CUSTOMER OWNED BANKING ASSOCIATION

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30 June 2017

Manager
Financial Services Unit
Financial System Division
The Treasury
Langton Crescent
PARKES ACT 2600

Via email: consumercredit@treasury.gov.au

Dear Manager

ASIC Review of Mortgage Broker Remuneration

COBA welcomes the opportunity to comment on ASIC's Review of Mortgage Broker Remuneration.

COBA accepts with the Review's findings that current mortgage broker remuneration arrangements and ownership structures can create conflicts of interest that may contribute to poor consumer outcomes. The Review made a number of proposals, including to:

- improve the standard commission model for mortgage brokers
- move away from bonus commissions and soft-dollar benefits
- increase the disclosure of mortgage broker ownership structures, and
- improve the oversight of mortgage brokers by lenders and aggregators.

COBA sees significant merit in these proposals and notes widespread stakeholder support for their implementation.

Industry has already begun a process to ensure that incentives and governance arrangements are aligned with good outcomes for customers in response to the Review. On 14 June 2017 representatives from the mortgage industry, the Australian Bankers' Association, the Mortgage and Finance Association of Australia, the Finance Brokers Association of Australia and COBA held a discussion forum with key industry participants including bank and non-bank lenders, aggregators and brokers to progress reform. (See attached joint media statement.[1])

Forum participants are committed to work in consultation with Treasury and Government stakeholders on an industry led response to the Review.

Promoting consumer choice and competition

Mortgage brokers play a critically important role in the home loan market. In 2015, 54.3 per cent of all home loans were arranged by brokers. Mortgage brokers can help

[1] http://www.customerownedbanking.asn.au/media-a-resources/media-release-alerts/1242-mortgage-industry-comes-together-to-progress-asic-proposals

consumers find the right home loan product and lender, help in navigating the home loan application process and promote consumer understanding.

Brokers can also increase competition in the home loan market as they provide an important distribution channel and help lenders enter new markets.

Brokers are an important partner for our sector. Smaller lenders, like customer owned banking institutions, can use brokers to reach a much wider market.

However, the Review found that competition in the home loan market is affected by the limited ability of some lenders to access and remunerate brokers[2]. This includes access to aggregator panels by smaller lenders.

ASIC found that on average, the aggregators in their review had 29 lenders on their panels but broker businesses used four preferred lenders, which received 80 per cent of loans (by value)from that business[3]. This indicates that brokers are more likely to send loans to a small number of lenders.

Customer-owned banking institutions also appeared in far fewer aggregators' panels. While this reflects a number of factors (including costs and limited resources, and willingness to use brokers) the Review also notes that some aggregators may prefer to deal only with larger lenders.

Reduced access to aggregators' panels for customer-owned banking institutions makes it harder for them to compete. Without adequate access to aggregator panels, consumer choice is also reduced as consumers are presented with fewer options and they may not be presented with the option that best suits their needs.

The Review's proposal 5, a new public reporting regime, could help remedy this problem.

If implemented, this new regime would see public reporting of the distribution of loans by brokers between lenders to give consumers a better indication of the range of loans that brokers within the network offer.

Disclosure of mortgage broker and aggregator ownership structures

ASIC found that the ownership of aggregators by lenders is affecting loan flows in the home loan market, particularly if the aggregator also sells white label loans funded by the owner/lender. Additionally, the combination of an ownership relationship with a white label arrangement may result in higher than average loan flow between related aggregators and lenders compared to all aggregators[4].

This may have a detrimental impact on consumer choice and competition as consumers may not be fully aware of who they are dealing with.

To overcome this we support moves for clearer disclosure of ownership structures. We support Proposal 4 in the report that will require all industry participants to more clearly disclose their ownership structures[5]. This will give consumers all the necessary information to make an informed choice.

COBA supports the Review's proposal that clearer disclosure of ownership structures should extend beyond mortgage brokers and apply to all players in the home loan distribution chain, including lenders, aggregators, and brokers. Clearer disclosure

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[2] ASIC, *Review of Mortgage Broker Remuneration*, page 17.
[3] ASIC, *Review of Mortgage Broker Remuneration*, page 150.
[4] ASIC, *Review of Mortgage Broker Remuneration*, page 153.
[5] ASIC, *Review of Mortgage Broker Remuneration*, page 25.

should occur in marketing material and at all distribution points (e.g. websites and physical premises).

Remuneration structures

ASIC made a number of observations about the remuneration of brokers and aggregators, including that commission structures could lead to poor consumer outcomes and conflicts of interest[6].

The Review also found that remuneration structures affect competition.

> "The reduced access to aggregators' panels by customer-owned banking institutions is compounded by the fact that, even where a smaller lender is on an aggregator's panel, remuneration structures—in particular bonus commissions and soft dollar benefits—make it hard for smaller lenders to compete with larger lenders. We found that volume-based commissions (i.e. above the standard commission payments) are generally paid by larger lenders and that the main broker clubs are also provided by larger lenders."[7]
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> "Like other types of loyalty programs, membership of broker clubs can be tiered (e.g. silver, gold or platinum membership—much like an airline frequent flyer program) according to how much business a broker directs to a lender. This further exacerbates a broker's conflicts of interest. The types of benefits that brokers receive in broker clubs include improved service levels from the lender, better commission rates and access to hospitality."[8]

In response, ASIC has made the following proposals in respect of commissions:

- improvements to the standard commission model should be made to reduce the risk to consumers of being placed in larger loans than necessary
- that industry move away from bonus commissions and bonus payments, and
- that industry move away from soft dollar benefits.

COBA supports an industry led approach to respond to these proposals and the underlying concerns. As noted above, industry has already begun a process to ensure that incentives and governance arrangements are aligned with good outcomes for customers in response to the Review.

If you wish to discuss any part of this submission please contact Alex Thrift at athrift@coba.asn.au or on (02) 8035 8447.

Yours sincerely

LUKE LAWLER
Head of Public Affairs

[6] ASIC, *Review of Mortgage Broker Remuneration*, pages 11-13.
[7] ASIC, *Review of Mortgage Broker Remuneration*, pages 20
[8] ASIC, *Review of Mortgage Broker Remuneration*, pages 12