25/08/2018

Easy & Transparent Trading Consultation Paper
Regulatory Policy, BRD
Department of Finance, Services and Innovation
Level 5, McKell Building
2-24 Rawson Place
Sydney NSW 2000

ATTN: Matthew Kean MP

RE: Easy & Transparent Trading Consultation Paper – Response

Dear Minister,

Summary of Specialist Finance Group (SFG): An aggregator and financial services business who facilitates transactions between brokers and the banks. SFG provides systems, services, and transacts on brokers remuneration as well as having corporate oversight and scrutiny of brokers' behaviours to ensure they are aligned to best practices, within industry standards, and for better consumer outcomes. SFG is a corporate member of both industry bodies inclusive of MFAA and the FBAA and prides itself on having no bank ownership and is one of the oldest family owned aggregators in Australian history having been in business for more than 27 years.

I refer to your request for a response to the paper and in due course will provide commentary and recommendations. From the outset of your paper, your objectives are noted as; 1. Wanting it to be easier to do business, 2. Encouraging competition and, 3. Transparency and consumer choices. The good news is that the finance broker channel champion all of these statements. Brokers are more accessible than the alternative, more skilled, bring about competition to the market and clearly disclose how they trade and how much they are paid prior to the client choosing them all whilst producing a solution that the client makes the end decision on. Specifically I will be addressing the finance broker channel and be addressing the second part of your paper titled *Increasing Transparency and Consumer Choice* and some selected points around trailing commissions and comments you make to tie in messaging around brokers and specifically trail, consumer outcomes and churn.

1. *2.1 Notice of key terms in a consumer contract*
   The paper attempts to make relevant the signing of an online book reading contract with that of one of the most important and largest investments of a consumer's life. Specifically noting the t & c's of Facebook, Kindle and Kobi's document is close to 10,000 words is very different to the organisation of a mortgage, its' disclosures and the important difference between reading a book and assuming the responsibility of owning a home and understanding that you need to make repayments if you acquire a debt as a part of the

process. However, noting these comments, I can advise that our disclosure documents are less than 2,500 words with our brokers and a major bank loan contract disclosing all commissions to the aggregator (broker) is less than 3,000 words. As an example of disclosures and as a requirement of the acts brokers work with, a credit guide is provided to potential clients prior to giving advice that from the very first page sets out broker commissions and a client's right to ask about the services provided inclusive of remuneration. On page two of this document, it states that no there are no fees payable by the client unless specified and notes (in the absence of noted fees) that the fees or commissions will not be payable by the client. As a part of the process when dealing with a broker, the client is informed verbally and no less than four times by document how the broker is paid and mostly what the broker is paid lender to lender (which is generally the same).

2. *Disclosure of Broker Commissions and Referral Fees*
   The paper notes 'referrals can come from a range of different sources, including accountants, travel agents, real estate agents, broker and aggregation websites.' Caution is advised here as brokers are equipped and licenced to give advice around lending products and comparisons whereas the rest on this list are usually not. Brokers are bound by regulations seeking better outcomes where referrers are generally not. Referrers are determined by the lenders generally and remunerated so. To include brokers in this stream of doing business is neglectful of fact and the broker channel generally has no oversight, impact or ability to stop a bank paying (what it determines to be) a referrer.
   Further, broker remuneration is very different to financial planning remuneration yet in your paper, you view it as comparable. If I take an insurance product which costs x and add my commission that means cost to consumer is y, then yes there is a case for these type of products to have higher commissions that impact the costs to consumers based on what the planner sets as a fee. Whereas lending products pay a broker a fee as set up in their schedule which is disclosed no less than 4 times to a client prior to the broker being paid and usually months beforehand. This fee is paid in two ways; an upfront, and a trail. The trail is an offset of upfront commission earned for the introduction, management and ongoing availability of care for that client. Upfront commission is paid by marginalisation which is factored by the longevity of a client staying with the lender and generally borrowed against the term of the loan. A payment methodology that increases competition as second to third tier lenders can afford to compete in, by offsetting upfront payments through trail.
   Page 42 under same title goes on to state that 'these commissions [trail] contribute to consumer detriment through higher prices'. This is inaccurate and can be demonstrated through basic market research. Based on a search of lenders that use brokers and pay trail to those brokers versus the ones that do not use broker or do not pay trail I found that out of three banks that I surveyed that do not use brokers, the rate to client begins at 4.2% and climbs, whereas for the same scenario, broker to client available rates start at 3.59% and pay the broker trail. The comparable banks that all have lower fees and interest rates compared are Bank of Sydney, Bankwest, ING, Macquarie Bank and all pay a trail to the broker.

I implore you to consult with your peers at ASIC, APRA, Treasury, Choice Consumer group, the Combined Industry Forum, heads of the industry groups and consumers in general. All will advise that competition is good for the consumer. I would like to highlight that whilst cost is a significant factor, over the last 30 years the statistics will show the costs of funds margin to consumer has lowered. What is of even greater or equal significance is the product innovations and broader product offerings and fee structures that again have benefitted all consumers.

Consumers have increasingly chosen brokers as their preferred credit advisors and from the outset, are made aware of how the broker is remunerated. This remuneration is but adequate for the works carried out by a broker for their customer and further, the client can pull out of the transaction at any time usually without (usually) any financial penalty.

Like your comparisons to OECD with similar but different models, NZ are re-introducing trail as upfront only does not work. The U.K never had trail to begin with but have a questionable churn problem, the U.S. and Canada pay significantly more than our lenders and do without clawback and trail which our providers cannot afford. We are an industry that is but 30 years old and continually adapting and changing. It was less than ten years ago that we implemented significant change compliance wise and reduced commissions.

Any customer questioning why their broker gets their trail should simply ask them or switch brokers who will happily service that client. In my experience, most clients use the services of their broker many times and we do not suffer many issues of clients that are unsatisfied with the service offered by their broker. This is generally confirmed by the credit ombudsman statistics provided stating that in 2016-17 Brokers represented 91% of CIO membership but only 6% of complaints. Between 2013-2017 brokers made up less than 1% of complaints vs. banks and credit providers, who made up 89%. Broker introduced clients represent 1 complaint for every 1,427 broker introduced contracts in 2016/2017.

In summary, the commission model being just but adequate, should have no, to minimal changes so that broker can continue to service their clients in the exceptional way they have been doing so to date, without diminishing competition. To change broker commissions would adversely impact competition leading to worse conditions for consumers in such need of better outcomes. Broker commissions do not increase the costs to the end user and in fact, reduce the costs and produce better products and outcomes as a result. Any financial adjustment would have devastating affects to the broking community. Like recent industry enhancements adopted by the broker channel, we should consult and seek better outcomes for broker introduced clients and if that requires a mandated after settlement service, we shall seek it and audit those practices moving forward.

As always, if you require any information, feel free to contact me directly.

Sincerely,

BLAKE BUCHANAN
AGGREGATION | ACQUISITION | STRATEGY