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The New Zealand Mortgage Mag

Time for technology

Are changes finally on the way?

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How to keep FAP costs down
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Time for Technology

The NZ mortgage industry has lagged behind in tech terms. Daniel Dunkley investigates whether this is all about to change?

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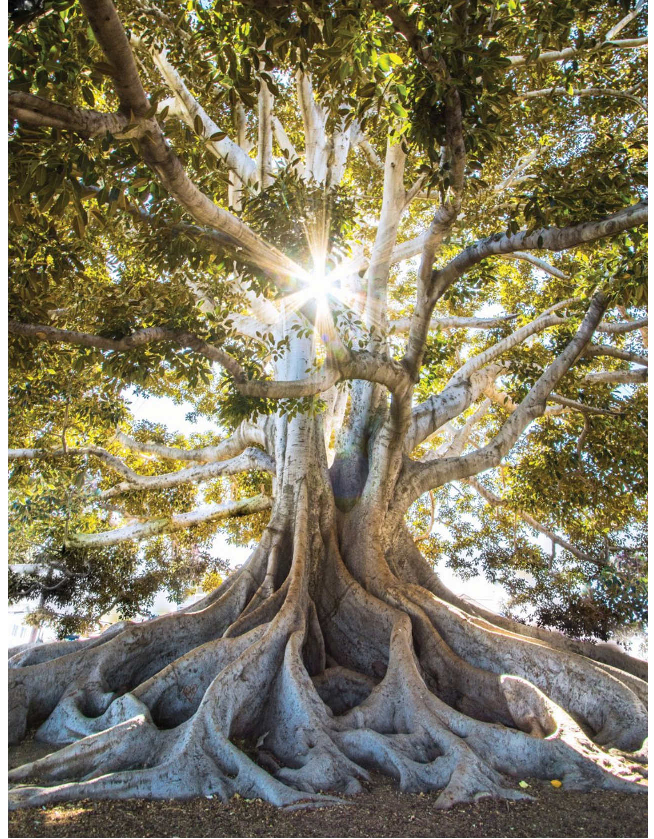

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Banks helping advisers in unexpected ways

The Covid-19 pandemic could be the gift that keeps giving to the mortgage advice sector. Sure during lockdown things were tough with no new business being written and huge amounts of work changing home loans for very little income.

But coming out of it all the advisers I've talked to have said the same thing; "We're really busy". Indeed one long-time adviser says it's probably the busiest he's even seen things.

Happy days.

Looking forward my guess is that the market share for advisers will grow due to an accelerating trend. Bank branch closures.

At the time of writing ANZ, ASB, BNZ and Westpac had permanently closed 32 branches since March 26, when New Zealand went into a strict alert level four lockdown.

And despite New Zealand moving to alert level one some branches are still only open for two or three days a week or limited hours.

When it comes to mortgages borrowers want human contact. It's not a process which can all be done online.

While the four major banks still have 548 branches between them that number is likely to further shrink over time.

The non-bank space too is expected to show growth as the stories of inconsistent lending decisions from the big banks is seemingly endless. Hardly a day goes by without another story on the difficulties of dealing with banks.

Like advisers we are getting feedback that some of the non-banks have had record months recently.

Conference update

We are still planning to hold the *TMM* Better Business Conference this year. However, a few details are changing due to New Zealand's closed borders and the number of hotels being used as quarantine facilities. We will update you on plans soon.

Our theme this year is around building a resilient, valuable, business to survive into the future.

Thanks to the sponsors who have come on board this year: Prospa, Resimac, Avanti, ASAP, Cressida, FMT and Westpac.

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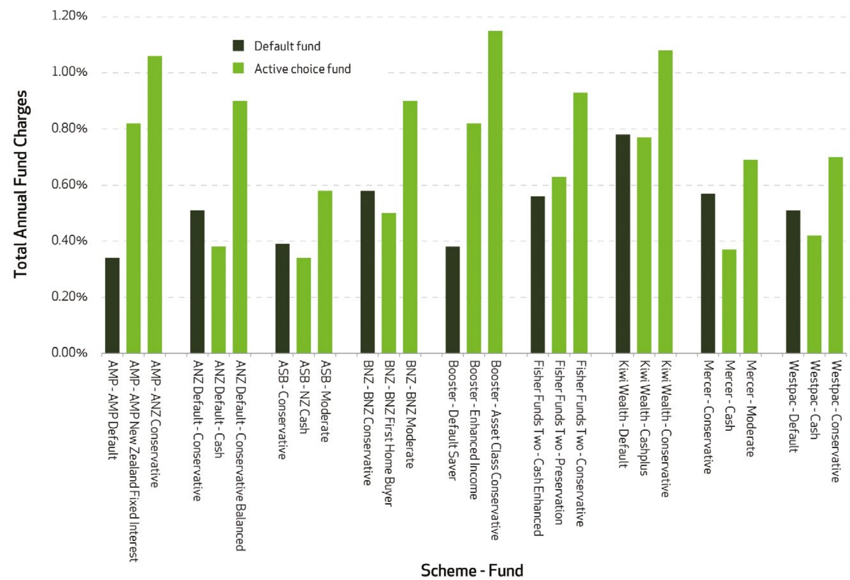
Is default status a gravytrain?

Michael Lang compares default and non-default KiwiSaver investment options.

BY MICHAEL LANG

Default vs. non-default fund fees



Source: FMA, December 2019 Fund Updates.
Comparative funds selected as being representative of the lower risk active choice funds offered by the default providers.

Last month, we questioned why the New Zealand regulatory environment 'gifts' billions of dollars of Kiwi savings to only nine of New Zealand's 23 KiwiSaver managers, when all managers must demonstrate they are worthy of managing the public funds.

We showed that few of the default managers selected had New Zealand-owned parent companies. Additionally, few of the managers selected specialised exclusively in funds management. And finally, we questioned whether, with hindsight, the managers which were chosen had proven to be more stable and more compliant than the other managers in the market.

This month we examine what happens to the clients who are allocated to nine of New Zealand's 23 KiwiSaver managers, and ask again whether awarding a selective group of managers monopoly default status is really in New Zealanders' long-term interests?

Under the current KiwiSaver rules whenever a new employee joins an employer, they are automatically enrolled in KiwiSaver unless they are already a member. Where the employer has not proactively selected a KiwiSaver provider, which few have, the new employee is allocated to one of the nine default providers at random and invested in their default fund.

According to a Ministerial press release dated December 7, 2006, one of the criteria by which default providers were selected is "competitive fee levels" so unsurprisingly, the fees in default funds are particularly low. However, this appears not to unduly impact the profitability of default managers as many default members do not remain invested in the default funds for long. They bounce on into higher fee funds, in many cases operated by the same manager as their default fund.

By our calculations, approximately 68% of default members have subsequently made an active choice about their KiwiSaver fund. This makes sense, as the Government has mandated that all default funds must conservatively invest holding no less than 80% in cash and income assets. As a result, default funds are rarely the best place for members to invest over the long term.

This begs the question, if default members are going to bounce out of default funds into higher fee-paying funds over time, does the regulator look at the competitiveness of the default funds' fees (which would be short-sighted), or the competitiveness of the fees charged across all the KiwiSaver funds the same manager offers (which would make more sense)?

The degree to which default fund managers mark up the fees in their non-default funds is therefore of public interest. The graph below shows that in almost all cases, default managers charge KiwiSaver members more if they move to a non-default fund. The additional fee is often associated with a meaningful increase in growth exposure (and as growth assets are more expensive to purchase and manage than bonds and term deposits this makes sense) but in a select number of cases, members who switch receive little or no additional growth but a significantly higher fee.

Will the same thing occur in the newly proposed "balanced default funds" regime? Will members end up being switched out of balanced default funds into funds managed by the same managers, with the same or similar asset allocation or a lower exposure to growth assets, but with markedly higher fees? One would hope not but fear so. History teaches us that government mandated monopolies rarely deliver better long-term results than well supervised competition. It is therefore time that managers, advisers and investors, advocate for a level playing field instead of a sloping one. ✚

Michael Lang is Chief Executive of NZ Funds and his comments are of a general nature.

Mixed response to full licensing details

The FMA's plans for full licensing under FSLAA have drawn a mixed response from mortgage advisers, with fears of rising compliance costs in the industry.

Last week, the Financial Markets Authority opened a consultation on the proposed full licence standard conditions for financial advice providers, as part of the new regulatory regime.

The FMA is proposing three different licence classes for financial advice providers (FAPs).

The regulator is considering eight standard conditions for full licences: record keeping, internal complaints process, regulatory returns, outsourcing, professional indemnity insurance, business continuity and technology systems, ongoing capability, and notification of material changes.

FAPs will be required to have appropriate professional indemnity insurance, ensure outsourcing agreements allow them to meet their market service licensee obligations at all times, and have a business continuity plan that is appropriate for the business.

Astute Financial chief executive Sarah Johnston welcomed the clarity on full licensing, and said the proposed conditions were "similar to the standard conditions applicable to other types of licences currently issued by the FMA".

"In our context, as an aggregator, we do not see these conditions slapping an unreasonable burden on us from a compliance perspective. This may well be because we already have to comply with similar conditions imposed on us by the product providers," Johnston added.

Johnston said the three-class FAP licensing system showed "the FMA's proportionate approach to licensing which does not preclude a sole advisory business from obtaining a FAP licence".

Yet she warned some advisers would face mounting costs: "The FAP licensing regime is 'new' to RFAs, and they have to face a fair amount of compliance costs, compared to the costs they incur today."

She added: "This is where we, as the potential FAP licence holder, will support them in this journey and ensure together we continue delivering clients the same (if not better) value they expect of us."

Q Group's Geoff Bawden was more critical of the full licensing details.

He questioned whether the new regime would simplify the current AFA-RFA system: "I'm really not sure how we can claim to be simplifying things to avoid confusion, it's a minefield."

He believes insurance costs will rise: "We are now creating a whole new entity who looks like they will require additional PI insurance protection, even though there are the same number of financial advisers trading, and there is no real change around those who are providing financial advice."

Bawden questioned whether the additional layers of cost and compliance would be good for clients in the long term.

"By far the majority of financial advisers in New Zealand are sole practitioners, and you align that with the stated objective that having financial advisers is beneficial to the consumer, then you have to ask if cost will become an impediment to giving sound advice."

ASB eases lending policy

ASB eased its policy for owner-occupiers and investors in June, amid tight credit conditions across the lending market since the Covid-19 outbreak.

The bank previously stuck to tight internal limits, despite the relaxation of loan-to-value restrictions in May.

ASB will allow owner-occupiers to borrow up to 90% LVR. It will lend up to 85% on construction properties.

Lending above 85% LVR requires a minimum uncommitted monthly income of $900, it said. Investors can borrow up to 80% LVR, including construction lending.

ASB said its credit policy changes "apply to all new applications or in the event that a current approval needs to be extended".

Brokers report ASB and Kiwibank as the most receptive to investors in the current market.

Advisers will test ASB's appetite for new-to-bank borrowers looking for plus 80% LVR loans. Westpac recently halted lending to new borrowers above 80%, and banks have largely clamped down on new-to-bank customers.

Advisers welcomed ASB's decision to loosen its credit policy as the environment remains tight since the Covid-19 outbreak.

One broker told *TMM Online*: "This is great news and we hope to see more of this as time goes by. It would also be good if they opened up the policy to 90% LVR with an investment."

Cash backs creep up

Cash-back offers from major banks continue to fluctuate in the wake of Covid-19, but two banks lifted their offers in recent weeks.

Advisers reported that ANZ and Westpac lifted cash-back offers back to .6% after cutting them during the lockdown.

In mid-April, cash-back offers had dropped as low as .4% at banks including Westpac and BNZ, as banks tightened up in the face of the pandemic.

One adviser told *TMM Online* that conditions had begun to improve for borrowers in recent weeks: "During lockdown some banks dropped cash backs completely, with some at 0.3%. They're now back up to 0.6%," the adviser said.

Craig Pope, of Pope & Co Mortgages, said the market was still "inconsistent at the moment" and has seen cash backs as low as .4% and .5%.

Hamish Patel, of Mortgages Online, said the ever-changing market was a great opportunity for advisers.

"The golden age for brokers has arrived," he said. "The real value proposition will now become more obvious. There is now more variance than ever between different banks, their lending criteria and pricing.

The consumer would be selling themselves short if they assumed that their own bank was a reflection of the entire market."

The huge variation in cash-back policies comes as lenders rejig their lending criteria post-Covid-19. Some banks, like Kiwibank, are offering investors up to 80% LVR, while the main banks have stuck to tight internal credit limits. ✚

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SACHA DOYLE

CHARLOTTE BENNETT-ROBERTSON

First Mortgage Trust makes business development hires

Non-bank lender First Mortgage Trust (FMT) has made a series of new business development hires across the country.

FMT has appointed a business development manager and assistant BDM for the South Island, to be based in Christchurch.

Sacha Doyle, joins the Christchurch office as BDM, after spending six years as a business manager for ASB Bank. Doyle has more than 20 years of experience, mostly in the business sector.

FMT said Sacha has "significant experience in business and commercial property transactions, as well as residential developments". "Sacha has built strong relationships within the adviser network and is looking forward to working together on new proposals," the lender added.

Charlotte Bennett-Robertson joins First Mortgage Trust as an assistant BDM in Christchurch, working under Jeremy Finch and Sacha Doyle.

Bennett-Robertson has experience in the construction sector, and has also worked for BNZ as a senior associate in the property finance team.

Cameron McLachlan, meanwhile, joins First Mortgage Trust as an assistant BDM in Auckland. A former ANZ relationship associate, he has worked in the Auckland property finance team for the past year, specialising in construction and development.

McLachlan has assisted with the funding of large-scale subdivisions, apartment buildings and hotels throughout Auckland.

Changes at Mike Pero Mortgages

BRYCE AND JENNIFER DAHL

AMANDA STEPHENS

Mike Pero Mortgages (MPM) has announced a raft of new hires and changes to franchise ownerships.

Bryce Dahl has taken over from Judith Colville at Mike Pero Mortgages in Northland.

Dahl spent 11 years working in a family business before making the recent move.

MPM said Dahl “understands that each customer situation is different and is focused on tailoring his service to their specific needs”.

Dahl is joined by his wife Jennifer, who will take on a role as a mortgage adviser. Jennifer has a wealth of experience in banking – covering personal and commercial lending.

MPM said Jennifer’s goal as a Mike Pero Mortgage Adviser is “to make the home buying process as fuss-free as possible for customers”.

Mike Pero has also announced changes to its Tauranga team.

Amanda Stephens joins Tracey Coxhead’s team. She has eight years of experience in the finance and insurance industry.

MPM said Stephens was inspired to join the industry by an experience she had with a broker during her own home-buying process. Stephens wants to “provide customers with the same passionate service”.

Dane Vickers, meanwhile, has joined Jacob Annals’ team in Hamilton. Vickers joined Mike Pero in 2018 as part of the support team, and will now take on work as an adviser.

Teena Smith comes on board as part of Mike Pero’s Auckland team, under Sherilyn Fretton.

MPM said: “Personal experience has taught Teena that the right person can help home buyers save time, money and stress. With her expertise, knowledge and positive attitude, she’s eager to be that person for customers.”

Todd McFlinn joins the Flat Bush, Auckland business, working alongside his father Grant. Over the past ten years, Todd has worked for several of the major banks in NZ, specialising in home lending and pricing.

MPM said Todd “understands the challenges facing home buyers in Auckland and is keen to make this process run as smoothly as possible for them”.

Meanwhile, ***Ivy Liang*** takes ownership of MPM’s Favona, Auckland franchise.

MPM said: “With extensive experience in the finance industry and a passion for helping people, Ivy is looking forward to helping customers achieve their financial goals.”

Liang is fluent in Mandarin and Cantonese.

Advisers join Mortgage Link

JOHN BOLSOVER

ZHIYANG CHENG

A host of new advisers have joined Mortgage Link in the North and South Islands, as the group continues its expansion.

John Bolsover joins Mortgage Link Kapiti. Bolsover recently qualified as an Authorised Financial Adviser following a 19-year career at ANZ as a senior manager working in economics, NZ strategy and operations planning and performance.

Before working for ANZ, Bolsover worked for five years as an economist at Beef + Lamb New Zealand. He also spent seven years working in the UK.

The new hire has 35 years of experience in economics, strategic planning, business planning, performance monitoring, advisory and business management.

He said: "I am extremely familiar with all the influences that drive interest rates, mortgage lending and the property market and I'm excited to share my experience so that I can develop solutions for my clients' lending needs."

Bolsover has known the owners of Mortgage Link Kapiti for several years, and rates the team "highly". He added: "I am excited by the opportunity to work with Derek, who has an excellent reputation as a financial adviser here on the Kapiti Coast."

Zhiyang Cheng joins Mortgage Link in East Auckland. Cheng has a degree in accounting and commercial law, and has experience in the lending and finance sectors.

Cheng said: "My focus and commitment is to put the best interests of the client first. I focus on the long-term goals and journey of the client rather than just the immediate transaction. My aim is to educate clients to assist them in the decision-making process of purchasing property and structuring the mortgage."

Jack Dray also joins Mortgage Link East Auckland. Dray studied at the University of Otago, obtaining a Bachelor of Science qualification. He also has a Post Graduate Diploma of Science.

Dray has opted for a career in the mortgage advice sector after spending time at mortgagehq in a support role.

Meanwhile, ***Tim Moore*** has joined Mortgage Link in Otago. Moore has spent over ten years in the financial services and insurance industry.

Moore said: "My clients are the driver of my ambition. I enjoy taking all the time that is required to ensure my clients understand the products and the in-betweens thus to ensure satisfaction." ✚

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FMA reveals plans for full licensing

Adviser businesses applying for a full licence will have to meet eight conditions.

BY SUSAN EDMUNDS

The Financial Markets Authority has revealed the approach it will take to full licensing for mortgage advisers under the new regime.

The new FSLAA regime is expected to take effect in March next year, when all market participants will need to have a transitional licence. Applications for full licences will open at the same time – and all financial advice providers (FAPs) will need to move to a full licence within two years.

Financial advisers can apply for their own FAP or choose to work under another. Mortgage adviser groups have signalled that they will offer an option for their members – although that will come with extra liability and responsibility on those groups.

The FMA said adviser firms would be licensed according to the size and scope of their business.

Licence classes

It said that it was proposing three licence classes for financial advice providers, which would enable the application process to be tailored with appropriate questions for the type of business being licensed.

Class A licences will apply to advisers who give advice on their own, as part of a one-adviser business. Class B licences will be for firms that have multiple advisers but no nominated representatives, such as larger advice businesses and groups. Class C licences permit the holder to engage nominated representatives or another entity – these are likely to be the big product providers that currently operate as QFEs.

"Licence classes apply to the manner in which regulated financial advice may be provided but do not limit the types of financial advice that may be provided under the licence, as the latter is addressed by the competency requirements in the new code. Licence classes are incremental from A to C. Each incremental class of licence incorporates and permits all service classes below it," the FMA said.

John Botica, FMA director of market engagement, said: "We're pleased to open this consultation as it will give financial advisers further clarity on their obligations under the new regime.

"Our proposal to specify three classes of financial advice recognises *the diversity of business structures in the industry and will allow advisers to apply for the class that's most appropriate for them."

Botica said the three classes – along with the tailored questions and assessments based on the complexity of the financial advice provider structure – will ensure the application process is straightforward, particularly for small advice businesses.

Criteria

The FMA is considering eight standard conditions for full licences: record keeping, internal complaints process, regulatory returns, outsourcing, professional indemnity insurance, business continuity and technology systems, ongoing capability, and notification of material changes. Record-keeping and internal complaints are the same conditions as will apply to transitional licences and the regulator said there was widespread acceptance of those.

FAPs will also be required to have appropriate professional indemnity insurance, ensure outsourcing agreements allow them to meet their market service licensee obligations at all times, and have a business continuity plan that is appropriate for the business.

"If you use any technology systems, which if disrupted, would materially affect the continued provision of your financial advice service (or any other

> **“We are pleased that businesses will be expected to apply only systems proportionate to [the] size of their business. That makes perfect sense.”**
> _ Katrina Shanks

market services licensee obligation), you must at all times ensure that cybersecurity for those systems – being the preservation of confidentiality, integrity and availability of information and/or information systems – is maintained."

The FMA said the criteria in full licensing would be more comprehensive than for transitional licensing.

"In addition to the matters considered for transitional licensing, we will consider whether applicants and authorised bodies are capable of effectively performing the financial advice service. The capabilities that we will assess at full licensing will depend upon the scope of financial advice service of each financial advice provider included in the application."

The consultation is open until August 7.

Financial Advice NZ chief executive Katrina Shanks said she wanted more information on four of the conditions proposed.

“It's great the FMA has listened to what the sector has been saying on the standard conditions for full licences, and we will be particularly interested to see how standards in relation to outsourcing, business continuity, technology systems and professional indemnity evolve in this process.

“We are pleased, that businesses will be expected to apply only systems proportionate to [the] size of their business. That makes perfect sense.”

The FMA said FAPs might enter into outsourcing agreements and the outsourcing condition was to ensure that they monitored and reviewed those providers and arrangements because the responsibility for meeting their obligations remained with the FAP.

Outsourcing would include hosting technology for digital advice, scanning of advice documents and review of compliance processes.

Professional indemnity cover was needed to ensure clients could be compensated for loss as a result of an adviser breaching professional duties, it said. Botica acknowledged that this was a topic that was hotly debated in the industry and there were strong views for and against requiring firms to hold it. Some had said it was expensive and did not give as much protection for consumers as people might think while some firms had said they were not going to do business without it. The FMA wanted to hear feedback, he said, on how hard it would be to get cover that was proportionate to the size of the business.

“We understand that many product providers already require those holding agency or distribution agreements to have access to professional indemnity insurance cover, and we wish to obtain feedback on the level of additional regulatory burden that would be created by this condition (if any). We intend to ask for information regarding professional indemnity cover at the time of licence application. Where an applicant demonstrates that they are unable to obtain appropriate cover, or has other valid reasons for not having cover, then we intend applying a specific licence condition waiving this standard condition.”

The FMA said its business continuity criteria would ensure that FAPs had suitable arrangements to ensure that they could manage disruptions and clients would have security of continuity.

The FMA said it wanted feedback on whether the conditions proposed would create a barrier to entry.

Shanks said the three licence classes was a good approach.

“Financial Advice NZ supports a system that offers licences that fit the scale, size and different financial advice that businesses provide, be they for a single-adviser business, a multiple-adviser business, or something more complex, such as a licensed FAP engaging multiple advisers as well as having nominated representatives.

“This system will be beneficial to small businesses that do great work providing personalised financial advice to clients and who will have a system that's fit for purpose.”

Meanwhile, the FMA continues to process and grant applications for transitional licences, which have now passed 800 in total. They include an estimated 5,800 financial advisers – representing well over half the current number of authorised and registered financial advisers in New Zealand.

Botica said advisers should think through the options available to them. “You've told us often how important it is to give consumers the right information at the right time to make good decisions. The same thing should apply to you as well around your future wellbeing and business.” ✚

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Covid-19 tenancy measures eased

Life in the property world is slowly returning to a new post-lockdown normal, so we take a look at some of the news stories which explain how that's happening.

BY MIRIAM BELL

Residential landlords nationwide breathed a sigh of relief at the Government's recent announcement that it would not be extending the emergency tenancy measures introduced during the Covid-19 lockdown. The emergency measures meant it was not possible to terminate tenancies during the three months from March 25, except for a limited set of reasons.

However, Associate Housing Minister Kris Faafoi says that as the country is now at alert level one it is no longer necessary to extend the restrictions on tenancy terminations after June 25, 2020.

That means the usual termination rules have applied from June 26, 2020. But Faafoi says there are still challenging times ahead for landlords and tenants due to the economic impacts of Covid-19.

"We know it is likely to affect the ability of some tenants to meet their rental obligations, with flow-on financial effects for landlords."

For that reason, the Government is also increasing Rent Arrears Assistance to support people at risk of being evicted because they are unable to pay rent due to Covid-19 related income changes.

Faafoi says the increased rent arrears assistance, which is available from July 6 to December 31 2020, is aimed at helping both tenants and landlords while they work through any rent issues. It is available for a range of people including those who are working.

The Government's move came as a big relief to many landlords as concerns were high that the tenancy termination provision might be extended beyond the initial three-month period.

NZ Property Investors' Federation executive officer Sharon Cullwick says the announcement is fantastic news which will alleviate a lot of pressure for many landlords.

"It is not just rental property owners who will benefit from this. This will help all those people who have come back from overseas and want to move back into the properties they own.

"But there is still quite a process to go through if you are wanting to terminate a tenancy, but this will enable many property owners to put an end to stressful situations involving tenancies."

Tenancy Services advises that if a landlord had given a termination notice prior to lockdown that was to come into effect after March 26, 2020, that notice is of no effect. The termination process will need to start again.

Meanwhile, the six-month freeze on rent increases, which was also introduced as the country went into lockdown, remains in place until September 25, unless it is extended.

Compliance deadline extended

In another piece of welcome news for landlords, the Government has extended the deadline for Healthy Homes compliance statements for an additional five months.

While the Healthy Homes standards became law on July 1, 2019, compliance with them is being phased in over a number of years. The next stage of the phase-in was to have landlords provide tenants with a statement providing information on if and how their rental property complies with the standards.

Associate Minister of Housing Kris Faafoi says in order to complete a compliance statement, landlords need access to their rental properties and to allow tradespeople to complete inspections to determine the level of compliance.

"However, restrictions to property access during Covid-19 alert levels three and four limited landlords' ability to undertake this

activity and further delays are likely due to backlogs caused by the lockdown."

That led Cabinet to agree to push back the compliance statements deadline from July 1, 2020 to December 1, 2020. This means new tenancies beginning over the summer period can be incorporated into the statement of compliance process.

But Faafoi emphasises that the extended deadline will not affect any of the other dates by which rental properties have to comply with the Healthy Homes standards.

REINZ chief executive Bindi Norwell is delighted that, after months of lobbying, the minister and his officials have taken on board the feedback from the property management profession.

"There were significant concerns that the compliance statement template wasn't going to be available in time due to the high Covid-19 related workload the Government has been placed under.

"Also, there were concerns the qualified tradespeople who were expected to complete the compliance statements were unable to complete the high number of inspections still required post-lockdown."

Initially, the profession asked for a two-month extension, so the five-month extension is extremely welcome. But Norwell says the advice they issued earlier in the year around not leaving inspections until the last minute still applies.

"We would encourage people to have their inspections booked at their earliest convenience – obviously still taking Covid-19 safety and physical distancing requirements into account."

Investors not put off by Covid-19

Meanwhile, one in four real estate agents report an increase in investor buying activity, according to a new joint survey from REINZ and independent economist Tony Alexander.

According to the report, a net 25% of agents say "they are noticing more investors in the market", up from a net 16% in May, during tighter lockdown conditions.

The report suggests the increase was driven by the hope of cut-price deals. About 60% of agents say investors are hunting for bargains, and 64% are drawn in by record-low interest rates.

Alexander says the figure was "unsurprising considering the low level of interest rates which investors in bank deposits are currently receiving, and the hopes many undoubtedly have to purchase something more cheaply than might have been the case four months ago".

Agents were also surveyed about buyers' main concerns. About half of respondents say buyers were worried about insufficient listings, while 37% say buyers are worried about getting a loan. "Banks have become more cautious in their lending and have yet to pass through the Reserve Bank's removal of LVRs," the report adds.

Despite forecasts from ANZ that prices could drop by 10-15% in the wake of the Covid-19 crisis, the report paints a relatively upbeat outlook on the property market.

"The upshot of examining both the demand and supply sides of the real estate turnover equation is this. Demand is still there, with more investors and first home buyers hoping to make a purchase in the near future, offsetting the backing away of some people whose income positions mean they have had to put purchase plans on hold," it says.

On the supply side, there are roughly 19,000 properties listed for sale at the moment, compared to 58,000 heading into the global financial crisis. "Numerous factors tell us listings will not surge, but experience during the GFC tells us they will not collapse," the report says.

"In the end, the chances are now looking very low that residential real estate turnover will fall by anywhere near the 40% we were thinking was possible when the virus shock first hit – principally because the buyers are still there." ✚

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Troubled waters

Recent housing market data has been stronger than was expected, yet many commentators are not convinced that the positive signs will last, discovers Miriam Bell.

BY MIRIAM BELL

Those trying to make sense of the housing market at the moment are likely to be struggling. That's because the latest round of market data has not looked too bad: sales are down year-on-year but rising, listings remain tight, and prices appear to be holding steady.

At the same time, while commentators now say the economic fallout from Covid-19 may not be as severe as originally predicted they continue to emphasise their forecasts remain grim. It's all a bit confusing and it shows that uncertainty prevails.

Perhaps it's best to focus on the fact that news on the housing front is, at this stage, not bleak. In fact, some say there are positive signs worth taking note of.

Prices a far cry from predictions

First up, it seems Covid-19 has not diminished the price expectations of those selling property, with Realestate.co.nz's latest data revealing that average asking prices hit record highs in seven regions in May.

It also has the national average asking price up by 10.3% year-on-year to $724,058 in May. The Auckland region also saw a decent annual increase of 9.9% which left its average asking price at $961,686. Just one region (Central Otago/Lakes) recorded a decline in average asking price.

Realestate.co.nz spokesperson Vanessa Taylor says asking prices indicate what vendors are expecting to get rather than what properties are actually selling for. "But they are a good indicator of what will happen with sale prices. It's promising to see these asking price highs around the country during what is a challenging time globally."

Trade Me Property's May data also showed average asking prices holding firm, with strong year-on-year growth across all regions and some record high prices. Both Realestate.co.nz and Trade Me Property's releases noted that demand remains high, with big spikes in viewing activity and enquiries.

This situation does – currently – appear to translate into actual sales prices and values. QV's latest House Price Index has the average national value up by 2.4% over the past three months and by 7.7% year-on-year, leaving it at $739,539 in May.

In the Auckland region, values also increased. The region's average value was up by 2.7% over the last quarter and by 5.4% year-on-year to hit $1,086,223. In a similar vein, markets around the country saw value growth of varying degrees annually.

Most also saw some growth over the past three months, although it was negligible for some. That means that while Hastings had 4.6% and Whangarei had 4.4% quarterly growth, Queenstown Lakes had just 0.5% and Rotorua's values remained flat on 0.0% over the quarter.

The REINZ data tells a similar story. It has median house prices nationwide up by 6.9% year-on-year to $620,000 in May, as compared to $580,000 in May 2019.

In Auckland, there was an annual increase of 7.1% in median house prices in May. That took the median to $910,000, which is the third highest price on record. Eleven out of the 15 regions saw monthly increases in median price, with Waikato, Taranaki and Tasman all hitting record median prices in May.

REINZ chief executive Bindi Norwell says May's price data was more reflective of a global pandemic, in that there was some volatility in prices with five regions seeing prices fall from April to May.

"But what continues to surprise us is the fact that there are still regions with increases in median price and that there are still regions experiencing record median prices – a far cry from some of the doom and gloom predictions that were touted when Covid-19 first hit the country."

It may be too early for price declines to be showing through, she says. "But the reality is that the majority of regions saw median price increases from April to May and all bar one (Gisborne) saw annual increases in price – likely a continuing effect of demand for good properties outstripping supply."

Sales down, but not out

However, while the price data looks solid, the story becomes more complex once the sales data is considered. For example, QV general manager David Nagel says their data is skewed towards the earlier stages of the three-month period when sales volumes were much higher.

"When we look at just the April and May transactions in isolation it shows a definite impact with post lockdown sales on average down by around 5% on pre-lockdown levels. We're seeing regional variations as the various locations are impacted differently, depending on their reliance on tourism and other employment impacted by Covid-19."

The key point is the gradual decline in quarterly growth in May, with 14 of the 16 major cities monitored showing a reduction in the rate of growth since April, he says. "This trend is likely to continue as a greater proportion of post-lockdown sales are used in the HPI calculations."

"While we acknowledge these upside risks, we think that our forecast of a 7% house price decline is consistent with the economic outlook and the data so far."
_ Dominick Stephens

> **“There are still regions experiencing record median prices – a far cry from some of the doom and gloom predictions that were touted when Covid-19 first hit the country.”**
> _ Bindi Norwell

While early post-lockdown market signs have been positive, with a shortage of listings helping to maintain a level of scarcity for buyers, Nagel puts it down to pent up demand from lockdown. “We’re now seeing buyers exercising caution with many expecting greater volumes of listings to come on stream later in the year as the full impacts of the economic downturn start to bite.”

The downturn in sales activity is evident in the REINZ data. Sales volumes nationwide were down by 46.6% year-on-year in May.

However, there were also some more positive signs in the data. There was a strong monthly uplift with sales nearly trebling from April to May. They rose from 1,371 to 3,990, which is a 191.0% increase.

So while no regions saw annual increases in sales in May, all regions saw sales volumes increase from April. A good example can be found in the country’s biggest market, Auckland. It had sales down by 44.5% year-on-year (from 2,013 to 1,117) in May, but up by 98.8% on April.

Norwell says the annual decrease in sales is not surprising given the alert level three restrictions were in place for the first 12 days of May. “It was a positive sign to see a good uplift in sales activity from April to May, with 15 out of 16 regions across the country seeing triple figure percentage increases in their month-on-month sales activity.

“But we’re still seeing a shortage of new listings come to the market which continues to impact sales volumes. Hopefully, as people’s confidence starts to lift the listings shortage will start to change.”

Recession outlook

Turning to the economists makes for bleaker reading. For Westpac chief economist Dominick Stephens, the reality is that New Zealand is staring down the barrel of a severe recession.

He says the number of house sales in May was only about half of what it was a year ago. “It wasn’t much different to what it was during the 2008 recession and I doubt the seasonally adjusted monthly number of sales will lift much from here for two reasons.”

One reason is that migration in and out of New Zealand will be extremely low for some time and this will reduce the need for house transactions. The other is that during recessions people are less likely to move region, upgrade their house, or invest in property due to fear of what might happen in the economy.

Stephens does admit though that there are a couple of silver linings in the house price outlook.

“First, it is starting to look like the economic fallout from Covid-19 will be less severe than we initially expected, thanks to the early move to level one. And second, interest rates are extremely low, and that tends to boost asset prices.

“But while we acknowledge these upside risks, we think that our forecast of a 7% house price decline is consistent with the economic outlook and the data so far.”

ASB senior economist Mark Smith also points out that sales activity remains weak as Covid-19 restrictions continue to impact, with the days to sell rising to a record high for Auckland.

They expect the housing market to creak back into gear in the coming months, he says. “Pent-up demand and lower mortgage interest rates will instil more confidence from buyers. But we don’t expect this to persist given the mounting economic toll of Covid-19.

“So any bounce in the next few months is likely to prove short-lived. Net immigration is highly unlikely to scale the heights it has done in the last few years, with rising unemployment and rising housing supply hanging heavy over the market.”

They expect a 5-10% fall in house prices from here, although Government and Reserve Bank action will limit the downside to some extent, Smith says.

Meanwhile, independent economist Tony Alexander sounds a slightly different note.

There is a correlation between changes in the unemployment rate and in average house prices, and with the unemployment rate set to rise until the latter part of this year, that suggests time exists for house prices to pull back a bit further, he says.

“But the extent of price declines will be limited by a great number of factors. They include record low interest rates, money printing, spare cash from not travelling overseas, and net migration not falling by as much as people might think.” ✚

What’s driving house prices?

DOWN

REINZ HOUSE SALES

In May, sales were down by 46.6% year-on-year nationwide and by 44.5% year-on-year in Auckland. But there was a strong monthly uplift in sales both nationwide (up 191%) and in Auckland (up 98.8%).

INTEREST RATES

March’s OCR cut continues to be passed on by the banks. There’s now an ongoing mortgage rates war, with rates at unprecedented lows and the situation unlikely to change in the near future.

OCR

The Reserve Bank held the OCR at its Covid-19 prompted record low of 0.25% in June – and it appears to still be open to the prospect of a negative OCR in future if necessary.

IMMIGRATION

In a bid to contain Covid-19, the Government closed New Zealand’s borders in March. This means that what will happen with migration, which was high but trending lower, is in unknown territory.

BUILDING CONSENTS

April saw consents nationwide fall by 17% year-on-year, but the country was in alert level four for most of the month, with the closure of non-essential businesses, including construction sites.

MORTGAGE APPROVALS

Reserve Bank data shows mortgage lending overall slumped to its lowest level on record in April as the property market ground to a halt during the Covid-19 lockdown.

RENTS

Statistics NZ’s rental price index shows May’s rents were down by 0.6% on April and by 0.2% year-on-year. Trade Me Property’s most recent data had the national median rent up by 4% in April.

Time for technology

Technology has revolutionised businesses across the globe, but New Zealand's mortgage industry is lagging behind. Are changes on the way?

BY DANIEL DUNKLEY

While some sectors have made giant leaps with technology over the past decade, New Zealand's mortgage industry has adopted tech at a snail's pace. Turnaround times are as slow as ever, with paper applications and handwritten signatures still the norm, leading to frustration for advisers and clients.

E-lodgement is yet to become a standard in New Zealand, unlike Australia, and most of our lenders operate with outdated legacy IT systems. The market continues to lag behind our counterparts across the ditch, and advisers are desperate for changes across the mortgage application cycle.

One adviser recalls a frustrating recent experience with a major bank: "I saw a banker at one of the main lenders print off a form, walk over to a scanner, and then send the document through a different piece of software. It was so slow. It was sad, really. The reality is, we're way behind."

Post-Covid tech

Covid-19 has forced industries across the world to re-evaluate their approach to doing business. With face-to-face meetings and exchanges off-the-table during lockdown, different sectors have embraced e-commerce, mobile technology and technological innovation.

In a post-Covid world, what is being done to push New Zealand's banking and mortgage advice sectors forward? Are advisers and banks on the cusp of a technological revolution, or will they languish in the "Dark Ages" for years to come? Where will innovation come from? And how will it benefit clients?

For years, advisers relied on traditional paper application forms and document gathering. In recent years email, and software like FileInvite, has helped to cut down on some of the arduous information-gathering process. Newer tech advances like illion, allow advisers to scan clients' bank statements and perform preliminary credit assessments.

CRM improvements streamline record-keeping

Improved CRM systems have also helped advisers collate information, review clients' finances, and deliver better customer outcomes. The latter is especially important as advisers enter a new regulatory regime, with transparency, record-keeping and accountability key features.

Advisers use new technology where they can to enhance their work. Hamish Patel of Mortgages Online uses Trail, a new entrant to the CRM market, to improve his business processes.

Patel says Trail allows him to "streamline our work, and effectively replaces the need for FileInvite and illion". He adds: "It's a fairly new system. You can collect information and piece it together, and work out the client – and where the shortcomings may be.

"There seems to be more urgency around e-lodgement."
_ Brendon Smith

Sarah Johnston

It provides the right kind of experience for the customer and has a huge impact on how you're able to assess a deal."

"It's great having all your information in one central location," Patel adds. "Not so long ago, we were collecting everything by email. Once you've moved on to a centralised system like this, going through emails just seems like a problem."

Patel believes clients will benefit from high-tech CRMs.

"You can run your client through bank servicing calculators to see where things will work and where things are tight," he says. "It does it in about 15 seconds, so it's a much better experience for the client. It's an exciting time for the customer, and it levels out the playing field between big and small [adviser] businesses."

David Green, of adviceHQ, says groups have improved their CRM systems and digital processes in recent years: "The big shift for advisers has been the use of online tools for applications and document collection," Green says. He hopes banks will also use technology to "streamline" things for clients.

With the FSLAA regime expected to come into effect early next year, adviser groups have improved and adapted their CRM systems accordingly.

Sarah Johnston, chief executive of Astute Financial Management, said the group's GEM system is transparent, and allows clients to input information "via a digital fact find and upload any requested supporting documentation".

GEM is also designed for e-lodgement. Two lenders, BNZ and non-bank Pepper Money, are set up for e-lodgement, Johnston said.

"GEM can be accessed across all technologies, including mobile phone, desktop and tablet making it simple and convenient for advisers, Johnston says. "GEM also incorporates plug-ins such as bank statements, Equifax and Dropbox among others."

She says the GEM system "has fully-integrated marketing and reporting functionality, access to maximum borrowing calculations, and video conferencing – tools which can assist the adviser with their daily business operations".

NZFSG has invested heavily in its proprietary CRM system, MyCRM, to help advisers digitise. MyCRM is an all-in-one sales and client management platform.

NZFSG has just rolled out the third version of MyCRM, and also plans to use OCR Labs ID verification technology to help with verification. Brendon Smith, chief executive of NZFSG, says: "MyCRM is a big project for us and something we've been building over a number of years. We are trying to make the experience much better for advisers and customers."

Groups have a responsibility to safeguard data and information as they digitise. MyCRM will be ISO compliant, Smith says: "If you are serious about keeping data protected, you have to have an independent audit and measure up against best practice. ISO is going to be the benchmark."

E-lodgement progress

NZFSG has also developed innovative products with lenders. Its Select mortgage, a collaboration with non-bank lender Bluestone, features straight-through processing for the first time. "It has definitely aided turnaround times," Smith says.

Smith hopes Covid-19 will be a "catalyst" for change, and encourage banks to digitise their processes further.

"There's some frustration from advisers," he says. "During the lockdown, some of the rules were relaxed and more digital tools were used. But those temporary measures haven't been adopted as permanent measures."

Smith believes the Covid-crisis will force banks to accelerate their plans.

"There seems to be more urgency around e-lodgement," he says. "There are more discussions now than there were last year. Whether banks go down the direct route or try to do it through third parties, remains to be seen."

Brokers say the advice industry, rather than banks, have pushed technological advances in the mortgage sector so far: "Brokers have driven these changes by keeping their unwavering focus on the consumer," Patel says.

Banks have promised to speed up home loan applications, but advisers say there has been little progress on turnaround times so far.

BNZ has attempted to launch its own e-lodgement platform in recent years, using third party application platform Simpology. The bank wasn't available to provide an update on the lodgement system. Advisers say e-lodgement is not widely adopted across the NZ banking system.

AI improves application process

Advisers say ASB has made progress with technology. The bank has used

“Those that were reluctant are now starting to see the benefit of it, and realising what could be done.”
_ David Green

“We believe technology is absolutely the way forward for the customer experience.”
_ Aaron Milburn

artificial intelligence to improve document gathering and data entry in the application process. The lender uses technology from British company Blue Prism and US firm ABBYY to automate information. It has primarily used AI to cut down on manual data entry and free up time for staff to make lending decisions.

Barry Coughlan, head of intelligent automation at ASB, said the bank implemented AI technology after listening to advisers.

“The broker space is a high volume area, and it didn’t feel optimal,” Coughlan says. “We listened to some of the issues and frustrations and thought there must be a better way of doing this, with so many email trails and back and forths. We partnered with the broker groups, because ultimately, if they are happy, and the customer is happy, then we’re all happy.”

ASB uses AI to check mortgage application documents, ensure information is complete, and transfer data to its own system.

Coughlan says: “We can now get faster, more accurate information into our system. Information is getting to our humans in a better state, so they can focus on adding value, rather than data entry. Back and forths used to take up a lot of our time, so hopefully, this technology makes us easier to engage with.”

ASB uses ABBYY technology to read and check documents, and also wants to increase the number of customers using DocuSign digital signatures. The bank hopes its recent progress with technology will eventually lead to e-lodgement.

“Our robotics are opening the door to make it more possible,” Coughlan says. “Our aim is to keep collaborating, talking through the nuances [with advisers] and seeing how we can help each other.”

Digital signature technology

Covid-19 forced banks to digitise some basic home loan processes. During the lockdown, lenders processed online forms for hardship requests and mortgage deferrals. While the move allowed customers to make changes to their mortgages quickly, many lenders remain stuck in old habits.

Most banks still require advisers and clients to provide handwritten signatures during an application. The demands slowed down processing times during the Covid-crisis, leading to delays and stress for clients. Advisers want all banks to implement digital signature technology as standard.

Joel Oliver, a mortgage adviser at Auckland-based SuperCity Mortgages, said banks were still in the “Dark Ages”, requiring handwritten signatures on applications.

“Solicitors can use digital signatures, insurance advisers can use digital signatures, but banks can’t,” Oliver says. “That causes a huge holdup, and we had so many clients in lockdown that can’t access a printer or a scanner. The quicker banks can move to the digital age, with things like DocuSign, the better.”

He adds: “It’s far more secure than printing on an office printer with multiple people around, then scanning and sending it. Customers are having to wait days before they can get into work and access a printer. It’s just a nightmare. I know Kiwibank is working on this, but I hope that in light of this new world, they move quickly to electronic signatures. The banks are so far behind with technology.”

Standardised application forms

AdviceHQ’s Green believes the recent lockdown may prompt the banks to use technology to their advantage: “Those that were reluctant are now starting to see the benefit of it, and realising what could be done,” Green says.

Green hopes e-lodgement and online applications will become standard across the banking sector: “When the new [FSLAA] regulation comes out, online applications could even be standardised across the banks. What’s the point in every bank doing different forms?”

Patel agrees: “You need something that works with multiple banks. It’s always going to be hard. With open banking, banks’ data might become more transparent.”

While major banks struggle to update their legacy IT systems, non-bank lenders with newer, quicker platforms are building market share in New Zealand. Advisers say turnaround times are usually better with non-bank players.

Pepper Money is one of the only lenders to offer e-lodgement to advisers. It claims to be the first lender in

“Customers are having to wait days before they can get into work and access a printer. It’s just a nightmare.”
_ Joel Oliver

New Zealand to offer full online submissions for home loans.

Aaron Milburn, New Zealand head of Australia-headquartered Pepper Money, is surprised at the lack of progress made by the banks on electronic lodgement and processing.

“We were the first lender to offer full online submissions, which was remarkable,” Milburn says. “There hasn’t been a month in NZ where we haven’t updated or enhanced our systems. We’re fairly unique in the sense we have an end-to-end submission platform. We believe technology is absolutely the way forward for the customer experience.”

The ‘fourth industrial revolution’

Milburn says lenders are “on the brink of a fourth industrial revolution”: “We’re heavily focused on optimising and digitising our business to make it easier for advisers and customers to get immaculate customer service.”

Milburn believes traditional lenders have found it difficult to introduce new technology as they are burdened with old systems, making it difficult to make progress with much-needed online submissions and e-lodgement.

“If you have legacy systems, don’t underestimate the work needed to enhance those systems,” Milburn says. “It’s a significant piece of work. I see the main banks trying to go on that journey. ASB, for example, is taking the lead from Commonwealth Bank of Australia, which is the bank leader in technology enhancement in Australia. So they will benefit from that greatly.”

“It isn’t fair to say banks aren’t doing enough to improve things,” Milburn adds. “They are trying, but have these legacy systems. We built ours from the ground up, based on feedback from advisers. As a new entrant, we can use that feedback and ask them what they want, and where the pain points are.”

With new technology out there, advisers pushing for advances and Covid-19 ushering in a new era, mortgage applications could look very different by the end of this decade. For advisers, the tech revolution is long overdue. ✚

“Brokers have driven these changes by keeping their unwavering focus on the consumer.”
_ Hamish Patel

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Using technology to help customers and advisers

Technology is the key to providing a good customer experience for Pepper in New Zealand.

When Pepper Money realised the opportunity they had, in 2019, to help Kiwi families get a better deal, they knew that creating a better customer experience using technology was key to convincing advisers that they were serious. After spending time with key mortgage advisers across New Zealand, it was evident that the mortgage adviser community was demanding more certainty, faster response times and more tailored solutions for their customers.

"What surprised us was that advisers were being forced by lenders to use multiple systems for a single application, often supplying related documents, and entering the same data multiple times," Pepper Head of New Zealand Aaron Milburn says.

"Then when they eventually got the lender's decision it was completely different to what had been promised to the customer. We felt we could do better."

It became apparent to Pepper that while many lenders had talked about providing an integrated application process for a long time in New Zealand, that Pepper were going to be one of the first lenders to actually deliver on that promise.

Pepper partnered with key providers who were either Kiwi-based companies like Valocity and Centrix, or partners who were already familiar with the New Zealand marketplace like Simpology. "What was key in our selection of partners was not just being Kiwi-based or involved in the New Zealand market, but they had to have digital capabilities and customer experience at the heart of their business. We needed partners who we could rely on to think and act like us."

"We knew that we had to offer something that challenged the accepted in New Zealand, and that meant creating an end to end digital experience for advisers."

Pepper built a New Zealand-specific origination platform in three months, which was integrated via Simpology into white label partner Astute under the Ascenteon brand. That was quickly followed by a Pepper branded retail offering using the same technology platform. New features have been progressively rolled out ever since.

The aim is to provide digital tools that help educate advisers on Pepper products. "Mortgage advisers in New Zealand constantly told us that they needed a way to give their customers confidence right at the start of the process, with no surprises along the way. So we introduced the Pepper Product Selector.

"It works by combining some simple information about the client, together with their credit bureau score to suggest a specific Pepper Money product and interest rate in the form of an Indicative Offer in minutes."

Pepper are continually looking for ways to simplify the lending process and have been leveraging their long term investments in data, analytics and AI to create new capability. In New Zealand Pepper have been using a new document engine that can identify the different types of New Zealand documents collected by mortgage advisers, assess what is required, then automatically extract data from items like application forms, drivers licences and passports to streamline what is traditionally a very lengthy process.

Pepper has strategically shifted to building their own Pepper-style technology and applications rather than opt for industry platforms that do not offer the same level of personalisation.

"When it comes to digital, we're not interested in providing a generic offering, we want to give our customers and advisers a unique Pepper experience that is a shout out to the great service our people give to advisers every day." ✚

Fixing your future

Most advisers overlook succession planning, but preparation can build value in your business and protect your future.

BY DANIEL DUNKLEY

For most mortgage advisers, succession planning is not viewed as a major problem. According to this year's *TMM* annual survey, just 3% of advisers say succession planning keeps them awake at night. Only 12% said the issue was "of some concern", while more than half said it was "not an issue".

With more advisers nearing retirement age than ever, should succession planning be more of a concern for advisers? How should business owners approach the issue, and how can advisers build a business with value and ensure they benefit from their financial legacy?

Chatswood Consulting's Russell Hutchinson says advisers often struggle to think about retirement or stepping back due to the high-octane nature of the mortgage advice sector.

"Quite often, people who own these businesses have a tough job that requires mental toughness," he says. "Saying 'I'm going to retire' can feel like the opposite of that. To some of them, it feels like quitting, and not in a good way. But after decades, you can say 'I'm done'. It's okay to pass [your business] on, or sell most of it, and stay on the board."

Hutchinson says advisers need to think about succession "with an open mind": "Don't just get a pen out. You should think about what you want, do you want to get all of your capital out, or keep a little bit? Have a chat with someone who has helped you – your family, or get some perspective from trusted advisers, lawyers, or accountants."

While advisers are in a tough market, with Covid-19 and looming regulation, Hutchinson says it is always a good idea to plan for your eventual exit from the industry.

"It's always better to tackle things in an orderly way with no immediate pressure. That is always going to yield a better result, even if you're planning while economic conditions are tougher."

Unexpected opportunities

He believes those thinking of retiring or selling at the moment could find unexpected merger or sale opportunities in the current environment.

"With the regulatory changes, a lot of people are thinking about how they are going to change their business. It means there will be more interest from those who hadn't thought about buying or merging. They might, for example, be thinking of the additional costs, reducing costs on a client basis by building scale."

While planning and preparation is key to any exit strategy, advisers must also review the actual value of their business. Businesses with little recurring income or trail are difficult to value, and even tougher to sell.

"Renewal or trail commission tends to be the core asset within an adviser business," Hutchinson says. "That's probably what most people are thinking of when they look at the valuation of a typical small adviser business."

There are other issues to consider, he says.

"One day you will not own your own business. That can happen in a planned or unplanned way."
_ Russell Hutchinson

"Advisers have their heads down all day working, and don't give too much thought to what might happen, unless something happens to them, like a recession, or a medical event."
_ Jeff Royle

"You shouldn't detract from the other elements. One of the most important issues is how you acquire new clients. How you obtain and crack that in a systematic and replicable way can be more valuable than some trail commission. If you can crack the bigger issues, you're going to have a saleable commodity."

Succession tips

Some simple tips can help make a business more saleable, Hutchinson adds.

"If your business is named after you and is all about you, it's a different proposition to a business named after your local area," he adds. "Good record-keeping, ideally digital, is another important factor."

Hutchinson believes advisers owe it to their clients to think about succession. "One day you will not own your own business," he adds. "That can happen in a planned or unplanned way. Bad things can happen, the world has shown us that. You have to be prepared for the day you're not going to own this business. You have a duty to your clients, because you might not get to choose that day."

Value in trail

NZFSG's Bruce Patten also believes trail is an important part of building a valuable business.

"There is value in trail, and it shows you've been looking after your client base, going forward. It has always been an important factor at the end of the day. But it's also about the leads you generate. Leads are the biggest challenge for brokers. Trail doesn't matter if your clients don't come back."

Jeff Royle, an adviser at Whangaparaoa-based iLender, says few advisers think about the future of their business or handing over the reins to the next generation.

"Very few people think about what's going to happen at that part of their life," he says. "Advisers have their heads down all day working, and don't give too much thought to what might happen, unless something happens to them, like a recession, or a medical event."

Royle operates Refer Direct, a business which takes on client books from advisers who are leaving the industry. Leavers/introducers continue to take a share of the trail revenue and receive an income stream, while Royle's team gives the clients ongoing advice.

Royle launched Refer Direct as he expects more advisers to leave the industry, with the new financial advisers' regulation coming into effect early next year.

"Particularly, the one-man-band operators are going to see a significant increase in time and cost, making sure they are compliant. The impact will be tough," Royle says. "We have heard from advisers who have been doing this for a while, and they have had enough."

Valuation challenges

Royle believes it can be challenging to value adviser businesses, particularly if they don't have a large trail income component.

"The formula used to be three to four times a businesses' trail book [in the UK], but that's hard here in New Zealand because there are only two main banks, BNZ and Westpac, which have a trail model, and the non-banks."

"Generally, the bigger your trail book is, the more valuable your business is," Royle adds. "But that's only one part of the equation; you also have to consider the size of the book, how many clients there are, how many clawbacks you get. It's an especially hard environment to value a business, with regulation on the way and Covid-19."

Royle says advisers often find it difficult to assess the valuation of their business.

"We have thought about it. If we found a new senior adviser, for example, and wanted them to buy into our business for $100,000, what percentage of the business would we give away? It's up in the air."

Royle eventually plans to have another senior adviser take over his business, but intends to retain ownership and a revenue stream from the trail income of his client base. About 95% of iLender's business is non-bank based, paying trail income.

"Our trail book is huge, and it is effectively my pension," he says. "I'm 63. We have a couple of senior advisers here, and I want to step back and gradually hand over over the next few years. I'll take trail as my income and retain ownership of the company, but they will make good money for running the business, looking after clients, and generating leads."

While Royle is one of the few advisers with clear succession plans, many in the industry will have to play catch up as their retirement nears. ✚

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Having your own FAP doesn't have to break the bank

Dave Greenslade – Strategi Group founder and executive director outlines the messages Strategi is providing to those contemplating their future.

BY DAVE GREENSLADE

The industry is rife with mixed messages regarding the cost and risk of operating your own FAP. Care needs to be taken when deciding which path to take as your decision in the coming months may cement your destiny for many years to come. Greenslade – Strategi Group founder and executive director outlined the messages Strategi is providing to those contemplating their future.

Where do you want to be in 2023?

If you don't have your own clients and just want to be a fantastic adviser, taking minimal risk, and earning a salary, then consider joining a FAP as a financial adviser or nominated representative. The FAP will set the rules, provide the clients, and determine what sort of regulated financial advice you can provide and how you provide it.

If you have your own clients, want to build equity in your own business, are prepared to take some business risk and invest into your business, then becoming a FAP is a viable solution. If you become an authorised body (an unlicensed FAP) then you still have risk plus you need to follow the rules of the licensed FAP. Becoming your own FAP means you take on a bit more risk, but you control your own destiny and you have the potential to build greater value in your business.

What about the cost?

The direct costs associated with getting a FAP licence are not huge. The recent FMA consultation paper on standard conditions and licence classes outlines three licence classes – providing a practical and proportional approach to licensing documentation and costs.

Greenslade suggests small advisory firms should budget about $2,000 plus GST for the various FSPR and FMA fees and levies. If you want a paint-by-numbers template for a small FAP operations manual and licence application that you customise, then that is only $3,000 plus GST from Strategi. If necessary, add in about $2,000 for some consulting or application checking time. Potentially, you could have your full FAP licence for about $7,000 plus GST. However, Greenslade recommends you should be prepared to spend $10,000 as you may want to make a few business changes as part of becoming a FAP. His advice is that if $10,000 is too much to pay, then working as an employee of a FAP is the logical pathway.

Greenslade explained that the ongoing compliance costs for a small FAP are also relatively cheap and may be around $3,000-$4,000pa for a two-adviser FAP. He believes that if you use the FAP licensing process to streamline your business, then your improved efficiency will more than offset the small ongoing compliance costs. Additionally, the annual increase in the capital value of your business will far exceed the compliance costs.

Greenslade believes small licensed FAPs should align with a network that can enhance their business from a support and remuneration perspective. ✚

Key Strategi takeout

If you want to build a business, then be prepared to take some risk and invest into becoming your own licensed FAP. If you are capital and risk constrained, then joining a suitable FAP is the way to go.

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Forward velocity for Ojala

For Velocity Financial's Brendon Ojala, it's all about doing the very best for clients. That's why he's expanding the financial services his company provides.

BY MIRIAM BELL

What led you into the mortgage advice business initially?

After studying finance/accounting at Otago University for four years, I ended up working for The Salvation Army as a youth and community worker for 10 years.

Eventually, I ran out of puff and, at the same time, I bumped into an old friend who had started Velocity Financial a couple of years earlier. He asked if I wanted to join him and I decided I did. That was 2004 and I've been in the industry ever since.

And how did you go about learning the business? How did you find the process?

I was thrown straight into the deep end and, initially, I had no idea of what I was doing. I'd generously call those early years an apprenticeship and it was nerve wracking. It was like that story of teaching someone to play the violin but you're teaching them what you have just learnt in the lesson you have just had. But I learnt on the job.

Tell us about your business and what motivates you as an adviser?

Velocity Financial is made up of 10 people. We're based in Wellington but also expanding in Tauranga. We want to offer a full range of financial services to clients. So we started as mortgage advisers, added risk and KiwiSaver and, during lockdown, we launched a Fire and General business. We are now actively recruiting for a planner/investment adviser.

What motivates me as an adviser is that I like providing assistance and support to my clients; I like the challenge of growing a business; and I like the people I work with. Also, I earn a good living so I can support my family and have some choices.

Do you approach business differently to other advisers? And, if so, how?

I don't really know how others do it so I don't know if I go about business differently! I do make a point of saying what I am going to do and trying my absolute best to get a good outcome for my clients.

Is there any particular area that you specialise in?

Lots of my work is with first home buyers and investors. When it comes to small business owners, I enjoy sitting in a room with my client, the accountant and the lawyer and coming up with good strategies. I find that working as a team and checking our egos at the door works well.

Do you make use of social media and new technology in your work?

In terms of technology, we have a great CMS in place and have no problem working remotely. But when it comes to social media, I would say we are pretty average. It is on our list of priorities to put some more resources into!

What have been the high and the low points of your time in the business?

For me, the high point is always that feeling of ringing a client and saying "we've got you the money – you can buy that house". It's a huge adrenaline rush, particularly if you have been working hard and the time frame is tight, or you've achieved something that is complex.
My low point was one or two years in. I'd had a slow start as I started from scratch with no banking background and no book to work. I had no settlements lined up and couldn't afford to pay my own mortgage. I remember a feeling of "what do I do now?". Things got better, but it was a humbling experience.

Do you have a mentor? If not, who has most inspired you in business and in life?

My business partner Graham Goodisson: he has always been one violin lesson ahead of me. Over the years Mark Holding, David Pine, Maurice Trapp, Nicola and Kevin Smee, and Tony Vidler have all showed an interest in us and their input has been thoughtful and solid.

What is the best advice you've ever received? And the worst?

Well, the worst advice is easy: it was that I would look good with bleached hair ...
As to the best advice I've received, it relates to a parable where various events happen to a young man. He curses the bad luck he has and celebrates the good luck. But after every event a wise elder asks "is that good luck or bad luck, who knows?" The moral is that you don't know where things will lead.

Is there a typical working day for you? What does it look like?

As my kids get more independent, I've found that I like getting the key stuff done between 7 and 9am. I then have staff catch ups, training and staff meetings booked in. And outside that it is client meetings as well as working through my to-do list. I try to be pretty flexible and work on that basis.

How do you think the Covid-19 crisis has impacted on the mortgage advice industry? And do you think the industry will have to change in response?

It's too early to tell what the impact might be in the longer term. Hopefully, there will be an increased acceptance of digital signatures though.
In the short term, there's lots of activity: calls for advice on mortgage deferral options, lower rates, break-cost conversations, interest in pre-approvals and so on. All while the banks are, understandably, cautious. So it's not necessarily income-generating activity
Some in the industry will just work harder. Some advisers may say no to more people or be brave and ask for fees for advice. I think more people will recognise the value in the adviser space.

What other challenges – both for yourself and for the industry – do you see ahead?

The big challenge for our industry is the banks and how they choose to deal with us. There aren't too many industries where the supplier of your products is also your competition. It needs to be established whether we are valued business partners or a convenient source of volume. If it is the latter, so be it, and let's just get on with it.
I think technology will, inevitably, become an increasing part of the conversation.
Also, it seems to me the wider population like the idea of using a third-party mortgage adviser and see the need for Kiwis to access good financial advice.

What are your biggest long-term business goals? And how about your personal goals? What does the future hold?

For the business, we are adding a planning and investment function to our business so that our clients can get the full service.
In a personal sense, pre-Covid I thought it would be great to work from a tropical island for a week a term. Technology allows it now. I've had to re-evaluate that for now but it's still a goal I'm aiming for one day!

Finally, do you have some words of wisdom, or tips, for other advisers?

Our stomping ground is big enough for all of us so, in the immortal words of Jacinda, perhaps we should all just try to be kind. ✚

From

I spent the first half of my life in Dunedin and the second half in Wellington.

Family

I've been married 26 years and have two teenage sons.

Out of work interests

Pottering around the house, running in the mountains, and going on adventures with people I like.

Favourite film

This shows my age a bit – but it's a tie between *Dead Poets Society* and *Braveheart*.

Favourite book

My favourite genre is adventure biographies.

Favourite music

My taste is pretty eclectic: my playlist has opera, jazz, New Zealand classic rock, bluegrass and even some One Direction.

Motto

Mal Law is a New Zealand trail-running legend. His running mantra is "relentless forward motion". Sometimes that needs to be said!

‘I’ve got a hundred dollars; can I buy a house?’

The recent reduction in borrowing restrictions has resulted in an influx of enquiries. Paul Watkins talks on the best way to channel the ones you can help from the ones you can’t.

BY PAUL WATKINS

What’s your most valuable asset? No, it is not your home, it’s TIME! You can never get back any of it that you might have lost. Right now with removal of LVR restrictions, you may well be getting enquiries like: “I only have one hundred dollars, but can I buy a house now?” Clearly that’s an exaggeration, but one broker I spoke to said he is getting multiple calls daily that may as well be from people with only one hundred dollars.

This causes you unnecessary stress when you must tell them they are being unrealistic, and causes the caller stress when you disappoint them. But it’s not their fault, they are simply over-interpreting the changes. So how can you save yourself time, get them to appreciate the reality of what is now possible and be seen to still be offering a valuable service? Here are a few ideas.

Your website

The first thing to look at is your website. And before we go any further, the ideas discussed below are pretty much all online ideas. This is because as I might have mentioned in one or ten previous articles, apart from referrals, online is the only avenue with any impact at this point in time.

Start with your website HOME PAGE. What will the prospect see first? It must be topical and meet their expectations. If it’s just general “We are really good”, then it is a complete waste of time. I would suggest a home page headline like: “The amount of deposit you need for a home now has just dropped dramatically! And with interest rates at historic lows, find out if you qualify to buy a house right now.”

A large bold headline like that when they first arrive at your site carries the message they want to see, is not wishy-washy or ambiguous, and is action oriented. It also shows that you can meet their needs and are not just another broker in a crowded marketplace.

The next step is to link that headline to an actionable page. Right under it you would put an impossible-to-miss clickable button that says, “Click here to find out more”. This would take them to a pre-qualifying questionnaire. It is headed up, “Find out how much you can spend on your new house” and has several blank slots (as well as the usual privacy clauses).

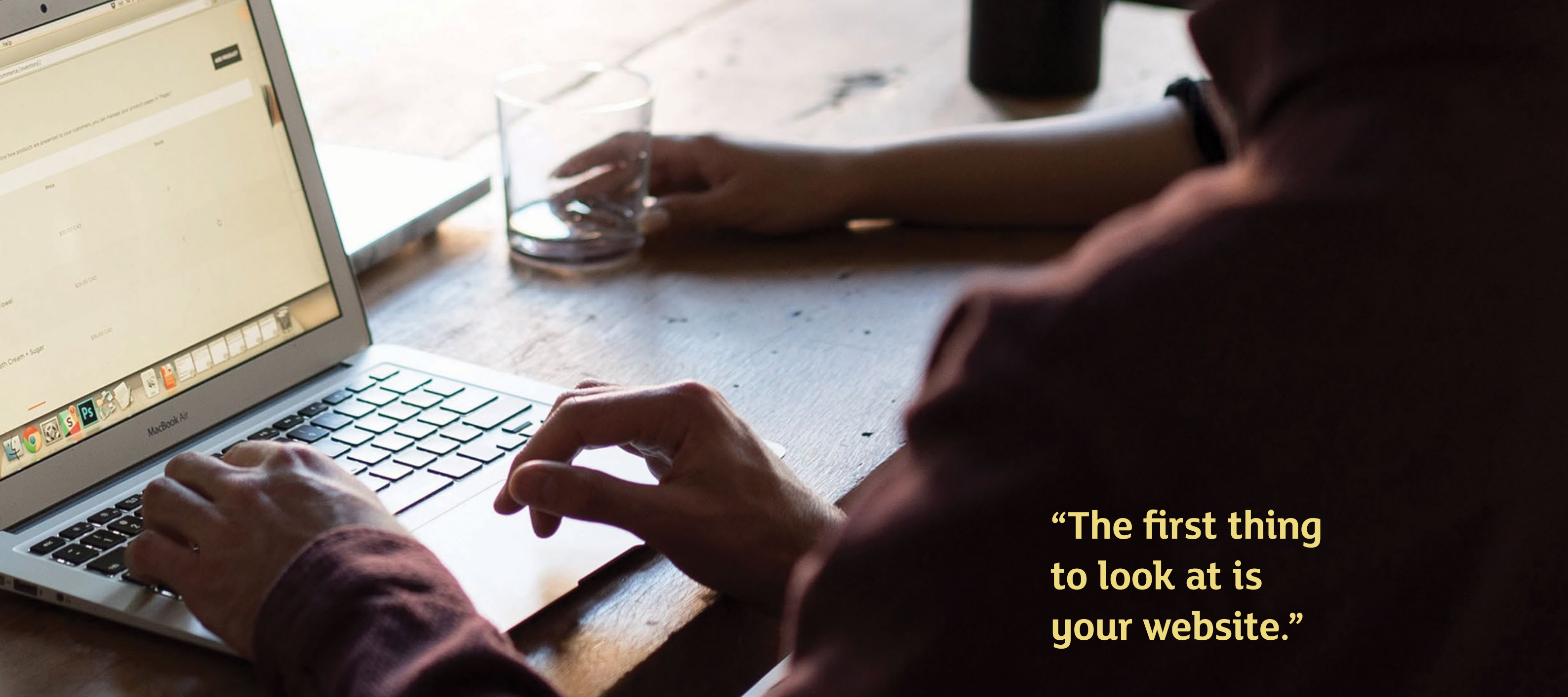
The questions could ask such things as what deposit can they raise, what area they wish to live in, their income, in rough terms what could they afford to pay each payday and anything else you get asked by phone now. The “Submit” button sends it either to an automated response – based on set parameters – or into your inbox, with “I will get back to you within two hours” or similar. Ask your website developer for help with this.

Your emailed response back to them after reading their answers will be one of several prewritten emails (personalised of course). These could range from, “Sorry, I may struggle to find a bank or other lender to carry a mortgage for you, as while they have indeed relaxed the rule, they also consider … ”, through to a phone call, as their answers show that you can indeed help them.

An alternative, or additional website feature could be a Frequently Asked Questions page (FAQ). This has two points of value to you. First it can do a similar job to the questionnaire and assist in qualifying clients. Of greater importance is that each question can be optimised for search ability with key words and phrases that make your site more likely to be found ahead of others. If search engine optimisation (SEO) is something you are not familiar with, it’s worth either taking the time to learn or engaging an expert to do this for you. This is not expensive and well worth the investment.

Your blog

This leads to the next website tip. Your blog. Yes, that means regular original or shared short articles as well as videos on what is happening in the world of mortages, and insurance if that applies to



your operation. Once again, the headlines should be optimised for searchability. Video works well here, with a short two or three-minute video shot by putting your cell phone camera in your face. Blog entries not only keep your website current but help searchability, as Google rewards regular activity on a site. This same video can be used as a Facebook ad, as video is king on social media. Posting and boosting the post to your desired target market or running it as an ad through Ads Manager (there are hundreds of YouTube vids on how to do this), will help a lot in informing the mis-informed public. This in turn will reduce the number of tyre-kickers you get calling.

Social media

And speaking of social media, yes I know, I am a worn out record on this, but during lockdown, traffic to Facebook in New Zealand jumped 70% and this has not returned to pre-lockdown levels, it is still massive. And yet my searches around the country show that only a handful of brokers are using it. This is probably because you are not sure what to post or that it can be time consuming. Get someone to do it for you, and for this purpose, there are myriad of providers out there.

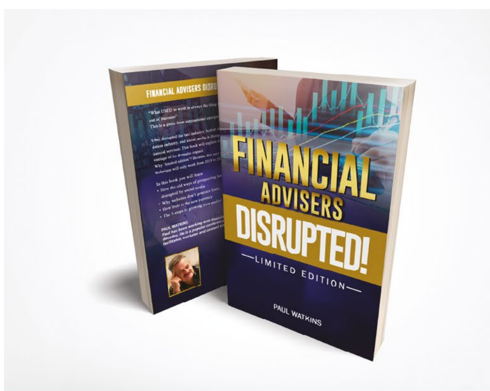
Now you know the platforms to use, an example of a video you could post to slow down the tyre-kickers might start, "I have been getting a lot of calls lately about the reduced level of deposit required. You may also have seen headlines about how house prices may drop, making them more affordable. Well here is a reality check. It is not designed to put you off, simply to give you a heads-up on what to expect before you go mortgage hunting ..." Get the idea?

As many of your clients and prospects use LinkedIn, do not neglect this for posting updates. And a note here, avoid jargon. LVR, stress-tests, non-bank lenders, and other terms are ones you probably use many times daily, but they are meaningless to most clients. Call them deposit levels or bank criteria or similar. Talk in their language not yours.

The key is to make the phone ring from people who you can genuinely help and not the mis-informed public who are simply reacting to headlines. It would be great to be able to help them all, but that ain't gonna happen.

Going back to my original point, you make most of your money from trading your time for a commission gained from being able to help someone into their required mortgage. It does not come from spending your time answering calls from well-intentioned people who simply don't meet the criteria for a mortgage. Work out a strategy to reduce such calls from the ideas here or others that may be helping you achieve this. ✚

Paul Watkins writes blog content and newsletters for financial advisers.



A new book from Paul Watkins.

Uber disrupted the taxi industry, Airbnb disrupted the accommodation industry, and social media is disrupting how financial advisers gain clients.

" What used to work is always the thing that is going to put you out of business
- Gary Vaynerchuk

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> "Could my recommendation result in less than ideal outcomes for my client?"

Insurance adviser conduct obligations: part III

Steve Wright explores what it means to act with integrity and give priority to client's interests, and how to ensure this is part of your everyday advice practice.

BY STEVE WRIGHT

As life and health insurance advisers, we are required to act with integrity (Code Standard 2) and give priority to client's interests (Section 431K of the FMC Act). These requirements will be satisfied naturally when doing what is right for our client in many instances but, in some cases, careful consideration may be required. Good conduct is not "file and forget" and the various conduct obligations must be top of mind all the time. Reducing the opportunity for getting conduct obligations wrong and introducing repeatable processes to ensure consistency of good conduct, makes good sense on many levels.

Acting with integrity

Dictionary definitions of "integrity" focus on honesty, moral principles and doing what's right, for instance: '*... doing the right thing in a reliable way*', and '*... being honest and strong about what you believe to be right*'. C S Lewis said: "Integrity means doing the right thing even when no one else is watching." It also means doing the right thing when there is pressure to do something else (a conflict of interest).

Acting with integrity towards clients requires many things from us, for example, we must:

- have the knowledge and skills to perform our duties properly
- identify and understand our own biases and set them aside, unless they are entirely, and objectively, reasonable and appropriate in the circumstances
- practice "direct honesty" and be fair and objective
- regularly self-reflect on what we do and how we do it. A peer review of knowledge, opinions, practices and recommendations allows for continuous improvement
- act with compassion, patience and respect, and not spread misinformation or rumour
- take responsibility for our own education and ensure we get the skills and knowledge needed to do the job for a client and if you can't or won't, referring the client to someone who can help them.

For advisers who can advise on many different providers' products, acting with integrity means acting impartially: recommending the most appropriate provider and solution for the client objectively and without prejudice and not the one that suits the adviser for whatever reason.

Acting with integrity may be inconvenient and require change. It may require more training, changes to the way we do things, maybe even changes to things we may have done for years. It may even be commercially detrimental in the short term and so for all these reasons, any change needed will need persistence, action and discipline. Sometimes, integrity will require that we decline to act for a client.

Giving priority to client's interests

To give priority to client's interests means advisers must put their client's interests above their own and avoid or manage conflicts of interest. Code Standards 1 and 2 (treat clients fairly and act with integrity) probably make this a general conduct duty and not limited only to the giving of financial advice as defined. The FMC Act specifically requires advisers, when giving advice, to take all reasonable steps to ensure that the advice is not materially influenced by the adviser's interest or anyone else connected with giving advice, such as the adviser's FAP.

For example, giving priority to client's interests means:

- not recommending a product the client doesn't need
- not recommending a provider solely because they pay higher commission or provide any other adviser benefit or benefit to the adviser's FAP

> "Integrity means doing the right thing even when no one else is watching."
> _ C S Lewis

- not replacing a policy unless there are good reasons to do it and clients are fully informed of all the risks, advantages and disadvantages, so that they can make an informed decision.

These examples should be obvious to all advisers, but other examples may be less obvious. Giving client's interests priority probably also means the following.

- Getting their insurance application off as soon as possible (and even delaying the adviser's holiday to do so).
- Properly explaining premium increases and not just using them as an excuse to switch providers.
- Making recommendations that will be beneficial for the client even if they create additional work for advisers. I've had advisers tell me they do not index client's cover (for inflation) because it causes additional premium increases each year (as the sums insured go up with indexing) which the advisers find inconvenient to explain to clients. I've also had advisers tell me they don't recommend waiver of premium cover if other disability benefits are not included because this complicates underwriting requirements and sometimes slows up policy issue (commissions). I'll leave it up to you to decide if this is prioritising client's interests.

A useful question to ask is – "could my recommendation result in less than ideal outcomes for my client?" If the answer is yes or maybe, you probably need to rethink your advice, take appropriate remedial action, and, depending on the circumstances, disclose this possibility to your client.

Dealing with conflicts of interest

What if you have a real conflict of interest? One that might impact negatively on your client. Does it automatically mean you can't act for them?

Like so many things, the answer to this is probably ... "it depends". There may be a couple of different ways to resolve the conflict or avoid it and each situation is likely to have its own answer. Conflicts of interest need disclosure and resolution, but they may not necessarily mean you cannot continue advising your client.

There may be things you can do to rectify the situation. For example, you might be able to eliminate or avoid the conflict by finding another way, changing your recommendation or taking other steps. If you can't find another way, you might be able to get the client's approval (after laying all the proverbial cards on the table and possible consequences – direct honesty) and if they understand and accept the conflict and any possible detriment to themselves, you may be able to continue.

In some cases, it will be wise not to act even with the client's acceptance of a conflict. Naturally very careful and detailed documentation, and a client signature, would be wise.

As you can see, most of this is simply doing the right thing. Doing what is right for the client, even if this is not optimum or convenient for you. If you suspect a conflict or possible prejudice to a client, then take action, investigate further, or ask someone else for an opinion, even discuss it with your client, just don't ignore it.

In the next edition of *TMM* we will investigate an adviser's duty to ensure the advice you give is suitable.

In the meantime, keep putting the client's interests ahead of your own; avoid or manage conflicts of interest; ensure you know what you are talking about – check, don't guess; practice direct honesty and give the client enough information to make an informed decision; do the right thing.

Oh, and don't forget the need to demonstrate your good conduct: clear, comprehensive and "at-the-time" documentation is an adviser's best friend. ✚

Steve Wright has qualifications in Law, Economics, Tax and Financial Planning and is General Manager Professional Development at Partners Life.

The TOP 10 stories on www.tmmonline.nz

There was a wide variety of stories on *TMM Online* since the last issue of the magazine. Here's what mortgage advisers have been reading.

01 NEW-TO-BANK LENDING FREEZE
Banks have stopped taking on new borrowers above 80% LVR, despite the end of loan-to-value ratio restrictions last month.

02 LENDING POLICIES CHANGING RAPIDLY
Bank lending policies are changing at their fastest rate since the GFC, with huge variations between major lenders, according to one Auckland adviser.

03 CASH BACKS CREEP UP
Cash-back offers from the major banks continue to fluctuate in the wake of Covid-19, but two banks have lifted their offers in recent weeks.

04 RESIMAC EASES CRITERIA FOR INVESTORS
Non-bank lender Resimac has eased its credit criteria for investors as it seeks to build market share in New Zealand.

05 BNZ TIGHTENS LENDING POLICY
BNZ is sticking to a tight lending policy for mortgage borrowers, despite the Reserve Bank's decision to scrap LVR restrictions.

06 ASB EASES LENDING POLICY
ASB has eased its policy for owner-occupier and investor lending, and is now offering investors up to 80% LVR.

07 TOUGH SERVICING TESTS REMAIN
Advisers have called on banks to lower servicing test rates as home loans plummet to record lows.

08 EX-SOUTHERN CROSS EXECUTIVES START NEW VENTURE
Two ex-Southern Cross Partners' executives have launched a new business to help advisers secure non-bank loans for clients.

09 BANK LVR LIMITS ON HOLD
Banks have not relaxed loan-to-value ratio limits for investors, despite the Reserve Bank's move to scrap LVR rules.

10 QE COULD PUSH MORTGAGE RATES EVEN LOWER: ASB
Further quantitative easing from the Reserve Bank would push mortgage rates even lower, according to economists at ASB.

***TMM Online* also has all the latest mortgage rates and changes.**
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To keep up with all the news make sure you check www.tmmonline.nz regularly. Or you can get the news and rates update sent to you each day by signing up to the *TMM* email newsletter.

Bank of

Business Loan Ap

DATE SUBMITTED ____ / ____ /____

APPLICANT PERSONAL INFORMATION

FIRST NAME ______________________

DOB ___ / ___ / _____ NATIONALITY _

VISA STATUS (if applicable) ___________

ADDRESS_______________ STATE __

TIME AT ABOVE ADDRESS___________

HOME PHONE # ________________ M

DO YOU ☐ RENT ☐ OWN ☐ OTHER ________

DO YOU LIVE ☐ ALONE ☐ WITH SPOUSE ☐ WITH CHILDREN ☐ PARENTS ☐ RELATIVES ☐ OTHER ________

ARE YOU ☐ SINGLE ☐ MARRIED ☐ DIVORCED ☐ SEPARATED

APPLICANT BUSINESS INFORMATION

BUSINESS NAME ________________

PHONE # __________________ ADDR

TIME IN OPERATION_______________

TURNOVER PER MONTH $___________

TYPE OF ENTITY ☐ CORPORATION ☐

NUMBER OF EMPLOYEES ___________

ABN ____________________________

OWNERSHIP OF APPLICANT BUSINESS

LIST BELOW ALL OWNERS, CO-OWNERS

NAME % OF

ANY OF THE ABOVE CURRENTLY ON PAR

ANY OF THE ABOVE EVER BEEN CHARED

LOAN REQUEST INFORMATION

TYPE OF LOAN ☐ TERM LOAN ☐ LIN

AMOUNT $____________________ OVER

PURPOSE OF LOAN _______________

BUSINESS DEPOSIT ACCOUNT ________

BUSINESS DEBT __________________

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