

The Australian
Mortgage Report 2014
The digital & data revolution



Deloitte Australian Mortgage Report 2014

The digital & data revolution

The \$1.3 trillion Australian mortgage market is on the cusp of exciting change led by a digital and data revolution. In this report, the Deloitte Australian Residential Lending Industry Roundtable considered current trends in home loans, and in particular, looked forward to the driving forces of change over the next three years to 2017.

The roundtable (comprising representatives of Australia's major, non-major and non-bank lenders together with the heads of mortgage broker groups), discussed the nature of the Australian mortgage marketplace and the impact of the impending consumer-led digital revolution on mortgages. It explored the structural challenges which the Financial Systems Inquiry has the opportunity to address, such as the nexus between mortgages and superannuation, and the influence of funding and regulation on competition and innovation in the mortgage marketplace.

How do we get the balance of these challenges right going forward?

Our panel of industry experts have contributed to this document and their perspectives are detailed across five main topic areas.

We trust you will find the Australian Mortgage Report 2014 both informative and thought provoking. Deloitte looks forward to discussing this research with you as we work together to leverage the opportunities in 2014.



James Hickey
Banking Partner
Deloitte



Graham Mott
Banking Partner
Deloitte

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Executive summary

As the mortgage lending market surges into 2014, it is clear that the year ahead will be different from what we have experienced since the onset of the Global Financial Crisis. Deloitte Banking Partner James Hickey considers how the pace of change will continue as lenders seek to adapt to the challenges and opportunities through to 2017.



Figure 1: Source: ABS, Deloitte Actuaries & Consultants 2014



Figure 2: Source: ABS, Deloitte Actuaries & Consultants 2014

The here and now: 2014

The news in 2014 is that mortgage settlement growth is back and competition will intensify.

With confidence amongst borrowers high, investors coming back into the market, and funding pressures eased, major banks, non-major banks, and the returning non-bank lenders are all out for a slice of the market. The tailwinds of growth were evident as 2013 came to a close, with settlement growth of 20% driving a record number of housing commitment applications across the market.

This resulted in settlements on a monthly basis exceeding \$28 billion across Australia. This is the highest single month of settlements on record, and a clear jump since the onset of the GFC which had monthly figures struggling to reach \$20 billion.

While growth in settlements measures the rate of 'new' flow in the market, the overall total mortgage market of outstanding loans was more subdued. That is, the \$1.3 trillion total market for outstanding loans had only modest growth of 5% throughout 2013. This has a number of consequences on the dynamics in the market.

- It implies the majority of 'new' settlements coming into the market are from existing borrowers (owner occupiers and investors). It is not reflecting first home buyers coming into the market.
- Given their weighting to the overall system, the major banks are facing the pressure of their portfolios only growing at 5%, but having to compete for 'new' settlements with increased discounts and commission bonuses to brokers. This will continue to place pressure on interest margins for the major banks.
- Non-major lenders, and non-bank lenders that have access to funding, will be able to compete more aggressively with major banks to gain market share in 2014.

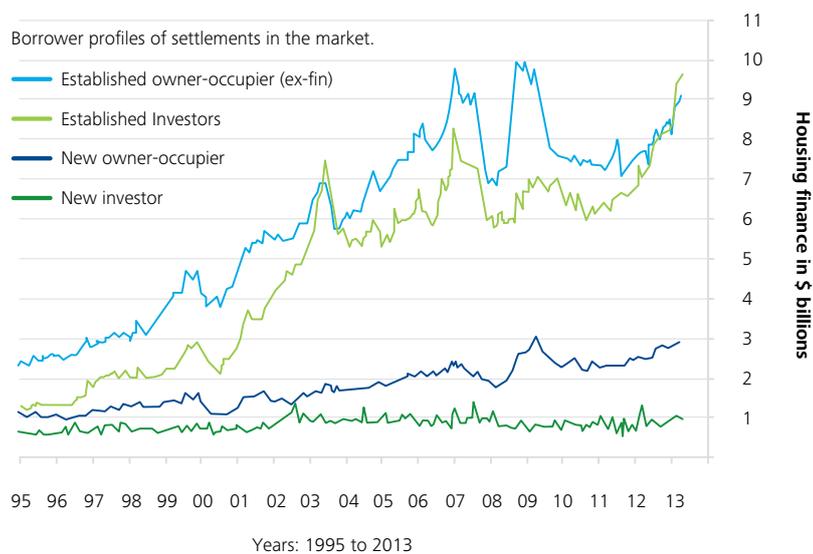


Figure 3: Source: ABS, Deloitte Actuaries & Consultants 2014

Figure 3 highlights the borrower profile of settlements in the marketplace. As can be seen most of the growth in settlement volume through 2013 was driven by existing owner-occupiers and existing-investors, at the expense of first home buyers.

The pathway to 2017

The market we are facing in 2014 in many ways highlights the long term structural challenge of mortgages in Australia – how to produce better equity in the system across existing and new borrowers, and across major and non-major lenders.

Two important factors will influence mortgages over the foreseeable future: one market and policy led, the other consumer led.

1. **The Financial System Inquiry:** this has the opportunity to define and improve the structural makeup of the mortgage lending market. It will need to consider the balance that is desired between competition and regulatory stability, how best to encourage innovation while still protecting consumers, and how to ensure Australia uses the advantages it has to support its mortgage lending market – especially the superannuation system’s interaction with mortgage funding.

While the Inquiry will explore many areas of financial services, those with particular importance to the mortgage sector will be:

- **Integration:** How the superannuation system and the mortgage lending sector can better integrate and support each other. These are the two largest engines in Australian financial services, with superannuation, a \$1.5 trillion sector, and mortgage lending, a \$1.3 trillion sector. This opportunity for greater interaction needs to be explored at both a macro (system wide) and micro (individual household) level
- **Housing affordability:** it remains a challenge for first home buyers to enter the market. At the other end of the age spectrum, there is a growing longevity challenge with many retirees living the traditional ‘asset rich, cash poor’ lifestyle, and having little incentive (in many cases disincentives) to downsize from the family home. The Inquiry represents an opportunity to consider the longer term balance of demand and supply of property, and its facilitation through a generational shift
- **Regulation (and competition):** especially the ‘level playing field’, or potential lack thereof, which regulation in the mortgage sector can create. Our regulatory framework undoubtedly assisted in the stability of our system during the GFC, however at what pace does it need to evolve and for which lenders is the cost more pronounced (and the impact on competition). All need to be addressed
- **Competition and technology:** future new competitors in the mortgage lending market will likely leverage significantly from technology-led innovations. How such forms of competition can emerge and the framework to support this market-led evolution should be an important agenda item for the Inquiry.

2. The Digital and Data Revolution: there is already a digital and technology revolution in payments and 'real time' customer access in the banking sector. It will not be long before such customer-led digital needs have a pronounced impact on the way mortgages are offered in Australia.

The challenge for lenders is interpreting what 'digital' means for customers when it comes to mortgages. Is it front end access and querying? Is it online lodgements and end-to-end fulfilment of the mortgage? Is it tablet and mobile enabled real time account flexibility or any other myriad of consumer mortgage needs? And from a lender's perspective, is digital only about dealing with the customer? Or is it equally about digitising back office functions and processes to improve efficiencies?

One thing is clear, digital and data will be the main game for mortgages over the next three years. For lenders, brokers and consumers, the digital and data revolution will produce significant change in how we think of the traditional mortgage in the future

Together with digital, the capture and access of data through all forms of interaction a customer has with vendors, is rapidly growing. However, having access to the data, and being able to use the data in ways which the customer values, are two different propositions. Those lenders and brokers that can successfully marry data capture, with proactive and valuable interactions with customers, will surge ahead. Customers expect digital, and they also expect that our banks know us and our preferences.

While the mortgage origination process is seeing some of the pieces come together for data and digital, with positive credit scoring and electronic conveyancing taking shape in 2014, this is but the tip of the iceberg for data and digital. The big banks have a clear advantage at this point. They have the depth of customer data, and they have the investment spend for digital innovation. Others will have to make smart choices about how to position themselves to be ready for the future opportunities.

Deloitte Australian Mortgage Report 2014 Roundtable



Deloitte Australian Mortgage Report 2014 roundtable attendees

The Australian lending roundtable was chaired by Deloitte Financial Services partners James Hickey and Graham Mott

Industry attendees were:

Back/middle row from the left:

- **Deloitte:** Graham Mott, Partner Financial Services
- **Macquarie Bank:** Frank Ganis, Head of Intermediary Banking
- **Deloitte:** James Hickey, Partner Financial Services
- **Deloitte Digital:** Katherine Milesi, Partner
- **CBA:** Clive Van Horen, Head of Mortgages
- **Deloitte:** Chris Wilson, Partner Financial Services
- **UBank:** Rob Plow, Director Operations
- **Mortgage Choice:** Michael Russell, CEO
- **ANZ:** Brad Gravell, General Manager Mortgages & Deposits
- **Citi:** Vibha Coburn, Managing Director Retail Distribution

Front row from the left:

- **Yellow Brick Road:** Matt Lawler, CEO
- **Pepper Group:** Patrick Tuttle Co-Group, CEO
- **Deloitte:** Louise Denver, Corporate Affairs & Communications
- **Nab Broker:** Steve Kane, General Manager
- **ING Direct:** Lisa Claes, Executive Director Distribution.

The \$1.3 trillion mortgage market in Australia will remain key to delivering earnings performance for most lenders

Contacts



Rick Porter
Leader
Financial Services Australia
Tel : +61 3 9671 7922
rickporter@deloitte.com.au



James Hickey
Financial Services Partner
Actuaries & Consultants
Tel : +61 2 9322 5009
jahickey@deloitte.com.au



Graham Mott
Financial Services Partner
Audit & Assurance Banking Practice
Tel : +61 2 9322 7970
gmott@deloitte.com.au



Ian Harper
Partner
Deloitte Access Economics
Tel : +61 3 9671 7536
iaharper@deloitte.com.au



Chris Wilson
Financial Services Partner
Growth & Strategy
Tel : +61 3 9671 7411
chrwilson@deloitte.com.au



Katherine Milesi
Partner
Deloitte Digital
Tel : +61 2 9322 7030
kmilesi@deloitte.com.au



Arturo Mauleon
Financial Services Partner
Consulting
Tel : +61 0409 707 750
amauleon@deloitte.com.au



Heather Baister
Director
Audit & Assurance Banking Practice
Tel : +61 2 9322 5911
hebaister@deloitte.com.au

Deloitte Sydney
255 George Street
Sydney, New South Wales
Australia

Deloitte Melbourne
550 Bourke Street
Melbourne, Victoria
Australia



Louise Denver
Director
Corporate Affairs/Communication
Financial Services
Tel : +61 0414 889 857
ldenver@deloitte.com.au

Tel: +61 2 9322 7000
Fax: +61 2 9322 7001

Tel: +61 9671 7000
Fax: +61 3 9671 7001

fsimarketing@deloitte.com.au
www.deloitte.com.au

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