

# Combined Industry Forum Update

21 November 2018

# Mortgage Broking Industry Data

- ▶ Portrays a strong consumer focused industry
  - ▶ Strong consumer support
  - ▶ High customer satisfaction
  - ▶ Low and falling complaints
  - ▶ Modest arrears
  - ▶ Falling prices (NIM)
  - ▶ Increasing competition
- ▶ A picture that emphasises the competition, choice and access to credit that brokers bring to the mortgage market
- ▶ Supportive of ASIC Remuneration review findings

# Broking Industry: At a glance

**55.3%**

- ▶ Brokers originate more than **50%** of all residential mortgages

**500K+**

- ▶ Broker activity has doubled to **509,520** loans from 2008-2017

**+70**

- ▶ Consumer NPS of brokers is **+70**

**17,000**

- ▶ There are now approximately **17,000** registered mortgage brokers

**1,452**

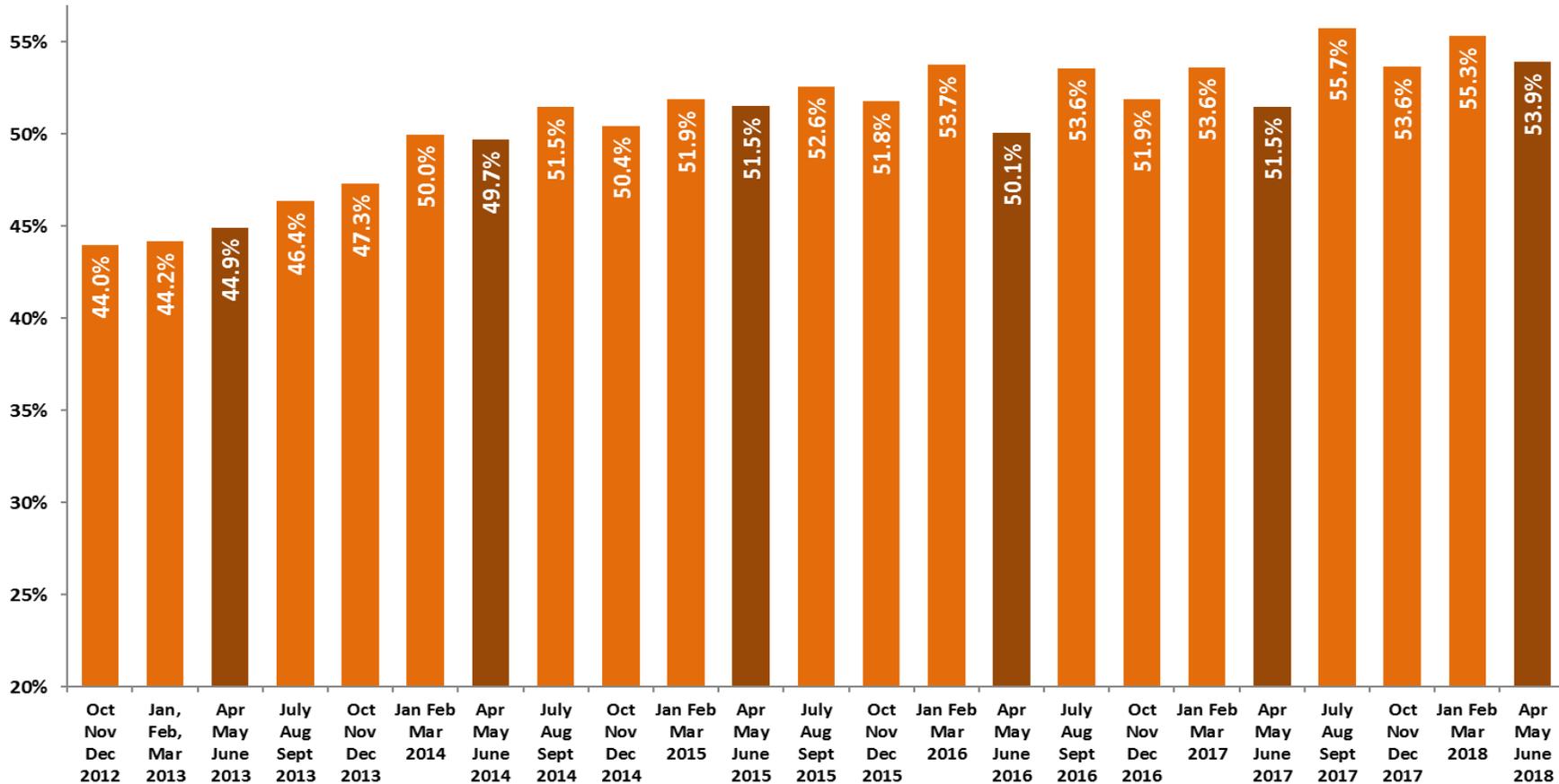
- ▶ There is one broker for every **1,452** people in Australia

# Broker share of residential - June 2018

## MFAA's Quarterly Survey of brokers and aggregators

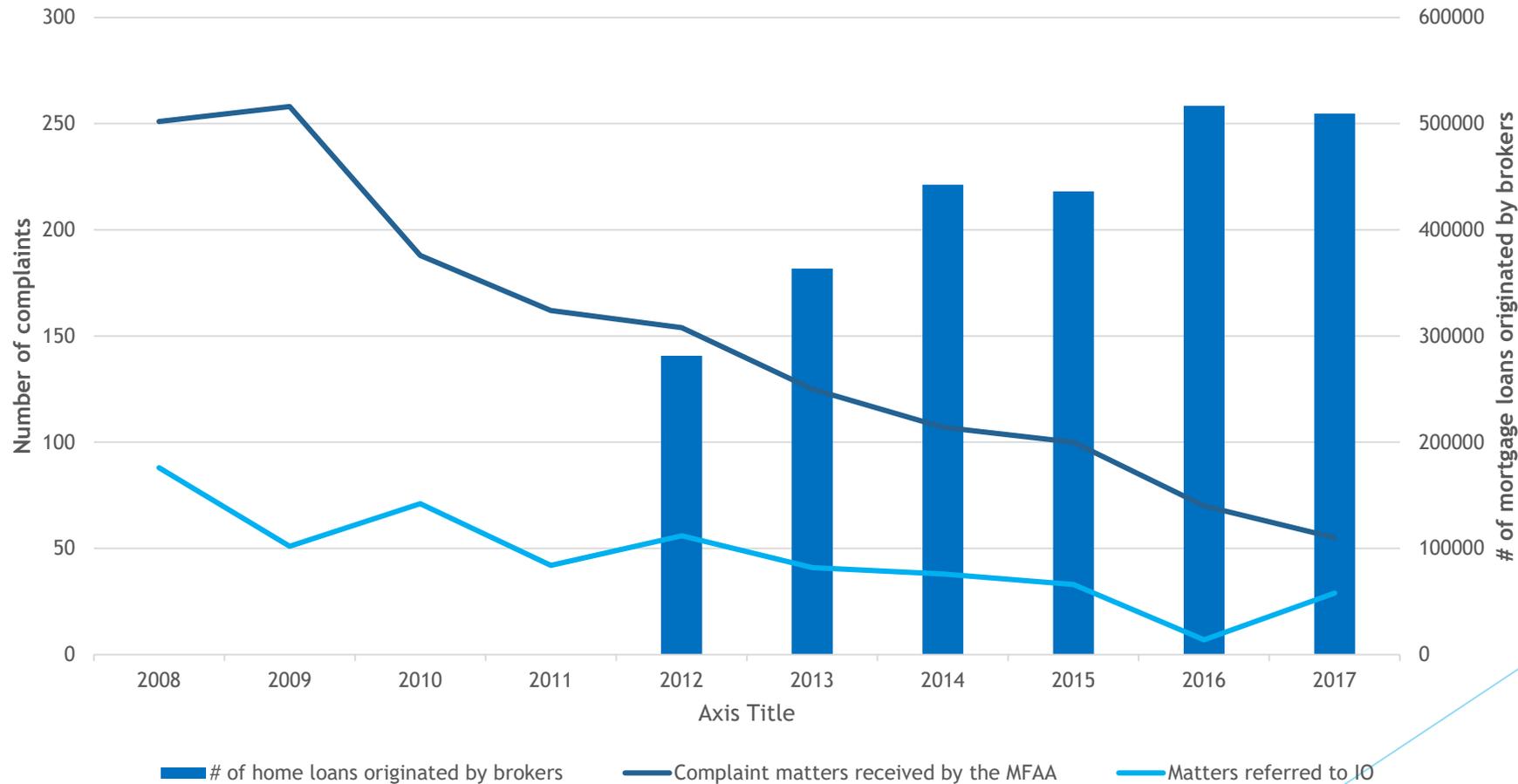
Market share of new residential home loans originated by all mortgage brokers and aggregators as % of ABS Housing Finance commitments

comparator A CoreLogic Business



# MFAA Complaint Trends (MFAA Complaints v Industry Activity)

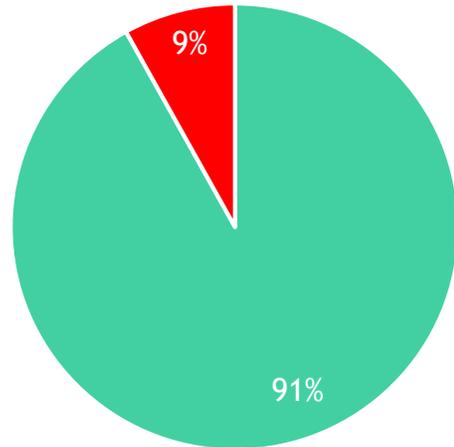
Complaints received by the MFAA / Matters referred to the Investigating Officer (IO) compared to industry activity



# CIO Complaints Trends

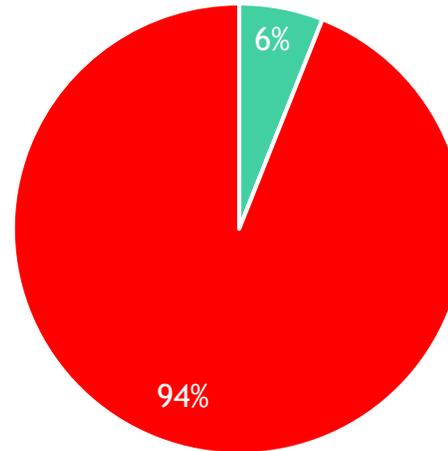
- ▶ During 2008-2017, CIO broker member numbers grew from **7,928 to 22,133\***
- ▶ In 2016/17, brokers made up **91%** of CIO members, but only **6.1%** of CIO complaints, or **1 complaint in 1,427** contracts originated by brokers

CIO Membership: 2016-17



■ Mortgage brokers ■ Other

CIO Complaints: 2016-17



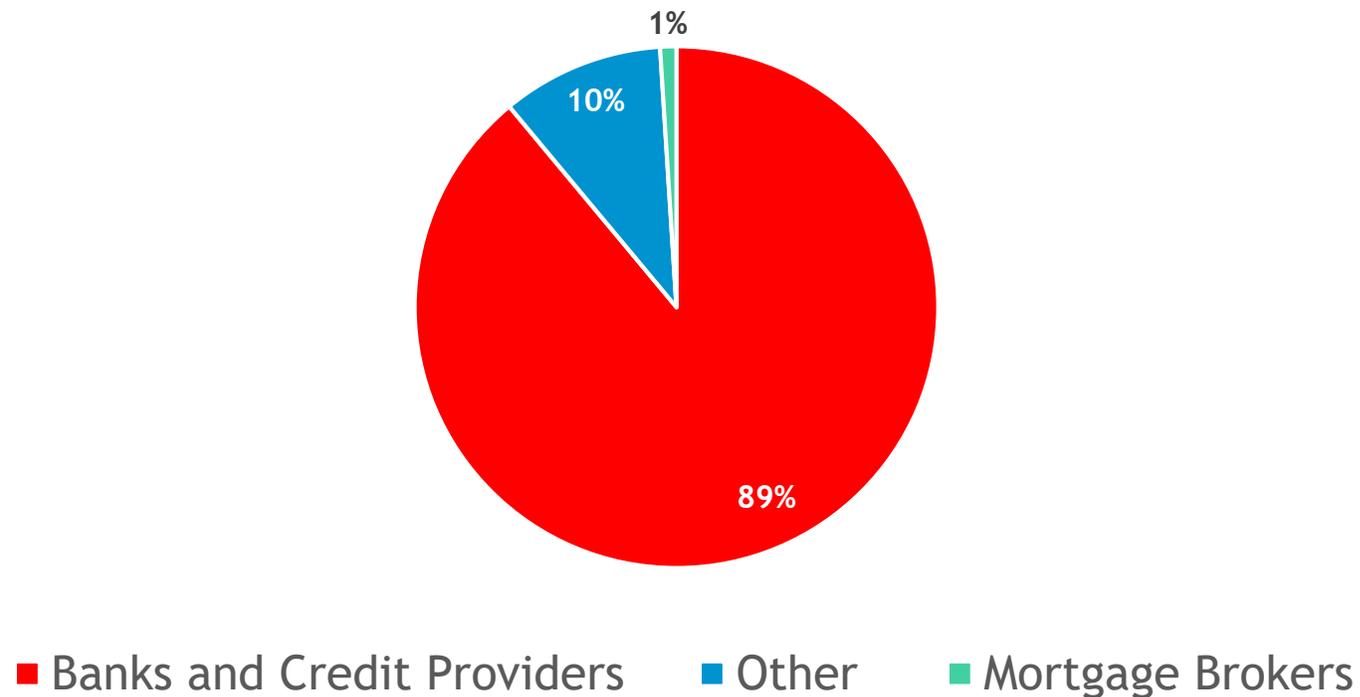
■ Mortgage brokers ■ Other

*\*It should be noted that the CIO may overstate the broker population because a notable number of credit representative members require two memberships - company and individual - due to their direct authorisation by their licensee. All the above data has been confirmed in writing by the CIO*

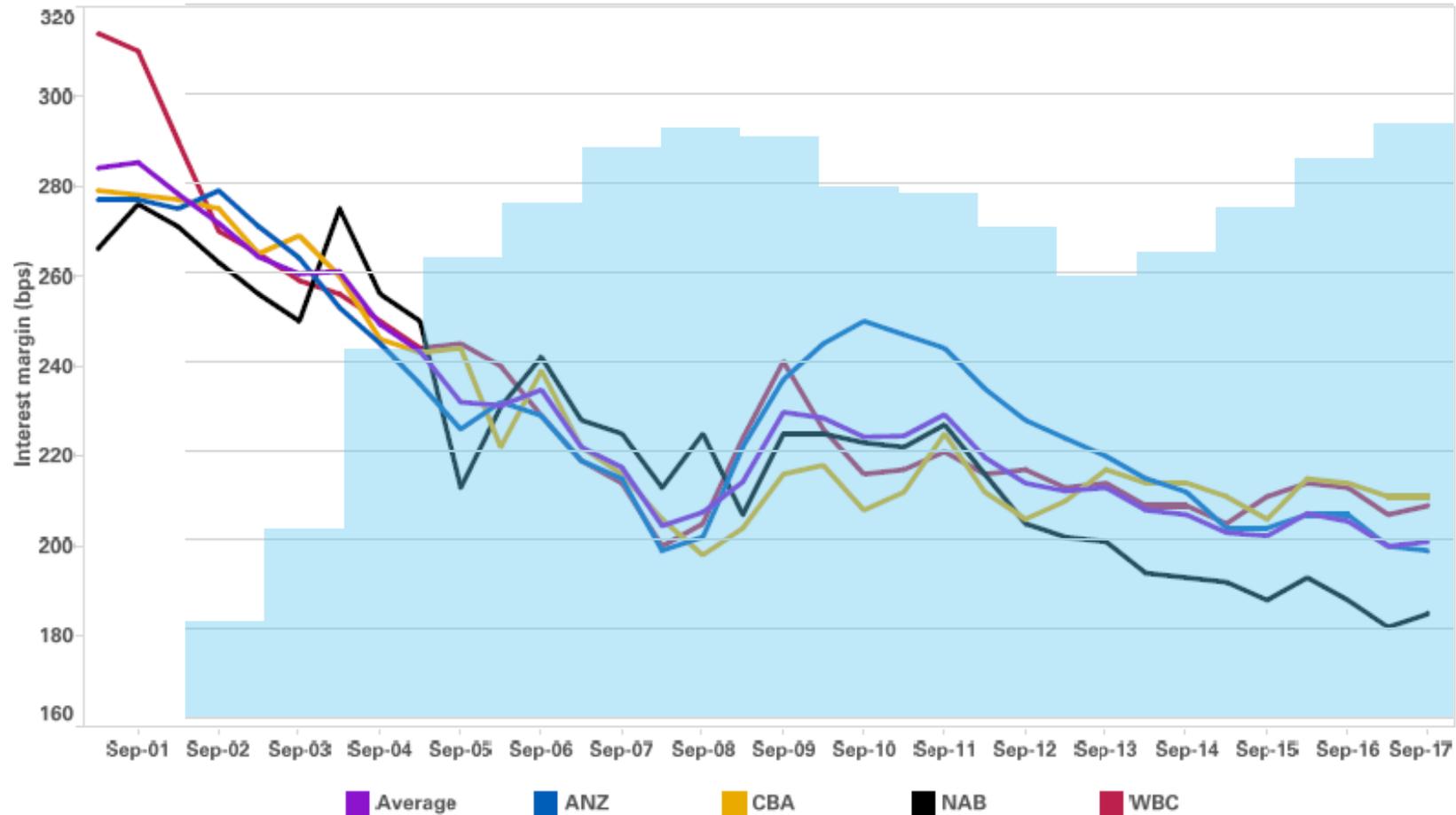
# FOS Complaints: 2013-2017

- ▶ Brokers comprised less than 1% of complaints to FOS between 2013 and 2017

Average Complaints Attribution - 2013-2017

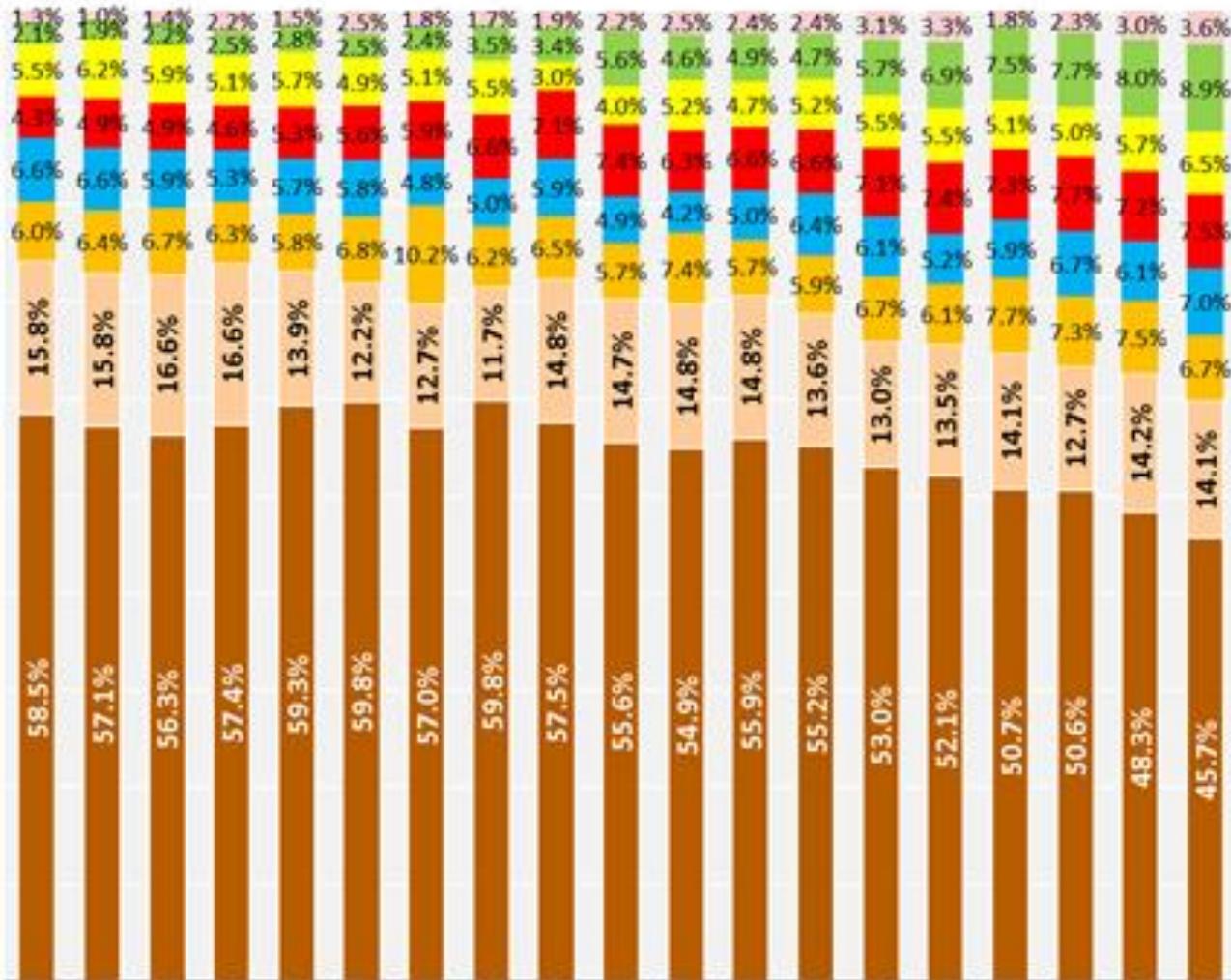


# NIM decline vs Broker numbers



Source - KPMG Major Banks - Full year 2017 Results Analysis

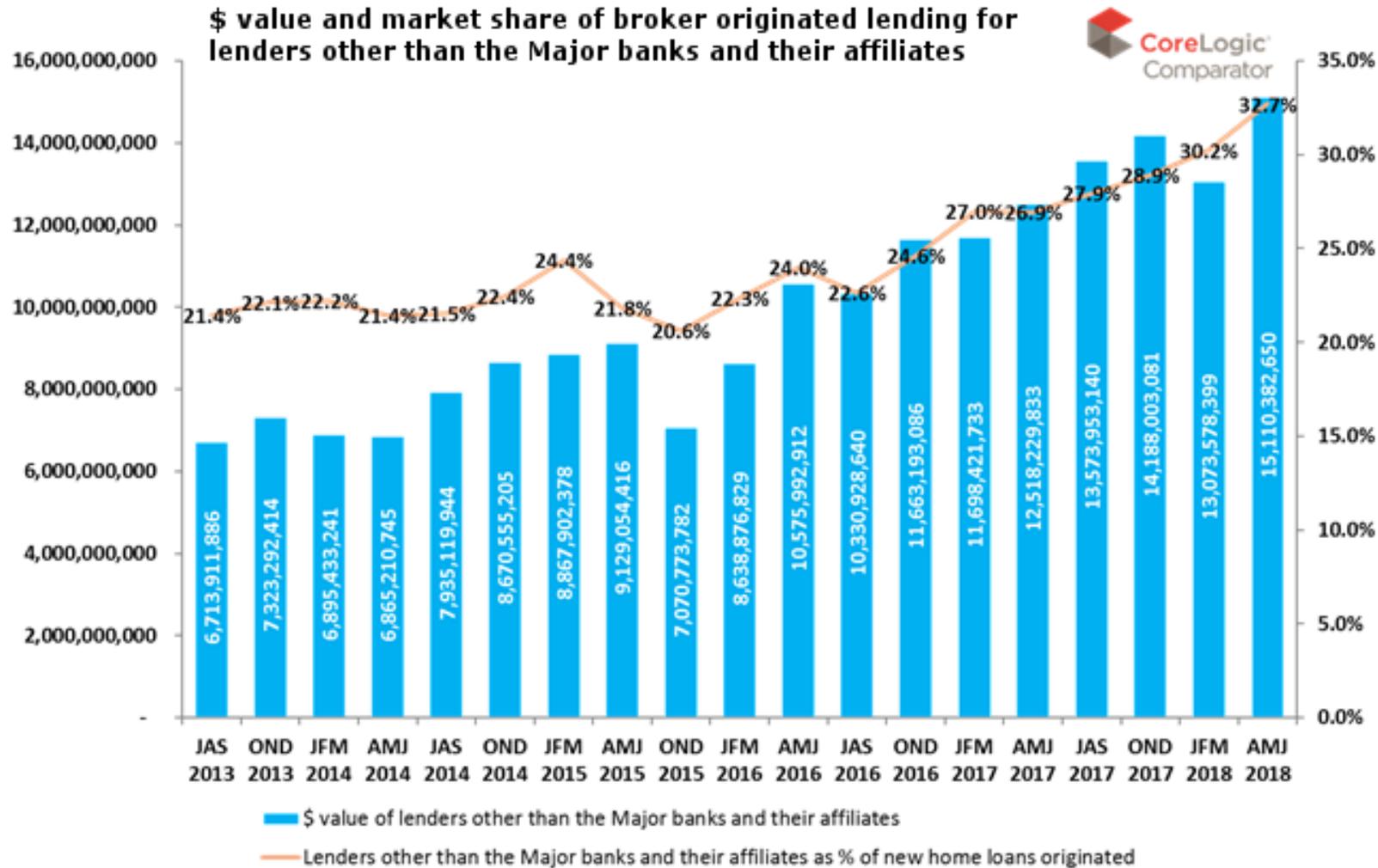
## Value of new broker originated lending for each segment of lender



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2013 2013 2014 2014 2014 2014 2015 2015 2015 2016 2016 2016 2016 2017 2017 2017 2017 2018 2018

- Credit Unions, Building Societies and Mutuals
- Non-bank lenders
- Any other type of lender
- Brokers' white label loans
- International banks (ie ING Direct, Citi etc)
- Independent Regional Banks (ie Suncorp, Bendigo-Adelaide etc)
- Regional banks owned by or aligned to major banks (ie BankWest, St George etc)
- Major banks (ANZ, CBA, NAB, Westpac; primary brands only)

# Non-Big 4 affiliated share of broker channel



Source - NREIM major banks - full year 2017 results analysis

# The Combined Industry Forum

- ▶ Established to respond to the ASIC Remuneration review and Sedgwick Report
- ▶ Unified industry response in support of self-regulation
- ▶ Commenced reform process on 9 June 2017 - 6 months before RC called
- ▶ Package of reforms announced December 2017 and implementation underway
- ▶ Report states - ***“The mortgage broking industry is committed to taking action to further improve customer outcomes and standards of conduct and culture, while preserving and promoting a vibrant and competitive mortgage broking industry that encourages consumer choice”***
- ▶ Comprehensive CIF Reform Package currently includes -
  - ▶ Remuneration reforms, disclosure reforms, public reporting improvements, a definition of Good Customer Outcomes, a Customer First Duty, improved Governance framework, and an Industry Code

# Reform timetable - will you be ready?

<b>1. Changing the standard commission model</b>	<ul style="list-style-type: none"> <li>• Upfront to be paid on net utilisation</li> <li>• Trail to be paid on net utilisation</li> <li>• Clawbacks to remain</li> </ul>	<b>End 2018</b>
<b>2. Moving away from bonus commissions and payments</b>	<ul style="list-style-type: none"> <li>• Cease Residential VBIs and campaign bonuses</li> <li>• Cease discounted aggregation for writing white label loans</li> </ul>	<b>End 2017</b>
<b>3. Moving away from soft dollar benefits</b>	<ul style="list-style-type: none"> <li>• Access to tiered servicing based on balanced scorecard (brokers to disclose access to such programs)</li> <li>• Conferences &amp; PD days must have a minimum of 80% educational focus</li> <li>• Hospitality and events benefits to be capped (\$350 per broker per event)</li> <li>• Brokers, Lenders and Aggregators to keep a benefits register of spend of \$100 or more</li> </ul>	<b>End 2018</b>
<b>4. Clearer disclosure of ownership structures</b>	<ul style="list-style-type: none"> <li>• Required if Aggregator ownership is deemed “significant influence”             <ul style="list-style-type: none"> <li>▪ Ownership =&gt; 20%, or</li> <li>▪ Ownership &lt; 20% BUT a board seat is held, or a white label product offered</li> </ul> </li> <li>• Included in credit guides, marketing materials and websites</li> </ul>	<b>End 2018</b>
<b>5. Establishing a new public reporting regime</b>	<ul style="list-style-type: none"> <li>• Aggregators to ASIC and public: information on brokers</li> <li>• Lenders to ASIC: information on home loan pricing</li> <li>• Brokers to their customers: information on Top 6 lenders by %</li> </ul>	<b>End 2018</b>
<b>6. Improving the governance and oversight of brokers</b>	<ul style="list-style-type: none"> <li>• Governance framework, incl.:             <ul style="list-style-type: none"> <li>▪ Key Risk Indicators</li> <li>▪ Unique Identifiers</li> <li>▪ Annual reviews of Aggregators</li> <li>▪ Data based broker monitoring</li> <li>▪ ASIC shadow shopping</li> </ul> </li> </ul>	<b>End 2020</b>

# A new public reporting regime

**ASIC Proposal 5: Establishing a new public reporting regime of customer outcomes and competition in the home loan market**

*Sedgwick Recommendation 19*

Aggregators to publish and provide to ASIC information relating to their brokers

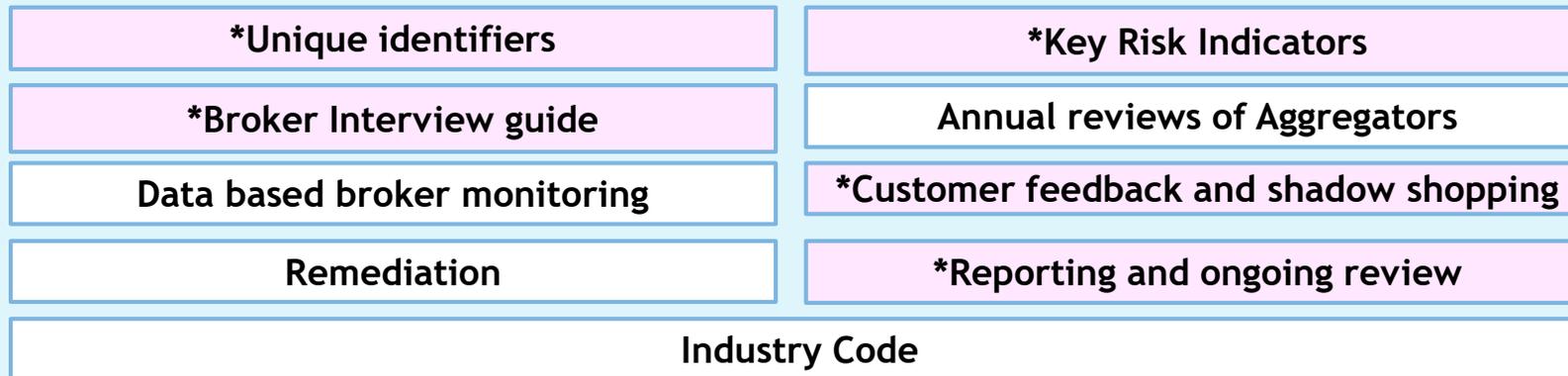
Lenders to provide to ASIC information relating to the pricing of their home loans

Brokers to publish to customers information relating to preferred lenders

Implementation by end 2018

# Governance & Oversight framework

**ASIC Proposal 6: The industry needs to improve the governance and oversight of brokers by lenders and aggregators**  
*Sedgwick Recommendation 17*



Staged implementation up to end 2020

# Governance & oversight - Key Risk Indicators

- ▶ Key Risk Indicators to be reported from Lender to Aggregator/Broker around the potential for a poor customer outcome.
- ▶ Indicators (relative to the industry average) provide data based direction to the allocation of oversight effort, reviews and resources
- ▶ Importance of standardisation

% of owner occupied portfolio  
in Interest Only

Arrears - 90+ days

“Switching” in first 12 months

Elevated level of customer  
complaints

Post-settlement customer  
survey

Deficiencies found in  
Requirements & Objectives

# Governance & oversight - Broker Unique Identifier and reference checking

In partnership with Government, implement a portable unique identifier for each broker and introducer/referrer

Introduce a 'register' of brokers and reference checking protocol for moves between aggregators or from lender to aggregator

Industry to introduce systems to use identifier against all loans lodged at the lender level

# Supportive Treasury commentary

- ▶ **Positive developments**- “The CIF proposals are positive developments which Treasury welcomes”
- ▶ **Could address misconduct** - “...the industry is progressing reforms that could address the most significant misconduct with the current remuneration model...”
- ▶ **Case by case** - “...conflicted remuneration prohibitions should not automatically apply to all intermediaries...”.
- ▶ **Narrower relationship** - Mortgage brokers have a narrower relationship than financial advice and potential conflicts are more limited in comparison to financial advice
- ▶ **Risk of diminishing broker activity** - “If mortgage broking activity diminishes, this could have a significant detrimental impact on competition in the mortgage market. The potential beneficiaries of any lessening of competition would be the major banks with established branch networks.”
- ▶ **Treasury view** - “For mortgage brokers and life insurance brokers, given the potential downsides of an immediate prohibition, consideration could be given to allowing ASIC to first evaluate the effect of recent and current reforms before using its powers to intervene further if needed.”