TELLING TECHNIQUES

SPEED READ

- Enhancing the focus on core competencies
- Keeping market-entry costs low for start-ups
- Helping servicers adapt and multi-skill quickly
- Aiding efficiency through greater automation
- Cutting the need for specialist staff recruitment

Lenders: Bring on the gymnasts

Financial services organisations and third party servicers need agility and flexibility of gymnastic proportions, argues GERAINT CHAMBERLAIN, if they're to retain their competitive edge in today's dynamic marketplace.

The pace of change in the lending market over the last 18 months has made it impossible for established players to stand still. Lenders are under continual pressure to re-think their business models to compete with new market entrants. As a result, we are seeing increasing product and service diversification as well as new innovation launching into the market, as lenders try to address customers' changing needs and wider regulation.

And, to keep pace with the dynamics of the lending market, servicers offering outsourced operations also need to adapt quickly and multi-skill. Mortgage and loan servicers need to be agile to keep up with market innovations if they're to retain business from lenders.

Yet many UK servicers remain focused only on the first charge loan sector – an approach which will leave them in danger of losing precious market share as lenders ramp up their product diversification and their need for a multi-product loan servicer becomes necessary.

TELLING TECHNIQUES

THE LATEST MORTGAGE MARKET REVIEW MAKES IT CLEAR THAT THIRD PARTY SERVICERS MUST NOT HIDE BEHIND THE COMPLIANCE APRON STRINGS OF THE LENDER.

DYNAMICS OF REGULATION: Another factor changing the face of outsourcing is the dynamic regulatory framework. It's also evolving rapidly to keep pace with market innovation. The latest draft of the Mortgage Market Review (MMR) makes it clear that third party servicers must not hide behind the compliance apron strings of the lender. The regulations require outsourcers to stand up and be counted alongside lenders, as well as adapting their processes to behave more like lenders.

Selecting an outsourcer with the right experience, skill set and technology will be vital for future-proofing tomorrow's lenders today. Outsourcing plays a vital role in releasing a business from non-core processes to focus on its core competencies while mitigating the impact of barriers to growth, easing the pressure to reduce costs and still remain compliant.

FACILITATING NEW LENDING: For start-ups, outsourcing helps keep the cost of market entry low by removing overheads such as staff and premises costs along with investment in key servicing infrastructure. As the lending operation grows, some or all elements of these functions can be brought back in-house and the reliance on third party support scaled back, if required.

This approach frees up new entrants to concentrate on the front-end of their operation – growing the business. Equally important for new lenders is an outsourcer that can provide multi-sector capability. It's critical to source the right people, processes and technology to deal with the growing range of product innovations and portfolio diversification.

At Target, we provide loan origination and end-to-end servicing for an innovative second charge mortgage product. This enables the lender to focus on primary customer acquisition including marketing, sales and initial loan qualification, while Target manages the back office administration across the life of each loan product.

A reputable servicer can provide tried and trusted processes, progressive technology and specialist staff, thus delivering a fixed service cost and removing the need for additional inward investment by the lender.

REDUCING COSTS OF OWNERSHIP: We provide lenders with a one-stop shop for the most efficient, tried and tested lending applications. Satisfying all service needs under one roof reduces the lender's total cost of ownership. It removes the need to recruit additional specialist staff, so the servicer benefits from existing expertise that would otherwise come at a significant cost. Outsourcing removes the need to employ a separate IT provider and reduces overall operating risk to the business by keeping costs minimal.

Just as beneficially for existing market players, outsourcing enables lenders to increase operating efficiency through greater process automation. At the very least, outsourcers will perform back office tasks for a lender, thus removing the need to increase headcount. The outsourcer's more sophisticated systems and processes can be harnessed to service the loan portfolio and remove the need for additional investment by the lender in upgrading its in-house information technology.

We also provide first charge mortgage servicing and software. This involves providing account administration servicing for those client customers with residential and commercial mortgages and equity release products. Thanks to its multi-product software and services, Target can meet the lender's challenging deadlines to carry out a seamless transition of the product portfolios and deliver maximum loan value and compliance.

DON'T FORGET THE TECHNOLOGY: Flexible and efficient software becomes even more critical for ensuring a successful outsourcing partnership. It's not only vital for providing the multi-product servicing needed to manage emerging new financial products and services. It also equips experienced people to perform to their utmost potential.

The right software platform also means the lender and servicer can work in true partnership – the lender retains some key activities in-house, while using the same servicing platform. By combining an outsourcer's proven technology with its highly qualified personnel, businesses get the best possible opportunity to deliver results.

Outsourcers that offer a multi-product and multi-sector software platform will provide financial services organisations with the flexibility to diversify and innovate in line with market demands. We see how clients need to diversify their product range quickly, providing customers with a broader offering whilst minimising impact on the existing portfolio.

Our solution places your customer at its core: showing all products held by a customer reduces risk, identifies cross-sell opportunities and aids process efficiencies – all key elements that need to be considered by any growing financial services business.

ROBUST STANDBY SERVICING: Adequate standby service provision is fast becoming more of a "must" have than a "nice to have" for lenders. Ticking the "standby best practice" box is no longer workable in the current market. And where back office functions have not been ring- fenced, lenders must have robust and realistic standby services in place, not only to preserve their rating but also to have workable coping strategies against bankruptcy and underperformance.

Credibility is also a key requirement of standby service arrangements for the current climate. Investors increasingly want to be reassured that the right levels of standby cover in place, supported with the right software and systems for a rapid response to adversity. They also want assurance that the standby service provider has the specialist skills needed to effectively serve its receivables and mitigate the portfolio's exposure to risk. This requirement has led to an increasing number of investors to demand that the chosen standby servicer is also rated.

LENDERS NEED ROBUST STANDBY SERVICES TO PRESERVE THEIR RATING.

In summary, financial services organisations and third party servicers will need to acquire agility and flexibility of gymnastic proportions to innovate, retain their competitive edge in the market – and survive. There will be increased pressure, both market and regulatory, for more efficient, flexible and multi-product software and servicing platforms that can maximise a lender's return on investment from each individual transaction. Prudent servicers need to evolve and adapt their commercial offerings today if they are to service the lenders of tomorrow.

GERAINT CHAMBERLAIN is Head of consultancy at Target Group.
www.targetgroup.com