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Dear Chair,

Action needed to ensure fair treatment of SME customers during Collections and Recoveries

Recent global events require all of us to respond to rapidly changing circumstances. We are grateful for the flexibility and significant focus across the industry in responding to these challenges to date, but the need is ongoing. As we note in our [letter](#) to CEOs of 16 June 2022, consumers across the country are now affected by the rising cost of living, and this will include many small businesses.

Given these challenges, alongside the historic issues in the treatment of Small and Medium sized Enterprises ("SMEs") in the banking sector, the FCA remains committed to the fair treatment of SMEs. We have recently concluded multi-firm work with retail banks who provide SME lending services, which for some banks included Bounce Back Loans ("BBLs").

We considered banks' systems, controls and processes for the collection and recovery of SME debt. We reviewed these against our rules covering borrower protections and our principles. We assessed staff training and monitoring to understand whether staff were sufficiently supported in identifying and supporting customers who may have characteristics of vulnerability. We also considered whether firms' overall treatment had delivered fair outcomes for customers.

We conducted interviews with senior staff, including the responsible Senior Manager(s) for collections and recoveries, and reviewed files of customers that were in collections and recoveries.

We have sent each bank in our review individual feedback. We have published our sectoral findings on our website.

Who this letter applies to

This review covered retail banks with regulated SME lending. But all regulated firms offering lending to individuals and relevant recipients of credit ("RRCs") should consider the findings and recommendations and where necessary, act on them. We encourage any organisation lending to SME customers to consider how our findings may apply to them.

Our concerns

We were disappointed to find repeated instances of poor customer outcomes and failures to treat customers fairly during our review of customer files.

Several themes appear to drive poor customer outcomes:

- Gaps in policies and procedures.
- Staff training that did not adequately cover conduct requirements.
- Manual interventions within systems which appeared to make delivering fair customer outcomes more difficult.
- Absence of outcomes testing or quality assurance that considered whether customers had received fair outcomes from the end to end treatment they received.
- In many cases record keeping was poor, such that some could not provide complete customer files and it was not possible to determine if the customer had received a fair outcome based on the records.
- We saw instances of customers providing information indicating characteristics of vulnerability that were not considered or suitably responded to.

These findings feed into our consideration of firms' ability to effectively provide forbearance and due consideration in line with CONC 7.3.4R and in line with our expectations that firms 'treat customers fairly' under Principle 6.

These requirements only apply to regulated lending or debt collections. However, it is worth noting that most firms opt to treat a large section of SME customers that hold unregulated credit agreements in the same way they treat borrowers with regulated credit agreements. We commend the approach of extending these protections to SME borrowers with unregulated credit agreements, however, we found that many of these firms were not meeting the standards they set for themselves.

We have written this letter to all Chairs of retail banks with SME customers to make sure the issues we raise are given the appropriate attention at both board and executive level. We expect the board to ensure the issues identified are considered and, where necessary, addressed promptly. This should include suitable root cause analysis. Where customers have been adversely impacted as a result, we would expect your firm to put things right.

We expect accountable Senior Manager(s) to proactively engage to achieve good practice when overseeing SME collections and recoveries. We expect them to ensure their prescribed responsibilities are being effectively discharged. So, we expect the Senior Manager(s) to take an active role in addressing the concerns raised in this letter, keeping the board suitably appraised.

What we are asking you to do

You do not need to contact us to respond to this letter. However, the board and senior management should carefully consider its contents and take the necessary steps to make sure your firm meets the expectations below. If you are aware, or become aware, that your firm does not have this assurance then we would encourage you to respond to this letter in a timely manner, with a plan to fix any issues identified.

- Where borrowers are treated as if they have a regulated credit agreement, either by requirement or voluntarily, firms should be able to demonstrate they are meeting these standards;
- Policies and procedures are clear with adequate information to support staff to make judgements when required;
- Systems and controls should be arranged to assist with the delivery of fair customer outcomes;
- Firms should be able to accurately maintain records and be able to use such records to test whether they have delivered fair outcomes. Firms should also be able to produce customer records without gaps in a timely manner;
- Firms should be able to demonstrate forbearance and due consideration are being offered in accordance with CONC 7.3.4R (where it applies).
- Where CONC 7.2.1R applies, the firm must establish and implement clear, effective and appropriate policies and procedures for the fair and appropriate treatment of customers, who the firm understands, or reasonably suspects, to be vulnerable.
- The management of third parties should be subject to a suitable risk framework that helps ensure fair treatment of SMEs.
- We encourage all firms to carry out both quality assurance and customer outcomes testing for customer processes. This assurance should follow a holistic approach so that the customer's overall outcomes are understood and these are assessed for fairness. There should be clear evidence that root cause analysis is effectively identifying opportunities to improve customer outcomes;
- Staff should receive suitable training that equips them to effectively support SME customers to receive fair outcomes during collections and recoveries;
- Senior management should receive effective MI that allows holistic oversight of SME customer treatment during collections and recoveries;
- Senior managers responsible for collections and recoveries should have suitable levels of awareness and oversight of SME customer matters including treatment during collections and recoveries;

This letter should not be viewed as a comprehensive list of our rules. It is firms' responsibility to ensure they are fully compliant and can demonstrate that all customers entitled to protection under our rules receive fair outcomes.

We continue to monitor outcomes and carefully scrutinise firms in this sector and will use our supervisory and enforcement powers to take further action as necessary. In future, we are likely to ask you to demonstrate your compliance with the expectations listed above.

Later this year, we will finalise any rules in relation to the New Consumer Duty, but we are not waiting for the Duty to come in before we act to improve consumer outcomes.

We want firms to put treating customers fairly, including SME customers, at the heart of what they do. Given the current pressures placed upon SMEs due to the adverse impacts of Covid-19 and the cost of living crisis. it is crucial that firms consider how they will ensure fair customer outcomes.

Yours faithfully,

Sheldon Mills

Executive Director