

MORTGAGE BROKING

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MISC and MIAA Joint Announcement of Best Practice Performance Templates

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MISC and MIAA Joint Announcement of Best Practice Performance Templates

Being able to track and monitor performance will increasingly be a key area for mortgage brokers to address in order to lock in and grow sustainable profits in 2004 says MIAA. In this context, the MIAA is keen to encourage the use of internal performance monitoring and benchmarking as management tools among its members.

In what is an industry first, MIAA announced today that it has engaged the industry research specialist Market Intelligence Strategy Centre (MISC) in a unique collaborative process to develop a series of practical tools with which to improve the overall efficiency of brokers operating in the industry – be they MISC broker pool members or not

Most members will be aware that MISC is the group who developed and manages the Bank and Broker Co-operative Mortgage Broker Data Pooling Facility – a facility that pools housing loan transaction data from Australia's leading financial institutions and mortgage brokers in order to generate precise market and industry measures across a range of performance dimensions. MIAA considers that the use of these tools will demonstrate to its members the true value of ongoing benchmark monitoring. It is appropriate then that MISC and the MIAA should collaborate in this new and exciting venture for the mortgage broking sector. This is consistent with the MIAA charter to encourage and improve the efficiency of this valuable distribution channel and its members.

MISC/MIAA Performance Management Report: Special Insert

MISC, together with its pool members, has designed a **Performance Management Report** to assist brokers in improving performance (*see insert in this issue of Mortgage Brief*). With this specially designed tool, mortgage broker members can measure their operational performance in a methodical and proven way. It is envisaged that if regularly deployed, this tool will be a key factor in building momentum for performance improvement in 2004.

The report template, prepared in consultation with MISC broker pool members (many of whom are the more successful brokers operating), provides unique insight into best practice internal monitoring. The report template is provided through the sponsorship of MIAA to all readers of *Mortgage Brief*. It is designed as a confidential self-completed internal management document, with all data derived from the broker's own internal records and commission reports.

The completion of the report template will regularly impose an internal discipline to make management assess critical performance aspects of a mortgage broker's operations. These include:

- The current status of broker network;
- Areas/regions where business is derived;
- The effectiveness of promotional support;
- Key drivers of business including rainmakers and commission/incentive structures; and
- The make up and performance of the lender panel.

As a guide to performance improvement the *MISC/MIAA Performance Management Report* requires not only an historic perspective of these operational dimensions for CY 2003, but also requires management to articulate the expectation of these same dimensions for CY 2004. In this sense the *MISC/MIAA Management Report* takes the traditional budgeting process and turns it into a strategically oriented planning tool.

The fold out in the *Mortgage Brief* magazine contains the *MISC/MIAA Performance Management Report*. The report is designed to allow mortgage brokers to measure their operational performance in a methodical and structured way. In other words the report template imposes an internal discipline to make management assess critical performance areas of a mortgage broker's operations.



The Value of Benchmarking and Performance Monitoring for Brokers in 2004

A special analysis prepared exclusively for Mortgage Brief by MISC (Market Intelligence Strategy Centre)

What is Benchmarking?

MISC (Market Intelligence Strategy Centre) predicts that the 2004-year will be challenging for the Broker industry as the Home loan market boom subsides, and the broker industry is forced to consolidate and restructure. A key factor in determining those Mortgage brokers who will prosper in the new market conditions, says MISC, will be the firms that better embrace higher performance standards. In order to do this, brokers will find it increasingly necessary to monitor the right performance measures, and furthermore, benchmark them from a peer comparison perspective to underpin strategy. The Broker firms that respond fastest to changing external circumstances, which the benchmarks can reveal will be the winners in 2004 says MISC.

An efficient approach to benchmarking is a key factor to address in 2004. Benchmarking is a concept and a performance tool that means different things to different people. It is a process that can occur in a number of different contexts and involve a variety of approaches. These include:

Strategic Benchmarking	Utilised in long term strategic planning
Performance Benchmarking	Used to compare performance between similar companies
Process Benchmarking	Focuses on improving critical processes and operations in a short time
Functional Benchmarking	Used to benchmark with companies in different sectors with similar functions or processes
Internal Benchmarking	Used to compare the performance of business units within the organisation
External Benchmarking	Uses other companies who are known to operate at higher levels or at "best practice"
International Benchmarking	Used where the overseas experience is deemed to be of interest, or if there are problems associated with gathering local benchmarks

Why is Performance Benchmarking Applicable to Mortgage Brokers?

As a hands-on tool, which is readily useable and translatable into tangible results, Performance Benchmarking is a powerful and cost-effective tool at the disposal of mortgage brokers, and correctly used successfully already by MISC Broker pool members. A number of positive benefits flow from its application including:

- Identifying relative strengths and weaknesses in business performance by making performance comparisons with other mortgage brokers
- Providing an internal discipline to better run your broker operations
- Providing a framework for managing operational and strategic change
- Energising staff to think about how to improve your broker operations

Furthermore there a number of other compelling reasons why the imperative for monitoring performance will become more pronounced in the near term.

- With a slowdown in housing loan activity, brokers will be forced embrace operational efficiency to maintain profitability. Performance benchmarking can provide a strategic blueprint for top and bottom line improvement.
- In the context of sector consolidation performance benchmarking can provide tangible assistance in the integration of broker operations.

Misconceptions About the Application of Benchmarking to Mortgage Broking

In spite of the seemingly tangible and substantial advantages of incorporating benchmarking into a firm's operational framework, there can still exist resistance on a number of levels. Objections normally raised include: the **expense** of benchmarking; the **use** of benchmarking, given that management may ignore the results; the **relevance** of benchmarking, given that firms may be of an insufficient operational scale to benefit; and finally the notion that benchmarking does **not add hard dollars** to profits. We will look at each of these objections in turn.

1: Benchmarking Will Be Too Expensive

Cost is a function of the nature of the benchmarking being undertaken, which can vary from Greenfield international studies through to major cross industry comparisons. However, in mortgage broking often the most powerful and useful efficiency benchmarks are ones which are routinely generated, or capable of simple extraction from a mortgage broker's day-to-day operations.

For example, monthly commission statements issued by banks to brokers are a rich source of potentially powerful benchmarking material, as is a mortgage brokers own customer database, which normally always includes data fields such as the area in which the loan was sold, the loan product and loan purpose etc. Extracting and summarising existing information means that benchmarking can be successfully undertaken at virtually no cost to the broker operation. MISC and the MIAA are committed to providing a low cost/efficient benchmarking model for MIAA members.

2: Management Will Not Understand or Fully Appreciate the Results

While some managers remain sceptical or resistant to the benchmarking process it is necessary to understand that benchmarking represents a further extension of good management. A good manager by his or her very nature will be inquisitive into firstly how their own company is performing across a range of dimensions, and secondly how other similar companies are performing in these areas. A good manager will want to know if the company is under-performing relative to its competitors. If, for example your brokerage's commissions are up by 2% for the quarter, when your direct competitors increased by 10%, a good manager will not only regard this as critical information, but also be prepared to address the situation to improve performance.

Furthermore a good manager should aspire to achieve the performance of the leaders in the industry, and this is the information that benchmarking can provide. Small mortgage brokers have become big companies largely by applying good management practices over longer periods and with more consistency than their competitors. Thus resistance to benchmarking is likely to be a reflection on management, which is in itself an interesting performance indicator.

3: My Firm is Too Small to Gain Insight from the Benchmarking Analysis

No mortgage broker is too small to benefit significantly from benchmarking, and all mortgage brokers irrespective of size, will possess and regularly generate information that is capable of being benchmarked. Furthermore, the type of benchmarking process envisaged by MISC and the MIAA will generate a range of benchmarking outputs that will be done by firm size, so small firms will be able to benchmark their performance against one another across a range of dimensions. Having said that, there are a number of benefits that a small brokerage can achieve by benchmarking certain areas of performance with larger broker firms. There are a number of elements in the broking process which are similar, irrespective of size, such as non-head office loans generated per introducer, for example, which would enable a direct and comparable performance of a large broker and a small broker on a similar playing field.

In addition a large mortgage broker operation can benefit from receiving performance indicators about small mortgage brokers, as it can assist in screening potential acquisition candidates, or even assist in a corporate downsizing if it is rationalising its operations.

4: Benchmarking Will Not Add Tangibly To My Profits

A relevant case study in the United States shows the application of benchmarking was a major contributor to the top and bottom lines[^]. Several years ago Norwest Corporation*, the United States' largest mortgage company undertook a benchmarking campaign which became major incremental contributor to top and bottom line results. Results that were directly attributed to benchmarking included:

- Opportunity lending – an increase in growth of more than \$US 20 million
- The production of best practice sales road maps – This resulted in a sales increase across Norwest's product portfolio, including mortgages – up 102%.
- The use of "Partner Letters" which led to an increase in commercial sales of 150%
- Process innovations, which led to productivity improvement, which rose by more than 20% across the company. One Norwest department was able to more effectively manage peak work times resulting in a productivity improvement of 143%.
- Better account targeting of corporate customers by individual sales teams, which led to major sales improvements from previous years (in excess of \$US 1 million per team).
- Benchmarking also led to better collaboration between Norwest departments resulting in numerous and substantial cost savings.

[^]Source: Best Practices LLC. *Norwest has since merged with Wells Fargo.



Further Background Notes to MISC Facility Service Development & Methodology

These are findings from the MISC Internet Banking Data Pooling Facility collection for the December 2003 quarter. This latest report is the fifteenth so far produced by MISC on this dynamic sector of the Electronic Banking market and is based upon banks supplying quarterly detailed Internet banking transaction data adhering to a standard format and consistent definitions designed by MISC. The report is compiled exclusively for the use of the members of the facility, a unique collaborative services, developed by MISC together with Australia's leading Internet banking financial institutions.

These institutions regularly pool detailed statistics on their Internet banking service activity. This latest December 2003, reporting is the first to be especially augmented with extended analysis of on-line applications across a wide and increasing range of banks products including Home Loans, Personal Loans, Credit Cards and Insurance. Pool members have commenced contribution to this additional database and the first reported results of the true shape of the Bank Online Applications sector of the market; will be released shortly to those members.

Development of the facility by MISC is in response to the market's need to address the issue of widely conflicting market measures and the search for a definitive and regular measurement of Internet banking uptake. To date there has been much discussion regarding terms used to describe those who have been attributed as having 'experienced' an Internet banking service. The MISC Facility has reached agreement with the pool participants regarding a re-classification of 'user' definitions to ensure consistent measurement. This has resulted in the more valuable measure of 'Active' users i.e. actually transacting in the previous quarter.

Essentially the exciting 'data Pooling' initiative determines for the first time the true uptake of Internet banking activity and importantly ensures that an independent facilitator acts as a conduit for the data collection, analysis and interpretation. The MISC-run facility determines not only the true size of the market but also delivers, for each participant, their individual confidential relative positions. To track the market's development, MISC coordinates 90-day data pooling measures to which all participants now confidentially contribute. The subsequent quarterly reports delivered by MISC provide the various pool participants with the opportunity to position and monitor performance. Critically, the research provides the data required to underpin accurate Internet banking site development i.e. access features and the level of service customer's desire.

For further information on this unique service please contact MISC Marketing.

MISC (Market Intelligence Strategy Centre)
Level 4, 14 Collins Street
Melbourne Vic 3000 Australia

Telephone: (03) 9654 4266
Facsimile: (03) 9650 7730
email: miscinfo@marketintelligence.com.au