

MOTOR FINANCE

IN THE SPOTLIGHT

LENDERS AND BROKERS ALIKE HAVE BEEN ANXIOUSLY WAITING TO LEARN THE RESULTS FROM THE REGULATORS INVESTIGATIVE WORK. NOW THE WAIT IS OVER.

The findings highlight a potential for consumer harm within the sector. In 2017, the FCA launched its review into the motor finance market, placing the industry square in the regulatory spotlight.



THE FINDINGS

COMMISSION CONCERNS

- Certain commission models could result in customers paying higher interest rates than they should be (around £300m more annually)
- The FCA has emphasised that both Increasing and Decreasing DIC (Difference in Charges) commission models present a high risk of consumer harm. They also believe scaled commission presents similar risks
- Commission arrangements were noted to be incentivising needlessly high interest rate charges for low and high risk customers alike and were of particular concern.
- The FCA has also called out that lenders are not doing enough to monitor the risks to customers arising from their commission schemes
- The FCA is going to intervene to reduce the risk, potentially by banning DIC or creating policy provisions which act to reduce the discretion brokers have over setting interest rates.

LACK OF INFORMATION

- Brokers aren't always disclosing the fact that they earn commission or aren't doing it prominently enough
- Firms were found not to be completely open about the availability of different products (e.g. PCP vs HP)

LACK OF CONTROLS TO MITIGATE RISKS

- Too many lenders still see their brokers as responsible for their own compliance, even though consumer credit regulation requires continued oversight

ASSESSMENT OF AFFORDABILITY

- Motor finance lenders are unduly focused on credit risk
- Lenders must take income into consideration - it is insufficient to rely solely on the customer's self-declaration of income
- Any estimates of income or expenditure must be 'reasonable in the circumstances'

HOW HUNTSWOOD CAN HELP

Huntswood is well placed to assist firms as a result of the FCA's conclusions.

Not only do we have the regulatory expertise to guide your firm to drive better outcomes for customers, we also have the technology and resource augmentation capability to undertake proactive work and support your firm in delivering on its regulatory obligations.

WE CAN:

- Develop a risk-based, third-party oversight framework for lenders and provide the support to undertake in-depth broker audits
- Support in the building of a robust onboarding processes for when your firm is looking to take on more dealers or brokers
- Undertake "Healthchecks" on your sales processes, focusing on how different product options are presented to customers, whether relevant disclosures are made at appropriate points and whether these are sufficiently transparent
- Review affordability and creditworthiness assessment policies and processes to ensure they meet regulatory requirements
- Support firms in capacity planning and complaints handling should volumes increase - which is a real possibility considering potential regulatory change in the near future
- Review firms' commission arrangements with dealers to determine whether the risks identified by the FCA in this paper are inherent in their models

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across the motor finance
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OVER 20 YEARS
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Huntswood has processed in excess of
2,000,000 COMPLEX CASES
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