The impact of FCA rule changes on independents

Finance volumes have held up well since regulator put the block on dealerships' discretionary commission models

Independent used car dealerships and supermarkets have been best positioned to adapt to the Financial Conduct Authority (FCA) rule banning discretionary commission models that was brought into force last January.

The FCA said the ban, which prevents brokers being rewarded for charging consumers higher interest rates, will save car buyers £165 million per year, eliminate conflicts of interest, increase competition and protect consumers.

Because independent retailers can adjust their interest rates more easily than franchised dealers who often prioritise captive finance houses with fixed rates, that has enabled them to remain profitable while complying with the new regulations.

Reflecting this, independent dealers and lenders both report that finance volumes have held up well since the changes came into effect on January 28, 2021.

Consumers have also benefited from the new model which is simpler and more transparent, as the cost of credit has reduced, finance penetrations have increased and customer satisfaction index scores have been maintained at consistently high levels.

"Particularly with the independent dealers, more so than some of the bigger franchises, we haven't been as reliant on finance commissions," says Umesh Samani, Independent Motor Dealers Association chairman and Specialist Cars owner. "We have always been more focused on getting a profit out of the metal than those on lower margins who target add-ons such as car finance, so the new rules haven't meant a big change for us."

Where dealers have embraced such a risk-based pricing approach, in the case of independents, both the retailer and the consumer have gained, says MotoNovo Finance MD Karl Werner. However, those that have adopted a flat-fee structure and can't tailor interest rates to a customer's specific circumstances have limited their finance offering to more creditworthy people, he says.

"For dealers, it is measurably enabling them to convert highly creditworthy car buyers to their finance, with the type of competitive interest rate they would be unlikely to offer with a single one-size-fits-all interest rate," adds Werner. "Additionally, it provides peace of mind that the interest rate provided is tailored to each customer's credit status."

From a lender's perspective, the move to the new rules has been relatively smooth, says Finance and Leasing Association head of motor finance Adrian Dally. This is because the new interest rate models are clearer, thus enabling greater trust to be built between the consumer and retailer, he says.

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Santander Consumer Finance

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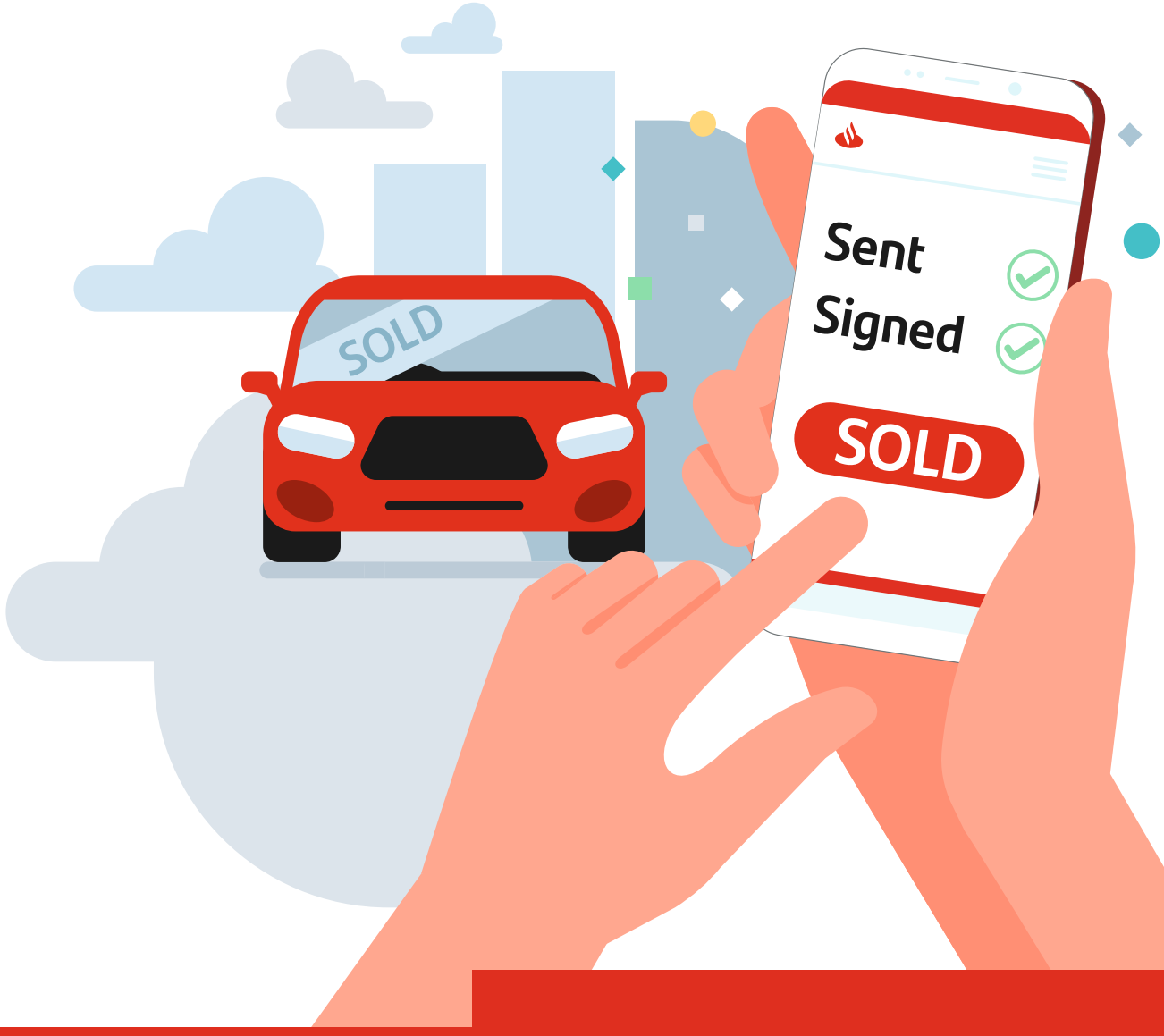


Advertising Feature

Times change, our values remain.

Santander Consumer Finance (SCF) continues to invest in your future, by focussing on a sustainable growth strategy and cultivating long term prosperity.

Supporting our dealer partners and customers

Although the market recently has faced significant challenges, SCF has remained totally committed to delivering first-class support for its dealers, OEMs, and customers. This has been evidenced by offering extensions on wholesale appropriations, providing a suite of digital tools at no cost to its dealer partners, and offering customers affected by the pandemic payment deferrals, with no charges or interest applied.

Fostering Relationships

SCF's success is due to the strong relationships and investments with its dealer and OEM partners. SCF are very proud and totally committed to continue supporting its partners and helping them prosper for the foreseeable future. SCF continues to adapt and enhance their finance product proposition in line with its partners' business models to help them surpass their growth ambitions.

Future Investments and Sustainability

SCF is here to help you prosper, they are committing to a green future in line with the Santander Group. SCF have partnered with iOffset to help dealers and customers offset their emissions and provide valuable information about how we can protect our environment for the future. SCF is diversifying its portfolio by investigating greener methods of transport to make SCF a leader in this changing world as the industry prepares to transform.

Revolutionising our Digital Capabilities

As the UK continues to adapt to the challenges of the pandemic, SCF is well positioned to continue its digital transformation, by building on the success of its e-Sign Plus facility.

Simultaneously SCF launched our online application platform that delivers complete end-to-end transactional capability.

This has been instrumental in keeping SCF's dealer partners transacting during the pandemic.

SCF has furthered its digital capabilities with the launch of **Your Red Car**, an exclusive online marketplace for dealers. SCF's vision is to increase online car sales for dealers with a reduced marketing overhead and a customer reward for each completed purchase. The platform allows customers to browse and shop in confidence, with real peace of mind. This truly is an exciting time for SCF and **Your Red Car**.

Undoubted commitment to you

Stewart Grant, SCFs Commercial Director says "We continue to demonstrate our total commitment to dealers, OEM partners and our customers year after year, and this promise will continue. Through our ongoing investment and commitment from Santander UK we are well positioned to help dealers maximise on vehicle sales through our market leading business proposition".

To find out more, please visit:
dealer.santanderconsumer.co.uk

Santander Consumer Finance

CCP establishes ID team to oversee the product registrations process

Focus on compliance has never been more relevant in the field of warranty products

Q Why has compliance become such an important area for Car Care Plan (CCP) to focus on?

A Compliance has always been an integral part of CCP business. With ever-evolving legislative requirements, it is important we continue to provide the level of service our distributors have come to expect from us.

CCP has a board governance framework, which details our approach including governance structures, principles, policies and procedures, all designed with the customer at heart.

CCP is committed to ensuring products offer value and utility to customers throughout the entire product lifecycle, that is from the point the product is designed, all the way through to when it is utilised by the customer.

A key part of this is maintaining oversight of the distribution chain by having proactive processes designed to tackle any potential customer detriment. The distribution chain is monitored by our 'Distributor Performance Dashboard' which allows for early identification of any potential issues.

Q How many CCP-related transactions do the business's car retail clients complete annually which require a compliance focus?

A As a business, we currently manage more than a million product registrations per annum; the ID team has been resourced to manage this accordingly.

The team has a great understanding of both the motor retail and insurance product market and can provide support to meet the requirements of our mutual customers.

At CCP, there is a compliance focus on all products sold within our distribution network, thus ensuring that all customers are always treated fairly and without prejudice.

Our distribution network is currently split 50/50 between distributors that are Financial Conduct Authority (FCA)-authorised, and those that are an authorised representative (AR) of a principal firm. It is therefore vital to maintain a strong business relationship with all parties even though their requirements can be different.

Q What is the aim of the new team (ensuring the customer comes first)?

A While CCP reviews performance of each stage of the product lifecycle, the ID team is responsible for maintaining oversight of the distribution chain to ensure products are being distributed to customers in a compliant manner.

Not having adequate oversight of the distribution chain may lead to customers being sold unsuitable products or being overcharged and could lead to mis-selling.

Some ways we do this include:

- Onboarding and due diligence – CCP carries out due diligence to ensure the distributor is reputable, financially sound and has the adequate processes in place for offering general insurance products. The ID team will work closely with the distributor to obtain all the necessary information required for set up and activation.
- Distributor training and compliance reviews – the team will arrange in-depth product knowledge training and the appropriate sales process training to ensure sales executives have the necessary expertise to offer the product.

Q Why the introduction of a new division within CCP to manage this process?

A The FCA expects CCP to maintain a greater degree of oversight over the distribution chain to ensure customers are receiving the intended value and utility from the products.

The introduction of the dedicated ID team allows CCP to effectively monitor and review performance of the distribution chain and take any necessary action where required.

This team's primary focus is to ensure customers are receiving value and utility from CCP-administered products.

COMPANY PROFILE

Car Care Plan was founded in 1976 to provide warranty products to the automotive market. In the 45 years since, the company has gone from strength to strength to become one of Europe's leading providers of vehicle warranty and motor-related add-on products.

Today, the company registers more than 1.2 million products annually, with active policies in 70-plus countries worldwide managed through five strategically-based offices.

Our in-house insurer carries an A-rating from credit rating agency AM Best, with further backing from our fellow A-AM Best-rated parent company AmTrust.

Car Care Plan has built relationships with more than 20 major manufacturers and in excess of 2,000 group and independent retailers.

Alongside this, the company has significantly expanded its products, offering a core product range of warranty, asset protection, cosmetic insurance, alloy wheel insurance and tyre insurance, with complementary additions including MOT test cover, roadside assistance and service plans. Each of its insurance products carries a five-star defaqto rating.

CCP IS COMMITTED TO ENSURING PRODUCTS OFFER VALUE AND UTILITY TO CUSTOMERS THROUGHOUT THE ENTIRE PRODUCT LIFECYCLE

BEN RUSSELL, CAR CARE PLAN CEO

Q What are the practical steps being implemented to ensure car retailers' compliance (new staff to support retailers, new training, etc.)?

A With the advent of the ID team, one of our main areas of focus was achieving greater oversight of our existing distribution network. This was achieved by placing due diligence checks into action.

This exercise has provided us with a complete breakdown of our current distributors' activities, which includes the development activities that are currently undertaken within those businesses.

While face-to-face training will always be a part of our development process, we also have our own E-learning platform, which provides product knowledge and process training and can be tailored for an individual distributor's requirements.

All training material is agreed and signed off by our Compliance Division.

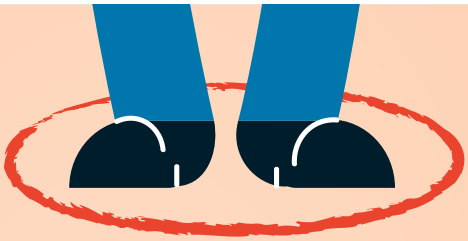
Q Can good compliance practice potentially result in increased sales, as well as good customer outcomes?

A Looking at it from a customer's perspective, the better the customer understands the features and benefits of the product being offered to them, the more informed their decision. Ensuring the customer journey is compliant, all products offered are suitable and the customer is eligible, results in lower cancellations, refunds and complaints.

This, in turn, would result in increased sales and profitability.

Putting the customer first and understanding their unique requirements not only shows how much you value the customer, but, consequently, has a higher yield and an increased downstream opportunity for customer retention and increased sales and revenue.

Ben Russell took up the role of chief executive officer at Car Care Plan in the summer of 2020



"This is particularly true of independents and supermarkets, who have benefited from being able to provide a more straightforward proposition to the customer," says Dally. "It's all about having models in place designed with the consumer in mind, with each provider competing on the basis of who can get them to engage with their product and deliver the best customer journey."

Dally adds that the new rules have also focused the dealer on establishing a panel of lenders it can develop a long-standing relationship with that will provide the required support and assurance it is selling the product compliantly. That gives the customer a better point of sale experience, he says.

"This is reflected in the fact that dealers are now selling a higher percentage of their cars on finance than before," said Dally.

"That's because the rules are clearer, the dealers have the confidence they have the backing of their lender partners and they are selling the product in a compliant manner."

The new rules have also enabled the retailer to price more clearly, says Preston Rogers, head of Alphera Financial Services. The consumer also feels like they are getting a fairer deal, he adds.

"It does away with the need to haggle, which the customer actually likes because they know they're getting the same rate as everyone else," says Rogers.

"Especially online, it has made the process quicker because there is only one transaction price and there are no vagaries involved with different rates."

But car finance expert Graham Hill believes the consumer will lose out because of the changes. He says: "The consumer has been disadvantaged because they no longer have the opportunity to negotiate the APR down as the rate has been fixed by the new rules.

"The dealers further remove consumer choice by refusing to invoice lenders outside of their own panel, as a result, while the consumer could have access to a cheaper rate from a broker or a lender directly, the dealer forces the consumer to use their more expensive offering."

"THE CONSUMER HAS BEEN DISADVANTAGED BECAUSE THEY NO LONGER HAVE THE OPPORTUNITY TO NEGOTIATE THE APR DOWN AS THE RATE HAS BEEN FIXED BY THE NEW RULES

GRAHAM HILL

Samani says that most consumers weren't aware of the new FCA changes and their implications.

He adds that he has never been challenged over the rate of commission earned because it was always set competitively and he hasn't been since the rules came in either.

To the contrary, Rogers believes that consumers are actually becoming more informed because dealers have had to be more upfront about the product they are selling due to the changes.

That is being backed up with the information provided on their websites, he says.

"Dealers have driven customer awareness because they have had to disclose all the details they need to know about the deal," says Rogers. "They can also go online and check this information because it's now readily available."

Where consumers have changed their behaviour is the migration to online and retailers have had to keep pace, particularly during the COVID-19 pandemic with an increasing number of people now buying their vehicles remotely. They are also more cognisant of their credit status and interest rates.

David Bilsborough, owner of Cheshire Cars, who has been practising the same model years before the FCA changes came into effect, says: "As an industry, this gives us a great opportunity to be more transparent and open about our offerings moving forward, in order to build more trust and engage with the consumer in the sale of our product. It's a win-win for both the dealer and the consumer."

ALEX WRIGHT

NEW CONSUMER DUTY REGULATIONS WILL LAUNCH IN 2022

The FCA is set to enforce a new Consumer Duty in late 2022 focused on making finance agreements easier to understand.

The regulation, which will be finalised by July, will provide greater clarity of terms and conditions as well as making it easier for customers to complain.

It will require firms to:

- Ask themselves what outcomes consumers should be able to expect from their products and services.
- Act to enable, rather than hinder, these outcomes.
- Assess effectiveness of their actions.

MotoNovo Finance managing director Karl Werner says the FCA has given retailers and lenders ample warning it expects all customers to be treated fairly and the customer's needs are put first.

They must also benefit from an experience that ensures they are informed, and can act and make decisions in their interests, he says.

"The challenge thrown out by the regulator is to ensure a business' culture and behaviour are focused upon consumer outcomes consistently," says Werner. "There will be a higher expectation from the FCA about what a good outcome means: that we must all invest in our cultures, training, processes and controls, and, above all, in considering what a good outcome means."

Preston Rogers, head of Alphera Financial Services, adds: "It's all about treating the customer fairly and making sure we can provide them with products of value, and that we can clearly demonstrate that. Yet again, the FCA is raising the bar and, as an industry, the onus is on lenders and dealers to meet that while continuing to remain profitable."