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May 2025 update:
This letter is historical. See our supervisory correspondence page for more information and current views.

23 July 2020

Portfolio letter – debt advice firms

Dear Board of Directors

Please consider this letter's contents and carry out any necessary changes to your business model. In it, we:

- set out our view of the key risks Debt Advice firms (including not-for-profit bodies) pose to their consumers or the markets in which they operate
- outline our expectations of Debt Advice firms, including how firms should be mitigating these key risks
- describe our supervisory strategy and programme of work to ensure that firms are meeting our expectations, and harms are being remedied

Changes to how we supervise your firm

On 24 April 2019, we published our revised Approach to Supervision document, which sets out the purpose of, and our approach to, supervising firms and individuals. This document builds on Our Mission explaining how we supervise some 58,000 firms serving retail and wholesale consumers.

We group firms with similar business models into at least 1 of approximately 40 portfolios. Your firm has been assigned to the **Debt Advice** portfolio. Letters like this are being made available to all firms in each portfolio and are published on our website here.

We have developed supervisory strategies for each portfolio to allow us to monitor all firms effectively, and target those firms that pose the greatest risk of harm. We will be proactively looking for indicators of high risk firms in each area of harm outlined, and expect to undertake additional testing of these risks with outlier firms. Where we conclude that firms or individuals are not meeting our expectations, we will act.

On 9 December 2019, we extended the Senior Managers and Certification Regime (SM&CR) to solo-regulated firms which encompasses firms providing debt advice. This largely replaced the current Approved Persons Regime and aims to reduce harm to customers and strengthen market integrity by making individuals more accountable for conduct and competence. Where we see Debt Advice firms creating harm in the market, we will use the SM&CR to hold appropriate individuals to account. Firms should consider what action they need to take to comply with the SM&CR as well as review and improve their firm's organisational standards of conduct.

We have published a guide to solo regulated firms. Further details are available in our policy statement.

Our view of the key drivers of harm for Debt Advice firms

We see 5 key ways in which consumers and markets may be harmed:

- Consumers are unable to access debt advice when they need it due to insufficient capacity in the sector.
- Inadequate governance and controls over advice processes, including income and expenditure assessments, resulting in poor quality advice and consumers entering into debt solutions which are not in their best interests.
- Inadequate governance and controls over firm fee structures leading to consumers paying excessive fees and/or additional charges related to the administration of the debt solution.
- Inaccurate regulatory reporting data and failure to abide by notification requirements impeding our ability to effectively supervise firms which may undermine consumer confidence in the market and conceal harm.
- Firms operating with insufficient prudential resources as is required by CONC 10 to enable them to remediate customers if required, in the event that their actions cause consumer harm.

Our expectations and areas of focus

Following our analysis, we are prioritising our supervisory work in the following areas:

Capacity in the market – We are aware that not all consumers struggling with debt are receiving help. This is partly due to the lack of capacity in the market to meet the demand and the impact of coronavirus (Covid-19) has exacerbated this issue. It is estimated that the number of people needing advice will climb for the next 18 months – potentially increasing by over 60% and peaking around the end of 2021 (source: Money and Pensions Service).

We expect firms to have effective processes in place to identify, monitor and manage the risks they are or might be exposed to (SYSC 4.1.1 R) and to consider whether the increased flow of consumers seeking advice could be one of them.

We recognise the role that technology could have in delivering efficiency which could potentially increase capacity in the market. FCA Innovation can help firms that are developing innovative propositions in the interests of consumers and is keen to support the firms in this portfolio in doing so. We encourage firms who are considering introducing new technologies to their debt advice activities, but may need some guidance, to contact the Advice Unit at FCA Innovation for help.

Firms seeking to enter the debt advice market can find useful information about applying for authorisation on our website.

Quality of advice – The provision of sound, impartial debt advice which has the best interests of consumers at its heart is key to a healthy debt advice market and to ensuring fair treatment of customers.

- Debt management firms - Since 2014 we have carried out a lot of work with debt management firms to raise standards of advice. The most recent thematic review of the debt management sector, published in March 2019, found significant improvement in the standard of advice given by these firms. The review focused on firms that provide debt advice and debt management plans and included a sample of commercial debt management firms and not-for-profit debt advice bodies.

  We expect these firms to continue to monitor the standard of advice given to their customers to identify if further improvements are necessary to ensure good consumer outcomes. We will continue to take supervisory and, if necessary, enforcement action where we find that harm is being caused by firms providing inappropriate debt advice.

  Firms are required to monitor customer repayments for evidence which suggests a change in financial circumstances. We are aware that some firms have fallen behind with the completion of annual reviews due to operational challenges associated with coronavirus. We expect firms to notify us of any significant issues with completing annual reviews and to develop appropriate plans to ensure that overdue reviews are completed as soon as possible, ensuring that customers receive advice based on up-to-date financial circumstances.

- Debt packagers - We are aware that the risk of consumer harm from firms operating the debt packager model is increasing. These firms represent a sub-sector in the debt advice market whose business activities consist of assessment of customer circumstances, advice on suitable debt solutions and potentially a referral of the customer to third-party solution providers. In return, debt packager firms receive commission from the debt solution provider.

  We understand that debt packager firms may be receiving significantly higher commission rates for referring customers towards certain debt solutions such as Individual Voluntary Arrangements (IVA) or Protected Trust Deeds (PTDs) in comparison to other debt options. Our information indicates that commission for IVA/PTD referrals is around £800-1200 per customer, compared with around £300-400 for Debt Management Plans (DMP). We are concerned that higher commission rates for particular solutions could drive poor conduct as firms may prioritise referrals to debt solutions that are more profitable to the debt packager over the most appropriate option for customer's needs. This may result in an inappropriate outcome for the customer.

Having observed poor standards of debt advice leading to unsuitable solutions in a sample of debt packager firms, we published a Dear CEO letter in October 2018 setting out our expectations of firms operating this model. Firms should carefully consider individual circumstances before referring customers for a solution that requires long-term repayments, particularly given the potential implications of coronavirus on customer income.

We will continue to focus on debt packager firms and will take action against firms where we continue to see consumer harm.

- Not-for-profit debt advice firms – Most of the firms providing debt advice operate a not-for-profit business model. Historically, not-for-profit debt advice firms, especially those operating on a smaller scale have received less direct regulatory contact than larger firms.

  We will monitor standards and the business models of these predominantly smaller debt advice firms to better enable us to identify and mitigate potential harms.

- Vulnerable customers - The most recent Debt Management Sector Thematic Review indicated that improvements needed to be made to how firms identify and treat vulnerable customers. This includes consideration of how an individual's vulnerability might affect the delivery and suitability of the debt advice.

  We expect firms to consider the findings from the Thematic Review and our Approach to Consumers and pay attention to indicators of potential vulnerability when they arise and to have policies in place to deal appropriately with consumers who may be at greater risk of harm (CONC 8.2.7R). We will be monitoring firms' compliance in this area and take action where we find that vulnerable customers have not been treated fairly.

- Oversight of Appointed Representatives - Some firms operate as Principals and have a number of Appointed Representatives (ARs) whose activities they have accepted responsibility for per a contract entered into with the respective AR. Principal firms are responsible for ensuring that the AR acts in line with our rules and guidance, including the rules in CONC 8.

  We are concerned that Principals may not be sufficiently resourced to provide adequate oversight and controls over their ARs (SUP 12.4.2R (3)(b)) to ensure that they are providing suitable advice and achieving positive consumer outcomes. This means that poor advice, leading to consumer harm, may not be identified and remedied.

  We will monitor Principal firms and their ARs regarding the quality of advice and the adequacy and effectiveness of Principals' oversight of ARs. Where we identify weaknesses in firms' monitoring of ARs, we will take action.

Fees & charges

Debt management firms are required to disclose the ongoing fees and charges, such as costs of administering DMPs, payable by the customer (CONC 8.3.1 R). A lack of transparency around firms' fee structures may result in consumers paying additional charges that they have not budgeted for or taken into account when choosing the solution provided by the firm.

We have observed instances where customers in DMPs were paying more towards the firm's fees than to their creditors. Our rules (CONC 8.7.2R) and associated guidance (CONC 8.7.3G) require firms to ensure that the way their fees and charges policies are applied do not undermine a customer's ability to make significant repayments to creditors. We will be monitoring firms' compliance in this area and will take action where necessary.

Regulatory reporting and notification requirements

The FCA relies on timely and accurate regulatory reporting from firms to understand and monitor both individual firm profiles and portfolio trends. However, we are not consistently receiving regulatory reports from all firms and, where reports have been submitted, they are not completed in line with the guidance set out in SUP 16 Annex 38B. We remind firms to ensure that data provided as part of the regulatory returns is accurate and does not give a misleading impression of the firm (SUP 16 Annex 38B 3 G).

We are aware of instances where firms failed to notify us about changes to the Approved Persons applications (now covered under SM&CR below) or update contact details. Failure to notify us of matters set out in SUP 15.3 could have serious regulatory impact as it may impact our ability to effectively supervise the firm and raise questions whether the firm is meeting the Effective Supervision Threshold Condition (COND 2.3 Effective Supervision).

We expect all firms in this portfolio to be aware of the requirements and guidance in SUP 15 and submit notifications as required.

Where we have established working relationships with other statutory bodies, such as Money and Pensions Service, we will use those to increase the awareness of firms' responsibilities under SUP 15 and SUP 16 among its members.

Consumer redress and prudential resources – We expect firms to put their customers' interests at the heart of their business. Customers may suffer detriment due to a firm's provision of, or failure to provide a financial service. Where this happens, we expect firms to treat customers fairly and take appropriate measures which may include redress (DISP 1.4.1 R).

All firms operating in the debt advice sector are required to maintain adequate prudential resources as set out in CONC 10 in order to address operational and compliance failures, which includes customer redress (CONC 10.1.5G). We use several data sources to monitor compliance with these rules and will be engaging with firms where we consider you may have breached your regulatory obligations.

We have recently published Our framework: assessing adequate financial resources. We have seen instances where firms' approach to assessing adequate financial resources may not be aligned with this new guidance. We expect firms to take it into consideration when assessing the level and type of financial resources appropriate to their business models, activities and risks.

What we expect from you

All firms in the financial services industry are expected to conduct their activities in a way that places consumers at the heart of their business. We expect the leadership of all firms in this portfolio to consider the contents of this letter and carry out necessary changes to their business model to minimise the risk of harm to consumers and to maintain integrity of the market. We will continue to supervise this portfolio closely and will not hesitate to take action against firms and individuals where appropriate.

Contact

If you have any questions, please contact your normal supervisory contact on 0300 500 0597. This is the primary point of contact for your firm's day-to-day interactions with the FCA. You can also email us at firm.queries@fca.org.uk.

However, there may be times when your firm faces urgent issues of strategic importance. If this happens, please contact me on 020 7066 0042, or at Caroline.Gardner@fca.org.uk. If I am not available, then please contact one of my Managers, Emma Davies, on 020 7066 0650 or at Emma.Davies@fca.org.uk.

Yours sincerely

Caroline Gardner
Head of Department - Retail Lending Supervision