CAFBA

Commercial Asset Finance Brokers
Association of Australia

Mr Stephen Sedgwick AO
Australian Bankers Association
Level 3, 56 Pitt Street
SYDNEY NSW 2000

7th February, 2017

Dear Mr Sedgwick,

RE: Retail Remuneration Review

We refer to the Issues Paper released on 17 January 2017 in respect to the Retail Remuneration Review currently being conducted by the Australian Bankers Association, and appreciate the opportunity to comment.

In our earlier submission in September 2016 CAFBA outlined the activities of its members, who are professional commercial equipment finance brokers. Our position was for the current status quo for commercial equipment finance brokers to remain. After reading your comprehensive review it is our continuing belief that the activities of commercial equipment finance brokers are not the subject of the remuneration issues addressed in the Review.

It seems some practices emanated from behaviour within banks, with incentives such as sales commissions influencing behaviour in respect to retail banking products.

Specifically we would like to address the findings regarding the issues of remuneration to third parties.

When referring to third parties the Review is predominantly referring to residential mortgage brokers. The role and activities of a commercial equipment finance broker provide a completely different set of circumstances to that of a mortgage broker.

Much of the concern in the Review in the mortgage third party channel space is that brokers sell a range of products from numerous banks with whom they have a relationship. The concern that where a mortgage broker can earn a significantly higher commission to sell one product over another, they are incentivised to sell that product, which may not be suitable to the customer, potentially leading to poor customer outcomes.

The role of the commercial equipment finance broker is vastly different to this scenario.

The commercial equipment finance broker is dealing with business customers, predominantly small to medium business, who wish to acquire equipment to be used in their business to earn assessable income. The products available for the customer are predominantly driven by tax reasons, and the client's current tax structure. Therefore the required product is often advised by the client's accountant.

For instance

- Is the client in tax loss or tax profit
- Can they utilise tax deductions, such as interest and depreciation
- Are they accrual or cash based for accounting purposes
- Do they need seasonally adjusted payment structures
- Does the client wish to own the equipment at the end (do they want asset risk)
- What are the GST implications

The main products available to the equipment finance broker under these scenarios are chattel mortgage, commercial hire purchase, finance lease, operating lease and novated lease. The commission earned by the broker is generally the same under each product. There is no financial incentive to the broker to sell one product over another.

The equipment finance broker does not provide product advice, but merely seeks the best product available.

Each lender also has different appetites for differing equipment types. For instance, some prefer yellow goods because they understand that market and the intrinsic value in each equipment type; some lenders have no appetite for office or shop fitout. Therefore the commercial equipment finance broker seeks the most suitable product for the customer from the most suitable lender, which is based on the customer needs, not the broker remuneration – which is the same across the product suite.

The commercial broker will make a submission to the most appropriate lender based on the above criteria to assist the business accessing finance. These lender submissions are often quite detailed, and will include a financial analysis and a loan serviceability.

CAFBA acknowledges that the ABA Review is waiting for ASIC's investigation into mortgage broking to complete before exploring third party channels further. Again it is pointed out that ASIC's review is into residential mortgage broking that may have detrimental effects to consumers. CAFBA members provide commercial services to business clients, and are not part of this review by ASIC.

It is our view there is no evidence of poor customer outcomes from the services of commercial equipment finance brokers, who provide a conduit for small business to access finance to assist business growth.

To reiterate the key points in our earlier submission:

- The status quo should remain
- Commercial equipment finance broker's commissions are not incentive based
- They reflect the often complex nature of structuring finance for lender approval
- They do not result in poor customer outcomes
- They enhance the ability of small business to have access to finance
- There is no evidence of market failure.

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We acknowledge that the main Terms of Reference for the Review were to look at the role that sales or product-based remuneration practices may play in producing poor outcomes for customers of retail banks, and also the third party channel.

It is often CAFBA's concern that any reviews do not distinguish the unique role that our members perform, and therefore are categorised similarly to retail mortgage brokers.

Hopefully we have made this distinction, as we believe it important. Recent studies have shown that nearly 61% of all commercial equipment finance is sourced through finance brokers, who play an important role in economic growth. As the Review acknowledges there is little evidence of systemic risks of poor outcomes for customers.

We appreciate the opportunity to clarify our position, and look forward to continuing our discussions.

Yours Faithfully

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Vice President

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