

HOUSE OF REPRESENTATIVES STANDING COMMITTEE ON ECONOMICS

REVIEW OF THE FOUR MAJOR BANKS (FOURTH REPORT)

Westpac Banking Corporation

WBC13QW: What commissions and other incentives did Westpac pay to the broker? Does Westpac support extending the prohibition on conflicted remuneration to home lending?

Answer: Nicola's loan was not written as a broker loan and no commission was paid to the broker.

Mortgage brokers are typically remunerated through payment of upfront commission, which compensates the broker for their work in originating a loan, and trail commission, which is intended to promote an ongoing relationship between the broker and customer.

It is in customers' interests that brokers remain a viable channel, as it has been recognised that a large number of Australians value brokers as a means of accessing finance. Sensible precautions, including clawbacks for loans cancelled or in arrears, and commissions based on the amount drawn down rather than loan size, help mitigate any risk that a broker may be incentivised to encourage a customer to seek larger loans or new loans unnecessarily under the current model. Westpac also supports clearer disclosure of broker fees so that customers are better able to make an informed choice about how they access finance.

The conflicted remuneration provisions for financial advice are not readily applicable to mortgage broking. The existing model for mortgage broker remuneration is not inherently problematic. There is often a wide range in the complexity (or simplicity) of the work to be undertaken in mortgage broking. That creates challenges for determining appropriate remuneration for "services" which does not recognise a direct link between the amount of work (and, accordingly, appropriate remuneration) and the size of the loan.

In addition, customers are better able to compare mortgage products than many of the types of investment products usually obtained with the assistance of an adviser, which are typically more complex and varied than home loans. Home loan customers also have additional

protections in the form of the suitability assessment a lender must perform under the *National Consumer Credit Protection Act 2009*.