



MAKE BUYING EASIER

Consumer Duty – VRA, 24<sup>th</sup> May 2023

***“Consumer Duty is the Most Significant  
Regulatory Change affecting how  
finance products are sold in recent years.  
Implications right through to people,  
process and culture.”***

**Grant Thornton**

## Finance underpins vehicle sales and is a significant revenue generator for retailers

Year	Consumer new car sales	Consumer new car finance deals	Finance penetration
2017	1,123,885	990,029	88%
2018	1,052,202	959,729	91%
2019	1,018,258	933,417	92%
2020	747,507	696,737	93%
2021	802,504	737,053	92%
2022	818,192	684,327	<b>84%</b>

Source: SMMT (sales data) and FLA (finance data)

Total car finance	2022	2021	% change
Number of cars	2,214,701	2,098,031	+3%
Total borrowing	<b>£40.7 billion</b>	£36.7 billion	+9%

Source: FLA

## FCA beefs up enforcement team ahead of Consumer Duty debut

Posted by: **John Kirwan** in **Latest News** Friday, 24 Ma

## FCA warns of "swift action" as Consumer Duty deadline looms

10/05/2023 in **Finance**

finance and insurance (F&I)

# Countdown to the Consumer Duty

Speeches | First published: 10/05/2023 | Last updated: 10/05/2023



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Speech by Sheldon Mills, Executive Director, Consumers and Competition, delivered at EY: Less than three months to go until the Consumer Duty Implementation.



**Speaker:** Sheldon Mills, Executive Director, Consumers and Competition

**Event:** EY: Less than three months to go until the Consumer Duty Implementation

**Delivered:** 10 May 2023

**Note:** This is the speech as drafted and may differ from the delivered version

## Highlights

- Firms have less than three months to implement the Consumer Duty, which comes into force on 31 July.
- The FCA will prioritise the most serious breaches and act swiftly and assertively where it finds evidence of harm or risk of harm to consumers.
- The Consumer Duty will help the UK financial services industry remain world-leading proponents of financial services, as firms strive to innovate and offer the best to compete for customers.

# FCA FEEDBACK ON PROGRESS

- Review of implementation plans published 25/1/23

<https://www.fca.org.uk/publications/multi-firm-reviews/consumer-duty-implementation-plans>

- Three key areas for improvement across sectors

1  
Lack of effective  
prioritisation

2  
Embedding the  
substantive  
requirements

3  
Working with  
other firms

- 19 Dear CEO Portfolio letters

<https://www.fca.org.uk/news/press-releases/fca-supports-firms-through-transition-implementing-consumer-duty>

- Motor finance providers
- Credit brokers

# KEY DATES

31 October 2022 –  
Boards agree  
implementation  
plans

By 31 July 2023 –  
Board attestation  
of compliance with  
Consumer Duty

31 July 2024 –  
Implementation  
date for Closed  
products

30 April 2023 –  
Manufacturers  
review existing  
products and  
share information  
with distributors

31 July 2023 –  
Consumer Duty  
implementation  
date for open  
products and  
services

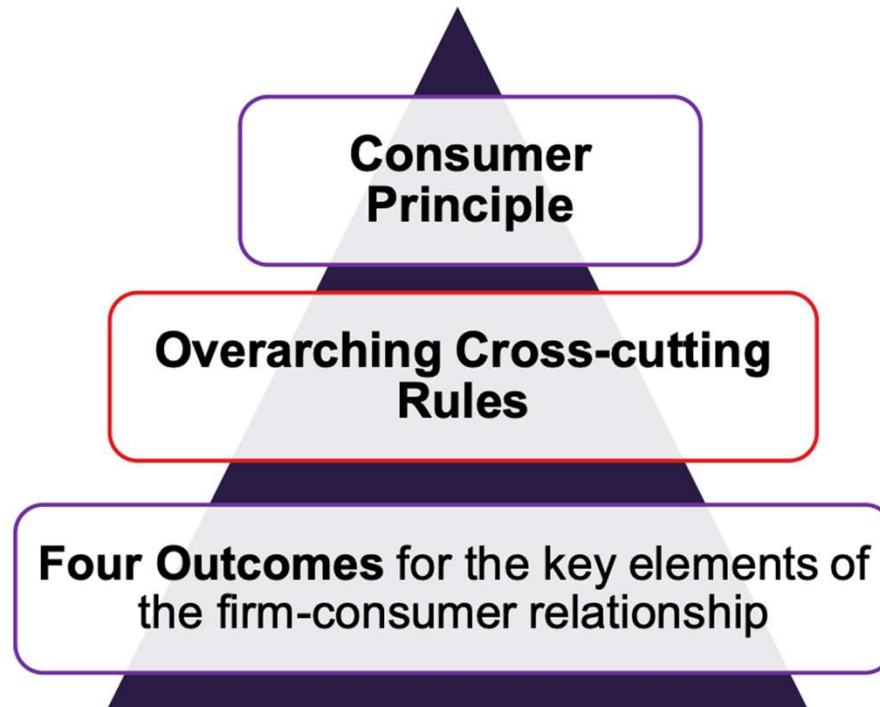
Annually – Board  
sign-off of ongoing  
compliance with  
Consumer Duty

## Firms must notify the FCA if:

- They do not believe they will be able to complete the work necessary to be compliant before the implementation deadlines
- Products or services are withdrawn as a result of the implementation of the Consumer Duty

- Lenders have recently produced their introducer packs for retailers and other distributors to now do “their bit” in readiness for end of July.
- <https://www.evolutionfunding.com/public/consumer-duty-resource-hub/>

# CONSUMER DUTY – OVERVIEW



# THE 'CONSUMER PRINCIPLE'

## The Consumer Principle – Principle 12

*“A firm must act to deliver good outcomes for retail customers”*

Conduct Rule 6 – IC6

*“You must act to deliver good outcomes for retail customers”*

- Applies to all FCA authorised firms which have a direct or indirect relationship with retail customers – so will apply to motor finance providers and broker dealers who offer or introduce finance to retail customers
- Firms will need to assess, and evidence, how they are acting to deliver good outcomes for their retail customers

## CROSS-CUTTING RULES

- Provide greater clarity on FCA expectations under the new Principle.
- Cross-cutting rules require firms to:



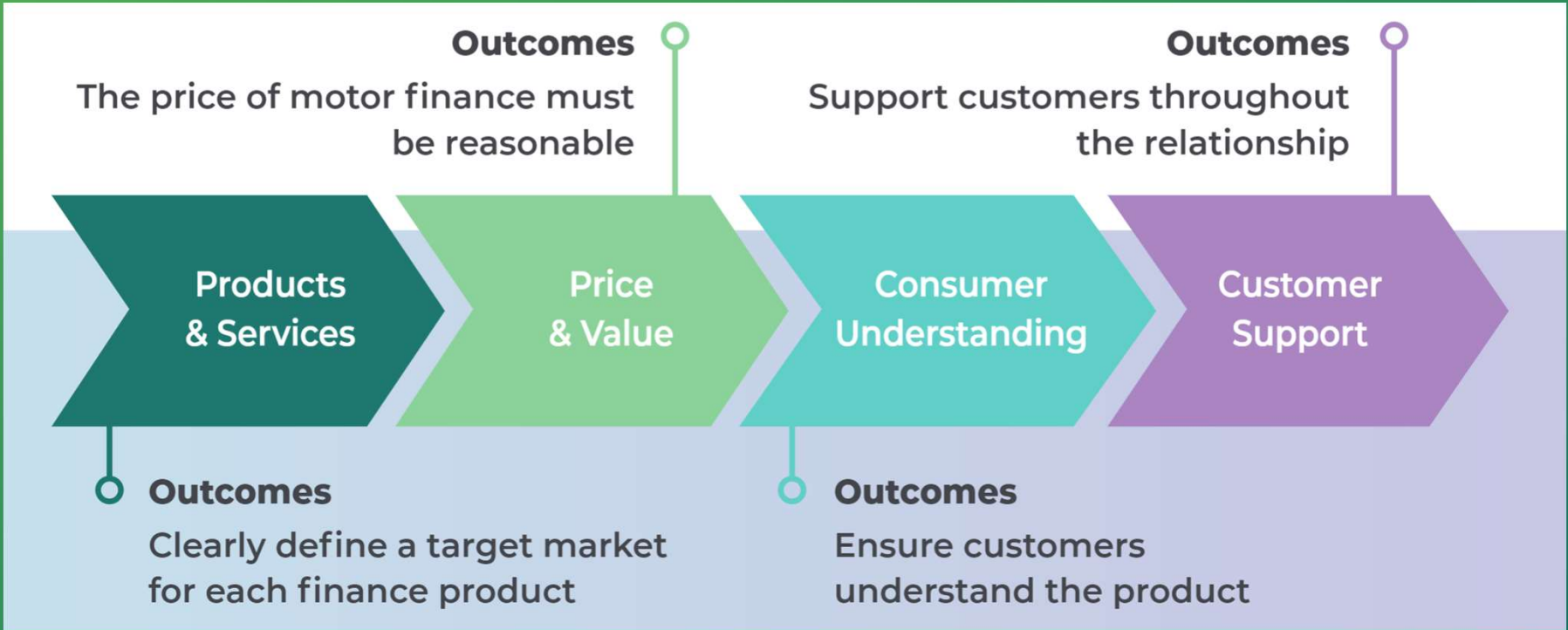
Act in good faith



Avoid causing foreseeable harm



Enable and support retail customers to pursue their financial objectives



# Typical Motor Finance Sales Models

Manufacturers

## Distributor\*

Not just the retailer but any systems introducing finance

Mrs Miggins  
(The Consumer)

Robsturbos.com  
(The Retailer/Dealer)

Robsturbos.com VAPS

When retailer introduces VAPS or insurance – could be a co-manufacturer

BarryBroker.com  
(Finance Broker)

Manufacturer or Co-Manufacturer?

Prime Lender A

Near Prime Lender B

Non Prime Lender C

Lender A

Lender C

Lender D

Lender E

Consumer Duty will require **Lenders to have greater control and influence over finance introduction channels**. This will need more collaborative relationships between lenders, brokers, retailers, system providers, website providers and marketplaces.

# Manufacturers Vs Distributors

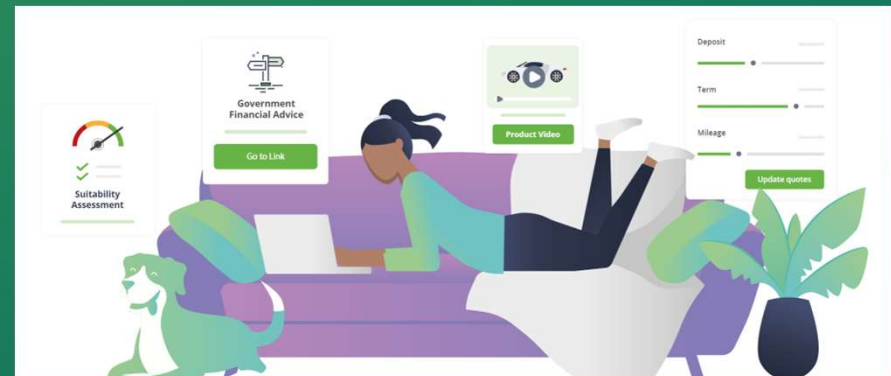
- Manufacturers: firms that create, develop, design, issue, operate or underwrite a product or service would be regarded as a product manufacturer. More than one firm may be involved in the manufacture of a single product. It is also possible that intermediaries may be co-manufacturers, for example if they set the parameters of a product and commission other firms to build it.
- Distributors: firms that offer, sell, recommend, advise on, propose or provide a product or service would be regarded as distributors.

## **In practice:**

- Lenders will be Manufacturers
- Retailers, along with system providers will typically be distributors.
- When retailers are influencing finance sell out rates or introducing other products then they could be considered a co-manufacturer or manufacturer

# Product and Services Outcome

- **Product Governance**
- Definition of the product.
- Clarity on Target Market
- Avoiding features that could harm the customer
- Monitoring and MI to evidence the product is fit for purpose.
- Requires greater collaboration between Manufacturers and Distributors



# Price and Value Outcome

- **Fair Value of Product**
- Charges must be reasonable when compared to its benefits.
- Must evidence value assessment compared to the market.
- Lenders will need to consider commissions
- Continuous monitoring and MI to evidence value
- Manufacturers initial assessment, distributors have a part to play across the wider chain

We have identified 4 key areas for further consideration by firms:

- collecting and monitoring evidence that demonstrates that products and services represent fair value
- clear oversight and accountability of the necessary remedial actions if they do not provide fair value
- where relevant, ensuring sufficient analysis of the distribution of outcomes across groups of consumers in the target market, beyond broad averages, to demonstrate how each group receives fair value
- summarising and presenting fair value assessments in a way that enables decision-makers to robustly discuss whether the product or service represents fair value, such as by being clear on any limitations in the analysis or evidence

## Customer Understanding Outcome

- **Ensuring the customers fully understands the product from research, at Point of Sale and during life of product.**
- Empowering customers to make decisions
- Can the 'average' customer understand, with a focus on supporting potentially vulnerable customers.
- Product Manufacturers need a testing framework to evidence
- Monitoring and MI for continuous improvement
- Applies to both Manufacturers and Distributors



# Customer Support Outcome

- **Support the customer throughout their relationship.**
- Must not disadvantage vulnerable customers
- Ensure customers do not face unreasonable barriers
- Senior managers to schedule regular reviews
- Monitoring and MI for continuous improvement
- Applies to Manufacturers and Distributors



# Online VS Showroom in practice

Mrs Miggins  
(The Consumer)

Robsturbos.com  
(The Retailer/Dealer)

Prime Lender A

Near Prime Lender B

Non Prime Lender C

Online Finance Applications in region of 35% in 2022 from the £2.1 bn of transactions.

Digital Channels provide the opportunity for lenders and retailers to ensure products are introduced in a consistent manner with scalable MI.

Relies on human to remember long introducer packs.  
Practically impossible to provide volumes of MI needed to drive change.  
Difficult for lenders to 'police' how finance products are distributed


# What are we doing...



AcmeMotors My Account

Get Started   Part Exchange   **Subsidy**   About you   Apply for Finance

**We want to make sure this product is right for you**



**FORD FOCUS HATCHBACK**  
1.6i (100bhp) Hybrid (petrol) 5-door 131CV 1.6i  
Edition SE  
**£24,999.00**

Part Exchange  
Add Part Exchange

Finance  
ACME Finance

Total Deposit	£2,499.00
Total Amount of Cash	£24,499.00
Agreement Term	48 months
Annual Mileage	20,000 miles
Rates per mile	7p
Options and Accessories	£1.00
First Payment	£460.27
47 Payments	£460.27
Final Payment	£1,050.00
Interest Charges	£6,274.44
Amount of Total Interest Rate	24.9%
APR	7.9%
Total Amount Payable	£31,274.44

### Understanding your finance product

\*\*\*\*\*

Please review the information below about the product you've selected.

#### Personal Contract Purchase (PCP) Product Explanation

Note: Information provided by ACME Finance is enable you to decide if this type of finance is right for you. You have selected a Personal Contract Purchase product. We recommend viewing the product video for further information.



<b>What is PCP?</b>	<p> Lorem ipsum dolor sit amet consectetur. Vitae sit nunc lorem conubia leo et tellus morbi quis.</p> <p> Accumsan tortor consequat pretium multisuada amet. Nullam a metus conestitut varius vivamus eu. Ullamcorper sem sit aene vitae. Sem sed adipiscing pharetra congue neque ultricies maecenas et dolo.</p>
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<b>How ACME Finance will support you</b>	<p> Lorem ipsum dolor sit amet consectetur. Sapien cursus vitae mauris volutpat blandit massa in du. Diam platea sed eros tellus Phorcus viverra ut facilis.</p> <ul style="list-style-type: none"> <li>• Donec consequat ipsum integer turpis ac. Enim venenatis tristique lectus suspendisse sed. Tristique tellus velit volutpat elit tristique turpis. Ante fames odio tristique Phorcus turpis pellentesque.</li> <li>• Ullamcorper metus nunc magna in mi ullamcorper euismod ac. Quis urna laoreet nec nibh enim.</li> </ul> <p> Diam platea sed eros tellus Phorcus viverra ut facilis. Lorem ipsum dolor sit amet consectetur. Sapien cursus vitae mauris volutpat blandit massa in du.</p> <p> Do you feel you have a good understanding of the product?</p> <p style="text-align: center;"> <input type="button" value="No"/> <input type="button" value="Yes"/> </p>
<b>Need help, feeling overwhelmed or vulnerable?</b>	<p>The following organisations may be able to help you by providing independent help, support, and advice.</p> <div style="display: flex;"> <div style="width: 50%;"> <p><b>ACME finance customer service</b></p> <p> Lorem ipsum dolor sit amet, consectetur adipiscing elit. Morbi sodales orci a nibh rutrum.</p> <p><a href="tel:0800 220 0000">0800 220 0000</a></p> </div> <div style="width: 50%;"> <p><b>Money helper</b></p> <p> Government backed fee, and impartial help with money and pensions.</p> <p><b>English:</b> <a href="tel:0800 138 7777">0800 138 7777</a></p> <p><b>Welsh:</b> <a href="tel:0800 138 9103">0800 138 9103</a></p> <p> If you have a hearing or speech impairment:</p> <p><b>Typetalk:</b> <a href="tel:0800 090 010 8632">0800 090 010 8632</a></p> </div> </div>

- **Consumer Duty** is a significant change in culture and practices for many organisations – Lenders, retailers, brokers, system providers.
- Expect FCA to act tough
- Lenders producing introducer packs, has now made the July deadline possible for any distributors – dealers and system providers.
- Some ignorance amongst dealers and system providers
- Post July expect FCA to enforce greater collaboration between manufacturers and distributors to evidence regulation.
- Greater Digitisation of finance can overcome some of the practical challenges

# Whitepaper

<https://www.ivendi.com/navigating-consumer-duty>

