

“We are all on a journey with consumer credit, but I want to be clear that our objective isn’t to achieve a smaller market it is towards a sustainable one.”

Christopher Wollard, Director of Strategy and Competition, Financial Conduct Authority

26th March 2015

On 26th March Christopher Wollard, (Director of Strategy and Competition, FCA) delivered a speech titled ***The journey to a sustainable credit market.***

I have included within this latest bulletin the main messages from that speech, as they outline how the FCA intends to focus its activity and ensure that a sustainable consumer credit market exists.

Overall market and authorisation

There was clear reference to the fact that the FCA is itself still learning and wants to adopt a collaborative approach with firms wherever possible. It has no strategy or desire to make the vital consumer credit market smaller, but it must ensure that the market works well and is ‘sustainable’.

To date more than 10,000 of the 50,000 firms who applied for interim permissions have been authorised, with thousands more applications currently being reviewed. Whilst the vast majority of firms have had their applications approved, the FCA has seen areas of poor practice and as such some firms have not met their requirements. In summary, approval is not a given.

Areas of focus

During the first year of its operation, the FCA focused very much on individual ‘products and market sectors’, however in the year ahead they are going to be looking more towards addressing sector wide issues. Although they are still in the early stages of scoping them out, the FCA’s business plan contains details of their intention to carry out two new reviews.

One, on the **collection of unsecured debts**, will look at the ways in which consumer credit debts are collected and the extent to which firms involved in the recovery and collection of debts follow FCA rules. This will have no impact on you as a credit broker.

The other review, however, does have a direct bearing on your business as it will take a look at **staff remuneration and incentives** in consumer credit firms. The aim is to assess how firms are managing the risk that their reward arrangements could encourage potentially undesirable behaviours that might lead to poor outcomes for consumers.

With regards to remuneration, the vast majority of our Dealer partners have now migrated onto our new commission terms and are also in receipt of the related reporting dashboard we provide. As such from that perspective I believe we are mutually in a good place in the eyes of the regulator.



Now is the time to turn attention to your internal pay plans to ensure they are equally well-balanced.

Affordability

This topic remains another key area of focus for the FCA.

As consumer debt continues to grow, particularly among younger people, the FCA are concerned that poor culture and practice in relation to consumer credit affordability assessments may be one of the key factors driving unaffordable debt. In the eyes of the regulator for a sustainable and healthy credit market to operate in the future, one that works in the interest of consumers, getting affordability assessments right could be the most important factor in helping people avoid unmanageable debt.

To date the FCA have looked at this topic in terms of 'payday loans', and at present are looking at it via a credit card market study now being conducted. Moving forward the scope of their activity will look at the market as a whole as they conduct more research in order to assess the size and scope of any risks.

From an HCUK perspective, at present there are no plans to make any further changes to our credit assessment policy and process, however we will continue to work closely with the FCA to ensure our approach to affordability is in line with their expectations. In short, we will make sure we are going far enough in terms of credit assessment, but not too far.

From a Dealer perspective, I am happy to announce that work to update our point of sale system to incorporate affordability questions within the application process has been brought forward from Q3 this year, to a release date of 12th May. Further details will be provided in due course but clearly this is an important step in helping to ensure your sales process is robust and adequate.

To close, I will leave you with the words of Christopher Wollard as they give clear insight into how the FCA is going about its business in these interesting and ever evolving times.

"And finally, I want to leave you with a commitment and a request. A year in we are still learning; we are still listening. We will continue to keep up an open and honest dialogue with you as we learn more, and please do the same with us through the authorisation and supervision process."

Kind Regards

A handwritten signature in black ink, appearing to read 'Stewart Grant'.

Stewart Grant
Managing Director
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