Discussion Paper (DP 18/9) on Fair Pricing in Financial Services

Response by the Intermediary Mortgage Lenders Association

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IMLA

IMLA is the representative trade body for mortgage lenders who lend wholly or predominantly through intermediaries. Our 43 members include banks, building societies and specialist lenders, including 16 of the top 20 UK mortgage lenders responsible for almost £180bn of annual lending. IMLA provides a unique, democratic forum where intermediary lenders can work together with industry, regulators and government on initiatives to support a stable and inclusive mortgage market. We welcome this opportunity to comment on the proposals set out in DP 18/9.

Summary of our views:

- Individual consumers do not always act in ways which are logical or – apparently – in their best interests. Government and regulators cannot legislate to control or change that behaviour: they can only take action to ensure that consumers are equipped with sufficient information to be able to make informed decisions – and that those consumers who are identified as being vulnerable or in need of additional assistance are able to access such help when needed.
- The 6 evidential questions identify the key issues, which can be summarised as - who is being harmed by price discrimination and what is the extent of that harm? Unless the answers to those questions are very clear, the risk of causing more harm by interfering in what are generally well-performing, competitive markets, may exceed the potential benefits.
- As the DP acknowledges (para 1.16) – improving market outcomes for some may lead to worse outcomes for others. It might also interfere with the natural dynamic of market competition, particularly if steps were to be taken to inhibit or prevent cheaper deals being offered to new consumers simply because existing consumers – many of whom would be free to move to another provider - would otherwise be paying more.
- Paragraphs 4.24 and 4.25 illustrate why it is important to allow firms to set prices according to their business model, so that they can decide which consumers they

wish to attract and how they wish to build their market share. Any attempt to introduce "uniform" pricing would destroy that natural competition and disadvantage large numbers of consumers who might otherwise benefit from being able to choose lower-price deals.

- Another important distinction is whether consumers know the consequences of not taking any action – and are able to do something about it if they choose – and where consumers do not know the consequences. Effort should be focused on ensuring that consumers have adequate information, and that there are no barriers preventing them from taking action which will benefit them, such as it being "difficult" to switch accounts, for example.
- The regulator may be concerned about the apparent level of inertia displayed by some consumers – but consumers come in many shapes and sizes, with very differing financial circumstances. What may be a significant price difference to one may be trifling to another. The regulator should not be seeking to protect all consumers from making what it might regard as poor decisions. Its role should be restricted to identifying where consumers may be harmed because of their inability to take action to improve their position. This may be as a result of ignorance, which might be remedied by requiring the service provider to make more information available.

Responses to specific Questions

Q1: Do you agree with our six evidential questions to help assess concerns about fairness of individual price discrimination cases? Are there any other questions that are as, or more, important than the ones listed? If so, what are they?

Yes: the six questions identify the basic issues of who is harmed and to what extent.

Q2: Where consumers who shop around get good deals but those inert ones not shopping around do not, what factors should determine whether this trade-off is fair? In particular, to what extent are the following factors relevant:
a) The scale of the price differential between consumers?
b) The characteristics of the consumers who are affected? In particular, is it only unfair when it is vulnerable consumers who lose out, or is it also unfair when non-vulnerable customers lose out? Can it also be unfair even when the vulnerable benefit?
c) The reasons why existing consumers do not switch to a better deal?
d) The transparency of firms' pricing practices?

As the DP notes (para 2.14) – in a well-functioning, competitive market, firms are free to set prices and, if consumers think the price is too high, they can choose another product. It is simply not practical for a regulator to seek to influence consumer behaviour entirely. Some consumers will remain inert and will fail to take advantage of cheaper options – and the DP identifies some of the reasons why consumers may behave that way. In a highly competitive market – such as that for residential mortgages – consumers may be able to

find better deals on a regular basis. The fact that some may choose not to do so is not a good enough reason to seeking to manipulate the market in such as way as to prevent lenders from offering new deals to those consumers who are prepare to take their business to a competitor.

Q3: To what extent is it appropriate for firms to target and tailor their pricing approach to consumers who are not likely to respond to future price rises? Does the answer depend on the techniques that firms use to achieve this (eg through predictive modelling, product design, communication with the consumer)? Please provide reasons to support your answer.

Figure 2 sets out some of the reasons why consumers may not shop around to get better deals after price rises. All of these scenarios could be address by better information being provided. For example:

- *Consumers are happy with their current provider and do not want to risk getting a worse experience from an alternative provider*
    - Clear information could reassure the consumer about the quality of service which an alternative provider would offer.
- *The price differential is too small to justify shopping around*
    - This will be a personal decision for individual consumers to make: but if information about alternative suppliers' prices is easily available, it will help the consumer make a decision. Some will inevitably still decide that the exercise is not worth the bother – and they must be free to make that choice.
- *Consumers sign up to a low introductory deal with the intention of switching after a year, but then forget to do so.*
    - The provider could be obliged to send clear information to the consumer towards the end of the introductory deal stating clearly what the reversion rate will be.
- *Consumers become temporarily disengaged*
    - This is more complex: an issue such as bereavement might affect some consumers in a variety of ways - such as health, performance at work, ability to carry out routine tasks, concentrate on normally routine activities (such as driving) and so on – whereas other consumers might remain largely unaffected. Trying to write rules which might fit all the possible circumstances would be very difficult – it would be better to rely on financial services providers' over-arching responsibility to treat their customers fairly and have regard to how they treat those who *may* be vulnerable or show signs of vulnerability.
- *Consumers think they have got a good deal and assume that their loyalty will be rewarded.*
    - Providers could be required to make it very clear how much the consumer is being charged and remind them that they may wish to shop around to see if they can find a better deal.
- *Consumers assume that any price rise is a result of a reassessment of their risk.*
    - Providers could be required to be explicit about the size of any increase (as has been the case in the general insurance market) and where this is due to a

    - reassessment of risk, spell this out so that the consumer can make fair comparisons with other providers.
- *Less able consumers do not feel confident in comparing and choosing products.*
    - This is where the manner in which the information is communicated will be key: it must be presented in a clear and concise way such that the majority of consumers could be judged capable of using it to compare and choose products. There will always be some consumers who require help in making those decisions – but providers should make every effort to make their communications straightforward to understand. They should also make it easier for friends/family members/carers to engage with the provider on behalf of someone who may be less able to do so themselves.
- *Vulnerable consumers may be totally disengaged and not realised what price they are paying.*
    - This one is also more difficult because the consumer may not have been identified as vulnerable at the time the product was initially purchased. But rules requiring firms to communicate regularly and clearly should at least help make consumers aware of their options. Better still – firms might be encouraged to offer helplines for those who need help with explanations and decision-making.

Q4: What should we expect firms to do to help reduce the cost to consumers of shopping around and, if necessary, switching to another provider, in particular with respect to:
a) helping consumers understand their choices
b) the amount of effort required to make their choice
c) not discouraging switching or shopping around
d) being transparent about pricing and what factors are used to determine pricing
Please provide reasons to support your answer.

Firms should be required to give consumers clear information about the prices they pay for their products. Following the example of the general insurance market, where annual premiums for some services are increased, the provider should clearly state what the previous year's premium/price was and what the new premium/price will be. It may be helpful in some circumstances to explain why prices may have increased – but it may be more useful to consumers to remind them that they may wish to shop around and seek a better or different deal from another provider.

Q5: What should longstanding consumers be able to expect of their provider when they become inactive in that particular market? In particular what should be expected of:
a) the support the provider gives their customers to ensure they are making informed product choices?
b) the default outcome in the event of prolonged inactivity (eg contract renewal, contract termination, or automatic switching to a different product)?
c) the maximum price differential they are paying relative to the best available rate for that provider?
Please provide reasons to support your answer.

The information which a provider is required to give consumers should not change simply because the provider ceases to be active in a particular market. The provider should be required to give its remaining customers adequate information to enable them to decide whether they wish to remain as customers or to seek an alternative provider. If they decide to do the latter, the provider should enable them to do so without imposing unreasonable restrictions.

Q6: On the discussion on potential remedies in this paper:
a) Do you agree with the types of remedies that we have set out? If not, please explain which type of remedy you disagree with and why.
b) Are there other types of remedies that we should consider that do not fit into these categories? If so please explain them and what adverse effect you think they would remedy, mitigate or prevent.
c) Are there particular examples from other sectors, or other countries, that you think we should consider to inform our approach? If so, please provide detail and references where possible.

The emphasis should be on providing consumers with sufficient information to make their own choices, and make sure that they are put in a position where they are aware of the consequences of taking or not taking specific action – and are able to do something about the situation if they are not content. There are real risks in seeking to influence specific consumer behaviour or mandate specific pricing strategies as this may interfere with the natural dynamics of a competitive market, in a way which may ultimately cause more detriment than benefits.

The inclusion of the example from the Hungarian insurance market seems slightly eccentric: no details are provided, but it seems very unlikely that the Hungarian motor insurance market prior to 2014 was in any way comparable to that of the UK. The prospect of obliging all consumers to review and renew their insurance during a limited period seems frankly bizarre. The fact that so many UK consumers frequently take out, or review and renew existing products stimulates a highly competitive market.