By Chris Nelson

Enterprise Cross-Sell Offers New Twist on Old Theme

There is money to be made in mortgage, but the rules have changed. The old rules required a strong, siloed business unit and tightly controlled channels to generate loans. The new rules rely on demonstrating value within the bank, collaborating to maximize every customer contact and building customer loyalty. Each of these themes is incorporated into the idea of enterprise cross-sell, a new twist on the age-old cross-sell concept.

Successful mortgage lenders have adapted to these changes in creative ways. First, they assert the value of the mortgage during turbulent times, demonstrating its economic importance to the bank. Second, they overcome the traditions of acting as a siloed business unit, which focuses on individual success at the expense of the whole. Finally, they become leaders in the bank's evolution, increasing wallet share and ensuring that every customer contact is maximized. These efforts will increase credibility within the bank, and dramatically increase profits from the mortgage division and the overall institution.

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Why loyalty matters

According to Christine Pratt, an analyst with Framingham, Massachusetts–based Financial Insights, two major banking trends are an increased focus on customer centricity and channel investment. Both trends create opportunities for the mortgage division to participate in overall bank strategy and gain additional customers.

In the mortgage field, the idea of customer loyalty has been largely forsaken. Customers, generally unable to differentiate among lenders, will seek the convenience of their most familiar channel or banker, or respond to an ad from LendingTree or Ditech.com.

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How can the mortgage team benefit from customer loyalty? It can benefit by re-assessing the siloed approach to mortgage origination and taking an integrated approach to channels. This challenges large institutions, because every channel maintains independent connections to every line of business (LOB).

Enterprise decision engines are able to provide effective integration, but often require complete replacement of existing systems. This can be particularly difficult in the mortgage industry, where loan complexity and compliance requirements far exceed those in other lines of business.

What's next?

Recently, many lenders have asked for a solution that consolidates all these business needs. Fortunately, the technology to accomplish this already exists. The next evolution in channel integration is enterprise cross-sell. It provides the benefits of enterprise decisioning, without the requirement to replace many of the existing systems. More important, it supports the unique needs of mortgage bankers by providing bank-wide integration while maintaining control within each LOB.

Enterprise cross-sell defined

Simply stated, enterprise cross-sell allows banks to offer what Zoot Enterprises phrases as the Right Product to the Right Person at the Right Time™. It can be thought of as a middle layer between incoming channels and all LOBs. Offers still come from the LOBs' loan origination system (LOS). Product control remains with each business unit; consistent offers are made; and market changes can be quickly incorporated across all channels.

An advanced rules engine determines the priorities of product offers and ensures conformity across all channels. Using service-oriented architecture (SOA) to integrate platforms avoids the "rip-and-replace" upgrade required in many solutions.

Today dozens of channels support consumer interactions in the branch, over the Web and through indirect brokers. Each channel must link to the correct loan origination system for every product. Larger institutions may have several LOSes within each line of business (e.g., retail, wholesale and correspondent).

Offering limited cross-sell in some channels could require 70 or more connections and unacceptable levels of maintenance. Now, imagine that every channel and LOS are linked only to the enterprise layer, using an SOA approach. The number of connections drops, and the banking institution now can offer any product through any channel based on the opportunity.

Why is this different?

Several large banks have made significant strides in creating an integrated enterprise cross-sell solution. Their most important attribute is the focus on maximizing the value of each channel by creating opportunities for integrated cross-sell. This is more than the typical efforts to check for credit-card qualification. Each consumer request must be reviewed for eligibility by every line of business. The offers presented are then selected based on the consumer's likelihood of acceptance.

In some cases, the primary offer to the consumer might even be a cross-sell. For example, consider a consumer requesting an auto loan. Would the bank be better served by offering a traditional auto loan or a home-equity line of credit (HELOC)? There are many cases in which a smaller institution can use its relationship focus to present creative product offerings. Larger institutions depend on technology in understanding client needs, but previous technology simply hasn't supported that need.

Best practices in loyalty

Creating combinations of products that increase value to the customer—sometimes called "stickiness"—is important. Wells Fargo Bank, San Francisco, offers a set of products that includes a demand deposit account (DDA) with debit card, a HELOC with credit-card access, overdraft protection for the DDA with no fees, and free online access to manage the whole package. The result is a simple-to-use package that ties all of the customer's products together. Even if a consumer finds a better deal on one component, he or she is unlikely to sacrifice convenience by switching banks.

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Speaking of loyalty, it has been shown that increased wallet share is a key factor for improving customer retention. At Zoot's August 2006 Credit Evaluation Conference held in Bozeman, Montana, Bobbi Britting, a senior analyst with Needham, Massachusetts–based TowerGroup, stated that consumers with four of more accounts are twice as likely to stay with their institution.

The Wells Fargo approach is based on this fact, with a goal of having eight products per customer. Consumers are 60 percent more likely to accept cross-sell offers at the time of account opening. A well-designed enterprise cross-sell strategy has proven to be a powerful tool for building loyalty.

Underwrite the customer

Tying these themes together is the concept of underwriting the customer. Rather than considering each product request independently, the new trend and challenge is to consider the customer as a complete relationship.

A consumer might qualify for six cross-sell product offers, but would be overextended if all were accepted. Alternatively, he or she might qualify for two $30,000 loans, but policy would block offering a combined loan of $60,000. In both cases, a broader customer view would result in very different product offers.

Offering the right products to meet the consumer's needs is rarely done well, but can have tremendous influence on the customer. Relationship underwriting has been used over the years for real estate developers, high-value customers and insurance policies. Today it offers significant value in managing relationships with regular consumers.

Using technology to manage all valid offers and predict those most likely to be accepted enables lenders to underwrite the customer. This is one of the greatest benefits to the mortgage lender. Placing mortgage offers in front of the consumer at the right time has always been difficult and expensive. Creating an offer that will spur action is even more challenging. Managing offers in a relationship database not only increases relationship depth and loyalty, it ensures that mortgage offers will be presented at the best possible time and place to encourage acceptance.

Achieving wallet share

Every bank needs enhanced customer loyalty, and building wallet share provides just that. Successful programs rely on offering cross-sell products based on a combination of profitability, the customer's willingness to accept, and integration with other products the customer already uses.

Early attempts at cross selling simply offered all possible products for the consumer to consider. Today, an analysis of the consumer's needs reduces the list to a few attractive options. Depending on channels, the consumer might receive one or several offers.

The value to mortgage lines of business from building customer loyalty is threefold. First, loyal customers will refer business at a lower cost than any advertising campaign can deliver. Second, long-term customers will bring refinancing back to their core institutions. Third, the financial loyalty that the company helped build speaks to revenue sources that might have otherwise been entirely lost.

Gaining economies of scale

Banks establish multiple relationships to obtain the same data for different business lines. While some data types—such as flood certification or an auto valuation—apply to just one line of business, most of the bank's resources are used by multiple LOBs. For example, most lines of business have at least one credit-bureau relationship and negotiate terms based on business volume.

Centralizing data acquisition through the enterprise cross-sell layer provides economies of scale, which come from the ability to negotiate one overarching relationship with each of the data sources. Then, through that relationship, the credit risk department can contract with the bank's entire volume of data, rather than work with those data independently. All attributes needed are then calculated and fed to the appropriate lines of business for consideration. Responses from each LOS are then returned for prioritization and presentation to the consumer. Building single relationships with each data provider reduces cost and can improve reliability.

Maximum compliance, minimum risk

Risk and compliance go hand-in-hand today. It's a challenge to manage them when dozens of systems manage business rules. Enterprise cross-sell provides an integrated layer that brings together all of the information needed to ensure credit-risk policy is applied consistently. Since base credit attributes are shared across the institution, the credit risk department can easily track results in real time. They further provide a single stop for accurate, comprehensive reporting for definitive compliance recording.

Change creates opportunity

The banking landscape now includes subprime lending losses, prospects for additional oversight and a continued lack of customer loyalty. Internally, the mortgage operation was the primary profit center at many banks until recently, but it is now viewed with uncertainty and caution.

The executive level is working to adapt the concept of banking to changing consumer behaviors and economic factors, introducing concepts like wallet share to increase customer loyalty, and changing focus from acquisition growth to organic growth. The mortgage groups are increasingly viewed as stand-alone business silos.

Enterprise cross-sell can allow the mortgage division to firmly re-establish its role in guiding the bank's direction. By leading the charge toward a more profitable enterprise, mortgage leaders achieve two things. First, they support the concept of the bank as a single business entity that supports all of its customers' needs. Second, it turns eminent change into an opportunity to lead the organization and ensure its future success. Change is inevitable, but whether we respond as leaders or react as followers is a choice we must all make.

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