MORTGAGE LENDING IS ON THE MOVE

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EVOLVING CUSTOMER DEMANDS AND DIGITAL ADVANCES ARE PRESENTING A ONE-OF-A-KIND OPPORTUNITY FOR TRADITIONAL BANKS TO EXPAND THEIR FOCUS FROM SELLING MORTGAGES TO SELLING "PEACE OF MIND" THROUGHOUT THE HOME-BUYING JOURNEY.

Making this shift requires lenders to understand the full range of homebuyers' needs—from legal counsel to home renovation expertise. With those insights, they can orchestrate a set of valued home-buying services that differentiate the customer experience, attract more homebuyers, and open up new revenue streams. In this new paradigm, ecosystem participation, digital investments, and the speed with which they stake their claims will set the winners apart.

MORTGAGE LENDING IN THE CROSSHAIRS

Mortgage lending is one of banking's most important revenue-generating activities. In the United States, the value of outstanding mortgages today exceeds $10 trillion.[1] In Europe, the mortgage market is valued at €7 trillion ($7.8 trillion),[2] with the United Kingdom accounting for approximately 25 percent of that total.[3] And in China, the home mortgage market size is estimated to be $2 trillion.[4]

In many countries, a lot of that value resides outside of the banking industry. This is particularly true in the United States, where banks are steadily losing market share to nimbler non-traditional players. In 2011, the three largest US banks issued half of all new mortgages. Five years later, their share of new loans had fallen to 21 percent. Non-banks such as Quicken Loans and loanDepot now make up six of the 10 largest US lenders, by volume.[5]

The rise of non-banks, or "shadow banks," is not a US-only phenomenon. Home-buying markets with a strong reliance on bank lending may be headed for disruption. In China, millions of homebuyers have secured down payments through 20 online peer-to-peer lending organizations.[6] And in the Netherlands, non-banks already make up 20 percent of new mortgage lending each year.[7]

Non-banks are gaining traction in the mortgage lending space because they are tapping into customers' general dissatisfaction with traditional banking models. Accenture Strategy research has found that:

- **Only 24 percent of global banking customers believe their banks are differentiated in terms of their services and offers.[8]**
- **Approximately 70 percent shop around for better deals.[9]**
- **31 percent of consumers (and 41 percent of Gen Z respondents) would consider purchasing banking services from an online provider, such as Google or Amazon.[10]**

Digital advances have made it easier than ever for consumers to find, research and compare mortgage offers from multiple lenders. Those advances have also made it harder for traditional lenders to stand out. In many ways, digitally enabled experiences have simultaneously leveled the lending playing field and raised the stakes. Consumers now expect the same degree of personalized offers, choice and convenience they receive from, say, their favorite online shopping site.

Consumers' growing expectations for convenience and end-to-end solutions are often at odds with what traditional mortgage lenders are able to deliver. It doesn't have to be this way.

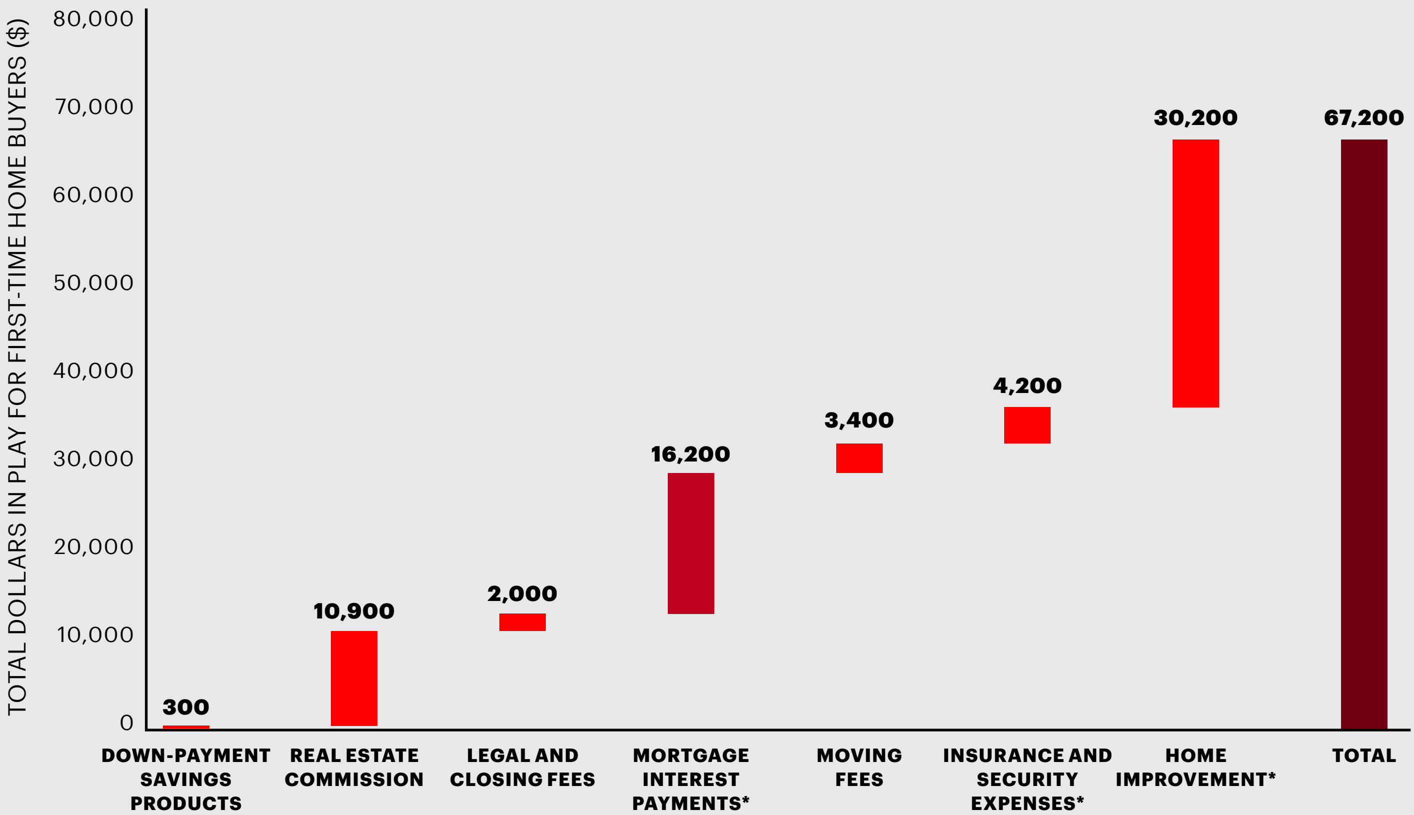
MORTGAGE PLUS

Buying a home—especially for first-time buyers—is a dramatic, joyful and life-changing experience. It can also be incredibly confusing and daunting. For this reason, customers aren't looking for just mortgages. They want clarity amid the home-buying complexity—from when they start dreaming about their new home to when and after they move in. Specifically, they want someone they trust to guide them through the process, orchestrate the multiple services they will need, and make the transition to homeownership easy and convenient. Our research confirms that nearly half (48 percent) of consumers want banks to play a supporting role in the purchasing process for non-banking products and services related to the purchase of a new house.[11]

Herein lies a golden opportunity for banks to help customers through their home-buying journey. The potential economic upside for banks is significant. Mortgage interest currently represents just a quarter of the total dollars in play for the products and services associated with a typical home-buying journey, excluding the price of the actual home. Home improvement services, real estate agent commissions and insurance far outweigh the mortgage (see Figure 1). Banks that can capture just 1 percent of this non-mortgage market stand to generate the same net income they would gain by growing their mortgage originations by 10 percent.[12]

There are a number of opportunities for banks to provide significant value to customers during three distinct phases of the home-buying journey (see Figure 2). Accenture Strategy has identified dozens of partner categories that banks might consider exploring, including real estate brokers, attorneys and service contractors.

FIGURE 1. MORTGAGE COSTS ARE A FRACTION OF THE MONEY "IN PLAY" DURING THE FIRST THREE YEARS OF HOMEOWNERSHIP



Source: Accenture analysis, 2016. All figures in US dollars. Assumes median first-time home buyer home price: $182,500.
*Based on calculated spend in first three years of homeownership.

FIGURE 2. ECOSYSTEM OPPORTUNITIES EXIST ACROSS THREE PHASES OF THE HOME-BUYING JOURNEY

Share of Dollars in Play	**20%**	**25%**	**55%**
	DREAM/SHOP	**BUY**	**MOVE/LIVE**
Partner Categories	• Listing services (e.g., MLS) • Real estate brokerages/agents • Design/lifestyle influencers (TV personalities, Pinterest)	• Lawyers • Real estate brokerages/agents • Digital mortgage origination solution providers (e.g., Roostify, Blend, Habito)	• Moving companies • Home security • Home renovation aggregators (e.g., Houzz) • Independent contractors
Product/ Service Opportunities	• Simplified budgeting tools and calculators • Enhanced pre-approval tools	• Paperless application • Virtual mortgage assistant (e.g., Collette) • Online rate negotiation	• Improved renewal/re-financing • Process mortgage health check (data-driven insights)
Value Pools	• Increased lead volume • Better conversion rates • Lower cost of sales • New non-interest income revenue		• Higher retention • New non-interest income revenue • Increased opportunity for next product • Increase "switch ins" and decrease "switch outs"

Banks have the expertise in the home-buying process and the deep customer insights that are essential to delivering mortgage-plus services. What they don't necessarily have, however, is the reputation of a service provider capable of satisfying broader customer needs. While customers trust their banks more than other providers to safeguard their money and personal information, they are less inclined to believe that banks work in their best interests. That lack of trust is reflected in the fact that nearly three-quarters (71 percent) of US consumers consider their banking relationships to be transactional, not relationship-driven.[13]

Digital can help banks change the trust equation. By upping their investments and building new digital services and platforms—from electronic "Know Your Customer" (eKYC) and automatic document scanning to interpreting financial statements and validating property valuations—banks can deliver more convenient, relevant solutions targeted to customers' unique needs. Even more important, these investments set the stage for them to enter the next digital frontier: the formation of digital ecosystems that bring together various formerly "independent" product and service providers to offer more meaningful and valuable experiences.

Mortgage-plus opportunities are wide open in most markets. But they won't be for long. It's just a matter of time before other banks, telecommunications companies, utilities, real estate agents or home service providers make their ecosystem moves.

BE *FAST.* BE *FURIOUS.*

Some mortgage banks will opt to join others' ecosystems as the mortgage lender of choice. That may be a good way to boost their mortgage business. But the revenue potential that comes from participating in someone else's ecosystem is limited.

The real value lies in establishing and orchestrating a network of partners that will pay to play. But there's a caveat: Not all orchestrators will enjoy the same opportunities. The lion's share of the extended home-buying market will go to those banks that launch and scale their ecosystems first. Speed is essential because multiple banks will be going after a limited pool of partners with the maturity, scale and market reach that a world-class home-buying ecosystem requires. If banks cannot lure the No. 1 or 2 providers of a given service into their ecosystem, the value proposition of that extended service network diminishes dramatically.

MORTGAGE PLUS IN ACTION

A few forward-thinking banks are taking steps to deliver additional services along the consumer's home-buying journey.

In the United States, **USAA** has teamed with Contractor Connection to help customers navigate the "Move/Live" phase of the home-buying journey by offering prescreened recommendations of home improvement professionals.[14]

In Denmark, **Danske Bank** has launched an innovative program for homebuyers in the "Dream/Shop" phase. With its Sunday program, customers receive tailored listings of potential properties based on where they want to live—and what they can afford.[15]

In Canada, **RBC** has launched an integrated home-buying experience for the "Dream/Shop" phase, which combines neighborhood selection, home valuation and affordability.[16]

USAA, Danske Bank and RBC have developed solutions that not only engender trust and ongoing customer engagement, but also increase cross-sell opportunities. Other banks would be wise to take similar steps now. By not pursuing this opportunity, they may be effectively turning their backs on billions of dollars in revenue potential.

ACHIEVING **FIRST-MOVER ADVANTAGE...**LITERALLY

To take advantage of the revenue opportunities that exist in the extended home-buying service arena, banks need to do four things:

EARN THE RIGHT TO PLAY

Success as an ecosystem orchestrator will depend largely on the bank's ability to effectively bring together and manage an extended network of service providers. Banks can create that affinity and trust by building a digital identity around which its network partners and customers can rally.

GET IN THE GAME

Banks will need to establish an ecosystem strategy. That process begins with an assessment of their capabilities and the home-buying needs of their customers. It may also involve segmenting customers to identify those clusters that would be most interested in the proposed services.

TAKE THE LEAD

As ecosystem orchestrators, banks need to expand their focus from selling mortgages to managing a network of partners. Orchestration is more than supplier management.[17] It requires new leadership skills, governance models, and structured processes to identify, attract, vet, negotiate, manage and sustain partnerships to create value for partners, the bank and clients. It requires investments in organizational changes and digital tools that will enable the seamless delivery of ecosystem services. Finally, it requires new "ecosystem underwriting" capabilities to manage the reputational risks that can arise when delivering services in collaboration with ecosystem partners they can't control.

LAUNCH AND ADAPT QUICKLY

Speed is critical when it comes to building home-buying ecosystems. Banks should start identifying trusted and reputable cornerstone partners and lock them in quickly, while actively recruiting others. They should launch their services, learn fast from failures, and try again until they generate the relationship trust they seek from their customers. Throughout the ecosystem's launch and subsequent modifications, banks will need to monitor the network's performance and ensure their brand reputation is retained during the transition.

MOVING UP

Customers are accustomed to choice and convenience. When looking for a home, they now want tailored experiences and help navigating the end-to-end home-buying process. Banks have a unique opportunity to respond to this emerging demand. Those that quickly establish and manage digital ecosystems of home-buying and living service partners will not just win market share and strengthen their customer relationships; they will own the next frontier of service, convenience and profitability in the banking industry.

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