Association of Mortgage Intermediaries

Association of Mortgage Intermediaries' response to the Competition and Markets Authority Annual Plan consultation 2019/20

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.

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 agree with the overall direction and areas of focus for the CMA as set out in the 2019/20 draft annual plan.

We welcome the comments from the CMA in response to the Citizens Advice supercomplaint on the loyalty penalty, in particular the recognition of the value of intermediaries in the mortgage market. Intermediaries play a key role in a housing transaction in that they work for the customer and they will help them understand the process, often guiding the customer through wider areas of the transaction such as liaising with other professional parties. The fact that intermediaries will look at a wide range of products from a significant number of different lenders makes them essential in keeping the market competitive. The difference between advice from an intermediary and advice from a lender is the limitation in products, which in turn affects customer outcomes.

Given our close working relationship with the FCA in the mortgage and protection sectors, we are commenting given our understanding of these markets' direction of travel. Whilst we agree with the need to consider how fintech can help vulnerable consumers, we are concerned there is not enough recognition within the FCA of its potential risks. We are seeing the FCA take a narrow approach in its promotion of innovation at all costs, in particular a lack of consideration of how vulnerable consumers are protected by advice. We can see significant benefits in applying fintech in the current account, cash savings, credit card and general insurance markets where product comparison and switching is important and should be regular. However the mortgage and protection markets are longer term products with more complexity that benefit from advice on the most suitable products with a qualified person comparing price with terms and conditions and benefits.

The ongoing Mortgages Market Study has been driven by a focus on price alone rather than a wider consideration of suitability and one of its focuses has been to look to assist the increase in the number of non-advised transactions online, effectively undoing the Mortgage Market Review (MMR). The rules that were implemented by the MMR in 2014 resulted from the last financial crisis where the need for advised sales was recognised because firms had to take responsibility for their products, services and actions. The MMR rightly recognised the need to establish, through advice, not what the customer thinks they want but what they genuinely need as being a core cornerstone of the future market.

As part of the advice, intermediaries discuss with customers the impact of reducing the loan amount to achieve a lower loan-to-value banding so potentially significantly reducing the interest rate applied. They also accommodate ‘soft facts’ about a consumer when identifying their needs, such as debt advice, protection, consideration of wider tax implications (e.g. buy to let) and the appropriateness of a second charge mortgage or further advance. In non-advised transactions these valuable discussions cannot happen.

We have just experienced ten years of low interest rates and a very compliant market, therefore we believe this is the wrong time for the FCA to be relaxing rules as we risk bad practices being repeated. The greatest consequence of allowing easements, particularly if these apply to online channels, is that consumers do not get a suitable product, resulting in financial loss which will be unrecoverable where the sale is non-advised (as they will not be eligible to complain to the Financial Ombudsman Scheme or in the event of a firm defaulting make a claim from the Financial Services Compensation Scheme). This is particularly acute for vulnerable customers who should benefit from the protections afforded by advice.

Whilst not all older consumers are vulnerable, as part of the FCA’s work on the ageing population their research identified that older consumers are more likely to become vulnerable as the ageing process is likely to affect consumers’ abilities to make financial decisions. These consumers are also likely to need to consider the wider impacts of using other assets or equity release, all usually advised sales. The FCA’s own research indicates that 50% of consumers will be vulnerable at some point in their financial lives and 37% of mortgage borrowers. Customers with leasehold properties are also a group particularly in need of advice, particularly if the leasehold contract contains restrictive clauses, escalation clauses or is time limited. In addition, Help to Buy remortgage customers will also need advice where a number of considerations such as the property valuation, ability to repay any of the equity loan, availability and cost of mortgages versus the cost of the equity loan will require a discussion with an adviser. As we now have over 15% of the working population in self-employed roles, and the mortgage sub-set likely to be higher, the need for advice is greater for that group.

We support the use of technological innovation to assist in engaging consumers and to educate and inform. Technology can also be used to simplify the application processes and keep consumers more informed on the progress of the various aspects of the housing transaction (mortgage, valuation conveyancing etc). However the importance of advice and the regulatory protections afforded are crucial. We are concerned that with any promotion of non-advised models (e.g. for remortgaging) there needs to be a consideration of how vulnerable customers can be identified and filtered out of a process that is not suitable for them. Outcomes for vulnerable customers and technology are intrinsically linked, with a key determinant of the success of innovative models is how consumers can continue to be safeguarded by advice.