

*“We have the power to make rules that are legally binding on firms. If you breach our rules we can and will take enforcement action”*

Financial Conduct Authority Guide

Welcome to the first in a series of communications designed to keep you informed about the forthcoming regulatory changes affecting consumer credit. At Hyundai Capital our aim over the coming months will be to provide as much information and clarity about these changes as possible, and to help you manage your way through the transition period from now until 1<sup>st</sup> October when the new regulations come into full effect.

Opening this first communication with a message from the Financial Conduct Authority (FCA) isn't intended to be a scare tactic; it simply reinforces what has been clear for some time. The new regulatory regime we now face will bring about real change within our industry as we come into contact with an intrusive regulator, one who has far reaching powers and who from day one has made a clear statement of intent. Companies who fall under its remit must either pay due regard to the interest of their customers and treat them fairly, or face the consequences.

But what exactly does that mean and why up until now has Hyundai Capital refrained from sending any communications out to you, our Dealer partners?

In respect of the latter the answer is simple. Whilst the FCA came into being in 2013, their final guidelines relating to consumer credit are just a few weeks old. Only now, therefore, having reviewed those guidelines thoroughly can any considered opinion be given. In short, to date the marketplace has largely been dealing in speculation rather than fact.

So what facts and information am I able to share with you today?

In this first bulletin I will touch on a number of key topics, those being:

- Cultural change and business conduct
- Affordability
- Products
- Sales process
- Training
- Commissions and incentives
- Financial promotions
- The authorisation process
- Consumer credit license categories

In each instance I will provide as much information as possible and also map out the ongoing actions being undertaken by Hyundai Capital. The bulletin also includes an appendix, in which additional information and sources of reference are provided.

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## 1. Cultural Change and Business Conduct

The foundation of the FCA's approach to regulating firms is based on a strategic objective to ensure that relevant markets function well. This is embodied in their three operational objectives:

- to secure an appropriate degree of protection for consumers
- to protect and enhance the integrity of the UK financial system
- to promote effective competition in the interest of consumers

In their relationship with firms carrying out regulated consumer credit activity, the FCA wants to ensure that from a 'cultural perspective' those firms place the fair treatment of consumers at the heart of their business.

Further details about how the FCA see this operating and what their expectations are, can be found in the Consumer Credit Sourcebook (known as CONC).

At Hyundai Capital we have a responsibility to ensure that our employees and agents comply with CONC and also take reasonable steps to ensure that other persons acting on our behalf also comply.

In addition to the general application of CONC, there are several high-level FCA 'standards' that must be adhered to, namely:

- the Principles for Business (PRIN), which are fundamental obligations that firms must comply with at all time
- a Senior Management Arrangements, Systems and Controls module within the handbook (known as SYSC)
- a section on General Provisions (GEN) contains a number of rules relating mainly to administrative duties

In all there is a significant amount of information to take in. Further details and points of reference can be found in the appendix to this bulletin.

## 2. Affordability

The subject of affordability that fell within existing responsible lending guidelines originally set by the OFT, has now been built upon in the new consumer credit rulebook. Specifically firms are expected to pay due regard to whether a credit product is affordable for a customer. This should be proportionate to a number of factors including the cost of the credit, amount borrowed and the customer's circumstances. As such decisions to lend will take into account the customer's current commitments, including mortgage or rent, council tax, utilities and any other major outgoings that are known.

At Hyundai Capital we have been reviewing our credit policies and processes in recent months and are in the final stages of fine-tuning them. Given the robust nature of our current credit vetting process, at this stage we will not be mandating the collection of a full income and expenditure statement for every customer, although a 'gross customer salary' field is likely to be included within our data capture requirements.

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To support some credit applications where our initial credit vetting does not generate an automated acceptance, further customer information may be requested and applied to an affordability tool we are currently testing. Full details will be provided in due course.

### 3. Products

A review of our existing core finance products has been conducted and I can confirm that no changes to their basic structure will be made.

In respect of insurance related products, there have been rumours in the marketplace suggesting that GAP/RTI will become a thing of the past. Whilst we are currently assessing the pricing model we will apply to GAP/RTI in future by assessing its base cost relative to claims ratio and commission levels, nothing in the FCA's recent review of the product suggests that they view it as not being fit for purpose, and as such we do not intend to withdraw it.

It should be pointed out, however, that further to the review carried out by the FCA, it is likely that a point of sale 'moratorium' will come into force. The regulator's rationale for this is twofold, firstly to ensure customers are not put under undue pressure to purchase the product and second to promote effective competition by allowing customers to carry out research about the product and its costs away from the dealership environment. At present the precise length of the moratorium has not been finalised, but clearly whatever the outcome is, the sales process relating to the provision of GAP/RTI products will have to change.

### 4. Sales Process

This brings me nicely on to the next topic, namely sales process. It is clear from the FCA's consumer credit rulebook, and principles of business, that affordability, transparency, and product suitability should be the key focus points of any discussions held with customers in respect of finance and related products. In the eyes of the FCA, only by addressing each of these topics can the right customer outcome be assured. To that end the sales process that is adopted in future is of vital importance.

In addition to ensuring that an appropriate sales process exists, companies regulated by the FCA must be able to evidence, via an auditable trail, that customers have been taken through that sales process each and every time.

In order to deliver a good customer experience as well as a compliant one, Hyundai Capital is in the process of developing a bespoke sales process application that will interface directly with our existing point of sale finance tool. The application will provide audio-visual product descriptions, typical comparison quotations and, through a short series of questions, validate that a customer has understood what has been presented and chosen a specific product based on that understanding.

In developing this tool our aim, as previously mentioned, is to deliver a good customer experience, not simply a compliant one. To that end we hope it will not only take the burden of developing and maintaining an auditable finance sales process away from you, but also provide you with a tool that has a positive impact on the sale of finance. You will also be pleased to hear that this sales process tool will be provided to you at no cost as part of our proposition to support your business.

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## 5. Training

This is a subject that is clearly linked to both products and sales process. During the coming months it is our intention to build further on the support we provide in the area of training. We will work ever more closely with you to help ensure there are consistent and appropriate skill levels in the showroom.

Our aim is to deliver training and coaching that will cover general consumer credit topics, as well as sales process and product knowledge. Delivery of this training will be in a compliant format and help provide evidence to the FCA that staff are equipped to sell finance in a suitable and proper manner. This is of great importance as it will demonstrate to the regulator that staff are competent in what they do and as such they ensure good customer outcomes are achieved.

We also highly recommend that all staff who are or may become involved with consumer credit activity undertake the Finance & Leasing Association's Specialist Automotive Finance (SAF) test.

## 6. Commissions and Incentives

This represents a very emotive topic and, looking at some of the actions that have already been taken by the FCA, one that is very front of mind.

With regards to commission, schemes that lack transparency and are structured in such a way that they could deliver a poor customer outcome, will not be deemed suitable. Along with other lenders in the market we are, therefore, reviewing our existing commission and reward structure. Our aim is to devise a model that will be seen in a positive light by the FCA, i.e. does not potentially drive poor customer outcomes, yet still provides appropriate income to you our Dealer partners. We will in the near future share with you our plans with a view to gaining feed-back before we bring any changes to market.

Similarly any incentives, whether from a finance company or that form part of staff pay plans, must be appropriate and not be deemed by the FCA to have the potential to lead to mis-selling or aggressive sales tactics.

## 7. Financial Promotions

Much of the content and language within the new FCA rules will be familiar to you, however there are also some obvious changes.

- There is now an overarching rule requiring adverts to be “clear, fair and not misleading”. The bar is effectively being set higher and we believe that the FCA will take a stronger line with compliance in this area.
- The previous term of advertising is being changed into a “financial promotions” regime meaning a more detailed set of rules will apply, plus a greater degree of active policing via:
  - Proactive monitoring of adverts across all media for high risk activities;
  - Thematic work on product or media type risks;
  - Review of complaints received through an FCA financial promotions hotline.

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Hyundai Capital is currently undertaking a full review of this topic. It is our intention to produce some financial promotions and advertising guidelines, which will be made available to you in due course.

## 8. The Authorisation Process

The FCA has now released a timetable outlining when firms will be called on to complete their application for direct authorisation to sell finance.

The majority of Dealers will be allocated a three-month period in which to complete their application. Dependent on your physical location in the UK this will be between either 1st December 2015 and 1st March 2016 or 1st January 2016 to 1st April 2016.

It should be noted however, that if your dealership intends to carry out certain other credit activities, or forms part of a group of companies where one will apply for authorisation as a principal firm and engage other dealerships within the group as appointed representatives, you will fall into an initial, much earlier application period, this being between 1st June 2014 and 1st September 2014.

## 9. Consumer Credit License Categories

Legal advice we have taken on this subject suggests that categories D and E relating to debt counseling and adjusting are not required in the normal course of carrying out point of sale financing. As such at Hyundai Capital we will not be mandating that you, our Dealer partners need them in order to transact business with us. Should this position change I will of course advise you.

Clearly there is much to take in and to consider over the coming months as we move towards full introduction of the new consumer credit regulations on 1<sup>st</sup> October 2014. As your partner we are here to help as much as possible and do all we can to provide information that will help make the transition to this new regime a seamless one. Ultimately, however, given that you will in your own right be authorised by the FCA, it is highly advisable that you gain your own legal advice on all matters relating to these new regulations.

In closing I will leave you with a final thought. Whilst the FCA is to be respected, it should not be feared. Doing the right thing for our customers each and every time isn't about putting a tick in the compliance box, it simply makes good business sense.

Kind regards



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