

## TRENDS

# CRITICAL MASS FOR BROKERS

*Financial services companies are consolidating, Morris Kaplan says*

**I**N the past decade, franchised mortgage brokers have experienced boom times. Mortgage Choice, RAMS, Wizard and others have expanded to meet the demand for credit from the proliferation of non-bank credit providers — until recently.

There's no escaping the brutal reality of the credit crisis: it's hitting the big banks hard and the non-bank sector hardest. According to the Mortgage and Finance Association of Australia, the market share of non-bank mortgage originators has declined from a peak of 15 per cent to about 4 per cent, bringing an abrupt halt to the trend from the late 1990s. The appeal of buying into a branded, non-bank franchise may be waning.

Mortgage broker Otto Dargan says his experience working in a franchise environment before moving to be an independent was instructive. "The franchisee had a lot of controls placed on them. People trust brands but the franchisees are disadvantaged by not being able to operate freely in their markets," Dargan says. "Commission structures are stacked in favour of



**Controls:** Otto Dargan of Home Loan Experts

**Picture:** Bob Finlayson

**'Brand is important, even though leads are down'**

Warren O'Rourke, industry commentator

the franchise group The agreement terms are onerous."

Sydney-based Dargan, operating under his own brand, Home Loan Experts, says many franchisees are given the impression that leads will just walk in the door. "The quality of leads is minimal. They are usually web-generated and often when you follow them up they don't know why you are calling."

Dargan says the trend is for brokers to join aggregator groups such as Connective. "Independent brokers need to achieve volume hurdles to get access to banks and other lenders. These groups manage a lot of the compliance, professional indemnity and training services and enable smaller firms to gain access."

Franchise systems need to get leaner and more efficient, he says. "Experienced brokers won't go into franchises. They don't need training. I don't know how that business model can cope."

Franchising is a resilient business model that offers many small businesses stability, systems, buying power

and brand strength, which could give them an edge over independent retailers and service businesses in a slowing economy, but mortgage broking offers some salient lessons for franchising. There's the issue of constraints on franchisees who need flexibility in a tough market, there's the challenge of large and expensive centralised systems and the big issue of relevance in an industry in crisis.

MFAA chief executive Phil Naylor says the industry has attracted people with entrepreneurial flair in the past and will continue to do so into the future. "When banks were closing branches in the 1990s, people with entrepreneurial flair came into the industry," Naylor says. "They were consumer centric and filled the void left by the banks. Some very successful franchise systems were created, while others became independent brokers.

"The bottom line remains the same: if you're providing a good customer service you'll get business. It's the one-on-one interaction that consumers want."

Naylor says more consolidation is inevitable. "Even at the small end, independent brokers are merging."

Despite the upheaval, brokers have retained their share of total business, he says. "They still are holding 40 per cent, a healthy share. Consumers like dealing with them. Current circumstances give brokers more opportunities to capture business. Customers want the comfort they are making the right decision."

Industry commentator Warren O'Rourke, former corporate affairs national manager at Mortgage Choice, says big brand groups make it easier to get a customer. "Brand is still important even though leads are down, but they and their members will have to re-think how they move forward. We've gone back to bank consolidation. The challenge for the industry is to find niches that generate sufficient volumes to be competitive." National uniform regulations from 2010 will bring further consolidation in the industry. "Some volume may kick in then, but 2009 will be slack.

"Some will leave because they shouldn't have been in the industry in the first place. Other independent brokers will take on a new look and feel by moving into different financial products. Hybrid models will emerge with other revenue streams. The ability to regroup and take back market share hasn't presented itself in any sustainable way as yet."