INDUSTRY REPORT X0010

Mortgages in Australia

Cut up: A historically low cash rate has reduced industry revenue and demand

Matthew Barry | November 2021

Contents

COVID-19 (Coronavirus) Impact Update

IBISWorld's analysts constantly monitor the industry impacts of current events in real-time – here is an update of how this industry is likely to be impacted as a result of the global COVID-19 pandemic:

• The Mortgages industry is expected to grow by 2.9% in 2021-22, as ADIs are expected to wind down loan deferral relief once government restrictions are eased. This is expected to support a slight recovery in interest income in the current year. For more detail, please refer to the Current Performance chapter.

• Profitability is expected to decline over the five years through 2021-22, as most ADIs have provided loan deferral relief to businesses and households affected by the COVID-19 pandemic. Additionally, industry operators wage costs have risen due to greater volumes of customer support requests during the pandemic. For more detail, please refer to the Cost Structure Benchmarks chapter.

• The industry is projected to grow at an annualised 4.1% over the five years through 2026-27. Interest rates are forecast to rise over the next five years, supporting growth in interest income. Additionally, as government restrictions ease over the period, the volume of loan deferrals is anticipated to fall, supporting industry growth. For more detail, please refer to the Industry Outlook chapter.

About IBISWorld

IBISWorld specializes in industry research with coverage on thousands of global industries. Our comprehensive data and in-depth analysis help businesses of all types gain quick and actionable insights on industries around the world. Busy professionals can spend less time researching and preparing for meetings, and more time focused on making strategic business decisions that benefit you, your company and your clients. We offer research on industries in the US, Canada, Australia, New Zealand, Germany, the UK, Ireland, China and Mexico, as well as industries that are truly global in nature.

About This Industry

Industry Definition

The Mortgages industry comprises the mortgage lending activities of authorised deposit-taking institutions (ADIs). ADIs include banks, building societies and credit unions. Industry revenue is primarily generated through interest repayments and fees charged on mortgages. The industry does not include mortgage brokers and non-bank lenders.

Major Players

Commonwealth Bank

Westpac

NAB

ANZ Banking Group

Main Activities

The primary activities of this industry are:

Mortgage origination

Mortgage refinancing

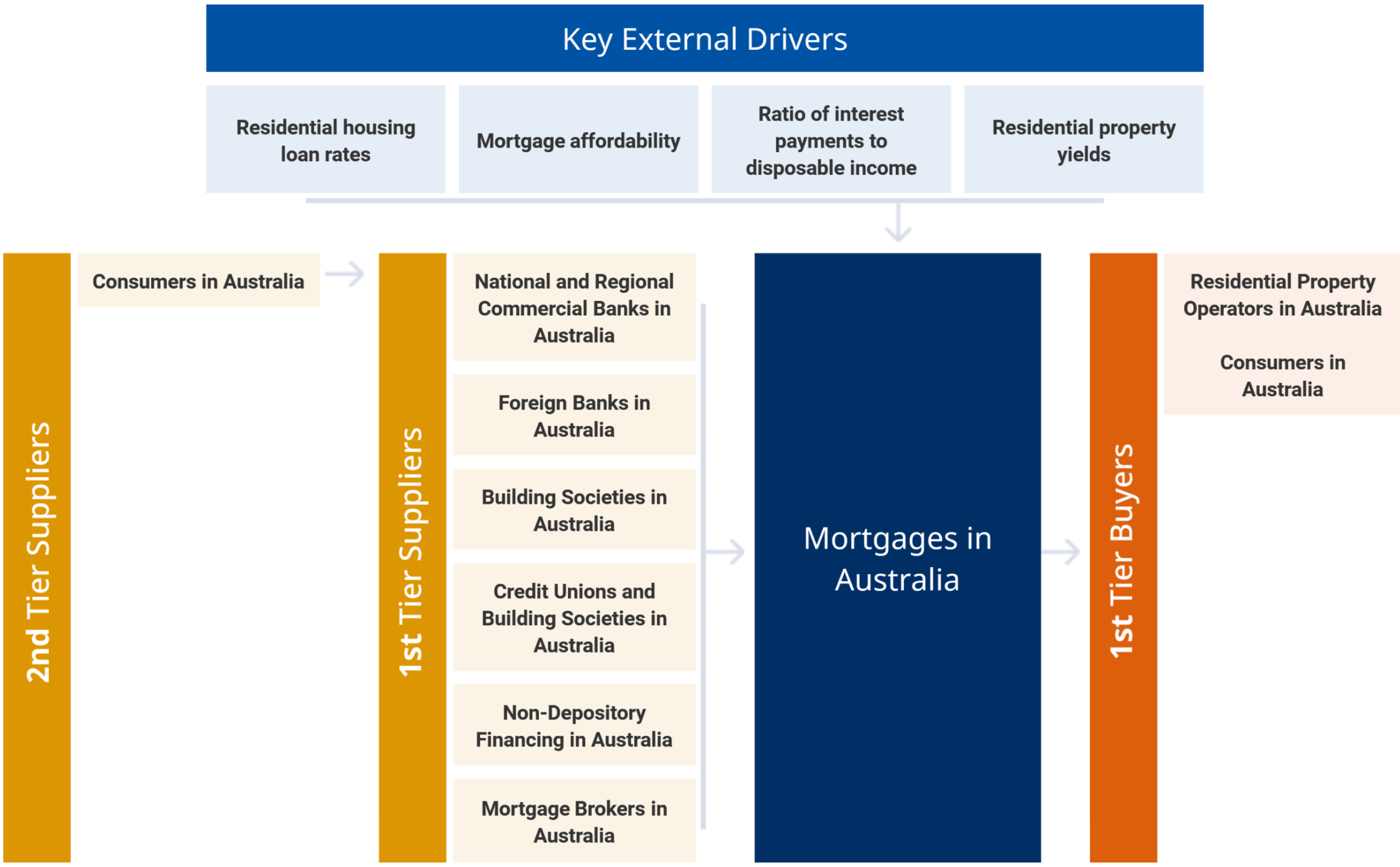
The major products and services in this industry are:

Standard variable loans

Fixed-rate loans

Other loans

Supply Chain



SIMILAR INDUSTRIES

Credit Unions and Building Societies in Australia
Complementor

National and Regional Commercial Banks in Australia
Complementor

Foreign Banks in Australia
Complementor

Mortgage Brokers in Australia
Complementor

RELATED INTERNATIONAL INDUSTRIES

Global Commercial Banks

Commercial Banking in the US

Banks in the UK

Banking in New Zealand

Industry at a Glance

Key Statistics

$68.2bn
Revenue

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-5.6%	4.1%	

$14.7bn
Profit

Annual Growth 2017–2022	Annual Growth 2017–2022
-11.8%	

21.5%
Profit Margin

Annual Growth 2017–2022	Annual Growth 2017–2022
-8.8pp	

139
Businesses

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-0.6%	-0.1%	

176k
Employment

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-0.3%	1.2%	

$18.4bn
Wages

Annual Growth 2017–2022	Annual Growth 2022–2027	Annual Growth 2017–2027
-0.8%	0.5%	

Key External Drivers

% = 2017–22 Annual Growth

-7.6%
Ratio of interest payments to disposable income

-0.2%
Mortgage affordability

-3.3%
Residential housing loan rates

-1.2%
Residential property yields

Industry Structure

POSITIVE IMPACT

Capital Intensity
Low

Barriers to Entry
High / Steady

Industry Globalization
Low / Increasing

MIXED IMPACT

Life Cycle
Mature

Revenue Volatility
Medium

Industry Assistance
Medium / Decreasing

Concentration
Medium

Technology Change
Medium

NEGATIVE IMPACT

Regulation & Policy
Heavy / Increasing

Competition
High / Increasing

Key Trends

- Lower interest rates have constrained industry revenue growth over the past five years
- Rising housing prices have supported growth in industry assets over the past five years
- Major banks have tightened lending criteria to comply with responsible lending provisions
- Interest rates are forecast to increase as the economy recovers, boosting industry revenue
- Profitability is likely to rise, as lenders end loan deferral relief that was offered during the pandemic
- China's slowing economic growth and a strong US dollar are likely to constrain interest rates
- The big four banks have faced rising competition from non-bank lenders and smaller ADIs

Products & Services Segmentation

Mortgages
Source: IBISWorld

Major Players

- 22.7% Commonwealth Bank
- 19.5% Westpac
- 12.5% NAB
- 12.3% ANZ Banking Group
- 33.0% Other

Mortgages
Source: IBISWorld

SWOT

S — STRENGTHS

High & Steady Barriers to Entry
Low Imports
High Profit vs. Sector Average
High Revenue per Employee
Low Capital Requirements

W — WEAKNESSES

Medium & Decreasing Level of Assistance
High Competition
High Customer Class Concentration
High Product/Service Concentration

O — OPPORTUNITIES

High Revenue Growth (2022-2027)
High Performance Drivers
Ratio of interest payments to disposable income

T — THREATS

Very Low Revenue Growth (2005-2022)
Low Revenue Growth (2017-2022)
Residential property yields

Executive Summary

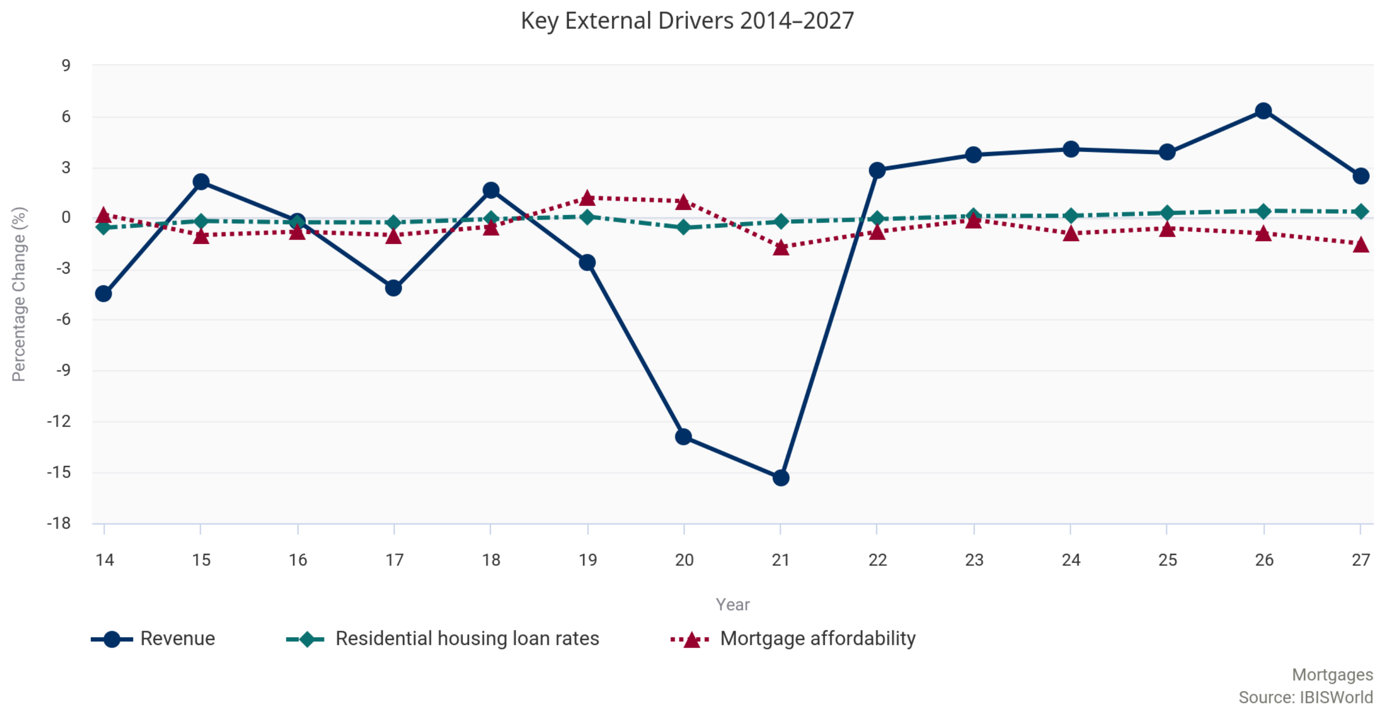
Cut up: A historically low cash rate has reduced industry revenue and demand

The Mortgages industry has declined over the past five years, due to falling interest rates, tighter lending restrictions and most ADIs offering loan deferrals during the COVID-19 pandemic. While a lower cash rate typically benefits the industry through greater demand for mortgages and growth in housing prices, these benefits have been offset by declining interest income for lenders. The RBA has cut the cash rate to a historic low of 0.10%, which has driven revenue declines over the past five years. Overall, industry revenue is expected to fall at an annualised 5.6% over the five years through 2021-22, to $68.2 billion. This decline has also been driven by rising competition within the industry and from non-bank lenders. Nevertheless, revenue is expected to recover slightly by 2.9% in the current year.

The industry is dominated by the big four banks, which are estimated to account for nearly 70% of industry assets. The major banks have adopted different strategies to increase their market share, due to the strong competition in the industry. However, following the findings from the Financial Services Royal Commission, the major banks have introduced tougher checks on home loan applications to comply with responsible lending provisions. As a result, the major banks have faced growing competition from non-bank lenders and smaller ADIs due to the tighter regulatory conditions.

Movements in the official cash rate and a projected economic recovery from the COVID-19 pandemic will likely influence the industry's performance over the next five years. The domestic economy is forecast to grow over the period, with inflation projected to return to the RBA's target range of between 2.0% and 3.0%. This is anticipated to support a rise in the cash rate over the period, boosting interest income. Additionally, loan deferral relief is projected to wind down over the period, as government lockdown restrictions ease and most of the Australian population is vaccinated. Overall, industry revenue is forecast to rise at an annualised 4.1% over the five years through 2026-27, to $83.3 billion.

Industry Performance



Key External Drivers

Residential housing loan rates

Higher interest rates typically allow lenders to generate more interest on mortgages issued, supporting industry revenue growth. However, rising interest rates can reduce demand for mortgages, partially offsetting these benefits. Therefore, a decrease in housing loan rates can potentially threaten industry revenue. Residential housing loan rates are expected to fall in 2021-22.

Mortgage affordability

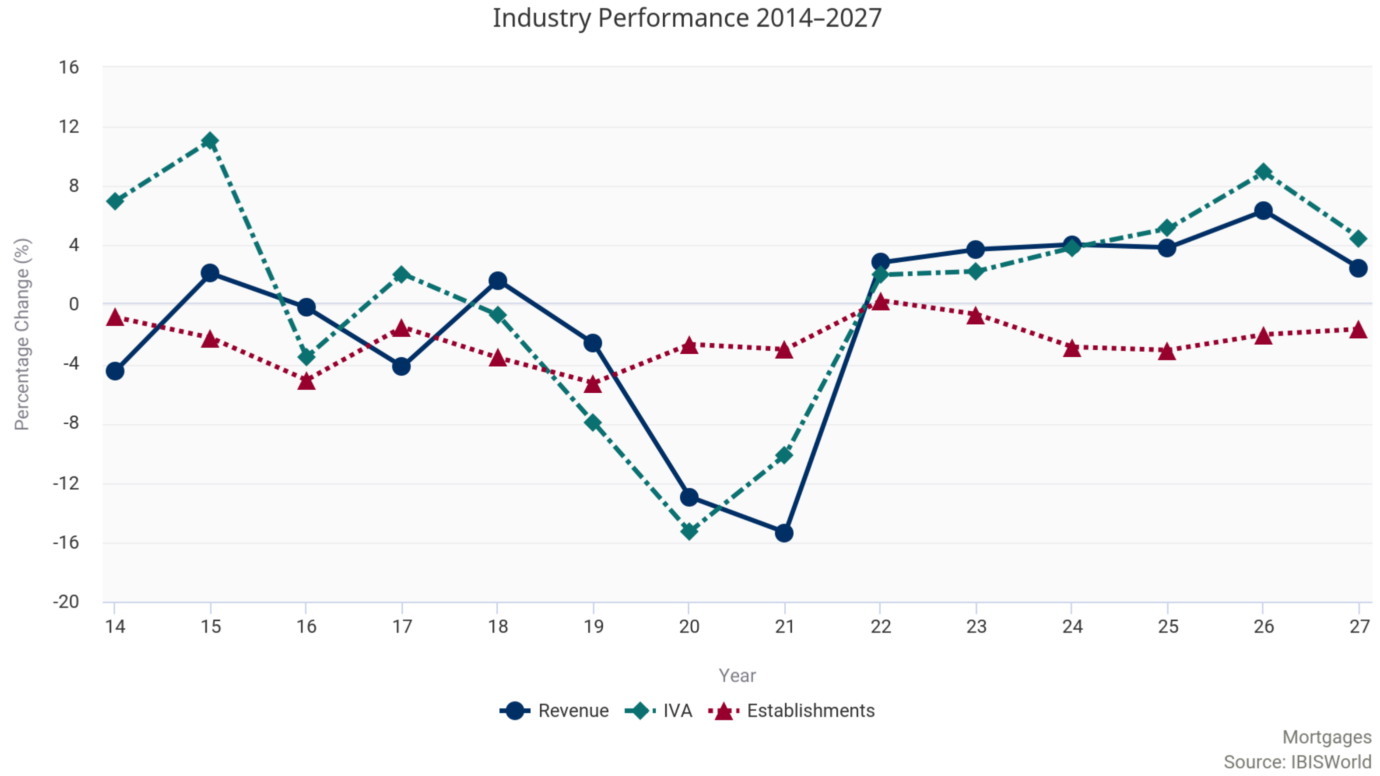
Mortgage affordability reflects the ability of prospective home owners to service and repay a mortgage. This is measured by the proportion of household income that remains after making mortgage repayments. Demand for mortgages typically rises as they become more affordable. Mortgage affordability is expected to fall in 2021-22.

Ratio of interest payments to disposable income

The proportion of disposable income used to meet interest repayments affects households' ability to meet existing debt obligations and take on additional debt. A high ratio of interest payments to disposable income represents a rising debt burden on households, limiting their ability to take on further debt and increasing their risk of defaulting on loans. A higher ratio of interest payments to disposable income reduces households' ability to take on mortgages, negatively affecting the industry. The ratio of interest payments to disposable income is expected to fall in 2021-22, representing an opportunity for the industry to grow.

Residential property yields

Investors make up a significant proportion of the mortgage finance market. Therefore, the returns generated on residential property influence demand for mortgages. Higher residential property yields drive demand for mortgages from investors, which typically boosts industry revenue. Residential property yields are expected to fall in 2021-22, constraining industry revenue.



Current Performance

Revenue for the Mortgages industry has declined over the past five years, following falling interest rates.

The RBA has consistently cut the cash rate over the period to boost the economy, particularly during the COVID-19 pandemic. A falling cash rate has been a major issue for the industry, as it has reduced interest income for lenders over the period. ADIs have also offered loan deferral relief for households and businesses affected by the COVID-19 pandemic over the past three years, further constraining interest income. However, the total value of mortgages outstanding is expected to grow at an annualised 1.6% over the five years through 2021-22, to $2.2 trillion. This growth in mortgages outstanding stems from growing demand from owner-occupier market and rising residential housing prices over the period. Additionally, ADIs have maintained their mortgage portfolios during the COVID-19 pandemic by offering loan deferrals.

Concerns surrounding the economy and financial markets for much of the past five years have prompted the RBA to cut the cash rate. Furthermore, escalating trade tensions between China and the United States led to falling confidence in export-oriented industries over the period. Additionally, the outbreak of COVID-19 and the subsequent economic downturn led to the RBA cutting the cash rate to a historic low of 0.10% as at November 2020. The lower cash rate has put pressure on banks to reduce borrowing costs for clients and driven down mortgage rates for borrowers, as competition increased. Overall, industry revenue is expected to decline at an annualised 5.6% over the five years through 2021-22, primarily due to interest rate cuts and loan deferrals. This includes anticipated revenue growth of 2.9% in the current year, to $68.2 billion, as loan deferrals are likely to wind down once restrictions are eased in Victoria and New South Wales. Industry profitability has declined over the past five years, due to loan deferrals during the COVID-19 pandemic and higher remediation costs for major lender from the Financial Services Royal Commission. Employment numbers have marginally fallen over the past five years, as ADIs have continued to adopted online and digital channels, which typically have lower labour requirements.

RESIDENTIAL PROPERTY MARKET

In addition to fees generated on mortgages, such as establishment expenses and lenders mortgage insurance, growth in the mortgage assets of ADIs drives a large part of the industry's revenue.

Therefore, residential property prices significantly influence industry revenue, as they determine the value of mortgages issued. Tighter lending standards and falling interest rates have constrained industry revenue over the past five years. However, the low interest rate environment over the period has driven strong demand for property and boosted residential housing prices, which has increased loan sizes and supported growth in the value of industry assets. Nevertheless, the effects of lower interest rates and loan deferrals relief during the pandemic have damped industry revenue over the past five years.

FINANCIAL SERVICES ROYAL COMMISSION

The final report of the Financial Services Royal Commission (FSRC) suggested that many loan applications to the major banks were deliberately under-reporting living expenses, with mortgage brokers adjusting loan applications for approval.

This report has significantly affected industry players. Banks have responded by tightening home loan application processes to comply with responsible lending provisions, which has contributed to weak growth in industry assets. Lenders have also made more detailed inquiries into the financial situation of a borrower to comply with responsible lending provisions, instead of relying on the household expenditure measure. Due to tighter regulatory conditions imposed on major banks, the banks now face increased competition from non-bank lenders, such as loans.com.au and Athena, and smaller banks, such as ING Bank Limited.

Despite the FSRC's recommendation of tighter lending restrictions, APRA relaxed lending restrictions for mortgages starting July 2019. These restrictions were relaxed due to falling house prices, record-low credit growth and expectations of further interest rate cuts at the time. Financial institutions no longer needed to apply a stress test to check whether borrowers can afford a 7.0% interest rate on their residential home loan repayments. Instead, banks only required borrowers to have the ability to repay loans with a 2.5% buffer on interest rates.

STRONGER COMPETITION

Over the past five years, competition has increased due to several factors.

Non-bank lenders have grown their share of the mortgages market over the period. NAB moved to expand its market share by discounting its mainstream mortgage rate and offering cash incentives to clients wishing to leave other banks. In September 2018, NAB also announced they would keep interest rates steady at a time when other lenders were raising interest rates. In August 2017, CBA fully acquired Aussie Home Loans, one of Australia's largest mortgage brokers, which further contributed to the high level of competition. In December 2020, CBA announced the merger of its Aussie Home Loans business with online mortgage broker, Lendi, increasing internal competition in the industry. During the COVID-19 pandemic, the RBA also cut the cash rate to record lows, which placed additional downward pressure on mortgage rates.

CAPITAL REQUIREMENTS

In July 2015, APRA increased the capital requirements for residential mortgage exposures under the internal ratings-based (IRB) approach.

These changes were implemented to narrow the difference between the capital requirements of major banks and smaller banks, the latter of which use a standardised approach to calculate regulatory capital. The new capital requirements affect CBA, Westpac, ANZ, NAB and Macquarie Group, which use the IRB approach to calculate regulatory capital. The new risk weights announced by APRA in 2015 were further reaffirmed in August 2016, due to potential changes in IRB models over 2015-16. In July 2017, APRA announced its definition of unquestionably strong capital requirements for the major four banks, requiring them to have a capital adequacy ratio of 10.5%. These capital requirements aim to reinforce the stability of the banking sector by better aligning capital requirements with residential mortgage lending. Although this increase was initially scheduled to take effect on 1 January 2020, APRA has temporarily relaxed these requirements to promote lending and facilitate the flow of credit. The new capital adequacy requirements are now expected to come into effect from January 2023.

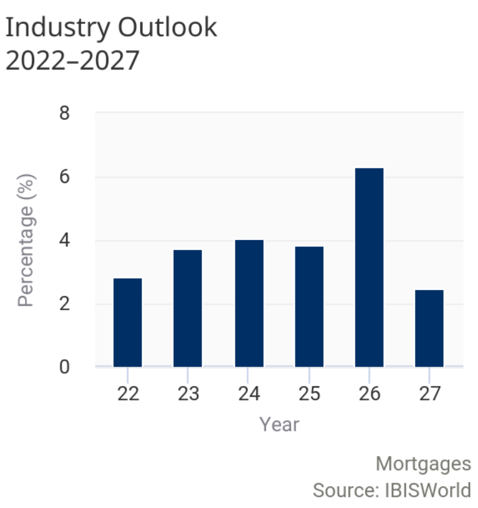
Historical Performance Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Total Assets ($m)	Domestic Demand ($m)
2012-13	97,380	40,608	6,413	165	191,412	N/A	N/A	17,334	1,556,725	N/A
2013-14	93,019	43,440	6,360	163	192,596	N/A	N/A	18,046	1,644,361	N/A
2014-15	94,985	48,253	6,219	158	183,048	N/A	N/A	19,282	1,797,672	N/A
2015-16	94,824	46,559	5,904	150	181,823	N/A	N/A	19,723	1,952,914	N/A
2016-17	90,887	47,534	5,816	143	179,011	N/A	N/A	19,177	2,008,796	N/A
2017-18	92,388	47,210	5,609	139	173,339	N/A	N/A	18,662	2,088,483	N/A
2018-19	89,974	43,457	5,314	138	170,968	N/A	N/A	18,445	2,102,517	N/A
2019-20	78,336	36,818	5,173	140	173,303	N/A	N/A	18,957	2,149,584	N/A
2020-21	66,329	33,098	5,018	137	176,444	N/A	N/A	18,506	2,211,392	N/A
2021-22	68,220	33,769	5,033	139	175,960	N/A	N/A	18,447	2,178,305	N/A

Industry Outlook

Outlook

The Mortgages industry is forecast to recover over the next five years.



A larger asset base and a projected rise in the cash rate and market interest rates are anticipated to boost revenue over the period. Profitability is also projected to rise, as loan deferral relief provided by lenders during the COVID-19 pandemic end. Furthermore, wages are anticipated to fall as a share of revenue, with lenders increasingly streamlining their operations and moving towards digital channels. The industry is forecast to consolidate slightly, as building societies and credit unions merge or are acquired by larger banks, although this is anticipated to be largely offset by the emergence of more neobanks.

STRONGER GROWTH

Interest rate fluctuations will likely determine revenue growth over the next five years.

The industry has grown its asset base over the past five years, with future RBA decisions on the cash rate anticipated to dictate mortgage rates and interest income for lenders. The RBA has resorted to cutting the cash rate to historic lows and other measures to stimulate the economy during the COVID-19 pandemic. Furthermore, the RBA has indicated that the cash rate will remain at the current level for an extended period of time, as the economy recovers from the COVID-19 pandemic. This is expected to keep funding costs low for lenders, boosting competition for mortgages among industry operators and non-bank lenders, especially for borrowers seeking to refinance and lock in fixed-rates for their mortgages. However, interest rates are forecast to increase as the economy strengthens and inflation pressures rise, which is likely to boost revenue.

China's slowing economic growth, the development in trade tension between Australia and China and a strong US dollar are likely to limit growth in interest rates over the next five years. Low interest rates typically weaken the domestic currency, which is expected to aid the recovery of the Manufacturing division and other export-oriented sectors. However, inflationary pressures will likely place upward pressure on interest rates. Overall, industry revenue is forecast to grow at an annualised 4.1% over the five years through 2026-27, to $83.3 billion, recovering from the lows of the COVID-19 pandemic.

Rising interest rates can also increase the rate of defaults and mortgage foreclosures, negatively affecting operators' profit margins. Lending standards have become more stringent as APRA has imposed higher capital requirements, which has forced banks to hold a higher amount of regulatory capital to operate in the industry. This factor is anticipated to only partially offset the volume of bad debts and is also likely to be affected by the rate at which the economy recovers from the COVID-19 pandemic over the next five years.

FIRST-HOME BUYERS VERSUS INVESTORS

Many baby boomers are anticipated to enter retirement and downsize their house over the next five years, which has the potential to drive first-home buyers out of the market.

This trend is also projected to increase demand for smaller dwellings, particularly due to baby boomers seeking rental yields to fund their retirement. First-home buyers may also find it difficult to service a mortgage depending on the economic climate and employment conditions following the COVID-19 pandemic. As a result, first-home buyers may potentially find it increasingly difficult to enter the market and purchase their own property over the five years through 2026-27.

Economists and lobby groups have increasingly debated the practice of negative gearing, which gives tax breaks to investors who incur a loss on their investment property. Some experts argue that this helps wealthy investors acquire more property, artificially driving up the average price of property in Australia. Despite the debate, no definitive action has been taken to abolish negative gearing.

Performance Outlook Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Total Assets ($m)	Domestic Demand ($m)
2021-22	68,220	33,769	5,033	139	175,960	N/A	N/A	18,447	2,178,305	N/A
2022-23	70,765	34,533	5,001	140	175,931	N/A	N/A	18,342	2,185,929	N/A
2023-24	73,644	35,865	4,859	139	177,266	N/A	N/A	18,400	2,218,936	N/A
2024-25	76,487	37,708	4,711	138	179,729	N/A	N/A	18,545	2,256,658	N/A
2025-26	81,335	41,074	4,617	138	185,915	N/A	N/A	19,045	2,321,876	N/A
2026-27	83,338	42,919	4,542	138	186,355	N/A	N/A	18,884	2,386,656	N/A
2027-28	87,502	46,289	4,429	137	195,889	N/A	N/A	19,736	2,442,981	N/A

Industry Life Cycle

The life cycle stage of this industry is ⊖ Mature

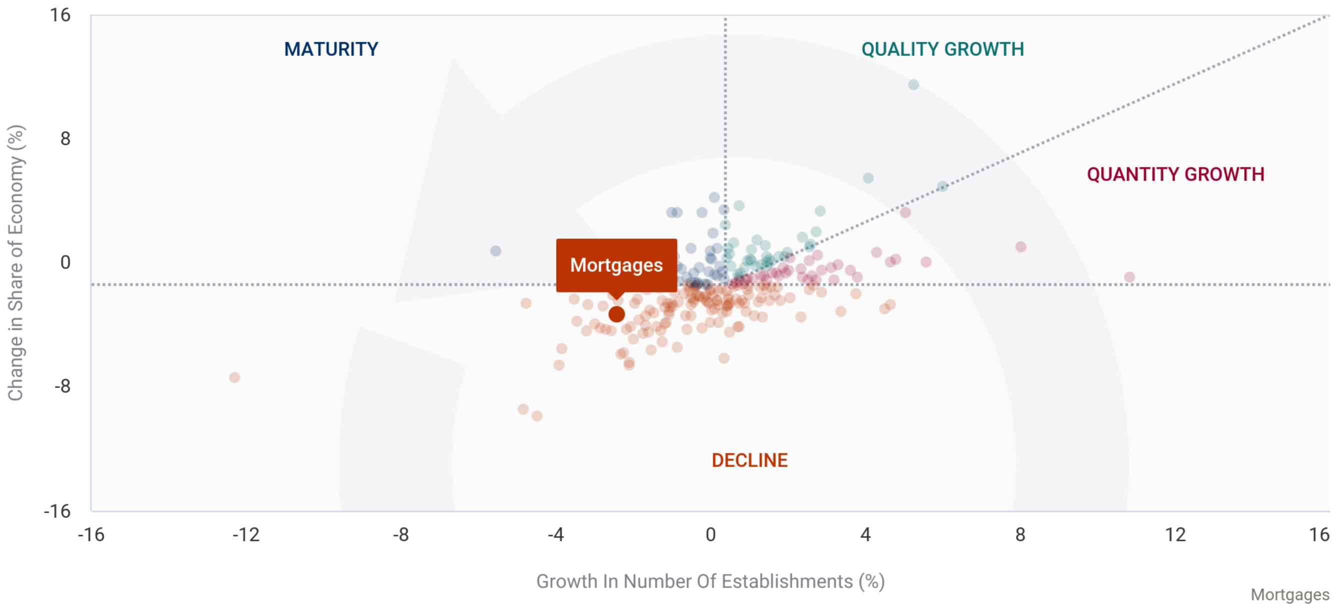
LIFE CYCLE REASONS

The industry’s product offerings have not changed significantly over the past five years

The performance of the industry is closely correlated to the real estate market’s performance

Competition in the industry is increasing

Indicative Industry Life Cycle



Mortgages
Source: IBISWorld

The Mortgages industry in Australia is in the mature stage of its life cycle. Industry value added (IVA), a measure of the industry's contribution to the overall economy, is forecast to fall at an annualised 1.0% over the 10 years through 2026-27. This represents an underperformance of the overall GDP, which is projected to grow at an annualised 2.2% over the same period. This underperformance is characteristic of an industry in the mature phase of its economic life cycle.

Growing pressure on major mortgage lenders to cut rates alongside the RBA's cash rate cuts has placed downward pressure on industry revenue over the past five years. Although industry players remain the main source of financing to borrowers in the Australian real estate market, the emergence of non-bank lenders have led to these operators growing their share of the mortgages market. Low interest rates, tighter lending restrictions and ADIs offering loan deferrals during the pandemic have contributed to the industry's falling IVA over the five years through 2021-22.

Products & Markets

Supply Chain

Key Buying Industries

1st Tier

Residential Property Operators in Australia

Consumers in Australia

Key Selling Industries

1st Tier

National and Regional Commercial Banks in Australia

Foreign Banks in Australia

Building Societies in Australia

Credit Unions and Building Societies in Australia

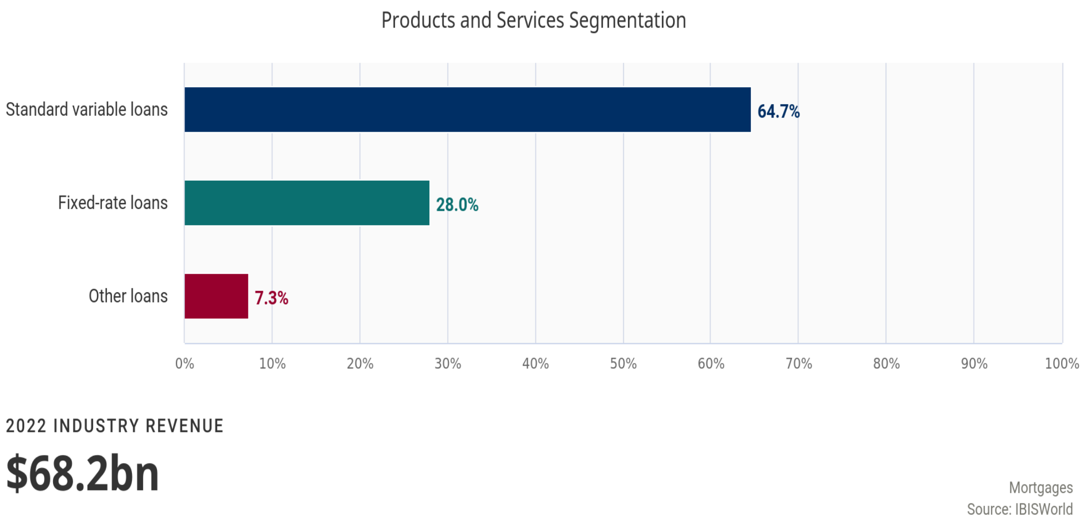
Non-Depository Financing in Australia

Mortgage Brokers in Australia

2nd Tier

Consumers in Australia

Products & Services



The Mortgages industry is largely made up of two major mortgage types: fixed-rate loans and variable-rate loans.

The variable-rate loan market is far more dynamic than the fixed-rate market, with several types of variable-rate loans available to cater to the needs of borrowers. Other loan types include line of credit and low-documentation loans.

STANDARD VARIABLE LOANS

Standard variable loans are the most common mortgage product.

This type of loan has a variable interest rate, which can change at any time, but is usually linked to the underlying cash rate set by the RBA. Compared with basic variable loans, the standard variable loan offers more features like an offset account, early repayment options or a redraw facility. While the interest rates charged on a standard variable loan typically offer more flexibility to consumers, they tend to be slightly higher than basic variable loans to compensate for these added features. Standard variable loans remain the most popular loan type, despite their higher interest rates, as many consumers prefer the flexibility they offer. Standard variable loans have fallen as a share of industry revenue over the past five years, as consumers have increasingly refinanced and sought to lock in a fixed-rate home loan as interest rates have declined, especially due to the COVID-19 pandemic.

FIXED-RATE LOANS

Fixed-rate loans enable borrowers to lock in an interest rate over a specific period, usually between six months and 10 years, subsequently providing the option of moving to a variable rate or rolling over for another fixed term.

The fixed-rate option gives borrowers the certainty of having a set repayment. While these loans benefit consumers when interest rates rise, they also involve risk if interest rates fall. Fixed-rate loans have grown as a share of revenue over the past five years, as an increasing number of borrowers have sought to refinance and lock in low interest rates during the COVID-19 pandemic.

OTHER LOANS

Other loans include basic variable loans, a line of credit, construction loans and introductory or honeymoon rate loans.

Basic variable loans are also known as no frills loans and represents the largest type of loan in the segment. They are a simpler type of variable home loan compared with standard variable loans. These loans do not provide offset account or redraw facilities, but come with lower interest rates and fees. Furthermore, these types of loans are often preferred by consumers looking for the lowest rate and do not need any extra features. Other loans have declined as a share of industry revenue over the past five years, due to strong growth in the fixed-rate loans segment.

Demand Determinants

Demand for products in the Mortgages industry depends on several factors.

These factors include interest rates on mortgages, which represents the pricing of residential mortgages, and mortgage affordability, which drives demand for residential property and the subsequent volume of mortgage transactions. In the investor segment, the return on other asset classes, such as domestic shares, international shares, bonds and other types of investments, influences the proportion of funds that are invested in the property market.

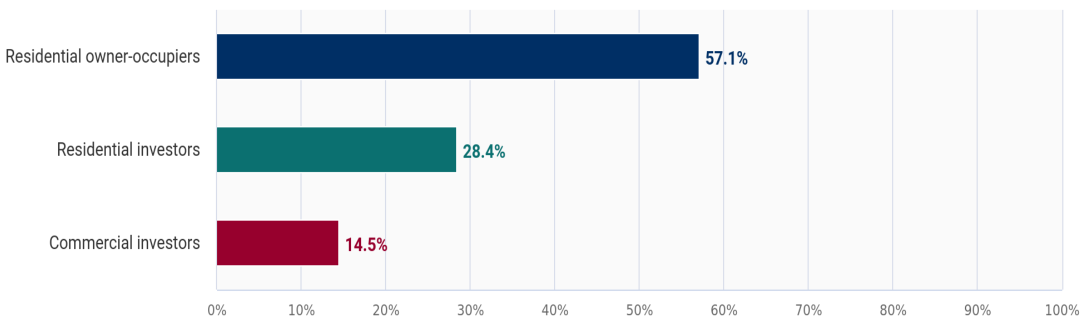
Several factors determine the interest rate charged by lenders. The primary component is the cash rate set by the RBA, from which many interest rates across different financial products are calculated. The interest rate that lenders pay to raise funds through deposits and wholesale markets also influences interest rates on mortgages. Interest rates on deposits are typically at a set margin below interest rates applied on mortgages, while interest rates on wholesale sources of funding are affected by general market sentiment and the authorised deposit-taking institutions' credit rating.

Mortgage affordability also affects demand for home loans. When growth in mortgage repayments outpaces growth in income, demand for mortgages tends to fall as the average consumer's ability to service their mortgage decreases. Although rising house prices generally positively affect the industry in terms of revenue, if they increase too much, a growing number of people are priced out of the market. In this instance, demand for home loans is likely to fall, as consumers opt to rent instead, which negatively affects industry revenue.

The return on various types of investments also affects demand for mortgages. Different proportions of funds are allocated to a range of assets, such as shares, bonds and properties, to achieve various investment goals. Investors typically prioritise maximising the income generated on an investment portfolio. When the return on one type of investment is higher than for another investment, more funds are typically allocated or transferred to that asset if the risk is similar. The performance of other asset classes can therefore affect the funds allocated to residential property and subsequent demand for mortgages.

Major Markets

Major Market Segmentation



2022 INDUSTRY REVENUE

$68.2bn

Mortgages
Source: IBISWorld

Major markets in the Mortgages industry are segmented by the property

type and owner type.

The three major mortgage markets in Australia include: residential owner-occupiers, residential investors and commercial mortgages. Current mortgage rates are at their lowest since the 1950s, due to falling interest rates.

RESIDENTIAL OWNER-OCCUPIERS

Residential owner-occupiers make up the largest market for the industry.

These are borrowers who purchase a residential property to own and live in. Residential owner-occupiers include first-home buyers and those that are moving homes. First-home buyers are borrowers who are purchasing their first residential property. While other owner-occupiers include people who previously owned a house, but have sold it and are re-entering the market looking to downsize, upgrade or change the type of dwelling they live in. Despite rising residential housing prices, this market segment has increased as a portion of industry revenue over the past five years. A low interest rate environment coupled with state and federal governments' support, such as the First Home Owner Schemes, have stimulated demand from this market segment over the period.

RESIDENTIAL INVESTORS

Residential investors are borrowers who purchase and own residential property for investment purposes.

Renting out property provides investors with an income stream, while rising house prices allow them to make capital gains on the sale of the property. Interest rates have fallen over the past five years, supporting demand from residential investors. However, economic uncertainty and falling residential property yields during the COVID-19 pandemic, have constrained demand from investors. Consequently, the residential investors market segment has fallen as a share of industry revenue over the past five years.

COMMERCIAL PROPERTY INVESTORS

This market consists of investors purchasing commercial property.

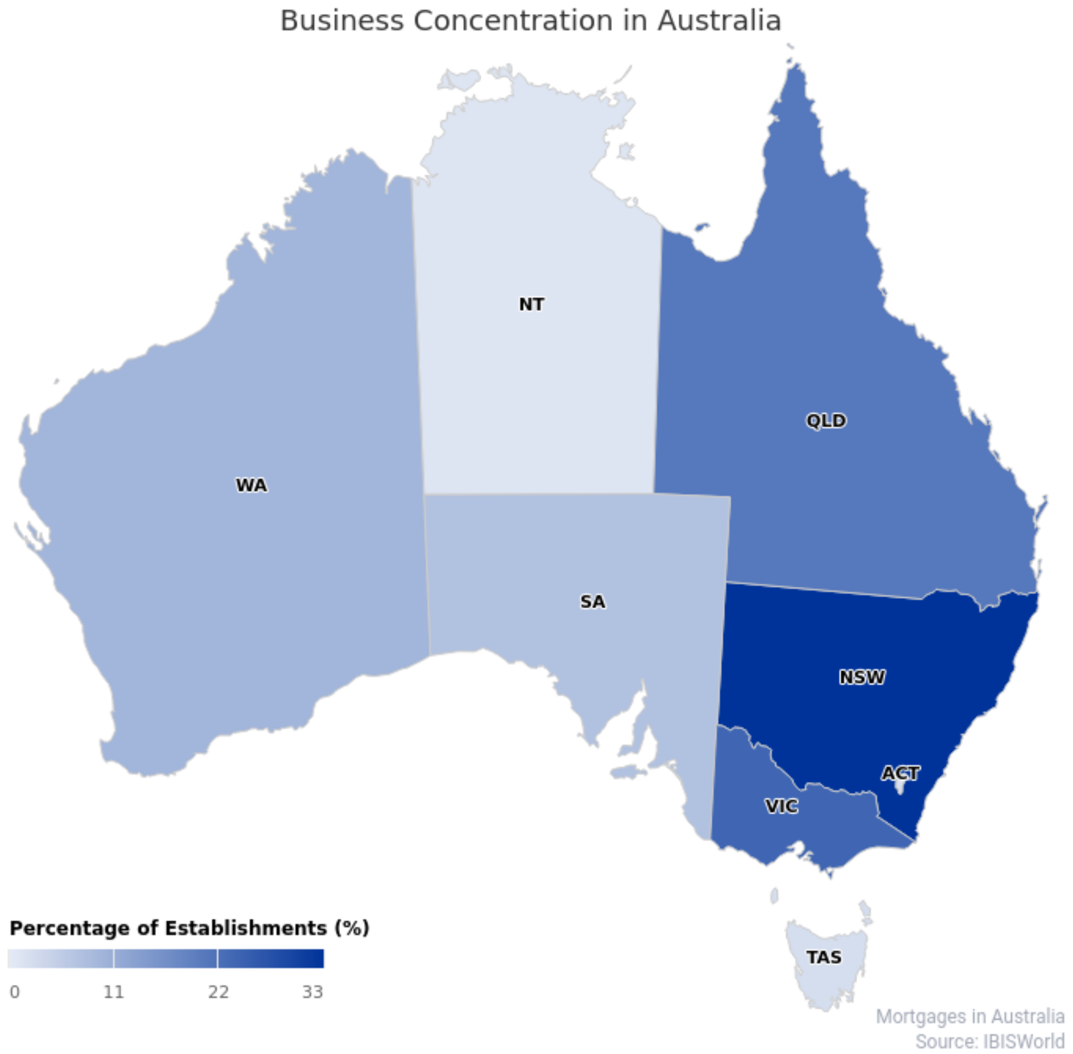
These investors take out a mortgage on commercial property, which is traditionally more volatile than residential property, for the purpose of generating an income from renting it out to businesses. Commercial property types include offices, retail, industrial and other commercial property, with offices representing the largest sub-segment in this market. The commercial property investors market segment has risen as a proportion of revenue over the past five years, largely stemming from growth in non-residential building construction activity. Mortgages for industrial property have grown significantly over the period, as online shopping activity has increased, fuelling demand for industrial warehouses and distribution centres.

Exports in this industry are Low and Steady

Imports in this industry are Low and Steady

International trade is not applicable to mortgages at the retail level, as a financial institution must hold an operating licence with APRA to conduct lending activities locally. All Australian mortgages are therefore issued domestically. However, trade takes place at the institutional level in Australian mortgages through the residential mortgage-backed securities (RMBS) market. Banks package bundles of mortgages into tradeable securities that are then sold to investors in Australia and overseas. The RMBS market plays an important role in supporting financing to the Mortgages industry.

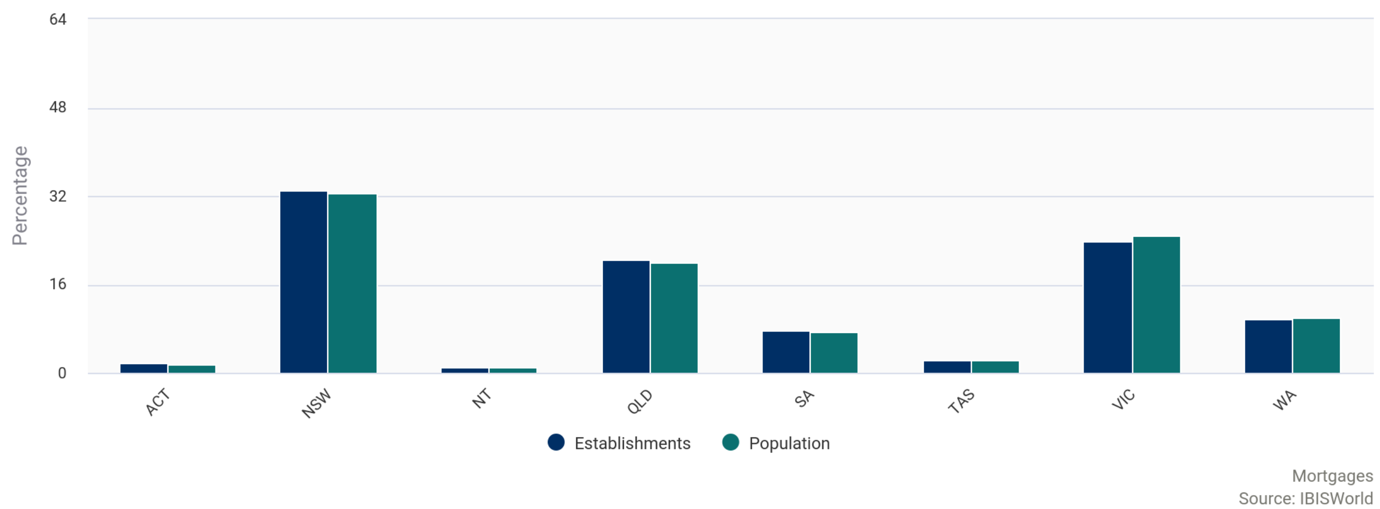
Business Locations



The spread of establishments in the Mortgages industry is largely aligned with the population. Movements in branch and establishment numbers are largely driven by the big four banks given the sheer scale of their branch networks. The big four banks' branch numbers have fallen over the period, as they transition towards digital banking platforms. In addition, the shift towards delivering banking services via digital and online channels have further contributed to a greater number of online-only operators, which has lowered branch numbers for the industry.

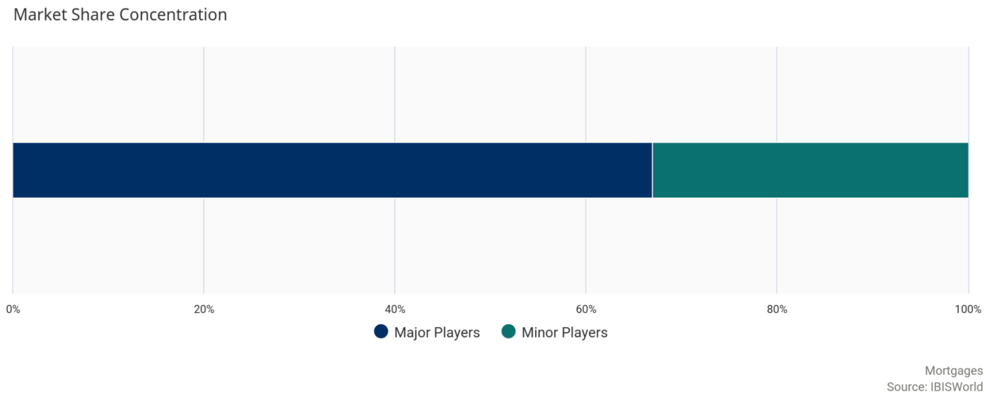
In the Mortgages industry, the eastern states of New South Wales, Victoria and Queensland account for over three-quarters of the total number of branches, with the majority located in these states' capital and major cities. This trend reflects the densely populated nature of these cities and states, especially with Sydney and Melbourne being the financial hubs of Australia. The remaining five states and territories share just under one quarter of all branches in the industry. The distribution of industry branches has not changed significantly, with most states and territories holding a similar proportion of branch numbers over the past five years.

Distribution of Establishments vs Population



Competitive Landscape

Market Share Concentration



Concentration in this industry is ⊖ Medium

The Mortgages industry displays a moderate level of market share concentration, with the four largest players accounting for just under 70% of housing loan assets in Australia. The industry's concentration has declined over the past five years, with smaller lenders growing their share of the market. Furthermore, non-bank lenders have become increasingly prominent, while online-only lenders, such as Athena, have also emerged as competition for the industry. The ease with which borrowers can compare mortgages and interest rates and access mortgage brokers have helped other non-major lenders grow their mortgage portfolio. As a result, market share concentration has fallen in the industry over the five years through 2021-22.

Key Success Factors

IBISWorld identifies 250 Key Success Factors for a business. The most important for this industry are:

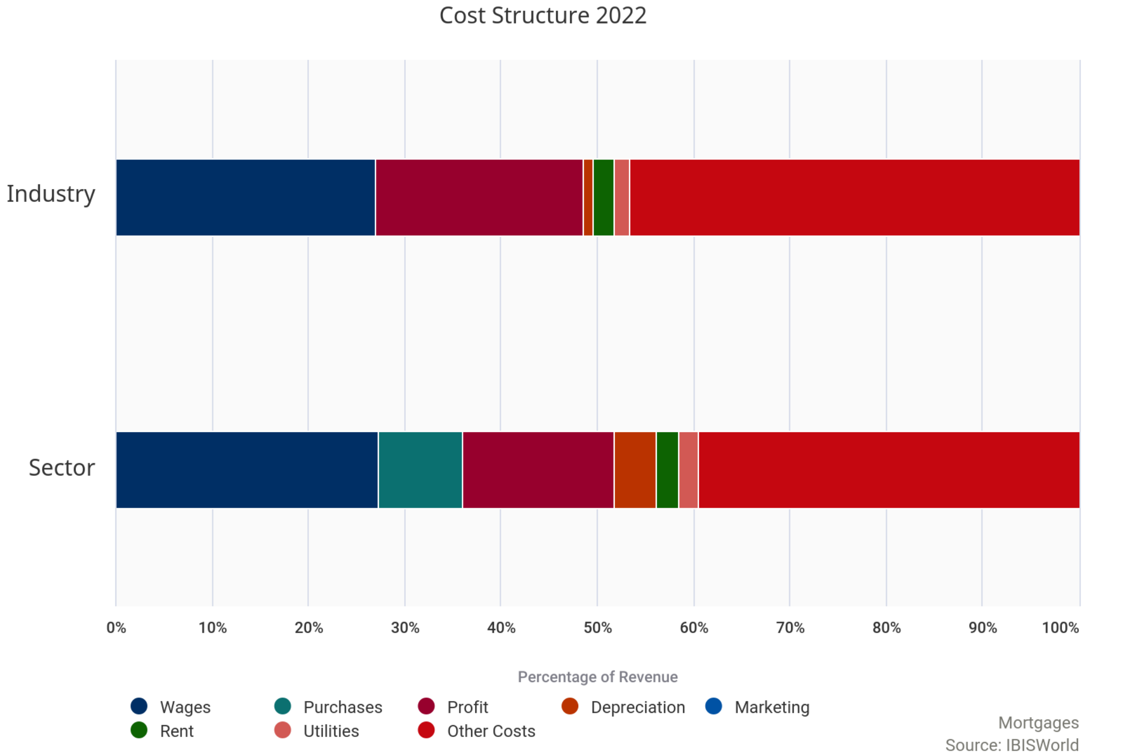
Economies of scale:
Cost reductions through economies of scale have become more important due to the increasingly competitive market. Lenders that are able to issue mortgages at a greater scale can reduce per-unit costs to improve profitability.

Superior financial management and debt management:
Firms must effectively manage their interest rate risk and debt and equity capital levels to ensure sufficient lending capacity and to price their mortgages at a more competitive rate to attract and retain borrowers.

Management of a high quality asset portfolio:
To reduce and minimise defaults and bad debts, mortgage issuers need to manage their loan portfolio and have adequate risk management and customer assessment processes in place.

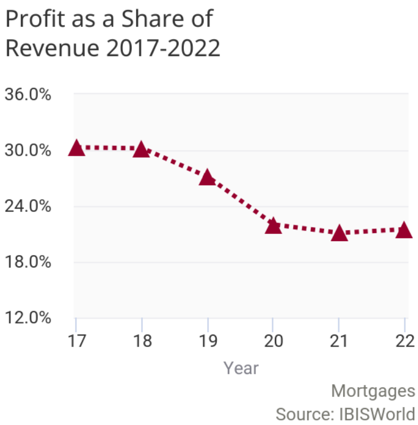
Ready access to investment funding:
To issue mortgages to customers, lenders must have access to a reliable source of funding that allows them to price their products competitively, meet the demands of borrowers and hold sufficient capital.

Cost Structure Benchmarks



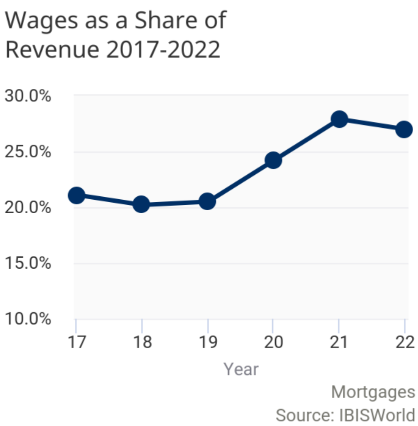
Profit

Industry profitability has declined over the past five years. Most ADIs have offered loan deferrals to customers affected by the COVID-19 pandemic over the past three years, weighing on industry profit. Additionally, industry wage costs have increased over the past five years, largely due to higher customer services costs during the pandemic. The low interest rate environment has constrained net interest margins over the period. However, this has been partially offset by cheaper wholesale funding costs. Furthermore, APRA's liquidity and capital requirements for ADIs have become more stringent over the past five years, constraining industry profit margins. Some of the larger lenders have also faced significant customer remediation costs over the period and tighter lending standards following the Financial Services Royal Commission, which have placed further downward pressure on profitability and added to the challenging lending environment.



Wages

The largest non-interest expense for the industry is labour costs, represented by wages. Banks and other lenders employ many sales people, customer service personnel and other back-office staff across their mortgage operations. Industry operators have increasingly adopted online and digital banking channels over the past five years, which has reduced labour requirements. However, customer service personnel costs are expected to rise during the pandemic, due to elevated volumes of customer support and loan deferrals. Consequently, wage costs have increased as a share of industry revenue over the past five years.



Other Costs

The industry incurs other expenses, including depreciation, administration costs, fees and commissions, legal services costs, marketing and advertising costs and technology costs. These expenses are minor compared with the industry's main costs. The industry's major players have strong distribution channels that allow them to acquire and retain home loan customers. The four major banks have an extensive network of branches, in addition to mortgage broking channels. While the growing trend towards delivering banking and financial services have helped to alleviate some of these costs, the shift towards technology expenditure and investment have offset these cost savings. Overall, other expenses have increased as a share of revenue over the past five years.

Other Costs as a Share of Revenue 2017-2022

Mortgages
Source: IBISWorld

Basis of Competition

Competition in this industry is ⚠ High and the trend is Increasing

The Mortgages industry is characterised by a high level of competition.

Competition is primarily based on pricing and product features, which are an important point of difference among lenders. Externally, industry operators face competition from non-bank lenders and other finance companies that provide mortgage products to households.

INTERNAL COMPETITION

Competition for home loans is mainly based on pricing, product features and the accessibility of mortgage products.

Price is the major basis of competition for both industry operators and non-bank lenders. Interest on mortgages are a significant expense for property owners and several basis points difference between mortgages can be a considerable saving given the size of mortgages. Price competition among lenders has intensified over the past five years as they seek to grow market share in a low interest rate environment, with borrowers seeking to refinance and lock in lower fixed rates during the COVID-19 pandemic.

Lenders also require a product range that matches their rivals to remain competitive. Product innovation allows a lender to gain a competitive advantage by presenting customers with something rival lenders cannot offer. However, differentiation is becoming increasingly difficult, as rapid technological changes make it easy to develop similar products. Lenders are now able to offer a newly created product or service to their customers to match their competitors in a short space of time. However, having a broad product range to offer customers and meet their borrowing needs is important to remain competitive.

Accessibility is another important factor in competing for business. Although lenders have traditionally relied on retail outlets to deliver their services, technological developments have allowed the growing use of online and mobile platforms to submit and manage loan applications. This has allowed smaller operators to extend their reach without the cost of establishing a retail presence, which is particularly effective in regions where demand is too low to warrant the significant investment required to open a branch.

EXTERNAL COMPETITION

The industry faces also faces competition externally from non-bank lenders.

This includes lenders such as Pepper, Firstmac, Resimac and Athena. These non-bank lenders primarily compete on the same basis as ADI lenders. The rising use of online, mobile and digital platforms have supported the emergence of these lenders and intensified competition in the mortgages market.

Barriers to Entry

Barriers to Entry in this industry are ⊘ High and the trend is Steady

The Mortgages industry exhibits high barriers to entry. A lender requires access to capital to provide or issue loans. Therefore, a firm considering entry into the industry must establish a reliable source of funding. The cost of funding is significant as it determines how competitively priced a new entrant's products will be.

Entrants that can overcome funding issues must also have adequate distribution channels and reach to compete in the industry. Existing firms have well-established retail outlets throughout the country that provide customers with easy access to banking products and services. Establishing these retail networks requires both large sums of capital and significant time. However, the growing use of online, mobile and digital platforms for loan applications and loan approvals have reduced the significance and advantages of having a large physical presence.

Brands acquire recognition and loyalty that attracts customers over time, which can create another barrier to entry. While lenders continue to rely on branches to deliver their products and services, technology has made new channels of delivery available. Loan products can now be sold through phone, internet and mobile banking services. Brokers are also becoming the preferred delivery method for many smaller lenders, as they save costs on operating retail branch networks. This can be demonstrated by 86 400 launching their mortgage product exclusively through broker channels.

Lenders must comply with numerous legislative requirements to operate in the industry. The sheer number of legislative requirements can present a further burden to prospective entrants, from both an operational and administrative standpoint. Legislative requirements include reporting requirements and minimum levels of capital to continue operating. Not meeting these requirements can lead to large monetary penalties or the suspension of licences, which would prohibit further participation in the industry.

Barriers to Entry Checklist

Competition	High ⚠
Concentration	Medium ⊖
Life Cycle Stage	Mature ⊖
Technology Change	Medium ⊖
Regulation & Policy	Heavy ⚠
Industry Assistance	Medium ⊖

Industry Globalization

Globalization in this industry is ✓ Low and the trend is Increasing

The Mortgages industry exhibits a low level of globalisation. Globalisation is measured by the foreign ownership of industry participants and the amount of international trade in the industry. Australian financial institutions, such as national and regional banks, credit unions and building societies, constitute the vast majority of residential loans. Banks from Asian countries such as China and South Korea have shown an interest in entering the Australian market. Entry from these banks may occur in a similar way to Dutch-based ING Bank, which pioneered the branchless bank and prioritised building a deposit base. ING Bank is now the largest foreign-owned mortgage provider, accounting for approximately 2.4% of total assets in the industry as at June 2021. International trade is not applicable at the retail level, due to legislative requirements and the necessity of having an APRA licence to conduct lending activities locally. Trade largely occurs at the institutional level through the residential mortgage-backed securities market.

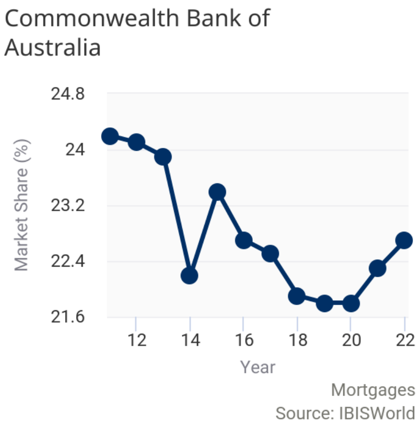
Major Companies

Major Players

Commonwealth Bank of Australia

Market Share: 22.7%

Brand Names Bankwest, Aussie



The Commonwealth Bank of Australia (CBA) is a publicly-listed financial institution. CBA was listed on the ASX in September 1991, following the selldown of equity by the Federal Government. In 1991, CBA acquired the State Bank of Victoria from the Victorian Government. In 1996, the Federal Government sold its remaining shares in CBA. The bank provides a full range of financial products and services. CBA's divisions are primarily split into Retail Banking Services, Business and Private Banking, Institutional Banking and Markets, New Zealand, and International Financial Services and Corporate Centre. The bank operates the largest ATM, EFTPOS, branch and agency network in Australia.

CBA is the largest provider of home loans in Australia. The bank has grown its mortgages businesses by fully acquiring Aussie Home Loans. CBA increased its investment in Aussie Home Loans from 33.0% to 80.0% in early 2013 and then fully acquired Aussie in August 2017. In December 2020, CBA announced the merger of its Aussie Home Loans business with online mortgage broker provider Lendi. The bank has also undergone a simplification of its business over the past five years, resulting in the sale of its insurance and wealth management businesses. For instance, in June 2021, CBA sold its CommInsure General Insurance business to Hollard Group.

Financial performance

CBA's industry-specific operations have performed well over the past five years and is the strongest performer of the big four banks in the industry. CBA's mortgage portfolio is expected to grow at an annualised 3.9% over the five years through 2021-22, to $494.9 billion in mortgage assets. This trend represents an outperformance of the industry over the same period. Growth in the company's mortgage assets have been supported by the merger of its Aussie Home Loan business with Lendi in December 2020.

Commonwealth Bank of Australia - domestic mortgage assets

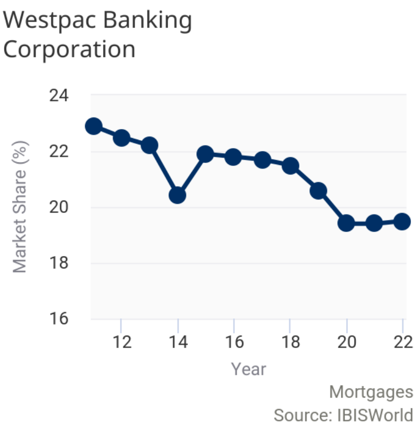
Year	Assets	Growth (% change)
2011-12	258.5	N/C
2012-13	322.5	24.8
2013-14	344.2	6.7
2014-15	366.9	6.6
2015-16	384.8	4.9
2016-17	408.2	6.1
2017-18	420.9	3.1
2018-19	434.7	3.3
2019-20	453.3	4.3
2020-21	483.6	6.7
2021-22*	494.9	2.3

Source: Australian Prudential Regulation Authority and IBISWorld
Note: *Estimate

Westpac Banking Corporation

Market Share: 19.5%

Brand Names St.George, Bank of Melbourne, BankSA, RAMS



Westpac Banking Corporation is an ASX-listed bank that offers a full range of banking and financial services. The company divides its operations into the following segments: Consumer, Business, Westpac Institutional Bank, Westpac New Zealand, Specialist Businesses and Group Businesses. Westpac is headquartered in Sydney.

Westpac offers mortgage products primarily through its Consumer Bank division. The Consumer Bank division is responsible for consumer banking products and services under the Westpac, St.George, BankSA, Bank of Melbourne and RAMS brands and parts of its BT brands.

Financial performance

Westpac's industry-specific operations have grown overall over the past five years. Westpac's mortgage portfolio is expected to grow at an annualised 1.5% over the five years through September 2022, to $423.2 billion. This represents an underperformance of the overall industry over the period in terms of mortgage assets. This underperformance has been largely due to stricter lending criteria and greater competition over the past five years.

Westpac Banking Corporation - domestic mortgage assets

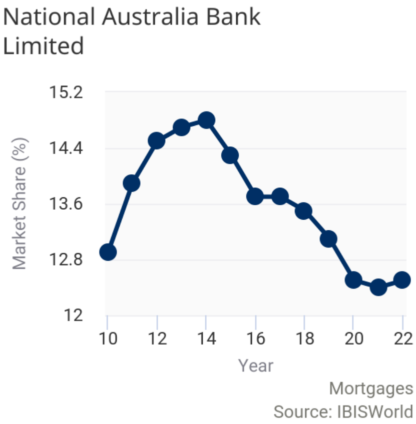
Year*	Assets ($b)	Growth (% change)
2011-12	288.4	N/C
2012-13	301.1	4.4
2013-14	322.4	7.1
2014-15	344.0	6.7
2015-16	370.6	7.7
2016-17	393.8	6.3
2017-18	411.7	4.5
2018-19	411.2	-0.1
2019-20	404.3	-1.7
2020-21**	420.2	3.9
2021-22**	423.8	0.9

Source: Australian Prudential Regulation Authority and IBISWorld
Note: *Year end September **Estimate

National Australia Bank Limited

Market Share: 12.5%

Brand Names UBank



National Australia Bank Limited (NAB) is an ASX-listed financial institution that provides a full range of banking and financial services to retail, business and institutional customers through its Personal Banking, Business and Private Banking, and Corporate and Institutional Banking segments. The company previously had international operations in Asia, New Zealand, the United Kingdom and the United States. However, the company has sold off a significant proportion of its overseas operations over the past five years to focus on its core business in Australia and New Zealand.

NAB operates in the industry through its Australian business and its subsidiaries UBank and 86 400. While NAB has an extensive branch network, UBank and 86 400 are online-only operator, providing online loans and banking services. In May 2021, NAB acquired 86 400 to support growth in its digital banking operations

Financial performance

NAB's mortgage portfolio is expected to rise at an annualised 1.8% over the five years through September 2022, to $271.8 billion in mortgage assets. This represents an underperformance of the overall industry. Although NAB has traditionally focused on its business banking operations, the company has expanded its mortgage portfolio though the acquisition of 86,400 and aggressive marketing over the past five years to regain market share. However, growth has been constrained by stricter lending standards over the past three years, following the Financial Services Royal Commission.

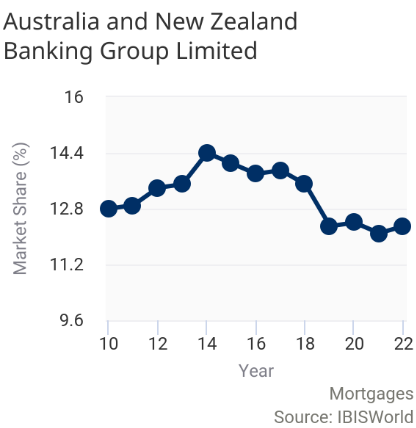
National Australia Bank Limited - domestic mortgage assets

Year*	Assets ($b)	Growth (% change)
2011-12	186.9	N/C
2012-13	200.3	7.2
2013-14	207.6	3.6
2014-15	224.0	7.9
2015-16	233.3	4.2
2016-17	248.2	6.4
2017-18	258.4	4.1
2018-19	261.2	1.1
2019-20	260.4	-0.3
2020-21**	269.2	3.4
2021-22**	271.8	1.0

Source: Australian Prudential Regulation Authority and IBISWorld
Note: *Year end September **Estimate

Australia and New Zealand Banking Group Limited

Market Share: 12.3%



Australia and New Zealand Banking Group Limited (ANZ) is an ASX-listed Australian bank that began trading in 1835 as the Bank of Australasia. ANZ provides a full range of banking and financial services, with business segments including Australia Retail and Commercial, New Zealand, Institutional, Pacific, Technology, Services & Operations and Group Centre. ANZ is represented in over 34 countries, which exceeds the international representation of the other three major banks. The bank operates in the industry primarily through its Australian retail and commercial banking. ANZ has focused on streamlining its operations over the past five years, by shifting to an institutional focus overseas and divesting its wealth management business.

Financial performance

The value of ANZ's mortgage portfolio is expected to rise at an annualised 1.3% over the five years through September 2022, to $267.8 billion in mortgage assets. This represents an underperformance of the overall industry in terms of mortgage assets. ANZ recorded a significant decline of 5.0% in its mortgage portfolio over year ending September 2019, as the bank excessively tightened its lending standards following the Financial Services Royal Commission. As a result, ANZ lost a significant market share over the year, as its lending standards made it difficult for customers to obtain a loan. During the COVID-19 pandemic, ANZ has been among the most aggressive operators in offering incentives, such as cashbacks for refinancing, which is expected to help boost its mortgage portfolio and market share over the two years through September 2021. This cashback incentive is expected to end on 31 October 2021.

Australia and New Zealand Banking Group Limited - domestic mortgage assets

Year*	Assets ($b)	Growth (% change)
2011-12	170.8	N/C
2012-13	182.7	7.0
2013-14	201.2	10.1
2014-15	220.6	9.6
2015-16	234.8	6.4
2016-17	251.2	7.0
2017-18	259.3	3.2
2018-19	246.4	-5.0
2019-20	257.2	4.4
2020-21**	261.8	1.8
2021-22**	267.8	2.3

Source: Australian Prudential Regulation Authority and IBISWorld
Note: *Year end September **Estimate

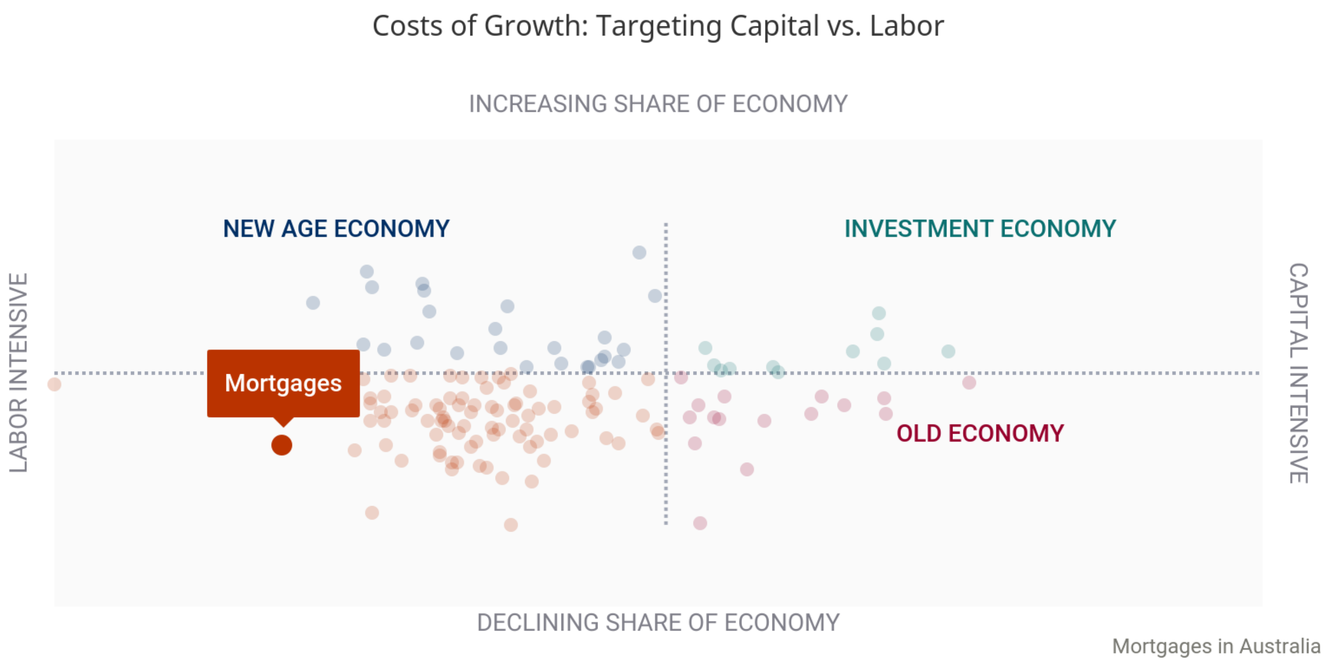
Other Companies

Outside the four major banks, there have been some developments among the smaller players in the industry. The rise of Dutch-based ING Bank over the past five years has been notable, as they have become the largest foreign-owned bank in the industry. Other significant players outside the four major banks include ING Bank, Macquarie Bank, Bendigo and Adelaide Bank and Suncorp.

ING Bank (Australia) Limited

Market Share: 3.0%
ING Bank Australia is the local operations of Dutch multinational financial institution ING Group, based in Amsterdam. The bank was established in 1994 and has operated in the mortgage market since 1999. Since entering the market, ING Bank has built a foundation of deposits with low-fee, high interest savings accounts. ING Bank has chosen not to invest in a large branch network and instead invested in its online and digital operations, enabling the company to offer cheaper loans and higher interest rates on deposits due to its lower expenses.

Operating Conditions



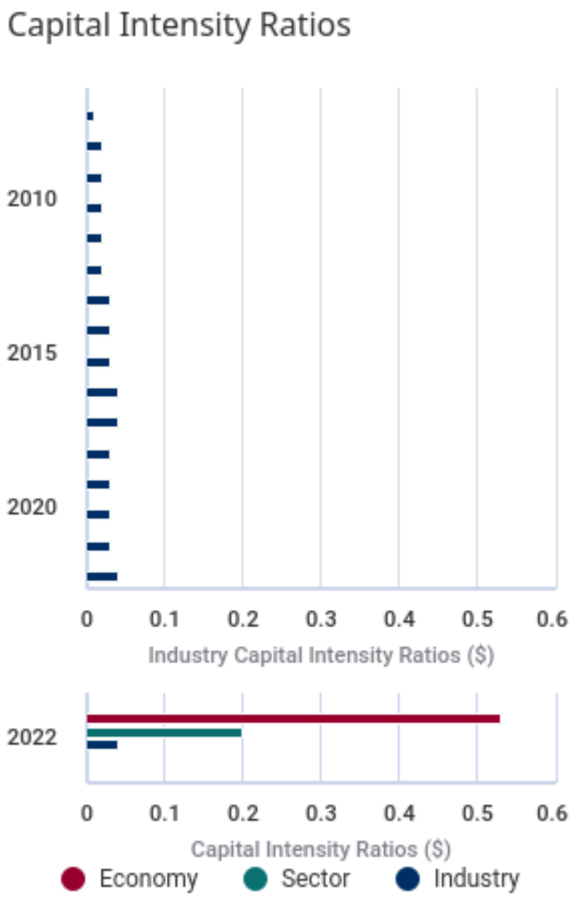
Mortgages in Australia
Source: IBISWorld

Capital Intensity

The level of capital intensity is ✓ **Low**

The Mortgages industry exhibits low capital intensity, due to the high labour requirements of lenders. For every dollar paid as wages, an estimated $0.04 is spent on capital investments. Taking out a mortgage and purchasing a home is a significant decision for many households. Prospective borrowers therefore prefer to deal with knowledgeable staff that can match their needs with the right type of mortgage product. This boosts the labour-intensive nature of the industry. A significant amount of administrative and processing tasks in the industry also require staff. Although the industry is increasingly automating parts of the loan approval process and using digital channels to delivery banking services to reduce labour costs in these areas, wage expenses remain a key cost for industry operators.

Despite the industry's low capital intensity, lenders still make significant investment in technology and capital. Lenders use technology extensively in daily activities and delivering products and services to customers, which require significant investment in technological infrastructure such as software and equipment. Furthermore, banks and other lenders continue to invest in mobile and online platforms to allow customers to manage their mortgages and finances in real time. The emergence of many online-only lenders further adds to the industry's investment in technology and capital.



Mortgages
Source: IBISWorld

Technology & Systems

Potential Disruptive Innovation: Factors Driving Threat of Change

Level	Factor	Disruptive Effect	Description
Very Low	Rate of Innovation	Very Unlikely	A ranked measure for the number of patents assigned to an industry. A faster rate of new patent additions to the industry increases the likelihood of a disruptive innovation occurring.
High	Innovation Concentration	Likely	A measure for the mix of patent classes assigned to the industry. A greater concentration of patents in one area increases the likelihood of technological disruption of incumbent operators.
Medium	Ease of Entry	Potential	A qualitative measure of barriers to entry. Fewer barriers to entry increases the likelihood that new entrants can disrupt incumbents by putting new technologies to use.
Very Low	Rate of Entry	Very Unlikely	Annualized growth in the number of enterprises in the industry, ranked against all other industries. A greater intensity of companies entering an industry increases the pool of potential disruptors.
High	Market Concentration	Likely	A ranked measure of the largest core market for the industry. Concentrated core markets present a low-end market or new market entry point for disruptive technologies to capture market share.

The rate of new patent technologies entering the industry is low, which limits the potential for innovations. A low rate does not mean that innovations cannot occur, just that the likelihood of some innovation materializing as a threat is lower. However, the concentration of technologies is high in this industry. This suggests that industry operators have exposure to potentially unforeseen areas of innovation.

Industry operators are exposed to a low rate of new entrants and a moderate level of entry barriers. This combination of factors creates an environment where entry trends are not a key threat of disruption.

The major markets for this industry are highly concentrated, which implies that the market has a focus on key customer segments. This presents an opportunity for strategic entrance into lower-end markets or unserved markets for innovations to take on a disruptive trajectory.

The Mortgages industry has faced moderate technological disruption over the past five years.

The growing popularity and emergence of online-only lenders and neobanks have increased competition in the mortgages market. Outside of the industry, non-bank lenders, such as Athena, have been able to grow their market share in certain segments like refinancing. In addition, home loan applicants are increasingly using comparison websites, such as finder.com.au and iselect, to compare interest rates and mortgage packages. Online price comparison websites have improved pricing transparency by allowing consumers to compare different mortgage packages with a single click. This has led to an increase in competition among industry operators. As a result, many banks have expanded their digital, direct-to-consumer channels over the period.

Another area for potential digital disruption is the emergence of the home loan 'robo-advisor'. In the UK, mortgage 'robo-advisors' have collaborated with many high street banks to allow customers to apply for home loans within minutes. While not yet available in Australia, this trend is anticipated to grow globally in the future. Over the next five years, industry operators are expected to create in-house digital platforms, such as 'robo-advisors', to improve the customer experience by allowing home loan applicants to apply for the best available mortgage.

The level of technology change is Medium

The Mortgages industry exhibits moderate technological change.

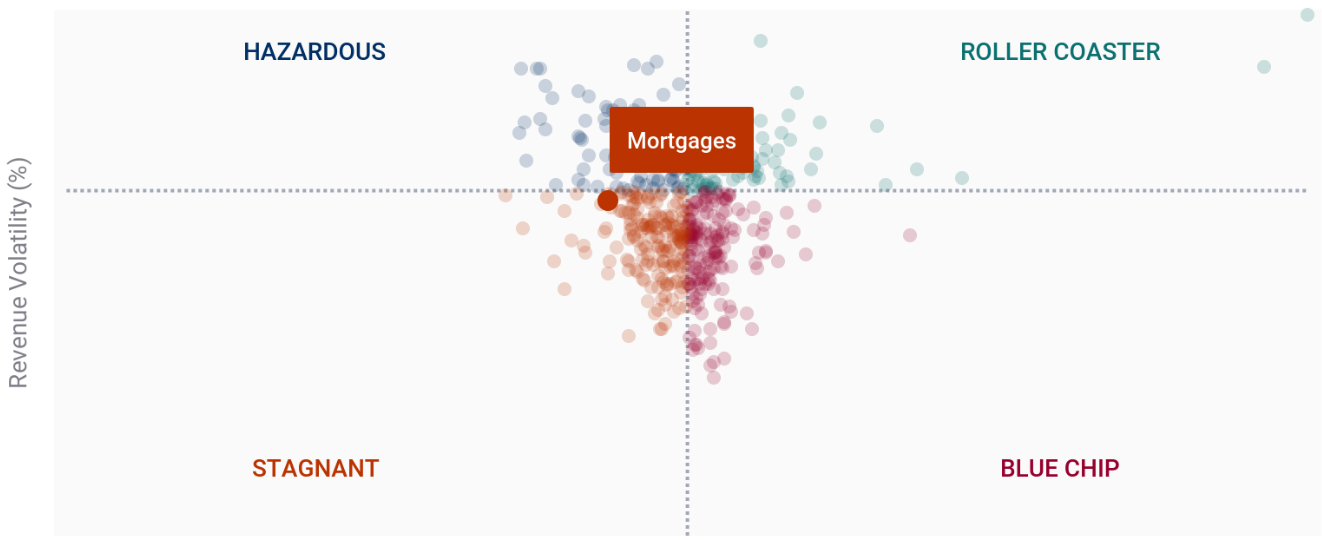
Technology has driven significant changes in the industry. These changes include the rising popularity of online-only lenders like UBank and ING Bank and the emergence of neobanks such as 86 400. Neobanks have built new processes, systems and applications that centres around delivering banking and lending through mobile and other digital channels. This is in contrast to operators such as UBank and ING Bank, that overlay their lending process on top of existing systems. Furthermore, there has been significant changes in retail payment systems and financial services distribution channels, risk management and data assessment across the finance sector.

Lenders currently rely heavily on mobile and online platforms to deliver their products and services to consumers. This trend requires operators to make significant ongoing investments in technology to remain competitive in the industry. The rapid pace of technological changes can also present a threat to industry operators as it makes accessing mortgage information and comparison easier to borrowers and reduces the advantage of large retail distribution networks of traditional lenders.

Revenue Volatility

The level of volatility is ⊖ Medium

Volatility vs. Growth



Mortgages
Source: IBISWorld

The Mortgages industry exhibits moderate revenue volatility.

Industry revenue is sensitive to fluctuations in the cash rate. A higher cash rate typically increases both residential housing loan rates and interest income on mortgage portfolios. However, rising interest rates often reduce demand for home loans, limiting growth in lenders' mortgage portfolios and offsetting a large part of revenue gains from the higher interest rates charged. Economic growth typically increases demand for mortgages for any given level of interest rates, which tends to boost industry revenue.

Changes in the Australian economy and the lending environment over the past five years have driven moderate industry revenue volatility. There has been uncertainty surrounding financial markets and economic growth, while tighter lending standards have also contributed to the volatility. Furthermore, several rate cuts over the past five years have fuelled revenue volatility.

Regulation & Policy

The level of regulation is ⚠ Heavy and the trend is Increasing

The Mortgages industry is characterised by a high level of regulation and policy.

Since the industry deals only with Authorised Deposit-taking Institutions, it is governed by the same regulatory framework as banks, credit unions and building societies. The main governing body is the Australian Prudential Regulation Authority (APRA). APRA sets prudential standards and oversees various aspects of the industry, such as capital adequacy requirements, liquidity, credit quality, financial exposures, and audit and related arrangements for prudential reporting.

BASEL III

Basel III is a new set of international banking reforms developed by the Basel Committee on Banking Supervision to strengthen the regulation, supervision and risk management of the banking sector, and prevent another financial crisis.

Under the reforms, which have been gradually implemented from January 2013, banks have faced substantially increased minimum capital requirements, and new regulatory requirements governing liquidity and leverage. However, these requirements do not pose any significant threat to the industry, as Australian banks already hold significantly higher amount of capital compared with their international peers.

In July 2015, APRA increased capital requirements for residential mortgage exposures for financial institutions using the internal ratings-based (IRB) approach to calculating regulatory capital. These financial institutions include the big four banks and Macquarie Group. In July 2017, APRA announced a further increase of the capital adequacy requirements to an unquestionably strong benchmark. Under these benchmarks, the four major Australian banks must have a Common Equity Tier 1 (CET1) capital ratio of at least 10.5%. Although this increase was initially scheduled to take effect on 1 January 2020, APRA has temporarily relaxed these benchmarks in the wake of the COVID-19 pandemic to promote continued lending and credit availability within the economy. On 21 July 2021, APRA announced a roadmap for phasing in the new capital adequacy requirements, which are due to come into effect from January 2023.

FINANCIAL SERVICES ROYAL COMMISSION

The Financial Services Royal Commission released its final report on 4 February 2019, with several recommendations affecting the Mortgages industry.

Major banks have tightened loan application processes in the face of heightened regulatory scrutiny. Banks are now required to investigate in more detail whether borrowers can repay their home loans, instead of relying on the standard Household Expenditure Measure. Borrowers' ability to repay their loans came into focus when the Royal Commission discovered mortgage brokers were adjusting loan applications for loan approval, with many loan applications to the major banks under-reporting prospective borrowers' living expenses.

THE MODERN SLAVERY ACT

In November 2018, the Federal Government passed the Modern Slavery Act 2018.

The act, which came into force on 1 January 2019, is a new reporting requirement for larger Australian businesses. Companies that generate an annual consolidated revenue of at least $100.0 million will have to report on how they act to mitigate the risks of modern slavery in their operations and supply chains. The first reports will relate to 2018-19, with most reports being released in 2020. The NSW Government is also considering its own state-based version of the report, which would make businesses with consolidated annual revenue of at least $50.0 million have to report. The NSW Modern Slavery Act 2018 was due to come into force on 1 July 2019, but was delayed for further consultation on the day it was set to be implemented.

The Modern Slavery Act is anticipated to heavily affect the Mortgages industry. The Australian Council of Superannuation Investors (ACSI) identified financial services as a high-risk sector for modern slavery, as this sector is in the early stages of managing its exposure to slavery. The industry is therefore exposed to the risk of modern slavery through operators' activities in the financial services sector. Industry firms largely rely on a highly paid skilled workforce, meaning their direct business operations are unlikely to be affected. However, industry players may be exposed through their supply chains. Activities such as procurement, sourcing marketing merchandise, facilities management (such as waste management, cleaning and building maintenance) and outsourcing back-office operations introduce the risk of modern slavery.

Industry Assistance

The level of industry assistance is ⊝ Medium and the trend is Decreasing

The Mortgages industry receives a moderate level of assistance that has gradually decreased over the past five years.

The industry primarily benefits from first-home buyers receiving a grants, exemptions, concessions or other incentive to purchase residential property or make additions, alterations and renovations to their properties. However, these schemes have become more restrictive in most states and territories.

First Home Owner Schemes

Eligible first-home buyers can access grants, exemptions, concessions or reductions depending on the various state and territory governments. For example, first-home buyers in Victoria may be eligible for a $10,000 grant if they are buying or building a new home valued at up to $750,000. Eligible buyers can gain access to an addition $10,000 if the home they are buying is in regional Victoria from 1 July 2017 to 30 June 2021. First-home buyers of established homes previously qualified for the grant, but are now entitled to a duty exemption if the property is valued at $600,000 or less. Eligible buyers of established homes valued at between $600,001 and $750,000 can access a duty concession.

First Home Super Saver Scheme

The First Home Super Saver Scheme (FHSS) was introduced by the Federal Government to help improve housing affordability for first-home buyers. The FHSS allows first-home buyers to save money in their superannuation fund. First-home buyers can make voluntary contributions of up to $15,000 into their superannuation each financial year and can later withdraw these amounts to assist with a deposit on their first home in Australia. The maximum amount of contributions that can be withdrawn under the scheme is $30,000 per individual purchasing property.

Key Statistics

Industry Data

Year	Revenue ($m)	IVA ($m)	Establishments (Units)	Enterprises (Units)	Employment (Units)	Exports ($m)	Imports ($m)	Wages ($m)	Total Assets ($m)	Domestic Demand ($m)
2012-13	97,380	40,608	6,413	165	191,412	N/A	N/A	17,334	1,556,725	N/A
2013-14	93,019	43,440	6,360	163	192,596	N/A	N/A	18,046	1,644,361	N/A
2014-15	94,985	48,253	6,219	158	183,048	N/A	N/A	19,282	1,797,672	N/A
2015-16	94,824	46,559	5,904	150	181,823	N/A	N/A	19,723	1,952,914	N/A
2016-17	90,887	47,534	5,816	143	179,011	N/A	N/A	19,177	2,008,796	N/A
2017-18	92,388	47,210	5,609	139	173,339	N/A	N/A	18,662	2,088,483	N/A
2018-19	89,974	43,457	5,314	138	170,968	N/A	N/A	18,445	2,102,517	N/A
2019-20	78,336	36,818	5,173	140	173,303	N/A	N/A	18,957	2,149,584	N/A
2020-21	66,329	33,098	5,018	137	176,444	N/A	N/A	18,506	2,211,392	N/A
2021-22	68,220	33,769	5,033	139	175,960	N/A	N/A	18,447	2,178,305	N/A
2022-23	70,765	34,533	5,001	140	175,931	N/A	N/A	18,342	2,185,929	N/A
2023-24	73,644	35,865	4,859	139	177,266	N/A	N/A	18,400	2,218,936	N/A
2024-25	76,487	37,708	4,711	138	179,729	N/A	N/A	18,545	2,256,658	N/A
2025-26	81,335	41,074	4,617	138	185,915	N/A	N/A	19,045	2,321,876	N/A
2026-27	83,338	42,919	4,542	138	186,355	N/A	N/A	18,884	2,386,656	N/A

Annual Change

Year	Revenue (%)	IVA (%)	Establishments (%)	Enterprises (%)	Employment (%)	Exports (%)	Imports (%)	Wages (%)	Total Assets (%)	Domestic Demand (%)
2012-13	-7.64	6.10	-1.37	0.00	0.12	N/A	N/A	0.86	7.21	N/A
2013-14	-4.48	6.97	-0.83	-1.22	0.61	N/A	N/A	4.10	5.62	N/A
2014-15	2.11	11.1	-2.22	-3.07	-4.96	N/A	N/A	6.85	9.32	N/A
2015-16	-0.18	-3.52	-5.07	-5.07	-0.67	N/A	N/A	2.28	8.63	N/A
2016-17	-4.16	2.09	-1.50	-4.67	-1.55	N/A	N/A	-2.77	2.86	N/A
2017-18	1.65	-0.69	-3.56	-2.80	-3.17	N/A	N/A	-2.69	3.96	N/A
2018-19	-2.62	-7.95	-5.26	-0.72	-1.37	N/A	N/A	-1.17	0.67	N/A
2019-20	-12.9	-15.3	-2.66	1.44	1.36	N/A	N/A	2.77	2.23	N/A
2020-21	-15.3	-10.1	-3.00	-2.15	1.81	N/A	N/A	-2.39	2.87	N/A
2021-22	2.85	2.02	0.29	1.45	-0.28	N/A	N/A	-0.33	-1.50	N/A
2022-23	3.73	2.26	-0.64	0.71	-0.02	N/A	N/A	-0.57	0.35	N/A
2023-24	4.06	3.85	-2.84	-0.72	0.75	N/A	N/A	0.31	1.50	N/A
2024-25	3.86	5.14	-3.05	-0.72	1.38	N/A	N/A	0.78	1.69	N/A
2025-26	6.33	8.92	-2.00	0.00	3.44	N/A	N/A	2.69	2.88	N/A
2026-27	2.46	4.49	-1.63	0.00	0.23	N/A	N/A	-0.85	2.78	N/A

Key Ratios

Year	IVA/Revenue (%)	Imports/ Demand (%)	Exports/ Revenue (%)	Revenue per Employee ($'000)	Wages/ Revenue (%)	Employees per estab. (Units)	Average Wage ($)
2012-13	41.7	N/A	N/A	509	17.8	29.8	90,557
2013-14	46.7	N/A	N/A	483	19.4	30.3	93,697
2014-15	50.8	N/A	N/A	519	20.3	29.4	105,338
2015-16	49.1	N/A	N/A	522	20.8	30.8	108,475
2016-17	52.3	N/A	N/A	508	21.1	30.8	107,129
2017-18	51.1	N/A	N/A	533	20.2	30.9	107,664
2018-19	48.3	N/A	N/A	526	20.5	32.2	107,884
2019-20	47.0	N/A	N/A	452	24.2	33.5	109,388
2020-21	49.9	N/A	N/A	376	27.9	35.2	104,883
2021-22	49.5	N/A	N/A	388	27.0	35.0	104,833
2022-23	48.8	N/A	N/A	402	25.9	35.2	104,256
2023-24	48.7	N/A	N/A	415	25.0	36.5	103,801
2024-25	49.3	N/A	N/A	426	24.2	38.2	103,185
2025-26	50.5	N/A	N/A	437	23.4	40.3	102,437
2026-27	51.5	N/A	N/A	447	22.7	41.0	101,332

Figures are inflation adjusted to 2021-22

Additional Resources

Additional Resources

Reserve Bank of Australia
http://www.rba.gov.au

Australian Prudential Regulation Authority
http://www.apra.gov.au

Australian Bureau of Statistics
http://www.abs.gov.au

Industry Jargon

ADI
Authorised deposit-taking institution.

CASH RATE
The rate at which banks lend funds to one another overnight, set by the Reserve Bank of Australia.

TIER 1 CAPITAL
A means by which regulators assess the structure of their capital to determine the financial strength of a bank.

Glossary

BARRIERS TO ENTRY
High barriers to entry mean that new companies struggle to enter an industry, while low barriers mean it is easy for new companies to enter an industry.

CAPITAL INTENSITY
Compares the amount of money spent on capital (plant, machinery and equipment) with that spent on labour. IBISWorld uses the ratio of depreciation to wages as a proxy for capital intensity. High capital intensity is more than $0.333 of capital to $1 of labour; medium is $0.125 to $0.333 of capital to $1 of labour; low is less than $0.125 of capital for every $1 of labour.

CONSTANT PRICES
The dollar figures in the Key Statistics table, including forecasts, are adjusted for inflation using the current year (i.e. year published) as the base year. This removes the impact of changes in the purchasing power of the dollar, leaving only the 'real' growth or decline in industry metrics. The inflation adjustments in IBISWorld's reports are made using the Australian Bureau of Statistics' implicit GDP price deflator.

DOMESTIC DEMAND
Spending on industry goods and services within Australia, regardless of their country of origin. It is derived by adding imports to industry revenue, and then subtracting exports.

EMPLOYMENT
The number of permanent, part-time, temporary and casual employees, working proprietors, partners, managers and executives within the industry.

ENTERPRISE
A division that is separately managed and keeps management accounts. Each enterprise consists of one or more establishments that are under common ownership or control.

ESTABLISHMENT
The smallest type of accounting unit within an enterprise, an establishment is a single physical location where business is conducted or where services or industrial operations are performed. Multiple establishments under common control make up an enterprise.

EXPORTS
Total value of industry goods and services sold by Australian companies to customers abroad.

IMPORTS
Total value of industry goods and services brought in from foreign countries to be sold in Australia.

INDUSTRY CONCENTRATION
An indicator of the dominance of the top four players in an industry. Concentration is considered high if the top players account for more than 70% of industry revenue. Medium is 40% to 70% of industry revenue. Low is less than 40%.

INDUSTRY REVENUE
The total sales of industry goods and services (exclusive of excise and sales tax); subsidies on production; all other

operating income from outside the firm (such as commission income, repair and service income, and rent, leasing and hiring income); and capital work done by rental or lease. Receipts from interest royalties, dividends and the sale of fixed tangible assets are excluded.

INDUSTRY VALUE ADDED (IVA)

The market value of goods and services produced by the industry minus the cost of goods and services used in production. IVA is also described as the industry's contribution to GDP, or profit plus wages and depreciation.

INTERNATIONAL TRADE

The level of international trade is determined by ratios of exports to revenue and imports to domestic demand. For exports/revenue: low is less than 5%; medium is 5% to 20%; and high is more than 20%. Imports/domestic demand: low is less than 5%; medium is 5% to 35%; and high is more than 35%.

LIFE CYCLE

All industries go through periods of growth, maturity and decline. IBISWorld determines an industry's life cycle by considering its growth rate (measured by IVA) compared with GDP; the growth rate of the number of establishments; the amount of change the industry's products are undergoing; the rate of technological change; and the level of customer acceptance of industry products and services.

NONEMPLOYING ESTABLISHMENT

Businesses with no paid employment or payroll, also known as nonemployers. These are mostly set up by self-employed individuals.

PROFIT

IBISWorld uses earnings before interest and tax (EBIT) as an indicator of a company’s profitability. It is calculated as revenue minus expenses, excluding interest and tax.

VOLATILITY

The level of volatility is determined by averaging the absolute change in revenue in each of the past five years. Volatility levels: very high is more than ±20%; high volatility is ±10% to ±20%; moderate volatility is ±3% to ±10%; and low volatility is less than ±3%.

WAGES

The gross total wages and salaries of all employees in the industry.