



The Australian Mortgage Report 2015

Let the good times roll

Presentation to the Actuaries Institute
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2014-15 Records

The Good ones...

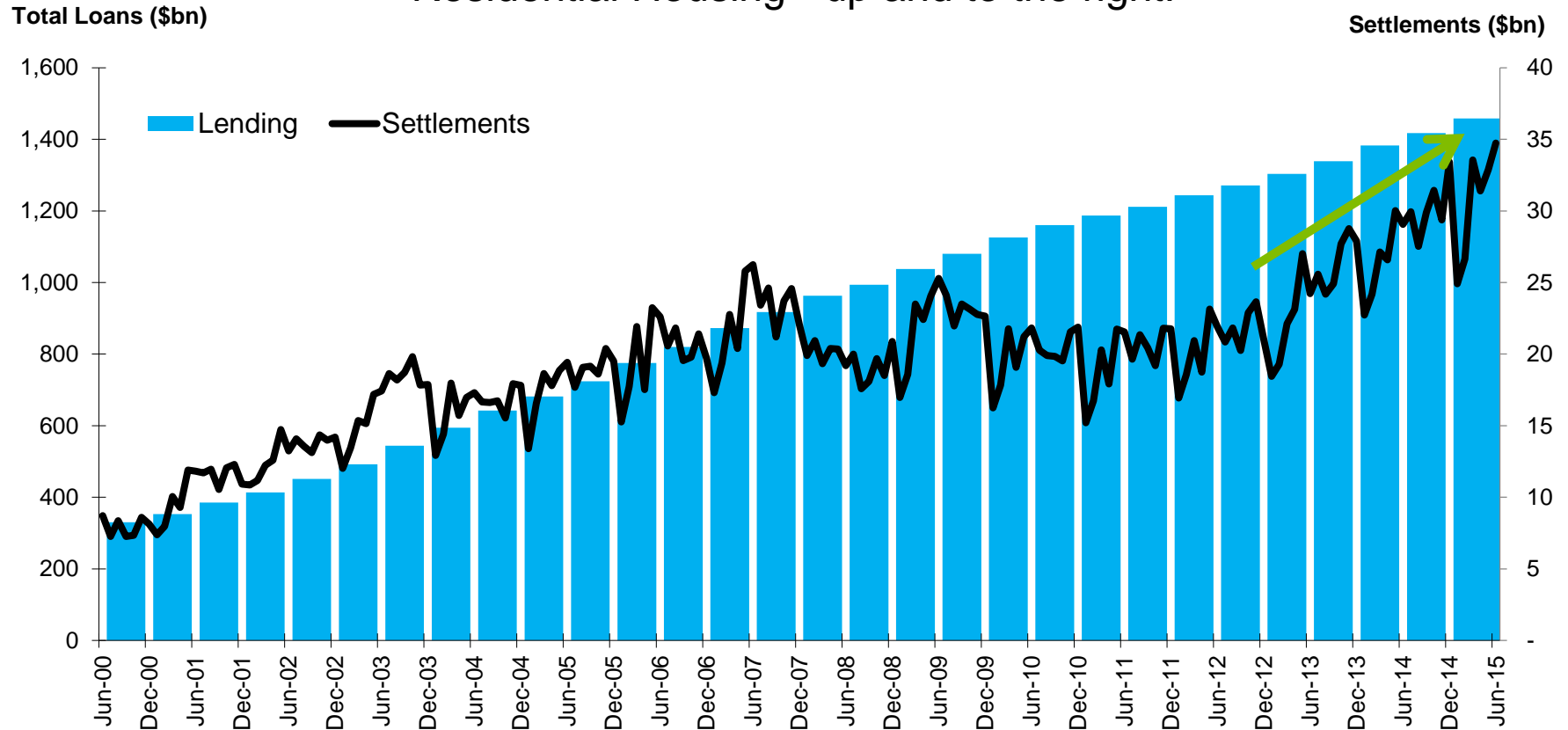
- Total outstanding residential housing finance \$1.5 trillion (June-15)
- Monthly housing commitments (proxy for settlement flow) \$34.7 billion (June-14)
- Interest rates record lows c4.45% DVR (Dec-14)
- Defaults and losses record lows <15bps impair. exp. (majors)
- Margins sustainable >220bps (majors); >15% ROE
- Technology advancements PEXA; e-docs settlement
- Competition Majors <70% lending 2014

The Not So Good Ones...

- First Home Buyers crowded out <15% of lending
- Investor lending 40% of settlements
- Property vs salary growth Gap growing
- Geographic “haves” / “have nots” Syd/Melb vs rest of Australia
- Competition Majors vs non-majors

Settlement Growth has accelerated since Dec 2010

Residential Housing - up and to the right!



Home ownership is
Australia's largest and one of its
most important capital markets

Frank Ganis (Macquarie Bank)

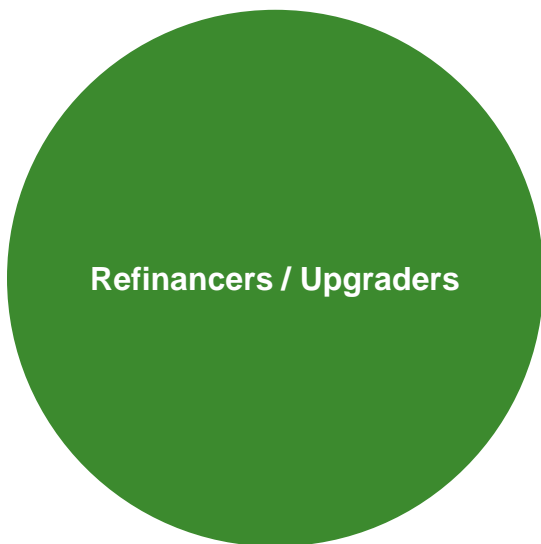
The Australian residential
real estate market is worth
\$5.7 trillion and its home loan
value is worth \$1.5 trillion

Bill Armour (ANZ)

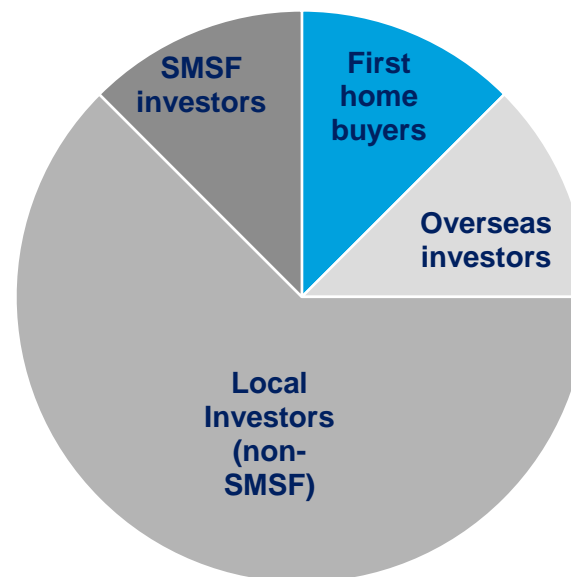
Existing borrowers and investors continuing to drive the market

What categories of consumer will drive the greatest growth over the next 3 years?

Primary Response (100% selected)

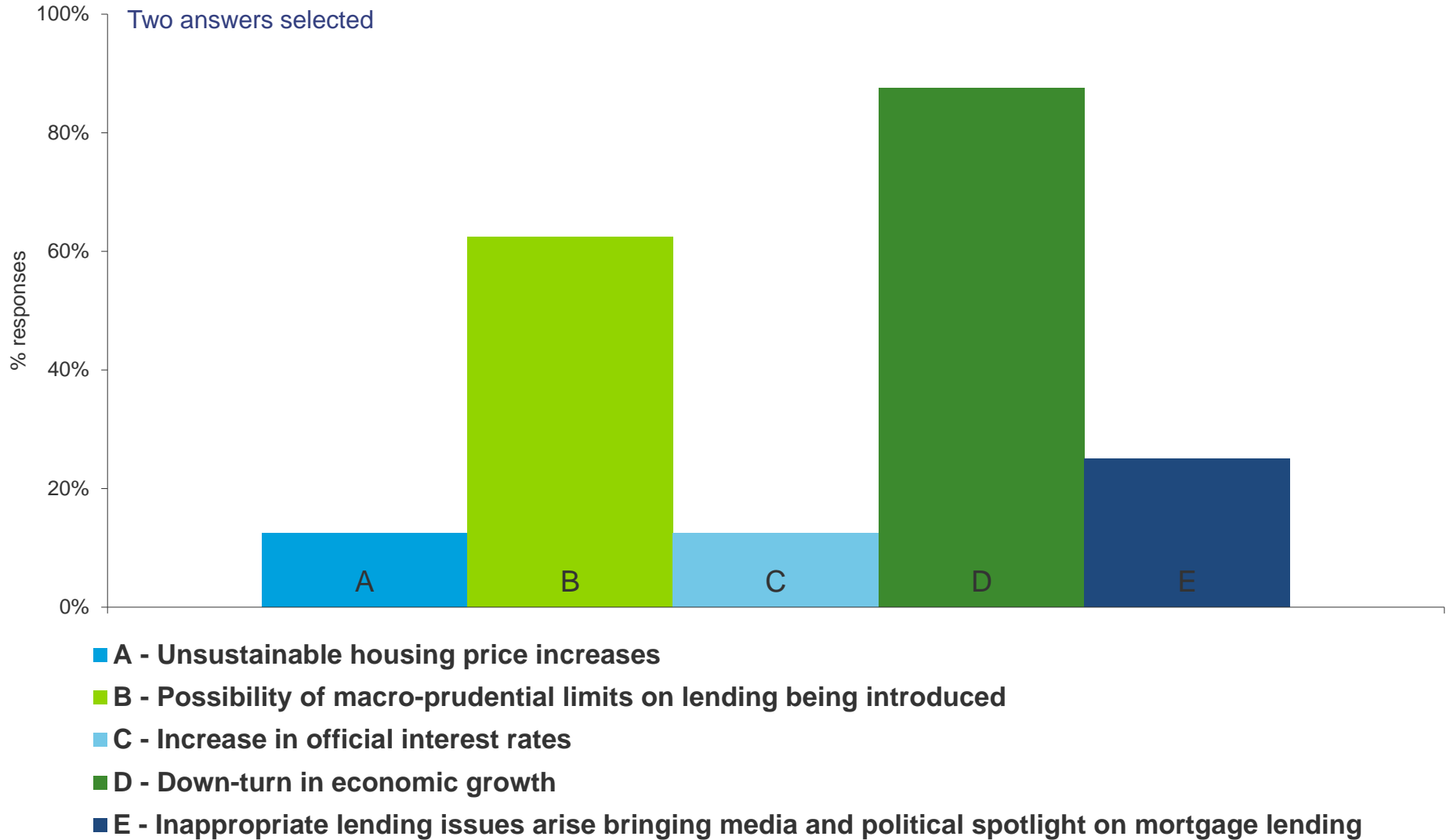


Other responses



Source: Deloitte Mortgage Survey

What is your biggest concern for the mortgage market in 2015?

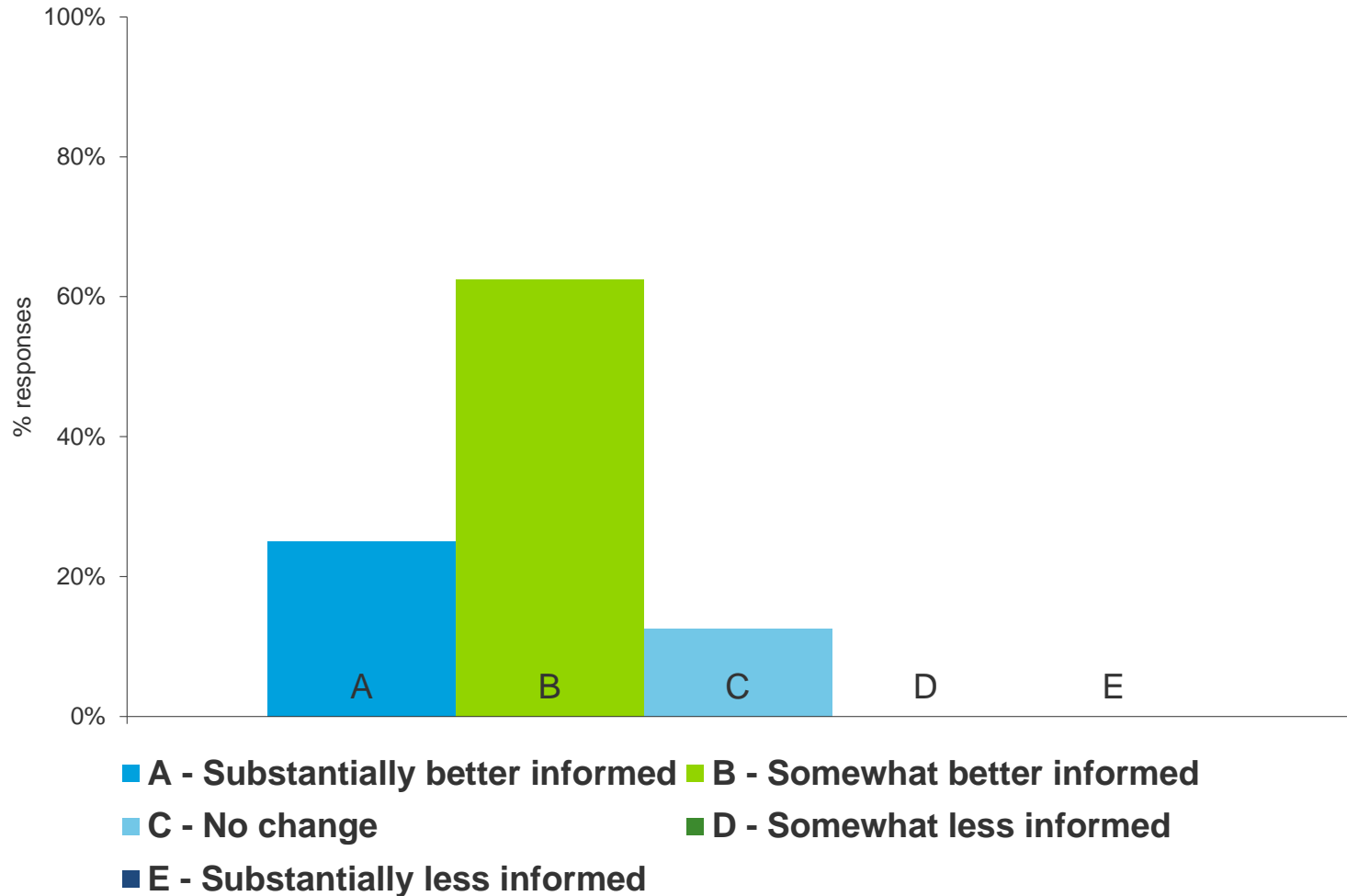


Source: Deloitte Mortgage Survey

One thing is clear, digital and data will be the main game for mortgages over the next three years.

For lenders, brokers and consumers, the digital and data revolution will produce significant change in how we think of the traditional mortgage in the future

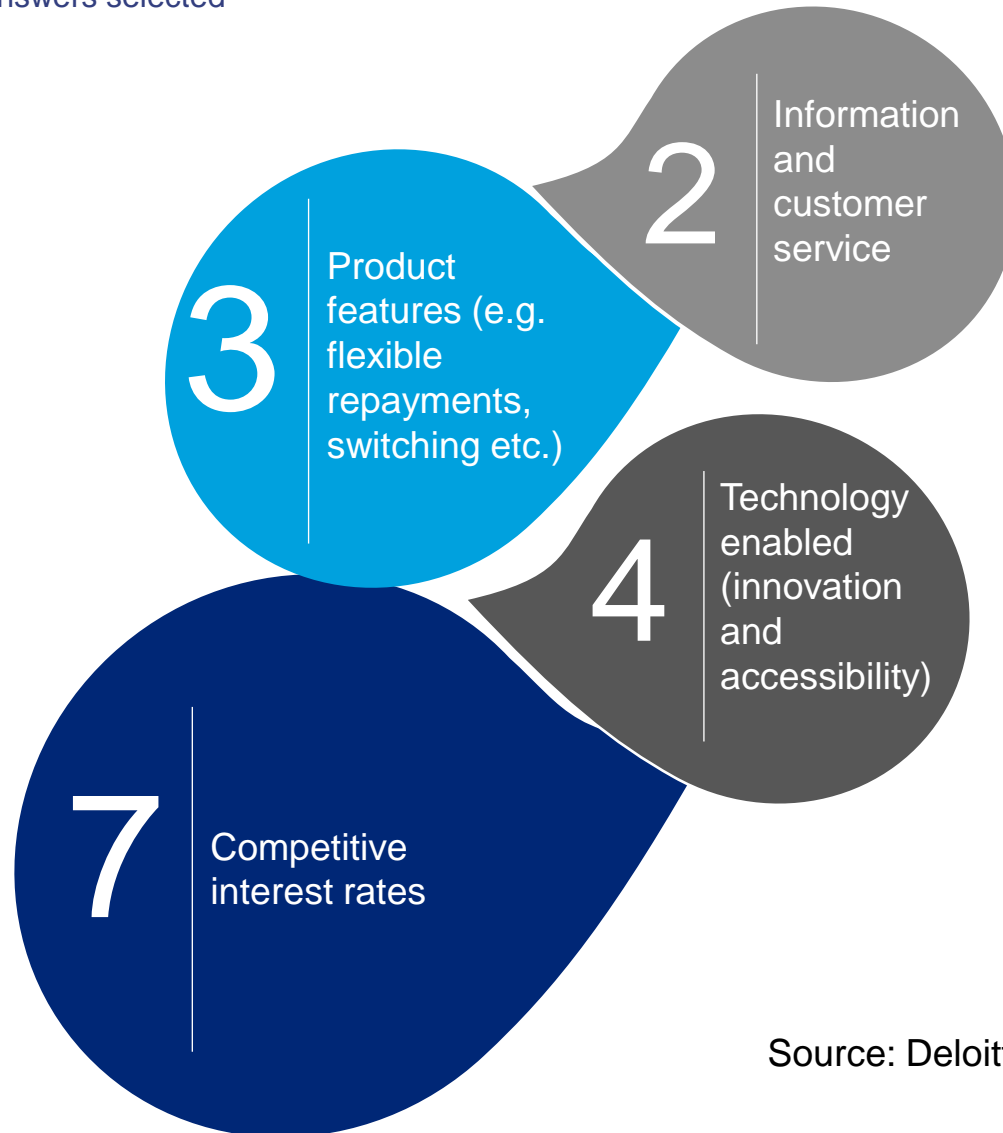
How informed are consumers about mortgages now vs 3 years ago?



Source: Deloitte Mortgage Survey

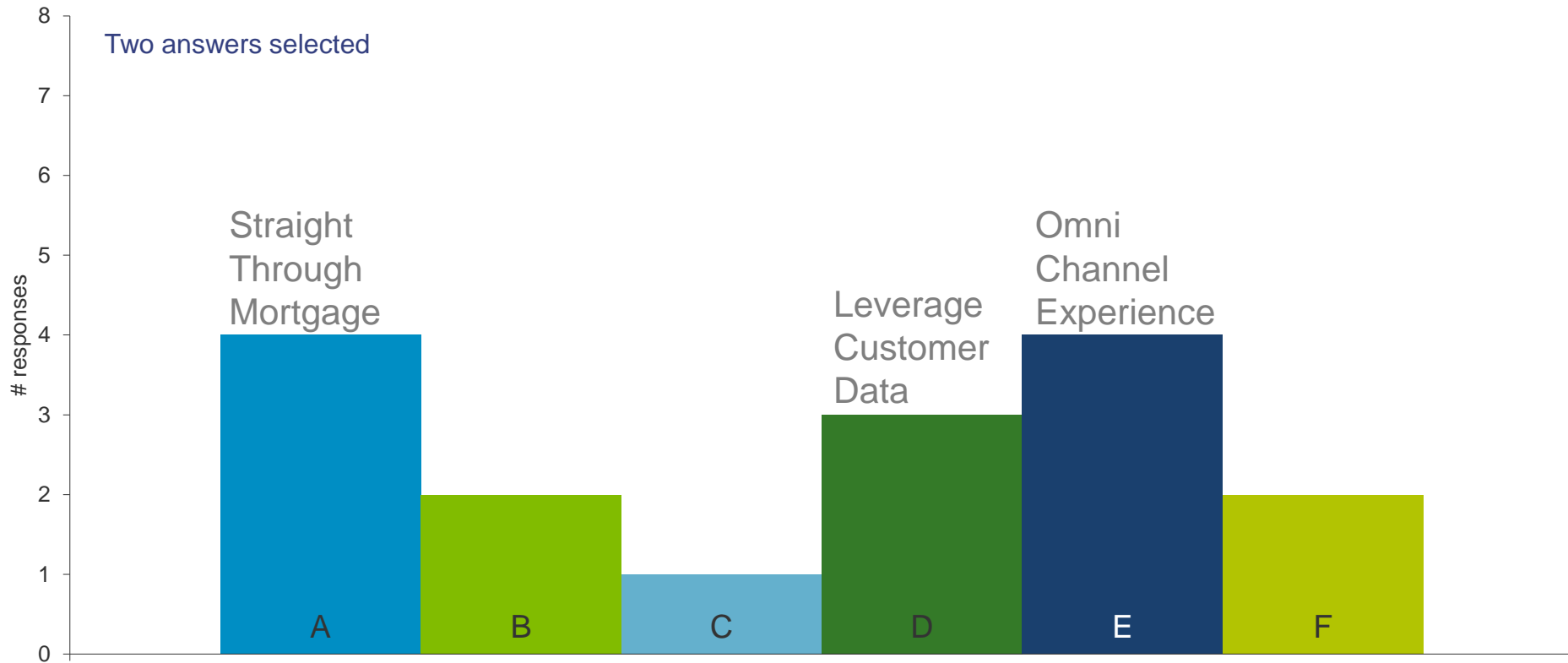
What features will be the most important to consumers in selecting a mortgage provider over the coming 12 months?

Two answers selected



Source: Deloitte Mortgage Survey

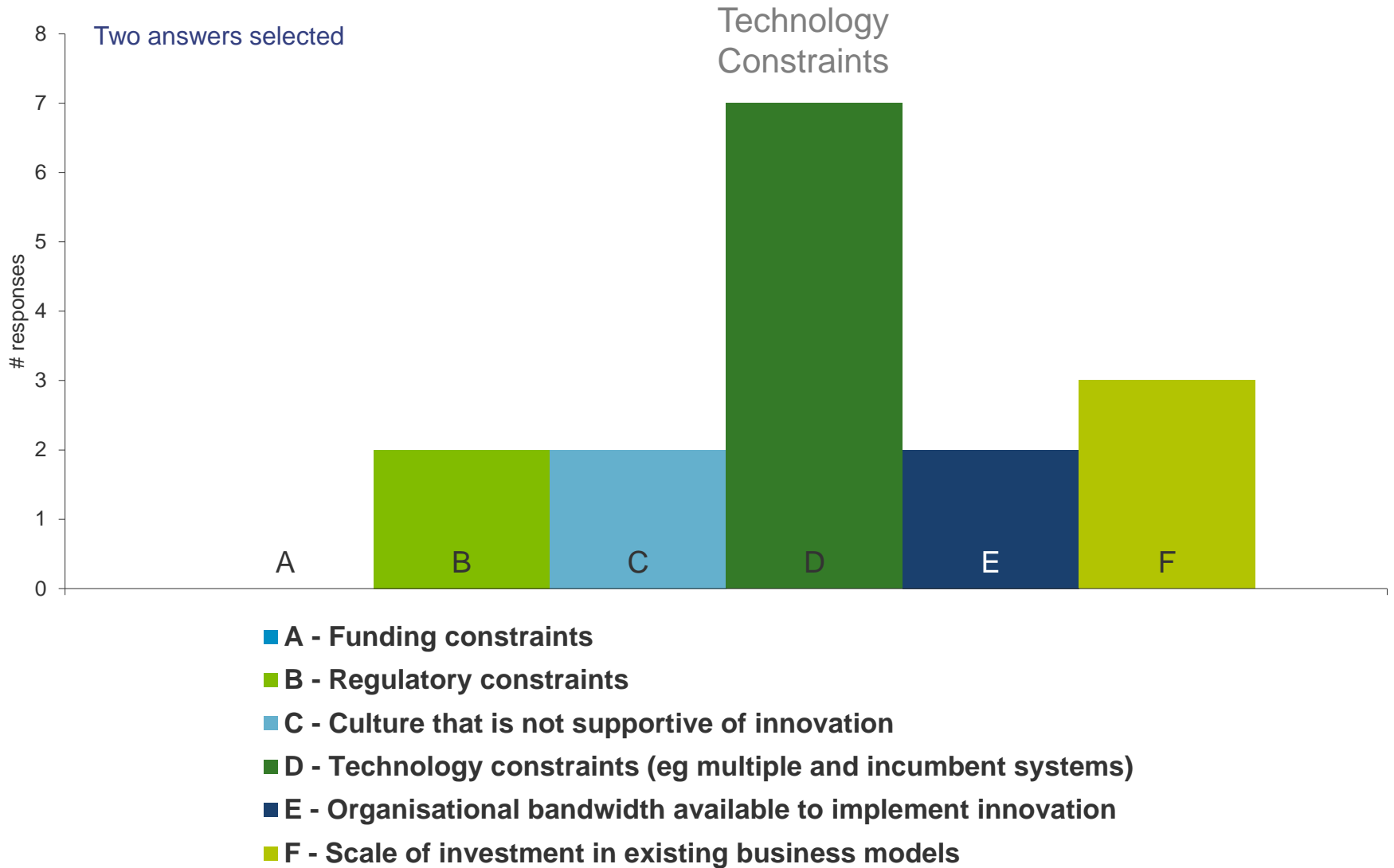
Where is the largest digital opportunity in mortgages in the next 2 years?



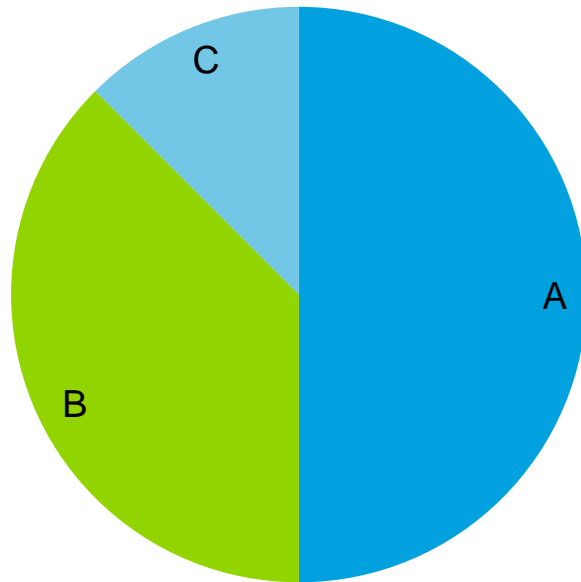
- A - A straight through online mortgage
- B - Back office efficiency for lenders (improving response times and customer satisfaction)
- C - Reaching customers well in advance of the traditional settlement entry point
- D - Capturing, storing and using 'big data' provided by customers to tailor offerings and processes
- E - Delivering an omni-channel experience for the customer
- F - Online comparators or other offerings emerging that disrupt traditional branch and broker sales

Source: Deloitte Mortgage Survey

What are the greatest challenges to innovation among the majors?



How can innovation be pursued while increasing margin?



- **A - Free up capital for innovation by increasing cost-savings in other areas**
- **B - Take a long-term view and invest in innovation today with the expectation that margin will increase tomorrow**
- **C - Other (please specify)**

The 'FinTechs' Dilemma:

- Adopt and improve innovations after they have been proved by others
- Selective partnering with start-ups outside of the group

“I think digital is going to impact all of our businesses more dramatically than our generation understands ... We are a technology company that sells financial services.”

James Sheffield (CBA)

In summary.....

- **Growth** dynamics solid
- **Existing borrowers** to remain the source of most lending activity (upgraders/refinances)
- **FHBs a structural issue** - but they are innovating to get into the market (FHI's)

- **Margins** and performance to remain solid for majors
- But **non-majors still challenged** on margin sustainability and scale

- **Technology** is rapidly evolving and driving innovation and simplicity
- **Omni-channel experience** in the mortgage process needs to be a reality
- **Digital** will change the way mortgages are being offered – for lenders and brokers
- How and when to access “**FinTechs**” will be key questions for majors



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