deliver it onto dashboards seamlessly.

A great advantage of EI is that it can work with data from existing composite systems, delivering multi-level access across multiple data sources. Dashboard configuration is quick with cloud implementation making access easy.

For dealer groups, EI will show you data for each Retailer split however is deemed applicable. Dashboards can show performance by brand, by model, by department, departmental KPIs or even nominal code data. Executive Insight will show performance data and provide opportunity calculations for where improvements can be made within the business versus the



APD's Executive Insight, showing network opportunities and current month's improvements

comparator used.

For OEMs, blending composite data with any other industry data is done in a repeatable, scalable way that is easy to understand. EI provides high-level performance analysis with the capacity to drill down to granular detail on demand.

Education & Training Academy

Where APD's technology-first products facilitate a more effective business operation, their Education and Training Academy introduced in 2022 is designed to help managers and leaders instigate significant change to benefit dealership operational performance.

CPD-accredited and developed by professional trainers, the courses give delegates advanced knowledge and skills on a range of topics, from Leadership and Management, to Sales and Aftersales.

The training team have an enviable level of experience working in every area of the market and their interactive workshops use pre-defined topics but offer context to delegates, using their business's own information and processes.

APD have been adopted by an OEM to deliver these courses for the benefit of their dealer network, helping them advance the abilities of their managers with a focus on driving improved performance and profitability.

Show Me the Money!

Available separately and as a compliment to their training courses, APD's debut publication has been created to provide insight into the way a high-performing Retailer is managed.

This 450-page manual is a plain-speaking resource book, providing details on best practice processes, Key Performance Indicators and what drives them (KPDs), addressing specific departmental requirements across the entire modern dealership – from New and Used Sales, to Marketing, Aftersales, Finance and Facilities Management.

The book is a perfect reference text for anyone wanting to learn how a car Retailer is run, be that dealer principals, departmental managers or the wider staff, or Field Sales Managers at the OEM/NSC looking for insight into dealership performance and operations.

Show Me the Money!

Technological Investment

Following a change of ownership in 2018, APD's main focus has been investment in the available products for Automotive Manufacturers and Retail Groups. Part of that investment is the incorporation of the Microsoft Azure platform into their products, providing global coverage and scalability, the highest performance capabilities and crucially, the greatest levels of modern security.

Using Azure also grants APD access to the best space to encompass Machine Learning/Artificial Intelligence into its products.

APD have a policy of continuous improvement and are committed to investing in solutions with real customer benefit. The quarterly product enhancement commitment ensures that users benefit from the latest features and technology, at the highest level of performance.

A new data mining and Business Intelligence solution, DiscoverBI, will be introduced in Summer 2023, providing multi-dimensional data insight across APD's platform enabling in-depth insight into Retailer and network performance.

John Waring knows that APD are capable of instilling genuine improvements to profitability, having overseen the business's transition into a contemporary service provider for future OEM and dealer requirements.

> ***APD are yet to come across a scenario where we could not provide a customer with true improvements to profitability. We are open for business, and ready for the future of Automotive Retail.***

APD's CEO John Waring

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Protecting vehicle values with convenient cosmetic repair and alloy wheel insurance

New and used car prices have been rising rapidly in recent years due to a multitude of factors. That means your customers are investing a greater percentage of their income in their vehicles – and during a "cost of living crisis" that has caused many to rethink their outgoings.

A car, however, is a necessity for most, providing transport to work, to the shops, and for the school run, to name just a few.

Therefore, protecting that investment should be paramount, ensuring your customers' vehicles retain as much resale value as possible. When it comes to trading in, vehicle owners want to get the most possible for their car, but scrapes and scratches on the paintwork and alloy wheels or bumps and dents to the bodywork will soon take their toll on the trade-in value.

One great way for your customers to protect their investment is with Cosmetic Repair Insurance and Alloy Wheel Insurance, helping them to keep their cars showroom fresh for longer.

By offering your customers financial protection and peace-of-mind, your business can also increase satisfaction and retention rates, as well as boost revenue through new routes to market.

Choosing a high-quality provider is paramount, however, as a first-class service reflects positively on your business. Car Care Plan has been providing award-winning asset protection products for mor than 45 years and its five-star Defaqto rated Cosmetic Repair Insurance and Alloy Wheel Insurance gives thousands of customers peace-of-mind every year.

A total of 92% of customers have awarded Car Care Plan five stars on Trustpilot, with an average score of 4.8 on the consumer review platform.

Car Care Plan has hundreds of mobile specialist repair technicians across the UK, ready to carry out repairs on your customers' vehicles at a time and place convenient to them.

Whether that's in the company car park or on the drive at home, Car Care Plan's team will drop by with a mobile van workshop fully equipped with manufacturer approved paints and materials, on-board power, all-weather canopies, and the latest technology to ensure all repairs are completed to the highest standards. The industry-leading vehicle aftercare provider has also made booking a repair as easy as possible for your customers through its free smartphone app, available for all IOS and Android devices.

With just a few taps on their phone, customers can submit pictures of the damage on their vehicle, and book at appointment at a time, date, and location to suit their schedule.

In addition to repairing damage in a timely manner to preserve their vehicle's value, choosing Cosmetic Repair Insurance and Alloy Wheel Insurance also helps your customers avoid expensive repair bills by spreading the cost throughout the duration of their policy, as well as protect their no-claims bonus by avoiding putting expensive repairs through their car insurance.

To learn more about Car Care Plan's award-winning vehicle warranty and asset protection products, visit: www.carcareplan.com

For more information, call: 0344 573 8000
or visit: www.carcareplan.com

Car Care Plan
An AmTrust Financial Company

Credit reform "must be through the lens of the customer journey"

AM's editor *Tim Rose* gets the latest insight from the Finance and Leasing Association's director of motor finance Adrian Dally

Q The arrival of the Financial Conduct Authority's Consumer Duty is one of the things occupying the minds of motor retail leaders at present. What do you think it will bring to the sector and to motor finance customers?

A Well, it actually helped to demonstrate how out of date the Consumer Credit Act is. The Consumer Duty signposts a future world where less is driven by what the rules or legislation tell us to say and do, and more is driven by the individual consumer's needs. This is a world where the market will reward those who put consumer needs at the heart of their business models – and punish those who don't.

Q What support have you and your members provided firms managing its implementation?

A The Consumer Duty has been one of the main discussion points covered with members over the last year. We've hosted conferences where they could hear directly from the regulator, but also from associate members whose specialist knowledge of the impact of Consumer Duty in different markets has been extremely useful. Workshops and training courses have been a further field of work, all well attended, and the FLA's member comms, including our magazine, Agenda, has run articles.

Q The July 31 implementation is just the start - how can firms maintain their focus on their consumers in the years ahead?

A Think about it in terms of competition and opportunity – how firms can distinguish themselves in a busy and competitive market. The duty is a paradigm shift where the new market will reward those who put the consumer first.

Q How have industry improvements, such as technology and training (SAF, apprenticeships etc), helped improve the point-of-sale motor finance experience for both those in the industry and for those buying/leasing cars?

A Lenders expect those advising on motor finance products to understand the features and regulatory framework so that customers get the best possible service and an agreement that suits their circumstances. In fact, FLA motor finance members have agreed to only arrange finance through intermediaries who are SAF Approved or accredited under an equivalent training and competence scheme. This requirement was put in place to further improve industry standards and to support compliance with the FCA's Consumer Duty.

SAF training has been provided free to dealership staff since its inception, and upgrades have included different levels of training to suit those just starting out who need to know the basics, to qualifications for those building their careers in the industry. We are working with retailers on further enhancements to support them.

Q Vehicle technology and digitalisation are progressing at a pace that consumer credit struggles to match. What challenges do you see now, and ahead, for motor finance providers?

A It's not been for want of trying! Innovation and digitalisation, not least spurred on by the pandemic, have been in spite of the rules not because of them. But the Consumer Credit Act 1974 remains a straitjacket that stymies innovation.

In our response to the CCA consultation, we emphasised the need for a simplified regime that will grow with the industry, flex with us as we innovate, and allow us to put customers at the centre of what we do, rather than prioritising arcane and out of date requirements that obviously value the administration of agreements above the relationship with customers. That's not how good business is done.

Q What innovations would you like to see in the years ahead?

A Ideally, HM Treasury will approach the reform of the CCA through the lens of the customer journey rather than the layout of the Act. The whole process is likely to run for at least another four years, given the scale of updating the FCA Rulebook and the interruption due to a General Election over the next year or so. This will be a long haul, and the challenge will be maintaining momentum so that the eventual regime works for customers, lenders, retailers and regulators.

One particular area in need of updating is that hire and subscription should be brought within the regulatory perimeter so that consumers are protected. We have seen how the evolution of motor finance products track customers' preferences as they shift away from vehicle ownership to usership.

The longstanding popularity of HP eventually lost out to the flexibility of PCP, and with the trajectory of customer preferences heading towards usership, we may well see more customers opt for hire and subscription in the future. The product they choose must have the same level of protection as those they are using today.

Q Your own research (revealed in the FLA's recent report, The Future of Credit) found consumers value credit hugely, yet would like more flexibility and personalisation. Can reform of the Consumer Credit Act deliver their wishes? What are the key messages you're giving to Government about it?

A Yes. Reform of the CCA will be a long process, and there is no point embarking on such a task if the intent is just a modest reshaping of the Act.

As we've said previously, we want the Treasury to approach reform through the lens of the customer journey. The CCA is neither intuitive nor logical – it sometimes seems as if the processes are deemed more important than the customer – this needs to change into a customer-centric approach. Other markets deliver flexibility and personalisation, so it should be possible in consumer credit.

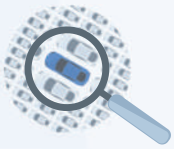
Q The FLA's 'Agenda for Change' is due later this year. What can you tell us in advance about it?

A It's not yet been completed, but we can give you an idea of a couple of discussion points. In terms of what consumers say they want, how much of that could be delivered by industry, and how much is limited by the CCA's grip on product structure, accompanying information and arcane processes.

In addition, what would be the gamechanger innovation if the market was free from CCA constraints – where might competition take us?

Software Solutions that Connect Manufacturers, Retailers, Lenders and Car-buyers.

We help you sell more vehicles more efficiently.



Digital Retail

Our suite of solutions includes:

Storefront: vehicle showcase
Vehicle Reservation
Part Exchange Valuations
Checkout
Value-Added Products
Delivery & Collection

Funding Solutions

Our suite of solutions includes:

Payment Search
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Eligibility Check
Finance Application
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Codeweavers
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Interested in our solutions? Contact us at
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book a demo **codeweavers.net/book-a-demo**

Codeweavers' powerful partnerships, working together on Consumer Duty

A fairer, more transparent financial future: are you prepared for the new Consumer Duty regulations?

The Consumer Duty Regulation is a set of guidelines created and enforced by the Financial Conduct Authority (FCA) to help ensure greater protection for finance consumers. Coming into force on 31 July 2023, the guidelines focus on three main areas: information, communication and treatment, helping promote transparency, fairness, and clarity for consumers interacting with a business. The new regulations emphasise 'putting consumers' needs first', advancing on the previous guidelines of 'treating consumers fairly'.

"It's about ensuring that consumers have all the information they need to make informed decisions on finance products and that, ultimately, they will positively meet their needs. This means providing fair pricing that's clearly outlined and communicated, ensuring consumers are getting value from the financial transaction they're undertaking, and that they have access to great support throughout their journey and after their purchase, too." explained Shaun Harris, Commercial Director.

Codeweavers work with lenders, retailers and manufacturers. Our Platform and products play critical roles in guiding consumers through one of their most significant financial decisions: purchasing a vehicle. As an FCA regulated company, we are committed to following and applying the principles to our products and services and take pride in working with our clients to ensure they are ready for any changes.

Harris adds: "As the FCA has proposed 'regulatory principles' as opposed to 'regulatory rules', there's a lot of room for interpretation. We are working closely with our clients to understand their interpretation and needs so we can help them meet the new regulatory requirements, ensure their integrations are ready for the introduction of Consumer Duty, and that they can continue to provide an excellent service to their customers.

Shaun Harris, Codeweavers Commercial Director

Our solutions connect every step a consumer takes when buying a vehicle and simultaneously provide our clients with a complete view of their progression. Throughout our journey, we incorporated a collection of highly-effective touchpoints that create an informative, consumer-centric experience

"We also created a dedicated Consumer Finance Journey Development Team to ensure our Platform, Calculation and Proposal Engine, Point of Sales System, and everything in between can deal with any scenario and fully harnesses the new principles."

"If I could give one piece of advice to a retailer concerned about the changes, it would be to review your processes against each key area of the guidelines. Put yourself in the seat of a consumer and see if your experience meets their needs and the principles."

Our solutions connect every step a consumer takes when buying a vehicle and simultaneously provide our clients with a complete view of their progression. Throughout our journey, we incorporated a collection of highly-effective touchpoints that create an informative, consumer-centric experience; this includes our Finance Explainer Content and Videos, Finance Product Comparison and Eligibility Checker.

We are working to incorporate Consumer Duty principles into our ideas and solutions; for example, our '2-Step Apply, Rate for Risk' displays consumers' credit scores and eligibility pre-submission, increasing transparency and positive consumer experiences.

With agility at the heart of our development, our solutions are constantly evolving and adapting to meet the needs of our clients and consumers.

Codeweavers
Cox Automotive

Interested in our solutions? Contact us at info@codeweavers.net or visit our website at codeweavers.net

MotoNovo FINANCE

All about delivering good outcomes for your customers?

So are we!

Our straightforward finance solutions give customers a journey they can trust in.

But don't just take our word for it...

Trustpilot

25K Reviews

Trustpilot

The Consumer Duty – a call for meaningful partnerships

By Debbie McKay, Commercial Director, MotoNovo Finance

"We consider there to be existing drivers of harm in this portfolio (motor finance) in several of the areas of focus for the Duty, which has led us to prioritise this portfolio for assessing implementation of the Duty requirements in firm practices." - FCA 1 March, 2023

This quote was included in a 'Dear CEO/Director' letter issued by the Financial Conduct Authority (FCA) to motor finance providers. A similar letter was sent to credit brokers. The two amplify the significance of embracing the Consumer Duty across motor finance. I want to highlight four issues to be addressed/considered.

1. The Consumer Principle and Avoidance of Harm

The new Consumer Principle requires firms to act to deliver good outcomes for retail customers. 'Good outcomes' is mentioned 38 times in the Consumer Duty final guidance, 'harm' 163 times and 'foreseeable customer harm' 56 times.

Good outcomes and avoiding foreseeable harm must go hand-in-hand in our planning.

2. Manufacturers and 'Co-Manufacturers'

To meet their regulatory commitments, firms are classified as manufacturers, distributors, or co-manufacturers.

Finance companies are manufacturers of their products/services. Dealers/brokers usually consider themselves to be distributors. However, the FCA's recent letter highlights that, 'a firm would be considered a co-manufacturer where they can determine or materially influence the manufacture of a product or service. As an example, if a lender negotiates an APR price-point with a dealer or broker firm, the firms may need to consider whether the lender is making the pricing decisions or if the dealer or broker has a material influence on this.'

If dealers/brokers are deemed co-manufacturers, which is feasible given the FCA's example, then there are implications regarding regulatory roles/responsibilities. Conversely, if they are to avoid being considered to be co-manufacturers, all pricing elements and other material decisions, such as target market, need to rest with the lender.

3. Partnerships

Motor finance providers and dealers/brokers must work even more closely together to comply with the Consumer Duty. It will include even greater oversight by lenders. In particular, lenders must undertake enhanced monitoring of dealers' compliance with CONC requirements to ensure that customers are given sufficient pre-contract information at the point-of-sale to understand how products work to make appropriately informed decisions.

Partnerships will also necessitate greater two-way data sharing.

4. Fair Value - Commission Models & Disclosure

Delivering fair value, one of the four outcomes sought by the FCA, has people considering commission model implications.

The current regulatory position is that 'a credit broker must prominently disclose to a customer in good time before a credit agreement or a consumer hire agreement is entered into, the existence and nature of any commission or fee or other remuneration payable to the credit broker by the lender.'

The FCA's letter to credit brokers also offers valuable guidance:

'Firms need to assess their approach to product sales (including incentives and commission models) and identify whether harm is foreseeable as a consequence of that approach, then act to prevent it from happening.'

Going Forward

Be assured that, at MotoNovo, we will match the increasing urgency with tools and support to help and signpost our dealer/broker community to resources to be ready for launch day on 31 July. As a final call to action, by 30 April, it is essential that dealers fulfil their obligations, including data sharing with their lenders and embedding all new conduct rules as required.

Competing with the high street as interest rates rise

Tougher conditions for buyers means some may be searching outside OEM deals for low APRs. *Tom Seymour* reports

The cost of borrowing money to finance a car is starting to become more affordable after experiencing a challenging period over the last 12 months.

According to AM's own data of representative example new car retail offers, average APRs have more than doubled from 4.7% in Q2 2022 to 11.9% a year later in Q1 2023.

The Bank of England has been consistently increasing interest rates from their previously historically low levels as a way to help tackle rising inflation in the UK.

The cause of this inflation spike can be put down to the fallout from the COVID-19 pandemic, the war in Ukraine or the financial market's reaction to Liz Truss and Kwasi Kwarteng's mini-budget, or a combination of all three. All of these factors are outside the control of automotive retailers and original equipment manufacturers (OEMs).

All lenders are in this universal position and one of the greatest concerns about rising interest rates is the potential for an increase in bad debt.

At the time of writing, High Street banks and well known brands like Santander, Tesco, Natwest, HSBC and Lloyds are offering APRs on personal loans of between 4.9% and 5.9%.

It means customers that may have automatically defaulted to an OEM's captive finance offer may be weighing up their options more than usual when it comes to their route to funding their next car.

Jerry Page, HR Owen compliance and risk director and former compliance director for Peugeot and Citroen's PSA Finance, said: "It's been more difficult for more dealers to get customers' finance for a combination of factors.

"One is the Financial Conduct Authority's Consumer Duty deadline of July 31 lurking in the wings. It's also partly around an increased focus on affordability and vulnerability checks.

"The combination of those and then high interest rates is making things much more difficult."

It is important to reflect that when it comes to loan rates, the representative APR advertised is not always the rate the applicant will get.

APRs are helpful to compare lending products, such as loans or credit cards, on a product and period like-for-like basis but not against different products with, for example, different lending periods.

Every OEM captive finance house AM approached directly to talk about the challenges facing new car finance declined to comment.

However, some OEMs are instead responding directly with compelling campaigns for Q2 this year.

Manufacturer Volkswagen has reduced APRs in Q2, compared with Q1, and has increased deposit contributions too.

The T-Cross is now available with a PCP APR of 6.9% (previously 7.9%) and its deposit contribution has doubled from £250 to £500.

The T-Roc now comes with a £2,000 deposit contribution, while the T-Roc Cabriolet is available with a reduced 7.5% APR and a £2,750 deposit contribution (up from £750 in Q1).

Meanwhile, the Touareg's deposit contribution has doubled from £1,000 to £2,000.

Kia has also come out in Q2 with 7.9% APR across its model range and up to £2,500 off with deposit contributions for those taking PCP finance.

Ford has historically offered 0% finance across its range and that continues for many models on its 24-month Ford Options PCP deals.

So there are deals out there that are either more competitive or close to the High Street offers available on personal loans right now, particularly when factoring in thousands of pounds in discounts as an added bonus for choosing OEM captive finance.

Alex Royall, Alphera Financial Services director, said: "Motor finance APRs are generally competitive with High Street banks.

"We see that personal loans will be advertised at lower rates with higher APRs actually payable for those customers with lower credit scores."

Alphera's Select Product is a key USP for the business as it offers a guaranteed future value which can defer a proportion of a car's value until the end of the agreement as an optional final payment.

Royall said: "Banks may offer PCP, but balloon payments are often lower, making the monthly payments higher even at a lower APR.

"Customers need to weigh-up what is important to them and consider the overall cost across the anticipated ownership period."

OEM FINANCE NOT ALWAYS THE DEFAULT ON NEW

OEM captive finance isn't necessarily always the default option for new car finance in some dealerships. One dealer finance boss, who preferred not to be named, told AM that some of the non-mainstream players that dip in and out of the motor finance market have "thrown a spanner in the works".

They said: "These players will come in and offer 6.9% APR, whereas captives might be pushing closer to 10% and that makes it difficult to compete.

"When negotiating the set rate for finance commission we've been asked by OEMs if we want to put the commission rate up on finance or reduce our own commission to maintain penetration rates.

"In our position, you're not going to forgo the commission for doing the same amount of work, so you have to accept you're going to get a smaller volume of finance deals created.

"That's created some difficult relationships with the captive finance houses."

The dealer told AM that independent motor finance specialists are an option for new car customers, as long as they have a strong offering for personal contract purchase (PCP) customers and have a strong view on residual values (RVs).

The Finance and Leasing Association (FLA)'s data is tracking that the consumer car finance market is expected to report a fall in new business by value of around 6% in 2023 as a whole.

Geraldine Kilkelly, director of research and chief economist at the FLA, said: "While the economic outlook has improved, challenges remain for households and businesses as they deal with the impact of higher prices, taxes, and interest rates."

CREDIT QUALITY CHALLENGE

One of the biggest complications facing automotive finance has been at the bottom of the market for credit quality where customers have found it even more difficult to get accepted for finance.

Page said: "All the mainstream lenders are under pressure and scrutiny to make sure they have done a reasonable job on assessing affordability.

"Everyone's income has been squeezed and that has made the underwriter and credit scoring job quite difficult.

"On the one hand, we're trying to lever up the amount of incentives to get deals done. On the other hand, lenders are becoming more cautious and interest rates are going up and the whole deal is more expensive."

Due to rises in the cost of living for many, Alphera has increased the emphasis on ensuring customers can afford their finance agreement – not just right now or at the point of approval but also in the future, over the term of their agreement.

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Royall said the simplest way of doing this is by conducting detailed affordability checks at the time of purchase and, crucially, providing the lender with the fullest picture of the individual's financial circumstances – allowing them to forecast the customer's affordability across the entire duration of the proposed credit agreement.

He said: "It's not an exact science – the task is even more complex given the volatility of the macro-economic situation – and as we saw during the COVID-19 pandemic, individuals are affected very differently and some are hit harder by market-specific or general economic downturns.

"Lenders have to ensure that they make well-informed decisions about a specific individual's ability to maintain their financial commitments over a defined multi-year period.

"We need to consider the full 360-degree situation, regarding their outgoings and their resilience to the evolving economic climate."

While Page said economic pressure on consumers has been a challenge, he has not noted an uptick in early settlements.

This suggests that the customers that have taken finance to fund their new car purchase do need it.

Page said: "That's a good sign. What you don't want to do in this market is to bring back old habits of persuading customers to take finance because it's the only way they're going to get the car. That's a temptation with limited new car supply."

One motor finance industry commentator who preferred not to be named, said acceptance levels for personal loans are largely believed to be lower than for vehicle finance hire purchase (HP).

They said: "If a personal loan provider's acceptance rate is 30%, then just 30 in every 100 applicants is accepted and just a little over 15 of those accepted need to get the representative APR for the promoted rate to be compliant with regulation.

"So what does this all mean for dealer finance? The debt involved in a hire purchase agreement is secured against the car, so if you don't have a strong credit rating, you're more likely to be accepted for HP than for a personal loan.

"Highly creditworthy customers are more likely to get accepted on the personal loan APR terms promoted. However, with underwriting tightening there are likely to be fewer of them."

Royall said there is optimism in the car finance market because the current situation in 2023 isn't as bad as previously predicted.

He said: "Used values remain strong, interest rates have stabilised for now and car supply is improving, thanks to the stabilisation of semiconductor supply.

"In addition, it seems that customers seem better prepared this time, compared to the previous financial crash."

Royall added: "Delinquency rates are low, as customers are proactively looking to refinance their current agreements or make cutbacks on other monthly expenditures."

"Affordability checks have been more of a focus in recent years to ensure that customers can meet their monthly payments throughout the duration of their agreement, and I'm convinced this has made our portfolio more resilient to the financial challenges we've all faced."