

MORTGAGE INTRODUCER –QUESTIONS FROM HELL JANUARY 2010. -BILL WARREN

As we move very rapidly into 2010 the need to fight for survival naturally remains key for most financial services businesses. The question as always at this time of year is what will this New Year mean for me? There is little doubt 2010 will be a critical year for the financial services industry as it will be for entire population of the UK. For the UK population as a whole there is a general election to be faced, the big questions being whom do you trust amongst the political parties and their leaders. One of the “election promises” that has caught the imagination of the financial services population is the Conservatives pledge to reassess supervisory responsibilities and almost certainly replace the Financial Services Authority (FSA). It is thought by many the FSA will evolve into a much more consumer orientated organisation with stronger powers to ensure that consumers are much “better” protected than is currently the case. Sounds rather like building on TCF, so say considered one of the FSA least successful initiatives, as they say we shall see!

Away from the uncertainties of politics to the slightly more certain world of financial services regulation, the Financial Services Bill is reaching it’s final committee stage with some strong amendments to the bill being considered. One such amendment attempts to put the FSA in an exceptionally powerful position in an effort to protect consumers. No surprise there you might say but the amendment requires the FSA to intervene a very early stage should there appear to be the possibility of consumer detriment within a product or service. The recent appointment of a senior consumer adviser at the FSA adds weight to this position. The proposed amendment to the Financial Services Bill would take the FSA potentially into the area of making commercial decisions on behalf of providers so needs to be considered very carefully by parliament one hopes before it becomes law.

The other big challenge for many firms in 2010 will be the end result and implementation of the FSA's recent Mortgage Market Review. The deadline for feedback to the FSA on the contents is rapidly approaching and I for one hope as many firms as possible, especially mortgage brokers, will respond with considered ideas and suggestions that enable the FSA to either think again or amend their intentions on certain points.

Q1. The Retail Distribution Review talks briefly about ICOB s and pure protection but I am not sure what the intention actually is as most protection products sold under ICOB s is so low risk. Can you explain what is being proposed as this is an important part of our business?

A1. There are two elements to which I think you are referring relating to pure protection, one is commission disclosure and the other adviser service labelling. Briefly it is being considered that commission should be disclosed in the same way as it is in relation to the sale of investment products. The suggestion being considered is that where pure protection is being sold at the same time as investment products full commission disclosure should be present for both types of product. The FSA intends to issue a consultation paper in Q1 2010 to address this. The adviser service labelling relates to the intended new description of independent advice alongside a new "label" restricted advice, the same as has been proposed within the Mortgage Market Review. Again before implementing this the FSA intend issuing a consultation paper probably in Q3 2010. The basic argument I suspect remains will the consumer gain from these new "adviser labels" or be confused as now.

Q2. We are a medium sized MGI firm struggling to survive like many others. All we can see is more and more lenders either leaving the market or applying such harsh lending criteria as to render themselves unable to lend. This is obviously the FSA's fault as they are applying so much pressure to lenders, as usual after the horse is far way in the distance. Does the FSA's

Mortgage Market Review really spell the end for intermediaries and who can save them?

A2. There is no doubt that currently the number of lenders and products available has been shrinking again, some expected others a surprise having survived to this point. The first point I would like to make is that the MMR is not yet written in stone although many have assumed what the FSA have proposed will happen, as has been well covered by the press the FSA have been at pains to say nothing is final until the consultation process has been completed and they have reviewed the feedback. The FSA have clearly stated several times that they see an important future for intermediaries in the mortgage advising process, if only for the fact that a high percentage of the public have a very high level of trust in intermediaries. The face-to-face contact is seen by the FSA to be vital and as such a high percentage of loans are still being arranged via intermediaries supports this view. That said no one is pretending it is easy, the first quarter of a calendar year is always tough but there is a body of opinion that believes with more lenders on the horizon life will slowly improve. The message as mentioned previously is to give the FSA considered feedback to convince them that the intermediary has much to offer. The Association of Mortgage Intermediaries is certainly working hard to get the message across to the FSA. The FSA have got their teeth into lenders as you state as they can now see that lenders were more responsible for some of the past problems than had been realised. This followed the “passing the buck” onto intermediaries by lenders “season” in Qs 3 and 4 2009!

Q3. Will the new Financial Services Bill actually help anyone other than the Financial Services Authority, it doesn't seem to be adviser friendly shall we say?

A3. To quote from the bill itself “The Financial Services Bill will enact a wide range of proposals to ensure that the financial

system that emerges from the crisis is rebuilt on a stronger and sounder footing, and is fairer and works for consumers. Many of these proposals were set out in the 'Reforming financial markets' paper issued by the government".

One of the big issues within the bill is the increased power to be given to the FSA to intervene should consumer detriment become apparent within a product or service. This could be viewed two ways stopping innovation or ensuring a level playing field exists. In general terms the bill is aimed at the regulatory parties at a high level, the big plus as I see it for intermediary firms is the intention to prevent drama of the type we have experienced over the last 2/3 years.