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**FINAL NOTICE**

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To: **Volkswagen Financial Services (UK) Limited**

Firm  
Reference  
Number: **311988**

Address: **Brunswick Court, Yeomans Drive, Milton Keynes, Buckinghamshire,  
MK14 5LR**

Date: **21 October 2024**

**1 ACTION**

1.1 For the reasons given in this Final Notice, the Authority hereby imposes on Volkswagen Financial Services (UK) Limited (**VWFS**) a financial penalty of £5,397,600 pursuant to section 206 of the Act.

1.2 VWFS agreed to resolve this matter and qualified for a 30% (stage 1) discount under the Authority's executive settlement procedures. Were it not for this discount, the Authority would have imposed a financial penalty of £7,710,885.73 on VWFS.

**2 SUMMARY OF REASONS**

2.1 VWFS is one of the UK's largest motor finance providers, offering finance to customers to purchase cars across a range of well-known motor brands, including Volkswagen, Skoda and Porsche.

- 2.2 Between 1 January 2017 and 31 July 2023 (the **Relevant Period**), in respect of customers in financial difficulty, VWFS breached Principles 6, 7 and 3 of the Authority's Principles for Businesses (**PRIN**) by failing to (a) pay due regard to the interests of those customers and treat them fairly, and the information needs of those customers and communicate with them in a way that was clear, fair and not misleading; and (b) take reasonable care to organise and control its affairs responsibly and effectively. In addition, VWFS breached CONC 7.2.1R, 7.3.4R, 7.3.9R, 7.3.14R(1) from the Consumer Credit sourcebook (**CONC**) when failing to treat customers in financial difficulty with forbearance and due consideration and DISP 1.3.1R from the Dispute resolution: Complaints sourcebook (**DISP**) by failing to identify some complaints and treat them as such.
- 2.3 VWFS identified at least 109,589 customers who suffered detriment, or were at risk of suffering detriment, as a result of these failings. This included in some instances (a) exacerbating stress and anxiety for customers who were already struggling with their mental well-being; (b) failing to understand individual customer circumstances resulting in cars being taken away from customers, some of whom used their cars for work; (c) further distress and upset caused to vulnerable customers who may have felt unsupported and unheard; and (d) forgoing other priority payments due to demands to pay arrears on car finance. VWFS has to date paid £17,823,500 in redress to these customers and estimates that it will pay over £21,506,496 in total redress payments. VWFS only identified the shortcomings in its treatment of customers in financial difficulty following proactive supervision and file review work undertaken by the Authority as part of the Borrowers in Financial Difficulty project. This prompted VWFS to commission a third party review of its treatment of customers in financial difficulty.
- 2.4 During the Relevant Period, VWFS failed to treat customers in financial difficulty fairly and communicate information to them clearly and fairly as follows:
- 2.4.1 **Vulnerable customers:** There was a lack of probing by VWFS to understand the nature of customers' vulnerabilities and any tailored support which may be required. Some vulnerable customers stated specifically that VWFS's actions caused them additional distress and upset. VWFS did not sufficiently identify, record and act upon vulnerability indicators, which resulted in instances of vulnerable

customers having their agreements terminated and their car taken away without VWFS taking account of any such vulnerabilities;

2.4.2 **Forbearance and due consideration:** There was limited or no probing of individual circumstances to identify suitable forbearance options and limited evidence of affordability assessments being used when agreeing alternative payment arrangements. This meant VWFS was unable to provide customers in financial difficulty with tailored support that was sustainable, and indeed the arrangements offered by VWFS were often not sustainable – predominantly taking the form of short-term arrangements. Customers who had already failed to maintain a previous arrangement were often caught in a cycle of simply being rolled onto further arrangements that they were also unable to maintain. Customers in financial difficulty were often merely presented with early settlement or voluntary termination;

2.4.3 **Termination and repossession:** Customers in financial difficulty or with vulnerabilities had their agreements terminated and cars taken away without VWFS assessing their circumstances and an appropriate range of forbearance options. VWFS made limited, if any, attempts to call customers before taking their car away. When customers sought to engage with VWFS at this point, VWFS would not entertain forbearance. That included instances where customers had made reasonable offers to repay arrears. VWFS charged customers the costs of taking their car away irrespective of their circumstances and without highlighting those costs to customers at the time of termination in a consistent way. This may have compounded such customers' financial difficulty with little consideration of how these costs would be paid; and

2.4.4 **Customer communication:** VWFS's failure to engage customers in financial difficulty appropriately was compounded by the fact that VWFS's main method for communicating with these customers was to send templated communications throughout the collections process. A substantial proportion of these communications did not sufficiently enable customers to engage in the arrears process on an informed

basis, including by failing to support and encourage customers to make contact for a positive conversation about resolving their situation. Default Notices referred to "late payment interest", when VWFS did not in fact charge default interest or any other default charges. This will likely have added to customers' distress and confusion. Further, VWFS failed to identify some customer complaints and treat them as such.

- 2.5 Further, VWFS failed to implement arrears and vulnerability policies and procedures which would otherwise have likely avoided the extent of the above failings. Consequently, VWFS failed to take reasonable care to organise and control its affairs responsibly and effectively in practice, with adequate risk management systems.
- 2.6 In order to pay due regard to the interests of customers, firms must take adequate measures to properly understand the customer's individual circumstances, including their short-term and long-term financial positions and whether they may be vulnerable owing to factors such as relationship breakdown, unemployment, bereavement, disability, illness or caring responsibilities.
- 2.7 In order to pay due regard to the information needs of customers in financial difficulty, firms should enable customers to engage in the arrears process on an informed basis by: (a) using a range of communication channels such that customers are able to readily access the help and support they need; (b) setting the right tone in these communications by explaining the benefits of engaging early when at risk of or in financial difficulty and emphasising the support the firm can provide; and (c) enabling all customers including those who may be more vulnerable to discuss their needs and responding flexibly to these needs and circumstances.
- 2.8 Having taken those measures, firms should ensure that any forbearance agreed is appropriately tailored to the customer's individual circumstances by:
  - 2.8.1 considering and taking account of both current and expected financial and personal circumstances including any indicators of vulnerability;

- 2.8.2 offering a range of options to support customers to repay arrears, and not merely arrangements to repay;
  - 2.8.3 only putting in place arrangements to pay that are sustainable and regularly monitoring and reviewing those arrangements; and
  - 2.8.4 where fees and charges are levied on customers in financial difficulty, ensuring those fees and charges are fair and clearly explained.
- 2.9 Failure to understand a customer's individual circumstances and offer appropriate solutions is likely to result in poor experiences or outcomes for the affected customer. That is particularly so in the case of car finance, where inappropriate solutions that worsen the customer's financial situation could lead to their car being taken away – a step which may compound financial difficulties for customers who may rely on their car to travel to and from work or indeed use their car for work, or who may forgo other priority payments (such as mortgage, rent, utilities or food) due to demands to pay arrears on car finance.
- 2.10 The Authority considers VWFS's failings to be particularly serious given that the breach (a) must have caused a significant loss or risk of loss to individual consumers; and (b) revealed serious and systemic weaknesses in the implementation of the firm's policies and procedures relating to its treatment of customers in financial difficulty – noting in particular:
- 2.10.1 the aspects of VWFS's breach that specifically impacted individual vulnerable consumers were particularly serious;
  - 2.10.2 VWFS's communication failings were compounded by deficient standard templated and automated arrears correspondence; and
  - 2.10.3 all of VWFS's customers who (a) entered into regulated agreements covered by VWFS's Collections and Recoveries Department; and (b) whose arrears persisted beyond the grace period – namely, 155,070 customers – were at risk of receiving poor experiences or outcomes throughout the Relevant Period.

- 2.11 The Authority therefore hereby imposes on VWFS a financial penalty of £5,397,600 pursuant to section 206 of the Act.
- 2.12 In this Notice, the Authority makes no criticism of any person other than VWFS.
- 2.13 The three focused case studies in this Notice use random letters to refer to each of the anonymised customers.

### **3 DEFINITIONS**

- 3.1 The following definitions are used in this Notice:

“the Act” means the Financial Services and Markets Act 2000

“Advisers” means those working in Collections as customer advisers

“ATP” means arrangement to pay

“the Authority” means the Financial Conduct Authority

“BiFD” means the Authority’s Borrowers in Financial Difficulty project

“BiFD File Review” means the Authority’s file review of a sample of VWFS customer files, conducted as part of BiFD

“BiFD Feedback” means the August 2022 feedback provided by the Authority to VWFS as to the BiFD File Review

“CD” means the anonymised customer in second case study in this Notice

“Collections” means VWFS’s Collections and Recoveries Department

“Collections Journey” means VWFS’s policies and procedures as to its treatment of arrears customers

“CONC” means the Authority’s Consumer Credit sourcebook

"Consultancy File Review" means the Consultancy Firm's file review of 100 arrears customer end-to-end journeys

"Consultancy Firm" means the expert firm of consultants commissioned by VWFS as part of the Past Business Review's external work

"Default Notice" means a default notice issued by Collections

"DISP" means the Authority's Dispute resolution: Complaints sourcebook

"Email Templates" means manually created emails based on templates

"JB" means the anonymised customer in third case study in this Notice

"Letter Templates" means automated letters based on templates

"Past Business Review" means the review undertaken by VWFS following the BiFD Feedback

"Pre-Termination Checklist" means the checklist to be completed by Collections before termination

"PRIN" means the Authority's Principles for Businesses

"Principle" means one of the Principles in the Authority's Principles for Businesses

"Relevant Period" means 1 January 2017 to 31 July 2023

"Redress Scheme" means VWFS's redress scheme

"Remediation Scheme" means VWFS's remediation scheme

"TD" means the anonymised customer in first case study in this Notice

"the Tribunal" means the Upper Tribunal (Tax and Chancery Chamber)

“VWFS” means Volkswagen Financial Services (UK) Limited

## **4 FACTS AND MATTERS**

### **A. Background**

4.1 Between 1 January 2017 and 31 July 2023 (the **Relevant Period**), VWFS was one of the largest motor finance providers in the UK. VWFS used multiple trading names, many of which are associated with well-known motor brands including:

- 4.1.1 Audi;
- 4.1.2 Bentley;
- 4.1.3 Lamborghini;
- 4.1.4 Porsche;
- 4.1.5 SEAT;
- 4.1.6 Skoda; and
- 4.1.7 Volkswagen.

4.2 During the Relevant Period, VWFS was authorised by the Authority to carry on the regulated activities of (a) entering into a regulated credit agreement as lender; and (b) entering into a regulated consumer hire agreement as owner. Over the Relevant Period, VWFS’s regulated motor finance retail portfolio comprised approximately 2.8 million accounts with a total book value of approximately £55.5 billion. Whilst a small percentage of customers fell into arrears (around 1.6% on average across the product range), this still constituted a significant number of customers given the overall size of the book.

4.3 VWFS divided its motor finance products between:

- 4.3.1 “purchase products”, which were typically consumer credit agreements by which VWFS provided credit to the customer to facilitate the purchase of a vehicle; and



- 4.3.2 "leasing products", which were typically consumer hire agreements that enabled the customer to use a vehicle without taking any steps to purchase it.
- 4.4 VWFS's products – and the vehicles with which they were associated – were stated to be designed to support customers with a variety of needs. They generally sought to be flexible to suit different monthly budgets, for example, by flexing up or down the deposit and term. This meant VWFS's customer base covered a wide range of financial situations, including differences in customers' ability to cope financially with changes, for example, to household income and expenditure.
- 4.5 VWFS understood arrears customers to mean:
  - 4.5.1 those who were experiencing financial difficulty as regards their ability to maintain their contractual motor finance payments or shortfall balance; and
  - 4.5.2 those who had indicated they were about to do so.
- 4.6 Taking account of the risk that breaches would affect vulnerable customers, as a substantial proportion of arrears customers may be vulnerable to some degree owing to their financial circumstances, VWFS needed to be particularly mindful of the need to:
  - 4.6.1 provide arrears customers with an appropriate level of care and support, taking account of the specific needs and circumstances of vulnerable customers;
  - 4.6.2 explore arrears customers' circumstances adequately, and then offer appropriate tailored forbearance that is in their interests and takes account of their individual circumstances; and
  - 4.6.3 ensure that its communications with arrears customers were clear, fair and not misleading.

## **B. How did VWFS say it would treat its arrears customers?**

### Overview

4.7 VWFS had a detailed set of policies and procedures as to its treatment of arrears customers (the ***Collections Journey***). These materials sought to ensure VWFS complied with the Authority's guidance and rules, with "specific regard" being paid to Principle 6 of PRIN and chapter 7 of CONC.

4.8 The Collections Journey articulated VWFS's overall aim in the following way:

"...to treat customers with respect, in a calm and professional manner, and demonstrating an empathetic and flexible approach. All customers are individuals, with potentially unique circumstances, which will be taken into consideration when determining the appropriate action taken which ensures fair customer outcomes."

4.9 Accordingly, the Collections Journey was said to be designed to ensure that arrears customers were:

4.9.1 treated fairly, reasonably and responsibly; and

4.9.2 clearly informed with matters having been dealt with in a timely manner.

### *Vulnerable customers – particular care*

4.10 The Collections Journey stated that the fair treatment of all customers, including vulnerable customers, was central to VWFS's culture. However, it emphasised the need to take particular care to ensure vulnerable customers were treated fairly, and that it was essential to recognise vulnerability.

4.11 In doing so, the Collections Journey recognised that vulnerable customers were more likely to experience harm and, where there is actual harm, the impact is likely to be greater than other customers.

- 4.12 To identify vulnerability, VWFS's Collections and Recoveries Department (**Collections**) was guided to use a combination of: (a) proactive monitoring of data and management information (for example, customer transactions); and (b) interactions with customers. In providing a summary of the data points, interactions, phrases and documents which may indicate vulnerability, the Collections Journey recognised that:
- 4.12.1 discussing vulnerable customers' personal circumstances and needs could be sensitive and it was important to show care and understanding; and
  - 4.12.2 vulnerable customers' needs varied and it would not always be clear as to how vulnerability could affect their relationship with VWFS. Those working in Collections as customer advisers (**Advisers**) were guided to engage with customers to seek relevant information to understand their vulnerability.
- 4.13 Upon identifying vulnerability, the Collections Journey required VWFS to consider how such vulnerability could affect the customer experience or outcomes. This would ensure that VWFS's approach was adapted in line with specific procedures. Further, the Collections Journey made provision for recording this information on VWFS's systems.
- 4.14 From around October 2019 onwards, upon suspicion of potential vulnerability, Advisers were required to follow additional specific procedures to (amongst other things) determine the nature and severity of the vulnerability and capture necessary information from the customer. These procedures made provision for the use of vulnerability system flags. These flags would affect the collections strategy for the account, such that (a) forbearance could be tailored to the period of time VWFS expected the customer to be vulnerable; (b) the customer would be handled by the specialist team within Collections dealing with vulnerable customers as appropriate; and (c) appropriate communications could be sent to the customer to support the forbearance option most suitable for them.

## Collections

- 4.15 Collections consisted of teams of Advisers, including the specialist team that provided assistance in dealing with cases of vulnerable customers.
- 4.16 Advisers were supported by team leaders through regular feedback and coaching, continuous learning, training and quality assurance. Advisers' training covered topics such as "active listening", "open questioning", "understanding our customer" and "vulnerable customers".
- 4.17 The function of Collections was to provide front-line professional support to arrears customers who were experiencing, or had indicated that they were about to experience, financial difficulty which was, or would be, adversely impacting their ability to make their contractual payments. Collections would work with arrears customers to identify and implement solutions that were designed around the customer's personal and financial circumstances, to enable those customers to retain their vehicle where feasible.

### *Missed payment*

- 4.18 Upon a payment being missed or a customer's account falling into arrears (a situation described by Collections as "delinquent"), Collections' strategy included sending automated non-tailored communications, and to continue doing so until the arrears had been cleared or further action had been taken to recover the debt. Accounting for a 15-day grace period, these communications comprised:
- a) letters (**Letter Templates**), which varied in content depending on how many days (namely, 31 days or less, 32 days to 61 days and 62 days or over) had passed since the missed payment or arrears. Some of these letters may have included wording mandated by the Consumer Credit Act 1974; and
  - b) text messages.

4.19 For manually created communications, Advisers were guided to use a suite of email templates covering key aspects of the Collections Journey (**Email Templates**).

4.20 Collections was directed to progress the account until all options – which were said to be “dictated” by the customer’s individual circumstances – had been exhausted. This involved taking reasonable steps to contact the customer to discuss their circumstances and to seek a mutually agreed solution.

#### *Default*

4.21 If Collections had still been unable to contact the customer, and the customer had been in arrears for around two months, Collections would issue a default notice (**Default Notice**). The Default Notice would give the customer a fixed period of time to clear the outstanding arrears or come to an arrangement or make contact.

#### *Termination*

4.22 Where a Default Notice had expired, arrangements could still be agreed. However, if there was still no customer contact or if such arrangements had still not been agreed, Collections could then terminate the account and commence repossession of the vehicle. Before taking this step, which was described by the Collections Journey as a last resort when all other reasonable options had failed, VWFS needed to complete a pre-termination checklist (the **Pre-Termination Checklist**). The Pre-Termination Checklist included a requirement that an outbound customer call had been attempted in the preceding 30 days.

#### *Repossession*

4.23 VWFS would then instruct repossession agents to seek recovery of the vehicle or take full settlement of the liability, including the repossession costs in the event of a repossession (although in practice such costs were not always charged, including where repossession did not in fact occur). Repossession agents were said to have been given “autonomy” to deliver appropriate outcomes based on the customer’s individual circumstances. Where customers explained they were developing a repayment plan, the agent was said to have been directed to make

clear that VWFS was willing to consider their proposal. VWFS expected repossession agents to provide the customer with an explanation of repossession fees.

#### Exploring customer circumstances

- 4.24 Throughout this process, Collections was required to “always” look to understand a customer’s circumstances and the reasons they were experiencing financial difficulties and take account of the same. Indeed, the Collections Journey provided that understanding customers’ circumstances was “integral” to VWFS’s ability to deliver fair customer outcomes.
- 4.25 When contact was made with an arrears customer, Advisers were guided to:
- 4.25.1 use probing questions to (a) establish the reasons for the missed payments and whether the issues were short or long term; and (b) determine what options could be presented to the customer to allow them to decide the “best outcome” for their circumstances;
  - 4.25.2 consider example pre-set questions to assist in understanding the customer’s circumstances, including:
    - a) the cause of the arrears, such as unemployment, bereavement, an unexpected bill, ill health or a reduction in income (and its temporary or permanent nature); and
    - b) whether the customer had made proposals to clear the arrears, and whether any such proposals were affordable.
- 4.26 Moreover, Advisers were required to understand the financial impact on the customer to ensure an appropriate outcome. It was not acceptable to VWFS for Advisers to merely understand the reason for the arrears. Advisers were required to ask further questions to understand: (a) why the arrears were incurred; (b) the customer’s current financial circumstances; and (c) what future impact those circumstances will have on the customer.

### *Affordability assessments*

4.27 The Collections Journey described affordability assessments as a useful tool in understanding the customers' difficulties in meeting their monthly payments. It explained that, as a responsible lender, VWFS must calculate the affordability and sustainability of repayment plans, and to achieve this, Collections would ask the customer questions to understand their circumstances and use affordability assessments where applicable. In this context, the reference to "repayment plans" included:

4.27.1 an arrangement to pay (**ATP**), which was an arrangement for a period of time to take additional payments to clear any outstanding arrears due contractually under the agreement; and

4.27.2 a promise to pay, which was an agreement for a customer to pay a set amount of money on a set date to clear an outstanding balance.

4.28 As to when Advisers were required to use affordability assessments during the Relevant Period, the Collections Journey noted that this step was not a pre-requisite for setting up an ATP. However, the Collections Journey directed Advisers to use affordability assessments:

4.28.1 in all cases, where possible, from around July 2023 onwards where forbearance options were being discussed;

4.28.2 in some cases prior to around July 2023 (noting that the trigger for using affordability assessments varied during this period), such as:

a) where the Adviser had any concerns relating to the affordability of a proposed arrangement, for example where they had observed trigger words or phrases such as "I can't pay", "I'm having trouble paying" and "I am worried";

b) where a vulnerability flag had been raised on the account;

- c) where an existing affordability assessment had been completed in the last six months and the customer's situation had changed; and
- d) where a customer had previously agreed to an ATP and this arrangement had been broken due to the customer not being able to maintain payments, an affordability assessment would be required where:
  - i. the customer had not completed an assessment previously; or
  - ii. where the customer had previously completed an assessment and their financial situation had changed.

4.29 The affordability assessment covered priority debts such as rent, mortgage, essential living expenses and other creditors (i.e. non-priority debts). Upon completion, the Adviser would be guided as to what action to take depending on the level of any disposable income.

4.30 In cases where an affordability assessment had not been completed (for example, where the customer declined to do so), the Collections Journey:

4.30.1 required Advisers to nevertheless probe the customer around other priority debts, so as to assess whether any offer of payment was proportionate to their other priority debts and was not putting the customer into further financial difficulty or pressuring them into an unsustainable option; and

4.30.2 in the context of ATPs, guided Advisers to ask the customer what they thought was affordable and negotiate from there based on appropriate questioning and understanding of the customer's circumstances.



### Offering forbearance options

- 4.31 Once Collections had adequately explored and understood the customer's circumstances, Collections needed to identify forbearance options. This included, wherever possible, identifying affordable arrangements and providing reasonable time and opportunity to repay where required. In doing so, the Collections Journey required Collections to (amongst other things):
- 4.31.1 treat the customer positively, empathetically and with forbearance;
  - 4.31.2 take a proactive approach to supporting vulnerable customers;
  - 4.31.3 "always" look to work with the customer to tailor arrangements according to their financial circumstances. Advisers were directed to be flexible to allow for alternative and affordable repayments; and
  - 4.31.4 provide breathing space to allow the customer to explore their options, during which Collections' activity was generally suspended.
- 4.32 Depending on the customer's individual circumstances, a range of forbearance options may have been available, and could have included:
- 4.32.1 an ATP or a promise to pay;
  - 4.32.2 the sale or part exchange of the vehicle;
  - 4.32.3 the customer exercising their right to voluntarily terminate the agreement, which may have involved returning the vehicle voluntarily. However, for purchase products, as the vehicle may – owing to depreciation – have been worth less than the final repayment value at the end of the agreement, the customer could still have had a shortfall balance upon return of the vehicle; and
  - 4.32.4 in certain cases, including those involving vulnerable customers, writing off any arrears.

- 4.33 Once an agreement had been terminated, settlement or recovery of the vehicle were the only possible options – save for leasing products, in which case, recovery of the vehicle was the only option.

#### *ATPs*

- 4.34 Advisers had the discretion to agree to ATPs of 12 months or less. All ATPs longer than 12 months – which in some cases was possible in cases of long term vulnerability – needed to have been authorised by a team manager.
- 4.35 Once an ATP had been set up, the Collections Journey provided for Collections to proactively write to the customer after around two months to invite them to make contact if the ATP was no longer affordable or sustainable.
- 4.36 Where an ATP payment was missed, the Collections Journey emphasised the importance of assessing the customer’s current circumstances to consider their best option.
- 4.37 For previously broken ATPs, Advisers were required to understand why the customer had failed to meet the ATP. In cases of continuously broken ATPs, Advisers were guided to explore all forbearance options with the customer to provide them with all possible support to make the “best informed” decision.

### **C. How did VWFS actually treat its arrears customers?**

- 4.38 From September 2022, VWFS underwent a review as regards its treatment of arrears customers (the ***Past Business Review***). The Past Business Review painted a markedly different picture from the one presented by the Collections Journey.

#### Background

- 4.39 The Past Business Review came about as a consequence of proactive supervision by the Authority. In summary:

*The Borrowers in Financial Difficulty (BiFD) project*

- 4.39.1 the Authority initiated BiFD in March 2021, a programme of work aimed at ensuring firms were meeting their obligations and guidance which set out the Authority's additional expectations for the treatment of borrowers in financial difficulty. The firms within BiFD's scope covered a range of different retail lending sectors including motor finance;
- 4.39.2 as part of BiFD's work, the Authority required VWFS (amongst other firms) to provide a representative sample of individual customer files for review by the Authority (the **BiFD File Review**). The aim of the BiFD File Review was to assess whether the outcomes customers had received were fair and appropriate;

*BiFD Feedback*

- 4.39.3 in August 2022, the Authority provided VWFS with feedback as to the BiFD File Review (the **BiFD Feedback**). The BiFD Feedback:
- a) highlighted a number of observations, which were said to be serious issues that impacted the entire Collections Journey, including as to:
    - i. the lack of effective conversations with customers to probe and understand their circumstances;
    - ii. the limited use of a range of forbearance options with a focus on customer-led, short-term payment arrangements;
    - iii. premature repossessions having not explored all options;
    - iv. how the particular needs and circumstances of vulnerable customers were taken into account;

- v. how VWFS encouraged customers to engage with it and the content and tone of some communications;
- b) noted that the extent of those issues suggested that customers had been – and were still – at risk of harm, both financially and through distress and inconvenience;
- c) sought a response from VWFS, including as to its plans for improvement and any immediate action to mitigate the risk of harm to customers. Specifically, the feedback noted that VWFS’s approach to repossession was a particular concern, and asked VWFS to consider whether it was appropriate to continue enforcing repossessions; and

*VWFS’s response to the BiFD Feedback*

4.39.4 in response, VWFS informed the Authority that it (amongst other things):

- a) had paused all repossession and litigation activity; and
- b) would commence the Past Business Review, which involved an extensive programme of external and internal work.

Consultancy File Review

4.40 As part of the Past Business Review’s external work, VWFS commissioned an expert firm of consultants (the **Consultancy Firm**) to conduct work that included independent reviews of broader samples of customer files.

4.41 This work involved the Consultancy Firm reviewing a random sample of 100 end-to-end arrears customer journeys (the **Consultancy File Review**).

4.42 The Consultancy File Review’s objectives included:

- 4.42.1 understanding the extent to which the observations identified by the BiFD File Review were widespread;
  - 4.42.2 analysing the root causes of the issues; and
  - 4.42.3 enabling VWFS to quantify any customer harm for the purposes of redress as part of VWFS's remediation scheme (the **Remediation Scheme**).
- 4.43 The Consultancy Firm provided case reviewers with a "case assessment methodology", which involved:
- 4.43.1 a detailed checklist that included questions aligned to the BiFD File Review's observations; and
  - 4.43.2 guidance on key regulatory expectations and relevant aspects of the Collections Journey aligned to the BiFD File Review's observations . This guidance made specific reference to Principles 6 and 7, chapter 7 of CONC and DISP.
- 4.44 Case reviewers were required to work through that methodology when documenting their assessment, including by completing the checklist.
- 4.45 For the purpose of their assessment, case reviewers would:
- 4.45.1 determine whether the outcome was: (a) unfair; (b) "fair with learnings"; or (c) fair; and
  - 4.45.2 for unfair outcome cases, provide any indication of actual or potential customer harm, with examples covering: (a) financial harm (for example in relation to repossession fees); and (b) non-financial harm (for example vulnerable customers not being identified and evidence of inappropriate or unsuitable follow up).

4.46 The Authority has examined the Consultancy File Review and has determined that it was carried out with reasonable accuracy in accordance with its stated objectives. VWFS promptly accepted the Consultancy Firm’s findings.

4.47 In respect of the substance as to how VWFS treated its arrears customers, the Authority considers that both “unfair” outcome cases and “fair with learnings” outcome cases involved unfair treatment of customers. That is not least because both these categories included adverse departures from the Collections Journey, with “learnings” covering “poor practice” and “poor customer experience”. Accordingly, the Authority has used the terms:

4.47.1 “unfair treatment” when characterising cases resulting in both unfair outcomes and “fair with learnings” outcomes; and

4.47.2 “fair treatment” when characterising cases resulting in fair outcomes.

4.48 The Consultancy File Review structured its observations around each of the areas featured in the BiFD Feedback. The Consultancy File Review’s observations were consistent with the key themes identified by the Authority in the BiFD Feedback. The Consultancy File Review’s assessments were as follows:

	<b>Total Cases</b>	<b>Fair Outcome</b>	<b>Fair with Learnings</b>	<b>Unfair Outcome</b>
<b>Total</b>	100	51	29	20
<b>Percentage of sample</b>		51%	29%	20%

4.49 Based on the Authority’s view that both “unfair” outcome cases and “fair with learnings” outcome cases involved unfair treatment of customers, it considers the aggregation of the Consultancy File Review’s assessments to be as follows:

	<b>Total Cases</b>	<b>Fair Treatment</b>	<b>Unfair Treatment</b>
<b>Total</b>	100	51	49
<b>Percentage of sample</b>		51%	49%

VWFS's treatment of its arrears customers

4.50 Having regard to matters including the Consultancy Firm's work, the Past Business Review's other internal and external work, and the Authority's own analysis, the Authority has focused its findings on the following areas:

4.50.1 the identification and treatment of vulnerable customers;

4.50.2 forbearance and due consideration, covering (a) the exploration of customer circumstances; and (b) the range of forbearance options put forward;

4.50.3 termination and repossessions; and

4.50.4 customer communications.

4.51 To assist in illustrating the Authority's findings, this section features three anonymised focused customer case studies, which appear in boxed text.

4.52 Although there is a degree of overlap (particularly as regards customer communications), we take each of these areas in turn.

I. Vulnerable customers

4.53 The Authority's findings in relation to this issue are that, despite the Collections Journey emphasising (a) the need to take particular care to ensure vulnerable customers were treated fairly; (b) that it was "essential" to recognise vulnerability; and (c) the need to take a proactive approach when supporting vulnerable customers:

4.53.1 where customers presented indicators of vulnerability, there was a lack of probing by Advisers to understand: (a) the nature of the vulnerability; and (b) any tailored support which may be required. Examples of such indicators included long term illness, mental health, caring responsibilities, bereavement and divorce. This rendered VWFS's policies and procedures as regards vulnerable customers materially ineffective. As Advisers had not identified vulnerability, they were not in a position to consider how such vulnerability could affect the customer experience or ensure that VWFS's approach was adapted in line with specific procedures. Advisers would have been required by the Customer Journey to consider those matters had vulnerability been identified;

4.53.2 generally, there was no evidence of vulnerability flags or records on accounts other than by way of references in system notes to the customer's circumstances. The lack of vulnerability records rendered VWFS's ability to ensure vulnerable customers were provided with the support required on each contact materially ineffective and therefore undermined VWFS's ability to ensure a fair outcome was achieved. For example, the lack of vulnerability flags meant:

- a) Advisers did not have the benefit of it being highlighted to them that the customer was in a vulnerable position;
- b) Advisers were not guided to use an affordability assessment owing to that flag, which would have enabled VWFS to consider the customer's health and financial circumstances and find the "fairest outcome";
- c) VWFS could not ensure that appropriate communications were sent to the customer to support the forbearance option most suitable for them;
- d) Advisers were not guided to consider how forbearance could be tailored to the period of time VWFS expected the customer to



be vulnerable, including “enhanced” forbearance options where appropriate, such as writing off the outstanding balance;

- e) VWFS was not required to inform customers that a vulnerability flag had been added to the account;
- f) the account was not required to be handled by the specialist Collections team dealing with vulnerable customers;

4.53.3 customers presenting indicators of vulnerability stated specifically that VWFS’s actions caused them additional distress and upset; and

4.53.4 accounts were progressed to termination and repossession despite the customer presenting indicators of vulnerability in prior engagement with VWFS. These accounts were not identified upon completion of the Pre-Termination Checklist (which did not contain a checkbox regarding vulnerability) despite such indicators appearing in system notes instead of a vulnerability flag. This prevented such customers from receiving appropriate contact and consideration in relation to VWFS’s termination and repossession processes, which may in turn have led to inappropriate termination and repossession action.

4.54 In order to pay due regard to the interests and information needs of arrears customers, VWFS needed to (a) sufficiently probe and understand the circumstances of arrears customers presenting indicators of vulnerability; and (b) take account of any vulnerability indicators when considering any tailored support that may be required, including as regards forbearance options and the progression of any such customers to termination and repossession.

4.55 The Authority considers that VWFS’s conduct in relation to VWFS’s identification and treatment of vulnerable customers to be particularly serious in light of (amongst other things):

4.55.1 unfair treatment (based on the Authority’s aggregated assessment as explained above) being evidenced in relation to 12 out of 13 cases (around 92%), with vulnerability being identified as not applicable in

the remainder of the sample of 100 cases (the Consultancy Firm had graded the vulnerability theme in relation to those 12 cases as unfair in 6 cases and fair with learnings in 6 cases); and

- 4.55.2 VWFS's cognisance that vulnerable customers were more likely to experience harm and, where there is actual harm, the impact is likely to be greater than other customers.

**Case Study 1 – “You are speaking to a vulnerable customer and you’ve not helped me.”**

Over the course of 11 months, Customer TD (**TD**) presented to VWFS a host of complex and worsening physical and mental health difficulties set against a background of relationship breakdown, caring responsibilities and income shock. This included:

- a) attempt at suicide owing to stress and financial struggles;
- b) ongoing divorce, including contested court proceedings in respect of child contact;
- c) acute anxiety, depression and very high blood pressure – conditions exacerbated by stress; and
- d) loss of employment, long term sick leave, negative disposable income and needing a vehicle for work.

TD referred to these matters repeatedly and emphasised how VWFS was making matters worse. For example, TD drew attention to divorce or anxiety in 14 telephone calls to 12 different VWFS workers and once in writing.

Indeed, just over two weeks after TD told VWFS that he had recently tried to take his own life, VWFS continued to send TD correspondence that he considered to be threatening.

That correspondence included a letter demanding payment within 7 days and a Default Notice in respect of repossession fees.

Further, despite TD's disclosures, VWFS did not (a) ask TD any questions to understand his vulnerabilities and any tailored support required; (b) proactively telephone TD. That included omitting to make an outbound call as required by

the Pre-Termination Checklist, even though VWFS had told TD in writing that it had done so.

In a number of instances, VWFS did not carry out agreed actions, such as failing to: (a) honour agreed call backs before sending Default Notices; (b) send a letter explaining a breakdown of sums owed; (c) send TD an accepted goodwill gesture, and then denying it had been accepted.

Overall, VWFS did not change how it communicated with TD. TD felt VWFS's attitude was that it didn't want to know. For example, the following exchange took place during a telephone call (which followed an earlier call in which TD had expressly told VWFS "You are speaking to a vulnerable customer and you've not helped me."):

"TD: ...No one seemed to help. I was offering to make the payments. I was back in work. I was in a better paid job. I was willing to make the contractual payments plus the extra payment to be clear some of the debt. I did explain to them that I have been mega stressed through going through a very nasty divorce and I wasn't seeing my children. And I suffered with acute anxiety and also depression and suicidal thoughts. And it just got put on a brick wall. And it was just making me worse. And I've got letters from doctors to say I suffer from acute anxiety and that I struggle to deal with stuff. And no one wanted to listen...They have not treated me fairly. They have not treated me with due courtesy of trying to sort something out just point blank: 'now it's terminated'.

VWFS: OK. Many of the points you've just made have already been resolved in other complaints you've had with us so I'm not going to be investigating part of a complaint that has already been resolved..."

That lack of empathy was reflected in VWFS's agents' tone of voice (for example, when (a) sarcastically reminding TD of the number of days in a month, (b) putting TD through to different departments which could not help him and (c) an agent informing TD "I am the highest point of authority you can speak to" after TD had already been promised a manager call-back) and in writing (for example, when accusing TD of disregarding his liability for the arrears and when urging TD to contact VWFS "immediately" to make proposals without providing any options).

On the occasions where VWFS had ostensibly expressed sympathy, this was not matched with appropriate action. That included VWFS (a) not dealing adequately with the need to set up a payment plan with TD (which he had repeatedly offered) – at one point VWFS refused to entertain payment plans at all; and (b) offering to raise complaints instead of dealing with the substantive issue of the need to find a solution for TD.

During those 11 months, VWFS terminated the agreement, repossessed TD's family estate car, and continued to pursue TD for the shortfall.

After this 11-month period, and very belatedly, VWFS placed a vulnerability flag on TD's account. That action appeared to have been prompted by TD's application for breathing space in which TD disclosed that his current sickness could last six months.

Upon expiry of the breathing space, when VWFS finally set up a (very short-term) ATP with TD, VWFS did not consider the suitability of enhanced forbearance options that might have been available for long term vulnerable customers such as TD.

Before falling into arrears, TD had not missed a payment for over 2 years.

## II. Forbearance and due consideration

- 4.56 As regards forbearance and due consideration, VWFS's treatment of its arrears customers fall under two broad headings, namely: (a) Advisers failing to explore customer circumstances, feeding into (b) Advisers offering an inadequate range of forbearance options. The Authority's findings are as follows:

### *Lack of exploration of customer circumstances*

- 4.56.1 there was limited or no probing of customer circumstances in order to identify suitable forbearance options where there were indicators of financial difficulty, despite the Collections Journey requiring Advisers to ask questions to gain this understanding;
- 4.56.2 there was limited evidence of affordability assessments being used when agreeing arrangements with customers in financial difficulty. Advisers often relied on a simple verbal confirmation from a customer that an arrangement was affordable, without any further information or probing. Indeed, affordability assessments were not conducted in almost all cases in the sample, and where they had, this was only after previous arrangements had not been maintained. That was despite the

Collections Journey emphasising that, as a responsible lender, VWFS needed to calculate the affordability and sustainability of repayment plans, and to “always” look to work with the customer to tailor arrangements according to their financial circumstances – using affordability assessments where applicable. The lack of affordability assessments meant that VWFS could not show that payment arrangements were set at the right level. Further, an appropriate assessment of affordability at an early stage would have better equipped the customer and VWFS to make an informed decision about their options;

*Inadequate range of forbearance options*

- 4.56.3 as there was limited or no probing of customer circumstances, Advisers were not in a position to provide customers with tailored support that was sustainable;
  - 4.56.4 moreover, the support offered was often not sustainable. Despite the Collections Journey providing for a wide range of forbearance options including (a) a promise to pay (b) sale or part exchange of the vehicle, and (c) the customer voluntarily terminating the agreement, forbearance options presented were typically short-term ATPs (that is, limited to 12 months or the remaining term of the agreement, if less than 12 months). These ATPs would often break continuously, despite the Collections Journey emphasising the importance of Advisers assessing the customer’s current circumstances to provide them with all possible support to make the “best informed” decision; and
  - 4.56.5 after termination, customers in financial difficulty were often presented with early settlement or voluntary termination as the only options available.
- 4.57 In order to pay due regard to the interests and information needs of arrears customers, VWFS needed to take adequate measures to properly understand the customer’s individual circumstances, including their short-term and long-term financial position. Where customers presented indicators of financial difficulty,

VWFS needed to sufficiently probe customer circumstances in order to put itself in a position where it could provide tailored support that was sustainable. VWFS needed to obtain sufficient information on customer circumstances in order to identify, consider and apply appropriate forbearance – including, where appropriate, offering a range of options to support customers beyond ATPs. VWFS further needed to regularly monitor and review all customers’ arrangements, to ensure they remained appropriate.

**Case Study 2 – “...I’ve just told you I’m in financial difficulty and you’re telling me it’s going to cost me 20 grand to give you the car back?”**

Around 15 months after taking out car finance, Customer CD (**CD**) found himself in financial difficulty and could no longer afford the repayments.

Having called VWFS to find a solution, the agent did not ask any questions about CD’s financial difficulties or mention the support VWFS could provide – even though CD referenced his financial difficulties three times during the call. That support may have included a range of forbearance options, including an ATP, a promise to pay or the sale or part exchange of the vehicle.

Instead, the agent took an overly narrow approach – responding strictly to CD’s queries about the mechanics of voluntary termination – without stepping back and thinking more broadly about how to take account of the need to tailor the approach to CD’s individual circumstances.

The only alternative presented by the agent to voluntary termination was to generate a settlement figure, which was well in excess of what CD had told the agent he could afford.

This resulted in a poor-quality conversation. Indeed, during that call, CD asked: “I’ve just told you I’m in financial difficulty and you’re telling me it’s going to cost me 20 grand to give you the car back?”, to which the agent responded in the affirmative.

Around 11 months after that telephone call, during which time CD managed to keep up with his monthly payments, CD found he could no longer cope. CD emailed VWFS as follows:

“My wife left 3 weeks ago, my business is based around commercial global office branding, which over last few months have been arranging to shut down and wait until the chaos to subside and the last jobs I had in hand and was basing financial security on was with [Company Y] who put all on hold and postponed for minimum of three weeks because of the Coronavirus. My auntie who is the last of my mothers

side of my family has just been told that her husband has to go onto palliative care at home as hospitals moving him away from Virus. As I have been self isolated by my wife moving out 3 weeks ago [I'm] the only person who can help her look after him and be around a cancer patient. Please can you help me"

VWFS did not engage with that email in any substantive way. VWFS did not seek to telephone CD or adapt the way it communicated with him. Nor did VWFS seek to conduct an affordability assessment. VWFS did not add a vulnerability flag to CD's account at any stage.

Around a year later, VWFS left CD a voicemail, which provided no indication as to the support that VWFS could provide, including as to CD's indications of vulnerability and financial difficulty.

VWFS commenced hostile termination shortly afterwards followed by repossession. Eventually, after commencing litigation for the balance and repossession fee, as VWFS judged there to be no recovery prospects, VWFS wrote off the remaining debt.

Before informing VWFS about his financial difficulties, CD asked VWFS to raise a complaint about an agent providing (what was said to be) incorrect information about payments. VWFS responded that CD could raise a complaint, which CD agreed to, but no complaint was logged or investigated. This meant VWFS neither provided CD with a response to the complaint nor informed CD that he could refer the matter to the Financial Ombudsman Service.

### III. Termination and repossession

4.58 The Authority's findings are that, despite the Collections Journey describing repossessions initiated by VWFS as a last resort:

4.58.1 customers presenting indicators of financial difficulty or vulnerability were progressed to termination and repossession without assessment of their circumstances, affordability and consideration of an appropriate range of forbearance options;

4.58.2 VWFS made limited attempts to call customers before repossession, often making only the minimum single call attempt required by the Pre-Termination Checklist. In some cases, VWFS did not even attempt

contact despite having contact details on file. In other cases, VWFS did not check compliance with the Pre-Termination Checklist;

- 4.58.3 when customers engaged with VWFS at the point of termination, including where they were offering to pay the arrears in full, VWFS told customers that settlement in full was the only option to prevent repossession and VWFS would not consider or discuss forbearance at that stage;
  - 4.58.4 when customers engaged with VWFS at the point of repossession and after the initial contact from repossession agents, they were advised that settlement in full was the only option to prevent repossession and that VWFS would not consider or discuss forbearance at that stage. That was despite the Collections Journey providing that repossession agents were granted "autonomy" to deliver appropriate outcomes based on the customer's individual circumstances; and
  - 4.58.5 at the point of repossession, VWFS did not grant customers time to repay arrears where they had presented reasonable offers to do so. That was despite the Collections Journey stating that repossession agents were directed in such cases to make it clear that VWFS was willing to consider the proposal. Examples included: (a) customers seeking more time to settle accounts subject to a court settlement or pending the sale of the vehicle; and (b) a customer offering to clear the arrears in full having complained that VWFS did not consider forbearance options.
- 4.59 Further, up until September 2022, VWFS charged customers a repossession fee of £252 irrespective of their circumstances. This may have compounded such customers' financial difficulty with little consideration of how these fees would be paid. Moreover, VWFS did not consistently highlight repossession fees to customers at the time of termination, including in writing.
- 4.60 In order to pay due regard to the interests and information needs of arrears customers, VWFS needed to have taken all reasonable steps to resolve customer arrears positions before progressing cases to termination and repossession.



Failures to deal appropriately with customers facing termination and repossession potentially have a significant and ongoing impact on a customer, not least on their ability to obtain future credit or lending at competitive rates and access to full market options or at all. VWFS needed to have remained open to entertaining forbearance with customers at the point of termination and repossession. VWFS needed to have adequately drawn attention to the levying of any repossession fees and needed to have taken sufficient steps to ensure that the levying of any such fees was fair.

4.61 The Authority considers that VWFS's conduct in relation to repossessions to be particularly serious in light of (amongst other things) the risk of harm being heightened:

4.61.1 for those customers who relied on their vehicle to travel to and from work or indeed use their vehicles for work, as repossession may have compounded their financial difficulties; and

4.61.2 for vulnerable customers, for whom repossession (or indeed the threat of repossession) may – owing to their vulnerability – have had a more serious impact.

**Case Study 3 – “There’s nothing that we can do once it’s been hostile terminated.”**

Customer JB (**JB**) was young and lived with her parents when she took out car finance.

JB immediately fell behind on payments, telling VWFS (amongst other things) “I can’t pay”. That should have prompted VWFS to conduct an affordability assessment. It didn’t. Instead of displaying any curiosity, the agent transferred her to Collections without any “warm transfer” as to JB’s disclosure.

Having asked JB whether she could afford the monthly payments, and having taken JB’s affirmative response at face value, Collections set up a very short-term payment arrangement.

That kept JB's head above the water until she fell into arrears a few months later. VWFS issued JB with two standard automated Letter Templates, a text and a Default Notice. JB responded by email that:

- a) she had lost her job owing to mental health issues; however
- b) now that she had returned to work, JB wished to set up a payment arrangement to clear the outstanding balance.

Instead of engaging with JB's email or adapting its treatment of JB, VWFS terminated the agreement and commenced repossession. That occurred less than one month after JB's email.

Before the point of termination, VWFS made one proactive telephone call, pursuant to the minimum requirement in the Pre-Termination Checklist. That took the form of VWFS leaving a voicemail requesting a call back within three working days. The voicemail did not indicate that VWFS was there to help or how it might do so.

JB got in touch with VWFS after their repossession agent had visited JB's home, during which the agent spoke to JB's mother and passed her a contact card. JB repeated to the agent the issues around her mental health. The agent noted that JB was very upset to learn that her options were limited to:

- a) returning the car; or
- b) paying off the outstanding balance in full.

JB (and her mother) then spoke with Collections and asked if VWFS could do anything regarding a payment arrangement, having referenced JB's job loss three times. Whilst ostensibly expressing sympathy, the Adviser stated that the options presented by the repossession agent were the only options available and that JB needed to contact the repossession agent. Further, if the outstanding balance could not be paid, the car would need to be collected and sold at auction.

The Adviser added "there's nothing that we can do once it's been hostile terminated". When JB did get back in touch with the repossession agent, the file note recorded that JB was "in floods of tears possibly due to circumstances".

To prevent the car being collected and sold at auction (which JB's mother considered would likely have left JB with a higher shortfall), JB's mother managed to arrange a third-party sale. JB's mother updated Collections and queried again whether JB could set up a payment arrangement for the shortfall, which was something the repossession agent had not been prepared to entertain.

The Adviser noted that JB would need to contact the repossession agent who "might" be able to consider a payment arrangement – emphasising that "we don't have any say in it after it's been terminated".

It turned out that the repossession agent was not prepared to do so. In advance of the sale of the car, VWFS wrote to JB with a total settlement figure, noting that as soon as payment had been received "in full", VWFS would release its interest in the car.

Faced with that choice, JB paid the outstanding balance in full at once. That included an amount of £252 described to JB as a "sundry debit" and an "adjustment". In actual fact, this was a repossession fee.

At no stage did VWFS place a vulnerability flag on JB's account or seek to conduct an affordability assessment. Nor did VWFS pick up on JB's multiple indicators of vulnerability, specifically her mental health difficulties and income shock.

#### IV. Customer communications

4.62 The Authority's additional findings in this regard (reiterating the substantial overlap with this section and the other three areas of concern) are that, whereas the Collections Journey required Collections to communicate with customers positively and empathetically:

##### *Telephone*

4.62.1 Advisers displayed a lack of empathy and professionalism during telephone calls. Examples included (a) repeatedly and sarcastically referring to a customer as a "delight"; (b) stating emphatically and erroneously that direct debits could not be changed, (c) laughing inappropriately when making mistakes; (d) sighing; (e) not acknowledging customer frustration; and (f) not offering an apology when it would clearly have been reasonable to do so, such as for long wait times;

4.62.2 Advisers provided customers with incorrect or incomplete information during telephone calls (for example, in relation to ATPs, arrears balances, settlement figures and credit file impact);

4.62.3 there was a lack of proactive outbound telephone contact in most cases including by way of follow-up to customers who had engaged with Collections. Often, Collections only made one outbound attempt to satisfy the minimum requirement in the Pre-Termination Checklist;

*Letters, emails and texts*

4.62.4 where post had been returned and a "gone away" status had been applied to the account, Collections did not attempt other ways of contacting such customers or trace their address;

4.62.5 Collections did not send customers arrears letters in a timely manner (examples included Collections sending customers (a) missed payment letters two months after a missed payment; and (b) Notices of Sums in Arrears without any preceding arrears communications). This meant that VWFS did not provide sufficient and timeous information to enable customers to avoid moving into the later stages of the Collections Journey;

4.62.6 Collections' responses to customer email requests were either lacking or delayed;

4.62.7 VWFS sent customers standard arrears communications (such as a Default Notice or letters relating to termination) instead of appropriate follow-up contact after agreeing to ATPs;

4.62.8 Collections did not suspend collections activity during breathing space periods as required by the Collections Journey (for example, customers continued to receive standard templated arrears letters during such breathing space periods);

4.62.9 consistent with the Consultancy Firm's observations as to VWFS's Letter and Email Templates, a substantial proportion of VWFS's standard templated arrears communications – including automated correspondence sent to 155,070 customers who at the very least were

issued with the first post-grace period missed payment letter – did not sufficiently enable customers to engage in the arrears process on an informed basis, including as regards supporting and encouraging customers to make contact for a positive conversation about resolving their situation. The Authority’s findings in this regard apply throughout the Collections Journey, from the first missed payment letter onwards. In particular:

- a) Letter and Email Templates relating to missed payments and ATPs focused on how the customer could make payment without explaining what VWFS could do to help customers who may be in financial difficulty. One of these Letter Templates set deadlines that were likely to be unrealistic on their own terms;
- b) text messages requested customers to call VWFS “as soon as possible” to discuss outstanding balances without indicating that the purpose of that discussion was for VWFS to help customers with any financial difficulties;
- c) Letter and Email Templates which acted as cover letters for affordability assessments did not explain the benefits of filling out the affordability assessment. They did not identify what forbearance options might be possible upon completion and return of the affordability assessment;
- d) Letter and Email Templates informing customers that recovery of the debt had been outsourced gave the impression that VWFS had ended its relationship with the customer without indicating that the third party would be open to help customers with any financial difficulties (as set out in the Collections Journey). The Email Template added that VWFS could not consider a payment plan owing to the current financial situation of the customer;
- e) once a Default Notice had been issued, and a call had been attempted, VWFS used Email Templates to demand customers

take action "within three working days" to avoid termination, without explaining the benefits of the customer making contact;

- f) termination Letter and Email Templates provided insufficient information about the options and help that might be available, and in some instances used unnecessary legal and technical language;

4.62.10 Notices of Sums in Arrears provided total shortfall amounts without explaining how those sums were reached, including by way of a breakdown between (a) missed payments; and (b) fees and charges. Where customers contacted VWFS to request a breakdown of the amounts, VWFS's systems had a "known limitation" which meant it was not easy for Collections to obtain this information, particularly for repossession agents who had to rely on "weekly balance breakdown reports" as a workaround. In some cases, customers found Advisers were unable to provide correct information about the breakdown;

4.62.11 Default Notices referred to "late payment interest" under the heading "Intended Action", even though VWFS had no intention of applying late payment interest at the point such Default Notices were issued as it was VWFS's policy not to levy default interest or charges in respect of accounts in arrears. The reference to "late payment interest" in Default Notices will likely have added to customers' distress and confusion, and may have caused undue pressure to pay the debt. The reference to "late payment interest" in respect of Email Templates confirming that VWFS had agreed to breathing space will also likely have added to customers' distress and confusion;

*Communication more generally*

4.62.12 Collections continued to contact deceased customers by post and telephone, despite having been notified of their passing. Such communications will have been particularly distressing. One case of severe distress involved VWFS sending a deceased customer a Christmas card, which was received by the next of kin;

- 4.62.13 where an Adviser had agreed to an action after discussions with the customer by telephone or email, the Adviser completed the action incorrectly or not at all (for example, agreed call backs were not honoured); and
- 4.62.14 Advisers did not consistently recognise and log complaints where customers expressed dissatisfaction with VWFS. This meant that VWFS's complaint procedures did not kick in, which in some cases will have deprived such customers the protections they would otherwise have received under DISP, including the need to be told by VWFS about their ability to refer the matter to the Financial Ombudsman Service.
- 4.63 In order to pay due regard to the information needs of arrears customers, VWFS needed to have enabled arrears customers to engage in the arrears process on an informed basis by: (a) using a range of communication channels such that customers are able to readily access the help and support they need; (b) setting the right tone in these communications by explaining the benefits of engaging early when at risk of or in financial difficulty and emphasising the support the firm can provide; and (c) enabling all customers including those who may be more vulnerable to discuss their needs and respond flexibly to these needs and circumstances.
- 4.64 The Authority considers that VWFS's conduct in relation to customer communications to be particularly serious given that (amongst other things):
- 4.64.1 effective communication was fundamental to VWFS's ability to (a) treat arrears customers fairly, reasonably and responsibly and (b) communicate with customers clearly and fairly;
- 4.64.2 the issues with respect to VWFS's communications may have compounded the significant uncertainty, stress and anxiety, arrears customers – and particularly vulnerable customers – may have experienced about their financial circumstances; and

4.64.3 the issue of customer communications applied to all cases in the sample, and cut across the other issues. Those communication failings were compounded by the fact that VWFS's main communication method for arrears customers was to send standard templated arrears communications throughout the collections process, from the first missed payment letter onwards, a substantial proportion of which – including automated correspondence sent to 155,070 customers – did not sufficiently enable customers to engage in the arrears process on an informed basis, including as regards supporting and encouraging customers to make contact for a positive conversation about resolving their situation.

**D. How has VWFS sought to put things right?**

4.65 Prompted by the BiFD Feedback and the consequent Past Business Review, and having acknowledged that some of the customer journeys in the Consultancy File Review were “undoubtedly” below standards, VWFS commenced the Remediation Scheme.

4.66 The Remediation Scheme comprised:

4.66.1 a redress scheme (the **Redress Scheme**), which involved:

- a) certain customers whose arrears had persisted for 31 days or more in the period 1 January 2017 to 31 July 2023 receiving a goodwill gesture ranging from £100 to £400. The amount depended on the amount of time in arrears and the number of missed payments. Goodwill gestures were made whether or not the account remained in arrears;
- b) end-to-end reviews of certain customer files already within the repossession and litigation stage of the Collections Journey, which were “live” soon after BiFD Feedback. The purpose of these reviews was to: (i) assess whether repossession should continue; and (ii) consider whether any remediation may be



appropriate, ranging from compensation to deferring repossession and writing off the debt; and

4.66.2 measures designed to improve VWFS's regulatory compliance such as:

- a) applying a new engagement strategy for all customers, which included remedying the standard templated arrears correspondence;
- b) putting Collections through a six-week training programme "to ensure that advisors get the right customer outcomes";
- c) changing Collections' operating model and VWFS's relationship management model with outsourced service providers; and
- d) addressing VWFS's compliance function's assessment that it could not provide assurance that Collections' quality assurance framework was fit for purpose.

4.67 VWFS has identified at least 109,589 customers who suffered detriment, or were at risk of suffering detriment, as a result of the failings. VWFS has to date paid £17,823,500 under the Redress Scheme to 80,191 customers and estimates that it will pay over £21,506,496 in total redress payments.

## **5 FAILINGS**

5.1 Statutory and regulatory provisions relevant to this Notice are set out in the Annex.

5.2 Based on the facts and matters detailed above, the Authority finds that VWFS breached:

5.2.1 Principle 6 which requires that a firm must pay due regard to the interests of its customers and treat them fairly;

5.2.2 Principle 7 which requires that a firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading;

5.2.3 Principle 3 which requires that a firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management;

5.2.4 CONC 7.2.1R, 7.3.4R, 7.3.9R, 7.3.14R(1); and

5.2.5 DISP 1.3.1R.

5.3 VWFS breached these rules in that:

Vulnerable customers – Principle 6, Principle 7 and CONC 7.2.1R

5.3.1 by failing to sufficiently probe arrears customers presenting indicators of vulnerability, VWFS failed to understand the nature of the vulnerability and any tailored support that may be required;

5.3.2 by failing to sufficiently record vulnerability indicators – a failure rate of around 92% of applicable cases in the sample – and act upon the same, VWFS progressed some customers to termination and repossession without taking account of such indicators;

5.3.3 this meant that VWFS failed to (a) recognise vulnerability; (b) take particular care to ensure vulnerable customers were treated fairly, having regard to the failure to follow specific procedures designed to support vulnerable customers including as regards vulnerability flags, affordability assessments, tailored communications and enhanced forbearance options; and (c) take a proactive approach when supporting vulnerable customers. These failures also led to some customers presenting indicators of vulnerability stating specifically that VWFS's actions caused them additional distress and upset;

Forbearance and due consideration– Principle 6, Principle 7, CONC 7.2.1R and CONC 7.3.4R

- 5.3.4 where customers presented indicators of financial difficulty, by failing to (a) sufficiently or at all probe customer circumstances in order to identify suitable forbearance options; and (b) identify some arrears customers presenting indicators of financial difficulty; and (c) conduct affordability assessments (noting that affordability assessments were not conducted in almost all cases in the sample), VWFS did not place itself in a position where it could provide customers with tailored support that was sustainable;
- 5.3.5 by failing to obtain sufficient information on customer circumstances, VWFS did not identify, consider, and apply appropriate forbearance and due consideration. This resulted in VWFS failing to offer some customers (a) forbearance at all or (b) forbearance that was effective, affordable and sustainable, which would have positively impacted their arrears position. Indeed, forbearance predominantly took the form of short-term ATPs which would often break continuously. That tended to show that arrears customers had agreed to pay within an unreasonably short period or more than they could reasonably afford without experiencing difficulty;

Default, termination and repossession – Principle 6, Principle 7, CONC 7.2.1R, CONC 7.3.4R, CONC 7.3.9R, CONC 7.3.14R(1)

- 5.3.6 by failing to entertain forbearance with customers at the point of termination and repossession, VWFS operated a policy in practice of refusing to negotiate with customers who were developing repayment plans;
- 5.3.7 by progressing some customers presenting indicators of financial difficulty or vulnerability to termination and repossession without taking all reasonable steps to resolve customer arrears positions beforehand – including limited (if any) attempts to call customers

before repossession – VWFS took disproportionate action against such customers and failed to treat them fairly;

5.3.8 by charging customers repossession fees irrespective of their circumstances, VWFS did not take sufficient steps to ensure that the levying of such fees was fair. This may have compounded such customers’ financial difficulty with little consideration of how these fees would be paid;

5.3.9 by failing to consistently highlight repossession fees to customers at the time of termination, including in writing, VWFS failed to communicate repossession fees to arrears customers clearly and fairly;

Customer communication - Principle 7, Principle 6, CONC 7.2.1R and DISP 1.3.1R

5.3.10 by failing to engage with some customers proactively or reactively (including by telephone and email) in an appropriate manner or at all – having regard to the way VWFS used each of the communication channels individually and as a whole, VWFS failed to:

- a) treat arrears customers fairly, reasonably and responsibly;
- b) communicate with arrears customers clearly and fairly;

5.3.11 the failings as regards communications, which cut across all the other issues, were compounded by the fact that VWFS’s main communication method for arrears customers was to send standard templated arrears communications, a substantial proportion of which – including automated correspondence sent to 155,070 customers – failed to sufficiently enable customers to engage in the arrears process on an informed basis, including by failing to support and encourage customers to make contact for a positive conversation about resolving the situation;

5.3.12 these issues may have compounded the significant uncertainty, stress and anxiety arrears customers – and particularly vulnerable customers – may have experienced (including in relation to the reference to “late payment interest” in Default Notices) about their financial circumstances;

5.3.13 by failing to identify some complaints and treat them as such, VWFS failed to handle complaints effectively; and

Management and control – Principle 3 and CONC 7.2.1R

5.3.14 by failing to implement arrears and vulnerability policies and procedures over a period of six years and seven months which, if implemented, would have resulted in VWFS likely avoiding the extent of the above failings (in particular as regards (a) supporting vulnerable customers; (b) recognising, considering and applying appropriate forbearance and due consideration; (c) taking all reasonable steps to resolve customer arrears positions before progressing customers to termination and repossession; and (d) communicating with customers clearly and fairly), VWFS failed to take reasonable care to organise and control its affairs responsibly and effectively in practice, with adequate risk management systems.

## **6 SANCTION**

6.1 The Authority’s policy for imposing a financial penalty is set out in Chapter 6 of the Decision Procedure and Penalties (**DEPP**) manual. The Authority applies a five-step framework to determine the appropriate level of financial penalty. DEPP 6.5A sets out the details of the five-step framework that applies in respect of financial penalties imposed on firms.

### **Step 1: disgorgement**

6.2 Pursuant to DEPP 6.5A.1G, at step 1 the Authority seeks to deprive a firm of the financial benefit derived directly from the breach where it is practicable to quantify.

6.3 The Authority has not identified any financial benefit that VWFS derived directly from the breach.

6.4 Step 1 is therefore £0.

### **Step 2: the seriousness of the breach**

6.5 Pursuant to DEPP 6.5A.2G, at step 2 the Authority determines a figure that reflects the seriousness of the breach. Where the amount of revenue generated by a firm from a particular product line or business area is indicative of the harm or potential harm that its breach may cause, that figure will be based on a percentage of VWFS's revenue from the relevant products or business area.

6.6 The Authority considers that the revenue generated by VWFS is indicative of the harm or potential harm caused by its breach. The Authority has therefore determined a figure based on a percentage of VWFS's relevant revenue. VWFS's relevant revenue is the revenue derived by VWFS, during the period of the breach, from their customers whilst they were in arrears and had entered the collections process. The period of VWFS's breach was from 1 January 2017 to 31 July 2023. The Authority considers VWFS's relevant revenue for this period to be **£70,098,961.19**.

6.7 In deciding on the percentage of the relevant revenue that forms the basis of the step 2 figure, the Authority considers the seriousness of the breach and chooses a percentage between 0% and 20%. This range is divided into five fixed levels which represent, on a sliding scale, the seriousness of the breach. The more serious the breach, the higher the level. For penalties imposed on firms there are five levels:

Level 1 – 0%

Level 2 – 5%

Level 3 – 10%

Level 4 – 15%

Level 5 – 20%

6.8 In assessing the seriousness level, the Authority takes into account various factors which reflect the impact and nature of the breach, and whether it was committed deliberately or recklessly. The factors that the Authority has determined to be relevant to VWFS's breaches are as follows:

Impact of the breach

- 6.8.1 the loss or risk of loss caused to individual consumers caused by VWFS's breach. VWFS failed to appropriately consider customer interests and their information needs and mitigate the harm and risk of harm as regards individual consumers in financial difficulty, particularly those who were vulnerable (DEPP 6.5A.2G(6)(c));
- 6.8.2 the breaches had an effect on particularly vulnerable people, whether intentional or otherwise, not least because a substantial proportion of customers in arrears are likely to be vulnerable. VWFS failed to ensure it identified and flagged potentially vulnerable customers, which undermined VWFS's ability to ensure a fair outcome was achieved including in relation to termination and repossession (DEPP 6.5A.2G(6)(d));
- 6.8.3 the breaches must have caused inconvenience or distress to consumers. VWFS's failure to identify, consider and apply appropriate forbearance and due consideration meant that VWFS did not offer some customers effective, affordable and sustainable forbearance that would otherwise have positively impacted their arrears position and in some cases led to premature termination and repossession, thereby causing inconvenience and distress to its customers (DEPP 6.5A.2G(6)(e));

Nature of the breach

- 6.8.4 the nature of the rules, requirements or provisions breached. The requirements of Principles 6, 7, 3 and CONC should be a fundamental consideration in everything that those who are authorised to provide consumer credit do. VWFS's lack of compliance with the rules around

treatment of arrears customers, including in relation to customers VWFS understood or reasonably suspected to be particularly vulnerable, fell below the standard expected of the industry (DEPP 6.5A.2G(7)(a));

6.8.5 the frequency and duration of the breach. The breach occurred throughout the Relevant Period: namely, six years and seven months (DEPP 6.5A.2G(7)(b)); and

6.8.6 the breach revealed serious or systemic weaknesses in the implementation of the firm's policies and procedures relating to its treatment of arrears customers (DEPP 6.5A.2G(7)(c)).

6.9 DEPP 6.5A.2G(11) lists factors likely to be considered level 4 or 5 seriousness. Of these, the Authority considers the following factors to be relevant:

6.9.1 the breach caused a significant loss or risk of loss to individual consumers (DEPP 6.5A.2G(11)(a)). The aspects of VWFS's breach that specifically impacted individual vulnerable consumers were particularly serious. In particular:

a) the Consultancy File Review highlighted that potentially vulnerable customers stated specifically that VWFS's actions caused them additional distress and upset;

b) by failing to sufficiently probe and record vulnerability indicators and act upon the same, VWFS must have progressed some vulnerable customers to termination and repossession without taking account of such indicators. Taking cars away from vulnerable customers in those circumstances might compound vulnerabilities;

c) VWFS was aware that vulnerable customers were more likely to experience harm and, where there is actual harm, the impact is likely to be greater than other customers; and



- 6.9.2 the breach revealed serious and systemic weaknesses in the implementation of the firm's policies and procedures relating to its treatment of arrears customers (DEPP 6.5A.2G(11)(b)), including as regards the communication failings, compounded by deficient standard templated and automated arrears correspondence. All of VWFS's customers who (a) entered into regulated agreements covered by Collections; and (b) whose arrears persisted beyond the grace period – namely, 155,070 customers – were at risk of receiving poor experiences or outcomes throughout the Relevant Period.
- 6.10 DEPP 6.5A.2G(12) lists factors likely to be considered level 1, 2 or 3 seriousness. Of these, the Authority considers the following factors to be relevant:
- 6.10.1 little, or no profits were made or losses avoided as a result of the breach, either directly or indirectly (DEPP 6.5A.2G(12)(a)); and
- 6.10.2 the breach was committed negligently or inadvertently (DEPP 6.5A.2G(12)(e)).
- 6.11 Taking all of these factors into account, the Authority considers the seriousness of the breach to be level 3 and so the step 2 figure is 10% of £70,098,961.19.
- 6.12 Step 2 is therefore £7,009,896.12.

### **Step 3: mitigating and aggravating factors**

- 6.13 Pursuant to DEPP 6.5A.3G, at step 3 the Authority may increase or decrease the amount of the financial penalty arrived at after step 2, but not including any amount to be disgorged as set out in step 1, to take into account factors which aggravate or mitigate the breach.
- 6.14 The Authority considers that the following factors aggravate the breach:
- 6.14.1 VWFS did not self-identify the breaches. The breaches were brought to VWFS's attention by the Authority following file review work conducted by the Authority; and

6.14.2 whereas the Authority published Final Notices in relation to similar arrears handling weaknesses (in particular, in respect of: (a) Yorkshire Building Society on 28 October 2014; (b) Moneybarn on 17 February 2020; (c) Lloyds on 11 June 2020; and (d) Barclays on 15 December 2020), VWFS did not review the adequacy of its implementation of its policies and procedures in light of these publications.

6.15 The Authority considers that the following factors mitigate the breach:

6.15.1 VWFS acknowledged the failings raised by the Authority, and prompted by the Authority, voluntarily undertook the Redress Scheme, providing redress to certain customers who were likely to be impacted by its failings;

6.15.2 VWFS made significant enhancements to its Collections function in an effort to ensure that similar issues do not arise in the future; and

6.15.3 VWFS cooperated with the Authority during its investigation, having promptly and voluntarily commissioned a review into the matters referred to in this Notice following feedback from the Authority. VWFS timeously accepted the findings of the Consultancy Firm.

6.16 Having taken into account these aggravating and mitigating factors, the Authority considers that the step 2 figure should be subject to a 10% uplift at step 3.

6.17 Step 3 is therefore £7,710,885.73.

#### **Step 4: adjustment for deterrence**

6.18 Pursuant to DEPP 6.5A.4G, if the Authority considers the figure arrived at after step 3 is insufficient to deter the firm who committed the breach, or others, from committing further or similar breaches, then the Authority may increase the penalty.

6.19 The Authority considers that the step 3 figure of £7,710,885.73 represents a sufficient deterrent to VWFS and others, and so has not increased the penalty at step 4.

6.20 Step 4 is therefore £7,710,885.73.

#### **Step 5: settlement discount**

6.21 Pursuant to DEPP 6.5A.5G, if the Authority and the firm on whom a penalty is to be imposed agree the amount of the financial penalty and other terms, DEPP 6.7 provides that the amount of the financial penalty which might otherwise have been payable will be reduced to reflect the stage at which the Authority and the firm reached agreement. The settlement discount does not apply to the disgorgement of any benefit calculated at step 1.

6.22 As the Authority and VWFS reached agreement at Stage 1, a 30% discount applies to the step 4 figure.

6.23 The step 5 figure (rounded down to the nearest £100) is therefore £5,397,600.

#### **Penalty**

6.24 The Authority therefore hereby imposes a total financial penalty of £5,397,600 on VWFS for breaching:

6.24.1 Principles 6, 7 and 3;

6.24.2 CONC 7.2.1R, 7.3.4R, 7.3.9R, 7.3.14R(1); and

6.24.3 DISP 1.3.1R.

## **7 PROCEDURAL MATTERS**

7.1 This Notice is given to VWFS under and in accordance with section 390 of the Act.

7.2 The following statutory rights are important.

### **Decision maker**

7.3 The decision which gave rise to the obligation to give this Notice was made by the Settlement Decision Makers.

### **Manner and time for payment**

7.4 The financial penalty must be paid in full by VWFS to the Authority no later than 4 November 2024.

### **If the financial penalty is not paid**

7.5 If all or any of the financial penalty is outstanding on 5 November 2024 the Authority may recover the outstanding amount as a debt owed by VWFS and due to the Authority.

### **Publicity**

7.6 Sections 391(4), 391(6) and 391(7) of the Act apply to the publication of information about the matter to which this notice relates. Under those provisions, the Authority must publish such information about the matter to which this notice relates as the Authority considers appropriate. The information may be published in such manner as the Authority considers appropriate. However, the Authority may not publish information if such publication would, in the opinion of the Authority, be unfair to you or prejudicial to the interests of consumers or detrimental to the stability of the UK financial system.

7.7 The Authority intends to publish such information about the matter to which this Final Notice relates as it considers appropriate.

### **Authority contacts**

- 7.8 For more information concerning this matter generally, contact Philip Cohen ([Philip.Cohen@fca.org.uk](mailto:Philip.Cohen@fca.org.uk)) or Bibhu Aggarwal ([Bibhu.Aggarwal@fca.org.uk](mailto:Bibhu.Aggarwal@fca.org.uk)) at the Authority.

### **Dee O'Sullivan**

Interim Head of Department

Financial Conduct Authority, Enforcement and Market Oversight Division

## **ANNEX**

### **RELEVANT STATUTORY AND REGULATORY PROVISIONS**

#### **1. Relevant Statutory Provisions**

1.1 The Authority's statutory objectives, set out in section 1B(3) of the Act, include securing an appropriate degree of protection for consumers.

1.2 Section 206(1) of the Act provides:

"If the appropriate regulator considers that an authorised person has contravened a relevant requirement imposed on the person, it may impose on him a penalty, in respect of the contravention, of such amount as it considers appropriate."

#### **2. Relevant Regulatory Provisions**

2.1 The relevant regulatory provisions as they were in force during the Relevant Period include those set out below.

##### *Principles for Businesses*

2.2 The Principles are a general statement of the fundamental obligations of firms under the regulatory system and are set out in the Authority's Handbook. They derive their authority from the Authority's rule-making powers set out in the Act. The relevant Principles are as follows:

2.2.1 Principle 6 (customers' interests) which states:

"A firm must pay due regard to the interests of its customers and treat them fairly."

2.2.2 Principle 7 (communications with clients) which states:

"A firm must pay due regard to the information needs of its clients, and communicate information to them in a way which is clear, fair and not misleading."

2.2.3 Principle 3 (management and control) which states:

"A firm must take reasonable care to organise and control its affairs responsibly and effectively, with adequate risk management systems."

*Consumer Credit sourcebook*

2.3 CONC is the specialist sourcebook for credit related activities, and it forms part of the Handbook. The relevant provisions of CONC are as follows:

2.3.1 CONC 7.2.1R which states:

"A firm must establish and implement clear, effective and appropriate policies and procedures for:

(1) dealing with customers whose accounts fall into arrears;

(2) the fair and appropriate treatment of customers, who the firm understands or reasonably suspects to be particularly vulnerable."

2.3.2 CONC 7.3.2.G which states:

"When dealing with customers in default or in arrears difficulties a firm should pay due regard to its obligations under Principle 6 (Customers' interests) to treat its customers fairly."

2.3.3 CONC 7.3.4R which states:

"A firm must treat customers in default or in arrears difficulties with forbearance and due consideration."

2.3.4 CONC 7.3.5G which states:

"Examples of treating a customer with forbearance would include the firm doing one or more of the following, as may be relevant in the circumstances:

(1) considering suspending, reducing, waiving or cancelling any further interest or charges (for example, when a customer provides evidence of financial difficulties and is unable to meet repayments as they fall due or is only able to make token repayments, where in either case the level of debt would continue to rise if interest and charges continue to be applied);

(2) allowing deferment of payment of arrears:

(a) where immediate payment of arrears may increase the customer's repayments to an unsustainable level;  
or

(b) provided that doing so does not make the term for the repayments unreasonably excessive;

(3) accepting token payments for a reasonable period of time in order to allow a customer to recover from an unexpected income shock, from a customer who demonstrates that meeting the customer's existing debts would mean not being able to meet the customer's priority debts or other essential living expenses (such as in relation to a mortgage, rent, council tax, food bills and utility bills)."

2.3.5 CONC 7.3.6G which states:

"Where a customer is in default or in arrears difficulties, a firm should allow the customer reasonable time and opportunity to repay the debt."

2.3.6 CONC 7.3.8G which states:

"An example of where a firm is likely to contravene Principle 6 and CONC 7.3.4 R is where the firm does not allow for alternative, affordable payment amounts to repay the debt due in full, where the customer is in default or arrears difficulties and the customer makes a reasonable proposal for repaying the debt or a debt counsellor or another person acting on the customer's behalf makes such a proposal."

2.3.7 CONC 7.3.9R which states:

"A firm must not operate a policy of refusing to negotiate with a customer who is developing a repayment plan."

2.3.8 CONC 7.3.14R(1) which states:

"A firm must not take disproportionate action against a customer in arrears or default."



*Dispute resolution: Complaints sourcebook*

2.4 DISP is the sourcebook for how complaints are to be dealt with by firms (amongst others) and the Financial Ombudsman Service, and it forms part of the Authority's Handbook. The relevant provision of DISP is as follows:

2.4.1 DISP 1.3.1R which states:

"Effective and transparent procedures for the reasonable and prompt handling of complaints must be established, implemented and maintained by ... a respondent..."

2.4.2 the Glossary of the Authority's Handbook provides the following definition for "complaint":

"... any oral or written expression of dissatisfaction, whether justified or not, from, or on behalf of, a person about the provision of, or failure to provide, a financial service ... which:

(a) alleges that the complainant has suffered (or may suffer) financial loss, material distress or material inconvenience; and

(b) relates to an activity of that respondent ... which comes under the jurisdiction of the Financial Ombudsman Service."

*DEPP*

2.5 Chapter 6 of DEPP, which forms part of the Authority's Handbook, sets out the Authority's statement of policy with respect to the imposition and amount of financial penalties under the Act.

*The Enforcement Guide*

2.6 The Enforcement Guide sets out the Authority's approach to exercising its main enforcement powers under the Act. Chapter 7 of the Enforcement Guide sets out the Authority's approach to exercising its power to impose a financial a penalty.