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Submission to options paper

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3.2 Options for overarching duties

1.

Options Two and Three

Out of the six options tabled, possibly option two and option three would be realistic options. The pros of both these options is in that they would make a meaningful difference to clients and also be achievable.

Due to the complex nature of financial products these options could tackle the changing environment.

Option Four

To the extend which option four is practical it may already be in place within a lot of the industry. Where it brings something new it would struggle to cope with the changing nature of the client's needs and the environment which these products operate in.

Option five

Cons

Has some far reaching consequences. An additional con; disclosing what is considered to be a conflicted remuneration at the point of sale may disregard other associated costs. A focus on a particular potion of the costs maybe confusing for a client.

Example if you were to compare a mortgage broker to a bank to obtain a home loan at 3.89%. A broker may seem more expensive if the only costs disclosed would be variable costs such as brokerage. A bank branch which carries larger fixed costs such as, office, fixed salaries may seem cheaper as none of these costs would be disclosed. This is despite the fact that the end cost to the consumer is the same.

Option one

Other impacts to consider

In terms of Mortgages:

A customers interest can often seem conflicted with lenders if viewed in the traditional way.

At the heart of this conflict between lenders and clients is the question of if lending is a good thing. Is having a longer lending term worse than a shorter term. Is higher a loan amount worse than a loan loan amount?

At the core of this; what is beneficial in a low or high inflation environment.

During the last five years we have seen the effects of;

1. Revision of the Credit Contracts Act
2. Tightening of lending criteria pushed by Australian regulators

Unintended consequences have been:

- Interest only terms harder for existing investors to extend

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- Guarantees from asset rich parents (income poor) to children failing income tests

These two examples on the face of it seem like responsible approaches, however both lead to assets being liquidated, families being financially less secure over the long term and less access to capital for NZer's.

Providing clarity on the meaning of clients' interests, when too prescriptive ends up not being able to allow for flexibility in changing times. Being too general will mean that we may end up with lenders being overly cautious.

2.

Focusing on conflicts of interest which arise through remuneration can stifle innovation and reduce access to what is free assistance for many NZer's. There is an underlying assumption that many issues have arisen from remuneration however the research into this is lacking, when looking at the advisor space in NZ.

Of the many mentioned issues which were uncovered in the Australian Royal Commission, virtually none were from independent mortgage brokers. The actual case for removing remuneration for third parties was based on many assumptions and a very narrow view of the industry.

3.

A code of practise would be required but making this too prescriptive may stifle the types of products which are sold and the level of advise which is available.

3.4 Options to improve product distribution

6.

Least reduction in product distribution

All the options will reduce product distribution. Option five may have the most positive outcome for clients and the industry. The costs may be minimal to the already good operators. Smaller firms may have to use the help of external sources to be able to spend the time required to run sustainable businesses. This will create more tied intermediaries, as costs will mean that smaller operators will be limited how many providers they can tune business processes to.

It maybe prudent to look for clear evidence that a reduction in the level of financial products leads to better outcomes for the public. The ARC's own chapter on mortgage brokers showed a lack of understanding about our industry. There was little or no research done by the commission on clients of independent mortgage advisors.

Limiting access to advice for NZer's

Option four will be the strangest approach as it will require judgment as to the right setting for third party payments for an entire industry. It will stifle innovation and not allow smaller firms to grow when set to lightly. Also when commissions are set too low, it will push intermediaries to reduce time spent on each client. This reduces the possible service level for first home buyers and for those marginalised clients with poor chances of obtaining finance. Such as clients struggling with cashflow requiring debt re structures.

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Currently in the mortgage space, many mortgage advisors operate with no fees to the client and no obligation work. Often clients may see multiple houses before picking one, the value of the service before the purchase is made is important especially when dealing with first home buyers. Clients who are cash strapped an in need of some type of advice or debt re structure will struggle to raise money to compensate a mortgage advisor. These clients become less preferable to deal with if the average commission becomes too low.

When taking into account the clients which do not settle with a mortgage advisor, on average an advisor may spend up to thirty hours per paid client, without taking into account possible advice and restructure after the initial purchase.

Lack of evidence for benefits in reduction of advisor budgets

Mortgage and insurance advisors are consumer advocates as well as small business's. Many NZer's rely on the quality of this industry to make life decisions. Reducing income for small businesses seldom leads to better quality output.

There was very little evidence in the Australian Review of actual poor outcomes for home buyers due to dealing with intermediaries. There was an assumption that slightly higher level of debt may lead to poor outcomes.

The industry in NZ differs quite heavily as we have had direct control of LVR by the RBNZ. We have to provide full disclosure and evidence of underlaying paperwork to get a loan approved. With an intermediary in NZ, you have two layers of eyeballs, once with the broker and secondly with a loan assessor at the bank. Sometimes even a third set of eyes the credit team may also be involved.

Mortgage Brokers do not decide how much a borrower can borrow.

In fact there is more scrutiny with third party loan applications, currently with many banks we are unable to submit an application unless we have almost all the evidence of the application upfront.

In Australia it is important to take note of the huge number of support from the public for the broker industry which became apparent after the report. This would have included, first home buyers, mum and dads trading up their home, investors providing rental housing.

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7.

Commission setting from banks are pretty similar when looking at a home loan over the first four years. Many clients tend to change banks, as competition between banks entice clients with cash contributions for moving after the three year mark.

The clients needs are priority. The small difference between lenders in terms of commission is relatively a small factor. There maybe a 10% difference between the main banks over the first three years of a home loans.

The key reason for this is that the market is highly competitive, the nature of our industry does not lock a client to our services. If a better suited product is available the client will walk, even after many hours have been spent. We have to optimise our solution to ensure the client does not need to walk down the road to a competing bank or mortgage broker.