fair4all finance

Good Practice Lending Guide

Introduction

May 2024

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1 Introduction

1.1 Purpose

For any organisation that provides consumer credit, understanding the creditworthiness of their customers and implementing appropriate operational processes and reporting frameworks to manage and monitor credit risk is vital for success. This is both in terms of ensuring the best outcomes for customers and the financial success of the business.

The Good Practice Lending Guide (The Guide) has been written to support credit providers (lenders) with the credit risk management aspects of running a consumer credit business effectively and in line with UK regulatory requirements. This covers:

1. **Credit risk activities that impact the customer journey**. This includes the criteria for assessing the creditworthiness of customer loan applications, customer management, arrears and debt collection
2. **Governance and regulatory compliance.** This is what needs to be done to meet relevant regulations, plus the management requirements to ensure good governance of the credit risk management process
3. **Management Information (MI).** This is reporting that supports informed decision-making in relation to (1) and (2). This includes reporting on the performance of the portfolio and key segments within it, plus the information required to understand the impact that specific decisions have had on portfolio behaviour

The Guide isn't prescriptive. We understand that it's the responsibility of each organisation to decide how it wants to run its business to meet its objectives. Instead, the goal is to describe good practice approaches that are widely used across the credit industry, supported by suitable examples where appropriate. Consequently, the Guide is intended to be used in one of two ways:

1. As a reference manual, to help you enhance your lending practices and provide assurance that there are no gaps or shortcomings in how your organisations assesses risk and makes lending decisions
2. To support new organisations in setting up the appropriate credit risk management practices that they need to succeed

The Guide covers general risk management principles that are applicable to all UK lenders. However, it is primarily intended for small to medium sized organisations working to provide fair and affordable credit to sectors of the community that may otherwise struggle to obtain it. For example, credit unions and other not for profit community lenders such as community finance development institutions (CDFI's) . Consequently, where specific requirements exist for certain types of organisations (such as credit unions), these are covered within the relevant component.

This document introduces The Guide. This includes a general overview of the consumer lending environment in the UK as well as introducing the more detailed components that form the main body of The Guide. A glossary of common terms and acronyms used in the consumer credit industry is provided in the appendices.

1.2 Scope and target audience

The Guide's focus is primarily on supporting small to medium sized lenders to achieve good practice in their management of credit risk which aligns with their risk appetite and their target market, with a focus on unsecured lending. The Guide provides information about the different aspects of credit risk management that organisations should consider when designing their management, governance and operational processes.

Given the Guide's focus on credit risk management, it doesn't cover the wider set of policies and procedures that organisations will also need to consider in the general running of their business. Some examples of these wider policies include: IT Strategy, Information Security, Business Continuity Planning (BCP), Procurement and Outsourcing. Operational and staffing issues, such as HR policies, resourcing and training are also largely out of scope. That's not to say that these policies won't be referenced where appropriate, but that they are not the main topics addressed by The Guide.

The Guide has been designed to be accessible to a broad range of people working in credit who will have a variety of skills and differing levels of knowledge and experience. Therefore, while acknowledging that the subject matter can be technical or specialist in nature at times, the authors have tried to explain concepts in simple terms from first principles, without assuming the reader has much prior knowledge in any given area.

1.3 Format and delivery

The Guide comprises several different sections. Each section covers one **risk management component.** Collectively, these components cover all the credit risk activities required to operate a consumer lending business effectively. For example, defining risk appetite, assessing credit risk and affordability, fraud prevention and credit reference agency (CRA) reporting.

The Guide is presented in a component orientated way because there isn't an industry standard approach to document formats and every lender has their own way of documenting and managing these items within their organisation. One lender may have a separate policy for each item. Another covers several components within each document. A third has a single high level policy document that refers out to relevant process guides, and so on. Consequently, the most important consideration for lenders is that everything is covered clearly and comprehensively with appropriate governance and oversight in place, rather than the precise format chosen to do that. The component-based structure also allows lenders to easily find the topic of interest.

1.4 The rest of this document

The remainder of this document provides:

- A high-level overview of the regulatory environment
- A view of the different types of lenders in the market, the types of customers that they serve and the types of credit they provide
- Details of other organisations that are relevant to retail lenders, such as industry bodies and consumer support services
- A description of each of the other components of the Guide, with a brief overview of the subject matter covered by each component

2 The regulatory environment

In this section, we provide an overview of the regulatory environment in which retail lending occurs in the UK. This is important because while organisation can set their own agenda and have different operating models, every organisation must operate within the constraints and obligations as dictated by industry regulation and overseen by various regulatory bodies.

Details of the regulatory requirements for specific components of The Guide will be covered by the relevant documentation for those components.

2.1 The Financial Conduct Authority (FCA)

All organisations involved in consumer lending in the UK are required to be authorised and regulated by the FCA. The FCA was established in 2013 to regulate financial services firms in the UK, which prior to 2013 was the responsibility of the Financial Services Authority (FSA). According to the FCA, they regulate around 50,000 firms covering a range of financial activities that impact individual consumers and businesses. This includes all banks, building societies, credit unions and most other organisations providing retail credit. Firms engaged in financial services more widely, such as brokers and insurers are also within the FCA's remit.

The role of the FCA is to ensure that companies are well run, comply with relevant legislation and deliver good outcomes for consumers. In this role, the FCA outlines its requirements for firms in the FCA Handbook[1]. The handbook contains several sections that can broadly be categorised as:

- **Standards**. These detail the behaviours that the FCA expects all regulated firms to adhere to
- **Specialist Sourcebooks**. These provide specific instructions about how certain types of financial activities should be undertaken by different types of institutions
- **Guides**. These are intended to provide further information to firms about how regulations apply to them in specific circumstances

Many sections of the Handbook are relevant to all regulated firms, regardless of what type of financial services they operate in. However, the sections of the handbook that are most relevant to credit risk

[1] FCA Handbook - FCA Handbook

management, as covered by The Guide, are detailed in Table 1.

Table 1. FCA Handbook Sections Most Relevant to Credit Risk Management

Section	Description
Principles for Business (PRIN)	PRIN describes the 12 principles of business[2] that FCA regulated firms must adhere to. All of these are important, but the ones that are most relevant from a credit risk management perspective are principle 6: customer interests (often referred to as treating customers fairly) and principle 12: customer duty, which is complementary to principle 6.
Consumer Credit Sourcebook (CONC)	CONC is the FCA's specialist sourcebook for credit-related activities. It principally covers lenders' obligations regarding unsecured credit or lending secured against non-land-based assets (such as cars). For credit agreements secured on land, such as a residential mortgage, these are covered by the FCA's Mortgage and Home Finance: Conduct of Business Sourcebook (MCOB).
Credit Unions Sourcebook (CREDS)	CREDS is the FCA's specialist sourcebook for credit unions. Most credit union lending falls within the remit of CREDS, but for regulated lending activities not covered by CREDS such as mortgage lending or high interest loans, then the regulations are defined by either CONC or MCOB, for unsecured lending and lending secured on land (mortgages) respectively.
Mortgages and Home Finance: Conduct of Business (MCOB) sourcebook.	MCOB relates to how businesses must manage *regulated* mortgage agreements, and some other type of lending secured on property such as Equity Release, Home Purchase Plans and Regulated Sale and Rent Back agreements. See section 2.1.1 for details of what constitutes a regulated mortgage agreement.
The Perimeter Guidance Manual (PERG)	PERG provides guidance on when FCA authorisation is required to undertake certain activities in relation to financial services.
Dispute Resolution: Complaints (DISP)	DISP lays out how consumer complaints should be dealt with. The first part covers how firms should deal with customers when they make a complaint. The second part describes how cases should proceed if a firm cannot resolve a complaint to a customer's satisfaction. This covers the role of the Financial Services Ombudsman Service (FOS) in resolving disputes.

Many other areas of the FCA handbook are more general in nature, ie all firms must comply regardless of the type of activities they are engaged in. For example, the Senior Management Arrangements (SM&CR) and Systems and Controls (SYSC) apply equally to all firms, not just those offering consumer credit. Likewise, there are sections in the handbook that won't be relevant if an organisation is not engaged in the relevant activity. For example, unless your organisation also offers insurance products, INSPRU, the

[2] This includes Customer Duty as the 12th principle.

Sourcebook for insurers, won't be relevant.

For most organisations working in the community finance lending sector, including credit unions, community finance development institutions (CDFI's), and any other not for profit lenders, the FCA is the regulatory body that will have the greatest influence on how they operate.

2.1.1 Regulated vs unregulated lending

The primary legislation that covers consumer credit in the UK is The Consumer Credit Act 1974 (The CCA)[3]. For example, the CCA has several stipulations as to the wording that lenders must use when credit is advertised and how the total cost of credit (The APR) must be calculated and displayed to customers. The FCA is the regulatory body responsible for ensuring that the lenders comply with their legal requirements under the CCA.

The CCA defines credit agreements as being either *regulated* or *unregulated*, and you will see these terms used frequently in legislation and by regulators. The difference between regulated and unregulated is important. This is because when it comes to the FCA's specialist sourcebooks (CONC and MCOB in particular), it is regulated agreements that fall within the scope of these.

All credit agreements between an individual and a lender are regulated unless they are specifically exempt. For consumer credit, (*which excludes lending secured against land or property, ie a residential mortgage)*, a full list of exemptions is provided by the Financial Services and Markets Act 2000[4]. However, the most common exemptions are:

- Loans where the amount of credit exceeds £60,260
- Credit agreements where the value of the agreement exceeds £25,000 and the loan will be used by the individual for business purposes
- Loans where there are fewer than 4 repayments, which are repaid in 12 months or less and are provided interest free (or without other significant charges)
- Small loans with a value of less than £50
- The lender is a credit union and the rate of the total charge for credit does not exceed 42.6%
- Where the total charge for credit does not exceed the Bank of England base rate plus 1.0% ie loans that are offered at very low rates
- Borrowing to pay insurance premiums, eg where someone pays their car or home insurance premiums over the year, rather than all in one go[5]

[3] The act has been amended a number of several times since 1974, and, as of April 2023, is under further review.
[4] The Financial Services and Markets Act 2000 (Regulated Activities) (Amendment) (No.2) Order 2013 (legislation.gov.uk)
[5] This is a form of borrowing because the insurance agreement exists for the full 12-month period from day 1. If the customer stops paying their premiums, that does not invalidate the insurance.

From a practical perspective, this means that (unless the lender is a credit union), almost all personal loans and credit cards in the UK are classified as regulated lending. Perhaps the most well-known exception to this has been Buy Now Pay Later (BNPL) lending, which became increasingly popular with retailers in the early 2020s. Most BNPL is for just a few weeks or months, and often interest free. Consequently, it has been classified as unregulated lending and exempt from many parts of the FCA's regulations. However, this is under review, and it is expected that low value short term loans (ie BNPL) will be reclassified as regulated lending.

2.2 The Prudential Regulatory Authority (PRA)

The PRA was formed at the same time as the FCA in 2013 and is part of the Bank of England, with both having been spun out from the now defunct Financial Services Authority. While being two separate organisations with different responsibilities, the PRA and FCA work closely together on certain issues.

The PRA's primary role is to ensure the stability of the UK's financial system, particularly to ensure that the funds maintained by deposit taking institutions are secure so that depositors funds are protected. The main way that the PRA does this is by ensuring that all deposit taking institutions have robust system for assessing current and future risks to their business, and that they then hold sufficient capital (financial reserves such as cash and other assets) to cover their losses, should those risks materialise.

The PRA is responsible for the regulation of around 1,500 firms (compared to around 50,000 for the FCA). From a community finance lending perspective, credit unions will be the main types of organisations that have regular engagement with the PRA. This is because they take deposits from their members which in turn fund their lending activities. Credit unions, therefore, must follow PRA rules regarding the safety and soundness of their organisations'.

The PRA's rules regarding credit unions are detailed in the PRA Rule Book and the PRA's Supervisory Statement SS2/16.

2.3 The Information Commissioner's Office (ICO)

The ICO is the UK body responsible for data protection. Any organisation that deals with personal data must be registered with ICO and must comply with the Data Protection Act 2018, which is perhaps more widely known as the General Data Protection Regulation (GDPR).

By its nature, any organisation providing consumer credit products and services will be dealing with personal data daily. For some customers, this could include special category data about health or other vulnerabilities. Consequently, data protection compliance should always be a high priority for all lenders, and most organisations will have a designated Data Protection Officer responsible for ensuring the organisation's compliance with GDPR.

There are lots of different requirements that the GDPR places on organisations, but the core principles are captured here:

- Organisations must gain permission from an individual to obtain their data. Data can't be used for purposes that an individual has not consented to
- Organisations must be transparent about their use of data. This means being willing and able to tell customers what data is being held about them and how it's used. Organisations must be able to explain the logic behind any decision making that impacts them in some way. For example, why their loan application was declined
- Organisations must have a data retention policy. This is to ensures that customer data is only maintained for as long as it's needed, and then it is deleted
- Lending organisations (as data controllers[6]) are responsible for data processed by third parties (data processors) on their behalf. A lender can't outsource their responsibility for personal data. If another company processes data on your behalf, it remains your responsibility that it is managed in line with data protection legislation
- Some types of data are defined as "Special Category" data which is more sensitive than other types of data. Organisations need to be careful about how they manage this type of data. Special category data is data that relates to race, ethnicity, political opinions, religious or philosophical beliefs, health data (including genetics), information about people's sexual orientation and their sex life. Trade Union membership is also considered to be special category data

[6] Being a data controller means that the organisation decides how a customer's personal data is to be used in conjunction with the purposes that the customer has consented to. This contrasts with a data processor who will only hold and process personal data on behalf of their client, in the way that the client has specified.

3 Organisations providing consumer credit

The UK has a broad range of institutions that provide consumer credit, with different ownership models, goals and objectives. In this section we provide a brief overview of the defining features of each type of institution.

3.1 Banks

Historically banks have been categorised by the type of customers they deal with and the services they offer. Merchant banks dealt mainly with international and corporate finance, while retail banks provided current account and loan facilities to individuals and small to medium sized businesses. Today, most large banks are described as "universal banks", with a mixture of merchant and retail interests. The main providers of retail banking services have also diversified into other areas of financial services, and now offer a wide range of products including mortgages and credit cards, as well as insurance, savings accounts, pensions and other types of investments.

In the UK, most of the consumer lending, by value, is provided via banks. However, most banks have focused on mainstream lending to already financially secure individuals. Consequently, many of the products and services provided by the largest UK banks are not available to individuals with a history of financial difficulty (as captured in a credit report provided by a Credit Reference Agency) or who don't have a sufficiently large or stable income that can be used to support borrowing.

3.2 Building societies

Building societies are mutually owned profit-making organisations that traditionally provided mortgages, funded by the savings accounts of their members. These days, building societies now offer broadly the same range of financial services as retail banks.

Traditionally, building societies were the main provider of residential mortgages, but this declined rapidly following the deregulation of financial services in the 1980s that allowed banks to start offering mortgages, and many building societies converting to banks in the 1980s and 1990s.

As with banks, most building society lending is focused on the mainstream market at those with a strong financial record and high levels of affordability to support borrowing.

3.3 Credit Unions

Credit unions are mutually owned financial cooperatives that have traditionally shared features with building societies. Credit unions are owned by their members with the deposits contributed by members used to supply credit to other members.

A credit union is usually created around specific interest groups sharing a 'common bond' or bonds. Examples include membership of a trade union or residence in a town or city. Consequently, many credit unions operate on a relatively small scale compared to the major banks and building societies. However, some of the largest have tens or even hundreds of thousands of members. Credit unions don't always receive a high profile, but there are over 350 credit unions operating in the UK today, serving the financial needs of almost two million customers[7].

From a regulatory perspective, credit unions are unique in that they are the only type of organisation discussed here that has its own specialist source book (CREDS) in the FCA handbook[8]. Many of the requirements of CREDS relate to the general running of credit unions. However, a key difference from a consumer credit perspective is that many forms of credit that would normally be considered regulated credit and subject to CONC in the FCA Handbook are classified as unregulated lending if they are provided by credit unions. Therefore, the regulations specified in CONC do not apply.

Having said this, the requirements of CONC and CREDS are, in the main, not contradictory and in many areas complementary. Therefore, it can be beneficial for credit unions to refer to CONC and related FCA publications to improve the quality of their internal management processes and thereby deliver the best possible outcomes for their members. For example, CONC App 1.1 details how the Total Charge for Credit must be calculated (The APR for a credit agreement). Likewise, by following the affordability assessment principles outlined in CONC, a credit union can evidence that it is following good practice in line with principle 6 of PRIN (treating customers fairly).

Another regulatory requirement unique to credit unions is the PRA's mandating of how provisions for bad debts must be calculated. These are specified in the PRA rule book (Section 3.1.1) and are discussed in more detail in the Provisions and Write-off component of The Guide.

3.4 Finance companies

A finance company (finance house) is any commercial organisation that provides consumer (and sometimes commercial) credit but not savings or deposit accounts. Their lending activities are mainly funded by commercial loans obtained from merchant banks, hedge funds or other large financial institutions.

Finance companies mainly provide credit in the form of secured and unsecured personal loans, hire-purchase agreements and card accounts. Some large finance houses also act as third-party credit

[7] Bank of England (2023). Credit Union Quarterly Statistics.
[8] There are also other areas of the wider handbook where credit unions receive specific treatment.

providers, acting on behalf of retailers and other service providers for the provision of store cards, retail credit and hire-purchase agreements. For example, NewDay Cards Limited, which is funded by private equity, supplies branded credit cards for organisations such as John Lewis and Argos[9].

While most finance companies are not targeting the same customer segments as community finance lenders, there are several commercial lenders in this market, seeking to provide low value short term loans to those that struggle to obtain credit elsewhere. While the social benefit of some of the products on offer in this sector are questionable, there are several commercial lenders that seek to deliver good social outcomes for their customers while also turning a profit.

With the introduction of the new "Customer Duty" principle by the FCA, there is likely to be increased regulatory pressure for commercial lenders to demonstrate that they provide "good value" and "fair outcomes" for their customers.

3.5 CDFIs, charitable and other not for profit lenders

Whereas banks, building societies and finance companies are usually commercially orientated, there are several charitable, mutual[10] and other not for profit lenders such as Community Development Finance Institutions (CDFI's) in the UK. These organisations are primarily focused on providing affordable credit to sections of society that may struggle to obtain affordable credit elsewhere. Often, they operate within a specific local area or community, providing finance to both individuals and small businesses. Lending is typically funded via grants, social investment, or retained profits from lending activities.

Compared to the major banks and building societies, most lenders in this sector have less resources. Therefore, making the most of what they have, to maximise the benefit that they can provide, is of paramount importance.

[9] NewDay (company) - Wikipedia

[10] This covers co-operative societies, community benefit societies and pre-commencement societies (formally known as industrial and provident societies).

4 Supporting services

In addition to lenders that provide credit and the regulators that oversee their operations, there are several other organisations that provide supporting services to the consumer credit industry. These can broadly be categorised as organisations that:

- Provide services to help consumers
- Provide services to help lenders
- Organisations that aim to support both consumers and lenders

4.1 Financial Ombudsman Service (FOS)

The Financial Ombudsman Service was established in 2000, with powers to resolve disputes between consumers and businesses via the Financial Services and Markets Act 2000.

Organisations should always try to settle disputes with customers in an amicable and fair way as detailed in the FCA Handbook (DISP), but if an agreement cannot be reached then customers should be referred to the FOS or the customer may approach the FOS directly. The FOS will review the evidence and make a binding decision as to who was in the right/wrong and any financial redress that may be due to the customer.

The FOS maintains a publicly available database of its decisions that can be accessed via its website. Several examples of ruling relating to community finance lenders are provided in various sections of the guide.

The FOS is funded via a combination of annual levies and case fees paid by FCA regulated firms. Levies are determined by combination of a fixed fee and per account fee, with different fees applicable for organisations offering different types of financial services.

For organisations who simply provide regulated unsecured personal loans then only a relatively small, fixed fee, is payable each year[11].

Fees are also charged on a per case basis for each case that the FOS deals with. However, credit union core lending is explicitly exempted from these case fees[12].

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[11] See the Fees Manual Section of the FCA Handbook. Section Fees: 5.1 Application and Purpose. Typically, this fee is less than £100 as at March 2023.
[12] See the Fees Manual Section of the FCA Handbook. Section .5B: Case fees.

4.2 Money and Pension Service (MaPS)

The Money and Pensions Service is a government body that was set up by the Department for Work and Pensions in 2019. Its goal is to provide people with financial help throughout their lifetime and with different types of financial decision making. A significant aspect of their role involves working with and funding partner organisations to deliver financial support services to individuals.

Some examples of the organisations that MaPS have provided financial support to include the debt advice charities Citizens Advice and the Money Advice Trust.

One of the key tools that MaPS has developed (in conjunction with some of the UK's biggest financial institutions) is the Single Financial Statement (SFS). The SFS is an approach to assessing a customer's income and expenditure and hence their ability to repay debt. MaPS have stated that their goal is for the SFS to become the industry standard tool used to assess customer affordability when offering debt advice, and many organisations are now using the SFS within their customer management processes.

Although primarily intended as a debt advice tool, there is no reason why the SFS cannot be used by an organisation at other stages of customer engagement. For example, as part of an affordability assessment when an individual applies for credit. However, this is not a widely adopted industry practice at the current time.

4.3 Debt advice services

A few lenders have dedicated in-house teams that can provide in-depth debt advice to customers when they experience financial difficulties and fall behind with their credit repayments, but for many small-medium sized organisations this is not feasible due to the resources and costs required to deliver such a service effectively.

However, there are a host of independent organisations and charities that provide independent financial advice for free. For example, Citizens Advice, National Debtline and StepChange. Consequently, many lenders will either engage with these organisations on behalf of their customers or refer their customers to them.

4.4 Association of British Credit Unions Limited

The Association of British Credit Unions Limited (ABCUL) is the largest trade body for credit unions in Great Britain, representing about 70% of credit unions in the UK. It represents the interests of its members to Government, the public sector and key stakeholders. It also provides a range of support services to help credit unions with the day-to-day operations.

4.5 UKCreditUnions (UKCU)

UKCreditUnions Ltd (UKCU) is a co-operatively run, membership based, national trade association for authorised and registered credit unions, credit union steering groups, mutual aid societies and credit union support organisations. They provide support services for members, including working with the credit union regulators.

4.6 ACE Credit Union Services

ACE Credit Union Services provides a range of support services, including training and representation with the regulators on behalf of its members.

4.7 League of Scottish Credit Unions

The League of Scottish Credit Unions was established specifically to support credit unions in Scotland (of which there are about 30 currently). Help is available to those wishing to set up a credit union, as well as advice to established credit unions that are seeking support on any aspect of how a credit union should be run.

4.8 Irish League of Credit Unions (ILCU)

Credit unions have been particularly successful in Ireland. Around than half the population of the island are members of a credit union, compared to only around 3% in the Great Britain. According to their website, the ILCU is the largest credit union representative body in Ireland, representing more than 270 affiliated credit unions in both the Republic of Ireland and Northern Ireland.

4.9 Building Societies Association (BSA)

Representing the 43 Building Societies across the UK and 7 Credit Unions. The BSA's objective is to champion and support its members, provide technical information on a range of topics and represent the sector on the impact and outcomes of new and changing regulation.

4.10 Responsible Finance

Responsible Finance is a national body for responsible finance providers, otherwise known as community development finance institutions (CDFIs). They facilitate access to funding, training and capacity building, advocating for a positive regulatory and policy environment that helps grow CDFI's and the Responsible Finance sector.

4.11 General trade bodies

There are several trade bodies that represent consumer credit providers across all areas of financial services. This includes The Consumer Credit Trade Association (CCTA), UK Finance and The Consumer Credit Association UK (CCA).

5 Deep dive into the guide

The previous sections of this introductory module have provided an overview of the consumer credit market in the UK. This included the different types of organisations that are involved in providing consumer credit, the products on offer and the areas of regulations that are most relevant to the management of credit risk. In this section, we provide more detail about what is covered in each of the other components that comprise The Good Practice Lending Guide, as detailed in Table 2.

Table 2. The individual components that comprise the guide

Ref	Risk Management Component	Component Description
RM0	Introduction to the Guide	This Document. It provides an overview of the lending environment in the UK and a summary of the components that comprise The Good Practice Lending Guide.
RM01	Credit Risk Appetite	This component describes how organisations should define their (credit) risk appetite. The risk appetite describes the different risks that an organisation is (and is not) willing to accept as part of its lending strategy. For example, the maximum loan amount they are willing to lend to a single customer; only lending to those in employment and details of any concentration risks thresholds. Monitoring, to determine if lending is within risk appetite and how exceptions should be dealt with and reported upon, is also covered.
RM02	Proposition Design	There are many ways that credit products can be designed and there are several extra features that be used to differentiate a product in addition to the loan amount, term and APR. This component describes how to put together a proposition for a credit product that meets business objectives, aligns with an organisation's risk appetite, and meet the needs of customers. Principles for setting credit limits and risk-based pricing will also be covered.
RM03	The Application Process	The application process describes the customer journey from initial enquiry through to completed application. This includes the different routes into the organisation, such as direct or via broker and the data that lenders should obtain about applicants at each stage of the journey. For example, data that applicants should provide themselves on the application form and what should be obtained via open banking, a credit report, or other sources. This document also covers the importance of having the right decision points at the right stage in the customer journey, and the use of decision engine software to manage the key

Ref	Risk Management Component	Component Description
		decision points in the application process.
RM04	Lending Policy (Credit Worthiness)	This component describes how to formulate a lending policy in line with an organisation's risk appetite. Principally, it covers how credit scoring and policy rules should be used in combination to assess the creditworthiness of each applicant. The treatment of referrals and processes around manual underwriting is also described.
RM05	Lending Policy (Affordability)	This document describes the different approaches that can be adopted for calculating customers' income and expenditure. This is to establish the affordability of the products that the customer is applying for.
RM06	Customer Verification and Fraud Prevention	This covers Know Your Customer (KYC) requirements and fraud prevention. This covers: (1) validation and verification of customer's name and address when they apply for credit to confirm they are who they say they are. (2) Anti-Money laundering checks against national sanctions lists and Politically Exposed Person (PEP) and (3) the additional fraud checks that should be undertaken when someone applies for credit. This includes the various tools that can be applied to identify and stop fraud occurring. This component also details membership requirements to the 3-fraud prevention services; CIFAS (Credit Industry Fraud Avoidance System), SIRA and/or National Hunter, the type of fraud checks they provide and how they should be used.
RM07	Treating Customers Fairly & Customer Duty	This component describes how organisations should treat customers to comply with the FCAs principle of "Treating Customer's Fairly" and the more recent FCA principle of "Consumer Duty." Customer duty goes beyond the "Treating Customers Fairly" principle by requiring organisations to have a greater understanding of their customer base and what their customers' needs are. This in turn enables them to avoid causing consumer harm and supports people in achieving their financial goals. Complaints handling, referral to the FOS in cases where a compliant can't be resolved internally and the treatment of vulnerable customers are also within the scope of this component.
RM08	Credit Agency Reporting	This begins by describes what a credit reference agency (CRA) is, how CRAs operate and the products and services that they provide. The relationship between data sharing and data provision is explained with reference to the SCOR rules of reciprocity that dictate how organisations are permitted to use data that they receive from CRAs. The nature and type of data that needs to be provided to the CRAs as part of a regular monthly submission is also covered, ie how CAIS fields need to be

Ref	Risk Management Component	Component Description
		defined, together with the data quality checks and processes that need to be in place to correct errors in the data, or where there is an "Event" such as a pandemic that requires mass overriding of standard reporting.
RM09	Scorecard Monitoring and Model Risk Management	This component covers the requirements for effective scorecard monitoring to ensure that the predictions made by the scorecard continue to be accurate in line with their design parameters. A simplified monitoring regime is described for users of generic "off the shelf" scores such as those provided by the credit reference agencies. The PRA's principles for Model Risk Management (MRM) are also covered here.
RM10	Portfolio MI	Portfolio MI explains the types of portfolio level reporting that is required to understand how the business is performing. Portfolio MI provides a vital input to various forums in support of good governance, and operational and strategic decision making. It covers static and emerging views of portfolio behaviour, both of which are needed to come to a full understanding of how a portfolio is performing over time.
RM11	Arrears and Collections Strategy	This section explains how customer should be dealt with at various stages of their relationship with a lender. It outlines how they should be treated and what help can be offered when they experience financial difficulty. The scope of this section covers the full arrears lifecycle from pre-delinquency through to arrears, default, write-off and post write-off recoveries.
RM12	Data Maintenance and Retention	High quality data, maintained in a well-structured format, is required to support many credit risk management activities. This includes operational reporting, the delivery of appropriate MI into management and governance forums, the development of credit risk scorecards and the optimisation of decision-making at all stages of the customer lifecycle. However, data protection requirements mean that customer data should not be retained any longer than is strictly necessary. This part of The Guide covers the data infrastructure that organisations need to support these business activities while remaining compliant with GDPR data protection principles via an appropriate data retention policy.
RM13	Governance	This component covers the governance frameworks and forums that should be in place. For example, the terms of reference for each governance forum, who should attend and how often the meetings should be held. This also covers the process for reviewing, updating and internal audit/sampling to ensure adherence

Ref	Risk Management Component	Component Description
		to policies.
RM14	Provisions and Write-off	The different ways to account for provisions for bad and doubtful debts (impairment) are presented in this component, with reference to the specific requirements for some types of lenders, ie provision requirements for credit unions as detailed in the PRA sourcebook (CONC).
RM15	Debt Advice and Financial Literacy	This details what good practice looks like in terms of a) referral to debt advice services for customers with debt problems and, b) the information and tools that are available to customer who may need financial advice. For example, interactive tools that help them to calculate affordability of credit or that provide guidance about additional benefits and grants that they may be eligible. Information about how to complain about mis-selling of debt management products (such as inappropriate advice around IVAs or debt relief orders) would also be covered.

Each of the components can be used independently, but there are linkages and areas that overlap between components. Table 3 illustrates where there is greatest synergy between components.

Table 3. Synergy between components

Size	Weighty/ detailed component	Mid-sized component	Smaller component	Degree of overlap/inter-dependency	Significant	Moderate	Low

Links between components		RM 1	RM 2	RM 3	RM 4	RM 5	RM 6	RM 7	RM 8	RM 9	RM 10	RM 11	RM 12	RM 13	RM 14	RM 15
RM1	Credit Risk Appetite															
RM2	Proposition Design															
RM3	Application Process															
RM4	Lending Policy Credit Risk															
RM5	Lending Policy Affordability															
RM6	Customer Verification															
RM7	Consumer Duty and Complaints Handling															
RM8	Credit Reference Agency															
RM9	Model Monitoring															
RM10	Portfolio MI															
RM11	Arrears and Collections Strategy															
RM12	Data Maintenance and Retention															
RM13	Governance															
RM14	Provisions and Write-off															
RM15	Debt Advice and Financial Literacy															

6 Appendix A: Glossary of credit risk management terms

Term	Description
Amortizing	Amortizing means that regular loan repayments cover both capital and interest. This is so that the loan is fully repaid at the end of the agreement. This contrasts with a balloon (bullet) loan, where the repayments only cover interest. The full amount borrowed is repaid as a single "Bullet" payment at the end of the term. Amortizing loans are commonly referred to Capital and Interest loans, and Balloon loans as Interest Only loans.
Arrangement	A temporary agreement between a lender and a borrower for the borrower to pay a different amount to the contractual terms of their loan agreement. Most often, arrangements are temporary, and are used to allow the borrower to overpay for a time, to make up for any missed payments. However, arrangements can also be used as a forbearance measure to provide reduced payments temporarily.
Asset Liability Committee (ALCO)	ALCO is the primary governance committee of a bank, tasked with the maintenance of the bank's balance sheet and general accounts. One of the functions of ALCO is approving the provisions allocated by the bank. Smaller commercial organisations and credit unions may absorb the duties of ALCO within Board meetings or relevant Board sub-committees.

Term	Description
"Bad"	A common, informal term, used across the credit industry to define customers whose repayment behaviour is undesirable. Bad usually used to mean the same or very similar thing to "default" or a case of "bad debt." However, lenders will sometimes define alternative definitions of "Bad" for specific analytical of risk modelling purposes
Bad rate	Broadly similar in meaning to "default rate" but based on the lenders definition of "Bad." The bad rate is defined as the number of Bads/ (number of goods + number of bads)
Balloon (bullet loan)	See amortizing.
Bankruptcy	A form of insolvency where a borrower's assets are seized (except things deemed essential for living such as clothes or tools required to do your job) and the funds distributed amongst the bankrupt's creditors. Normally, bankruptcy last for 12 months, after which all debts are written-off and can no longer be collected against.
Capitalised (See RM11 Arrears and Collections Strategy)	Where the arrears owing on the account are added to the original loan, and the arrears is set to zero.
CIFAS	CIFAS is a not-for-profit fraud prevention membership organisation
Community benefit society	These are businesses that are run for the benefit of the wider community. The profits that they make are re-invested for the community's benefit. Community benefit societies are a form of mutual society.
Community Finance Organisation	This is a charity, mutual or limited community interest company, that provides credit with the goal of social benefit. This doesn't mean that providing a loan can't be profitable, but that the primary purpose of the loan is to benefit the customer and/or the wider community. Often this type of lending is low value (<£2,000) and short term (<24m) but this need not necessarily be the case.
Community Finance Lending	An informal term used to refer to lending to individuals where the primary goal is social benefit. This doesn't mean that providing a loan can't be profitable, but that the primary purpose of the loan is to

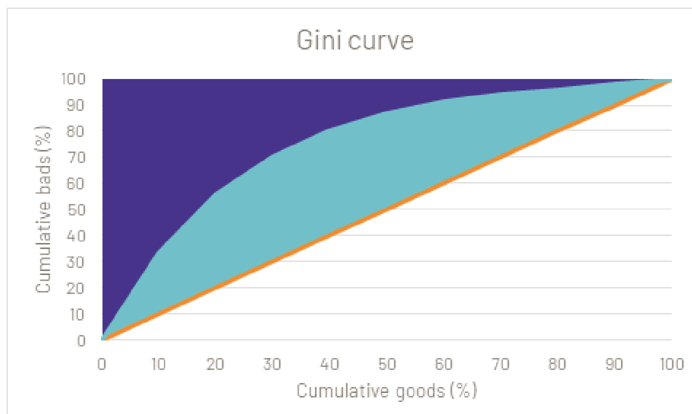
Term	Description
	benefit the customer and/or the wider community. Often this type of lending is low value (<£2,000) and short term (<24m) but this need not necessarily be the case.
Consumer Credit Source Book (CONC)	The Consumer Credit Source Book (CONC) is the FCA's specialist sourcebook for credit-related activities. It principally covers lenders' obligations regarding unsecured credit or secured against non-land-based assets (such as cars). For credit agreements secured on land, such as a residential mortgage, these are covered by the FCA's Mortgage and Home Finance: Conduct of Business Sourcebook (MCOB).
Consumer Credit Source Book relevant legislation (CONC 5.2A – Creditworthiness Assessment)	The primary regulation for consumer credit firms, excluding lending secured on land (i.e., mortgages). CONC is managed and updated by the FCA and incorporates the FCA's interpretation of the Consumer Credit Act, plus additional FCA policies and principles relevant to retail credit providers.
Contractual arrears	The difference between what someone should have paid according to their credit agreement and what they have actually paid.
Co-operative society	A business that is run for the economic, social and cultural benefit of its members. Co-operatives are one form of a mutual society.
Credit Unions Sourcebook. (CREDS)	The Credit Unions Sourcebook (CREDS) is the FCA's specialist sourcebook for credit unions. Most credit union lending falls within the remit CREDS, but for regulated lending activities not covered by CREDS such as mortgage lending or high interest loans, then the regulations are defined by either CONC or MCOB for unsecured and lending secured on land (mortgages) respectively.
Credit Reference Agency (also known as a Credit Bureau)	An organisation, licensed under the Consumer Credit Act 1974, to hold information about individuals' repayment behaviour when using credit products such as mortgages, loans, and credit cards. Nearly all UK-based Lending institutions provide details of the balances and arrears status of their customer accounts to one or more of the UK credit reference agencies each month. When a new customer applies for a loan, a lender will purchase a copy of the customer's credit report from the CRA, which details the

Term	Description
	balances and arrears status of the customers current and previous loan agreements with other lenders. The 3 main credit reference agencies in the UK are Experian, Equifax, and TransUnion (formally CallCredit).
Credit Score	A credit score is a number which provides a holistic view of a customer's creditworthiness based on several different features (characteristics). Typically, these are a mixture of geo-demographics (eg age, occupation, residential status) and financial history (eg number of existing credit agreements, credit card utilisation, defaults, and court judgements). Credit Reference Agencies each provide their own credit scores and the scores differ between agencies due to the different data and methodologies used to create them. Individual lenders often develop their own Credit Score(s), which are tailored to their customer base and may incorporate additional data sources that they have available.
Credit Scoring	An algorithm (mathematical formula) that creates a credit score for an individual by assigning weights to the different pieces of information that is known about them.
Data Protection Impact Assessment (DIPA)	A process for assessing the impact of new types of processing of personal data where there the processing is deemed to be "High Risk". A firms data protection officer should be able to advise if a process is deemed high risk or not.
Data Protection Policy	An internal policy document covering an organisations use of personal data and detailing how it complies with GDPR. Data retention may form a sub-section of this policy or be a standalone policy that this policy references.
Data Retention Policy	A policy that details the organisations data retention policy. Often a sub-section of the wider data protection policy.
Dispute Resolution Handbook (DISP)	The Dispute Resolution Handbook is part of the FCAs handbook that sets out how complaints are to be dealt with by respondents, including lenders and the Financial Ombudsman Service.
Debt Collection Agency (DCA)	A firm specialising in collecting past due and defaulted debts. This

Term	Description
	may be on behalf of a lender on a commission basis, or via debt sale, where the DCA purchases portfolios of delinquent debts from lenders. All DCAs must be registered and regulated by the FCA.
Debt Relief Order (DRO)	A form of insolvency (bankruptcy) for debts of up to £30,000 where a borrower does not have significant assets, such as a property, savings, or car (worth more than £2,000). Given the borrower has few assets, no monies are collected to repay creditors once a DRO has been granted, and all outstanding debts are written off.
Default	Default is defined as the point where the lender believes that the arrears have reached a point where it is unlikely to be repaid in full. Consequently, default is often the point at which a lender's arrears strategy switches to one of debt recovery rather than returning the customer to a good paying status. Default is primarily based on months in arrears, but other conditions (termed unlikeliness to pay indicators) can also be included. For example, if a customer notifies the lender that they have been declared bankrupt or if a customer dies, then these are usually considered to be default conditions. Most definitions of default adopted by lenders align with regulatory definitions defined under IFRS9 accounting standards or PRA defined capital requirements. These both set 3 months (90 days) as primary definition of default.
Eligible Loan Deduction Scheme (ELDS)	This is a government initiative to support the expansion of affordable credit to people on low incomes. It is part of the government strategy for reducing financial exclusion. It allows credit unions and CDFIs to refer serious arrears cases to the Department for Work and Pensions DWP, to allow debts to be collected directly via benefit deductions by the WP, who then passes on the payments to the lender.
Final Response (see RM7 Consumer Duty and Complaints Handling)	A final response is a written response from the lender which covers the following elements: (a) accepts the complaint and, where appropriate, offers redress or remedial action; or

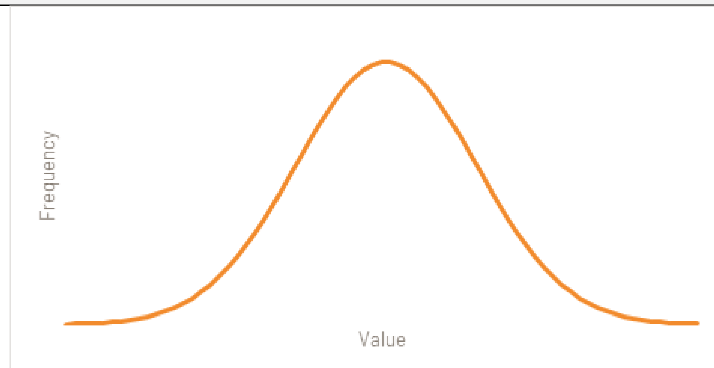
Term	Description
	(b) offers redress or remedial action without accepting the complaint; or (c) rejects the complaint and gives reasons for doing so. and which: (d) encloses a copy of the Financial Ombudsman Service's standard explanatory leaflet and provides the website address of the Financial Ombudsman Service. (e) informs the consumer that if they remain dissatisfied with the lenders response, they may now refer his complaint to the Financial Ombudsman Service; and (f) indicates whether the lender consents to waive the relevant time limits by including the appropriate wording set out in ■ DISP 1 Annex 3R
Financial Conduct Authority (FCA)	This is the regulatory body responsible for the functioning of the UK financial markets. This includes the regulation of firms providing consumer credit products and services.
Financial Ombudsmen Service (FOS)	The Financial Ombudsman Service is a free and easy-to-use service that settles complaints between consumers and businesses that provide financial services. Usually, customers will be referred to FOS if they cannot find a satisfactory resolution to their issue via direct negotiation with their lender.
Financial Reporting Council (FRC)	The body that interprets accounting requirements for UK businesses. The FRC produce several accounting standards that describe how UK companies should calculate their financial position and report this in their published accounts
Financial Reporting Standards (FRS)	The set of accounting standards, produced by the FRC. FRS102 contains details of provision calculations. In practice, provision under FRS102 for consumer credit and personal lending is identical to provision calculation under IAS39
Financial Services Authority (FSA)	Until 2013 the FSA had responsibility for all regulation across the financial services sector. In 2013, the FSA was split into two separate functions. The FCA having responsibility for conduct and ensuring

Term	Description
	good customer outcomes, and the PRA being responsible for financial stability.
Forbearance	A relaxation of the original terms of a credit agreement to help a financially struggling customer. This could be in the form of reduced payments for a period, a payment holiday, or a suspension of interest charges.
Fraud Scoring	Similar in principle to credit scoring, A fraud score is a number which provides a holistic view of a customer's propensity to be a fraudster or to be the victim of fraud (ie a fraudster is using another person's identity. The scores are based on factors that are shown to correlate to fraudulent behaviour such as large or unusual financial transactions that are out of keeping with the normal behaviours exhibited by the customer.
General Data Protection Regulation (GDPR)	The General Data Protection Regulation (GDPR) is a European data protection law that gives individuals more control over their personal information and includes rules and guidance about how companies should think about data privacy.
Gini coefficient (See RM9 Model Monitoring)	The Gini coefficient measures score discrimination (i.e. the ability of a scorecard to separate high risk from low), where the target variable is binary (e.g. default vs non-default). It is calculated by comparing the cumulative proportion of good and bad accounts throughout the scoring range: $1-\sum_i(B_i-B_{i-1})(G_i-G_{i-1}) 1-\sum iBi-Bi-1Gi-Gi-1$ Where: $B_i Bi$ = Cumulative bads at score i $G_i Gi$

Term	Description
	= Cumulative goods at score i Or equivalently, as illustrated in the below chart: *Area AArea A+Area B Area AArea A+Area B* **Area A purple** **Area B blue**  A random score with no discrimination would have a Gini of zero and a perfect score would have a Gini of 100%.
"Good"	The opposite of "Bad" see above
IAS39	An older International Accounting standard used for calculating provisions under an "Incurred loss model" This means that provision is only calculated where there is some indicator that loss is likely to occur. For example, when a customer defaults on their loan repayments
IFRS9	The international accounting standard used by all large lenders to calculate their provisions. The calculation of provision under IFRS9 is relatively complex compared to FRS/IAS standards. Therefore, it is not widely adopted by smaller lenders due to the resource requirements of implementation
Impairment	A loan is said to be impaired if there is evidence of increased risk that the loan will not be repaid. The most obvious indicator of

Term	Description
	impairment on a loan is when the loan enters arrears due to non-payment, by there are a range of additional indicators that may indicate potential non-payment and hence impairment
Information Commissioner's Office (ICO)	The government body responsible for ensuring organisations comply with the UK implementation of GDPR.
Initial Recognition	Initial recognition refers to when a loan first appeared on the balance sheet. This is usually when a new loan is granted and added to a lender's portfolio. However, it can also refer to other ways in which a loan can be added to a portfolio, such as through the purchase of a loan book from another lender, or when an existing loan is consolidated or replaced by a new loan
IVA (Individual Voluntary Arrangement)	An IVA is a statutory insolvency agreement where a borrower agrees a formal repayment plan to repay their debts. This will usually involve a borrower agreeing what they can afford to pay each month, and then agreeing with creditors the proportion of their debts and over what timeframe (usually several years) they will repay those debts. Having an IVA will usually restrict an individual's ability to take out new borrowing and will adversely impact their credit rating for several years.
Impairment	A loan is said to be impaired if there is evidence of increased risk that the loan will not be repaid. The most obvious indicator of impairment on a loan is when the loan enters arrears due to non-payment, by there are a range of additional indicators that may indicate potential non-payment and hence impairment.
Initial Recognition	Initial recognition refers to when a loan first appeared on the balance sheet. This is usually when a new loan is granted and added to a lender's portfolio. However, it can also refer to other ways in which a loan can be added to a portfolio, such as through the purchase of a loan book from another lender, or when an existing loan is consolidated or replaced by a new loan.
Insolvency	A general term that covers bankruptcy, IVAs, and DROs.
Joint Money Laundering Steering Group (JMLSG)	The JMLSG produces guidance (JMLSG Guidance) to assist those in financial industry to comply with their obligations in terms of UK anti

Term	Description
	money laundering (AML) and counter terrorist financing (CTF) legislation and the regulations prescribed pursuant to legislation.
Know Your Customer (KYC)	The FCA requirement to "Know your Customer" primarily relates to confirming that the customer is who they say they are, and that they are someone that the company is allowed to do business with. This is to prevent fraud and other criminal activities, such as money laundering. Know your customer checks cover the due diligence that financial (and other) organisations must undertake to ensure that they know who their customers are. KYC processes are primarily required to comply with UK's anti-money laundering laws. Having good KYC practices in place also supports fraud prevention but creating barriers to fraudsters using false names and other fictitious information.
LGD (See RM9 Model Monitoring)	Loss Given Default.
Money Laundering	The act of passing money gained by illegal means through the financial system to generate "clean" money that appears to have come from a legitimate source.
Money Laundering Reporting Officer (MRLO)	An individual appointed by a firm to oversee its anti-money laundering processes and procedures. All FCA regulated firms are required to have an MRLO.
Net Present Value (NPV)	A method of calculating how much future revenues should be accounted for in the present, considering the time value of money. For loans, this typically, this involves discounting future income based on the interest rate charged on the loan. The higher the interest rate the less future revenues are worth today.
Normal distribution (See RM9 Model Monitoring)	A normal distribution describes data that is symmetrically distributed and follows a bell shape as shown below.

Term	Description
	 Many different types of data (approximately) follow a normal distribution and may types of statistical tests assume that the data being examined follows a normal distribution.
Open Banking	Open Banking refers to customers who have given permission for lenders to review the transactions that occur in relation to their bank account(s). This enables the lender to verify the customer's income and expenditure patterns.
PD (See RM9 Model Monitoring)	Probability of Default.
Privacy Notice	A public statement informing individuals about the types of data that an organisation collects and what it does with that information. The notice should also provide details of individuals' rights under GDPR and how long the organisation keeps their data.
Provision (Impairment charge)	An amount "put aside" to cover a loss event that has not yet occurred but may happen in the future.
Policy Rule	A clear statement of a lenders criteria for lending. Usually, a set of clear Policy decline rules are used within the lending policy to identify specific high risk cases, such as bankrupts of those with serious arrears, that should never normally be granted a loan
Politically Exposed Person	This is a prominent figure, sometimes but not always in the public eye. Examples in the UK are senior politicians and heads of prominent institutions, and potentially their associates. PEPs are deemed to be high risk due to the nature of the roles they

Term	Description
	undertaken, making them potential targets for bribery, corruption and fraud. Dealing with PEPs requires a higher level of due diligence than for standard customers. For example, confirming that their assets come from legitimate sources. There is no singular definition of what defines someone as a PEP, but most countries base their definitions on the recommendations of The Financial Action Task Force (FATF).
Pre-commencement Society	These are a form of mutual society that were previously known as industrial or provident societies. They are businesses that are run for the benefit of their members or the wider community, and which were registered before 1 August 2014 (or pre-6 April 2018 for societies in Northern Ireland).
Predictive Model (See RM9 Model Monitoring)	A predictive model can be broadly defined as any process that uses past and current data to predict future behaviour of a specific outcome or to understand the current state of a system. Predictive modelling typically involves training and testing data and may involve one or more techniques, algorithms and tools including but not limited to: • Statistics • Mathematics • Machine Learning algorithms • Optimization techniques
Principles of Reciprocity	These are the rules that are determined by the Standing Committee on Reciprocity (SCOR) as to how lenders share and use data via a credit reference agency.
Prudential Regulatory Authority (PRA)	The PRA is a part of the Bank of England and is regulatory body responsible for ensuring the soundness of the UK financial system. For example, ensuring that companies hold enough capital reserves and have sufficient liquidity to remain solvent.
Re-aged	This is where the arrears on an account are set back to zero.

Term	Description
Reporting period	The frequency with which accounting figures are updated. This is usually monthly, but could be four-weekly, quarterly or another period.
Risk Appetite	An organisations expression of the risk profile of their customers. What type of risks they will or won't accept in line with their business model.
Scorecard	A scorecard is a type of model that uses characteristics to calculate and assign a score to an individual, which represents their expected level of risk with respect to a pre-defined target variable.
Sequestration	The Scottish term for the equivalent of Bankruptcy in England and Wales
Special Category Data	Special Category Data is data that relates to an individual's race or ethical origin, political opinions, religious or philosophical beliefs, trade union membership, genetic data, biometric data, data concerning their health, sex life or sexual orientation The presumption is that this type of data needs to be treated with greater care because collecting and using it is more likely to interfere with people's fundamental rights or increase the risk of someone being discriminated against.
Stress Testing	For the purposes of calculating affordability, stress testing involves considering the affordability of loans under harsher, stressed, conditions. The goal is to ensure that the customer has some resilience to changing circumstances, and that any credit they obtain remains affordable if things change. Examples of stressing are adding future inflationary prices rises into expenditure, factoring in increased mortgage payments in response to rising interest rates, and discounting certain elements of income, such as bonus payments.
Subject Access Request (SAR)	The right under GDPR for a customer to request that an organisation provides details of the information that they hold about them.
Target variable (See RM9 Model Monitoring)	The dependent variable on which a model is trained to predict the outcome of.

Term	Description
The Total Charge for Credit	The total charge for credit represents all interest, fees and other charges made in relation to a credit agreement expressed in the form of an Annual Percentage Rate (APR). For the details of how the total charge for credit is calculated, see: CONC App 1.1 (Which is based on the Consumer Credit (Total Charge for Credit) Regulations 2010).
Thin Credit File	This refers to cases where a person's credit report contains no or very little credit reference data. There is no standard UK definition of a thin credit file, but the FCA in its 2022 market survey defined a thin credit file as: "i) has 2 or fewer credit accounts (eg a credit card and a personal current account) and ii) those accounts were opened in the last 6 months." (MS19/1.2 Credit Information Market Study Interim Report Annex 1: Data quality, p.5)
Variable / Characteristic / Feature (See RM9 Model Monitoring)	Alternative terms for the required data fields used to calculate model outputs.
Vulnerability Registration Service (VRS)	The Vulnerability Registration Service (VRS) is a not-for-profit organisation providing a central, independent register of vulnerable people – helping companies to identify vulnerability and keep people safe. It is free to use, entirely voluntary, and users can remove themselves from it whenever their circumstances have sufficiently improved.

7 Appendix B: Common acronyms

Acronym	Meaning
AML	Anti Money Laundering
CAIS	Credit Account Information Sharing
CCA	Consumer Credit Act
CDFI	Community Development Finance Institution
CONC	Consumer Credit Source Book
CRA	Credit Reference Agency (also known as a Credit Bureau)
CRAS	Credit Risk Appetite Statement
CREDS	Credit Unions Source Book
F4A	Fair 4 All Finance
FCA	Financial Conduct Authority
FOS	Financial Services Ombudsman services
FRC	Financial Reporting Council
FSCS	Financial Services Compensation Scheme
GDPR	General Data Protection Regulation
KYC	Know Your Customer
MI	Management Information
MRM	Model Risk Management

Acronym	Meaning
OB	Open Banking
PEP	Politically Exposed Person
PRA	Prudential Regulatory Authority
RAS	Risk Appetite Statement
SFS	Single Financial Statement
SCOR	Standing Committee on Reciprocity
SM&CR	Senior Managers and Certification Regime
SYSC	Systems and Controls
ToR	Terms of Reference