

Response to the FCA's letter to Mainstream Consumer Credit Lenders (MCCL)

On 2 December 2020, [FCA correspondence](#) urged mainstream consumer credit lenders to 'reflect' and 'challenge' their firm's operations to minimise consumer and market harm. The FCA also highlighted the increased operational and financial pressures placed on firms as a result of Covid-19 and the potential this has to harm consumers.

This document summarises the areas relevant to Aire and to our product, [Pulse from Aire](#), to assist lenders in better aligning their credit operations to this latest guidance.

Specifically, the FCA highlights the following areas as being of potential concern:

- inadequate affordability checks leading to, or exacerbating, the overindebtedness of customers
- failure to establish and implement clear, effective and appropriate procedures for customers in arrears resulting in unfair outcomes for those in financial difficulties
- unfair treatment of customers as firms embed and respond to the FCA's credit card persistent debt regulatory remedies
- lack of transparency in the pricing structures and features of consumer credit products which has the potential to lead to adverse customer outcomes

1. Affordability

The FCA details the importance of protecting consumers from becoming over indebted by being given credit they cannot afford (p. 3).

Conduct issues relating to affordability are, the FCA says, being driven by ambitious growth targets as well as *'business models with a focus on speed and ease of approval based on automation, avoiding any reliance or burden on consumers to provide additional information.'*

They go on to state that:

'Business models should be designed to deliver good customer outcomes, and robust affordability assessments are crucial to ensure this...This may involve taking a more intensive approach for higher risk customer segments and lending.'

A balance must be found by lenders between the offering of a frictionless, best in class consumer experience alongside responsible credit checks and balances. Incorrectly assessed, lenders could be exposing their customers to financial difficulty in the future.

Pulse addresses this by introducing a degree of 'thoughtful friction'. By providing additional engagement integrated into the existing customer journey, Pulse enables the lender to demonstrate a required duty of

care – without the inconvenience of manual outreach or the lengthy gathering of further documentation from higher risk customer segments.

Perfected through seven years of research and consumer testing, the engagement is delivered digitally and at scale via Aire's Interactive Virtual Interview (IVI). The experience is seamless for the consumer, completed on any internet connected device and typically takes between three and five minutes.

By determining the current financial position of the consumer, Pulse enables the lender to demonstrate fair and appropriate treatment and, as stipulated by the FCA, for 'clear, effective and appropriate procedures' to be put in place for those that need it.

The FCA also references within this section an awareness of '*an over-reliance on credit risk modelling which seeks to use data to predict whether repayments will be made rather than whether the customer can afford to make the repayments (affordability risk)*'.

Empowering consumers to share their financial situation, Pulse delivers crucial indicators of an individual's disposable income, helping lenders to ensure the credit being offered to their customers is truly affordable.

Pulse also delivers a Risk of Financial Difficulty insight to flag consumers who display any of the immediate risk factors associated with financial difficulty (as set out by the FCA).

2. The limitations of Credit Reference Agency data

The FCA makes reference to the following in relation to mitigating the risk of failing to deliver '*good customer outcomes, and robust affordability assessments*' (p. 3) with recent FCA test work highlighting:

'A reliance on Credit Reference Agency and other statistical or modelled data or tools within affordability assessments, without a full understanding of the data and its limitations'.

In contrast to many tools provided by traditional CRAs, insights provided by Pulse are, at every stage, explainable to the lender. This begins with the timely collection of first-party data. Unlike credit solutions that are modelled on existing socio-economic factors, Pulse gathers relevant information directly from the consumer to build a unique picture of their financial situation.

For instance, a Validated Disposable Income score from Pulse provides a positive or negative GBP value of the individual's most current disposable income to the lender.

All insights are transparently delivered to provide a clear understanding of the underlying data behind them. The validation process itself, made up of proprietary data sets, machine learning models and a rigorous approach to model accuracy, is underpinned by a robust and established culture of model governance at Aire.

[Pulse from Aire](#) delivers fully auditable credit insight for lenders, built specifically to adhere to established standards set out by the FCA within CONC 1.3 (Financial Difficulties) and CONC 5.2A (Creditworthiness Assessment). For more information, visit our [website](#) or download our [first-party data whitepaper](#).