What are the FCA consumer credit changes and how will they affect the automotive sector?

DEALERS ADOPT NEW FCA RULES

Much has been written over the last 12 months about the Financial Conduct Authority (FCA) taking over consumer credit regulation from the Office of Fair Trading. The 1 January 2015 saw the first batch of ‘landing slots’ close for automotive dealers, with the first round of applications submitted for full consumer credit permission.

Companies in the industry that sell any form of vehicle finance will, by now, have had to apply to the FCA to be included in an interim register in order to carry on trading. Those on the register will have been issued landing slots, which give a pre-determined three-month window in which to submit a full application to apply for authorisation to sell financial products. Failing to submit an application during this slot will result in a company’s interim permission ending, leaving the dealer unauthorised and unable to offer finance. For franchised dealers, a lack of authorisation would leave the business effectively unable to trade.

The new principles-based regulation will require any company holding a licence to sell finance and related products to meet strict criteria that ensure that the financial products sold are suitable for the customer’s needs and are not sold in a misleading fashion. Under the new regulatory regime, consumer credit providers will need to make sure they give customers the right information to make informed choices, that their services meet consumer needs, and that people in difficulty are treated fairly. Amongst the new rules, dealers are required to disclose details of commission before a customer signs a credit agreement and to ask sensitive financial questions to ensure customers can make repayments for any loan agreement.

WHAT IMPACT WILL THE FCA CHANGES HAVE ON THE AUTOMOTIVE SECTOR?

The new consumer credit rules are creating a big impact. Dealers should already be consulting with their finance providers and making sure they have a good understanding of the regulatory framework. The application process involves a significant amount of paperwork and also requires a business to demonstrate that they are meeting the cultural change required that puts the customer at the heart of the business.
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Much that has been written about the changes has highlighted concerns regarding the negative impact the rules could have on the industry, as it brings with it another layer of bureaucracy and potential fines for not adhering to FCA rules. However, those in favour of the new rules argue that putting the customer at the heart of how a business operates has the potential to increase customer loyalty and drive sales, whilst ensuring the products sold are suitable for the customer’s needs could greatly improve the reputation of the industry.

Whilst the FCA changes and lengthy application process have thrown up challenges, we expect most dealers to adopt the changes without too much disruption to their business. Indeed, according to a December 2014 survey from Auto Trader, 43% of dealers believe the new rules will have no impact on finance sold in showrooms. A further 19% expect the impact of the changes to be positive.

ARE THERE LIKELY TO BE FURTHER CHANGES?

The FCA is still new and it is likely to take some time for the dust to settle and for both the FCA and for dealers to learn exactly what changes are required to ensure compliance. Now the process of receiving full applications has begun, the FCA are expected to analyse applications for common practices in the market and, if there is sufficient cause for concern, we expect a market study will be launched which could result in the introduction of further changes.

We have considerable experience working with FCA regulated businesses and guiding them through the strict and wide ranging regulations they must adhere to. If you have any concerns about the regulatory changes being faced by the automotive industry and would like to discuss the issues raised in the article in more detail, including assistance with the application process please contact our specialist:

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The changes to the regulation of finance and related products by the FCA represent the largest change to the way dealers will conduct their businesses in many years. Customers will need to be treated in a consistent and open manner following a principles rather than rules based approach. The FCA seem determined to prove their effectiveness and we expect to see high profile examples being made of those who choose to disregard or pay lip service to the new regulations.

Many dealers are choosing to respond to these risks by becoming an “Appointed Representative (AR)” of either a single finance provider or an umbrella firm who can utilise their expertise in the area to provide additional comfort regarding compliance. Of course, this in itself presents risk in that the umbrella firm may themselves fall foul of the FCA and have their license revoked – something that would be out of the control of the individual AR dealer.

My own experience with the dealer network is a polarisation of approach. Many dealers choose to do the bare minimum to force the regulations to fit with existing working practices – a risky strategy. However, a significant number have also taken the opportunity to step back and reassess their approach to how customers are treated. By taking the long term view that customer reputation is paramount, they may well sacrifice some short term profits, but given the notorious reputation that the sector enjoys, this may ultimately prove to be the best approach.

Finally, those dealers with stocking facilities look set to benefit from the new regulations with increasing transparency and recognition of the need to de-link stocking terms from retail paper commitments. I only hope that this de-linking does not result in a reduction in the level of facilities available. Securing funding for the sector remains a difficult enough challenge without further constraints being imposed.