The Battle for the CUSTOMER

BY CHRIS GIBSON AND TIM MUELLER

Consider the following questions as a test for where you stand in the battle for the customer that is so crucial in today's mortgage market.

1. If a mortgage originates through your wholesale or retail channels, does the customer experience the same level of service?

2. If a customer asks the same question online and by phone, does he or she get the same answer?

3. If a customer asks a question online and then calls, can the operator see the earlier question and answer it?

4. Is your call center team supposed to deal with customers as quickly as possible or spend time making sure they're satisfied?

5. When will more than 95 percent of your staff, including those currently working in your back office, spend more than 80 percent of their time seeing and speaking to customers rather than overcoming operational shortfalls?

6. Has your information technology (IT) department given you a date for when it will deliver a single, integrated view of your customers?

How good is your customer service? Here are some suggestions for making it better.

Now, add up your score after you have honestly answered these questions, and think about what it tells you about your operation.

We all know that the battle for mortgage customers is being won and lost on the basis of service—not product or price. People want to choose which channel they use. They might even want to change channel mid-transaction while receiving the same high standard of service.

Because providing the highest level of customer service across every available channel, with full interoperability, can be cost-prohibitive, you must identify the channels your customers value most. Once this is accomplished, you can create a plan to deliver truly excellent service in those identified channels. This can be a pragmatic approach that provides a balance of cost and reward.

The prize for providing high-quality service consistently across selected channels is substantial. Experience suggests that satisfied customers are more likely to be loyal customers, to buy additional products and to recommend you to their friends.

Moreover, even though most customers don't feel any sense of loyalty to their mortgage lender, a 2007 Navigant Consulting survey still found that half of them have recommended a lender's financial products to others, and 80 percent would be happy to buy more than one financial product from the lender.

But at a time when mortgage lenders really need to appear seamless, their operations have never been more disjointed or fragmented. This article looks at the barriers lenders face in integrating the way they deal with customers and how those barriers might be overcome.

Why is an integrated approach so difficult?

An integrated approach is difficult because it's never been harder to run a mortgage lending and servicing operation, and there have never been more communication and delivery channels to master.

Constant regulatory change, increasing costs and high levels of IT investment all tend to push customer service down on the corporate agenda. Is there a single mortgage operation that hasn't, at some stage, either considered or implemented a "rationalized" branch network, staff cuts, or an outsourcing or offshoring of some aspects of customer service?

You may have talked about having an integrated approach to customer services, but behind the scenes you've been compartmentalizing your operations. You may have talked about improving service, but in reality you've been cutting costs or trying to squeeze a few more dollars from customers by charging them. How long can we keep this up?

Are there any costs left to take out or functions we can outsource? If there aren't, the only way to survive will be to focus on revenue growth—and that will depend on service.

Many mortgage lenders and servicers have assumed that technology is the solution, but in practice the number of different legacy systems means implementation will take years. Operational integration has come to be seen as yet another large-scale program that never gets tackled. By focusing on technology, lenders have paid much less attention to people and process.

Plowing money into the local branch network and mortgage origination offices may have helped a bit, but are such programs really going to make a difference, given that so much inconsistency stems from regional fiefdoms and from each channel being managed separately?

What about middle managers who often act as a barrier to change? Moreover, good service isn't adequately monitored or rewarded: Every lender and servicer has statistics telling it how many of their phone inquiries are resolved in one call, but where are the metrics telling us whether the customer had a positive experience?

Providing an integrated service—one that's consistent across selected channels—isn't impossible, but it is essential.

Learning the retail lesson

Yet that's exactly the situation merchandise retailers found themselves in 10 years ago. Then, a new generation of transient customers, the sudden growth of alternative channels and spiraling costs created something of a perfect storm. Acquiring new customers was important, but not if you were going to lose them tomorrow.

Businesses responded to these new challenges in various ways, including the following:

■ *Finding out who their customers really are.* The advent of loyalty cards means that retailers now know who we are, what our needs and preferences are, and how we want to shop.

■ *Building service around customers.* Target®'s website isn't there to replace its stores, but to provide a complementary channel allowing shoppers to browse its products yet still buy in person. What makes it work is that the same standards and values are carried over from the stores to the experience of shopping online.

■ *Ensuring customers leave with a positive experience.* Discount coupons or additional loyalty points are just two of the ways retailers can compensate their customers for a problem they've encountered.

The mantra in retail has been simpler, cheaper, better—questioning the traditional assumption that great service is expensive. By starting with what customers want, successful retailers have found ways to give it to them profitably.

The lessons here are not particularly new, but they are increasingly urgent. Already we're seeing some mortgage operations starting to take these lessons on board.

Consider these examples

Merging the roles of its customer-facing and back-office staff was the first sign that this lender was looking for opportunities to grow revenue as well as cut costs. But this was just the beginning.

Since 2006, the lender had consolidated its processing and call centers and then split these—not by task, but by product. This approach both increases efficiency (staff not currently on calls process data) and improves service (the same person who deals with a customer query can update their information). Moreover, customers like it because they have one point of contact. The next step here would be to treat incoming calls as sales opportunities, making the call center an additional sales force.

By moving to a more branch-centric model and away from primarily relying on centralized processing and call centers, another lender has been able to put in place integrated systems and processes that are more flexible. It's now looking to improve its service at the point of sale so that back-office costs can be substantially reduced—providing more support to the salespeople in branches, for example, so they can resolve inquiries without needing to pass them on. What's central here is that people have information at their fingertips and, because more is done online, rekeying and error rates are reduced.

Experience shows that call centers have to provide seamless service if their interactions are meant to result in satisfied customers. Recognizing that call centers are a potentially valuable sales force, one lender has brought its call center back onshore.

Others have chosen to reorganize their call centers so that overseas staff deal with only the simplest issues or receive considerable additional training. They have recognized that simpler technology is the key. Instead of complex systems, their operators have been trained to spot opportunities to sell from the conversations they have with customers.

While the number of new initiatives is growing, there's not a single mortgage lender or servicer that could truly claim to be offering fully integrated service to its customers and reaping the rewards in terms of efficiency and reduced costs. Instead, customer expectations are outpacing the rate of change in many cases. With revenues under pressure, ongoing regulation and an uncertain economic climate, the need to make more progress more quickly has never been greater.

Making integration a reality

Providing an integrated service—one that's consistent across selected channels—isn't impossible, but it is essential. That's the lesson retailers have learned over the last 10 years, and one that mortgage bankers are just beginning to understand.

When someone comes into a branch one day or calls the next, he or she wants to be recognized by the lender or servicer. That customer wants to be treated as the same person—not several different disconnected customers.

Virtual integration—putting in place the systems that allow staff to see all the information about a particular customer—is part of the challenge here, but by no means all of it. It's how you translate that virtual integration into something visible, tangible and substantial for customers themselves that will matter most.

It's how you ensure that the people in your new products division design products that your sales division will actually want to sell and your customers will actually want to buy. It's how you ensure your human resources department recruits the right number of the right caliber people so you don't have to rely on temporary staff.

Contrary to popular belief, changing something like this doesn't have to involve a massive project; nor does it have to take years. Small, incremental shifts in the way people work and how they behave can have a tremendous impact on customer perceptions.

How do you do this?

■ *Change focus.* Too many mortgage lenders and servicers look from the inside out, and their perceptions are colored by the complexity of their organization. Looking from the outside in, customers see things much more simply. Lenders that want to ensure they offer consistent service have to see things from their customers' perspective, not their own.

■ *Re-emphasize service.* In-bound calls and visits to branches can all be viewed as opportunities to improve service and increase revenue, rather than as transactions that have to be managed as efficiently as possible. Why waste time cold-calling people when the people you are most likely to cross-sell to are already contacting you?

■ *Reduce hand-offs.* Every time a customer's query is passed to a different member of staff, the potential for mistakes grows exponentially. Having a plan with agreed-upon and measurable targets to cut the number of hand-offs sounds simple, but do you have one? Does your business even know how many hand-offs are involved in your most common customer transactions? Establishing a starting point will enable you to make progress more quickly.

■ *Integrate your front and back office.* Rather than each part of the business dealing with a particular function, you provide better service if you allow teams to focus on a particular group of customers. Even government departments are starting to do this, so why not mortgage operations? Combining your origination, servicing and retail functions may not just save you money, it might actually improve your service.

■ *Speak with one voice.* A key reason for inconsistent front-line service is that staff is bombarded with too many, often conflicting, messages. Consistency depends on there being a small number of straightforward messages.

■ *Have an incremental plan for change.* Much can be achieved by making relatively small changes to the way people work. You don't have to commission a large project. Don't assume technology is the answer.

■ *Let your customers choose.* Retailers have left it to customers to decide which channel they want to use, and so should mortgage lenders. Encouraging specific segments to use specific channels makes sense, but that shouldn't be the only choice. The only person to "own" a customer is the customer.

Cutting costs while improving customer satisfaction

The harsh reality is that many of us still need to reduce operating costs just to survive in the current environment. While we know customer service is the key to the future, cost reduction is the imperative now. However, simply cutting large, easy-to-identify costs (by reducing head count, for example) can be extremely detrimental to customer service if the drivers behind those costs are not fully understood.

A more effective and controlled approach is to take opportunities to reduce the level of unnecessary operational demand for services, and then develop and implement plans to process that reduced demand more productively. This will have the combined impact of taking cost out of the organization while simultaneously improving customer service levels.

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Failures create unnecessary demand

Navigant Consulting estimates that up to 40 percent of customer demand is unnecessary. It is generated as a result of previous failures in service that force customers to follow up, clarify or complain about work. This kind of demand is costly to respond to, and also has a negative impact on customers. But by taking steps to reduce it, the reverse can be achieved—reducing cost while improving the customer experience.

Navigant has worked with clients to cut this kind of failure-demand to as little as 10 percent of overall demand by identifying key activities that will make a real difference. These activities include reducing chaser calls by setting customers' expectations clearly at the start of a transaction process; improving customer communications to make them clearer and thereby reduce the need for clarification; and streamlining customer forms to improve clarity and remove redundant requests for information.

Practical example: One of our banking clients sent out regulatory updates through the mail to all its customers. These notices required no action on the part of the customer, yet the client consistently displayed its customer service phone number prominently at the top of the

Social Media Channels

Determining your approach to social media and how it fits with your other channels is an essential element to consider when developing a customer service strategy. In what seems like an instant, social media channels such as Facebook® and Twitter have gone from communications channels for students and entertainers to essential tools for financial services companies, requiring constant monitoring to respond to grassroots concerns.

Lack of a timely social media response in the face of a recent technical issue led to considerable bad publicity and loss of customer confidence for a major financial institution.

notice. Unable to understand what the legal notice meant, many of the customers grabbed the phone and contacted our client.

The call center then had to explain that no action was required. Simply by deleting the phone number from these notices and clarifying that no action was required, our client removed a significant burden from its call center. At the same time, customers were more satisfied because they did not really want to spend time calling their lender only to be told no action was required.

Total demand can be reduced even further by considering what level of service is really required by customers and setting service levels accordingly. For example, turning work around within two hours is not a necessary cost if customers would be quite happy with five days. To some extent, the level of demand can be influenced by introducing charges or restricting service to certain customer groups. Overall, our experience on similar projects over many years indicates that a reduction in demand of 20 percent to 30 percent is reasonable to achieve without impacting customer service levels.

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Practical example: After researching and calculating a quote for a mortgage customer, our client required the employee to ask the customer if he or she would like the quote in writing. The answer was invariably yes: Who wouldn't want something in writing for free? Unfortunately for the lender, this process of creating a written quote was very costly, involving reviews, processing and production of the letter. The employee's script was changed to ask the customer if he or she would like the quote in writing, for a nominal fee. Demand for written quotes dropped by more than 80 percent, and not a single customer complained about the fact that a written quote now requires a fee whereas it was free before.

Once demand has been reduced, the cost base can be improved further by improving the efficiency of the operation. This can be accomplished in four primary ways.

■ *Process efficiency—such as reducing the number of hand-offs between different departments.* Applying this principle often starts with developing an understanding of the difference between accountability and responsibility, acknowledging that the person who writes a policy doesn't have to apply that policy. It also involves empowering your team to be cognizant of the end-to-end process, not just their individual part. One of our major mortgage lending clients reduced its origination costs by 10 percent to 15 percent by moving the mandate to interpret and apply the credit policy out of the credit department that creates the policy and into the origination group. This removed the hand-off of each mortgage to the credit department, reduced the head-count requirement in that group and allowed some of the employees to be transferred to the origination team.

■ *Automation—taking opportunities, where cost-effective, to improve the ease of use of existing systems or to automate manual processes.* More than half of the mortgage applications a large mortgage lender in the United Kingdom received from brokers through its online portal had to be rekeyed in some way to avoid being rejected by the processing system. The lender had already undertaken an effort to automate the data validation steps wherever possible, and it was searching for a solution that did not involve a massive systems investment. The lender removed several discretionary fields that had been introduced over the years as "nice to have" information. Now the vast majority of applications process directly and generate credit scores and initial feedback automatically. Lenders are now marketing themselves based on how short and simple their application is to complete.

■ *People—changing the culture of the organization to ensure people are ready to execute processes effectively.* In one building society in the United Kingdom, senior executives such as the chief information officer and the chief executive officer monitor areas of the operation and work in the call center or a branch office for a day during periods of high volume. Call center and branch employees were motivated to improve their own work product by seeing first-hand the commitment of the senior team and the recognition that all hands were needed on deck to manage the high volume.

■ *Channel—encouraging customers to use more cost-effective channels where appropriate.* Producing payoff letters at one of our mortgage lender clients was a difficult and time-consuming process. When the lender analyzed the source of requests for the letters, it determined that many customers were calling to ask for payoff statements when they really just wanted to know their outstanding balance. Every year, the lender was required to mail balances and interest statements to each customer—so it added directions for checking outstanding balances online to those statements. This resulted in a significant drop in the volume of requests and the accompanying work required to calculate payoff amounts.

Focusing on both the demand coming into an organization and the corresponding efficiency of processing can, in combination, make a massive difference to the overall operational cost base while keeping customer service levels strong. In its 2011 mortgage finance forecast, published in October 2010, the Mortgage Bankers Association (MBA) predicts $996 billion in total originations in 2011—a 29 percent drop from 2010's already depressed levels. With projected loan volume at the lowest level since 1997, superior customer service will be more important than ever in the battle for customers. **MB**

Chris Gibson is a director in the London office and Tim Mueller is a director in the New York office of Navigant Consulting Inc. They can be reached at chris.gibson@navigantconsulting.com and tmueller@navigantconsulting.com.