

Peril of too much transparency

As laudable as transparency is, there is a danger that giving customers too much information could actually cause more confusion than understanding on their part. And that surely does not fit in with the principle of treating customers fairly



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As we stride forward into the era of more principles-based regulation, I have started to wonder whether we could turn the all-consuming power of the treating customers fairly principle towards redressing the balance on a small, yet potentially troublesome, aspect of the Financial Services Authority's disclosure requirements - namely, the obligation for brokers to reveal, at section 13 of the key facts illustration, the global amount of the fee paid by the lender in respect of the mortgage sale.

The troublesome aspect of this disclosure is that, in truth, the vast majority of customers don't have a clue about the economics and reward structures of the UK intermediary marketplace.

Quoting the full value of the payment that changes hands between the lender and the broker (plus, often, a packager/pack-

facing element - should be getting a bigger share of the total kitty.

Why is it that the consumer is so strongly 'protected' when buying financial services, yet left to their own resources when making other major purchases, such as a car? A friend of mine was recently contemplating buying a new, top of the range luxury saloon for £85,000, but decided against it. Six months later he saw the same model for sale, with just 28,000 miles on the clock, with a price tag of only £30,000.

Whereas mortgage advisers (and packagers) are arranging to finance an asset that is pretty certain to increase in value, the salesman selling a new car knows that the minute it is driven away by the new owner its value will drop by at least 17.5% (the value of the Valued Added Tax paid on the purchase), and that it is likely to

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sharply decrease thereafter. However, the innocent car purchaser can hand over their £85,000 without the benefit of a KFI explaining to them that they may lose £50,000 on the deal within six months. Where's the fairness in that - especially if they have high cost finance in place?

Transparency consisting of an over-simplified statement of the total amount a product provider is paying for the deal can cause more confusion than understanding on the part of the customer.

Speaking as a packager, this sort of transparency can also be a bone of contention for brokers, who can calculate how much the packager is being paid and (sometimes) believe that they - as the customer-

I am not opposed to transparency in mortgage documentation. But if we have to constantly put the consumer's vulnerability and lack of experience at the heart of how we treat them fairly, why continue to baffle them with fee information they don't understand, that is unlikely to influence their choice of product, and does not have any bearing on the price and conditions of the loan they are being offered?