Thriving in Turbulent Times

Once upon a time you had to be rich to even consider buying a house. You went to your local building society, for it was they who held the domestic lending purse strings, to ask, cap in hand, for permission. You had to jump through hoops to prove you were worthy of their assistance. Eventually you got the keys to your castle, and you stayed there.

Those days are long gone. In fact for most people that scenario does indeed resemble a fairy tale, and might even result in hoots of derisive laughter. For the situation today is more reminiscent of a fairground than a staid business. To those in the mortgage business now it probably feels rather more like the ceaseless whirling of a merry-go-round than a sensible corporate cycle.

Information is becoming ever more accessible. For customers, web sites exist that allow quick and equable comparison of the vast array of mortgage products from different lenders. What in the past would have taken many hours on the phone or even days trekking up and down the High Street, can now be accomplished in minutes. For the lenders, information on customers and competitors is quicker and easier to access and more comprehensive. New ideas are copied by ever more flexible and agile companies. More informed customers and the speed of product replication have driven the industry towards a commodity market with all the major lenders offering the same types of product.

The ease of changing mortgage has increased to the point that most customers with larger mortgages see it as completely natural to re-mortgage several times within the lifetime of their property. With many modern mortgages carrying no early redemption charges the punitive deterrent to doing this has been removed. Traditional and online lenders all make the process of changing mortgage seem simpler.

These trends are certainly also taking place in continental Europe, albeit not as rapidly. The *practical framework* for offering mortgage products and services on a pan-European scale is already in place, with the single currency and electronic communications and commerce. With the advent of the European Mortgage Code in 2000 the *legal and regulatory framework* began catching up with these market changes. Although for now we are still far away from seeing full cross-border financing across a borderless market, the impending changes across Europe encouraged by legislation mean that that time will come. The present CP 187 – Insurance Selling and Administration is the FSA's reaction to the EU directive on Insurance Intermediation. CP 186 – Mortgage Regulation, Conduct of Business is the precursor to similar legislation pending in the EU as a result of the European Mortgage Code introduced in 2000. Along with Basle II and other non-product legislative requirements, the world of a mortgage lender is becoming topsy-turvy.

Added to this picture of upheaval and turmoil in a changing market with changing legislative requirements is the need to successfully carry on day to day business.

The Director General of the Council of Mortgage Lenders, Michael Coogan, has said: "The shape of mortgage regulation is now certain, and the clock is ticking towards Mortgage Day. We welcome that the FSA has given the industry a full year to implement the new rules as we requested. The time for debate on policy has gone, and the industry must now move on to the practicalities of implementing the rules.

We look forward to working closely with the FSA to ensure a seamless transition from a voluntary to statutory system of regulation."

Iain Cornish, Chief Executive of the Yorkshire Building Society concurs whilst adding a note of caution. "The complexity of our existing business added to the new forms of regulation which will be upon us in 2004 means that we will have to be doubly confident that we have the necessary management skills and operational building blocks in place."

All this begs the question: "How can lenders survive in these turbulent times?"

The answer, as ever, is to always remember the basics. An unpopular dictat, but nonetheless very pertinent. To do this a lender must have the right products at the lowest cost to the customer, supported by effective customer facing processes. It's an all too frequent occurrence for new customers to be enticed by brand, product or price in the first instance, only to be seriously disgruntled by the time they have gone through the initial contacts and actually become customers. No wonder churn is an ever-increasing issue added to the melting pot outlined above! Responding to the challenges of a seemingly ever-changing market is not straightforward. Rather, it has to be multi-dimensional.

In the past, practices seen as unfair to the consumer, such as charging interest until month end on a loan redeemed at the beginning of the month, provided a steady stream of revenue straight onto bottom line profitability. Following years of media unearthing a seemingly endless stream of examples of unfair practices, companies need to be *compliant* to stay in business. The new legislation being introduced at the moment is a direct result of politicians believing the media that there is not adequate protection for the consumer. Voluntary regulation has seen to be inadequate. Statutory protection is now the order of the day.

Building the key components to survive and thrive

If success is to be achieved, all lenders need to focus primarily on three areas:

- reducing the product development cycle,
- cost reduction, and
- excellent customer service processes

These three areas are the essential building blocks for a successful business - it is around them that all other business issues rotate. Every aspect of a business is touched by one of the three, externally, from beginning to end of the customer lifecycle and internally covering all the operations, from how you do what you do to why you do it at all..

Reducing the product development cycle

Depending on the nature and positioning of the company's marketing stance you may wish to lead the field by being the first to launch new products or, you may decide that replicating other lenders products is a safer route. Either way, reducing the product development cycle is critical, since to perform effectively in the changing market place companies need to maintain the right product portfolio. It is essential to have a product development process in place that enables rapid additions to this portfolio. The development and distribution must be tied in with the needs of the statutory provision so that any customer uptake can be added straight away to the books. KFI's that are inappropriately worded cannot be let lurking in the archives.

Similarly, quotations must be able to cover all the questions a customer may wish to cover in 'what if scenarios' so that they can be seen to be making the right decisions for the right reasons.

Customers are still willing to pay for product enhancements. They are prepared to pay thousands of pounds for the stability of fixed mortgage rates for the first few years of a mortgage, to avoid early redemption penalties, or higher loan-to-value percentages. It's all about where their perception of value lies. If you want to lead on products the trick is to put yourself in the customer's shoes – asking the right questions enables you to fulfil the unasked lifestyle need before it is even articulated.

Case example

UK Building Society - Product Development process

This building society had traditionally left product approval to the senior management within the organisation. This meant that the decision-making process was slow, since organising a meeting at short notice was difficult because most of the senior executives required to attend already had full diaries.

A review of the decision-making process was undertaken and as a result a Product Approval Committee was formed with delegated authority. There were only two senior executives on this committee and a number of junior management close to the day to day business were involved. This meant that meetings could be arranged at much shorter notice, issues that were previously distant from senior management could be debated.

The result was that product proposals could be instigated, debated and agreed in considerably less time than previously.

Cost reduction

The tried and tested methodology for effective cost reduction involves a combination of qualitative top-down issue analysis and quantitative, bottom-up analysis of activities, costs and cost allocation, cross departmental activity flows, functional expenditure, and processes. Dramatic cost savings can be achieved quickly when this methodology is applied as demonstrated in the case example below:

Case example

Major UK mortgage lender - Head Office cost reduction

This lender was faced with a number of business issues. The most serious problem the company had to address was that its cost base was too high; and the business was not competitive enough.

A detailed review of the organisation was carried out in order to identify areas where reductions could be made in the number of people involved in specific operations and in non-staff cost areas. A package of cost reduction and performance improvement proposals which included outsourcing non core activities, de-layering the management structure, re-engineering key processes, eliminating non value-adding activities and realigning support activities with business operations was suggested.

The outcome of this review represented over 15% of total operating expense.

Excellent customer service processes

Customer Relationship Management (CRM) is about identifying, winning, retaining and expanding customer relationships, in the most profitable way, across the complete spectrum of points of contact with the customer – from sales force to call centre to the Internet. Customers expect to be treated like individuals, do not like to repeat themselves and will not tolerate poor service. They expect the post-sales service to be as enthusiastic and committed as the pre-sales enticement. It is taken as read that customer contact, whether by phone, face-to-face in a branch, or on the Internet has to be excellent. Yet frequently the value of getting these contacts right is completely misjudged when customers subsequently experience delays and poor service as a result of over-loaded front end contact or ineffective back office processes such as the issuing of mortgage documentation or the taking of the first payment. If customers experience poor service they will exercise the massively increased freedom of choice that is now available to them.

Case example

Major life assurance company's new business issue process

A leading life assurance company processing thousands of applications per week was beset with major backlogs, high turnaround times and poor customer service. PA applied production management principles and focused on workflow management to redesign the process. Following a successful pilot the improved process was implemented. Average turnaround time was reduced by over 300% and headcount reduced by 25%. Complaints from customers (and from the sales force - whose sales commissions were being paid for more quickly) reduced dramatically.

This programme took five months to complete.

Bringing it all together

Despite the seemingly never-ending onslaught on lenders there is still a large customer constituency out there. The challenge for the mortgage lender is to ensure that they have the right product at the best price, fully supported by effective compliant processes throughout the business. Fighting for survival is fine as long as the fight is for market share rather than constantly playing catch-up with the world around.

Having risen to the challenge put forward by the UK, lenders can tackle the Eurozone with confidence, knowing that they are well placed in responding before competitors over there.

Words: 1906