

## The Inquisition : What Do We Know So Far?



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fresh ideas...



If you read the papers you will no doubt have seen lots of press coverage of the ongoing investigations into our banks. What we have at present is a two-pronged process with a royal commission investigating potential misconduct and the Productivity Commission investigating competition, or lack thereof, within the banking sector. Both processes appear to be primarily focused on consumer lending as regulated under the National Consumer Credit Protection Act, albeit commercial and business lending will no doubt get some attention in due course. Needless to say, finance brokers have been caught up in the various enquiries and the press have been none to kind to the profession. Interestingly, a number of banks have also fessed up that they don't really like brokers and surely the whole system would be better off without them. Internal memos bearing the letterhead of our biggest bank suggest that they have, for some time, played the we support brokers game while internally reflecting on a world where intermediaries would not exist in their current form.

To be fair I think there is an argument for doing away with brokers. It is predicated on two critical outcomes. The first is that we have to start educating consumers about how the financial system works. We spend a significant amount of time simply explaining how banking and finance products work, what the obligations of a borrower are and how to budget and plan for the future. No one pays us for this and we carry significant business costs to provide this free service. The banks are simply not resourced to potentially spend many hours with a client and not make any money out of it.

Secondly, the banks have to get much much better at what they do, particularly in terms of transparent and competitive product offerings. The standing joke in our business is that if the banks were exceptional at what they did and resourced their staff appropriately no one would need us. As luck would have it (if you are a broker) that day is a long way off I suspect.

The media appears to have virtually no clue as to how brokers such as ourselves operate, the services we provide, and the very positive customer outcomes we are able to negotiate. The brutal truth is that the banks would prefer that brokers did not exist because we hold them to account and demand competitive product offerings. The competition created by the broker finance tender process that we manage is a proven catalyst for sharp pricing and reasonable lending terms. Left to their own devices the banks would prefer to charge higher rates and fees and implement more onerous lending conditions. That's not a criticism, these are businesses and they have an obligation to make money for their shareholders. As disrupters in the process our job is to ensure that the natural preposition of banks to make money is balanced with the best outcomes we can achieve for our clients. We are the only independent pro-client finance industry expert advocacy voice in a process where all the power is in the hands of the product provider.

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Of course, the media will say that the banks pay brokers which, they will argue, creates an unholy trinity in which a broker could easily be compromised. Maybe best to ban commissions and have the consumer pay the broker. This argument is so flawed as to be laughable. Broker payments are a cost of doing business for the banks and brokers save them millions in staff wages. In fact, as the banks reduce staff in their endless efficiency drives we put on more people to ensure decent levels of service. Make no mistake, if brokers disappeared tomorrow the banks would not restaff themselves to ensure the role played by intermediaries was taken up by their employees. The idea of having the consumer meet a cost which is currently paid by the banks seems to have escaped the media radar in terms of what might be a less than desirable outcome.

But, I hear you say, surely the broker payment is factored in to the rates and fees paid by borrowers. The fact is that brokers are essentially outsourced resources that banks only have to pay if business is done. The countless hours spent with consumers who end up doing nothing are not covered by banks and they don't have to pay salaried staff to work in business development roles, often out of normal business hours. Brokers cover these bases and take all the business risk in terms of costs versus outcomes.

Lastly, the enquiries have, at last, focused on a dirty little secret that the banks would prefer not to talk about. While finance brokers must carry insurance, be registered with ASIC, be appropriately qualified and in our case have an Australian Credit Licence some banks pay pretty much anyone for referrals. Quite rightly the commissions of enquiry have asked the banks to explain this practice, particularly in the light of some very compromised relationships between bankers and referral sources. There seems to be little doubt that the regulators will look more closely at these arrangements and seek to question referrers about their relationships with the banks. In fact, one of the majors has been seriously chastised for failing to address the matter in recent submissions. We believe that arrangements between realtors and other unqualified and uninsured referral sources and lenders will be the focus of further investigations, particularly where payments have not been fully disclosed. The ultimate outcome may well be a situation where the regulators encourage aggrieved borrowers to pursue the parties who recommended particular banks. As brokers we have specific insurance for just such a situation albeit we have not had to rely on it to date.

Our advice to anyone who is not qualified and insured and is receiving payments from banks is to stop now. There is no doubt that this practice has a huge potential to create problems, regardless of the best intentions of the referrer.

In closing we are delighted to welcome Cameron Wicking to our team. Cam will be focused on servicing our clients and industry partners in the Brisbane and Gold Coast area. I am sure many readers will already know Cameron as a recognised industry expert banker and all round nice guy.

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