

Enabling Efficiency

Understanding the costs and constraints of the process elements of the Australian home loan industry

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Prepared by brandmanagement



About brandmanagement



Offices in London, Beijing and Sydney - focuses on marketing and go to market strategies for financial services companies, market intelligence and bespoke market research projects.



CORE DATA
e-polling & research

Offices in London, Sydney and Manila - focuses on creating fast turn around, high quality, consumer and distribution research. The goal of this business is to allow clients to gain a very clear picture of how their clients and distribution channels are performing in a timely and cost efficient manner.



dragondata

Beijing-based market research and market intelligence business – primary relationships with China Net Com and EOL give it access to a database of more than 100 million mass affluent Chinese consumers.

What Makes Us Different

- **Our Focus:**

Our sole focus is financial services – this means that we have a specialist focus and are not a generalist research consultancy.

- **Our People:**

The staff who work at brandmanagement, CoreData research and dragondata are all experienced financial services professionals – typically our people have come from either a strategy, marketing, media and/or communications background, which means they know your industry. Our staff have an average 15 years of market experience. With brandmanagement there is no seduction team and separate operational team – the people you see are the people you get – they manage the process from end to end.

- **Our Process:**

The brandmanagement Group is in the market continuously – researching, polling and mystery shopping. The brandmanagement Group conducts qualitative and quantitative research work and produces in-depth high quality research. Last year the group conducted on behalf of clients – more than 2,000 bank mystery shopping events and analysis, wrap and platform competitive platform reviews and subsequent change implementation consulting – four core market benchmarking studies, more than 100 financial planner mystery shopping and compliance benchmarking events, 60 online surveys and four core performance index reports.

This study has been commissioned by LIXI to develop a model to understand three core elements:

- The understanding of and the penetration of the LIXI model into the Australian home loan processing industry.
- The economic effect of adopting the LIXI process on the Australian home loan industry.
- The Future of LIXI.

First A Thank You



This report while the work of brandmanagement has in reality been assembled by brandmanagement.

All of the data contained within it comes from third parties, who with a relatively small amount of chasing were candid, open about their thoughts and beliefs and in almost all cases freely shared if not all a great deal of their own internal systems data and business cases to allow us to develop a robust picture of the cost model.

James The First



The King of England, Ireland, Scotland and Wales.

Broke the power of the Dukes established under Elizabeth 1

Kept the golden age alive, supporting Shakespeare, Donne, Raleigh just to name a few.

But this change wasn't without conflict

An Industry In Flux

- All of the banks, building societies, mortgage aggregators and brokers that we spoke to were in the process of rebuilding their systems in some way shape or form.
- The rebuilds ranges from front end tinkering to complete restructures of their core banking systems
- The value of these rebuilds runs to hundreds of millions of dollars across the industry

The Understanding Of LIXI

- ALL of the people interviewed for this paper professed some understanding of what LIXI is.
- MOST of the people interviewed for this paper when pressed could not adequately describe LIXI in any type of detail.

It's a industry – that sells software for the broker elements of home loan standards..

Until I read your draft paper I didn't actually understand what LIXI did.

A Poor Understanding Has Lead To

- The emergence of LIXI plus

Oh its based on LIXI, but its better than LIXI, we've developed it ourselves and extended it...

- The Belief that LIXI has a role for one to many but not one to one.

Look, we will use LIXI as much as it suits us and where it delivers us a benefit. I believe that our systems, especially the systems that we have developed to talk to the brokers deliver us an advantage in speed and accuracy, they're not LIXI and will probably never be, because that's a commercial advantage to us and something that

A Poor Understanding Has Lead To

- The Talking Down of Australian Standards

We aren't building an Australian standard system, we are building a system that is a world standard system, I've built systems in Canada and the UK and this will be an international standard and while LIXI might have a role in that, its certainly not going to define it.

The Speed Of Evolution

- All of the system redevelopments that are currently underway are embracing LIXI in some shape or form.
- The two most significant redevelopments, both bank based and both essentially end to end are fundamentally based on LIXI standards
- LIXI is being rolled out through the industry – at the pace at which the industry is rebuilding the elements of the home loan process not fast and no slower.

Things That Are Good About LIXI

- Reduction In Data Entry Costs
- Reduction In Over All Costs
- Easy To Work With

Things That Are Not Great About LIXI

- Understanding And Awareness
- Reduction In Development Costs
- Internal Efficiencies

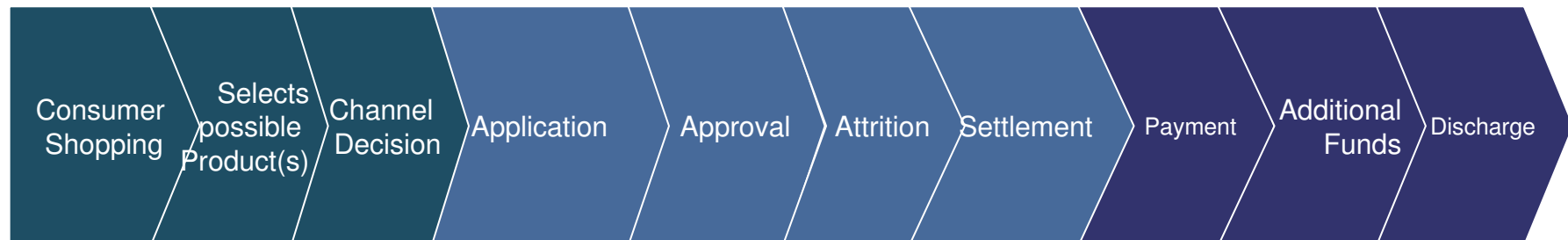
The Concept Of Future Proofing

- Was Never Brought Up Unless Stimulated
- Was A Concept Alien To Many
- Driven By A Broad Concept That The Industry Would Not Change..

The Economics Of Adoption

- No Such Thing As A Standard Homeloan
- No Such Things As A Standard Process

The Elements Of A Loan



Influences & Indirect Players

Regulatory

Software Vendors	APRA, Ratings Agencies	Trustees
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To Cope We Made The Model Simpler

- This home loan is for a couple who have a combined income of \$200,000 per year and are purchasing their second property (next time buyers);
- They have sold their home and have a deposit of \$125,000 and are seeking to borrow a further \$300,000; and
- They have a one month settlement window.

We Simplified The Elements



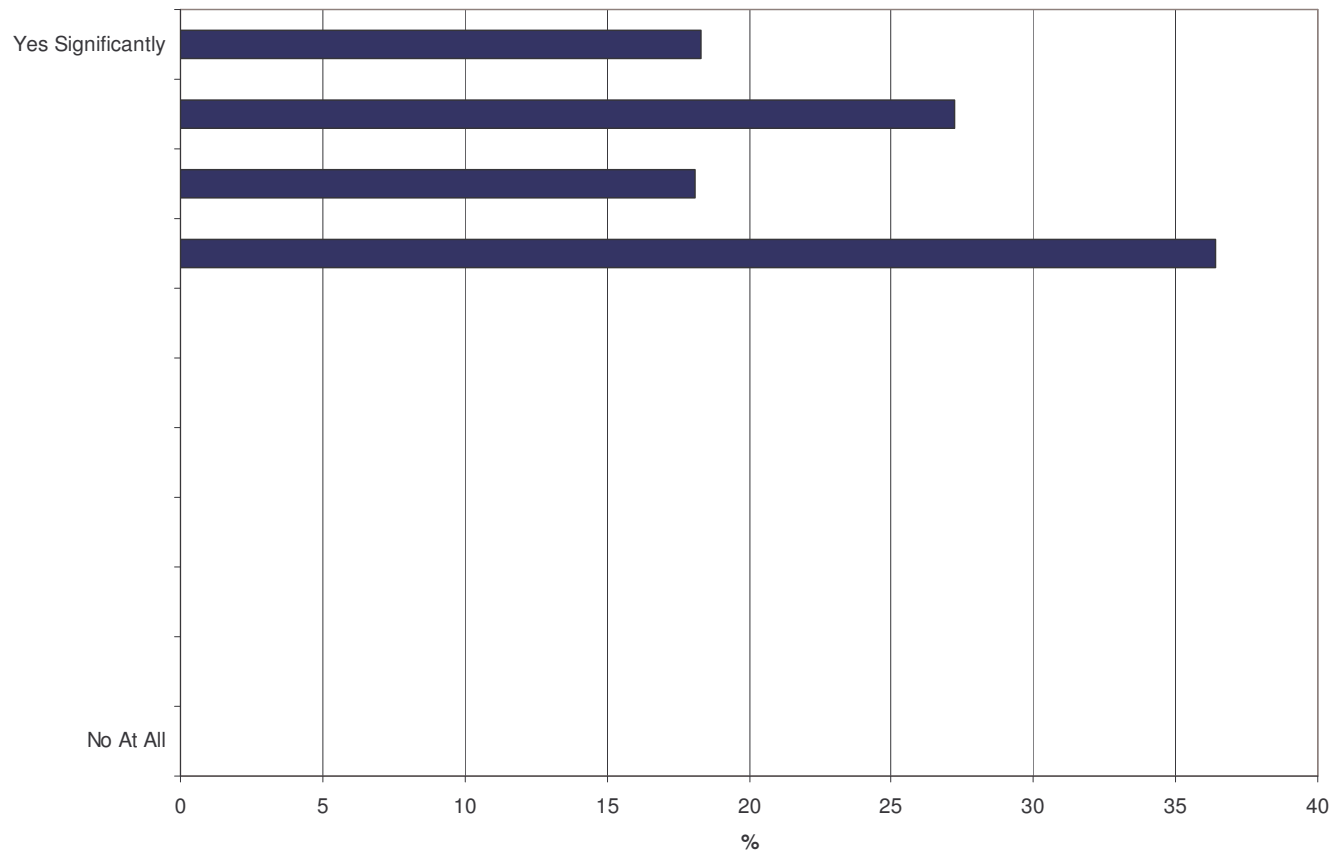
This model isn't perfect

- There was some argument about the elements
- There was some elements about where the elements sat in the chain
- There was some argument which elements were left out
- We built a value chain for brokers and for banks
- Lixi now own a model which allows you to plug in YOUR costs and establish a cost of loan processing for you to tinker with.

We Concentrated On Re-Work



How Much Will LIXI Reduce Data Rentry Costs



Building The Model

- 11 businesses shared their home loan cost data with us
- The cost of loan production ranged significantly from just over \$600 to *reportedly* over \$4,000.
- Because of the range we used figures developed from the median data set.
- We circulated the model for refinement to all those businesses that contributed.
- We established a rework amount of 18% in consultation with the industry.
- We established a conservative estimate (11%) of the savings of the rework amounts if LIXI standards were applied

The Model



Entity Name: Avg Lender (n=11)	Pre Credit	Credit	Funding Decision	Document Creation	Loan Approval	Settlement	Loan Draw Down	Total
Initial data management cost								
Time (Hours elapsed avg est)	3	1.5	1.45	2.2	3.5	8.1	2.25	
Hourly rate (est\$)	\$60	\$60	\$50	\$45	\$35	\$50	\$55	
Total initial cost	\$180	\$90	\$73	\$99	\$123	\$405	\$124	\$1,093
Rework Cost								
Time (Hours avg est)	1	0.3	0.3	0.25	0.25	2	0.5	
Hourly rate (est \$)	25	60	50	45	35	65	65	
Total secondary cost	\$25	\$18	\$15	\$11	\$9	\$130	\$33	\$241
Other cost (non-time based not counted)	0	0	0	0	0	0	0	0
Total data management cost	\$205	\$108	\$88	\$110	\$131	\$535	\$156	\$1,333
Potential saving in each stage	12.2%	16.7%	17.1%	10.2%	6.7%	24.3%	20.8%	18.0%
Potential saving relative to total saving	10.40%	7.48%	6.24%	4.68%	3.64%	54.05%	13.51%	



What That Essentially Means

Total Number of Home Loans (ABS Data)	733,195
Average cost (including rework)	\$ 1,333
Total Annual Cost of	\$ 977,348,935

The Future Of LIXI

- A Role Of One To One
- Broad Education of The Industry
- The Role of LIXI in NECS
- The Development Of LIXI Champions
- The Ability To Lead The Industry

Which Brings Us Back To



Following his death.

England embarked on a bloody and protracted Civil War and it took 9 years of bitter war which impoverished the country before order was restored.

ENDS