# The evolving mortgage market

**Winning the fight for customers**

October 2020

**home.kpmg**

# Executive Summary

## The changing dynamics of the mortgage markets in Canada, Australia and the U.K.

The COVID-19 pandemic has caused a massive economic shock to the economies of pretty much every nation around the world. While federal governments have responded in a fairly consistent manner through a combination of looser monetary policy and fiscal stimulus packages, most countries have experienced significant job losses and declines in gross domestic product over consecutive quarters.

Canada, Australia and the U.K. have all been seriously impacted by the health crisis. The Reserve Bank of Australia recently forecast that unemployment should peak at around 10 percent affecting more than 1.3 million Australians[1]. In the U.K. over 41,000 people have died from COVID-19 since January 2020 and GDP contracted by 20.4 percent in the second quarter of 2020, the worst plunge on record and follows a 2.2 percent contraction in the first quarter of 2020[2]. For its part, the Canadian Government has provided over $324 billion in direct and tax liquidity support measures (14.1 percent of GDP) to soften the blow on Canadians, particularly those in the most highly affected sectors such as retail, tourism and hospitality[3]. Canadian unemployment rates have fallen from a record high of 13.7 percent in May 2020 to 10.9 percent in July 2020 but are still significantly higher than the 5.5 percent unemployment rate last January[4].

Amidst all this turmoil, we wanted to understand the impact that COVID-19 and the ensuing economic crisis is having on the mortgage markets in Canada, Australia and the U.K. Specifically, this report seeks to answer several important questions:

1. How has the health/economic crisis impacted demand for mortgages and the dream of home ownership? With interest rates at record lows (e.g. Canadians can now get a five year fixed interest mortgage for less than 2 percent), is this sufficient stimulus to overcome uncertainties about the broader economy and further potential job losses?

2. How are behaviours changing across the end to end mortgage process? Our data for the last several years indicates that when it comes to researching different mortgage products and servicing the loan post drawdown, there is a distinct preference for digital and direct channels. However, when it comes to applying for a mortgage, a significant percentage of customers historically have said they prefer the face to face interaction of a branch banker or mobile mortgage specialist. Has this historical preference changed in the age of social distancing? If so, is this a permanent change or simply a temporary anomaly?

[1] The cost of COVID-19: Australia's Economic Prospects in a Wounded World; Lowy Institute August 2020

[2] "UK enters recession after GDP plunged by 20.4% in the second quarter", CNBC August 12, 2020

[3] Government of Canada

[4] Statistics Canada

Our research for this report was conducted over a two month period between June and July 2020 where Mass Affluent mortgage customers (both current and prospective mortgage customers) were asked to complete an online survey. Our reasons for focusing on the Mass Affluent segment (defined as professionals with annual incomes between U.S. $60k and $500k) are twofold. First, the Mass Affluent segment constitutes more than a third of all income earners and so is significant in terms of its size. Second, these are some of the most highly sought after individuals/households from a lenders perspective given their future income and asset accumulation potential.

The competition for mortgage customers in Canada, Australia and the U.K. has been fierce for the last several years. With rising residential property prices, particularly in the major cities, borrowers have eagerly invested in housing of all types (condos, apartments and single dwellings). Whether this will continue is difficult to say. The early indicators are mixed across geographies and subtle in nature. For example, around the greater Toronto area (GTA), there has been strong demand for larger homes in the outer suburbs and in smaller towns outside of the GTA and a commensurate decrease in demand for high density apartments and condominiums in the downtown core. According to the Toronto Real Estate Board, condo sales are down by 50.8 percent compared to the same period last year[5]. We believe this is a direct result of work from home arrangements that many large corporations and professional firms have put in place to protect the health of their staff. Now in need of a home office, the attraction of larger homes in more affordable neighbourhoods with access to green spaces (backyards, parks etc) is growing amongst the Mass Affluent. To succeed over the next 12 to 24 months, lenders need to understand the changing needs and expectations of this important customer segment and reposition their product and service offerings accordingly if they are to win the fight for mortgage customers.

[5] "Condo sales are way down in Toronto but prices are up" BlogTO August 1st, 2020

# Survey Methodology

KPMG recently conducted an online survey of over 2,250 KPMG professionals in Australia, Canada and the U.K to gain a better insight into the international mortgage market.

The survey seeks to understand the attitudes and preferences of mass affluent[1] customers regarding mortgages and how this varies by demographics such as income, age, gender, and relationship status.

The survey was also designed to identify the impacts that COVID-19 is having on the mortgage market.

The participants were surveyed anonymously, and asked to answer questions regarding their experience and preferences during their mortgage journey.

The mass affluent segment has a high proportion of 'aspiring professionals'. COVID-19 will have profound effects on the whole population. However this sub segment represents a historically ambitious group who typically buy big or accelerate through the various levels of housing as they achieve career status and reward. They are 'on the move' professionals and in the times ahead they may be less likely to experience job losses than other segments. That said they may be more likely to experience a reduced set of opportunities for rapid career progression.

So what's the implications for their confidence, buying habits and approach to mortgages?

## Profile of Respondents

### Gender

51% Female

49% Male

### Age Groups

31% Young Workforce (21 – 29)

55% Established Workforce (30 – 49)

14% Mature Workforce (50 – 65)

### Relationship Status

31% Single

69% In a relationship

### Snapshot of survey respondents

- **55%** currently have a mortgage
- **55%** who do not have a mortgage are looking to buy within 2 years
- **An international survey**
- **Individual Salaries** range from U.S. $60k to $500k per annum[1]
- **Surveyed anonymously**
- **Age range** from 21 – 65 years old

[1] Mass affluent is defined as professionals earning between $60k and $500k (USD) per annum

# Overview of Mass Affluent Survey Findings

## Global Insights

### Digital is the preferred Mass Affluent channel for all stages of the mortgage experience

Digital channels are the preferred choice for researching, servicing and applying for a mortgage. 90 percent of respondents want to research online, 76 percent want to service online and 58 percent want to apply for a mortgage online.

### What to do with branches (and where to put them)

30 percent of respondents indicated they prefer to apply for a mortgage through the traditional branch channel. This is down 15 percent since we first ran this survey in 2017 and highlights a trend in decreasing demand for in-person interactions with mortgage providers.

### 33 percent of respondents plan to renegotiate their mortgage this year

To take advantage of falling interest rates since the onset of COVID-19 we are seeing a significant increase in the number of respondents planning to renegotiate their mortgage (up from 4 percent prior to the COVID-19 crisis).

### Resolution and empathy are the most desired customer experience attributes

Respondents rated issue resolution and empathy as the most important attributes of their desired customer experience when taking out a mortgage. Interestingly, these customer experience attributes are also where the biggest gaps between desired and actual customer experience exist.

### 10 percent of home owners have or anticipate the need for a loan deferral

With COVID-19 and uncertainty about economic stability and job security 10 percent of respondents have requested or anticipate applying for a deferral on their mortgage repayments.

### Continued demand exists for mortgages despite rapidly rising residential prices

55 percent of respondents who currently do not have a mortgage are planning to apply for a mortgage to purchase a home within the next two years. Of these respondents, 45 percent expect to delay the purchase of their home, 44 percent do not plan to delay their purchase and 11 percent expect to accelerate buying a home.

**Price is key**

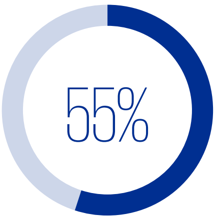
99 percent of respondents said that a competitive interest rate is the single most important factor for them in selecting a mortgage.

**The opportunity for Brokers in origination**

41 percent of respondents preferred to use a broker when applying for a mortgage. This is lower than the national average for use of brokers across all three countries.

# Mortgage Survey Analysis

## Home Ownership




55 percent of the 2,251 survey respondents stated that they currently have a mortgage.

**In the dwelling you currently occupy, which best describes your situation?**

| Residence | Australia (n =547) | Canada (n = 1264) | UK (n = 440) | Global |
|---|---|---|---|---|
| **Mortgage** | **46%** | **58%** | **62%** | **55%** |
| Rent | 38% | 26% | 28% | 30% |
| Own property | 4% | 11% | 5% | 7% |
| Occupy without payment | 12% | 5% | 5% | 7% |

Canada has the highest home ownership rate, with 58 percent having a mortgage and 11 percent owning property outright.

### Further analysis highlights

— Established and Mature mass affluent sub-segments[1] are more than twice as likely to already have a mortgage (59 percent and 62 percent of respondents respectively) as Young Workforce respondents (27 percent).

— Of the 30 percent of respondents that are renting, 53 percent are looking to purchase a home within the next two years.

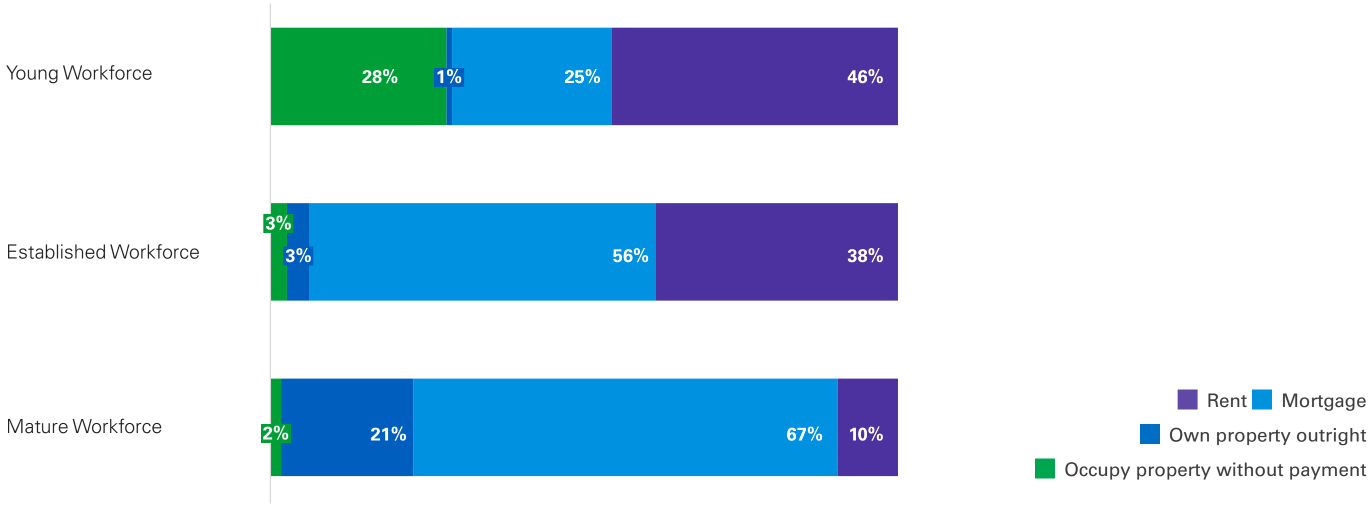
— 65 percent of respondents that are in a relationship have a mortgage, compared to 32 percent of respondents who are single.

— Half of all Young Workforce respondents currently rent and are finding it hard to get on the property ladder. Affordability is such an issue that 11 percent of future house buyers are planning to do so only with financial support from family and friends.

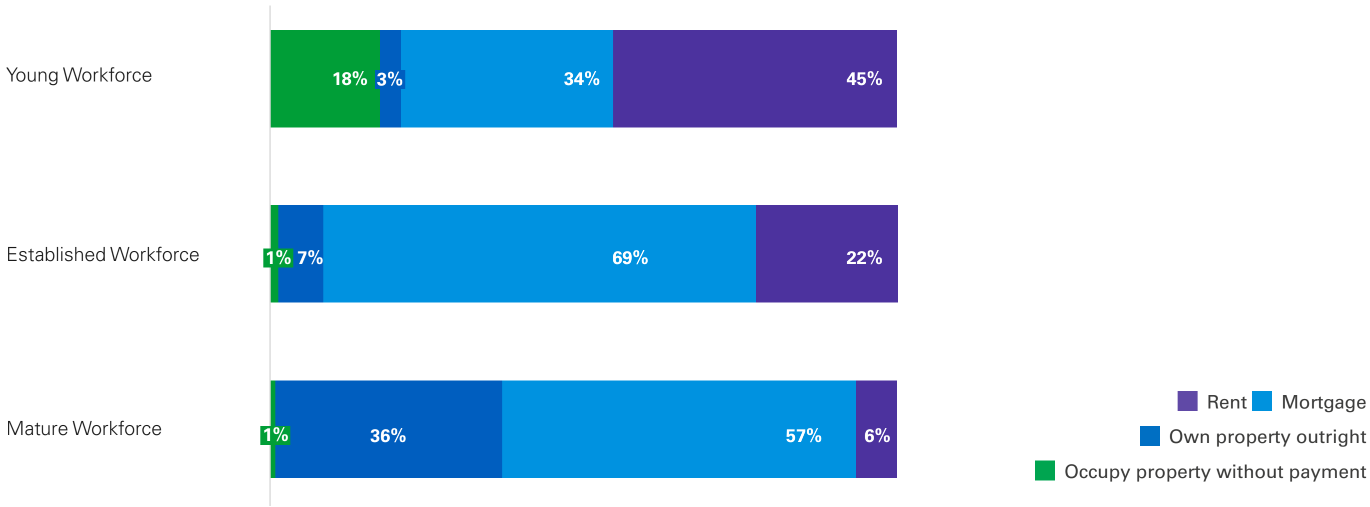
— Overall rates of home ownership are lower than national rates (65 percent – 68 percent though trending downwards) which is reflective of the demographics of the sample population.

**Note:** [1] Established mass affluent respondents are defined as being between the age of 30 and 49 and Mature mass affluent respondents are 50 years or older

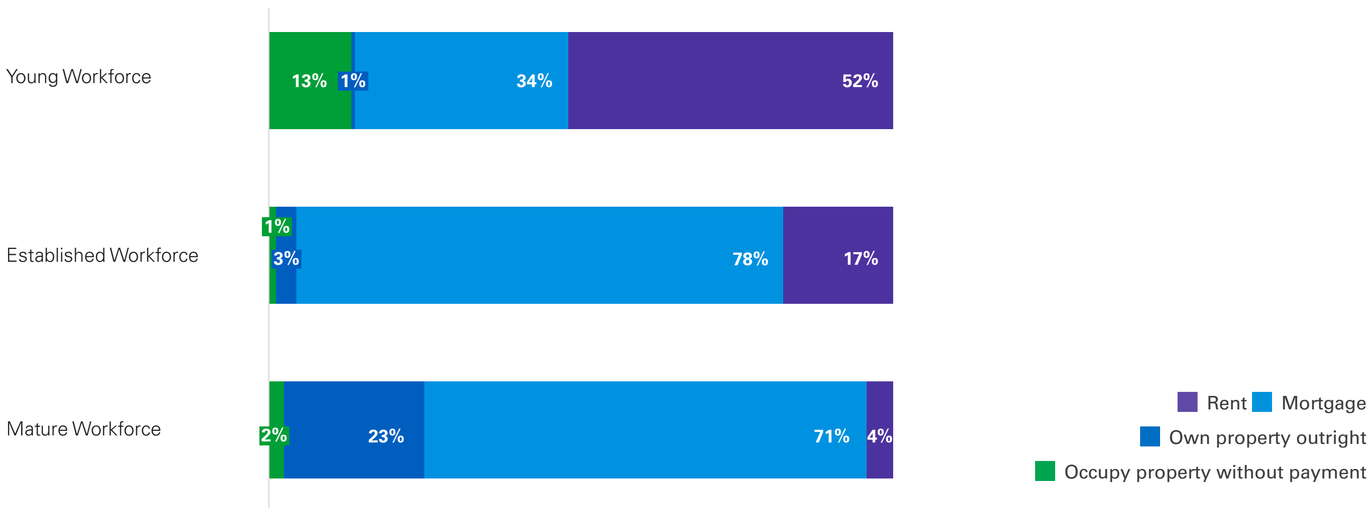
## Living arrangements in Australia, by age

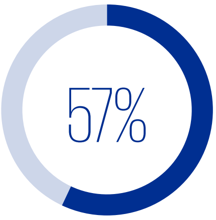



## Living arrangements in Canada, by age




## Living arrangements in the UK, by age






More than 57 percent of respondents that currently do not have a mortgage plan to apply in the next few years.

**If you currently do not have a mortgage, which best describes your situation?**

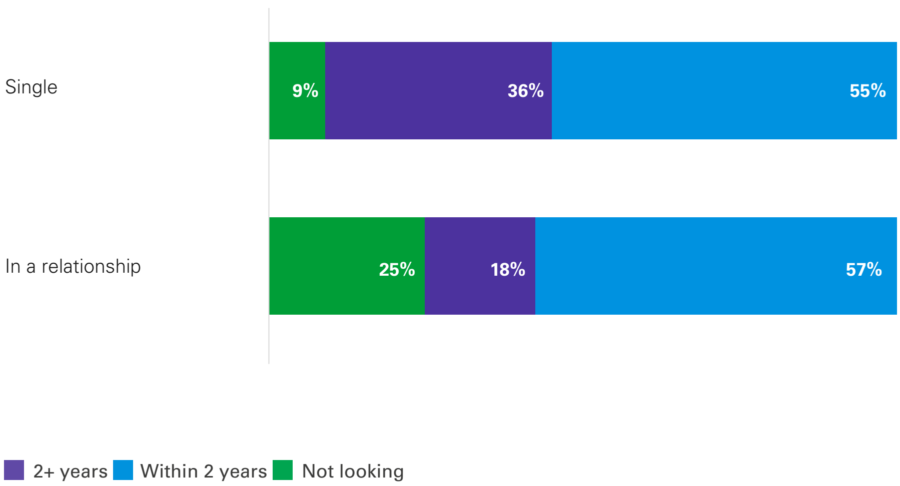
| Will look to apply | Australia (n = 229) | Canada (n = 499) | UK (n = 153) | Global |
|---|---|---|---|---|
| **Within 2 years** | **72%** | **49%** | **50%** | **57%** |
| 2+ years | 24% | 25% | 37% | 29% |
| Not looking | 4% | 26% | 13% | 14% |

72 percent of Australian respondents who currently do not have a mortgage stated they intend to apply for one within the next two years.

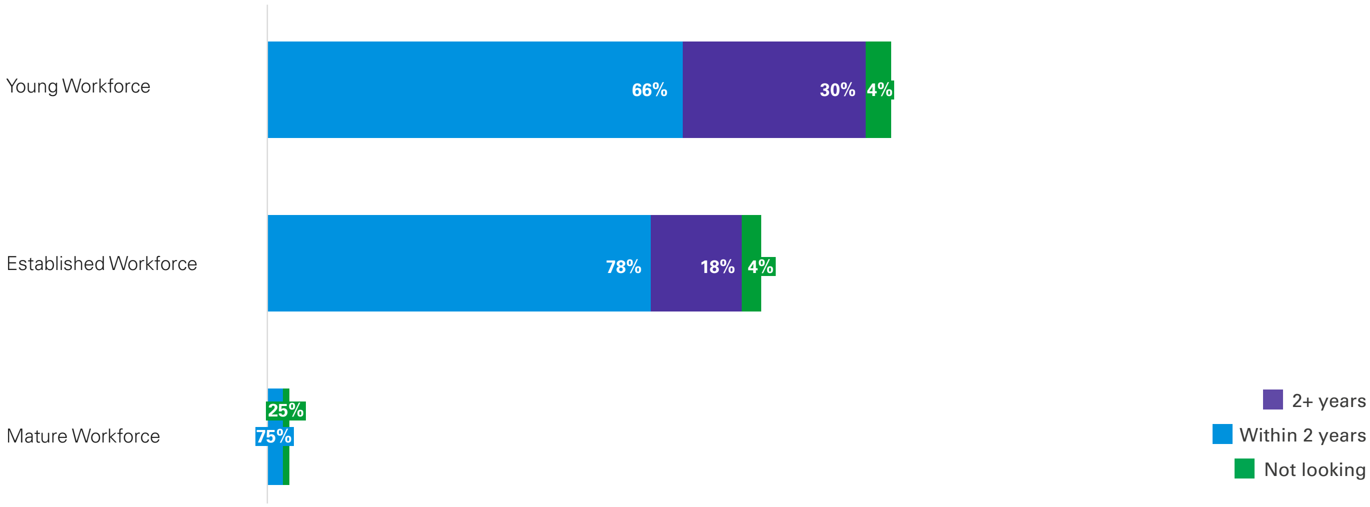
## Further analysis highlights

- 64 percent of Established Workforce respondents who do not currently have a mortgage plan to apply within the next two years.
- 58 percent of Young Workforce respondents who do not currently have a mortgage plan to apply within the next two years.
- Between 75 percent and 91 percent of mass affluent respondents that currently do not have a mortgage plan to apply for one in the next few years (depending on their relationship status).

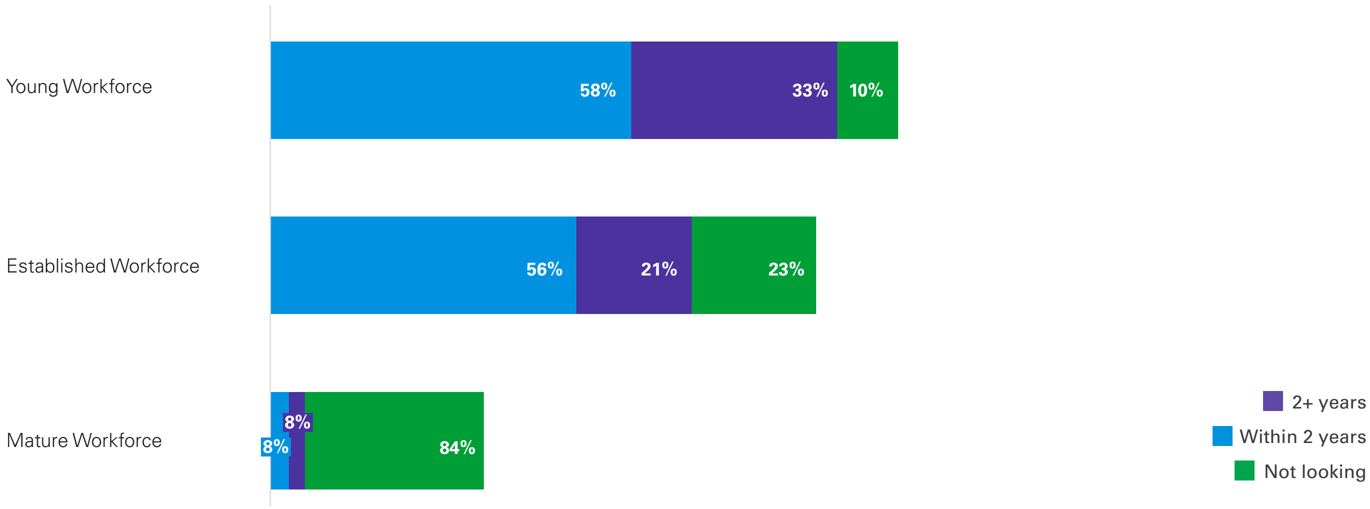
**Timeline to apply for mortgage by relationship status (Global)**



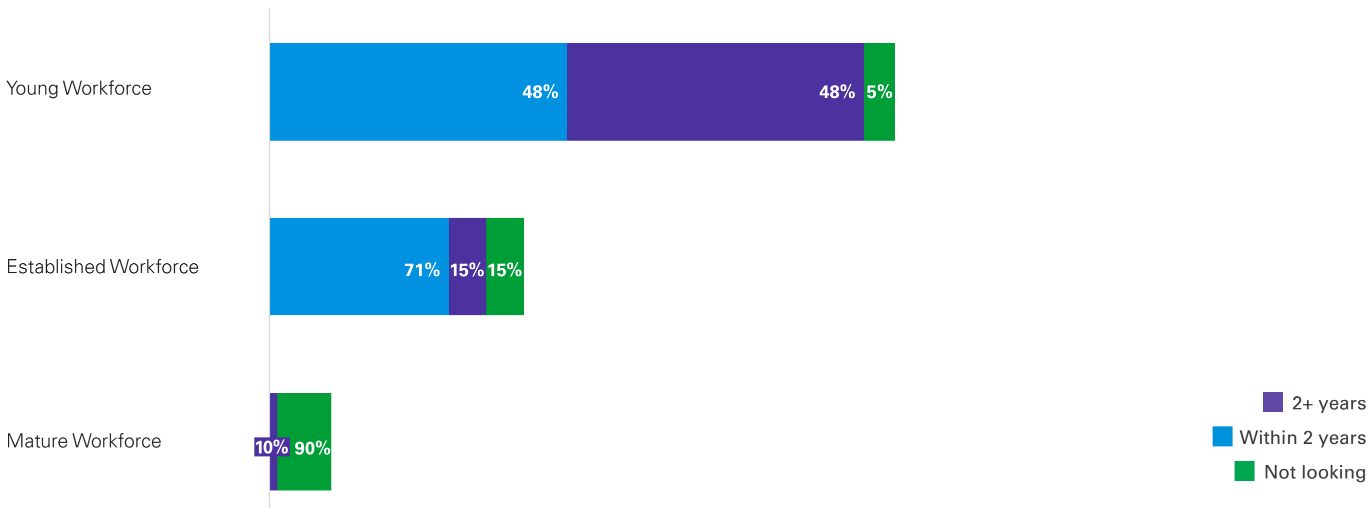
**Timeline to apply for mortgage, by age (Australia)**




**Timeline to apply for mortgage, by age (Canada)**

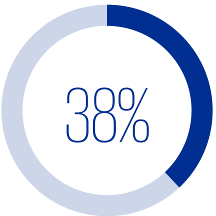



**Timeline to apply for mortgage, by age (UK)**



# Financial Institution Preferences

## Clear differences in financial institution preferences are evident across countries and by age group




Overall **38 percent of mass affluent respondents surveyed preferred applying for a mortgage through their existing financial institution.**

**If you have previously taken out a mortgage, who did you apply with?**

| Preference | Australia (n = 270) | Canada (n = 891) | UK (n = 306) | Global |
|---|---|---|---|---|
| **Broker** | **44%** | **29%** | **49%** | **41%** |
| Existing Financial Institution[1] | 36% | 52% | 24% | 38% |
| New Financial Institution[1] | 20% | 19% | 27% | 21% |

### Further analysis highlights

— **Australian and UK respondents have a preference for brokers**, at 44 percent and 49 percent of respondents respectively. In Canada, 52 percent of respondents indicated they prefer applying for a mortgage through their existing Financial Institution and only 29 percent said they prefer using a mortgage broker.

— **Gender has minimal impact**, with both men and women having similar preferences when choosing between proprietary channels and brokers.

— **Young and Established Workforce respondents have a greater preference for using a broker**, at ~42 percent, compared to 16 percent for Mature Workforce.

— **As age increases, respondents showed a greater preference to use their existing financial institution (FI)**, at 62 percent, compared to only 36 percent of the Young Workforce, and 40 percent of the Established Workforce.

### Global Insights

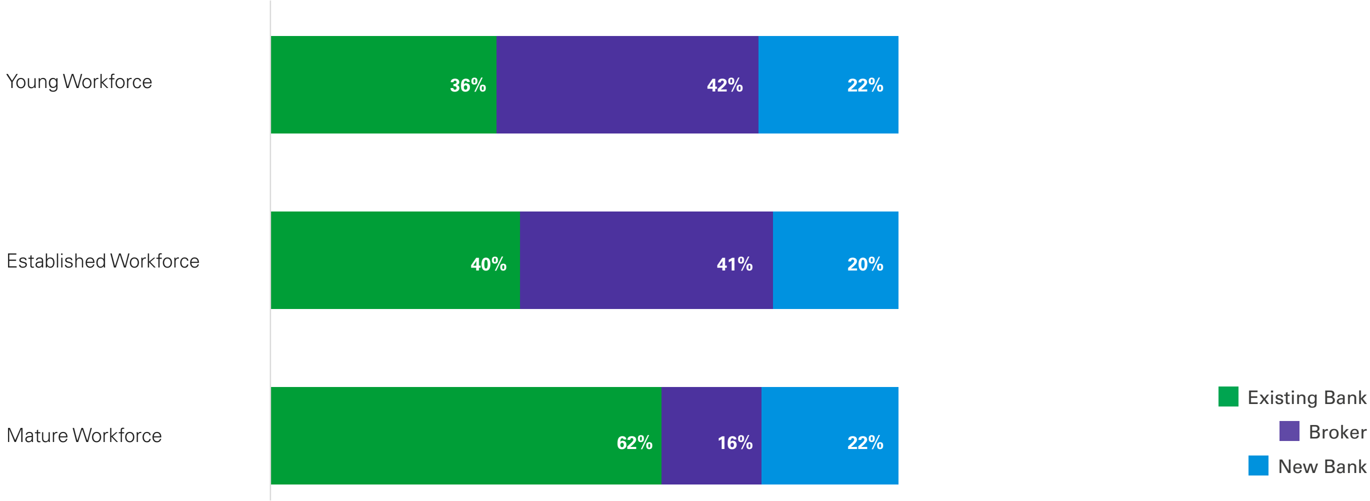
The use of mortgage brokers as an acquisition channel has grown significantly in Australia and the U.K. over the last 10 years and is the preferred channel for the majority of mortgage applicants in those countries (55 percent of Australian respondents and 65 percent of British respondents). In Canada, 52 percent of respondents that already have a mortgage indicated that they applied for it through a Financial Institution with which they already have a relationship.

In total, 41 percent of respondents that have a mortgage indicated that they applied for it through a broker. The primary reasons for using a broker are:

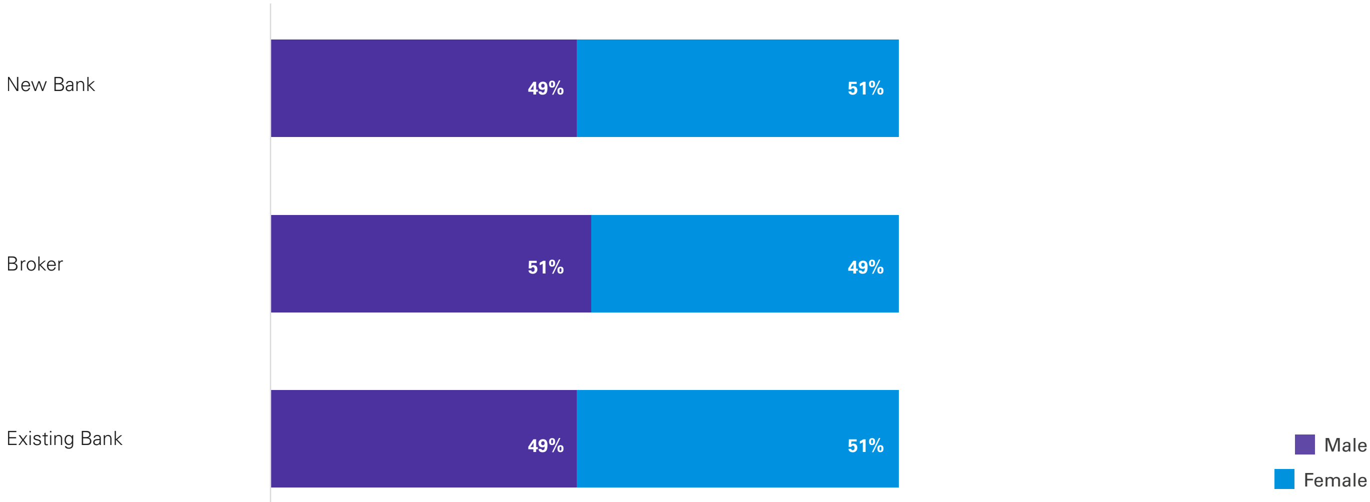
1. The belief that a broker who looks across different lenders and their mortgage products can get them a better deal and
2. The belief that a broker can make the home buying experience a lot easier.

**Note:** [1] Includes banks, credit unions, building societies and other non bank mortgage providers

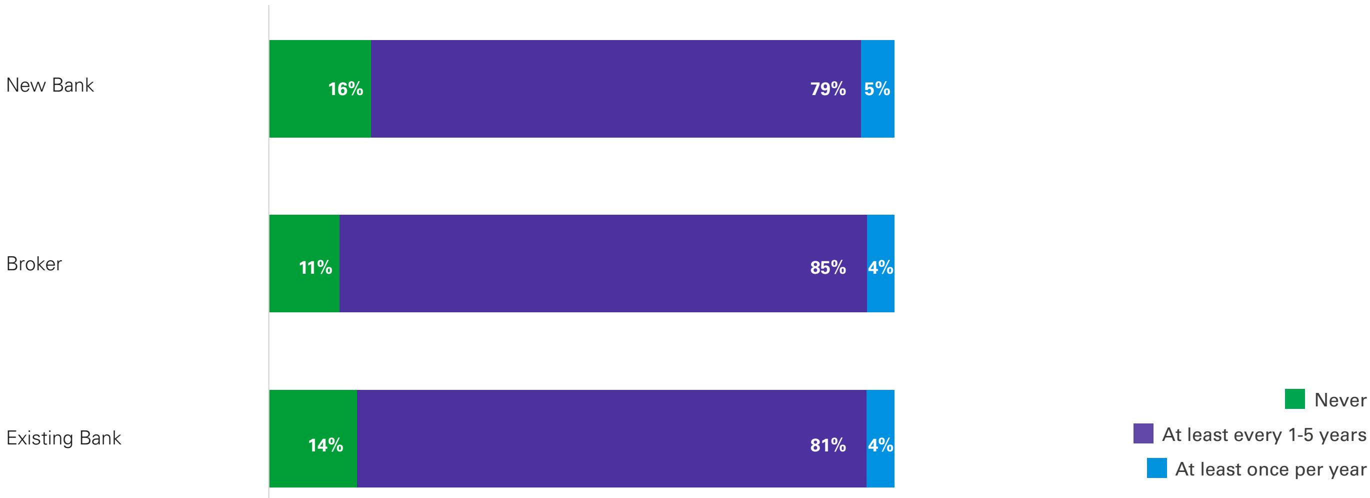
## Provider preference, by age




## Provider preference, by gender



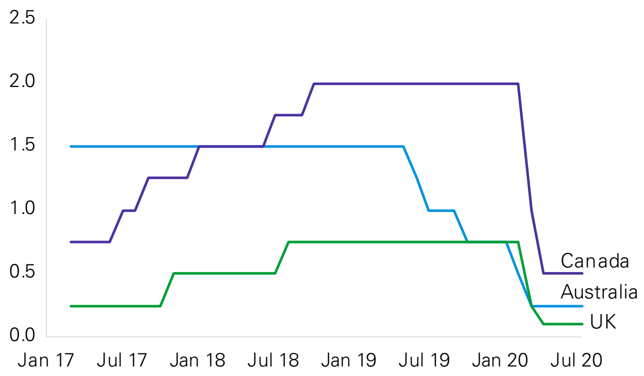

## Provider preference, by frequency of renegotiating rates prior to COVID-19



# Impact of COVID-19 on Home Ownership

## COVID-19 is having an impact on when respondents will apply for their mortgage

**Central Bank Interest Rates 2017 – 2020**




**Source:** Reserve Bank of Australia, Bank of Canada, Bank of England

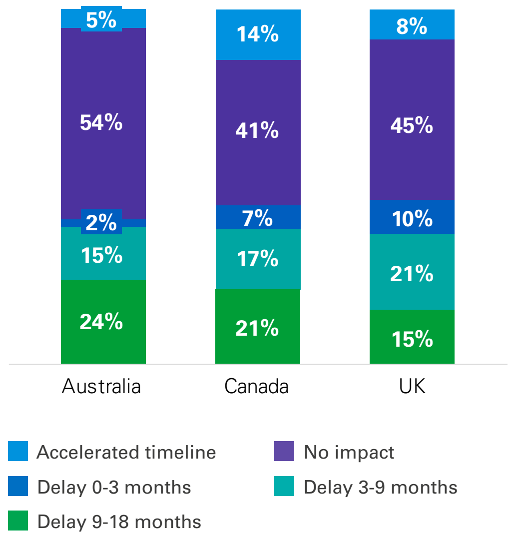
**45 percent of respondents who are looking to buy a home expect the current environment to delay their purchase timelines.** This is driven by perceptions of increased economic uncertainty, concerns related to job security and expectations that house prices may fall. However, 44 percent of respondents believe there will be no impact to their purchase timelines, with 11 percent of respondents looking to accelerate their purchase timelines due to record low interest rates.

— **Australian respondents had the greatest response of 'No impact' to purchase timeline at 54 percent.**

— **Canadian respondents had the greatest response of 'Accelerated purchase timeline' at 14 percent.** This may reflect the positive impacts from falling interest rates, in which Canada experienced the largest fall in official cash rates over the last 6 months, from 1.75 percent to 0.25 percent.

Out of the respondents that believe they will be impacted by COVID-19, 37 percent of Australian believe the current environment was positive with improved affordability, followed by Canada and the U.K. at 26 percent and 21 percent respectively.

**COVID-19 impacts to mortgage timeline**




**COVID-19 impacts to mortgage timeline, by themes**

# Perceptions on the Outlook for Residential Asset values

## The short term forecast for asset price growth is negative

**Over the past three years changes in residential housing prices have varied across the three countries covered in the survey.**

— Today in Australia the national house price index has barely moved compared to 2018 with a large period of negative growth. Across the country there is noticeable variability in residential housing prices with capital cities like Canberra and Melbourne showing growth (8 percent, 9 percent), Brisbane remaining fairly flat (3 percent) and Sydney overall being slightly negative (-3 percent).

— Canada has seen growth of almost 10 percent since Q2 2017 most of this coming in the last 12 months.

— UK house prices have increased by 7.5 percent although the past two quarters have seen negative grown.

**For a long time residential real estate has been considered a safe investment fueled by low interest rates and population growth in major capital cities. But will this positive perception persist given the current uncertainties around employment and the economy more broadly? Looking into the future over 55 percent of respondents expect residential property values to fall by more than 5 percent in the next six months.**

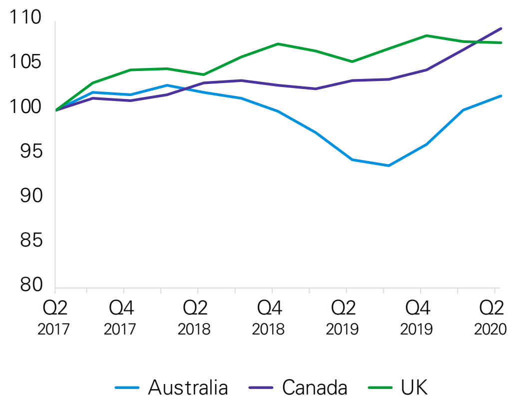
— Across all three countries the short term outlook for prices is negative with the vast majority forecasting declines; 90 percent of Australian, 75 percent of Canadians and 89 percent of UK respondents.

— Australians have the most pessimistic outlook potentially driven by an already weakening housing market with only 1 percent of respondents expecting positive returns on residential property in the next six months.

— In Australia and UK the forecast for declines is consistent with ~30 percent of mass affluent customers forecasting a decline of 0–5 percent and 40 percent forecasting a decline of 5–10 percent. 17 percent of respondents are forecasting a decline of over 10 percent.

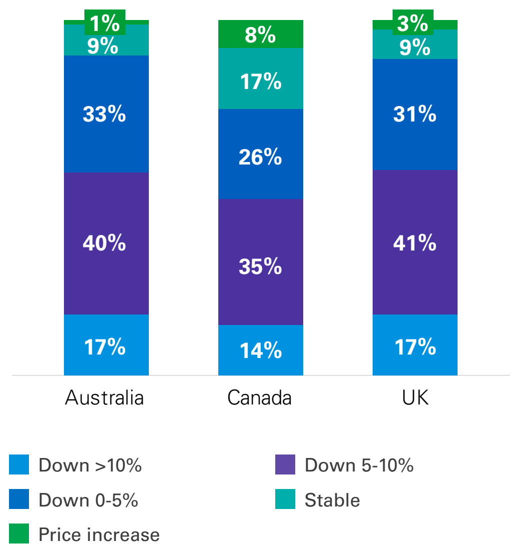
— Canadians have the most optimistic outlook with 17 percent forecasting neutral growth and 8 percent forecasting positive growth.

**Percentage change q/q in house price indices Q2 2017 = 100**




**Source:** Australian Bureau of Statistics, Statistics Canada, UK Land Registry

**Property price expectations (next six months)**



# Likelihood to Renegotiate or Switch

## Reduced mortgage interest rates (in response to COVID-19) are encouraging existing mortgage customers to refinance

**If you have a mortgage, how frequently do you renegotiate interest rates, or switch banks?**

| Residence | Australia (n = 547) | Canada (n = 1264) | UK (n = 440) | Global |
|---|---|---|---|---|
| At least once a year | 14% | 1% | 1% | 4% |
| **At least once every 1-5 years** | **57%** | **61%** | **76%** | **63%** |
| Never | 29% | 38% | 23% | 33% |

**Since the onset of COVID-19, how frequently will you renegotiate interest rates or switch banks?**

| Residence | Australia (n = 547) | Canada (n = 1264) | UK (n = 440) | Global |
|---|---|---|---|---|
| **At least once a year** | **45%** | **25%** | **28%** | **33%** |
| At least once every 1-5 years | 16% | 35% | 34% | 29% |
| Never | 39% | 40% | 38% | 39% |

The impact of reduced interest rates has seen a remarkable increase in the number of customers keen to test the market to find the best deal. **33 percent of respondents say they are looking to renegotiate their mortgage with their current lender or switch lender within the next 12 months compared to 4 percent that planned to do so before COVID-19 (a 700 percent increase!).**

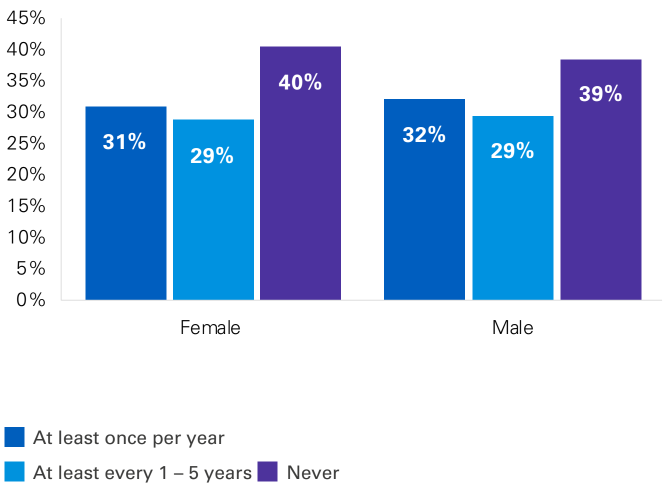
### Additionally, our research indicates:

— **Australian respondents are the most likely to renegotiate interest rates over the next twelve months,** with substantially higher propensity to do so both before and post COVID-19, at 14 percent and 45 percent respectively.

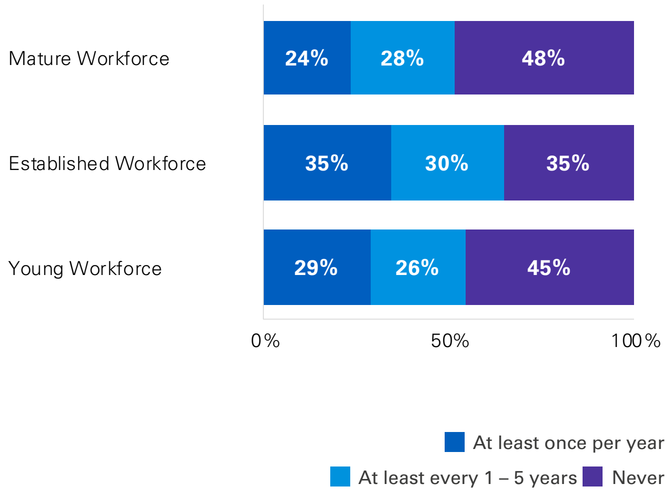
— **The Established Workforce have the highest propensity to renegotiate interest rates or switch lenders** with 35 percent of respondents indicating they plan to refinance over the next 12 months.

— **Gender has minimal impact**, with both males and females having similar attitudes around renegotiating interest rates or switch lenders.

**In the current environment, likelihood of renegotiating / switching lenders, by gender**




**In the current environment, likelihood of renegotiating your mortgage or switching lenders, by age**



# Payment Deferrals

## 10 percent of home owners have or anticipate the need for a deferral of their mortgage repayments

**Have you requested or anticipated applying for a deferral of your mortgage repayments?**

| Residence | Australia (n = 343) | Canada (n = 815) | UK (n = 358) | Global |
|---|---|---|---|---|
| Yes | 8% | 7% | 5% | 6% |
| Maybe | 6% | 3% | 1% | 4% |
| **No** | **86%** | **90%** | **94%** | **90%** |

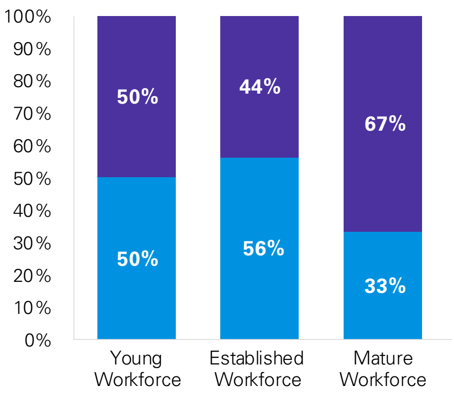
With COVID-19 and uncertainty about economic stability and job security, **less than 10 percent of survey respondents have requested or anticipate applying for a deferral of their mortgage repayments.** Our hypothesis is that respondents with high debt to income ratios and/or working in industries seriously impacted by COVID-19 (e.g. Retail, Hospitality) are the most likely to apply for a deferral of their mortgage repayments.

### Additionally, our research indicates:

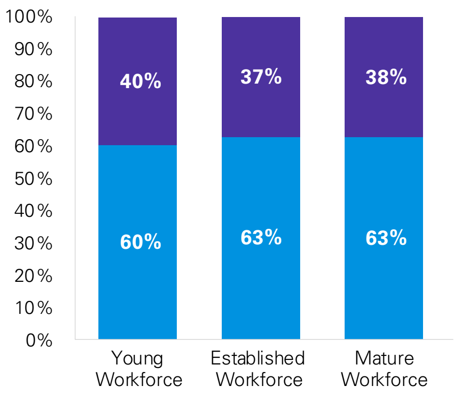
— **Australian respondents are the most likely to defer mortgage repayments, at 8 percent** when compared to the survey average of 6 percent.

— **Female respondents have a higher propensity to defer mortgage repayments**, with consistently higher rates across all age groups in Canada and the UK when compared to their male counterparts.

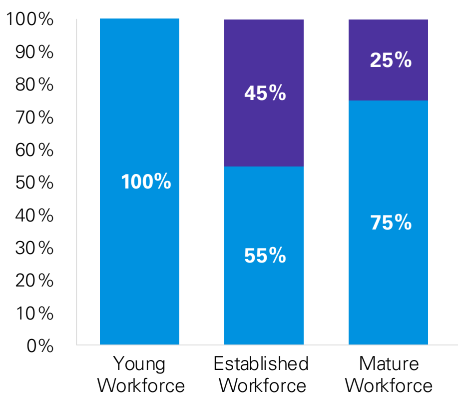
**Deferral of mortgage payments, by age and gender (Australia)**




**Deferral of mortgage payments, by age and gender (Canada)**




**Deferral of mortgage payments, by age and gender (UK)**




Male Female

# Channel Preferences

## Consumer adoption of digital channels are evident, however branches still play a role for customers' mortgage experience

MORTGAGE LIFE CYLE STAGES

| | | 1 Researching | 2 Applying | 3 Servicing |
|---|---|---|---|---|
| Digital | Desktop and laptops | 77% | 51% | 56% |
| Digital | Mobile and tablets | 13% | 7% | 20% |
| Digital | Video Conf. | 1% | 3% | 2% |
| Traditional | Call Centre | 1% | 4% | 7% |
| Traditional | Home visit | 2% | 5% | 1% |
| Traditional | Branch visit | 7% | 30% | 14% |

Figures might not sum to 100%, due to rounding

High preference Medium preference Low preference

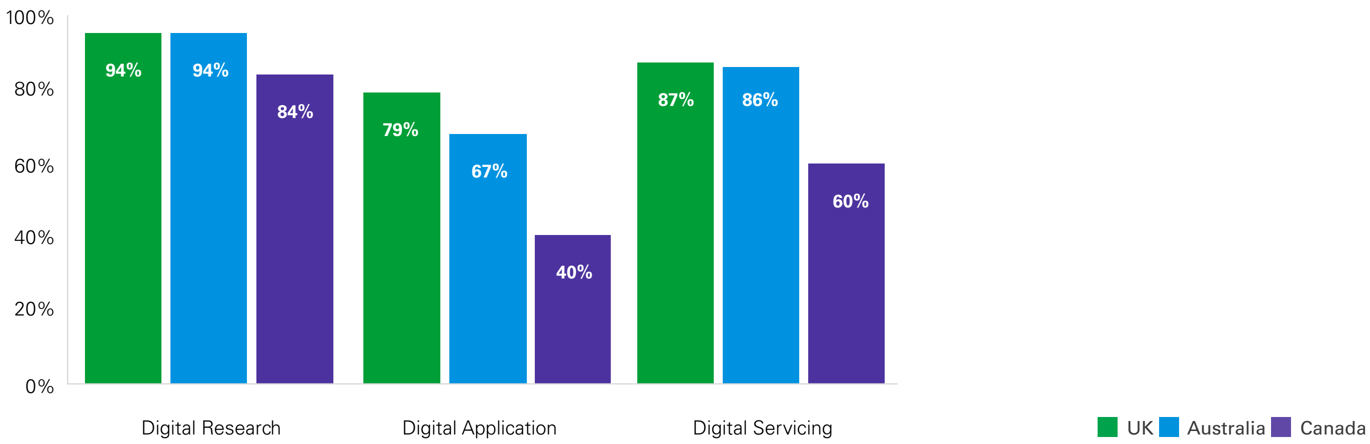
**Digital channels are the preferred choice for researching, applying for and servicing a mortgage.**

**Only 30 percent of survey respondents indicated that they prefer to use branches during the application stage of a mortgage.** For a long time branches have been the preferred channel for applying for a mortgage as applicants enter into probably the largest financial transaction of their lives. We suspect the impacts of COVID-19 have acted as a catalyst to accelerate digital adoption for mortgage applications, which in turn raises the question of the financial benefit of having a large branch network.

**UK respondents had the highest preference for digital channels,** with 94 percent digital adoption for researching and 87 percent for servicing stages of the mortgage life cycle. Canadian respondents had the lowest preference for digital channels with only 40 percent indicating a preference for digital channels during the application stage.

Survey respondents indicated **home visit and video conference channels are not popular channels across all stages of the mortgage lifecycle compared to other available channels.**

**Digital channel usage across mortgage lifecycle by countries**



# Price sensitivity is a key motivating mortgage feature regardless of channel selection

**When analysing the factors that motivated respondents to choose their mortgage origination channel, our survey highlighted the following:**

- **99 percent of respondents identified competitive interest rates as an essential feature of mortgages regardless of mortgage channel origination did so because they wanted 'the best deal'**, indicating that both of these channel choices are largely motivated by price.
- **Respondents indicated their second most important feature was competitive arrangement fees, with 61 percent of respondents considered it essential for Existing FI,** furthering the trend that customers are motivated by price.
- **Respondents also ranked fixed or variable mortgage options and the ability to make under / over payments as moderately essential mortgage features with limited variances between origination channels.**
- Quite surprisingly, the survey data indicates the ability to take repayment holidays did not rank very highly for respondents, especially in the current environment of economic and job uncertainty.

Essential features are determined by the top three scores out of seven ranked by customers

**ESSENTIAL FACTORS**

| | Convenience | | | | | Price Sensitivity | |
|---|---|---|---|---|---|---|---|
| | Building insurance included | Ability to take repayment holidays | 3 Fixed or variable options | Ability to make under / over payments | Ability to offset savings | 2 Competitive arrangement fees | 1 Competitive interest rates |
| **Broker** | 3% | 4% | 57% | 58% | 22% | 58% | 99% |
| **Existing FI** | 3% | 4% | 57% | 54% | 33% | 61% | 99% |
| **New FI** | 3% | 2% | 62% | 56% | 18% | 59% | 99% |

High preference Medium preference Low preference

# Customer Experience Preferences

## Factors considered 'essential' when taking out a mortgage varied significantly by age group

**Are the following factors 'essential' to you when taking out a mortgage?** *(n = 2166)*

| Factor | % that considered it 'Essential' | |
|---|---|---|
| **1.** Competitive interest rates | 99% | ✓ |
| **2.** Competitive fees | 61% | ✓ |
| **3.** Ability to vary payments | 56% | ✓ |
| **4.** Ability to fix rate | 54% | ✓ |
| **5.** Ability to offset against savings | 22% | ✕ |
| **6.** Building insurance included | 5% | ✕ |
| **7.** Ability to make payment holidays | 3% | ✕ |

As expected, competitive **interest rates and fees are considered essential factors** by mass affluent respondents, regardless of age, gender or relationship status, when shopping around for a mortgage.

**However, we note that particular age groups have specific preferences:**

— Australian respondents favour the **ability to offset money in their savings accounts against the interest bearing principle of their mortgage. Interestingly offset accounts are not commonly offered by lenders in Canada and the UK.**

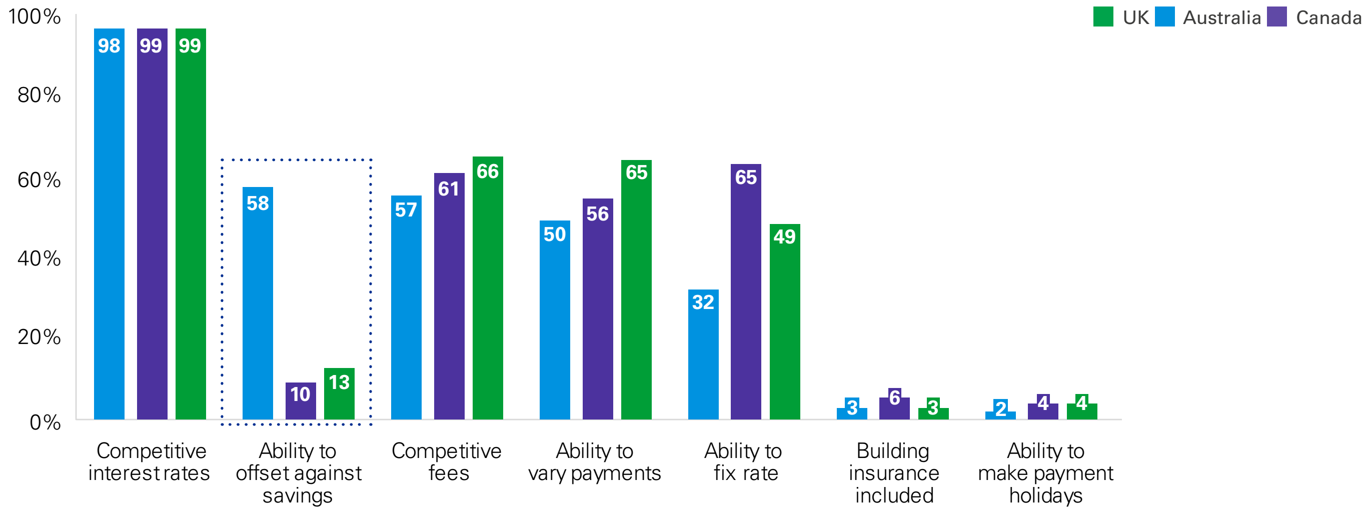
— **For Canadian respondents, having flexible options for fixed and variable interest rates have a greater importance to the Mature Workforce, at 72 percent, than for the Young Workforce,** with only 56 percent.

— **In the UK, the ability to make over or under payments has a greater importance to the Young Workforce, and decreases with age.** This trend is opposite to the Australian market in which the mature workforce considered this feature to be more essential.

— **Globally, respondents ranked building insurance and the ability to take payment holidays as the least essential** features for a mortgage which may be perceived as an unnecessary 'luxury' for the mass affluent segment.

**Essential mortgage factors, by country**

Our research shows that financial institutions need to be cognizant of how preferences change for country specific trends.




The mortgage feature to offset against savings represent the greatest difference in trend between countries, with Australian respondents considering it the second most essential factor after competitive interest rates.

# Resolution and Empathy are rated as the most important customer experience pillars when taking out a mortgage

Previous KPMG research has identified six pillars[7] that define a great customer experience.

Based on these six pillars, our survey asked respondents to rate them from 'extremely important', to 'not important at all' when taking out a mortgage, regardless of whether they had taken out a mortgage previously or not. Our findings showed that **'Resolution' and 'Empathy' are rated the most important, with 'Integrity' and 'Time and Effort' deemed least important.** In our experience Financial Institutions have spent a lot of time and effort on trying to improve the end to end mortgage process by making it faster and easier for customers. However, to deliver a truly outstanding customer experience, mortgage lenders need to excel in all six pillars.

**Personalisation**
Using individualised attention to drive an emotional connection.

**Integrity**
Being trustworthy and engendering trust.

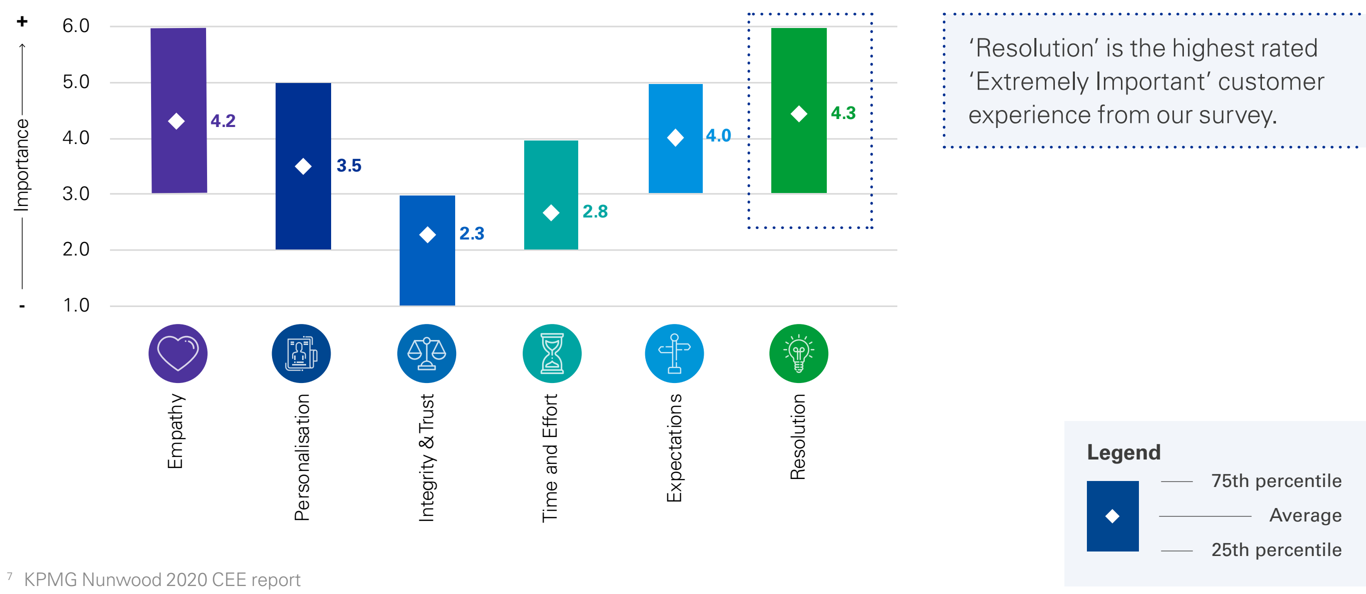
**Expectations**
Managing, meeting and exceeding customer expectations.

**Resolution**
Turning a poor experience into a great one.

**Time and Effort**
Minimising customer effort and creating frictionless processes.

**Empathy**
Achieving an understanding of the customer's circumstances to drive deep rapport.

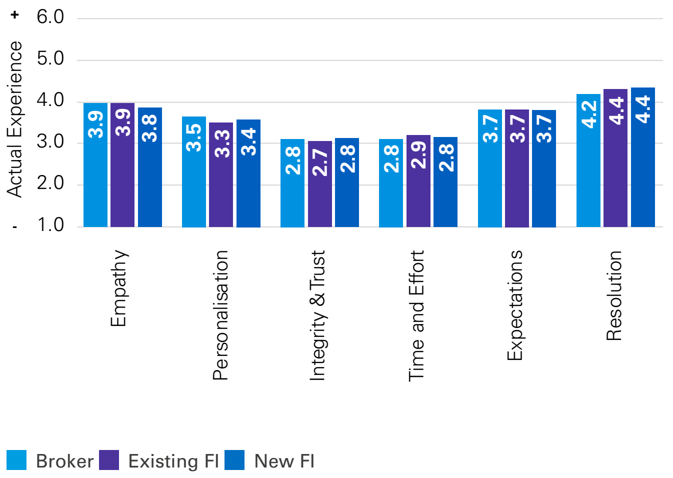
**Customer Experience pillars, by importance**



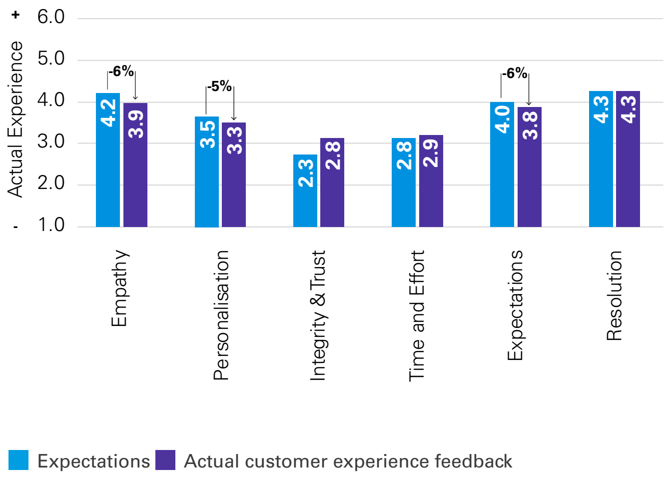

[7] KPMG Nunwood 2020 CEE report

# There are gaps between customer expectations and the reality of their mortgage experience

**Rating of customer experience, by origination channel**




**Comparison of expectations, with actual customer experience, when taking out a loan**




Our survey asked respondents who have previously taken out a mortgage to rate their customer experience according to the six pillars[8]. The **majority of respondents consistently rated their experience as either 'Good' or 'Average' in all 6 pillars.**

## Additional findings include:

— There is some variation (both positive and negative) between customers' expectations of their mortgage experience and their actual experience. Notably, mortgage lenders performed much better than customers expected when it comes to integrity and trust, however, disturbingly customers had a fairly low expectation for the dimension of their mortgage experience.

— 'New Financial Institutions' and 'Existing Financial Institutions scored the highest for 'Resolution', at 4.4 each, which was the most important customer experience pillar ranked by respondents.

— We also note that there is very little variation by channel in how customers rated their experience across the six pillars.

Of the respondents that have previously taken out a mortgage, we compared their expectations across KPMG's six customer experience pillars to their actual experience.

## The following was observed:

— **The largest differences are found in the 'Empathy' and 'Expectations' pillars,** with actual customer experience rated 6 percent lower than expectations for both.

— **Empathy, Personalisation and Expectations were the pillars that on average performed lower than customers expectations,** with all other pillars scoring above expectations.

[8] KPMG Nunwood 2020 CEE report

# The Way Forward

## Strategies to assist financial institutions win in the mortgage market

The findings from this survey of mass affluent professionals pose a number of key challenges that financial institutions must address to win in the mortgage market.

### Major forces impacting mortgage businesses

1. Shifting customer behaviour, banks have a window of opportunity to drive a great digital experience end to end.
2. Propriety and third party delivery models need to co-exist and compliment each other targeting specific segments with clarity of policy to enable predictability of lending value, decision and delivery times.
3. Lower margins though back book repricing, competition for new business requires optimised and low cost fulfilment and additional value added services to drive future revenues.
4. Stretched operational teams dealing with pent up post lock down demand and refinancing activities require automation and flexible headcount from under utilised or closed branches to deal with this demand.
5. Tightening assessment of credit quality with increasing IFRS stage three classification. Organisations need to proactively communicate with your highest risk customers to offer support and the channel to recommence payments.
6. Maintaining momentum. Home lending is a momentum business and leaders need laser focus on the drivers of momentum e.g. quality and decisioning times.

### Strategies to drive retention and growth

- **Drive a digital end to end customer experience.** That goes deep into the customer journey. Keep customers within the digital ecosystem even once they have their mortgage to drive engagement and reduce costs.
- **Own the growth corridors** and be clear on your target market propositions. Know who you will and will not bank and develop clear policies to own these customers through propriety and third party channels.
- **Right size the distribution network.** Leverage your COVID learnings to deliver digital services supported by a mobile workforce focusing your physical footprint where customers are migrating to.
- **Personalise and make it easier.** Reducing the effort to originate a loan will encourage repeat business and targeted customer offers based on real time data will drive an emotional connection.
- **Enhance credit decisioning.** Deliver through automation, AI and greater use of external data sources to make better decisions.
- **Deliver momentum.** Most banks have high rework, poor quality and inconsistent experiences. Improve your end to end value chain, fix the broken tools, automate and reduce decisioning times by half.

# Contact details

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Geoff is a Partner in KPMG's Management Consulting practice based in Toronto. Geoff has extensive experience leading major transformation programs in the banking and insurance industries. During his career, Geoff has held leadership roles in consumer lending, banking operations and finance. His experience includes designing product and service propositions aligned to the specific needs of targeted customer segments, business transformation, enhancing sales effectiveness and customer/product portfolio management.

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Adrian is a Director in the Melbourne Consulting practice. Adrian specialises in helping clients improve lending performance through; new product design, customer journey enhancement, sales and time to decision improvement and upgraded risk management through responsible lending practices.

Adrian has over 16 years experience of banking and consulting and works shoulder to shoulder with clients to improve the customer experience.

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