

29 January 2018

By email:

FSRCSolicitor@royalcommission.gov.au

The Hon Kenneth Madison Hayne AC QC
Royal Commissioner
Royal Commission into Misconduct in the
Banking, Superannuation and Financial
Services Industry

Dear Commissioner

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

- 1 I refer to your letter dated 15 December 2017, in which you asked me to respond to certain questions jointly on behalf of Smartline Personal Mortgage Advisers (**Smartline**) and its associated entities.
- 2 My responses to your questions are set out below.
- 3 On behalf of Smartline, I would like to thank you for the opportunity to contribute to this Royal Commission. Smartline believes that mortgage brokers have an important role to play in facilitating good outcomes for borrowers, and more generally in promoting competition in the home lending industry. Smartline has been an active participant in the ongoing efforts to improve customer outcomes in the mortgage broking industry, and Smartline welcomes this latest opportunity to contribute. I hope that this response will be of assistance.

About Smartline

- 4 Before responding directly to your questions, let me give you a brief outline of Smartline's business, structure, remuneration practices, culture, and governance and risk management practices.

Smartline's business

- 5 Smartline is a franchised mortgage broking business. At present, Smartline has 312 franchisees. These are based in all states and territories, with a particular concentration in New South Wales, Victoria and Western Australia.
- 6 Smartline's franchisees, and their mortgage brokers, assist their customers to obtain finance from Smartline's panel of lenders. That assistance involves:
 - (a) listening to the customer and understanding their needs and objectives;

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

- (b) helping the customer to understand the different loan products on offer;
 - (c) helping the customer to identify the right lender and loan for them;
 - (d) helping the customer to collate the documents and information required for their home loan application;
 - (e) completing the loan application and submitting it to the lender; and
 - (f) liaising with the lender on any queries through to settlement.
- 7 By providing these services, Smartline's mortgage brokers help their customers to navigate what can be a confusing and difficult process, and find solutions that meet their needs. By virtue of their familiarity with, and relationships with, the different lenders, Smartline brokers can also help clients with complex or unusual circumstances find lenders who can accommodate them.
- 8 Since Smartline was founded in 1999, its brokers have helped its customers obtain about 270,000 loans. Smartline's loan book of outstanding loans amounts to about \$26 billion.
- 9 The main form of finance that Smartline deals with is home loans, but Smartline brokers also arrange commercial property finance, car finance, and business equipment leases and loans. Smartline also provides insurance broking services, predominantly in respect of home and contents insurance.
- 10 Smartline offers a different panel of lenders for each type of finance it deals with. For residential home loans, Smartline currently offers products from a panel of 31 lenders, which include:
- (a) the four major banks;
 - (b) four sub-divisions of the major banks;
 - (c) ten foreign or smaller banks, including three that are customer-owned;
 - (d) twelve non-bank lenders; and
 - (e) the Smartline Select™ white-label product, backed by Advantedge Financial Services Pty Ltd, a subsidiary of the National Australia Bank.
- 11 As well as providing a panel of lenders, Smartline supports its franchisees with:
- (a) lending support, including the maintenance of a detailed database of product information;
 - (b) training and professional development, which I will discuss below;
 - (c) a specialist proprietary IT platform, which brokers use to match loan products to their clients' circumstances and goals;
 - (d) audit and compliance, which I also discuss below; and
 - (e) administrative support.

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

Smartline's structure and ownership

- 12 The franchisor within the Smartline business is Smartline Operations Pty Ltd (**Smartline Operations**), which is wholly owned by Smartline Home Loans Pty Ltd.
- 13 Smartline Operations employs all group office staff. These staff are located in offices in New South Wales, Victoria, Queensland, South Australia and Western Australia. Smartline currently has 42 staff, who provide the services I have referred to in paragraph 11 above.
- 14 Smartline Home Loans Pty Ltd holds an Australian Credit Licence under the *National Consumer Credit Protection Act 2009* (Cth) (**NCCP Act**) (number 385325). Smartline's franchisees (which can be companies, individuals or family trusts), and any of their employees or contractors who provide credit services to customers, do so as authorised credit representatives of Smartline. Across and including its 312 franchisees, Smartline currently has 611 authorised credit representatives.¹
- 15 In 2017, Smartline Home Loans Pty Ltd was acquired by realestate.com.au Pty Ltd, part of the publicly-listed REA Group (ASX: REA), a multi-national digital advertising company specialising in real property.
- 16 realestate.com.au Pty Ltd currently owns 80.3% of Smartline's issued share capital. Smartline's minority shareholders hold a put option to sell their remaining stake after three years, at a price dependent on the financial performance of Smartline. If the option is not exercised, REA will acquire the remaining shares after four years.
- 17 REA Group also holds a majority stake in realestate.com.au Home Loans Mortgage Broking (**REA Broker**), a joint venture with the National Australia Bank.
- 18 Unlike Smartline's major competitors, no credit provider has an equity stake in Smartline.

Smartline's remuneration practices

- 19 The vast majority of Smartline's revenue is derived from commissions on loans. This is a feature of the mortgage broking industry generally. The commissions take two forms:
- (a) up-front commissions, which are paid to Smartline by the lender when a loan is settled; and
 - (b) trailing commissions, which are paid to Smartline by the lender monthly over the life of the loan.
- 20 The amount of these commissions varies slightly from lender to lender. Currently, up-front commissions are calculated at about 0.65% of the loan amount, and trail

¹ Where a franchisee is a corporation, both the franchisee and its principal will be an authorised credit representative, along with any of their employees or contractors.

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

commissions at about 0.18% of the remaining loan balance. These numbers are broadly consistent across the industry.

21 Smartline passes on a proportion of these commissions to its brokers. This forms the basis of their remuneration.

22 In the past, Smartline also received bonuses from lenders based on a combination of factors including volume of loans sold, quality of loan submissions and quality and growth of the loan portfolio. These were not passed on to brokers. These bonuses ceased last year.

Smartline's culture

23 Smartline's culture is reflected in its ten core values. These are:

We build relationships	We generate our business through strong relationships based on trust, adding value and ongoing communication.
Our clients are our priority	We have no business interests except those of our clients, acting solely on their needs and wants. We earn our clients' trust by delivering advice that's expert, clear and in their interest. We provide our clients service that will exceed their expectations for great service and that will delight and surprise them. We develop long term relationships with our clients that add value to their lives beyond the immediate mortgage deal.
We keep learning	We create an environment of continuous learning. We are always looking for better ways of doing things, whether it's serving our clients, operating our business or adding value to our business partners.
We give back	We give back to the community by giving to those less fortunate than ourselves. We contribute our time and resources to support of the MFAA and the healthy development of our industry.
Care and respect	We communicate with each other openly and frequently. All dealings and communication is done with courtesy and respect. We are fair, transparent and honest in all our dealings.
We have fun	We get together and have fun as a group and enjoy each other's company.

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

We help each other	We have an accessible, non-hierarchical business with a supportive culture to make it easier for our people to deal with us and for us to care for our people. We help each other be successful and share our knowledge and experience.
One best way	We are a consistent branded business with a consistent approach and processes offering a consistent and premium level of client service and care in every franchise.
Accountability	The success of our business is based on our people's success in building their businesses. We recognise performance and service excellence. We are all accountable to all of our stakeholders. We believe in profitable businesses.
Expert	We are selective about who joins Smartline to protect the reputation of Smartline and our people. All of our Advisers are fully trained, full time mortgage specialists who are knowledgeable and expert in all aspects of mortgage broking.

- 24 These values shape the day to day conduct of Smartline's business, and are embodied in Smartline's business model.
- 25 Smartline's business model is based on two core concepts that:
- (a) Smartline is successful when its franchisees are successful; and
 - (b) Smartline's franchisees are successful when their customers are satisfied.
- 26 Smartline relies on its franchisees' success for its own, because the lion's share of Smartline's revenue is derived from commissions on the loans its franchisees generate. Smartline makes no profit from signing franchisees: the whole of the fee paid upon signing up as a franchisee is used to partially recover the costs of the franchisee induction program (which I discuss below).
- 27 Smartline's strategy is therefore one of continual investment in its slowly but steadily growing network of franchisees. The success of this strategy is reflected in the average tenure of Smartline franchisees, which is currently 10 years. It is also reflected in Smartline's success in the Australian Top Franchise awards, in which it has won top franchise every year from 2009 through to 2016. As this award is voted on by Smartline's franchisees, it is a very strong reflection of Smartline's supportive culture.
- 28 Smartline's franchisees in turn depend on their customers' satisfaction for their success, because Smartline's customer base is built by referrals and repeat

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

business. Smartline franchisees win this business by maintaining relationships with their customers: first by satisfying those customers at the time of service, and then by staying in contact after settlement, through follow up calls, regular email communication and annual reviews. The success of this strategy is again reflected in the numbers: the vast majority of Smartline's business comes from existing clients or people referred by them.

29 Satisfied customers are also crucial to Smartline's success because Smartline insists on transparency with respect to customer feedback. After settlement of their loan, each Smartline customer receives an electronic form seeking feedback on their broker's performance, and a rating out of five stars. Once submitted, their responses are posted to Smartline's website automatically, without editing, within minutes. The responses, and the aggregated ratings, can be viewed by anyone, either in relation to Smartline or collated for each franchise. The reviews speak for themselves: at the time of writing, Smartline had a rating of 4.95 stars out of five, over almost 24,000 reviews.

30 Smartline's word-of-mouth business model therefore *requires* the pursuit of the best outcomes for customers: not only at the time the loan is approved, but into the future.

Smartline's risk management and governance practices

31 As I have indicated, quality, integrity and customer service are at the core of Smartline's business model. Smartline also has obligations under the NCCP Act to supervise the training, competence and compliance of its credit representatives. For these reasons, Smartline has in place detailed risk management and governance practices.

32 These practices begin with the selection of Smartline's franchisees.

33 Smartline's recruitment process is highly structured. Prospective franchisees are required to undertake three interviews with the National Recruitment Manager, the relevant State Manager and, if appropriate, a Smartline Executive Director or me. They must produce business plans, and provide personal and financial information. Smartline then conducts a detailed analysis to ensure that the applicant is suitable in terms of their mindset, resources and skill set. ASIC's guidelines require that all new entrants to the broking industry must have a Certificate IV in Finance and Mortgage Broking. At Smartline, we also require them to complete their Diploma in Finance and Mortgage Broking before becoming a broker.

34 Smartline's emphasis on risk management and quality control then continues through its training and professional development program.

35 This program begins at the inception of each franchise. All new franchisees take part in a one week induction course, followed by a 90 day Fast-track program. The franchisees are given extensive training on the operational side of the business, including the IT platform they will use to help match customers to

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

lenders and loan products. The franchisees, and any employees or contractors who wish to provide credit services on behalf of Smartline, must take part in a number of sessions on their obligations under the NCCP Act, and pass a test on these before they are authorised as Smartline's credit representatives.

- 36 Throughout their careers, all Smartline franchisees and brokers undertake various annual, quarterly and more regular meetings, seminars and conferences. These educational events cover topics such as governance and responsible lending and conduct requirements. The events assist Smartline's brokers to gain the 20 hours' of continuing professional development per year, required by ASIC and the Mortgage & Finance Association of Australia (**MFAA**).
- 37 Smartline's formal training program is coupled with a high level of formal and informal support provided to franchisees, to help build their businesses and skills, and stay up to date and compliant with regulations. They are supported by state teams, along with Smartline's lending support team, and access to Smartline's sophisticated lending/broking specialist software. Support is also provided to new franchisees without experience in the industry through a mentoring program, under which the franchisees are allocated mentors for their first two years in business. All new franchisees receive one on one business coaching with an accredited business coach in their first year.
- 38 To provide oversight and ensure standards are maintained, franchisees are also subject to Smartline's compliance program. This program is overseen by Smartline's dedicated compliance team, headed by its Compliance Manager, who has been with Smartline since 2008. Smartline's Compliance Manager also sits on the MFAA's National Compliance Committee, and is a participant at ASIC's quarterly Credit Liaison meetings in Western Australia.
- 39 Smartline's compliance program has four key features:
- (a) *Policies and procedures* — Smartline's Compliance and Risk Management policies, and manuals and procedures created under them, ensure that the operations of Smartline and its franchisees remain compliant with the applicable laws and codes of conduct, and visible to the board. Smartline's procedures relating to record keeping and responsible lending also underlie the proprietary IT platform used by Smartline's brokers.
 - (b) *Oversight and reporting* — Pursuant to Smartline's Compliance Policy, direct lines of reporting exist from Smartline's State Managers, through the compliance team, to senior management and the board. Monthly compliance meetings take place between Smartline's Compliance Manager and its Chief Operating Officer, Jayson Billings. Mr Billings reports to the board on compliance on a quarterly basis. Regular day-to-day discussions also take place between the Compliance Manager and Mr Billings to ensure that any urgent matters are highlighted immediately.
 - (c) *A franchise audit program* — Under this program, an audit is conducted of each franchise's loan files at least every two years. The audits are

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

overseen personally by Smartline's Compliance Manager. The results of the audits are recorded on a central system, through which feedback is provided to franchisees on a file-by-file basis. Where an audit identifies deficiencies in a franchise, the franchise is required to undergo further audits every three months until its audit results are acceptable. If a franchise fails two consecutive audits, it is charged a fee of \$150 per month for compliance monitoring until its audit results return to an acceptable level. While it has not occurred to date, if a franchisee were to produce unacceptable results in four consecutive audits, consideration would be given to terminating the franchise.

- (d) *Complaint handling and dispute resolution* — Smartline's compliance team, together with its State Managers, is responsible for investigating and responding to complaints by customers and lenders.

Question 1

40 You asked me to identify any "misconduct" by Smartline, including its directors, officers, or employees, or anyone otherwise acting on its behalf, other than theft from Smartline, which occurred at any time since 1 January 2008, and to describe the nature, extent and effect of that misconduct.

41 I note that "misconduct" is defined in the Commission's Terms of Reference as follows:

misconduct includes conduct that:

- (a) *constitutes an offence against a Commonwealth, State or Territory law, as in force at the time of the alleged misconduct; or*
- (b) *is misleading, deceptive, or both; or*
- (c) *is a breach of trust, breach of duty or unconscionable conduct; or*
- (d) *breaches a professional standard or a recognised and widely adopted benchmark for conduct.*

42 I have applied that definition. Where that definition refers to "a professional standard or a recognised and widely adopted benchmark for conduct", I have had regard to the Code of Practice of the MFAA. I have not included customer complaints unless it is clear they relate to conduct which amounts to misconduct.

43 In order to respond to this request, Smartline's Compliance Manager (who, as I have said, has been with Smartline since 2008) and two of its senior executives collated files pertaining to misconduct or potential misconduct since 1 January 2008. Those files were then reviewed by Smartline's external lawyers, Corrs Chambers Westgarth. Based on this review, Smartline has identified six instances since 1 January 2008 where Smartline or a tribunal has found that misconduct occurred. Smartline has also identified one instance where misconduct has been alleged, and a police investigation remains ongoing. In

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

each case, the person responsible for the misconduct, or the subject of the allegations, was a Smartline broker or loan writer.

- 44 To put these numbers in perspective, in the same period Smartline brokers have arranged around 157,000 loans.
- 45 Summaries of these instances of misconduct and alleged misconduct, and Smartline's response, are set out in the table below.

No.	Nature, extent and effect of misconduct	Year	Identification, response, steps taken to remedy consequences and prevent recurrence
1.	Valuation report altered by franchisee broker (isolated instance in Victoria)	2014	<p>Alteration discovered by lender before any loan was advanced.</p> <p>Lender relayed its discovery to Smartline. Smartline conducted an investigation and concluded that the misconduct alleged had occurred.</p> <p>Smartline revoked the franchisee's credit representative authorisation through ASIC, and negotiated a termination of their franchise agreement. Smartline also informed the MFAA, which conducted its own investigation and ultimately suspended the franchisee's membership for a period of years.</p> <p>Smartline informed the former franchisee's customers and panel of lenders.</p>
2.	Valuation report altered by loan writer (isolated instance in Victoria, unrelated to incident above)	2013	<p>Alteration discovered by lender before any loan was advanced.</p> <p>Lender relayed its discovery to Smartline. Smartline conducted an investigation and concluded that the misconduct alleged had occurred.</p> <p>Smartline revoked the loan writer's credit representative authorisation through ASIC and restricted the individual to administrative duties within their franchise.</p>

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

No.	Nature, extent and effect of misconduct	Year	Identification, response, steps taken to remedy consequences and prevent recurrence
			<p>The individual's MFAA membership expired shortly after Smartline's investigation concluded, and the revocation of lender accreditation prevented them renewing their membership.</p> <p>The individual remains on administrative duties.</p>
3.	Theft from customer by franchisee (isolated incident in Victoria)	2016	<p>Theft raised by customer directly with Smartline.</p> <p>Smartline investigated and was unable to contact the broker, but made contact with the broker's family.</p> <p>Smartline revoked the broker's credit representative authorisation, and arranged the sale of their franchise to another franchisee.</p>
4.	Private information provided to a third party without authorisation, by a franchisee (isolated instance)	2016	<p>Customer complained to Smartline.</p> <p>MFAA informed.</p> <p>MFAA investigated and issued a fine to the franchisee.</p>
5.	Failure to make reasonable inquiries about a customer's personal and financial circumstances (isolated complaint in Western Australia, however audits revealed shortcomings in franchisee's processes)	2016	<p>Lender complained to Smartline after borrower made financial hardship application only a short time after the loan was approved.</p> <p>Complaint raised with MFAA. MFAA Tribunal found the lender's allegations sustained, and censured the broker.</p> <p>While the investigation was on foot, the broker resigned from the MFAA and left the industry.</p>
6.	Inaccurate information entered on loan application by a franchisee broker (isolated instance in Victoria)	2012	<p>Customer complained to Smartline.</p> <p>Smartline investigated complaint and offered customer <i>ex gratia</i> payment, which was declined.</p>

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

No.	Nature, extent and effect of misconduct	Year	Identification, response, steps taken to remedy consequences and prevent recurrence
			<p>Customer made complaint to Credit Ombudsman Service Limited, but later withdrew complaint.</p> <p>Customer then complained to MFAA. MFAA investigated and MFAA Tribunal found that some of the alleged conduct had occurred but was of a <i>de minimis</i> nature, and declined to take action.</p> <p>Smartline conducted a special audit of the franchisee's files, and then for two months continued to check the franchisee's loan applications prior to submission, providing the franchisee with feedback on each application. Follow-up audits were conducted, and deficiencies in the franchisee's processes and procedures were brought to the franchisee's attention. Smartline has provided training and support to the franchisee to address these shortcomings.</p>
7.	Allegation that credit card in name of borrower fraudulently obtained and used	2017	Subject of ongoing NSW Police investigation

- 46 De-identified details of the above misconduct have also been included in presentations in Smartline's professional development seminars, in order to educate brokers about the kinds of misconduct that can occur and their consequences.

Question 2

- 47 You asked me to identify any conduct, practice, behaviour or business activities in which Smartline (including by its directors, officers, employees, or by anyone otherwise acting on its behalf) has engaged since 1 January 2008, which Smartline considers has fallen below community standards and expectations.
- 48 Smartline, and those providing credit services on its behalf, are covered by a range of legislation and codes of conduct. These include:
- (a) the NCCP Act;

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

- (b) the Code of Practice and Disciplinary Rules of the MFAA;
- (c) the Rules of the Credit Industry Ombudsman;
- (d) the *Australian Consumer Law*;
- (e) the *Privacy Act 1988* (Cth);
- (f) the *Franchising Code of Conduct*; and
- (g) the *Anti-Money Laundering and Counter-Terrorism Financing Act 2006* (Cth).

49 Smartline believes that these laws and codes, which are underpinned by notions of honesty, fairness, competence, integrity and customer service, accurately reflect the expectations and standards of the Australian community. The development of the NCCP Act and the MFAA Code of Conduct in particular has been informed by the detailed examination of the mortgage broking industry in the more than ten ASIC reports and industry and consumer submissions produced since the 2003 *Report to ASIC on the finance and mortgage broking industry*.

50 Smartline considers that each of the instances of misconduct referred to above falls below these community standards.

51 I am not aware of any other instances in which Smartline or its franchisees' conduct has fallen below community standards or expectations.

Question 3(a)

52 As noted in the table in question 1, the allegations in item 7 are currently under investigation by the police. Otherwise, none of the identified misconduct is presently the subject of another inquiry or investigation, or a criminal or civil proceeding.

Question 3(b)

53 You asked whether Smartline attributes any of the misconduct identified above to its particular culture or governance practices.

54 The short answer to this question is, "No".

55 The cases of misconduct Smartline has identified go directly against the grain of Smartline's values of customer service, quality and accountability. These cases of misconduct are not the product of Smartline's culture, but instances in which individual brokers have failed to meet the standards that are clearly, and reasonably, expected of them.

56 As the rightmost column of the table above indicates, in each case of misconduct Smartline acted effectively to respond to the misconduct, remedy any ill effects, and prevent its recurrence. Where this required a franchisee to be provided with further training and oversight, this occurred; where it was plain that a franchisee was no longer suitable for a role as a mortgage broker, appropriate steps were taken.

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

57 During the ten years in which these six instances of misconduct occurred, Smartline has written about 157,000 loans. This equates to one instance every 26,166 applications. While Smartline does not consider that any level of misconduct is either tolerable or inevitable, we do not believe that these numbers bespeak a cultural or systemic problem.

58 Smartline will continue to reflect on its risk management and governance practices and assess any areas for improvement, including through the monthly meetings I referred to in paragraph 39(b) above, and at board level.

Question 3(c)

59 You asked whether Smartline attributes any of the identified conduct, practices, behaviour or activity to any broader cultural or governance practices in the industry or sector of the industry in which Smartline operates.

60 Again, the answer to this question is, "No". Smartline does not consider that the instances of misconduct identified above are attributable to cultural or governance practices in the mortgage broking industry.

61 This is not to say that Smartline considers that the mortgage broking industry is beyond improvement. As I have said, Smartline has been an active contributor to the development of the industry and its regulation, both in its own right and as a member of the MFAA and the Combined Industry Forum (**CIF**).

62 Smartline was an active participant in ASIC's recent *Review of mortgage broker remuneration (Remuneration Review)*, and in the response of the CIF (**CIF Response**) to the Remuneration Review and the Australian Banking Association's Retail Banking Remuneration Review (**Sedgwick Review**). Smartline endorses the recommendations for driving better customer outcomes proposed in the CIF Response.

63 Smartline also contributed its own response to the Remuneration Review, a copy of which can be provided upon request.

Question 3(d)

64 You asked whether Smartline considers that the misconduct described above results from other practices, including risk management, recruitment or remuneration practices.

65 The answer to this question is, again, "No".

66 I have described Smartline's risk management and recruitment practices above. These are designed to, and do, mitigate the risk of misconduct by Smartline's brokers.

67 The manner in which mortgage brokers, and entities such as Smartline, are remunerated has been the subject of detailed consideration in both the Remuneration Review and Sedgwick Review. While Smartline does not consider that remuneration arrangements were a cause of the misconduct identified in this

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

letter, Smartline supports reform of remuneration structures in order to continue to drive improved outcomes for consumers.

68 Indeed, Smartline and others within the industry have been engaging with the issue of broker remuneration since it was first referred to ASIC in November 2015. The industry has already moved away from bonuses based only or predominantly on the volume of loans created (known as “volume bonuses”), and from significant non-pecuniary benefits provided by lenders to brokers (known as “soft-dollar benefits”). Smartline supports the recommendations for further change to broker remuneration in the CIF Response. At a high level, these include:

- (a) ensuring that remuneration linked to loan size is determined based on actual loan utilisation, net of offsets and redraw facilities;
- (b) continuing to move away from bonus commissions and bonus payments that increase the risk of poor customer outcomes;
- (c) continuing to move away from soft-dollar benefits, while preserving:
 - (i) lender support for broker education and professional development;
 - (ii) tiered servicing that is not linked only, or predominantly, to loan volumes; and
 - (iii) low-value, transparent entertainment and hospitality, to help build relationships between lenders and brokers. These relationships are a key part of the superior level of service that mortgage brokers are able to provide to their customers.

Question 3(e)

69 You asked what steps Smartline has taken to remedy the consequences for consumers or other businesses of the misconduct identified above, and to prevent its recurrence.

70 These steps have been described in my response to question 1.

Question 4

71 Question 4 relates to an entity that is, or has a connection (other than an incidental connection) to, an RSE licensee of a registrable superannuation entity (as defined in the *Superannuation Industry (Supervision) Act 1993* (Cth)).

72 Smartline is not, and is not associated with, such an entity.

Associated entities

73 For completeness, I note that Smartline has an associated entity, REA Broker, which is a financial services entity within the meaning of the Terms of Reference. REA Broker was founded in June last year, and has only been in business for a relatively short period of time.

74 I am not involved in the management of REA Broker.

29 January 2018

Royal Commission into Misconduct into the Banking, Superannuation
and Financial Services Industry

**Royal Commission into Misconduct in the Banking,
Superannuation and Financial Services Industry**

75 Should you wish to receive a response to your questions from REA Broker, please let me know and I will forward your letter to its head, Nathan Windebank.

Further information

76 If you have any questions, please do not hesitate to ask.

Yours sincerely

Smartline Personal Mortgage Advisers

A handwritten signature in black ink, appearing to be 'Ian Winn', written in a cursive style.

Ian Winn

Chief Executive Officer