FINANCIAL CONDUCT AUTHORITY

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Dear Director

**Key risks credit brokers should consider and act on**

This letter sets out our view of the key risks credit brokers could pose to their consumers or markets. Please consider the extent of these risks in your business and assess if your strategies reduce the risks.

**Your portfolio**

As part of our new Approach to Supervision we have grouped all the firms we supervise into different 'portfolios', which are based on their business models. Your firm is in the Credit Brokers portfolio. These are firms which introduce customers to lenders or other brokers to provide finance, although for some this won't be their main activity. Other firms that undertake regulated credit broking activity may also find this letter useful.

**We will send you a portfolio letter every two years**

Our supervision strategy for credit brokers runs to March 2022, with work to identify, diagnose and resolve any harm from credit broking. It also assesses how effective this work has been. We will write to you again after March 2022 to give you an update on the key risks from credit brokers and our future plans for supervising them.

**Our approach to supervising your firm**

We are putting emphasis on pre-empting potential harm, and using our assessment and harm-reduction tools in a focused and forward-looking way. We are analysing each portfolio and developing a series of strategies for supervision to make sure we monitor firms effectively, and target firms posing the greatest harm.

**Our view of the key drivers of harm**

We have examined a range of information and data, including firms' regulatory histories and the type and number of complaints to assess how credit brokers could cause harm.

This is what we found:

**Many firms did not understand their regulatory requirements**. This included what permissions they need to get from us and the need to complete accurate returns. These failures could lead to us taking action, poor outcomes for consumers or firms paying the wrong fees to us.

**Firms have poor oversight of staff and/or Appointed Representatives' (ARs) activities**. This leaves sales practices unchecked, which potentially increases the risk of mis-selling, fraud or other poor consumer outcomes.

**The increased risk of harm to customers by domestic premises suppliers where the sale of goods or services is made in the home**, especially when such customers are vulnerable.

**Misleading or inaccurate financial promotions**. This risks consumers making uninformed decisions, such as signing up to poor value deals.

**Firms not explaining the level of service provided**, or other factors likely to influence a customer's decision, for example whether:

- they have arrangements to refer customers onto specific lenders
- they are tied agents or make 'whole of market' introductions
- the lenders referred to have any connections to the firm, or
- the firm gets commission from an introduction to the lender.

**Where the firm is responsible for providing product information, not providing adequate or relevant information** to allow consumers to make informed choices about finance products or taking reasonable steps to ensure recommended products are not unsuitable.

**Not considering or managing the risks to their business from technology**, cyber-attacks and inadequate IT resilience.

To assess how these types of harm could arise we have analysed the strategies, business models and drivers of culture for various types of firm. The portfolio is made up of firms of varying sizes. All firms will need effective risk management frameworks that demonstrate clear governance and oversight. These, and your firm's systems and controls, should be proportionate to the size of your business. It is important that all credit brokers ensure customers are being treated fairly.

## Our areas of focus in your sector

We will prioritise our supervisory work in the following areas:

**Accurate regulatory data:** We now require firms that are subject to Sup 16.10 rules to review and confirm their Firm Details annually, within 60 business days of their Accounting Reference Date (ARD). Even if your Firm Details have not changed from the previous year, you will still need to log on to Connect and confirm that they are up to date. You can only complete this task on Connect.

Last year we emailed, called, wrote and sent texts to firms who were not registered on Connect, so they could prepare for the rule change that came into force this month. You may have also seen information on our website and on social media.

Thousands of firms registered in preparation – but we are aware that many have not yet. These firms should register now, so they are able to comply with the new rules. When updating/confirming Firm Details, firms need to fill in and submit the Firm Details form on Connect. If you need support registering and updating your Firm Details, visit our website, watch our video guide, or call 0300 500 0597.

We will consider using our full regulatory tools – including enforcement – where firms fail to comply. All firms must also adhere to the principles for businesses, including principle 11 – relations with regulators – which outlines firms must deal with their regulators in an open and cooperative way, and disclose firm information.

**Helping firms:** We recommend firms register for 'Regulation Round Up', which is our monthly newsletter to all regulated firms. It includes hot topics, event information and news affecting each portfolio. In April 2019, we published a suite of bite-size videos for consumer credit firms. These cover a range of subjects, including treating customers fairly, to help firms understand what they are required to do under our rules and what we expect of them. These videos complement the existing step-by-step video guides explaining consumer credit firms' obligations. We plan to build on these videos, with a focus on areas such as financial promotions, as we have found poor compliance with our rules in this area.

**Understanding the customer journey and staff/AR oversight:** We are carrying out work with a number of firms to look at the credit brokers of Third Party Finance Providers (TPFPs) as part of our approach to supervision. This work will provide further clarity on every stage of a customer's journey, including how they get information at each stage and where they go to complain. It will also examine the firms' oversight of their staff and ARs to prevent the risk of mis-selling.

We will also be getting more information about credit brokers' business models and the markets in which they operate to identify any potential harms.

**Domestic premises suppliers (DPS):** We have identified that these firms potentially present a higher risk of consumer harm, particularly when sales take place in the consumer's home without appropriate oversight. In many cases, the remuneration model for these types of firms is 100% commission or sales bonuses. Even when targets only apply to the sale of retail products, the sale of finance could help maximise sales. Consumers may feel under pressure to sign up for finance products immediately, without having the opportunity to consider whether it is the right deal for them. This could be especially true when the customer has an urgent need to make a purchase, such as when a heating system breaks down. We intend to explore DPS firms further to identify whether adequate controls are in place to mitigate such risks.

**Our next steps**

We will actively engage with a number of credit broker firms to help us to complete our key priorities. We will support our reactive supervisory work with wider engagement and communication to allow us to clarify our expectations of firms, identify harms and ensure these are appropriately managed.

**What we expect you to do**

We expect you to take notice of the areas of concern we have set out in this letter. You should examine your business and consider whether you can make changes to reduce harm or potential harm to consumers.

We will act where we find that firms have not put their customers at the heart of how they do business. For example, where they have put their own profits and income above paying due regard to customers' interests and treating them fairly.

We aim to identify firms which appear to cause such harm. Whatever the size of your firm you should have appropriate governance and systems and controls in place. If we contact you we will expect you to be able to provide evidence of these and your wider actions to safeguard consumers from harm. If you cannot do this we will make full use of our regulatory powers to address the weaknesses we have identified.

The UK left the EU with a Withdrawal Agreement on 31 January 2020 and entered a transition period, during which it will negotiate its future relationship with the EU. The transition period is due to operate until 31 December 2020. During this time EU law will continue to apply in the UK and passporting will continue. As matters develop during the course of this year, you will need to consider how the end of the transition period will affect you and your customers, and what action you may need to take to be ready for 1 January 2021. For information on Brexit, including what the transition period means, visit our website [link to www.fca.org.uk/brexit].

If you have any questions please contact your normal supervisory contact on 0300 500 0597. This is the main point of contact for your firm's day-to-day interactions with the FCA, and further details of how we can be reached are available on our website.

However, we know there may be occasions when your firm faces urgent issues of strategic importance. In such significant circumstance, please contact me on 0131 301 2052 or at andrew.kay@fca.org.uk  If I am not available, then please contact one of my managers, Gareth Morris, on 0131 301 2119 or at gareth.morris@fca.org.uk

Yours sincerely

**Andrew Kay**

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