

An aerial photograph of a coastal city at dusk. The foreground is filled with a dense residential area featuring various houses and apartment buildings with different roof colors. In the middle ground, a large body of water, likely a bay or harbor, stretches across the frame. In the background, a distant city skyline is visible across the water, and a large, forested headland or island rises from the water's edge. The sky is a deep blue with some light clouds.

**uno.**

Win at home loans

# Household Financial Waste Report

July 2019



**IMPORTANT:** Estimated customer annual interest savings calculated for the first year after refinancing, using data from ACCC [ACCC Residential Mortgage Price Inquiry, November 2018/ CoreLogic Market Trends, March 2019] and uno's LoanScore data [Feb - June 2019], showing customers who renegotiated their home loans into a lower interest rate loan (and extrapolating that out over the next 12 months), and assuming customers refinanced into the same loan amount and term, loan type, repayment and interest rate type, on an annual repayment frequency, and with no early repayments made during the first year. Whether or not someone can refinance into a better loan is dependent on eligibility, terms and conditions and uno's and the lender's assessment. Calculations don't take into account the costs associated with refinancing. CoreLogic does not warrant the accuracy, currency or completeness of the Market Trends Data and to the full extent permitted by law excludes all loss or damage howsoever arising (including through negligence) in connection with the Market Trends Data.

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# Winning back consumer trust

## Foreword by A.T. Kearney

In the wake of the Banking Royal Commission, the loss of consumer trust in the financial services industry is palpable. The idea that financial institutions are acting in the best interests of the customer has been seriously and negatively impacted – despite assertions by the banks that they have embraced ‘customer-centric’ strategies, or the seemingly positive results of countless NPS (Net Promoter Score) and CSAT (Customer Satisfaction) surveys.

Winning the trust of customers is not just the right thing to do, it’s also the economically judicious thing to do. Our own research at A.T. Kearney suggests that customer trust has a higher correlation with a consumer’s choice of bank or lender than service satisfaction or even an emotional connection. For banks looking for sustainable business performance, investing in customer trust is not a ‘nice to have’ – it’s vital.

In our market, mortgages are the cornerstone of the relationship between an individual and their financial institution – they represent a significant part of their future

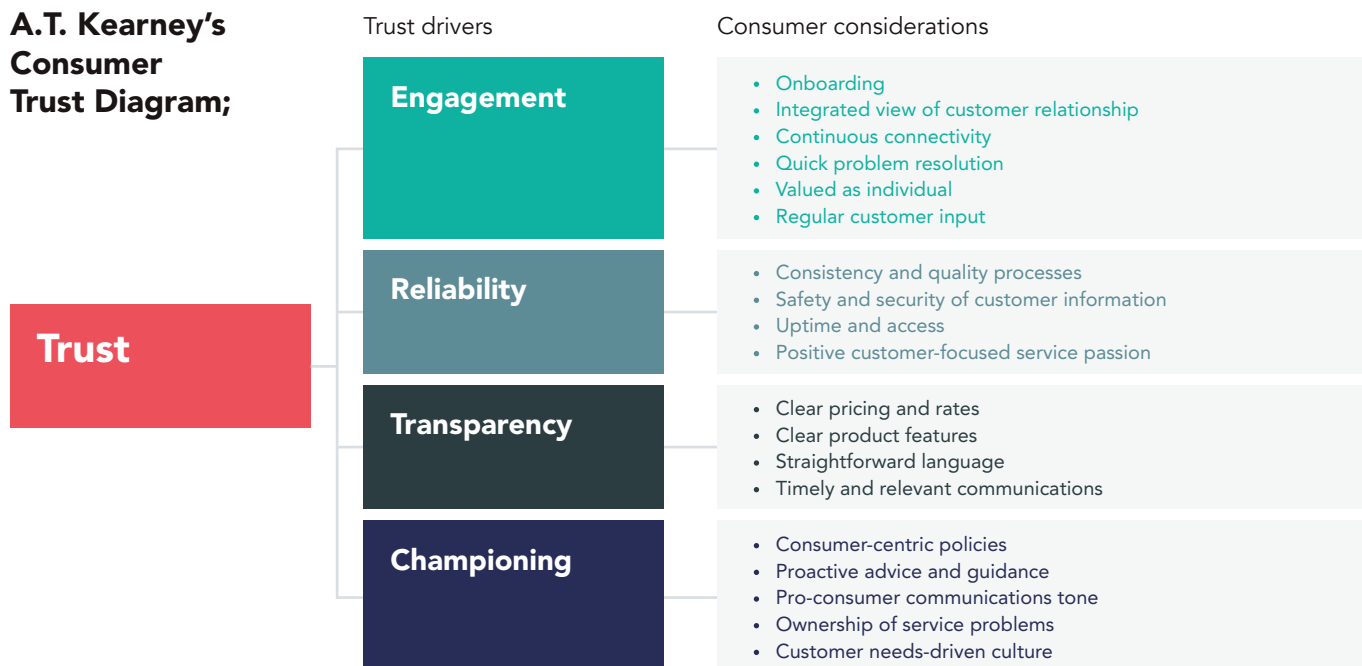
wealth portfolio; the principal and interest makes up a sizeable chunk of the monthly household expenses; and ‘getting it right’ is a major cause of anxiety for homeowners.

Because of this, when the use of intelligent analytics, driven by innovative and potentially market shaping players like uno Home Loans, points to a significant opportunity for Australians to ‘do better’, we believe the industry needs to take notice and respond.

A.T. Kearney’s research and work with leading global institutions on the topic of focusing on and actively nurturing trust shows institutions need to lift their game across four dimensions:

- ✓ Nature of engagement
- ✓ Extent of reliability
- ✓ Degree of transparency
- ✓ Potential for championing

## A.T. Kearney’s Consumer Trust Diagram;





Either driven from within or without, transparency is going to increase exponentially as customers start to better understand their options and the value potential of each choice before them.

This increase in transparency will require a response across each of the other dimensions, offering a real opportunity for banks and intermediaries to go beyond compliance and embrace their role as potential customer champions – challenging the status quo and proactively helping customers find the right solution for them.

For banks, this doesn't always mean competing with the lowest cost offer. It does mean explicitly justifying any premium with, for example, service excellence, value added offers or bundling. Embracing this level of inevitable transparency will require rethinking of propositions, reimagining channel experiences, and recommitting to delivering value to the customer across products, for the entire lifetime of the relationship.

For intermediaries (e.g. brokers), the best in the business have always monitored the options before their customers and recommended the right solution, independent of their personal interests in the form of trail commissions and the like. This behaviour will now likely become the norm for the brokerage community at large, which will need to adjust to a world where customers have access to information that democratises the relationship.

Beyond the usual players – banks and brokers – an interesting development which may play out is the role of other organisations. Super funds, wealth advisors, even telcos, utilities and the government, could step in to accelerate the pace of this data democratisation as they look to help customers optimise their budgets and save for the future.

In doing so, the competition for customer trust may start crossing industry boundaries in a new way, which will shift market dynamics profoundly.

In many ways, there is nothing to fear and a lot to look forward to. Even the staunchest free market proponent will agree that information symmetry is at the core of a well-functioning marketplace.

The information which players like uno are unlocking will move us closer to market efficiency and, if players respond positively and proactively, will result in a win-win outcome for all: the emergence of a market where price is driven by value rather than inertia.

**Nigel Andrade**  
Managing Director, A.T. Kearney

# Introduction

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Three years ago, uno set out to disrupt and digitise the mortgage broking process. In that time, we have learnt a considerable amount about the barriers to simplifying the process of getting a home loan – whether it's the loan a consumer takes when they buy a home, or the process of improving their position by refinancing.

Around 60%<sup>1</sup> of consumers take their home loan through a broker. This makes great sense: brokers offer access to a wide range of lending options and help consumers through the process of securing a suitable and competitive loan.

But we believe consumers deserve more than can be offered by a traditional broker. uno has gone about breaking down this process and applying technology solutions to some of the tasks that are needed to secure finance. Collecting income and expense data digitally, for example, enables us to see how much a consumer can afford to repay. Likewise, being able to check identity

or property values digitally empowers us to speed up what used to be very manual processes.

## Barriers for consumers

What's become apparent as we have developed our business is that consumers face a number of barriers when it comes to ensuring they acquire and stay on the best loan. For most of us, a home loan is the biggest financial commitment we ever make, and we spend a large proportion of our adult life paying it off. Our research has uncovered some uncomfortable facts about how little action most borrowers take to maintain a healthy home loan.

For example, we found that 59% of consumers have never asked their lender or broker for a better rate since they took out their loan. We also estimate that most Australians stay with the same home loan product for more than five years. When it comes to owning property, five years is a long time. A customer's risk profile might change, the property value is likely to fluctuate, interest rates will move up or down and new home loan products will most certainly become available in that time.

Upon releasing its Residential Mortgage Price Inquiry last year, the Australian Competition and Consumer Commission (ACCC) said, "There are many existing borrowers who remain with a lender that does not offer them the best deal and earns higher profits as a result of the loyalty of those borrowers."

Call it loyalty or inactivity, either way it's costing Australians billions of dollars each year in interest payments, which, with a more proactive approach, they could potentially be saving.

## Checking your loan

Twelve months ago, we set out to address this problem. Firstly, we wanted to create a simple way for borrowers to assess if their loan was healthy. Secondly, we wanted to be able to update them regularly on the health of their loan.

uno's new Active Home Loan Management service is founded on acting in the best interests of home loan customers. uno can proactively manage the home loans of Australians on their behalf, so consumers don't have to worry about it.

To do this, we launched loanScore™ – an innovative tool that enables customers to analyse how their loan compares to others in the market and see how much they might save if they take action to switch it. Customers get regular updates on their loanScore so they can see if they could be getting a better deal, either with their existing lender or with a different one.

In just a few months, thousands of Australians have signed up to this free subscription service. Some have found peace of mind upon learning their loan is in good shape. Others were able to quickly take action to improve their position.



loanScore™ has also given us some incredible insight into how much Australians could save on their loan repayments and the amount of savings it generally takes to prompt a consumer to take action.

### **Estimated loss**

We've since deepened our research. Using uno's loanScore insights, and in collaboration with global consulting firm A.T. Kearney, we've analysed the amount Australians are potentially wasting on their home loans in unnecessary interest and avoidable fees. Conservatively, we estimate this to be \$4.2 billion per year.

To put this in perspective, \$4.2 billion a year is roughly half as much as we're wasting on food – and more than double what we throw away on unused gym memberships. It also reveals a great deal about how much there is to save on home loans, if we reverse this wastage.

The uno Household Financial Waste Report details the insights and trends we have uncovered in our analysis. It discusses how this story might unfold from here as consumers embrace technology and data becomes a powerful force for the good of borrowers.

At uno, we're excited about the possibility of fighting home loan waste. We believe in giving the consumer the power, so they have the option to pay the least interest possible over the life of their loan so they can enjoy their hard-earned

income to the maximum. We'll help Australians fight home loan waste today and for the whole time they have a home loan.

**Anthony Justice,**  
**CEO, uno Home Loans**

## **Methodology**

uno Home Loans conducted its analysis in collaboration with global management consultants A.T. Kearney in order to understand the potential savings from refinancing for Australian mortgage holders, alongside insights on customer behaviour patterns. This report presents results from this analysis, including key findings on potential mortgage repayment savings, based on data from uno's internal dataset, CoreData research and public institutions (ABS, RBA, ACCC); and preliminary insights on mortgage customer behaviours, informed by desktop research conducted by A.T. Kearney.

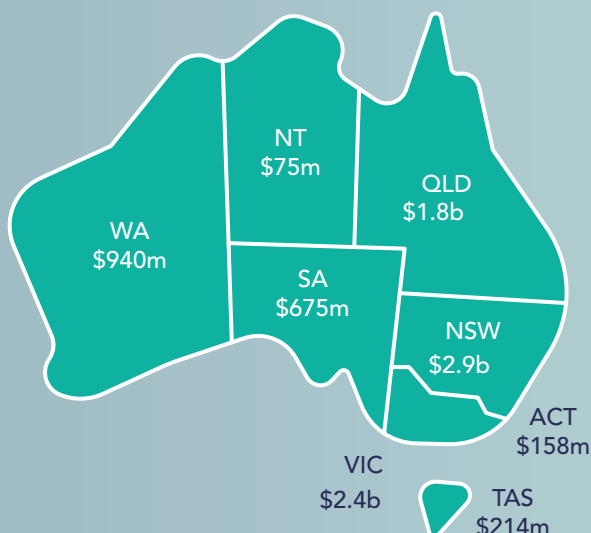
# Household Financial Waste

## What are the primary causes of household financial waste?

The cost of living in Australia is undeniably high. But while some expenditures are vital to keeping households running, and others are important for maintaining a comfortable standard of living, many Australians are wasting a shocking amount of money on avoidable and unnecessary costs.

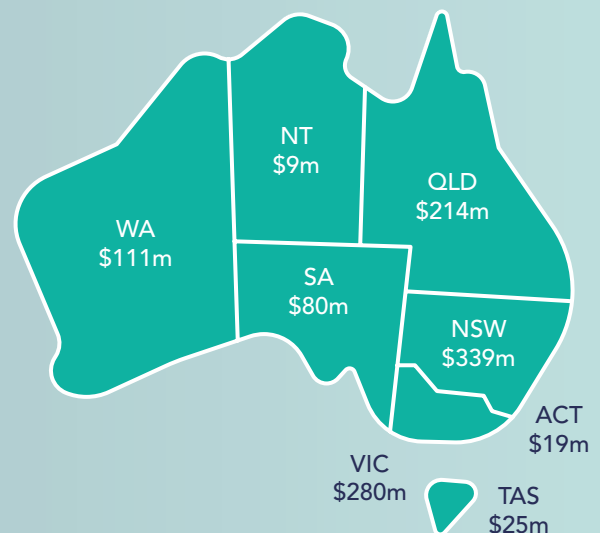
In the past 12 months, Australians have wasted more than \$9 billion on unused food products. This is a problem Australia-wide, however New South Wales residents have been identified as the worst offenders<sup>2</sup>, contributing \$2.87 billion annually to food waste, followed by Victorians (\$2.37 billion) and Queenslanders (\$1.81 billion).

### Food waste by state:



Australians are also wasting more than \$1 billion each year in standby energy use costs<sup>3</sup> (energy consumed by devices such as microwaves, computers and game consoles while in standby mode). This is an issue compounded by rising energy prices and an increasingly unreliable energy grid.

### Standby energy use by state:





From a personal finance perspective, Australians waste more than \$621 million each year in credit card interest by not switching from a high-interest to a low-interest card<sup>4</sup> and \$551 million in exception bank fees (fees charged when a customer breaches the terms of a banking product such as late payment or overdraw fees).<sup>5</sup>

**Other key areas of household financial waste include:**



**\$1.8 billion**  
**Unused gym memberships<sup>6</sup>**



**\$930 million**  
**Unused and unreturned clothing purchases<sup>7</sup>**



**\$332 million**  
**Unused gift cards<sup>8</sup>**

While some of these figures will not be too surprising – food waste has been brought to the attention of Australian consumers by the ‘war on waste’ movement; credit card debt is being highlighted and addressed by governing bodies such as the Australian Securities and Investments Commission (ASIC); and the cost of electricity is often discussed in the media – they show how much Australians are squandering each year in unnecessary costs.



# The hidden cost of home loan waste

One contributor to household waste has had little attention brought to it, until the ACCC released its Residential Mortgage Price Inquiry at the end of 2018.

Using documents and data obtained from the Inquiry Banks (Commonwealth Bank of Australia, Westpac Banking Corporation, Australia and New Zealand Banking Group, National Australia Bank and Macquarie Bank) on their pricing of residential mortgage products, the ACCC found that existing borrowers who do not actively shop around for a better deal on a regular basis are the main losers from opaque discretionary pricing.

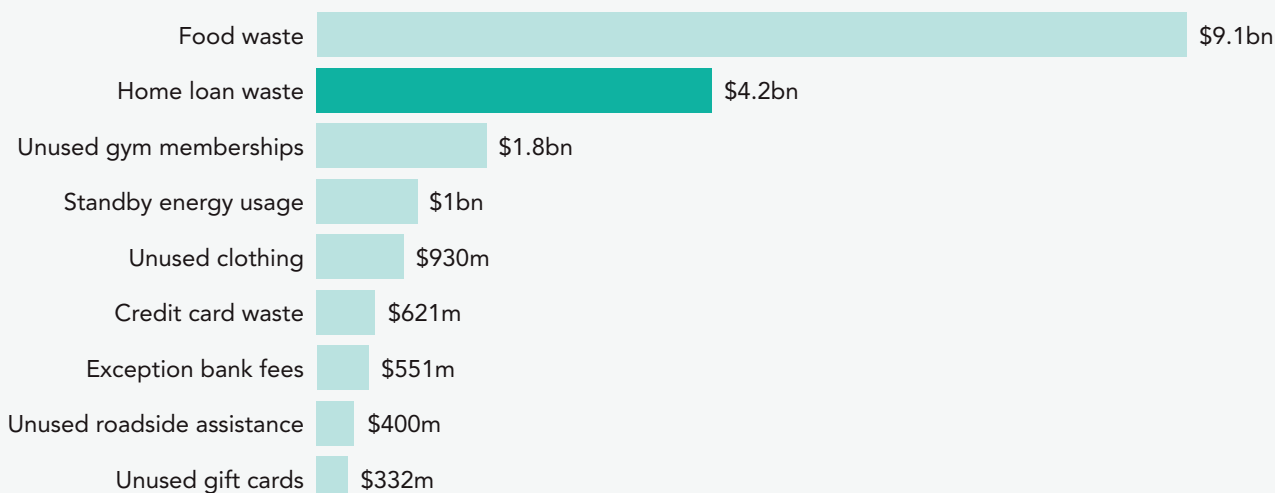
The ACCC found that existing borrowers paid interest rates at the Inquiry Banks that, depending on the category of residential mortgage, were up to 32 basis points higher on average than those paid by new borrowers, as at 30 June 2018.

Certainly, one of the biggest drivers of household financial waste in Australia is unnecessary home loan interest. While home loan interest is a necessary part of taking out a bank loan, based on the ACCC's findings and uno's own calculations – and given the \$1.8 trillion Australians owe on outstanding mortgages – we estimate Australian homeowners are overpaying on their home loans by more than \$4.2 billion each year<sup>9</sup>.

To reach this figure, we've taken into account the total amount of home loan debt, the proportion of customers we believe could refinance and the approximate amount they could save by moving to a better rate.

## Top areas of household financial waste:

In the past 12 months, Australian households spent:





# Why are Australian homeowners so wasteful?

Most homeowners begin their home loan with a good rate and a mortgage that works well for them. They feel confident in their home loan and this confidence often stays with consumers even as external factors such as interest rates, the changing value of the property, shifting personal financial situations or new lending products entering the market impact how well that loan is performing.

This mindset leads to a 'set-and-forget' approach to home loans, with consumers neither being proactive themselves nor enjoying proactive servicing from their bank or broker.

Opaque discretionary pricing inflates borrowers' costs (including their time and effort) to discover better offers. "This adversely impacts their willingness to shop around, either for a new residential mortgage or when they are contemplating switching their existing mortgage to another lender. The unnecessarily high cost of price discovery is likely a key reason why 70% of recent borrowers surveyed on behalf of an Inquiry Bank said they had obtained just one quote before taking out their residential mortgage," the ACCC said.

We found that many homeowners (53%)<sup>10</sup> don't even know what their current interest rate is. More than half (59%) have never asked their bank or broker for a better rate on their home loan, while almost eight in ten (78%) have never had a conversation about strategies for paying off their loan faster.

## Drivers of home loan waste:

- ✓ 53% of consumers don't know their current interest rate
- ✓ 59% of consumers have never asked for a better rate
- ✓ 78% have never had a conversation about paying off their home loan faster

## A breakdown by state and suburb

Home loan wastage is prevalent across Australia, but our research found New South Wales and Victoria are wasting the most on sub-optimal home loans, likely due to higher average house prices and loan values in these states. We found New South Wales homeowners are wasting more than \$1.3 billion on unnecessary interest; Victorians are wasting \$1.01 billion; and Queenslanders \$730 million annually.<sup>11</sup>

### State breakdown of annual home loan waste<sup>12</sup>

NSW	\$1,321,000,000
VIC	\$1,011,000,000
QLD	\$730,000,000
WA	\$474,000,000
SA	\$229,000,000
TAS	\$79,000,000
ACT	\$88,000,000
NT	\$43,000,000
<b>National</b>	<b>\$4,230,000,000</b>

Note: the final results are rounded down to obtain a conservative estimate

Households in Sydney's western suburbs, e.g. Liverpool, Warwick Farm and Prestons, have the highest rate of home loan waste, throwing away an estimated \$14.9 million each year. These suburbs are closely followed by Victoria's Werribee area, where households are potentially losing a collective \$14.5 million annually.

## Top 5 worst suburbs / areas for home loan waste NSW & VIC:

### NSW

- Liverpool Area
- Westmead Area
- Campbelltown Area
- Central Coast (Nth & West Gosford, Lisarow, Tascott)
- South Coast (Jervis Bay, Hyams Beach)

### VIC

- Werribee Area
- Melbourne
- Cranbourne Area
- Truganina Area
- Craigieburn Area

# What do Australian households stand to gain

Put another way, by being better informed and making some behavioural changes, Australian households could gain back billions of dollars in misspent mortgage interest.

Per household, consumers in New South Wales stand to gain \$1,300 back in lower interest payments in the first year should they switch to a better home loan, while Victorians could gain back \$1,200<sup>14</sup>. Despite having a comparatively lower volume of home loan waste, households in the ACT and Northern Territory could also be more than a thousand dollars better off on average if they had a better deal on their home loan (\$1,300 and \$1,200 respectively).

For example, a homeowner in New South Wales paying off a \$400,000 mortgage on a 4.1% interest rate, can stand to save around \$1,200 annually in interest payments by switching their rate to a 3.8% interest rate.<sup>15</sup>

Already, customers who have signed up to loanScore, the cornerstone of uno's Active Home Loan Management, have shown a median potential 3-year saving calculated at \$5,200 if they switch lender.<sup>16</sup>

## Case study: uno customers Maya and Bill\*

In 2018, uno was contacted by a couple, Maya and Bill. Due to some financial difficulties a few years ago, they had an owner occupied loan home with a non-bank lender and a high interest rate of 6.24% (Principal & Interest). They also had four credit cards and four personal loans, contributing to a total debt of \$113,000. While their credit files were busy, they had no credit impairment. uno looked at their options across its panel of lenders and found a solution to refinance the loan with a different lender while paying off and consolidating the unsecured debts. The interest rate on the new home loan was 3.65%, with a repayment of \$3,297 per month. This was down from \$5,995 per month, and equated to a saving of \$32,376 in a single year. The uno adviser who worked with Maya and Bill, said: "Although sometimes a client's situation may seem overwhelming and complicated, by asking the right questions and looking for the best viable option, you can really make a difference to the customer experience and in this case, someone's life."

\*Names have been changed



# Confusion about home loan products and offerings

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Fees put many borrowers off switching and exit fees are a deterrent to switching and saving. This is despite the fact that lenders are no longer allowed to charge exit fees on variable rate loans taken out after 30 June 2011.

Furthermore, many consumers are uneducated or misinformed about home loan 'benefits' that, if used correctly can help the borrower pay off their loan faster, but which, if used incorrectly, do not add value to the product.

For example, half (50%) of loanScore™ customers want an offset account attached to their home loan. This option cuts out some low interest rate options and narrows the field of loans available. Similarly, 51% of loanScore™ customers want a redraw facility, which can also come with costs and narrows the field of loans.

However, there is a desire among consumers to be more proactive towards their home loans. More than half (60%) of loanScore™ customers say they want to make extra repayments, thereby reducing the interest paid over the life of the loan by paying off more of the principal, faster. Unfortunately for these more proactive consumers, not all loans allow extra repayments and there is often a limit or a fee associated with them.

The time and effort involved in negotiating a better deal is also a barrier for many consumers with under-performing home loans. Two-thirds (66%) of homeowners have never refinanced their most recently purchased property, with 28% of these saying their inaction was because of the perceived time and effort involved in the process.<sup>17</sup>

This refinancing inaction doesn't mean there is no appetite however, as 84% of home loan customers said they would be more likely to refinance if they were alerted about not having the best deal for their situation. The same number (84%) also said they'd be more likely to refinance if there was a service that automatically found and alerted them to cheaper loans tailored to their situation.<sup>18</sup>

## Case study: Jonathan and David\*

Jonathan and David from Sydney's eastern suburbs were able to save thousands of dollars in interest after refinancing with uno, last year. The couple refinanced their home mortgage along with the loan on an investment property and shaved 0.2 percentage points off both loans to land at a product well under 4%. On a 30-year mortgage valued at \$500,000, a reduction in interest of 0.2 percentage points would save \$21,000 in interest over that period. The uno adviser who worked with Jonathan and David said, "You may not think it's worth switching your rate for 0.2 percentage points but when you do the maths over the life of the loan, the savings can often be huge."

# How can Aussies stem their household financial waste?

The Australian financial services industry is going through a period of immense change, and the mortgage sector is not immune. As Australia moves toward an Open Banking environment, consumers will have more control over their data and be in a position to demand better, more personalised services from a range of providers.

Fortunately for Australian homeowners, the estimated \$4.2 billion in home loan waste is one of the problems that can be solved by data-driven solutions delivering customers a more relevant and personal experience.

uno Home Loans is seeking to redefine the service model for home loans in the wake of the Banking Royal Commission, introducing Active Home Loan Management founded on the principle of acting in the best interests of home loan customers. uno will proactively manage the home loans of Australians on their behalf, so home loan customers can be confident they are getting real value and saving money as often as those savings become accessible.

## There are 3-stages to the Active Home Loan Management service:

- 1 **ANALYSE:** uno will scan the market daily using exclusive loanScore™ technology to check consumers' loans against thousands of home loan products in the market.
- 2 **ALERT:** When a customer's potential savings hits their chosen threshold, uno will send an alert, updating the consumer on the better deal.
- 3 **ACT:** With the consumer's approval, uno will either renegotiate with the customer's current lender or switch them to a better deal.



As consumers become more empowered to take control of their finances, using technology and their data, businesses need to adapt to deliver innovative services that connect data insights with genuine opportunities to save and build prosperity. The change required by the industry to meet consumer expectations is inevitable – it can already be seen in markets like the UK, where Open Banking is more advanced.

While the lack of proactivity from traditional lenders has cost consumers billions, the industry must evolve – and uno wants to be at the forefront of this change.



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## Authors of the report

**uno** is Australia's first active home loan management service helping Australians to broker a better home loan and stay on a better home loan as long as they have one. uno uses the power of technology, a smart digital platform helping customers find and apply for a home loan across 29 top Australian lenders, and a team of home loan specialists helping customers negotiate with lenders and navigate the home loan process. uno is different because they are proactive in finding savings for customers via a 3-stage Active Home Loan Management system, analysing home loans every day, alerting customers when they can save and acting on their behalf to either renegotiate a better deal with their current lender or switching them to a new lender. uno is the trading name of Planwise Au Pty Ltd ACN 609 882 804, Australian Credit Licence Number 483595.

**CoreData Research** is a global specialist financial services research and strategy consultancy, founded in 2002 and headquartered in Australia, with operations in Sydney, Perth, London, Boston and Manila. It provides clients with bespoke and syndicated research services through a variety of data collection strategies and methodologies, along with consulting and research, database hosting and outsourcing services. CoreData provides both business-to-business and business to-consumer research, while the group's offering includes market intelligence, guidance on strategic positioning, methods for developing new business, advice on operational marketing and other consulting services.

**A.T. Kearney** is a leading global management consulting firm with offices in more than 40 countries. Since 1926, we have been trusted advisors to the world's foremost organizations. We work with more than three-quarters of the Fortune Global 500 as well as with the most influential governmental and non-profit organizations. We work in all major industries providing expertise on cost transformation, mergers and acquisitions, digital transformation, procurement, operations and performance transformation, strategy and top-line transformation, analytics, leadership, change and organization, and business policy. A.T. Kearney is a partner-owned firm with a distinctive, collegial culture that transcends organizational and geographic boundaries - and it shows. Regardless of location or rank, our consultants are down to earth and approachable and have a shared passion for doing innovative client work that provides clear benefits to the organizations we work with in both the short and long term.

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For more information on how uno is leading change in home loan management, please visit [unohomeloans.com.au](http://unohomeloans.com.au)

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we fight  
**home loan**  
**waste**  
for you.



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