



Association of Mortgage Intermediaries' response to FOS Our Future Funding: A Consultation, July 2019

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.

Background

AMI welcomed the opportunity to provide suggestions for FOS's future funding proposals, however the resultant publication is less innovative and it appears to have ignored a number of relatively straightforward opportunities to give strong incentives to firms to resolve complaints quickly. The paper is lacking detailed financial modelling making it difficult for firms to understand the potential financial impact of all of the proposals. It would have been helpful to provide firms with examples of the proposed financial changes in one summary, showing how the proposals would impact a range of firm types.

AMI is disappointed that FOS has not taken forward a proposal that would strongly incentivise firms that have poor customer resolution rates, which would be straightforward for FOS to oversee and should encourage firms to resolve matters, thus reducing the case referrals to FOS and ultimately providing an expedited response for the complainant. The current funding proposal does not encourage poor firms to change their approach to complaint handling and is a missed opportunity to show good firms that FOS is listening to their frustrations.

Questions

Q1: Our planning assumptions reflect our expectation that our service will be smaller in the future, and that our overall cost to the sector will significantly fall. Are you aware of anything that might affect this expectation – for example, issues that could create significant demand for our service?

This is a question of reliance; reliance on the oversight and supervision carried out by the FCA and SRA, as the regulators of Claims Management Companies (CMCs). With the deadline of PPI now approaching, the CMC's move out of PPI claims to other speculative activities will need to be considered

and is likely to be the key driver of activity levels in the short to medium term as they try to isolate new income streams.

Q2: Do you have any further insight into the different types of complexities apparent in complaints?

No comments

Q3: a) to what extent do you support our wider work to help prevent complaints and encourage fairness?

We support the work of the service to prevent complaints and encourage change.

b) Do you have any further suggestions about what more we could do, or ideas for working together with us?

AMI would welcome more regular discussion at a policy level with FOS as we feel that there is an opportunity to develop a relationship that would benefit FOS and intermediaries. The discussion would help provide wider communication with our trade body membership to understand key decisions and trends. This is currently available to larger firms and their trade bodies due to their case volume and specialised staffing which in turn helps influence the large firms' approach to other customer outcomes. As intermediaries rarely have the same case volume level the opportunity of interaction at this level is not available to inform the intermediaries individual firms' systems and controls or through their interaction with their trade body.

Q4: To complement the work we've already done to improve our efficiency; we'd welcome your ideas for how we could work in partnership to deliver additional savings in future. Do you have any suggestions?

AMI welcomes the open relationship and partnership that it enjoys with FOS and supports market sector specialised guidance being produced on an expedited basis to help firms in their handling of customer complaints.

Q5: To what extent do you agree or disagree that our levy and case fee income should be rebalanced, so there's a broadly 50:50 split?

AMI has previously suggested to FOS that the funding dependencies needed to be re-aligned as the current approach eroded the view that FOS was a safety net for all consumers delivering wider industry benefit. AMI continues to support this view however it would suggest that FOS needs to consider the changes in light of current market conditions and the other changes that FOS has made subsequent to the previous opinions being provided that are not all discussed in the proposal, i.e. £350,000 limit, SME access, DB pension transfer intervention and recent voluntary / compulsory jurisdiction entrants. Whilst we support the move to a more balanced approach it is essential that those who create the most work for FOS and have high overturn rates pay most. The levy increase has to reflect changes to free cases and not be seen in isolation. High users should pay disproportionately more.

Despite our previous support in principle for this a 50:50 split, we cannot support the proposal without more clarity on the extent of cost transfer between different cohorts of firms. We are fearful that in implementing this we could see a significant shift to subsidise poorly performing firms which cannot be in the best interest of consumers.

Q6: In refining our proposal, we carefully considered different funding options – including different types of risk-based models. Do you have any thoughts about alternative approaches to overcoming the obstacles we identified, in ways that are consistent with our funding principles?

We do not agree that this proposal explains the consideration fully and would refer to our previous comments on a risk-based funding opportunity and wider visibility of the impact of all of the proposals to firms. We continue to believe that it would be relatively simple given the annual nature of the levy for there to be a standard rate, with firms who have low overturn rates paying less and those with higher overturn rates paying more.

Q7: a) To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for non-group account fee firms from 25 to 10?

The AMI view is that it would be inappropriate to change the ‘free’ case levels for firms at a time when the sector is experiencing significant interest in historic mortgage sales from numerous claims management firms. This risks seriously adversely impacting medium to large firms who will be paying a much higher proportion via the levy and losing the “benefit” of free cases. It still makes no provision for large intermediary “networks” who might wish to benefit from the group arrangement.

b) To what extent do you agree or disagree with our proposal to reduce the “free” case threshold for groups within the group account fee arrangement from 125 to 50?

It is concerning to see that firms recognised as significant contributors to FOS’s workload appear to have been in receipt of a concession not previously disclosed. AMI does not believe that any firm should benefit more than another when complaints are being considered by FOS and would welcome further explanation as to how the original 125 free case count was reached and also why this group of firms continues to benefit from an increased free case level to other firms.

In principle, AMI supports the proposal to leave the case fee unchanged, but as previously stated AMI feels that FOS should consider an increased fee for higher users and also the possibility of a ‘quality measure’ that would deliver different pricing bands.

A core band of £550 per case if their overturn rate in the previous period (year?) was between say 30% and 50%. Those with overturn rates higher should pay 50% more, those with an overturn rate less than 30% pay 50% less.

Q8: To what extent do you agree or disagree that we should look to maintain a level of reserves of six months’ operating income or higher?

AMI’s view remains that it is essential that the charging structure is in place to ensure that any increases are met by those largest users of FOS and not by smaller firms who, as stated by FOS, have little or no involvement with the FOS.

Q9: Do you have any comments about the timing for implementing any changes to our funding model that arise from this consultation?

It is recognised that the changes, if approved, will have a financial impact on a number of firms and therefore all effort should be taken to swiftly communicate the final position so that firms are able to plan accordingly.

Q10: Do you have any additional feedback about our future funding or the proposals presented here?

This consultation would have benefited from deeper financial analysis of both the costs, sensitivities to changing volume models and the real costs to different sizes of firms. Whilst supportive of a higher general levy as an important consumer safety net, those who use the service most and who have high overturn rates should pick up their fair share of the bill. We cannot see this evidenced from the paper before us.