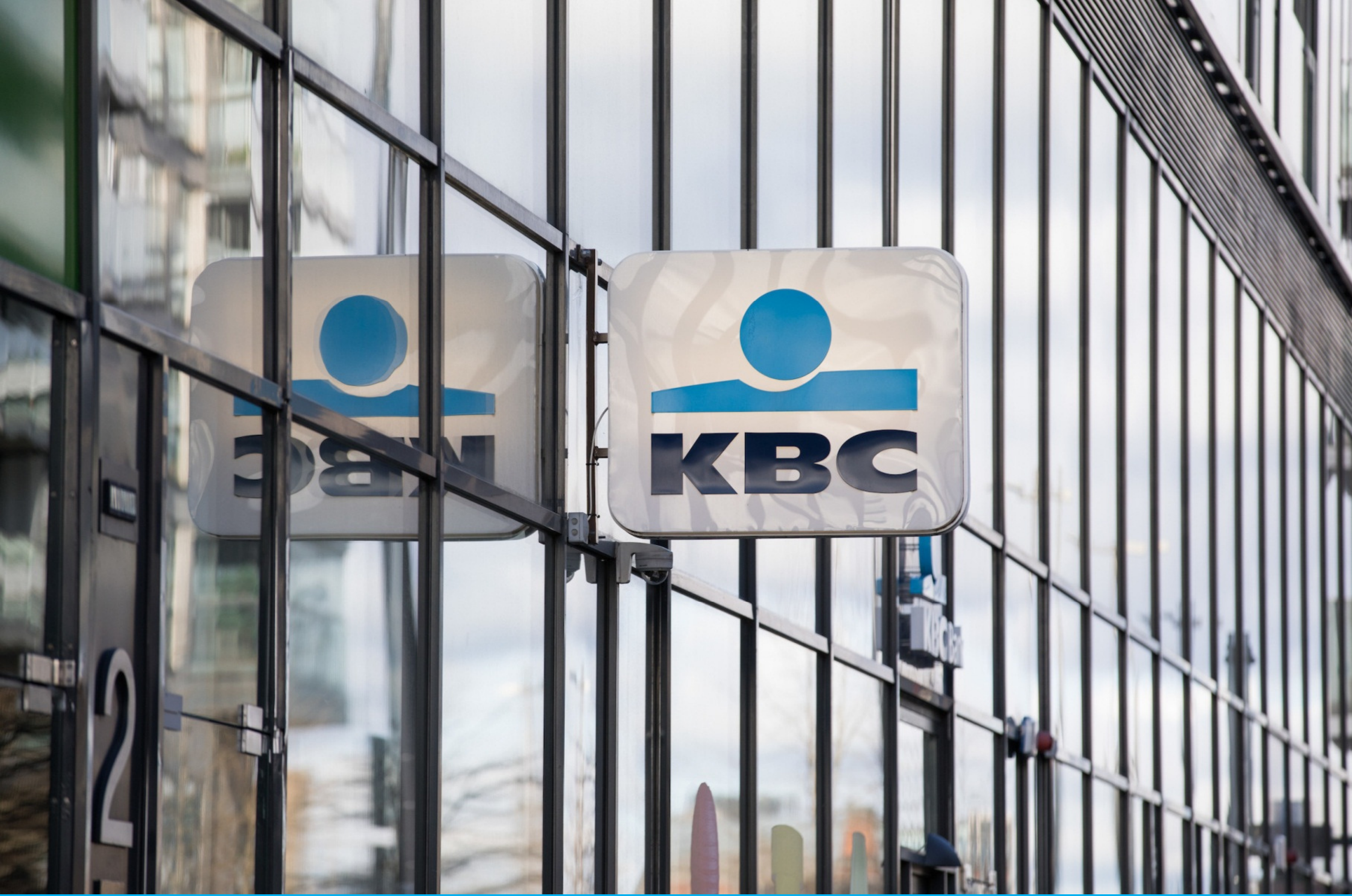

KBC Bank Ireland

Enhanced Mortgage Measures

Response to Consultation Paper CP112

1st November 2017

Banc Ceannais na hÉireann
Central Bank of Ireland
Eurosystem

Background & Context

KBC Bank Ireland plc has been active in the banking market in Ireland for over 40 years, with KBC Group as a shareholder since the 1970's. KBC originally entered the Irish mortgage market in 1989, pioneering the distribution of mortgages through the broker channel and developing a strong market share over this period.

Following on from the 2008 financial crisis and the exit of many market participants KBC Ireland took a decision to transition from a Corporate/Mortgage Lender to a full service, Omni-channel, retail financial services provider. This proposition launched in 2013 and a full range of retail financial services products is offered, employing over 1,200 people across Ireland and providing competition in the financial services sector for Irish consumers.

KBC's long term commitment to the Irish Market was confirmed in an announcement by **KBC Group in early 2017.** This commitment also confirmed that KBC Ireland would be a core country within the KBC Group, providing access to all of the capability and strength of KBC across Europe. KBC Ireland will employ a strategy of continued growth in Ireland through a digitally led, customer focused, Omni-channel distribution model.

KBC Ireland currently holds a **12% share of the new mortgage market in Ireland** and a **13% share of new current accounts** leading to an overall 7% penetration of the adult population. The bank's ambition goes beyond with a focus on becoming a genuine challenger bank in Ireland for both retail and micro-SME customers.

In order to achieve this ambition the need for a competitive and transparent market place is recognised, allowing consumers to make genuine choices as to whom they use to access credit or as their primary bank, whilst ensuring that service providers are obliged to facilitate a change of service provider without putting in place conditions or practices that act as a disincentive to switching.

KBC acknowledge and welcome that the number of consumers switching their mortgage between providers is increasing. As per the BPFI market data the level of switching in the mortgage market shows a positive trend with the number of approvals up year on year and accounting for 9.5% of the total approval activity in August 2017. At KBC 12% of new business mortgage approvals are those switching from other providers. This positive trend is expected to continue as consumers become more aware of the options available to reduce their monthly mortgage payments and/or enjoy an improved banking experience.

The Irish Mortgage Market

The mortgage market is highly concentrated with 3 players - AIB, BOI and Ulster Bank - having a combined market share of 77%, with the two pillar banks consistently holding in excess of 60% of the market.

The concentration in the mortgage market is a reflection of the broader retail banking market. The behavioural biases and information limitations of customers, as acknowledged by the UK Competition and Markets Authority (CMA) in its Retail Banking Market Investigation, make consumers more inclined to conclude a mortgage with the bank that holds their **primary banking relationship**. Market structures exploit the tendency of customers to conclude a mortgage with their long-standing current account provider and could be considered a barrier to effective competition in the mortgage market.

Irish Consumers and Switching Banks

There exists strong customer inertia; and unwillingness to change primary bank due to a perception that particular switching costs / barriers exist, including;

i. **a current account switching process which is not customer focused**
ii. **the risk that something may go wrong during switching**
iii. the perception of a risk that **switching** too many times **will adversely affect a customer's credit rating**
iv. the risk that **leaving a 'long-term relationship' with a bank** who 'knows / trusts' the customer will make the customer less likely to get future credit from their new provider.

KBC acknowledges the addendum to the Code to encourage providers to advise consumers of those products available to them that may reduce their mortgage payments. In conjunction with the Department of Finance "**Switch Your Bank"** campaign and the ability of consumers to compare the products available from all providers through the CCPC comparison website, these amendments will increase awareness which should lead to an increase in the number of consumers switching providers.

However, consumer behaviour continues to point to a lack of understanding and trust in the process for switching banks (current accounts or mortgages). In the fourth Consumer Protection bulletin it was identified that in H1 of 2016, just 3,600 customers in Ireland switched their current account, a 33% decrease on the same period in 2015. A similarly low number of mortgage customers (2,438) switched provider in 2016 albeit this was an increase of 70% on 2015.

Given that most consumers have a full banking relationship with their mortgage provider the deterrents to switching a current account are also a primary influencing factor driving the numbers of consumers who switch their mortgage.

Digitising the Mortgage Process

The reference to the use of **digital formats** when addressing some of the proposals included in the Consultation Paper is acknowledged. KBC is a challenger Bank offering a digitally led proposition to customers and as such this is a welcome development.

It is also noted that a number of **barriers exist to the implementation of digital solutions** for mortgage switchers within the current Consumer Protection Code and in particular in relation to the provision of documentation.

Digital solutions should include the provision of documents in a digital format reflecting consumer behaviour in how they conduct their business today. The requirement to 'appropriately verify' documentation could include documents in a digital format and 'verified copies'.

CPC 5.6 is restrictive in this regard as the provision of "original" documentation is seen as difficult and time consuming for consumers, reducing confidence in the process.

The Central Credit Register (CCR) could provide the basis for the sharing of customer information. This database should form the basis for an extension of the switching code allowing banks to expedite a Switching Request from a customer without waiting for the provision of documentation from the current provider.

The Impact of the Legal Process on Mortgage Switching

Simplification of the legal process (as it relates to a mortgage) is vital to the simplification of the mortgage switching journey for consumers. While outside the control of the CBI, delays and costs in the legal process in addition to the effort required by a customer are recognised as deterrents to switching by customers.

KBC believes that in conjunction with the Law Society a more consumer centric approach to the transfer of title and security in particular should be considered in the context of eConveyancing. Electronic conveyancing is recognised internationally as the future for conveyancing and title registration of land and property. There are many excellent examples of where this process enables a much simpler process around the sale, purchase and financing of property (e.g. Canada and Australia). A paperless process through all stages of the conveyancing process will simplify and accelerate the conveyancing process (and therefore mortgage switching process) while reducing cost for the consumer.

Responses to the questions set out in Consultation Paper 112 are outlined below and we look forward to discussing these further as required.

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.**

   All fixed rate customers with KBC currently receive a **communication 1 month in advance of expiry of their fixed rate**, acting as a trigger for customer to evaluate the options available to them.

   Existing customers can avail of LTV fixed or variable rate relative to the updated LTV of their property, subject to the provision of an up to date property valuation. This allows customers to move between LTV bands over the life time of their mortgage.

   In compliance with the Consumer Protection Code (CPC) effective from February 2017, all variable rate customers receive information on any lower rate/product options available to them with their annual mortgage statement. **This communication references the CCPC website, directing customers to independent comparisons across various lenders.**

   The availability of movement between LTV bands is a key feature of transparency available to consumers and should be communicated up front at point of sale in addition to annually as suggested. KBC supports increased transparency across the market, with a **notification** issuing to customer **annually providing a trigger** for customer to review their rate options.

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.**

   All key information in relation to mortgage incentives should be made available to consumers both new and existing when assessing mortgage offers.

   The extension of the code to new lending would provide **full transparency** across all lenders when advertising or offering incentives on both new and existing mortgages.

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?**

   As identified within the CCPC paper – Options for the Mortgage Market (June 2017), *"lenders are competing on auxiliary items and mortgage add-ons rather than rates. This can have the ability to mislead consumers in their choices, and result in consumers drawing down on a mortgage product which may not be best suited to their needs or financial circumstances."*

   While Cash-based incentives may offer consumers short-term benefits, in order to provide full transparency the guidance issued by FinCoNet regarding promotional incentives to consumers should be considered. This guidance states that any oversight should consider whether the benefit is significantly outweighed by the cost of the credit, including having regard to how that cost of credit compares to other equivalent credit products. It is important that the impact of any incentives offered are clear and transparent for customers and KBC support any measures which enable this.

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

When considering switching their mortgage provider consumers require the ability to compare differing proposition from lenders. Comparison websites such as that of the CCPC go some way to providing this information in terms of product and rate on an independent basis.

Customers who are considering switching lender can be provided with an initial comparison of mortgage repayments online based on the information provided by the customer. The provision of the European Standardised Information Sheet (ESIS) and the APRC (annual percentage rate of charge) calculation shows the total cost of a mortgage loan which can then be used by the customer to assess any savings that could be made in comparison to their existing arrangement.

In addition to the above and a relevant consideration in offering an Omni-channel distribution model is the role of mortgage brokers. The intermediary/mortgage broker/financial advisor is an independent assessor of relevant savings offered by different providers. The requirement of brokers to offer "Best Advice" to consumers means they assess each proposal on its individual merits.

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

While the standardisation of mortgage switching information is worthy of consideration it should be limited to cover standard items and should not become another layer of documentation. The format in which this information is provided should also be considered. Consumers research and increasingly "consume" goods and services on mobile devices/online.

KBC recognise that maintaining compliance with CPC, MCR and CCMA is of utmost importance to communications around the provision of mortgage lending. However the documentary requirements to assess a performing customer wishing to switch provider, risk being too complex for a consumer to easily understand and therefore not fulfilling the collective broader purpose (of providing transparency to a customer).

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.**

The provision of standard information on timelines, required documents and the overall mortgage process would seem to be sufficient to allow customers to progress with switching their mortgage based on the research findings within CBI Consultation Paper CP112 *(81% of mortgage holders surveyed who switched agreed that they understood what was going on at each stage of the process).*

Challenges exist around some of the suggested standard information being included in the proposed switching guide; particularly information on timelines that are often not governed within the lending institution. The legal process can be a major determining factor on the timelines to delivery of a new mortgage be that a switcher or otherwise and can drive multiple sets of circumstances which can cause delays in timelines outside of the lender (or the customers) control.

Until such time as the switching process is standardised across the market where lenders adopt a common approach to switching it may be premature to have prescribed documents or applications forms. Alignment of such could perhaps be considered as part of an overall Central Bank switching code which includes a broader product set such as that in place for current accounts.

As a digitally led challenger bank the proposal to make this information available in digital format is most relevant to customers and in line with KBC's overall digital strategy. Individual institutions should be able to provide this information in a format most suitable for their customers and individual communication strategies.

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.**

KBC agrees with the proposal to introduce a 3 day timeline for the provision of redemption figures. In order to encourage switching within the market it is important that customers are confident in the ability of their current bank to provide the relevant information to allow them assess the benefits of switching to a new provider.

In addition to the 3 day provision of redemption figures the CBI should consider a framework where a customer, on deciding to switch, could instruct the current lender to forward all relevant documentation to the new lender thus significantly reducing timelines for the collation and delivery of relevant documentation relating to the credit assessment of individual cases.

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

    - **Acknowledgement within three business days of receipt of each item/documents required to complete the mortgage application;**
    - **Acknowledgement within three business days of receipt of completed mortgage application;**
    - **Decision within 10 business days following receipt of all required information for assessment of mortgage application? Please provide reasons for your answer(s).**

CPC 5.6 restricts the ability of providers to reduce timeframes. The necessity to have sight of all original documentation is contrary to the ambition of improving the switching process

The switching process is an area that can be improved by digitisation. Customers can be informed of the stages their application is at through mobile/online channels and the use of SMS, email or other digital forms of communication which may not necessarily fit the definition of durable medium.

Rather than creating additional hard copy documentation on the receipt of each item required to complete the process the measures above provide a more customer centric and ultimately more efficient solution in all stages of the mortgage process.

The CBI can further enhance the customer journey by implementing a process which allows the new lender to access the necessary information and documentation from the existing lender within a specific timeframe with consent from the consumer. A process such as this would reduce the burden on the customer to collate this information and could lead to faster credit decisions from the new lender and a better switching experience for the customer.

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?**

Digital, Omni-channel distribution models need to be considered in this regard and the requirement for a dedicated person or team being embedded in a code may not fit with these models in the longer term. It is important that a customer is allowed to choose the channel through which they engage with the bank (be it face to face, online, via mobile etc).

In an environment where this is the case dedicated points of contact or teams tend not to be effective and can actually have the effect of worsening the customer experience.

As banks move towards reflecting the general trends in consumer behaviour, with a move towards online and mobile, the enabling of customers to access advice and service on a 24/7 basis, this should remove any necessity for dedicated points of contact or switching teams. If the overall process can be improved sufficiently, then this element should not be necessary.