FINANCIAL CONDUCT AUTHORITY

Debt management sector thematic review

Thematic Review
TR19/01

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1 Executive summary

Background

1.1 The debt management sector is a priority area for the FCA and has been since the transfer of consumer credit regulation on 1 April 2014.

1.2 The FCA pays close attention to the sector, with regular intervention. This includes a thematic review in 2014/15 (TR15/8, 'Quality of debt management advice' (June 2015)) and sector-wide communications in 2015 and 2016.

1.3 Our previous thematic review in 2014/15 found that debt advice received by customers was very poor, and firms were treating customers unfairly. Firms were carrying out poor assessments of customers' circumstances, both personal and financial, before giving advice. This led to interventions across the sector including past business reviews and remedial actions by firms.

1.4 We committed in our 2017/18 Business Plan to assess how the market is operating and whether firms are meeting customer needs and our standards. This review included both commercial debt management firms and not-for-profit debt advice bodies.

Key findings

1.5 Our findings show many improvements have been made since the 2014/15 thematic review, but firms need to work harder to make sure they consistently deliver good outcomes. This shift in behaviours and culture has been prompted by the FCA's continuing scrutiny and close supervision of the sector.

1.6 The culture in most commercial firms was now more focused on customer outcomes, acting in customers' best interests in the provision of advice and managing customer risks from within firms' businesses.

- In the most positive examples, we can trace an underlying purpose of achieving good customer outcomes from policies and processes through to its successful application in the actual advice and services customers receive.
- For the majority of the firms in our sample we saw increased efforts to achieve good outcomes for customers and to comply with our rules. Our regulatory scrutiny and interventions in the debt management sector appeared to be a significant reason for changes in their culture. However, these firms don't always fully understand the purpose of some of our rules, or the risks their business activities could pose to all or some of their customers. They are sometimes too reactive in their approach.
- We were disappointed to find that in 2 of the smaller firms in our sample, the standards of debt advice and debt management services were unacceptably and consistently poor and were closer to those seen in our review of the sector in 2014/15. We found evidence of systematic failings including poor compliance with

our rules and a lack of robust governance and controls, resulting in customers not being treated fairly. These failings were symptomatic of a lack of focus on customer outcomes, with behaviours and practices which failed to treat indebted and often vulnerable customers fairly. The severity of our concerns with this minority of firms has resulted in further action being taken, including an enforcement investigation into 1 firm to date.

1.7 Quality of advice was a key area of focus in our review. We therefore looked closely at how firms built an understanding of the financial, personal and other circumstances of their customers, and how they established and communicated options to customers. We found that quality of advice had generally improved and that most firms were reaching the standards for most of their customers. Despite the improvements seen, we found inconsistencies in all firms' practices that had caused, or could cause, harm. In all firms, we found some customers that had received poor advice and unsuitable recommendations. We saw this more often in the advice or suitability reviews for existing or acquired debt management plan customers. There were several common areas of inconsistency across firms:

- For example, when it came to carrying out a reasonable and reliable assessment of customers' personal circumstances before providing advice. Firms at times either failed to proactively identify or act on material information or factors provided by customers. We found this often appeared to be the case because firms didn't recognise the impact a customer's personal circumstances, changes to customer's circumstances or other relevant factors could have on a customer's current and future financial position or the amount of income available to pay towards their debts. This is an area where firms need to raise their standards and improve consistency to ensure their advice is appropriate to the individual circumstances of the customer.
- Firms were generally checking customers' eligibility for formal debt solutions and exploring the suitability of the available options, but we found firms often fell short of our expectations when explaining debt solutions to customers or when considering what course of action was in the customer's best interests.

1.8 Given that the circumstances of customers can change significantly over the lifetime of a debt management plan we also looked closely at how they approached regular reviews of the appropriateness of debt management plans. We found firms were devoting more time and resources to administering debt management plans. For example, reviewing the suitability of debt management plans for existing customers, particularly on establishing and maintaining contact with customers to carry out their annual review. However, more improvement is needed in identifying the need to review, and where appropriate adapt or consider the suitability of the customers' debt management plans, when customers experience changes to their circumstances.

1.9 There were 2 areas identified where firms need to make significant improvements:

- **Debt advice given to customers seeking help together or who are already on a joint debt management plan.** Some firms routinely failed to consider or discuss what debt solutions are available and suitable for each customer individually, therefore not complying with CONC 8.3.2R(1).
- **The identification and treatment of vulnerable customers** has improved since the 2014/15 review, but we still found that two-thirds of the firms in our sample needed urgent improvements to comply with CONC 8.2.7R and our Principles for Businesses (PRIN). Firms need to improve:

- identifying and recording a customer's vulnerability, the severity of the vulnerability or multiple vulnerabilities
- considering how a customer's vulnerability might affect the delivery and suitability of the debt advice and the best interests of the individual customer, and how it might affect the customer's decision making
- understanding why, when, and how the firm should adapt to meet the individual needs of the customer

1.10 While most firms were generally seeking to deliver good outcomes, and were doing so more often than not, we are nevertheless concerned about inconsistent advice which leads to poor treatment of customers and poor outcomes. This inconsistency could be traced back to firms' own policies, procedures and systems, record keeping, the knowledge and competence of staff and their communication and listening skills, rapport building and objection handling. To address these inconsistencies, firms need to make improvements to their controls, quality assurance (QA), use of management information (MI) and staff training.

Our actions and next steps

1.11 We have given feedback to firms and taken supervisory action where they have not met our standards. Where appropriate, we expect firms to review their past business to identify and put right where customers have not received the quality of advice or level of service expected.

1.12 We are taking further supervisory action to address firms where issues have persisted, and have opened an investigation into 1 firm to date.

1.13 Our review identified common areas for improvement. The purpose of this report is to communicate our findings and expectations to the sector. We have included some anonymised examples of what we found to give practical help to firms.

1.14 We will be consulting this year on guidance for the identification and treatment of vulnerable customers. We are doing this to clarify our expectations of firms and to ensure good outcomes for customers, including those who are vulnerable. We have fed our findings into this broader piece of work.

1.15 We will also carry out further work on developing trends in the sector including online debt advice.

2 Background

2.1 We set out in our 2017/18 Business Plan our intention to review the debt management sector following our actions to improve compliance standards. This included our thematic review in 2014/15 of the quality of debt management advice.

2.2 Our sector view of retail lending, which includes debt advice and debt management related activities, shows that levels of customer borrowing are increasing while household incomes continue to be squeezed. Our recent Financial Lives survey found that 24% of UK adults have little confidence in managing their money, and 3% of UK adults have used a debt advice or debt management service in the last 12 months. Of those, 19% paid for the advice or service.

The market

2.3 The debt management sector includes firms authorised to give debt advice alone or together with permission for debt adjusting, which allows them to negotiate with customers' creditors[1] on their behalf. Some firms are authorised to hold client money, allowing them to offer debt management plans. Some firms advise on, while others also provide or arrange, debt solutions like informal debt management plans and formal solutions like insolvency. Several firms offer free debt management plans to the customer, but most firms charge a fee. Regulated firms manage approximately £6bn of debt in debt management plans.

2.4 The debt management sector includes commercial firms and not-for-profit debt advice bodies. Some of these provide free advice on issues beyond unsecured debt advice such as housing, court action, benefits and employment rights.

2.5 The number and size of firms active in the debt management sector has continued to see significant changes. Since 2015 we have refused authorisation to a number of debt management firms while others have left the market, with some remaining firms purchasing the debt management plan customer books of those firms exiting. We responded to a rise in transfers and concerns over the treatment of customers during such transfers through our Dear CEO letter of 26 November 2015, which reiterated our expectations of selling and purchasing firms.

2.6 There are some firms active in the sector known as 'debt packager firms'. These firms gather customer information, give debt advice, make recommendations to customers on debt solutions and may refer customers to third-party firms offering the debt solutions. Packagers receive commission from the third-party firms that provide the debt solutions for referring customers.

2.7 We wrote to CEOs on 5 October 2018 about our expectations of debt packager firms following the poor standards we had seen, and our concerns that this business model has the potential to cause harm to customers. We have opened an investigation into 1 firm in this market.

1 For the purposes of this report, creditors include debt purchasers and debt collectors.

3 Focus, scope and methodology

3.1 This review aimed to test whether firms within the debt management sector are currently meeting our standards and if they are treating their new and existing customers fairly, and delivering appropriate outcomes, including for vulnerable customers. We wanted to understand where there is good practice that helps customers manage their debts, and identify areas where improvements can be made.

3.2 We revisited the areas reviewed by our previous thematic work to assess how the sector has improved since 2014/2015, but also looked at whether the ongoing service and advice given to debt management plan customers met their needs. We aim to improve standards in the sector where we have identified concerns or areas for improvement.

3.3 The review focused on firms that provide debt advice and debt management plans. We explored how firms advise on the formal and informal debt solutions available in the UK and the ongoing service provided within debt management plans (including token payment plans). We did not explore the running or outcomes of formal schemes like Individual Voluntary Arrangements (IVAs), Trust Deeds and bankruptcy which are the responsibility of the Insolvency Service or the Accountant in Bankruptcy.

3.4 The review looked at both advice given to new customers and the ongoing advice and service provided to debt management plan customers. Our work focused on:

- the quality of debt advice to new and existing customers, and those transferred from other firms
- the service firms provide to debt management plan customers
- whether firms are regularly reviewing the suitability of customers' debt management plans and responding to changes in customers' circumstances
- the identification and treatment of vulnerable customers

3.5 We included a sample of 12 firms in our review. It was a broad range of firms so we could consider the different approaches and practices in the sector. The sample was made of commercial debt management firms and not-for-profit debt advice bodies. We assessed the advice and service given to customers in the UK and looked at debt management services provided face to face, by telephone and online.

3.6 There were 3 main elements to our work:

- we carried out a desk-based review of firms' documentation and information including policies, procedures, contact strategies and MI
- we carried out customer case file reviews for each of the firms in the sample, which involved listening to call recordings, reading correspondence and case notes
- we visited all firms interviewing key personnel, undertaking live observations of staff dealing with their customers, reviewing systems and operational practices, and discussing findings from our case file reviews

4 Our findings

Culture and purpose

4.1 Our findings show many improvements have been made since the 2014/15 thematic review, but firms need to work harder to make sure they consistently deliver good outcomes. This shift in behaviours and culture has been prompted by the FCA's continuing scrutiny and close supervision of the sector.

Firms achieving the most positive outcomes for customers

4.2 We saw the most positive outcomes for customers were being achieved by a small number of firms where the desire to help customers appeared to be the fundamental driver of how they operated. The senior managers and staff we met were clear about their firm's purpose. These firms were putting the need to know and take account of their customer's individual circumstances, including vulnerable customers, and what was in their best interests first. These firms were continually thinking of ways they could improve the experience and outcomes for their customers, and evaluating their business to identify ways to achieve this. These firms were also considering the challenges faced by their staff, and providing staff with support, especially where customers were in vulnerable, complex or upsetting circumstances.

4.3 While these firms were not without their weaknesses and had areas requiring improvement, the quality of advice provided was consistently of a higher standard than in other firms.

Firms achieving better outcomes for customers, but inconsistently

4.4 Culture in most commercial firms was now more focused on customer outcomes, acting in customers' best interests and managing customer risks from within firms' businesses. Our regulatory scrutiny and interventions in the debt management sector appeared to be a significant reason for changes in their culture. Where outcomes were better for customers, we could trace an underlying purpose of achieving good customer outcomes from policies and processes through to its successful application in the actual advice and services customers receive. Some of these firms were using their own initiative to explore how they could go beyond just compliance with our rules and embed their own best practice or add extra value to their debt management services.

4.5 Staff genuinely wanted to provide customers with appropriate debt advice and support over the course of their debt management plans. We observed good standards of professionalism when dealing with customers. However, we found variation in firms' focus on the different elements of the customer journey. In most firms, there had been more focus on the outcomes for new advice customers and the procedures for debt management plan sales, but less comprehensive work for existing debt management plan customers or how vulnerability affects customer outcomes.

4.6 We saw increased efforts by most firms with compliance and managing customer risks. However, firms didn't always fully understand the purpose of some of our rules and the risks their business activities could pose to all or some of their customers. These firms were sometimes waiting for issues within their businesses to be brought to their attention through our regulatory engagement, rather than identifying these issues themselves. Moreover, some of these firms were defensive when engaging with us and our regulatory framework.

4.7 While many of these firms have made meaningful progress since our previous thematic review in 2014/15, and outcomes for their customers were improving, we found in this review that outcomes were still at times inconsistent.

Firms achieving poor outcomes for customers

4.8 In 2 of the smaller firms in our sample, the standards of debt advice and debt management services provided to customers were unacceptably poor and consistently failing to meet our standards. These failings were symptomatic of a lack of focus on customer outcomes, with behaviours and practices which failed to treat indebted and often vulnerable customers fairly.

4.9 We were concerned that the senior management in these firms had failed to direct their business to treat customers fairly or have a basic understanding of the risks posed by poor debt advice and conduct.

4.10 We have communicated to these firms that the standards and broader culture observed within their business is unacceptable. The severity of our concerns with this minority of firms has resulted in further action being taken, including an enforcement investigation into 1 firm to date.

Quality of advice

4.11 Quality of advice was a key area of focus in our review. We therefore looked closely at how firms built an understanding of the financial, personal and other circumstances of their customers, and how they established and communicated options to customers. We found that quality of advice had generally improved and that most firms were reaching the standards for most of their customers. Despite the improvements seen, we found inconsistencies in all firms' practices that had caused, or could cause, harm. In all firms we found some customers that had received poor advice and unsuitable recommendations.

4.12 We explore our findings under the following headings:

- Carrying out a reasonable and reliable assessment of the customer
  - Financial position
  - Personal circumstances and other relevant factors
- Advice on debt solutions and courses of action
  - Consideration of debt solutions and courses of action
  - Knowledge and explanation of debt solutions
  - Debt management plans as an interim measure
  - Insistent customers
  - Consequences of stopping contractual payments

- Identifying potential changes in circumstances in debt management plan customers
- Providing advice to couples or other households, including those already on a joint debt management plan
- Signposting to the Money Advice Service and referring customers to another debt advice provider
- Providing advice in writing and time for customers to consider

Carrying out a reasonable and reliable assessment of the customer

4.13 Before giving any advice or any recommendation on a particular course of action in relation to the customer's debts, firms must carry out a reasonable and reliable assessment of:

- the customer's financial position (including the customer's income, capital and expenditure)
- the customer's personal circumstances (including the reasons for the financial difficulty, whether it is temporary or longer term and whether the customer has entered into a debt solution previously and, if it failed, the reason for its failure) and
- any other relevant factors (including any known or reasonably foreseeable changes in the customer's circumstances such as a change in employment status)

4.14 This is crucial so that firms can consider the available options, and to make sure that the strategy to deal with the customer's debt and any solution a firm recommends or arranges is in the best interests of the customer and is appropriate and affordable.

4.15 We expect firms to know their customer. We recognise the challenge in establishing enough information about the customer's situation to make a reasonable assessment and that some customers are less aware of their financial situation and may find it difficult to discuss. It is important that advisers have the skills to recognise relevant information and to probe effectively.

4.16 However, we observed that due to the historical practices in the sector, as identified by our thematic review in 2014/15, and the acquisition of customers, firms often did not have an adequate or current understanding of a customer's circumstances and financial position when providing advice. We also observed that some customers had become used to firms' historic practices, where they asked fewer questions or sought less information from them.

4.17 We found that most firms in our sample were carrying out sufficient assessments of customers' financial and personal circumstances before giving advice, and considering the suitability of debt solutions. This was a big improvement on our previous review in 2014/15. However, we found that consistency was an issue across all firms with assessing customers' personal circumstances.

4.18 In the 2 outlier firms we found these issues were prevalent, and not just a matter of consistency.

Financial position

4.19 With the exception of the 2 outlier firms, when reviewing customer files, we found firms carried out a reasonable assessment of new and existing customers' income, expenditure, assets, and their current priority and non-priority debts before giving advice. Where appropriate, we found firms had searching conversations with customers to better understand their financial position. But this was not consistently the case and there were files that we reviewed where the assessments were of poorer quality and where it was evident the firm was struggling with particular aspects of customers' financial circumstances.

Disposable income

4.20 When giving debt advice, the approach taken by firms in our sample is to set out on a financial statement the customer's monthly income and outgoings, and determine how much disposable income the customer has left to pay their creditors. The firm would then consider the options available to the customer, including any debt solutions, and make a recommendation as to a suitable course of action.

4.21 Where customers' income or expenditure had to be converted to monthly figures, we found firms making basic errors. For example, when converting weekly bills to monthly bills we found firms were multiplying the weekly bills by 4 and therefore underestimating how much the customer was paying monthly. In some cases, these errors made a material difference to the customer's stated disposable income, and potentially the suitability of the firm's advice to the customer. Some firms lessened the risk of these errors by using in-house or third-party templates to convert figures accurately and consistently.

Income

4.22 We found cases where the firm, before giving advice or a recommendation, had not carried out a reasonable and reliable assessment of any known or reasonably foreseeable changes in the customer's circumstances. For example, not establishing the customer's employment contract type, and the frequency and certainty of their income. Examples we saw included customers on zero hour contracts, fixed-term contracts and in agency work.

Expenditure

4.23 The more common areas of expenditure where we saw firms fail to adequately identify and explore potentially low spending included clothing and footwear for themselves and dependent children, and healthcare including medicine, prescription charges, dentist's and optician's fees.

4.24 In some cases, we found firms not responding to unrealistically low spending on essentials such as £10 a week per adult for food, toiletries and cleaning. When we reviewed the cases involving customers who had been on debt management plans for extended periods of time, we found that some of those customers had adopted behaviours of cutting back their household expenditure to unsustainable levels. But firms had not revisited the plausibility of these figures when they had the opportunity to do so.

4.25 All the firms in our sample used guideline figures when questioning areas of high expenditure by customers. However, firms did not use guidelines to query areas of low expenditure as often.

4.26 We saw a small number of examples where the customer's income included a Disability Living Allowance or Personal Independence Payment, but the firm failed to question whether there was any disability associated expenditure, where none was mentioned by the customer.

4.27 As part of assessing a customer's priority and household bills, and whether they can meet ongoing payments, we found that firms were asking customers how they paid for their council tax, for example if over 10 or 12 months. However, firms often failed to find out how customers paid their utility bills and insurance or where they were in their billing cycles if paying quarterly or annually. We saw examples where firms estimated the customer's average monthly spend on gas and electricity, only for the customer's quarterly bill for a far larger sum to fall due shortly afterwards.

4.28 We also found examples of firms failing to make allowances for a short-term higher priority expenditure before finalising the customer's payment towards the debt management plan. For example, where a customer's expenditure could be irregular or seasonal, such as increased childcare costs during school holidays and variations in summer and winter fuel bills.

4.29 Where the customer is entering into or continuing in a debt management plan, an unexpected priority bill could impact significantly on the customer's finances and their short-term ability to make payments to their priority bills and into their debt management plan. This may have a domino effect on other bills as they fall due, causing the customer's position to worsen.

4.30 Some firms in our sample would provide advice to self-employed customers. Others would refer such customers to another advice provider. We observed some firms provided their staff with specific aides to question customers about their tax and national insurance contributions and observed these being used effectively in practice. However, we also identified examples where firms hadn't sought to establish a self-employed customer's expenditure or liability for tax and national insurance contributions when assessing their financial circumstances.

4.31 We also observed cases where there was a mismatch between the disposable income initially assessed by the firm and the customer's perception of what they had left each month after paying their normal household and essential outgoings. In these cases, the customer thought they had less money available to repay to their creditors. Generally, advisers revisited the customer's expenditure to explore this discrepancy and sometimes this led to a better understanding of the customer's financial circumstances. For example, where they identified missed spending or other credit commitments. However, in some cases we observed the firm had amended figures on a customer's financial statements to reflect the customer's general perception, and with the customer's consent, but without considering how realistic the expenditure was. The firms did not consider what impact these differences in expenditure might have on the solutions available or, where the subsequent solution was a debt management plan, explain the potential consequence that it could take longer for the customer to repay their debts.

4.32 With the exception of the 2 outlier firms, we did not find evidence of customers' disposable income being systematically manipulated upwards to meet the firm's minimum threshold for providing a debt management plan. This was a significant finding in our 2014/15 thematic review.

Case study - expenditure
The customer had been on a debt management plan with the firm for several years. In February 2017, the firm contacted the customer to carry out a review to see if the debt management plan was still suitable for their needs or an alternative solution was more appropriate.

The customer quoted a figure for food shopping that was very low, and the adviser probed further, asking about top-up shops for items such as bread and milk, and questioned whether meals at work were accounted for. Consequently, a more realistic figure was identified. The customer advised they had also missed a couple of recent payments because they had overspent at Christmas and had to pay for some repairs to their car. The adviser suggested including a regular monthly budget to put away for car maintenance and towards Christmas

The customer said she was paying £50pm for 'boiler cover'. However, when probed by the adviser it was identified that this was a loan the customer had taken to finance a new boiler.

In these aspects, we felt the firm met its obligations to carry out a reasonable and reliable assessment of the customer's financial position (CONC 8.3.7R(2)), and to seek an explanation from the customer of particularly low items of expenditure (CONC 8.5.4R(2)).

Case study - expenditure
The customer sought advice from the firm on their debt problems, and subsequently entered into an IVA. During the firm's initial assessment of the customer's circumstances, including recording their income and expenditure using the standard financial statement, the customer said their expenditure on food and housekeeping was £35 per week. When probed by the adviser, the customer said their food costs were so low because they were buying just the basics and not using their cooker. The customer also did not include any costs for leisure activities, as they had not been able to afford to. The adviser suggested the customer consider what is a realistic amount to spend on food and fuel so they could use their cooker. The adviser also asked the customer if they wanted to include a reasonable amount for leisure activities going forward.

We felt this was an example of good practice, when the firm carried out the assessment of the customer's financial position, and in light of its obligations to seek an explanation from the customer of particularly low items of expenditure (CONC 8.5.4R(2)), and seeking to ensure that any subsequent offer of repayment made to creditors was realistic and sustainable (CONC 8.5.3G(1)).

Verifying income and expenditure

4.33 A minority of firms chose to routinely ask new customers for documentary proof of income or expenditure to supplement their conversations with customers when setting up debt management plans. However, some of these appeared to have inadequate processes or controls in place to assess the information once received. In those firms, we saw cases where there were significant discrepancies between the income or expenditure discussed with customers and in the supporting documents they later provided. But there were no records of firms identifying the discrepancies or contacting customers about them.

4.34 Where firms send financial statements to a customer's lender or makes debt repayment offers, they must also comply with our rules in CONC 8.5. CONC 8.5.4R requires a firm to take reasonable steps to verify the customer's identity, income and outgoings. They must also ask for explanations if a customer indicates very high or low expenditure.

4.35 CONC 8.5.1R requires firms to ensure that financial statements sent to creditors are accurate and realistic. Our guidance in CONC 8.5.3G states that offers to creditors should be realistic, sustainable and (in accordance with CONC 8.3.2R) should have regard to the best interests of the customer. The offer should take full account of a customer's priority obligations and the risk of losing access to essential goods and services.

Priority debts and debts customers are dealing with

4.36 We saw a relatively small number of examples where the customer had a priority debt, such as mortgage arrears, or other debt that the customer said they were already dealing with, such as a benefits overpayment, but the adviser had not established whether the customer had come to an arrangement with the creditor or the status of any enforcement action. A poor exploration of such debts and any creditor arrangement or creditor actions could potentially have an impact on the suitability of the available debt solutions and the firm's advice. Where a customer enters into a debt management plan to pay their other debts, this could have an impact on the actions these other creditors may take.

Assets

4.37 A customer's ownership of assets and having equity in their property can impact on the availability and suitability of insolvency solutions. We identified a very small number of cases where the firm had misidentified the customer as being a homeowner, where the customer had stated or indicated it was their partner that owned the asset. In some cases the firms ruled out insolvency options due to their misunderstanding of the customer's homeownership status.

Personal circumstances and other relevant factors

4.38 We found in the majority of cases we reviewed, firms carried out a reasonable and reliable assessment of customers' personal circumstances and any other relevant factors, as required by CONC 8.3.7R(2)(b) and (c). But firms were at times failing to establish the reasons for the customer's financial difficulties and debt problems, and whether these were temporary or longer term. Or they did not explore other factors likely to be of relevance to that individual such as known or reasonably foreseeable changes in the customer's circumstances such as a change in employment. This included where information suggested this was likely to be the case. For example, employed customers approaching state pension age or customers telling the adviser they were off work due to serious illness or about to be retired on medical grounds.

4.39 We were surprised to see cases in a number of firms where a customer seeking advice had been in a debt management plan relatively recently but the adviser did not seek to establish the reason for its failure, even where the firm itself had provided the earlier debt management plan. Our rules in CONC 8.3.7R(2)(b) are clear that we would expect firms to ascertain the reasons for previous debt solutions failing.

4.40 We observed cases where firms did not, where there were signs, consider whether there might be financial interdependencies between individuals in a household. For example, a spouse's or adult child's financial contribution to the household budget, or reliance on other family members to pay for normal household expenses. In some of these cases it was difficult to determine the accuracy and reasonableness of the financial assessment the firm carried out.

4.41 We found that where firms failed to identify or act on material information or factors provided by customers, this often appeared to be the case because firms didn't recognise the impact a customer's personal circumstances, changes to customer's circumstances or other relevant factors could have on a customer's current and future financial position or the amount of income available to pay towards their debts.

4.42 We expect all firms to exercise extra care where customers may be particularly vulnerable, and pay attention to the indicators of potential vulnerability. Undertaking an assessment of a customer's personal circumstances, or reviewing information already held, before providing them with advice creates opportunities for firms to identify potential indicators of vulnerabilities. We discuss customer vulnerabilities later in this report and how these might influence the treatment of the customers, including the impact on the delivery and suitability of the debt advice and meeting the best interests of the individual customer.

Case study - personal circumstances

The customer contacted the firm for help with their debts. The customer disclosed that they previously had a debt management plan with the firm, but it had failed after the customer had missed payments due to 5 years of poor health (which was mental health related). The adviser did not ask the customer about the customer's current health and how this may affect the suitability, sustainability or operation of a new debt management plan or how this might affect subsequent advice on other options. The firm entered into a new debt management plan with the customer.

The customer later emailed the firm stating they were 'stressing out' due to creditor contact, but there was no record of the firm acknowledging or acting on this.

In a subsequent call the customer explained that they had missed the previous month's payment due to knee surgery following an injury at work. The adviser did not ask the customer anything more about the customer's injury or enquire whether it may affect the customer's disposable income or for how long. The customer said they would catch up on the previous month's payment by the end of that month, but the adviser did not ask how the customer would be able to afford this.

The customer later called the firm in relation to another missed payment and explained that they had been off work for 1 month due to a virus. The customer said they had to borrow money from a friend to make the payment. An appointment was booked to review the customer's plan, but the firm took the monthly payment of £150 in the same call, despite the customer indicating that this was unaffordable from their own income. At no point did the firm flag this customer as potentially vulnerable despite numerous health issues.

We would have expected the firm to undertake a reasonable assessment of the customer's current circumstances (as required by CONC 8.3.7R(2)) including establishing whether this customer still had any medical conditions or ailments that might affect the initial adviser's consideration and advice on the options open to the customer, including the suitability of a debt management plan.

We identified a number of potential harms in this case, including multiple occasions where a missed payment indicated an underlying affordability issue and borrowing from a friend creating a potentially new debt.

The firm did not consider adapting the debt management plan (CONC 8.8.1R(3)) when it was on notice that the customer's financial position was worsening and the customer was taking on more debt. The firm did not appear to explore whether the customer's circumstances had materially changed and whether the debt management plan remained appropriate (CONC 8.8.1(7)(b)(ii)).

Advice on debt solutions and courses of action

4.43 All advice given and action taken by a firm must have regard to the best interests of the customer and be appropriate to their individual circumstances, and be based on a sufficiently full assessment of their financial circumstances (CONC 8.3.2R(1)). This applies to both new and existing customers. CONC 8.3.2R(2) and (3) require firms to ensure that customers receive sufficient information about the available options identified as suitable for the customers' needs, and to explain the reasons why they consider the available options suitable and other options unsuitable. CONC 8.3.4R(5) also requires firms to take proper account of the individual needs of, and any requests made by, the customer.

4.44 Where a firm makes an offer to a creditor on behalf of a customer, our guidance in CONC 8.5.3G states that the offer should be realistic, sustainable and (in accordance with CONC 8.3.2R) should have regard to the best interests of the customer. The offer should take full account of a customer's obligations to pay taxes, fines, child support payments and those debts which could result in loss of access to essential goods or services or repossession of, or eviction from, the customer's home. In considering what are essential goods and services, the firm should consider the customer's personal circumstances, for example, for disabled customers their disability related expenses.

4.45 Our review of case files and observations during visits to firms found that the majority of customers were receiving appropriate advice and where these customers were recommended debt solutions, they appeared suitable in light of their circumstances and preferences.

Consideration of debt solutions and courses of action

4.46 In all but 1 firm, firms were checking the customer's eligibility against all formal debt solutions and exploring the suitability of the available options. Firms were doing this irrespective of whether the recommended solution, such as a Debt Relief Order, would lead to remuneration for the firm. Some firms also provided free detailed budgeting advice.

4.47 With the exception of 1 of the outlier firms, the quality of advice given by firms to customers in Scotland had significantly improved since 2014/15, and was tailored to the different options available. The larger firms in our sample tended to have dedicated advisers for Scottish customers and some had Approved Debt Arrangement Scheme Money Advisers.

4.48 However, despite the improvements seen in the quality of advice there were still inconsistencies and areas for improvement across all the firms in our sample, and for the wider sector. We found examples of unsuitable advice and poor outcomes for some customers in all the firms we assessed. We saw this more often in existing or acquired debt management plan customers.

4.49 Where we did identify failings, it was often because advisers' consideration of the customer's options and any recommendation on debt solutions and courses of action was held back by a poor understanding of the customer's circumstances. This included where firms had failed to appropriately recognise or consider information which they had already been made aware of, or was reasonably foreseeable in that particular case. Sometimes the customer's eligibility or suitability for a solution was finely balanced, and may have relied on the firm's understanding of a specific issue for example, an item of expenditure, a particular asset or the customer's type of employment.

Case study - advice on debt solutions and courses of action
The customer started their debt management plan with the firm in 2007. At that stage, the firm discounted an IVA as they considered it was not appropriate due to the potential adverse impact on the customer's type of employment.

However, a few years later, the customer's circumstances changed considerably - the customer left their profession and moved abroad. The customer told the firm that their disposable income had reduced to £14 per month as a result. A review of the suitability of the customer's debt management plan was not carried out despite the significant changes.

Over the next 6 years, the customer made sporadic payments, and during this time the customer returned to the UK and started a new job. The firm did not carry out a review of the customer's debt management plan until 2017, which was a desk based review conducted without speaking to the customer.

At this stage, a formal solution was dismissed as the adviser thought the customer still had the same occupation as in 2007 and that insolvency was still not an option, despite the customer informing the firm this was no longer the case in 2011, and the firm continued to take payments of £14pm. The firm also miscalculated the length of the debt management plan - it was recorded as lasting a further 7 years when in fact the latest income and expenditure figures held indicated it would last a further 100 years.

In this example, we felt the firm's advice and action was not in the customer's best interests. The firm did not appear to carry out a reasonable and reliable assessment of the customer's financial and personal circumstances (CONC 8.3.7R(2)) before disregarding formal solutions. Nor did the firm consider the appropriateness of the customer's debt management plan in light of material changes to the customer's circumstances which were brought to the firm's attention.

4.50 We saw examples of:

- Firms failing to establish whether an asset used for work purposes could be retained in an insolvency solution. Sometimes this resulted in firms recommending against or ruling out an insolvency option, where in our view this was done either prematurely (without exploring the potential essential nature and use of the asset or the likelihood of it being allowed to be retained) or incorrectly.
- Firms not considering the customer's property ownership and available equity where these had a material impact on the availability and suitability of solutions for the customer, before firms made their recommendations. We also saw examples of customers who were going through relationship breakups which involved jointly owned property where firms had failed to consider whether these circumstances could impact their advice to customers.
- Firms not taking into account an expected material change in a customer's income, and therefore a potential material change in their disposable income, due to a change in their personal circumstances. Or underestimating the likelihood that the customer's income would improve. For example, we observed a customer informing the firm that they would be taking early retirement on medical grounds imminently, that their income would significantly decrease once retired and that they would require carer support. The firm did not appear to consider the customer's impending retirement or their health when recommending a debt management plan, which had been based on the customer's income from their full-time job.

4.51 We observed a small number of cases, where in our view, a Debt Relief Order was ruled out and the customer was not informed of this as a potential solution. In our view the firm should have referred the customer to a Debt Relief Order-approved intermediary with more specialist knowledge of eligibility and the application process.

4.52 In some of the examples we saw, firms had failed to record significant information provided by the customer, and in others had failed to identify that this information ought to have a significant bearing on their advice and actions taken. This was often an issue where firms had held numerous separate discussions with customers, and failed to record material information over the course of these. Where record keeping was the root cause, these were potential breaches of requirements in SYSC 9.1.1R and CONC 8.8.1R(9).

4.53 We also found examples of firms not informing the customer of the reason why they recommended a course of action or considered debt solutions suitable or unsuitable, as is required by our rules in CONC 8.3.2R(3). In some cases, we were unable to determine how the firm had reached its recommendation.

Case study - advice on debt solutions and courses of action
The customer told the firm that they were chronically ill and were no longer able to work. It did not appear that the loss in income would be short-term due to the seriousness of the customer's health conditions. The customer's household disposable income was calculated as £35pm. The customer did not want to consider bankruptcy, as they had substantial equity in their home. The firm recommended a fee charging debt management plan with a term of over 150 years, with fees payable of over £25,000.

In this example, we felt the firm's advice was not in the customer's best interests. Firms should refer customers to, or provide contact details for, another debt advice provider in circumstances where it is unable to provide an appropriate debt solution (CONC 8.3.7R(4)).

Knowledge and explanation of debt solutions

4.54 In the majority of firms, we found advisers explained the different debt solutions available to customers in a clear, fair and not misleading manner, as required by our rules and guidance in CONC 3.3, CONC 8.3 and PRIN 7.

4.55 We found in a minority of cases that customers had been given incorrect or inadequate information on the eligibility criteria for debt solutions, how solutions operate and their impact on the customer, such as information recorded on their credit file or public registers. In these cases, firms had likely breached requirements in CONC 8.3.2R(2),(3) and 8.3.4R. Examples included:

- Explaining that a Debt Relief Order is 'for people who can afford up to £50 a month' and implying payments must be maintained for 12 months, instead of explaining that to be eligible a customer's disposable income must not exceed £50 (which includes negative disposable income) and they would not be required to make payments in a Debt Relief Order.
- Indicating a customer would not be able to keep their only, low value, vehicle if they entered into an IVA.
- Where bankruptcy was identified as a potential option, not informing the customer that a bankruptcy fee can be paid in instalments where the customer advised they did not currently have the full amount available.

4.56 In some cases, firms missed opportunities to correct a customer's uncertainty or misunderstanding of a debt solution or the advice provided. We would expect firms to seek to ensure that the customer understands the options available and the implications and consequences for the customer of the firm's recommended course of action, as required under CONC 8.3.7R(5). And to ensure that customers receive sufficient information about the available options identified as suitable for the customers' needs, as required by CONC 8.3.2R(2). Firms' advice should be appropriate to the customer's individual circumstances including the level of understanding of the customer (CONC 8.3.2.R(1)(b) and 8.3.3G).

4.57 Whilst these issues were not widespread among firms, we were concerned that in some cases they had adversely influenced the customer's decision making.

Debt management plan as an interim measure

4.58 We saw that some firms recommended or entered into a debt management plan with the customer because their circumstances were so changeable (or were expected to change) that the firms could not fully advise on a sustainable course of action. For example, because the customer had a pending change in employment, wages or benefits, was experiencing a relationship breakdown or moving home.

Good practice: A firm explained to customers who had changeable circumstances that this was an interim arrangement and would either schedule in a review or call-back for when the customer was expecting to be more certain of their situation or would remind customers to contact the firm. This was also communicated in writing or email and a record of the basis for the advice would be made on the firm's case management system. The firm warned that there may be a more suitable solution. In our view this firm was meeting its obligations to take into account known changes in the customer's circumstances as set out in CONC 8.3.7R(2)(c) and adapted the plan in line with CONC 8.8.1R(3).

Bad practice: A firm did not make it clear in their follow-up written advice to the customer or on their internal records that the suitability of the debt management plan was based on the temporary nature of the customer's circumstances and that other options may be suitable once the customer's circumstances have stabilised.

4.59 We observed that some firms did not have the system functionality to clearly identify or track when customers were on a debt management plan for what was intended to be on an interim or temporary basis. Therefore these firms could not ensure their advice to enter into a debt management plan continued to be in the customer's best interest.

4.60 Some firms adapted their systems, their approaches to record keeping and their MI in order to identify and monitor these types of scenarios. These firms said this allowed them to try different approaches to engage with the customer, to monitor the suitability of the plan and their willingness to continue to provide the plan.

Insistent customers

4.61 We found cases where new, existing or acquired debt management plan customers wanted to enter into, or chose to remain on, a debt management plan with the firm, although it had strongly recommended an alternative strategy such as a Debt Relief Order or a debt management plan with a fee-free firm (where the firm charged a fee for plans). Some firms identified these cohorts of customers on their systems. Some firms also employed a different strategy. For example, scheduling follow-up telephone calls after the customer had time to consider the advice or more frequent reviews than the annual minimum requirement.

4.62 We observed examples where firms did not adequately explore the reason why a customer decided against the firm's recommendation and examples where the reasons had not been recorded by the firm. Sometimes customers said it was a short-term decision, but this was not followed up by the firm or this was not known to the next adviser who dealt with the customer.

Consequences of stopping contractual payments

4.63 Our rules in CONC 8.3.4R(3)(b) and 8.6.2R require firms to make clear to customers the actual or potential consequences of not continuing to make contractual repayments to their creditors.

4.64 We found examples of advisers recommending to new customers that they stop making the contractual payments towards their debts, including customers who had yet to miss payments, without warning of the potential consequences.

Identifying potential changes in circumstances in debt management plan customers

4.65 Where we observed firms advising existing and acquired debt management plan customers on the suitability of continuing with their debt management plan or about other options and debt solutions, we identified several issues in the assessment of the customer's circumstances. Firms were often failing to ensure that their advice was appropriate to the individual circumstances of the customer or having regard to their best interests based on the facts apparent at the time. This included firms failing to undertake a reasonable assessment of the customers' financial and personal circumstances before giving advice.

4.66 We identified cases where advisers failed to adequately, or at all, explore whether the customer could afford their existing payments into their debt management plan or the suitability of the debt solution, where in our view there were clear signs the customers might be struggling. For example, where customers were:

- falling into arrears on their priority bills while still maintaining their debt management plan payments
- taking out further credit or relying on a bank overdraft while in a debt management plan
- borrowing money from friends or family
- frequently missing their debt management plan payments

4.67 Some of these indicators that the customer's financial position had changed may suggest underlying issues with a customer's personal circumstances or the presence of other relevant factors that may call for further consideration.

4.68 Where customers have a debt management plan with a firm, our rules require the firm to:

- adapt the debt management plan to take into account relevant changes in the financial position and circumstances of the customer (CONC 8.8.1R(3))
- to review a customer's debt management plan, and amend or terminate, where appropriate, as soon as the firm becomes aware of a material change in the customer's circumstances (CONC 8.8.1R(7)(b))
- monitor the customer's repayments for evidence which suggests a change in the customer's financial circumstances (CONC 8.8.1R(7)(a))

Case study - falling into arrears while maintaining debt management plan payments

The customer approached the firm in March 2011 with total debts of around £25,000 and entered into a debt management plan that was estimated to take over 30 years to repay all their debts. The customer was severely disabled, solely reliant on benefits and required carers to help with all their daily activities.

During their time on the debt management plan, the customer's total debts increased to £29,000 as the customer started falling behind with payments to their care provider in 2012. The customer had built up substantial arrears over time, something the firm was made aware of by the customer and the care provider. The customer had numerous contact with the firm over the years including annual reviews. The customer had also informed the firm they regularly borrowed money from friends for paying for repairs or replacement of household appliances. We felt the firm had failed to act in the customer's best interests when it had opportunities to do so.

In April 2018, when carrying out an annual review, the case was escalated by an adviser to a manager. The manager, at that point, suspended the debt management plan and advised the customer they should not be making payments into their debt management plan if this meant they weren't able to meet their priority bills. The firm then explored the possibility of other debt solutions and strategies. This could have been considered much earlier.

Prior to April 2018, the firm did not appear to pay due regard to whether the repayments offered to creditors were realistic and sustainable, or to the customer's personal circumstances (CONC 8.5.3G). The firm did not appear to take action to adapt the debt management plan (CONC 8.8.1R(3)) when it was on notice that the customer's financial position was worsening and the customer was taking on more debt. The firm did not appear to explore whether the customer's circumstances had materially changed and whether the debt management plan remained appropriate (CONC 8.8.1(7)(b)(ii)).

Providing advice to couples or other households, including those already on a joint debt management plan

4.69 CONC 8.3.2R(1) requires that all advice given and action taken must have regard to the best interests of the customer, be appropriate to their individual circumstances, and be based on a sufficiently full assessment of their financial circumstances. As such, where a couple or more than one customer seeks debt advice together, our rules are clear that firms are required to provide suitable advice to each customer which is based on a reasonable and reliable assessment of their individual circumstances. Firms must also take proper account of the individual needs of, and any requests made by, a customer (CONC 8.3.4R(5)). These rules also apply to the advice given to existing customers already on a debt management plan, including where customers are in a joint debt management plan.

4.70 We found that some of the firms in our sample, when advising couples or other households, were providing suitable advice to each customer on their options, based on a reasonable and reliable assessment of their individual circumstances. Sometimes this resulted in the customers being recommended different debt solutions, but we also identified cases where the customers were recommended a joint solution, such as a joint debt management plan, which appeared to be appropriate in the circumstances.

4.71 However, we found some firms routinely didn't consider what debt solutions might be available to each customer individually, in addition to what might be suitable or appropriate for the couple. In these firms, we observed that this often resulted in both customers entering into a joint debt management plan, in circumstances where other options, for example a Debt Relief Order may have been available to one of the customers and in their best interests, but were not mentioned or were prematurely ruled out. For example, because the combining of debt levels and disposable income brought a customer beyond the entry criteria for a Debt Relief Order.

4.72 We observed cases where customers were advised to pursue different solutions, but in the subsequent advice put in writing the recommended or chosen solution for each customer was unclear or incorrect. We also saw cases where firms failed to adequately explain the recommended solution for each customer. These were likely breaches of requirements in CONC 8.3.4R.

4.73 In some of the cases we reviewed it was not always clear to us if the firm had carried out a sufficient assessment of both customers' financial positions and circumstances, or whether it had identified and considered the availability and suitability of each of the debt solutions for each customer. We found examples where:

- The firm had not established from the customers, or recorded on its systems or in financial statements, who was contractually liable for each debt or whether they were jointly liable for a debt. This could lead to firms not adequately and accurately considering each customer's eligibility and suitability against the range of debt solutions; these are required under CONC 8.3.2R.
- The firm's records did not show how the customers' income and expenditure was apportioned or assessed.
- The firm's records did not show how the adviser reached their decision to recommend a debt solution to each or both customers.

4.74 Most firms did not state in their own documented policies and procedures their approach for advising customers when they were seeking advice together either as a household or because of debts they were jointly liable for. But, in practice, we saw that some of these firms had embedded practices for advising such customers. In others, we observed inconsistent approaches between different members of staff.

4.75 Giving debt advice and acting for customers seeking advice and solutions together is an area where there is clear complexity, and acting in the best interests of the individual customers will be highly dependent on the circumstances. This was generally an area where we found varying practices across our sample of firms, and which some firms had given more thought to than others.

Case study - providing advice to couples
The customers – a married couple – made a joint enquiry for help with their debts. The husband had suffered from ill health for several years and as a result was only able to work part time for the foreseeable future. The wife was a full-time nurse who had recently found out that she was expecting their third child.

The customers were starting to struggle to maintain payments towards their debts and were worried how they would manage once the wife went on maternity leave and her income decreased. Their living costs were also expected to increase once their new child was born.

The firm carried out a full assessment of each customers' individual circumstances, and advised each customer individually providing explanations of the solutions potentially available to each customer as well as a joint debt management plan. The firm also listened to the customers' preferences. The husband was recommended to apply for a Debt Relief Order. The firm assessed that he met the entry criteria as his individual debt level was below £10,000, and his disposable income a minus figure. The wife was recommended a debt management plan, with the firm arranging to review again once her maternity leave had started and her income changed. This approach appeared to consider the customers' best interests.

In this example, we felt the firm met its obligations to assess and advise the customers on an individual basis (CONC 8.3.2R(1)), and that the firm's advice was in the best interests of both individual customers.

Signposting to the Money Advice Service and referring customers to another debt advice provider

4.76 The commercial debt management firms in our sample signposted new customers to the availability of free debt advice through the MAS in their initial advice conversation. However, the majority did not inform customers that the MAS can also provide details of firms that can provide free debt adjusting services, as is required by our rules in CONC 8.2.4R.

4.77 We also found that some firms didn't always comply with our rules to refer customers to another provider of advice where appropriate.

4.78 Our rules in CONC 8.3.7R(3) and CONC 8.3.7R(4) require firms to:

- refer customers to an appropriate not-for-profit debt advice body where the customer does not have enough disposable income to pay the firm's fees, or has other debt problems which the firm is unable or unwilling to assist the customer with
- refer customers to another debt advice provider where the firm is unable to provide appropriate advice or an appropriate debt solution

4.79 We found compliance with these rules was poor in a small number of firms. For example, where the firm would not offer the customer a debt management plan because their disposable income was lower than the firm's minimum criteria, some firms failed to advise the customer they may be able to get help elsewhere, for example a fee-free-debt management plan or a short-term token payment plan in the not-for-profit sector. In some cases, customers who said they were not confident dealing with their creditors were advised the only alternative was to deal directly with their creditors themselves and to make token payment plan offers, despite there being not-for-profit organisations which could potentially help them.

4.80 Often customers seeking debt advice about their consumer credit debts have other problem issues such as housing, welfare benefits and actions by priority creditors, and these could be urgent. However, in cases where we observed firms were not able to provide appropriate advice on such issues they did not meet their obligations under CONC 8.3.7R(4) to then refer those customers to another advice provider.

4.81 In one firm, we found examples of customers being told that the service provided by not-for-profit advice bodies was similar, if not the same, as the customer self-managing their debts and negotiating directly with creditors. We were concerned that this explanation was misleading, and that customers hearing this would not seek the support and services available from not-for-profit advice bodies on the misunderstanding that it would be no different to them managing their debts without support.

Providing advice in writing and time for customers to consider

4.82 To ensure the customer can make a fully informed decision about debt solutions, CONC 8.3.4R requires firms to ensure that the advice provided to a customer, is provided in a 'durable medium', for example in writing by post or by email. It should be clear fair and not misleading, and make clear which debts will be included and excluded from any debt solution, and warn the customer of the actual or potential advantages, costs and risks of each option available to the customer, with any conditions that apply for entry into each option. Our rules in CONC 8.3.4R(5) also require a firm to take proper account of the individual needs of, and any requests made by, the customer.

4.83 We saw inconsistencies in how firms provided their advice in writing or by email following an advice session, when this was required by our rules.

4.84 Some firms were clearer than others about what their advice was, including any recommendation for a debt solution and other advice such as how to deal with priority creditors and whether to stop making contractual payments. For example, we saw firms that clearly set out the reasons why they thought each of the debt solutions available to that customer were suitable or not suitable and whether and why a customer was eligible or ineligible for the formal debt solutions. Some firms were also clear what their recommendation was and what the customer's ultimate choice was, highlighting if these were different.

4.85 However, we saw numerous cases where letters and emails sent to customers did not reflect the advice that had been given or did not clearly set out the course of action the firm advised. For example, they:

- did not give the reasons why the adviser recommended a debt solution or other course of action
- did not state why some solutions were deemed suitable and others unsuitable, for example that an IVA was not recommended due to the amount of equity in a customer's home
- did not state how the firm took account of the customer's preferences and their best interests in its advice, including where these differed, for example where a customer discounted an available or recommended option
- did not state that it had advised the customer to stop making contractual payments to creditors, where it had done so

4.86 The main reasons we identified were:

- restrictions on advisers entering reasons or advice using free text
- a limited a number of system reason codes, or reason codes that were too broad
- the incorrect application of reason codes

4.87 Sometimes this resulted in firms sending customers generic or vague reasons for their advice, such as referring to 'an expected a change of circumstances in the future'. In others, the firm had advised the customer to employ an interim strategy before a longer term one, such as seeking a moratorium or token payment arrangement with creditors while they saved up the fee and applied for a Debt Relief Order, but the written advice didn't reflect this.

4.88 In some cases, however, it appeared that firms can record this information on their systems but were simply failing to do so.

4.89 Most firms provided customers with the information on the solutions that were available to the customer including the relevant warnings and risks required by our rules. However, a minority of firms did not, and usually only provided the information for the solution the customer initially chose to take up.

4.90 In a minority of firms, some customers were not provided the advice in writing at all, when required by our rules.

4.91 Our guidance in CONC 8.3.5G discusses that when providing information and advice in writing to customers, firms should give sufficient time for the customer to consider it, taking into account the complexity of the information and their financial position before having to make a decision on the appropriate course of action.

4.92 We observed customers being asked to sign contracts to enter into a debt management plan during the same telephone call that the advice was provided, electronically online or by return email, often on the same mobile phone the customer was calling from. In some cases, this was before the customer was provided with the record of the advice given on the telephone and the information required by our rules. Another firm also took customers' debit card details during the initial advice call, ready to take payment when the first debt management plan payment was due.

Administering debt management plans

4.93 Given that the circumstances of customers can change significantly over the lifetime of a debt management plan we also looked closely at how they approached regular review of the appropriateness of debt management plans. We found firms were devoting more time and resources to administering debt management plans. For example, reviewing the suitability of debt management plans for existing customers, particularly on establishing and maintaining contact with customers to carry out their annual review. However, more improvement is needed in identifying the need to review, and where appropriate adapt or consider the suitability of the customers' debt management plans, when customers experience changes to their circumstances.

4.94 We explore our findings under the following headings:

- Negotiations with creditors and debt management plan statements
- Monitoring, customer contact and reviewing debt management plans
  - Our expectations
  - Engagement strategies
  - Responding to changes in circumstances

Negotiations with creditors and debt management plan statements

4.95 Our experience of this sector is that many creditors will freeze interest and charges for customers on debt management plans, or do not apply contractual interest and default charges as the credit agreement had been terminated. We observed that established firms often have arrangements in place with creditors meaning that there is no need for individual negotiations regarding offers of payment and interest and charges.

4.96 Our rules in CONC 8.8.1R(4)(d) require firms to inform customers of the outcomes of negotiations with creditors, including whether creditors had refused to accept the offer of payment or agreed to freeze interest and charges.

4.97 As part of their service to customers, firms make repayment offers to creditors and request that creditors freeze interest and charges. All the firms in our sample based their estimate of the duration of a debt management plan and the total sum to be repaid on the assumption that there would be no further interest and charges from creditors.

4.98 However, some firms were unable to tell us for certain on all cases that where they had requested a creditor freezes interest and charges, whether they had agreed. In those cases where arrangements weren't recorded as in place between firms and creditors, we found little evidence to indicate that firms had taken steps to negotiate or follow-up the outcome of negotiations with creditors where they had not received a response.

4.99 Where the position of interest and charges was unknown, this could affect the time it would take for a customer to repay their debts through a debt management plan and the total amount. In some cases, we found little indication that firms had updated customers of the potential impact on the estimated term of their debt management plan or reconsidered the suitability of the debt management plan.

4.100 We also found examples where firms did not tell customers that the initial estimated duration of their debt management plans had materially changed once updated (different) balances were obtained from creditors

4.101 We found similar issues with the accuracy of annual statements issued to customers, which are required under CONC 8.8.1R(8). We found examples of balances which had not been updated or where it was unclear to the customer when the balances were last updated, which were likely breaches of CONC 8.8.1R(8)(a). In a minority of cases, we found the information provided to customers on the remaining duration of their contract and total fees payable in respect of their debt management plans, as required under CONC 8.8.1R(8)(d) and (e), was inaccurate and misleading.

Monitoring, customer contact and reviewing debt management plans

Our expectations

4.102 Where a firm enters into a debt management plan with a customer our rules in CONC 8.8.1R(1) to (3) set out various responsibilities on the firm. These include maintaining contact with the customer, regularly monitoring and reviewing their financial position and circumstances and, where there are changes, adapting the debt management plan to take account of these.

4.103 Firms are required under CONC 8.8.1R(7)(b) to review a customer's debt management plan, and amend or terminate, where appropriate, either when a customer is experiencing a material change in their circumstances or annually whichever is earlier. Firms who fail to adequately act upon and consider changes to customers' circumstances risk missing opportunities to review the appropriateness of the customer's debt management plan.

4.104 We have concerns that as firms' knowledge of their customers becomes less and less current, the risk increases that their debt management plan is no longer affordable or that other solutions that may be suitable are not being considered. Customers may suffer financial loss as a result.

4.105 This is a concern given our views of firms' historical knowledge of their customers' circumstances and the quality of advice as evidenced by our first thematic review findings. However, we are mindful of the risks of firms terminating debt management plans and withdrawing their services from customers who they could not engage with to carry out a review but were still paying.

Engagement strategies

4.106 We have previously seen poor levels of engagement between firms in the debt management sector and their debt management plan customers. Our Dear CEO letter of 8 December 2016 highlighted several concerns, including that firms were failing to maintain contact with customers or take reasonable steps to re-engage with customers who were not responding. We were concerned that firms were allowing debt management plans to continue for significant periods of time without reviewing their suitability for customers, or were not acting in customers' best interests where it appeared that debt management plans may no longer be appropriate.

4.107 Our findings reflect that most firms have reviewed their annual review policies, engagement strategies and the circumstances where debt management plans may be closed because of the concerns we previously raised in December 2016. However, in some firms, due to the large volume of customers who had not received a review for over a year or for several years, firms were employing specific strategies and exercises to tackle these, some of which were still ongoing during our review.

4.108 In some firms, we saw what appeared to be changing attitudes towards engaging with customers, with firms viewing engagement as an important aspect of delivering their advice and debt management services to customers. Contact with customers was being seen as an opportunity to 'check-in' with customers, provide updates on the balances of debts, and to establish any changes in circumstances which could impact the suitability of their debt management plans. We saw examples of firms trying to maintain a more frequent and meaningful dialogue with customers by:

- informing new customers that the firm will carry out an annual, or more frequent, review of the customer's debt management plan

- encouraging customers to contact the firm if they experienced a material change in their circumstances, income or expenditure or difficulties meeting payments
- managing customers' expectations and preparing customers for a review, for example, that the customer should prepare to discuss their income and expenditure and how long it might take so they should arrange a review appointment for when the customer had enough time to talk
- having resource and flexibility to meet scheduled review slots and to also respond to customers contacting without an appointment, particularly if their issue was urgent or material

4.109 Most firms had reviewed and adapted their contact strategies and the content of their letter, email and SMS suites to better engage their customers. Several firms commented that after doing this their engagement levels significantly increased, as well as the number of annual reviews they had completed and their ability to carry out annual reviews improved.

4.110 We observed that some firms sometimes failed to identify or arrange a review appointment for customers who were already overdue an annual review but who had contacted the firm for another reason. Generally, this was due to firms not having account flags in place to alert all advisers including customer service teams that an annual review was overdue.

4.111 Several firms were moving away from their previous reliance on outbound telephone diallers to make contact with customers, towards having pre-planned and prepared contact with customers and developing their appointment booking systems. We also found some firms exploring the use of other channels of communication to reach customers in addition to telephone and letter, such as SMS and email, online portals and mobile phone apps and methods for customers to provide information.

4.112 However, we were disappointed that some firms appeared to view customer engagement as purely a regulatory, 'tick-box' obligation. In these firms, there was less consideration of outcomes for customers from their engagement strategies.

4.113 We found some firms were still failing to meet our rules in CONC 8.8.1R(7)(b)(i) to conduct at least annual reviews of the suitability of customers' debt management plans. In 1 firm, we found unacceptable delays between the customer contacting the firm for an annual review and the firm assessing their circumstances.

4.114 Areas where firms could improve their annual reviews include undertaking better analysis of information already held, particularly where customers did not engage with a review.

Case study - customer engagement strategies

The customer had been in a debt management plan with the firm since 2006. Since August 2014, the customer occasionally missed payments. At this point the firm identified that the customer had not had a review of their debt management plan since it started in 2006. The firm made some attempts to contact the customer, before sending a notice of termination letter in September 2016 giving the customer 7 days to respond. The customer did not respond, but the debt management plan was not terminated.

No further attempts to contact the customer were made until July 2017 when a further notice of termination giving the customer 14 days to respond was sent. In November 2017, the firm terminated the debt management plan.

Between 2006 and 2017 the firm did not carry out any reviews of the customer's financial position and circumstances despite the high risk these may have changed and the information they held about the customer was unlikely to be up to date.

We felt the firm in this example failed to meet its obligations to act in the customer's best interests. The firm did not appear to conduct at least an annual review of the appropriateness of the customer's debt management plan, (CONC 8.8.1R(7)(b)(i)) and allowed it to continue for an extended period without taking reasonable steps to establish whether it remained appropriate to the customer's circumstances. The firm did not appear to have taken into consideration our Dear CEO letter of 8 December 2016.

Responding to changes in circumstances

4.115 Firms were monitoring customers' repayments, as required by CONC 8.8.1R(7)(a), for evidence suggesting a change in the customer's financial circumstances. Our guidance in CONC 8.8.2G(1) states that where a customer who has not previously missed a payment then misses payments this may be evidence of a material change in their financial circumstances. Firms had established strategies and policies for contacting customers, pausing payments or closing debt management plans where multiple payments had been missed.

4.116 However, our review of case files found numerous examples where the firm's need to reassess or readvise the customer due to a material change in circumstances was evident, but the firm failed to do so. We saw firms missing opportunities to review the appropriateness of the customer's debt management plan, and therefore not acting in the customer's best interests.

Case study - responding to changes in circumstances
The customer's disposable income of £135 a month was paid towards their debts of around £10,000 in a debt management plan. One of the customer's creditors included in the debt management plan pursued legal action and secured a CCJ. As a result of the legal action, the customer had to increase their payment to this creditor from £16 to £60 a month and did so outside of the debt management plan, therefore impacting the amount they could afford to pay to their other creditors. Once on notice of the CCJ, the firm did not review the affordability or sustainability of the debt management plan but continued taking payments of £135, redistributing the £16 amongst the other creditors.

Shortly after this, the customer started to miss payments, saying they were having difficulties paying, and the debt management plan was later cancelled.

The firm should have reviewed the customer's situation to assess whether the debt management plan remained suitable, and how much the customer could afford to pay into their plan.

4.117 Some firms had overlooked their responsibility to provide an appropriate ongoing service to their customers and customers often weren't getting re-assessed or advised (if needed). We saw examples where firms appeared to rely on the annual review as a backstop, rather than sooner where they became aware of a material change in the customer's circumstances. Firms doing so were likely to be in breach of CONC 8.8.1R(7)(b)(ii). In some cases, we found unacceptable delays between customers contacting firms, and firms responding.

4.118 We saw examples where we would have expected the firm to recognise when a change in a customer's circumstances was material. In some cases, firms did not have a clear view on when they would review a debt management plan and advise a customer as necessary, including considering the suitability of the debt management plan, as opposed to simply amending their payment amount.

Case study - responding to changes in circumstances
In November 2016, the customer contacted the firm in writing to explain that they had been diagnosed with cancer and had to give up work due to starting treatment.

The customer included in the letter an updated income and expenditure form, reflecting that their income had reduced and was now based on Enhanced Employment Support Allowance and Personal Independence Payment benefits. The customer said they were struggling financially, and asked the firm for help.

The firm's records show it received the customer's letter soon after it was sent. However, the firm took no action in response to the customer's letter until April 2017, when it contacted the customer to conduct an annual review. At this point the monthly payments were reduced to reflect the customer's reduction in income. Due to the firm not reacting to the customer's letter, they collected potentially unaffordable payments for a period of 6 months.

We felt the firm failed to act when it became aware that the customer's circumstances had materially changed due to their reduction in income, and failed to review the appropriateness of the debt management plan in light of this change.

4.119 We found examples in 2 firms where they had temporarily reduced customers' payments following a change in circumstances, but we saw temporary arrangements running for over a year without establishing whether the amended payment was viable or if the debt management plan remained an appropriate solution. In some cases, the firm continued to charge a fee and in others they stopped applying a fee.

Vulnerable customers

4.120 The identification and treatment of vulnerable customers has improved since the 2014/15 review, but we still found that two-thirds of the firms in our sample needed urgent improvements to comply with CONC 8.2.7R and PRIN 6.

4.121 As discussed in CONC 8.2.8G, customers seeking debt advice are likely to be vulnerable to some degree given their financial circumstances. Some of these customers may be vulnerable due to other factors which may impact their ability to deal with the firm, their debts, creditors and other third parties. Our rules in CONC 8.2.7R require firms to have clear and effective policies and procedures to identify vulnerable customers and deal with them appropriately. This is in addition to our overarching expectation in PRIN 6 that firms treat their customers fairly.

4.122 Most firms in our sample had documented policies and processes in place for the identification of vulnerable customers, but not always policies on how they would record or use that information or on the treatment of vulnerable customers. It was clear that in some firms these policies and processes, where they had them, were far less established than in others. We would have expected firms to have policies and processes in place for some time, given the nature of the customers the firms deal with and that it has been a requirement under our rules from 1 April 2014. We also found in several firms that the documented policies were not being followed in practice and we found that outcomes for vulnerable customers varied across our sample.

4.123 While our rules do not prescribe what must be included in policies and processes for identifying and dealing with vulnerable customers, we found some firms failed to address commonplace issues. Examples included policies that failed to address how to deal with customers with chronic illnesses and how to manage customers with appointed representatives, such as Deputies and Power of Attorneys.

Identifying vulnerable customers and recording information

4.124 Our previous thematic review in 2014/15 found that the actual implementation of vulnerable customer policies was an area of weakness among firms.

4.125 Disappointingly we still found this was an area of weakness with two-third of firms not having adequate policies and procedures, and we identified examples of firms failing to identify or respond to indicators that a customer may be vulnerable.

4.126 In some cases the indicators were reasonably clear; for example, a customer disclosing that they had recently been diagnosed with cancer, needed urgent hospital treatment and was no longer able to work. In others, firms failed to explore low capability as an indicator of potential vulnerability for example, poor English language skills, such as a customer stating they were struggling to understand the debt advice.

4.127 While some of these failings could be traced back to weaknesses in policies and processes, this was not always the case. We found advisers failing to identify or respond to indicators of vulnerability which were given as examples in their own firm's policies and processes.

4.128 It was not always clear whether advisers had missed the indicator of vulnerability altogether, or had identified the indicator, but failed to take appropriate action in response. It was unclear whether the root causes of firms' failings were in the effectiveness of the training given to their advisers, or the controls in place to ensure that advisers applied that training and firms' policies and processes as expected.

4.129 Policies and processes for recording vulnerabilities, including IT system features or restraints, appeared to cause issues in a small number of firms. For example, limited ability for staff to record details of vulnerability using free text or to record multiple vulnerabilities. In some firms, we observed that advisers would have to scroll through notes of earlier contact with customers to identify the vulnerability. These issues often resulted in customers having to have repeated conversations regarding their vulnerability. Some firms had prominent on-screen warnings that a customer had a vulnerability or was dealt with by specialists.

4.130 In some firms, systems appeared to be more geared towards giving advisers greater visibility of vulnerabilities recorded for customers, with prominent on-screen warnings that a customer had a vulnerability or that the customer was being dealt with by specialists within the firm.

4.131 Only a small number of firms, when recording vulnerabilities on their systems, had considered recording the impact that a vulnerability would or might have on the customer in the context of the firm providing its service or the level of severity.

Case study - identifying a potentially vulnerable customer
The customer approached the firm as they were struggling with a number of debts, and had fallen behind on their car payments. The firm set up a debt management plan. After the debt management plan had been in place for a few months, the customer contacted the firm to add a further 3 pay day loans to the debt management plan. The firm identified that the customer had a gambling addiction, and took the pay day loans out to fund their gambling activities. The firm recommended that the customer seeks help with their addiction to prevent their debt increasing further.

We felt the firm's advice to the customer to seek help for their gambling addiction was an example of good practice. The firm identified a potential indicator of vulnerability, and in this case one of the apparent contributors to the customer's financial difficulty.

Treatment of vulnerable customers

4.132 Our Occasional Paper on Consumer Vulnerability (February 2015) discussed the risks posed by inflexible services where firms fail or are unable to tailor their services to the needs of vulnerable customers.

4.133 We were disappointed that some firms in our sample took a 'one size fits all' approach to vulnerable customers. They assumed that as their core services were debt advice and debt management and customers would be vulnerable due to being in financial difficulty, that these automatically met the needs of all vulnerable customers. However, they did not consider more widely the other types of vulnerability that might be present in their customer base. Some firms only considered the most seriously terminally ill customers might need more tailored support or solutions.

4.134 Some firms had given more consideration to why they should adapt what they do to meet the individual needs of the customer, and when and how it should. We observed in some firms this meant adapting its compliance monitoring of staff and its processes due to the increased nature of deviating from standard policies and procedures.

4.135 We found firms had different operational approaches when it came to the treatment of a customer who was identified as vulnerable or potentially vulnerable.

4.136 Some firms had setup specialist teams to deal with vulnerable customers. These teams tended to follow different processes to 'business as usual' customers, have specialist or additional training, and had more autonomy in how they communicated with customers and the time spent supporting customers. In some firms, these teams were the dedicated point of contact for customers.

4.137 In some cases, it appeared that getting transferred to a specialist team or adviser was challenging, and potentially a source of avoidable delay and distress to customers. We also noted that some specialist teams had limited responsibilities and scope to assist customers and appeared to offer limited value to customers. For example, in 1 firm the specialist team would transfer customers to other departments dependent on the task, including for advice, and the customer would repeatedly re-enter the firm's business as usual processes. The use of specialist team in firms did not always mean that vulnerable customers were being treated more appropriately and fairly.

4.138 Where firms didn't use specialist teams, we found outcomes varied. In some firms, the identification and treatment of vulnerable customers seemed a core aspect of staff training and competency, and some firms were capable of adapting their approaches and processes without the need for specialist teams. However, some firms without specialist teams had failed to sufficiently train and support staff, or enable them to reasonably adapt processes when responding to vulnerable customers. Sometimes this resulted in what we felt was unacceptable treatment of particularly vulnerable customers.

Case study - treatment of vulnerable customers

Two married customers in a joint debt management plan telephoned the firm on speakerphone in response to a reminder to carry out an annual review. The customers were transferred from customer services direct to a debt adviser to undertake the review. At the start of the call the adviser asked how the customers were, and the wife responded that she had been given a 6-month prognosis and her husband was also seriously unwell with organ failures and cancer. The adviser was sympathetic, but then read the customers a standard script asking for consent to future marketing from the firm or other firms and contact details before they could continue with the review.

We feel this is an example of poor practice.

We felt the firm had acted insensitively having just been told of one customer's terminal illness and the other's serious illness.

The firm did not have alternative processes, that enabled the adviser to override the script, particularly for dealing with customers experiencing distressing life events.

We felt that aspects of these failings were due to the firm failing to implement clear and effective policies and procedures for identifying and treating vulnerable customers appropriately (as required by CONC 8.2.7R).

Case study - treatment of vulnerable customers

The customer was an 87-year old widow on a debt management plan with the firm, with an estimated length of 95 years. The customer's late husband dealt with their finances throughout their marriage.

The customer told the firm over several phone calls spanning a period of 18 months that she didn't have a good memory and struggled with figures and paperwork. She was also very uncomfortable using technology. The customer had also been very unwell, and in several calls was unable to recall recent conversations with the firm and was often apologetic.

The firm did not record any of this information on its systems to flag that the customer was potentially vulnerable, and during calls talked over the customer and pushed her to sign documents online.

The firm later attempted to conduct an income and expenditure assessment with the customer as part of its review of the debt management plan. The customer found the assessment difficult as she was unable to recall a lot of her expenses or the amounts.

Soon after, the customer called the firm as she had received a call from a debt purchaser which had acquired one of her debts, and didn't know what to do. The customer was clearly distressed and confused during the call, telling the firm that it was too much for her to deal with and asking the firm for help. The adviser refused to help her.

We felt the firm failed to treat the customer fairly throughout these events, and failed to identify and appropriately respond to the customer's vulnerability. We felt the firm's insistence on using digital technology and refusal to help the customer were particularly poor conduct.

4.139 We plan to consult soon on guidance for all FCA firms on the identification and treatment of vulnerable customers. This is to clarify our expectations of how firms should treat vulnerable customers, achieving greater consistency and better customer outcomes.

Systems and controls

4.140 Our rules in SYSC 4.1.1R require firms to ensure they have robust governance arrangements which includes effective processes for identifying, managing, monitoring and reporting risks, and internal control mechanisms. Firms are also required, under SYSC 6.1.1R, to establish, implement and maintain adequate policies and procedures to ensure the firm and its staff comply with our rules.

4.141 While firms' systems and controls were not a core focus of our scope, we considered specific aspects of these through reviewing firms' record keeping, MI and QA, and from our observations of individual customer treatment and outcomes. Where we found inconsistent treatment of customers and poor outcomes, we were at times concerned that these pointed to inadequate systems and controls within firms. We questioned whether firms had sufficient controls to monitor and ensure compliance of their advice and debt management activities with our rules across the customer journey.

Record keeping

4.142 SYSC 9.1.1R requires firms to arrange for orderly records to be kept of its business and internal organisation, including all services and transactions undertaken by it, which must be sufficient to enable the FCA to monitor the firm's compliance with the requirements under the regulatory system, and in particular to make sure that the firm has complied with all obligations with respect to customers. Our rules in CONC 8.8.1R(9) require firms to maintain adequate records for each debt management plan with a customer until the debt management plan has concluded or been terminated.

4.143 We found that record keeping is still an area of weakness in firms, and in some firms symptomatic of poor controls across their business. We found errors and inconsistencies in the records provided to us by firms, and in some cases firms were unable to evidence what information and advice they had provided to customers. Where records were particularly poor, firms were at times unable to demonstrate compliance with our rules, and in particular those relating to the treatment of customers. These firms were likely to be breaching their obligations under SYSC 9.1.1R.

4.144 We found examples in most firms where customers had made firms aware of information about their personal and financial circumstances which was material to the firm's assessment and advice, and which firms did not appear to record. We were concerned that when reviewing or readvising customers at a later date, this material information did not appear to be accessible to advisers, and therefore the firm's advice potentially not in the customer's best interests.

4.145 In some cases, customers had informed firms of expected changes in their circumstances, but we found no indication that firms had recorded this information. We questioned whether firms were therefore missing opportunities to review, and where appropriate, readvise customers where information about the expected change in circumstance had not been captured by the firm.

Management information

4.146 We expect firms to use suitable MI to monitor outcomes they are achieving for customers. Our previous review in 2014/15 raised concerns about the quality and focus of MI being used by firms. We found the MI in firms was focused solely on commercial measures without consideration of customer outcomes. We identified failings in the core aspects of the services being delivered to customers such as the quality of advice provided were not being reported in MI.

4.147 Our findings from this thematic review indicated firms have started to incorporate more customer-focused and compliance-focused measures into their MI. For example, we found some firms reporting on customers complaints, missed payments which could indicate affordability issues, outcomes of annual reviews and the reasons for debt management plans ending. Others produced reports on the outcomes of negotiations with creditors, for example whether offers had been accepted or whether certain debts had been settled.

4.148 However, we found that the quality and focus of MI used by firms was still for the most part commercially focused, with customer-focused measures underdeveloped and in some instances ineffectual. We also found 1 firm was unable to produce timely or accurate MI on fundamental aspects of its advice and debt management services, and were concerned that this firm did not identify the weaknesses in its MI until we prompted the firm.

Quality assurance

4.149 The focus of our review was on the advice provided by firms and their treatment of customers, rather than systems and controls. Whilst we didn't set out to assess firms' use of QA or quality monitoring as part of their controls, we made a number of observations based on the practices we saw.

4.150 Whilst our rules do not expressly require firms to conduct QA, nearly all the firms in our sample conducted QA of the advice given to customers. Based on our observations we questioned whether the QA frameworks used by firms were consistently delivering robust levels of assurance of their compliance with our rules.

4.151 The majority of firms conducted QA on both the advice provided to customers and adherence to the firm's own policies. We found that firms often conducted QA on a set number of calls between the adviser and customer each month. This often meant that the QA conducted by firms didn't take account of the full advice received by customers, particularly where this was spread over a period of time or several calls. It also meant that firms often didn't identify through QA instances where advisers had failed to record material information provided by customers, such as notice of a change in circumstances which would likely impact the firm's advice. Only a small number of firms based their QA reviews over longer periods of time or milestones, and on both calls and notes made on the firm's systems.

4.152 Some firms were undertaking QA of back office functions such as creditor liaison teams, in addition to QA of customer-facing advisers. These reviews were often more structured and targeted in the number and types of reviews being undertaken. We found 1 firm had conducted a full end-to-end review of the customer journey, with other firms starting to explore this area.

4.153 We found some firms were factoring results from QA on compliance with our rules into their performance management of advisers[2] and to identify training needs. We also saw QA results being shared across departments where failings had been identified by the QA review, with an expectation that management provide explanations of

2 Firms may wish to review FG18/2, 'Staff incentives, remuneration and performance management in consumer credit' (March 2018)

the reasons for the failings and actions in response. These results were also being escalated upwards to senior management in some firms.

4.154 In a minority of firms, QA reviews were limited to scoring a single call or set number of calls where the focus was purely on whether the adviser had followed the firm's processes such as adhering to scripts. In the absence of any other controls, we questioned how these firms were able to satisfy themselves that customers were receiving appropriate advice and being treated fairly, where QA was purely or substantively process-based.

5 Outcomes from the review

5.1 While the results of this thematic review are more positive than the thematic review of 2014/15, there are still areas that firms need to address. We have taken the following actions:

- We have provided feedback to firms and taken supervisory action where they have not met our standards. In some cases, we expect firms to review their past business to identify and put right where customers have not received the quality of advice or level of service expected.
- We have opened an investigation into 1 firm to date.
- Our review identified areas where the sector requires improvement. The purpose of this report is to communicate our findings and expectations to the wider sector and we are exploring ways to engage with firms that were not part of our review. We have included some real-life examples of what we found to give practical help to firms to understand our expectations of how they treat their customers.
- We plan to consult soon on guidance for the identification and treatment of vulnerable customers. We are doing this to clarify our expectations of how firms should treat vulnerable customers, achieving greater consistency and better customer outcomes. We have fed our findings into this broader piece of work.

5.2 We will also be carrying out further work on emerging trends in the sector including online debt advice.

Annex
Abbreviations used in this paper

CONC	Consumer Credit Sourcebook (FCA Handbook)
FCA	Financial Conduct Authority
MAS	Money Advice Service
MI	Management information
PRIN	Principles for Businesses (FCA Handbook)
QA	Quality Assurance
SYSC	Senior Management Arrangements, Systems and Controls (FCA Handbook)

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