Cross- sell: The growing need to diversify

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Cross sell
The growing need to diversify

James Hickey and Penny Butler discuss the strategies that banks and broker groups are following in their search for growth, and the holy grail of cross sell

With lending markets at their lowest growth rate in 20 years, settlements slowly rebounding, and capital requirements going anywhere but down, the question on every mortgage provider's mind is how to maintain earnings growth.

The days of double digit mortgage lending growth in Australia are, for the foreseeable future, gone. This puts increasing pressure on a banking market which is used to such system momentum, and a broker market which is overwhelmingly dependent on mortgage volumes.

In order to recapture elements of growth, banks and broker groups are looking at ways to either increase their market share, or diversify their income. In the current market, a market share strategy runs the risk of being a zero sum game and eroding margins. It is not surprising, therefore, that a key focus is wealth and insurance cross sell.

Offering	Potential Features	Relative Margin
Wealth	• Full advice offering • Scaled advice offering • Online/ low cost super fund	
Life Risk	• Loan protect • Simple direct life risk • Fully underwritten life risk • Funeral Insurance	
General Insurance	• House and Contents packaged with loan • Bundled other products	

Source: Deloitte 2011

Although they can have high capital requirements, insurance products have attractive margins for product manufacturers. For example, life risk products tend to have profit margins that are around 20% of premiums. **Life risk** is often considered "sticky" and valuable, if the sales and education process can be integrated successfully with that of the mortgage sales process.

Wealth products can be profitable; however there are challenges to be considered around the role of advice in light of the Future of Financial Advice (FOFA) legislation.

General insurance products, while an obvious product to cross sell with mortgages, have generally lower margins, and are highly competitive with a shorter product life.

Regardless of the particular offerings chosen, to be able to sell these products in significant volumes through an existing channel, or to existing customers, is highly desirable.

However, there is no one proven model. While groups differ in their view as to the best way to approach cross sell, there are two points on which they agree: that no one has it completely right; and that conversion rates should be higher.

Mortgage brokers are diversifying

Successful broker groups appear to be using three main strategies to move away from the risk of being purely a price taker of mortgage sales.

1. Moving along the mortgage supply chain

A number of broker groups have launched white label mortgage products in order to get the additional margins available in the product design space. These are manufactured via securitisation, through a manufacturer such as Resimac, ING, Advantedge, or FirstMac.

However, these broker group branded loans are facing the same funding challenges of other non bank loans, and as such are proving a difficult sale in the current market of price wars.

2. Deepening lending offerings

A natural movement from home lending is to other forms of finance, such as personal loans or automotive loans. Many broker groups offer personal and commercial lending, and some groups have successfully moved into the automotive loan space. An example is Mortgage Choice which recently launched its car loan offering, funded by Liberty.

3. Wealth and insurance cross sell

A good broker will build a trusted advisor relationship with his/ her clients in a relatively short period of time. With strengthening "know your client" requirements under NCCP, and a customer who is most likely at a point of change in their life when taking out a mortgage, a broker is ideally placed to offer other financial products to meet customer needs.

Successful broker groups have realised that the strength of their offering is around "advice", and are moving in various degrees, into financial advice models.

Most large aggregator groups offer some form of general insurance products and life risk products, with groups such as Aussie Home Loans also moving into wealth products.

Bank models – at a cross sell crossroad

Banks have been successful in cross selling and bundling traditional products for their mortgage customers, such as transaction accounts, savings accounts and credit cards.

Insurance and wealth has always been another option for cross sell, but with these products sitting outside of the traditional banking product space, this has been a less successful area to date.

However, banks are looking to get their bancassurance models firing, and cross sell between mortgages, life risk and wealth is one of the key options getting focus.

Case study: Brokers selling life risk products

Insurance cross sell is evolutionary for mortgage brokers. Three years ago most brokers were not interested. However, with reduced commissions and slowing credit lending, the broker industry is more prepared to engage in cross sell.

> In general a broker with a conversion rate of 30% for life risk products might earn the same amount as writing up to two additional loans a month

Life risk should be an easy sell for mortgage brokers:

- A customer entering into a mortgage is most likely taking on the largest debt of their life, and probably has little understanding of that risk
- Australians are grossly underinsured in life risk (estimates are that only 5% of Australians with dependent children have adequate life risk cover[2]), and mortgage debt levels are at an all time high
- With NCCP requirements, brokers are spending more hours in front of clients and are increasingly well placed to understand their needs
- A variety of life risk products and models are available, and commissions, while smaller than those received for the loan, are perceived as fair for the additional work required to cross sell life risk insurance.

Offerings are structured in a variety of ways: from 'referral call centre' models, through 'no advice' models sold by the brokers themselves, to 'full advice' models whereby a suitably trained broker sits under a financial planning dealer group licence.

However, no broker group can admit to having this model completely right. This is not from a lack of trying.

There are a variety of models available, and most broker groups offer more than one model. It's just that broker groups are learning what life insurance companies have always known, that life risk insurance is bought, not sold.

Current cross sell conversion rates of around 10% or less at group level reflect this. And interestingly, research is showing that generation Y, for all their technological savvy, are unlikely to change this model, and still need advice before making a purchase.

2. IFSA (FSC), 2005.

Banks are at a crossroad with these working models:

- Those who have had experience with the bancassurance model are making solid progress.
  - For example, the success of the BT Super for Life cross sell by Westpac
- Conversely, other major lenders who are newer to integrating wealth and insurance with banking operations are struggling in integrating these operations into banking mainstream and with the pivotal question: are they product providers or distributors?

To embrace bancassurance and maximise cross sell a clear distribution strategy is required. This will likely differ by distribution channel (broker, branch, online), although elements will be similar across each.

Empowering the branch

The key to cross sell is customer relationships. Customers require advice and education around the less traditional banking cross sell products. This can equally be translated into the branch distribution model, where customers might aspire to find a 'one stop shop' for their banking, wealth and insurance needs. However, as for the broker model, there are key elements required in order for this to work:

Education for staff members

Education is required for both product features and sales, and in particular the needs based conversation for such offerings. Estimates are that technical ability accounts for only 10% of a life insurance sale. Role plays and conversation scripting about customer needs and trigger points are vital in building sales confidence, and integrating seamlessly into the sales process.

Customer centric position

A focus on the needs of the customer, and how the products meet those needs: i.e. customer needs first, product opportunity second.

Support from head office

- Initial and ongoing support, including real time support (e.g. video conference links to experienced product sales staff)
- Campaigns to increase general customer awareness and education, especially around life risk
- Cross-sell targets are required, and performance should be monitored and effectively rewarded at all levels.

Appropriate products

Products and processes must be relatively quick, simple and easy to explain, and integrated into business as usual (e.g. loan) processes. For example, there has not yet been success on underwriting and straight through processing and integration into loan offer packages.

Timeliness is key

Insurance should be brought up early in the loan conversation, and considered as soon as possible. Conversion rates decline dramatically with time after a loan has been approved.

Pushing the boundary – Key thoughts for banks

In order to fully exploit cross sell capabilities banks need to provide innovative solutions to meet customer needs, and creative ways of reaching customers.

Our experience suggests:

- Segmenting branches and brokers effectively and working with those who 'get it'. For example, rather than setting a blanket cross sell metric for all branches, undertake customer and branch segmentation, and set appropriate tiered targets
- Look for unique ways to merge insurance needs with traditional mortgage products, being mindful of ASIC's recent concerns over Consumer Credit Insurance (CCI) products
- Consider different products and product bundles for different customers – e.g. a young single first home buyer vs. a family refinancing vs. investor
- Consider existing customers as well as new customers, to exploit cross sell opportunity:
  - Predicting customer needs by a customer's life stage. Using data analytics (e.g. analysis of credit card purchases) to determine a customer's life stage and changing life stage, and offering products appropriately
  - Segmenting customers for targeted approaches, rather than a scattergun approach.

> The road may not be easy, but the rewards are there for banks that can get the model right

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