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Bid to end loan paper chase

A new entrant could shake up the mortgage market with innovative technology. Photo Rob Homer

The potential arrival of Japanese banks offering home loans provides a timely opportunity for the transformation of Australia's notoriously inefficient mortgage processing system.

A new entrant, starting with a clean sheet of paper, could take advantage of advances in technology that have been ignored by the big four banks. It could be the catalyst for long overdue changes to the big banks' paper-based systems, which are a source of frustration for home loan customers.

The big banks have been very clever in using just enough technology to capture new customers through online portals that lead the unsuspecting into the murky, snail's-paced world of manual processing.

Once captured by the online portal, the customer is off the market and trapped in a regime full of human errors and reworking that raises the cost of buying a home. The inevitable delays caused by this just adds to the emotional strains of buying a home.

There has never been a better time for a new entrant to shake up the mortgage market with the use of innovative technology. That is because the last painful hurdle to buying a home – settlement and conveyancing – is in the midst of being switched from paper to electronic systems.

A co-operative approach between the financial services industry and governments in NSW, Victoria, Queensland and Western Australia is in the process of building a national system that will do away with the need for people to meet at short notice at a solicitor's office at a cost of $600 or $700 just so that signatures can be put on bits of paper.

National E-Conveyancing Development Ltd (NECDL), which is 49 per cent owned by the big four banks and 51 per cent owned by the four governments, has signed an agreement with consulting firm Accenture to design and build a new electronic system called Property Exchange Australia.

It will be based on the e-conveyancing system developed by the Victorian government at a cost of more than $40 million but never used in a commercial setting.

It would not be too bold to claim that fundamental reform of the mortgage business from the point of application to final settlement through the use of technology would provide a major boost to Australia's productivity growth.

Technological innovation, including the widespread use of outsourcing, was one the reasons why Australia's growth in economic output per hour was one of the best in the developed world in the 1990s.

However, in the 2000s Australia's performance slipped to one of the worst in the world with the exception of Spain and Italy, according to a chart published on Friday by the Reserve Bank of Australia (RBA), using figures from the Organisation for Economic Co-operation and Development in Paris.

There is disagreement as to why Australia's multi-factor productivity growth is so poor but there is no dispute about what will happen if nothing is done about it. As the RBA said in a paper released on Friday, if we don't address the inefficiencies in government regulation and improve business practices, our living standards will decline.

This decline will be exacerbated if, as expected, there is a fall in the terms of trade, which has risen to a historical high because of the mining boom.

The situation with mortgage processing is not a bad case study for showing how hard it can be to remove bottlenecks to productivity.

There has been nothing to stop one of the big four banks from spending the money to install systems that would enable straight-through processing.

They would enjoy huge cost savings but because their systems are so complex, the cost could be enormous and implementing the changes would be risky. Regular readers of this column will be aware of the propensity for large IT projects in Australia to blow out in terms of cost and time.

The big banks appear to have taken the view that it is better to preserve the status quo rather than take the risks of being first with a process that could cut the costs of a mortgage application from $300 to $75 or less. When almost 90 per cent of mortgages are written by the big four and none of the players is willing to make the leap to a more efficient platform, there is little chance of productivity improvements.

David Maher – who founded LeadPoint Mortgage Services, which offers mortgage loan documentation via web services – says the Japanese banks could leapfrog existing players that suffer from being unable to capture the data necessary to offer instant loan documentation.

Maher is a member of LIXI, the industry body formed to developed common standards for the electronic processing of mortgages.

Bob Hall, the chief executive of Sandstone Technology, which sells online banking systems including loan origination products, says the big banks have disparate systems operating through the mortgage origination and fulfilment cycle.

He says this usually requires that the same data be re-keyed multiple times, with the corresponding data entry costs and errors. Also, the disparate systems are exacerbated for third-party introducers such as mortgage brokers, who usually have their own systems for capturing applications.

Hall says some banks have attempted to implement the offerings of software vendors that have developed their mortgage systems for overseas markets. But these attempts have often been disasters because of the significant differences in the Australian mortgage industry.

> A national system is being built that will do away with the need for people to meet at short notice at a solicitor's office at a cost of $600 or $700 just so that signatures can be put on bits of paper.

Banks that have tried to develop their own systems have suffered significant failures. He says cherry-picking borrowers has been one way of avoiding the back office nightmare. For example, National Australia Bank's online bank, UBank, chose only those borrowers who already had a mortgage with someone else, so they did not have to deal with all the sticky details of houses changing hands.

If a new entrant successfully automates the mortgage approval and origination process and NECDL succeeds in building a national platform for automated settlement, Australia's mortgage market could be a model for productivity enhancement.

It might be quiet on the deal front because of the usual summer somnolence but the battle for Hastings is as fierce as ever.

APA Group is trying to take over Hastings Diversified Utilities Fund with a low-ball offer that includes a spirited attack on the huge performance fees being raked out of the business by the fund's responsible entity, Hastings Funds Management, which is a subsidiary of Westpac Banking Corp.

The fight got nasty just before Christmas when Hastings went to the takeover panel to complain about obvious disclosure deficiencies in APA's bidder's statement. The panel ruled in favour of Hastings and forced APA to issue a supplement to its original document. The panel said on Friday it had declined to make a declaration of unacceptable circumstances in relation to Hastings' affairs because the issues had been addressed by APA's disclosures.

Hastings Funds Management, however, kept the battle alive by saying it would take about $30.7 million of a $54 million performance fee owed to it at December 31 in cash and it would defer a decision on the remainder until later this year.

APA used this disclosure to renew its attack on the Hastings fee structure. It claimed that its approach of internal management, which it hoped to introduce at HDUF, was the way to go.

We will have to wait for the Hastings target statement for an independent analysis of the fee arrangements. But you can bet your bottom dollar it will say the Hastings arrangements are fine.

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