AFB response to the Competition Commission's
PPI Market Investigation – Emerging Thinking

The Association of Finance Brokers (AFB) is the trade association representing intermediaries operating in the secured loan (second charge mortgages over residential properties) industry. Our members hold insurance permissions with FSA. The AFB represents brokers who are responsible for approximately 75% by volume and value of secured loans in the intermediary channel.

AFB welcomes the opportunity to respond to the Competition Commission's Emerging Thinking document.

<u>Data</u>

Having reviewed the Competition Commission's data, we seek clarity over some of the definitions utilised in the report, and therefore potentially have to question the validity of the data. We are also concerned that there could be an element of understatement in some of the data.

As a footnote to paragraph 58, the Competition Commission comment that they distinguish between intermediaries who source the credit being insured from someone else, and from distributors who provide their own credit.

However, table six shows only a 1.6% 'other' market share which referring to the footnote of table five would appear to represent intermediaries; this seems uncharacteristically low for the second-charge loan market.

However, in table fourteen, stand-alone sales and policies sold via a downstream intermediary total only 0.1% of sales, which seems lower still. In paragraph 89 the Competition Commission appear to include some intermediary sales within option (a) face-to-face (e.g. through a branch network or at an *intermediary's* office). We were unsure whether this makes table fourteen contradictory to table six, and therefore could not conclude whether the data was accurate.

Assuming our understanding of the definitions is correct, both sets of data do appear to understate the role of intermediaries in the second-charge loan market, and we believe that some medium-sized distributors are missing from table six.

<u>Consumer Credit Act</u>

There are wider issues of cross-subsidisation in the second-charge mortgage PPI market, which we have previously raised with the Competition Commission.

Unlike the first-charge mortgage market, or unsecured credit markets, many of the costs of a second-charge loan, such as the property valuation fee, are borne by the intermediary, rather than the consumer directly. However, Section 75 of the CCA states that the maximum charge that can be made for a case that does not proceed is £5, regardless of the costs incurred by the intermediary.

Whilst our brokers are increasingly comfortable with a fee based approach for completed cases, the limitations of CCA regulations are such that an element of cross-subsidisation for those consumers that do not proceed with a case is inevitable; whether this subsidisation occurs from fee income or PPI commission is less relevant. However, this potentially creates a distortion in that those cases that complete are bearing significant costs for those cases that fail to complete.

SMPPI and MPPI

In considering second-charge mortgages, AFB would like to take this opportunity to highlight the similarity and complementary nature of first and second-charge mortgages.

In the wake of the current liquidity crisis, affecting both first and second lenders, many more mortgage intermediaries are entering the second charge arena. This is complementing the existing independent or panel based intermediaries in the second-charge market, and is blurring the boundaries between first and second charges. This allows consumers access to the most appropriate finance solution in a difficult market.

These similarities also follow in the protection arena. All second-charge lenders who offer advice on protection hold FSA insurance permissions. Increasingly, second-charge lenders are considering suites of protection products in their client solutions, and we anticipate the revised Insurance Conduct of Business (ICOB) rules, which come into affect next year, will only serve to encourage greater breadth to the protection offering of second-charge mortgage intermediaries.

From the Competition Commission’s data we were pleased to see that a significant proportion of second-charge mortgage PPI was affected on a monthly premium basis. We believe this is as a result of the competitive force of intermediaries, as consumers benefit from wider-ranging advice. We believe that the unbundling of credit and PPI in the second-charge sector is now well underway, and will accelerate with the results of the Competition Commission work and revised FSA ICOB rules, creating a market not dissimilar to the first-charge MPPI intermediary focused market that we have today.

In seeking solutions to any particular issues uncovered, we urge the Competition Commission to note the relatively intermediary focused and developing nature of the secured-loan market, and to avoid enforcing solutions that are perhaps more suitable for bank-based unsecured loan markets, at this risk of negatively impacting on the fragile second-charge market.