THE ROAD **AHEAD**

Genworth, along with *The Adviser*, gathered Australia's aggregation heads together to hear their perspectives on the market and on what the future holds for the third party distribution channel

Story / Jessica Darnbrough

GERALD FOLEY
nMB

VAUGHN FOWLER
Aussie

SAM WHITE
Loan Market

***THE ADVISER*:** First home buyer (FHB) activity has diminished significantly recently, much of which can be attributed to the First Home Owner Grant (FHOG) being removed in several states. Genworth's latest *Streets Ahead* report shows FHBs have suffered the biggest fall in confidence of late, with the overall FHB Index falling by 12.8 per cent, from 98.5 to 85.9. But with interest rates low and home values stagnating, do you expect to see FHBs return to the market?

BRIDGET SAKR: That's right, we have seen confidence drop. People have been deleveraging, but now with interest rates reducing, it feels like all homebuyers are willing to get back into the market. Overall, volumes are on the rise, but this is largely attributed to a growing appetite for investment loans and refinancing.

MICHAEL RUSSELL: We need to show caution when reviewing what's being reported around FHBs. While the Australian Bureau of Statistics (ABS) reports a collapse in the FHB market, this needs to be put into perspective.

Ever since state governments began removing FHOGs on established dwellings, ABS has not been reporting the true number of FHBs entering the market.

Today, a first home buyer is only identified as a first home buyer if they are applying for the FHOG.

Consequently, when FHBs purchase established dwellings without the grant, they will not be recorded as FHBs by the ABS. As a result, the ABS has been understating the number of FHBs for some time. That said, there are plenty of compelling reasons why FHBs should be considering entering the market at this time.

***THE ADVISER*:** If FHBs are re-entering the market at a solid rate, this can only be a good thing for the third party distribution channel, with data from Genworth's latest *Streets Ahead* report showing 32 per cent of prospective FHBs intend to apply via a broker, as opposed to 26 per cent of prospective investors, who are much more likely to apply over the internet. Does this represent an opportunity for brokers to introduce a segment-specific channel strategy?

GERALD FOLEY: Different brokers will target different demographics. Some brokers are doing more in the self-managed super fund space, while others specialise in the investor market.

You will always have brokers who prefer to deal with certain borrower types. That said, I can honestly say that none of the borrowing types are doing a lot at the moment. I think people are sitting on their hands, waiting for the election to pass.

Admittedly, some people are still happy to transact and buy, given that the election is still [some time] away, but others are a little more cautious.

Once the election has passed, I truly expect the property market to pick up and I expect brokers to enjoy a cracking end to the year.

Further to that, I think property conditions will continue to improve over the coming two years. Whether or not we will see home values increase is completely separate, but I do believe borrowers will make the most of the low interest rate environment and jump back onto the property ladder.

SAM WHITE: I agree, and at Loan Market we are starting to see a little bit of that already. We are seeing more and more potential borrowers entering the market, keen to take advantage of the low interest rates environment.

Partnered by Genworth

We are in the unique position of being associated with a real estate franchise, so we also get a good idea of what the property market is doing generally. And, by all accounts, the market is pretty robust in some states.

NSW is solid, Western Australian is booming and Queensland is getting better.

On the other hand, Victoria is still quite soft and South Australia has plateaued.

MICHAEL RUSSELL: With all respect, I don't necessarily agree. It is always a risk when we allow our own business growth to distort our view on what's really occurring in the broader market.

Irrespective of our own business peaks and troughs, housing credit growth sits at circa five per cent, with a subdued outlook for at least the next couple of years. Consumer confidence is waning, job growth remains under pressure and economic growth forecasts have now been dialled down to less than three per cent. As a result, we'll continue to operate in a benign environment for the immediate future and need to be careful not to talk up the property market to a great extent.

> "There is a place for credit unions and non-bank lenders. They have the opportunity to create competition and pick niches in the marketplace" – Brendan Wright

***THE ADVISER*:** Michael Russell's view that we are looking at restricted mortgage volumes and credit growth for the foreseeable future is supported by data from Genworth, which shows consumer confidence has fallen to its lowest level since the global financial crisis. The Genworth Homebuyer Index dropped by 5 per cent, from 98.4 to 93.4 – the index's lowest level since 2008. The research indicates that this drop in confidence can be attributed to increases in mortgage stress, driven by over-commitment and concerns about unemployment. With this in mind, what can brokers do to help grow their business and their bottom line?

MICHAEL RUSSELL: There is no doubt brokers must diversify into complementary services such as risk insurance, mortgage protection and, if appropriate, financial planning.

Mortgage Choice launched a new financial planning franchise business last year to enhance our customer proposition and look to build increased revenue opportunities and brand value.

We elected a ground up build and it is great to see the business already outperforming our business model across many of the key customer acquisition and conversion metrics.

At the end of the day, different businesses will choose different ways to embrace diversification.

JOHN KOLENDA: Diversification is something all aggregators speak about and encourage brokers to do, but there are still a lot of brokers who do not wish to diversify.

The question for us is: How do we make it easy for brokers? If they don't want to diversify now, how can we make it easy for them to transition in the future?

From my perspective, I believe brokers are hesitant to diversify because they don't understand

the basics. They don't know how to cross sell to their clients. They don't know how to integrate other services into their conversations.

The opportunity is there, but they need to be shown how to do it, especially in the area of self-managed super funds because it is so easy to be non-compliant in this space.

GERALD FOLEY: I agree. We are finding more and more of our brokers are embracing or wishing to embrace SMSF lending.

We tell them that the more they do it, the easier it will be. That said, if they are only writing one SMSF property loan a year, it is fair to say they might not be up to date with what is happening in that market.

BRIDGET SAKR: In our latest *Streets Ahead* report (the new edition is due out next month), we saw the SMSF lending space is definitely an area that is growing and this does represent a good opportunity for brokers.

We are seeing more and more brokers playing in this space, but they do need to make sure they are well equipped to write these loans before they do so.

SAM WHITE: We are seeing more brokers buying rent rolls and integrating their data with real estate agents so that they can share the same culture, processes and structure.

"As the industry matures and evolves, I think we will see the number of businesses diversifying starting to swell" – John Kolenda

CHRIS SLATER: We are definitely seeing a lot more brokers embracing various forms of diversification, and we do whatever we can to help them cross sell effectively and successfully.

We have invested a lot in our software platforms and training programs to make writing mortgages just that bit easier and faster for our brokers. Doing this frees up their time to meet more clients and offer more services to every customer they deal with.

MICHAEL RUSSELL: Everyone is looking to diversify; it is just that some do it better than others. For me, integration or some sort of shared ownership is crucial. The fact is, most referral arrangements start off like a hot bath – they go cold pretty quickly.

JOHN KOLENDA: I agree 100 per cent – the closer the relationship, the better the referral. Of all the models you have, the best operating model is full integration.

VAUGHN FOWLER: At Aussie, we have launched a few new products in recent months. However, we have always struggled to get our guys engaged in non-mortgage sales. There is a formula to it that we simply haven't cracked. I believe there are a couple of reasons they are hesitant to sell additional products.

The first and most obvious reason is that they are simply too busy writing mortgages and it is hard to get them motivated to sell other products for the sake of $100. The other reason is that our product offering in the past probably wasn't up to scratch. As such, we are currently in the process of revamping all of our products in the hope that our brokers will jump on board this time.

JOHN KOLENDA: Overall, I don't think too many brokers truly diversify. That said, the current market has forced brokers to do more with less. As such, we are starting to see the small percentage who do diversify enhance their offering.

As the industry matures and evolves, I think we will see the number of businesses diversifying starting to swell. I think the market is not out of the woods yet and I think brokers will have to look at how they can do more with less. Hopefully, the election will be a turning point. I don't think the market will run away, but hopefully market share will start to increase. Broker market share is already increasing and I think through further integration, this will increase further.

***THE ADVISER*:** Mr Kolenda is right. When broker commissions were cut, it forced the third party distribution channel to start looking at other avenues. The reduction in broker commissions has also given aggregators less money to spend on broker support. Has this affected broker productivity as a result?

VAUGHN FOWLER: Absolutely not. We have increased our broker spending over the years. We have increased our resources significantly. As a result, we have seen an increase in franchise numbers. At the end of the day, broker productivity is less affected by commissions than it is by the size of the loan book. That is to say, the bigger the loan book, the less business the broker writes.

If you look back at the historical data, the bigger the broker became, the less they wrote in new business. While there are some exceptions, a majority of brokers with a big loan book lose the urge to source new business.

That said, I think we are seeing less and less of this these days. Brokers who are in the industry are here because they are passionate about helping people achieve their dream of homeownership.

NCCP has got rid of a lot of the lazy, part-time brokers and we are left with an industry that is strong, passionate and dedicated to their craft.

BRENDAN WRIGHT: At FAST, we too have increased the level of support we offer brokers. Over the last 12 months, we have invested heavily in our software platform to make writing loans easier for our brokers.

We will do whatever we can to enhance the experience of our brokers.

I am also seeing a lot more lenders invest in the broker channel. CBA has successfully launched their Kaizen program and we are encouraging our brokers to take part in it. It is a good course that ultimately teaches them how to be more productive in business.

MICHAEL RUSSELL: Productivity is certainly key in a post-GFC world. The global financial crisis (GFC) did a lot more than force down broker commissions. There were four things that occurred with the onset of the GFC that changed the paradigm of mortgage borrowing forever.

We had commission cuts, double digit to low single digit housing credit growth, a significant reduction in loan sizes and the propensity of mortgage holders to move from a gearing to a deleveraging position. That has been stamped on Gen X and Gen Y – they don't want to leverage like their parents did.

BRIDGET SAKR: I agree. I think it will be interesting to see the results of Genworth's next *Streets Ahead* report, and whether that will show brokers are becoming even more important in the homebuying process.

***THE ADVISER*:** Our data shows us that white labelling has really made its mark over the past few years. What are the opportunities for brokers in the white labelling sector?

CHRIS SLATER: I have seen a surprisingly big uptake in white label products over the last 12 months. We are seeing a growing volume in this space. This is down to a few things.

Firstly, as John mentioned, brokers are being forced to do more with less. As such, they need their client experience to be second to none, and by selling white label solutions they know what service they will get and how quickly a loan can be processed.

If you put a product in front of a customer that can be turned around quickly, then that is great.

At AFG, we believe there is not enough competition in the industry. We basically have four lenders writing the lion's share of the mortgages. Our view is that white label is good because it brings competition back into the space. Is it the next frontier for us? No, but we do think it is a 'must have'.

BRENDAN WRIGHT: I agree that white labelling is good for brokers as it offers them and their clients more choice and, after all, that is what the broker proposition is based on.

I do believe we need to see more competition in the market. There is a place for credit unions and non-bank lenders – I think they will make a return to form. They have the opportunity to create competition and pick niches in the marketplace because they are small and nimble. From an aggregator's perspective, they are essential to any panel. ■