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Access Economics



Impacts of e-Conveyancing on  
the conveyancing industry

May 2018



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# Executive Summary

The conveyancing industry is undergoing a digital transformation with the national roll-out of an electronic lodgement and settlement system. This system allows practitioners, financial institutions, and government bodies to lodge documents and complete settlements electronically. This is part of a broader digital transformation underway in the Australian economy.

In 2008, the Council of Australian Governments (COAG) committed to creating a single, national e-Conveyancing solution to the Australian property industry. In 2010, National e-Conveyancing Development Limited, now known as Property Exchange Australia (PEXA), was formed. PEXA has now rolled out its electronic platform across New South Wales, Victoria, Queensland, Western Australia, and South Australia.

Previous research into the implications of electronic lodgement and settlement estimated there are significant benefits to stakeholders in the process, including practitioners. However, practitioners have indicated the industry is not achieving the estimated benefits under the current system.

PEXA commissioned Deloitte Access Economics (DAE) to undertake independent analysis of practitioner's experience with the electronic system, and to model the potential benefits to the industry under a 100% digital lodgement and settlement process.

The estimated benefits to practitioners in the 2016-17 financial year were \$3 million, with 2% of lodgements completed on the platform. The industry take-up rate affects the probability of a practitioner being able to transact electronically.<sup>1</sup> For example, if 30% of all practitioners have the system and are willing to use it, the probability of a transfer transaction being completed electronically is less than 10% or one in every 10 transactions.<sup>2</sup> This is further reduced if a transaction is unable to be conducted electronically due to the required forms being unavailable.

While the new system is generating benefits, the experiences of practitioners is varied. Firstly, some practitioners are not achieving time savings due to productivity losses from learning a new system. Secondly, even when practitioners are achieving these time savings, there is often the perception that time savings are not a real benefit.

There are also costs to practitioners under a digital lodgement and settlement system. In 2016-17, costs to practitioners were estimated at \$2.1 million including \$0.7 million in transition costs. The largest contributor to this figure is duplication of work across the paper and electronic processes. This occurs when one side of the transaction is not willing or able to use the electronic system, requiring all parties to revert to the traditional paper process. When these costs are taken into account, the net benefit to practitioners in 2016-17

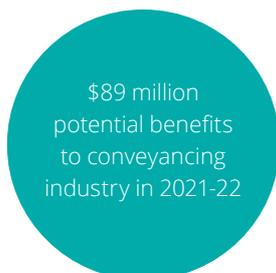
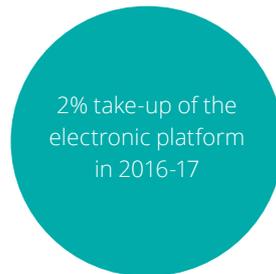
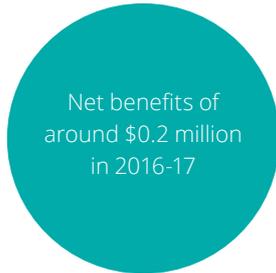
e-Conveyancing allows practitioners, financial institutions, and government bodies to lodge documents and complete settlements electronically. This is part of a broader digital transformation underway in the Australian economy.

was just \$0.2 million. This is consistent with the anecdotal evidence collected through consultations and more broadly in the industry.

The industry is likely to experience increased take-up of the electronic system in coming years as many state governments introduce compliance dates for various instruments. According to PEXA's April data, take up the system has already increased since 2016-17, especially for transfer transactions in Victoria (27%), New South Wales (20%), and Western Australia (17%). The introduction of compliance dates in other international jurisdictions, such as New Zealand, resulted in improved uptake and increased satisfaction with the electronic conveyancing process.

Practitioners will benefit from increased take-up of the electronic system, with the industry likely to realise around \$89 million per annum in net benefits from a 100% digital lodgement and settlement process in 2021-22.<sup>3</sup> This figure is higher than previous research due to the expanded scope of transactions, with the industry focussed on reaching a 100% digital process.<sup>4,5</sup>

The electronic lodgement and settlement platform also provides benefits to stakeholders outside of practitioners, such as consumers and government bodies. For example, our consultations with practitioners found that electronic platform has, on average, reduced the frequency of delayed settlements. Just as with practitioners, the potential benefits to stakeholders in the conveyancing process will not be fully realised until the industry reaches 100%.



<sup>1</sup> This refers to the share of instruments lodged on the electronic platform for NSW, VIC, WA, QLD and SA only

<sup>2</sup> 30% is an estimate of the current take up using actual electronic transaction data in 2016-17 and an estimate of the current industry size.

<sup>3</sup> This assumes a 100% digital lodgement and settlement process is reached by 2021-22 in NSW, QLD, WA, QLD, and SA.

<sup>4</sup> PwC (2010) and PwC (2015)

<sup>5</sup> Previous studies only considered electronic lodgement and settlement for the five main instruments, which accounted for around 80% of total transactions.

# Glossary

Acronym	Full name
ACT	Australian Capital Territory
ARNECC	Australian Registrars' National Electronic Conveyancing Council
BCR	Benefit Cost Ratio
CAF	Client Authorisation Form
CBA	Cost Benefit Analysis
CAGR	Compound Annual Growth Rate
COAG	Council of Australian Governments
DvP	Delivery vs Payment
ELN	Electronic Lodgement Network
ELNO	Electronic Lodgement Network Operator
NSW	New South Wales
NT	Northern Territory
OECD	Organisation for Economic Co-operation and Development
PEXA	Property Exchange Australia
PwC	PricewaterhouseCoopers
QLD	Queensland
SA	South Australia
VIC	Victoria
VOI	Verification of Identity
WA	Western Australia



# 1. Introduction

The conveyancing industry is currently undergoing a digital transformation as players in the industry seek out efficiency gains through the use of technology. Property Exchange Australia's (PEXA's) electronic platform enables lodgement and settlement activities to be performed digitally. This provides a number of benefits to parties involved in a property transaction, including a reduction in manual activities and increased transparency.

The Council of Australian Governments (COAG) recognised the potential efficiency benefits of an electronic lodgement and settlement system, introducing electronic conveyancing as part of the Seamless National Economy deregulation priorities in 2008. National e-Conveyancing Development Limited (now known as PEXA) was created in 2010 to deliver a single, national electronic conveyancing solution to the Australian property industry.

Despite the potential benefits from electronic lodgement and settlement, take-up of the PEXA platform reached just over 1.1% for lodgement of transfer instruments in 2016-17.<sup>6</sup> This is due to high transition costs for practitioners, notably around the steep learning curve and need to run multiple processes. According to PEXA's April data, take up the system has increased since 2016-17, especially for transfer transactions in VIC (27%), NSW (20%), and WA (17%).

Growth in electronic lodgement and settlement is expected to increase sharply in the next couple of years due to the required use of the electronic platform for various transactions in Western Australia, New South Wales, Victoria, and South Australia. There are concerns in the conveyancing industry that the benefits of electronic lodgement and settlement are not being realised by practitioners, and this has implications for the industry under a 100% digital system.

PEXA commissioned Deloitte Access Economics (DAE) to undertake analysis of current and potential future benefits of electronic lodgement and settlement to the conveyancing industry.

This report provides independent analysis of the implications of the digital transition for practitioners, including experiences of practitioners to date and under a likely future where 100% of transactions are conducted electronically. The analysis is focused on understanding the implications of a digital lodgement and settlement system for practitioners, and therefore does not include analysis of benefits flowing to government, financial institutions, or consumers. In addition, we do not analyse how practitioners utilise benefits in terms of changes to profit margins or customer prices.

Our analysis focuses on the time and cost savings for different types of practitioners in the states where PEXA's system is

currently deployed. These states include New South Wales (NSW), Victoria (VIC), Western Australia (WA), Queensland (QLD), and South Australia (SA). This report excludes analysis on regulatory changes, potential implications to the structure of the industry, and implications for government policy.

Our modelling found that the industry likely achieved around \$0.2 million in net benefits in 2016-17. Approximately \$3 million in benefits were offset by \$2.1 million in costs, including \$0.7 million in transition costs. We estimate that the net-benefits to the conveyancing industry will increase to around \$89 million per annum under a 100% digital lodgement and settlement process in 2021-22.

The rest of this chapter outlines the approach undertaken for this analysis and the structure of the report.

## 1.1 Approach

Quantifying the impact of an electronic lodgement and settlement process is undertaken by comparing the time and cost differences between the electronic and paper processes, both under current conditions and 100% digital uptake. There is also consideration given to the interaction between the paper and electronic processes, in particular, the relevant transition costs associated with having both processes operating at the same time and moving to 100% electronic.

The benefits examined in this model are focussed on benefits to practitioners. Certain transactions are therefore not included in our analysis, such as refinancing or a standalone discharge of mortgage.

To inform this analysis, we use a combination of publicly available data, previous external research and information gathered from practitioner consultations, workshops and an online survey.

In order to model the impact of an electronic settlement and lodgement process, this report compares activities undertaken by practitioners in the paper and electronic processes.

Data used as inputs to the model were collected from consultations and workshops with practitioners, survey data, and external sources of research. We conducted a total of 11 consultations with practitioners in NSW, VIC, QLD, WA, and SA.<sup>7</sup> In addition, we undertook workshops with a total of 12 practitioners in WA and NSW. The culmination of these inputs were used to calculate the total benefits, total costs and transition costs of electronic lodgement and settlement.

In the model, a benefit arises when the cost (time) required for a particular task under the electronic process is less than that required under the paper process. Therefore, a cost arises when the opposite occurs. Monetary benefits arise when a fee can be excluded under the electronic process, such as clerk fees for settlement.

There are also additional monetary costs, notably the PEXA fee.

Transition costs associated with having to use the paper and electronic processes in conjunction with each other, are also incorporated into the model. This focusses on duplicated work, which occurs for a proportion of cases that involve a practitioner setting up a workspace but having to revert back to paper due to at least one other party to the transaction not being on PEXA.

A 100% digital lodgement and settlement process means that activities in the settlement and lodgement stages, as well as some activities in the preparation and post-lodgement stages, are conducted through an electronic lodgement network (ELN) for all transactions. This includes not only transfers and refinancing, but also all other types of transactions.

We do not make assumptions on how practitioners will use the benefits they gain from a 100% digital lodgement and settlement process. This includes whether the cost to consumers will change, how practitioners use their time savings, or the nature of any potential industry consolidation.

## 1.2 Report structure

The rest of the report is structured as follows:

- **Chapter 2: Current state of play in the industry** – provides context to the project including information on the conveyancing process, industry trends, and previous research.
- **Chapter 3: Benefits from current electronic system** – outlines the benefits achieved to date under the current electronic lodgement and settlement system. This incorporates transition costs and focusses on the 2016-17 financial year. Detailed results, including by state, are presented.
- **Chapter 4: Benefits from 100% electronic system** – outlines the benefits that could potentially be achieved under a 100% digital settlement and lodgement system. This analysis assumes that all instruments are completed under the electronic platform for states in scope. Results by state are also presented.
- **Chapter 5: Other impacts of an electronic system** – explores broader implications of an electronic lodgement and settlement system. This includes implications for fraud, settlement delays, and broader benefits to the economy.

<sup>6</sup> This figure is based on lodgement of transfer instruments in the states where PEXA is currently deployed.

<sup>7</sup> Practitioners varied in terms of locality and firm type.

## 2. Current state of play in the industry

A property transaction is a property related deal that involves the lodgement of one or more instruments with a land registry in a single lodgement case. A transaction may involve multiple parties and include financial settlement. The statutory and legal process associated with transferring the ownership of a title of land from one entity to another is known as conveyancing.

The process of conveyancing can be broken down into five stages: contract,

preparation, settlement, lodgement, and post lodgement (Figure 2.1). Contract involves preparing the relevant contract documents, that are then exchanged between parties in the preparation stage. Once the relevant documents are exchanged and completed, settlement occurs as the property and property payment are exchanged. The conveyancing process is finalised when the settlement documents are lodged with the relevant government bodies in the lodgement stage,

and other relevant government authorities are notified of the transfer during the post-lodgement stage.

The rest of this chapter outlines trends within the industry, including the evolution of electronic lodgement and settlement, and previous studies on the benefits of such an electronic system.

Figure 2.1 The conveyancing process

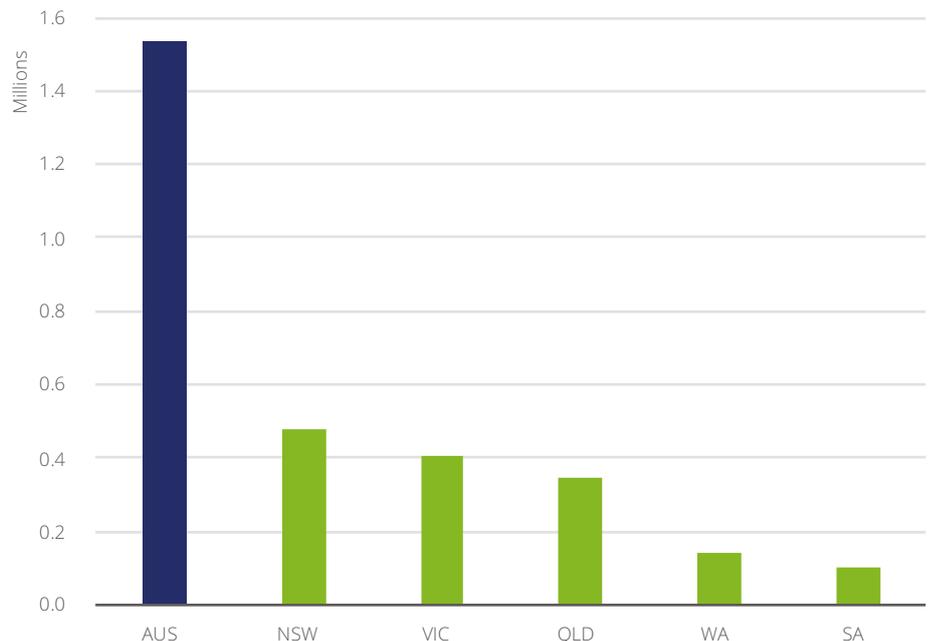


Source: Deloitte Access Economics

### 2.1 Overview of conveyancing industry

In 2016-17, there were 1.5 million transactions nationally (see Chart 2.1.) NSW, VIC and QLD undertook the majority of transactions (approximately 80% of the total market).<sup>8</sup> The states covered by this report, which include NSW, VIC, QLD, WA and SA, accounted for 96% of total national transactions in 2016-17.

Chart 2.1 Total transactions by state, 2016-17



Source: BIS Oxford Economics, State Land Registries, Deloitte Access Economics

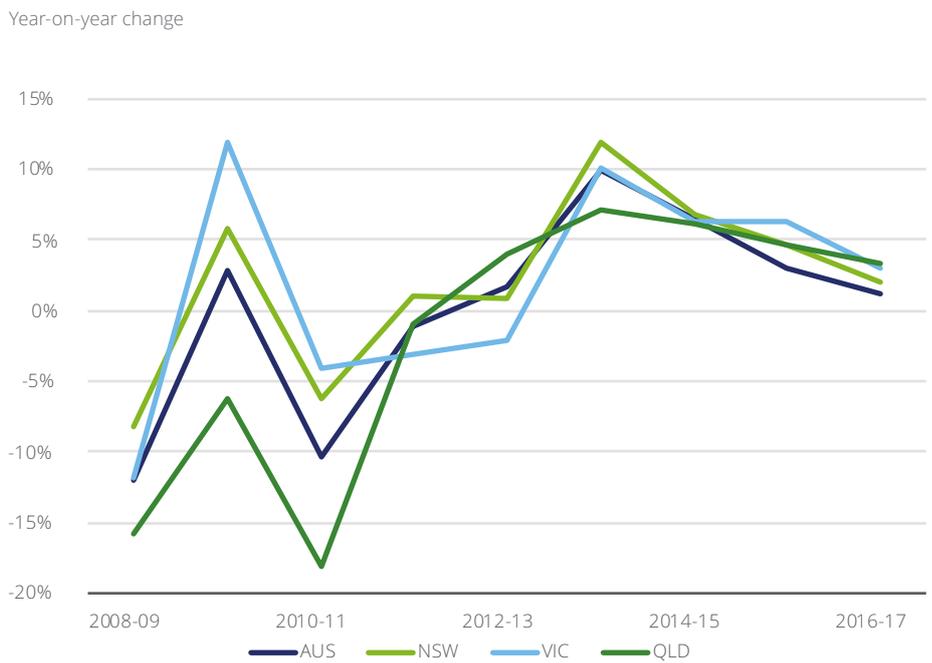
<sup>8</sup> This figure uses BIS Oxford Economics estimates of events and dealings to calculate national transactions.

Transactions have been growing at compound annual growth rate (CAGR) of 4.4% since 2011-12. This has been driven by strong housing activity in NSW, VIC and QLD (below Chart 2.2). Growth in total transactions nationally decelerated to 1.2% in 2016-17, with demand for housing and subsequent transactions volumes in these three states slowing in the latter half of the year.

The underlying driver of transactions is population growth and subsequent household formation. As the population expands and the number of households grow, the level of property demand and transactions follow. The housing cycle also provides short-term, cyclical fluctuations to underlying demand. This is driven by changes to employment, income, interest rates, investor sentiment, and foreign exchange rates. These changes impact a household's ability to borrow and purchase property, flowing through to demand for conveyancing services.

Conveyancing requires a number of legal forms/documents or instruments to be completed for a property transaction. For example, common instruments in the sale of a property include a transfer, discharge of mortgage and mortgage (Figure 2.2).<sup>9</sup>

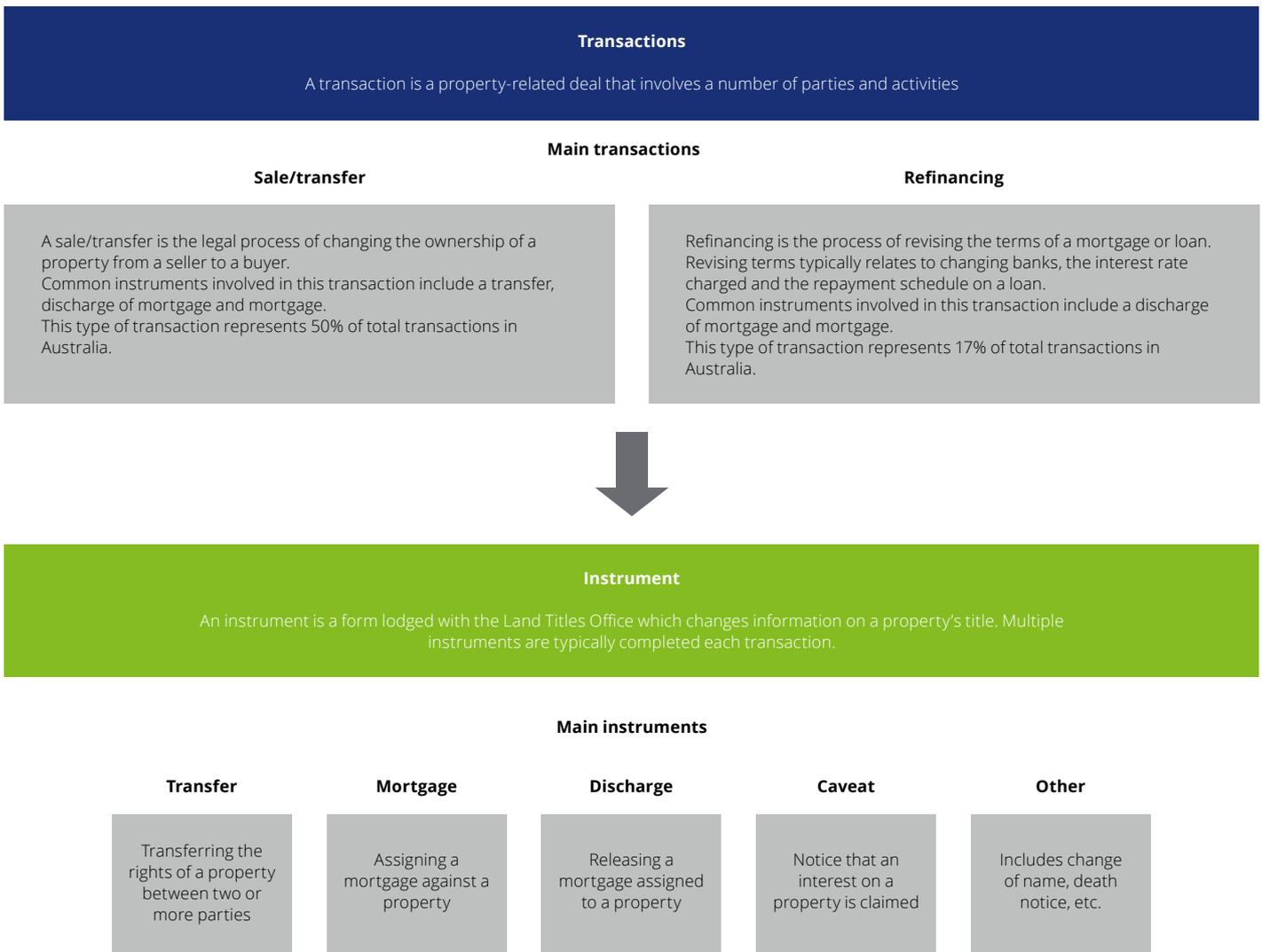
**Chart 2.2 Growth in transaction volumes**



Source: BIS Oxford Economics, State Land Registries

<sup>9</sup> It is important to note that transactions and instruments are treated differently in PEXA's reporting. Transactions within the PEXA system typically refer to individual billing events and means that in one workspace, the purchase of a property can lead to 4 PEXA transactions because there are four parties involved (two practitioners and two financial institutions). The transactional data sourced from PEXA in this report reflects these differences.

Figure 2.2 Transactions and instruments



Source: Deloitte Access Economics

Sales/transfers and refinancing are the two main types of transactions in conveyancing, accounting for 67% of total national transactions in 2016-17 (Chart 2.3).

Each transaction typically involves one or more instruments, with transfers, discharge of mortgage and mortgage instruments accounting for the largest share of instruments in 2016-17, at around 85% (Chart 2.4).

Generally, there are four key players in a transfer; the purchaser's conveyancer and bank, and the vendor's conveyancer and bank (Figure 2.3). The financial institutions are involved when a mortgage is created or

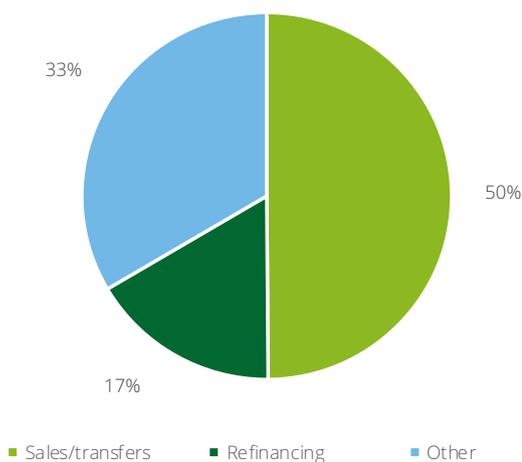
discharged. In addition, there are a number of government bodies involved in the process, including the land titles office, the office of state revenue, and local councils.

In QLD and the Australian Capital Territory (ACT), conveyancing work can only be undertaken by a lawyer under state laws. There are around 12,000 businesses which undertake conveyancing work across Australia, with the industry characterised by a large number of small operators (IBISWorld, 2017).

A gradual expansion in the number of firms operating in the conveyancing market, especially larger law firms that

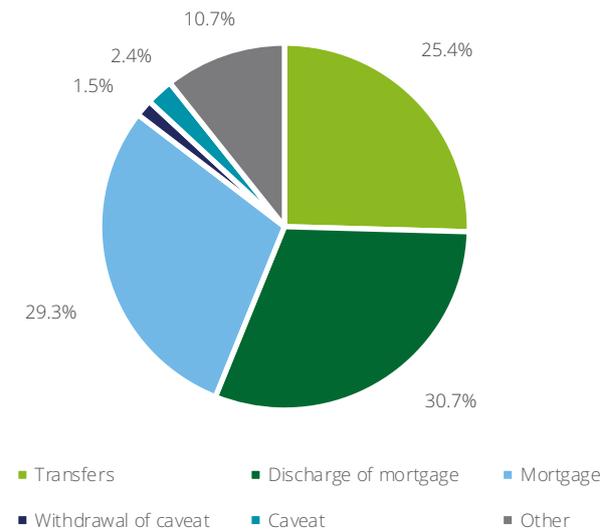
have appropriate infrastructure in place to offer the same service at a lower cost, has placed downward pressure on the profitability of conveyancing services (Rose, 2012). Conveyancing has a lower profit margin compared to other services provided by legal firms, but the continuous flow of work provides an ongoing stream of revenue that supplements more profitable activities undertaken by the firms (DAE practitioner consultations, 2018). While the continuous flow of work and short timeframe provides incentives to perform conveyancing work for operators in the industry, there is a focus on streamlining activities to improve efficiency.

Chart 2.3 Volumes by transaction type, 2016-17



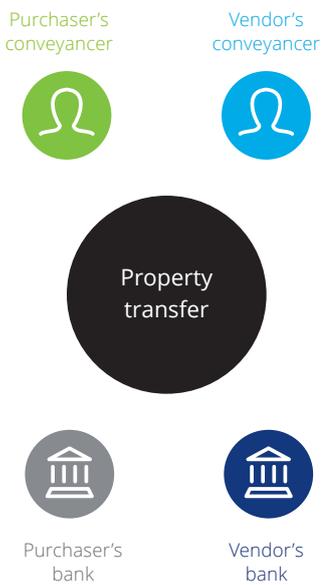
Source: BIS Oxford, State Land Registries

Chart 2.4 Volumes by instrument type, 2016-17



Source: BIS Oxford, State Land Registries

Figure 2.3 Key players in a transfer



Source: Deloitte Access Economics

## 2.2 Development of electronic conveyancing

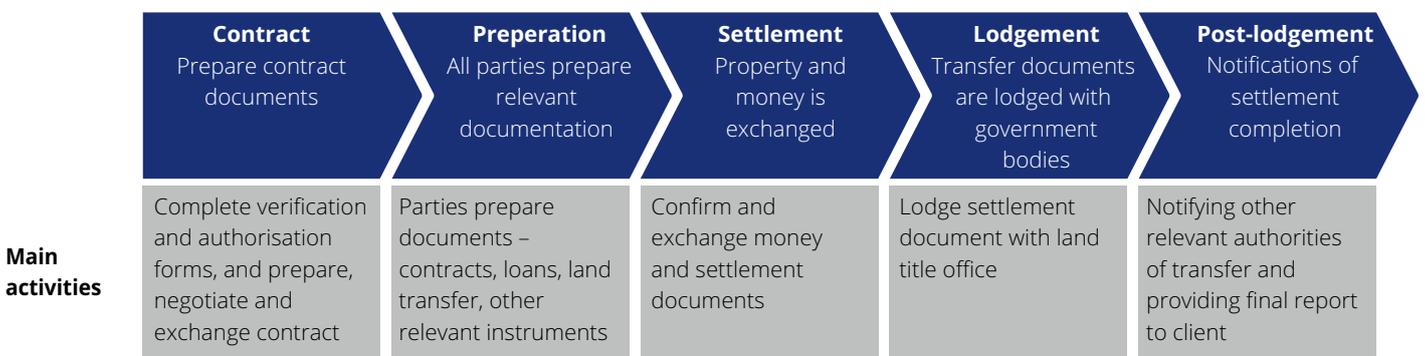
Under the traditional, or paper based method of conveyancing, a practitioner is required to undertake the following high-level tasks (Figure 2.4);

- Complete verification of identity (VOI) and client authorisation form (CAF), and prepare, negotiate and exchange contract with client. The CAF enables a practitioner to act on behalf of a client by signing and approving documentation.
- Prepare and exchange relevant documents with other parties involved in the transaction.
- Book settlement time, provide adjustments and confirm financial settlement details with other parties.

- Lodge settlement documents in person at the land titles office.
- Notify other relevant authorities of the transaction. In the case of a transfer, this will likely involve sending a notice of acquisition and rates payments to the council and water authority, respectively.

The tasks are time intensive, with practitioners potentially spending 45 minutes on the phone to financial institutions and up to an hour travelling to settlement (DAE practitioner consultations, 2018). In addition, there are often delays as the process of exchanging physical forms can take, on average, 4.25 hours in a sale/transfer.

Figure 2.4 Conveyancing process under traditional paper method



Source: Deloitte Access Economics

In the mid-2000s, both the Victorian and New South Wales Governments began to work on improving the time and cost efficiencies of the conveyancing process. VIC developed the Electronic Conveyancing Victoria (ECV) solution, while NSW established the National Electronic Conveyancing Office (NECO). These initiatives motivated the call for a national initiative to improve the overall conveyancing process for all participants.

In 2008, the Council of Australian Governments (COAG) agreed to introduce electronic conveyancing as one of the 27 Seamless National Economy deregulation priorities. Electronic conveyancing was identified as one of these priorities because the lack of consistent regulation across jurisdictions meant that the

conveyancing process was not productive and imposing excessive compliance costs on business (ARNECC, 2011). Former Chairman of COAG, John Brumby, is quoted as saying: "The origins of this process are all about transforming the way governments and business work. [E-conveyancing] will transform and reduce regulatory burden, the amount of time with lawyers, conveyancers and the like: really modernising the system." (PwC, 2015, p.24)

As a result, a commercial entity was established in 2010, now known as Property Exchange Australia (PEXA), with the aim of designing and implementing a national e-conveyancing platform. PEXA operated this ELN as Australia's first electronic lodgement network operator (ELNO).

The Australian Registrars' National Electronic Conveyancing Council (ARNECC) was established in 2011 to implement and manage the regulatory framework for electronic conveyancing in Australia. All dealings conducted through electronic conveyancing are regulated by the Model Participation Rules, as set by ARNECC. These rules set out a range of obligations that conveyancers must follow when engaging in electronic conveyancing, stipulating that subscribers must comply with these rules at the time of applying and whilst being a subscriber to the electronic conveyancing system.

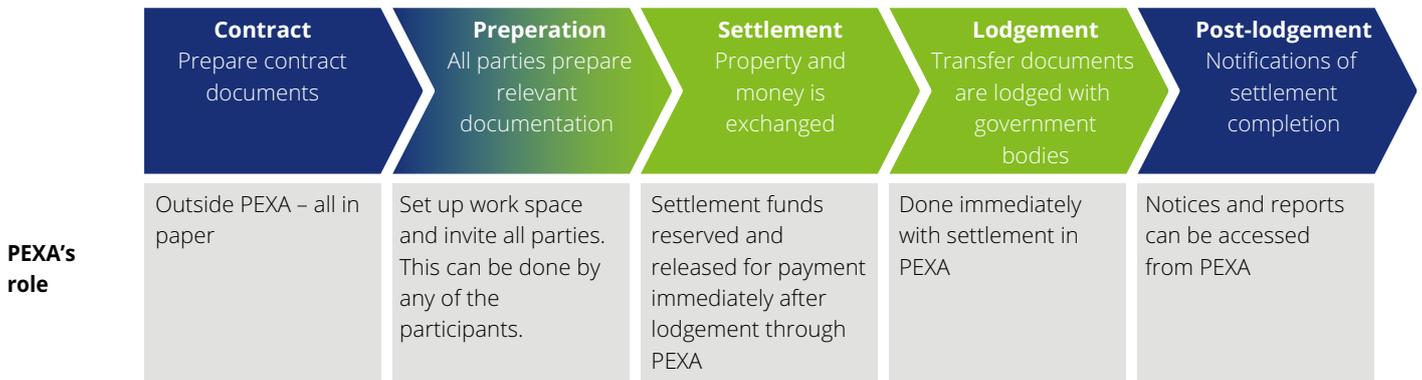


### 2.3 The PEXA platform

Since its establishment, PEXA has focussed on developing an online platform for the settlement and lodgement of land transfers nationally. The platform provides a secure online portal to an electronic workspace where registered parties can complete and lodge documents, verify duty and transfer funds, and settle the transfer of a property in real time.

The use of PEXA's platform for completing lodgement and property settlements means that lawyers, conveyancers, financial institutions and land registries can interact and share information online, removing the need for bank cheques and physical exchanges of documents. This addresses inefficiencies in preparation, settlement and lodgement activities. An overview of PEXA's role in the conveyancing process is outlined in Figure 2.5.

Figure 2.5 The conveyancing process under digital lodgement and settlement



Source: Deloitte Access Economics

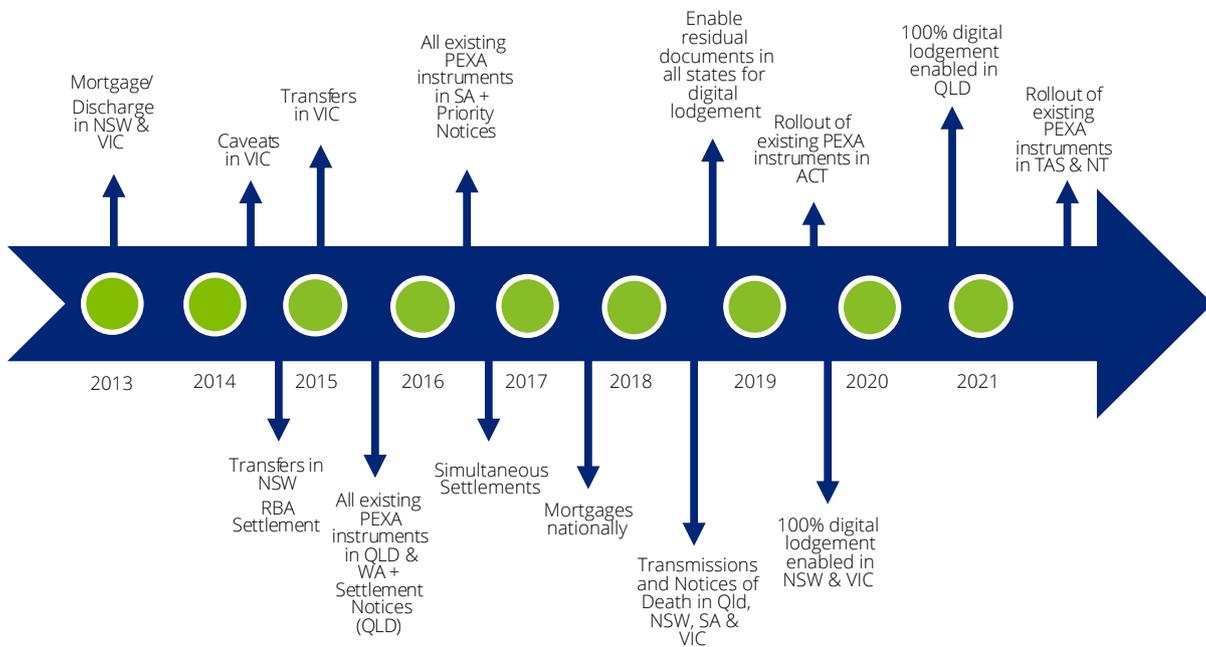
Currently, PEXA is the only electronic lodgement and settlement platform available with the possibility of competing platforms being introduced in coming years. The system is focussed on electronic lodgement and settlement, with some minor activities within the preparation stage also able to be conducted via the electronic platform. It is available in NSW, VIC, QLD, SA and WA, jurisdictions which account for 96% of Australia's lodgement volumes (PEXA, 2017).

The use of the PEXA platform will reduce errors that can lead to unexpected delays in settlement. Practitioners noted during consultations that conveyancing services are being delivered with fewer postponements and buyers can prepare to move into properties within agreed timeframes with greater certainty

enabled in NSW and VIC by 2019. Although the ACT is not a party to the COAG agreement, PEXA has started engaging the local land registry. PEXA expects to roll out its platform to TAS, NT and ACT by 2022. However, this target relies on relevant state government funding.

Figure 2.6 illustrates the intended timeline for the rollout of PEXA's electronic platform. Digital lodgement for all transactions will be

Figure 2.6 Indicative timeline of electronic platform rollout

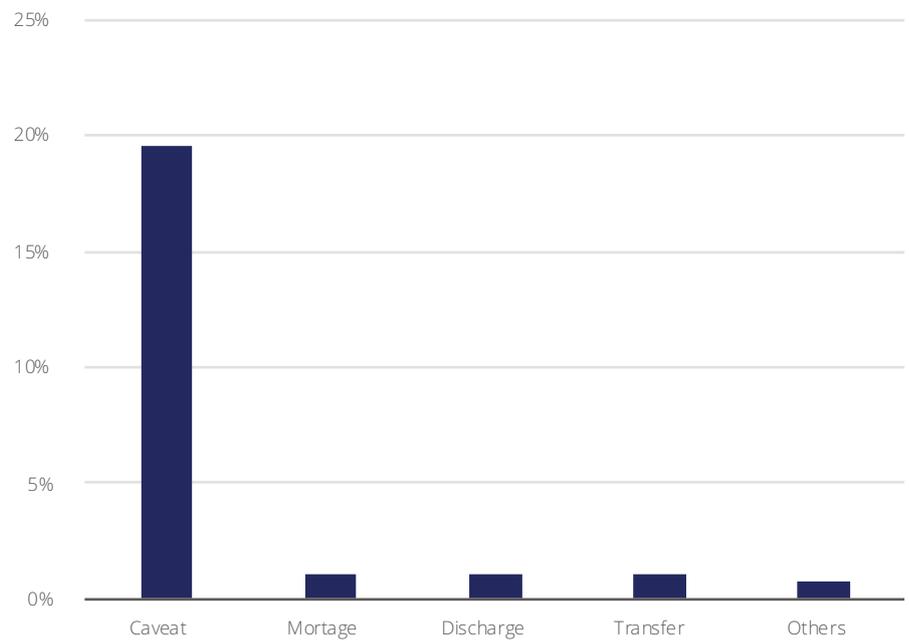


Source: PEXA (2017)

Uptake of electronic lodgement and settlement has risen significantly for many transactions. For instance, caveats lodged electronically accounted for 20% of all caveats lodged in the selected states in 2016-17, led by VIC. However, transfers, which account for over 50% of total transactions in the industry and have the most opportunity for lower costs, had an electronic take-up of only 1.1% in 2016-17 (see Chart 2.5). According to PEXA's April data, take up the system has increased since 2016-17, especially for transfer transactions in VIC (27%), NSW (20%), and WA (17%).

The steep learning curve for practitioners has deterred many conveyancing operators from transitioning to the electronic process. In addition, with both the paper and electronic processes operating at the same time, if one party is not on the PEXA system, then the transaction must be performed through the paper process. This creates inefficiencies within the system, and limits the number of transactions that can occur electronically. For example, if 30% of all practitioners have the system and are willing to use it, the probability of a transfer transaction being completed electronically is less than 10%.<sup>10</sup> Not all instruments are available on the system, and this further reduces the probability of a transaction being completed electronically.

**Chart 2.5 Take-up rates of PEXA platform by instrument type\***



Source: PEXA data request, Deloitte Access Economics

\*Take-up rates are for conveyancers and solicitors only

State governments continue to pursue efficiencies in the conveyancing industry through electronic settlement and lodgements, but recognise the problems a dual system creates. In a bid to improve take-up and maximise efficiency gains,

some state governments have required certain instruments to be lodged electronically. The timeline in Table 2.1 outlines the various compliance dates for these instruments.

<sup>10</sup> This example uses 30%, which is an estimate of the current take up using actual electronic transaction data in 2017 and an estimate of the current industry size

**Table 2.1 Compliance timeline for electronic lodgement and settlement**

Instrument	WA <sup>#</sup>	VIC	NSW <sup>****</sup>	SA
Standalone mortgage discharges	Aug-16 <sup>**</sup>	Aug-16 <sup>**</sup>	Mar-17 <sup>**</sup>	Apr-17
Standalone mortgages (consumer)	Aug-16 <sup>**</sup>	Aug-16 <sup>**</sup>	Mar-17 <sup>**</sup>	Apr-17 <sup>**</sup>
Standalone mortgages (commercial)	Dec-17	Aug-17 <sup>**</sup>	Aug-17 <sup>**</sup>	Q4-17 <sup>*</sup>
Refinances	Dec-17	Aug-17 <sup>**</sup>	Aug-17 <sup>**</sup>	Q4-17 <sup>*</sup>
Standalone caveats	Dec-18	Dec-17 <sup>^</sup>	Jul-18	-
Standalone withdrawals of caveats	Dec-18	Dec-17 <sup>^</sup>	Jul-18	-
Non-ADI discharges, mortgages and refinance	-	Dec-17 <sup>^</sup>	-	-
Standalone transfers	Dec-18	Mar-18 <sup>^</sup>	-	-
Standalone survivorships	-	Mar-18 <sup>^</sup>	Jul-19	-
All combinations of discharge, transfer and mortgage transactions	-	-	-	-
All combinations of transactions in PEXA	Dec-18	Oct-18 <sup>^</sup>	-	-
All transactions	-	Aug-19 <sup>^</sup>	-	-

Source: PEXA (2017)

\*Dates still to be confirmed

\*\*Where the mortgagee is an Authorised Deposit-taking Institution only

+Excludes mortgages with bespoke terms over 4,000 characters

\*\*\*Excludes out of scope titles

<sup>^</sup>If a party is a subscriber or is represented by a lawyer/conveyancer

<sup>#</sup> In-scope transactions only

## 2.4 Previous analysis of electronic conveyancing

The benefits of an electronic conveyancing platform have been explored previously, both here in Australia and internationally.

### 2.4.1 Previous Australian analysis

PwC (2010) updated the size of the potential revenue opportunity for a national e-conveyancing platform, and the potential intellectual property that could be leveraged. The report estimated that a national electronic conveyancing business (including booking, preparation, settlement and lodgement) could provide stakeholders with ~\$220m-\$248m of potential gross benefits, shared across consumer, practitioners and banks. Of these benefits, approximately \$60 million accrue to practitioners. This analysis did not take into account any additional costs for using the electronic system.

PwC (2015) updates these findings, with the net benefits of fully implementing PEXA to consumers, business and government estimated at \$184 million in 2017-18. The direct net benefits to practitioners was forecast as \$20.1 million in 2017-18, with approximately \$72.7 million in benefits and \$52.6 million in costs. In addition to the direct benefits to the various stakeholders, PwC also examined the broader economic

benefits through Computable General Equilibrium modelling. It was estimated that the PEXA platform would result in a 0.05% increase in productivity for the financial institutions sector, resulting in a \$259 million gain in real GDP, \$314 million increase in total annual national household income, and a \$182 million increase in total annual national wages (in 2013-14 prices).

Both of these PwC studies focussed on estimating benefits for a subset of transactions, accounting for approximately 76% of all transactions annually.

A report by KPMG (2018) focused on analysing potential benefits to practitioners in NSW from electronic conveyancing, providing a quantification of current time costs and benefits under the paper and electronic processes to conveyancers and lawyers. The report estimated that for a vendor's (purchaser's) lawyer or conveyancer using the electronic system, 3.25 (4.25) hours could be saved per transaction in the post-preparation stages of the conveyancing process. This meant that post-preparation activities could be performed in 60-70% of the time observed under the paper process.

### 2.4.2 International experience

The Australian conveyancing industry is currently going through the same

experiences as other international jurisdictions. These experiences are drawn upon in this report. For example, in New Zealand, forcing practitioners to transition through compliance dates improved the uptake and proficiency of electronic conveyancing.

New Zealand's electronic conveyancing system was introduced in 2002 after recognition that the expanding number of paper-based systems were becoming "increasingly cumbersome" (Muir, 2007). Initially, the uptake of the digital system was slow, due largely to the upfront investment in training and IT that was required. However, from 2009, the government required all lodgements of title transactions to be made electronically with limited exceptions.

The response from practitioners was positive with satisfaction levels increasing from 48% in 2005 to 80% in June 2009 (PwC, 2010) and by 2012-13, only 2% of transactions were conducted through the paper process (PwC, 2015). As a result, New Zealand is considered the most efficient global economy for registering property in terms of cost and time (World Bank, 2017). In comparison, Australia is ranked 51st.

Canada also experienced similar improvements in the uptake of electronic conveyancing. The electronic land

registration system in Ontario was first developed in the 1990s and quickly gained traction, with 99.9% of transactions conducted electronically by 2011 (Teranet, 2014). Although government legislation which pushed practitioners to move away from the paper process was important, the integration of the platform with related services from the state revenue office and financial institutions proved equally effective (GhostDigest, 2011).

These examples are primarily e-lodgement platforms. It is important to note that PEXA has delivered a national e-settlement and e-lodgement platform for real property. The platform offers Delivery vs Payment (DvP) with no person holding funds and title at the same time, delivering benefits and efficiencies not realised in these other jurisdictions.

### 2.4.3 The scope of this report

Our analysis expands on previous studies by providing an in-depth analysis of the benefits to date and potential benefits from 100% electronic lodgement and settlement in Australia. In particular, our analysis differs from previous studies in the following ways:

- Capturing the current time and monetary costs and benefits for NSW, as well as VIC, QLD, WA and SA.
- Identifying and quantifying the transition costs associated with having the paper and electronic processes running at the same time.
- Estimating the total net benefits of a 100% digital lodgement and settlement process by 2021-22 for practitioners in the states identified above.



### 3. Impacts of current electronic system

The current electronic platform for settlement and lodgement provides a number of benefits to practitioners compared to the paper based process, mostly in the form of time savings, which are partially offset by the platform's fee. Practitioners have also faced transition costs from moving towards the electronic system, mostly in the form of duplicate processes across both the paper and electronic systems.

Our modelling indicates the conveyancing industry achieved a net benefit of around \$205,000 in the 2016-17 financial year from the current electronic conveyancing system (see Table 3.1).<sup>11</sup>

The relatively small net benefits are consistent with survey findings from practitioners.<sup>12</sup> Despite significant benefits for completing a transaction on the electronic platform, the low take-up rate has prevented access to these benefits (see Table 3.2). Benefits are further limited by transition costs, mostly related to dual processes.

This remainder of this chapter explores these results in more detail, including state analysis.

**Table 3.1 Economic modelling results for current electronic system, 2016-17**

Benefits	Costs	Transition costs	Current net benefits
\$3.0m	\$2.1m	\$0.7m	\$0.2m

Source: Deloitte Access Economics analysis

**Table 3.2 Instruments lodged in selected states, 2016-17**

Total number of lodged instruments	Electronically lodged instrumentd	Platform take up rate
2.2m	42,655	2.0%

Source: Deloitte Access Economics analysis, BIS Oxford Economics

<sup>11</sup> Analysis on benefits and costs was undertaken for NSW, VIC, QLD, WA, and SA only. This represents 96% of the total market.

<sup>12</sup> The survey found 78% of conveyancers reported the cost of electronic lodgement and settlement was around the same level as the manual process.

### 3.1 National results

Time savings throughout the preparation, settlement and lodgement stages of the conveyancing process contribute heavily to these net benefits. Our results suggest that for a transfer, an average of 3.7 hours is saved by practitioners per transaction nationally under the electronic process.

The time savings also depend on whether the practitioner is on the purchaser or vendor side. The average time savings per transaction for a purchaser's practitioner is 4.0 hours and 3.3 hours for the vendor's practitioner.<sup>13</sup>

#### 3.1.1 Benefits

The benefits of the current electronic system are just over \$3 million in the 2016-17 financial year. This is based on time savings of the electronic system compared to the paper based process and includes the following activities:

- **Time spent on the phone to financial institutions and other practitioners booking settlement.** There can be significant time waiting on hold for financial institutions to set dates for settlement and coordinating with other parties to ensure availability. In our consultations, for example, we found that conveyancers and lawyers can spend up to 45 minutes on hold with financial institutions. Even though work can still be completed while on hold with financial institutions, there is a productivity decline expected during this time.
- **Time spent confirming loan funds are available from mortgagee.** Under an electronic system, there is no need to spend time on the phone to

financial institutions ensuring funds are available before settlement date. Our consultations reveal that a practitioner can spend up to 30 minutes on the phone to confirm that loan funds are available from a mortgagee.

- **Time editing documents within the platform.** The current system requires information from all parties to be matched before a transaction can be completed. This reduces the amount of errors requiring rework, as fields are matched before proceeding to the next state in the process. Practitioners estimated that 10% of paper transactions involve a minor error that can prevent settlement from taking place on the same day. This can be a result of difficulty making the edits to the documents and rebooking settlement, especially for metropolitan-based practitioners. Reduced settlement delays also provides benefits to consumers however this is out of scope for our analysis.
- **Time travelling to settlement.** This can be a significant investment of time, especially for regionally located conveyancers. In our consultations, for example, conveyancers located outside of metropolitan areas were travelling an average of 2 hours there and back for settlement.
- **Time spent attending settlement.** This can involve waiting at financial institutions or settlement locations for other parties and completion of settlement, which can take up to 30 minutes for the average practitioner. Yet if one party does not show up and the parties in attendance have other settlements to attend to, the settlement will need to be rescheduled to the afternoon or on another day. Some

practitioners choose to pay for junior clerks or external settlement agents to attend settlement on their behalf. Consultations and workshops revealed that the use of settlement agents was extensive, and therefore modelled explicitly. However, these costs were estimated at around the same cost of staff members attending.

- **Time spent travelling and attending to lodgement.** Lodgement of transfer of land title, mortgage and discharge takes place automatically through the electronic platform. In our consultations, an average of 30 minutes was spent travelling to and from the land titles office as well as submitting relevant documents to the land titles office.

There are also financial benefits from moving towards the electronic system with a reduction in the cheque fees. For a number of practitioners, a certain amount of cheques – around 3 – are included in their fees to their client. However, a number of practitioners did still require additional cheques if there were more payments required. The average number of cheques required for a transaction is 7 at about \$10 per cheque which diminishes the margin for each transaction (KPMG, 2018). Consultations revealed that this cost was often borne by the practitioner. Through the electronic system the need for these cheques is not required. The time saving benefits are partially offset by time spent by practitioners entering information into the electronic system and sending across workspace invitations. Although these activities only take an average of 10 minutes, they have reduced the time savings included in the analysis.

<sup>13</sup>These are a weighted average based on the number of PEXA lodgements completed by each state.

### 3.1.2 Benefits realisation

Experiences of using the electronic platform are varied, and there are a number of factors that are preventing some practitioners from fully realising the benefits. A key factor is that at current low levels of take-up of electronic lodgement and settlement, with only 2% of eligible lodgements being completed on the platform in 2016-17. The lack of ongoing exposure to the electronic platform means that efficiency gains from mastering the system are not fully realised even when a transaction is completed via the platform.

Another significant factor is that other related parties to the conveyancing process, such as financial institutions, are not prepared for the demand in transactions conducted through the platform. This means there can be delays for practitioners when waiting for documents such as discharge documents or loan contracts. Ultimately this means practitioners are spending additional time following up financial institutions to receive documents, reducing the time savings benefits.

Consultations also highlighted that many practitioners do not perceive time savings as a monetary benefit. A common response during discussions was that practitioners are looking forward to “getting their evenings back” when digital conveyancing is implemented fully. In this sense, practitioners are not explicitly valuing the time they spend during the evenings as a cost.

A fourth factor that can affect realisation of benefits is the share of tasks completed by junior staff compared to more senior staff in the paper process compared to the

electronic lodgement and settlement process. The electronic process involves signing documents by senior staff, a level of oversight that was not required in the paper based system. Consultation revealed that this may be partially offset as the electronic system becomes more familiarised.

### 3.1.3 Costs

The current costs for practitioners using the electronic platform are the platform fees. Currently these are \$110.55 for a transfer title, which make up the majority of electronic lodgements for practitioners (19%). There are other fees, such as caveats and withdrawals of caveats, which cost \$29.92 and \$15.51 respectively and have been included in the analysis. These instruments make up 50% of instruments lodged through the platform.

Consultations revealed that fees for mortgages and discharges are often borne by financial institutions. These may be passed onto purchasers and sellers. For the purposes of this report, fees for mortgages and discharges therefore not included in the analysis, which is focused on the implications for conveyancing industry only.

### 3.1.4 Transition costs

Our modelling indicates that transition costs of moving to the electronic system amount to \$0.7 million, or 23% of the benefits from using the platform. Transition costs are the costs of moving towards the electronic platform. For practitioners that have currently adopted the platform, this includes an average cost of \$69 each time a practitioner begins a transaction in the platform but needs to revert back to the paper process.

A number of transactions revert to a paper process after initiating the electronic process. Through our consultations, this was estimated at over half of all electronic transactions. This figure does vary substantially for individual practitioners. Industry consultations revealed that some practitioners will not begin activities on the platform until all parties have accepted the invitation to the electronic workspace. Others will send invitations for all transactions and will run both the electronic and paper based process to mitigate any risk of reversion back to paper process that could cause delays to settlement.

Another transition cost for conveyancing practitioners is learning to operate the platform. PEXA provides support services face-to-face or over the phone for those completing transactions. Consultations with industry practitioners and support staff report that learning to operate the system requires regular use of the system. When there is regular use of the system practitioners state that it takes 2-3 transactions to know the system proficiently. This transition cost is not included in the model as the delay was considered minimal.

Providing assistance to practitioners on the other side of the transaction is another transition cost cited by practitioners. While PEXA provides support services for practitioners, many proficient practitioners will provide assistance to new users of the system. This is especially true when the practitioner advocates using the platform. This was not quantitatively captured by the model as it substantially varies depending on the case.

### 3.2 State results

Table 3.3 presents the modelling results for practitioners currently using the electronic system in each state.

NSW and VIC, the two largest property markets in Australia by lodgement volume, account for the largest share of the current net benefits of using the platform. Victoria has a higher share of current benefits due to a large share of caveats being lodged

electronically, which results in significant time savings for practitioners. Meanwhile there are only small benefits for SA and QLD. This is unsurprising given the size of the market in each of these states.

The industry in WA is experiencing no net benefits from electronic lodgement and settlement, with industry net benefits of -\$36,000 for the 2016-17 financial year. The main reasons for the variation in state benefits include:

- Differences in take-up rates of the platform;
- Slight variations in the conveyancing process between states which results in different time savings; and
- Differences in share of lodgements completed electronically by conveyancers or lawyers.

**Table 3.3 Economic modelling results for current practitioners using electronic platforms by state**

State	Benefits (\$'000s)	Costs (\$'000s)	Transition costs (\$'000s)	Current net benefits (\$'000s)
<b>NSW</b>	\$1,314	\$934	\$356	\$23
<b>VIC</b>	\$1,204	\$816	\$198	\$189
<b>SA</b>	\$128	\$89	\$24	\$15
<b>QLD</b>	\$83	\$55	\$16	\$15
<b>WA</b>	\$315	\$251	\$101	-\$36
<b>Total</b>	\$3,045	\$2,144	\$696	\$205

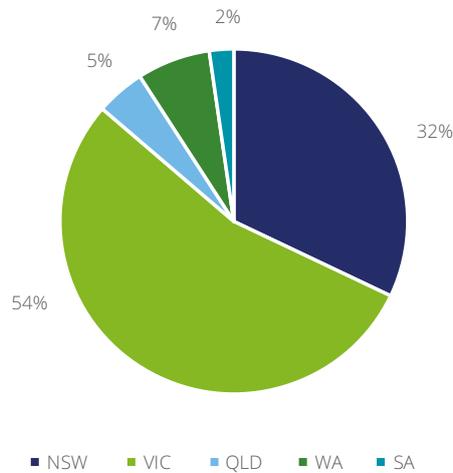
Figures may not add due to rounding  
Source: Deloitte Access Economics analysis

### 3.2.1 Variation property transactions and take-up

Take-up rates of the platform are a key determinant of net benefits across the states. Table 3.4 below shows large variation between states in these take-up rates.

The highest take-up rate of the platform is in VIC, NSW and WA with the three accounting for 93% of in-scope electronic lodgements (see Chart 3.1). These states have implemented compliance dates for certain instrument types to be completed on the electronic platform which has encouraged growth in the take-up of electronic lodgements.

Chart 3.1 Share of electronic lodgements by state



Source: PEXA data request and Deloitte Access Economics analysis

Table 3.4 Total and electronic lodgements by state

State	Lodged instruments	Electronically lodged instruments	Platform take up rate
NSW	683,294	13,753	2.0%
VIC	625,853	23,237	3.7%
SA	147,181	975	0.7%
QLD	518,898	1,960	0.4%
WA	205,641	2,922	1.4%
<b>Total*</b>	<b>2,180,867</b>	<b>42,846</b>	<b>2.0%</b>

Figures may not add due to rounding  
 \*Instruments lodged are for conveyancers and practitioners  
 Source: PEXA data request, BIS Oxford Economics

### 3.2.2 Variation in time savings

Part of the variation in benefits faced by each state is determined by the time saved during a transaction through using the electronic platform. These variations in time savings were developed through consultations with practitioners in each state and confirmed through the survey.

For instance, SA has the largest time savings of any state with almost 4 hours saved through the process in total (Table 3.5). This is partly attributable to the fact that SA only has one location for settlement, so any delays or errors prior to settlement are exacerbated given limited availability for re-booking.

**Table 3.5 Average time savings for using electronic platform**

State	Time saving (hrs)	Time spent transitioning (hrs)	Net time savings (hrs)
NSW <sup>14</sup>	3.8	1.2	2.5
VIC	3.6	1.1	2.6
SA	4.7	0.9	3.9
QLD	3.6	0.7	2.9
WA	3.5	0.8	2.8

Source: Deloitte Access Economics analysis

### 3.2.3 Difference in lawyers and conveyancers undertaking the transaction

The type of practitioner completing the conveyancing transaction can have an impact on the size of benefits derived by each state. This is a result of the difference in hourly wages between a lawyer and conveyancer. For instance, in NSW the

difference in the average salary for a lawyer compared to a conveyancer was over \$22,000.<sup>15</sup> This leads to differences in the dollar value of time savings for the types of practitioner.

For each state, there are varying shares of lawyers and conveyancers completing lodgements through the platform (Chart 3.2). The Queensland Government only

allows practising lawyers to operate in their state and does not allow licensed conveyancers from interstate to operate within their jurisdiction. On the other end of the spectrum, the majority of electronic lodgements completed in WA are completed by conveyancers, or settlement agents.

<sup>14</sup> Previous research estimates that NSW average time savings was 3.25 hours for vendors' practitioners and 4.5 hours for purchaser's practitioners. with an average time approximately the same as the average estimated in our modelling

<sup>15</sup> Payscale (2018). Payscale salary survey. Available at: <https://www.payscale.com/my/survey/choose>.

### 3.3 Assumptions

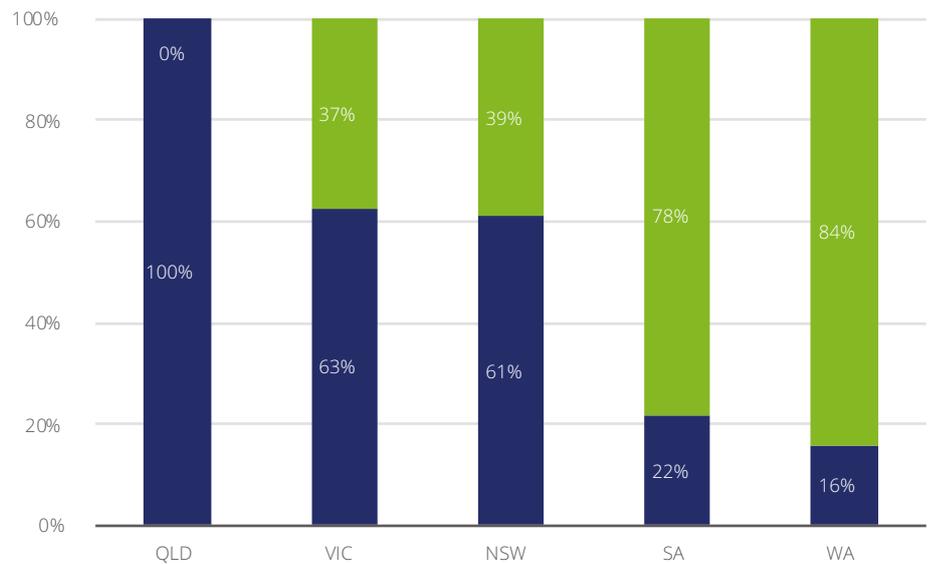
The following assumptions were made when undertaking modelling of net benefits under the current system:

- The activities involved in the preparation and post-lodgement stages, including reviewing contract documents and consulting with clients, remains unchanged from the paper based process. The only time savings examined are in preparation, settlement and lodgement stages.
- Lodgement volumes for 2016-17 were provided by BIS Oxford Economics based on data from LTOs.
- The lodgements included in the analysis are those that involved a transfer of land title, which involves conveyancing services. While there are other types of lodgements such as caveats and priority notices, these lodgements were only included if they were completed alongside a transfer rather than standalone instruments.
- Time savings are spent doing additional work by the business. However as discussed previously, this may not always be the case if time savings are spread out or if additional employment activities are provided. This can prevent benefit realisation of the platform.<sup>16</sup>
- The hourly wages for conveyancers and lawyers is calculated based on median wage figures provided by Payscale.

### 3.4 Discussion of benefit drivers

Our modelling results are dependent on a number of assumptions as outlined in 3.3. Below we outline the implications of adjusting key assumptions.

Chart 3.2 Share of lodgements by practitioner type



Source: PEXA data request and Deloitte Access Economics analysis

#### 3.4.1 Time savings

The biggest driver of the final net benefit to industry is the time saved under an electronic approach, estimated at an average 3.7 hours per transaction. There are a number of reasons practitioners are not able to achieve these time savings, outlined in 3.1.2. If the time savings reached in 2016-17 were only 3.5 hours, the industry would not have achieved a net benefit.

#### 3.4.2 Wages

Time savings are converted to monetary benefits by multiplying the number of hours saved by the median wage for the industry. During consultations, practitioners indicated that some of the activities where time is being saved were

previously undertaken by junior staff with lower rates of pay. This would reduce the average wage estimate for a transaction, lowering net benefits to the industry. If the average wage for a transaction in 2016-17 were reduced by around 8%, the industry would not achieve a net benefit.

#### 3.4.3 Approach to dual systems

Practitioners have undertaken different approaches to dealing with dual processes in the industry. Some undertake both processes at the same time, while others start the electronic process and only revert to a paper process if necessary. If dual processes are run for all electronic transfer transactions, the industry would have experienced a net cost of just over \$210,000.<sup>17</sup>

<sup>16</sup> The time savings are calculated as the cost of an estimated hourly cost for the practitioner. If the time saved is spent completing leisure activities, this would be valued differently by the practitioner and the same rate would not apply.

<sup>17</sup> This refers to the case where all practitioners undertaking electronic lodgement and settlement activities also complete the initial steps under a paper process to reduce the chance of delay if a transaction has to revert to the paper process.



# 4. Impacts of a 100% electronic system

The benefits of all conveyancing transactions being completed on the electronic platform provides an estimate of the potential size of the benefits yet to be realised for conveyancing industry. With the 2016-17 take up of 2% of all lodgements, there is a significant transition required to move towards a 100% electronic lodgement and settlement system.

A 100% electronic lodgement and settlement process in this report means that for all transactions involving

practitioners, activities in the settlement and lodgement stages, as well as some activities in the preparation and post-lodgement stages, are performed through an ELN.

When all transactions are completed through the electronic system, transition costs will no longer be applicable as the industry is only operating on the electronic system rather than operating both paper and electronic at once.

Our modelling estimates that the benefits of 100% electronic settlement and lodgement would lead to \$89 million per annum in 2021-22 prices (Table 4.1). This is over 400 times larger than the benefits currently being experienced by the industry.

The gross benefit for industry is considerable at just under \$300 million, but this is offset by a substantial cost of over \$200 million.

**Table 4.1 Economic modelling results for 100% take up of electronic settlement and lodgement**

Benefits of 100% take up (\$m)	Costs of 100% take up (\$m)	Net Benefits of 100% take up (\$m)
\$296.8	\$208.0	\$89.0

Figures may not add due to rounding  
Source: Deloitte Access Economics analysis, BIS Oxford Economics

## 4.1 State results

There are benefits for each state under a 100% electronic settlement and lodgement (Table 4.2). WA experiences the biggest increase in net benefits of 100% take up compared to current benefits due to having a low current rate of take-up (1.4%) and high transitional costs under the current system (around 32% of gross benefits).

The net benefits to each state can mostly be attributed to the size of the market, with

NSW, QLD and VIC achieving net benefits of over \$20 million. With 100% take up, the share of net benefits owing to NSW and VIC have decreased to 51% (Chart 4.1). This is a result of take up rates being equalised and variations in the hours saved through the platform as discussed previously.

However, when the size of the market is taken into account the share of benefits is more evenly split (Chart 4.2). NSW and VIC achieve a relatively similar level of net benefit per lodgement, while SA and QLD

experience higher net benefits compared to their current benefits. In SA this is driven by increased time savings (discussed in 3.2), while QLD's higher net benefits are driven by the composition of practitioners. Only lawyers are able to undertake conveyancing activities in QLD, and these practitioners have generally higher wages.

Table 4.2 Economic modelling results for 100% take up of electronic settlement and lodgement by state

State	Benefits of 100% take up (\$m)	Costs of 100% take up (\$m)	Net Benefits of 100% take up (\$m)
NSW	\$85.1	\$62.9	\$22.1
VIC	\$82.0	\$58.3	\$23.8
SA	\$22.5	\$14.8	\$7.7
QLD	\$78.1	\$50.1	\$28.0
WA	\$29.1	\$21.9	\$7.2
<b>Australia</b>	<b>\$296.8</b>	<b>\$208.0</b>	<b>\$89.0</b>

Figures may not add due to rounding  
 Source: Deloitte Access Economics analysis, BIS Oxford Economics

Chart 4.1 Share of net benefits by state

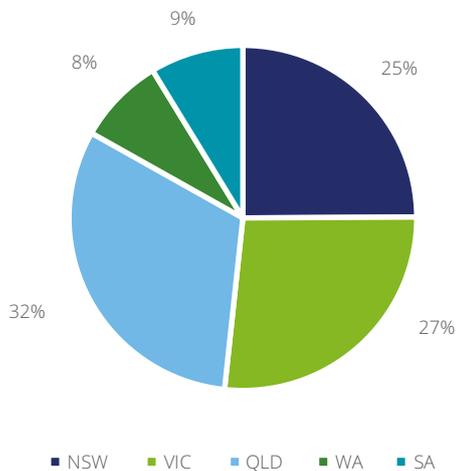
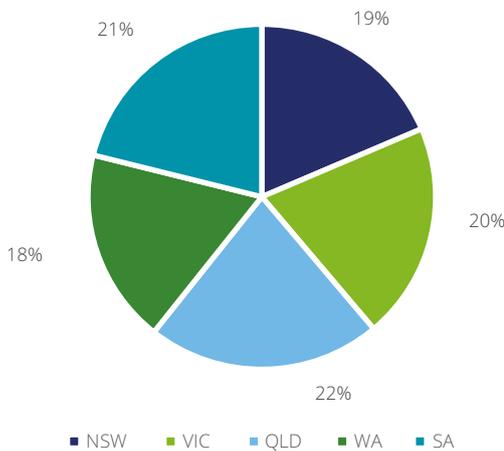


Chart 4.2 Share of net benefits by state, adjusted for industry size



Source: Deloitte Access Economics analysis, BIS Oxford Economics

Source: Deloitte Access Economics analysis, BIS Oxford Economics

## 4.2 Assumptions

The following assumptions have been made when modelling the benefits of 100% digital lodgement and settlement for a transfer transaction:

- There was an equal share of lodgements assumed to be completed by lawyers and conveyancers. This assumption is required as LTOs do not publish information on the type of practitioner used by consumers. This assumption was informed by the Australian Institute of Conveyancers (Victorian Division) which estimates a 45-50% of transactions being completed by conveyancers and the remaining being undertaken by solicitors (AIC, 2017). The exception for this assumption is Queensland where only lawyers are registered to complete property transactions.
- Transfer lodgements were forecasted to grow by an average annual growth rate of 1.7% between 2017-18 and 2021-22.<sup>18</sup>
- The movement to 100% digital lodgement and settlement will have no impact on the growth in transactions or type of transactions undertaken.
- No additional technologies (e.g. robots) are introduced that may automate activities conducted in the preparation and post-lodgement stages.
- There is no further integration between state Land Titles Offices or State Recovery Offices systems and the electronic platform, or practice management software and the electronic platform. This would prevent double

entry into these systems and lead to further time savings during the conveyancing process.

- Electronic lodgement and settlement is assumed to reach 100% in the States where PEXA's system is currently deployed by 2021-22. This includes NSW, VIC, WA, QLD, and SA, with the pace of transition differing between each state.
- Benefits and costs are converted to 2021-22 prices using an inflation rate of 2%.
- The activities involved in the preparation and post-lodgement stages, including reviewing contract documents and consulting with clients, remains unchanged under a 100% digital lodgement and settlement process.

## 4.3 Discussion of benefit drivers

Our modelling results are dependent on a number of assumptions as outlined in 4.2. Below we outline the implications of adjusting key assumptions.

### 4.3.1 Time savings

The biggest driver of the final net benefit to industry is the time saved under an electronic approach, estimated at 3.7 hours per transaction. If practitioners were not able to achieve these time savings, perhaps due to ongoing difficulties with learning the new system or additional processes required by industry bodies, the net benefit to industry would be reduced.

If the time savings were reduced to 2.3 hours, the industry would not achieve

a net benefit. At this point, the benefits to practitioners are offset completely by costs.

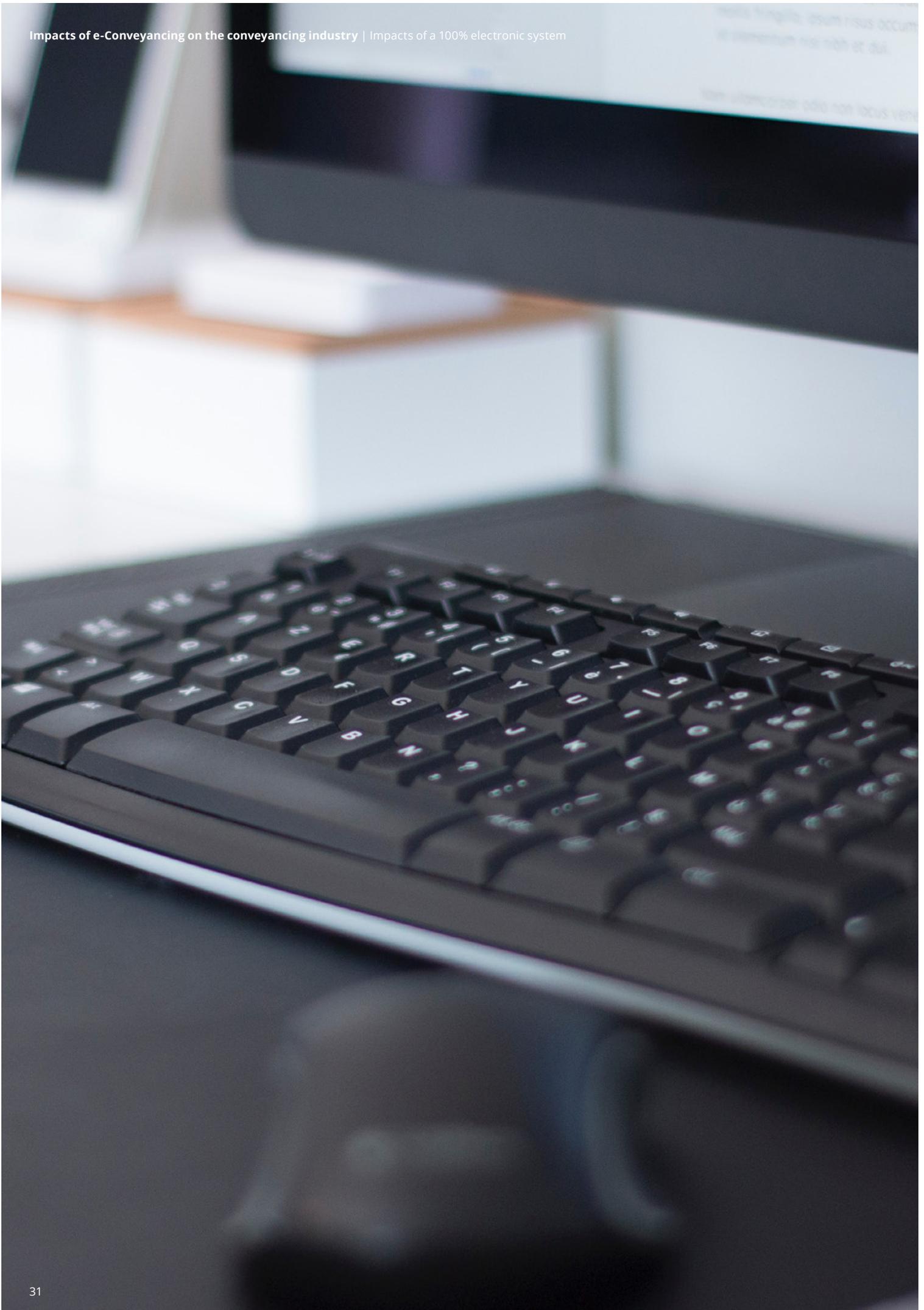
### 4.3.2 Wages

Time savings are converted to monetary benefits by multiplying the number of hours saved by the median wage for the industry. During consultations practitioners indicated that some of the activities where time is being saved were previously undertaken by junior staff with lower rates of pay. This would reduce the average wage estimate for a transaction, lowering net benefits to the industry. If the average wage for a transaction were reduced 60%, the industry would not achieve a net benefit.

### 4.3.3 Timing of 100%

Under our analysis we assume the industry reaches 100% electronic lodgement and settlement by 2021-22. This assumption is based on current compliance targets as well as PEXA's current roll-out schedule. If there was a delay reaching 100% digital by 2021-22, this would impact the net benefit to industry through transaction volumes. The number of lodgements undertaken each year is dependent on the housing cycle. In 2021-22, the number of lodgements is just over 2.3 million. If a 100% digital process was reached at a different point in the housing cycle, and transaction volumes were higher/lower, this would increase/decrease net benefits by the same proportion.

<sup>18</sup> Based on forecast data provided by BIS Oxford.



# 5. Other impacts of an electronic system

Analysis undertaken in this report has focussed on the benefits of electronic lodgement and settlement to practitioners in the conveyancing industry. However, there are broader implications of this electronic system for the conveyancing process not quantified within our modelling. This chapter outlines key developments in the industry that will impact players involved in conveyancing.

## 5.1 Implications for fraud

As the conveyancing industry transitions towards electronic settlement and lodgement there is an increasing focus on fraud associated with the transfer of property. The major channels for fraud within the property sector are identity theft, forged documents, fraudulent transfer, mortgage fraud, and money laundering.

Moving from a paper based system to an electronic settlement and lodgement process helps to mitigate some of risks for fraud, while also creating new issues for practitioners to consider. Increased transparency and a secure online system helps to limit incidents of identity theft and forged documents. However, data security becomes imperative. Practitioners are increasingly aware of the need to maintain up to date firewalls and anti-virus software to limit the risk of data breaches.<sup>19</sup>

Of the various forms of fraud in the industry, identity theft remains a major concern under both the paper and electronic system. In 2017 alone there were over 15,000 reported cases of identity theft in Australia.<sup>20</sup> Email was a dominant delivery method for identity theft scams, and resulted in the largest financial losses for victims.

The industry is aware of the risks of fraud, and requires verification of identity to be undertaken when undertaking a transaction. All dealings conducted through electronic lodgement and settlement are regulated by the Model Participation Rules, as set by ARNECC. These rules set out a range of obligations that conveyancers must follow when engaging in electronic lodgement and settlement, stipulating that subscribers to must comply with these rules at the time of applying and whilst being a subscriber to the electronic lodgement and settlement system. Step 6.5, Verification of identity, states that *“subscribers must take reasonable steps to verify the identity clients, mortgagors, persons to whom certificates of title are provided, and signers”* (ARNECC, 2017).

Figure 5.1 Cases of fraud in the current conveyancing process

**Fraud cases involving email interception**

In recent years, there have been a number of fraud cases where scammers have intercepted emails between conveyancers and vendors in order to redirect sale funds or sell a property without the vendor being aware. In October 2017, two South Australian property buyers were defrauded out of nearly \$1 million after scammers posed as conveyancers and changed the settlement bank account details. In a similar case in the ACT (*Astell v Australian Capital Territory, 2016*), a scammer posed as a home owner and was able to carry out the sale of the property solely through the exchange of emails with the real estate agent and conveyancer. In this case, the proper identity checks were not performed.

Source: Prosser (2017), Phillips (2016)

<sup>19</sup> Comments from practitioners during consultation.

<sup>20</sup> Australian Competition and Consumer Commission (2017). Scam statistics 2017. Available at: <https://www.scamwatch.gov.au/about-scamwatch/scam-statistics>.

## 5.2 Potential to reduce settlement delays

Selling a house is considered one of life's most stressful events (Karen, 2018). The success of a property transfer is largely reliant on whether the conveyancing process plays out as initially planned. The largest determinant of a successful property transfer is whether settlement occurs at its intended time. However, delayed settlements are a common occurrence in Australia because each party must attend and have the correct documentation to finalise the transfer.

Settlement can be delayed due to a number of reasons, including missing or incorrect documentation, parties held up at previous settlements or problems arising on the final property inspection. A delay means that settlement may be rescheduled later that day, or take a number of days to be rectified. Under the paper system, one in every five property settlements are delayed by a median period of seven days (PwC, 2015).

Financial penalties apply to settlement delays occurring over a number of days. In many states, if the purchaser is responsible for delaying the settlement, the vendor has the right to charge penalty interest. For example, in NSW, the vendor can charge penalty interest for each day that settlement is delayed and also issue a

Notice to Complete, giving the purchaser an additional period of time to settle (usually 14 days) (finder, 2018).

- In addition to financial penalties, there are a number of costs borne by the buyer and seller of a property. These costs include:
- Removalist charges for the buyer having to delay the transportation of belongings;
- Accommodation costs for a buyer having to organise an alternate place to stay;
- Utility costs for sellers that need to re-connect or re-schedule services;
- Financial penalties for a seller that needs to delay settlement on another property.

Our consultations with practitioners found that electronic platform has, on average, reduced the frequency of delayed settlements. The platform allows practitioners to more efficiently track the progress of a transaction and identify whether a settlement is at risk of being delayed. Under the paper process, practitioners need to trust that all parties have the appropriate documentation ready to go when they meet physically on settlement day. However, the platform provides immediate progress updates and enables parties involved in the transaction to see what documentation is outstanding and who is responsible for its submission.

In addition to reducing the likelihood of buyers and sellers facing financial penalties or additional costs associated with a delayed settlement, practitioners said that they had experienced efficiency gains. If less settlements are delayed, it means that instances where practitioners need to stop what they're currently working on and attend to a delayed settlement are reduced. Practitioners commented on the convenience of not having to worry about a settlement on the day because the system would perform all activities that would have been done in person under the traditional process.

## 5.3 The future of digital

Electronic lodgement and settlement is only a small part of the conveyancing process. There are many steps outside these stages that could benefit from further digital disruption. This includes contract automation, digital identity solutions, and the use of virtual assistants.<sup>21</sup> These solutions are outside the scope of the current digital platform, but take up of the platform will likely spur further technological innovation in other stages of the process. Potential technological innovations and the implications for the industry have been explored in *The future of the Australian conveyancing industry 2025 and 2030*.<sup>22</sup>

<sup>21</sup> Consultations highlighted these particular examples as areas of interest.

<sup>22</sup> Deloitte (2018)

## 5.4 Broader economic implications

A 100% electronic lodgement and settlement system in 2021-22 will provide around \$296 million worth of benefits to practitioners, mostly through time efficiencies. There are also potential benefits to stakeholders in the conveyancing process outside practitioners that have not been modelled as part of this report.

The benefits across these stakeholders are still being realised, with some players further along the transition process. As the industry move to a 100% digital solution, the full potential of electronic lodgement and settlement will be realised for both practitioners and the wider economy.

### 5.4.1 Consumers

A key goal of the COAG initiative of a national e-conveyancing platform was to reduce regulatory burden and streamline the conveyancing process for the benefit of consumers. The potential benefits to consumers were estimated at \$88 million in 2013-14.<sup>23</sup>

Currently, the impact on consumers has been minimal due to limited take up by practitioners. We expect that as the

electronic system is used more often, consumers will experience quicker turnarounds and potentially lower prices. Consultations indicated that practitioners don't expect to alter prices when the industry reaches a 100% digital system. However, we expect competitive pressures will put downward pressure on prices over time.

### 5.4.2 Government

The results from this report validate the initial vision of a more efficient conveyancing process. The potential benefits of this initiative were estimated at \$168 million in 2013-14, with \$13 million to government due to reduced regulatory burden.<sup>24</sup> The land titles office is a key beneficiary of benefits from an electronic lodgement and settlement system. A number of states have or are looking to privatise their land offices, which means these benefits will no longer fall to solely to government.

However, the initial vision didn't adequately foresee the difficulties in implementing a national system. In particular, the initial analysis did not take into account the transition costs of moving towards a 100% solution and how this limits take up of the system. Compliance dates will increase the

rate of adoption in the coming years, and this will create further opportunities for efficiency gains in government.

### 5.4.3 Financial institutions

Financial institutions are major beneficiaries from an electronic platform, with financial benefits from efficiency savings and increased transparency between stakeholders. The potential benefits to financial institutions were estimated by PwC in 2015. This is out of scope for our analysis.

<sup>23</sup> PwC (2015)

<sup>24</sup> PwC (2015)



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# Appendix A - Data collection

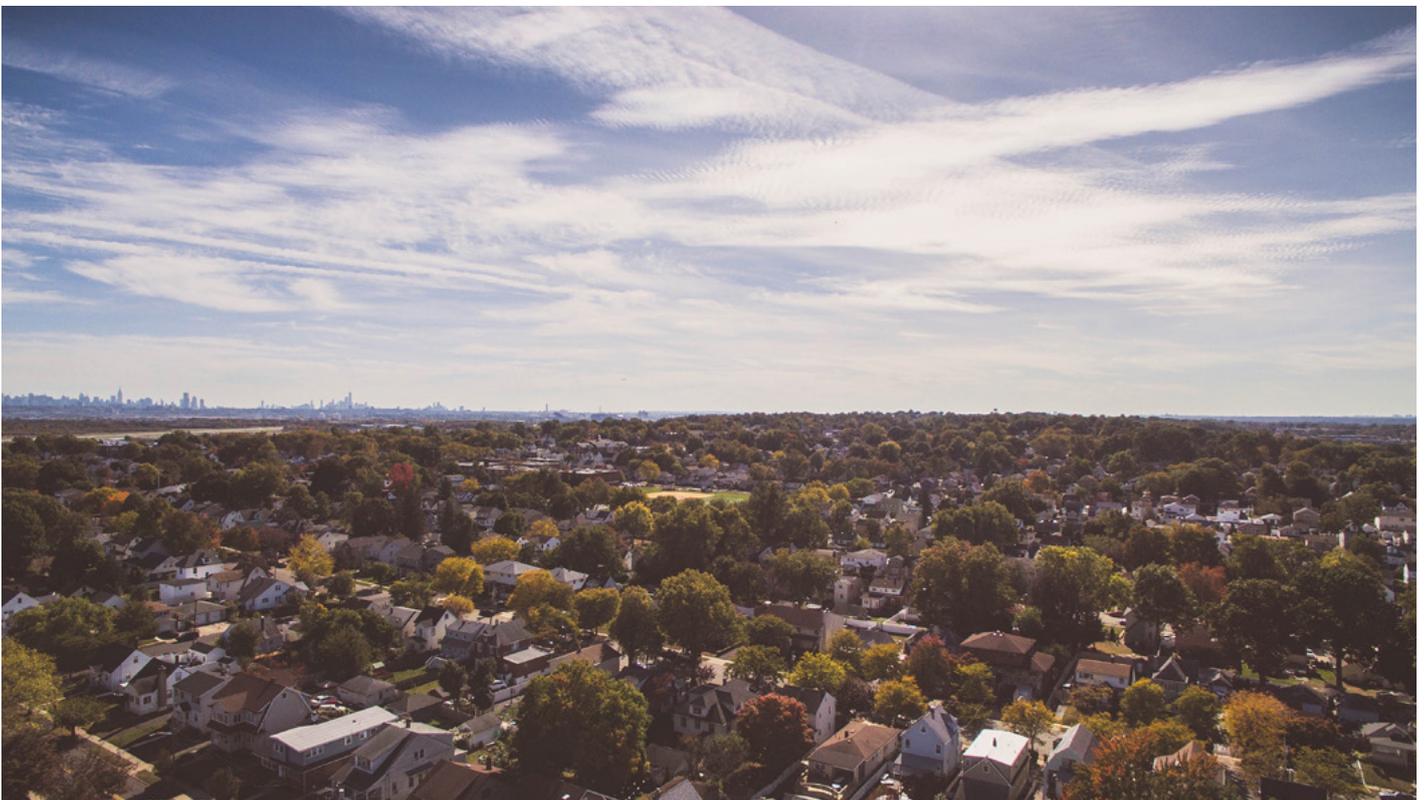
Data for this project was gathered using a combination of practitioner consultations and workshops, an online survey undertaken by Qualtrics and external research.

Consultations were used to gather initial information on the conveyancing process and the benefits of electronic lodgement and settlement between states. Consultations were conducted with a total of 11 practitioners across the five states. These practitioners varied in terms of whether they work for a law firm or conveyancing firm, and whether they are

located in metropolitan or regional/rural areas.

The workshops were used to test the information gathered throughout the consultation process. This involved validating our current results on the time taken to perform activities in the paper and electronic processes, and the overall benefits and costs of the moving towards electronic lodgement and settlement for individual organisations and the industry. Two workshops were conducted in NSW and WA.

Qualtrics was commissioned to field a short survey to collect quantitative data from practitioners. The data was then analysed by Deloitte Access Economics. Data was collected via an online portal and took respondents approximately 15 minutes to complete. The survey was used to gather quantitative evidence to further support the findings from consultations and workshops, with a particular focus placed on time savings between the two processes, transitions costs and how practitioners were using these savings internally.



# Appendix B - Modelling methodology for current benefits

A cost benefit analysis (CBA) methodology has been utilised to determine the net benefits of an electronic lodgement and settlement process. The methodology involves quantifying current annual time and monetary costs and benefits of electronic lodgement and settlement, as well as those observed if 100% of transactions were conducted through the electronic process.

The costs and benefits of electronic lodgement and settlement are estimated for five states (NSW, VIC, QLD, WA and SA) and five types of instruments (transfers, discharge of mortgages, mortgages, caveats and other). The results for each state are aggregated to provide an estimated national total, and given that a discharge of mortgage and mortgage are typically included in a transfer, the estimated costs and benefits for a transfer are used as headline figures throughout this report.

## B.1. Approach to CBA modelling

In our CBA analysis, the process that we are undertaking is similar to that of an economic appraisal as it demonstrates the net benefits under an electronic lodgement and settlement system relative to those of a paper-based system. Our CBA analysis:

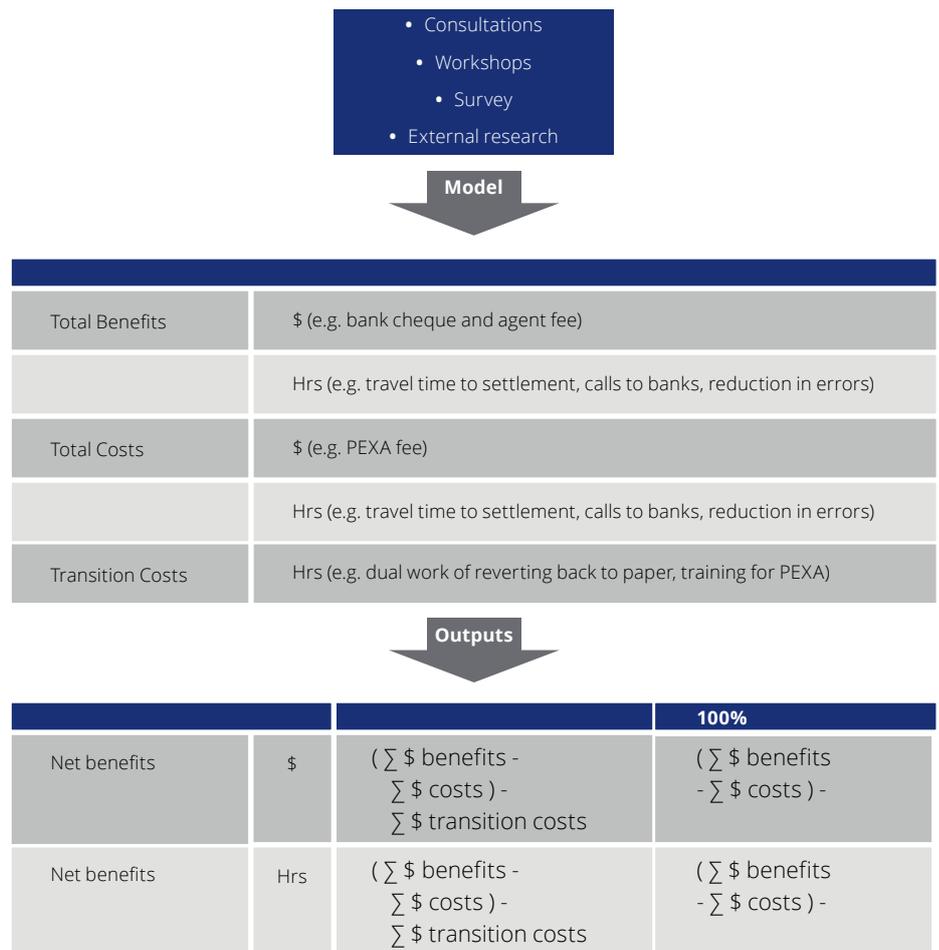
- Is undertaken in FY2017-18 Australian dollars;
- Estimates current annual costs and benefits, as well as those experienced if 100% of transactions were conducted under an electronic system by 2021-22;
- Assumes a transition period of 4 years (2017-18 to 2021-22) for the 100% electronic lodgement and settlement scenario. The pace of transition will differ across the five States.

- There are minimal benefits to practitioners of electronic lodgement and settlement for mortgage and discharge of mortgage lodgements, therefore transfers are used as the representative lodgement type.
- Lodgement volumes between 2017-18 and 2021-22 are based on BIS Oxford

Economics forecasts of dealings involving a practitioner.<sup>25</sup> Under these forecasts, the CAGR of total national lodgements between 2016-17 and 2021-22 is 1.7%.

- Figure B. 1 provides an overview of the modelling methodology undertaken in this report.

Figure B. 1 Overview of modelling methodology



Source: Deloitte Access Economics

<sup>25</sup> PwC (2015). As the estimated benefits for financial institutions were considered out of scope, the figures contained in this report have not been reviewed.

Data collected through consultations and workshops with practitioners, and an online survey (as outlined in Appendix A) were the main inputs to the model, with previous pieces of external research used as a means of comparison and to fill in parts of the model where we were unable to obtain reliable estimates.

Our underlying model quantified the costs and benefits of the electronic lodgement and settlement process for each transaction. The model compares the differences in time and monetary costs between the paper and electronic processes for a transfer, discharge of mortgage, mortgage, caveat and all other instruments involved in a transaction.

The activities undertaken in the conveyancing process are outlined in Figure B. 2.

**Figure B. 2 Conveyancing activities**

Contract	Preperation	Settlement	Lodgement	Pre-lodgement
Activity	Activity	Activity	Activity	Activity
<ul style="list-style-type: none"> <li>• Verification of identity</li> <li>• Check contract with client</li> </ul>	<ul style="list-style-type: none"> <li>• Setting up the PEXA workspace</li> <li>• Create and sign transfer of land title</li> <li>• Pepare state revenue office documents</li> <li>• Negotiate Caveat conditions</li> </ul>	<ul style="list-style-type: none"> <li>• Book settlement</li> <li>• Prepare disbursements and payment directions</li> <li>• Confirm funds available</li> <li>• Prepare adjustments and edits to transfer documents and Final Property inspection and Title Activity Check</li> <li>• Preparing for settlement on the da</li> <li>• Agent fees</li> <li>• Travel to settlement</li> <li>• Attend settlement</li> </ul>	<ul style="list-style-type: none"> <li>• Funds dibursed</li> <li>• Travel to Land Title Office</li> <li>• Lodgements of Transfer documents, mortgage and discharge of mortgage</li> </ul>	<ul style="list-style-type: none"> <li>• Verification of transfer</li> <li>• NoA and rates payments sent to council and water authority</li> <li>• Direct real estate agent to release keys</li> </ul>

Source: Deloitte Access Economics

In the model, it is assumed that a benefit exists when the difference between the cost (time) spent on a particular activity in the paper and the electronic process is positive. Total benefits are the sum of all time and cost benefits estimated across each activity in the conveyancing process.

The model generates costs and benefits per instrument lodged. In order to quantify net benefits on an aggregate level, we took the following approaches:

- **Current annual net benefits:** taking the difference between total benefits and total costs (which includes transition costs) and multiplying the result by the number of instruments lodged in 2016-17.
- **Net benefits of 100% uptake:** estimating total benefits and total costs under a 100% digital solution in 2021-22 prices and multiplying this result by total lodgement levels in 2021-22.

Net monetary benefits were derived from two main sources in the model. First, the reduction in wage costs that arise from employees not having to work as many hours on a transaction under the electronic process. This reduction in wage costs were calculated by multiplying the median wage for lawyers and conveyancers in each state by the time savings per lodgement and total lodgements. And second, other monetary costs that are no longer required under the electronic process, such as bank cheque fees.

Although the overall conveyancing process is broadly consistent across all of these states, there are slight differences in

specific activities and players who perform these activities in some states. The main differences include:

- In **WA**, real estate agents, rather than conveyancers, create contracts for clients. Therefore, the time conveyancers spend on this activity in WA is relatively smaller than the other states.
- In **QLD**, conveyancing work is done entirely by lawyers with conveyancers acting as paralegals that assist lawyers in the process. In addition, real estate agents perform most of the preparation work, including preparing the contract and advising the client.
- In **SA**, all settlements take place in conjunction with lodgements, saving the time travelled to a different lodgement location in other states.

## B.2. Comparison with previous studies

The time saving benefits estimated under the current are supported by research undertaken by KPMG (2018) which reported time savings of 4.25 hours for the purchaser's practitioner and 3.25 hours for the vendor's practitioner in NSW. We estimate that practitioners in NSW save approximately 3.8 hours when a transaction is completed electronically.

KPMG's analysis does not incorporate costs of transitioning to the electronic platform. In our analysis, we estimate a proportion of transactions started in an electronic format have to revert back to the paper process.

The estimated benefits in this report differ, but are consistent with previous analysis from PwC. In 2015, PwC estimated gross

benefits to practitioners of \$72.7 million in 2017-18 if around 80% of practitioners used the electronic system to undertake transactions involving only the 5 major instruments. This is higher than our estimate of \$3 million when the take-up rate is 2%.

While our 100% electronic lodgement and settlement results broadly align with the PwC analysis, our estimated net benefit of \$89 million in 2021-22 is higher than the PwC results for three key reasons. Firstly, the total number of industry transactions in the PwC analysis is lower than our forecast 1.5 million. Secondly, the number of transactions that can be completed electronically under PwC analysis is limited by the take up of practitioners and the number of instruments available on the platform. Under our analysis we assume all practitioners use the platform for all transfer related transactions. Finally, where PwC analysis considers gross benefits and how they flow through to the various players, our analysis focuses on net benefits to practitioners and not where those benefits flow.

Overall, our analysis aligns with previous research by both KPMG and PwC. The time savings across all reports is similar, and the benefit figures are relatively close when taking into account differences in the scope of analysis.

# Limitations of our work

## General use restriction

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