

REVIEW OF MORTGAGE BROKER REMUNERATION STRUCTURES

Scoping Discussion Paper

February 2016



ASIC
Australian Securities &
Investments Commission

SCOPE OVERVIEW

The Government has requested that ASIC review the mortgage broking market to determine the effect of current remuneration structures on the quality of consumer outcomes.

The scope of this review encompasses a series of review elements, including:

- Overview of the home lending market (refer section 1 of this paper)
- Remuneration structures (refer section 2 of this paper)
- Consumer outcomes (refer section 3 of this paper)

REVIEW TIMELINE

Outlined below is an overview of key review stages.



We note that the roundtable and written feedback processes detailed below will not be the only opportunities to engage with us as a part of this review.

We are committed to regular engagement and consultation throughout the review process.

SCOPE CONSULTATION PROCESS

ASIC will host two industry roundtables and seek written feedback to assist in determining the appropriate scope of this review. This will provide industry participants with the opportunity to share their ideas and insights regarding the scoping considerations and questions detailed in this paper.

We will finalise the scope of the review subsequent to the close of written feedback on **11 March 2016**. We anticipate that information gathering requests will be sent out in early April 2016.

Roundtables

Roundtable participants represent a cross section of industry and consumer advocates, and have been selected in part through consultation with industry associations.

Roundtables will be held on the following dates, at the following locations:

- ASIC Sydney Office – Friday 26 February 2016
- ASIC Melbourne Office – Monday 29 February 2016

Written Feedback

Your insights and ideas are important to us, and will assist us to shape the final scope of the review.

We encourage you to submit short written feedback to both the 'Scoping Considerations' and the 'Scoping Questions' outlined in this paper, as well as on any other issues you would like us to consider prior to finalising the scope of the review.

We encourage you to submit feedback regardless of whether you have attended, or intend to attend, an industry roundtable.

Due Date

Written feedback on the scope of the review will close on **Friday 11 March 2016**.

Industry Associations

Your written feedback on the 'Scoping Considerations' and the 'Scoping Questions' can be sent to your industry association, who will coordinate response to ASIC.

Privacy: You may choose to remain anonymous or use an alias when providing feedback. However, if you do remain anonymous, we will not be able to contact you to discuss your feedback where appropriate. We will not treat your feedback as confidential unless you specifically request that we treat the whole or part of it (such as any personal or financial information) as confidential.

Please refer to our privacy policy at www.asic.gov.au/privacy for more information about how we handle personal information, your rights to seek access to and correct personal information, and your right to complain about breaches of privacy by ASIC.

THE HOME LENDING MARKET

KEY POINTS

Consideration of core market elements e.g. structures, relationships, activities, value propositions, etc. is a key component of this review.

We will review the mortgage broking market in the context of the wider home lending market. This may include comparison of mortgage broking against other distribution channels.

We will review ownership structures, and consider the impact (if any) of the structures on product accessibility, loan performance and the quality of consumer outcomes.

The 'Scoping Considerations' table below sets out elements of the home lending market, and our proposed approach to the consideration of those elements. Based on these considerations, we have developed a series of 'Scoping Questions' which follow to assist us to shape the final scope of the review.

Whilst the 'Scoping Questions' will be the primary focus of discussion at the roundtables, we invite you to provide us with your written feedback on both the 'Scoping Considerations' and the 'Scoping Questions'.

SCOPING CONSIDERATIONS

Participants and their roles

Which may include:

- Lenders (incl. non-bank lenders)*
- Aggregators*
- Brokers*
- Comparison websites*
- Referrers*
- Multi-disciplinary practices*
- Lenders mortgage insurance providers*
- Industry associations*
- External dispute resolution*
- Consumer advocates*
- Regulatory authorities*
- Other*

Scoping proposition

A wide variety of stakeholders participate in the home lending industry at various stages of the value chain.

We propose to examine the role of brokers and other participants involved in the distribution of home lending products.

Distribution channels

Which may include:

Lenders
Brokers
Referrers
Online
Other

Scoping proposition

Around 50% of home loans are originated via mortgage brokers.

We propose to:

- a) examine current distribution channels; and
- b) gather information to measure loan performance by distribution channel (refer sections 2 and 3 of this paper).

Products

Which may include:

Residential investment loans
Residential owner occupier loans
Reverse mortgages
Commercial loans
Personal loans
Credit cards
Insurance products
Other

Scoping proposition

At various life stages, consumers may access and choose from a selection of home lending products on offer by lenders.

We propose to:

- a) identify the residential mortgage products available to home loan consumers by distribution channel; and
- b) review the criteria for product inclusion on lender panels.

NB: each loan type may be further characterised e.g. loans with offset or redraw facilities, interest only, low doc, other non-standard loans etc.)

We do not propose to review the distribution of non-residential mortgage products (e.g. commercial loans or personal loans) other than to the extent that they have a material impact on remuneration in respect of residential mortgage products.

Ownership structures

Which may include:

Full vertical integration
Lender, aggregator and broker alignment (e.g. through equity stakes or licence arrangements)
Independent
Other

Scoping proposition

We propose to:

- a) review existing ownership structures of industry participants within the mortgage broking market; and
- b) gather information to measure loan placement and loan performance by type of ownership structure.

SCOPING QUESTIONS

What home lending products do you consider should be included for review? e.g. should all home lending products, including reverse mortgages, be placed under consideration?

- 1** Should we consider the remuneration structures associated with products other than residential mortgages? e.g. review non-residential mortgages products (such as commercial or personal loans) in circumstances where the remuneration structures are linked to the sale of residential mortgages.

Have all types of relevant industry participants been identified as a part of the scoping considerations above?

- 2** Are there any home lending market participants that you consider should or should not be examined as a part of this review? e.g. real estate agents, accountants and multi-disciplinary practice referrers.

- 3** Which home lending product distribution channels do you consider should or should not be included in the review for consideration and comparison?

- 4** What do you view as the emerging and potential future trends in the distribution of home lending products? e.g. new entrants and models, disruptors, online/technology influences, market consolidation, succession planning etc.

- 5** Are there any other matters you feel may be beneficial for consideration?

REMUNERATION STRUCTURES

KEY POINTS

Consideration of remuneration structures is key component of this review.

We will review all remuneration structures, including non-monetary benefits, relating to the distribution of home lending products throughout the value chain.

We will seek to understand differences present in remuneration structures between, and amongst, distribution channels. We will examine factors such as payment types, categorisation, services provided, timing, and related controls.

The 'Scoping Considerations' table below sets out review elements in relation to remuneration structures, and our proposed approach to the consideration of those elements. Based on these considerations, we have developed a series of 'Scoping Questions' which follow to assist us to shape the final scope of the review.

Whilst the 'Scoping Questions' will be the primary focus of discussion at the roundtables, we invite you to provide us with your written feedback on both the 'Scoping Considerations' and the 'Scoping Questions'.

SCOPING CONSIDERATIONS

Remuneration types

Which may include:

- Salary and bonuses*
- Commission*
- Profit share arrangements*
- Discounts*
- Fee for service*
- Rebates*
- Non-monetary benefits*
- Other*

Scoping proposition

Remuneration types may vary widely according to the services provided by, and remuneration structure designed and agreed between, industry participants.

We propose to:

- a) review remuneration types, and structures utilised by industry participants; and
 - b) seek to identify whether there are significant differences between the type, nature and structure of payments made at the individual, broker business, aggregator and lender levels.
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Remuneration categorisation

Which may include:

*Upfront and/or trailing
Volume, loan size, product,
customer and/or campaign
based
Non-monetary
Other*

Scoping proposition

Payment types may be categorised in a multitude of ways, for example, according to the timing of payment, nature of the home lending product and/or consumer type.

We propose to review how payments are commonly categorised by industry participants, and the proportion of the market which utilises each category type within its remuneration structures.

Payment timing

Which may include:

*Loan approval
Draw down
Gross or net balance on offset
Balance from time to time
Clawbacks on refinancing
Other*

Scoping proposition

Payments may be made at a number of stages throughout the loan cycle.

We propose to:

- a) identify the stages at which payments are made by industry participants; and
- b) review the circumstances in which, and frequency with which, payments are clawed back.

Payment controls

Which may include:

*Oversight and monitoring of
remuneration structures
Oversight and monitoring of
payments made (including
clawbacks)
Other*

Scoping proposition

Industry participants place a series of controls around the design, review and management of remuneration structures.

We propose to:

- a) review governance, risk and compliance mechanisms in place to manage remuneration structures; and
- b) consider their effectiveness in promoting quality consumer outcomes.

Services

Which may include:

The value proposition of:

- *Lenders*
- *Aggregators*
- *Broker businesses*
- *Individual brokers*
- *Other*

Scoping proposition

Industry participants provide a wide array of services to consumers and other industry participants throughout the end-to-end home lending process.

We propose to:

- a) understand the value proposition presented by industry participants to consumers and other industry participants; and
- b) consider services which are executed which may not involve payment (e.g. broker services provided to consumers which do not end in loan approval).

SCOPING QUESTIONS

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- 6 What are the primary remuneration structure models utilised by industry participants? e.g. rebate, no commission, upfront/trail models, non-monetary benefits etc.
- 6 How predominate is each model type across industry, and does utilisation depend on participant characteristics? e.g. do larger scale participants only use certain models?
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- 7 What is the level and nature of stability in remuneration structures? e.g. how frequently are the principles underpinning structures updated, varied or amended? What are the typical drivers for change (if any)?
-
- 8 Given the size of the broker business sector (i.e. over 5,000 businesses), what cross section of the broker business sector do you consider should form the focus of the review so that a fair representation of remuneration structures are examined?
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- 9 What do you view as the emerging and potential future trends within remuneration structures?
-
- 10 Are there any other matters you feel may be beneficial for our consideration?
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CONSUMER OUTCOMES

KEY POINTS

Consideration of consumer outcomes, and the impact (if any) remuneration structures may have on their quality, is a key component of this review.

We consider that consumer outcomes are multifaceted; comprising of a series of factors such as price, product accessibility, features, performance, service times, etc. which may vary in importance from consumer to consumer.

We seek to understand the factors and priorities which drive consumers to apply for home lending products through particular distribution channels.

We seek to understand consumer expectations of and experiences with, particular home lending distribution channels and their respective sales processes.

The 'Scoping Considerations' table below sets out review elements in relation to consumer outcomes, and our proposed approach to the consideration of those elements. Based on these considerations, we have developed a series of 'Scoping Questions' which follow to assist us to shape the final scope of the review.

Whilst the 'Scoping Questions' will be the primary focus of discussion at the roundtables, we invite you to provide us with your written feedback on both the 'Scoping Considerations' and the 'Scoping Questions'.

SCOPING CONSIDERATIONS

Consumer categorisation

Which may include:

*Investors
Owner occupiers
First home buyers
Other*

NB: each consumer type may be further characterised e.g. credit impaired, self-employed, employed, refinancer etc.

Product features

Which may include:

*Loan term
Loan type/composition
Lenders mortgage insurance
Access to other products and features (e.g. offset and redraw facilities)
Other*

Product price and set-up

Which may include:

*Loan size
Loan to valuation ratio (LVR)
Overall package price
Interest rate
Fees and charges
Distribution channel costs
Other*

<p>Accessibility Which may include: Loan approval Products available (lender/product choice) Channels available Other</p>	<p>Legal requirements Which may include compliance with: National Consumer Credit Protection Act (2009) Corporations Act (2001) Property law Contract law Other</p>	<p>Intangibles Which may include: Customer service Relationships Brand trust/goodwill Customer experience Other</p>
<p>Short-term outcomes Which may include: Approval speed Access to pre-approval Settlement support and payment procedures Loan flexibility Other</p>	<p>Long-term outcomes Which may include: Full repayment of loan Refinancing Default rates Credit history Suitable repayment plans / loan flexibility Other</p>	<p>Macro outcomes Which may include: Economic impact of loan size and LVR outcomes Cross subsidisation between distribution channels Other</p> <p>Note: we do not propose to focus on macro-economic outcomes.</p>

SCOPING QUESTIONS

- 11** What factors do you consider we should prioritise in assessing consumer outcomes?
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- 12** What are the typical ways in which industry measures the quality of consumer outcomes? e.g. loan performance, complaint levels, etc.
- What information gathering methods do you consider would best assist us to identify:
- the factors and priorities which drive consumers to apply for home lending products through particular distribution channels?
- 13**
- consumer expectations of, and experiences with, particular home lending distribution channels and their respective sales processes?
 - the influence or impact (if any) of remuneration structures on consumer decision making and outcomes?
- e.g. consumer focus groups, behavioural economic research, testing consumer outcomes against particular remuneration structures etc.
-
- 14** When reviewing loan performance, what is your view regarding the appropriate time period which will provide a fair representation of performance? e.g. loans written in the past year, two years, five years etc.
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- 15** Are there any other matters you feel may be beneficial for our consideration?

INDICATIVE DATA GATHERING

ASIC has identified possible quantitative and qualitative data which it considers may be appropriate to request as a part of our information gathering and analysis exercises.

We have provided a sample of indicative data below for your reference. We anticipate that information gathering requests will be sent out in early April 2016.

<p>Market overview</p> <ul style="list-style-type: none"> • Overall share of home lending product sales (number, type, geography, etc.) • Market share of mortgage brokers (including number of broker firms, mortgage sales by borrower type and product, product sales per lender) • Number, and proportion of products available direct and through mortgage broker markets • Product panel composition (including product entry requirements) • Ownership structures of participants 	<p>Consumer satisfaction</p> <ul style="list-style-type: none"> • Consumer satisfaction results (e.g. net promoter scores, commissioned consumer surveys and/or research) • Number of relevant complaints <ul style="list-style-type: none"> • Resolved through internal dispute resolution • Resolved through external dispute resolution (including breakdown of resolution in consumer and financial services provider favour) • Complaint themes • Common rectification steps taken • Lessons learnt, including changes to policies or procedures.
<p>Loan performance by distribution channel</p> <ul style="list-style-type: none"> • Length of tenure • Application quality • Loan size • Quality (arrears) • Default rates • Payment shortfalls • Level of LMI • Acquisition costs • Interest rates • Complaint levels 	<p>Remuneration structures</p> <ul style="list-style-type: none"> • Services provided • Payment types • Payment categorisation • Payment timing • Payment controls • Governance risk and compliance structures in place to manage remuneration structures

SCOPING QUESTION SUMMARY

SCOPING QUESTIONS – MARKET OVERVIEW

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