

# Lending responsibly to our customers

**Our core business purpose is financial inclusion. We provide customers with opportunities to borrow a sensible amount in a transparent, responsible and sustainable way.**

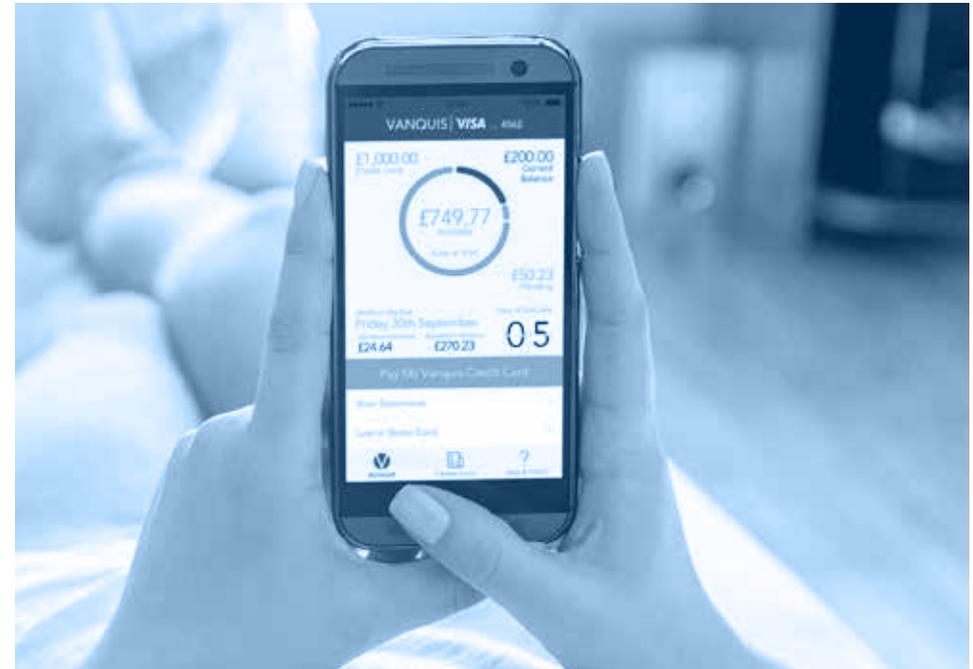


# Lending responsibly to our customers

**Many of the group's customers typically have a poor credit history or no credit history at all. They may have had past problems with credit, often due to periods of unemployment, family break-up, ill health, or through the use of financial products and services that did not meet their particular needs.**

The products that the group offers to its customers through its three divisions are therefore tailor-made to meet these particular needs. In general, the approach the group takes to providing credit to customers involves lending smaller amounts over shorter periods of time. In the case of Moneybarn, where a vehicle is held as security, we are able to lend more credit for longer periods.

Under this approach, new customers to Vanquis Bank, Satsuma and Provident home credit get lower credit limits, or smaller, shorter-term loans to begin with. This enables us to observe and understand the behaviour of our customers before we consider granting further lending and also enables the customers to experience our products and see if they suit their needs. It also enables our customers to enter or re-enter the credit market, stay in control and build credit scores for greater future access and choice.



**Vanquis Bank** – Vanquis Bank credit limits start as low as £250 and we only extend a limit if it is appropriate to do so. We use a tailored underwriting process which we have developed over the last 13 years. Our decision to lend to applicants is based on a combination of external credit reference data and our own credit scorecards. We follow up approved applications with a welcome phone call; this helps develop our relationship with the customer from the outset, and allows us to collect more information. New customers also receive an information pack with their new credit card, which offers advice on how to increase their credit rating through financial

behaviours. Customers receive text messages to remind them of payment dates, and we follow-up on missed payments with a phone call, which is an effective way to keep in touch. Following the announcement that was made during the summer of 2017 regarding the FCA's investigation into the Bank's Repayment Option Plan (ROP) product, it was agreed that sales of this product to new customers would be suspended. We believe ROP offers customers a useful tool to manage their finances and protect their credit scores, and Vanquis Bank is working with the FCA on a plan to resume sales of the product to new customers.

**Provident home credit** – In July 2017, the operating model of the Provident home credit business in the UK was changed so that customers were served by employed Customer Experience Managers (CEMs) rather than self-employed agents\*. The business now offers home credit loans, typically of between £100 and £2,000, through a network of CEMs who call each week to customers' homes in the UK. CEMs are at the heart of the Provident home credit business. Often, they come from the same communities as their customers so have a real understanding of their customers' needs and circumstances. The weekly visits made by the CEM to the customer are not only convenient; they are also a useful reminder to put the money aside for the repayment. If customers get into difficulty, they know they'll get a sympathetic response and help from their CEM to reschedule their repayments. Unlike other forms of lending, home credit includes all the costs up front. There are no extra charges whatsoever, even if a customer misses a payment. For those managing on a tight budget, it's important to know that the amount to be repaid is fixed at the start and will never increase.

**Satsuma** – Satsuma is based on a modern model of online lending. It is differentiated from other similar products through our long-standing knowledge of issuing Provident home credit loans and Vanquis Bank credit cards. Lending decisions are made using external credit bureau data and our own credit scorecard – which collects invaluable information on behavioural and social data before making credit decisions. The Vanquis Bank contact centre collections team in Chatham are responsible for collecting Satsuma loans repayments. The team keeps in regular contact with customers, including contacting them by phone and text message, and working with them to ensure the best possible outcome if they get into difficulty. If customers pay late, pay less than the contracted rate or miss a payment, they will not be charged anything extra.



**Moneybarn** – Most Moneybarn customers come to us through a network of well-established brokers. Moneybarn's underwriting process is highly automated to allow for rapid provisional approvals. Lending decisions are based on external credit data, our own credit scorecards, and affordability assessments. Brokers only earn commission on each lead they provide which qualifies for a loan. Customers can source their vehicle from any car dealership, and payments are made through monthly direct debit. Any missed payments are followed up with contact from Moneybarn. Formally, the vehicle is owned by Moneybarn until the final instalment has been paid by the customer. If a customer gets into financial difficulties during the term of their loan,

our customer services team will work closely with the customer to help them get back on track. This may include a temporary or longer-term payment arrangement to cover short-term financial difficulties including the possible option to place any arrears onto the end of the agreement (rescheduling payments due). However, if the customer can no longer afford the ongoing repayments, the most appropriate response is often through the surrender and subsequent sale of the vehicle to offset the sales proceeds against monies owed before the vehicle depreciates further in value. In cases where a balance remains outstanding, a suitably affordable long-term payment plan can be agreed to address the remaining balance according to the customer's affordability.

*If customers pay late, pay less than the contracted rate or miss a payment, they will not be charged anything extra.*

\*Self-employed agents still operate in the Republic of Ireland

## OUR 2017 PERFORMANCE



87%

Vanquis Bank customer satisfaction rate (2016: 89%)

85%

Provident home credit customer satisfaction rate (2016: 93%)

4.8 OUT OF 5

Satsuma Review.co.uk score (2016 score not available)

4.7 OUT OF 5

Moneybarn Feefo score (2016: 4.7 out of 5)

70,713

Total number of complaints (2016: 48,651)

1,792

Total number of complaints referred to the Financial Ombudsman Services: (2016: 1,194)

43%

Impairment as a percentage of revenue (2016: 25%)

267,565

Total number of accounts handled by debt collection agencies (2016: 210,523)

## IMPAIRMENT



Impairment occurs when a lender is not able to collect the full value of a loan provided to a customer because the creditworthiness of the customer has changed. In such circumstances the lender may restructure the repayments of the loan or write it off completely. This debt must then be reported as impaired in the lender's Annual Report and Financial Statements.

## ISSUES THAT IMPACTED OUR CUSTOMERS IN 2017

### Home Credit Recovery Plan

Following on from the operational disruption that was experienced in the home credit business, a recovery plan was developed and put in place in September 2017 which retains the employed operating model in the UK which, in due course, should allow the business to own and manage all aspects of the customer journey and exercise greater control over customer interactions. The primary focus of the recovery plan is to re-establish relationships with customers, stabilise the operation of the business and improve collections performance. A number of important actions have already been implemented to support these objectives. These involve moving away from the overly prescriptive routing and scheduling of customer interactions which were embedded in the new operating model and restoring the ability of local management to prioritise and allocate resources to meet customer needs. A key feature of this is increasing field management resource in order to restore appropriate spans of control which had been heavily diluted on implementation of the new operating model.

The specific measures include:

- Moving from two UK divisions to four through the recruitment of two additional general managers and increasing the number of regional managers from 12 to 24;
- Appointing assistant area managers to support compliance, administration

and arrears in order to free up the 160 area managers to focus on local resource allocation and management of individual CEM activity in the field;

- Recruiting at least 300 part-time employed CEMs, primarily from the previously self employed agent workforce to accelerate the reconnection with customers;
- Providing additional training for new and underperforming CEMs, including extending the shadowing period and reintroducing a 'buddy' system;
- Increasing contact centre resource to handle significantly higher call volumes, undertake a customer contact programme and assist customers making their regular payments; and
- Supporting the field organisation through the extensive use of analytics including tools that allow field management and CEMs to view and manage activity on a real-time basis via handheld technology.

The home credit business has made good progress in implementing the recovery plan. The actions taken by management are delivering a significant improvement in customer service and operational performance. In particular, collections performance in December of 78% was up from 65% in September and 57% in August and the business delivered both customer and receivables growth through the seasonally busy fourth quarter having experienced significant reductions in the previous two quarters.

### Investigation of ROP in Vanquis Bank

Repayment Option Plan (ROP) is an optional part of a customer's account with the following five features designed to help them build or rebuild their credit:

- **Account Freeze:** Customers can freeze your account for up to 24 months if they experience certain life events.
- **Payment Holiday:** Once an account-year, customers can call Vanquis Bank and arrange to miss a minimum monthly payment in a month of their choice.
- **Lifeline:** Once an account year if customers forget to make their minimum monthly payment, the Bank will forgive the late payment fee.
- **Payment Reminders:** Customers will receive a text message 5 days before their payment due date with their current balance, available credit, minimum payment amount and date due.
- **Overlimit Alerts:** Vanquis Bank will assess the customer's account five days before the payment due date. If the customer is over their credit limit or if they are close to their credit limit the Bank will send them a text alert to let them know, giving them an opportunity to pay their balance down before they receive an overlimit fee.

The full ROP cost is £1.29 plus interest per £100 (or 1.29% per month) of a customer's monthly outstanding balance on their statement each month. So, as their balance changes the monthly cost will also change.

On 22 August 2017, we announced that the FCA was conducting an investigation into

Vanquis Bank's ROP product and that in April 2016 it had agreed to enter into a voluntary requirement with the FCA to suspend all new sales of ROP and to conduct a customer contact exercise that was completed in 2017.

The FCA has now completed its investigation into Vanquis Bank's ROP. They concluded that when selling ROP, the Bank told customers about how the product worked and what the monthly charge was but that it was not clear enough on the opt in call in explaining that ROP will accrue interest in the same way as any other Purchase Transaction.

As a result they have decided that Vanquis Bank should refund any interest relating to ROP. For customers who opted into ROP on or after 1 April 2014, Vanquis has agreed with the FCA (using its statutory powers) to pay back interest charged from 1 April 2014 to when we told customers about the full cost of ROP. Vanquis Bank has also voluntarily agreed to pay back interest to customers who opted into ROP before 1 April 2014. A total of £168 million will be refunded to 1.2 million customers.

We are sorry that we have not been clear enough in the past and we should have done better for our customers. What's important to us is that we put things right. We are taking a proactive approach to refunding customers in full and aim to complete this as soon as possible.

We believe ROP offers customers a useful tool to manage their finances and protect their credit scores, and Vanquis Bank is working with the FCA on a plan to resume sales of the product to new customers.

## DEALING WITH CUSTOMER COMPLAINTS RESPONSIBLY

Ensuring that we keep customer complaints to an absolute minimum is a good indicator that we are treating our customers fairly and that our products and services meet their specific needs. Understanding the reasons behind complaints also helps us to improve the services we offer.

The FCA defines a complaint as “an expression of dissatisfaction (EOD), whether oral or written, and whether justified or not, from or on behalf of an eligible complainant about the firm’s provision of, or failure to provide, a financial service”.

We have well-established complaint-handling processes, procedures and timescales to guide our customer relations teams in resolving issues in a professional and timely way.

During 2017, the number of complaints received by Vanquis Bank, the Consumer Credit Division and Moneybarn was 70,713 (2016: 48,651). Of these, 33,768 (2016: 29,371) complaints were received by Vanquis Bank, with 33,254 (2016: 16,325) received by Consumer Credit Division and 3,691 (2016: 2,955) received by Moneybarn.

This figure translates to 3% (2016: 2%) of the total number of our customers. This rise in the number of customer complaints is mainly attributed to the disruption that was experienced during 2017 which impacted customer service levels, particularly in

the Provident home credit business. We provide the contact details of the Financial Ombudsman Service (FOS) to all our customers, so they have another option if we are not able to resolve their complaint to their complete satisfaction.

During 2017, the total number of new cases received by the FOS from our customers was 1,792 (2016: 1,194\*). Of these, 367 or 20% (2016: 27%), were upheld in favour of the customer. Despite there being an increase in the number of customer complaints referred to the FOS during 2017, the number of complaints upheld in favour of the customer continues to be well below the average for all businesses within the financial services sector which currently stands at 36%.

## MANAGING ARREARS

We establish early contact and an ongoing dialogue with customers who have difficulties, with a sympathetic approach, trying to understand and offer forbearance. Our focus is on making a difficult situation easier to deal with by taking a personal approach to resolving problems. Our customers value this understanding highly, as it minimises their arrears, and damage to their credit score. However, there are cases where customers, in spite of all efforts to assist them, either cannot or will not co-operate with our efforts. Our operating businesses therefore have systems and processes in place to deal with these situations.

Our Vanquis Bank credit card, Provident home credit and Satsuma loan businesses, all have internal recovery procedures in place which

are aimed at reconnecting the business with the customer via letter, telephone or SMS text message. These procedures enable our businesses to determine whether customers are experiencing any difficulties which are preventing them from making repayments and agree with them any appropriate forbearance options (eg a reduced payment arrangement).

If, having used these internal processes to reconnect with a customer who we believe has the capacity to pay our Vanquis Bank credit card, Provident home credit and Satsuma loan businesses, it is still not possible to secure payments from them, these businesses may appoint a debt collection agency (DCA) to pursue the debt.

When this occurs, our operating businesses retain the title and responsibility for the actions of the DCA. DCAs only receive commission on the payments they collect. Our operating businesses only use DCAs whose track record is known to them and who are members of the DCA trade body, the Credit Services Association. The activity DCAs undertake on our behalf is contractually based. Their performance is reviewed and scrutinised on an ongoing basis and we formally audit their activity every six months.

\*On p.23 of our 2016 CR Report, there is a mis-print that read the ‘Total number and nature of complaints referred to the Financial Ombudsman Service: 1,914’. This is incorrect. The total number of complaints referred to the FOS in 2016 was 1,194.

These audits focus on all aspects of work that the DCAs undertake on our behalf, including ensuring that their activities are responsible and comply with our processes and procedures.

The management of accounts in arrears for Moneybarn is less straightforward than our other subsidiaries due to the nature of the business. We do our best to keep customers in ‘live’ agreements. This means that the loan agreement is active and the customer is paying back their loan even if they are failing to meet the initial repayment sums outlined in the agreement. If the customer is unable to make their payments, then the agreement will be terminated and handed to Moneybarn’s internal recoveries team. In most instances, a new payment plan will then be developed to help customers settle their agreements. For those customers who are unable to meet the criteria of a payment plan, we seek to recover their vehicle. The vehicle is then sold to pay off the loan. Some customers are left with a shortfall after the vehicle is sold, so the quicker we can recover the vehicle for sale, the less the customer has to pay due to depreciation. The payment terms of any outstanding debts are agreed between our internal recoveries team and the customer.

## SUPPORTING CUSTOMERS IN VULNERABLE SITUATIONS

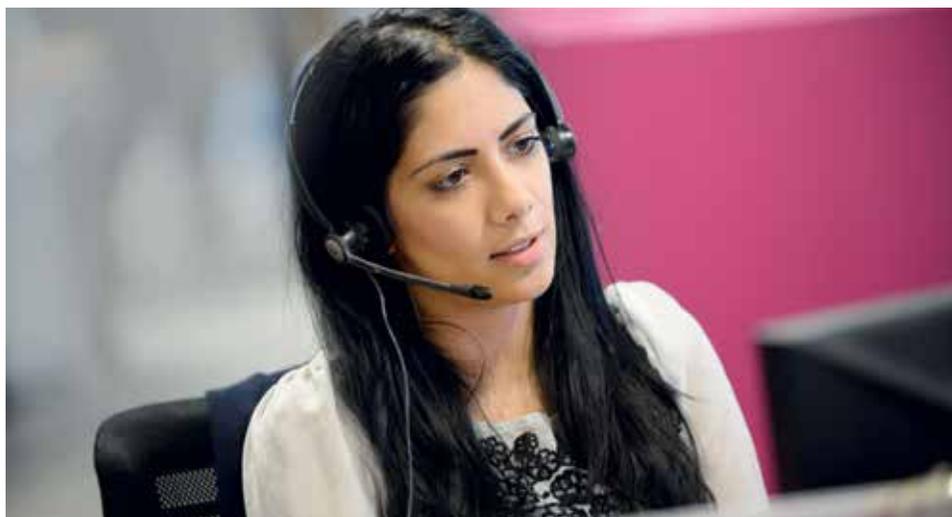
We recognise that our customers may, at any point in the relationship with us, find themselves in potentially financially difficult situations. This could be due to a significant life event such as a loss of income, illness or family bereavement.

All contact centre and customer-facing staff receive ongoing training and guidance to help them recognise and act on any potential triggers of financial difficulties and vulnerability. This training and guidance is informed by the customer protocol developed by the Money Advice Trust and Royal College of Psychiatrists called TEXAS (Thank, Explain eXplicit consent, Ask and Signpost) and guidance published by organisations such as the Financial Conduct Authority and UK Finance. Our operating companies also have

relationships with a number of organisations to support the vulnerable customers' agenda. These include Macmillan, Mencap, Mind, Samaritans and Shelter.

We also employ specialist teams of staff in our operating companies to support customers who are experiencing financial difficulty. These teams can offer a range of forbearance options to help customers dependent upon their situation and needs. This may include offering breathing space, and short-term or long-term payment plans with interest and charges reduced or frozen. In some serious cases, a decision may be taken that the debt will be written off.

We support the vulnerable customer agenda through a dedicated work stream of the group's Social Impact Programme. The focus of this work stream is to work with charities and specialist partners to address issues such as money/debt advice, customer vulnerability



In 2017 we provided a bursary of £67,371 to CAP which was shared amongst 889 of its insolvency clients so that they could avoid a lifetime worth of debt repayment. On average, each client received £75.78. This bursary assisted 51% of CAP clients in accessing some type of insolvency route who on average, otherwise, would have taken 50 years to repay their debts.

and financial difficulties. You can read more about this in the 'Supporting the communities we work in' chapter of this report.

We have a long history of supporting a wide range of organisations within the free and voluntary money advice sector. This approach recognises that our customers and the other consumers within our markets seek advice and support from a wide variety of organisations when they encounter financial difficulties. These include organisations within the free and voluntary money advice sector and fee-charging debt management companies. They will also seek advice and guidance from debt advice forums. Our approach also recognises that interventions our customers require to help address any financial difficulties vary from the provision of generic money saving tips to more tailored and intensive advice.

We currently provide funding to the following national money advice organisations and signpost customers to them via our operating companies' customer-facing websites:

- **National Debtline** – National Debtline, which is part of Money Advice Trust,

offers free and impartial debt advice over the telephone and online to help clients manage their money with confidence. Our donations help support National Debtline to advise 170,000+ clients per annum via telephone and webchat. Our funding also contributes to supporting over 1m visits per annum made to the National Debtline website to access web guides, fact sheets and sample letters via the 'My Money Steps' tool.

- **StepChange Debt Charity/Christians Against Poverty** – While our operating companies are working to collect outstanding debt from customers, sometimes they enter debt agreement plans with leading debt charities such as StepChange Debt Charity (a similar arrangement is in place with Christians Against Poverty (CAP)). We continue to accept the offers of payment when customers have sought advice from these charities and a financial assessment has been made. Through the 'Fairshare' agreements we have with these charities, we contribute almost 12% of any payment we receive from a customer who has

entered a debt agreement plan to the charities. The 'Fairshare' contributions mean our subsidiary businesses pay for the debt advice received by the customer. They provide the charities with financial support so that they can continue to provide free, independent advice and operate independently of taxpayer support. During 2017, the group's operating companies paid £665,783 (2016: £510,981) to StepChange Debt Charity and Christians Against Poverty in 'Fairshare' contributions.

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The operating companies of Provident Financial Group also provide their customers with information on the Money Advice Service (MAS). MAS, which was initially set up by the Government, provides free and impartial money advice to consumers. The service is funded by a charge levied on the financial services industry and collected by the FCA.

We also provide funding and support to a wide range of intermediary organisations in the money advice sector to build its capacity and contribute to the provision of advice to consumers who find themselves in financial difficulty. In 2017, the group supported the following intermediary organisations:



### Money Advice Trust (MAT)

The financial donation we gave to MAT in 2017 helped them achieve a wide variety of objectives across their three advisory divisions; National Debtline, Wiseradviser and Business Debtline.

**National Debtline** – offers free and impartial debt advice over the phone and online that helps clients manage their money with confidence. 140,500 people received assistance over the phone and 43,500 people received help through their webchat. The funding we provided allowed National Debtline to hire one of their specialist advisers. These advisers helped 85% of callers to feel more in control of their finances.

**Wiseradviser** – a free training service for advice sector partners in the UK that provided 11,400 training places to 980 free-to-client organisations across the UK. Over 4,400 advisers used the Wiseradviser website to access training and other learning materials and out of those who provided feedback, 97% of advisers having used the materials available on the website believed that their confidence and ability to do their job well was increased.



### Money Advice Scotland:

The funding we provided to Money Advice Scotland in 2017 contributed to the successful delivery of its annual conference in which delegates from across the credit industry, local authorities and money advice sector in Scotland attend for training purposes. It also enabled Money Advice Scotland to achieve Investors in People Gold status, which demonstrates its commitment to its staff, which in turn, enables it to maintain sustainable and high levels of service delivery to the many advisers in Scotland's money advice sector.



### Advice UK

The funding received by AdviceUK was used to support the work undertaken by its National Money Advice Co-Ordinator (NMAC). The purpose of the role is to build the capacity of the money advice members of the AdviceUK network to meet the needs of their clients. Some key responsibilities of the NMAC are; to support the members of the AdviceUK network that provide money advice to the general public in areas such as policy, legislation, training and funding, to identify and develop new funding opportunities and to represent the interests and views of the AdviceUK network and clients at a national level to Government, regulators, policymakers, funders, the credit industry and other relevant stakeholders.



### The Institute of Money Advisers

In 2017, the Institute of Money Advisers held its annual conference in Bristol, with the theme 'Quality and sustainability in money advice'. We contributed £4,800 to the cost of the annual Institute of Money Advisers conference to help ensure the event remained affordable and accessible to money advisers from the not-for-profit sector. Over 250 debt advisers and sector colleagues attended the conference, taking part in 9 different workshops over two days to increase their knowledge and develop their network of contacts.



A local government adviser remarked, "As a newly qualified Money Adviser dealing with debt..., I valued the time spent with other Money Advisers discussing processes and procedures... I learnt a lot about best practice at the workshops, which I hope will improve my work on a day to day basis... Networking was great and I now know who to ring if I need advice myself when helping a client."



### The Money Advice Liaison Group (MALG)

Our funding helps support MALG's regional forums across the UK, which promote communication and best practice sharing between organisations concerned with debt, debt advice and debt collection.

Through our relationships with these organisations, we are able to stay up to date with debt/money advice issues that are material to our customers and the wider financial services sector, as well as gain the perspective of the money advice sector

*An increasingly important aspect of our customer vulnerability work is the innovative partnership between Vanquis Bank's financial difficulties team and IncomeMax.*

regarding regulatory developments on issues such as responsible lending, affordability, creditworthiness, the mental capacity of consumers, and the customer vulnerability agenda.

### Working with IncomeMax to help customers manage their finances

Vanquis Bank continues to work with IncomeMax, through an innovative partnership that began in 2015, to support customers of the Bank that are experiencing financial difficulties. IncomeMax is a Community Interest Company that helps people to maximise their household income by providing them with independent personal welfare advice that helps them take control of their finances. The advice provided by IncomeMax helps households to increase their income, reduce household bills and get the debt advice they need.

Vanquis Bank's dedicated One Call team, which offers additional support through financial capability and capacity assistance, puts customers in touch with IncomeMax. IncomeMax then provides independent personal money advice to help customers take control of their finances.

This additional advice compliments the Bank's One Call support by: assisting customers with priority bill arrears and grants; benefit income checks and support; conference calls for customers with capability needs; identifying debt solutions; looking at

their broader financial commitments; and helping customers exit financial difficulty as soon as possible. The benefits for the Bank's customers include:

- **Enhanced, professional welfare advice and support for vulnerable customers.**
- **Extra support and welfare expertise available for vulnerable people.**
- **Increased income for vulnerable customers.**
- **Reduced bills for customers.**

In 2018, the scope of the work already delivered through the Vanquis Bank-IncomeMax partnership will be extended into the Provident home credit and Satsuma collections teams. The benefits of this include:

- **Enhanced compliance with regulatory requirements that relate to supporting vulnerable customers and treating customers fairly (TCF).**
- **Improved group-wide debt advice strategy.**
- **Involvement in an innovative, trusted and best practice approach to supporting vulnerable and low-income customers.**
- **Enhanced understanding of how welfare reforms impact the customers of our operating companies.**



## SUPPORTING INDEPENDENT RESEARCH INTO FINANCIAL INCLUSION

We commission publicly-available, independent research through partnerships. This research provides insight into areas which are material to our social purpose by exploring the financial behaviours of those on modest incomes. To learn more about the research we have undertaken over the past few years, please visit [www.providentfinancial.com](http://www.providentfinancial.com).

### CASE STUDY

#### **In Too Deep:** an investigation into debt and relationships

Household and problem debt has been on the rise since the economic crash in 2008 and is increasingly gaining attention on the political agenda. These debts can adversely impact individuals and families, resulting in strain, poverty and poor mental and physical health. Understanding that these issues may affect our customers, we commissioned the relationship support charity, Relate, to carry out research which explored the links between debt and relationships. The research drew upon a wide variety of information including surveys of people in debt, feedback from debt advisors, focus groups and national polling. The report findings point to a relentless cycle, where debt can profoundly impact the quality and stability of relationships. The report also found that strained relationships can also impact finances and create problems with debt.

For example: one in four people who have been in debt say debt had a negative impact on their relationship with their partner; 36% of debt advice clients said relationship breakdown was a cause of their problem debt; over one in 10 people have experienced a relationship breakdown due, at least in part, to debt; one in 10 people argue with their partner about debt or finances at least once a fortnight; and conversely, negative relationship dynamics were shown to actively worsen and create debt problems.

The research made recommendations to address these findings, including for relationship support and debt advice providers to work together more closely. The report also recommended training for debt advisors and relationship support practitioners on the links between finances and relationships. We will use the insights provided by this research to enhance the skill set of our own customer-facing staff within our businesses whilst sharing the findings and recommendations more widely. You can find this report at [www.relate.org.uk](http://www.relate.org.uk).

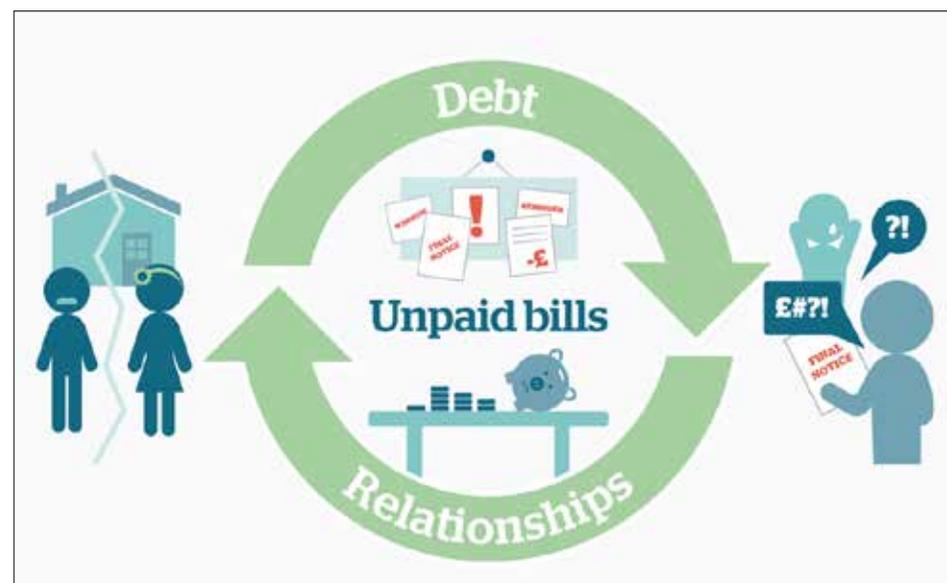


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