Market study into personal banking

Submission

17/04/2024

Hamish Patel, Director mortgagesonline.co.nz, Mortgage Adviser

Main Bank Relationships (2.9 – 2.17)

When transitioning between banks, it's common for the new bank to require clients to transfer their salary deposits as part of the agreement. However, it's observed that many banks don't actively enforce this requirement.

For clients who have their primary residence with a particular bank, it's advisable to have their salaries deposited there, especially if their financial profile suits a revolving credit facility. Proper utilisation of such products can reduce the average balance on the home loan.

It's worth noting that BNZ, Kiwi Bank, and Westpac also provide offset home loans, which offer similar benefits.

As mortgage advisers, we often lack visibility into all client account balances. Therefore, we depend on clients to provide this information during periodic reviews, typically at the expiration of fixed-rate periods. With the advent of open banking and third-party applications, our industry could potentially improve post-home loan settlement monitoring.

Most banks only facilitate direct debit for home loan repayments from accounts held within the same bank.

2.18

As mortgage advisers, we frequently work to minimise costs for clients who have transitioned between various stages, particularly concerning business lending where interest rates may be elevated. This can occur when the residential property used as security appreciates in value after the initial loan arrangement.

When clients switch lenders to secure more favorable business lending rates, we've noticed varying treatment for business loans backed by residential security among different banks. This discrepancy could stem from changes in lending classification criteria implemented by different banks in the past.

2.23.1 & 2.31

As an industry we are able to provide a variable cost distribution channel for new entrants. This was further highlighted during the past few years where lending growth has been volatile. With our costs to tied into the volume, new entrants are able to scale up.

Kiwi Bank has been able to grow its lending book in the past two years with the help of this without the need to invest heavily in a branch network with fixed ongoing overheads.

2.51

With all due respect – when the banks are giving money at 0-1% there is little room left for competition. The difference has been in terms of the credit terms, some banks will do a short term only – others will revert to normally priced 30 year term at the end of the discounted interest period. Not ideal for batteries which may need replacing in ten years.

4.24

Maybe this is as the banks have been heavily promoting a straight refix by using an app. Even asking the adviser channel to redirect clients to their app as the preferred method.

To be fair – they will revert to taking instruction if there is a change in structure. Clients do like to have advice when it comes to picking a fixed term.

4.61

In our experience banks will compete to maintain market share. It seems there is a delay at times. They will respond to a loss in market share, at times pricing may seem our of market. But as volumes drop they respond.

4.79.2

We disagree with the sentiment but agree that it may seem this way. Clients are generally able to obtain a new cashback when switching providers. If interest rates are much better at another provider and cash back claw back can be neutralized through another cashback, clients will move. However in our experience clients find it more profitable to wait till the third year and then switch.

4.79.3

We have seen some banks offer a heavily discounted rate instead of cashbacks. In fact HSBC was a pioneer in this field.

However looking at how consumers have behaved with cashbacks. It seems many prefer a lump sum upfront. We note that at times the large banks have tried to reduce cashbacks without much luck. This way of selling has only grown over time. One can only assume that NZ consumers have a preference for this over lower rates.

4.89

Using mortgage advisers and being able to switch off and on the volume is an enabler of growth for small banks. High fixed costs can lead to some issues when trying to vary the throughput.

Covid lockdowns was a good example of our industry being able to run on fumes without landing the lender with fixed costs.

4.109.1

The tranche lending is done to hedge and safeguard the clients personal budgets from increases in interest rates. The last few years have been a good example of this, where interest rates have doubled for some households.

4.109.3

We note that the actual amount that's charged to the client should they move is set to an upper cap of $2k-$3k with many providers choosing not to recover clawbacks. We have on charged clawbacks at the rate of 0% for the past two years. Our clawbacks run at about 3% of turnover.

7.94

CCCFA switching

Should be less prescriptive – should be left for client judgment if they would like to switch for same or lower amount. As future, longer fixed terms also have a bearing on the cost of long term lending.

8.72

Switching banking is not easy, when dealing with payments – eftpos cards etc. Hence the advent of cashbacks. To compensate the client for going through the work of switching.

10.72 – 10.77

We agree that the clawback diminishing on a linear basis would be fair. We also note that as mortgage advisers, our ability to claim some of the clawbacks from the clients has been set by the market at approx. $2k-$3k. So most of us have come to this at the upper limit.

This has been due to the amounts that Complaints Authority has settled to from past cases and from some advisers claiming an approximation of the time spent.

We note that these clawback act as a fail safe to ensure that the adviser places the client at the appropriate lender, as they stand to be financially punished should the client move to a more fitting lender.

We do not agree that clawbacks lead to undue influence to deter advisers from being uncompetitive. As helping a client to switch to a much cheaper provider will mean another lot of commission which will ultimately balance things out. This is also the case with cash incentives, the new cash incentive can balance out the old one.

Alternatively, loosing to another adviser approaching the client and helping them switch would lead to a loss of face and also risk the commission. With only a pathway to try and seek a set amount. This could be challenged through a complaints authority. Sometimes the costs of which outweigh any benefit.

10.78

All solution providers have some inherent conflict of interest, in an open market where there exists competitors. However advisers are in a unique position to be able to offer a solution from multiple providers. We note there is a lack of evidence in the assertion that borrowers are ending up with not fit for purpose lenders due to the mortgage advice industry.

10.80

This is an interesting assertion as the example used assumes that advisers work in a noncompetitive environment and at the risk of losing a client, they would secretly push a lender at the detriment of the clients goals. As an industry many hours are spent without any commitment from the client, generally if another adviser has a better solution the client will move. It would be counterproductive to put most of a commission at risk to try and obtain a slightly better one(most of the major lenders pay approx within .15% of each other when taking into account trail and an average life of a loan for 3 years).

We agree that there many other factors apart from pricing as long term costs and opportunity costs also get factored in when a client makes a choice.

<u>10.81.4</u>

This requirement can have adverse effects in terms of innovation and growth in the industry. NZ Home Loans is a good example of innovation and good outcomes for consumers which has been reached by only dealing with one provider at times two. Pioneering the ability for consumers to manage cashflows and lower long term interest costs.

<u>10.81.5</u>

No other industry is subject to this kind of very vast type of requirement. This is akin to asking mortgage advisers to compare and take into account products that they lack knowledge of. It is almost impossible to police.

<u>4.80</u>

We do note that a pro rata approach seems the most fair.