

Central Bank of Ireland Consultation Paper CP112 (Enhanced Mortgage Measures: Transparency and Switching)

Competition and Consumer Protection Commission Submission

Introduction

- 1.1 The Competition and Consumer Protection Commission (CCPC) welcomes the opportunity to respond to the Central Bank of Ireland (CBI) consultation on Enhanced Mortgage Measures: Transparency and Switching (CP112). In this submission, we make general comments and observations before addressing the consultation questions.
- 1.2 As mentioned in the CBI consultation document, in June the CCPC published an options paper on the mortgage market in Ireland¹. In this report we noted that improving the ability to switch, and its incidence, would be a key enabler to unlocking greater competition in the mortgage market. We also noted the low incidence of switching in Ireland.
- 1.3 Importantly, we found that there is a significant information gap in this market. For example, in focus group research undertaken by the CCPC consumers were unaware how much switching would cost, the savings or what the process would be². Remedying this information gap is central to increasing the incidence of switching.
- 1.4 In this light we noted that, to derive the benefits of competition, it is important that consumers themselves can access, assess and act on relevant information.
- 1.5 However CCPC focus group research showed that consumers were unable to act upon their own power as consumers in the mortgage process: and they regard themselves as vulnerable participants rather than peers in the relationship. These characteristics would reasonably limit the ability of consumers to access, assess and act on relevant information.

¹Options for Ireland's Mortgage Market, 15 June 2017, <https://www.ccpc.ie/business/research/market-studies/options-for-irelands-mortgage-market/>

² In addition to recently conducted research, these features were also evident in research noted in the CCPC response to Central Bank of Ireland Consultation Paper CP 98 (Increased Protections for Variable Rate Mortgage Holders), 2016

- 1.6 In addition to the publication of its options paper on the mortgage market the CCPC has recently undertaken an extensive mortgage switching media campaign³. This campaign comes in the context where on the one hand there may be better mortgage deals available⁴, but on the other, the complexity and cost of switching mortgages act as a deterrent. Therefore, in order for consumers to consider switching they need a clear and compelling reason to do so as well as an indication of the process, particularly the time that is going to be involved.
- 1.7 The main objectives of the campaign were therefore to educate and inform consumers of the potential savings and the switching process, and engage consumers who may not have thought about or may have ruled out switching their mortgage. These objectives were actioned by signposting the CCPC mortgage comparison tool and other relevant pages on www.ccpc.ie.
- 1.8 Against this background, the CCPC would therefore strongly welcome CBI proposals to further empower consumers to make informed decisions on their mortgage options.
- 1.9 Finally, the CCPC would be happy to discuss these issues further with the CBI.

Responses to consultation questions

Question 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.

Question 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.

Question 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).

- 1.10 In principle the CCPC agrees with proposals aiming to ensure that mortgage consumers are provided at the appropriate time with the required transparency to make informed decisions.

³ CCPC Mortgage switching campaign: September 11-29 October 2017. To note a First-time buyers information and education campaign was also initiated by the CCPC: September 18- 5 November

⁴ "Switch and Save in the Irish Mortgage Market?" Central Bank of Ireland, Vol 8, 2015

- 1.11 As a general comment, where information is provided to consumers the CCPC encourages the use of Plain English and documentation that allows consumers to understand fully the transaction they are entering into.
- 1.12 The enhancement of transparency measures, for example by giving adequate advance notice of the end of the term of fixed rate product with details of the follow-on rate and so motivating a consumer to examine other products on an informed basis, would therefore be welcome.
- 1.13 Similarly, enhancement measures that improve a consumer's ability to reduce mortgage costs, such as an annual notification of the possibility to move between LTV interest rate bands would also be welcome.
- 1.14 As set out in a previous consultation response⁵, the CCPC would recommend a review at regular intervals of the possible impact of such measures being introduced, in order to monitor for any possible unintended negative consequences (such as a potential disincentive for the lenders to offer more options).
- 1.15 Mortgages are long-term products. It is important therefore that consumers assess the suitability and value for money of their mortgage at regular intervals over the lifetime of the product. The CCPC would therefore welcome measures to direct consumers at suitable junctures towards its mortgage comparison tool and switching information on its website⁶, or other appropriate sources of independent advice.
- 1.16 Similarly, because of the long-term nature of the product, we would see merit in the extension of the existing Code protection on incentives to all mortgage holders, i.e. new, existing and switching mortgage customers.
- 1.17 In our recently published Mortgage Options paper⁷ we highlighted the growing significance of cashback payments and loyalty discounts introduced by lenders in the Irish market as incentives to encourage switching. On one level this can be seen as proactive competitive behaviour by lenders to differentiate their product offering from those of competitors. At another level it could be argued that they represent a sophisticated attempt to manipulate consumer behaviour and may result in consumers making decisions for short-term gains that over the medium or long-term are not in their best interest. Of relevance here is an ongoing behavioural economics project being undertaken by ESRI.⁸

⁵ CCPC response to Central Bank of Ireland Consultation Paper CP 98

⁶ <https://www.ccpc.ie/consumers/money/mortgages/>

⁷ Options for Ireland's Mortgage Market, 15 June 2017, <https://www.ccpc.ie/business/research/market-studies/options-for-irelands-mortgage-market/>

⁸ ESRI - PRICELab (2016). An Investigation of Consumers' Capabilities with Complex Products

- 1.18 In the case where such product attributes are present new, existing and switching consumers should be in a position to accurately weigh up their costs and benefits without material difficulty, with a view to making informed decisions in their best interest. As set out in the Mortgages Options paper, it is envisaged that further work be undertaken in this area between the CCPC and the CBI in order to develop policy recommendations.

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

- 1.19 Research carried out by the CCPC as part of the recently published mortgage options paper indicates that consumers have limited knowledge of mortgages and how they work. While consumers may understand the concept of repayment in cash terms, awareness about interest rates appears much more limited. As a result of this lack of knowledge consumers are risk averse, and so are not inclined to switch products or provider, even though it might be in their interest to do so. This research is also consistent with the survey findings of the CBI.
- 1.20 Measures therefore to promote transparency and ensure comparability over the product lifetime would be welcome, especially where incentives (such as cash back offers) are part of the offering.
- 1.21 Again, the CCPC would recommend a review at regular intervals of the possible impact of measures that are introduced, in order to monitor for any possible unintended negative consequences (such as a potential disincentive for the lenders to offer more options).

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

Question 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.

- 1.22 We have previously commented that we support the concept that the CBI would prescribe the format and content of the information that mortgage providers offer to ensure consistency between providers and ease of comparison for consumers⁹. Consideration should be given by CBI to the use of behavioural economics and the PRICELab work to assist in determining the

<http://www.esri.ie/publications/price-lab-an-investigation-of-consumers-capabilities-with-complex-products/>

⁹ See CCPC response to CBI CP98

most effective manner in which such information could be provided. We have also previously agreed with the proposal that lenders be required to include a link to the mortgage switching section on the CCPC's website¹⁰.

- 1.23 CCPC research indicates that consumers do not have a good sense of how the mortgage switching system works¹¹. This view is also borne out by CBI research in the consultation document. In addition, our research revealed that consumers believe that there is significant risk in switching and relatively little reward.
- 1.24 Focus group research commissioned by the CCPC indicated that where standardised information is prescribed it should describe the switching process end to end. It should focus on the language that can be understood. It should also describe the costs, the personnel and the timeframe involved.

Question 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.

Question 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).

Question 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?

- 1.25 Buyer power is an important competitive constraint. In its absence the conditions of competition can weaken leaving consumers to face higher prices, reduced levels of quality and less innovation.
- 1.26 CCPC focus group research showed that consumers were unable to recognise their own power as consumers in the mortgage process, and they regard themselves as vulnerable participants rather than peers in the relationship.

¹⁰ <https://www.ccpic.ie/consumers/financial-comparisons/mortgage-comparisons/>

¹¹ Options for Ireland's Mortgage Market, 15 June 2017, <https://www.ccpic.ie/business/research/market-studies/options-for-irelands-mortgage-market/>

- 1.27 The CCPC would therefore strongly welcome measures that improve the consumer's role in this relationship.
- 1.28 As noted in the consultation document 36% of those surveyed who switched their mortgage reported that they had to chase their lender to be kept informed during the mortgage switching process.
- 1.29 In this context the CCPC sees obvious benefits from proposals to require the timely provision to consumers of information key to the switching process. Similarly, measures that would help to keep the consumer updated of where they are in the process would also be beneficial.
- 1.30 The ultimate aim of introducing a time-bound switching or new mortgage lending process is also to be welcomed.
- 1.31 We would also see benefits being derived from the transparency and accountability provided by dedicated switching teams that operate systems which, for example, keep consumers up-to-date throughout the process, acknowledge receipt of documents and inform consumers of outstanding issues within specified timeframes.

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