



SUMMARY OF FLA RESPONSE TO HMT CONSULTATION ON CONSUMER CREDIT ACT REFORM

The importance of Consumer Credit Act (CCA) reform

1. The credit market is varied both in terms of the product types but also the customer segments. The manner in which a sophisticated, prime customer borrows is significantly different to a low-income consumer taking a small loan to cover a household emergency. Any reform to the consumer credit regulatory regime needs to reflect this. Consumers would be better served by a regime in which they benefit from the same consumer protections regardless of product but proportionate to the value or nature of the credit agreement.

The Approach to Reform

2. The starting point for CCA reform should be that the regulatory regime for consumer credit is the same as the Financial Services and Markets Act 2000 (FSMA) regime for all other financial services products, unless there are demonstrably valid reasons for divergence. An important by-product of this would be to enable the creation of a single consistent and joined-up set of rules where there is no dispute or ambiguity about the standards that apply. The current regime for consumer credit lacks this, as the requirements of the CCA, the Consumer Credit Sourcebook (CONC) and the Consumer Duty pull in different directions, further exacerbated by risk of divergent approaches being taken by FOS and by the courts considering Section 140A unfair relationships claims. The challenge will be to find a flexible middle way between prescription and principles that allows the lender to deliver for the customer in the most appropriate way.
3. UK lenders also face a significantly higher level of regulatory risk than those operating in other comparable jurisdictions, which leads to higher prices for consumers and makes the UK a less attractive market for outside investment and innovation.
4. A fundamental flaw in the CCA is that it is 'top down': it predetermines the types and characteristics of the products that firms may provide. This constrains innovation and hinders compliance with the Consumer Duty. A 'bottom up' system would allow firms to develop the products that customers need in an evolving market, subject to an overarching and consistent framework of protection. Such an approach may support efforts to increase financial inclusion.

Executive Summary

5. CCA reform is long overdue. The existing regime is complex and does not deliver good customer outcomes. This is borne out by [FLA research](#).



6. The FLA believes that customers are best served by a regulatory framework which enhances rights and protections in a manner fit for the current age. Good customer outcomes must be at the heart of this in line with the Consumer Duty.
7. The right regulatory framework should foster a more competitive market in which firms provide a broad array of products to suit a diverse customer base. The basis for this should be the customer journey.
8. We favour a simplified regime in which customers receive clear, concise information at the appropriate time. This will be facilitated by moving information provisions to the FCA's Handbook and repealing the modifying agreement requirements.
9. The review should seek to streamline duplication of rights with the many non-CCA ones transferring as many rights and protections as possible to FSMA. Section 75 and 56 rights should be better targeted to remove the disproportionate burden on firms. The voluntary termination provisions no longer operate as originally intended and so must be repealed.
10. The unfair relationships provisions must also be repealed as no other financial services markets are subject to such onerous requirements; they give rise to an inconsistent approach to enforcement; and are no longer needed given recourse to the FOS and the introduction of the Consumer Duty.
11. HMT's approach to sanctions should be developed alongside that on information requirements to ensure it is seamless. The new sanctions arrangements must be based according to consumer harm.
12. The review is an opportunity to align consumer protections, including consumer hire and Sharia-compliant products, so that customers base their choices on what products and services best help them meet their financial objectives rather than on regulatory considerations.

About the FLA

13. In 2022, Finance & Leasing Association (FLA) members provided £148.3 billion of new finance to UK businesses and households, £50.4 billion of which helped consumers and businesses buy new and used cars, including over 84% of private car registrations. £114.6 billion was in the form of consumer credit, accounting for over a third of all new consumer credit written in the UK. £33.8 billion of finance was provided to businesses via leasing and hire purchase, including about £20 billion in support of SME investment in new equipment.

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