

The Hon Michael Sukkar and Senator Perin Davey
Secretariat
Regional Banking Taskforce
Financial System Division
The Treasury
Langton Crescent PARKES ACT 260

17 December 2021

By email: regionalbanking@treasury.gov.au

Dear Mr Sukkar and Senator Davey

REGIONAL BANKING TASKFORCE ISSUES PAPER

The Mortgage and Finance Association of Australia (**MFAA**) welcomes the opportunity to make a submission in relation to the Regional Banking Taskforce Issues Paper.

As context to this submission, the MFAA is Australia's leading professional association for the mortgage and finance broking industry with over 14,000 members. Our members include mortgage and finance brokers, aggregators, lenders, mortgage managers, mortgage insurers and other suppliers to the mortgage broking industry. Brokers play an important role in intermediated lending, providing access to credit and promoting choice in both consumer and business finance. Brokers facilitate almost two thirds of all new residential home loans¹ and approximately four out of ten small business loans² in Australia.

The MFAA's role, as an industry association is to provide leadership and to represent its members' views. We do this through engagement with governments, financial regulators and other key stakeholders on issues that are important to our members and their customers. This includes advocating for balanced legislation, policy and regulation and encouraging policies that foster competition and improve access to financial products and services for all Australians.

OUR SUBMISSION

When we refer to 'finance brokers', we are referring to both mortgage brokers providing residential home loan services and finance brokers providing both residential and commercial lending solutions.

Bank branches closures in regional and rural communities are part of a global trend and will continue.³ The focus for Government therefore needs to be on how to best support those industries and organisations that are already filling the gap left by bank branch closures by providing the same and better services to regional and rural communities. As identified in the 2018 *Deloitte Access Economics Report into The Value of Mortgage Broking*, finance brokers have and will continue to provide choice and access to finance to both consumers and small businesses in rural and regional

¹ [MFAA Industry Intelligence Service Report 12th Edition](#) pg 4

² Productivity Commission research paper [Small business access to finance: The evolving lending market](#) pg 44

³ [COVID:19 reshaping bank branches - KPMG Global \(home.kpmg\)](#)

Australia, ensuring the ongoing provision of credit assistance and access to credit for these communities: “*Mortgage brokers provide lenders with a distribution channel that complements existing branch networks or stands in for them where none exist.*”⁴

Our submission focuses on the ways in which Government can support and partner with the finance broking industry to deliver choice and access to finance to regional and rural communities.

RECOMMENDATION 1: RECOGNISE THE KEY ROLE PLAYED BY THE FINANCE BROKING INDUSTRY PARTICULARLY IN RURAL AND REGIONAL AUSTRALIA

Bank branches have historically been perceived to be the ‘lifeblood’ of regional communities. Bank branch closures in Australia has therefore become an emotive issue, and one that raises complex issues around fair access, choice and availability of banking services to those communities.

Brokers are instrumental in providing access and choice to Australians and Australian businesses, including those within rural and regional communities. In November 2021, the MFAA reported that for the quarter ending 30 September 2021 a record 66.9%, or two out of every three new residential mortgages in Australia, were facilitated by mortgage brokers, demonstrating that the broker channel continues to be the channel of choice for consumers. Between October 2020 and March 2021, broker originated loans settled with the major banks fell driven by growth in broker originated loans settled with other lenders including credit unions, building societies, mutuals and non-bank lenders, many of which do not have a branch network. In tandem, the number of commercial and equipment loans settled by mortgage brokers also continues to increase with the value of settled commercial lending rising to its highest level yet to reach \$10.27 billion.⁵ As major lenders continue to exit the small business lending market, replaced and enhanced by new and specialist small business lenders, the Productivity Commission in its recent report into *Small Business Access to Finance: The evolving lending market* found that brokers played a critical role in connecting SME borrowers and lenders, assisting SMEs to broaden their awareness of available lending options and building trust by conveying whether lenders were reputable. Specifically for rural communities, the mortgage broking channel has also significantly improved access for rural customers to lenders that have an appetite for agricultural lending.

Finance brokers provide consumers and businesses with information about mortgage and finance products, acting as the first point of contact for many customers looking for a loan and assisting them to navigate the thousands of available products and offer insights on the lenders with respect to service delivery, consumer satisfaction and product range. Brokers help customers to apply in what is often an onerous and overwhelming process. They guide customers through the loan application process, reducing the time, stress and administrative burden associated with securing a loan by assisting customers in their selection of an appropriate product suited to their financial circumstances and needs. Specifically for rural communities, brokers have expanded the geographic reach of the mortgage and lending industry, assisting prospective borrowers in these communities to be aware of the range of lenders that are available in Australia, particularly those lenders that may not have a branch presence in their regional and local market. As Deloitte Access Economics reports, three in ten residential home loans arranged by mortgage brokers are for customers in rural and regional Australia.⁶

The broking channel drives competition between lenders and increases choice, leading to better service levels, greater access to credit, competitive loan pricing and better overall solutions for customers. The present and continually increased use of broking services demonstrates the unique value propositions offered by brokers to consumers and small businesses alike, including offering significant industry experience, choice and convenience and in the case of mortgage brokers, an unrivalled Best Interests Duty.

⁴ [deloitte-au-economics-value-mortgage-broking-230718.pdf](#)

⁵ [MFAA IIS12 Report FINAL.pdf](#)

⁶ [deloitte-au-economics-value-mortgage-broking-230718.pdf](#)

As banks continue to reduce the size of their branch networks as the pandemic accelerates the trend to digitisation,⁷ it is important for the Taskforce to recognise and support the strong role brokers play for regional and rural communities, providing access to credit and lending services, not just by filling a gap left by bank branches, but by improving on and bettering the way in which those services are provided to these communities.

RECOMMENDATION 2: DELIVER GREATER LEVELS OF FINANCIAL AND DIGITAL LITERACY IN RURAL AND REGIONAL COMMUNITIES

Regional communities face several challenges, some similar to urban areas, but some unique to their geography and demography including lower levels of financial and digital literacy, limited access to transport and telecommunications, and higher numbers of older Australians and Indigenous peoples. Compounding this is the greater risk by regional and rural communities to require more financial support in the face of natural disasters while at the same time facing greater challenges in accessing those services.

The broking industry has in place several initiatives to improve financial and digital literacy in rural and regional communities. Over the last five years, the MFAA launched a series of community initiatives, including the Schools Entrepreneurs program⁸ and a partnership with Global Moneyweek⁹ to raise financial literacy through developing a series of financial educational programs for brokers to present to schools within their communities. Both these initiatives continue today.

Complimenting these initiatives is the financial literacy support that the broking industry, by its very nature, provides to the communities in which they operate. Brokers are distributed around the country in about the same proportion as the general population.¹⁰ Therefore the availability of brokers in regional and rural communities will be commensurate to the population and the needs of those communities. Local networks are important to brokers, and brokers have a naturally significant and trusted presence in the communities in which they provide their services. Most brokers are small businesses themselves. Observations are also that significant numbers of brokers have prior experience working for financial institutions, indicating a likelihood that some staff displaced by bank branch closures find their way into the broking industry within those communities. This allows those communities to retain the personal relationships and access expertise of those people in a different and perhaps better way. For some small country towns, a broker might be the only qualified professional person working in the town able to assist small businesses (for example farming and agricultural businesses) with business and financial planning.

The MFAA collaborated with small business lender Prospa to *produce Prospa's Long Road: Tales of Regional Brokers*, a series highlighting the crucial role brokers played in their regional and rural communities in helping and supporting their community to access financial support. We note a particular story demonstrating the grassroots nature of the support provide by a broker business to their community during the Queensland floods “*a lot of our rural friends and clients out west have had between 90 and 100% of their herd just washed away [and so] we attended to a range of issues from distressed clients, talking them through the different government grants and hardship measures that many of the banks can offer*”.¹¹

While the Government focuses on improving telecommunications and transport infrastructure to and within regional and rural communities, it is also important that it continues to deliver on initiatives such as financial literacy programs, financial counselling centres and digital literacy programs (including access to digital technology) to these communities. We believe there is a strong opportunity for Government to explore alternative and better ways to deliver on these initiatives including through partnerships with the mortgage and finance broking industry.

⁷ [COVID:19 reshaping bank branches - KPMG Global \(home.kpmg\)](#)

⁸ [School Entrepreneurs Program | MFAA](#)

⁹ [Develop \(mfaa.com.au\)](#)

¹⁰ [Value of mortgage broking Web version.pdf \(mfaa.com.au\)](#)

¹¹ To read more of the Long Road series, please see [here](#).

RECOMMENDATION 3: REGULATORY SETTINGS MUST ENSURE INDUSTRY IS FUTURE PROOFED AND REMAINS VIABLE

With the broking industry filling the gap left by bank branch closures by providing access and choice to rural and regional communities, regulatory policy settings should ensure the industry is future-proofed and remains viable. We welcomed the inclusion by Government of mortgage brokers as trusted advisers in the Consumer Data Right regime, a clear acknowledgement by Government of the important role the industry plays in the credit and broader financial services market.

Trust and confidence in the industry has been strengthened through a powerful combination of both self-regulatory and legislative reforms including the Best Interest Duty, remuneration reforms and the information sharing and reporting of misconduct reforms including the reference checking protocol and the breach reporting regime. The unrivalled Best Interest Duty is a significant consumer protection mechanism that is absent in banking regulation, further differentiating the channel and providing yet another compelling reason for customers to use a mortgage broker.

We do believe that there are further opportunities for Government to enhance some of the recent reforms relating to information sharing and the reporting of misconduct.¹² These include:

- **Reference checking protocol:** whilst a robust reference checking protocol goes some way to managing the movement of those responsible for misconduct, we believe there is the opportunity to further strengthen the protocol by ensuring that aggregators always form part of the process. At present the reference checking legislation and protocol requires that a reference be provided to the broker's licensee. Whilst aggregators perform an important gatekeeper compliance function in the industry, many mortgage brokers have their own license and do not actually operate under the license of the aggregator. That means that in a number of instances the aggregator is excluded from the reference-checking process entirely, and in many instances the broker is – in effect – providing their own reference.
- **Breach reporting:** Whilst licensees are required to report a breach to ASIC, they are not required to share the report with the aggregator in circumstances where the aggregator is not the licensee. Similar to our recommendations with respect to reference checking, we believe there is an opportunity to strengthen the legislation to ensure that aggregators have greater visibility of breaches reported to ASIC on brokers that hold their own licenses. For transparency we also believe it is important to share breach reports made about a broker with that broker if the sharing of that report will not jeopardise and ongoing investigation.

We look forward to progressing our discussions with Treasury on these important matters next year.

The MFAA extends its thanks to the Taskforce for the opportunity to provide this submission. If you wish to discuss this submission or require further information, please contact me on

[REDACTED]

Yours sincerely



Mike Felton
Chief Executive Officer
Mortgage & Finance Association of Australia

¹² MFAA's submissions on Treasury on the Reference Checking and Breach Reporting regimes can be found [here](#).