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Australian Competition & Consumer Commission

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ACCC Ref AA1000640 – Aggregator Assurance Program

- 1) We refer to the application for authorization from the Commonwealth Bank, Westpac Banking Corporation, Australia and New Zealand Banking Group Limited, National Australia Bank Limited and Macquarie Bank Limited with respect to the establishment of a voluntary industry-wide lender/aggregator assurance program (the **Assurance Program**).
- 2) What is critical from our perspective is that any Assurance Program achieves the right balance between providing assurance and comfort to lenders and driving efficiencies for mortgage aggregators to allow them to focus more on driving good consumer outcomes through the oversight and supervision of its mortgage brokers.

About Connective

- 3) Connective is Australia's leading finance aggregator with approximately 4,400 individual brokers holding Connective membership. This represents approximately 20% of all home loan mortgage brokers in Australia and 1 in 7 home loans being written by a Connective mortgage broker. Membership with Connective provides mortgage brokers with access to approximately 60 lenders Connective has on its panel.
- 4) Mortgage aggregators act as an intermediary between home loan lenders and individual mortgage brokers. The need for mortgage aggregators has developed over the past decade in conjunction with the growth of the mortgage broking industry. Home loan lenders have chosen not to deal with individual mortgage brokers, instead choosing to enter into head agreements with mortgage aggregators whereby they agree to allow member brokers of an aggregator the ability to submit loan applications subject to meeting various terms and conditions. These lender head agreements usually contain obligations on the aggregator to conduct initial checks of its member brokers and to supervise and monitor their activities on an ongoing basis.
- 5) Connective employs approximately 170 people in Australia. Services provided by Connective to its member brokers include client relationship management software, commission processing, ability to submit loan applications to that aggregator's lender panel and compliance services. Connective has its own in-house compliance team which is responsible training and supervision of its member mortgage brokers.

Current assurance activity

- 6) Individual lenders approach Connective on a regular basis seeking to conduct reviews of our compliance systems. Although these reviews generally explore common themes, the effort required by Connective to appropriately respond to each varies significantly.



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- 7) In 2022, Connective completed reviews with 14 different lenders. These broadly fell into two categories:
 - a) Full audits: these required significant amounts of work, usually a combination of detailed questions (between 40-100) and control testing of sample loan files. Each audit can occupy up to a week of a senior member of Connective's compliance team time (usually a combination of the National Head, Risk & Compliance and the Group Legal Counsel). In 2022, Connective completed eight lender reviews that fell into this category.
 - b) Attestations: these involved a shorter list of questions, requiring a shorter response or a more generic attestation, often with a request for supporting documentation. On average these take between 2-4 hours to complete. In 2022, Connective completed six lender attestations that fell into this category.
- 8) Connective and, to the best of its knowledge, other aggregators have relatively small compliance teams when compared to its lender counterparts. The focus of these teams is to train, coach and supervise their member mortgage brokers to ensure they meet their regulatory obligations and hopefully deliver good consumer outcomes (and prevent bad outcomes). Although we acknowledge the importance of these reviews, these reviews do occupy significant amounts of time and resource – time and resource that could otherwise be spent on training and supervising our mortgage brokers.

Connective supports the Assurance Program in principle

- 9) The primary reason for our support is to remove the significant impost that multiple lender reviews have on limited Connective compliance team resource. We value our relationship with our lender partners and are always willing to cooperate on these reviews. However, there is large amount of duplication which could be easily avoided through the introduction of the Assurance Program. The audits and attestations described above all generally cover the same key topics – unfortunately each lender frames these questions and attestations differently meaning it is difficult for Connective to build efficiencies into the response process.
- 10) Other inefficiencies experienced include dealing with lender governance teams and their advisers with differing familiarity and expertise in mortgage broking and how they interpret the role mortgage aggregators play.
- 11) In addition, these reviews often explore topics from a lender's perspective, seeking to impose additional obligations and sometimes unreasonable expectations on a mortgage aggregator. From our perspective, these reviews should test for compliance with our regulatory obligations and any contractual obligations we owe that lender under our head agreement. Too often, the scope of these lender reviews extends beyond this.
- 12) Efficiencies can be gained by having an agreed, standard list of questions and sensible levels of control testing. It is critical that an appropriate balance is struck between meeting a lender's whilst not becoming too burdensome on an aggregator's compliance resource. Utilizing the right service provider – one that understands the mortgage broking industry – is also critical in driving these efficiencies and aggregators should participate in that selection process with lenders.



Potential concerns that need to be addressed

- 13) The Assurance Program needs to be opt-in from an aggregator perspective. Aggregators need to be comfortable with the scope (that it is appropriate and does not impose further obligations above its regulatory and contractual obligations), the amount of control testing required and the service provider conducting the review. Lenders need to appreciate that aggregators do not have the legal and compliance resource or budgets that large banks do and any impost on those limited resources needs to be appropriate and meaningful.
- 14) Lenders need to ensure appropriate levels of privacy and data protection are in place, especially when it involves control testing of loan files. Historically, lenders would only review loan files submitted to that lender, so these issues were less of a concern. Presumably, any industry-wide program would review a selection of loan files submitted to different lenders. In this case, it is critical that these loan files are de-personalized and appropriate protections are implemented by lenders and their chosen service provider.
- 15) Any industry-wide program cannot have a “kitchen sink” approach where lenders will deep dive to an intrusive level under the guise that efficiencies have already been created through having one industry review as opposed to individual lender reviews. Questions and testing must be reasonable and appropriate.
- 16) The cost of a service provider to conduct these reviews can be high. Connective’s expectation would be that, consistent with current practice, lenders continue to pay the cost of these reviews (since these reviews are being conducted for their benefit).

Connective is broadly supportive of a voluntary, opt-in industry-wide assurance program. The more time we spend demonstrating to our lender partners what controls we have in place means the less time and resource we could be spending actually working on these controls to supervise and monitor our mortgage brokers which ultimately drive better consumer outcomes. For the Assurance Program to be a success, aggregators need to be intimately involved in every step of designing and implementing this program.

Connective extends its thanks to the ACCC for the opportunity to make this submission. If you require further information, please do not hesitate to contact me at [REDACTED].

Yours faithfully,

[REDACTED]

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