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Briefing Doc

CP24/19 Consumer Credit

Regulatory Returns



Detailed Briefing Document

FCA Consultation Paper 2024/19 - Consumer Credit Regulatory Returns

1. Introduction

This briefing document reviews the Financial Conduct Authority's (FCA) Consultation Paper 2024/XX, which proposes a new regulatory reporting return for consumer credit firms. This new return aims to replace existing returns for credit broking, providing credit information services, debt adjusting, and debt counselling services.

2. Key Themes and Objectives

The overarching theme of the proposed return is to enhance the FCA's understanding of the consumer credit market and individual firm activities. This enhanced understanding will enable the FCA to:

- Identify and mitigate potential harms to consumers by collecting data aligned with potential harm areas.
- Improve the accuracy of the Financial Services Register by identifying firms with incorrect or outdated permissions.
- Strengthen data-driven supervision by collecting higher quality data and utilizing advanced analytics tools.
- Streamline reporting requirements by replacing multiple existing returns with a single, comprehensive one.

3. Structure of the New Return

The proposed return utilises a "branching logic" approach, presenting firms with customized questions based on their responses to mandatory initial questions. This tailored approach aims to ensure relevance and reduce reporting burden.

3.1 Mandatory Questions (All Firms)

These initial questions focus on:

- Permissions: Whether the firm has been actively using its permissions and the reasons for inactivity.

- **Business Model:** For credit brokers, details about the financial products offered, goods and services financed, sales channels used, key relationships, and commission structures.
- For debt adjusting and counselling firms, information on the services provided, fees charged, debt solutions offered, funding sources, and client engagement methods.
- For firms providing credit information services, data on the services offered, fees charged, credit score advice provided, and how advice is tailored.
- **Employees:** Number of employees engaged in regulated activities.
- **Revenue:** Total annual revenue from regulated activities.

3.2 Permission-Specific Questions

Following the mandatory questions, firms will be presented with additional questions specific to the permissions they hold. Examples of these tailored questions include:

- **Credit Brokers:** Details about the types of vehicles financed, finance options offered, and settlements made on part-exchange vehicles.
- **Debt Adjusting and Counselling Firms:** Information about the breakdown of debt solutions provided, reasons for debt management plan breakdowns, and sources of client referrals.
- **Credit Information Services Providers:** Data on the sources of credit information used, whether advice is tailored to individual consumers, and if the firm advertises credit score improvement services.

4. Impact on Firms

The FCA estimates that the new return will impact approximately 30,321 firms, with varying levels of burden depending on firm size and complexity. The FCA used a Standardized Cost Model (SCM) to estimate the cost of compliance, projecting a total net present value cost of £64.6 million over ten years.

5. Key Data Items and Definitions

The consultation paper includes a comprehensive list of data items that firms will be required to report. Some key data items and their definitions include:

- Total value of credit agreements (£): The total amount, including interest, of all credit agreements entered into by a consumer following the firm's engagement in a credit broking activity. ("cp24-19 Consumer Credit Regulatory.pdf" page 49)
- Average APR (%): The average APR under a credit agreement entered into by a consumer in relation to an individual vehicle obtained on finance, following the firm's engagement in a credit broking activity in relation to that consumer. ("cp24-19 Consumer Credit Regulatory.pdf" page 56)
- Total introductions: Total number of consumers introduced regardless of the outcome. This is calculated by adding the values for total successful introductions, total declined introductions by the lender or owner following an introduction, and total non-successful introductions. ("cp24-19 Consumer Credit Regulatory.pdf" page 66)
- Total revenue from relevant ancillary credit firm's credit-related regulated activities: Total amount of revenue received from credit broking, debt adjusting, debt counselling, and providing credit information services. This does not include revenue from the sale of goods or services, only the commission or fees related to the credit-related regulated activity. ("cp24-19 Consumer Credit Regulatory.pdf" page 88)

6. Conclusion

The proposed new consumer credit regulatory return represents a significant development in the FCA's approach to supervising the consumer credit market. The FCA aims to leverage data to gain a more granular understanding of firm activities, ultimately enabling more effective identification and mitigation of consumer harm. Firms should familiarize themselves with the proposed data items and reporting requirements to ensure compliance if the new return is implemented.

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3. **Continuous Compliance Monitoring: Align with FCA's vigilant oversight.**
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5. **In-Depth Compliance Training and Education: Build a culture of compliance.**
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