Servicing Customers Beyond Transaction- Living as a Service

Abstract

Mortgage Industry is seeing the worst period of retention in decades and lenders need to find ways to maintain the portfolio. While every lender claims customer experience to be the key focus area, in truth they are far from understanding the customer. The product-centric business model of the lenders makes them continually think of ways to come up with additional products and new features to attract more customers. This indicates that banks and lenders view customer experience as a function and not a skill set. However, they would, in our view, benefit from observing retailers and other service industries like airlines and telecom who spend a lot of time, energy, and resources to understand the customers.

Customer expectations have evolved with changing demographics, latest technologies, lifestyles, etc. This paper discusses the urgent need to strengthen the relationship between the mortgage lender and the customer beyond transactions. This includes offering intuitive, responsive products and services with built-in smart technology connected through a vast network of service providers.

Mortgage Industry: State of Affairs

Mortgage industry works differently in different parts of the world. Mortgage is the most complex banking product offered in innumerable flavours. The business models of institutions offering mortgages, ways of funding, types of structuring, kinds of stakeholders are all completely different across geographies.

Of these, the US lending market is one of the most complex ones with the industry currently servicing loan portfolios with outstanding debt of around USD 16trillion against USD 50-60 million in loans. The UK has GBP 1.5 trillion and Europe has Euro 7.2 trillion in outstanding debt[1], per reported numbers.

Currently, the lender-customer relationships are very transactional and restricted to paying the monthly dues for the loan period. Lenders connect with the customers only in case of delays/missed payments or when customers reach out for help. The purely transactional nature of the relationship has implied the customers can be prone to harbouring feelings of distrust/dissatisfactionfor the institution and that can trigger subsequent switch overs to other firms. In the US, as per 2019 report from MBA (Mortgage Bankers Association) mortgage retention is less than 20% with 80% (see Figure 1) refinancing customers switching lenders[2].

With pricing no longer a differentiator, lenders are looking at ways to retain customers by offering value added services beyond transaction that can prompt loyalty and help reduce revenue loss.

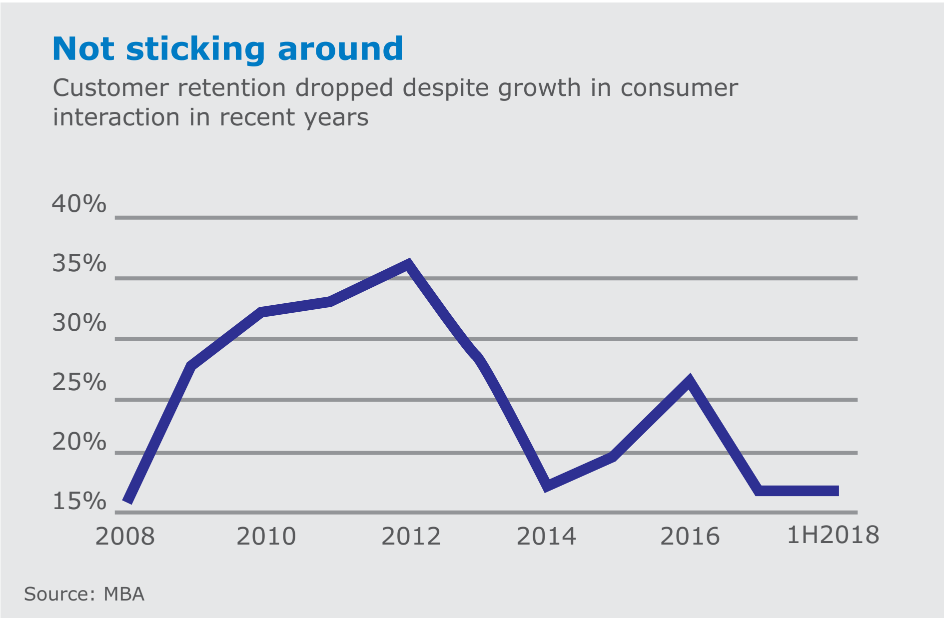


Figure 1: Drop in Customer Retention

Customers: Experience Matters

Compared with any other banking & finance product, mortgage is unique in the sense that decisions are mostly taken by the families of customers. Precisely for this reason, it is referred to as "dream of home ownership."

Figure 2 explains in detail how the customer experience has evolved over a period of time.

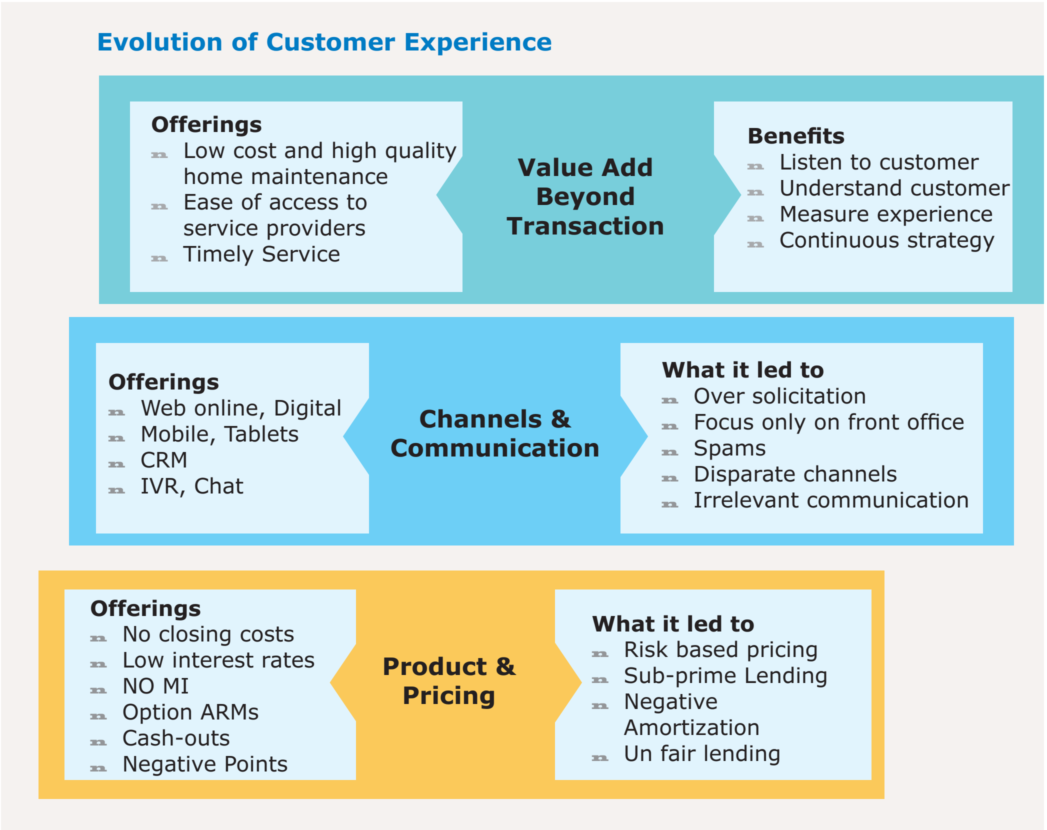


Figure 2: Customer Experience Evolution

During initial years, the lenders focused on Product and Pricing for mortgages to attract more customers and retain them longer. However, this opened a can-of-worms in the guise of risk-based pricing and resulted in the wide use of sub-prime loans that eventually triggered the global financial crisis.

The next phase focussed on Channels and Communications, where lenders increasingly focussed on technology to aid customer satisfaction. However, this did not yield the desired results either as the technologies turned customers into segments and groups with sales and profits as key targets.

As per JD Power Survey3 of US Mortgage Servicers, 70% customers say they do not have complete trust in their servicers.The focus on cost reduction, default management and regulatory management, has made customer experience low priority. Hence, the customers are also ready to move their loan to other servicers when they get the opportunity. Given a mortgage term lasts up to two-three decades it is important the lenders take care of customer needs. When servicers lose a customer it is not just loss of interest income but also of cross-selling opportunities for other relationships such as checking accounts, cards and more.

Improving Customer Experience with Living as a Service

Customer expectations for a better experience has been on the rise. Additionally, the ready availability of multiple options as well as technological advancements have made it easy to switch providers. Given the average mortgage term lasts 20-30 years, it is in the interest of the lenders to take care of customer needs.

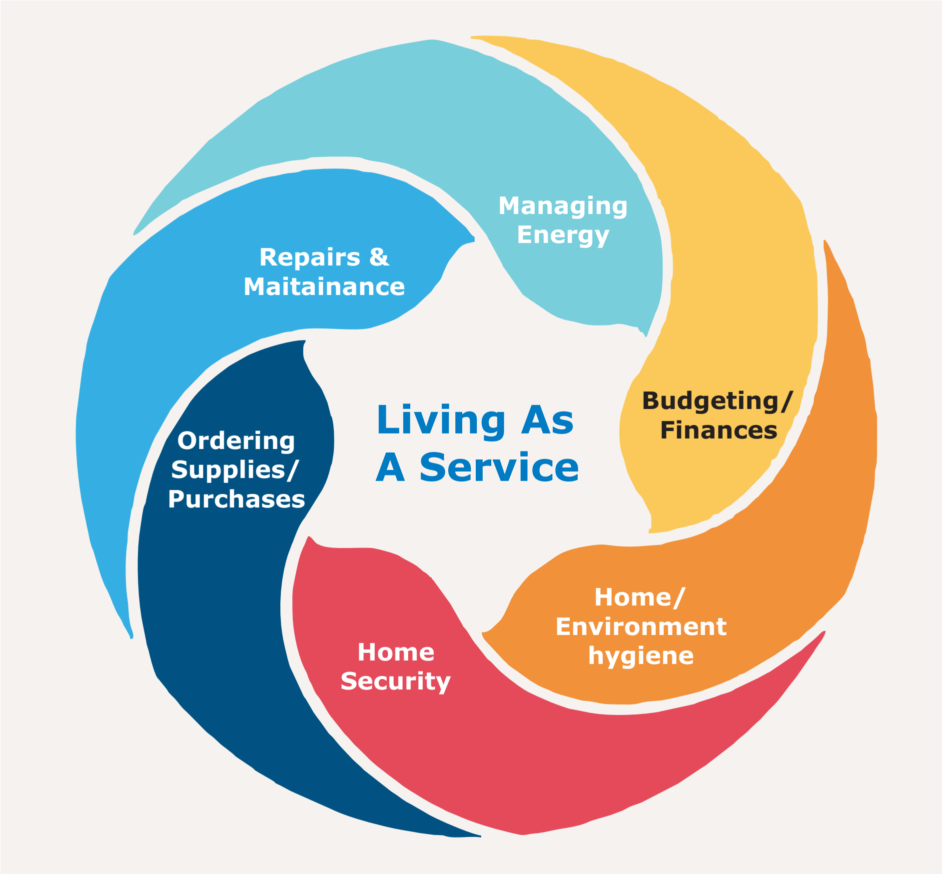
In a bid to offer additional personalised services, the lenders can utilize the Living as a Service (LaaS) model. It involves partnering and developing product/platforms to deliver services that can adapt to fulfil every day customer needs in real time. A successful LaaS model can deliver value to the banks and servicers by generating revenue streams and drive customer engagement and retention.

Banks and servicers seldom get involved in the upkeep of the mortgaged assets. However, it needs to be noted that value of a property can drop if not maintained properly. Additionally, in the case of a default/foreclosure, the property might not fetch the required price on sale/auction. Also, in many countries such as the US, regulatory authorities also hold servicers responsible for property maintenance and charge penalties/fines for violation.

The following figures show the volume of spend in maintaining a house:

- UK Homeowners, spent over GBP 40 billion over the past 5 years making home improvements – working out to GBP 1,875 each[4]
- US Homeowners spent USD 400 billion on home improvements in 2018, USD 9,081 per person - up 50% from 2010[5]
- 58% of UK homeowners and 70% of US homeowners reported difficulty in finding a tradesman they trust to help with either home repairs or improvements[4,5]

Hereare the key services related to a borrower's home that can be offered through LaaS.



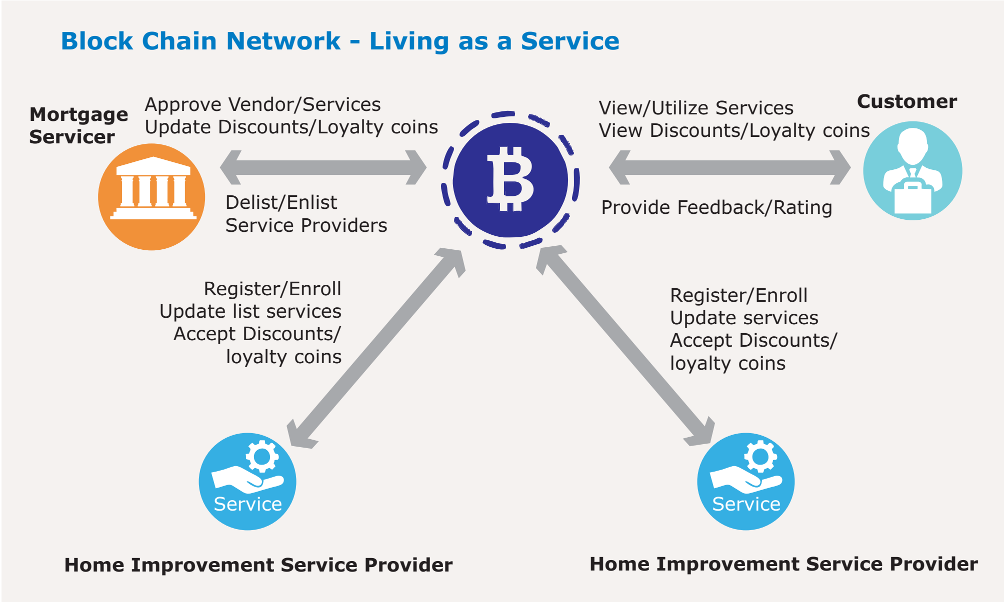
The work flow

- Servicer creates an ecosystem where validated vendors could register their services.
- Customer accumulates a certain number of "Loyalty coins/points" periodically (every month/year) proportional to their payment (amount/timely payment) and the number of years of relationship with servicer.
- Whenever a customer has a specific home improvement need, they can log into the ecosystem, select the kind of service required and view the list of vendors with ratings and indicative cost.
- The customer books an appointment with the vendor, completes the service and pays with the "Loyalty coins/points" provided by the servicer.
- Both the customer and the vendor can provide feedback visible to all.
- The servicer can negotiate discounted rates with the vendors at the time of registration. As the ecosystem

provides a ready set of customers with no marketing effort involved this can be passed along to the customers as preferred rate.

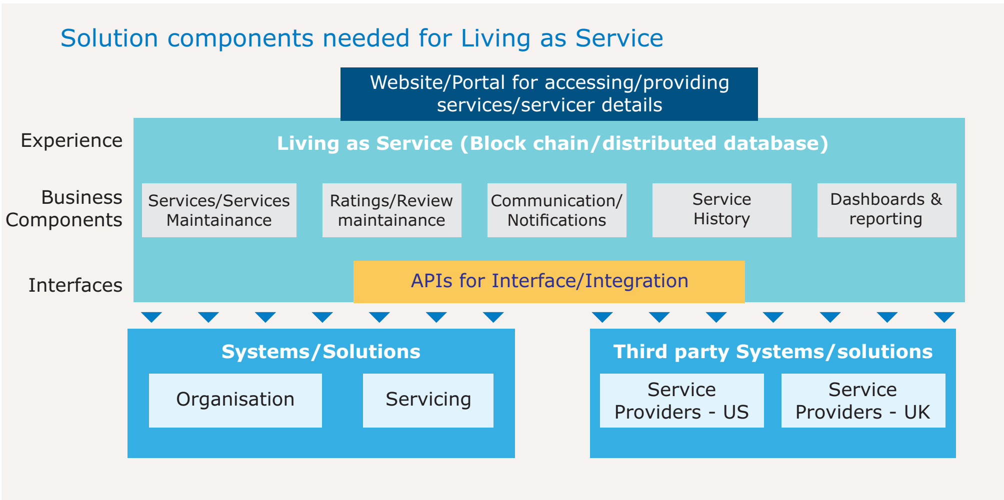
This workflow can be designed leveraging blockchain technology and offer all the stakeholders real-time access to all types of vendor services, charges, ratings etc.

Following is a high-level illustration for implementing blockchain technology for LaaS.



What Lenders can do

- Provide access to customers for home improvement services
- Leverage Digital portals, apps and blockchain technology
- Feedback, review and rate servicers to help homeowners' servicers selection



- Partnering to develop product platforms to deliver services that can adapt in real time to fulfill customer needs in their everyday lives.
- Higher satisfaction for customers with low cost/high quality and reliable home improvement service.
- Being continuously engaged by the servicer and getting help in reliable, low cost, timely home improvement services will also increase customer stickiness/loyalty and retention as benefits would grow with the length of the relationship with the lender.
- A successful LaaS model can deliver value for the lenders by reducing prepayment loss, ensuring continuous stream of servicing, fee and income and also generate newer revenue streams by partnering with various vendor services through partnership fee.
- Opportunity for servicer to provide home improvement/home equity loan product to customer and deepen the relationship.
- Increased business for vendors as all customers of the servicer can have access to the vendor services.

Conclusion

We believe, given the evolving customer landscape, the inability to understand and act on improving the experience for clients can be very expensive. Lenders will have to evolve the thought process and come up with ideas that go beyond offering of basic services to earn and subsequently retain the customers going forward. However, Branding and Marketing, Customer Loyalty, and Customer Satisfaction are not what make customer experience.

As we have seen customer experience cannot be enhanced through product/pricing, technology channels. This can be done only by adding value by helping them address the day-to-day challenges including home maintenance.

In essence, the best way to address the challenges of retention and loss of revenue is by improving the overall customer experience. Rather than simply treating the customer as a transaction, servicers should focus on continuous engagement by creating personalized value that helps build loyalty and deepens the relationship.

References

[1] US Fed Dec 2019: https://www.federalreserve.gov/data/mortoutstand/current.htm, Mortgage Lending Statistics https://www.fca.org.uk/data/mortgage-lending-statistics, European Mortgage Federation 2019:https://hypo.org/app/uploads/sites/3/2020/01/EMF-Q3-2019-final.pdf

[2] National Mortgage News 2019: https://www.nationalmortgagenews.com/news/mortgage-servicers-not-providing-enough-wow-factor-to-keep-borrowers-loyal

[3] JD Power Survey Primary Mortgage Servicer Satisfaction Study 2019 https://www.jdpower.com/business/press-releases/2019-us-primary-mortgage-servicer-satisfaction-study

[4] NAEA PropertyMark Report 2018: https://www.naea.co.uk/news/april-2018/brits-spend-more-than-40bn-making-their-house-a-home.aspx

[5] HomeAdvisor Report 2019:https://www.homeadvisor.com/r/true-cost-report/

About The Author

Ramani Balakrishnan

Ramani Balakrishnan,
Mortgage Strategic Initiatives,
Banking, Financial Services,
and Insurance, TCS

Ramani Balakrishnan is a Senior Business Consultant with TCS Banking, Financial Services and Insurance (BFSI) unit. He has 30 years of technology and functional experience in the Residential Mortgage Industry. He has led large scale IT transformation programs for many clients across the globe in Residential Mortgage Industry. He has designed, developed, and implemented loan Origination and Processing Systems. Ramani holds a degree in MBA Finance Summa Cum laude from Rutgers University, New Jersey, USA, and has a Masters degree in Physics from

Bharathidasan University, Tamilnadu, India.

Contact

Visit the Banking & Financial Services page on www.tcs.com

Email: bfs.marketing@tcs.com

Blog: Bank of the Future

Subscribe to TCS White Papers

TCS.com RSS: http://www.tcs.com/rss_feeds/Pages/feed.aspx?f=w
Feedburner: http://feeds2.feedburner.com/tcswhitepapers

About Tata Consultancy Services Ltd (TCS)

Tata Consultancy Services is an IT services, consulting and business solutions organization that delivers real results to global business, ensuring a level of certainty no other firm can match. TCS offers a consulting-led, integrated portfolio of IT and IT-enabled, infrastructure, engineering and assurance services. This is delivered through its unique Global Network Delivery Model™, recognized as the benchmark of excellence in software development. A part of the Tata Group, India's largest industrial conglomerate, TCS has a global footprint and is listed on the National Stock Exchange and Bombay Stock Exchange in India.

For more information, visit us at www.tcs.com