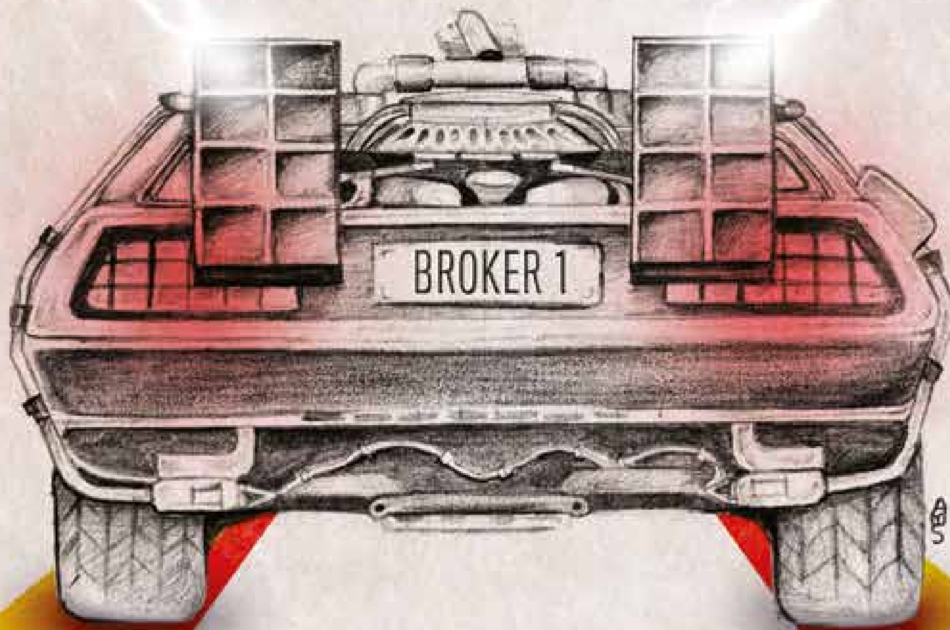
BACK TO THE BEGINNING



STORY / Adam Zuchetti

Between December 2015 and February 2016, *The Adviser* ran a special three-part series exploring the evolution of the broking industry. These features received such an overwhelming reaction from our readers and the wider industry that we decided to combine them into one complete story. This ebook is the uncut version of *The Adviser's* special series, from the birth of a brand new mortgage distribution channel through to the present and projected future lofty heights for brokers.

CONTENTS

ACKNOWLEDGEMENTS

A PROJECT like this doesn't happen by accident. In fact, *The Adviser* spent four months researching, interviewing and compiling the list of key events, people and companies that have made the broking industry what it is today.

Of course the industry is not shaped by just a handful of individuals – every single participant within the industry has, does and will continue to shape it as it evolves to meet changing consumer needs.

We spoke with just a small number of people from across the country and the broking spectrum for this feature – sadly it is just not possible to speak with everyone.

A huge thanks goes out to all of those individuals and organisations *The Adviser* spoke with to put this project together.

We would also like to pay homage to those who have retired from the industry and pay our respects to those veterans no longer with us.

OVERVIEW

A LOT of questions about the future of the broking industry have arisen in recent times. A 52 per cent market share, banking regulation, booming (some would say bubbling) Sydney and Melbourne housing markets, the never-ending onslaught of technological development and restrictions on investors - foreign, domestic and SMSF - have all created much speculation about how the broking industry will fare going forward.

Yet with so much debate surrounding the industry's future, *The Adviser* decided to take a look back at the industry's past - to consider how it got to where it is today, the challenges it has previously faced and how this evolution over time has set the industry up to deal with challenges in the years ahead.

Of course, a dynamic and rapidly growing industry doesn't just appear overnight. There have been years - decades even - over which businesses have been established, service offerings changed and added, companies merged or acquired or folded, and careers forged.

Add to that external factors, including the impacts of government regulation, the ebbs and flows of the property cycle and of course the colossal changes resulting from the global financial crisis (GFC), and it becomes quickly apparent what a sizeable history broking has packed into just a few short decades.

Too much history, in fact, to fit into just a couple of pages of the industry's leading magazine.

Sadly it is impossible to piece together every last detail of the establishment and growth of this popular industry - thanks in no small part to the sheer volume of events to sift through, as well as the loss of records over the years and the passing of individuals over time.

Having said that though, *The Adviser* is pleased to have put together what has been described by contributors and brokers alike as the most comprehensive history of the broking industry ever compiled in Australia.

We hope you find this to be a useful guide to fully understanding how the industry became what it is today and how that evolution is shaping its future direction. Happy reading...

BANK ENGAGEMENT WITH BROKERS

AS THE following table demonstrates, brokers have had something of a chequered history with banks. While some banks were very early engagers with the fledgling industry, others waited for the big four to get on board. Even more recently, the post-GFC environment has gradually allowed smaller non-banks and mutuals to move into the banking space, and with it increase their consumer clout through the third-party channel.

The Adviser asked all of Australia's most prominent banks currently operating within the third-party channel when they began writing loans through brokers.

While some banks are long since extinct or have been swallowed up by competitors, the tabulated results (right) showcase the majority of Australia's banks and exactly when and how they came to see value in the service offering of brokers.

BANK ENGAGEMENT WITH BROKERS

Late 1980s/ early 1990s	● Bankwest (then R&I Bank) deals directly with brokers. Recollections of WA brokers suggest R&I Bank may have engaged with brokers as early as 1987.
1988	● Citibank begins distributing via brokers, initially paying only an upfront commission.
Around 1989	● Bank of New Zealand, which has a separate trading licence for its Australian operations, starts paying Perth-based brokers for loans, before expanding nationally. The bank is subsequently acquired by NAB in the 1990s.
Early 1990s	● Having acquired the LJ Hooker real estate network in 1989, Suncorp launches LJ Hooker Home Loans, and subsequently begins engaging with brokers more broadly.
1992-93	● Macquarie Bank starts providing mortgages in partnership with Aussie. Directly engages with brokers from 1998-99.
1996	● Adelaide Bank begins paying commissions in May. Commissions become automated from August 1999. ● ING enters channel under the Mercantile Mutual Bank subsidiary brand. ING Direct is established in 1999. ● St George Bank pays its first broker commissions.
1997	● Estimated start date of ANZ dealing with brokers – the first of the majors to do so. *The Adviser* was told of a letter from ANZ to Mortgage Choice dated 7 December 1997 discussing the latter's recent accreditation with the bank. ● Heritage Bank enters the third-party channel. ● NAB first engages with brokers through the acquisition of Homeside; subsequently begins offering own-brand loans towards the end of the decade.
1998	● Westpac begins paying commissions to third-party brokers.
2000	● AMP Bank first engages with brokers. ● CBA first enters the broking channel following the acquisition of Colonial Group. Soon after (estimated 2001), it begins offering CBA-branded loans through brokers, becoming the last of the majors to do so.
Early 2000s	● Bank of Queensland initially enters broker channel, before exiting again soon after in June 2004. BOQ re-enters the space in August 2013.
2011	● In November, ME Bank enters the third-party channel.
2013	● Teachers Mutual Bank engages with brokers from November; first commission is paid in March the following year.
2014	● MyState Limited becomes MyState Bank in October; the lender had already been engaged with the broking channel prior to its change of status. ● Bank of Sydney launches a trial entry into the broking channel from November to February 2015; moves into full operation in the third-party channel from March 2015.
2015	● From 1 April, Auswide Bank is launched, having previously traded as building society Wide Bay Australia. The society already had a relationship with brokers in place. ● In September, Bank Australia begins operating in the broking channel, paying its first commission a month later. ● South Australia-based mutual lender Beyond Bank announces in late October that it has entered the broking channel in an effort to boost its mortgage distribution capabilities.

BACK TO THE BEGINNING PART I

THE FORMATIONAL YEARS

Imagine a world where the fax machine hadn't even come out yet. Imagine each loan application being written by hand, and the various documents being submitted by post, with instructions delivered by messenger. Imagine there being no such thing as trail commissions. Sound like the basis of a horror movie? This was real life for the pioneers of the broking industry as it stands today...

MANY PEOPLE believe that the mortgage broking industry began in Western Australia (WA), and really only took off in the early 1990s. To a degree, that is true.

The WA legislative framework was much more accommodative to third-party players in financial services than most other states before that time - indeed as Firstmac's managing director Kim Cannon points out, it was illegal in Queensland prior to 1984 to offer lending services over property if you weren't a certified bank or lender.

Yet Interstar founder Vernon Spencer notes that he came across Victoria's Finance Brokers Act more than a decade earlier in the early 1970s, highlighting what a patchwork of state-based regulation was in place at the time.

Having profiled a number of veterans from across the industry, it is evident that the early 1990s is simply when the industry started to become just that - an industry; a collective of service providers with a specialised skillset being presented to consumers.

And as these players began to connect and the industry took shape, so too did it generate greater awareness among consumers, regulators and indeed the wider lending market.

The now retired John Bignell is credited by many, particularly those on Australia's west coast, as being one of the first true mortgage brokers in Australia, establishing The Mortgage Gallery (date unknown).

"John Bignell was probably the real pioneer; he was getting paid a commission from one of the small building societies here in Perth before the R & I Bank [now Bankwest] came into the market," says AFG co-founder Kevin Matthews.

Yet a number of individuals admit to operating what we now know as mortgage and finance brokerages at that time or even earlier - as far back as the 1970s and potentially even the late 1960s. These individuals were scattered in pockets far and wide across the country, including in Sydney, Perth, Melbourne and Brisbane.

Many focused more on commercial lending, while residential loans were more commonly written with legal firms than banks. Gradually, these early brokers individually began establishing the securitised lending market and relations with predominantly regional banks and small non-bank lenders.

What is clear, though, is that particularly during the 1990s, there was a concerted and increasingly co-ordinated push emerging to better educate consumers about their financial options and to establish a genuine, sustainable alternative lending channel as a means of introducing meaningful competition into the mortgage lending space.

Increasing awareness of brokers and their proposition - by both consumers and within the sector itself - helped to formalise broking as an industry in its own right.

Pre-1990

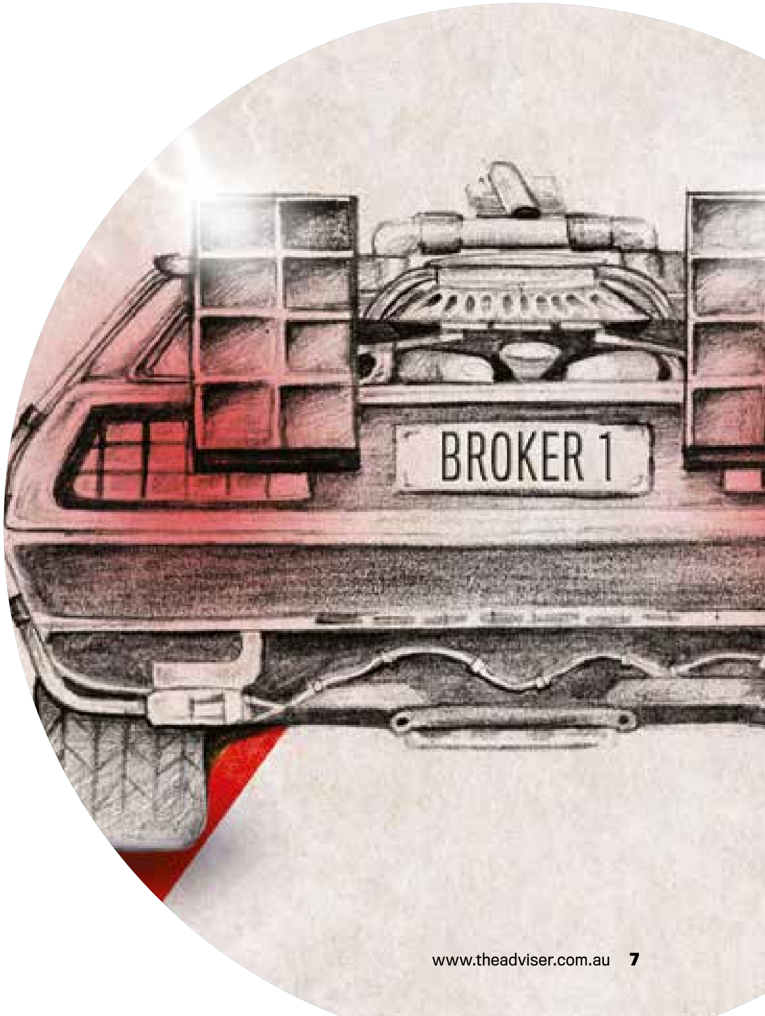
- An unknown number of brokers, usually sole operators, are hard at work in pockets across the country, from as early as the 1960s.
- Financial deregulation commences in the early 1970s and continues through the 1980s. Banking deregulation in the 1980s opens up a new opportunity to compete with the major banks in the lending space, allowing for the establishment of non-bank lenders.
- The current-day MFAA is first established as the Mortgage Bankers Association of Australia (MBAA) in 1979, with its first AGM held in November 1980. The association has undergone its own share of change ever since, evolving into its current form and focus area.
- The Queensland government in 1984 legislates in support of a secondary mortgage market, removing a legal ban on the provision of broking-style financial services in the state.
- Non-bank lender Homeloans Limited begins trading in 1985, which some suggest was the first sizeable non-bank lender in Australia.
- Mortgage House says it began trading as a mortgage broker in 1986.

1960s
estimated time brokers started to emerge in pockets across the country

1985
Non-bank lender Homeloans Limited begins trading

1988
Citibank becomes one of the first banks to pay broker commissions

- First banks begin testing out lending through the broking channel. It's estimated that WA-based R&I Bank (now Bankwest) started sometime between 1987 and 1992, and international bank Citi in 1988.
- In 1988-89, leading into a deep recession, interest rates climb to historic highs in the high teens in a bid to slow the asset price boom and curb runaway inflation. Struggling home owners increasingly look at ways to reduce their hefty mortgage repayments.
- Australian Mortgage Securities begins trading under CEO Kym Dalton in the late 1980s.



PROFILE

Nutting out the right path

Warren Nutt, the retired director of Sydney-based Waratah Mortgage Corporation and a life member of the MFAA, holds a perspective on broking that most can only dream of...

IMAGINE A career in mortgage finance spanning 57 years, with the number of loans you have written nearing something close to 10,000. With such a wealth of experience, it's clear that Warren Nutt is a true veteran of the mortgage industry and the very definition of persistence and longevity.

"We started out as Randall & Co stock and share brokers, and I started the mortgage division [in 1975]," Mr Nutt recalls.

"There were a number of mortgage brokers over in Western Australia that had been there for a long time with varying reputations ... but there were also a number of mortgage brokers in Sydney.

"We're going back to the 1960s and you could count on one hand the number of mortgage brokers in Sydney. The mortgage broking firms were all virtually one person."

Mr Nutt says it wasn't easy going in the early days as brokers built trust from the public.

"Borrowers' solicitors ... told their clients to be very wary of brokers," he says.

And while most banks were unenthused about engaging with the channel initially, it wasn't a universal feeling.

"Most of the lenders were private lenders initially, people who had wealth. But we actually, when we started off in the late '70s, had two banks who referred clients to us! They referred the clients who wanted to borrow and they either didn't have the money to lend, or it was outside their guidelines, so they would send the people to us to retain their business," Mr Nutt says.

"It wasn't done in a precise method using computer systems etc. – we just worked on a pretty simple 40 per cent of the total income, and it worked. The default rate was virtually nil."

Mr Nutt says the industry should be proud of how far it has come, particularly in terms of market share.

"At one stage, we got up to five per cent [market share] and we thought 'We've come of age now'."

Having "hung up my boots", as Mr Nutt puts it, at the beginning of 2015 and ceased lending at his Sydney-based firm Waratah Mortgage Corporation, Mr Nutt looks back at his career with great fondness.

"We had many funny stories. We had a loan to do, it was on a rural property up the top part of Australia, and we were told the chap's income was good, he had a good business.

"[It turned out] it was a crocodile farm – he bred crocodiles. We didn't have any luck getting that place, because I think the [lenders] thought if there'd been a default on the mortgage, evicting the tenants may have been a bit of a problem!"

1990

- La Trobe Financial creates one of the first low-doc loans in Australia.
- Around November 1990, lender Firstmac writes its first non-bank loan

1991

- Boutique finance aggregation company Specialist Finance Group is founded.
- Specialist mortgage training group Walker and Miller is established, initially to educate estate agents about providing mortgage finance support. The group expands nationally as the broking industry grows.

IT'S A MAN'S WORLD

THE EARLY days of broking, and indeed the broader finance industry, were pretty much an all-boys game – and not just for people employed in the sector.

"When I started working in the financial services industry, a single woman could not get a loan," says prominent consumer finance specialist Lisa Montgomery.

"If she was married and working full time, 25 per cent of her wage would be taken into consideration for qualification. If she was working part time, none of her wage was taken into consideration.

"In 1985, I wrote my first mortgage and ... I remember that I couldn't interface with customers, because a lot of customers wouldn't want to interface with a short-statured, long blonde-haired girl who was not yet 21. I'd be doing all the work behind the scenes."

Yet while things have changed since these times for women as consumers, and there are a much larger proportion of women in the industry in 2015 than in the 1990s, there is still a noticeable lag.

"It's bizarre," says Firstmac's Kim Cannon.

"I don't know why, because if you went to the US, it's probably 75 per cent women and 25 per cent men! So I don't get that."

According to the FBAA's Peter White, concerns about personal security may have been – and may continue to be – an issue which deters women from entering the profession.

"One of the issues we found in the early 90s, reflecting on various businesses and bits I was a part of, was that there was always a consciousness of asking a lady to walk into somebody's home that they don't know, and sometimes that could be late at night, to do an interview with people," Mr White says.

"I don't know if that held back the growth of women in finance broking, but it was a real concern."

Brokers in the field seem to concur, particularly before retail and office-based brokers have become more prominent in recent years.

Kelly Cameron-Tull, director of Brisbane-based Get Real Finance and a 16-year veteran of the industry, says security was definitely an issue for her.

"In the beginning, for probably the first 10 years, I drove to people's houses and there were times when I did not feel safe," Ms Cameron-Tull said.

"I used to have signage on my car, and I stopped that as a form of marketing after attracting a few unwanted stalkers."

1992

- "Aussie" John Symond enters the market as an alternative home loan lender to the major banks.
- Mortgage Choice is established by brothers Rod and Peter Higgins, who moved from Perth to Sydney to launch the business.
- What is now the FBAA is established as the Queensland Finance Brokers Association in response to bad publicity about the profession, in a bid to raise professional standards and the overall profile of the sector.
- Mortgage manager Austral Mortgage is established by Guy and Vicki Edema. At the time of publishing, Vicki remained the only female life member of the MFAA.

"The early 1990s is simply when the industry started to become just that – an industry"

1992: Birth of the branded giants

WHILE INITIALLY established as a non-bank lender, most people in the broking industry recognise that the company's founder "Aussie" John Symond, and later RAMS Home Loans and Mark Bouris with Wizard Home Loans, showed the Australian public that they didn't have to be at the mercy of the big four banks to secure a mortgage.

With tens of millions of dollars spent on advertising their non-bank loan alternatives, and famous catchcries like "We'll save you", consumers began to recognise and flock to non-bank lenders, and in doing so, became better educated about making financial decisions.

Brokers benefitted significantly from this shift in public mindset, as consumers sought out professionals who could help them identify suitable options and then manage the application process on their behalf.

"When you're talking about people who have revolutionised the industry, you have to look at Mark [Bouris], you have to look at Aussie John. And really, they believed in what they were doing: a different proposition to consumers," says independent consumer finance specialist Lisa Montgomery.

"Come the turn of the millennium, there was a lot more information out there, so consumers really were informed and had the capability to make better decisions."

Without the public profile achieved by these alternative lenders, it's clear that broking could have turned out very differently.

In the same year, while brokers had been operating for years, possibly decades, in isolated patches around the country, the establishment of Mortgage Choice by brothers Rod and Peter Higgins marked the first time that a national, cohesive retail brokerage brand entered the marketplace.

"Mortgage Choice was one of the first businesses to establish lender agreements, whereby one business liaises with Australia's lenders on all fronts (including commission payments etc.) on behalf of the broker," says the group's current CEO, John Flavell.

Rod and Peter Higgins grew up working within their family's earthmoving business in Perth, which they have said helped instil in them a natural commercial acumen and sense of entrepreneurship. It was in the late 1980s that the pair came up with the idea for what would become Mortgage Choice.

After meeting a redundant bank manager who was still writing loans for the bank and receiving payment for his efforts, the brothers saw scope to broaden that scale. The siblings made their way to Sydney and established Mortgage Choice, enabling consumers to access knowledgeable advice on mortgage matters, brought straight into their homes and at no cost to themselves.

In 1994, the company's longest standing franchise owner, Ian Macpherson from Mortgage Choice Cairns, joined their ranks. And in 1997, Mortgage Choice became one of the first – if not the first – brokerage in Australia to begin working with a major bank, after receiving accreditation as a loan referrer from ANZ.

From there, things have only continued to grow.

PROFILE

The dawn of aggregation

Many industry insiders look to AFG as one of the pioneers in the aggregation space. It was from the experiences of people like Kevin Matthews that the notion of broker support and mediation with lenders first emerged...

"I WENT into financial broking in 1985 and I used to do commercial transactions specialising in fishing boats and fishing licences and onshore processing facilities," says Mr Matthews.

"The whole idea of aggregation, which is what AFG started, was based on what happened in insurance offices, where the more agents you got and the more premiums you wrote, the higher the commissions and the higher product you could demand of the product manufacturers.

"We had the same concept – I went out knocking on doors until my knuckles bled getting banks to agree to do that. Obviously they didn't want to, but eventually persistence beat resistance and they all started to agree to the concept of aggregation.

"When AFG got up and running in 1994, we were doing a lot of business for Citibank, which was one of the first major banks – they are a large bank globally, but they're a non-major in Australia – they had a product called Mortgage Power, which was a line of credit."

Mr Matthews is candid about the proposition of the third-party industry and how it has cemented a place in the Australian psyche.

"It's a pretty damn good service if you're a consumer if brokers do it correctly. Why would you want to walk into a bank and talk to a spotty-faced teller about a home loan when they've only got four or five products they can offer you? It's a fantastic value proposition."


Peter Higgins

1994

- AFG launches as a wholesale aggregation group, which many insiders recognise as the first of its kind. Later, it launches AFG Home Loans.
- The Ray White real estate group launches Ray White Financial Services with two mobile lenders; the group writes $2 million in home loans that year.
- Aussie partners with Macquarie Bank through the PUMA Fund to offer securitised home lending to borrowers.
- The major banks commence downsizing their branch networks.

SHOW ME THE MONEY

The means, methods and amounts of money brokers are able to make is another thing that has changed over the years – yet in some ways, perhaps not as much as you may expect...

"I GO back to the mid-80s and I think I invented trailing commissions with a couple of small brokers that were doing commercial loans with me," recalls Firstmac's Kim Cannon.

In the early days of broking, remuneration was concentrated solely on an upfront commission as lenders such as Citibank entered the market.

"The Rural and Industries Bank (now Bankwest) commissioned a report on the best way to distribute home loans and they considered opening these huge home loan centres here in Perth," says Kevin Matthews, who negotiated the first trail commission on behalf of AFG.

"The other option they considered was paying brokers a fee per new loan, which was $350 back in those days. They opted for the variable cost of the $350 per loan.

"Then Bank of New Zealand Australia decided they would pay $400 for each completed loan application.

"Then, because they were competing for business, a couple of other lenders became involved ... and they were offering $400 plus 0.25 per cent of the loan amount."

Mr Matthews says that around 1995-96, AFG then went on to negotiate a trail commission with Citibank.

"Trail commission contributed greatly to the evolution, professionalism and ultimately sustainability of the industry."

Another point of difference in those early days compared with today's commission structure was when brokers actually received their payment.

"Banks used to pay on approval, not settlement, and then they would in some cases not even claw back if it didn't settle!" says Gerald Foley of nMB.

1994: Bank branch closures open door for brokers

MANY PEOPLE look to the mid- to late 1990s as the period where the major banks, ironically, promoted the very industry they were initially loathe to support.

"The banks made a decision to actually close down branches with the intention of driving people to their telephone and mobile banking channels to become more efficient. But it actually backfired on them," explains Michael Russell, the former CEO of both Choice Aggregation Services and Mortgage Choice and now MoneyQuest CEO.

"Australian banking customers at that time – and still largely today – view mortgages as very much relationship driven rather than transactional.

"That, I think, opened the door and a number of very clever-minded individuals recognised that opportunity."

Government statistics show that the number of bank branches in Australia peaked in 1993 at 7,064. After this, all the majors began closing what they deemed to be underperforming branches.

Combined, the banks closed an average of 284 branches nationwide each year between 1994 and 2001, taking the total to just 4,843. With consumers left bewildered by such a substantial loss of local presence, brokers wasted no time seizing this opportunity and filling the void in local service provision.

1995

- Non-bank lender Registered Australian Mortgage Securities (RAMS) is launched to the retail market, having been formed in 1991.
- HomeStart Finance becomes a statutory corporation. The group was founded in 1989 by the South Australian government to support first home buyers to enter the market.

1996

- Mark Bouris launches Wizard Home Loans as a non-bank lender, competing with Aussie and RAMS Home Loans to further increase public awareness of the alternatives to bank-funded home loans.
- Ballast Corporation is established as a financial services organisation, including mortgage management, property and financial planning.

Mark Bouris

PROFILE

An accidental career change

Around 1971–72, a young chap by the name of Vernon Spencer writes his first loan while working for a stockbroking firm. That one deal leads him on a path towards creating mortgage originator/manager/securitiser Interstar, which then merges with and later rebrands to NAB's Advantedge in the 2000s

"I'M A chartered accountant. I had left what is today KPMG and joined a medium-sized stockbroking firm," Mr Spencer recalls.

"One lunchtime, one of the firm's clients rang me because all the partners were out and he asked if we could help him with a mortgage loan on one of his investments. My first reaction was 'I wouldn't have a clue what you're talking about'. But I said 'Look, I'll get back to you. Give me some details.'

"I spoke to one of the partners and the partner said 'I really don't know, but maybe we could help him. These days where do you get a mortgage from? Banks. But he would have talked to his bank. Why don't you talk to our firm's solicitors because they sometimes help'."

Mr Spencer did just that, providing details of the client, the property and the transaction, and thought that would be the end of it.

"About three months later, I had a letter from this law firm – bear in mind we're talking 1972 – addressed to 'Vernon Spencer Esquire' on official letterhead. It read 'Dear Sir, Thank you for referring Mr X to us. We have arranged a mortgage loan for him for $680,000 and attached herewith our procuration fee of one per cent being $6,800'.

"I thought: 'You give a lawyer just a name and an address, three months later you get a one per cent fee – that's like taking candy from babies, how easy is that?!'"

Recognising the potential to connect more borrowers with the funds available for lending held by law firms, Mr Spencer convinced the partners at the firm to advertise for more clients.

"Legal firms have been doing it for a long, long time. They usually handled the affairs of deceased estates and in Victoria there was a thing in those days, the Trustee Act – whilst it exists today, it's been amended – which said the trustee could lend up to two thirds loan-to-value against a first mortgage residential property."

And the rest, as they say, is history.

1996: Regulation means recognition

THE JUNE 1996 introduction of the *Uniform Consumer Credit Code* (UCCC) marked a significant step in the recognition of broking as a professional industry in its own right.

"In 1993, the government started thinking about regulating home loans. This eventually happened in June 1996, when the Uniform [Consumer] Credit Code (aka UCCC) commenced. This was the first time that home lending had been regulated to any material extent," explains Jon Denovan, a partner with Gadens law firm.

However, the legislation itself had more to do with lenders than brokers, and throughout the next decade, brokers continued to muddle through a myriad of state-based legislation.

PROFILE

Yes we Cannon

A commitment to providing alternative lending options for consumers is what helped Firstmac and its leader Kim Cannon through the challenges of starting up an entirely new industry

THERE'S NO denying that in nearly four decades working in the industry – "this is our 37th year in business" – Kim Cannon, the founder and managing director of lender Firstmac, has seen more than most. Yet he is quick to point out that even he hasn't seen everything.

"I started in 1978–79 as a lease broker, and there were already a number of people that were around in those days when I first started!" Mr Cannon recalls.

"We were doing equipment finance in those days and it wasn't until the mid-80s that we started becoming mortgage managers."

Mr Cannon knows better than most about the differences in state-based legislation in those days.

"In Queensland for instance, it was illegal to lend money on property or anything unless you were a bank or building society. So you couldn't be a broker in those days, in the 70s probably to mid-80s," he explains.

"The first signs of true mortgage broking started to appear out of WA – it was fairly obvious they had different state legislation in those days."

That changed around 1984 when the Bjelke-Petersen government in Queensland overturned the lending restrictions. Instead, the government legislated in favour of establishing a secondary mortgage market in the hope of making the Sunshine State a financial hub, according to Mr Cannon.

In the 1990s though, as broking and non-bank lending began to take off, a different kind of challenge emerged.

"As we started out in the early days, we did see a lot of the staff move away, set up their own broking company, and aggregation is something that probably appeared in the early 2000s," Mr Cannon says.

In addition was the struggle to gain trust with consumers.

"It was always a frustration I suppose, because you had to sit down with mum and dad – Mr and Mrs Average Australian were so conservative – and you would have to spend half an hour trying to explain who you were, because you weren't a bank. 'Can we trust you to lend us money?' That was always the biggest single issue," says Mr Cannon.

"The average Australian was financially illiterate; they just believed everything the bank said to them in the early 1990s."

1997

- Choice Aggregation Services is founded in WA by Greg Pennells and Ross Begley.

1998

- eChoice is established as a loan comparison website, just as the internet starts taking off.
- McGrath Home Loans, part of John McGrath's McGrath Estate Agents network, commences as a referral partnership with Westpac.
- Mortgage House becomes a mortgage manager/originator.

"The average Australian was financially illiterate; they just believed everything the bank said to them in the early 1990s."

PROFILE

Steve Sampson
Head of third party, Bank of Sydney

THE POWER of the broker channel is something in which Mr Sampson is well versed, having been involved with the industry since the late 1980s.

"I was at Advance Bank for seven years, pretty much when the broking industry kicked off, then I was general manager of Choice Home Loans for seven years, setting up the NSW and Queensland business from scratch. After that, I helped set up another business called Mosaic Financial Services, which was quite a unique equity participation model for that time," he notes, adding that the latter went on to merge with nMB several years later.

Mr Sampson is upbeat about the role aggregators play in the industry, and indeed the future of the broker market at large.

"I think the aggregators have a lot of input into what the banks' products and policies are these days. With brokers writing the amount of business they do, banks are very collaborative, almost the 'shoe on the other foot'. And of course with NAB purchasing a number of brokers, that's kind of changed the way banks look at the value of brokers," he says.

"My view is that the market share that aggregators will achieve will only increase. I wouldn't be surprised to see in the residential sector, that number to reach at least 70 per cent or more."

Mr Sampson says the ever-increasing amount of choice for the consumer means the third party has an unbeatable formula for success.

"That's what I love about the industry: it does give people an informative way, choice and tool to improve their own financial wealth as best they can."

INDUSTRY INTEL

Several longstanding members of the Australian financial sector share their thoughts on the birth of the industry we've come to know today...

Peter White, CEO, FBAA

IN THE late1980s, Peter White (now head of the FBAA) established his own brokerage in rural NSW, having worked his way through mainstream banking and vehicle financing. "I got an opportunity to do some more things progressively with a private firm in the broking sector, so I did that and then thought I might do that for myself," says Mr White.

Yet he was lured back to the big smoke of Sydney, selling his brokerage and entering the non-bank lender space, first with RAMS and then with Wizard, as well as time spent in both investment and private banking.

"I loved the non-banking sector; I always love a bit of an underdog challenge," he says.

Having seen the broking sector from all sides, Mr White has plenty of wisdom to impart on younger people joining the ranks.

"Never think you know it all," he advises. "I'm constantly learning, and I very much take the philosophy that I don't know it all, and I try to surround myself with people that bolster the knowledge that I don't have. It's a great industry. Treat it with respect, and it will treat you with respect."

Lisa Montgomery, independent consumer finance specialist

HAVING SPENT the early part of her career in banking with Newcastle Permanent before moving to Wizard and then Resi, where she worked her way up to become CEO, Lisa Montgomery has a somewhat different view of the broking channel as an observer rather than direct participant. So much so, that she has positioned herself as an independent consumer finance advocate.

"I would be sitting in my office and I knew that every customer standing in that line was on the same interest rate, because there was no negotiation," she recalls. "The talk of the day, from the mutual sector and the banking sector, was that 'These people won't last. How could they possibly last? They've got no foundation. Consumers will see through this'."

Of course, the sector turned that belief on its head.

"It's about the provision of service," she says. "I don't mean a pretty letterhead. It's about being more than just product providers to your clients: it's about being an expert that they take along for the journey."

Jon Denovan, partner, Gadens

YOUNGER BROKERS may not have heard of Jon Denovan. Yet the mortgage lawyer has played a significant role in establishing and supporting the industry which now sustains us all.

"I was a corporate banking lawyer who was left with nothing to do thanks to Mr Keating's high interest rates," he says of the 'recession we had to have'.

"And so I dreamed up the funding structure of Origin and put it in place on a speculative basis."

As the non-bank lending and broking sectors grew side-by-side, so too did the need for regulation of the burgeoning industry. This first came in the form of the Uniform Consumer Credit Code in 1996.

"This was the first time that home lending had been regulated to any material extent – it was now classed as just another form of consumer finance like personal loans, car loans and credit cards," Mr Denovan explains.

"I worked with government and consumer bodies to develop the law and make sure it struck a fair balance between consumer protection and permitting commerce to flourish."

A decade later, Mr Denovan would again be called upon to help formulate what would become the NCCP.

> "Brokers don't exist for the benefit of banks – brokers exist for the benefit of consumers... consumers understand that"

Gerald Foley, managing director, National Mortgage Brokers (nMB)

GERALD FOLEY is probably best known to most people across the third-party channel as the managing director and co-founder of aggregation group nMB.

However, Mr Foley's entrance to the broking scene actually came a lot earlier, having been one of the people who first orchestrated ANZ's recognition of and engagement with third-party loan introducers.

"ANZ had dealt with brokers more as referrers and more as a very, very decentralised model – so different branches or centres might deal with brokers around the place," Mr Foley says.

"But ANZ took the view that they needed to grow their share of new loans being written, and needed some centralised processing control over accrediting brokers and processing the loans.

"I joined ANZ specifically with another person to set up the broker channel with ANZ Bank. To their credit, they were the first major bank to deal with brokers within their own brand."

Having achieved this for the bank, Mr Foley – like so many of his contemporaries – recognised the possibilities within the burgeoning channel, which led him towards joining Mortgage Choice to set up their Victorian office before later establishing nMB in 2001, where he has remained since.

"I just think the consumer proposition is unparalleled anywhere, where you can tap into an experienced finance professional who will assist you through a whole range of lenders and products and education on property," he says.

Mr Foley suggests that banks and brokers can sometimes clash in the customer service stakes, yet each should remember their unique proposition and work to their strengths.

"Brokers don't exist for the benefit of banks – brokers exist for the benefit of consumers. The banks are best at gathering deposits, developing loans, creating products and features because that's what they are good at. Brokers are far better at sales because they have a broader proposition, and consumers understand that."

PROFILE

Growing up on the inside

Everyone knows the story of "Aussie" John Symond – he is, without doubt, the most publically recognisable figure in the Australian broking and mortgage market. Somewhat less well known, however, is the experience of the man now at the helm of the Aussie business as its chief executive – Mr Symond's nephew, James Symond

HAVING STARTED his career as a 19-year-old with Aussie when it first began in 1992, James Symond has literally "grown up with the industry" and his career has mirrored the growth of the third-party channel, from new kid on the block to industry heavyweight.

"John gave me a call and said 'Look, can you come and help me out for a week?' I'd just finished school, I'd got my real estate agent's licence. I said 'Sure'," recalls Mr Symond.

"We started at the end of January in 1992 and there was a small handful of us. I had an uncle with a big vision – he had a nephew who was eager to learn.

"One week turned into six months, six months into 15 years, 15 years has turned into nearly 24 years."

Mr Symond worked his way up through the ranks of the business, from call centre operator to settlements clerk and credit assessor, loans consultant, state manager and national sales manager.

Eventually, he wound up in the chief executive's chair with his famous uncle remaining as chairman.

As he admits, there isn't much he hasn't seen.

"I remember when I was a salesperson, I was 21 years of age and I remember going out into to the western suburbs ... there's been some interesting situations behind front doors," Mr Symond quips.

"As a broker, when you go into people's homes and when you have the privilege of sharing their lives at that moment, [you come across] all sorts of interesting stuff!"

1999

- Astute enters the third-party channel as a broking organisation.
- Smartline is established by its CEO Chris Acret.
- PLAN Australia is established.

"We had excellent tools – it was pieces of paper and leather on the bottom of your feet!"

TOOLS OF THE TRADE

IN THE modern-day rush, it's all too easy for the brokers of today to forget that they have a luxurious suite of tools and technologies at their fingertips compared to those available to their industry ancestors.

"We had excellent tools – it was pieces of paper and leather on the bottom of your feet!" declares the FBAA's Peter White.

"I used to wear out shoes on a monthly basis. I would walk and knock on doors day in, day out handing out business cards, handing out fliers on the services I could do, and that's how you grew your business."

Kim Cannon describes technology as a major boon for the broking industry.

"If you ask me, the greatest inventions in business as a broker in my time were two things: one was a fax machine – you don't believe how important a fax machine was! And the other was a PC," he says.

What about other big tools of the trade in those formational years, you ask? Calculators, manila folders, notepads, receipt books and the car boot – which was a library of lender application forms!

PROFILES

Industry intel

Two prominent members of the Australian mortgage market share their thoughts on the third-party...

NOW KNOWN for his role heading up financial services business Yellow Brick Road, Matt Lawler's biggest impact on the broader mortgage market arguably come from his time at NAB, where he oversaw the acquisition of the Challenger businesses, including PLAN, FAST and Choice.

"I was asked to build a strategy for NAB when NAB didn't really know what it wanted to do in the mortgage broker market," Mr Lawler recalls.

"Some schools of thought were that they would like to exit the broker market, whereas my strategy was to embrace it. And part of embracing it was to understand the market by participating in ownership of some of those businesses."

From Mr Lawler's perspective, vertical integration has actually helped increase mutual understanding and cohesion between brokers and lenders.

"I think vertical integration can work as long as the broker is supported to provide advice to their customers that is of the highest standard and not conflicted by the ultimate owner," he explains.

"A lot of that starts with the client and making sure that the people that are dealing with the client are working on the client's behalf and not working on the organisation who owns them's behalf.

"When I was at NAB and we bought FAST, Choice and PLAN, I was very clear that anything that NAB did as a product provider had to be because it was competitive and because it was a great solution for the client."

Having commenced his career in financial planning, Mr Lawler is a big advocate of looking outside the industry to take stock of lessons that can be learnt from other business areas.

"The industry has got to be really clear that it acts for the client, and very careful that it doesn't do what financial planning did, which was that it allowed too many schemes or conflicted remuneration structures to infiltrate which then undermines the trust of the consumer," he says.

Matt Lawler, chief executive, Yellow Brick Road

ANOTHER KEY figure in the development of the major banks' engagement with the third-party channel was Kathy Cummings, who began her career as a part-time branch assistant with St George before moving to the State Bank of NSW, as it was then.

"It was a complete culture shock coming out of St George to go to something like the State Bank with these big, old-fashioned branches, where managers had residences upstairs and you would have morning tea with all of your country customers," she quips.

Ms Cummings went on to help establish the broking unit at Colonial, which she says proved to be an attractive opportunity for CBA to use to enter the market. However, it proved a much bigger challenge to change sentiment within the much larger major bank than at Colonial.

"CBA was and still is fiercely protective of its proprietary distribution channels and I fought some fierce battles in establishing a broker business," Ms Cummings recalls.

"It was simply a matter of bringing back the feedback from brokers, opening their eyes as to what was actually happening in the mortgage market and realigning the processes."

Despite having a five-year strategy to implement its offering through brokers, CBA was able to achieve this within three years.

Ms Cummings says that while some in the broking industry still cry out for a uniform loan application form, that will never happen owing to the differing criteria and requirements of each lender.

"I remember right back, maybe 1999/2000, when Mortgage Choice called a meeting of the lenders to try and get everyone to agree to one application form. The industry has come a long way from that point, because you can just imagine 30 lenders sitting in a room and everybody's got their own systems and processes, no one wanted to agree on how to do this," she says.

"That was the very beginning of the industry, just to get some agreement about getting 80 per cent of the home loan application the same, so that brokers could achieve improved productivity."

Kathy Cummings, Former head of third-party and mobile banking, CBA

BACK TO THE BEGINNING PART II

COMING OF AGE

Easy money, high commission rates, an explosion of lenders to choose from, market opportunities around every corner, little restrictive regulation, technology efficiencies and innovations ... it sounds too good to be true. Yet for the early 2000s, this typified the broking industry, until a crisis so big it took on its own three-letter acronym hit hard. In an instant, the industry looked like it was on the verge of fighting for its very survival. The 2000s was the decade of lofty highs and frightening lows for the third-party channel...

IF THE 90s was the birth of the mortgage broking and non-bank lending industries, then the noughties (the decade from 2000 to 2009) was undeniably the decade of the aggregator, as opportunities increased and technologies evolved to provide business support to the booming broking sector.

"Aggregators really sharpened their propositions from around 2000 to the GFC," recalls Michael Russell, CEO of MoneyQuest.

And why wouldn't they? Established players like Choice, AFG and Mortgage Choice (and PLAN from 1999) found themselves with an ever-increasing number of competitors, all of whom were looking for ways to better connect with brokers, particularly through their technology offerings.

During this period, National Mortgage Brokers (nMB), eChoice, FAST, Connective, Southern Cross and other smaller players were all established. Meanwhile brokerage Astute moved into the aggregation space, Aussie transitioned from a non-bank lender to a brokerage and retail aggregator, and the Ray White real estate network rebranded its financial services division to Loan Market, creating a distinctly separate entity.

The establishment and refinement of aggregation and broker support services coincided with the explosion in the number of mortgage lenders, which reached its lofty peak in the early to mid-2000s.

Indeed, ratings agency Standard & Poor's notes that bank share of the Australian mortgage market fell to 77 per cent in 2002 (however by 2015 - aided in no small part by the GFC - this had soared back up to 94 per cent).

"Before the global economic slowdown, non-bank lenders accounted for a significant proportion of new advances, up from a negligible amount a decade earlier. The non-bank sector, mainly comprising prime lenders, began to include specialist non-conforming, sub-prime and high LTV ratio lenders in the 2000s," the agency says in its 2015 report *An Overview of Australia's Housing Market and Residential Mortgage Backed Securities*.

All of this growth in consumer choice and broker support enabled the third-party channel to flourish and continue its meteoric rise.

2000

- CBA becomes the last of the major banks to enter the broking channel following its acquisition of Colonial. Initially all third-party loans go through the Colonial brand, but within a short period of time, CBA moves to offer its own branded loans to brokers.
- Finance and Systems Technology (FAST) is established as an aggregator.
- eChoice becomes a brokerage company.
- Australian Mortgage Brokers (AMB) is founded.
- Specialist lender Bluestone Mortgages begins operating, initially as a mortgage origination and securitisation platform. The group subsequently expands into New Zealand and Europe in 2003 and 2009 respectively.
- Mortgage Choice writes its 50,000th loan.

FROM HAND TOOLS TO AUTOMATION

THE 2000s saw a dramatic shift in the tools available to brokers, largely because of the emergence of three key factors at the same time: the rise of the internet; the increasing prevalence of aggregators and their quest to provide broker support; and the major banks entering the broker market, aided by their large budgets and technology capabilities.

Fax machines were gradually replaced by online lodgements, CRMs and collation tools allowed for improved archiving of client information and mobile phones allowed on-the-go communication.

"We had a wonderful simulator that was working on an Excel spreadsheet, and it was quite something at the time, where a broker could put in all the details of the customer's requirements and we could work out which would be the best bank for them: wow!" says Steve Sampson of his time at Choice.

Some of the early digital tools, however, left a lot to be desired.

"When banks first started talking about electronic lodgement, they all wanted the broker to lodge directly to their platform, and some of them were pretty shabby and it didn't save anybody a lot of time," says AFG's executive director, Kevin Matthews.

"The reason for this is that early on, many of the banks had to re-key into their systems as the broker-supplied information didn't auto populate. A joint initiative between AFG, Aussie and Mortgage Choice called Trident went a long way to resolving this issue, saving time and reducing errors."

Technology, however, benefited not just brokers but also their customers.

"Come the turn of the millennium, the tide turned – the internet and the dot-com boom meant there was a lot more information available on loan products, so consumers really were more informed and had the capability to make better decisions," says consumer finance advocate Lisa Montgomery.

13,245

Peak of MFAA members before the GFC hit

2007

Year in which The Adviser was launched

NUMBER OF BROKERS OVER THE DECADE

	Total MFAA members (Source: MFAA)	Mortgage & finance brokers remaining registered for GST (Source: ATO)
2000	829	N/A
2001	1,235	1,242
2002	2,186	1,568
2003	4,249	2,061
2004	7,388	2,768
2005	10,331	3,410
2006	10,974	4,112
2007	12,840	4,982
2008	13,245	5,719
2009	13,045	6,315

While it is extremely difficult to track the actual number of brokers operating at any given time, due to – particularly in the early years – the transient nature of many operators, this table does demonstrate the growth in the number of mortgage and finance brokers and those supporting them over the decade.

Gerald Foley

2001

- National Mortgage Brokers (known as nMB) begins trading, initially as a retail broking business to service clients.
- Macquarie Bank spends an undisclosed sum on acquiring a 10 per cent stake in AFG.
- Homeloans Limited is listed on the ASX, demonstrating further recognition of the non-bank channel.
- Also in this year, non-bank lender Mortgage Ezy, specialist lender Pepper and short-term lender Quantum Credit are all established, as the number of alternative lenders continues to boom.

2001: Bank recognition of the channel

IT WASN'T exactly a smooth start for the broking channel, with relations decidedly frosty between brokers and some of the banks. Many older members of the industry will recall full-page newspaper ads from both sides deploring the sentiments and operations of the other.

But the early 2000s marked a rapid thawing in relations, and banks began a significant investment in engaging with the broker channel and establishing a new business model alongside their existing offerings.

One of the clearest examples of this marked turnaround is CBA. The last of the majors to enter the channel in the early 2000s, just a few years later in 2008, the bank showed its confidence in the sector by stumping up $71 million to buy one third of Aussie.

"It was a milestone event when CBA made the decision to replace Colonial with the CBA brand – that was a really significant event," says Michael Russell.

"What was an absolute staunch competitor ends up buying the business: looking at the business and saying 'They are too good and too strong to ignore, we need to ultimately invest in them'. You couldn't get higher flattery than that," adds Aussie's CEO James Symond.

Macquarie Bank was an early investor with its 2001 purchase of a stake in AFG, while NAB became a major owner of brokerage assets following the 2009 acquisition of the Challenger businesses, including FAST, PLAN and Choice.

Of course, this new bank attention on the third-party channel gave rise to a new debate: vertical integration. Yet the concept of bank ownership of non-core businesses is nothing new.

For example, Suncorp owned the LJ Hooker real estate network for 20 years between 1989 and 2009, when it was sold to a consortium of investors including members of the Hooker family.

What is interesting is the divergent strategies of Australia's major banks. While NAB and CBA have shown aggressive interest in owning parts of the domestic broking and aggregation channel, Westpac has focused its efforts on a number of high-profile acquisitions in the banking space, swallowing up the likes of Bank SA and Bank of Melbourne, culminating with the massive $18.6 billion takeover of the St George Group in 2008.

ANZ however, despite being the first of the major banks to engage with brokers, has remained a standalone lender.

> "It was a milestone event when CBA made the decision to replace Colonial [loans] with the CBA brand"

SHOW ME THE MONEY

THERE IS an old saying that what goes up must come down, and so it was in the 2000s for broker commissions.

While commissions increased upwards in the early to mid-2000s on the back of intense competition among an ever-increasing pool of lenders, the GFC came as a sharp slap in the face, with commissions slashed by as much as a third, seemingly overnight.

"They were quite savage and whilst they did impact on head group earnings significantly, the real pain was felt by individual brokers and broking businesses," says Michael Russell.

"Their earnings were cut by up to 30 per cent without warning."

John Flavell, CEO of Mortgage Choice, adds: "While some lenders will tweak their commission payments from time to time, the vast majority still pay brokers the reduced commission."

But as others point out, while the actual percentage rates for commission have generally remained below their pre-GFC peaks, the rapid rise in house prices since that time has more than offset the loss of earnings in most parts of Australia.

2002

In September, Aussie repositions itself as a mortgage broker, offering mobile broking services. In the same year, "Aussie John" Symond is awarded the prestigious Member of the Order of Australia Award for his role as a consumer champion in the mortgage market.

In December, Oxygen Home Loans (formerly McGrath Home Loans) is launched by the McGrath real estate network.

Aggregator Southern Cross Broker Network (SCBN) is founded.

2002: Convergence in action

CONVERGENCE IS a hot topic at present, particularly since the July 2015 announcement that accounting body CPA Australia applied for an Australian Credit Licence, opening the door for its members to offer mortgage broking services.

However convergence is nothing new for the industry. Just look back to the late 1990s and particularly the 2000s at the real estate push into broking as one such example.

The LJ Hooker network began a very modest entrance into broking as early as the 1980s, yet it was the group's 1989 acquisition by Suncorp Bank that led a sustained push by major real estate networks into the mortgage market – a push which would ultimately lead to the establishment of recognisable players including Loan Market, LJ Hooker Home Loans and Oxygen.

"The main reasons at the time were really due to consumer demand. Everyone was looking for different options; the broker market was starting to emerge... and we just felt that was the right time to launch and complement the real estate offering," says Jeff Chapman, LJ Hooker Home Loans' national product and marketing manager.

Suncorp's move into the space spurred other networks to expand their own service offerings.

"We started a mortgage broking business, kicking off in Queensland, and we started the business purely as a defensive play against this transaction," says Loan Market chairman Sam White.

But both Mr Chapman and Mr White are quick to point out that their respective businesses now operate as standalone entities.

"It's not as simple as real estate getting into home loans: our home loans business is a completely separate business to real estate," Mr Chapman says.

PROFILE

Keeping it in the family

Like many in the industry, Loan Market chairman Sam White knows there are distinct benefits as well as challenges to being part of a family business

THE REAL estate and broking industries are somewhat unique in Australia because of their sizeable emphasis on family. Loan Market, Aussie, Mortgage Choice, Connective and others all grew from family start-ups; on the real estate side, Ray White and Raine & Horne have grown into international behemoths under more than a century of family ownership.

Clearly there is something to be said of family businesses, as the strong ties at home translate to solid foundations in the workplace. Yet on the flipside, it often creates the presumption that younger generations are forced into the business, or gifted everything rather than achieving in their own right.

"When I was in school, everyone assumed I would work in the family business, but I always said I wasn't going to," Mr White recalls.

"There was no real pressure for me to be involved."

Mr White began part-time work with Ray White while studying for a law degree. Eventually, when rival LJ Hooker was acquired by Suncorp, the Ray White business saw an opportunity to spread its own wings into broking.

"That was a big change for us and so I became a mortgage broker in Queensland. I think I was the second one that came on and then I moved to Sydney."

From those early days on the ground as a broker, Mr White saw the need to strengthen the firm's financial services offering.

Since that time, Loan Market has grown to become a major player in the mortgage market in its own right.

For Mr White, being involved with Loan Market from the beginning has enabled him to make a unique contribution to the broader family-owned group.

"I sort of feel an obligation to live up to the opportunity that I've been given. Ray White started the business in 1902, so my great-grandfather, my grandfather, my father have been involved and my brother is involved," he says.

"I want to make sure that my contribution is worthy of that history."

2003

- Connective is launched by Glenn and Murray Lees, who between them brought a wealth of knowledge in broking, finance, technology and commercial law.
- The Ray White group rebrands its financial services business to Loan Market.
- Mortgage manager Australian First Mortgage is established.
- Wholesale mortgage funder Mortgage Asset Services (MAS) is founded by mortgage and banking veterans Troy Phillips and Brett Hartley.
- Astute moves into aggregation.
- Comparison rates become a mandatory disclosure to consumers from July. The comparison rate was introduced with the aim of helping consumers identify the best overall rate, combining interest rate plus associated fees.

2004

- Mortgage Choice lists on the ASX.
- GE Money acquires Wizard Home Loans, with the price tag reportedly between $400 million to $500 million.
- In September, Sintex is established as a commercial lender. Subsequently moves into SMSF and residential lending.

2003: Aggregators get connective

AGGREGATION BUSINESSES arose as savvy individuals operating within the broad mortgage market recognised the need for brokers on the ground to access business support and for a prominent intermediary to act on behalf of brokers when dealing with lenders.

AFG is widely recognised as the first, but the 2000s saw a huge rise in aggregation businesses being established to support the rapidly growing third-party sector.

The biggest to arise from this period was Connective, which was formed in 2003 by brothers Glenn and Murray Lees – themselves experienced mortgage brokers.

"Aggregation has allowed the mortgage broking industry to get more organised," says Yellow Brick Road's CEO, Matt Lawler.

"Aggregators play a really important role in organising groups of brokers and making sure they uphold professional standards. But they also create efficiencies in the industry as well: efficiencies around communication and education, efficiencies around systems and processes, commission payments and so forth."

There were some initial challenges for brokers though, as many skilled brokers left their posts to work on the launch of aggregator groups.

"I remember the Olympics was a really key turning point for us. We had an employee-only structure leading up to the Olympic Games, and that was September 2000, and then after the Games we lost a fair few people very quickly to aggregation groups," says Loan Market's Sam White.

2003

Aggregation group Connective is established

$385m

Price NAB paid for the Choice, FAST and PLAN businesses

2005

- In March, LJ Hooker Home Loans launches its first franchise.
- Financial services education provider Kaplan Professional enters the Australian market, through the acquisition of several vocational and higher education companies.
- Lender Loan Ave is founded.

2006

- Aussie expands into franchised retail broking.
- In November, Interstar Wholesale Finance is rebranded to Challenger following the merger several years earlier.
- Finder.com.au is launched as a comparative tool for consumers across financial services and utilities.
- Commercial lender Thinktank is established.

John and James Symond

2006: The Aussie way

JUST AS its establishment as a non-bank lender made waves in the home lending market in the 90s, Aussie's decision to shift its focus to mortgage broking from 2002 and to become a retail and franchise brokerage in 2006 saw it add significant weight to the broker channel.

Whether working with the Aussie group or as a competitor, brokers benefited from the industry clout and consumer awareness of the Aussie brand entering their ranks.

"During those years as a non-bank lender, we knew we had built this trusted household brand, strong distribution capabilities along with some of the best people in the industry, but we realised that with just one product, we would never be able to truly leverage these assets," explains Aussie's CEO James Symond.

"John Symond personally had a view that it was also more risky to keep all your eggs in one securitised basket than it was to spread them out across other lenders as well, and that proved to be correct obviously with the commencement of the GFC and the huge hit securitisation received."

Yet it was Aussie's unexpected swoop on the Wizard Home Loans business in 2009 that cemented Aussie Home Loans as a dominant force.

"They had some good people, they had some good stores; we had an opportunity to purchase the business and give our retail channel a boost. And that's exactly what happened," Mr Symond says.

"So our 24 stores turned into nearly 100 stores virtually overnight."

2007

- nMB expands its reach through the acquisition of aggregator Mosaic Financial Services.
- Yellow Brick Road is established, initially as a combined financial solutions practice for high-net-worth individuals.
- Brokerage MoneyQuest is established by industry veteran Ross Begley.
- *The Adviser* launches in May as the first online news publication for the mortgage and broking industries.

"Sometimes the future is different, but it's also very much the same"

PROFILE

A proposition too good to refuse

For Michael Russell, the broker channel is all about choice...

LIKE MOST of his contemporaries, Michael Russell began his career in banking but was mesmerised by the possibilities of the fledgling broking industry and found the proposition too good to resist becoming a part of.

"I loved home lending, I loved doing home lending and small commercial lending when I was in the banks and got a lot of satisfaction from it. But like a lot of people, I saw where the industry was heading," Mr Russell explains.

"I loved the proposition that brokers were providing ... I really could see an exciting future for the industry and I wanted to be part of it, so I jumped on board – it was a no-brainer for me."

That was at the turn of the millennium, and over the next 15 years, Mr Russell spent considerable time and effort building the profile of the industry and assisting individual brokers build their own businesses with both Choice and Mortgage Choice.

"We were all just finding our feet, so we were all focused on two things: one was recruiting brokers to gain a position of size and scale, and the other was to really sharpen our value proposition to these brokers," he says.

"From probably 2001 to 2010, technology systems were heavily invested in by the head groups and really sharpened up as efficient, valuable tools for brokers to conduct their business."

That proposition and the technology support systems being developed elevated the status of the broking channel not just for customers but as a source of employment, according to Mr Russell.

"I know many brokers within both Choice and Mortgage Choice, many franchisees and loan writers, that were customers of mortgage brokers," says Mr Russell.

"It's a great story – it really validates the strength of the proposition that these mortgage customers were that impressed with the proposition, that they decided to jump on board. Not only impressed, but they were really invested in what the future of the industry could look like. They were very visionary."

2007: Making friends with the media

WHILE A bit of shameless self-promotion never goes amiss, it is fair to say that brokers as a collective had a difficult time with the media in the early years, and the establishment of an online trade magazine for the sector represented something of a new beginning for the channel.

As well as recognising the sophistication of broking as an industry to warrant its own publication, *The Adviser* provided a national, independent voice for brokers to communicate among themselves about their industry and its partners, as well as receive timely news feeds about issues impacting their businesses and their clients.

Within a matter of months, it moved into print as well – recognising the significant broker demand for quality news and information.

"The trade publications have been a really important part of the framework in building professionalism and getting good stories out there about how the industry is operating," says Matt Lawler, the head of Yellow Brick Road.

"At one end, there's showcasing of information and updates so that everyone operating in the industry has access to information in real time. There's also a lot of best practice encouragement from the trade publications."

Loan Market's Sam White says that at its most basic level, increased engagement with the media has helped boost the profile and positivity of the industry.

"A big part of the evolution of broking was getting consumers to understand that this was not a lender of last resort – that brokers could empower customers to make the right decisions," he says.

"I think brokers were seen in a very positive light by being the person who was going to fight for the customer.

"Media publications like *The Adviser* have had a big impact around the professionalisation of the broker workforce – having a more informed broker has made brokers better for their customers."

2008

- The GFC unleashes a wave of mergers and acquisitions – among both lenders and brokers.
- One of the biggest takeovers was Westpac's $18.6 billion acquisition of St George Group.
- In August, CBA takes a one third stake in Aussie, paying $71 million.
- CBA buys Bankwest in October.
- After several years of lobbying and discussion, the first federal steering committee on establishing a national set of regulations for the broking industry is formed, which goes on to develop what we know as the *National Consumer Credit Protection Act* (NCCP).

"Resilience: the single term that so many people use to describe the broking channel during the 2000s, and particularly in the aftermath of the GFC at the end of the decade"

2009

- Westpac is the first major bank to drastically cut broker commissions. All lenders follow suit, by up to 30 per cent or more in some instances, as lenders suffer through the GFC.
- Early in the year, crisis-hit GE Money offloads Wizard Home Loans to a cashed-up Aussie – the deal sees Aussie grow from 24 retail franchises to 123. CBA purchases a large portion of Wizard's loans as part of the deal. The undisclosed sale price is understood to be a fraction of that GE Money paid for the business just five years earlier.
- Having been trumped in its bid to acquire Wizard Home Loans, NAB subsequently completes the acquisition of Challenger in October, including its mortgage funding business and of course aggregators Choice, FAST and PLAN for $385 million. The Challenger business is rebranded to Advantedge.
- Mortgage aggregator LoanKit is acquired by Mortgage Choice.
- Astute acquires boutique franchise group Australian Mortgage Brokers.

GFC: THE ULTIMATE TEST OF FAITH

THE GFC came as something of a shock to virtually everyone, as a spectacular housing bust in the US spun out of control and quickly enveloped the entire world.

Lender closures, mass job losses, restricted credit access, haemorrhaging house prices and plummeting economic growth became the new norm.

A quick flick through our list of events in 2008 and 2009 shows a sharp arrest in new business launches, with activity instead turning to consolidation. Indeed, one prominent industry spokesperson at the time labelled smaller aggregation groups as "dead men walking".

But years later with broker market share sitting above 50 per cent, it's all too easy to forget that at that time, there was a very real possibility the broker channel could have died altogether.

"The GFC was quite significant – it really allowed brokers to come to the fore in finding finance for people, because some of the banks had stopped lending. But at one stage there, it could have gone either way; a lot of banks pulled back, very sharply," says Kathy Cummings, then the head of broking and mobile banking at CBA.

"I think that was a shock to a lot of brokers, to find just how much the first thing some of these banks did was cut the funding to their broker channels."

Loan Market's Sam White agrees that things looked dire for the broking channel.

"I used to go to meetings with banks in 2008-09 and I would go in thinking 'We might not have a business at the end of this meeting', because we were concerned the banks would say 'Guys, the deal's off, we're cutting costs, we're not going to deal with brokers anymore'," he says.

What everyone in the industry agrees on is that it is testament to the resilience, dedication and tenacity of the broking industry that it pushed through, adapted to the new environment and went on to flourish better than ever.

"The industry showed remarkable resilience to dust itself off: it didn't capitulate, we didn't see a huge loss of brokers," recalls MoneyQuest CEO Michael Russell.

"The only good thing to come out of the GFC was brokers have really embraced this concept of concentration risk and diversification – most broking businesses were one-trick ponies in terms of being solely one-product businesses. This concept of concentration risk really hit home and you've now got this really exciting diversification theme washing over the industry."

BACK TO THE BEGINNING PART III

THE PRESENT ERA

From humble beginnings to domination of the mortgage market in less than 30 years, the broking channel has been quick to win over the hearts of the Australian public and the minds of mortgage lenders. Yet once again, the industry finds itself at a crossroads, with change and uncertainty becoming the norm of our time. Lessons from days gone by, reactions to current events and projections for the years ahead come together as the past, present and future all collide in this, our current decade

SOME MAY say that when looking into the past, all you see are ghosts. Wise people though will tend to see lessons among the ghosts - applying the benefit of hindsight to events of yesteryear in order to calculate what was done well, what improvements could be made in similar situations and what should never be repeated at all cost.

Such introspection is arguably at its most valuable at times of upheaval. And for the broking industry, that time of upheaval is now. Ongoing regulatory scrutiny, lender rate changes applied seemingly on a whim, increasing competition among brokers' peers - not to mention the confusion of consumers as to where they can and cannot now borrow funds - means that uncertainty is the word du jour.

How will brokers adapt to this change? From our vantage point, brokers have all the necessary tools and experience in place not just to survive, but to thrive.

But it can be hard to see the light at the end of the tunnel when you're amidst the quagmire.

Previous chapters of this book have looked at the industry's past - its challenges, its breakthroughs, its embracing of change and its adaptability.

However it's interesting to see just how many comparisons can be made between then and now.

As Steve Sampson at Bank of Sydney aptly notes, "sometimes the future is different, but it's also very much the same".

NUMBER OF BROKERS OVER THE DECADE		
	Total MFAA members (Source: MFAA)	Mortgage and finance brokers remaining registered for GST (Source: ATO)
2010	12,606	7,050
2011	11,787	7,853
2012	11,019	8,581
2013	9,927	9,569
2014	10,469	11,177
2015	11,457	13,242
2016*	N/A	13,977

*Projected

While it is extremely difficult to track the actual number of brokers operating at any given time, this table does demonstrate the growth in the number of brokers and those supporting them over the decade thus far.

"At last, the third-party channel was recognised as a professional service with its own operating standards and regulatory framework."

2010

- *National Consumer Credit Protection Act 2009* (NCCP) comes into force from 1 July, providing a national uniform set of regulations for the industry and transferring regulation enforcement and oversight to the federal government.
- Vow Financial is formed through the merger of National Brokers Group, The Mortgage Professionals and The Brokerage. Macquarie buys a 20 per cent stake in the newly formed business.
- In April, independent aggregation group Outsource Financial is launched.
- Mortgage Choice acquires loan comparison site helpmechoose.com.au.
- Loan Market acquires NZ PLAN business.

Jon Denovan

2010: NCCP becomes law

JUST LIKE a 21st birthday marks our coming of age, the introduction of the *National Consumer Credit Protection Act 2009* (commonly known as NCCP) marked a significant milestone for broking as an industry.

At last, the third-party channel was recognised as a professional service with its own operating standards and regulatory framework. It also marked the introduction of a cohesive national approach to broking for the first time, ending the hodge podge of state-based legislation that existed previously.

"Effectively, except in WA, brokers weren't regulated in any forceful fashion until 1 July 2010 when the NCCP Act commenced," says mortgage solicitor and partner of Gadens law firm, Jon Denovan.

"[NCCP] transferred regulation of credit to the Commonwealth and regulated finance brokers on a nationally consistent basis. It made membership of an external dispute resolution scheme compulsory for lenders and brokers."

According to Mr Denovan, the introduction of NCCP was not initially seen as a major disruptor for brokers, but eventually it became apparent that it was more complex than originally anticipated.

"Over time, it became clear that the responsible lending laws had much more to them than expected," he says, referring to the ASIC stipulation that required loans to be 'not unsuitable'.

While the definition of 'not unsuitable' was less than clear cut, he notes that the MFAA actually required loans written by members to be 'appropriate' for the client – a higher stipulation than the legal minimum.

Arguably the most significant impact of the NCCP introduction was a highly positive one – a clean-out of less reputable or committed brokers from the ranks.

Tim Brown

2011

- In July, Mark Bouris' Yellow Brick Road wealth management group lists on the ASX.
- Retail finance brokerage Finsure Group is established.

PROFILE

Seeing the industry from all angles

From consumer finance and real estate financial service offerings to banking and aggregation – Vow Financial's CEO Tim Brown has seen the third-party channel grow from virtually every angle...

LIKE MANY senior figures in the broking space, Tim Brown has spent the bulk of his work life developing and polishing the service offering of the third-party channel. Having started his career with Bank of New South Wales (now Westpac), he moved into consumer finance where he forged his understanding of the loan writing procedure.

"We had to do our own collections back in those days, which was a really good lesson about lending, because they used to say 'whatever you lent, you had to collect'," he recalls.

Of course, with that territory came the odd repossession, which provided some memorable tales.

"We once had to pick up a car because it was in arrears, and when we went to drive it away, it didn't have any brakes!" Mr Brown laughs.

"They obviously didn't tell us that when we were driving away. Luckily we came to a set of lights and I was able to use the handbrake to stop. It wasn't funny at the time, but it was funny afterwards."

But it is his role in helping to establish the sales and distribution platforms for banks and real estate groups for which Mr Brown is most well-known. He helped to launch the financial services offerings of the LJ Hooker, Elders and RE/ MAX real estate networks, before then moving to Macquarie Bank to expand its intermediary presence and joint venture projects.

It was from this position that he led the merger that would create Vow Financial in 2010.

"It was in a discussion with a number of our aggregators who were in that mid-tier two that needed to get scale," Mr Brown says.

"We saw the opportunity and merged three businesses into one."

PROFILE

RIP to legends of their time

Sadly while time allows businesses – and industries – to grow and flourish, it also means that we as humans age and move on. Take a look at the reaction to the deaths of some of broking's prominent figures...

Ross Corby

AN ELITE business writer with Loan Market, Mr Corby was killed instantly in a car crash in June 2014, according to a local newspaper.

Loan Market's chairman Sam White said at the time that Mr Corby was a "regular top producer" after joining the group in 2001.

He left however to become a BDM with Commonwealth Bank in 2004, but made the decision to return to Loan Market five years later. He continued as a broker and remained one of the group's elite writers until his death.

"He was a true professional – passionate about his clients and the role he played in their lives," Mr White said.

"And they loved him back, as evidenced by the huge client referral rate he had. He was a remarkable broker who ran one of the best businesses in our group."

Timothy Holmes

THE FOUNDING director and chairman of non-bank lender Homeloans was remembered as "a pioneer in the non-bank sector" following his death in November 2014.

"Tim was a pioneer in the non-bank sector in establishing a credible brand through direct distribution, through broker distribution and also on the wholesale funding side," Advantedge Financial Services' general manager of distribution, Brett Halliwell, told *The Adviser* at the time.

"He's left Homeloans as the leading player in the non-bank market, and also a sector that he fundamentally founded."

Mr Holmes once said in an interview that starting Homeloans was his most important career event, which he labelled "a momentous career move".

Anthony Wignall

KNOWN AFFECTIONATELY as Tony or Wiggers, Mr Wignall passed away in November 2015 after a lengthy battle with cancer.

"Tony was a lawyer and academic who had a successful career as an investment banker before setting up Wignalls as a national firm that focused on the third-party space. [He was] the first external solicitor to produce NAB legal documents for mortgages," explains Troy Phillips.

Leon Braley, CBA's senior relationship manager, third-party banking, says Mr Wignall's work was "way ahead of its time – unbelievable".

"He was instrumental in writing Australia's first securitisation program – the PUMA Fund. He had great vision and he was the first one to put it on the table ... his intellect on building software programs and writing software programs was incredible," he says.

Jon Denovan adds: "Tony Wignall was one of the major reformers of mortgage doc prep in Australia. He invested a huge amount of energy and knowledge into developing IT systems when Google was still a dream."

2012

- Aussie acquires nMB.
- Longstanding brokerage The Mortgage Gallery – led by one of the industry's pioneers, John Bignell – merges with Smartline.
- Loan Market merges with Allied Kiwi NZ.
- SocietyOne becomes one of the first peer-to-peer lenders to launch in Australia, taking advantage of the rise of social and digital media technologies.
- In December, CBA increases its stake in Aussie to 80 per cent, sharpening debate about vertical integration.

2013

- Finsure acquires the LoanKit mortgage aggregation business from Mortgage Choice for an undisclosed sum, dramatically increasing Finsure's size.
- In August, Australian Property Finance (APF) is formed as a joint partnership between global real estate firm RE/MAX and aggregator Vow Financial.
- Late in the year, Macquarie Bank buys a 25 per cent stake in aggregator Connective.

2012: Vertical integration debate

VERTICAL INTEGRATION became a hot topic of conversation post-GFC, fed further by the high-profile acquisition by CBA of a majority stake in Aussie.

"I look on the CBA ownership very positively," Aussie chairman John Symond said in 2014 when asked about the group's ownership structure.

"If I wasn't positive about CBA, I wouldn't have done the deal. I always put my money where my mouth is."

In the same year, AFG's general manager of sales and operations, Mark Hewitt, said that Macquarie owning shares in the aggregator had no influence on the day-to-day operation of its business.

"They are a shareholder in our business but they don't hold a seat on our board, so it really doesn't buy them any favours one way or another," he said at the time.

Yet not everyone agrees that vertical integration is a good thing for the industry.

"There is no doubt that vertical ownership structures within the mortgage space are of great disadvantage to the consumer," Troy McErvale, managing director of Freedom Home Loans and My Personal Lender, wrote in an opinion piece in *The Adviser* in March 2015.

"If they really want to retain any level of esteem, then it's easy – just be openly transparent about the privileges that the banks are permitted as a direct benefit of the ownership."

However, according to Sam White, CEO of Loan Market, there is a deep divide between the theory and practice of integration within the mortgage market.

"I do think it is a perception issue with the ASICs of the world: the perceived potential for conflict rather than the reality. I think that perception may still be there with some of the regulation bodies, but the reality I think is very different," he says.

Troy Phillips

2014

HISTORY REPEATING

"I WAS recently in Indonesia talking to banks there and it brought back memories, because in Indonesia there are no mortgage brokers. I was talking to banks about the same things I was talking about 20 years ago, which was why a broker can help a bank, how it might help customers, how it could be good for both," says Loan Market's Sam White.

"It brought back memories of all those discussions and the issues the banks had when we first started here. It was funny to reflect on just how far Australia has come and how much other markets are starting to emerge to do this all over again."

2014: Brokers now write majority of home loans

FOR AN industry that has only existed for less than three decades, reaching the point where brokers now write half of all residential mortgages in Australia is a major achievement.

In a statement issued in May 2014, the MFAA said "the mortgage broker industry has seen its share of home loans provided in Australia double over the last 10 years, to reach a milestone of 50 per cent during the March quarter".

By the September quarter of 2015, that figure – according to an MFAA report by Comparator – had climbed further to hit 52.6 per cent, firmly cementing brokers as the dominant writer of residential loans nationwide.

"The figures clearly show that mortgage brokers have got their message through to borrowers that they are the best vehicle to find a loan most appropriate to their needs and aspirations," the MFAA's then CEO, Phil Naylor, said at the time.

More recently though, statements from mortgage market insiders have suggested that when it comes to residential loans, the broker market may be even larger than that conveyed by official statistics.

MyState Bank's chairman Miles Hampton, for instance, told the bank's AGM in October 2015 that "the reality is that two thirds of all new loans written by the banking sector in Australia are being introduced by the broker network. In our case, 70 per cent was broker-introduced".

- Yellow Brick Road spends $53.6 million to acquire both Vow Financial and Resi Mortgage Corporation.
- Loan Market becomes a franchise business.
- In November, Timothy Holmes, co-founder of Homeloans Limited, is remembered as one of the key pioneers of the non-bank sector following his death.
- 40 per cent of new members to the MFAA throughout the year are female, demonstrating the increasing attractiveness of the profession to women.
- Marketplace lender DirectMoney begins lending. The group was formed in 2007, although the GFC resulted in a postponement of activity.
- The long-awaited findings of the Financial System Inquiry (FSI) are announced, with recommendations including investigating broker commissions and new regulations obliging brokers to disclose their ownership structures. The following year, the government responds by backing most of the recommendations, although it rules out banning SMSF lending for property acquisition.
- Broker share of the mortgage market surpasses 50 per cent.

2015

- ASIC and APRA introduce contentious measures to improve bank capitalisation and cool demand from domestic investors in the residential property market.
- The federal government announces a crackdown on foreign investors and transfers powers from the FIRB to the ATO for greater enforcement.
- Having operated directly with lenders for some 30 years, South Australian mortgage group Bernie Lewis Home Loans reveals in February that Choice has become its aggregator.
- In April, a new bank is created as Queensland building society Wide Bay Australia becomes Auswide Bank.
- Raine & Horne announces in late October that Raine & Horne Financial Services will be rebranded to Our Broker.
- Professionals Finance is established as the national broking arm of The Professionals real estate group.
- In November, *The Adviser* receives word of the death of Tony Wignall – a lawyer and academic who was heavily involved in developing the legal and process sides of third-party loans.
- REA Group (parent company of realestate.com.au) reveals plans to enter the mortgage market.

BACK TO THE FUTURE

PROJECTIONS FOR WHAT LIES AHEAD

In many aspects, life runs on a loop – the players may change, but the events seem to repeat themselves, sometimes less obviously so than others. For such a young industry, broking has made an incredible impact on the Australian mortgage market and cemented its place in the Aussie psyche. Perhaps now it has matured enough to have the wisdom to learn from its past as it looks towards its future.

MANY WITHIN the industry believe that broking is now at a key juncture in its history.

"Brokers are again at a crossroads - a time of change," notes mortgage lawyer Jon Denovan of law firm Gadens.

"Customers are becoming more sophisticated and demanding, largely as a result of the internet, and so they want brokers to do more than just be salespersons. They are looking for education - and help in managing their financial affairs - which creates an intersection with the AFSL regime."

Indeed, broking is now facing a changing lender environment, a constantly evolving technology landscape, an increasingly sophisticated customer, converging service provision and a boost in its market power as the dominant source of loan origination.

All of these elements are combining to fundamentally shift the role of brokers and the way they support their clients. Confusion, uncertainty and, to some extent, fear proliferate across the sector.

Yet to truly understand how the industry may adapt to these changes, it is beneficial, if not essential, to use the insight of the past - how the channel has overcome changes and challenges previously - to identify how it may again perform in the future.

As Danish theologian and philosopher Soren Kierkegaard wisely noted: "life can only be understood backwards, but it must be lived forwards".

It was for this purpose that *The Adviser* engaged in a four-month long project to delve into the origins and subsequent evolution of broking as an industry, in order to identify parallels between 'then and now'. As you will see in the pages ahead, in many instances, the current changes are nothing new but simply a case of history repeating...

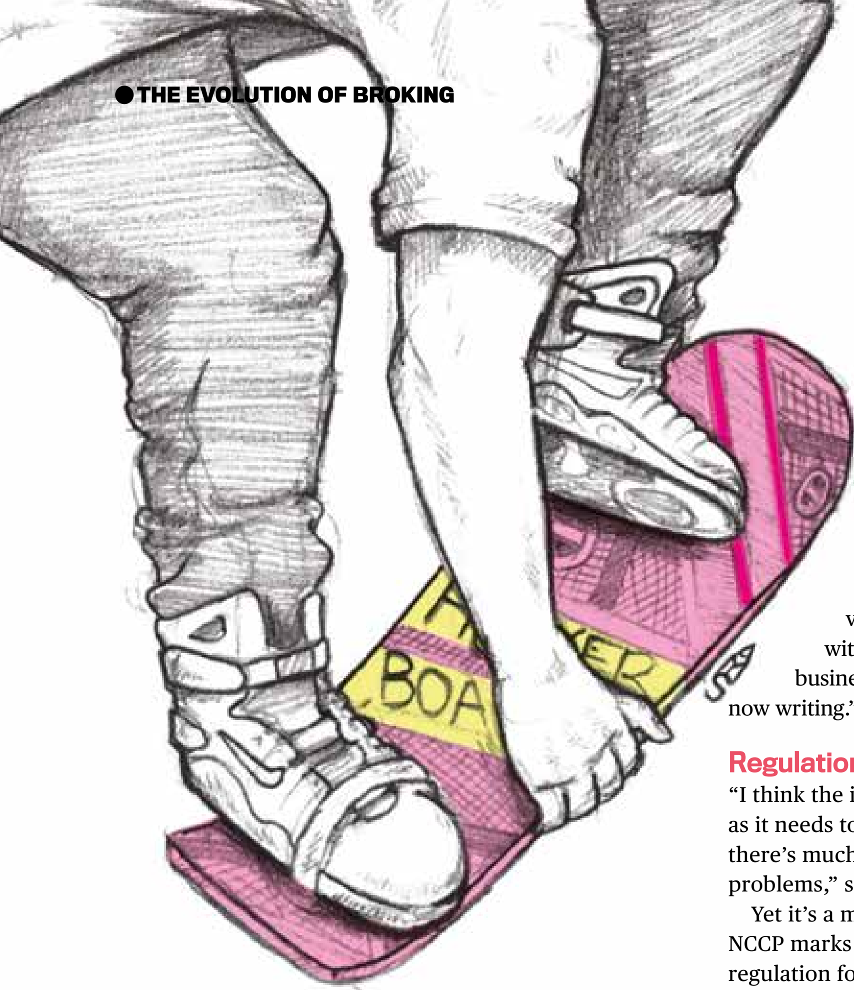
Market share

Most of those interviewed by *The Adviser* believe broker market share will likely grow to between 60 and 80 per cent by 2020.

"I'm really confident that in 2020, customer usage of brokers will have significantly increased," says MoneyQuest CEO Michael Russell.

"To where it goes, I don't really know, but I can't see any signs that tell me that it won't continue to increase."

"I think we're on the path to 70 or 80 per cent in time," suggests Loan Market's Sam White.



"The reason why I say that is the UK is now 75 per cent market share and that's driven largely by the compliance requirements and the need for mortgage lenders to provide comparison services to clients."

Vow Financial's Tim Brown offers a similar opinion: "In America, I think at one stage it got to 80 per cent before the GFC struck them. As long as brokers can continue to provide value and clients identify that, then there's no reason why that can't continue to climb."

However, Firstmac's Kim Cannon suggests that it may be online rather than banks which will provide the greatest challenge to broker market share in the future.

"When we first started doing home lending back in 1990, the four major banks had 100 per cent market share. The same with when we went into online four years ago - it was either through a branch or through a broker. Suddenly there's a new channel called online. Where is that going to end up?" he ponders.

Several others were uncertain as to whether the third-party channel can achieve any further growth in the actual percentage of market share, but suggested that growth will continue organically as the population grows.

Overall though, as retired broker Warren Nutt notes: "I feel it's really accomplished what the industry was about, and even if it didn't grow any more, the broking industry over the last few decades has had amazing, amazing growth and we should be very happy in the industry with the percentage of total business the broking industry is now writing."

Regulation

"I think the industry is as regulated as it needs to be right now and if there's much more of it, it could cause problems," says Kevin Matthews.

Yet it's a mistake to think that the NCCP marks the be all and end all of regulation for the sector. However, this need not be feared.

"Regulation has been a huge issue and I think it's been our great friend," says Sam White.

"The vast majority, I think, has led to more confidence in what we do and led to a better and more educated profession. In every stage we've gone through, whether back in the late '90s through to now, there's always been a question of 'this is too much', but at every point, it's enabled us to continue to evolve and continue to professionalise and continue to get better at what we do."

That same view of regulation can be applied to the current situation.

"Look at the market that we're in today with APRA driving a lot of change with lenders around investment lending. Every time that I've sat and looked at any unsettling in the marketplace, I've generally found that that's been an environment for brokers to be more valuable to clients because of the uncertainty," explains Gerald Foley.

"This is more unusual than normal, because you've actually got a strong property market with lots of change being built in. Many other times, it's been the bubble has burst or there's been an event that has caused the market to soften and that's when all the regulatory change occurs. Whereas in this occurrence, it's almost like changing the wheels on a moving car."

Tim Brown believes the industry needs to work more closely with regulators to provide them a full understanding of how the broker channel operates.

"I'd certainly like to see the industry come together and educate the government on what a great job we do. I think our government bodies, our regulatory groups, are uneducated and are often given the wrong information about the industry," he says.

Technology

There is debate about how technology may usurp the need for brokers, such as the 2015 announcement of Google entering the mortgage market in the US. But fears of technology as a threat to brokers are nothing new - broking businesses simply adapt to a changing technology framework.

"There's a way-we-do-business change going about because of the internet at the moment; how we deal with people," says Kim Cannon.

"The consumer is highly intelligent these days, and not financially illiterate like we had in 1990."

But as Mr Cannon explains, the increasing role of the internet in the mortgage process is not writing brokers out of the equation.

"The online space isn't impeding the broking space - some brokers might feel threatened by it, but it's not. The type of customer we are picking up is a branch customer that you would never see as a broker," he says.

WHERE INDUSTRY LEADERS SEE MOST NEED FOR IMPROVEMENT

- Greater transparency
- Further enhancement of technology
- Closer broker/aggregator relations
- Greater commitment to the channel from lenders
- Diversification of service offering to better satisfy client needs

Others, such as Michael Russell, believe that technology still has a way to go to improving and enhancing the broker experience.

"The early promise of electronic lodgement being more time efficient for brokers hasn't eventuated," he says.

Mr Russell notes that while online lodgement has taken away the need for fiddly faxes, application completion times have, if anything, actually increased since the early days of broking.

"While broker technology has to continue to evolve, the industry has got to do everything it can to assist brokers to become even more efficient and productive, because at the moment, it is taking an incredibly long time to compliantly submit a loan application."

Ultimately though, everyone agrees that human contact can never be replaced.

"People still want that personal touch - it's the humanisation of what it is that you're doing to assist them," says Peter White.

"They want to eyeball you, they actually want a business relationship with you, not just a text or social media contact."

Value proposition

While everyone knows that the value proposition of broking is unmatched by virtually any other industry, a longer-term commitment from brokers can only enhance this proposition.

"This is what you see with some brokers over the years - they go out, they work really hard for five years, put together a trail book and then go and play golf. Which is a shame with a lot of people, that they don't continue on or try to develop their business past that," says Kim Cannon.

But others hold the view that the proposition has only become more valuable as the industry has developed.

"I think the broker value proposition has become more relevant than ever. It's better than it's ever been. Australians have embraced property and debt; now more than ever, they need to have someone looking after it for them," Troy Phillips suggests.

Broker diversity

According to Kathy Cummings, there is something of a failure by the industry to lead by example.

"The thing I've always found interesting is that there are no females heading up the big aggregation groups. As a matter of fact, they are very thin on the ground, as far as having senior women," she points out.

As one of the few female heads of an aggregation group, Tanya Sale of Outsource Financial has a fairly unique perspective on broker diversity - and her opinions are somewhat surprising.

"I would love to see a lot more women coming into our industry; unfortunately though, I do not believe we will see the percentages of women coming into our industry increasing much at all," she says.

"We say we're not a nine-to five-industry, and we're not. I hear time and again people saying that this gives women flexibility, however it is just not flexibility that women look at. It is about the life influences such as family, safety concerns, irregular hours and the list goes on."

As well as personal security, several people question whether forcing customers to come to an office during business hours really constitutes customer service - particularly not the level of service for which broking is renowned.

Yet others suggest that women have strong representation on the list of top-performing brokers and their numbers are steadily increasing.

"If you look at the number of women in banks versus men, I think there's now more women in banking. But that certainly wasn't the case when I was there," recalls Tim Brown.

"I'm seeing that shift in banking and I think it's just a matter of time before it will shift into mortgage broking."

Lender landscape

Just as past experience has taught, it would be wrong to assume that the existing lender landscape is here to stay.

Specialist lenders are continuing to write larger volumes as brokers increasingly cast a wider eye for lending options for their clients, particularly those with more complex needs. For many borrowers, this means greater financial options, and that a no from a bank no longer means their request for finance will go unmet altogether.

At the other end of town are the big banks. When broking came about, the majors were slimming their branch network in a bid to reduce costs. However as we head towards 2020, many are expecting the major banks to increase resourcing of their retail networks - at least in part to ward off the threat posed by brokers.

ANZ's launch in late 2015 of a dedicated home loan centre in a Sydney shopping centre is one such example.

"The biggest problem the major banks have is retention," says Troy Phillips.

"Fifty per cent or more of the stuff on their books these days is generated through some other form other than a direct sale. Just like Aussie stripped all the business off them years ago, I think it's going to come again."

While CBA continues to invest heavily in the broker channel, its group executive of retail banking services, Matt Comyn, told analysts in early 2015 that "brokers will always be an important pa rt of our business, but we are focusing primarily on our proprietary channel".

Steve Sampson from Bank of Sydney adds that "if banks were to become too reliant on third-party channels, obviously that concentration could be harmful if they weren't in the market rate-wise, product-wise, service-wise. I think banks are looking more at how they disperse that distribution these days, by working with referrer models as well as brokers."

> "Australians have embraced property and debt; now more than ever, they need to have someone looking after it for them"

Of course, alongside existing lenders is the likely emergence of new players.

"I think we'll probably see an increase in the number of lenders. That's really because aggregators are to a large degree ... looking to diversify their panel as much as possible," Mr Sampson says.

"The other thing is that smaller lenders also have become fairly niche in a lot of ways, so those niches are always welcomed by brokers. Even peer-to-peer and fintech companies will enter broker panels across a range of products in due course, and that could be really interesting."

Yet it's not just smaller lenders that are forecast to enter the mortgage market.

"I think the other competitor is likely to be foreign banks," says YBR's Matt Lawler.

"Foreign banks see Australia as a really safe part of the world to participate in. I think the final competition is likely to be some left-field competitors, so it could be your Coles, your Woolworths; it could be Google; could be PayPal - groups like that that actually come in and take market share as well."

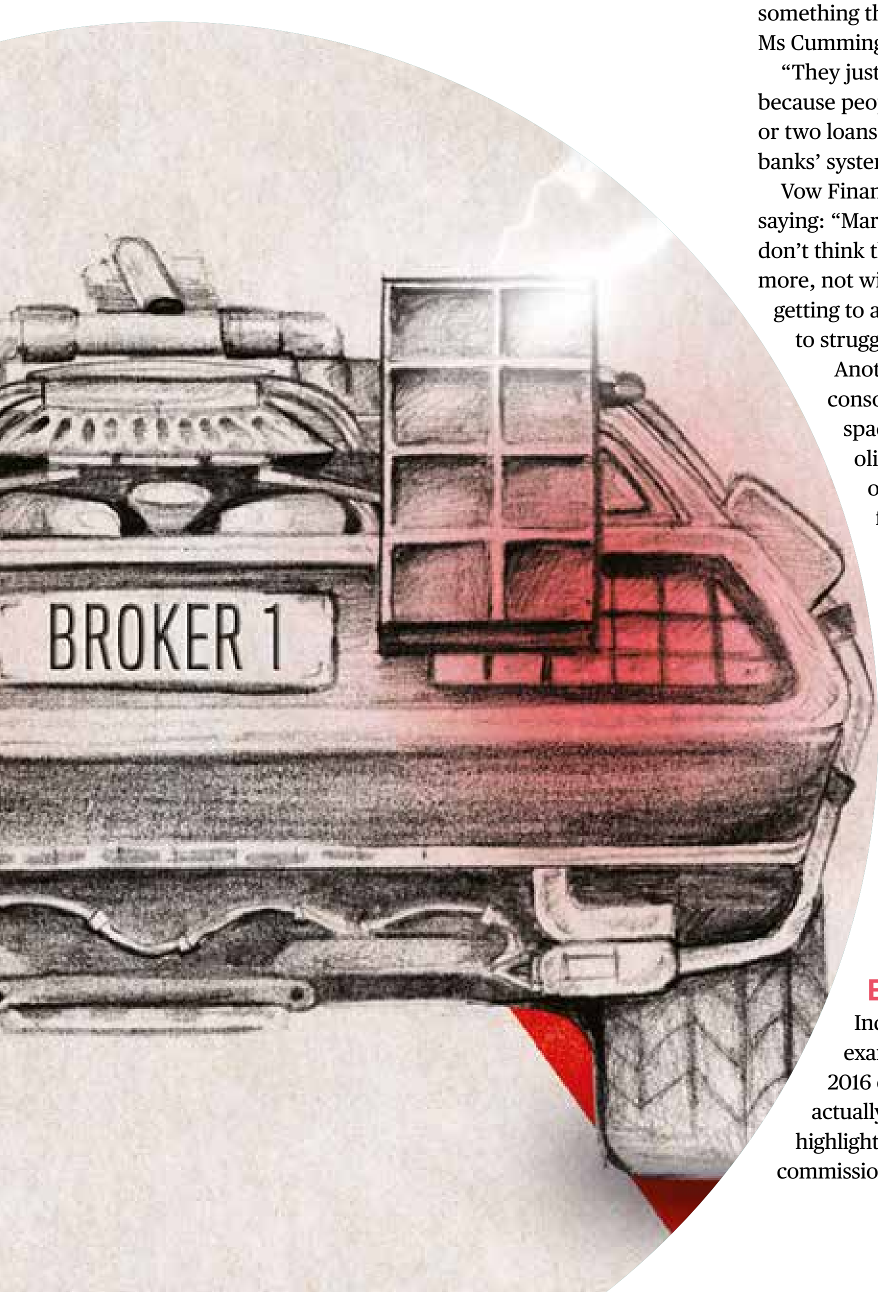
Role of the aggregator

"Aggregators are experiencing the pain of some of their lenders - some of the banks," says Kathy Cummings.

"Not to the same degree, but they are understanding the distribution costs, running sales teams and the huge investment in technology that's required to stay relevant."

Fundamentally, there are two options for addressing these cost pressures - raise more revenue or cut costs.

A common approach in the former has been to sell stakes, often to the larger banks, in a bid to raise capital.



The other alternative is to raise broker fees, a less attractive option in an already competitive marketplace.

"I think banks will take more and more interest in aggregators insofar as financial investment, because it is going to be a channel that can't be ignored if you're looking to hold market share or increase market share for that matter," says Steve Sampson.

"If you have a bank on board, that's very much a benefit to you, because they have the experience you don't necessarily have."

Cost-cutting meanwhile may increasingly involve policing broker volumes, and striking off those who are not fully committed loan writers.

"Unfortunately there's a lot of people who go into the broking industry as something they can do part time," Ms Cummings says.

"They just weigh the industry down, because people who only write one loan or two loans a month, they clog up the banks' systems."

Vow Financial's Tim Brown agrees, saying: "Margins are squeezed and I don't think they can be squeezed much more, not without someone actually getting to a point where they are going to struggle to maintain profitability."

Another option is continued consolidation of the aggregation space, potentially leading to an oligopoly of major aggregators operating alongside the big four banks.

"We believe that what we'll begin to see in the near future is the formation of some supergroups, where scale is actually very important," says YBR's Matt Lawler.

"But I wouldn't say that's going to be like that forever ... eventually they start to fragment and break up again. It's all part of a cycle."

Broker remuneration

Industry figures are hoping the examination by authorities in 2016 of broker commissions will actually be a win for the industry, highlighting unfair practices such as commission clawbacks.

"You have done your job and got paid for your effort - why should your money be taken away 12 months or more down the track?" asks Peter White.

This raises the option of industry-wide adoption of a fee-for-service model. Yet the idea remains decidedly contentious.

"I say to my brokers all the time; if you were to take your car to your mechanic and ask them to look at it and tell you what's wrong, then you go away and decide whether you fix it yourself or get them to do it, they would charge you for that initial consultation," explains Gerald Foley.

"So there's no reason why a broker shouldn't take the same approach.

"Brokers could say, 'There is a cost for me to impart my knowledge and experience, however if you do proceed with me, I won't charge you for that; if you do pay a fee and then proceed with me, I will refund it'. I think a lot of brokers will go that way and that's fine."

Others are quick to denounce that a fee-for-service should, or will, become the norm.

"The industry has worked hard to really position itself at parity with our lenders, that consumers now know and can trust that there won't be a pricing disadvantage at all between a lender's first-party or a lender's third-party channel," explains Michael Russell.

"If consumers become aware that there is a fee-for-service that will be paid if you want to see a mortgage broker, I think that can only lead to a decline in broker usage."

Remember why you're a broker

No matter what changes happen in the broking space, there is one fundamental that will always remain constant - the need for your clients to obtain reliable information.

As industry veteran Vernon Spencer sums up very succinctly, brokers now play, and will continue to play, a critical role in the Australian property space.

"Whilst no one is entitled to anything in this world, it is a very important social issue that people have the opportunity to obtain their own home and to pay for it with reasonable terms and conditions," Mr Spencer says. ■

CONTRIBUTORS PROVIDE THEIR ADVICE *FOR THE NEXT GENERATION OF BROKERS*

With hundreds of years' collective experience in the mortgage market, the contributors to *The Adviser*'s evolution of broking series – the people who have helped build this industry from the ground up – have a wealth of knowledge to impart on the next generation of broking professionals:

"You have a great opportunity to still be a small business and yet operate on a much larger scale – and not just in your own local community."

Tim Brown, Vow Financial

"You need to reinvent yourself every five to seven years, otherwise you just become stale."

Kim Cannon, Firstmac

"Be fully involved at understanding the industry and be ready to embrace change, because it will happen."

Kathy Cummings, formerly CBA

"Make sure that [you] have written processes, follow the processes and record what [you] do."

Jon Denovan, Gadens

"Work hard, be diligent, manage your time, build relationships and love what you do."

John Flavell, Mortgage Choice

"This is a contact sport: you're not going to be a successful broker by sitting behind a desk, either in an office or a home-based office. You've just got to be out there, confident in who you are and what you offer."

Gerald Foley, nMB

"Don't let the traditional view trap you into being what a typical broker has always done in the past; let yourself think about the future and be involved in shaping the future."

Matt Lawler, Yellow Brick Road

"Be prepared to use the IT correctly, think outside the box as far as products go and don't just want to sell a mortgage."

Kevin Matthews, AFG

"It's about being more than just product providers to your clients, it's about being an expert that they take along for the journey."

Lisa Montgomery, Independent consumer finance advocate

"Put it to the back of your head that you're there to make money from your clients and instead believe that you're there to help them."

Warren Nutt, formerly Waratah Mortgage Corporation

"Success isn't something measured by volumes, what you wrote last month and all your awards – in the end, it's measured by your customer."

Troy Phillips, FirstPoint Mortgage Brokers

"You have to be really passionate about what you do; have an incredible work ethic and just be resilient, because if you put in the effort, you will be rewarded."

Michael Russell, MoneyQuest

"Part of the process and the experience of the consumer must be education – they have to understand the process, they have to understand the product."

Tanya Sale, Outsource Financial

"Keep yourself well informed and keep yourself educated, and always be open-minded."

Steve Sampson, Bank of Sydney

"Be educated and get experience in learning to work with consumers – certainly be understanding of people's needs rather than your own."

Vernon Spencer, Stargate Financiall

"It's one thing having a great attitude; it is another thing to follow it up with great service, and that is the ticket to the ball game. This is a long game ... but it will become the best industry you've ever known."

James Symond, Aussie

"Never think you know it all. I'm constantly learning ... and I try to surround myself with people that bolster the knowledge that I don't have."

Peter White, FBAA

"If you can focus on doing the key things right and persevere through some of the hard times, great things happen."

Sam White, Loan Market