Association of
AMI
Mortgage Intermediaries

Association of Mortgage Intermediaries' response to FCA DP16/1 on the ageing population and financial services

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI). AMI is the trade association representing over 80% of UK mortgage intermediaries.

Intermediaries active in this market act on behalf of the consumer in selecting an appropriate lender and product to meet the individual consumer's mortgage requirements. Our members also provide access to associated protection products. Approximately 70% of all UK mortgage transactions are advised by intermediaries.

Our members are authorised and regulated by the Financial Conduct Authority (FCA) to carry out mortgage and insurance mediation activities. Firms range from sole traders through to national firms and networks, with thousands of advisers.

Response

We believe there are two key areas not discussed in this paper. Whilst it covers longevity, money management, digital access and pension issues, it accepts consumers' attitudes to financial products as the norm. The contributions acknowledge older consumers' needs such as an income at retirement and consideration of funding long term care. But there is little mention of how consumers balance their own need for physical, emotional and financial security against a well-developed desire to support later generations.

The industry should question the value consumers put on transferring property wealth when they have other needs which should be prioritised, such as a sufficient income and/or long term care. This links to a common perception that lifetime mortgages should be seen as a "last resort". If a consumer who needs to pay for long term care cannot afford to do so with little or no savings but has equity in their home, not only should downsizing be considered but the option of a lifetime mortgage should also be discussed.

It may be difficult to challenge these views when many consumers place great importance on leaving an inheritance. However a greater awareness and understanding of other financial products should be encouraged across the industry, including consumer groups, in order to ensure consumer needs are suitably met.

This subsequently begs the wider question of whether older customers who look to use a financial product to release capital from their property (either by remortgaging or taking out a lifetime mortgage) should be further encouraged to downsize instead. For many the release of capital in such a way may be better, but there is not a clear route for such advice and it sits well outside of the ambit of regulated financial advice. In addition AMI does not consider that it should be incorporated.

Whilst there is a large divergence in house prices between UK regions, the southern half of England (including the Midlands) has seen prices rise well above their 2007 peak[1], with an increase of over 30% in London. This has been bolstered by demand exceeding supply. This demand has been partly fuelled by the number of cash transactions which over the last two years has dramatically increased to reach 3% above its 2007 peak[2].

The lack of housing supply has been subject to a downward spiral where individuals wishing to move home are waiting to find a property that is suitable before putting their property on the market and ultimately being unsuccessful in their search.

The government and industry acknowledge that there is a real shortage of housing supply, yet the high proportion of under-occupied homes has not been properly addressed. In 2014, 72% of those aged 65 and over lived in under-occupied homes in the UK (defined as having more than one room per couple or per single person) compared to 50% of those aged 18 to 65[3]. This was well above the average across the European Union of 50% of those aged 65 and over. Should there be initiatives to stimulate older customers to downsize to help the wider housing market, particularly if they cannot afford to live in their current property? This would have to be accompanied with a more sympathetic building and development programme that incorporates such "retirement" properties within new developments.

The International Longevity Centre has explored the reality of downsizing in later life in a January 2016 report, which found that a third of homeowners aged 55 and over were considering or expected to consider downsizing. It argues that this substantial demand could be met by providing suitable choices to enable older customers to downsize and it calls for policy reforms to support those wishing to downsize in later life.

Whilst the industry can debate this area, ultimately support from the government is needed to be able to implement any measures.

AMI is aware that a team has been established within FCA to work on this subject and we would welcome the opportunity to meet with them to discuss the developing work as soon as practicable.

Questions

Q1: Do you have any views on the ideas set out in this Discussion Paper and can you suggest areas of focus that would improve financial markets for older consumers?

Holistic advice

Whilst some view holistic advice as better serving consumers, we believe in practice this would be impractical for a number of reasons. Firstly, the segmentation of the FCA rulebooks has driven the different types of advisers we have today. Although the requirement for advisers to be appropriately qualified and to have a high level of competence can lead to good standards of advice, in practice this means that there are few advisers who will be qualified and competent in more than one, or even two, sectors. This is not just due to capacity to expand scope but also the ability to be able to do so successfully. Therefore in the current landscape it is unreasonable to expect an adviser to provide holistic advice. In the legal profession, one would not expect a lawyer to be proficient in all areas of law but to specialise in certain fields.

[1] Nationwide House Price Index data as at Q1 2016
[2] Nationwide graph produced for Financial Services Expo September 2015
[3] European Commission Eurostat housing conditions database as at 15 March 2016

Consumer attitude to mortgages and advice demonstrates another barrier to holistic advice. Most of our members advise on mortgages and protection, yet take up rates of protection are low (typically between 10% and 20% on residential mortgage transactions) despite a significant proportion of consumers needing cover. When consumers seek mortgage advice, the primary trigger is the housing transaction or need for capital, and the need for it to be completed within a certain timescale. Most see advice as a by-product. This is of course very different to the mind-set of consumers seeking investment advice. Our members find that the overwhelming majority of consumers are not expecting and often unwilling to discuss any other needs they may have, even those related to the commitment to pay their mortgage. One firm has conducted consumer research and has found that 80% of individuals don't want to be advised on any other products except for the mortgage.

We agree that in later life many options are available to consumers across different sectors and it is important that these are discussed, however in practice this is difficult for just one adviser to cover. We believe that the most suitable method of delivering advice, for both firms and for consumers, is a strengthened triage system where advisers are able to identify specific needs and refer them to specialists where necessary. An approach where firms are approved to work in the arena by affirming that they have access to a team who can provide an initial needs assessment supported by specialists for fulfilment is required.

We are pleased to see the examination syllabus is being reviewed. It should aim to include a greater overview of the financial landscape so advisers can have an increased awareness of other products and sectors to be able to effectively signpost where necessary.

Lending at retirement

Our firms continue to experience older consumers being prevented from accessing more suitable products. These consumers are unable to get a mortgage as they exceed a lender's maximum age or they have retired, despite being able to afford it. Since the pension freedoms were introduced there are also difficulties with how both uncrystallised and crystallised pensions are treated.

We believe it is a combination of both lenders and regulation contributing to this issue. Whilst it is positive that building societies have committed to reviewing their maximum age policy, it is important that it is implemented effectively. The PRA and FCA should also take an active step in ensuring lenders do not hide behind its rules unnecessarily. However separately we are aware of the prudential regulatory constraints on lenders and wish to see a joint direction of travel from the FCA, PRA and government.

We welcome the recent initiative by the FCA to allow requests for dispensations to the current rules for hybrid products which can convert to interest roll-up and support these being enshrined more widely in the rules.

Digital

Providers need to be careful in developing their digital propositions for older consumers. Access is of course a consideration, as outlined in the paper, but the structures of these systems also need to be carefully designed.

We strongly believe that the requirement for mortgage transactions to be advised is a good outcome for consumers. Whilst we agree that digital solutions in the financial services industry is seen as the way forward, and this is how some consumers expect to be able to interact with firms, this should of course not apply to all consumers. We are concerned about lenders' promotion of online execution-only channels, which will not fully take into account older customers' needs.

Where no advice is given there is a significant chance that consumers will not have the most suitable product, and in some cases the product could be wholly inappropriate. Discussions around older consumers' specific circumstances and identification of any wider needs cannot take place.

We would also seriously question certain 'execution-only' models with a decision tree design which guides customers through a series of questions before presenting a narrowed product set. This process is not execution-only and it represents a limited form of advice which could lead to consumer detriment. Consumers should retain their full rights and protections when going through such routes. Anything which dilutes the opportunity for consumers to benefit from intermediated advice risks moving us significantly backwards.

We believe automated advice would be detrimental for a significant proportion of older consumers in the mortgage market due to the specialist knowledge that intermediaries have in certain areas and more generally for non-straightforward applications. For example many advisers will discuss with customers the impact of reducing the loan amount to achieve a lower LTV banding so potentially significantly reducing the interest rate applied. It would be very difficult for any automated advice system to effectively incorporate such dialogue and we cannot see it being able to accommodate any 'soft' facts or being able to identify other customer needs.

We are concerned about any digital developments which would impact on customer outcomes. We strongly support the Equity Release Council Safe Home Income Plan (SHIP) disciplines. The provision of independent advice from a broker alongside independent legal advice is a strong control on poor outcomes in this arena. We would support continuance of such industry controls.

Market share data

AMI is aware of the submission by Key Retirement Solutions. We support their submission regarding new business placed with lifetime mortgage providers. We believe that distribution is spread more widely than claimed in the discussion paper. The distribution split between specialist and non-specialist advisers is approximately 60% and 40% respectively. However it is estimated that 20% of specialist advisers' business is referred by non-specialists, which in turn equalizes this breakdown to more accurately reflecting a 50/50 apportionment.

Accordingly we believe that there is a healthy distribution between lifetime mortgage providers and brokers. From our awareness of mainstream mortgage lending and our knowledge of distribution between larger and smaller brokers, this split in distribution is similar to the wider mortgage market. It is therefore reflective of distribution trends generally and should not considered to be unusual.

Q2: Are there specific products, services or distribution channels that are particularly associated with poor outcomes for older people?

We would be concerned to see dilution of the SHIP guidelines and the principles that underlie these.

Q3: What is the role of industry and other stakeholders (collectively as a market or at an individual firm level) in addressing the issues identified?

There are significant perceived risks for firms in being too innovative in markets such as this which may include a proportion of vulnerable consumers. One of the difficulties in any market development in this sector is deciding which consumers may be vulnerable and which are not. There is a perception that innovation may lead to firms being either bombarded by applicants or criticised for being too innovative.

There is both regulatory and reputational risk implicit here and a degree of hesitation that pushing too far ahead of the curve risks subsequent criticism by FCA or FOS of the advice given or the products developed. These are complex products with potentially lengthy timeframes where the consumer may lose capacity with the inherent risk.

In order to develop this market firms will need the support of the regulator in giving guidance on what may be permissible and what opportunities may be preferred by both government and regulators. The FCA can be an excellent conduit to bring together the consumer groups and the industry in order to develop safe, workable, practical and mutually profitable solutions.

Q4: Do you have any evidence of effective approaches to meeting the needs of older people that you have already developed and tested, or that you have observed in other markets (UK and international)?

No comment.

Q5: Do you have any evidence of regulatory barriers that prevent effective markets for older people?

We believe regulation should be amended to allow more flexibility for lending into later life but the regulator should also exert more pressure on lenders to accommodate this, as many older borrowers are trapped from accessing mortgage products.

We support fully the five year stressed assessment of affordability. However the rule requiring affordability to be assessed for the term of the loan is limiting lenders' abilities to approve some loans to older borrowers and more widely limiting their desire to introduce new products. A general guidance requirement to assess the feasibility of the stated income would be preferable.

We are pleased to see the recent modification in lifetime mortgages which gives older consumers flexibility in the payment of these products, and we eagerly await the consultation.