From: Sarah Curtis [redacted]
Sent: Wednesday, April 17, 2024 2:31 PM
To: marketstudies <marketstudies@comcom.govt.nz>
[redacted]
Subject: Feedback on Personal banking services market study

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To Whom It May Concern:

I would like to submit feedback on the Personal banking services market study.

My contention is that mortgage advisers offer a valuable, independent service for New Zealanders, and are enablers of competition between the unbalanced transactions between a large bank and an individual borrower if dealing directly. For the clarity of my feedback offered below, my use of the term adviser/s refers specifically to the professionals offering mortgage/lending advice to consumers.

In the last few years, there have been incredible strides made in aspects of all financial advice to ensure transparency and understanding for consumers. Many of the changes enacted from the Financial Markets Conduct Act (2013) and other related legislation have imposed significant cost & change onto financial advisers, the results of this have directly provided an increase in the information available to consumers readily available to consumers engaging an adviser then there was historically. As small business owners (and it should be remembered many advisers fall into this category) these added pressures were absorbed in order to bolster the reputation of our profession and reaffirm and reassure consumers that advisers operate independently of the banks and lenders.

If trust is generally viewed as an issue between consumers & large, typically foreign owned banks – then advisers should be viewed as a medium to acting as a trusted guide, offering advice in the individuals best interest, not that of the financial institution or in fact the advisers own interests. By way of highlighting this, my adviser disclosure statement is publicly available on my business website. This document again is provided to clients who formally engage my services. It states clearly the providers I am able to work with, and outlines the different ways I am remunerated. All advisers are required to ensure that clients are provided with this information.

The majority of advisers are able to work with each of the four "big banks" to obtain home loan/mortgage services for their clients. I do personally believe, that if an adviser isn't able to work with a particular "big bank" this should be clearly stated to a client, not just able to be left out of a disclosure document requiring the client to query its omission. It may be of interest to the report authors that despite our long-held preference (seven years) to also offer our clients services via Kiwibank, it is only in the last six months that I have received my accreditation to do so. [redacted]

At the danger of generalising, but also including my day to day experience, many New Zealanders don't have the time, knowledge or ability to keep up with the fast-paced changes we see in the industry. Lending policies, criteria and terms offered by respective institutions can and frequently do change, making it difficult for a consumer to stay current & informed if they complete their own research. As your figures suggest more consumers are seeking the support of advisers, and these could well be the root causes.
I understand I am biased, however I do feel compelled to again comment that our industry should be supported for the effort we have despite many of us being individual businesses, as a united team, put

into ensuring we provide a high level of integrity & service and are abiding by the code of professional conduct established in 2013. We have established internal complaints processes, independent dispute resolution schemes with access to the Ombudsman for arbitration should the need arise (all of this is verbally informed to the clients and again laid out in the adviser disclosure document).

We are regulated by the Financial Markets Authority (who in additional to a number of powers) audits advisers to ensure compliance with legislation, regulation & codes. We are a highly regulate industry, and yet we are made up of a number of small owner operators going toe-to-toe with larger financial institutions on behalf of our clients.

When I started my business offering mortgage advise just over seven years ago, the cost of doing business was low & processes lean, ensuring I had sufficient time to dedicate to building strong interpersonal relationships with my clients, and the cost barrier to entry in establishing my business was low but still required that I had equal & qualified experience to provide advice. The barrier to entry is now much higher for advisers wanting to enter the industry, and the number of clients that I am able to help has had to reduce due to the increasing costs & compliance requirements to provide advice.

By way of providing an example, having a discussion with someone who isn't an existing client and wants to look at their options for refixing their loan with their existing bank can take on average two hours work. This process isn't as simple as having a chat with the client & giving an instruction to the bank. I need to:

- Gather the information we need from the client in order to get a comprehensive picture of their current financial situation.
- Then the conversation takes place with the client to see what their current needs are, and what their future goals are.
- Time then goes into researching & establishing if their current provider is the best to support this and if so, do they have the right products & structure currently with that particular bank to support those future goals
- Only from there can an informed decision be made about interest rates & terms – and depending on the provider, and the current financial climate, whether we are able to approach the lender directly to request tailored rates for the client then what may be advertised & assist with any structure changes needed.
- All the above needs to be documented in our system for compliance purposes & conveyed to the clients, and of course following up with the bank to get the correct structure established on behalf of the client.

It may surprise some that the remuneration for this is actually very low, and some advisers choose to charge clients a fee to cover the time involved in this process due to the low level of renumeration, with the high level of work required. However, it is something I use within my business to support the work we do in empowering New Zealanders in making educated & informed decisions – hoping that they will tell others, who will then come to us directly for advice when they want to purchase their home, or to set up insurance.

I can say, with hand on heart, there has never been a time in my over seven years in this business, where I have placed a client with a particular provider due to the commission that provider pays.
In the long-run, the commission splits end up being relatively closely aligned. The providers that pay trail (and less up front) – the trail builds up over time of course which brings the amounts very close to the upfront commissions, if not more (if that bank is the right place for the clients to be). As part of the mortgage recommendation which we provide to each client before confirming their final provider & structure, we must document the reasons why that particular lender is the most suitable option of the ones available to a client. It is therefore very easy to see why each client has been place with a particular lender.

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Clawback of commission needs to be addressed, and this report is a great opportunity to do so. It should be clear to the clients when they contact their lender that if they are going to repay their lending, there will be an expectation to hear from their adviser. We are a provider of a service – lawyers are paid each time a transaction takes place, real estate agents are paid each time a transaction takes place, car salespeople are paid each time a transaction takes place. It is my opinion, that if there is a circumstance where a client has a genuine reason for repaying their lending, then we as advisers shouldn't be punished for peoples' circumstances. The same amount of work goes into assisting a client buying their first home, when they 18 months later decide to separate – that is work that will either need to be done by the staff at the bank, or an adviser. Generally this means for us as advisers additional work to support the clients through this process, which takes additional hours & we then receive a bill to return the commission paid to the banks.

I will not make further comment on the regulatory settings here, as I feel like the apology about the misunderstanding of our industry has already addressed the fact that consultation was insufficiently completed with advisers before this draft document was issued, and I believe that there is consultation underway to ensure that any misinformation will be corrected.

I do find, that when consumers approach me with the initial intention of moving lenders, it is largely because they have a lack of understanding around the best way their personal circumstances should be handled with that particular bank at thar particular time. We are in a time where consumers lives are constantly changing, no longer are people employed by the same business for years, nor do people live in the same house for years like they previously would have – having the knowledge & skill to listen to consumers & provide them with solutions is critical.

As your report mentions, a high proportion of New Zealanders have multiple bank accounts with different providers – in the last few years, fees have largely been removed from transaction & savings accounts. This in itself has allowed consumers to set up accounts with multiple providers & split their banking arrangements. One of the conversations we have with first home buyers wanting to buy in the future is to ensure they look at having their salaries paid into different banks so we have the ability to fit within the criteria's which the banks have implemented after the Reserve Bank placed limitations on over 80% borrowing approval & drawdowns. With the establishment of this restriction, the banks have used this as an easy lever to pull, keeping them within these limits & not lending over their allowed percentages. Prior to these limitations being in place, the different banks were happy to offer preapprovals (both over & under 80%) and this therefore resulted more options for consumers. The deciding factor for a client was then based on pricing when a property was found & outstanding conditions were met, on the day, the bank that provided the better pricing, structure & service won the client.

In deviation from my feedback above with specifics to advisers, I would also offer some general feedback about the banking sector. Having worked in the banking for the 12 years prior to starting my own adviser business, including in that time was the Global Financial Crisis in 2007, I have seen the genuine fear in consumers arriving to the banks, wanting to withdraw large amounts of cash as they were concerned their savings would disappear. Capital adequacy ratios & government guarantees were established to prevent this, but it is imperative we have a robust, secure banking framework underpinning our economy. It can seem frustrating reading annual reports on the record profits of banks (in billions of NZD) – the crucial objective here should be finding the right level of balance between strong, stable & solvent banking – while ensuring the everyday New Zealander isn't being gouged. I was an adviser during the impact of COVID & witnessed the banks collaborating and coordinating a response to provide solutions to clients which had an immediate impact to support them through the challenges we all faced during this time. Something positive to note.

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It should also be noted, that banking services in rural regions of New Zealand are very different to what can be found in the urban areas or our cities. We have watched in the last few years, branch closures throughout the north, changes in opening times & experienced banking staff leave the industry due to a multitude of factors. This is a real issue with providing consumers with the opportunity of choice.

Please advise, how I can be made aware of the consultation conference set to take place in the week beginning the 13th of May as I would like to participate if possible. If you could kindly advise the details via reply email.

Thank you for the opportunity to provide my feedback, if you would like to discuss any of the above, please don't hesitate to contact me directly.
Ngā mihi,
Sarah

SARAH CURTIS
MORTGAGES & INSURANCE

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