



KEY TAKEAWAYS FROM THE PC REPORT

- ✓ Trail commission should be banned and clawback of commissions from brokers restricted
- ✓ All brokers who deliver home loans should have a clear, legally backed 'best interest' obligation to their clients
- ✓ All banks should appoint a principal integrity officer who would focus on ensuring commissions align with the new customer best interest duty
- ✓ Upfront commissions should be paid based on the funds limit drawn down by customers, net of offset



“The end result would be inferior service for the client, who will not be paying less and may even end up paying more without a broker as banks gain more market share” Daniel O'Brien, PFS Financial Services

relationship,” Back says. “You might get more upfront today, but there would be no onus on a broker to provide service on an ongoing basis.”

Wemyss agrees. “The transactional approach to financial services is what has got us the royal commission,” he says. “It’s really been that focus on getting the transaction settled and getting the commission and moving on to the next deal.”

If there’s no trail, he says, there’s a strong

financial incentive to move on, which “dramatically reduces the value proposition that brokers provide”.

O’Brien argues the change would add up to a bad deal for clients.

“Are the banks going to reduce their rates? No, they will pocket the extra money. The end result would be inferior service for the client, who will not be paying less and may even end up paying more without a broker as banks gain more market share.”

Alternative thinking

Brokers would need to charge a fee in most circumstances to survive, Wemyss argues, which could be a one-off advice fee or an ongoing-relationship style fee.

“That is going to be hard for most of the broker population to do where they just have mum and dad, a mortgage and one loan, but if you have investor clients or a deep niche in a particular market that sees value in that, then that’s when you are going to be able to do that,” Wemyss says.

Back agrees. “Fee-for-service for the standard residential market won’t work, because as research has shown customers can get their advice and then walk down the road to a bank branch and transact somewhere else. In the non-conforming space there is an opportunity, but for homogenous purchases like refinancees or first home buyers, a fee could be a distinct disadvantage.” **MPA**