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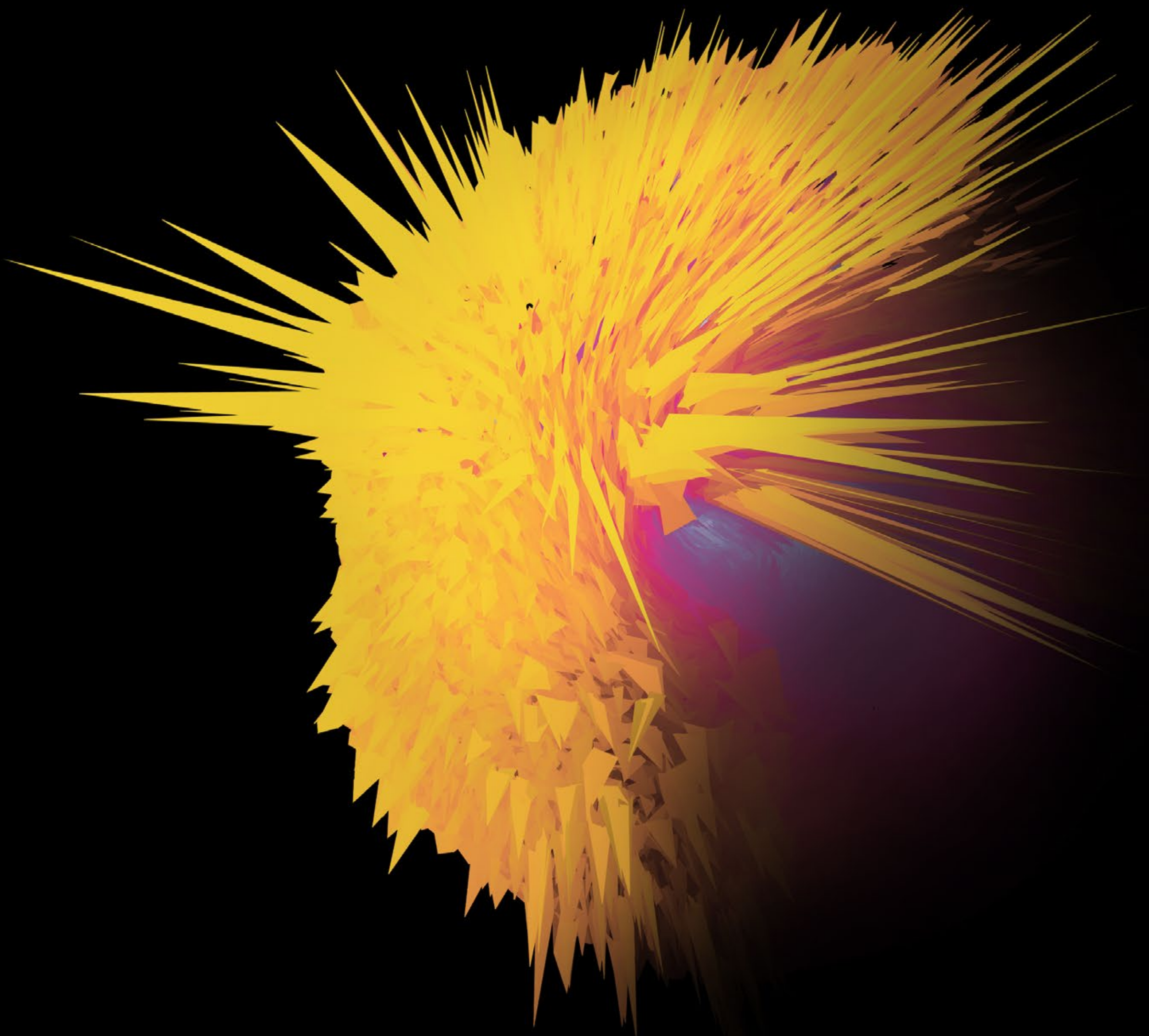


Looking ahead
2020 a new decade

Australian Mortgage Report

Foreword

As we settle into the new decade and following on from the Hayne Royal Commission into Misconduct in Banking, Superannuation and Financial Services Industry, the banking industry is continuing to work through the responses and changes necessary to ensure the Australian banking system remains fair, honest and efficient.

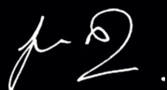
Considering the impact on lenders and brokers of how mortgage services may need to evolve, Deloitte partners and representatives from the nation's biggest lenders and broker groups discuss how the mortgage industry can continue to responsibly help Australian consumers meet their desire to own their own home.

In this year's report Australian mortgage roundtable attendees consider the state of the industry now and into the future, and discuss funding and pricing issues, regulatory focus areas, distribution requirements and innovation.

We hope you find the following discussion and points of view both interesting and useful as the experts share their views on how these forces might play out over the next 12–24 months.

James Hickey

Graham Mott



Heather Baister

Mike Thomas

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Executive summary

Context to 2019
The year 2019 is best described as a year of taking stock for all participants in the mortgage lending sector – for consumers, distributors (brokers) and lenders. It was the first year following the Hayne Royal Commission report. And a year where the market had to consider the significant issues identified and work through the appropriate responses and changes to ensure cases of poor outcomes for consumers were not repeated.

For many lenders, this led to material changes in the way they assessed customer suitability and loan servicing criteria. This impacted both the process time and information requirements placed on brokers and the customer. Many lenders also made conscious decisions to reduce exposure to certain segments of the market in line with revised risk appetite.

The economic conditions of continued low inflation and wage growth also resulted in Reserve Bank official interest rate reductions.

However, rather than stimulate consumer confidence in lending, it seemed that at least initially borrowers increased their savings (or mortgage prepayments), rather than spending or making property purchase decisions. In the capital cities of Sydney and Melbourne such conditions resulted in low or negative price growth through many suburbs over 2019.

And not least, there was a Federal Election in May 2019 which generated uncertainty as it promised a wide range of impacts depending on which party was re-elected.

All these events give useful context to what may have caused a modest 3.7% growth in overall residential mortgage lending and a 7.5% fall in mortgage settlement volumes.

So where to in 2020?
An anonymous survey was sent in advance to the roundtable participants (see below), to canvas their views on the likely outcomes across a variety of aspects around mortgage lending in 2020.

Their responses and discussion form the substance of this report.

From left: *Paul Riley (NAB), Mike Thomas (Deloitte Access Economics), James Hickey (Deloitte), Lisa Nelson (Equifax), Sam White (Loan Market), David Harrys (RACQ), John Campbell (ANZ), Melissa Christy (86 400), Nathan Walsh (Athena), Louise Denver (Deloitte), Susan Mitchell (Mortgage Choice), Daniel Carde (Resimac),Graham Mott (Deloitte), Glenn Gibson (ING), Heather Baister (Deloitte).*

Industry

James Hickey (Deloitte):
Welcome everyone. It is a pleasure to have you with us for our Deloitte Mortgage Report Roundtable which looks ahead to what we can expect in the mortgage lending sector in 2020.

In order to consider the future, it's often beneficial to look at what has happened in the past. To understand where mortgage lending may go in 2020 we have given a brief overview of the major forces that impacted the market in 2019.

A key question is whether those forces will continue to shape the sector into 2020 or whether the market will move in tune with other drivers.

Overall, 2019 was a year in which the total outstanding stock of mortgages grew to $1.82 trillion as at 31 December 2019, with an annualised increase of only 3.7% over the 12 months only to 30 June 2019.

As at 31 December 2019, this was the lowest rate of mortgage lending growth in Australia in the past decade.

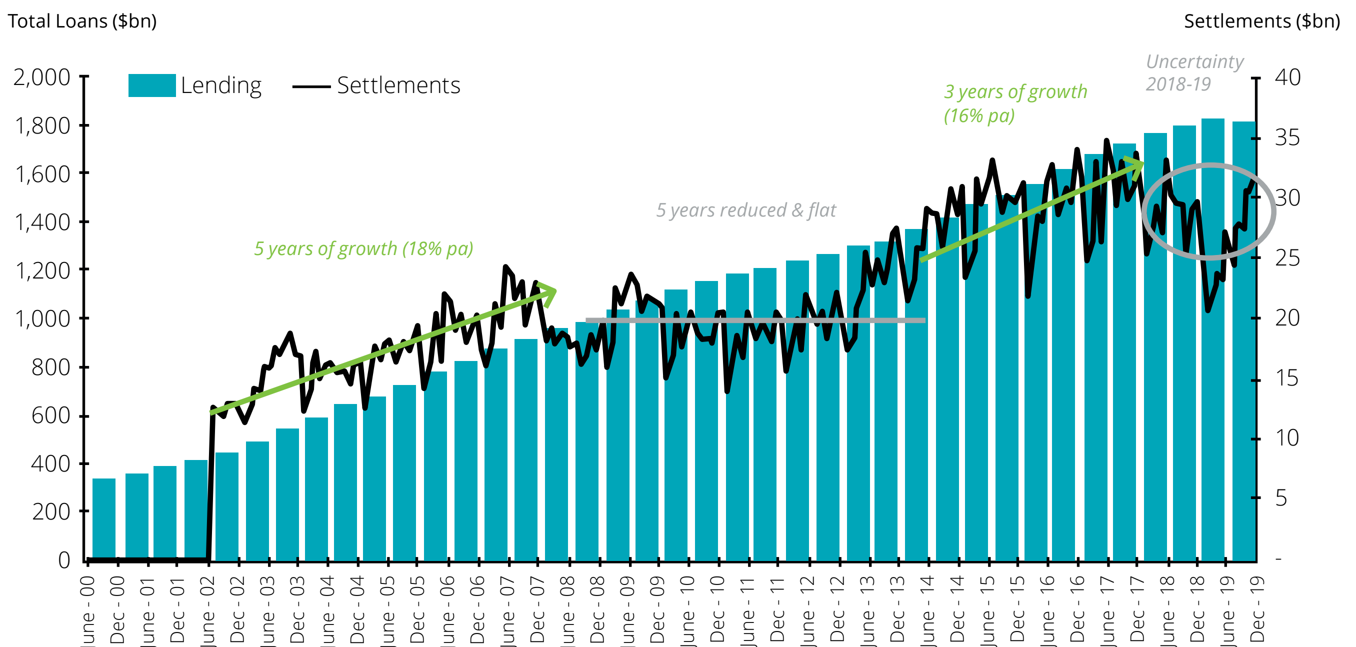
In terms of new mortgage financing, or settlements, this totalled $316 billion over 2019 (an average of $26.4 billion per calendar month). This was a reduction of 7.5% compared to the prior period in 2018. However, this overall fall in 2019 was largely a story of two halves.

In the first six months to June 2019 settlement volumes were up to 20% lower than corresponding periods in 2018.

While in the second six months of 2019, settlement volumes returned to levels that were consistent with and slightly higher than comparable months in 2018.

Against this backdrop of an uncertain market over 2019, we discuss whether the recovery seen happening at the end of 2019 will continue into 2020 or will the challenges that were identified in 2019 still need to be resolved before we see consumer and industry confidence returning for mortgage lending.

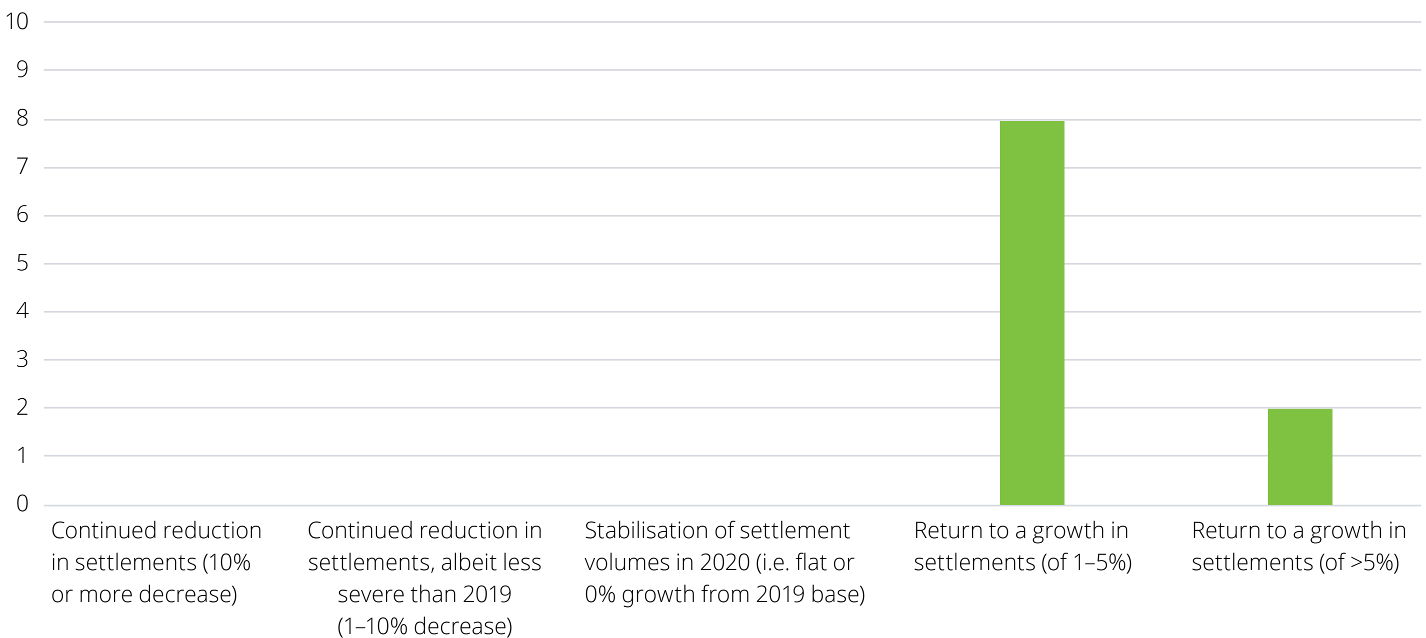
Residential Mortgage Lending - 2000 to 2019



Source: ABS, RBA, Deloitte Actuaries & Consultants

Loan originations (i.e. new settlements) fell by 13% in the 12 months to June 2019.

Q1 What do you see as the likely growth in settlements in 2020 at a market level?



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James Hickey (Deloitte):
The first question for the roundtable was in terms of the overall market flow of new lending i.e. settlements. It is not uncommon when we ask a group of experts where growth is going to go that their answers are almost always north of zero. And it's true this time.

Susan Mitchell (Mortgage Choice):
From my perspective as CEO of one of the large broker groups, our current application levels (Nov/Dec 2019) are up between 10–15% compared to the same period at the end of 2018. Last year applications were on target in July and August 2018, but started to fall away in October and through the second quarter of the 2019 financial year.

It is interesting that the recent growth in applications happened quite gradually. There was no hockey-stick from June or July 2019 onwards. Anecdotally, brokers are happy because they are busy again.

There was such significant uncertainty around the broker model that emanated from the Royal Commission and brokers feared that all their hard work over the years to build a business would be destroyed.

It is a real turnaround and it is great to see them once again busy helping consumers.

Heather Baister (Deloitte):
Do you think some of that gradual curve was as a result of a longer time between application and settlement? Certainly, there are concerns that speed to settlement is taking longer in today's environment.

Susan Mitchell (Mortgage Choice):
There was a period of time when you would send an application into a bank which was approved, and then you'd send another two to three weeks later which looked just the same but got a different result. That lack of consistency sent a lot of brokers to the non-major lenders and non-banks to get a more certain response.

Sam White (Loan Market):
The lack of properties for sale was also one of the biggest features over 2019. Pre-approval numbers were massive; meaning customers were ready to buy but they simply could not find the property, as supply was not coming to market.

Down the track if they did find the property, their lending needs may have changed, or the lender required updated information which took a lot of rework.

That effectively doubled the workload for brokers that were already facing increased processing times due to lender policy changes.

However, many of the operational challenges are now largely settling down. Brokers are more confident in how banks interpret applications. So once a steadier supply of properties returns to the market, the process should be more efficient for borrowers and brokers.

Heather Baister (Deloitte):
Overall, the group still predicts only a relatively modest recovery in settlements, or new lending, with a growth of around 1–5%. At these levels of settlement growth, it's likely that once combined with refinancing and repayments, overall outstanding lending system growth may continue at around 3%, as per 2019 (see Chart 1).

I expect this to vary on a lender by lender basis, as it did in 2019, where there was significant growth in certain segments such as the non-bank lenders and lenders such as Macquarie. Paul, as a representative of a Big Four bank, what are your views on this expected level of overall market system growth?

Paul Riley (NAB):
If we look at forecasts at a total systems and market level, (that is settlements net of repayments and refinancing,) I think most are forecasting total growth between 2% to 3%. However, the composition by customer segment, channel and by individual lender within that very macro number is likely to be quite different.

Broker flow, for instance, continues to increase at a larger rate and represents six in ten applications. Comparing that penetration with other markets, that growth will continue.

Paul Riley NAB

> "The flow to brokers continues to be a consumer preference which doesn't appear to be disappearing for a number of understandable reasons."
>
> *Paul Riley (NAB)*

Another factor is the simple economics that there are very few houses available for sale at the moment. This is impacting house prices, and the ability for many customers to be able to get on the housing ladder or be looking for their next house.

If you take recent market data, supply is down 13–15% year on year in terms of the number of houses in market. Future building and renovation permits are also all lower, and consumer confidence is at the lower end of the scale. If you use investors as a proxy, the recent numbers show that investors were the smallest composition in many years.

> "For the market to sustainably grow, we need to be building more houses and for customers to have more income and confidence."
>
> *Paul Riley (NAB)*

John Campbell (ANZ):
Ideally, we would love growth to be higher, but our forecasts are similar. Around 2–3% growth. I think Sam hit the nail on the head when he mentioned consistency, and Susan also mentioned consistency and certainty when contrasting some of the bigger lenders with the smaller ones.

As we work our way through what it means to be a responsible lender, there are different interpretations of the regulations and rules. Lenders do tend to interpret it differently.

The interpretation plays out predominantly in policy setting, which then impacts assessment and operations, ultimately influencing certainty and confidence for customers.

ANZ has for a long time been the bank with the largest broker originated flow, relying on the broker channel the most.

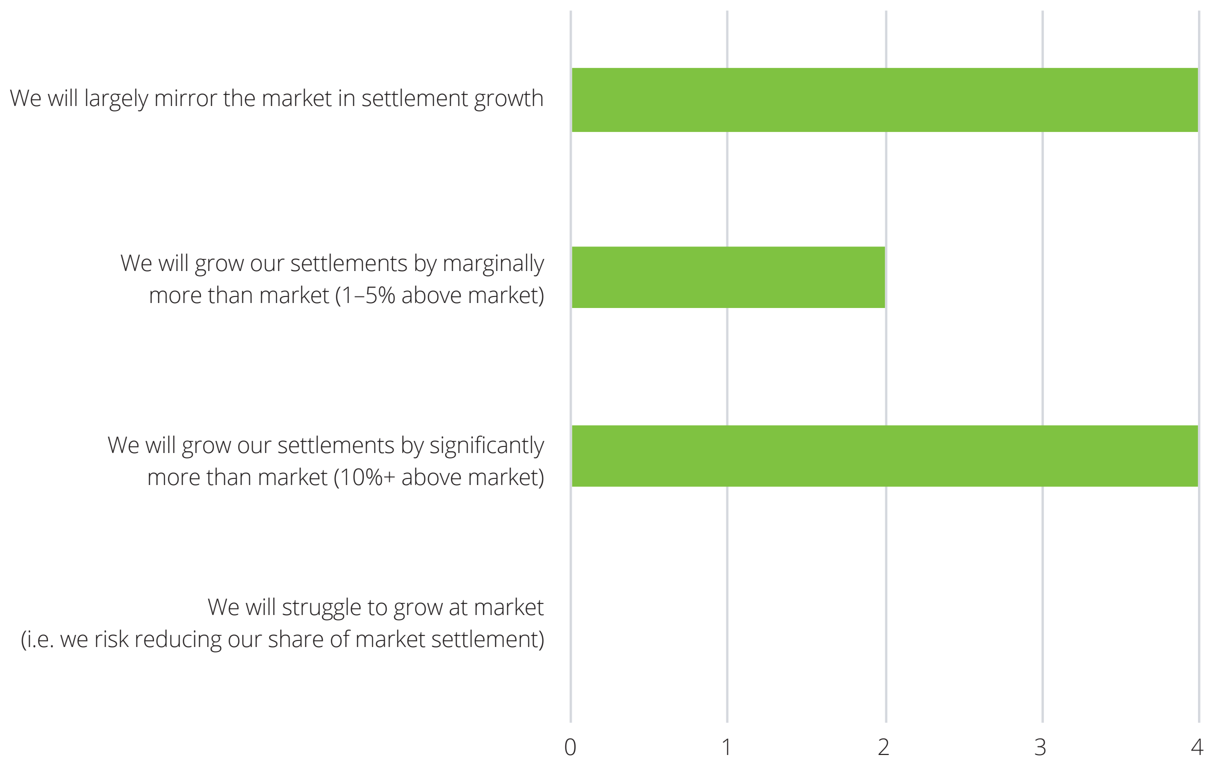
> "If it's harder for a customer to know whether they have a deal, or how long it will take to get it through the process, and where they have a choice — which clearly the customers originated through brokers and aggregators do — they will choose to go to where there is certainty and confidence."
>
> *John Campbell (ANZ)*

We are obviously working very hard at ANZ with a big focus on regaining that level of certainty and confidence in not just the broker channel, but in all our major channels.

James Hickey (Deloitte):
Our next question in the survey carries on from Paul and John's observations on the likely variability in lending growth by organisation, which depends on the strategy, risk appetite, and operational execution of each group. While the previous question asked about system level settlement growth, this question asks about your own organisation and what you consider to be your own settlement growth in 2020 vs 2019.

It is interesting that none of you said you were going to grow less than the system. The law of averages says that if 10 of you are above system – then others in the market (outside of this roundtable!) may be the ones to grow below system. Or is it a case of everyone always considering their own group as growing faster than others?

Q2 What growth in settlements do you see for your specific organisation (as distinct from the market growth in Q1)?



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Heather Baister (Deloitte):
Nathan, from the perspective of Athena, your business is obviously on an upward growth curve as it is relatively young. You have had more than a billion dollars of growth over the last nine months. Where are you seeing your market opportunities coming from and what is driving them?

Nathan Walsh (Athena):
Athena has written more than a billion dollars of home loans over our first 12 months since launch. There are two main drivers of this growth.

First, as a specialised digital lender, we are seeing a shift in channel preference from intermediary to digital channels. We see digital growing to a much larger share of the mortgage market, and we have purpose built a platform optimised for this digital experience.

Second, there has been a significant loss of trust in incumbent lenders. The majority of borrowers do not know their current rate of interest – and historically this caused a bias towards borrowers simply accepting the loan they are in.

"A lot more people have realised that they really need to check if they are getting the best deal, not just at the point of origination, but throughout their loan term."

Nathan Walsh (Athena)

Customers are saying: "I don't know the current rate on my loan, but I know it doesn't start with a two", as a prompt to action and a prompt to think differently.

Daniel Carde (Resimac):
When you talk about the shift to relatively new lenders or back to traditional banks, I think they are very different borrower demographics. In our channel, we find some cross-over between a borrower using a mortgage broker vs one going to a direct lender.

Also, there are extremes. There are those who would never consider an online lender, whether that's a trust factor, or fear of the unknown.

Then there are others who would absolutely consider online. So, I think when you see those volume shifts, it is a gradual acceptance of change from the borrower demographic.

Mike Thomas (Deloitte):
Perhaps the view of those lenders in the room around relative growth of their own organisation is also influenced by a geographic element too?

We've seen the housing market in the two largest markets, Sydney and Melbourne, slow down, but perhaps not as much in other parts of the country.

However, other parts of the country do not have the employment or population growth dynamics that Sydney and Melbourne experience.

David Harrys (RACQ):
RACQ Bank only operates in Queensland and through direct channels. South-east Queensland isn't in recession, but the broader areas of Queensland are very much under pressure. We're seeing regional and remote Queensland struggle due to conditions in the mining sector, the drought, and various other factors.

For instance, Townsville is particularly impacted by the ongoing legacy of the floods, making it a really challenging place at present.

We're one of the banks that is growing significantly above system. But ours is more a function of being a 'new' bank. We have 80,000 members in the bank. But the RACQ group has 1.8 million members; so, we're changing our distribution model and gathering significant growth through our distribution strategy.

From a credit risk appetite, like all of us, we have challenging conversations with colleagues in the second line of defence around what is responsible lending and what is an acceptable validation of living expenses etc.

Automation, and the validation of living expenses and income are really challenging for a small organisation like ours, because we have to invest in digitisation just to compete with the majors and neobanks.

Consumers expect a decision from an app; and brokers are demanding a decision on the spot. That means we all have to lift our game.

Graham Mott (Deloitte):
A question for those lenders competing closely with the majors, such as yourselves Glenn at ING, with the portion of new settlements for the majors coming off 80% and being closer to 70% or even lower, do you see that trend continuing? Will it be the new norm?

Glenn Gibson (ING):
I'm happy to say I put ING at growing above market. We've grown consistently throughout 2019 mainly due to our focus on customer outcomes, which will continue into 2020 and beyond.

While we see ourselves as one of the most conservative lenders in the market when it comes to credit criteria, assessment rates and loan to value ratios on investment lending. Our strength is our brand, pricing, market leading net promoter score and customer experience.

Glenn Gibson ING

"I believe the market is there for the right entity, with the right processes, with the right attitude."

Glenn Gibson (ING)

We have consistently been #1 or #2 above system growth this year despite what we'd consider to be a conservative credit approach. It just means that with that trust factor, there is appetite for us.

And so, when it comes to growth in 2020, there's the opportunity for us to look to see what other segments of the market may suit us to take a little more market share.

Lisa Nelson (Equifax):
With the Comprehensive Credit Reporting (CCR) data we have, driven by the shift in market share, it reinforces what we've just talked about.

If you look across all four big banks from February 2018 to September 2019 – the Big Four have dropped about 4% market share in total.

Fintechs are on the rise, but that's still nascent. It's the internationals and regionals that have really gained market share, with regionals up 1.5% and internationals up nearly 3%.

Susan Mitchell (Mortgage Choice):
We publish our results every six months and the majors were at about 52% market share as of June 2019, if you include St George and Bankwest. With just the Big Four, it is at 40%.

The fall is quite noticeable. When you look back to the GFC, you can see the Big Four's market share dropping from 70–80% to 40% over that 10–year period. It's quite dramatic.

Graham Mott (Deloitte):
Interestingly, as all our majors are consolidating back to Australia in terms of simplifying and reducing their international footprint, the retail bank is still the big engine of growth and opportunity. How do you respond to the challenge of the shrinking market share?

John Campbell (ANZ):
The questions to be answered are: 'How do you meet customer needs? Do you have an offering that customers want?' When customers walk down the street, or search on the internet, how do you make sure they choose you?

So, it's how you provide the right offering and experience in your various channels. We don't have the luxury of focusing only on a single channel.

We compete across a number of channels, whether it's through the aggregator and broker channels, or via our own lenders, branches, or contact centres.

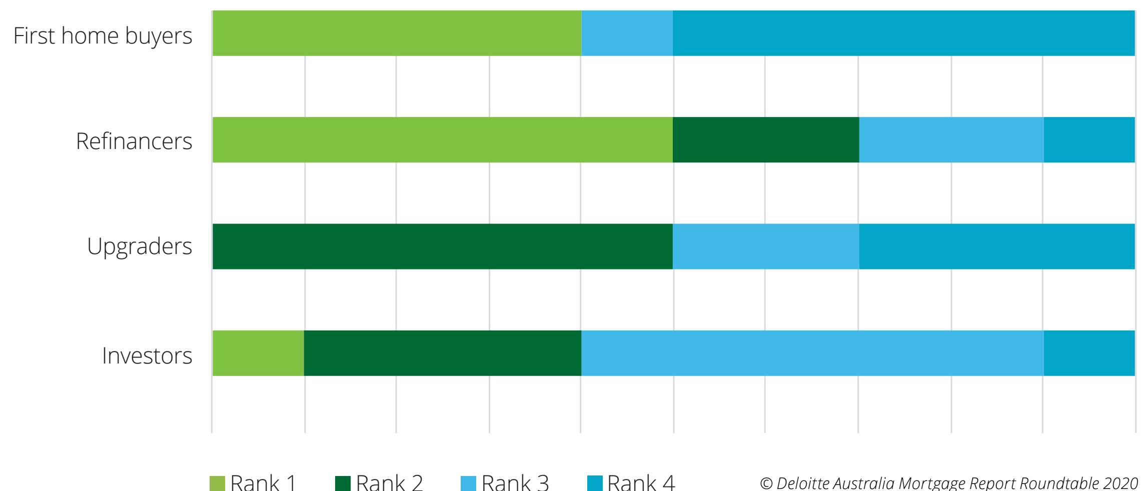
Clearly when customers are choosing to use a specific channel, they are telling us there is something they find easier, or simpler or faster.

In the current market the other big question is how we offer our services in a responsible manner. Therein lies the challenge – how do you do lend in a responsible manner while making sure you have a proposition that delivers simplicity, speed and ease.

James Hickey (Deloitte):
This question canvasses your views on what customer segments make up the best prospects for lending growth in 2020. We appreciate we've been somewhat crude here in terms of just offering four customer segments, as in practice obviously the market is represented by many variations of customer profile. Nevertheless, using the broad categories we asked you about, most of you have ranked refinancers followed by first home buyers as being those most likely to have the greatest growth in 2020.

Q3 What customers segments will have the best prospects for growth in settlements in 2020?

Rank in order of 1 (highest growth) to 4 (lowest).



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Heather Baister (Deloitte):
It's particularly pleasing to see first home buyers being viewed as a segment that may gain some traction over 2020.

Paul, NAB is one of the two major banks approved on the panel of lenders to support the Federal Government's First Home Loan Deposit Scheme.

How important for NAB is it to be proactively involved in that scheme for first home buyers?

Paul Riley (NAB):
First home buyers are a really important segment, and while market conditions have arguably been improving for such potential borrowers in the last few years, it still remains a very challenging situation for first home buyers.

The Federal Government's scheme is a really positive step. For the customers who utilise the scheme, it will certainly quicken their time to achieving having their own home. The largest challenge for this segment is raising the 20% deposit while keeping pace with market price growth.

John Campbell (ANZ):
I fully agree. Some of the work ANZ has recently done on housing affordability indicates that for a medium-priced home in Sydney it still takes around 11 years to save for a 20% deposit. Melbourne is a little better at 9.6 years, while the national average is 8.6 years.

"Affordability in that first home buyer segment is a real challenge.

"Banks are doing our bit to support first home buyers, so it is not a question of desire or ability to make credit available to that segment, but more about how to get them into the market responsibly."

John Campbell (ANZ)

Daniel Carde (Resimac):
I think the only way you'll see growth in the first home buyer's market is through product innovation. And that's not specifically around a first-time home buyer product, rather it will be around affordability.

I don't know what the solution is, but it won't just completely go away by introducing these schemes.

The underlying issue has been affordability and that's not going to get any better as housing prices particularly in Sydney and Melbourne start to improve again. Brisbane also hasn't really gone anywhere either. If you couldn't buy a house there three years ago, you are not going to be able to do so today either, because affordability is still the same.

Daniel Carde Resimac

"I think the only way you'll see growth in the first home buyer's market is through product innovation focused on affordability."

Daniel Carde (Resimac)

Mike Thomas (Deloitte Access Economics):
The wages story is in the newspapers every day. Recently, the Reserve Bank governor again spoke of the lack of wages growth. It is just not obvious where the next wave of wages growth will come from.

Longer term, you need productivity growth, which is an argument which tends to be put in the 'too hard basket' for politicians. If productivity is not going to boost wages growth, it is really hard to see first home buyers make headway against others in the market.

Also, the early 30s age group is an area of the economy where under-employment is a big issue i.e. not getting enough hours of work. This hasn't been the case in the past. With my economist hat on, I'd be looking at the 35–55 age group.

They will be the buyers. They're the ones with the income power.

Mike Thomas
Deloitte Access Economics

"If productivity is not going to boost wages growth, it's really hard to see first home buyers make headway against others in the market."

Mike Thomas (Deloitte Access Economics)

Susan Mitchell (Mortgage Choice):
What about the rise of regional centres? Everything in Australia is concentrated in the major capital cities. In the US, you have a more diverse geographic distribution of the population and employment opportunities.

Therefore, companies can make money in regional areas and employees find it cheaper to live and buy a home, yet earn good wages. It is such a challenge to get that growth regionally in Australia.

Mike Thomas (Deloitte Access Economics):
Historically we have seen that regional growth in Queensland along the east coast. But because of the mining ups and downs, to some extent that has been put paid to. It is hard to see it coming back quickly.

It's a historical fact that governments have tried to generate growth regionally. And there is cheaper housing in regional areas.

However, knowing the benefits versus actual commitment to making investment decisions to make regional centres grow is another thing entirely.

Economic outlook – Mike Thomas

Australia has been battling the twin challenges of drought and housing-related negatives, including cautious consumers and a downturn in housing construction. Now there is a third challenge: a lack of confidence among consumers and business. Falling confidence has a few causes, including this summer's bushfires and the Reserve Bank's messages on the economy. That has left confidence worse than the economy itself, which in turn risks becoming a self-fulfilling prophecy.

Yet there are important positives too, including cuts to taxes and to interest rates, as well as a lower Australian dollar and a rebound in housing prices. The latter is bad news for the longer term, but it does help to steady the outlook in the near term. That leaves Australia locked into slow growth. Which means we are on course to keep muddling through the impacts of drought, housing-related weakness, and worried consumers.

Overall, the nation's growth will not lift much from today's decade low, and we don't expect unemployment to drop or wages to accelerate through 2020. So, we will be treading water rather than entering a strong recovery.

Interest rates are really low, and that is where they are set to stay for some time, because inflation is harder to generate than it used to be. The flipside is that jobs are easier to generate. That means interest rates are being set at levels aimed to get inflation going again. Here in Australia the Reserve Bank wants more fiscal stimulus from the Government. But, absent a bigger crisis, that doesn't look likely.

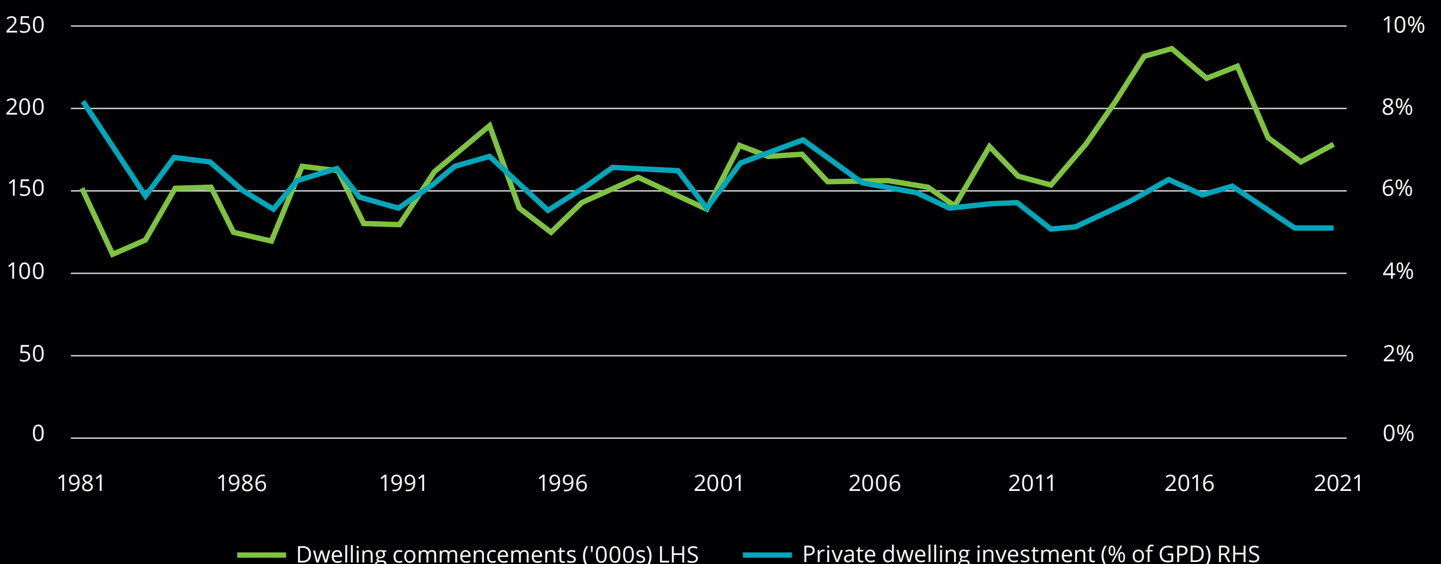
So, the RBA will probably be tempted to cut rates again, partly as the economy is still weak, but mostly because inflation is so stubborn. Yet we think the RBA will flinch from entering into quantitative easing; it has had mixed success overseas, and it is hard to leave. While the RBA remains active, we see the Australian dollar remaining at the lower end of its trading range.

Where the Australian economy heads over the next year is even more dependent on the pace of housing construction than it usually is. Indeed, the fortunes of housing activity are important not merely directly, but also because of the outsized impact that they have on retail trading conditions as well, for example, when we build and renovate less, we also spend less on furniture and fittings.

Housing construction is headed down rapidly at the same time that house prices are headed up rapidly. Those seesawing conditions – prices up, volumes down – are in turn the product of the pump and dump waves that have passed through this market in recent times.

House prices rose rapidly as interest rates fell from 2012 onwards, and then finally began to reconnect with fundamentals from mid–2017. Yet there has been a very sharp rebound in prices since mid–2019, thanks to reduced policy uncertainty; reduced interest rates – with even cheaper rates expected; a loosened noose from regulators after tightened credit conditions accelerated the current downturn in apartment construction; continuing strong population growth, with the potential to shift the overall market into undersupply by the end of 2020; and the fear of missing out.

In the last months of 2019, the weekly increase in the price of the average home in Sydney was $3,700, while Melbourne's prices have been racing upwards at a pace of $2,900 a week. That is not sustainable. But there is sufficient momentum to see prices pass their 2017 peak sometime in the opening months of 2020.



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Residential building approvals are down by more than a third since their 2017 peak. And the gap between current construction levels and approvals is a clear indication that housing construction will continue to shrink as a share of the economy for some time to come yet. How low can it go? Apartments have been a bigger share of the total in recent years, and larger apartment blocks have been a bigger share of overall apartments. And the flow of money to developers is still – anecdotally at least – weak.

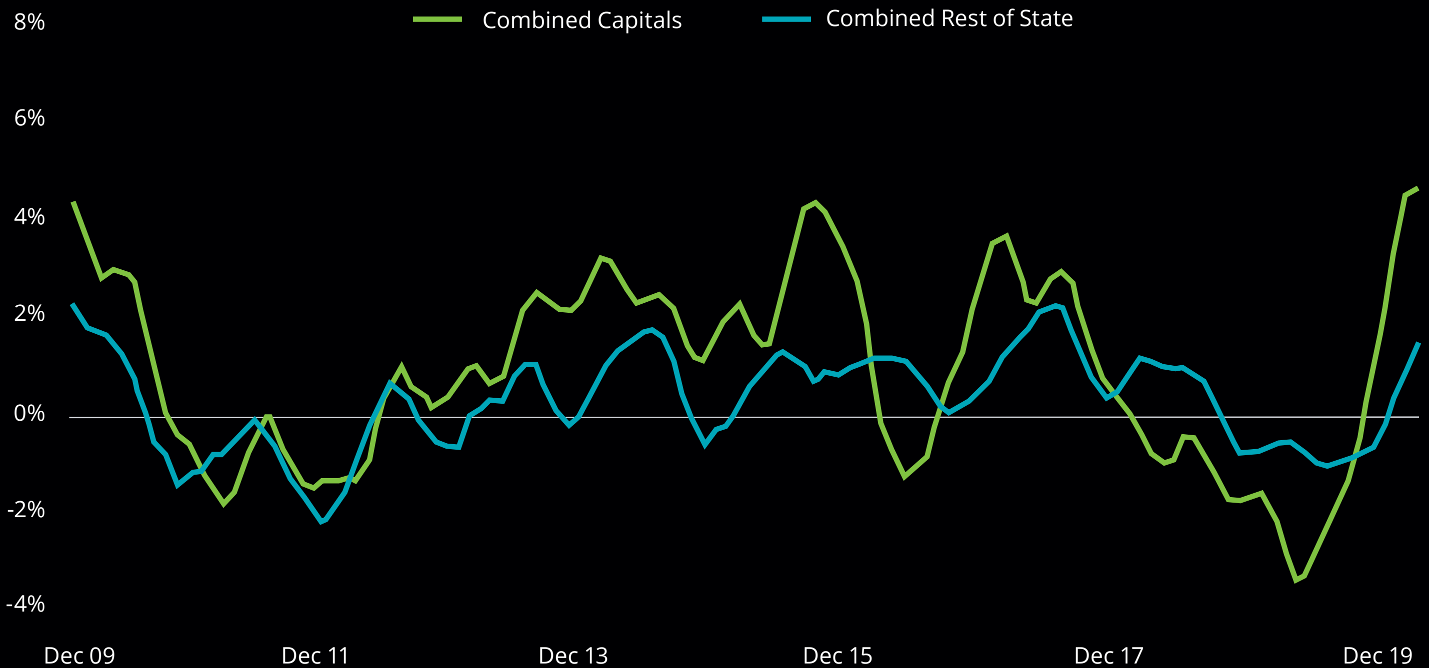
Most people are using lower interest rates to pay off their mortgage faster. Other things being equal, that combination suggests housing construction has rather further to fall. That's why residential construction looks set to match its weakest ever recorded share of the Australian economy towards the end of 2020.

Housing starts have moved from 225,000 in calendar 2018, to 179,000 in 2019, and are expected to bottom out at 166,000 in 2020.

So, 2020 is likely to be the low point. But most of the downturn has already been seen. Population growth is too strong for falls to be sustained much beyond that. The momentum behind housing price increases is also strong. So, the housing construction market is likely to see starts back up to 175,000 in 2021. Indeed, if house price growth persists into 2020, the expected turnaround may even be brought forward.

Mike Thomas, Director, is Deloitte Access Economics financial services lead.

National dwelling values increased 4.0% over the December quarter, which was the fastest quarterly growth rate since November 2009



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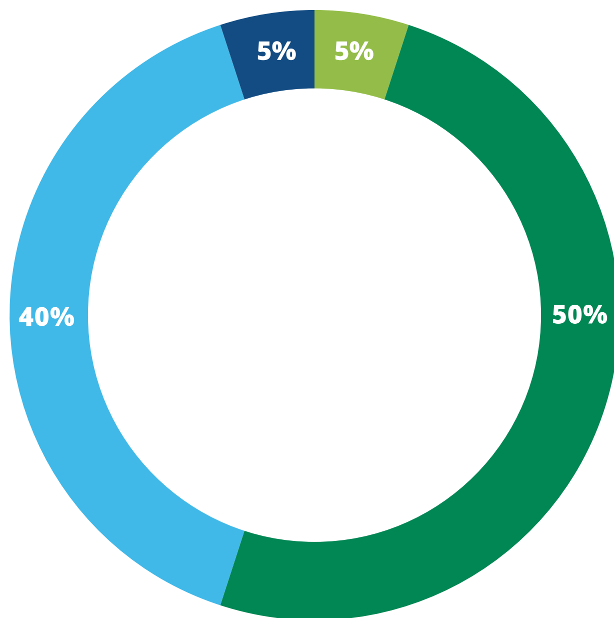
James Hickey (Deloitte):
The next question was around your biggest concerns for the mortgage market in 2020. There were two options, with the majority split between concerns around employment downturn and continued low salary growth; and policy decisions impacting lending requirements. This seems consistent with the discussion to date.

However, are there specific areas of policy interpretation that you think the industry still needs to address through 2020 which pose a challenge for lenders and brokers and ultimately could impact the lending experience for customers?

Q4 What are your biggest concerns for the mortgage market in 2020?

Respondents selected two options.



- Further property price reductions, especially in capital cities
- Employment downturn and/or continued low salary growth job market
- Policy decisions (e.g. capital levels; serviceability) impacting lending requirements
- Risk of conduct related matters creating unfair customer outcomes tainting the industry

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Daniel Carde (Resimac):
We consider that policy decisions will continue to impact on how lenders do business in 2020, especially the recently released Responsible Lending requirements as per ASIC's Regulatory Guide 209. It is the culmination of ASIC's recent interpretations of what needs to be addressed for lenders with regards to responsible lending. Given the last major change to this was in 2014, it brings it up to date with the current market environment and reflects concerns raised during the Royal Commission.

Importantly, we now have more digital channels which weren't covered, and more ways of verifying expenses digitally, which were also not previously covered. The proposed amendments are absolutely required to meet current conditions.

Heather Baister (Deloitte):
If you consider these matters in the context of conduct, there will be challenges to lenders in terms of aged systems that were set up decades ago.

Given the mechanics within them, you can realise you have a mortgage servicing issue, almost by accident, such as a one-off complaint, rather than by default.

These system defects have resulted in poor outcomes for customers and end up under the conduct banner as issues. This is not only confined to the bigger banks, but is also of relevant concern for the smaller banks. It's just that they might not have identified them yet.

A lot of the debate is on responsible lending. But conduct and customer outcomes are so much more complex than that.

Lisa Nelson (Equifax):
I was at the Australian Retail Credit Associated conference where ASIC also presented. One of the issues that bubbled up was about consumer accountability and truth telling. We dug into that as part of our Comprehensive Credit Reporting (CCR) data for research, working on it with the larger lenders.

We can see at least 36% of a consumer's debt was not disclosed when they made an application. At the conference, there was a lot of conversation around how to hold consumers accountable.

Melissa Christy (86 400):
I also think consumers find it hard to keep track of how much they spend on the different categories we ask for – groceries, dining out etc.

Susan Mitchell (Mortgage Choice):
Which then focuses on financial literacy. This is especially true around the number of credit cards a consumer has.

Sam White (Loan Market):
Some customers don't know what facilities they have in place, particularly when you look at retail store cards and new obligations they may have with buy now, pay later operators.

John Campbell (ANZ):
Not being fully aware of all of one's credit cards is understandable. Not disclosing all outstanding debts is more difficult to comprehend.

Daniel Carde (Resimac):
I see most of the Australian Financial Complaints Authority (AFCA) complaints that come through to Resimac and often get on the phone with consumers to resolve these complaints.

We record our phone calls and I've found that consumers recollection of the facts at the time of the loan may not be accurate, even when you're trying to do a conciliation call with a representative of AFCA present.

The value of recording, is that you can reference what was said initially, when they took out the loan, which often doesn't match up with what they may be claiming today. So, where do you go to from there?

So, while lenders and brokers certainly need to have all the systems in place to ensure validation and verification of consumer information, there is an onus on customers to be honest and transparent in their declarations.

Heather Baister Deloitte

Algorithms

"I think a lot of uncertainty will be removed with the application of algorithms. It will be interesting to see how much and well they will work."

Sam White (Loan Market)

Sam White (Loan Market):
Looking at the last 12 months, particularly at the knowledge inside the banks around credit assessment and the skill sets that will be replaced by automation.

How do you manage the issues that crop up at scale? Issues such as the discrepancies between a credit professional looking at a deal and saying: 'That's a deal'. But the machine saying it's not. You need individual judgement to be able to comply at scale. That will be a real challenge for the industry.

John Campbell (ANZ):
Sam raises a good question, because we believe there should, and will always be a human element in the home loan originating and fulfillment process. You can originate via a digital channel and automate much of the process, but a conversation with the customer – to understand their needs and financial position – is still required.

"At ANZ we think the need for some human interaction as part of the home loan process won't necessarily change over time."

John Campbell (ANZ)

Melissa Christy (86 400):
We have built our home loan system to be automated all the way through. We are also new, and just recently launched. So, we'll retain a human element for the foreseeable future to make sure that the system is doing what we expect it to be doing.

Melissa Christy 86 400

Paul Riley (NAB):
I think this question at its simplest is at the heart of responsible home lending. There are fantastic opportunities to use technology to improve the customer experience and decision-making at portfolio level. However, exclusively using models may miss individual circumstances that can only come from personal conversations.

So, the question is, how do we, at an industry level, find the balance?

Our models are still the best way of predicting balance at a portfolio level. However responsible lending is about an individual customer. This is the challenge we are all striving to achieve.

Daniel Carde (Resimac):
Resimac does the full range of lending. But the underlying principles of lending don't change. You need to be able to afford the loan and be in an adequate security position.

If you're rejected by one lender due to serviceability, the reality is that should apply to all lenders. Nothing should change at another lender. It will only change if a lender takes a different view on serviceability assessment individually. That comes from a credit risk assessment overall, and from individual policies.

"There are fantastic opportunities to use technology to improve the customer experience and decision-making at portfolio level.

"However responsible lending is about an individual customer."

Paul Riley (NAB)

ASIC Responsible Lending Regulatory Guide sets a high benchmark

How to manage for growth and compliance

ASIC released its Responsible Lending Regulatory Guide (**RG 209**) in December 2019. And in our view, the convergence of RG 209 and the upcoming Design and Distribution Obligations (**DDO**) regulation provides licensees with a unique opportunity to develop, or continue to build on, an integrated compliance program which deals with a range of existing and new regulatory obligations.

The key to an integrated compliance program is a focus on the customer and understanding:

- which customers benefit from your product as part of distribution;
- your customer's circumstances, needs and objectives during origination;
- monitoring your customer's expected use of the product and its features as part of servicing.

The December 2019 version of the Responsible Lending Regulatory Guide is the seventh version of the RG to be released since February 2010. It is an almost complete re-write of the sixth version of the RG, which is no surprise given the range of court cases, Royal Commission case studies, ASIC reports and technology advances that have taken place in the intervening years.

ASIC consulted widely in developing the newest version of RG 209. As a result, it has given broad guidance on topics which have proved challenging in practice, including issues around requirements and objectives, verifications and buffers. ASIC has also detailed almost 40 examples in the Regulatory Guide itself, which aim to provide licensees with some "in practice" guidance.

The key shift in tone observed in this version of RG 209 is the move from a directive (*2014 – 'ASIC's expectations for meeting')* to prescriptive *(2019 – 'steps (licensees) can take to minimise the risk of non-compliance with these obligations'*) articulation of 'ASIC's view'.

In the simultaneously released Report 643, ASIC details at length this approach and its resistance to providing minimum standards or 'safe harbour' rules. Given the resistance to issuing minimum standards, it is not surprising that certain of ASIC's 40 examples will be seen as setting a high benchmark for compliance when it comes to serviceability rules and, in particular, verification processes.

What to focus on now

- **Understand where your existing policies and processes differ to ASIC's guidance and case studies.**
- **Document and report on conclusions reached regarding any changes to, or reasons for not changing, responsible lending standards.**
- **Critically assess any discrepancies and consider them in light of your principles for responsible lending.**
- **Re-assess the appropriate monitoring in place in light of Responsible Lending changes and other key customer focused regulatory change.**
- **We recommend confronting Responsible Lending changes in combination with other key regulatory change activities such as DDO.**

In assessing the obligations and guidance included in RG 209, licensees will need to consider in how to apply them in the context of their appetites towards:

Safety - is the licensee lending sustainably? Prudent credit risk management, combined with optimal systems and operational risk settings will be key; while credit defaults are at near-historic lows, poor processes and systems may undermine the ability of licensees to deliver product features and pricing commitments.

Fairness - are the actions of the licensee aligned to the delivery of good customer outcomes and are these actions consistent with contemporary community standards? Customer-centricity will require licensees to work to achieve good customer outcomes, but licensees will also need to keep focused on consistent delivery across the product and customer-value chain.

Speed and efficiency - is the licensee efficient in delivering on the customer experience, from origination through delivery and servicing? While licensees may find they need to 'trade-off' matters of speed in the interests of customer-centricity, customer-directed digital engagement, the proliferation of data and exponential technology growth may mean that these trade-offs can be managed for both growth and compliance.

For those licensees who either distribute mortgages through mortgage brokers, or licensed mortgage brokers and aggregators, the proposed introduction of a best interests duty (which had its genesis in the Hayne Royal Commission) provides a further opportunity to build on the integrated compliance program.

A mortgage broker acting in the best interest of the customer should recommend a suitable loan. This requires a broker to take in account certain things which are unique to the customer.

Undoubtedly a customer's needs, requirements and objectives, as well as a consideration and verification of a customer's financial history and current information, will be part of the assessment of suitability.

Applying a customer-centric approach provides licensees with an opportunity to align product features, benefits and risks with the customer and their needs firmly placed in the centre, while having regard to the operational aspects of safety, fairness and speed, all of which are unique to individual licensees.

ASIC's clear principles-based approach allows licensees to adopt a suitable, considered and proportionate approach to compliance with their obligations.

Balancing safety, fairness, speed and efficiency through new legislation is challenging.

We see that the most significant challenge for licensees may not be in relation to determining the right approach to RG 209, DDO and broker best interest duties from a compliance/policy perspective.

Rather, it will be in the changes to established origination and servicing processes, systems and monitoring tools that may no longer be fit for purpose in a regulatory landscape that is becoming increasingly focused on the individual customer.

Authors:
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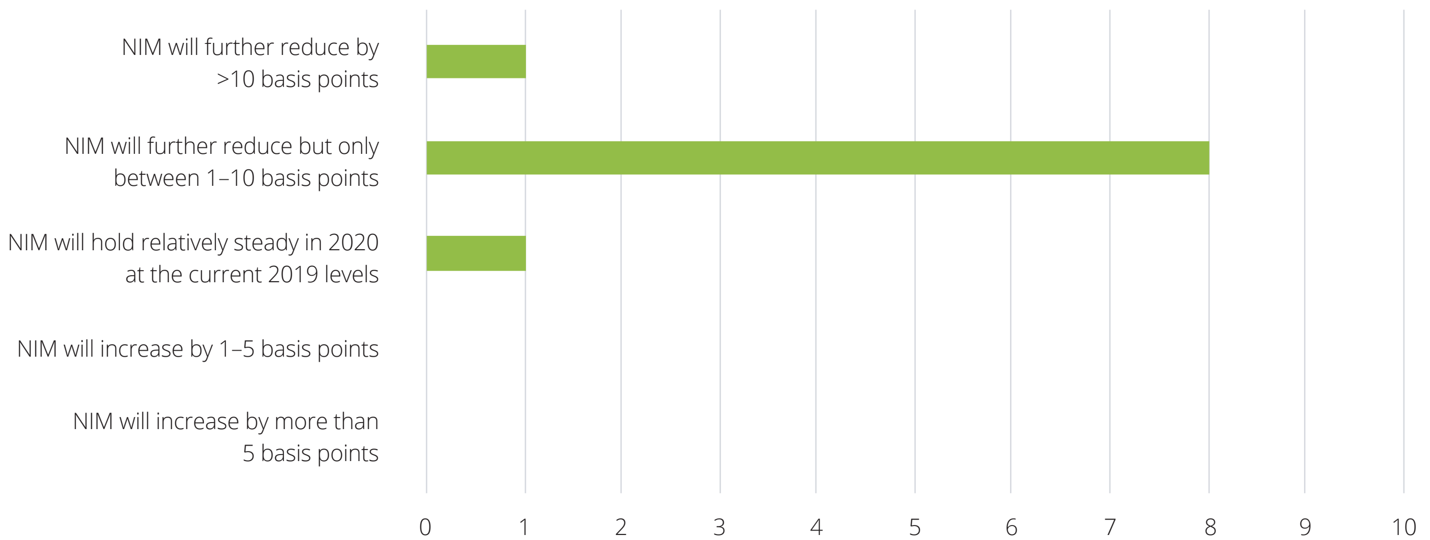
Tim Noad is a Deloitte Partner, Governance, Regulatory and Conduct Solutions. *Tim has more than 12 years' experience providing governance, regulatory and conduct advisory services within banking and financial advice sectors. As an experienced adviser on matters related to conduct and conduct risk frameworks, including leading financial advice and retail banking remediation programs, Tim also delivers and leads teams on audits, operational risk framework investigations, and compliance due diligences in both wholesale and retail financial institutions.*

Funding and pricing

James Hickey (Deloitte):
Moving on from overall market demand, supply and growth dynamics, we wanted to hear your views on where bank Net Interest Margin (NIM) may move over 2020 and in particular, what actions lenders can take to manage this.

In terms of movement in NIM, the vast majority (80%) of you see further NIM reductions occurring over 2020 of between 1–10bps. This would be a continuation of the recent trend of NIM reductions. The dual forces of competition on lending rates for new mortgages coupled with less funding efficiency from transaction and low rate deposit accounts (due to the impact of the notional 0% floor), mean that lenders have been seeing NIM challenges throughout 2019 and you consider these as likely to continue into 2020.

Q5 Across the industry overall, what will be the direction and magnitude of Net Interest Margin movements in 2020?



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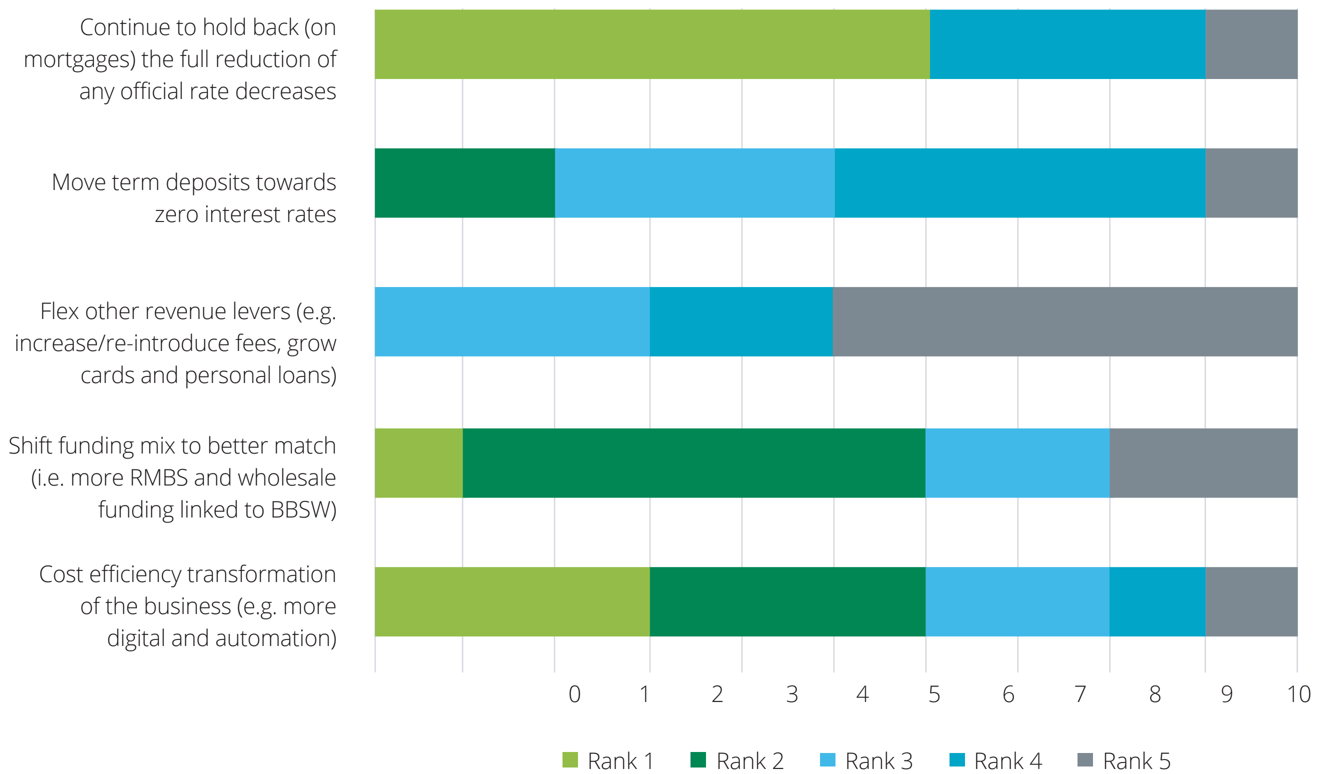
The question then becomes what options do lenders have to maintain profitability or resist some of the NIM reduction pressures being exerted?

In the following linked question, we offered five potential actions that lenders may be likely to consider and asked you to rank them in order of most likely to least likely to implement over 2020.

- The most popular response was to continue to hold back the full reduction of any official cash rate decreases coupled with managing deposit costs.
- The next most popular response was more active treasury management and seeking funding better linked to underlying BBSW metrics. This may mean bringing in more wholesale funding to give the ability to move a bit further than is possible on deposits.
- Also relatively popular was cost efficiency, which while not directly impacting NIM, can offset NIM reductions in terms of overall profitability.
- The least popular option was to introduce 'other revenue' levers such as fees, growing credit cards or personal loan portfolios.

Q6 What actions are lenders most likely to implement in 2020 to manage NIM in a falling cash rate environment?

Rank in order of 1 (most likely action) to 5 (least likely action).



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John Campbell (ANZ):
We might have a very different conversation in 2020 if there are indeed a few more interest rate cuts. Then 'other revenue' levers will need to play a much bigger part. So, we might see where we end up in 12 months from now – if we get any closer to zero or negative rates, we're going to have to figure out how to make money on a mortgage if it's not through the net interest margin.

John Campbell (ANZ)

Glenn Gibson (ING):
I look at what we're seeing from a global perspective. With very low interest rates across both deposits and lending impacting businesses around the world, the actions become very focused.

The challenge is how to maintain a return to your deposit customers, while still generating sufficient income to deliver an enhanced customer proposition through IT advancement, as well as managing the ever-present compliance and regulatory requirements.

We are seeing companies around the world look into both alternative income options as well as expense minimisation strategies to deliver on their growth ambitions.

Heather Baister (Deloitte):
I'd like to pick up on cost efficiency. The majors for example, have historically had cost inefficiencies due to legacy systems. It has been multi-year projects for many to start to clean out the back office, to simplify and automate it.

If this was longer-term, I'd be interested in when, or how you think that's going to roll out for your organisations? And how you see that contrast with the ability to keep ahead of the rest of the market?

John Campbell (ANZ):
It still comes back to the proposition you are putting to the customer. A lot of the propositions that customers want and ask for require a speedy response, so the need for faster decisions.

The only way you can do that is to automate and have systems that are more intuitive, making real-time decisions as you go along. The outcome is ultimately that you have a more cost-efficient business, but really the reason you're doing it is because you want to provide a better customer experience.

"Cost efficiency has been and will continue to be on the agenda."

John Campbell (ANZ)

Melissa Christy (86 400):
It is easier to start from scratch to develop something like we have at 86 400. We don't have all the legacy systems and processes. If I go to how we approached lending when we formed 86 400, or 'Project Sparkle' as it was known when I joined, every piece of paper we observed the industry as requiring needed a human to look at it. So, we went through all the supporting document checklists and looked at what we could get rid of. Obviously our model is to be lean and involve as few people as possible. It was literally looking through that lens and asking what is the alternative system that can do what we need to be done.

Daniel Carde (Resimac):
If I read your press release correctly, for a refinance no paperwork is required, and for a purchase just one piece of paper is required, being the contract? That would be vastly different.

Melissa Christy (86 400):
Correct. No paper.

Glenn Gibson (ING):
Legacy systems are probably the biggest issue when it comes to opportunities for cost efficiencies and transformation from a lender's perspective.

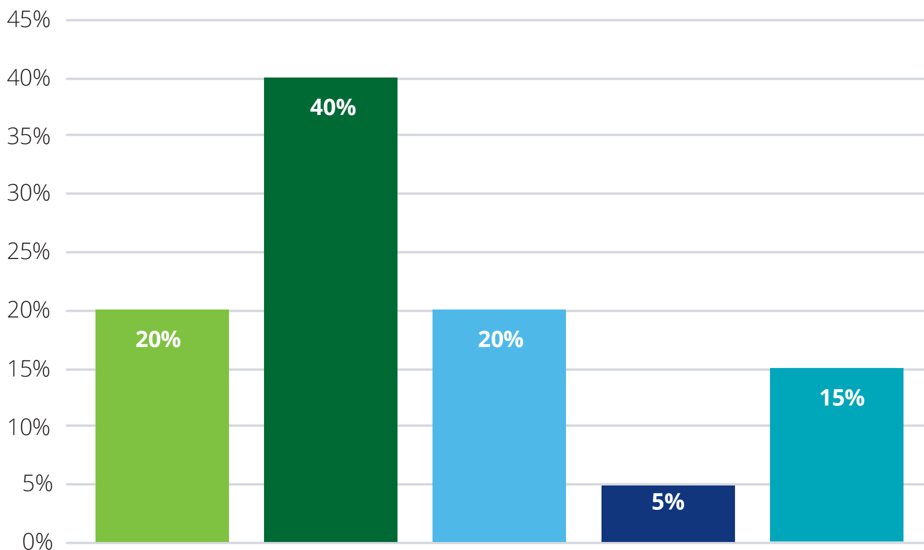
Invariably you want to do something transformational, something truly innovative. While it's easy to plan and design what you'd like to do in the lending space, it's a fact that all initiatives come down to prioritisation across the whole bank.

Funding of initiatives are normally prioritised on cost, customer outcomes and expected return and for most banks this means that legacy systems automatically put pressure on the cost of those initiatives.

Susan Mitchell (Mortgage Choice):
Compliance is going to go to the top of the queue over the next three years, so that will make it even harder I assume for other priorities to be addressed.

Graham Mott (Deloitte):
The next question is about the ACCC inquiry, which we see as contentious in 2020. So, while we previously discussed the pricing and funding pressures as they impact bank margins and profitability, this inquiry will focus on pricing and funding decisions as they impact the customer.

Q7 In October 2019 the Treasurer directed the ACCC to conduct an inquiry into home loan pricing, which two of the following aspects of the inquiry do you consider will be most contentious for the industry?



- Differences between the prices advertised and the prices actually charged to customers
- Differences between the prices charged to existing customers compared to new customers (i.e. back book versus front book pricing differential)
- Lenders decisions in not moving mortgage headline rates by the same as the cash rate movements from the RBA
- The timing of mortgage headline rate movement announcements versus implementation
- The existence of potential impediments to consumers ability to switch home loans

We asked you to select which two aspects would be the most contentious for the industry in 2020. You selected the focus on back book vs front book pricing, (the difference between prices charged to existing customers compared with new) as being the most contentious for the industry.

It was followed equally by the differences between the prices advertised and prices actually charged to customers; and lenders' decisions on not moving mortgage headline rates by the same percentage as the cash rate movement, as the next most contentious issues.

The lowest responses were for the timing question of announcements of mortgage headline rate and implementation, and the existence of potential impediments to switching.

The back book versus the front book difference has also been described as a 'loyalty tax' by some industry commentators. I think there's a consumer education process needed here, but I am interested in the views of this group. Is this issue as real as the media and others point out?

What are brokers seeing in terms of differential pricing in the front book today vs yesterday's front book, which is now the back book? Are we seeing it as marked as it has been? Perhaps the crux of the response is in how discounts have moved over time.

Graham Mott Deloitte

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John Campbell (ANZ):
If we look at the volume of back book pricing, it is clearly an important issue for clients. They are calling up and asking for a better rate.

Banks have admitted we must do a better job explaining the decisions we make on rates. We have to be more transparent. Customers will stay or choose to leave one way or the other.

Sam White (Loan Market):
One of the things we found most distressing about the Royal Commission into misconduct was the assertion that brokers don't do anything after settlement of the home loans. We do a significant number of repricing requests a month.

So, for our customers, we go back to the lender on their behalf and ask for their home loan rate to be reduced. Some of these requests are approved by lenders and some are not. Those requests are something we think good brokers should do all the time.

Customers choose to be with lenders for all sorts of reasons, not only price. For instance, increasingly the online experience is becoming as, or more important. This view that a mortgage is mostly a homogenous product set with price the only determinant is not true in our view.

However, when it comes to price, we find working with the lenders on the repricing model works. If the Government or regulators were to get involved in legislating back book/front book consistency, it would have a severe impact on the competitive landscape.

Susan Mitchell (Mortgage Choice):
I'm also concerned that the lowest interest rate argument will become the de facto case of 'best interest duty' for a broker. We are acting on that basis and that a broker will need to explain why a product was chosen. And, if there's a lower product rate, why it was not chosen. This becomes complicated because credit policy varies widely across different lenders.

For instance, one broker may find a lender willing to lend $500k to the customer, but another lender (at a lower rate) will only lend a lower amount, say $425k. The customer wants to buy a particular house, which they won't be able to do with the lower amount offered. The broker's recommendation of lender in this case will be focused on the objectives of the borrower, rather than the rate.

John Campbell (ANZ):
There's an assumption that the only reason customers stay with their existing bank is because of price.

It's not. There are a range of reasons why customers remain loyal. And it will be important for the ACCC to consider this in its inquiry.

Mike Thomas (Deloitte Access Economics):
The ACCC admit they want to better understand why customers don't move purely based on price.

Nathan Walsh (Athena):
From our experience the so-called "loyalty tax", the differentiated pricing between front-book and back-book customers, is an incredible source of borrower frustration. It came up again and again in our customer research.

And some of the recent analyst reports, issued since the ACCC pricing inquiry was announced, suggest that the differentiated pricing across the industry is actually increasing as rates fall.

Athena is the only Australian lender with zero differentiated pricing. In an Australian first, Athena provides customers with an automatic rate to match promise — we guarantee never to charge existing customers more than new customers on a like-for-like loan.

Nathan Walsh Athena

"The differentiated pricing between front-book and back-book customers, is an incredible source of borrower frustration."

Nathan Walsh (Athena)

Open banking

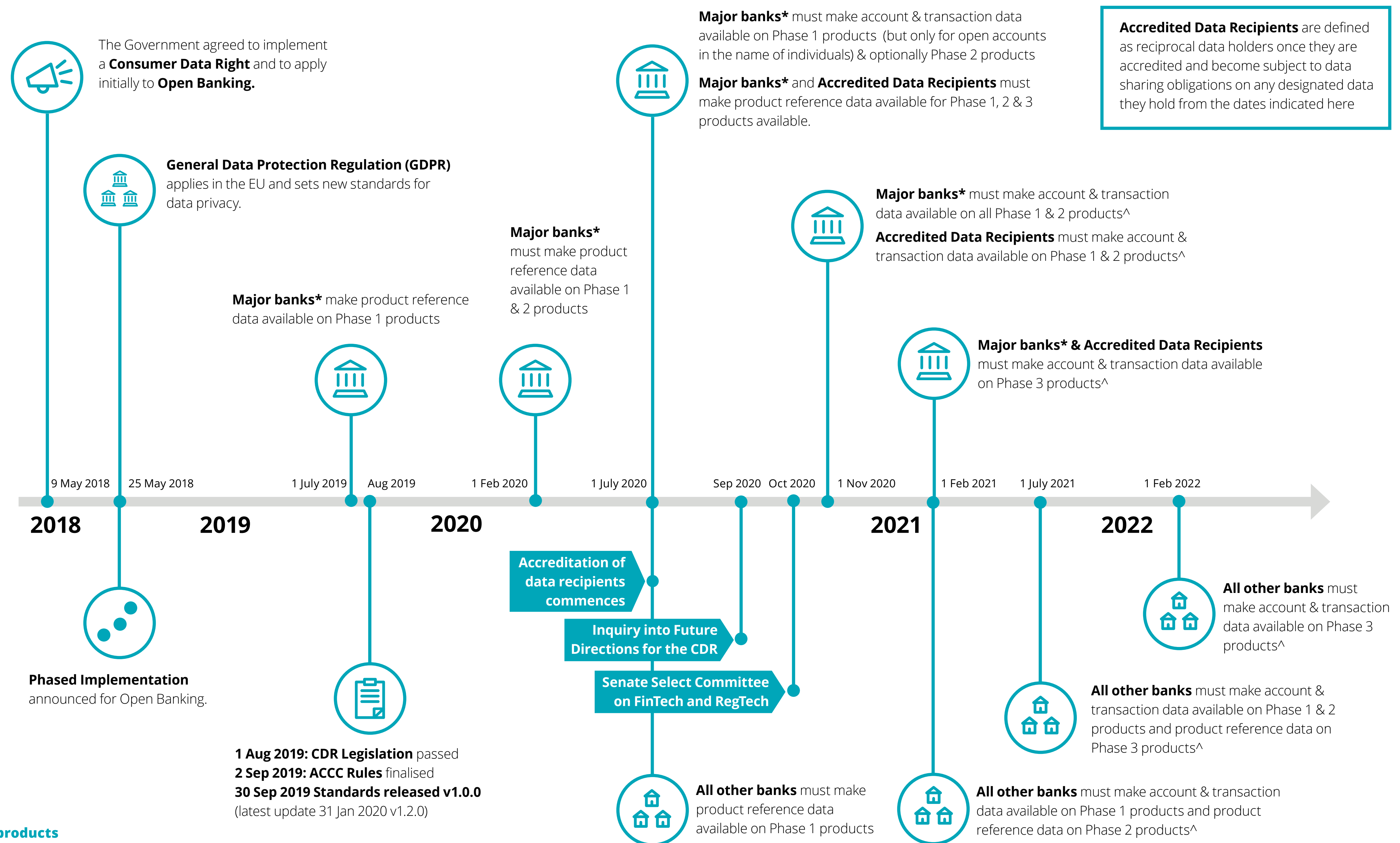
Open banking in Australia started on 1 July 2019 with the voluntary disclosure of product information by the major banks. This was followed by the passage of the Consumer Data Right legislation in August 2019.

When it has been fully rolled out, open banking in Australia will apply to all banks and any other non-bank organisations participating in open banking as accredited data recipients, and will include a broad range of banking products.

Following changes to the implementation timetable announced by the ACCC on 20 December 2019, the second revision to the timetable, the major banks are now required to provide customer account and transaction information on transaction accounts, savings accounts and other phase 1 products from **1 July 2020.**

Information on home loans and personal loans will be shareable by the major banks from **1 November 2020** and for all other relevant products, including overdrafts, investment loans and leases, from **1 February 2021**.

All other banks and accredited data recipients will be required to provide customer account and transaction information 12 months after the dates which apply to the major banks.



Phase 1 products

Savings accounts
Call accounts
Term deposits,
Current accounts
Cheque accounts
Debit card accounts
Transaction accounts
Personal basic accounts
GST and Tax accounts
Credit and charge cards (personal & business)

Phase 2 products

Home loan
Personal loan
Mortgage offset accounts

Phase 3 products

Business finance
Investment loan
Lines of credit (personal & business)
Overdrafts (personal & business)
Asset finance (including leases)
Cash management accounts
Farm management accounts
Pensioner deeming accounts
Retirement savings accounts
Trust accounts
Foreign currency accounts
Consumer leases

** Major banks include ANZ, CBA, NAB, and Westpac excluding their sub-brands i.e. Bank of Melbourne, St George, Bankwest etc*
^ Timings of elements beyond November 2020 will be reviewed by ACCC in the first quarter of 2020. following changes to the implementation timetable announced b by the ACCC on 20 December 2019.

This timeline is a simplified view of the ACCC Phasing table amended with the 20 December 2019 ACCC announcement. Data holders and potential Accredited Data Recipients should consult the phasing table to ascertain the products, account types and data types detail relating to each time period.

*For more information on **Unlocking the Value of Open Banking,** including the Deloitte Survey **'Switch or Stick: Insights into customer switching behaviour and trust',** go to https://www2.deloitte.com/au/en/pages/financial-services/articles/open-banking.html*

Innovation

James Hickey (Deloitte):
We began a discussion in the previous set of responses around cost efficiency. A key element in that discussion was the need to focus innovation on delivering better customer outcomes, while improving processes for lenders and brokers, and meeting compliance and 'best interests' requirements. Most of the answers highlighted that using regtech and robotics to reduce cost and risk when delivering mortgages will be most important in driving change.

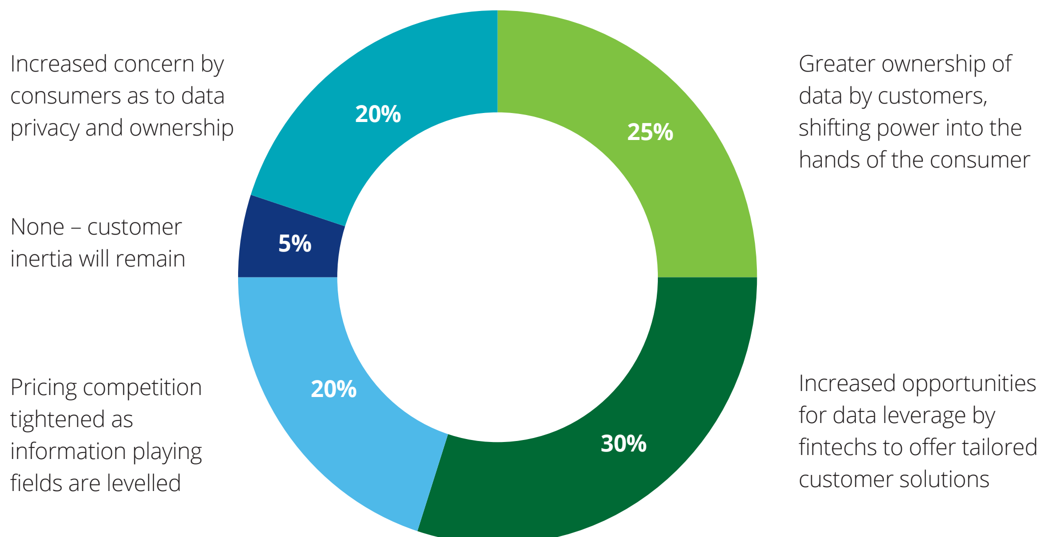
Another area that needs to be fully explored is leveraging data to enhance customer offers. This one is particularly relevant from an open data perspective with that regime set to come into effect in 2020. How lenders, brokers, fintechs and most importantly customers respond to it will influence the basis of competition in the coming years.

We asked you about the impact and the benefits it should deliver to customers, with you selecting your top two from a choice of five potential outcomes:

- A quarter of you believe greater ownership of data by customers will shift power into the hands of the customer.
- 30% believe that open data will increase opportunities for fintechs to leverage data to offer tailored customer solutions.
- 20% believe that opening up data ownership and transfer will mean greater price competition.
- Another 20% believe that customers will remain concerned about data and privacy.

Interestingly, only 5% of you believe there will be customer inertia. This means the majority of you believe that giving customers more information, a level playing field, and allowing some innovative fintechs and established lenders to supply innovative offerings will benefit consumers in 2020.

Q8 What will be the biggest impacts from 'Open Data' on mortgage customers?



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"The future of banking won't be determined by bankers; it will be determined by customers."

Glen Gibson (ING)

Glenn Gibson (ING):
The challenge for today's bankers is to make sure they're customer focused in everything they do. And there are huge opportunities to deliver real value to customers if we effectively leverage new and emerging technologies and changes like Open Banking.

Think back to when Google Maps was launched. The first time the map on our smartphones told us how far we were from home, it was both a shock and helpful. And that's just one app, in one situation.

The uptake of technology will be completely driven by customers, with the benefits usually the driver of this uptake. There is no doubt customers are concerned about their data and this is also where trust is vital. I certainly think there'll be massive benefits to customers when organisations leverage the opportunities of Open Banking and deliver amazing new customer opportunities and experience. We will really start to see the opportunities of Open Banking can deliver when customers can see the benefits for themselves.

Daniel Carde (Resimac):
With Open Data (and so Open Banking) everything is for sale. There will be a tipping point when customers are prepared to take the risk with their data if they get something significant in return.

Melissa Christy (86 400):
The only way we offer a home loan is digitally. We collect the information electronically from all of the customer's bank accounts, cards and loans. We don't do it any other way. We know by using this process, that not every customer will be for us.

However, both brokers and customers are largely excited by, and embracing the fact that they can share their data in two minutes. They see all their data in one place in the app, but also, when we summarise what their income and expenses are, they have all this information to help them understand their financial position. They then understand exactly where they sit. On the whole we have found that people do lose track of what they spend on groceries, or dining out, general shopping, travel etc.

Heather Baister (Deloitte):
David, as a smaller bank without perhaps access to the diversity of skill sets and capabilities that might sit behind John's ANZ and Paul's NAB teams, how do you approach something like open data?

David Harrys (RACQ):
Open Banking is about trust. Banks have functional trust. So, I think with Open Banking, once people start to trust where their data is and how safe it is, it then comes down to the compelling reason and the value proposition to move from bank A to bank B.

Susan Mitchell (Mortgage Choice):
What changes in the behaviour of the consumer will we see as Open Banking rolls out? Does it really mean that the customer will move their mortgage provider once a year?

Lisa Nelson (Equifax):
Worldwide we're involved in Open Data with our first marquee customer in the UK, HSBC. It is using Open Data more from a consumer serviceability, allegiance or loyalty perspective.

I agree that you do need to have a rock star consumer value proposition to get the customer to engage.

In the United States we see a little bit of traction with those consumers on the fringes of getting credit, or maybe having to pay massive premiums because they're in that 'too risky' demarcation.

They are paying high fees and are motivated to enable Open Data so a lender can look at their utility payments or those payments not traditionally reported in the bureau.

But until the industry can offer amazing consumer value, I believe it is a lot of hype right now.

Lisa Nelson Equifax

"You need to have a rock star consumer value proposition to get the customer to engage in Open Banking."

Lisa Nelson (Equifax)

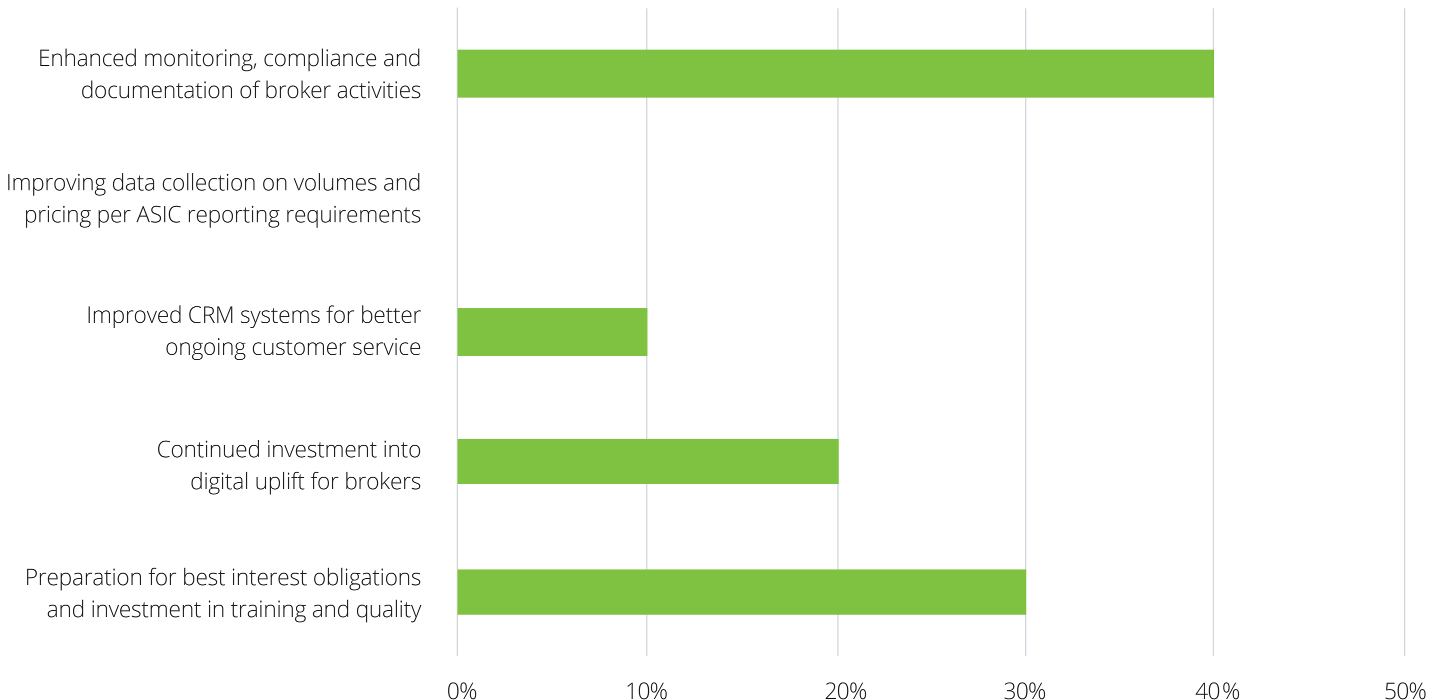
Distribution

James Hickey (Deloitte):
As we have heard throughout the roundtable today, the mortgage broker channel is valued by customers and a key channel for many lenders in reaching customers in the marketplace. It is also an important mechanism for lenders to hear of the issues customers may have with them.

Given the importance of the broker channel to a competitive and efficient mortgage market, we were interested in your views on where it should continue to evolve and improve.

First, we asked you to rank what are the top two areas where you consider broker distribution should focus improvement efforts over 2020. This showed that enhancing monitoring and compliance, coupled with integrating the upcoming best interests requirements, will be important for brokers and their aggregators.

Q9 In what areas will broker distribution improvements be focused in 2020?



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Susan Mitchell (Mortgage Choice):
It's just raining information and data and we are under a lot of pressure to use it to monitor our brokers and their processes. The only way we will be able to do it well is through automation and the use of more risk-based assessments. Our focus will be on IT innovation.

Sam White (Loan Market):
I think the areas listed are all fundamentally the same issues. You can't have one without the other on that list. The only thing I'd add to that list of areas of focus for the broker industry is IT security, and how much we're investing in that and analytics. We all want to be accredited data recipients in time. We want to be able to be in that space, so all our tech teams are growing. Analytics is a big growth area in our business, and we are trying to wrap compliance into our technology as much as we can.

Sam White Loan Market

"I'm sure all of us want to be responsible and valuable members of the technology ecosystem."

Sam White (Loan Market)

Melissa Christy (86 400):
Given our use of technology there is a great opportunity for us to work with aggregators to look to change compliance requirements over time and make brokers more efficient.

We want to be able to challenge what the broker collects today for every customer because for our deals we don't need it all; for example, we don't need a pay slip.

Sam White (Loan Market):
But as the licensor we can't do that because we have our own responsible lending legal obligations. It's on our license to have seen they comply.

Our requirements for responsible lending are higher than those for the lenders. We have situations where our lenders will do a deal that we won't do because our documentation requirements are higher than theirs.

Susan Mitchell (Mortgage Choice):
Like Loan Market all the brokers in Mortgage Choice are under the one credit license. So we need to ensure we invest in the IT systems and process to support meeting responsible lending obligations of our brokers.

This means the industry may find it is the larger more commercially viable groups that can afford to invest in this type of IT development. You have to have enough money at the aggregator level to pay for innovation and compliance structures, This may challenge some of the smaller aggregator models.

Susan Mitchell Mortgage Choice

"IT innovation doesn't happen at the broker level, it will need to happen at the aggregator level."

Susan Mitchell (Mortgage Choice)

Mortgage brokers

For most people, taking out a mortgage is the largest financial commitment they make. Mortgages are also seen as 'complex, multifaceted and nonlinear'. People start on the journey undecided, taking their time to decide whether to obtain a loan directly with a financial institution or use a mortgage broker. [2]

In the Deloitte Open Banking Survey 2019, two-fifths of the people with a mortgage had used a mortgage broker to apply for their mortgage loan.

More than half of all new residential loans approved in the year to March 2019 were originated by third parties, including mortgage brokers.[3]

Mortgage brokers, along with financial advisers, are seen as particularly influential for those intending to change banks in the next 12 months

Mortgage brokers were most influential for Millennials (Gen Y), a demographic likely to be taking out their first home loan.

A mortgage broker customer

Demographic
Age: More than half are less than 45

Education: University educated

Employment: In full-time employment in a professional role

Income: Household income of $91,000 or above

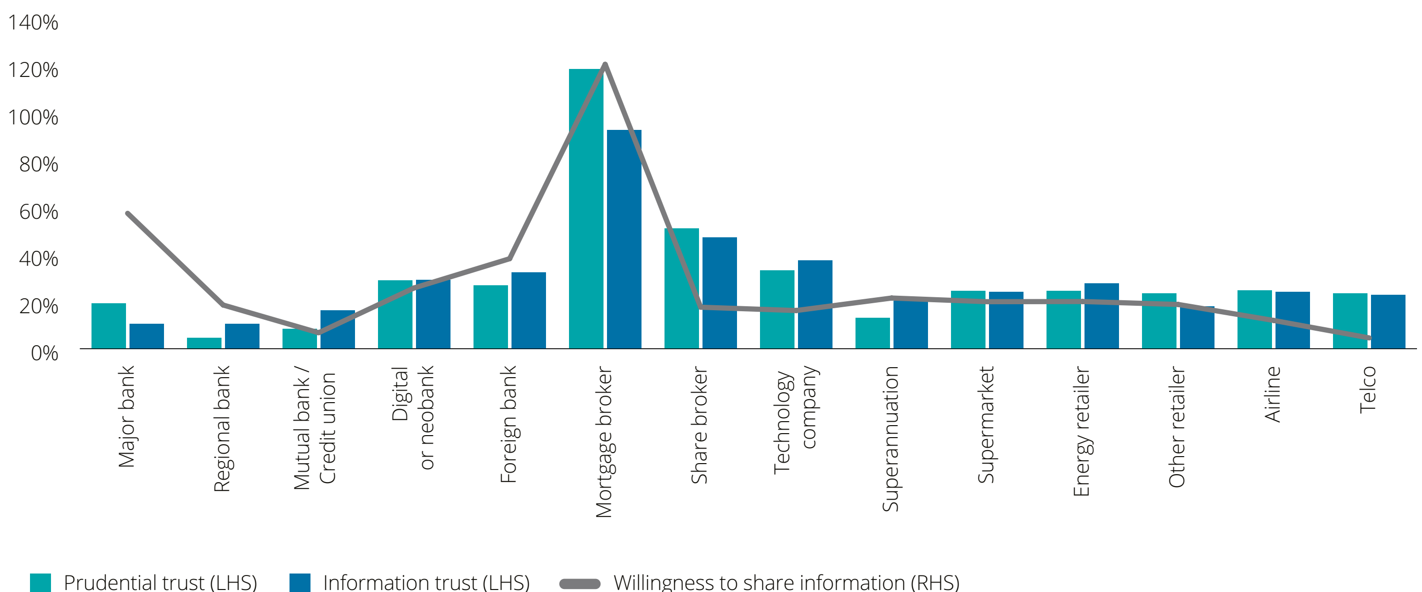
Behavioural Attitude to technology: Believe keeping up with new technology is only somewhat important

Attitude to sharing data: More willing to share data with mortgage brokers and major banks

Consumers were asked whether they trusted or distrusted organisations to keep their money safe (prudential trust) and information about them secure (information trust).[4]

The chart below shows the incremental score of customers who used a mortgage broker compared with all other customers (i.e. those who obtained their mortgage directly from their bank). It also looks at their incremental willingness to share data.

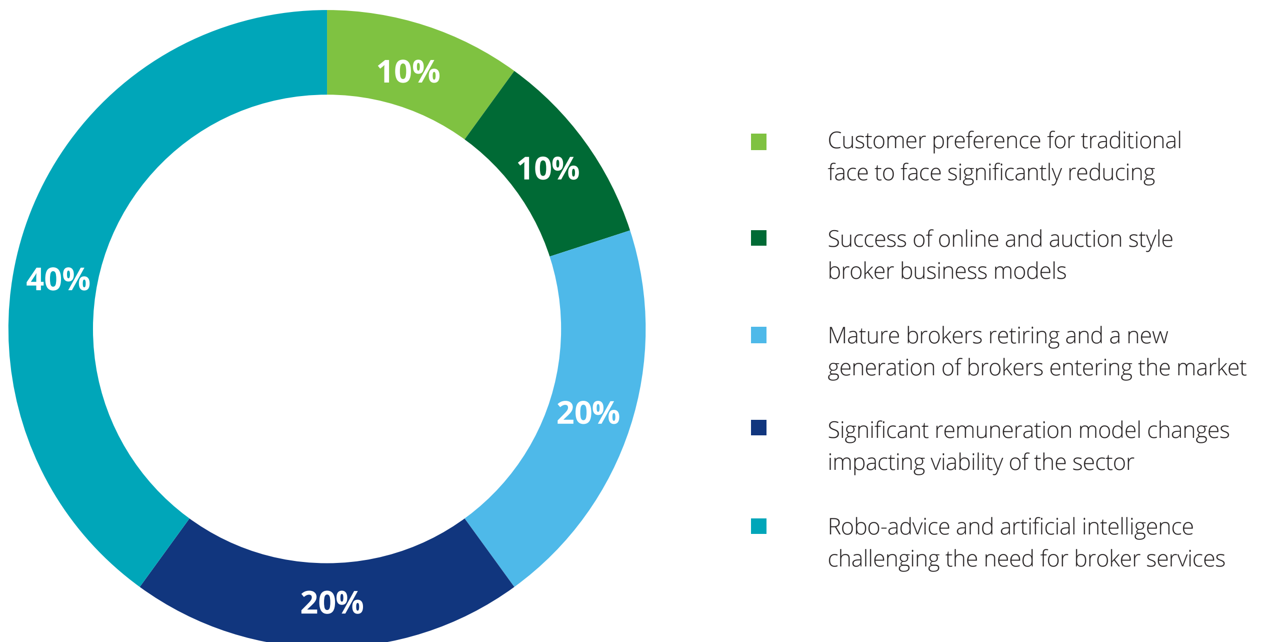
Trust and willingness to share data
Mortgage broker customers



2 Australian Securities & Investments Commission, Looking for a mortgage: Consumer experiences and expectations in getting a home loan, Report 628, August 2019. Refer https://download.asic.gov.au/media/5249601/rep628-published-29-august-2019.pdf
3 APRA, Table 1c ADIs' new housing loan approvals, Statistics: Quarterly ADI Property Exposures, March 2019 (released 19 June 2019). Refer https://www.apra.gov.au/publications/quarterly-authorised-deposit-taking-institution-statistics
4 Answers were provided on a sliding Likert scale which varied from 'Don't trust at all (1) to 'Completely trust' (7). This chart measures the incremental response for mortgage broker customers relative to customers who sourced their mortgage directly from a bank.

James Hickey (Deloitte):
Our second broker question is about looking beyond 2020 to the next few years and reflecting on the disruptive forces to the current broker model. The biggest response was for robo-advice and artificial intelligence completely challenging the need for broker services.

Q10 What will the major disruptive force to the current broker channel be over the next 3 years?



Susan Mitchell (Mortgage Choice):
I actually consider robo-advice as a tool to be used by a broker rather than competing against brokers. It may be a different kind of broker than that we see today, but I don't believe a robo-advice structure necessarily means there is no broker involved.

I think there is a big opportunity in the future for a robo-advice structure where a simpler transaction flows straight through the broking process to a lender and on through to settlement. Whereas a more complex transaction, or one where the customer requires more information, may kick out the process and require a face-to-face meeting to complete. The reality is that consumers are becoming more complicated.

Melissa Christy (86 400):
Speaking as an organisation without a face-to-face (F2F) channel, the broker channel was a logical place for us to start. I don't see F2F or brokers going away for mortgages any time soon. I still think those who need help will choose which lender is right for them. Not all consumers need help, but a large proportion of consumers do.

Susan Mitchell (Mortgage Choice):
The risk I see with a quick direct solution is that once consumers get a fast decision, they may not shop around for a better deal.

Sam White (Loan Market):
One of the things that's not on the list of disruptive forces is that the broker starts to take his or her position of trust with the consumer for granted. I think that's the real danger. Technology will evolve and brokers will evolve or not with trust. I think there's a danger in aggregators thinking they can flog their own product through this channel without thinking. This will dilute the fundamental value that brokers bring of 'putting my customer first'.

If brokers lose that, or it goes away and gets replaced by something more efficient that delivers better value to customers, then that is the demise of the broker. However, I think the 'best interest' duty of care will help prevent that.

David Harrys (RACQ):
All the major banks are retreating from their direct distribution models because they realise they can't compete with brokers. If they believed they could compete with them, they'd be investing in those channels.

For most people that run a distribution model, the biggest argument they have with their lender is how many applications they can take this week. How many interviews? That's business development. If you run your own business as brokers do, they have to have those conversations, because if they don't, they don't exist. They have to service their customer base.

Glenn Gibson (ING):
I don't think it's something that's going to take three years and lots of disruption. Nearly all lenders, and we're certainly one of them, are moving away from a channel focus, to providing customer choice and experience. We need to be where our customers are.

This will either be self-serve, face-to-face, or over-the-phone. We're expecting a reduction in 'over-the-phone' with digital innovation meaning more customers can self-serve. But again, it comes down to customer choice.

How you come into a mortgage transaction isn't necessarily where you want to stay for the whole experience. You might come in at self-serve and then go face-to-face.

Every lender will determine where they want to position their offering across these different spaces.

Self-serve may be your sole option if you're purely a digital lender. We've chosen to give customers total choice, and for us that means self-service, over-the-phone and using mortgage brokers as our preferred option to deliver our face-to-face proposition.

John Campbell (ANZ):
Channels have to operate in an 'omni-channel' manner, so the customer can seamlessly move between different channels. They may start in the branch and finish on the phone. Or maybe start with a broker, go into a branch to do something and then finish online.

Glenn Gibson (ING):
When you talk about lenders with branch networks and brokers, neither of them will go away. It's all about having the channel your customer needs, when they need it.

On that note Deloitte thanked all the attendees for sharing their insights.

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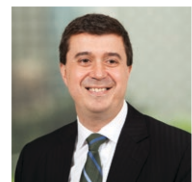

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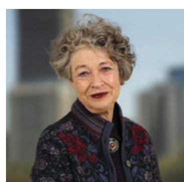

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