SUBMISSION ON POLICY ISSUES IDENTIFIED IN THE INTERIM REPORT

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By way of background I am a 30 year banker having recently been made redundant from one of the large banks, and in my last role managed a large team of 90 bankers and as such am well versed with the broker model.

In the interim report it concludes a direct relationship between value based remuneration for brokers and poor customer outcomes as follows;

And both CBA and ASIC rightly identified the consequences of value-based remuneration of brokers:

- ***higher leverage;***
- ***higher incidence of interest-only loans;***
- ***higher total debt-to-income ratios;***
- ***higher LVRs;***
- ***higher incurred interest costs; and,***
- ***over time, an increased likelihood of borrowers falling into arrears, borrowers paying their loans more slowly and paying more interest than other borrowers.***

This is an incorrect assumption. To understand this we need to look back at the history of why the broker model has become so successful. Brokers were traditionally used for borrowers who were struggling to get finance. This is because banks have always been determined to retain high net worth and high value/low risk customers and offer these customers great direct service (whether through their Private Bank offering or a strong direct relationship model). These customers are generally high net worth, high income, with low LVR's, on comparatively low interest rates and the complete opposite list of the characteristics mentioned above.

Before assuming the direct link between broker REM and outcomes it would be worthwhile talking to customers who use brokers. You will find the majority of customers use brokers as;

- they are finding it difficult to obtain finance from their current bank and are now using a broker.
- they are trying to get a better outcome than their own bank is offering.
- they are generally not high net worth and high income individuals (as these customers are well looked after by the banks and generally on discounted rates).

On a comparative basis to high net worth/high income customers that banks service and protect very well - a large portion of broker introduced customers may display the characteristics mentioned in the interim report above.

But this has nothing to do with value based REM for brokers merely the inherent customer characteristics that use brokers. So the list of outcomes in the interim report above are not a consequence of value based REM for brokers, merely the consequences of the customer base that brokers predominantly serve.

Arguably, this customer base is the most at risk from poor bank behaviour and it is their interests which should be protected. It is this customer base that needs the broker model to be robust and fully functioning, and the Value based rem that brokers earn is a reasonable incentive to ensure this. If the broker REM model is diluted and brokers leave the market, these are the customers who will be most at risk as banks will push up their rates with little prospect of refinance occurring.

As a consequence of not being high net worth/high income then;

- leverage is generally higher (lower net worth), interest only may be preferred initially, LVR's may be higher and debt to income may be higher. Interest costs are generally higher given interest only (as banks are charging interest only customers more and high net worth customers are usually on discounted rates).

It should be noted that if a customer is in default the broker stops getting trail so there would be no incentive on the brokers part to refer a customer who is likely to default.

So in summary there is no link or consequence between broker Value Based Rem and poor borrower outcomes. If the regulator is concerned with various bank's loan book metrics there are much easier levers to pull without unintended consequences for brokers and borrowers.

Thank you for taking my submission.