



To: Consumer Protection: Policy and Authorisations Division, Central Bank of Ireland
consumerprotectionpolicy@centralbank.ie

From: AIB Group

Date: 02/11/2017

Re: Response to Consultation Paper 112: Enhanced Mortgage Measures: Transparency and Switching

Detail: Please see enclosed AIB Bank responses to the nine questions as outlined in CP 112.

Introduction

AIB Group offers mortgages in the Republic of Ireland through AIB, EBS and Haven (intermediary). We welcome an opportunity to respond to the Central Bank of Ireland consultation paper covering Enhanced Mortgage Measures: Transparency and Switching.

The switching market is a growing segment in the Irish mortgage market and AIB have contributed to this growth through price leading strategies aimed at delivering fair pricing to both new and existing customers; dual brand approach delivering a choice of Mortgage propositions into the Irish Mortgage market and through offering specific switcher propositions that cover the costs involved in switching. Switching costs were identified in our proprietary research as a key obstacle to consumers moving their mortgages to a new provider. It's important to note that AIB Group permits switching between its own brands to facilitate customers obtaining the mortgage that suits their requirements.

We welcome any practical measures that improve the transparency of mortgage pricing, provide customers with clear information and clarify the switching process. It is important to note that the interest rate is just one element of the decision to choose a mortgage; the type of mortgage, fixed, variable, or split rate, the term available, and the amount advanced are also important determinants which may vary from provider to provider depending on their credit policies.

1. Do you have any views on the proposals to enhance the transparency measures for fixed interest rates and for variable interest rates based on LTV? Please explain your answer.

AIB Response

Fixed Interest Rates:

We agree with the proposed changes to enhance transparency measures for fixed rate customers, which aligns with our existing approach. All our fixed rate customers currently receive a communication within 30 days of maturity of their fixed rate term.

This communication should highlight all options available for that customer from their existing lender and what their new repayment will be. All available options should be provided to the customer, to ensure that they are given a full suite of rates to choose from, and to enable them to choose the one which appropriately meets their needs and requirements. In this regard, a customer may wish to opt for another fixed rate, as they may value the certainty and security associated with such repayments, particularly in a rising interest rate environment. Alternatively, they may choose to opt for a variable rate to allow for greater flexibility, in particular, the ability to pay lump sum repayments or pay off their loan early, without any breakage costs.

We also support the proposal to include a link to the Competition and Consumer Protection Commission comparison website.

Variable Interest Rates:

AIB facilitates switching between LTV bands for individual cases in certain circumstances. We believe in ensuring that our customers are provided with extremely competitive and transparent mortgage interest rates across all our brands. We have demonstrated this to the market place with five interest rate reductions in the past three years in AIB Bank.

In our view, we are best placed to understand the needs and requirements of our customers whom we have built strong relationships with and we currently offer the best value in the market. We would not therefore be in favour of the proposals to provide customers with competitor information in relation to variable LTV interest rates. Operationally it would be very difficult to assess all market offerings and make appropriate recommendations as to whether they represent a better offer in their entirety.

We agree with the proposals to provide customers with a link to the Competition and Consumer Protection website comparison tool and switching information. This would allow customers independently assess the alternative offers in the market place and make an informed choice as to the best option to meet their needs.

2. Do you have any views on the proposal to extend the existing Code protection on incentives linked to mortgages for existing mortgage holders to all mortgage holders i.e. for new, existing and switching mortgages? Please explain your answer.

AIB Response

We support this proposal, as an important transparency measure for customers. It is appropriate that the protection provided in the existing Code is extended to all mortgage holders. It is important to note however, that some of the existing information requirements for existing customers may not be appropriate for new mortgage lending, such as, the cost of the mortgage with and without the incentive as there may be no option for customers to choose the specific mortgage product without the incentive.

3. What are your views on the impact of lenders offering incentives linked to mortgages to consumers, whether in terms of risks or benefits to consumers? Please explain your answer(s).

AIB response

Incentives linked to Mortgages can offer choice and benefits to customers, for example, where cash is required to fund other associated home purchase expenses, cash incentives can be useful. Incentives can also be indicative of a more competitive mortgage market.

However, AIB firmly believes that upfront cash incentives can disguise transparency in relation to the lifetime cost of a mortgage. We believe that Incentives must not be considered in the short-term and it is important customers do not overlook the long term impact of their decisions solely on the basis of upfront incentives in particular when linked to comparatively low short term fixed rates. Comparisons over the term of the mortgage, rather than over the term of the incentive are more appropriate.

It is therefore imperative that customers are provided with the appropriate information to enable them to consider switching on a holistic basis, and to ensure that any choice they make meets their individual financial needs, not just in the short term.

We draw a distinction between a contribution made towards the cost of switching providers and upfront cash incentives. The €2k payment made by both AIB and Haven towards switching costs is a direct result of customer research which identified the cost of switching as a major obstacle.

4. Do you have any views on the proposal to introduce a transparency measure on potential mortgage switching savings? Please explain your answer

AIB response

We agree in principle with the transparency measures outlined. To ensure independence, consistency, and to avoid any competition issues among market participants, the 'Cost of Credit' calculation should be utilised as a basis for the savings comparison.

However, we believe that switchers should be given the overall cost of credit for the new mortgage by their provider and that the existing mortgage provider be obliged to supply existing customers with the remaining cost of credit on their existing mortgage to allow customers make an informed decision.

5. Do you have any views on the proposal to require lenders to provide a suite of standardised switching information to consumers?

AIB Response

We support any initiative which simplifies the switcher Journey for our customers. All mortgage contracts already carry standardised information which allows the customer to compare various providers. The 'Cost of Credit' and 'APR' are the key determinants for these comparisons. We believe that the standardisation would be most appropriate in the form of standard headings, layout and format of documents. As mortgage processes and procedures may vary from lender to lender, the content of such documentation should remain unique to each mortgage lender

6. Do you have any views on the proposed standardised information for consumers or what other information should be provided? Do you have any views on whether lenders should be required to provide this standardised information in a specific format, for example, digitally? Please explain your answer.

AIB response

As per our response to Question 5. We believe that the content of documentation such as application forms etc. should remain unique to each individual lender, to ensure that it aligns fully with their processes, brand and strategy. There should be clear guidance on what information is required to effectively process a switcher application through to drawdown.

AIB currently provides customers with information on switching on its mortgage webpage. We agree with proposals to create a standardised switching guide for mortgage customers. This standardised guide could be made available digitally.

7. Do you have any views on the proposal to introduce a three business day timeline for the provision of redemption figures? Please explain your answer.

AIB Response

At the outset it is important to point out that while the current industry agreement with the law society is a maximum period of 10 business days for the provision of redemption figures, as part of our customer first strategy, we strive to meet customer requests in advance of this time-frame. The vast majority of redemptions are issued within two to three days where there is one property and one mortgage.

However, we would not be in favour of proposals to reduce this time frame to a period of three business days for the following reasons;

Redemption figure calculations can be complex and time consuming particularly if they include breakage cost calculations, multiple properties or multiple mortgage accounts. While we at all times strive to respond as quickly as possible to customer requests, to meet a three business day time-frame would not be possible in some instances.

The provision of accurate redemption figures is vitally important for the customer and for the lender, as they are contractually bound by the figures once issued. Ensuring accuracy requires appropriate oversight and controls. This also adds time to the process.

We have no indications that this is an area of consumer protection concern or that there is a customer need to shorten this time-frame. Our experience indicates that this part of the mortgage engagement process is working satisfactorily and there is little or no negative customer feedback evidenced by minimal customer complaints in this area.

8. Do you have any views on the proposals to introduce a time-bound switching process, and in particular, on proposed specific timelines for:

(a) Acknowledgement within three business days of receipt of each item/documents required to complete the mortgage application;

(b) Acknowledgement within three business days of receipt of completed mortgage application;

(c) Decision within 10 business days following receipt of all required information for assessment of mortgage application? Please provide reasons for your answer(s).

AIB Response

Turn-around times and customer communication is a key differentiator in the mortgage market and we are continuously reviewing and improving our service offering to our customers. We are investing heavily in the redesign and digitisation of the mortgage journey to enhance the mortgage experience for all our customers.

We agree with the proposal to acknowledge receipt of a completed mortgage application form within 3 business days and to complete an assessment on receipt of all required information within 10 business days which is well within our current service level agreements.

In relation to the proposed requirement to acknowledge each individual item/document to complete the mortgage application within three business days, this would be a particularly onerous ask and not necessarily in the best interests of the customer. It could lead to an excessive amount of paper engagements, resulting in customer frustration, rather than enhanced transparency.

- 9. Do you have any views on the proposal to require lenders to establish a switching point of contact/switching team? Please explain your answer. What are your views, if any, on whether the format for the switching point of contact should be prescribed, for example, a digital contact point or hub in addition to a person?**

AIB Response:

We believe what is of vital importance is that customers have a contact point and the appropriate information to enable them engage with their lender effectively and efficiently on any aspect of the mortgage process, including mortgage switching. Currently customers can contact our centralised switching team over the phone or call to any of our AIB or EBS branches where qualified Mortgage advisors can support them through the entire journey. The establishment of the standardised switcher guide, which should be made available electronically will assist in ensuring that customers know where and who to contact.