



## **Evolution of the Finance/Mortgage Broking Industry- Issue 30-09-2008**

The vibrant finance/mortgage industry commenced some 18 years ago in Western Australia. It has grown and evolved nationally since then, providing many opportunities for people wishing to start up their own broking business with the freedom and flexibility to choose their preferred working hours.

When the then new broking industry started there was reluctance by most lenders to become involved with this revolutionary way of doing business. There was also strong resistance from senior management and staff within the many lenders as they feared their job roles would disappear. To the detriment of lenders many cross selling opportunities were lost because they initially did not promote their peripheral products, such as Risk products, through the broking network. Finance/Mortgage brokers concentrated solely on loan products, which left clients exposed to many serious issues that do occur at any time without warning. Evolution and The Duty of Care has seen this issue addressed by lenders. These community attitudinal changes now see some Finance/Mortgage brokers adopt a holistic approach which produces additional income, whilst at the same time providing protection against financial loss or hardship.

Initially Brokers acting on behalf of a client charged the client a fee. Then some lenders paid the Broker a fee which was a benefit to the client. With the extraordinary growth of the Broking industry lenders then paid an upfront and trail commission. Many Brokers became very wealthy. With the advent of the Sub-Prime lenders dire situation in the United States and elsewhere the wheel has turned as most lenders have now reduced their upfront and trail payments to Finance/Mortgage Brokers. This has seen many of the new entrants and small volume writers leave the industry to seek employment in other professions. In fact this will cause issues when the market turns again, as it will in time, for the number writers that remain will struggle to keep up with the clients' demands. Experience is always a hard thing to replace as lenders themselves discovered when they went through a heavy bottom line reduction, focusing on the retrenchment of many experienced staff, in the mid- to- late 1990's and the early 21<sup>st</sup> century.

Over the past 20 years there have been many legislative and regulatory changes that have improved the standard of the Finance/Mortgage broking industry. The important changes have been the introduction of educational qualification requirements and a Complaints Resolution scheme. The Financial Ombudsman Scheme, a mirror of schemes in the

United Kingdom, has integrated the Financial Planners, Banking Ombudsman, Insurance Brokers and the Finance Brokers Association of Australia into one Complaints Resolution Group.

The writer would like to finish of this article with a challenging question, “Does our industry go back to where it started with Australian lenders by following the UK model and remove trail commissions totally?” There are many reasons for and against for this argument but the writer feels it’s in every Finance/Mortgage Broker’s interest to structure their business models in such away that if it does become a reality then the impact on their business will be minimal.

Jeff Mazzini

Managing Director  
F Fin, FTIA, FPNA, FAICD, AMFAA, CFP, FFBA

AAMC Training Group.

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