



St George Flame
CCS 005 – Certified Case Study

August 2014

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Agenda



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1	Overview	<ul style="list-style-type: none">• St. George Flame - What is it?
2	Context	<ul style="list-style-type: none">• Broking market analysis
3	Detailed Description	<ul style="list-style-type: none">• St. George – broker value proposition
3	Relevant Media	<ul style="list-style-type: none">• Media coverage and relevant quotes• Case studies and detailed interviews
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5	Appendix	<ul style="list-style-type: none">• Other ICG sources of insight

St George's mortgage broker program is focussing on higher value niches



HOW DOES IT WORK

Product Strength	Rank
Residential and commercial loan range	3
Policy flexibility	3 ¹
SMSF loans	3 ²
Co-brand / White-labelling	TBD

1. For example only 1 year tax returns for self-employed
2. Has loan offset capability within SMSF loans

Distribution	Rank
National BDM coverage	3
Comprehensive aggregator coverage	4 ³

3. Smaller BDM team than many of the majors but they are aggregator linked rather than territory linked so most aggregators are covered

Broker Support	Rank
Tiered support services	4
Recognises loan value (ie margin) in tiering	1 ⁴
Subsidised training (eg Kaizen)	3
Online switching	2 ⁵
Line to credit assessor	2 ⁶

4. Only via policy settings (eg attractive SMSF loans)
5. Variations submitted by email – not online
6. Only for Flame brokers (their top broker status)

Economics	Rank
Attractive commission rates	2 ⁷
Payments for referrals	0

7. 0.715% upfront / 0.165% ongoing (in year and for life of loan)

LEGEND		
	Strong attribute of value proposition	4
	Weak attribute of value proposition	0

KEY INSIGHTS

- Leading SMSF loan with offset attached
- Focussing on higher value (and higher risk) self-employed via policy settings (eg only 1 year of tax returns required for credit approval)
- Sub-scale network reduces ability to offer key features (eg direct line to credit assessors for all broker tiering levels)

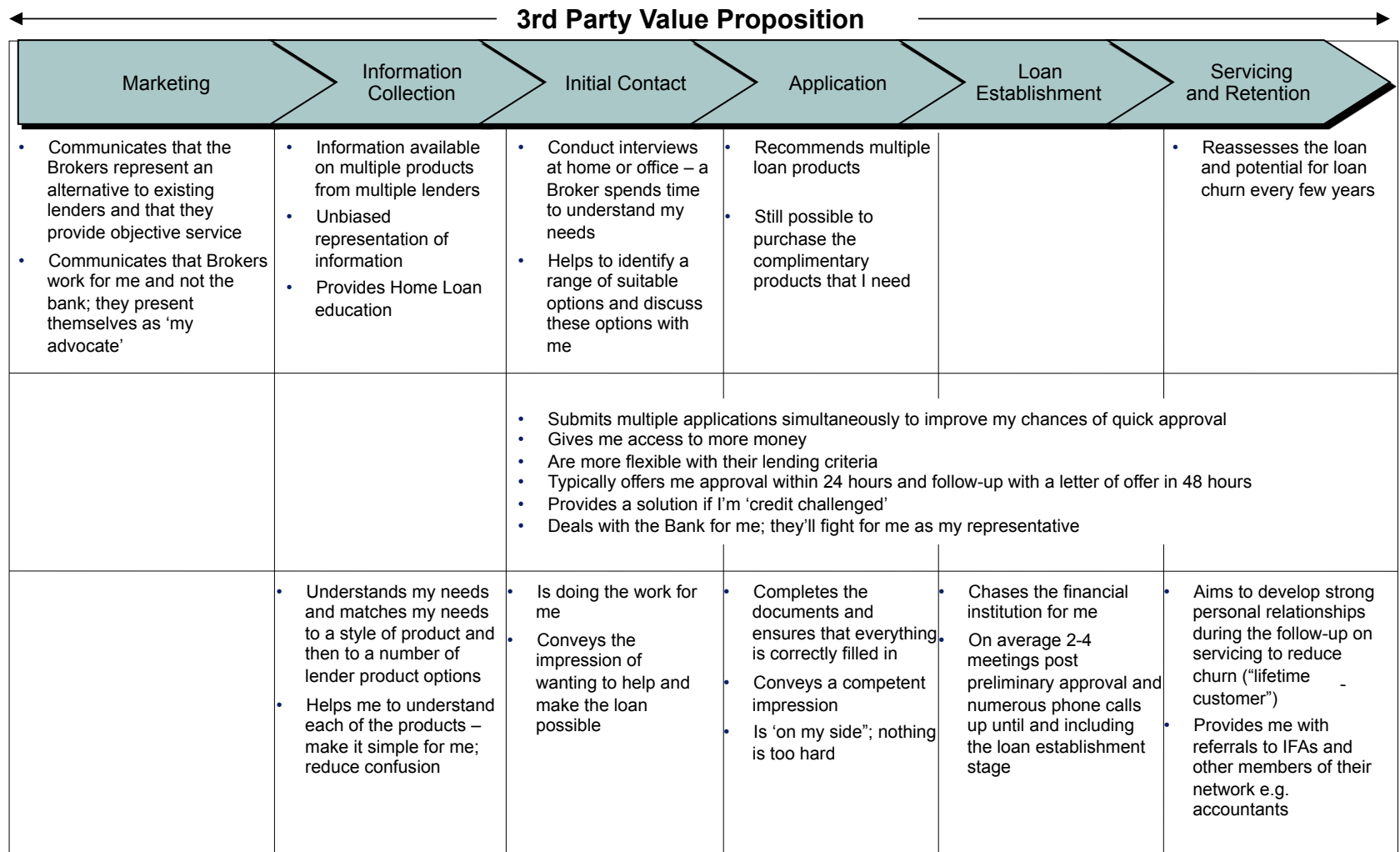
Source: primary ICG research interviews

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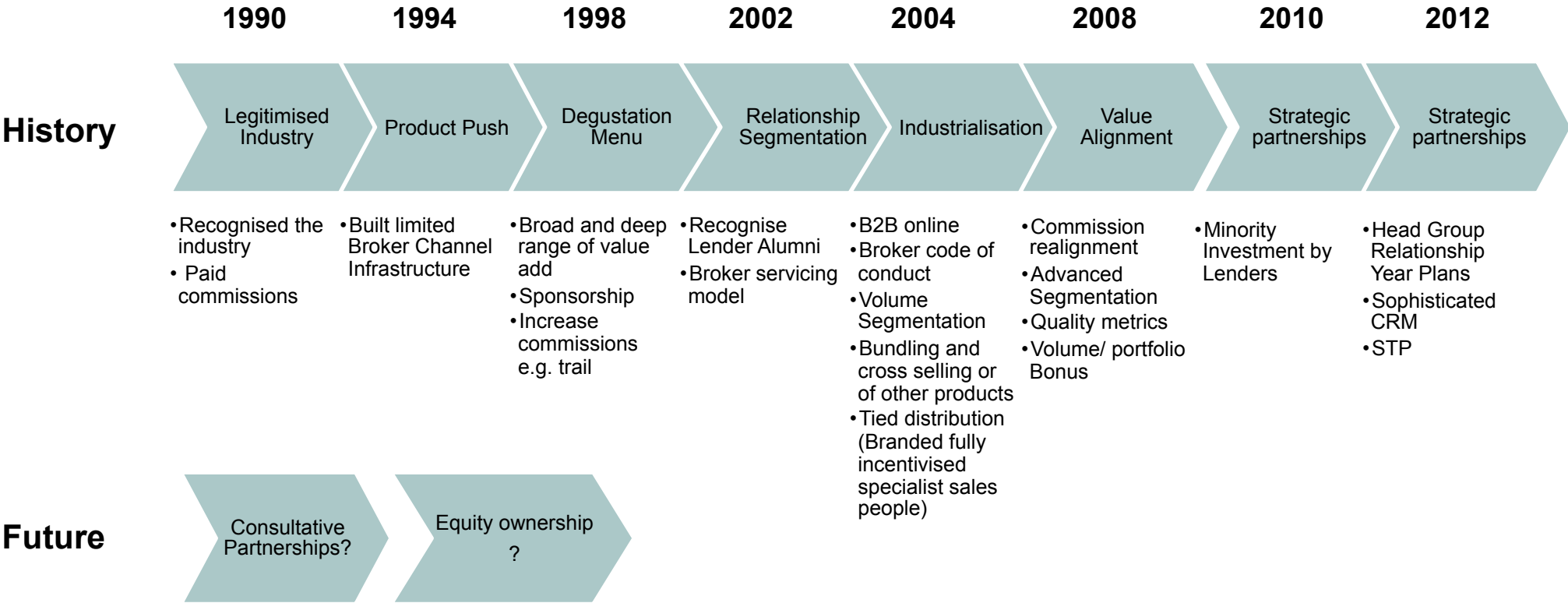
Mortgage brokers have created a compelling value proposition for customers



Source: secondary research, ICG, broker interviews

Intermediated distribution has continued to evolve

STANDARDISED MORTGAGE BROKER EVOLUTION*



Note *: Dates indicative of Australian Industry

Source: secondary research, ICG, broker interviews

Reintegration is a clear evolutionary trend across geographies



Manufacturer in-house distribution

- Integrated manufacturer/ distributors dominate the market
- Tied sales force sells own product
- Limited independent advice
- Often low salesforce productivity and inefficient economics

Intermediation of advice

- Customer demand, adviser preference and regulatory pressures move market towards independent advice
- Mass sales forces disappear and are replaced by fragmented independent networks
- Tied advisers diversify away from manufacturer's products

Technological intermediation

- Open architecture technology increases broker and customer choice
- Proliferation of platforms further intermediate manufacturer from end customer

Reintegration and polarisation

- Reintegration of value chain as large players acquire distribution
- Polarisation of business models between integrated scale players and smaller specialist manufacturers and distributors

Source: secondary research, ICG, broker interviews

Third Party Mortgages comprise a broad range of activities – some with potential for disruption

	Product Mgmt	Broker Mgmt	Credit Mgmt	Application Processing	Funding	Customer Service Mgmt	Business Model & Economics	Compliance
Key Components	Product Design/ Features Product Pricing New Product Development and Roll-out Product Mix Management	Segmentation Service Model Head group Partnerships Management Cross-selling	Credit Scoring/ Underwriting Practices Collections/ Re- possessions Fraud Detection & Deterrence	Process Design Productivity and Cost Processing Technology/ Automation Op. Risk Mgmt. Outsourcing	Linkage to Mortgage Business Securitisation Raising Capital	Service Design Productivity & Cost Servicing Technology/ Automation Outsourcing	Balanced Scorecard Business Model Organisational Development & Human Resources	Government Regulation Social Policy Accreditation

Source: secondary research, ICG, broker interviews

At the highest level the business model comprises the following components

Distribution Coverage	3 rd Party Support – Front End (Pre Settlement)	3 rd Party Product Offering		
<ul style="list-style-type: none"> • Types of umbrella groups (e.g. aggregators, franchises) <ul style="list-style-type: none"> • Types of brokers <ul style="list-style-type: none"> • Pure Brokers • IFAs • Others (e.g. Lawyers, Accountants, Real Estate Agents) • Online broking • Value chain coverage-wholesale & retail distributors 	<ul style="list-style-type: none"> • Segmentation approach (High Volume/High Value to mass market) • 3rd Party Support System <ul style="list-style-type: none"> • Differentiated Relationship Management Model based on economic segmentation of groups and brokers • Group Strategic relationship plans & broker Relationship analysis • Business development and training support e.g., PD days, dedicated training support • IT Platform <ul style="list-style-type: none"> • Online submission • Online communications • CRM – Salesforce or similar • Social media • Credit <ul style="list-style-type: none"> • Decisioning & accessibility • Policy flexibility 	<ul style="list-style-type: none"> • Product differentiation <ul style="list-style-type: none"> • Brand (Co-brand, white labelling) • Price • Feature • Risk appetite • Service level • Cross Sell program <ul style="list-style-type: none"> • Retail • Commercial • Wealth • Insurance 		
<th data-bbox="176 871 1081 930">3rd Party Support – Back End (Post Settlement)</th> <td colspan="2" data-bbox="1182 871 2094 1343"> <th data-bbox="1182 871 2094 930">Governance – Channel congruence</th> </td>	3 rd Party Support – Back End (Post Settlement)	<th data-bbox="1182 871 2094 930">Governance – Channel congruence</th>		Governance – Channel congruence
<ul style="list-style-type: none"> • Compliance – Strong broker governance Model, rigorous accreditation & re-accreditation standards • IT platform <ul style="list-style-type: none"> • Online B2C • Online B2B • Telephone support • Strong engagement model with internal stakeholders (Direct, gated) 	<ul style="list-style-type: none"> • Remuneration <ul style="list-style-type: none"> • Upfront – quality metrics and volume • Trail- flat impacted by arrears • Portfolio scale Bonus – Portfolio growth • Quality metrics (Rework, relodgement, time pressure) • Non-cash based value added partnering (e.g. conference sponsorship, business development workshops etc) • Campaign specials • Sticks - commission claw-back, trail withheld on portfolio arrears • Channel optimisation <ul style="list-style-type: none"> • Economics - volume v profit, portfolio investment • Cross-channel protocols (esp. customer referral) • Equity/ alliance M&A options • Special partnerships 			

Source: secondary research, ICG, broker interviews

Lenders have adopted vastly differing levels of broker coverage and support to develop business

COVERAGE MODELS FOR LENDERS IN THE INTERMEDIARY MARKET



Developer model

- Relationship manager for brokers
- Support for intermediaries: Products, marketing material, training etc.
- Size, volume determine intensity of service / visits / contacts
- + Gearing on business due to multiplying effects
- No direct control of business

Combined model

- Flexible role definition based on business needs
- Pragmatic allocation of resources
- + Flexibility for business development without losing contact to end customer
- Danger of unclear tasks, difficult leadership functions

Sales agent model

- Intermediary introduces customers to sales agent
- Responsibility for completion of sales with customers
- Minimum support for intermediary
- + Control of quality of business
- Intense resources required

Source: secondary research, ICG, broker interviews

Intermediaries select lenders based on a series of filters, dependent on the primary customer constraint

LENDER SELECTION PROCESS

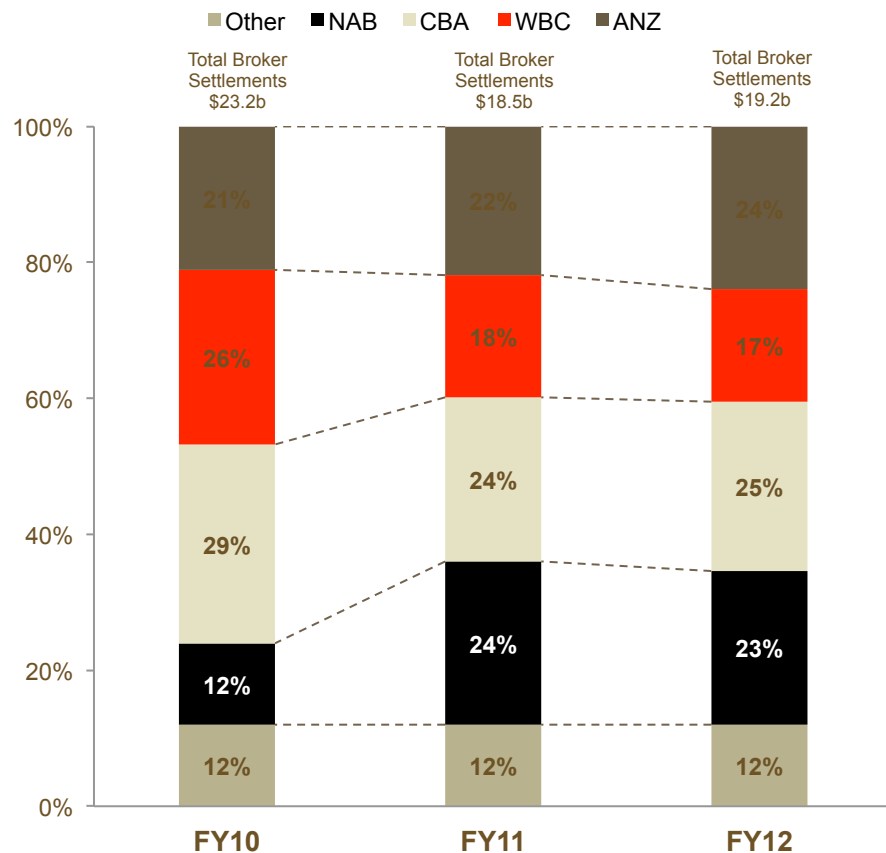
Constraint	Description	Typical selection process (in order of priority)	Differentiators
Price	<ul style="list-style-type: none"> Customer looking for lowest possible lowest rate Eligible for products from a wide range of providers 	<ul style="list-style-type: none"> Identify top 3-4 lenders based on price¹ (unless one lender is a clear leader) Select lender deemed most likely to deliver a fast approval 	<ul style="list-style-type: none"> Market leading headline rates Fee structure to remain competitive on blended basis
Time	<ul style="list-style-type: none"> Customer seeking a quick offer and/or completion Relatively insensitive to price 	<ul style="list-style-type: none"> Identify lenders with fast-track process/reputation for quick turnaround Select lender with lowest price 	<ul style="list-style-type: none"> Automation of credit decision Priority processing Reputation for consistent service delivery
Criteria	<ul style="list-style-type: none"> Non-standard customer falling outside mainstream lending criteria (e.g. high LTV, stretched income multiple, self employed) 	<ul style="list-style-type: none"> Identify lenders where customer fits published policy Narrow selection based on price Select lender deemed most likely to deliver a fast approval 	<ul style="list-style-type: none"> Wide envelope of credit criteria Clear communication of credit policies Reputation for accommodating out-of-policy applications

¹Price comparison typically based on all-in cost (interest plus fees) over the period for which a redemption penalty is applicable; however, in some cases the headline rate is the primary driver (e.g. customer looking to minimise monthly repayments)

Source: secondary research, ICG, broker interviews

Lender share of broker market volume

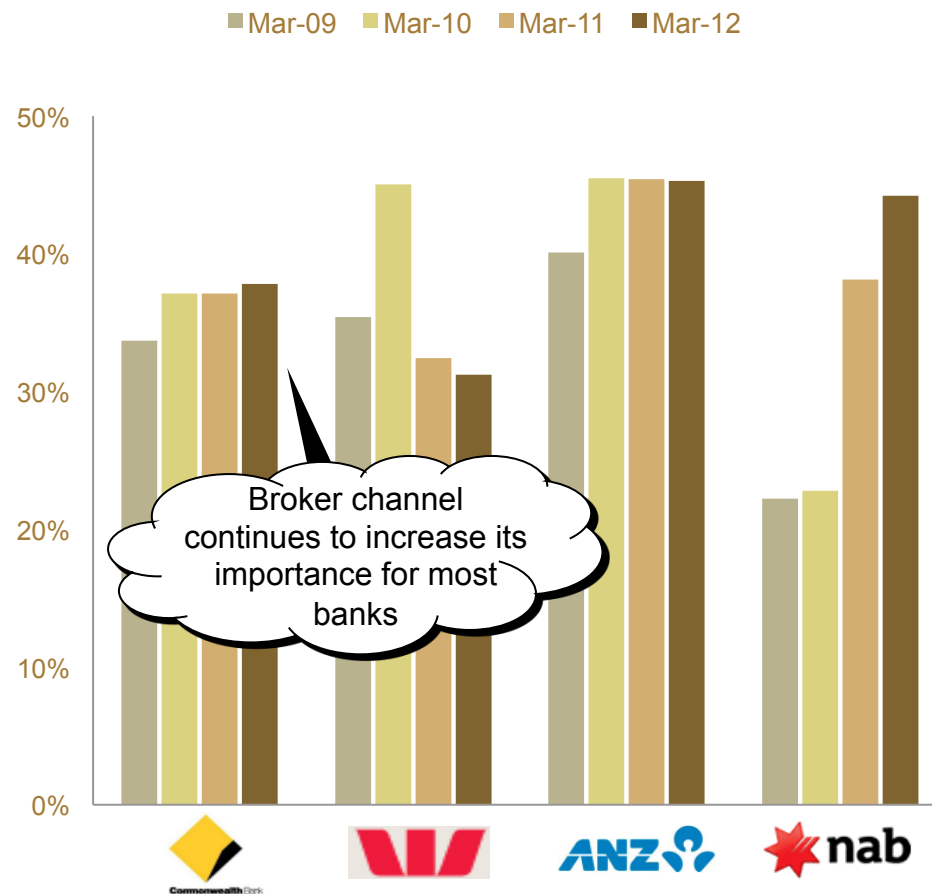
BROKER SETTLEMENT AS % OF MARKET, FY10-12



Sources:

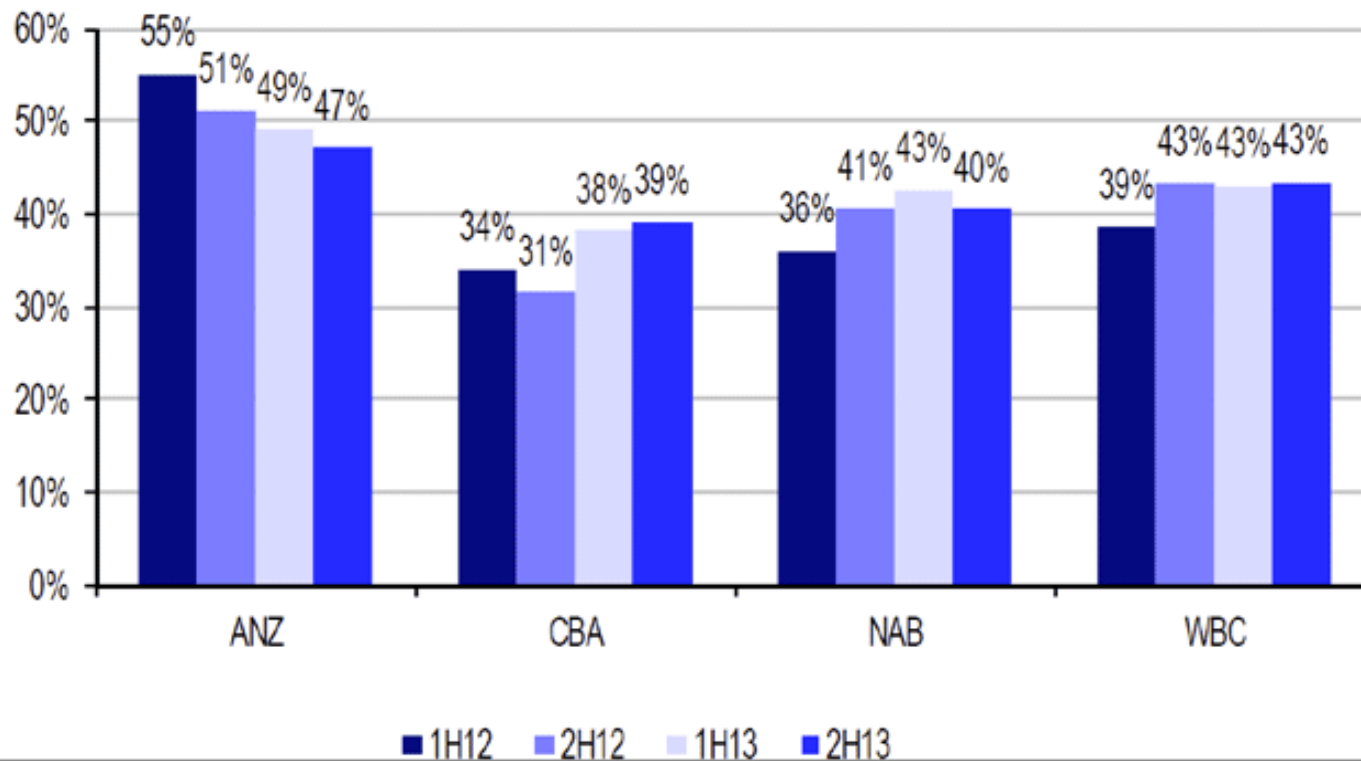
1. JP Morgan Fujitsu Mar 2012
2. Comparator Home Loan Benchmarking, December 2012
3. FAST new funding data, 2011
4. APRA Approvals, May 2012

BROKER SETTLEMENT AS % OF LOANS BY MAJOR, FY09-12



Broker usage as percentage of Home Loan market

BROKER USAGE, FY12-13



Source: UBS Investment Research – Australian Banking Sector Update Nov13

Source: <http://www.digitalfinanceanalytics.com/blog/update-on-mortgage-broker-commissions/>

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St George program delivers significant broker support... but still has room for improvement



AREAS OF BROKER SUPPORT

		Rank	Comments
Application Processing	Client ability to pre-populate data	0	Aggregators stepping in to meet this need now
	Predictive credit categories	0	Need not met but would improve application efficiency
	Electronic application submission	4	Many other banks (although not all) also offer this service
	Line to credit assessor	1	Only for Flame brokers
	Electronic document delivery to clients	0	By post only
	Electronic document signing	4	Most banks now offer this
	Rapid turn times (for mass market brokers with hi value loans)	1	No formal policy
Value-Adds	Highest broker status based on value or volume only	1	Volume only – but policy settings attract higher value clients (eg SMSF / self-employed)
	Product specific incentives to reward higher margin loans	0	For example no changes to commission rate
	Broker practice benchmarking		TBD
	Flexible commission structures	0	NAB coming soon but no announced plans from St George
	Risk-based commissions	0	No value-sharing if broker works to bring on higher risk client
	Incentives for cross-sell	0	None
	Discounting flexibility	3	Ability to lower margin to get lower rate to client
Post Settlement	Online switching	0	Email only
	Newsletter service	0	Need for branded newsletters being met by aggregators
	Bank-initiated programs to initiate top-up opps for brokers	0	Need met by aggregators

Source: primary ICG research interviews

LEGEND	Strong attribute of value proposition	4	CCS – Certified Case Study	16	ICG
	Weak attribute of value proposition	0			

COMMERCIAL IN CONFIDENCE

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Quotes from the Press

QUOTES

“We were one of the first lenders to introduce segmentation - over the last few years, other lenders have caught up to us and are offering similar benefits to their top performing brokers. We want to ensure we stay one step ahead of the competition and, as such, we have plans to ramp up our Flame offering and enhance the benefits our brokers are currently receiving”

Clive Kirkpatrick, St. George

“Last week, we had a two-day retreat with our ‘Flame’ brokers, our top performing brokers. We hold this annually and we get all the heads of our business areas to join so that the brokers can provide feedback and we can work together to create better solutions”

Clive Kirkpatrick, St. George

“We have allowed brokers to directly call credit managers and discuss their credit scenarios with the decision makers”

Clive Kirkpatrick, St. George

“St George and the brokers that deal with St George have done an extremely good job in terms of cross selling other products to customers they have introduced to St George and I want this to be reflected in next year’s results.”

Mr Heavey, St. George

Source: secondary research

Media Bibliography (1/3)

Source	Date	Link
Brokernews	June 2014	http://www.brokernews.com.au/news/breaking-news/comment-of-the-week-goes-to----188451.aspx?keyword=connective
The Adviser	June 2014	http://www.theadviser.com.au/breaking-news/30370-australian-broking-awards-finalists-announced
Brokernews	February 2014	http://www.brokernews.com.au/news/breaking-news/trail-portability-would-lead-to-commission-cuts-aggregator-183916.aspx
The Adviser	March 2014	http://www.theadviser.com.au/breaking-news/6818-stop-blaming-brokers-for-poor-conversions-connective
The Australian	July 2014	http://www.theaustralian.com.au/business/financial-services/st-george-bank-re-opens-door-to-brokers-with-trail-commissions/story-fn91wd6x-1226094902464

Media Bibliography (2/3)

Source	Date	Link
Brokernews	September 2013	http://www.brokernews.com.au/news/breaking-news/nonmajor-spikes-broker-commissions-0-65-179369.aspx
The Adviser	August 2013	http://www.theadviser.com.au/features/cover-stories/29230-non-major-banks-ranked
The Australian	July 2013	http://www.theaustralian.com.au/business/financial-services/westpac-cba-woo-mortgage-brokers-with-better-incentives/story-fn91wd6x-1226674534296
The Adviser	June 2012	http://www.theadviser.com.au/features/cover-stories/7229-cover-story-majors-reply
The Adviser	September 2013	http://www.theadviser.com.au/breaking-news/29105-lender-backs-commission-change
The Adviser	August 2013	http://www.theadviser.com.au/features/people/29228-beyond-the-image

Media Bibliography (3/3)

Source	Date	Link
The Adviser	October 2012	http://www.theadviser.com.au/features/intelligence/7845-point-blank-clive-kirkpatrick
The Adviser	August 2012	http://www.theadviser.com.au/breaking-news/7641-bank-set-to-revamp-segmentation
The Adviser	May 2011	http://www.theadviser.com.au/breaking-news/5417-st-george-opens-flame-benefits
The Adviser	June 2011	http://www.theadviser.com.au/features/sector-reports/5557-majors-reply-taking-action

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Website – all the information behind a firewall



st.george


St. George Bank Mortgage Broking

St. George Accredited Brokers

The St. George Bank Mortgage Broking website is a secure site and can only be accessed by accredited St. George Mortgage Brokers.


[▶ LOG ON](#)

Not Accredited?




Talk to your approved Aggregator

About Us



For General information on **St. George Mortgage Broking**

Contact Us



For general broker enquiries contact **Mortgage Central** on **1300 137 532** or **email us**.

Source: secondary research

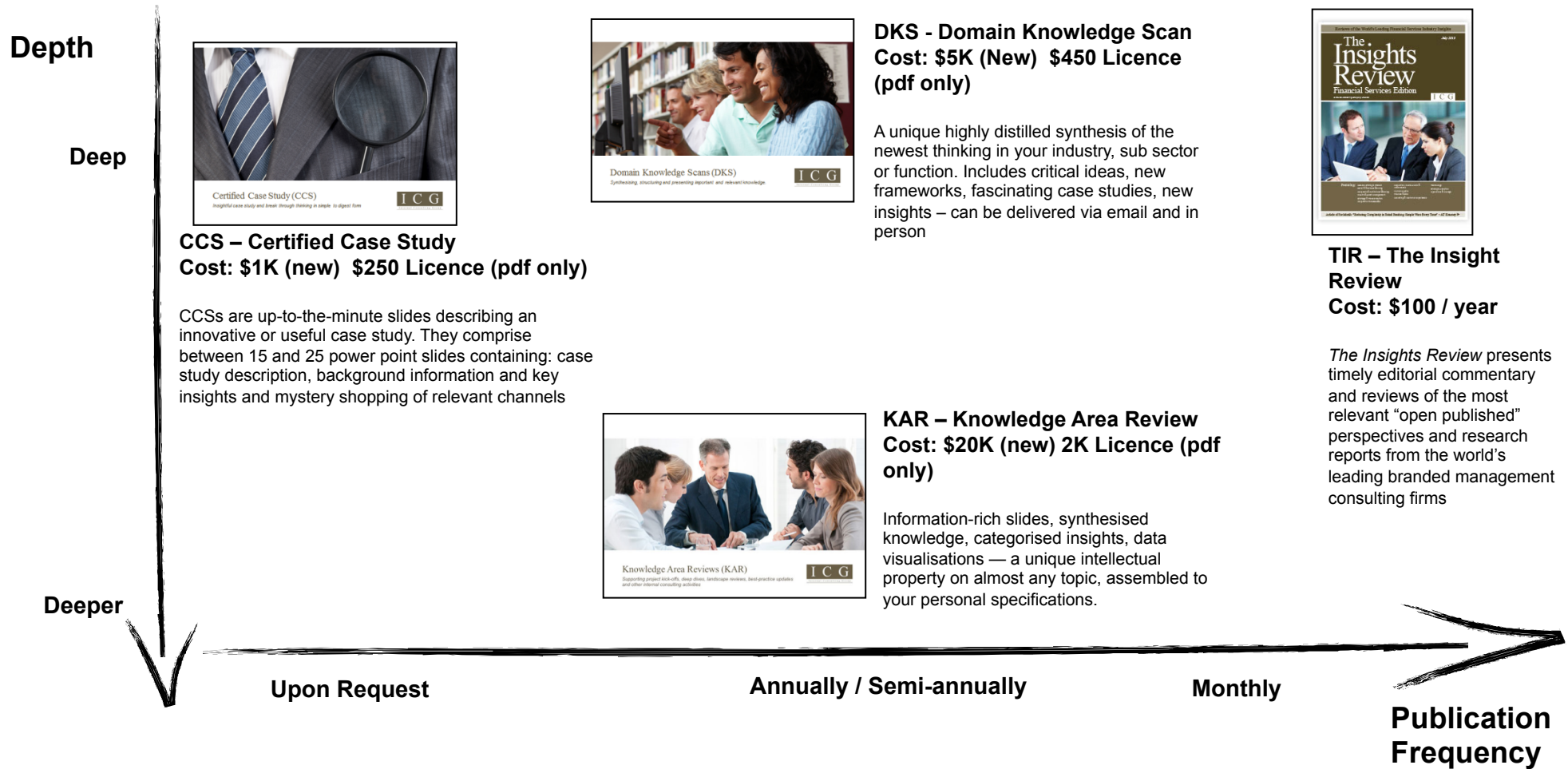
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