

Putting the customer at the heart of the relationship

If dealers wholeheartedly adopt the FCA's customer-first principles on consumer finance, they can help them to increase satisfaction, retention and, ultimately, sales

Andy Gruber, the director of ALPHERA Financial Services, sums up the FCA focus by adapting an old Bill Clinton campaign slogan: "It's the customer, stupid!"

According to Gruber, dealers and other motor finance credit brokers should embrace the required changes not just because the FCA stipulates them, but because they are in line with customers demanding more transparency and honesty.

"The customer-centricity advocated by the FCA is a great opportunity for our industry to re-invent itself," he says.

"More and more dealer groups are buying into this approach and the benefits it yields with regards to increasing customer satisfaction, customer retention and, ultimately, car sales."

There is, however, no one-size-fits-all guide to setting up and maintaining a customer-centric culture in line with the FCA's expectations, since the principle-based approach to regulation ultimately leads to a lot of grey areas.

Gruber explains: "The principle-based

regulation adopted by the FCA is leading to a variety of interpretations and approaches by lenders, which dealers are currently finding difficult to manage.

"At Alphera, we are therefore promoting solutions that simplify the lives of our dealers, while at the same time focus on delivering the best possible customer outcomes. Feedback from the market to our approach so far has been overwhelmingly positive."

Learn from other industries: don't become complacent

The results of the F&I industry in 2013 and 2014 have been outstanding by any measure. On the back of very strong growth rates in retail car sales, the share of dealer-sourced car finance has increased from 45% to 75% in the course of five years (source: Glass's).

Consequently, the industry is in a very strong position and the high level of confidence with all key stakeholders is almost palpable.

Speaking at the AMF&I Compliance Conference in November 2014, Gruber warned that dealers must not become complacent and should instead take on board lessons from other industries.

Looking at two possible outcomes for the industry, Gruber suggested that dealers

who remain in the old world and ignore the cultural shift required by the FCA will go the way of brands such as Blockbuster and Nokia: "Nokia, Borders, Virgin Megastores and Blockbuster were all very successful companies not too long ago. A mixture of complacency and not being able to tune into prevailing customer sentiment have led to the failure of these brands in the UK.

"Taking on board the lessons from this, our industry needs to embrace change to help meet our customer expectations with regards to transparency and trust."

Gruber's vision of a new world highlighted how motor retailers who embrace a customer-centric approach should ultimately see their bottom line increase: "Feedback from partners who have already adopted this approach shows that the increased confidence within the sales team to talk about finance to all their customers will lead to growing finance sales, which ultimately will lead to a higher bottom line profitability."

If the industry doesn't embrace the required change, others will, Gruber warns. "Peer-to-peer lending, as well as online finance solutions, will develop into a real threat to our industry. The latest news surrounding the introduction of mobile payment solutions by Apple and Facebook will only be the beginning. Our industry needs to start preparing for this potential threat right now.

"With all of this in mind, it is important that the motor retail industry focuses on delivering the right financial products, in an easy-to-understand way, through the right channels, to consumers that can afford the credit and who are empowered to make the right decision for their personal situation.

"Not only will this put dealers in line with the requirements of the FCA and our customers, but will ensure we are all well positioned to build on the record-breaking performance of the automotive sector in the months and years to come."

First things first: the authorisation process

Since the first FCA landing slot for consumer credit firms opened on October 1, 2014, the initial batch of applicants has already passed its New Year's Day deadline. Over the next 15 months, the remainder of the consumer credit industry will also take its turn.

Grant Perks, sales compliance specialist at Alphera, has been working closely with dealers in preparation for the FCA authorisation roll-out.

"We all know that the regulator is looking to see examples of sustainable and well controlled business models, which are underpinned by a culture of doing the right thing," he says.

"The question is what does this actually mean when it comes to making an application for authorisation?"

"The first step is to decide which of the application options is right for your business model. The choices include both full and limited permissions, as well as the appointed representative route. All of these come with their own levels of oversight, liability and flexibility in the finance products you can offer.

"Dealers who are appointed representatives for general insurance can apply for limited permissions, but it is important to check that the authorisation you obtain will allow you to carry out all of your consumer credit activities, which would include credit broking, debt adjusting and debt counselling when dealing with part-exchange

ALPHERA'S TOP TIPS TO HELP YOU WITH YOUR APPLICATION

1. Don't miss your landing slot!
2. Start putting together your application now – it will take longer than an afternoon
3. The application is bigger than you think – from 12 to 60 pages
4. Be open and honest – talk about what you can prove
5. This is a cultural change – take it seriously

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vehicles with outstanding finance.

"In addition, a dealer who is already authorised for insurance products will need to apply for a variation in permissions. The FCA has produced a decision tool to help select the best approach, but the route you take will depend on the business model you have in place and the finance you want to write."

Appointed representatives: are they a viable option?

There is, however, another alternative to authorisation that has recently become available, which is to become an 'appointed representative' of a business offering this facility ('the principal').

Alphera's FCA readiness manager, Martin Parr, who recently co-hosted a webinar on the FCA application process with AM editor Jeremy Bennett, explains: "For some dealers, this may be an attractive alternative in which a third party takes over the compliance responsibility on behalf of the dealer and therefore avoids the need of an application by the dealer to the FCA.

"There are risks involved in this approach, as the principal will determine which lenders you can deal with, control the terms on which you do business and outline your sales processes. Effectively,

they will be in charge of how you conduct your consumer credit business.

"For franchised dealers, any falling out between the manufacturer finance company and the principal could result in the dealer being unable to take advantage of any of the finance-backed sales promotions.

"Dealers looking at this alternative will need to consider the short term in respect of the application, but also if this is a viable alternative to direct regulation in the long term. If the decision is to become an appointed representative, they will need to ensure that all the required due diligence required by the principal can be concluded before the end of the landing slot."

What are the next steps?

ALPHERA Financial Services has pulled together a series of tips and best practice information around the FCA application process. To find out more or to view the Alphera and AM webinar, visit www.alphera.co.uk.



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