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Consolidation 'inevitable' for 'cottage industry' mortgage brokers - analysis

by: John Fitzsimons



The intermediary market has been a 'cottage industry' for too long, with consolidation among advice firms inevitable and necessary, brokers have argued.

Recent months have seen a host of consolidation deals taking place across the mortgage industry. In August for example the Tenet Group agreed to sell off aspects of its business to Openwork and LSL Property Group, while in recent weeks Fintel snapped up VouchedFor and AKG in a package worth £9m.

There have also been forecasts that consolidation among networks is likely to continue from high profile figures

more firms towards selling up of late, but also are likely to result in further deals taking place in the months and

improvements scale offer, while others warned that borrowers can end up with reduced level of choice when hunting for an adviser.

Advice has been a cottage industry for too long

Consolidation has always been present in the mortgage advice market, but the deals now may simply be more visible suggested Martin Stewart, director of London Money.

He suggested that the industry has had a "veneer of respectability" but in reality has been "hordes of cottage industry one-man-bands, marauding around, always on the look out for a better deal for themselve

Richard Campo, founder of Rose Capital Partners, was another to warn that the broker market has been a "cottage industry" for too long. He pointed to the likes of Habito and Trussle as having shown that size counts, as well as the importance of technology in the future of advice.

He added: "The money, scale, technical capacity and backing some of the larger players have now just can't be competed against by small companies. Therefore consolidation is inevitable, with the role of smaller independents offering services for more niche propositions and white glove service for more affluent clients."

Stewart suggested that what was needed was more consolidation, but the problem is that many brokerages "are not well run", while others operate on thin margins.

"If the current market conditions carry on through 2024 we may see more consolidation happen but more out of necessity than anything else," he continued.

Gary Bush, financial adviser at MortgageShop.com, suggested that 2023 had been the "final straw that broke the camel's back" for a host of financial companies. He pointed to the impact of Brexit, the lockdowns as a result of the pandemic, the Ukraine war and the cost of living crisis as all playing a part in putting money firms under greater

He continued: "Companies after Covid were expecting an easier time, having drawn down a lot of their reduring that period to survive. The elongation of these crises occurring, with the related market slowdown murdered firms' plans."

Businesses that have operated on small margins are now feeling the pinch as a result of increasing costs, a slower purchase market and reduced income from product transfers pointed out Stephen Perkins, managing director of Yellow Brick Mortgages

He added: "Where that is the case, consolidation can keep them alive."

James McGregor, group director of P10 Financial Group, pointed to the "suppressed nature of the current market" as being a driver of the various consolidation and merger deals taking place at the moment.

Under pressure

Malcolm Davidson, director of UK Moneyman, predicted that there will be more smaller mortgage broker firms

business levels to be allowed to continue to trade with their network. These firms, typically one or two advisors, may decide to call it a day."

Rush suggested that the weakness basis suggested that the weaklesses are going to become more apparent with the network mode, with requirements coming in from the end of this year meaning that appointed representatives need much climonitoring and better reporting up the chain.

He added: "This could bring greater consolidation pressures for AR advice firms and networks."

McGregor predicted that there will be further consolidation, given the fact that many brokers are likely struggling to make ends meet at the moment given the industry's lending figures.

"This opens up the door for further consolidation and more opportunities," he concluded.

Getting creative

Davidson noted that a particular challenge for smaller firms looking to sell up comes in working out a value. He suggested this is always difficult as, unlike with IFAs, there is no residual income.

He continued: "It is unlikely that they will receive a large cash sum when they sell up and may need to look at more

Is consolidation welcome?

McGregor said he was torn on whether consolidation was a good thing, noting that it usually leads to more professional set-ups across the industry, and that this raises both the standard and reputation of the sector

However, he added: "The only thing that can cause issues is that a lot of networks operate like legalised mafias so it just allows them more power when they consolidate. Less choice usually leads to worse outcomes in any industry."

Stewart argued that the advice industry is "ripe for disruption", but there is a lack of direction and disj

He concluded: "I daresay we will carry on patching up the sector rather than trying to fix it."

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John Fitzsimons

John Fitzsimons is a freelance journalist and has been writing about money since 2007. A former editor of Mortgage Solutions and loveMONEY, he has written for titles including the Mirror, the Sunday Times, the Sun and Moneyweel covering everything from bank accounts and mortgages to football season tickets and rare coins.

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There is no doubt mortgage brokers are under pressure, from reduced levels of business, regulation, tighter supervision, whether DA or AR, and 1001 other pressures. However, brokers are a resilient breed, and have demonstrated over the years that they are able and prepared to adapt and weather the many storms that have hit us. It's been a tough few years - but many firms are still functioning well and continuing to provide good service.

The movement of firms from Tenet is largely down to the network (gnoring the protests from their AR firms, and largely over a poorly introduced CRM system. In my case, I left their earlier this year due to a sudden introduction of an overbearing compliance regime. However, the firms they are dumping are not consolidating, they are merely moving to a new network or taking the opportunity to go Do.

I agree that some advisers will hang up their mortgage boots and decide now is the time to call it a day. We have a lot of older advisers in this sector, and retirement is probably viewed with desite by some. However, many firms comprise just now or two advisers - and they tend to serve a local market where they are well known respected and delivering great outcomes for their clients. If they can do this profitably, they may see no reason to consolidate.

What advisers will need to do, however, is look closely at the technology they are using, look closely at how they



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