

Group Customer Policy for third party suppliers

LLOYDS
BANKING
GROUP



**LLOYDS BANKING GROUP
CUSTOMER POLICY**

**SUMMARY FOR THIRD PARTY SUPPLIERS
AND GROUP COLLEAGUES WHO INTERACT WITH SUPPLIERS**

POLICY SCOPE AND RATIONALE

The Customer Policy (the ‘Policy’) applies to all Suppliers who have contact with customers of the Lloyds Banking Group (the ‘Group’).

The Policy is designed to ensure that fair outcomes are delivered to customers of the Group by helping us to identify and manage conduct risks, which we define as *“The risk of customer detriment across the customer lifecycle including: failures in product management, distribution and servicing activities; from other risks materialising, or other activities which could undermine the integrity of the market or distort competition, leading to unfair customer outcomes, regulatory censure, reputational damage or financial loss.”*

In turn, we define customer detriment as *“Consumer loss, distress or inconvenience due to breaches of regulatory or internal requirements or our wider duty to act fairly and reasonably.”*

As a result of that the Policy is intended to:

- 1) Support the aim of the Group to be the best bank for customers, communities, colleagues and shareholders.
- 2) Allow the Group to comply with all relevant regulation and legislation. That includes detailed considerations for example based on regulatory sourcebook rules, alongside higher-level requirements such as the Financial Conduct Authority’s (FCA) principles for business, for which principle six states that *“A firm must pay due regard to the interests of its customers and treat them fairly”*.

In complying with the Policy, Suppliers must ensure that adequate training and guidance is provided to their employees and / or agents, on induction and periodically (at least annually), so they can act in the best interests of the Group’s customers.

MANDATORY REQUIREMENTS – GENERAL

The Group manages customer detriment through 21 conduct risk principles.

The principles can be arranged to form a life-cycle approach, from strategy and planning, through to the design of a product and / or service and its sale and distribution, and then on to post-sales servicing, complaint handling and rectification where required. When we place part of that activity with a Supplier, the principles need to be complied with as follows:

- (A) On at least an annual basis (and more frequently when material change occurs), the relevant Business Unit (the ‘Business’) within the Group will agree with each of its Suppliers which of the 21 principles apply to the activities and / or services the Supplier undertakes for the Group. That agreement must be documented and held on file, by the Business, for ease of reference. The principles are as follows:

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Theme	Conduct Principle	Prompts to identify relevancy
Business strategy, planning and processes	Conduct Risk Principle 1: Business and strategic planning focuses on customer needs.	Included for completeness and should generally be not applicable.
	Conduct Risk Principle 6: Colleague remuneration practices do not drive inappropriate behaviours.	Included for completeness and addressed under the third party version of the Remuneration Policy.
	Conduct Risk Principle 19: Internal processes and systems are designed and executed to meet the needs of customers.	Is the Supplier assisting the Group in operating any processes and / or services that involve contact with our customers?
	Conduct Risk Principle 20: Continuity planning includes adequate provision for customers.	Is the Supplier assisting the Group in managing any of our business continuity plans that involve contact with our customers?
	Conduct Risk Principle 21: When responding to operational events, we deploy fair and effective customer strategies.	Included for completeness and should generally be not applicable.
Product Design and Maintenance	Conduct Risk Principle 2: Products and services offer fair value.	Included for completeness and should generally be not applicable.
	Conduct Risk Principle 3: Changes made to a product are fair and are executed effectively.	If it does apply, the requirements for developing new products should ensure that the product meets the needs of the customer and delivers fair value over the life of the product, taking into account the needs of all customers including those in vulnerable circumstances.
	Conduct Risk Principle 4: Long-standing customers have their needs considered and are treated fairly.	
Product Distribution	Conduct Risk Principle 5: Distribution channels enable customer understanding and facilitate good customer choices.	Included for completeness and should generally be not applicable. If it does apply, the product must have a distribution channel which is appropriate to the target market, taking into account the complexity of the product.
	Conduct Risk Principle 7: Advice provided to customers is suitable and takes account of their circumstances.	Is the Supplier assisting the Group with any advice given to customers to help them decide whether or not to take out the product or service?
Post-sales Servicing	Conduct Risk Principle 9: Post-sale servicing meets customer needs.	Is the Supplier assisting the Group in any post-sale servicing activity, such as ensuring that the product is managed and maintained in line with the terms

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		and conditions and customer expectations?
	Conduct Risk Principle 11: Customers do not face unreasonable barriers when switching or exiting products.	Is the Supplier assisting the Group in any post-sale servicing activity, with particular regard to the way customers can switch from or cancel an existing product?
	Conduct Risk Principle 12: Claims are handled fairly.	Is the Supplier assisting the Group in handling, identifying and processing any kind of insurance claims?
Lending and / or Credit	Conduct Risk Principle 8: Lending to customers is responsible.	Is the Supplier assisting the Group with the provision of any lending or credit facilities, or with any collections and debt recovery activity?
	Conduct Risk Principle 10: Sustainable and appropriate treatment strategies for customers in financial difficulties are in place.	
Communications	Conduct Risk Principle 13: Customer communications are clear, fair, not misleading and are delivered at the right time.	The focus here is not on routine queries and correspondence. Instead, is the Supplier assisting us in managing any part of the process for any of our critical customer communications? In that sense, we mean critical for the Business, so perhaps linked to its most vital products and services (for example, mailing out terms and conditions updates).
Vulnerability	Conduct Risk Principle 14: Understand, identify and support the needs of our customers in vulnerable circumstance to prevent or mitigate the financial harm	Is the Supplier responsible for any contact with the Group's customers, which will require it to make adequate provision for the needs of vulnerable customers?
Market Conduct	Conduct Risk Principle 18: We observe proper standards of market conduct.	Included for completeness and should generally be not applicable.
Complaints and Rectifications	Conduct Risk Principle 15: Complaints are identified, managed, responded to and resolved fairly. Conduct Risk Principle 17: We conduct robust root cause analysis and apply learnings from complaints and rectifications.	There are three points of focus here: (1) Is the Supplier helping the Group to manage complaints relating to the Group's customers? (2) If so, does the Supplier have effective processes in place to handle, identify and treat complaints that arise from its own treatment of the Group's customers? (3) In addition, does the Supplier have effective root cause analysis

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		<p>procedures, MI and reporting in place?</p> <p>The precise nature of the controls required will vary depending on scale. For example, all Suppliers with customer contact need to address the points above. However, for Suppliers where the main focus of the outsourcing agreement is for them to handle complaints for the Group, the size and scale of the complaints framework and controls should be proportionate to the task.</p>
	<p>Conduct Risk Principle 16: Rectifications opportunities are identified and rectifications activities are fair and effective.</p>	<p>Is the Supplier assisting the Group in relation to handling, identifying and processing any kind of rectification activity?</p>

(B) Having established the principles that apply, the Business will then agree with the Supplier the applicable controls, governance and reporting that is required. The end result should be that the Group’s customers receive the same or better experience from a Supplier as they would from colleagues in the Business.

(C) In setting the control, governance and reporting framework, the Business should refer to the internal document known as the ‘treatment standard’. Considerations should include and not be limited to:

Communications

If through its activities for the Group the Supplier is involved in any of our critical customer communications (as opposed to handling routine correspondence), appropriate controls will need to be in place for that – for example, the reason for sending the communication, any regulatory requirements, the target population and so on. In addition, if we outsource any aspect of one of the Group’s Social Media accounts to a Supplier then particular controls will apply.

Complaints

We define a complaint as *“Any oral or written expression of dissatisfaction, whether justified or not, from or on behalf of a person or business, about the provision of, or failure to provide, a financial service, which alleges any actual or potential financial loss, distress or inconvenience”*. This topic is relevant for all staff involved in the complaint handling process at any stage including any areas that:

- Are responsible for dealing with complaints / receiving complaints.
- Carry out root cause analysis and resolution management Information.
- Compile management information on complaints.
- Interact in any way with customers and are responsible for identifying / handling complaints.
- Provide assurance of the effectiveness of complaint handling activity.
- Provide strategic leadership of complaint handling.

Complaints reporting, processes and controls need to be based around the following themes:

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- 1) **Customer Awareness:** Customers will be made aware of how to complain about any Group product or service.
- 2) **Handling a Complaint:** Including receiving a customer complaint, learning from complaints and quality assurance.
- 3) **Complaint Resolution:** Including clarification of the complaint, assessing the merits of the complaint, the solution and dealing with complaints referred to the Financial Ombudsman Service.
- 4) **Time Limits:** Including keeping the customer informed and communicating our decision in a timely fashion.
- 5) **Record Keeping, Management Information (MI) and Reporting.**

Conduct Risk Appetite Metrics (CRAMs)

These are key management information and data points that track metrics related to possible customer detriment. If we would operate CRAMs if the activity was managed within the Group, then the Business should work with the Supplier to implement comparable CRAMs coverage.

Outcomes Testing

For all processes that the Business assesses as critical, in terms of the impact on the Group's customers, outcomes testing must occur to ensure that:

- The process worked as planned.
- That applicable regulation and legislation was complied with.
- That the customer received a good outcome.

In that respect, three key principles apply:

- 1) Outcomes testing must involve segregation of duties, the people and / or team performing outcomes testing must be suitably independent from those they are testing.
- 2) To ensure that there are no conflicts of interest, the Business will confirm whether outcomes testing must be undertaken by the Supplier, by the Business, by another party, or by any combination thereof.
- 3) To provide additional assurance, there is a need to re-perform outcomes testing at a frequency (typically at least annually) and depth proportionate to the service being provided by the Supplier. The Business will confirm the frequency, requirements and responsibilities.

Vulnerability

Regulation and legislation: There is a broad range of regulation impacting customers in vulnerable circumstances, including and not limited to [FCA Guidance for firms on the fair treatment of vulnerable customers \(02/21\)](#), MCOB, CONC, CMCOB, BCOBS, and Equality Act 2010.

The FCA definition of vulnerability is that *"A vulnerable consumer is someone who, due to their personal circumstances, is especially susceptible to detriment, particularly when a firm is not acting with appropriate levels of care"*.

Vulnerability can take many forms, both permanent and temporary, There are 4 key drivers which may increase the risk of customer vulnerability which should be considered when setting the control environment:

- **Health:** health conditions or illnesses that affect the ability to carry out day-to-day tasks
- **Life events:** major life events such as bereavement, job loss or relationship breakdown

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- **Resilience:** low ability to withstand emotional or financial shocks
- **Capability:** low knowledge of financial matters or low confidence in managing money (financial capability). Low capability in other relevant areas such as literacy or digital skills

The FCA also identified seven harms that vulnerable customers may be more likely to experience.

- **Financial Exclusion:** difficulties in accessing financial products and services in the main stream appropriate to their needs
- **Difficulty in accessing Services:** some characteristics may make it difficult for consumers to use a particular communication channel
- **Disengagement with the market/partial exclusion** Holding products for a long time, even when unsuitable or not engaging as experience is too overwhelming
- **Inability to manage a product or service** - may be unable or have limited ability to understand how to manage a product or service on an ongoing basis
- **Over indebtedness** - unable to meet to their financial commitments – may also be linked with mental health and addiction
- **Buying inappropriate products or service and exposure to mis-selling** - More likely to have mistakenly bought something that was not appropriate, due to misunderstanding Ts&Cs
- **Scams and financial abuse** - Consumers with some characteristics of vulnerability may be more likely to fall victim to scams.

(D) The Business will confirm to the Supplier the frequency and standard of all reporting, MI and data required for the controls. The reporting should be sufficiently detailed and regular to provide the Business with an end-to-end view of all relevant Supplier activities and customer outcomes, so that the Business can apply proportionate oversight and challenge.

(E) Finally, the Business will work with the Supplier to ensure that the Supplier has proportionate policies and procedures to address all of the above. As an example, we would expect most Suppliers to have a policy outlining how they consider customer complaints, customer treatment and customer vulnerability, and how that is covered at (1) staff induction, (2) available for on-going reference throughout the year, and (3) subject to periodic reminders (at least annually) to all staff. Such documents should be approved and circulated annually, and be owned at an appropriate level within the Supplier.

MANDATORY REQUIREMENTS – NON-COMPLIANCE

Any material differences between the requirements set out above and the Supplier's own controls should be raised by the Supplier with Lloyds Banking Group's Supplier Manager at the earliest opportunity. The Supplier Manager will then discuss the non-compliance with the Accountable Executive for the relationship and local Risk team to agree way forward.

VERSION CONTROL

Version Number	Effective Date
1.0	31 March 2020
2.0	17 th June 2021
3.0	22 nd March 2022 – Fit For Purpose Publication