Mortgage Insight DAC - Discussion Paper on payment of commission to intermediaries

Mortgage Insight DAC T/A Sherry FitzGerald Financial services welcomes the opportunity to make this submission to the Central Bank. As a firm we are founder members of the Association of Expert Mortgage Advisers (AEMA) and were co-authors of the report that the group have submitted. We are also members of PIBA and also endorse the 'Brokers Ireland' submission. We fully endorse both submission but would like to add to the report from our own clients and company perspective.

As a company we pride ourselves on a top class service and regularly survey our clients on an annual basis to see where we have done well and where we need to improve. We have attached a copy of our most recent survey and under international standards we have been rated with an 86% net promoter score. We have also arranged finance for a number of staff in the Central Bank who have seen the value that a Financial Broker can bring to them by making sure they obtain the most suitable product to meet their financial needs.

Each year as financial advisers we have to have 15 hours CPD submitted. As a team we have set a minimum target to have 30 hours per adviser per annum to raise the standards in our team above the norm.

We feel the Central Bank may benefit from our perspective particularly in respect of the customers journey through the one of the biggest financial decisions they will undertake, buying a property.

As a company we are at the forefront of property sales across Ireland and quite possibly in a unique position in the market to witness directly the difference in a client's mortgage journeys through both intermediary & product producer direct channels.

In the home purchasing cycle, consumers face significant difficult decisions when navigating through the complex process and we believe the clients best interest is served by going through this process with a qualified independent financial intermediary. These benefits are as follows.

<u>Offering Consumer Choice & Advice</u>

(Appendix 1 – KCB Rate table)

The Department of Finance, and current minister of finance as recently as Aug 2016, are continuing recommend consumers shop around for mortgage value. Post financial crisis, and across the market today there more choice is becoming available to consumers. With new entrants & re-emerging existing providers there is significantly more choice for the mortgage consumer today. Observing appendix 1, Ref KBC rate comparison, it's clear there is genuine choice for consumer today. It is widely recognised choice and competition is positive for the consumer. However, evaluating the different offers effectively is something regular consumers find extremely difficult, bearing in mind they may on average only effect a new mortgage 3 or 4 times within their life time.

From sample client profile we studied we observed a significant divergence of up to 30% in potential loan amounts available across all lenders, and a suite of over 60 separate rates potentially available, ranging from 2.99% or 4.5%. On an average €280,000 mortgage over 30 years the difference in repayments could exceed €86,000 over the life of the loan. This choice and range of rates can be extremely beneficial for the client, however offering this choice without relevant, qualified advice is pointless as many regular clients are simply unable to adequately evaluate the long term value of each offer.

We believe strongly that the clients best interests are served when advice and guidance is provided from the outset by qualified experienced professional, who has the single objective of working towards best possible outcome for the client across the market, as detailed in the current CPC.

Choices and Guidance if something goes wrong throughout the cycle.

Within the property purchasing cycle we have observed many instances where a client may have approached a provider directly for a mortgage or insurance plan and have on back of verbal and sometimes written approval, entered into an agreement to buy or sell a property. In case of our Sherry FitzGerald new Homes department, for instance there can be as much as a 30% fall through rate, with the majority (88%) of these citing difficulties with mortgage approval as the reason. Many clients advise through the direct channels the producers reasons for revoking an approval can be valid and range from, Poor supporting account documentation, Employment or salary status, Poor Credit Bureau reports etc.

However, as we have seen toward end 2015 the reason for a producer revoking an initial offer could also be an internal issue. For instance, one lender may have breached allowable exceptions to Central Bank macro prudential guidelines for that period. We observed one lender in December 2015 revoking many approvals and even formal loan offers due to this consideration. So what may be a 'red flag' issue in one producer, may not be an issue at all with another. So although plan A may fall through, an intermediary could potentially offer clients plan B, or Plan C with alternative providers.

We strongly believe the clients best interests are served with professional guidance and advice throughout this process. Going direct gives client 1 Option, with 1 choice of rate, and 1 outcome based mainly on the interests of the producer. Through the intermediary there is a choice of options, choice of rate and a range of outcomes for the clients which the intermediary will evaluate and help client chose which suits them best.

Ongoing Advice and Service

Often producers reserve right to amend interest rates down the line, and often offer initial attractive introductory rates only to increase these rates after the initial introductory period ends. This creates a divergence in new business rates offered to attract new clients and higher existing business rates.

Intermediaries in the main offer a client a regular financial review going forward, and will ensure that the clients' interests are served by continuous evaluation of needs and current plans. This eliminates client's natural inertia and encourages client to plan ahead and continuously shop around for best value. This review service undertaken by intermediaries is often not remunerated but is vital to serve the ongoing best interest of the clients.

What do Clients Want?

In the main we believe our clients would like to retain the current commission arrangements. Which we believe creates a WIN, WIN, WIN, relationship. Our clients surveyed in 2016 demonstrated overwhelming support for the existing commission model, with:

- 82% of clients surveyed preferred the commission structure to paying a fee directly
- 14% don't know
- ONLY 4% of clients surveyed advising they would prefer to pay a fee directly

A win for the client as they can access expert, professional advice and guidance at NO additional cost to them as NO divergence currently exists between rates offered through direct producers and intermediaries introduced channels. The existing set up also lowers entry cost and enables new competition into market resulting in more competition and lower rates for consumers.

A win for the producer as they have lower operating costs, only pay per sale, and reduced or eliminates risks associated with direct selling as observed by the institutional miss-selling issues in other jurisdictions.

A win for the intermediary as commission structure enables the intermediary conduct business and offer services without needing to charge a client fee. Many clients observed would not be in a financial position or willing to pay fee for this valuable service.

Client Service Survey

(Appendix 2)

Attached is a copy of our latest CSS results. This survey was carried out by an independent 3rd party on our behalf and results correlated and verified externally. The results are extremely positive and on a Net promotor score scale we scored 86%. This is an unheard of result in the financial services industry as many industry producers with strive for a NPS of 50%+. We believe this clearly demonstrates the VALUE our client place on the excellent qualified, professional advice intermediaries provide.

Reducing Intermediary Complaints to Financial Service Ombudsman's office

As observed in Brokers Ireland submission and AMEA submission complaints to financial service ombudsman's relating to intermediaries has consistently reduced since 2011. (with exception of PPI claims mainly through tied agents of producers). Within the mortgage industry complaints to FSO's office there were 1203 complaints received in 2015 in relation to mortgages. Of these only 46 related to mortgage intermediaries. Considering mortgage intermediaries conducted approx. 20% of total mortgage business in 2015, you may expect pro rata complaints to total 240. Intermediaries represent 20% of business but ONLY 3.8% of complaints. Its clear 96.2% of complains arise for producers directly.

In the main this demonstrates the guidelines implemented in CPC and ongoing supervision by CBI have led to an increase level of customer satisfaction, reduced complaints and a professional committed consumer focused industry. Consumers in main wish this system be retained.

Clients interest going forward

In examining the overall commission system, we believe the model going forward should consider the needs of the clients and the industry and we feel the central bank should take note of the current Irish Mortgage Market remuneration model. k within the CPC guidelines the model is extremely efficient and offer significant consumer protections by reducing or eliminating many perceived bias. Currently the system pays a flat 1% of the loan drawdown. All producers pay same rate to all intermediaries, regardless of volume. There is in general a 3 year clawback period with deters miss selling and churning. This commission is fully disclosed to client in a 'Statement of suitability' set out under the CPC.

Benefits of a flat commission model:

Eliminates Producer Bias

Potentially where a variance in commission levels exist this may create a producer bias and therefore it may not succeed in delivering responsible business conduct, fair treatment of consumers and avoidance of conflicts of interest when consumers are sold financial products, or present particular risks in that regard.

Reduces distribution costs,

The fact that differential pricing does **not** exist between the direct versus intermediary channel reflects the fact that consumers are not negatively affected by using the services of a professional intermediary and the model as it currently exists re payment of commission works

In addition to a flat commission model we believe adoption by intermediaries of the CBI review "Guidelines on variable remuneration July 2014", would further protect consumers. The Consumer Protection Code 2012 makes its incumbent upon intermediaries to outline terms of business so as to ensure consumers are aware of remuneration and commission payments received for services offered. The same code requires that intermediaries adhere to the core principal of best advice, this combined with the flat commission structure in existence provides safeguards against potential for product or producer bias.