



Consumer Duty

Distributor Communication

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Consumer Duty

You will be aware that in July 2022, the Financial Conduct Authority (FCA) published a policy statement and final guidance setting out their final rules on the new Consumer Duty. [PS22/9: A new Consumer Duty \(fca.org.uk\)](#)

Within this communication an overview of the stance taken by Santander Consumer (UK) Plc (SCUK) is provided in the context of Consumer Duty and the FCA's expectations.

By implementing the Consumer Duty, the FCA is setting higher standards and expectations of the care that firms are expected to give to customers. The Consumer Duty is created by the incorporation of a new Consumer Principle, Principle 12 which requires firms to "act to deliver good outcomes for retail customers". This is the first time that a new Principle has been applied by the FCA (or its predecessor). Principle 12 is supported by crosscutting and outcome rules.

The intention of the Consumer Duty is to drive customer centricity and to call out (and take action against) things which do not create good outcomes for customers. Thus it introduces a more outcomes focused approach to consumer protection and sets higher expectations for the standard of care that firms give customers. Firms must act in good faith towards customers, avoid causing them foreseeable harm, and enable and support them to pursue their financial objectives.

The new requirements apply from 31st July 2023 to all existing products and services, it applies

on a forward-looking basis, it does not have retrospective effect.

Companies engaged in motor finance, such as your organisation and ours, are absolutely part of these requirements and the FCA recently issued a Dear CEO letter in the context of Consumer Duty specifically to motor finance providers. We would encourage you to review and document your response to the aspects of this letter internally, which can be found here [Implementing the Consumer Duty in the Motor Finance Providers portfolio \(fca.org.uk\)](#).

There are certain obligations for both manufacturers and distributors. SCUK are classed as a manufacturer of the products because we create, develop and design the financial services product (not the vehicle). Distributors are those who distribute a financial services product (you).

Under Consumer Duty requirements, manufacturers are required to complete all relevant reviews to ensure that we meet the outcome rules of the Consumer Duty by the end of April 2023 and communicate this to our distributors. We have completed those reviews and we have set out the outcomes in Appendix 1.



The Consumer Duty requirements

Under Consumer Duty, firms are required to act to deliver good outcomes for retail customers, and in assessing this, firms must consider the diverse needs of their customers including those with characteristics of vulnerability.

The FCA have helpfully set out guidance to firms which can be found here [FG22/5: Final non-Handbook Guidance for firms on the Consumer Duty \(fca.org.uk\)](https://www.fca.org.uk/guidance/fg22-5).

The Consumer Duty also introduces new rules and guidance to ensure that:



Product and services

These are designed to meet the needs, characteristics and objectives of a specified target market (chapter 6 of FCA Guidance)



Price and value

Products and services provide fair value with a reasonable relationship between the price consumers pay and the benefit they receive (chapter 7 of FCA Guidance)



Consumer understanding

Firms communicate in a way that supports consumer understanding and equips consumers to make effective, timely and properly informed decisions (chapter 8 of FCA Guidance)



Consumer support

Firms provide support that meets consumers' needs throughout the life of the product or service (chapter 9 of FCA Guidance)

Why take this seriously?

As stated on the previous page, the FCA has materially changed its approach and expectations. The FCA continues to communicate the Consumer Duty as ‘a significant shift in our expectations of firms’.

It is important to understand that the requirements under Consumer Duty are significantly greater than under the principle of treating customers fairly. Therefore each firm must act to enable compliance with the requirements and be able to evidence it, and the FCA expects that Boards and senior management of firms regularly challenge that firms are achieving good outcomes for consumers.

The FCA has provided feedback on their views throughout different stages of the journey to Consumer Duty compliance. Following a review of firms implementation plans it saw across the industry (including motor finance), it commented that whilst many of the implementation plans understood and embraced the Duty, some plans they

reviewed were superficial and/or over confident that the policies and processes already in place were adequate. Firms are expected to review all aspects of its customer journey to evidence that they will achieve the new higher standards of the Consumer Duty.

Failure to comply with the requirements could result in consumer harm and of course sanctions to firms involved.

The FCA is developing its strategy for supervision and this will include specific supervision for motor finance providers. The FCA is very clear that its definition of motor finance providers includes lenders and credit brokers and its supervisory approach will take into account the different roles and sizes of firms in the motor finance environment.



“ ”

The Consumer Duty is a significant shift in our expectations of firms.

Tips regarding Consumer Duty Compliance



Evidence! Document your decisions and explain your reasoning, show that your decisions and activities deliver good outcomes for customers.



Tackle the difficult topics and challenge your approach. Where the rules aren't clear, evidence how you will comply with the principle.



Continually have discussion about ongoing compliance and challenge the status quo.



Monitor Consumer Duty compliance at your Board.



Ensure that the Consumer Duty is embedded in your organisation's culture (and monitor it through appropriate metrics).



Pay particular focus to areas of harm within your customer journey and ensure that you try to mitigate or minimise the potential for harm and can monitor your performance. We have set out in the document areas of potential harm we (and the FCA) have identified.



As a distributor, you are required to maintain, operate and review product distribution arrangements for each product you distribute to avoid causing foreseeable harm to retail customers.

Potential areas for harm to motor finance customers

These are the areas that we expect you to pay particular focus to in respect of our mutual customers:

Potential area for harm	SCUK's Expectation
Affordability	You must have in place your own policies and procedures for complying with your obligations in respect of affordability. You should ensure that you ask appropriate questions of the customer during the customer journey to achieve this and raise any concerns to us. You must respect customer's budgeting criteria when qualifying products and services with them and ensure that the arrangement is sustainable through the life of the agreement. This is not just about the monthly price, but the total amount payable. We will of course continue to complete our creditworthiness and affordability assessments.
Qualification of customer needs	You must not assume the customer needs. Your customer journey must qualify the customers needs and you must only offer products/services which suit their needs.
Fluctuation in used vehicle prices	We expect you to be mindful of this in your engagement with customers to encourage them to make informed decisions to ensure that arrangements are sustainable for them and continue to deliver fair value throughout the arrangement. We of course will set our future values in accordance with our policies to minimise risk to customers.
Fair value and commission arrangements	We have set out below a reminder of your obligations relating to commission disclosure and our expectations.
Fair value and sales incentives	You must ensure that incentives and remuneration arrangements for your staff do not create a conflict of interest or undermine the value of the products and services, or compromise good customer outcomes.
Point of sale information	<p>You must provide timely and effective communication to customers at the point of sale. You must provide the customer with a compliant adequate explanation (this is your obligation as credit broker). You must ensure that the customer is taken through this information in an appropriate way (whether it is a face to face or digital interaction). Remember that the information you are providing must enable the customer to make an effective, timely and properly informed decision.</p> <p>You must provide adequate explanations in line with CONC 4.2.</p> <p>You must also ensure that the customer is not distracted by the purchase of their new vehicle (or so desperate for a vehicle) that they are not paying due regard to the finance arrangement as vulnerabilities can be created if this is the case.</p>
Financial promotions	Must be clear, fair and not misleading and be issued to the appropriate target customer base, based on the specific products and services advertised. They must of course comply with CONC and other legal and regulatory requirements. You must be clear that you are a credit broker not a lender and your involvement with other lenders.

Potential area for harm	SCUK's Expectation
Provide support that meets the customer's needs throughout the life of the product or service	You must ensure that your staff understand the full customer journey and can ensure good outcomes at each step and understand how their circumstances might have changed in the meantime.
Be clear on your role	<p>This is important in respect of your interaction with customers and with us. In the context of Consumer Duty we consider you a distributor and we are the manufacturer. Our dealer operating agreements will be updated before July 2023 to document this clearly and set out any roles and responsibilities.</p> <p>With customers, you must be clear that you are a credit broker and that you are not providing independent financial advice and you are not our agent.</p>
Alternative fuels	We must support customers and our societal needs given the government plans to stop the sales of ICE vehicles by 2030 and be net zero by 2050. In the FCA's Dear CEO letter, the FCA highlight that the evolving nature of alternate fuel vehicles and financing of charging points and other ancillary services could lead to complexity and confusion for customers. We must ensure that customer needs are assessed and that their rights and protections are explained to them.
End of contract and ending contracts early	You must explain at the point of sale and in any interactions with customers about the implications of ending the contract (early or at normal end), for example the impact of any fees and charges, this could be exit fees, damage or excess mileage.
Oversight and controls	<p>We as a lender are required to ensure that we have appropriate oversight and controls in place to monitor compliance with CONC requirements. We would urge you to cooperate with us in these activities and pay due considerations to the expectations we set. Between now and the end of July, we will be sending communications on best practice in the following areas:</p> <ul style="list-style-type: none"> • Vulnerability/financial difficulty • Commission disclosures • Complaints • Financial promotions
Use of third parties	<p>For any third parties involved in the customer journey for credit broking, you must carefully assess the nature of their involvement, if they are issuing financial promotions, introducing customers , engaging with customers etc, they will require necessary regulatory permissions. You must have in place appropriate processes to assess this and to ensure compliance and you must comply with the terms of our operating agreement. This should include:</p> <ul style="list-style-type: none"> • checks against the FCA register and appropriate due diligence • periodic monitoring • reviewing performance of management information • taking customer feedback <p>You must also ensure that any privacy policy adequately covers any third-party processing.</p>

SCUK's expectations relating to commission and commission disclosure

Discretionary commission models are prohibited. We do not allow you as a credit broker to decide or negotiate the amount of any item included in the total charge for credit; and vary your remuneration connected with this.

In its recent Dear CEO letter, the FCA were clear that commission arrangements are a consideration when making a pricing and fair value assessment of a product/service.

The FCA pointed out that certain commission models may cause harm without appropriate oversight in place. The FCA also highlighted that customer vulnerabilities can be created where the customer has a need for the goods/services and this in turn means the customer is too focused on that need so they do not pay sufficient attention to the finance arrangements.

You must comply with your obligations under law and regulation including under CONC 4.5. For ease of reference we have extracted the relevant requirements of CONC below. We expect with every retail (and regulated) motor finance customer that you:

- If commission is payable, tell the customer that commission is payable, and explain the nature of that commission (fixed fee, percentage of advance etc). If no commission is payable, tell the customer that no commission is payable.
- You must always make it clear to the customer that you are not providing independent financial advice.
- We expect you to ask the customer whether the payment of any commission has an impact on their decision making. If it does, you are required to make a full disclosure (including the amount of commission).
- You must remind the customer that they have the right to ask what the commission is and if they ask, they will be told.
- You should identify any circumstances which might affect impartiality and inform the customer of such (which then requires a full disclosure including the amount). For example, if you have a preferred lender on your panel, and this in turn influences where you direct the finance proposals. We expect that you comply with the guidance at CONC 4.5.3B.
- Ensure that if you are asked to disclose the amount of commission, you are able to answer the customer accurately. If the exact amount is not known, then you should disclose the likely amount. You are required to confirm in your 'dealer declaration' that you have provided the customer with the necessary information relating to commission.

CONC Rules

CONC 4.5.3 Rule

"A credit broker must prominently disclose to a customer in good time before a credit agreement or a consumer hire agreement is entered into, the existence and nature of any commission or fee or other remuneration payable to the credit broker by the lender or owner or a third party, where the existence or amount of the commission, fee or other remuneration could actually or potentially:

1. affect the impartiality of the credit broker in recommending the credit agreement or the consumer hire agreement; or
2. if made known to the customer, have a material impact on the customer's transactional decision to enter into the credit agreement or the consumer hire agreement."

CONC 4.5.3A Rule

"In circumstances where the credit broker is required to disclose the existence and nature of any commission, fee or other remuneration under CONC 4.5.3R, it must also disclose to the customer, at the same time and with equal prominence, how the existence and nature of this commission, fee or other remuneration may affect the amounts payable by the customer under the relevant credit agreement or consumer hire agreement."

CONC 4.5.3B Guidance

1. Where the amount of any commission, fee or other remuneration in CONC 4.5.3R varies due to a factor specified in the arrangement or agreement under which the commission, fee or other remuneration is payable, for example a specific feature of the credit agreement or consumer hire agreement or the level of work undertaken by the credit broker, the credit broker should make disclosure under CONC 4.5.3R in relation to the commission, fee or other remuneration.
2. Where:
 - (a) the firm has entered into arrangements (irrespective of how many other persons those arrangements are with) under which it may earn commission, fees or other remuneration in relation to two or more different credit agreements or consumer hire agreements;
 - (b) the customer could be eligible for two or more of those agreements;
 - (c) the credit agreement or the consumer hire agreement the firm is recommending is one of those agreements;
 - (d) the commission, fees or other remuneration payable to the firm varies depending on which of the credit agreements or consumer hire agreements the customer enters into, the firm should make disclosure to the customer under CONC 4.5.3R in relation to the arrangements.
3. The disclosure in (2) may be in general terms, but it should enable the customer reasonably to appreciate the effect of the arrangements.
4. The credit broker is not, under CONC 4.5.3AR, required to provide to the customer an individually tailored illustration of how the commission, fees or other remuneration in CONC 4.5.3R may affect the amounts payable by the customer under the credit agreement or consumer hire agreement.

CONC 4.5.4 Rule

"At the request of the customer, a credit broker must disclose to the customer, in good time before a regulated credit agreement or a regulated consumer hire agreement is entered into, the amount (or if the precise amount is not known, the likely amount) of any commission or fee or other remuneration payable to the credit broker by the lender or owner or a third party."



What is next?

Between now and the end of July, we will be issuing further communications on key topics relating to some of the areas for potential harm within the motor finance sector to give further clarity on our expectations, for example:

- **Vulnerability/financial difficulty**
- **Commission disclosures**
- **Complaints**
- **Financial promotions**

Your Business Development Manager will be in touch with regards to new operating agreements which have been updated in line with the FCA's and our expectations of Consumer Duty compliance.

We hope that your implementation plans are progressing well.

Yours faithfully,

Adam Goldhagen

Chief Operating Officer
Santander Consumer (UK) plc

Appendix 1:

Consumer Duty: Products and Fair Value Outcomes

Information for distributors of SCUK Products

Product names: Personal Contract Purchase
Conditional Sale
Conditional Sale with a Balloon
Contract Hire/Personal Contract Hire
Personal Loan/Add On Loan



1. Background

As part of the FCA's new Consumer Duty, product manufacturers must:

- ensure that products provide fair value to retail customers in the target markets for those products; and
- carry out a fair value assessment of its products, and review that assessment on a regular basis, appropriate to the nature and duration of the product.

Manufacturers are required to provide intermediaries with the results of their fair value assessments. This is to ensure that intermediaries distributing the product have all necessary information to understand the value that the product is intended to provide to a customer. This also allows the intermediaries to meet some of their own requirements under the Consumer Duty.

The rules require that manufacturers support intermediaries to:

- understand the characteristics of the product or service;
- understand the identified target market;
- consider the needs, characteristics, and objectives of customers with characteristics of vulnerability;
- identify the intended distribution strategy; and
- ensure the product or service will be distributed in accordance with the target market.

In summary, product manufacturers are required to provide intermediaries with the results of their fair value assessments.

2. Fair Value Assessments

This summary document is being provided to you to fulfil SCUK's responsibilities as a manufacturer of the above products under:

- PRIN 2A.4.15R (Consumer Duty, What is value?); and
- PRIN 2A.3.12 R (Consumer Duty, Manufacturer: Selecting Distribution Channels and Providing Information to Distributors).

It is designed to support you to comply with your responsibilities as a distributor of these products under PRIN 2A.3.16 R (Consumer Duty, Distributors: obtaining information from manufacturers) and PRIN 2A.4.16 R (Consumer Duty, Price and value: distributors general obligation) of the Consumer Duty. Please note that you are ultimately responsible for meeting your obligations under Consumer Duty.

This information is intended for intermediary use only and should not be provided to customers.

3. Summary of our assessment

We have assessed that:

- i. The features and characteristics of SCUK's vehicle finance product range continue to meet the needs and objectives of customers in the identified target market.
- ii. The products provide fair value to customers in the target market (i.e., the total benefits are proportionate to total costs).
- iii. For customers with the characteristics of vulnerability, no immediate changes to the product features are anticipated, although SCUK will continue to support vulnerable customers through their customer journey and help them to meet their financial objectives.
- iv. The intended distribution strategy remains appropriate for the target market.
- v. All associated fees and charges levied by SCUK are both appropriate and fair, representing the cost of additional work done to justify the fee charged.
- vi. SCUK has identified no risks, or areas of potential harm with its product set and no changes have been made, or will be scheduled, based on our comprehensive review.

4. Product characteristics & benefits

SCUK products are designed to meet the needs of its target market. Product features and criteria are designed to support these needs.

- i. SCUK products are targeted to the mass market, and not segmented beyond the need for customers to be over the age of 18 and a UK resident.
- ii. All costs associated with the products are, and remain, consistent across customer demographics, with no variable characteristics based upon customer segmentation.
- iii. SCUK products feature fixed interest rates for the duration of the term, with no hidden or scaled charges. Additional charges may apply depending on the product for excess mileage and damage charges when returning a vehicle. Customers may also be required to pay fees when exiting the agreement early whether through voluntary termination, or early termination costs (for hire arrangements).
- iv. Products are available to personal and business customers.
- v. Distributors will continue to comply with their obligations to assess creditworthiness, affordability, commission disclosure, suitability and vulnerability, at the point of application.
- vi. Post review, no product features will be changed to the products by SCUK.

5. Customers with characteristics of vulnerability

In considering the needs, characteristics, and objectives of any customers with characteristics of vulnerability, SCUK's individual value assessments have not identified any material concerns with the product set.

Credit brokers should continue to comply with existing obligations to ensure that customers in vulnerable circumstances are treated fairly. As outlined above, SCUK will continue to support vulnerable customers through their customer journey and help them to meet their financial objectives.

Please contact SCUK if you require any further information about how we support the needs of all our customers in relation to these products.

Supplementary guidance on vulnerability will be provided by SCUK ahead of 31st July 2023 to set out how to engage in conversations and indicators of vulnerability.

6. Our assessment of value

We have developed a comprehensive and robust assessment process which has evaluated all aspects of our business to determine the value of our existing product set.

This included an in-depth review of:


- **Target markets:** these products are offered to the mass market, and are available to all UK resident customers over the age of 18;
- **Product characteristics;** these products are not complex, with no hidden fees or charges;
- **Post launch monitoring;** SCUK monitors the performance of these products, to ensure consistency and fair outcomes for customers;
- **Customer understanding and support:** SCUK continues to support all customers on their financial journey, with clear communications and specialist support where required; and
- **Commission disclosure;** customers are informed that a commission is payable to the credit broker for the introduction of these products (if a commission is payable), and, when asked to do so, distributors will make the customer aware of the amount in accordance with SCUK's expectations.

The assessment considered the benefits, price, costs and customer demographics of each product as well as any limitations, specifically with regard to customer understanding.

7. Result of our assessment

Our assessment has concluded that the SCUK product set outlined above, continues to deliver fair value for customers across the target market.



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