connective

30 June 2017

Manager
Financial Services Unit
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The Treasury
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By email: consumercredit@treasury.gov.au

Dear Minister O'Dwyer

Re: Report 516 - Review of mortgage broker remuneration

1. This is a submission in response to Report 516 '*Review of mortgage broker remuneration*' dated March 2017 (the **Review**).

2. Connective is Australia's leading home loan aggregator, with approximately 20% of all home loan brokers in Australia utilizing our services and 1 in 10 home loans being written by a Connective broker. This places Connective in a unique position where we see both the daily efforts brokers take towards servicing the needs of consumers within the requirements lenders prescribe, and how those lenders remunerate, the broker industry for those services.

3. Connective is pleased that ASIC expressly recognizes the very important role brokers play in the home loan market. As per the Review, brokers were responsible for arranging 54.3% of all home loans in Australia in 2015. Ensuring the strength of the mortgage broking market is critical in promoting strong competition in the home loan market which should lead to continued good consumer outcomes.

4. From that perspective, we must ensure that any changes which arise from the findings and proposals set out in the Review do not diminish the benefits a strong mortgage broking market provides consumers and the home loan market generally.

Observations regarding the Key findings set out in the Review

5. Connective recognizes the extensive amount of work ASIC has completed in order to produce the Review which concludes with 13 key findings leading to six proposals.

6. However, we do not necessarily agree with all of ASIC's findings and conclusions made in the Review. In certain findings, we believe that ASIC has sought to draw conclusions from the data collected without necessarily considering whether there are alternative explanations or factors which drive that data; explanations and factors that possibly are unrelated to broker remuneration or the behavior of the broker industry.

7. ASIC acknowledge that the standard under current law is that brokers (and lenders) are required to ensure that loans recommended to a consumer be "not unsuitable". However, they have sought to approach their review of broker remuneration from the perspective of consumer outcomes, which ASIC acknowledges is a broader concept.

8. Connective has strong concerns with this approach as we do not understand exactly what amounts to a "good consumer outcome" and similarly, what is a "bad consumer outcome". This is problematic as without a clear understanding as to what these concepts mean, the findings in the Review are essentially based on the subjective opinion and supposition of the author.

9. We believe a good consumer outcome is one that has been arrived at in conformance with the responsible lending principles prescribed by the *National Consumer Credit Protection Act 2009* (Cth) and further expanded by various ASIC regulatory guides. The responsible lending obligations are clear, well understood within the industry and capable of being followed and enforced. Any attempt to define consumer outcomes as something more than this (ASIC expressly states in the Review that they believe consumer outcomes is a broader concept than "not unsuitable") is potentially dangerous especially if the debate drifts to a point where a "good outcome" is a proxy for "cheapest" or "best".

10. From our perspective, the currently regulatory framework is already sufficient and does not require change or supplementing with additional standards. We believe all that is required at this stage is enhanced supervision and regulatory scrutiny of the industry's compliance with these responsible lending obligations. The Review seems to abandon the existing responsible lending framework, instead seeking to solve a poorly defined problem with an impossible to implement solution.

11. In addition, the Review was based on data from 2012-2015, which is not necessarily reflective of the industry today. Over the past couple of years, practices and behaviors of the industry have evolved as a result of increased regulatory guidance and scrutiny. These changes would not be reflected in the data ASIC has based the Review on and implementing changes based on that data may be attempting to solve concerns that no longer exist.

12. Connective strongly discourages introducing wholesale changes to broker remuneration at this stage as such changes may not actually result in better consumer outcomes (however that is defined). Although certain changes could arguably remove some of the perceived conflicts ASIC have identified in the Review, we are concerned there is a risk that any such changes could result in unintended negative consequences for the competitiveness of the industry and ultimately, less favorable consumer outcomes.

13. We agree with ASIC's view that a further review be conducted in three to four years' time, with a focus on the impact of the greater reporting requirements and stronger co-operation and co-regulation amongst the key stakeholders in the industry (being ASIC, lenders and aggregators) proposed by our submission. Depending on the data collected at that stage, ASIC can then make a more informed decision as to whether broader changes are necessary including with regards to broker remuneration.

14. Prior to responding to each of ASIC's proposals, we believe it is important that we first set out our observations regarding some of ASIC's key findings.

Finding 1: The standard commission model is almost universal

15. Although we do not disagree with the broad sentiments of Finding 1, there are a

number of comments made by ASIC which we do not necessarily agree with. It is important to point out these areas as although they are not always definitive statements by ASIC, they do create an inaccurate impression of the home loan broking industry.

16. Examples of areas where we disagree include a statement by ASIC that the standard model of upfront and trail commissions creates conflicts of interest. These conflicts could possibly be inferred from how the standard commission model works but we do not believe that ASIC has presented sufficient evidence that such perceived conflicts directly cause bad consumer outcomes or result in a consumer entering into a loan which is not "not unsuitable" for their needs.

17. There are many reasons why a broker recommends one product to a consumer over another. To identify that this choice is due to a conflict in the remuneration structure is not accurate and fails to recognize other valid reasons for that choice.

18. An example where we believe ASIC has focused on one of possibly many explanations is in paragraph 31 of the Review. In the context of stating the remuneration structure causes conflicts of interest, ASIC state that they found that "*loans provided through the broker channel are on average larger and have a higher loan-to-valuation ratio*". We strongly disagree with the implication ASIC makes that brokers routinely advise consumers to borrow higher amounts than they need, or assume a more risky loan structure, merely to increase their own remuneration.

19. We do note that in its closing to Finding 1, ASIC does not recommend fundamental changes to the standard commission model until after a further review is conducted in three to four years' time. As mentioned above, this is a position we are supportive of.

Finding 4: Consumers who use brokers are different to consumers who go directly to lenders

20. We see this as the key finding of the Review and the finding which goes furthest in explaining the differences in the data ASIC collected. Our concern is that ASIC did not go far enough in exploring these differences before publishing the Review.

21. ASIC acknowledge that further analysis should be made regarding the differences between consumers going to brokers and those going direct to lenders. Although ASIC has sought to normalize the data to eliminate these differences, we believe it is critical that these differences be further investigated considering much of ASIC's findings are based on this data. Otherwise, these findings are based on assumptions which may not necessarily be true or accurate. This, in turn, would undermine the proposals suggested in the Review as they are based on inaccurate or unjustified findings.

Finding 5: Loans obtained through brokers are larger, and more likely to be interest-only

22. The comments made above regarding Finding 4 directly impact this finding. Finding 5 cannot be considered in a vacuum and it is critical to examine the type of consumer using brokers in order to appreciate whether there genuinely is an issue here to solve or not.

23. We do not dispute that ASIC recognized certain correlations within the data. However, ASIC needs to dig deeper into this issue before implying the reason for this finding is

due to a conflict of interest driven by the structure of broker remuneration. Any such findings would not be appropriate or fair unless ASIC reviewed the individual loan files of a broker and whether in each individual situation, the relevant loan was not unsuitable for that individual circumstance.

24. This is why we advocate the focus be on ensuring brokers are complying with their responsible lending obligations and that they are proactively documenting in a timely manner the reasons why they have recommended a certain loan to a consumer.

Finding 8: For some lenders, loans provided through brokers are more likely to go into arrears than loans provided directly to consumers

25. Although the data ASIC collected may indicate this to be the case (though the difference is lessened following ASIC controlling the data), we believe further analysis is required as discussed above regarding Finding 4 and to consider whether that influences the conclusions reached in this finding in any way. ASIC acknowledges that the profile of customer which uses brokers is different from those that use bank branches but fails to fully investigate what the implication is for this difference in profile.

26. In addition, the Review does not explain how a broker influences loan performance. From our perspective, brokers are obliged by law to comply with their responsible lending obligations and ensure loans are "not unsuitable" for the relevant consumer. This is considered at the time the loan is entered into. Based on the Review, it would seem that ASIC are prescribing a higher standard and introducing an expectation that the broker must continue to monitor the performance of that loan.

27. What does ASIC consider to be a "good consumer outcome" when different consumers have different requirements and expectations. Without further investigation, factors such as percentage of loans that go into arrears cannot be an accurate measure of a good consumer outcome as that fails to take into account the circumstances which gave rise to the customer going into arrears.

28. It is critical that any standard a broker is judged against needs to be based on criteria that a broker can actually control. It would be unfair to judge a broker's performance based on factors outside its control such as the performance of the loan over time (which a broker in the majority of cases has no influence over).

29. When we consider the existing obligations under legislation and ASIC regulatory guidelines, we are unsure what else ASIC expects of brokers when they refer to achieving "good consumer outcomes". Ultimately, is the standard required any different to the current "not unsuitable" requirement when considering the regulatory framework which brokers are subject to? We would strongly advocate that the focus be on how the industry stakeholders can work better together to ensure compliance with the existing regulatory framework, which in turn will drive positive consumer outcomes as opposed to creating a new standard which the industry is unsure as to how best to measure.

30. In relation to ASIC's Finding 8, does a loan going into arrears necessarily equate to a bad consumer outcome in the context of this review of broker remuneration? From our experience, loans usually go into arrears as a result of a change in a consumer's personal circumstances. In addition, what level of responsibility is attributable to the

lender's credit department who is ultimately responsible for approving these loans? Does ASIC have data which evidences a linkage between loans going into arrears and how broker remuneration is structured?

31. Ultimately, do we want a home loan market where the regulator is trying to prevent informed consumers from entering into riskier loans or loans that could have a greater likelihood of going into arrears?

32. Regarding the differences that ASIC have identified in the data relating to brokers versus bank branches, can ASIC definitively prove that these differences indicate behavior of brokers which is not focused on achieving good consumer outcomes? As part of its further investigations, we believe ASIC needs to (and understand it will occur) engage in activities such as shadow shopping before making such conclusions.

Finding 9: Competition in the home loan market is affected by ownership and the limited ability of some lenders to access and remunerate brokers

33. Connective agrees with ASIC's comment that within consumer markets, better outcomes are usually seen where businesses compete with each other by offering the best product or service at the best possible price to the consumers, rather than competing with each other to offer better incentives to the distributors of their products. However, what this finding fails to recognize is that without the broker channel, many lenders will not have any, or a greatly limited, distribution channel by which to compete with larger lenders. Accordingly, any new rules or practices regarding broker remuneration must not have an indirect consequence of reducing this competition amongst lenders (especially in favor of the larger, stronger lenders).

34. We appreciate that there are existing ownership relationships between lenders and aggregators. We believe in transparency and full disclosure and that it is critical that such ownership relationships above a certain threshold are appropriately disclosed to the consumer. In addition, it is critical that certain tools made available to brokers such as product recommendation software need to be unbiased and ensure that products from lenders with relationships with the relevant aggregator do not appear at the top of this software unless due to objective factors.

Finding 10: Lenders provided bigger loan discounts for new loans in 2015 compared with 2012

35. We believe that this finding is directly attributable to the increased competition which brokers bring to the home loan industry. From the data ASIC collected, the percentage of homes loans written through broker channels has increased from 47.7% in 2012 to 54.3% in 2015. Corresponding with brokers' increased share of the home loan market has also been an increase in the total value of home loan completions, which in turn has driven these bigger discounts.

36. We are disappointed that instead of recognizing the value brokers have brought to consumers in driving increased competition which in turn leads to bigger loan discounts, ASIC has highlighted a concern that consumers with existing home loans are not aware of these increased discounts and the ability to refinance their home loan. This is an approach consistent throughout the Review where ASIC has been selective in

its conclusions and not necessarily highlighting areas where the data clearly shows the value of brokers to consumers.

37. Any changes to broker remuneration or how brokers are regulated needs to be carefully considered to ensure they do not have the effect of reducing competition, which in turn could affect the size of these loan discounts and requiring the consumer pay more for their home loans.

General comments regarding ASIC's findings

38. There is already a significant regulatory framework which brokers are subject to. These primarily relate to responsible lending, managing conflicts of interest and acting efficiently, honesty and fairly. We appreciate that ASIC has been requested to investigate a specific area of the industry, being broker remuneration and how it is structured.

39. If the goal is to work towards good consumer outcomes, we believe the best way to achieve this is through better co-regulation amongst the key stakeholders of the industry with an increased focus on enforcing the existing regulatory framework – a framework we believe is already extensive and sufficient. Without examining each individual loan application and the reasons why a broker has recommended that loan to its customer, it is impossible to conclude definitively that it is broker remuneration which causes bad consumer outcomes (however that is defined or measured). Any findings without this review would be incomplete and not necessarily be accurate.

40. Developing greater rigor and accountability around documenting justifications around loan recommendations would be a far more effective way to achieving a strong customer-centric culture within the industry focused on good consumer outcomes than trying to change remuneration structures. We strongly advocate a proactive approach where prevention and development of good practices and behaviors is superior to a reactive approach that seeks to change how brokers are remunerated.

41. Our fear is that the introduction of any changes designed solely to counteract perceived conflicts identified by ASIC may have negative unintended consequences such as encouraging behavior that does not lead to good consumer outcomes or a lessening in competition available to the consumer.

ASIC's proposals

Proposal 1: Improving the standard commission model

42. We note that ASIC has made a number of suggestions as to how the standard commission model could be changed so as brokers are not incentivized purely on the size of the loan.

43. We appreciate that there is potential that the current commission structure of an upfront fee linked to loan value may lead to a broker recommending a larger loan than required to a consumer. However, we believe that alternative commission structures also raise similar issues or perceived conflicts. Examples include:

    (a) Flat fee: if brokers were remunerated solely on a flat fee basis regardless of the size or complexity of the home loan, it could be argued that brokers would prefer working only on straight forward loans requiring minimal effort over consumers with less favorable situations requiring more assistance from their broker. This could potentially hurt the consumers who need broker assistance the most. In addition, this option could also be exploited with brokers splitting one loan application into multiple loans to increase their remuneration.

(b) Upfront fee capped by maximum LVR percentage: often, consumers seeking loans with higher LVRs are first home buyers. Again, would implementing a change of this nature result in brokers refusing, or providing a lesser service, due to the capped commission for these loans? Separately, what would be considered an appropriate cap especially when every consumer's personal situation is unique?

(c) Net utilization: the upfront fee could be calculated based on the amount of loan actually used at settlement. This approach fails to recognize that consumers do not necessarily draw the entire loan at settlement and may require funding subsequently (i.e. construction loans). There may be perfectly valid reasons as to why a consumer may draw a larger than required loan with the surplus deposited in an offset account. It would be unfair to penalize a broker when they have provided the service sought by their client.

Connective does not support any of these alternatives as they are unworkable and each have the potential to lead to other bad consumer outcomes. From our perspective, the option described in paragraph (c) above is the one we have the least objection to although we recommend that further consideration be made before any such changes are considered, let alone implemented.

44. We are concerned on behalf of brokers that banks will use recommendations made in the ABA review conducted by Stephen Sedgwick AO in conjunction with ASIC's findings in the Review to reduce commissions paid to brokers to their profit. It is critical that the focus be on rewarding behavior which drives positive consumer outcomes as opposed to shrinking the funding available to pay brokers for their efforts. As discussed above, this would equate to measuring a broker's performance against their responsible lending obligations. Considering the benefits brokers provide the home loan industry generally as recognized in the Review, we must be very careful to ensure any changes do not hurt the industry which in turn results in a less competitive market for consumers resulting in a less positive outcomes for them.

45. In conclusion, we reiterate our strong support for the standard commission model as the most appropriate manner to remunerate brokers. This is consistent with ASIC's comments in the Review and we welcome revisiting this issue in several years' time after ASIC has refreshed this Review.

Proposal 2: Moving away from bonus commissions and bonus payments
Proposal 3: Moving away from soft dollar benefits

46. In principle, we support these proposals provided they are replaced by bonus or reward payments which are determined by a balanced set of criteria which include behavior which leads to good consumer outcomes. These criteria need to be sensible, workable and do not lead to increased costs for participants in the industry. In addition, there should not be any limits on payments or incentives which are directly for the purpose of

supporting learning and development or other activities which promote or encourage good consumer outcomes.

47. It is important to note that ASIC did not identify in the Review direct evidence where such bonus commissions and payments and other soft dollar benefits led to bad consumer outcomes. Connective appreciates that there could be a perceived conflict interest but from our perspective as an aggregator, we do not believe that the existence of such commissions, payments and benefits actually drove brokers to direct loan applications to certain lenders at their customer's detriment and resulting in an adverse consumer outcome.

48. Due to Connective's fee structure where the greater majority of commissions paid by a lender are passed on to our brokers, any bonus commissions and payments specifically paid by lenders directly to Connective (which are not for distribution to brokers) are critical in funding our learning and development offering (which includes compliance training for our brokers). This offering includes professional development days, on-site small group training sessions, personal site visits by our compliance and business support managers, on-line training modules and a range of publications available to our brokers through a range of platforms. In addition, such payments also finance our supervision and monitoring activities of brokers who are our credit representatives.

49. Our brokers see this offering as critical to their ability to operate their business in a compliant manner.

50. We acknowledge that some changes may be required in how these payments are paid and agree that payment of such commissions and payments should not be calculated purely on volume. We suggest a balanced scorecard be used to determine the quantum of these payments, taking into account factors such as quality of loan application and satisfaction of compliance requirements in addition to volume of loans (which we believe cannot be fully disregarded).

51. It is critical that such criteria be factors which are within a broker's control to incentivize behavior which drives good consumer outcomes. For example, it would not be fair to judge a broker on loan performance or overall timeline for completion of loan application (as that could be delayed by the lender as opposed to the broker). Instead, setting objective requirements which evidence quality of loan application or compliance with responsible lending obligations would be more appropriate.

52. With regards to soft dollar benefits, although ASIC believe these increase the risk of poor consumer outcomes, we believe that these also drive good consumer outcomes in certain cases. Examples include loan applications receiving a shorter turnaround time and brokers having access to greater discounts to the interest rate available to their consumers. Similarly, sponsored education and training events are benefits which encourage responsible lending and good customer service. What is key is to ensure access is not determined solely by loan volumes which is what ASIC perceives as causing the risk of conflict of interest. Similar to volume based payments and incentives, these should be determined by a balanced scorecard.

53. Finally, we are supportive of increased transparency regarding the payments, commissions and other benefits described in proposals 2 and 3. Consumers should be informed as to all factors which may drive a broker's recommendations. Similarly, we

feel that the onus of proof should be on the broker if ever questioned as to the choice of lender – this would increase a broker's focus on ensuring they document their discussions with the consumer and justify their recommendations.

54. Regarding disclosure of these payments and benefits, we are happy to comply with whatever ASIC prescribes.

Proposal 4: Clearer disclosure of ownership structures

55. One of Connective's core principles is transparency. On this basis, we are supportive of this proposal. We suggest that all controlling interests of aggregators be disclosed in credit guides and on websites.

Proposal 5: A new public reporting regime

56. As with our response to *Proposal 4*, Connective is fully supportive of greater transparency generally and is ready, willing and able to implement any reporting regime ASIC proposes. However, when considering what information is to be reported, it is important to ensure that any public reporting actually delivers useful and meaningful information to consumers that drives positive consumer outcomes.

57. Regarding the items ASIC identified in Proposal 5 for public reporting:

(a) *Actual value of remuneration received by aggregators and the potential value if all the criteria for remuneration are satisfied*: we are not entirely sure what ASIC is referring to here. In principle, this would not be something Connective would object to reporting, however we are unsure as to exactly what benefit consumers derive from this information.

An aggregator enters into agreements with lenders who agree to provide the ability to apply for home loans by that aggregator's brokers subject to certain conditions being met. The commissions paid by a lender to an aggregator (which are passed on to the relevant broker) is determined by the relevant lender in its sole discretion. What would be more useful for consumers is disclosure of the commission structure each lender pays to an aggregator. This will allow consumers to understand the level of incentives a broker may earn depending on which lender provides the loan.

(b) *The average pricing of home loans that brokers obtain on behalf of consumers*: again, we query the benefit of this reporting as pricing is ultimately determined by the relevant lender. In addition, reporting average pricing would fail to distinguish who the consumers are which the broker is servicing. Conversely, would banks be required to publish the range of pricing (or the average pricing) they offer their branch customers? We believe ASIC needs to articulate exactly what they are trying to achieve by publishing this data.

(c) *The average pricing of home loans provided by lenders according to each distribution channel*: again, without analyzing the customer base of each lender, this information could be potentially misleading.

(d) *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*: we can see merit in publishing this information. We do query whether this needs to be publicly available. Most of the benefit of this information would be to the actual consumer of that broker.

58. To reiterate our position on this proposal, Connective is supportive of transparency provided any reporting required is meaningful and not an excuse in data collection. Connective is confident that its existing systems are capable to comply with any reporting regime imposed.

Proposal 6: Governance and oversight

59. We are supportive of greater co-regulation (and self-regulation) of the industry. This is a responsibility that needs to be shared by ASIC, the lenders and the aggregators.

60. We do have concerns with certain proposals made in the Review as they do not accurately reflect the actual relationship between lenders, aggregators and brokers and as a result, responsibility for certain actions is not appropriately allocated.

61. In paragraphs 130 and 131 of the Review, ASIC require remuneration structures be aligned with the obtaining of good consumer outcomes. As discussed above, this concept is entirely subjective and undefined currently. Focusing on one element, for example cheapest pricing, is extremely dangerous and fails to appreciate other factors which may be important to the individual consumer.

62. ASIC requires aggregators in paragraphs 133 and 134 of the Review to actively monitor the consumer outcomes being obtained by brokers and broker businesses. Although ASIC list outcomes they would like aggregators to monitor, we are not entirely sure what ASIC expects from this recommendation especially when we are unsure as to what standard to apply.

63. Aggregators do not necessarily have any direct interaction with the consumer. In addition, aggregators cannot influence which brokers lenders choose to accredit (not every broker is accredited to introduce loans to every lender on Connective's panel), nor can aggregators influence which lenders brokers choose to send loan applications to. It would be unreasonable for ASIC to expect aggregators to "actively monitor the consumer outcomes being obtained at a broker or broker business level" in light of the function aggregators currently play in this industry especially when brokers and aggregators do not have access to the reporting and data available only to the lenders to actually be able to monitor the performance of these loans.

64. In addition, we cannot introduce new requirements which has the effect of taking away the freedom of (i) a broker to choose which products to recommend or lender to use, (ii) a lender to decide which brokers to accredit or (iii) an lender as to which aggregator it wishes to contract with (and vice versa). This is a commercial decision each member of the industry should have the right to make in a genuine, competitive and free market.

65. Regarding general governance and oversight, brokers who use Connective as their aggregator fall into one of two categories. They are either credit representatives (**Connective Credit Representative**) operating under Connective's Australian credit licence (**ACL**) or they hold their own ACL (**ACL Holder**). By law, Connective is only

responsible for the actions of Connective Credit Representatives. ACL Holders are directly regulated by ASIC and Connective solely provides an aggregation service to these ACL Holders. As there is no statutory basis on which Connective is responsible for these ACL Holders, Connective practically has far less control or oversight over these ACL Holders. Accordingly, any additional responsibility aggregators are required to assume regarding its brokers must take into account this important distinction.

66. We believe our responsibility is to provide adequate and appropriate training and education for brokers who use our services as an aggregator focused on driving good consumer outcomes. This is coupled with supervision and periodic reviews of broker files to ensure good practices are being implemented (or requiring corrective action if such practices are not occurring). We are already providing this service and continuously strive to improve this service. What ASIC proposes goes far beyond this and we do not believe this is responsibility appropriately sits with aggregators.

67. We note that lenders have the ability to determine, in their sole discretion, which brokers are accredited with them and have the ability to place loan applications. This is not a decision influenced by aggregators. Connective is happy to engage in corrective action or provide further training if we or a lender identifies poor practice by its brokers but it is difficult to understand what ASIC expect aggregators to do with data relating to pricing levels, features, claw backs, and refinancing and default rates.

68. In the event a broker's activity to one lender is heavily skewed, what follow up actions does ASIC expect from that broker's aggregator when the aggregator cannot control who the broker is accredited with, nor who the broker applies for loans from? Is it just a trigger to review that broker's files and investigate that broker's reasons for that behavior? To reiterate, aggregators provide a service to brokers but ultimately, it is the lenders who are responsible for pricing and credit analysis.

69. Finally, we note that these additional requirements proposed by ASIC on aggregators requires additional resources to implement. This is why bonus commissions and payments and other incentives are critical so as aggregators can assume additional responsibility to the extent appropriate.

70. Although we do not entirely agree with ASIC's recommendations, we are strongly supportive of an ethical well regulated industry with a consumer-centric culture. Connective is willing to provide additional training which is focused on compliance with the existing statutory framework including responsible lending obligations. This in turn will hopefully drive the positive consumer outcomes ASIC alludes to in the Review. In addition, we are willing to supervise our broker clients on a risk based approach to ensure continual compliance of requirements, focusing on consequence management in the event of non-compliance. To assist in the effective co-regulation of the industry, we are willing to share data with lenders and ASIC on a regular and timely basis to assist them in their supervisory activities.

71. At the end of the day, what is key though is that all stakeholders assume their fair share of responsibility, and that responsibility is appropriately allocated to the stakeholder most able to control and supervise that aspect.

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Closing comments

72. Connective is appreciative of the time and effort ASIC has undertaken in preparing the Review. What is reassuring is that ASIC do recognize that brokers "*play a very important role in the home loan market*" and that they "*can play an important role in promoting good consumer outcomes and strong competition in the home loan market*".

73. We believe Finding 10 (*Lenders provided bigger loan discounts for new loans in 2015 compared with 2012*) is a key indicator as to the good outcomes brokers are providing their customers and generally, all consumers in the home loan market regardless of which channel they use. Competition has increased and consumers have benefited as a result of better pricing on home loans on average when comparing data from 2012 to 2015. It would be interesting to see whether this continues to improve when ASIC next reviews market data on this point.

74. As we have expressed above, we do not necessarily agree with all of ASIC's findings and proposals. From Connective's perspective, we believe the current regulatory framework applicable to the industry is already sufficient without wholesale change or introducing new standards. The focus really needs to be on all industry stakeholders working together to better ensure that framework is being complied with. This would be a more effective way of driving positive consumer outcomes as compared to changing remuneration structures.

We are happy to make ourselves available to discuss this submission further if required.

Yours faithfully

Per

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