combined industry forum

Australian Banking Association

MFAA MORTGAGE & FINANCE ASSOCIATION OF AUSTRALIA

FBAA

CUSTOMER OWNED BANKING ASSOCIATION

AFIA Australian Finance Industry Association

What is the Combined Industry Forum?

In response to the ASIC Report and the third party recommendations of the Sedgwick Review the CIF was established.

7 guiding principles:

- Support a co-regulatory approach and, to the extent possible, support industry self-regulation;
- Have better consumer outcomes at the centre of its approach;
- Ensure appropriate transparency of process for industry participants, government and consumers;
- Promote competition at all levels of the industry;
- Not aim to change the structure of the industry or unfairly disadvantage any part of the value chain;
- Promote simple and achievable solutions; and
- Seek solutions that can be applied in all jurisdictions and that take account of the needs of metropolitan, regional and country areas.

Who are members of the Combined Industry Forum?

Industry bodies

- Australian Banking Association
- MFAA
- FBAA
- Customer Owned Banking Association
- AFIA Australian Finance Industry Association

Aggregators

- Aussie
- Mortgage Choice
- nMB
- connective
- Loan Market
- choice Aggregation
- YBR Group Lending YellowBrickRoad Creating smarter loan solutions
- AFG
- PLAN Australia
- Astute
- FAST Stay Ahead

Lenders

- Bank of Queensland
- Suncorp
- Heritage Bank People first.
- AMP
- cua Life rich banking
- Liberty
- nab
- Bendigo and Adelaide Bank
- me
- ING How banking can be
- Virgin money
- pepper money
- ANZ
- resimac
- HSBC
- Macquarie Bank

Broker Groups

- Foster Finance
- smartmove professional mortgage advisors
- BeckMitch Consulting
- DIVITIS Finance & Mortgage Broking
- lendi Your home for home loans
- tailored lendingconcepts finance brokers & consultants

Combined Industry Forum (CIF) reforms

1. Changing the standard commission model
2. Moving away from bonus commissions and payments
3. Moving away from soft dollar benefits
4. Clearer disclosure of ownership structures
5. Establishing a new public reporting regime
6. Improving the governance and oversight of brokers

What was proposed by the CIF ?

Good Customer Outcomes:

"The customer has obtained a loan which is appropriate (in terms of size and structure), is affordable, applied for in a compliant manner and meets the customer's set of objectives at the time of seeking the loan."

Customer First Duty:

"I place your interests first in my dealings with you. In doing so, I will ensure I recommend a loan which is appropriate (in terms of size and structure), is affordable, applied for in a compliant manner and meets your set of objectives at the time of seeking the loan."

Changing the standard commission model to reduce the risk of poor customer outcomes

Reforms

Industry to adopt remuneration principle to avoid financial incentives that may encourage consumers to borrow more than they need or will use, and to discourage large initial offset balances.

Generally, funds drawn down would be measured and commission paid on initial settlement, and at a later point in time for subsequent drawn down amounts, up to the maximum facility limit.

Upfront commission to be paid on a utilisation basis, i.e. amount drawn down net of offset	AND	**Trail commission to be paid on amortised drawn down amount net of offset or facility utilised**	AND	**Clawback to remain part of the standard commission model**

Implementation by **end 2018**

Moving away from bonus commissions & bonus payments which increase the risk of poor customer outcomes

Reforms

Ceasing volume bonus and campaign bonus to brokers and aggregators

Ensuring lender financial assistance to aggregators:

- Supports compliance, education and training, and
- Is not based on volume

Cease discounted aggregation from writing white label product

Implementation by **end 2017**

Moving away from soft dollar benefits which increase the risk of poor customer outcomes and can undermine competition

- Specific areas considered: Tiered Servicing (Broker clubs)

Reforms

Access to Tiered Servicing to be based on balanced scorecard aligned to Good Customer Outcomes

Broker to disclose access to tiered service models when recommending a product from that lender

Remove access to preferential customer discounts or additional payments/commissions

Implementation by **end 2018**

Moving away from soft dollar benefits which increase the risk of poor customer outcomes and can undermine competition

- Specific areas considered: Conferences / Professional Development events

Reforms

Professional development and most education to be available to all brokers

All conferences and PD events must be educationally focused (min. 80% education content)

Locations must be business appropriate and not likely to cause reputational harm to the industry

Access to additional education opportunities should be based on a balanced scorecard excluding volume

Implementation by **end 2018**

Moving away from soft dollar benefits which increase the risk of poor customer outcomes and can undermine competition

- Specific areas considered: Entertainment and Hospitality

Reforms

Capping entertainment or hospitality benefits from lenders to $350 per broker, per event

Aggregators will not determine eligibility for benefits, wholly or partly, on volume written with any one lender or white label product

Lenders, Aggregators and Brokers will maintain a record of benefits (given or received) > $100 to be kept current, advertised in the credit guide and monitored by Aggregators

Entertainment and Hospitality excludes professional development and events with > 80% education

Sponsorship opportunities to an aggregator event should be made available to the entire lender panel

Implementation by **end 2018**

Clearer disclosure of ownership structures within the home loan market to improve competition

Reforms

Final design of ownership disclosures will be consumer tested to ensure the disclosure assists consumers to make informed choices about where to get their loan

Disclosure required if 'Significant Influence':

- Ownership is 20% or greater, or
- Where ownership is less than 20%, a board seat is held or a white label product is offered

Disclosure requirements should extend beyond mortgage brokers

Disclosure should be included in marketing material, digital formats and at all distribution points

Implementation by **end 2018**

Establishing a new public reporting regime of customer outcomes and competition in the home loan market

Reforms

Final design of public reporting to be designed in consultation with ASIC and consumer tested.

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

Brokers to publish to customers information relating to preferred lenders

Implementation by **end 2019**

The industry needs to improve the governance and oversight of brokers by lenders and aggregators

Reforms

A Governance Framework for documentation of customer requirements and objectives, improved monitoring and supervision, identification of issues and continuous improvement. The framework consists of:

- **Requirements & Objectives guide**
- **Key Risk Indicators**
- **Unique identifiers**
- **Annual reviews of Aggregators**
- **Remediation**
- **Customer feedback and shadow shopping**
- **Reporting and ongoing review**

Staged implementation up to **end 2020**

Governance and 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:

% of portfolio in Interest Only	**Arrears – 90+ days**	**“Switching” in first 12 months**
level of customer complaints	**Poor post-settlement customer survey**	**Deficiencies found in Requirements & Objectives**

Governance and 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

Thank you

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industry
forum