Association of
Mortgage Intermediaries

Association of Mortgage Intermediaries' response to FCA DP19/2: Intergenerational Differences

This response is submitted on behalf of the Association of Mortgage Intermediaries (AMI) and the Association of Finance Brokers (AFB). AMI is the trade association representing over 80% of UK mortgage intermediaries. AFB sits within AMI and represents second charge (formerly secured loan) brokers.

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. AMI members also provide access to associated protection products. AFB members also provide access to unsecured products.

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

Response

We welcome and support the FCA's initiative to look at the intergenerational differences and identify issues in order to ensure that the changing needs of consumers are met. We are, however, concerned that the issues in this paper have been diagnosed and discussed in silos relating to specific product types rather than taking a more holistic view. This approach has missed the opportunity to consider whether in fact the structures in which these products have been advised and sold for so many years are outdated and should be reformed to better serve the current and future needs of consumers.

We consider that taking national averages limits the debate as many of the issues here lie within the devolved administrations and a paper of this scope will always struggle to deal with that. We have a North/South divide on property wealth that will create an imbalance and continue to make it harder for genuine internal economic migration. The costs of housing in comparison to regional average earnings will continue to cause problems for all after the baby boomer generation to make reasonable pension provision.

We are concerned by the lack of direction on these issues by the Government. Social policy is fundamental to these issues and the viability of the state pension and the funding of the NHS as well as any changes to stamp duty and inheritance tax could completely change the landscape of any issues discussed.

There is a need for the issues identified in this paper to be escalated to a full public policy debate to give guidance to the regulator on the desired outcomes. However we support this important contribution to the debate.

Questions

Q1: Are there other factors driving changes in the consumer needs of different generations (in addition to those we have listed in Chapter 3 of this paper) that we should consider? What are these?

The focus of the paper seems to be analysing past differences that have manifested and extrapolating these forwards rather than looking at new changes in behaviour and predicting the issues that might present in the future. The current health of the nation must be a consideration. Life expectancy projections for both men and women have fallen by nearly six months this year, obesity levels are rising and with it cases of diabetes and other related diseases. Recent research indicates that 1 in 4 graduating students have encountered a mental health issue in their early lives. This has potential to impact on their future employment, earning capacity and access to financial products. This will also potentially impact on social care costs, NHS funding and also people's ability to work to a later age in the future.

The push to lend has had a great impact on consumer needs. As well as extended mortgage terms and age limits, rising house prices have led lenders to amend affordability and increase income multiples. It should be recognised that while these remedies are necessary to keep the housing market and the economy moving, they also exacerbate the problem and eliminate any natural market adjustment that would otherwise take place. The implications of the move from first purchase of a house at 27 with a 25 year mortgage to first purchase at 32 with a 35 or 40 year loan is not addressed.

There is a need for the younger generation to allocate more from income to saving for retirement, but we struggle to identify how this can be afforded against the backdrop of escalating housing costs, student debt and benign pay growth. Access to and affordability of insurance products in a less paternalistic employment culture has shifted the risk paradigm considerably.

Q2: Are there other ways in which the factors we have identified as driving changes influence how individuals from across different age groups build up and access wealth?

The taxation system in its widest sense makes down-sizing property and releasing wealth difficult and is feeding the later life lending market to compensate for this. Where the Bank of Mum and Dad or Grandparents release money to assist the next generation, this money adds to funding for a limited supply of housing, so falsely inflating house prices.

The decline of the second-hand housing market and lack of properties on the market is creating a false level of price support which is unhelpful.

Q3: To what extent are financial services providers currently meeting the changing needs across different age groups? How could innovation in product design help meet changing consumer needs of different age groups?

The last decade has seen significant intervention in funding for lending, Help to Buy and changes to pension regulation. These changes have been the drivers for innovation. These however have not driven any changes to the way that financial services markets are structured or operate; they have perpetuated low interest rates, low inflation, maintained asset prices and kept market equilibrium.

The move from pooled mutual insurance without individual underwriting to PLC based individual risk based assessment using big data and personal medical or DNA information has reduced costs for some but adversely impacts the majority. The risk of adverse selection against insurers whilst commercially legitimate may not have assisted all consumers and excluded some from cover.

We are seeing a regulatory driven impetus to encourage fintech based, non-advised solutions which require consumer self-engagement, judgement and decisioning. We are firmly committed to the need for advice and face-to-face contact to impel customers to not just consider what they think they want but to impel them to act to purchase what they need.

Q4: Are there any barriers (including FCA regulatory barriers or barriers to competition) that are adversely affecting access to, and use of, financial products that would meet new and changing consumer needs? Are these affecting particular age groups? If so, in what way? How should we address these while ensuring consumers still receive an appropriate degree of protection.

The proposed changes to mortgage advice and selling standards will likely encourage consumers away from advice when they most need it due to changes in working practices. The importance of taking mortgage advice should be enshrined; to take account of the changes in labour market and consumers retiring later or potentially gradually, their needs are becoming more complex. Any potential encouraging away from advice that could occur if technology is allowed to lead consumers down an execution-only route with an incentivised interest rates would result in consumer harm.

The paper observes that protection is largely sold rather than bought, with house purchase a common trigger. If the FCA's proposed changes to mortgage advice and selling standards are effected, consumers may be actively encouraged to follow an execution-only route which would potentially eliminate the opportunity to advise the customer on protection policies. With product transfers becoming more commonplace any opportunity to review the protection policy at a later date is already eroded.

It's important both to get mortgage advice for these more complicated situations but also to understand the protection needs and to plan for this, both now and as family arrangements change in the future.

The sheer amount of regulatory change in the mortgage sector in the last decade, which has required large resource in firms, has reduced firms' ability to innovate.

Finally, the FCA rule book is segmented into product silos and the FCA in its work applies a similar approach. Consumers approach the market with needs and issues which cut across these divisions. There is a need to re-orientate the regulatory approach and journey to match more closely the financial lives of consumers.

Q5: Is there anything more that we could do to encourage and enable positive innovation in these sectors, or to enhance competition in the interests of consumers?

One mortgage broker has now completed more than £7bn mortgage applications, fully advised and online, within the existing regulatory framework. The customer retains their protections, they will be contacted by the broker to review their mortgage and protection arrangements at the end of their promotional rate and the consumer benefits from the convenience of an online transaction. AMI firmly believes that this is the route that the FCA should encourage rather than changing rules that were designed to protect the consumer.

Q6: Is there any market or firm behaviour that causes or may cause potential harm to consumers? For example, is industry failing to recognise varying needs of consumers from different age groups and as a consequence, of this:

a) **offering products which may be unsuitable to certain age groups**
b) **excluding, discriminating against, or failing to advance equal opportunity between certain age groups for no legitimate and objectively justifiable commercial reason (or where the reason is potentially legitimate but the approach is not proportionate)**
c) **otherwise treating certain age groups unfairly?**

The different regimes of regulation and focus on specific areas encourage a siloed approach and one in which certain groups of consumers risk being overlooked. The FCA's proposed changes to mortgage advice and proposals to allow lenders to offer different rates advised and non-advised mortgage sales runs the risk that customers who would benefit from advice are penalised if they take it and at risk of taking an unsuitable loan which could run for the majority of their lives.

Those in later life come with a wide range of needs across investments, pensions, mortgages, equity release and insurance. This encompasses a wide range of rules, qualifications and structures which are fragmented. A more unitary approach is required.

Q7: Are there areas related to intergenerational issues which fall more appropriately to Government or another public body, but in which, in accordance with our objectives, we can play a role? If so, which ones and in what way?

Until we have answers to the care funding issue it is hard to establish certainty. Resolution of how we free up property owned by those in retirement with appropriate incentives could fundamentally change the market. The combined use of property, investment and pension wealth will be critical together with insurance products that deliver safety nets.

This intervention is welcomed as we support the need for the debate. We are concerned that it is being opened up by FCA which risks running into conflict with the PRA, MPC, FPC and Treasury. Government needs to own and embrace these issues to provide longer term clarity. These issues are so fundamental they require cross-party support and commitment.