AMI response to the Competition Commission's
PPI Market Investigation – Emerging Thinking

The Association of Mortgage Intermediaries (AMI) is the trade association representing intermediaries operating in the mortgage market, who advise on both regulated and non-regulated mortgage contracts and associated protection arrangements. Our members predominantly offer advice to clients, and make recommendations from a suite of protection products in discussion with the consumer. AMI represents brokers who are responsible for approximately 80% by volume and value of the intermediary channel, which itself represents around two-thirds of UK lending.

AMI welcome the opportunity to respond to the Competition Commission's Emerging Thinking document and for the chance to make representation to the Commission.

Broadly, AMI are pleased to see acknowledgement of the competitive nature of MPPI, and the success and innovation that intermediaries have brought to the market, through unbundling and robust advice processes.

Having reviewed the documents we would like to highlight a number of the Competition Commission's findings:

We believe that the market definition from MPPI is wider than the narrow definition the Competition Commission have currently considered. The role of the intermediary in the market creates transparency of price, and equally importantly, of product features. We therefore believe that a SSNIP would be unprofitable for an individual underwriter, as intermediaries would simply source alternative products from a cheaper or better value underwriter. We therefore believe that the market definition must be wider to include all underwriters providing MPPI, before a SSNIP would be rendered profitable, rather than a provider specific monopolistic market by distributor.

We were a little confused by some of the definitions utilised by the Competition Commission, and therefore potentially the validity of the data. As a footnote to paragraph 58, the Competition Commission comment that they distinguish between intermediaries who source the credit being insured from someone else, and from distributors who provide their own credit. This leads to a 45.6% 'other' market share in table 5 due to intermediaries. However, in table 14, stand-alone sales and policies sold via a downstream intermediary total only 8% of sales, which seems correspondingly low. In paragraph 89 the Competition Commission appear to include some intermediary sales within

option (a) face-to-face (e.g. through a branch network or at an *intermediary's* office). We were unsure whether this made table 14 contradictory to table 5, and therefore could not conclude whether the data was accurate.

Positively, AMI were particularly interested to see in paragraph 73 the variations in penetration rates between intermediaries and providers. We think this is strong evidence that intermediaries add to the process, by offering clients advice on a range of substitute products from a suite of possible protection arrangements and target their advice to the consumer needs. We acknowledge that some products are not directly substitutable, but the value of the advice process is that a consumer has the opportunity to holistically prioritise protection arrangements with their adviser. We would also welcome transparency on claims data from insurers, as this would benefit consumer understanding.

We agree with the Defacto research commented upon in paragraph 102 which demonstrates the comparative low cost of MPPI. This we feel has come about through the competitive pressures of intermediaries. We also note from paragraph 137 that commission is notably lower for MPPI, that it is not sold through single premiums, and that whilst switching is currently low, it does occur, unlike any other type of PPI. We agree that as per paragraph 194 there are not really systematic losses in mortgage market.

In light of this series of positive facts, and as per previous submissions, we again ask Competition Commission to consider concluding their work on MPPI, given the strong comparative performance of the product. We do not wish to see MPPI damaged by any wider PPI failings, and public endorsement by exclusion of MPPI from further work would strengthen the standing of the product. This is particularly relevant at this time, with the market suffering fragility and many consumers at their most vulnerable for some years as a result of rising interest rates, LIBOR margins and tightening lending criteria.