CREDIT STRATEGY

Risk | Policy | Conduct

July 2017

BREATHING SPACE
Ministers told to deliver pledge for debtors

SLIGHT RETURN
Are sub-prime mortgages making a comeback?

ACCIDENTAL HERO
How one programmer thwarted the wannacry attack

Guards of honour

Marcel Le Gouais
Editor

It's not exactly within the remit of business-to-business media organisations to opine on such events as the recent terror attack in London. But as the incident unfolded just outside *Credit Strategy's* offices – in the London Bridge and Borough Market area – it would be remiss as a journalist witnessing the immediate aftermath not to mention a few observations.

One is to extend our heartfelt thanks to those who contacted us – clients, creditors, trade bodies, regulators, even government agencies – to inquire about the safety of our staff on the Monday after the attack.

It's with more than a little relief that we can confirm all employees are fine, and not affected by the events of Saturday June 3, although most of our staff frequent the cafés, pubs and restaurants where the attack took place every working week.

It has been somewhat surreal since that day to wander past seemingly the entire world's media camped outside the office entrance.

A distressing sense of reality dawns on you, when you're zig-zagging through a cavalcade of microphones and cameras, as reporters speaking in several languages broadcast from a street where floral tributes flank your last few steps to work.

The magnitude of such an event becomes harder to fathom while an area the size of a town centre is blocked off; with cafés, bars, fishmongers, bank branches, curry houses and supermarkets shut and surrounded by heavily armed police.

Borough Market is an area renowned for its multicultural, vibrant activity. It's the kind of place that enlivens the senses, but also a rarity, in retaining a set of characteristics that are distinctly London.

> *"It was only possible for our workforce to maintain business as usual on the Monday morning after the incident, because of the outstanding work of the capital's emergency services"*

So why am I telling you this? Only to point out that it was only possible for our entire workforce to maintain business as usual on the Monday morning after the incident, because of the outstanding work of the capital's emergency services.

With minimal disruption the office was able to return to daily business, which is, after all, part of the whole point.

So what exactly was business as usual? As you've noticed from the cover we've taken a thematic focus on cyber security for this issue. Following attacks on lenders such as Tesco Bank, Wonga and Lloyds Banking Group, we've sought the views of experts (p22) to enlighten us on the vulnerabilities of major creditors' defences. As for attitudes to protection and contingency in the event of such hacks, many believe a mindset needs to change.

That's business as usual in print, while in person, we hosted our second Car Finance Conference and Awards this month; you can see the full list and shameful car-based puns on p34.

We have also recently announced our first Mortgage Conference, which will be held at the London Hilton Bankside on October 30 (see p12). With Legal and General Mortgage Club, Nationwide Building Society, HSBC, Metro Bank and Precise Mortgages already booked as speakers, the conference will reflect a shift in the balance of power within major lenders across this market – from sales and distribution to credit risk. For the first time, the conference will bring together senior credit risk professionals and those in charge of sales and distribution.

Continuing this theme of our addiction to creating conferences and awards programmes, we will soon launch our inaugural Commercial Finance and Awards, due to be held this autumn. Fred Crawley explains the themes and why we're turning a spotlight on this topic on p31.

Until we see you at our events it's probably a forgivable cliché this month to say, until then, stay safe. CS

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Chief executive, StepChange Debt Charity (p17)

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Andy Smith
UK general counsel, Dollar UK (p19)

"If not granted authorisation, continuing to trade would overnight become breaking the law"

£462.5m

The total value of debt judgments against consumers in England and Wales for the first three months of 2017

See p7

Source: Registry Trust

173,000

The number of identity fraud cases in 2016; 88 percent of which were internet-enabled

Source: Cifas

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Cabot eyes back end of 2017 for IPO

The owner of Cabot Credit Management believes the debt purchaser's planned initial public offering (IPO) could be completed by the end of 2017.

Encore Capital Group – the US-based debt purchase and credit management group that has a majority stake in Cabot – has already announced the IPO with a potential end date, and sources have since told *Credit Strategy* the end of 2017 is still possible.

Earlier this year, Kenneth Vecchione, president and chief executive of Encore, said the board believes Cabot's equity value has grown through operational improvement, market consolidation and expansion into other European countries. In a statement, Vecchione said the IPO will help "crystallise the value" that Encore has created within the group's European franchise.

He added in the statement: "We are in the early stages of the IPO process, but we believe it could be completed as early as the back end of 2017."

Goldman Sachs, Jefferies and Morgan Stanley are understood to be advising on the potential flotation. Alongside Nasdaq-listed Encore's majority stake in Cabot, private equity firm JC Flowers has the remaining shareholding.

Cabot, which published its results for the first three months of 2017 last month (see p8-9), confirmed in a statement that the board was "assessing options" in relation to an IPO, and was undertaking "necessary preparations to ensure readiness in this regard", subject to further decisions among the directors.

When approached for comment on a timeline for the IPO and those advising on the listing, a spokesperson for Cabot confirmed only via a statement that the board is "reviewing strategic options, but no decisions have been finalised".

In a UK investor call earlier this year for Cabot's annual results for 2016, Ken Stannard, chief executive of Cabot, was asked of the impact of Intrum Justitia's takeover of competitor 1st Credit.

Stannard replied: "I don't think Intrum is an aggressive, risk-seeking organisation. It has bought an asset that has a lot of great people in it that's been in a mode of run-down for some time and not been acquiring (portfolios), so the pricing capability needs to be built up and it has got a lot of investment to do in that platform."

Silicon Valley giants set to disrupt car finance market

Amazon, Uber and Google could become the next big players in car finance, according to Jim McCaffrey of lender Black Horse.

McCaffrey, Black Horse's director of products, propositions and enablement, was a keynote speaker at the Car Finance Conference on June 8. He said the big names may soon want to own the whole customer journey. "They want the customer data; it is data they can sell. I expect to see them playing more of a role in future."

McCaffrey said digital channels have revolutionised the way customers source finance and cars, using the internet to research options. "Every month there are 78,000 car-related searches on Google. People are also using YouTube more to discover different cars."

He said motor finance has doubled over the past five years for used and new vehicles, adding: "The industry is going through unprecedented disruption. There are many drivers to that, including current and future regulation. Together with legislation and digitalisation, this shows the way customers are buying is dramatically changing."

Vital Statistics

324,683

The number of fraud cases recorded in 2016 according to Cifas, the not-for-profit fraud prevention organisation. It's a rise on the 2015 figure by 1.2 percent (see p22)

THE VENT
Choice cuts from social media

Political priorities

This month a debate kicked off on Twitter regarding politicians' priorities for areas of funding, sparked by the recent election party campaigns. Find the thread here: http://bit.ly/2sOAYXV

Consumer debt judgments hit a 10-year high

County court judgments (CCJs) against consumers between January and March reached the highest total for more than a decade, as creditors issued claims over smaller debts.

Figures from the Registry Trust, a non-profit company that maintains public records of judgments for the British Isles and Ireland, show the number of consumer CCJs during this period was the highest for a single quarter in more than 10 years.

In the first quarter, 298,901 debt judgments were registered against consumers in England and Wales – a rise of 35 percent on the same period in 2016. The average value of a consumer CCJ fell for the eighth consecutive year, dropping nearly 20 percent in the first quarter (year-on-year) to a historic low of £1,495. The average judgment in the first quarter of 2008 was £3,662.

Registry Trust also issued a warning about the number of CCJs against businesses, which surged nearly 40 percent in the first three months of the year.

Nearly 30,000 CCJs were registered against businesses in England and Wales in the first quarter – a 36 percent year-on-year spike. The trust said this "bucks" the downward trend, which lasted seven years.

The trust's chairman, Malcolm Hurlston, said: "This may well be a cause for alarm. Judgments against consumers are rising for technical reasons. There is no equivalent reason for judgments against companies to have jumped to this extent."

A WORD TO THE WISE

"Africa is leap-frogging the financial world with mobile"

Chris Skinner
The financial blogger on the fintech boom for financial inclusion in Africa, driven by the telecoms industry

"Unfortunately, most organisations are still in the reactive 'once bitten, twice shy' category, when it comes to cyber attacks"

Oliver Hoare
The chief executive of Dysart Solutions, a cyber security consultancy, on firms' attitudes to cyber attacks

"Labour will introduce a version of Scotland's Debt Arrangement Scheme to give breathing space to households struggling with high debts"

Jeremy Corbyn
The Labour leader's pledge in the election manifesto

"Problem debt can be hard to escape and can compound family breakdown, worklessness, stress and mental health issues"

Theresa May
The Prime Minister also echoed Labour's plan to adopt a breathing space scheme for debtors in the Tory manifesto

"Politicians have lost sight of what matters to people in the country. Safety. Housing. Education. Opportunity. Happiness"

Lee Healey
Founder of Income Max

"Which all costs money, so discussion about the economy and taxation is not in itself uncaring"

Gareth McNab
Money advice liaison manager, Nationwide Building Society

"But it's about what's needed, surely? For the things that really matter. Money shouldn't get in way of public safety. Priorities are wrong"

Lee Healey
Founder, Income Max

"Everything is a priority to somebody – all of it can't be to everybody – unless we decide money is not a finite resource"

Gareth McNab
Money advice liaison manager, Nationwide Building Society

A yardstick for debt sale in 2017

After the UK's largest debt purchasers published results for the first quarter, MARCEL LE GOUAIS assesses what the figures indicate about the market so far this year

First quarter trading statements for the country's biggest debt purchasers were published in May – and they provide a fair barometer of activity in the UK debt sale market.

As one would expect, because the three largest – Lowell, Cabot Credit Management and Arrow Global – are so well funded, the amounts they're spending on non-performing portfolios (and increasingly, paying books), stand out prominently.

But other elements are evident too, such as the growing cash collections on owned portfolios, the economies of scale and evidence that consolidation in the UK collections market still has some way to go before levelling off.

With both private and public sector sellers bringing significant deals to market, perhaps the industry can expect the figures for EBITDA and estimated remaining collections (ERC) for the top three purchasers to continue growing this year.

Among the significant deals, HSBC is one of the big banks to have brought portfolios to market recently, while Lloyds Banking Group is asking for indicative bids this month as part of its usual half-year debt sale. Tesco Bank is also undergoing a sale this month.

The Student Loans Company will also continue the £4bn sale process this year of part of the student loan book. The sale, expected to take several months, covers loans issued under the previous system that operated until 2012. Specifically, it will include the accounts of customers who entered repayment between 2002 and 2006. The sale will involve securitising the remaining future repayments on the loans and selling securities representing the rights to these to a range of purchasers. *Credit Strategy* understands that pension funds are among the potential bidders.

Where that leaves debt purchasers that will have shown interest in the book will be an interesting case in point, but nevertheless their typical sources so far this year from financial services, utilities and telcos are providing ample opportunities.

In one example, Cabot invested a gross amount of £57.9m in loan portfolio purchases during the first three months of 2017, compared with £68.3m for the same period last year. Lowell made £36m of purchases in the same period, while Arrow posted £77m of "organic portfolio purchases".

In the results statement, Ken Stannard, chief executive of Cabot, said: "This has been another strong and profitable start to the year, with our EBITDA increasing 18 percent compared with the same period in 2016, from £56.9m to £67.4m."

He added: "We also acquired a UK-based debt contingency business, Orbit, and obtained regulatory approval for our Irish business, Cabot Financial Ireland, on May 5."

Orbit, which works with some of the UK's largest water suppliers, including Yorkshire Water United Utilities and Anglian Water, marks the latest addition to Cabot's acquisitions after buying out Dlc, Spanish debt servicer Gesif and Mortimer Clarke – all in less than two years.

"HSBC is one of the big banks to have brought portfolios to market recently, while Lloyds Banking Group is this month asking for indicative bids for its half-year debt sale"

Portfolio changes

The flipside to the purchasers' first quarter statements is the "sky-high prices" for portfolios in the UK market that are often remarked on privately, though noticeably, Lowell has consistently said in recent updates that its data analytics is underpinning a "disciplined approach to pricing and investment".

But with major purchasers refinancing in the past year, maybe the cost of funding has reached a stage where prices are sustainable for now.

Some of the recent quarterly updates also give indications about the changing nature of portfolios being sold. As was predicted in some quarters, there has been an uptick in paying portfolios in recent deals. Cabot's statement particularly reflects a marked increase in the amount of paying portfolios coming to market. In its debt purchasing activity in the first quarter of 2017, 77 percent of the portfolios were paying books, compared with 41 percent for the same period in 2016. In contrast, some 23 percent of portfolios Cabot bought in January to March comprised non-performing loans, compared with 59 percent a year ago.

As well as paying portfolios, the picture that emerges in aggregated findings from *Credit Strategy's* own surveys of last year's Credit 100 (as of March, this index became the Consumer Credit 100), is that portfolios will include increasing amounts of accounts in early arrears.

Last year's Credit 100, a group made up primarily of banks, utility firms, alternative lenders and telcos, were asked in our regular surveys about their propensity to sell early arrears accounts. Members answered questions on whether they plan to escalate or cut back the amount of early arrears accounts that they either outsource or sell. As many pundits will have foreseen, creditors will broadly increase this activity, or maintain it at current levels.

Some 33 percent of respondents, all of whom work within large, household name creditors, said they would increase the level of early arrears accounts they will sell to debt purchasers this year, while 67 percent said they would maintain current levels of early arrears sales.

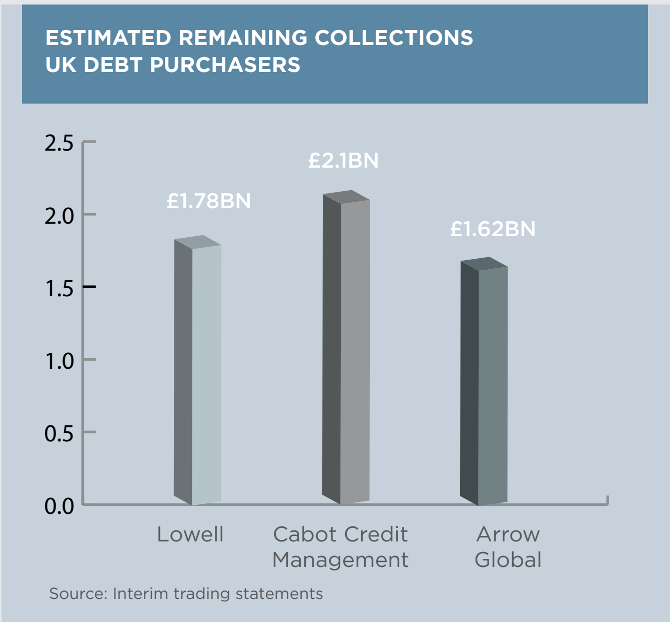
Competitive landscape

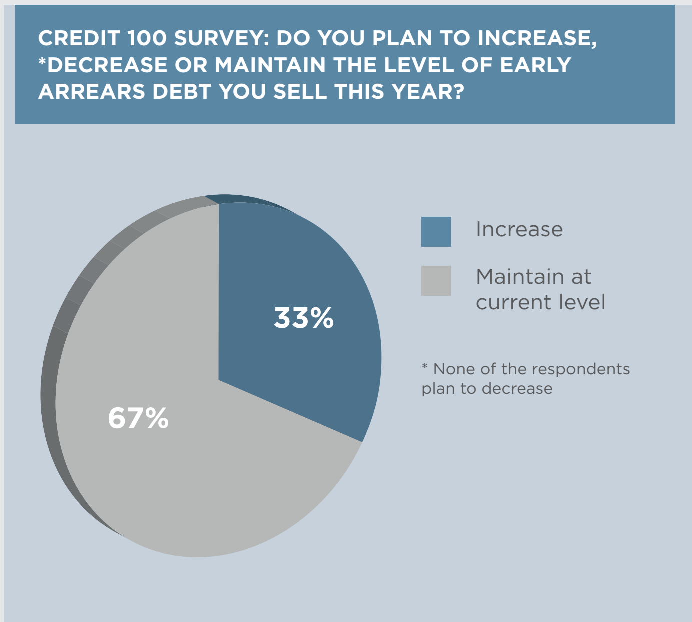
While Cabot, Lowell and Arrow publish more detailed financials each quarter, some of their competitors' results are included within group regional statements, so a direct comparison isn't quite possible. However Hoist Finance's figures for the first quarter, do show that the west Europe division holds the largest proportion (36 percent) of Hoist's acquired portfolios, by carrying value, and this region's acquisitions totalled 175m SEK during the first quarter, compared with 315m SEK in the same period last year.

Referring to Brexit In the group's results statement, chief executive Jörgen Olsson said: "As part of our risk strategy, we are hedging our currency and interest rate positions on an ongoing basis to protect ourselves against short-term FX and interest rate fluctuations. Our operations in the UK are run locally (ie, without imports or exports), which reduces our dependence on the country's access to the EU's internal market.

PRA Group's first quarter financials are also included in broad, regional terms in its American owner's statements. The latest update for the first quarter shows a total of $39.5m for portfolio purchases in its "Europe – core" business, along with $6m of purchases in insolvency portfolios in Europe. Cash collections in the Europe – core business reached more than $98m in the first quarter.

When the next quarterly updates are due for the major players in late summer/early autumn, the acquisition stats are likely to be bolstered even further once the large debt sales complete this summer. CS





Crossing borders – opportunities in Europe's NPL markets

NAJIB NATHOO, regional director at Hoist Finance (Region West Europe), considers the market for non-performing loans (NPLs) across Europe and uncovers a picture of mixed opportunities

Comparing the market for NPLs is a challenging exercise, since the maturity of each market can vary enormously.

In the UK, for example, where the market is already well developed and the most mature of all of the European countries, banks systematically sell early-stage NPLs. Compare that to the French market, which is characterised by the infrequent sales of older NPLs by relatively few banks, and the opportunity is set into sharp relief.

Not surprisingly, the UK market is expected to grow by only two percent annually to 2020; the French market, on the other hand, is expected to enjoy annual growth of around 15 percent, and looks to be one of the most interesting markets to evolve over the next five years.

As a debt purchasing market matures, sellers of NPLs establish more structured sales processes. This typically leads to NPLs being sold more frequently and at earlier stages. As sellers and buyers become more experienced they are typically also willing to engage in more complex transactions.

The early stages of a default cycle normally entail a higher likelihood of repayment that is less costly to collect. It is therefore common for banks to sell older NPLs while servicing fresh NPLs in-house. Since NPLs in earlier stages of the default cycle entail less risk and less cost to collect, these NPLs are typically sold at higher prices.

According to the European Central Bank (ECB) the market for consumer credit across the 10 key markets (France, Spain, the UK, Belgium, Greece, Italy, The Netherlands, Poland, Germany and Austria) totalled about €794bn in 2016. This market is expected to grow at a stable, average annual rate of around two percent during the next five years. A growing lending market will also lead to further growth in the NPL market.

Regulatory demands

Financial sector supervisory authorities' demands are also expected to intensify. The European Banking Authority (EBA) intends to conduct stress tests on a regular basis to assess banks' resilience to adverse market developments and associated systemic risks, and national supervisory authorities are expected to conduct stress tests more often.

Current supervisory mechanisms – via the SSM (Single Supervisory Mechanism), SRB (Single Resolution Board) and ESRB (European Systematic Risk Board) – are significantly more robust. Higher capital requirements under the Basel Rules (Basel III and IV) are extra drivers that increase the supply of NPLs, as banks find that they need to dispose of lower quality capital. New regulations and stronger incentives for banks to sell NPLs are expected to add momentum to growth.

The new accounting standard IFRS 9, which takes effect in 2018, will lead to increased provisions for credit losses on NPLs. The Basel Committee on Banking Supervision's standardised definitions, specifying when a loan is deemed delinquent within the EU, will result in greater comparability and transparency. Increased flexibility in personal insolvency laws will improve the capacity to collect debts, resulting in higher prices for NPLs and increasing banks' incentives to sell their NPLs.

European banks have not yet regained the profitability they had prior to the 2008 financial crisis, and some (notably those in Benelux) have been focussed on rebuilding their reputations. Average return on equity for European banks is currently 6.2 percent, compared with 17 percent pre-crisis. A large percentage of NPLs on financial institutions' balance sheets have a negative effect on profit and inflate capital requirements. Selling NPLs allows banks to reduce costs, relieve pressure on the balance sheet and focus on their core business.

Price trends

The price trend for NPLs has moved upwards due to the industry's greater market maturity. Hoist Finance's Annual Report for 2016 shows the average market price for acquired NPL portfolios increased an estimated 10.8 percent annually, during the 2013 to 2016 period.

As the market matures, the gap between the selling bank's anticipated deal value and the amount the purchaser is willing to pay is reduced, and the trend towards the sale of high-quality, fresh NPLs therefore increases.

Professionalism within the industry is similarly on the rise, as major European debt purchasers leverage their economies of scale, in-depth expertise and access to data combined with lower funding costs. All of this results in higher prices on the market and more NPL sales.

With economies of scale in operations, tailored expertise and greater operational efficiency, specialised companies are able to collect overdue debt at a lower cost than banks. They also have significantly higher recoveries for comparable NPL portfolios.

Hoist Finance's Annual Report also found that companies that specialised in NPL collections recover 40 to 50 percent of their portfolios, while top-performing banks recover just 15 to 25 percent. An overwhelming majority of respondents to a study conducted among 53 leading European banks and industry experts anticipate that an increased volume of NPLs will be outsourced or sold to external parties within the coming two to five years. Three quarters (75 percent) of respondents believe that NPL portfolio sales will increase over current levels.

So what of the competitive environment?

A few large and well-known debt purchasing companies have emerged as the European debt purchasing market matures, although only a small number of these companies have a pan-European presence, operate across geographical platforms and compete in multiple markets.

Efficiency and cost absorption are high on the agenda for these companies and help fuel the consolidation trend. CS

MARKET VALUE - SALE OF UNSECURED CONSUMER NPLs

- The French market was estimated at €100m in 2015 and is expected to grow 15 percent annually until 2020. French banks are expected to downsize their risk exposure.
- The Spanish market was estimated at €275m in 2015 and is expected to grow five percent annually until 2020. The market is maturing rapidly with fresher NPLs and higher prices.
- The UK market was estimated at €1bn in 2015 and is expected to grow two percent annually until 2020. High activity levels are expected to continue.
- The debt purchasing market in Benelux was estimated at €150m in 2015 and is expected to grow eight percent annually until 2020. Mergers among smaller banks are increasing, leading to a greater sale of NPLs.
- The Italian market was estimated at €500m in 2015 and is expected to grow seven percent annually until 2020. Banks are under regulatory pressure to clear their balance sheets of NPLs.
- The Polish market is estimated at €250m in 2015 and is expected to grow four percent annually until 2020.
- The size of the German market is estimated at €200m and is expected to grow eight percent annually until 2020. Current NPL sales fall well below the market's potential and are expected to increase.
- The Austrian market is expected to grow six percent annually until 2020. There is considerable regulatory pressure for Austrian banks to reduce their NPL ratios.

Change ahead in credit risk

Brought to you by: Arum

Chris Warburton

Lead consultant, Arum

A lot has been written about IFRS9 recently. It seems the collections and recoveries world is waking up to the fact this is not just an accounting standard, but will also impact our process. Implementation is suddenly seeming imminent.

For those who don't read international accounting standards for fun, IFRS9 is a pending change to how impairment for loss is calculated. We are ticking down to implementation in January 2018.

So what's changing? Under the previous accounting standard (IAS39), recognition for credit losses was delayed until there was evidence of impairment. Additionally, this was calculated only on past events and considered only current conditions.

Under the new standard, credit losses will need to be recognised at each stage of the customer lifecycle, even if no credit loss events have taken place. Market conditions will also need to be taken into account. The portfolio will be split into two stages for a reserve calculation:

1. No significant increase in credit risk since inception – impaired at 12 month expected credit loss
2. Significant increase in credit risk (a risk event) – impaired at lifetime expected credit loss.

This is all designed to enable financial accounts to reflect better the inherent future losses for customers on the book today.

But what does this mean? Generally, it means losses will be recognised and more greatly provided for much earlier in the collections cycle. There will be a greater cost of holding customers deemed to be higher risk for whom there will be a significant step increase in provision (even at 30 days past due). As a result, largely the guidance being given is 'contact earlier' and 'more intensively', to prevent customers moving to lifetime credit losses at this higher rate. And this makes sense. Contacting earlier, including pre-arrears, will prevent forgetful customers falling into arrears and being considered as higher risk. But this is not the entire story. Although 30dpd is being used as a general criterion, any external indicator can be used to indicate increased risk, such as credit reference data, debt load and flagging of financial difficulties.

The exact criteria organisations will use will require judgement which we, as collections and recoveries professionals close to the portfolio on a day to day basis, need to be involved in. For example, flagging a customer who has affordability issues may now result in a greater hit to P&L.

As all of these dynamics need to be understood, it will be more important to find the right solutions for customers and ensure the risk assessment is correct. These will all help to ensure there is not an unpleasant surprise looming in 2018.

Will sub-prime mortgages ever make a full comeback?

Ahead of Credit Strategy's first Mortgage Conference MARCEL LE GOUAIS asked experts whether sub-prime mortgage customers are getting the choice they need – and if some of the more notorious products might return

"Sub-prime self-cert mortgages will not and should not ever return to the UK mortgage market."

The words of Andrew Montlake, director at mortgage brokerage Coreco and a speaker at Credit Strategy's inaugural Mortgage Conference, sponsored by MortgageGym, which will be held in London on October 30.

On the question of whether these notorious products will ever find their way back in volume, Montlake, like many others, was unequivocal.

After these 'liar loans' became synonymous with fraud, which anyone working at the as-was Financial Services Authority in 2007 will attest to, sub-prime self-cert products have almost vanished – and perhaps only a handful of mortgage professionals would say anything other than 'good riddance'.

When asked about their return, Paul Broadhead, head of mortgage policy at the Building Societies Association and another speaker at the Mortgage Conference, was just as blunt: "In a word? No. The Financial Conduct Authority (FCA) has made it very clear in regulation that self-cert is not acceptable in prime lending, so I can't see a return to self-cert sub-prime."

It's safe to say these mortgages, which ultimately turned out to be a disastrous exercise in value

"For borrowers who have a bit of a blip on their credit history, those customers still have a range of options"

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destruction, are mostly gone for the foreseeable. They were effectively banned by the Mortgage Market Review, though the Prague-based selfcert.co.uk has managed to circumvent UK rules by employing the EU's Electronic Commerce Directive to offer them in the UK.

But while the authorities try to shut down such operations, perhaps there's another question looming over sub-prime products: How well served are customers with adverse credit histories?

Broadhead added: "Sub-prime is a fairly general term often used to cover a range of situations from those borrowers that have had a few blips on their credit record, through to those that used to be called 'heavy adverse' who often had a very poor track record of maintaining credit payments.

"For borrowers who have a bit of a blip on their credit history (the odd missed credit card or mobile phone payment), those customers still have a range of options. Particularly from those lenders that underwrite mortgages manually. Those that have encountered more serious difficulties will still find their options limited."

While newer entrants have shown an appetite to serve elements of this market, there have been murmurs in the mortgage market that lenders have become overly cautious in their credit criteria, but with the FCA's continued focus on affordability, it's no wonder there hasn't been an influx of products for those with much more chequered credit histories.

In the last few years those in charge of sales and origination have also witnessed the growing influence of credit risk, as well as the independent assurance and audit teams.

This shift in the balance of power to credit and risk from sales will be a central theme at the Mortgage Conference. For the first time in this market, the conference will bring together both the senior professionals in charge of credit risk and those heading up sales and distribution.

Speakers from Legal and General Mortgage Club, HSBC, Metro Bank, Precise Mortgages and the FCA will tackle issues including how macro changes are altering credit risk, how alternative data can be harnessed, the growth of niche mortgage products and robo-advice. The conference will also split into two streams: Credit Risk and Product and Distribution.

Credit Risk will feature an in-depth look at how the world of risk is moving to meet changing consumer needs and attitudes. Product and Distribution will explore topics such as buy-to-let, the growth of the niche market and the future of financial advice in the face of increasing digitisation.

Perhaps in such discussions the choice of products for individuals, who are self-employed or have adverse credit histories, will emerge.

Visit creditstrategy.co.uk/events/mortgage-conference for more details on attending and sponsoring. CS

The Watchman

It's a kind of magic

In the first of a three-part series on communication and technology, FRED CRAWLEY asks whether we ever truly know what we're talking about, when we talk about tech

Fred Crawley

Consulting editor, Credit Strategy

"Any sufficiently advanced technology is indistinguishable from magic."

These words, from science fiction writer Arthur C Clarke, were put to paper in 1973, a year in which the Sinclair pocket calculator was at the bleeding edge of digital technology.

Some 44 years later, we live in a world of driverless cars, voice-controlled homes, and hand-held devices which can access all of human knowledge. To people living before the advent of electricity, our society would seem to run on magic.

And what is magic? To chuck in another quote, this time from Victorian magician Aleister Crowley, it can be defined as "the science and art of causing change to occur in conformity with will".

Now, forgetting that Crowley wore scary hats and spelled 'magic' with a k, this is a succinct definition. And if you think about it, it applies equally well to technology, which the Oxford English Dictionary calls "the application of scientific knowledge for practical purposes".

In essence, technology is using knowledge to alter the world according to your wishes and the more advanced your knowledge, the further you can alter it. Hence, QED: Any sufficiently advanced technology is indistinguishable from magic.

The issue I'm getting to is that as technology advances, there's an ever-widening gulf between the knowledge required to understand and create it, and the knowledge required to wield it. The coders, engineers and analysts are the magicians, and the rest of us are novices, marvelling at their work.

> *"At the end of May, Aviva chief executive Mark Wilson said 'we want to change Aviva into being a fintech'"*

Software in particular is a black box – data goes in, results come out, but few of us understand what happens in-between. Back in the 17th century, this sort of thing was called the occult – from the latin occultare, to conceal. Before all the connotations of black magic and bad metal music, 'the occult' referred to processes like magnetism, where the action behind a process was unseen.

So, why am I labouring this point about technology and magic? Because when we talk about these technologies, which we cannot help but interpret as occult and magical, even if we would never be so daft as to describe them that way, we succumb to magical thinking.

Magical thinking is a term in anthropology and psychology describing (among other things) the irrational belief that by invoking things in thought or speech, we make them real. I've talked about this before in my article on 'cargo cult copy', where I looked at how corporate communications invoke meaningless 'businessy' words and phrases in the hope they will magically produce more business.

Look at the way we discuss technology at conferences and in releases, and you will see something similar. Business leaders, even those with a deep understanding of technology, will talk about big data, machine learning and SEO as black boxes; occult forces which unquestionably bring great power, but cannot be broken down and described in detail.

At the end of May, Aviva chief executive Mark Wilson said: "We want to change Aviva into being a fintech". There was plenty of positive coverage around this, but little of it seemed able to go into detail about what "being a fintech" was, beyond the adoption of a general air of innovation and technology – a wizard's hat, if you will.

There's no doubt that people within Aviva are looking at complex technologies that will improve their business. But the challenge in communicating those improvements is to break open the black box of technology and find a non-reductive, plain-speaking way of describing what happens inside.

As technology becomes ever more like magic, we need to find less magical language to describe it.

In the second part of this article, I'll be writing about social media and digital communications, before revisiting this subject in a third part on the language used by technology companies. CS

Priorities for a hung parliament

When the dust settles after yet more election confusion, these are solutions the new government needs to focus on to help people in problem debt, says MIKE O'CONNOR

Mike O'Connor

Chief executive, StepChange Debt Charity

What should the new government prioritise in its first 100 days? Household debt may not make it to the top of the pile, indeed some will argue that we depend on consumer borrowing for growth. But problem debt and its causes underpin many of the economic and social issues the new government needs to confront.

Around 2.9 million people are struggling with severe debt problems with more than nine million showing signs of financial distress. Problem debt doesn't just blight the lives of individuals. It also harms families and communities, draining the UK economy of an estimated £8.3bn.

Unsecured debt levels are rising among our clients for the first time since 2008. As inflation increases, the Bank of England is predicting a squeeze on household income growth this year. With consumer lending approaching pre-crash heights, stagnant wages and inflation, increasing numbers of households are likely to find themselves in problem debt.

"Both major parties made a manifesto commitment to breathing space - something we have been trying to secure for several years"

Both major parties made a manifesto commitment to breathing space – something we have been trying to secure for several years. Our proposal would give people who engage with debt advice a period of up to a year to recover their finances by halting enforcement action and freezing interest and charges. This would stop their financial situation deteriorating further and give them time to get back on their feet. Founder of moneysavingexpert.com Martin Lewis, who regularly supported calls for the scheme, described it as "a win for the individual, a win for the state and a win for creditors."

We would like to see the new government act on other key drivers of problem debt.

A better alternative

Despite stronger regulation of payday lending and support for the growth of credit unions, there are still 1.1 million people having to use high-cost credit to keep up with the cost of everyday essentials like food, rent and household bills.

The scale of alternative lending is still limited and the availability of no-interest loans and grants for the most financially excluded has reduced through cuts to the Social Fund and a local welfare system facing serious funding constraints.

Policy action to tackle the harm caused by payday loans is welcome. But there are other high-cost products still causing harm to struggling households. Charges for unauthorised overdrafts can be more expensive than a payday loan. Rent-to-own agreements can see hard-pressed households pay more than double for household goods. Logbook loan borrowers can end up repaying substantial amounts and still see their car taken away. The government needs to address the harm caused by high-cost credit used by financially vulnerable.

Create a saving culture

Our research found that 14 million people had an income shock in the past year and those who had income shocks account for almost three quarters of people in severe problem debt. Yet 14.5 million people do not have enough to put anything aside for the rainy day savings that could help protect them against shocks. If every family had £1,000 saved for a rainy day, our research shows half a million families would be protected from falling into problem debt. We welcomed the Help to Save scheme for people on working tax credit and Universal Credit to build a savings buffer.

Public sector creditors

In a 2016 survey, our clients said that public sector creditors were most likely to treat them unfairly. Half of respondents said they had been treated unfairly by bailiffs (collecting mainly government and local government debt). More than 40 percent said they were treated badly by a local authority creditor and HMRC debt collection practices were rated no better than payday lenders.

We know that unfair creditor practices can drive people further into debt. Six in 10 of those people who did not get the help they needed from their creditors went on to take out more credit to try to cope with their debt problems, while 29 percent said that a creditor's actions prompted them to fall behind on other bills. CS

The industry must solve the stress of I&E checks

The current income and expenditure process has unintended consequences, says 1st Credit UK managing director EDDIE NOTT

Eddie Nott

UK managing director, 1st Credit

Our customers are surprised that we are keen to sit down and talk to them – and some confess they are initially suspicious that it may be a trap. Their reaction suggests face-to-face feedback is not a common approach for our industry to take.

However, detailed feedback is instrumental in ensuring our processes are as customer-friendly as possible. This happens in many ways, but one of the most significant is through independently-chaired customer focus groups.

It seems to be a positive experience for those who attend, with customers encouraging each other and swapping advice on credit rehabilitation.

"More debt companies ought to do stuff like this. It's not fair that they are coming after you for money but don't want to talk to you about it," said one of the customers taking part in our latest session.

The exchange of information is two-way. Customers have many questions about the call centre team and their training, for example. They also have suggestions for improvements, each of which we take on board.

For customers it can be a revelation. "Having listened here, I'm getting more on the side of the credit companies because each one of us is totally different," said one customer.

As well as information specific to 1st Credit, our customers tell us what they think about the industry in general. In our May customer focus group, one issue stood out above all others: The income and expenditure (I&E) process. All 10 of the customers who participated were extremely negative about the time taken to complete these assessments – describing them as stressful.

Far from being seen as a safeguard on affordability, customers see I&E assessments as an attempt on the part of the debt collection business to extract more money. They don't differentiate between these calls and other reasons for contact, so they reported feeling hassled by the industry as a result.

"I worry about it. Are they trying to get more money out of me? Is it a trap?" said one. "My circumstances haven't changed – I don't want to do it again."

Those on payment arrangements feel they have already been through everything needed and agreed to payments they can afford – they see repeated I&E requests and calls/letters as intrusive. At the very least they want to be able to tick a box that says nothing has changed. However, the group wanted the credit industry to find a better solution.

"If there are credit reference agencies I don't understand why you have to give all these companies all the details. They have access to it," said one.

In fact, nine out of 10 customers taking part in the session said they would be happy for I&E data to be shared. There is clearly a need for the industry and regulators to consider the unintended consequences of the I&E process. Designed to ensure customers are protected, it should not be compounding their distress.

By contrast, annual statements were universally popular and the group were keen

> *"Customers see I&E assessments as an attempt on the part of the debt collection business to extract more money"*

to have access to their balance and payments digitally. The shift towards online communication taking place in the industry is important. We see evidence for this in the growing use of our online account management system.

Most of the customers we speak to have been though a long and stressful process of indebtedness and depression before tackling their financial difficulties. They are working themselves out of that situation and are looking for empathy from the industry as they do so.

It is easy to forget that customers don't necessarily understand the workings of the credit management industry – some have fallen foul of inappropriate advice in the past and have been unsure where to turn.

It is heartening to hear that changes taking place in the industry are perceived by customers. "There was a feeling of intimidation 10 years ago that has lessened," said one. Another suggested that borrowers today would not get into the same level of difficulties they had experienced. "You can't create the same level of debt you could have 10 years ago," she said. "Someone would step in." CS

Authorisation: One year on from a new start

While the authorisation process uncovered shocking practices in high-cost, short-term credit, lenders can now be proud of the changes being made, says ANDY SMITH

Andy Smith

UK general counsel, Dollar UK

The high-cost short-term credit market has had an interesting few years, to say the least.

In 2014 it came under Financial Conduct Authority (FCA) regulation, with the government's express aim of getting rid of rogue lenders. As part of this, interest rates were capped, and changes to affordability assessments and collections practices were enforced. No longer could outstanding loans simply roll over indefinitely, or companies harass individuals unable to pay.

At Dollar UK, we welcomed these changes, and the positive impact they had in clearing up the marketplace – both on the high-street and online. Many rogue lenders stopped trading at this point, under no illusions that they would be able to remain profitable under this new regime.

But FCA regulation meant more than just this. To continue trading, every lender would need to be assessed by the regulator and granted authorisation. If not granted authorisation, continuing to trade would overnight become breaking the law.

Dollar UK's authorisation process took place throughout 2015, by which point we had long welcomed regulation and put in place many measures that went over and above the FCA's rules. For example, we scrapped default fees altogether, and ensured there were no hidden charges. We were then – and still are now – proud to put the customer first, to integrate corporate social responsibility into everything we do and contribute to the communities we operate in. We sought to lead by example and help professionalise the industry further. Nonetheless, we breathed a sigh of relief when the FCA granted us authorisation in

> *"We breathed a sigh of relief when the FCA granted us authorisation, but a firm that saw authorisation as anything but the start of the journey would be seriously deluding themselves"*

2016. It was an endorsement of the changes we had made, and the commitment to serving our customers and communities well.

But a firm that saw authorisation as anything but the start of the journey would be seriously deluding themselves. Like a football team promoted to the premiership, you have to continue investing in talent and infrastructure, and training for each match like it's your last.

So a year on from authorisation, what has this meant for a consumer finance firm whose only link to a football pitch is through our sponsorship of Wolves FC?

Sense of renewal

Firstly, our commitment to continually improving our service to customers has seen us renew our offering on the high street with concept stores that offer customers a better environment and more privacy as they discuss sensitive matters. We have also invested in our collections contact centres, one of which has even been certified by the British Psychological Society, and introduced a cloud solution system.

The authorisation process has been a learning curve, and has meant we received regular feedback from the FCA. What we also learned is that we can be an important resource to the regulator too. As a firm, we know our customers, and that has given us the ability to assist the FCA in understanding them, and how our product mix and service ethos meets their requirements.

Our ongoing relationship with the FCA as a result of authorisation means we are in a position to let them know where regulation is having a positive effect.

Indeed, these changes have made a considerable difference to the sector, but most importantly to consumers. Research released by the Social Market Foundation and commissioned by the Consumer Finance Association in 2016 showed that on average, the cost of borrowing dropped £36 for a 30-day loan, and 92 percent of customers now borrowed without incurring any additional fees.

We will see further developments to the journey this year when the FCA publishes feedback it has received on the price cap and continues its work on affordability.

One year on from authorisation, the picture may not be completely rosy, but the company and the industry as a whole is a far cry from where it was in 2014. For this, we should all be proud. CS

CYBER SECURITY

The weapons of a war against cyber crime

Brought to you by: EQUIFAX

As part of our cyber crime special issue John Marsden, head of fraud and identity at Equifax, explained to MARCEL LE GOUAIS the MO of hackers - and how tools such as biometrics are bolstering creditors' defences. More attacks are inevitable, he warns

Marcel Le Gouais: In preventing systemic risk against cyber attacks, what are the toughest challenges for the largest creditors?

John Marsden: "The scale and complexity of cyber crime is by far the toughest challenge for organisations today. Computing power and personal connections facilitate both the tools and the methodology of sharing that fraudsters need. Another key issue is the availability of personal ID data that often proliferates from data breaches. This means increased risks of impersonation fraud; the scale of which continues to rise each year."

MLG: From Equifax's experience of working with clients, what vulnerabilities in systems are being exploited by those committing identity theft?

JM: "One of the challenges our clients face is the drive to achieve a digital 'happy path' journey for good customers. To create this, a balance between good customer experience and protection of your systems and customer information needs to be established. However, this alone is not the reason for successful fraud attempts. The fraudster is often well educated on the processes of the specific lender, either through online forums discussing these aspects or more formal 'cookbooks'. Essentially, this is the same as talking to other fraudsters in a pub, but on a global scale."

MLG: Do you have any information on the demographics of individuals who are increasingly the victims of fraud, particularly identity theft? Is it possible to identity victims by gender, age, or social economic group? Is there a pattern?

JM: "Data from the Cifas 2016 Fraudscape Report shows most victims of identity fraud tend to be male and the majority of victims are aged between 31 and 50. While there was a 34 percent increase of impersonation fraud for those under 21, this is still only a small portion of reported fraud cases."

MLG: What can you tell us about some of the typical techniques used against individuals to commit identity theft?

JM: "The hacker is seldom the perpetrator of fraud, they sell the hacked data via online forums to fraudsters who then commit the actual attacks. This has created a marketplace where richer identity data is sold for more than the bare bones data, which in itself generates a value in researching identities to create a richer data set for resale.

"Estimates indicate that around 20 million individual records on UK citizens are up for sale, of which three to five million are unique IDs, so the scale of the issue is vast. The people committing the fraud may be some distance away from the hacker, and only virtually connected. The information can be used for application fraud, account takeover or simply card fraud, depending on the data provided or the perpetrator's knowledge."

> "Estimates indicate that around 20 million individual records on UK citizens are up for sale, of which three to five million are unique IDs, so the scale of the issue is vast"

MLG: To what extent are large creditors deploying biometric verification to protect consumers data?

JM: "The key issue to grapple with for biometrics is the need to establish trust between the biometric and the identity. This is being used to good effect by the likes of HSBC and some of the new start-up banks to drive better conversion for those individuals who do not have a long-standing credit history. To keep up with continuously developing fraud technologies and techniques, authentication needs to be multi-factored and layered. Any unusual behaviour from the customer should raise signals that the transaction/log in needs further checks."

MLG: What might the future of this method of verification look like?

JM: "We are on the cusp of major change in the ability for an individual to authenticate their own identity. This will involve biometrics, but moreover, the device will become central to establishing trust. Biometrics will be deployed to both confirm the holder of the device and to raise challenges where additional verification is needed. We should expect to see relatively instant checks using information such as device, geo-location and behavioural biometrics, with an additional layer of checks where required, such as facial biometrics, voice biometrics and physical attributes including earprints and fingerprints.

"The big challenge is deploying this at scale across the digital population. One answer may lie in digital identity providers such as the verify scheme for UK government, or an evolution of payment services, such as PayPal, whose success at reducing friction at the online checkout has delighted consumers."

MLG: As part of GDPR preparations, companies across this industry will be, or have appointed, data protection officers. What level of responsibility will this role have in protecting against identity theft?

JM: "The primary role of the data protection officer (DPO) is to inform and advise a firm on all of its obligations pursuant to the GDPR, including the security of processing personal data, but also privacy by design and default. By the regulation requiring the DPO to have a direct reporting line into the highest level of management (typically the board of directors), the opportunity will exist for any relevant weakness in a firm's policies or processes to be flagged to the ultimate decision makers."

MLG: Who has the greater role to play in protecting customers' information; consumer or creditor?

JM: "Both parties have a role to play. Consumers need to heed the advice of 'prevention is better than cure' which means we should all protect data tying us to our legal identity. In the UK this is name, address and date of birth, the latter being the only constant and the most sensitive and protectable. Nowadays we see social networking as part of our lives, but we should be mindful of the implications of opening up this personal attribute. Increasingly, it's not the individual who is responsible for the release of data – it's often hacked. While legislation is offering solutions through raising the financial implications of data breaches for businesses, the scale and technology in use by the hackers is way beyond the comprehension of many IT departments."

John Marsden, head of fraud and identity, Equifax

MLG: How can the industry convey this need for customers to protect their data more emphatically to consumers?

JM: "The industry as a whole does provide well thought-out advice; we have seen banks use prime time TV adverts to convey a safety online message, and consumers are reacting well to businesses who take their responsibilities for consumer data seriously. Unfortunately, we can't reach everyone. We can't guarantee they understand and we certainly cannot fight against the human desire to disregard the risks."

MLG: In which repositories of consumer information lie the most serious risks of identity theft? Is it media and communications providers such as Yahoo? Banks? Or sites like Amazon?

JM: "It's not about the scale of the operation, but the capability and strategic understanding of the data assets at top to bottom throughout an organisation. GDPR will help by increasing focus and providing consumer rights to be forgotten, and this needs to be exercised. While the bigger breaches will be publicised, the smaller targets are often easier targets. Then you need to consider whether the hacker just wants headlines or wishes to make money without much interest from law enforcement. The big hacks get kudos and headlines. So depending upon motivation, the better-defended systems become targets. To answer the question as to who is vulnerable, every repository is vulnerable."

MLG: Is another cyber attack on the same scale of WannaCry inevitable?

JM: "Cyber attacks are inevitable. The scale of attempts is beyond belief with millions of attempted breaches and phishing emails every minute. The WannaCry attack on the NHS would not have been targeted; it was random ransomware which could affect any system that did not have adequate protection. This too is inevitable. Looking ahead, the diversity, technology and ingenuity of the cyber criminal will continue to cause concern." CS

Now a boardroom issue for the UK's largest creditors, cyber security is perceived by many chief executives as the biggest threat to their firms. AMBER-AINSLEY PRITCHARD investigates what lessons have been learned from the major attacks

WannaCry shook the world in May, impacting more than 200,000 organisations in as many as 150 countries. It will be remembered as a historic attack on organisations around the world.

The unprecedented strike, which impacted NHS trusts – shutting down operating theatres and resulting in patients being turned away from emergency rooms – was certainly heavily publicised, but the NHS was far from the only organisation to be affected. Telefonica, the owner of O2's UK network, detected the same malware that effectively gripped control over some employees' PCs within its internal corporate network.

WannaCry exploits a vulnerability in Microsoft, meaning hackers can control computers in offices and hold employers to ransom by demanding money to unlock them. In March this year, Microsoft released a security patch to fix the vulnerability that enabled hackers to access and control computers. Those people who hadn't updated their computers became the victims.

Credit Strategy has been told, anecdotally, that the attack was so unique in speed and impact, and the reaction to it so panicked and on the hoof, that in some offices loudspeakers were used to bark orders at staff, instructing them to step away from their PCs and "not touch anything".

WannaCry was the latest, and certainly the most damaging, of a recent string of cyber attacks. Wonga, Lloyds Bank, Tesco Bank and TalkTalk have all been subjected to hacking in the past two years.

Wonga suffered a data breach in April, which it said may have affected up to 245,000 customers in the UK. Personal information, bank account numbers and sort codes were believed to have been accessed. In January, Lloyds faced an attack that left its UK customers unable to access their accounts online for a period of time. Tesco Bank suffered a cyber attack in November 2016 that resulted in around 9,000 of its customers having their current accounts hacked and a collective £2.5m stolen from their accounts.

> "A few years ago the police were reporting successes in reducing the number of bank raids, but of course bank robbers are increasingly swapping sawn-off shotguns for laptops"
>
> Oliver Hoare, chief executive, Dysart Solutions

In October 2016, TalkTalk was issued with a £400,000 fine by the Information Commissioner's Office (ICO) for security failings that allowed a cyber attacker to access customer data.

Information commissioner Elizabeth Denham told *Credit Strategy*: "TalkTalk's failure to implement the most basic cyber security measures allowed hackers to penetrate its systems with ease.

"Yes hacking is wrong, but that is not an excuse for companies to abdicate their security obligations. TalkTalk should have, and could have, done more to safeguard its customer information. It did not, and we took action."

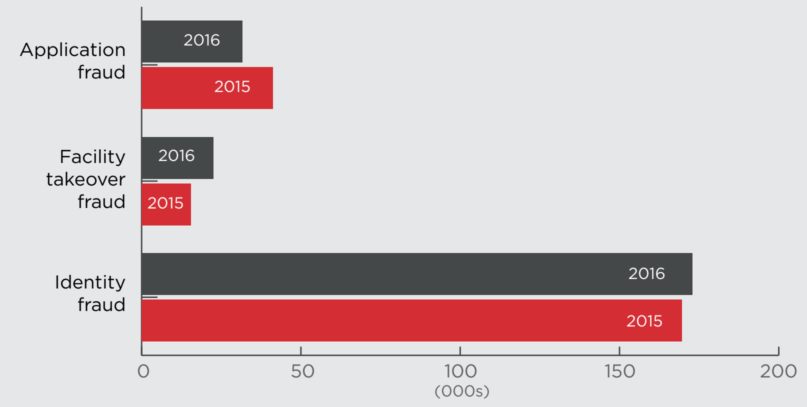
At the time the fine was given, Denham warned: "The fine acts as a warning to others that cyber security is not an IT issue, it is a boardroom issue."

The ICO has not been involved in the Lloyds attack but it has investigated the Tesco breach, which was concluded as no personal data was found to be compromised. It is also enquiring into the Wonga incident.

The costly aftermath of such attacks has propelled cyber security to the top of boardroom agendas across many blue chip firms. At *Credit Strategy's* Credit Summit in March this year, chief risk officers at the UK's biggest banks said cyber security was their greatest challenge. Cyrille Salle de Chou, CRO for retail banking and wealth at HSBC, along with his counterparts – Rahul Pakrashi at Funding Circle and Peter Rossiter at Starling Bank – highlighted the volume of attacks they regularly face.

At the event, Pakrashi told delegates: "It's virtually certain it will happen, but it's very hard to quantify and difficult to measure. You have to figure out all the cyber threats in your full value chain – among your partners and vendors."

CIFAS: INCREASES IN TYPES OF FRAUD CASES



Source: Cifas Fraudscape 2017

Cold hard statistics

Fraud and cyber crime now rival car crime, robbery and burglary as the high-volume crime of the 21st century, according to Cifas, the not-for-profit membership organisation dedicated to fraud prevention. Cifas's 2017 *Fraudscape* report found that more than 324,000 accounts of fraud were recorded in 2016 – a 1.2 percent rise on 2015.

It also found that fraudsters are continuing to focus on online applications, with 88 percent of identity frauds being internet-enabled. Cases of identity fraud made up more than half of all fraud cases reported in 2016, at around 173,000.

In terms of monetary loss, Financial Fraud Action UK (FFA), a members group tackling fraud on behalf of the UK's payments industry, found that financial fraud losses across payment cards, remote banking and cheques totalled £768m in 2016 – an increase of two percent compared with 2015.

Following these statistics, consumer group Which? called on banks to outline the actions they are taking to safeguard customers from bank transfer scams following the industry's "clear lack of improvements".

Which? said banks are still leaving customers exposed when it comes to these scams – and this is five months after the Payment Systems Regulator (PSR) found evidence that they could be doing more. The PSR said data on bank transfer scams was of "poor quality", and the way banks respond to scams needs to improve.

But however banks respond, because they are repositories of such large swathes of highly valuable personal data for a long period, they remain a prime target.

Paul German, chief executive of security solutions firm Certes Networks, said hackers target financial services more than any other industry because these networks are a gold mine, containing high-profile, financial rewards in one convenient package.

Despite this, and despite a recent slew of attacks, research carried out in May by analytics firms FICO and Ovum found that less than half of the UK firms it surveyed would increase their investment in cyber security protection to match an expected rise in data breaches.

The hacker profile

Credit Strategy spoke to a cyber security expert, who works with one of Britain's biggest high street banks on their cyber crime defences, to find out more about the different profiles of hackers and organisations behind these attacks.

Those described to *Credit Strategy* include "hacktivists", which tend to be vandals or politically motivated groups. These hackers are said to cause massive damage with

attacks such as Distributed Denial of Service (DDoS), which attempt to make an online service unavailable by overwhelming it with traffic from multiple sources.

Then there are organised criminals, which our expert said are "far more professional and stealthy". They deploy malware to create massive networks of compromised computers to harvest personal information and compromise banking sessions. Finally, there are nation state actors who are said to be "wild cards" because they can work almost invisibly, or pretend to be either of the above.

Our expert said these criminals are constantly professionalising their products, making it easier for less tech-savvy criminals to rent their services and products. A picture emerges here of a fully functioning, fast-moving black market that large organisations can barely keep pace with.

Another problem in identifying cyber criminals lies in the ease with which they can commit crimes incognito.

Oliver Hoare, chief executive of cyber security consultancy firm Dysart Solutions, said: "A few years ago the police were reporting successes in reducing the number of bank raids, but of course bank robbers are increasingly swapping sawn-off shotguns for laptops – cyber crooks are much more likely to be sitting in an internet café, safe from prosecution, in, say, Rio (Brazil being the number one country for developing banking malware) rather than holding up a local post office with stockings on their heads."

Reactionary mindset

Rather than single out individual, fragile systems, experts have highlighted more generic, industry-wide problems in approaches to protection.

Dan Panesar, vice president at Certes Networks, said: "Tesco Bank complies with every industry guideline and standard to ensure the safety of its customers' data.

"The problem actually lies in the entire industry's approach to cyber security. There is an inherent flaw in the current 'protect', 'detect', 'react' model, as once hackers bypass a network's outer perimeter they are free to move uninhibited across the network, wreaking havoc and accessing vast quantities of sensitive data."

> "Taking the same measures over and over again, expecting a different result, is somewhat insane"
>
> Paul German, chief executive, Certes Networks

Panesar said there is a crucial step missing: "Once hackers gain access to a network, the threat they pose must be contained. By applying a zero-trust strategy using cryptographic segmentation to ensure a hacker cannot roam freely across the network, businesses can limit the impact of an attack or breach significantly."

German echoed Panesar: "The names that have hit the headlines – Tesco Bank, Lloyds, Wonga – all are complying with growing regulatory requirements, and it simply isn't enough. Some regulations are 24 months old and by the time they are actually implemented – meaning institutions taking a compliance-only approach – they are leaving inevitable gaps in their defences."

Lessons learned?

According to Hoare, there are some crucial lessons that can be learned from the recent attacks, namely that DDoS attacks are still highly effective, despite being an older hacking method, and that distributed "guessing attacks" are very quick.

A distributed guessing attack, Hoare explained, was the method used on Tesco Bank. It's an attack that can unfold in around six seconds, making it nearly impossible for most firms to respond to it as quickly as it unfolds. In these six seconds, Hoare said card numbers, expiry dates and the CVV numbers of bank cards can be swiped with little more than a laptop and an internet connection.

Since the recent attacks on big organisations, Hoare said there has been an increase in companies investing enormous effort to seek out "good staff" with leadership qualities at senior and board level. He said there has also been an increase in protections against ransomware, due to the recent WannaCry outbreak, but explained: "This shows that companies are being reactive, rather than proactive."

Some experts have explained how banks are working in collaboration with organisations such as the Cyber Defence Alliance to address threats. However, German said that rather than investing in new safeguards, companies are reacting to the recent cyber attacks by focusing on existing methods and technologies in a bid to be more secure.

He said: "Taking the same measures over and over again, expecting a different result, is somewhat insane.

"Further investment in mainstream technology may resolve the issue at hand, but the overall approach is flawed, and that has been proven time and again as the media are never short of stories for the latest hacking headlines.

"Companies need to change their mindset

before they change their technology, so when looking to roll out next generation, they need to make sure it's a next-generation mindset rather than the next generation of an existing, flawed technology."

David Emm, principal researcher at cyber security company Kaspersky Lab, emphasised the need for organisations to run fully updated software on their computers.

He said: "Organisations need to be investing in threat intelligence technology, which can be used to monitor the network and endpoints: By coordinating this data it can then be used to spot anomalies before an attack infiltrates the network."

Incident response

When queried if organisations are calling in experts at a pre-emptive stage or not, Joe Bernik, chief technology officer of financial services at computer security company McAfee, said: "Most banks are arranging retainers with incident response companies in the likely eventuality of an incident. For most organisations, it's not if but when an event will occur that requires outside assistance. If nothing else, banks want to be ready to deal with any scenario."

Bernik said that organisations have recently learned to not only be prepared by putting retainers in place, but to prepare communications plans to deal with the media, their clients and employees.

He also said most organisations regularly engage in red teaming exercises to reveal how vulnerable they are to attacks. These exercises combine elements of social engineering with penetration testing to gain insight into how an organisation's environment will fare in the event of a real-world attack.

"Organisations are now investing in better analytics to assist them in processing vast quantities of data to more readily identify and resolve attacks," Bernick added. "They are employing artificial intelligence and machine learning to assist in detecting (suspicious) patterns in data and to allow for the real-time correlation of events."

Some banks, evidently, have taken steps to reinforce protection for customers. Just as the WannaCry attacks emerged, Barclays Bank announced – as part of a £10m digital safety plan – that it would give its customers more control over when, where and how their debit cards can be used, by letting them turn their card preferences on and off instantly.

The bank launched this initiative in May, at a time when figures from the Office of National Statistics and Action Fraud had found that fraud and cyber offences cost the UK £11bn last year.

Barclays customers will be able to set their own daily ATM withdrawal limits on their Barclays mobile banking app, and they will be able to turn their preferences on and off instantly to control whether their card can be used to make remote purchases.

Major lenders are also increasingly investing in biometrics. Banks in particular have introduced voice recognition to replace passwords and codes for access to telephone banking. So far, these lenders include Barclays, HSBC and Santander.

The government has also previously pledged to step in. At the time of reporting, before the General Election had taken place, the Conservative Party's manifesto pledged to continue the government's £1.9bn cyber security strategy. At the time, the Conservatives said the strategy would strengthen standards for government by requiring all public services to follow the most up-to-date cyber security techniques.

However, no matter what the outcome of the hung parliament, it's merely one weapon in what will inevitably be ongoing cyber warfare. CS

DPO v CISO: WHO WINS?

Will the new data protection officer (DPO) role suppress the responsibilities of a chief information security officer (CISO) in large financial organisations?

That was the question posed to speakers who attended a GDPR roundtable held by Kaspersky Lab in May. Experts from Kaspersky joined panellists including Sue Daley, TechUK's head of cloud, data, analytics and artificial intelligence, and Jo Bance, head of global marketing at SQS, to examine the two roles.

Speakers explained that CISOs and DPOs should work "in partnership" and that the CISO should act as a bridge to board members. They described how the DPO will be an additional advisor and not a substitute of a CISO. One panellist revealed there had been industry comment regarding the introduction of a DPO, with some mooting the idea that the role "should be part of the CISO's job".

As cyber attacks become more frequent and inevitable, the role of the CISO in relation to chief risk officers and DPOs will perhaps come under more scrutiny, with the CISO's voice (theoretically) gaining more influence and traction on boards.

Portrait of a fraud victim

Individuals targeted by fraudsters range from tech-savvy consumers to the digitally excluded and struggling low-income families. AMBER-AINSLEY PRITCHARD investigates which demographics are most affected

Struggling young families are becoming the prime targets of financial fraud, according to research from credit reference agency Experian.

In April this year, Experian found that these families are typically in their 20s and 30s, have very low incomes, or are unemployed or in low-paid work. The company said this group usually rent homes from a social housing landlord and have very limited savings, investments or pensions.

Experian said this vulnerable group has experienced the highest growth rate in fraud between 2014 and 2016. It said criminals are recognising these families are often dependent upon credit and loans, and likely to make several credit applications per year, and are using this intelligence to their advantage.

At the opposite end of the scale, households with high salaries, large disposable incomes and accruing assets remained another priority target for fraudsters. This group accounted for 35 percent of all identity fraud in 2016.

Further research from Experian last year found that tech-savvy consumers are more likely to be victims of ID fraud compared with other, less technologically-literate users.

It found consumers who spend the most time on mobile devices and social networks made up almost a quarter of all ID fraud victims in 2015.

Nick Mothershaw, director of fraud and identity solutions at Experian, said: "Those who embrace technology most enthusiastically make tempting targets for ID fraudsters, even though one might assume that tech-savvy users would be more aware of security risks and safeguards."

Experian carried out research into people's attitudes and use of technology and data in Britain, which combined consumer surveys with measurement of web traffic and geo-demographic databases.

It was conducted using Mosaic Digital, a consumer classification technology that enabled Experian to build consumer profiles.

The research split the population into three levels of engagement with the digital world and then split all three groups into a total of 11 different types of users – Experian classed these user groups as "tribes". The three engagement levels were split into:

• 'Digital Dawdlers' thought to be part of the population being left behind in the digital revolution, either because of old age or lack in know-how of technology.

• 'Digital Devotees' who are said to be leading-edge users of digital technology. They have the most devices, spend more time on-line and use digital services for the widest range of activities.

• 'Day-to-Day Doers' are defined as practical day-to-day users of digital services with an enthusiasm for the latest technology.

Experian said the two most popular tribes targeted by fraudsters were as follows:

Mobile City: Members of diverse urban communities who are avid users of social media and mobile with their key channel of communication being smartphones.

Beyond Broadband: Older and retired households enjoying life in isolated rural areas beyond broadband, with limited interest in technology, using traditional communication channels such as phones or personal computers.

Beyond these reports, others indicate the age groups affected. As pointed out on p20 by John Marsden, head of fraud and identity at Equifax, the Cifas 2016 Fraudscape Report shows most victims of identity fraud tend to be male and the majority of victims are aged between 31 and 50. While there was a 34 percent increase of impersonation fraud for those under 21, this was still only a small portion of reported frauds. CS

DEFENCE TACTICS

Action Fraud, the national fraud and cyber crime reporting centre, has published advice for businesses to protect themselves and their customers from fraudsters.

Its advice includes:

•Using bank verification tools when customers are trading online;

•Carry out background research on suppliers and continue to monitor their behaviour and performance;

•Protect your company's details on Companies House by using the ICO's Protected Online Filing service.

The advice can be found at bit.ly/1sEPf6b

How I thwarted a global cyber attack – by accident

In May 2017, a computer programmer known as 'MalwareTech' accidentally stopped the spread of a worldwide cyber attack. Marcus Hutchins, the programmer behind the name, explained to AMBER-AINSLEY PRITCHARD how he foiled the WannaCry attacks

When checking the UK cyber threat sharing platform on the afternoon of 12 May, Marcus Hutchins found the site flooded with posts about various NHS systems across the country being hit by malware known as WannaCry.

Hutchins 22, an employee of computer security firm Kryptos Logic, got hold of a sample of the malware, ran it through an analysis and found an unregistered domain – which he then registered. Ultimately, this discovery would be crucial.

When running the sample in another analysis, the WannaCry ransom page appeared. From this second analysis Hutchins found files making a mass connection to different computers through a port known as 'port 445'.

Hutchins told *Credit Strategy* that while running the analysis, the way the malware was scanning reminded him of the recent information leak by the Shadow Broker hacking group, after they accessed the National Security Agency's system. The leak unleashed cyber attack tools such as the one used for WannaCry.

After starting the second analysis, Hutchins' next key move was to finish registering the unregistered domain he had previously found. Once this was done, Hutchins directed the malware traffic to a sinkhole – a server designed to capture malicious traffic and prevent hackers controlling infected computers. He was then able to reverse engineer the malware. This meant establishing vulnerabilities in the malware's code which would allow him to manipulate it, or the network of infected computers, and prevent the spread.

A key to his solution was that the sinkhole server was connecting anyone affected by the malware to the registered domain. This enabled Hutchins to track the spread of the infection, which he used to create a live tracking map, which he then posted on Twitter.


Programmer Marcus Hutchins

"Hutchins directed the malware traffic to a sinkhole – a server designed to capture malicious traffic"

Hutchins then had the registered domain checked to ensure it would not change. He also checked for any new domains that had been set up that would need to be registered.

Once the domain was checked, Hutchins was wrongly told by a fellow programmer that from registering the domain, he had actually triggered the ransomware and encrypted all affected computers' files. However, this was not the case, and the registration of the domain had actually stopped the ransomware and prevented further spread.

Hutchins ensured the spread of malware had stopped by checking it twice more, using various analysis techniques. The ransomware failed to run, confirming he had in fact prevented the spread of the malware since the registration of the domain.

The fear

So why did the sinkhole stop an international ransomware epidemic?

Hutchins explained that the coding used in the WannaCry cyber attack was attempting to connect to the domain Hutchins had registered.

Before the domain was registered, hackers could take networks of computers' ransom through the use of the unregistered domain. Now that the domain had been registered, the coding would automatically quit and exit upon connecting with the domain, therefore unable to take computers hostage.

This 'exit strategy' built into the coding by the hackers, Hutchins believes, is done so because they fear their code would be analysed if left long enough in a registered domain. Hutchins said: "The reason which was suggested (for the exit strategy) is that the domain is a "kill switch" in case something goes wrong, but I now believe it to be a badly thought out anti-analysis."

From registering the domain Hutchins caused all infections to believe they were inside a registered domain and to exit. This meant he had unintentionally prevented the spread and further ransoming of computers infected with this malware. Hutchins will continue to host the domain to prevent any more attacks from happening. However, he warned others to protect their computers with the patches needed because different types of attacks could be attempted. CS

The cyber threats looming in 2017

Earlier this year the National Cyber Security Centre and National Crime Agency published their analysis of evolving cyber threats. AMBER-AINSLEY PRITCHARD investigates the imminent risks

By 2020 there will be 21 billion connected devices used by firms and consumers, an increase estimated to be reflected in the level of cyber attacks, according to a study.

The figures were included in a joint study of cyber threats published in March by the National Cyber Security Centre (NCSC) and the National Crime Agency (NCA). The joint report referenced statistics from advisory company Gartner which found that the adoption of connected devices by businesses has often been overlooked. Gartner estimates the take-up of connected devices, such as smart fridges and smart meters that gather and transmit data, to be occurring at a faster pace, due to the demand for cost-effective solutions in areas such as energy, physical security and facilities automation.

The joint NCSC and NCA study warned it is highly likely that hackers are already targeting connected devices in different industries – and that incidents are more common than are reported, or that have even been detected.

In the past, most internal systems within large businesses, such as for lighting, heating and general energy usage, were securely locked down and not accessible to the outside world, but as more industrial systems become connected, the risk of attacks greatly increases, Gartner warns.

In their study, the NCSC and NCA said sufficient safeguards are still not in place to protect these systems that were never designed to connect to the internet. Therefore, as the number of connected devices increases, so does the potential for cyber attacks to surface.

Consumer vulnerability

As well as the internet of things (IoT) leaving businesses vulnerable, connected consumer devices contain huge amounts of personal data, which could be targeted by criminals seeking to commit extortion or fraud using tailored malware.

The NCA/NCSC report said it is likely, in 2017, that firms will see more attacks of ransomware targeting connected devices containing personal data such as photos and emails. The study said this data may not be inherently valuable, and might not be sold on criminal forums, but the device and data will be valuable to the victim - therefore they'll be willing to pay to get it back.

Forecasting upcoming problems, the report highlighted that ransomware on connected watches, fitness trackers and TVs will present a challenge to manufacturers. It said it is not yet known whether customer support will extend to assisting with unlocking devices and providing advice on ransom demands.

The report also said it will be tempting in 2017 to focus on new technology, however it expects the most impactful attacks will be directed at building blocks on which the internet runs, rather than technology.

It said rather than attacking a single website, an attacker could target an upstream provider critical to the functioning of an organisation – and bewilder the actual target.

A further threat on the horizon, the report said, will be hackers not only encrypting or leaking data but also tampering with it. The report said attacks on the integrity of data are dangerous, especially when the victim is not aware of the changes.

Cyber extortion

The NCA and NCSC said cyber crime is becoming more aggressive and confrontational, with an increase in the use of extortion, whether it is through distributed denial of service (DDoS) attacks, ransomware or data extortion. Their analysis shows that current trends to be aware of are ransomware with locker techniques that prevent the downloading of decryption tools; and new strains of ransomware employing unusual features to attract media attention in a saturated marketplace.

The NCA's and NCSC's report was prescient; the WannaCry attack unfolded just two months after it was published. CS

A launch that makes commercial sense

As Credit Strategy announces its inaugural Commercial Finance Conference and Awards, FRED CRAWLEY explains why it's time to put the subject under the spotlight

Historically, *Credit Strategy* has been seen by many as a title largely focused around consumer lending – and there is some degree of truth in this.

While commercial finance providers have been recognised at the Credit Awards and in our Turnaround, Restructuring and Insolvency (TRI) Awards scheme, and have been represented at our Credit Summit and F5 events in particular, they have not had a space of their own in our product portfolio.

All that changes this year, as we will be holding our very first Commercial Finance Conference and Awards event on October 31. The event will focus on the two largest branches of UK commercial finance – asset finance and invoice finance – although it will also take in a range of alternative lending types, as well as speaking to the broader world of business banking.

Personally, I have been following the UK commercial finance sector since the financial crash of 2007/2008 – it was my beat as a journalist from 2008 through to 2013 and I've kept up links with lenders ever since. In that time, I've seen the industry serve as a lifeline to countless thousands of UK SMEs; in 2009, when bank liquidity was scarce and unsecured lending was constricted, it was asset and invoice finance providers that stepped forward with the funding businesses needed to stay on their feet, and they haven't looked back since.

Invoice finance saw a remarkable boom as we moved into this decade, while the world of asset finance and leasing has grown steadily over the years to become a powerhouse. Asset finance companies currently fund one third of the UK's machinery, equipment and software purchases, while first-quarter figures from

the Finance & Leasing Association (FLA) show their lending is still increasing above projections – for deals up to £20m (which is most of the market). New business in March was also 14 percent up year-on-year, and this rate of success is expected to continue.

The National Association of Commercial Finance Brokers has grown too, going from a backroom operation to a huge and respected trade body of intermediaries under the 11-year stewardship of Adam Tyler. From a position of near extinction in 2009, brokers have held on by their fingernails and become a thriving, vital part of the UK's SME funding machine.

New danger?

Of course, things aren't all perfect. One look at the NACFB's own commercial finance expo will show even the casual observer, especially one who has been around a few years, just how much money is looking to get out into the market. New lenders seem to be springing up every month, in both the traditional arenas of asset finance, invoice finance and property lending, and a host of more exotic, tech-enabled funding brackets.

This is great news on the surface, but talk to the veterans you'll find it makes them nervous. There hasn't been such a frenzy for lending in more than a decade, and many feel there are some worrying parallels with the way the market overheated in 2006.

Of course, it's at times like this that lenders need to work together, assess the prudence of their lending strategies, and find a balance between volume growth and sustainability. At *Credit Strategy*, with our long heritage in credit, risk and financial technology, we humbly think that's something we're in a good position to facilitate. If you're reading this from a position working at, or with, a commercial lender, I look forward to seeing you at our event in October.

For more info on the Commercial Finance Conference and Awards visit creditstrategy.co.uk/events CS

Energy firms want a cap on interference

With a Tory government clinging on to power, energy firms may face more intervention on tariffs and pricing. CHRISTINE TONER reports

While Conservative plans for an energy tariff price cap had been leaked before policies were announced, the Tories' manifesto would still have made uneasy reading for suppliers. It stated the party will extend the "standard tariff cap" currently in place for some vulnerable customers to others on the "poorest value tariffs".

The manifesto added: "We will maintain the competitive element of the retail energy market by supporting initiatives to make the switching process easier and more reliable, but the safeguard tariff cap will protect customers who do not switch against abusive price increases."

Although the Conservatives are now running a coalition of sorts, energy firms may still face such changes – and that includes an extension of the cap to micro-businesses. According to the document, the Conservatives believe the worst-hit customers in the energy retail market are households with lower incomes, people with lower qualifications, people who rent their home and the elderly.

The industry may also face an independent review of costs in the energy market, with the view to having the "lowest energy costs in Europe".

Lawrence Slade, chief executive of supplier trade body Energy UK, said: "Further intervention risks undermining so many of the positive changes in the market which are delivering benefits for consumers.

"Competition and choice is the best way to deliver a better deal for customers. It is essential that any price cap is carefully designed in partnership with industry and consumer groups to protect consumers."

It is certainly the case that in parallel with increased competition, switching figures have risen in recent years, with a spike in the past two months particularly. The most recent available figures, also published by Energy UK, show there have been 1.8 million switches of tariffs so far this year. The statistics show that just over 501,000 customers switched supplier in April – a 14 percent increase compared with April 2016.

As competition intensified during April, the numbers switching from larger suppliers to small and mid-tier suppliers represented three in 10 (31 per cent), a total of 155,558 customers. But despite such encouraging figures reflecting increased aptitudes to ditch and switch for a better deal, the industry remains anxious about a tighter grip that the new government seems determined to clasp over energy firms.

Government intervention in the utilities and telecoms markets will in fact be one of the subjects that emerges in *Credit Strategy's* Household Credit Conference – rebranded from the Utilities and Telecoms Conference – on October 5.

The programme for the conference, which has now been launched, will tackle occupier debt, market transiency, an economic outlook, fraud and data sharing between energy, water, telecoms firms and even local authorities.

More details are available on creditstrategy.co.uk/events. CS

AWARDS
UTILITIES & TELECOMS
HOUSEHOLD CREDIT CONFERENCE
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THE U&T AWARDS 2017

The Utilities & Telecoms Awards, sponsored by Court Enforcement Services and Lowell, will return for its seventh year at the Nottingham Belfry Hotel on 5 October.

The awards will honour the hard work and best practice of individuals, teams and firms drawn from across the energy, water and telecoms sectors.

Nominations are now open and the categories have nearly doubled from eight to 15. This year the scheme will group together categories in five subject areas:
* Water
* Energy
* Telecoms
* Partnership, Outsourcing and Customer Service
* Leadership and change (rewarding the achievements of the senior execs and decision makers).

The awards highlight teams and individuals, from both the utilities and telecoms sectors, as best-in-class in the credit risk and collections profession. The ceremony therefore attracts firms to an evening that marks the biggest gathering of collections and credit risk professionals in both sectors.

Last year's awards gathered more than 250 senior professionals to the event who collectively raised around £2,500 for the UK's blood cancer charity, Anthony Nolan.

The night will follow the Household Credit Conference, formerly known as the Utilities & Telecoms Conference, which takes place on the same day at the same venue.

Find more details on both events at: creditstrategy.co.uk/events

Pole positions - The Car Finance Awards winners 2017

Following Credit Strategy's second annual Car Finance Conference, the Car Finance Awards championed the best-in-class firms, teams and individuals in a dynamic sector. MARCEL LE GOUAIS reports on the winners

It's fair to say the car finance sector is rarely credited in public forums for its contribution to the UK economy. So when the Car Finance Awards returned for a second outing on June 8 at the Nottingham Belfry, the notion of recognising outstanding achievements in this sector rightly gained momentum.

The event united firms from the UK car finance market to recognise innovators and top performers among the brokers, lenders, technology suppliers and law firms playing pivotal roles in this growing sector.

From the manufacturers boosting motor retail with finance campaigns, to the lenders getting even those with poor credit histories onto the road, to the dealers making it all come together on the forecourt, the night highlighted brilliance in an unsung industry – one that is rarely celebrated for its contribution to the nation's economic wellbeing.

This year new categories were added, including Best Company to Work for, Best Relationship Manager, Car Finance Personality of the Year and Gamechanger.

Big winners on the night included Vauxhall Finance, which picked up two awards: Best Company to Work for in Car Finance and Best Manufacturer Finance Provider. Black Horse also scooped the accolade for Customer Service Excellence, while MotoNovo Finance won the coveted Innovation Award.

The Car Finance Awards is also about reflecting individual talent, and one name to watch is Laura Barker at DSG Financial Services, who took home the judges' award for Rising Star.

On the night, guests from across the industry raised just under £2,000 for The Children's Trust, a charity that runs a range of specialist care, education and therapy services for children and young people from across the UK, including the UK's largest rehabilitation centre for children with brain injuries.

Guests were also entertained during the awards by former Formula One racing driver, Perry McCarthy, also known as The Stig – the anonymous race car driver who featured alongside Jeremy Clarkson, James May and Richard Hammond on the BBC's *Top Gear* before being outed by a tabloid newspaper. The conference and awards will return next year, but for now, the full winners and sponsors can be seen here. CS

Host Perry McCarthy - Top Gear's original Stig

Guests raised cash for The Children's Trust in an auction

Awards category sponsors:

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AWARDS CAR FINANCE

Laura Barker, winner of the Judges' Award for Rising Star, with CS's Fred Crawley

ALPHERA (centre), the Best Independent Lender (Non-Bank Owned) award winner

The Vauxhall Finance team won Best Company to Work for in Car Finance

Equiniti Pancredit picked up the Best Use of Technology prize

FULL LIST OF WINNERS

Best Use of Technology
Winner: Equiniti Pancredit

Customer Service Excellence
Winner: Black Horse
Highly commended: MotoNovo Finance

Judges' Award for Best Relationship Manager
Winner: Joyce Rarity, Arnold Clark

Judges' Award for Rising Star
Winner: Laura Barker, DSG Financial Services

Judges' Award for Car Finance Personality of the Year
Winner: Stephen Sklaroff, director general, Finance & Leasing Association

Best Law Firm
Winner: Shoosmiths
Highly commended: TLT

Best Technology Partner
Winner: Codeweavers
Highly commended: Dealflo

Innovation Award
Winner: MotoNovo Finance

Gamechanger
Winner: NextGear Capital UK

Best Service for Dealers
Winner: DSG Financial Services

Best Retailer for Finance
Winner: JCT600

Best Broker
Winner: Evolution Funding
Highly commended: DSG Financial Services

Best Specialist Car Finance Provider
Winner: Moneybarn

Best Independent Lender (Non-Bank Owned)
Winner: ALPHERA Financial Services

Best Independent Lender (Bank Owned)
Winner: Northridge Finance

Best Company to Work for in Car Finance
Winner: Vauxhall Finance
Highly commended: Lookers

Best Manufacturer Finance Provider
Winner: Vauxhall Finance

The team at Shoosmiths picked up the Best Law Firm award

MotoNovo Finance collected the Innovation Award

Staff at Black Horse, (left), took home the Customer Service Excellence award

JCT600 won the honours for Best Retailer for Finance

Strength in diversity: The Credit Awards 2017

The disparate list of nominees shortlisted for this year's Credit Awards reflects the far-reaching nature of the scheme – and the profession itself.

Finalists ranging from the smallest startups to the largest organisations in both the public and private sectors jostled for recognition as best practice leaders in their respective fields, at a gala event on May 11, held at the Grosvenor House hotel in London's Mayfair.

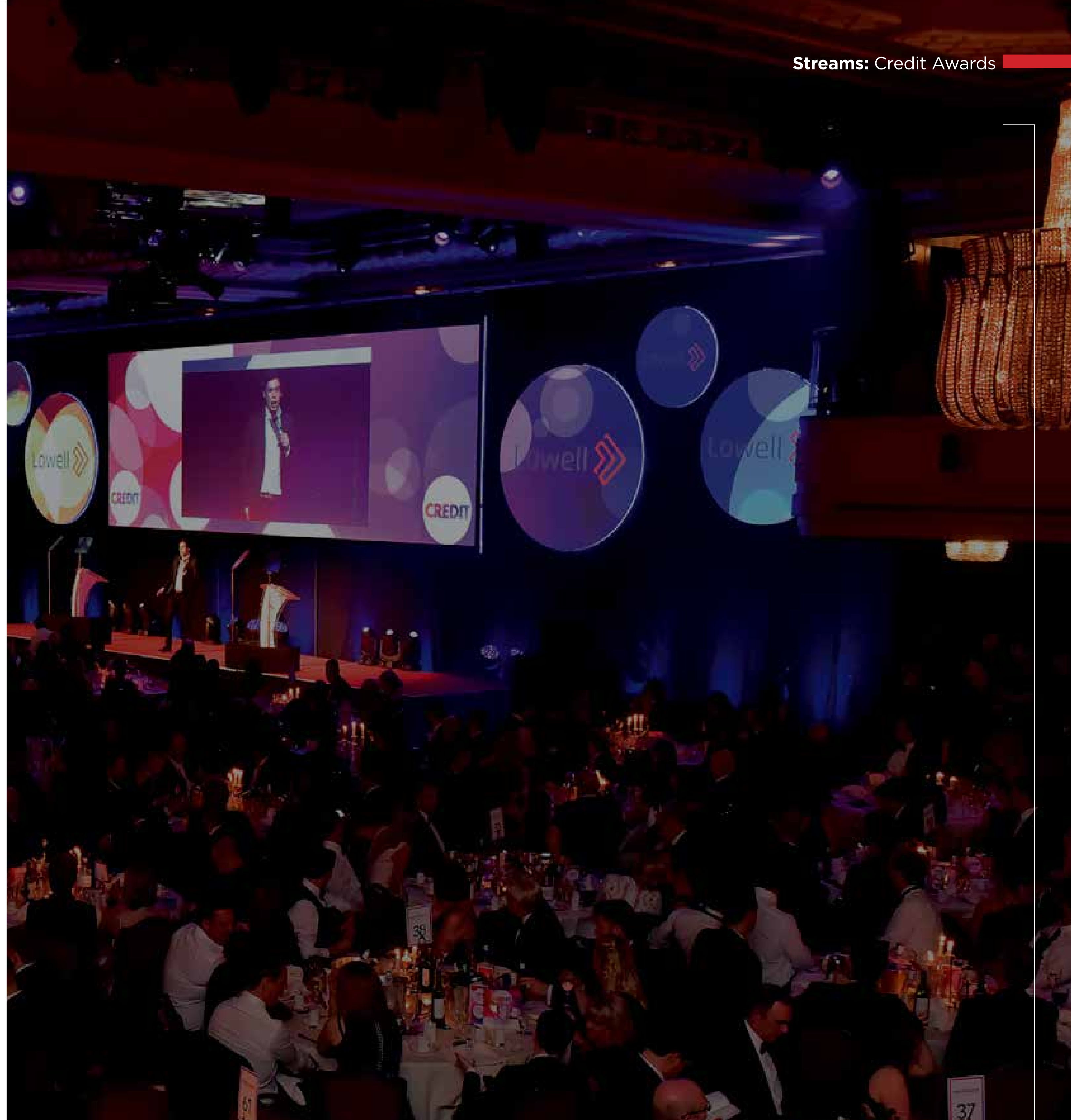
The shortlist included some relative newcomers, such as Lendable and Iwoca, but also some giant household names, including Nationwide Building Society, EDF Energy, Virgin Money and Axa Insurance, among others.

The fact that the scheme has, for the best part of two decades, spread its reputation into all corners of the profession is best reflected in HMRC's interest in the awards, and that of other public sector creditors.

Without any prompt, HMRC sent in eight entries, and while we have reported in *Credit Strategy* the industry's views on how the tax authority's culture needs to change, it is still effectively working under one explicit instruction enshrined in legislation – to recover debt.

But as well as public sector interest, the scheme also demonstrates exponential growth in alternative lending options for both businesses and consumers – fintech firms including Codeweavers and Assetz Capital were among the winners.

The Credit Awards, therefore, also showcases the market's vitality and the progression of certain trends: the Excellence in Treating Customer Vulnerability category was without doubt the most popular – and also the hardest to judge.



Now in its 18th year, the scheme was redesigned this year to better reflect *Credit Strategy's* widening audience – with a total of 20 awards grouped into five 'super-categories'. These included Conduct & Culture (sponsored by Lowell), Lending (sponsored by Link Financial Outsourcing), Credit, Collections and finally Technology – which was sponsored by Marston Holdings. Within these brackets, new awards such as Fair Lender, Risk Leadership and Gamechanger were added, alongside returning categories such as Best Company to Work For and Customer Service Champion.

> ***"Now in its 18th year, the scheme was redesigned to reflect Credit Strategy's widening audience"***

This year, the event was hosted by BBC presenter Louise Minchin, who made an admirable attempt to control an exuberant crowd across the Great Room at the Grosvenor. Minchin hosted the ceremony after entertainment from an LED POI dance act and comedian Rhys James, and live music provided by The MP3s.

Credit Strategy would like to thank Court Enforcement Services for its generosity in sponsoring a silent auction, which raised more than £19,600 for Childline, the counselling service for children and young adults. CS

Streams: Credit Awards

At the apex of best practice - the Credit Awards winners 2017

Among the Credit Awards winners, one special honour was bestowed on Robert Skinner, the former chief executive of the Lending Standards Board. CHRISTINE TONER reports

For many senior professionals working within banks and building societies, Robert Skinner was one of the first people within any regulator to put affordability firmly on the agenda.

This was just one of many reasons why the judges of the Credit Awards 2017 decided to honour him with the Martin Williams Award for Contribution to the Credit Industry.

During his 10 years as chief executive of the Lending Standards Board, Skinner led the industry's work on promoting fairer lending to consumers through the Standards of Lending Practice.

Sponsored by the British Bankers' Association and The UK Cards Association, the standards act as a code for how registered lenders should treat customers throughout the lifecycle of a product. A total of 33 lenders that together provide the majority of consumer credit lending in the UK, have signed up to the standards.

As well as steering the improvement of lending conduct for consumers, Skinner also led the development of the LSB's Standards of Lending Practice for business customers, which were launched during *Credit Strategy's* Credit Week in March this year.

Robert Skinner, centre, with the FLA's Fiona Hoyle and Luke Broadhurst of Credit Strategy

On the night of the Credit Awards at the Grosvenor House Hotel in London's Mayfair, Fiona Hoyle, head of consumer finance at the Finance & Leasing Association and a Credit Awards judge herself, delivered a speech on Skinner's achievements before presenting the award to him.

She told the audience: "The winner of this year's Martin William's Award is someone who has had a 40-year career in financial services, the majority of which has been dedicated to raising standards and improving the help available to those in financial difficulty.

"As well as a commitment to setting best practice standards across the lending industry, he has played a major role in ensuring those with repayment difficulties get the help and advice they need. He sits on the boards of leading debt and money advice organisations, including the Money Advice Service and the Money Advice Liaison Group and was previously chief executive of the Money Advice Trust. He is described as 'a man of integrity', 'great listener, who has forged closer links between the lending and debt advice sectors', and a 'true professional with a real commitment to improving consumer protection'."

The full list of winners are included on the opposite page. CS

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CREDIT AWARDS WINNERS 2017

Technology super category
Sponsored by Marston Holdings
Best Credit & Collections Technology
Winner: Npower
Data & Analytics Expertise
Winner: iwoca
Innovation in Customer Contact
Winner: TotallyMoney.com
Gamechanger
Winner: Carphone Warehouse & Equifax

Credit super category
Credit Risk Excellence Award
Winner: Investec Asset Finance
Best Consumer Credit Team
Winner: AXA Personal Direct & Retail Partnerships - Customer Accounts Team
Best Commercial Credit Team
Winner: Investec Asset Finance

Lending super category
Sponsored by Link Financial Outsourcing
Best Consumer Lender
Winner: Zopa
Best SME Lender
Winner: Nucleus Commercial Finance
Best SME Lender (Heavyweight division)
Winner: Investec Asset Finance
Lending for Everyone
Winner: Amigo Loans
Innovation in Lending
Winner: iwoca

Collections super category
Best Collections Team
Winner: HM Revenue & Customs - Field Force Central London
Best Law Firm for Collections
Winner: stevensdrake solicitors
Best Specialist Collections & Recoveries Business
Winner: Phillips & Cohen Associates (UK)
Best Outsourced Collections Provider
Winner: Grosvenor Services, a part of Echo Managed Services

HMRC Customer Service Champion
Winner: Ian Sykes, HM Revenue & Customs
Customer Service Champion
Winner: Dominic Jones, Phillips & Cohen Associates (UK)

Conduct & Culture super category
Sponsored by Lowell
Outstanding Conduct in Collections
Winner: Nationwide Building Society
Best Company to Work For in Financial Services
Winner: GM Financial
Best Company to Work For in Collections
Winner: TDX Group
Fair Lender
Affordable Lending
Excellence in Treating Customer Vulnerability – Collections & Debt Management
Winner: Orbit and United Utilities
Excellence in Treating Customer Vulnerability – Lending
Winner: Nationwide Building Society

Nationwide picked up two awards including Outstanding Conduct in Collections

Iwoca celebrated with two awards, including Data & Analytics Expertise

The Best Credit and Collections Technology Award went to Npower


TotallyMoney.com scooped the Innovation in Customer Contact Award


The team at Stevensdrake Solicitors picked up the Best Law Firm for Collections prize

Joint winners Equifax and Carphone Warehouse won the Gamechanger award

Dates for your diary

Put these critical industry events, organised by Credit Strategy, in your outlook calendar.

Find more information on any of our events at: creditstrategy.co.uk/events

EMERGING LEADERS SUMMIT - EMEA 2017

Sept 2017
London

EMERGING LEADERS AWARDS - EMEA 2017

Sept 2017
London

Supported by ACG UK

HOUSEHOLD CREDIT CONFERNCE 2017

5 Oct 2017
Nottingham Belfry, Nottingham
Previously known as the Utilities & Telecoms Conference

UTILITIES & TELECOMS AWARDS 2017

5 Oct 2017
Nottingham Belfry, Nottingham

TRI AWARDS 2017

18 Oct 2017
London Hilton Park Lane, London

MORTGAGE CONFERENCE 2017

30 Oct 2017
Hilton London Bankside, London

COMMERCIAL FINANCE CONFERENCE & AWARDS 2017

31 Oct 2017
Hilton London Bankside, London

F5 CONFERENCE & AWARDS 2017

1 Nov 2017
Hilton London Bankside, London

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Industry veteran joins Whistlebrook as CEO

David Webber
Managing director
Intelligent Environments

The managing director of Intelligent Environments, David Webber, is joining back-office solutions provider Whistlebrook as chief executive.

Webber, an industry veteran with a track record of more than 20 years as a business leader within financial software services, has led Intelligent Environments through a period of growth during the past five years.

After a tenure in which Intelligent Environments has secured blue-chip clients in financial services, by providing digital technology that helps clients serve customers through the whole of the credit cycle, he will join Whistlebrook as chief executive and equity investor on July 3. He will also retain a position at Intelligent Environments as a board adviser.

Before his time at Intelligent Environments, Webber led for a decade what is now Sopra Steria's UK banking software business.

He told *Credit Strategy*: "I am very excited by the prospect of working with the Whistlebrook team to deepen our financial services market penetration, extend our industry partnerships and broaden our portfolio of back office products."

Stephen Viney founded Whistlebrook 20 years ago this month and will now be taking on the role of chairman. He will continue his focus on the continued research and development of Whistlebrook's back-office products.

Whistlebrook's software solutions comprise a portfolio of back office applications that cover a range of areas such as regulatory reporting, effective interest rate calculation, single customer view and treasury management.

StepChange starts search for new leader as CEO steps down

Mike O'Connor
Chief executive
StepChange Debt Charity

StepChange Debt Charity hopes to have a new chief executive in place by the fourth quarter, after Mike O'Connor announced his resignation. O'Connor has been with the free advice charity for nearly four years and was previously a non-executive member of the customer fairness committee at British Gas.

StepChange has now began the process of recruiting a successor which is likely to take until the end of the year and O'Connor will remain in the position until then.

Highlighting achievements during his tenure, StepChange announced that the charity helped 600,000 people last year – equating to one person every 53 seconds.

The profile of the charity's client base has also changed during his time. Around 60 percent of all the charity's clients are now aged under 40 compared to five years ago when this was just eight percent.

During his leadership, O'Connor has called on creditors to introduce "breathing space" for customers, in a scheme that would allow debtors to repay debts in full, with charges frozen, through a debt payment programme over an extended period. Since this campaign was launched, both the Conservative and Labour parties pledged to introduce breathing space in their election manifestos.

O'Connor said: "Looking back, I have seen people who get into problem debt blamed. I hope we can help increase understanding of the true causes of problem debt and demonstrate that helping people when they are in trouble, however they got there, is not only good for them but their families, their communities and indeed our economy."

Debbie Nolan
Arvato Financial Solutions

Arvato Financial Solutions has appointed a new commercial director in the UK and Ireland as it targets growth in the finance and accounting business process outsourcing (F&A BPO) space, as well as debt collection.

Debbie Nolan, who has spent the last four years as business development director in Arvato's customer services business, will move on to its financial solutions business to take up the new position, where she will lead the sales and account management team. The business delivers a range of finance and accounting services, from risk management, invoice and payment processing to credit and collections, for clients.

Prior to joining Arvato, Nolan spent 12 years at collections agency Wescot Credit Services, which included four years on the board. She also led the growth of global customer experience specialist Transcom.

John Ricketts
Ardent Credit Services

The president of the Credit Services Association, John Ricketts, has joined Ardent Credit Services as its new managing director. Ricketts joined the credit management and debt recovery services provider on June 1.

He succeeds the role from founder of the company Steve Murray who has become chief executive of Ardent and will focus on driving the company's digital agenda. Ricketts has nearly 40 years' experience in the credit services sector and has held board positions at Robinson Way and the Infocheck Group. He has also held senior positions at Dun and Bradstreet, Experian and Allied International Credit.

Joe Hanlon
Andrew Wilson & Co

High court enforcement firm Andrew Wilson & Co has promoted Joe Hanlon to director. Hanlon, who's in the final stages of qualifying as a high court enforcement officer, started his career in the industry 11 years ago and at 29, is one of the youngest authorised officers in the country. He is now fulfilling the practical element of his training, dividing his time between managing the firm's Manchester head office and working as a certificated bailiff.

The Fifth Estate

The regulator's role in freeing up quality advice

In the second of a two-part column on the free debt advice sector, our secret columnist discusses solutions to problems brought on by quantitative targets

A potential solution to the negative impact of quantitative targets, and the detrimental effects that come with them, could rest with the Financial Conduct Authority (FCA).

The FCA could achieve the desired objective if it added extra supplementary guidance, following consultation, as to what it considers appropriate to meet the requirements of CONC 8.3.2 R (1). This part of CONC says: "A firm must ensure that all advice given and action taken by the firm or its agent or its appointed representative:

- has regard to the best interests of the customer;
- is appropriate to the individual circumstances of the customer; and
- is based on a sufficiently full assessment of the financial circumstances of the customer."

As an example, the FCA could add guidance that firms would be unlikely to meet the requirements of CONC 8.3.2 R if advice given or action taken is unduly constrained or influenced, to the potential detriment of the customer, because of the firm's funding model. The funding model here might include a requirement to meet quantitative targets to secure funding.

Failure to comply would most likely be the case where the need to meet quantitative targets materially constrained the firm's agents' or appointed representatives' ability to carry out a sufficiently full assessment of a customer's financial circumstances, prior to providing advice. It would fall to the FCA to establish the causal link between the funding model and the outcome.

Clearly, such guidance could have wider application to other funding models. For example, in considering whether a firm that secures funding on a 'fair share' basis might be unduly influenced to give advice or take action that was not necessarily in the customer's best interests. An agent could recommend a debt solution to a customer from which the firm would derive fair share funding, but which, based on the available evidence, may not necessarily appear to be the best option available to the customer, relative to other options.

If the FCA was minded to consult on adding guidance or clarification in terms of what its expectations are in terms of meeting the requirements of CONC 8.3.2, it might also wish to consult on making it explicit, in further guidance, that the carrying out of a sufficiently full assessment of the financial circumstances of the customer should necessarily include:

- A full assessment of whether there is scope for the customer to increase their income by, for example, exploring whether they might be entitled to any/extra benefits.
- An accurate assessment of the client's expenditure. An assessment of a client's expenditure would not be accurate if, for example, expenditure figures were manipulated to make it appear that one or more aspects of the client's expenditure was greater or less, to a material extent, than was actually the case. Such action may result, for example, in the customer appearing to meet the criteria for a particular debt solution when this was not in reality the case. And such a result might give the impression a client could afford to pay the firm's fees (in the case of a commercial debt management firm) when this was not in fact the case and/or being placed in an unsustainable debt solution or repayment plan. CS