

Processing Productivity

An analysis of the potential cost savings should a national electronic conveyancing system become fully operational



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1 Introduction

The manual handling of documents in the Australian mortgage settlement process remains the biggest hindrance to mortgage settlement efficiency.

All parties involved in the mortgage industry from brokers to lenders and conveyancers, and ultimately the borrower, not only want but need a more time efficient process, with more transparency between parties regarding the status of a mortgage application and resulting conveyance.

The first home buyer demand spike starting in late 2008, continuing through 2009 further highlighted the need for a settlement efficiency review. The mortgage application process was not scalable, therefore the increased demand pushed out the timeline for the complete mortgage approval process.

This volume jump further highlighted the bottlenecks in the settlement process, especially frustrating brokers with ever extending mortgage application timelines, as lenders focused on internally originated loans first.

LIXI 2009 white paper: focus

LIXI engaged financial intelligence firm brandmanagement with the primary objective to help them understand:

- The potential cost or time changes for a major lenders mortgage settlement, should a national electronic conveyancing system be fully operational with full take-up
- Major benefits for different industry participants if the mortgage settlement process was to be improved

Secondary objectives include information on:

- Projects underway, or being considered by the major lenders, to improve the home loan settlement process internally
- Views on the performance of LIXI representing members, including communication, areas for improvement and the major benefits of membership

This paper will focus solely on the mortgage settlement cost changes.

2 Methodology

Two main information sources were used for the LIXI 2009 white paper, with the first a series of interviews with senior personnel ranging from major lenders, to brokers, software providers and industry bodies involved in the Australian mortgage settlement process.

Secondly, a survey was established and invited both LIXI and non-LIXI members to participate in providing their view on the potential cost or time changes should a national electronic conveyancing system be fully operational in Australia. In addition, this survey allowed respondents to provide feedback on the operations of LIXI.

To collate the opinions of different parties involved in the Australian mortgage settlement process, respondents were asked to identify which part of the industry they represent.

These included:

- Lending
- Software or Service Provider
- Valuation
- Mortgage Insurance
- Solicitor or Conveyancing
- Mortgage Broking or Aggregation
- Document Management
- Government Department
- Industry Body

A major focus for the survey was to collate information from different groups estimating the average settlement cost, including re-work, from the Mortgage Preparation step through to Registration, for a major Australian lender.

The next step then considered if a national electronic conveyancing system was fully operational, would this cost change.

3 Summary of major findings

- Lenders interviewed for this research paper had a very similar estimation for the internal mortgage settlement cost for a major lender, with non-lender groups having a much higher cost estimation
- All lenders interviewed mentioned internal re-engineering projects are underway to improve some part of the home loan settlement process, with the biggest internal project time frame estimated to be between two and five years
- With lenders already conducting internal mortgage efficiency projects, the emphasis for the cost savings of a national electronic conveyancing system becomes less important, as internal lender cost efficiencies generated would provide a competitive advantage over other lenders

General opinion on a national electronic conveyancing system

- Opinion on a national electronic conveyancing system is varied, with some respondents saying there will be no cost savings for major lenders, while the majority consider a cost saving towards 20 per cent is achievable from the Mortgage Preparation step to Registration
- Non-lender groups had a higher cost saving estimation from a national electronic conveyancing system, with the group Mortgage Broking and Aggregation averaging 30 per cent and Software or Service Provider group 40 per cent. These groups also had a higher cost estimation for the major lender internal settlement cost

A national electronic conveyancing system and mortgage re-work

- The Stamping and Registration steps potentially could be straight through processed with a fully operational national electronic conveyancing system
- Lenders agree re-work is required in the region of 20 to 33 per cent of all loans from the Mortgage Preparation stage to Registration, with some of this re-work quick and inexpensive to conduct
- A national electronic conveyancing system potentially could remove up to a third of re-work required from the Mortgage Preparation step to Registration
- Levels of re-work are dependent on the lenders definition of the process, and are quite likely to be due to factors other than data, input accuracy or completeness

4 Economics of adoption

Research gained from the interview process identified the average major bank internal lending cost to be \$450, including re-work, from the Mortgage Preparation stage to Registration, approximately in line with analysis from the LIXI 2008 white paper 'Enabling Efficiency'.

Interviewees estimated an average cost saving of 15 per cent per loan settlement should a national electronic conveyancing system be fully operational with full take-up.

With an average loan settlement of \$450, and the national electronic conveyancing system estimated cost savings of 15 per cent, a loan settlement potentially could be \$68 less, or \$382.

A \$45.8 million cost saving has been calculated using the above metrics, if a national electronic conveyancing system had been fully operational for the year to June 2009, for all residential loans in Australia.

Figure 1 – LIXI national electronic conveyancing system Working Model

	Mortgage Preparation	Booking	Settlement	Stamping	Registration	Total
Average time taken (Hours)	5	1	1	1	1	
Average internal cost (\$'s)	\$48	\$48	\$48	\$48	\$48	
Average settlement costs	\$240	\$48	\$48	\$48	\$48	\$432
Average re-work time (Hours)	1					
Average re-work cost (\$'s)	60					
Average re-work costs	\$60	\$0	\$0	\$0	\$0	
Average re-work frequency	30%					
Average re-work cost (all loans)	\$18	\$0	\$0	\$0	\$0	\$18
Average loan settlement						\$450
Electronic conveyancing estimated change						-15%
Loan settlement under electronic conveyancing						\$382
Electronic conveyancing potential saving per loan						-\$68
Total mortgage settlements, FY09						678,457
Potential savings with electronic conveyancing, FY09						-\$45,795,848

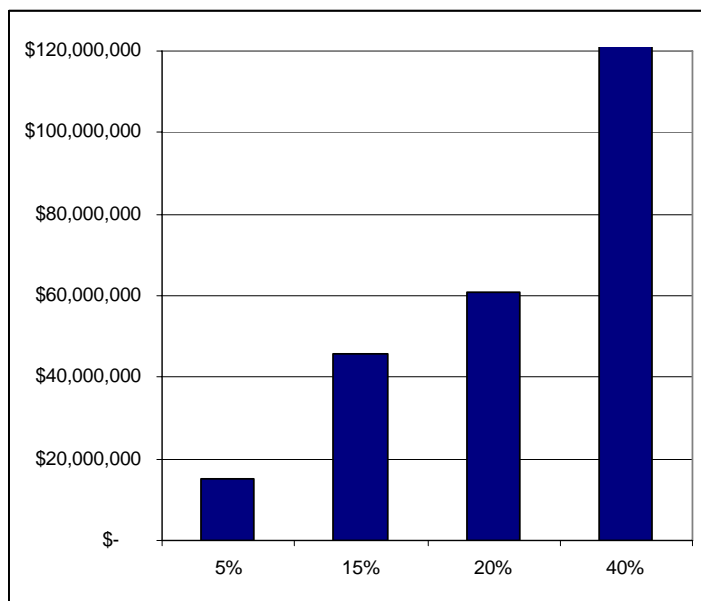
A national electronic conveyancing system cost savings variances

Using the above model, if a national electronic conveyancing system was able to make greater savings to the internal cost of a lender, then the likelihood of the major lenders allocating funding and human resources would increase dramatically.

Some respondents involved in this research considered a national electronic conveyancing system could save up to 40 per cent, which would equate to a potential cost saving of \$122 million for all lenders during financial year 2009.

Others considered a 20 per cent saving, which would equate to \$61 million for the same period, with lower end estimates of 5 per cent, or a \$15 million saving.

Figure 2 – Estimated national electronic conveyancing system cost savings with full take-up, financial year 2009



A national electronic conveyancing system major lender business case

Banks operating in Australia, both Australian-owned and foreign, increased the outstanding value of residential lending by \$104 billion to \$932 billion, for the year to June 2009.

Two lenders accounted for the majority of the increase.

Commonwealth Bank increased outstanding residential lending by \$49.1 billion to \$260 billion (Bankwest contributes \$5.3 billion) with Westpac Bank increasing \$37.8 billion to \$242 billion over the same period (St. George contributed \$6.7 billion).

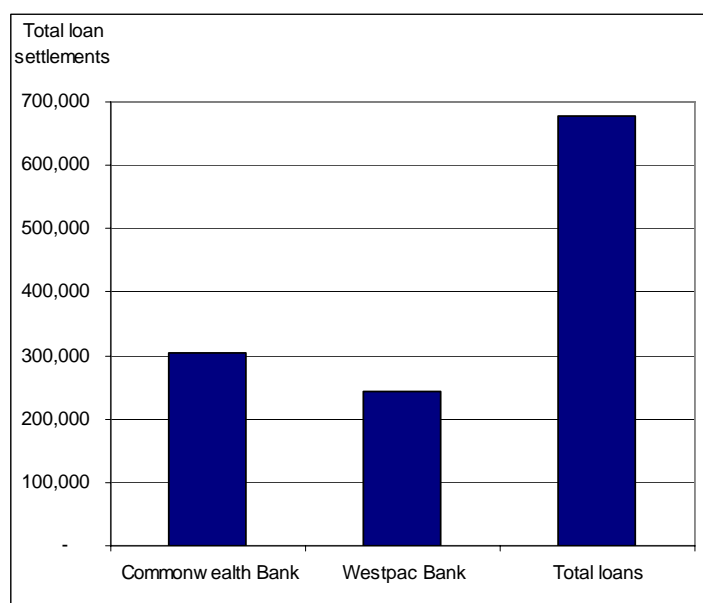
- Commonwealth Bank 47% (45% after removing \$2.25 billion GE Capital purchase)
- Westpac Bank 36%

With the one assumption that lending growth by value would equate to lending growth by volume, then the following total mortgage settlements for financial year 2009 can be calculated.

Figure 3 – Total mortgage settlements, financial year 2009

Total loans, year to June 2009	678,457
Commonwealth Bank share (45%)	305,306
Westpac Bank share (36%)	244,245

Figure 4 – Total mortgage settlements, financial year 2009



A major lender national electronic conveyancing system saving of 15 per cent

With Commonwealth Bank settling around 45 per cent of mortgages during financial year 2009, and Westpac Bank around 36 per cent, then these two major lenders would benefit most from a fully operational national electronic conveyancing system.

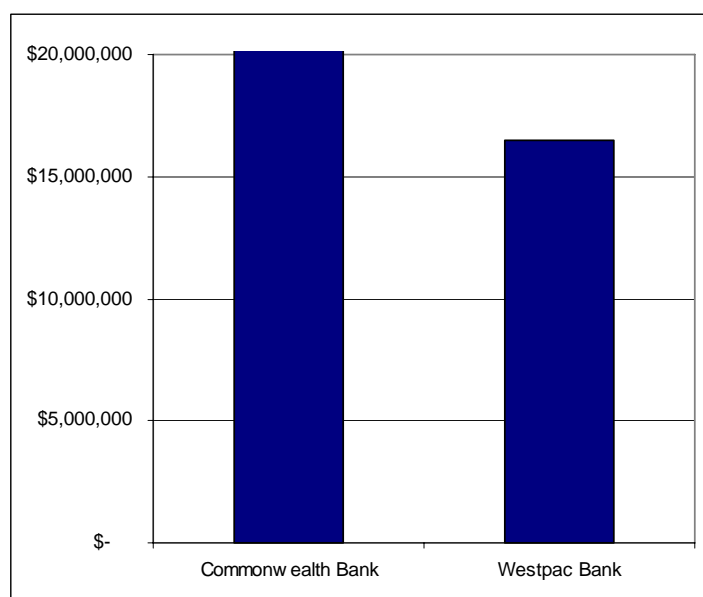
Annual cost savings exceeding \$20 million for Commonwealth Bank and above \$16 million for Westpac Bank could therefore be made.

If these two major lenders were to support the adoption of a national electronic conveyancing system, then all lenders could potentially reduce their average mortgage settlement cost by using the system.

Figure 5 – CBA and WBC projected annual cost savings, financial year 2009

Electronic conveyancing potential saving per loan	-\$68
Total mortgage settlements, FY09	678,457
Potential savings with electronic conveyancing, FY09	-\$45,795,848
Total loans	
Commonwealth Bank share (45%)	305,306
Total loans	
Westpac Bank share (36%)	244,245
Lender annual cost saving	
Commonwealth Bank share (45%)	-\$20,608,131
Lender annual cost saving	
Westpac Bank share (36%)	-\$16,486,505

Figure 6 – CBA and WBC projected annual cost savings, financial year 2009



A national electronic conveyancing system repayment timeline

For a major lender to become fully 'national electronic conveyancing system compliant', significant internal funding would need to be allocated.

This research adopted a bank investment of \$70 million, which was at the upper end of estimates collected during the research interview process. However, given the potential cost savings, this investment could be recouped very quickly.

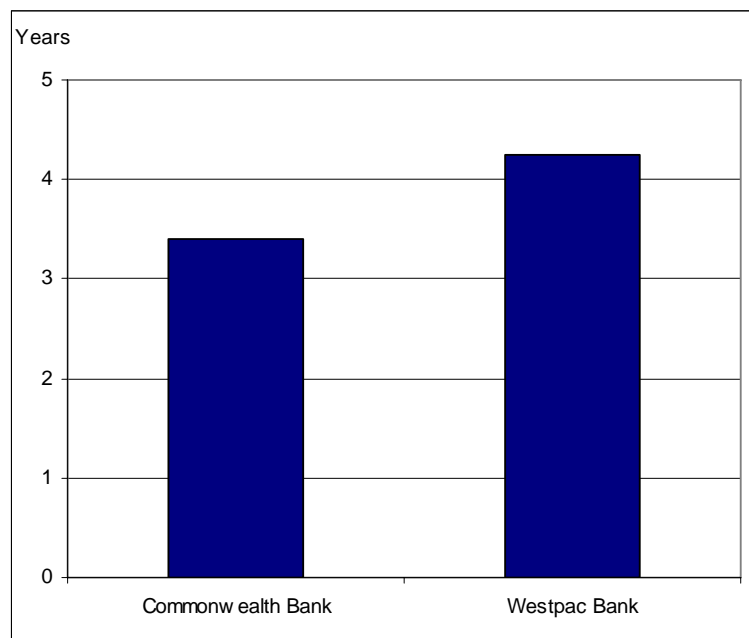
Based on mortgage loan volumes from financial year 2009, Commonwealth Bank (3.4 years) and Westpac Bank (4.2 years) would be able to repay a \$70 million investment in establishing internal structures to be fully compliant.

Once the establishment costs are repaid, the two major lenders would not only have a reduced internal settlement cost, but also a more efficient process.

Figure 7 – CBA and WBC potential repayment timelines

Electronic conveyancing fully operational bank investment	\$70,000,000
Commonwealth Bank year repayment	3.4
Westpac Bank year repayment	4.2

Figure 8 – CBA and WBC potential repayment timelines



5 Incidental cost savings

The LIXI national electronic conveyancing system Working Model considered actual potential cost savings for a major lender from the Mortgage Preparation step to Registration.

An additional benefit which is difficult to attribute specific cost savings is the ability to build better communication between parties in the mortgage processing industry. This will ultimately enable the parties to provide a better service to the end user, the borrower.

Interview comment, conveyancer;

The problem is the conveyancer has no idea as to the status of the booking, due to the lack of communication. The communication shortfall may be due to the lender not deeming the task important, with the problem continuing to deteriorate due to increased lender volumes, and potentially staff reductions due to internal cost cutting.

A national electronic conveyancing system would theoretically solve the communication problem between the lender and the conveyancer, as both parties would be able to login to review the status of the mortgage settlement in the booking process.

A conveyancer may not always know which lender is being used, such as broker originated mortgages.

If for instance there was a booking problem, the conveyancer would have to go back to the broker, and then the broker to the lender.

This is all very time consuming, with this research identifying there is often a on hold time delay when calling the lender of up to 20 minutes, which could be solved if a conveyancer could simply log into a national electronic conveyancing system to review the settlement status.

With this system, improved communication is built between the conveyancer and the lender, and the conveyancer and the borrower, creating a vastly more efficient and streamlined process.

Interview comment, broker group / aggregator;

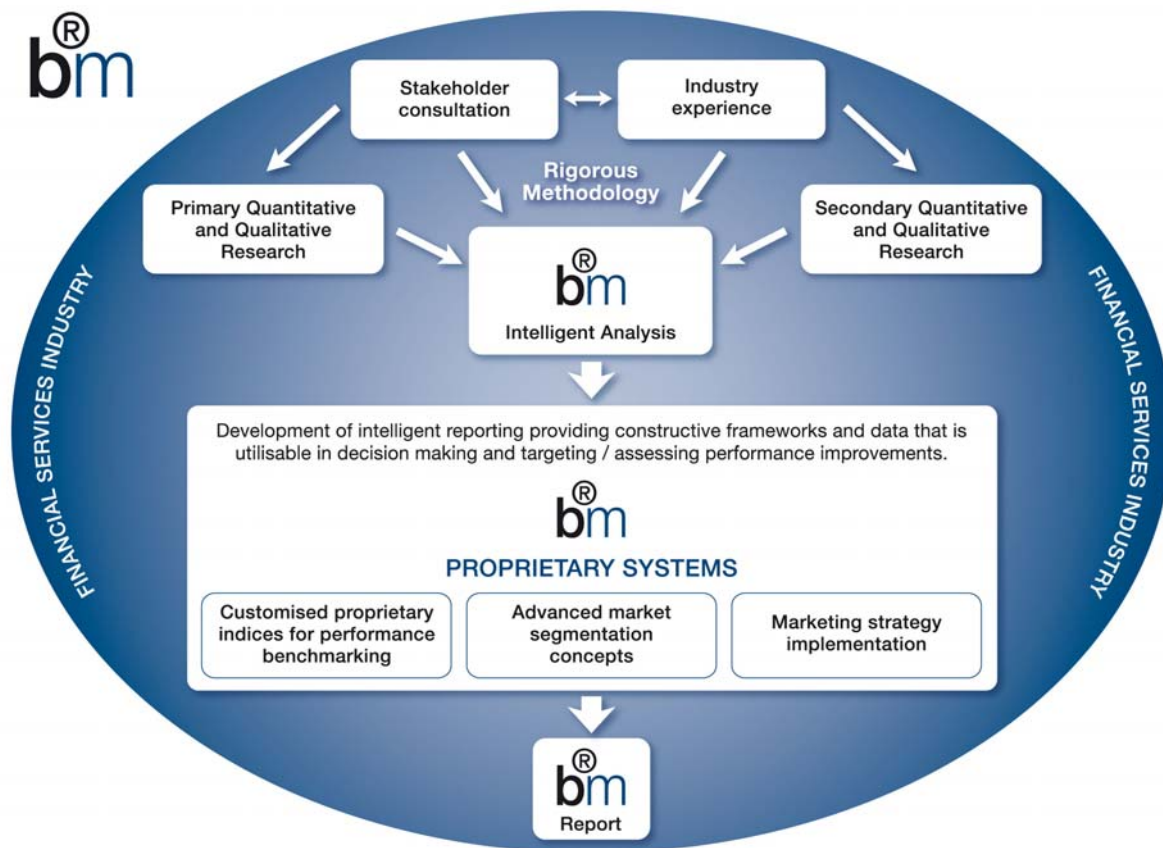
A national electronic conveyancing system is essentially not very important for brokers or aggregators, with the main potential benefits in the customer experience, and potentially having mortgage commissions paid quicker.

The 'customer experience' mentioned is essentially being able to provide feedback to the borrower on the status of their application, and although not a cost saving that can be easily measured, the increased communication causes less communication back to the bank, therefore reducing mortgage status enquiries.

6 Conclusion

Universally it is agreed by parties involved in the mortgage settlement process that a fully operational national electronic conveyancing system would in some way improve the mortgage settlement process, either through time and cost efficiencies, or simply from the ability to obtain borrower mortgage status information in a timely manner.

For the major bank lenders to embrace this, they need to be convinced that the above stated cost savings can be made annually, and that this cost saving would be greater than the internal costs and resources that would have to be allocated to effectively become 'national electronic conveyancing system compliant'.



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The group's research is not just about information and data but at providing insight so clients can develop strategies that work.

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