The Australian home loan market

Winning the fight for customers

May 2017

kpmg.com.au
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Introduction
The Australian home loan market: What do customers really want?

“It was the best of times. It was the worst of times.”

This quote from Charles Dickens’ novel A Tale of Two Cities reflects the current residential property and home loan market in Australia. In an environment of falling interest rates, residential property prices continue to grow at a multiple of both GDP and wages.

Since 2006 the median house price in Australian capital cities (where 67 percent of the population live) has more than doubled from $286k to just below $700k. A similar story is true for units and apartments where median prices across capital cities has grown by 40 percent in the last 10 years.

Over the same period, Australian wages have grown at a much more modest compound annual rate of 3 percent. This differential in growth rates between residential asset prices and incomes has resulted in an unprecedented level of indebtedness with average debt to income currently at a ratio of 1.8 to 1. These prevailing market conditions have benefited many investors in the Australian residential property market. At the same time, they have also made it increasingly difficult for the next generation of prospective home owners to enter the market.

Nevertheless, the great Australian dream of home ownership persists. Post the Global Financial Crisis in 2008 (GFC), aggregate home loan volumes have continued to grow, albeit at a much slower rate than in the 5 year period leading up to the GFC. Competition amongst Australian banks in home lending is particularly fierce at the moment. To maintain market share, banks are heavily discounting their front books, especially through the broker channel.

Interestingly, they are typically not matching these discounts through their own proprietary channels.

The impact this is having on profitability is material with net margins as low as 25 bps on the front book of some of the smaller regional banks.

To abate this race to the bottom in home loan profitability, Australian banks are increasingly trying to differentiate their value propositions on service, not just on price. Across our banking clients in Australia we are seeing a clear bias in investment portfolios towards initiatives that will deliver a superior customer experience (ideally, at a lower cost to serve).

These improvement initiatives include zero based design of the end to end customer home loan journey, improved usage of customer data to develop more personalised offerings, enhanced functionality of mobile applications as well as new digital platforms for e-conveyancing and settlements. The sums of money being spent on improving the home loan experience of customers are substantial (we estimate that Australian financial institutions will spend over $250m in each of the next 2 years).

But what do Australians in the market for a home loan really want? To answer this fundamental question, KPMG has recently conducted a survey of mass affluent Australians. Specifically, in this report we provide insights on the increasingly important role that digital and broker channels play in selecting a home loan provider, the propensity of mass affluent customers to take out home loans with institutions other than their main bank, and the impact perceptions around integrity and simplicity have on decision making. We conclude with our observations on what this means for Australian banks and how they need to transform to win the intensifying battle for home loan customers.

Note: (1) 5% year on year from 2008 to 2016 compared to 11% year on year from 2003 to 2008. Source: RBA
Sources: (2) ABS.
(3) CoreLogic RP Data Hedonic Home Value Index, November 2015
(4) REIA. Weighted average median house price for eight capital cities at December 2015 quarter
(5) REIV. Property data, median prices.
(6) Trading economics. Australia – wages
(7) Prime Capital. Australia’s in front, household debt to income
KPMG recently conducted an online survey of 600+ KPMG professionals to gain better insight into the Australian home loan market. The survey was designed to understand how customer preferences for home loans vary by demographics such as age, gender, and relationship status. We wanted to understand what notable differences existed within these segments.

The participants were surveyed anonymously, and asked to answer questions regarding their experience and/or preferences during their home loan journey.

Profile of respondents

**Gender**
- 48% Female
- 52% Male

**Age groups**
- **Young Workforce**, 21–29: 35%
- **Established Workforce**, 30–49: 56%
- **Mature Workforce**, 50–65: 9%

**Relationship status**
- 43% Single
- 57% In a relationship

**Snapshot of survey respondents**
- The survey was conducted nationally
- 622 mass affluent respondents$^2$
- 48% currently have a home loan
- 25% are looking to get a home loan within 2 years
- **Individual salaries** range from ~$70K to $250K per annum
- Surveyed anonymously
- **Age range** from 21 – 65 years old
  - Inclusive of the following age sub-segments
    - Young Workforce, 21-29 years old
    - Established Workforce, 30-49 years old
    - Mature Workforce, 50 – 65 years old.

Note: $^2$This is a statistically significant survey sample representative of the mass affluent Australian population, at a 95% confidence level. Mass affluent is defined as professionals earning between $70K and $250K per annum.
Overview of survey findings

Don’t close branches just yet
Forty five percent of respondents prefer the traditional channel of using branches to apply for a home loan. Although a popular option for applying, branches are one of the least preferred options for researching or servicing a home loan.

Simplicity and integrity are the most desired customer experience attributes
Respondents rated simplicity and integrity as the most important attributes of their desired customer experience when taking out a home loan. Interestingly, empathy from their home loan advisor was rated the least important customer experience attribute.

Continued demand exists for home loans despite rapidly rising residential prices
Sixty four percent of respondents who currently do not have a home loan are planning to purchase within the next 2 years. This is a high percentage considering the perception of unaffordability in the Australian residential real estate market.

Digital reigns supreme for research and servicing home loans
Digital channels are the preferred choice for researching and servicing home loans as indicated by 87 percent of respondents. The remaining 13 percent of respondents prefer more traditional channels (branch, call centers, brokers) to research and service their home loans.
“It is easy to forget that customers are not actually looking for a home loan, they are looking for a home. A home loan is the means to the desired end, not the end itself and with the advent of social media and aggregator websites it has become increasingly difficult to differentiate based on price or product features. To win the fight for customers, home loan providers must deliver a consistently great experience that is simple, efficient and stress free.”

Geoff Rush, KPMG Partner
Home loan
survey
analysis
Home ownership

48% of respondents currently have a home loan

Forty eight percent of the 622 survey respondents stated that they currently have a home loan. Further analysis highlights:

- that Established Workforce and Mature Workforce mass affluent sub-segments are more than twice as likely to already have a home loan (59 percent and 62 percent of respondents respectively) as Young Workforce respondents (27 percent)
- of the 38 percent of respondents that are renting, only 22 percent are looking to purchase a home within 2 years
- 63 percent of respondents that are in a relationship have home loans, compared to the 28 percent of those who are single.

These differences by age group, relationship status and current living arrangements are not surprising given the increase in residential asset prices, particularly in capital cities, over the last 10 years compared to real wage growth over the same period.

Young (under 29 years old) mass affluent Australians are finding it increasingly difficult to save enough money for an initial deposit on a home and this challenge is becoming harder as the major banks adjust their minimum loan to value ratios (LVR) in certain local area markets. To compensate for this shortfall in savings, first home buyers are relying more heavily on family for financial assistance for a deposit.

<table>
<thead>
<tr>
<th>Residence</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Home loan</td>
<td>48%</td>
</tr>
<tr>
<td>Rent</td>
<td>38%</td>
</tr>
<tr>
<td>Own property</td>
<td>6%</td>
</tr>
<tr>
<td>Occupy without payment</td>
<td>8%</td>
</tr>
</tbody>
</table>

In the dwelling you currently occupy, which best describes your situation? (n = 622)

With house prices soaring in major Australian cities, it is becoming increasingly difficult for Australians to purchase their own home. In 2015, median house prices in Melbourne and Sydney were $730k and $1m respectively, an increase of 20% in just the last 3 years.

Alongside the steep increase in house prices, the Australian average household debt in 2016 is four times what it was 27 years ago, increasing from $60,000 to $245,000, reflecting an annual growth rate of 5.3 percent above inflation and leaving our income growth rate of 1.3 per cent trailing in its wake. This means Australians are spending substantially more money towards their household debt today than ever before.

Market Insights

Source: (8) APM Price Finder, Real Estate Institute of Australia
(9) AMP NATSEM Income and Wealth Report
(10) www.news.com.au
Living arrangements, by age

% of respondents

- Rent
- Mortgage
- Own property outright
- Occupy without payment

Young Workforce: 52% Rent, 27% Mortgage, 3% Own property outright, 19% Occupy without payment
Established Workforce: 33% Rent, 59% Mortgage, 5% Own property outright, 2% Occupy without payment
Mature Workforce: 9% Rent, 62% Mortgage, 30% Own property outright, 0% Occupy without payment

% of home ownership doubles for those in a relationship when compared to the single segment

% of home loan holders, by segment

- Male: 28% Single, 63% In a relationship
- Female: 33% Single, 65% In a relationship
Home ownership continued

Residential property is still a sought after investment despite talk of housing bubbles and historically high debt to income ratios

Sixty three percent of respondents who currently do not have a home loan stated they intend to apply for one within the next 2 years. We believe this reflects a generally held belief that residential asset prices will continue to rise in the long run despite current high prices and issues around affordability. Further analysis shows that:

- 73 percent of established workforce respondents who do not currently have a home loan plan to apply within the next 2 years
- 57 percent of Young Workforce respondents who do not currently have a home loan plan to apply within the next 2 years
- respondents in a relationship are much more likely to apply for a home loan within the next 2 years than singles, 81 percent versus 52 percent.

<table>
<thead>
<tr>
<th>Will look to apply</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Within 2 years</td>
<td>63%</td>
</tr>
<tr>
<td>2+ years</td>
<td>29%</td>
</tr>
<tr>
<td>Not looking</td>
<td>8%</td>
</tr>
</tbody>
</table>

Market Insights

In Australia, during the 1980s, housing prices grew broadly in line with the general price of inflation in the economy. The deregulation of the financial sector during the 1980s and the shift to a low inflation and low interest rate environment in the mid 1990s greatly increased household access to finance in Australia.

The period from 1995 until 2007 saw relatively strong housing price growth and a significant increase in the debt-to-income ratio of Australian households.

Since mid 2007, strong population growth has played an increasing role in explaining housing price growth (shortage of housing supply relative to demand).
Housing Demand, Supply and Price Growth

Timeline to apply for home loan

By relationship status

By age

*A positive number indicates excess demand; shading indicates range
Sources: ABS; CoreLogic RP Data; RBA
Financial institution preferences

Two thirds of respondents prefer to bank with more than one financial institution

<table>
<thead>
<tr>
<th>No. of financial institutions</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>1</td>
<td>34%</td>
</tr>
<tr>
<td>2</td>
<td>35%</td>
</tr>
<tr>
<td>3 or more</td>
<td>31%</td>
</tr>
</tbody>
</table>

Sixty six percent of respondents indicated that they bank with more than one financial institution. Other findings include:

- neither age, current living arrangements or gender appear to be determining factors in decision making around the number of banking relationships
- respondents who do not currently have a home loan have a similar split of banking relationships (1, 2, 3 or more) as those with a home loan
- men are slightly more likely to bank with 3 or more financial institutions than women (33 percent for men compared to 27 percent for women).

With the proliferation of aggregator sites and social media it has become much easier for mass affluent Australians to compare product features and pricing. We believe this is an important contributing factor in the decision to have relationships with multiple financial institutions.
No. of financial institutions respondents bank with

By home loan status

- 48% Home Loan
- 52% No Home Loan

No. of financial institutions

- 1
- 2
- 3 or more

By age

- Young Workforce: 32%, 36%, 28%
- Established Workforce: 36%, 33%, 50%
- Mature Workforce: 32%, 31%, 22%

By living arrangement

- Mortgage: 36%, 40%, 27%
- Own outright: 36%, 35%, 41%
- Occupy without payment: 28%, 25%, 33%
- Rent: 32%, 34%, 33%

By gender

- Men: 34%, 34%
- Women: 32%, 38%
Overall 44 percent of mass affluent respondents surveyed preferred using a broker as their home loan origination channel. Further analysis shows:

- gender has minimal impact, with both males and females having similar preferences when choosing between proprietary channels and brokers
- Established Workforce respondents have a greater preference for using a broker, at 45 percent, compared to 31 percent for Young Workforce, and 29 percent for Mature Workforce
- as age increases, respondents showed a greater preference to use their existing financial institution (FI), at 53 percent, compared to only 32 percent of the Young Workforce, and 37 percent of the Established Workforce

67 percent of respondents that use a broker renegotiate interest rates at least once every 5 years, 16 percent higher than those who originated their home loan through a bank’s proprietary channel (includes Existing FI and New FI). This increase in churn could be due to heightened price sensitivity of applicants through the broker channel, with a recent study stating broker sourced home loans are more likely to encounter financial difficulties than those who secured their home loans directly with banks.13

Broker penetration in the Australian market is at an all time high at 52 percent12, with more consumers preferring brokers over bank proprietary channels or newer online lending models. A recent study has also shown that brokers turn a higher percentage of leads into sales than banks13, with banks having a 50 percent conversion rate, compared to 95 percent broker conversion rate. This may be attributed to the following:

- Consumers perceive they get the best deal through brokers, as they are able to aggregate all options for the customer and provide a perceived unbiased view13
- The perception that brokers have less regulatory rigidity, with Australian consumers displaying a higher level of factual inaccuracy in their home loan applications when applying through a broker versus a bank.13

Notes: (3) Includes credit unions and building societies and other non bank home loan providers
Home loan provider preference

By age

By gender

By frequency of renegotiating interest rates
Likelihood to renegotiate or switch

Women are 32 percent less likely to renegotiate interest rates or switch banks than men

With housing prices rapidly increasing, and interest rates on the decline, customers are keen to test the market to find the best deal. Our research supports this trend with 61 percent of respondents stating they renegotiate their home loans or switch banks at least once every 5 years. Additionally, our survey indicates:

- the Young Workforce renegotiate interest rates or switch banks more frequently, with 17 percent renegotiating or moving banks at least once a year. This is almost twice the frequency of other mass affluent age groups, as only 9 percent of both the Established and Mature Workforce tended to renegotiate rates or switch banks at least once a year.
- gender also provides an interesting lens, with men three times more likely, at 16 percent, to renegotiate their home loan or switch banks at least once a year when compared to women (5 percent).
- women are more likely to never renegotiate interest rates or switch banks compared to men. Our survey results indicate that almost half of women (45 percent), never renegotiate their interest rates or move banks compared to 34 percent of male respondents.

<table>
<thead>
<tr>
<th>Residence</th>
<th>%</th>
</tr>
</thead>
<tbody>
<tr>
<td>At least once a year</td>
<td>11%</td>
</tr>
<tr>
<td>At least once every 2-5 years</td>
<td>50%</td>
</tr>
<tr>
<td>Never</td>
<td>39%</td>
</tr>
</tbody>
</table>

Source: (14) KPMG Major Australian Banks, Half Year 2016 Results Analysis
Likelihood of renegotiating your home loan or moving banks

By gender

<table>
<thead>
<tr>
<th>Category</th>
<th>Men (52%)</th>
<th>Women (48%)</th>
</tr>
</thead>
<tbody>
<tr>
<td>Likelihood</td>
<td>34%</td>
<td>45%</td>
</tr>
<tr>
<td>100%</td>
<td>50%</td>
<td>50%</td>
</tr>
<tr>
<td>0%</td>
<td>16%</td>
<td>5%</td>
</tr>
<tr>
<td>Never</td>
<td></td>
<td></td>
</tr>
<tr>
<td>At least once</td>
<td></td>
<td></td>
</tr>
<tr>
<td>every 2-5 years</td>
<td></td>
<td></td>
</tr>
<tr>
<td>Once a year</td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

By age

<table>
<thead>
<tr>
<th>Workforce</th>
<th>36%</th>
<th>47%</th>
<th>17%</th>
</tr>
</thead>
<tbody>
<tr>
<td>Young Workforce</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Established</td>
<td>40%</td>
<td>51%</td>
<td>9%</td>
</tr>
<tr>
<td>Workforce</td>
<td></td>
<td></td>
<td></td>
</tr>
<tr>
<td>Mature Workforce</td>
<td>38%</td>
<td>53%</td>
<td>9%</td>
</tr>
</tbody>
</table>

Never | At least once every 2-5 years | Once a year
Channel of origination preferences

Price is a key motivating factor in channel selection

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

- 50 percent of respondents who chose ‘Broker’ and 56 percent of respondents who chose ‘New financial institution’ proprietary channel did so because they wanted ‘the best deal’, indicating that both of these channel choices are largely motivated by price.

- Respondents that chose to secure their home loan through their existing financial institution appear to be motivated more by perceptions of convenience rather than price. The most popular reason for respondents choosing an existing financial institution (30 percent) is to have all of their business in one place. This is closely followed by the perception that their existing financial institution made the home loan process easy (23 percent). Interestingly, the data also shows that only 9 percent of respondents that chose their existing financial institution’s origination channel did so because they ‘wanted the best deal’ indicating that some mass affluent customers are willing to pay a slight premium for the added convenience of a smooth process and a great experience.

- Quite surprisingly, the survey data indicates that trust is not a key motivating factor when it comes to channel selection. Although we cannot say for certain, our belief is that this sentiment is at least partially driven by the perception that “all banks are the same” which has been fueled by a number of issues in the media recently regarding alleged bank misconduct.

Key factors in choosing home loan origination channel

<table>
<thead>
<tr>
<th>Channel of origination</th>
<th>Motivating factors</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>Convenience</td>
</tr>
<tr>
<td></td>
<td>Package &amp; arrangement provided</td>
</tr>
<tr>
<td>Broker</td>
<td>2.5%</td>
</tr>
<tr>
<td>Existing financial institution</td>
<td>12%</td>
</tr>
<tr>
<td>New to financial institution</td>
<td>6%</td>
</tr>
</tbody>
</table>

Note: (4) Financial institutions includes credit unions, building societies and other non-bank home loan providers

Branches still play an important role during the application stage of customers’ home loan experience.

Our analysis indicates that digital channels are the preferred choice for researching and servicing home loans, with 87 percent of respondents choosing to conduct their home loan research through digital channels compared to only 13 percent that indicated a preference to conduct home loan research through traditional channels.

Forty five percent of survey respondents indicated that they prefer to use branches during the application stage of a home loan. This highlights an ongoing important role for bank branches and makes decisions around reducing the size and cost of the major banks’ large networks more difficult.

Additional findings include:

- home visits are unexpectedly popular amongst the mass affluent, with 17 percent of respondents preferring this mode of interaction with their home loan provider for servicing and 15 percent for the application stage. Our hypothesis is that mass affluent customers are typically time poor and value the convenience of a mobile banker visiting them at home (and possibly their place of work)

- video conferencing appears to be the least popular channel overall. However, this finding may be slightly skewed by our survey sample as most respondents were from capital cities around Australia and unlike mass affluent customers in rural and remote areas, may not see the value in accessing home loan expertise via video conference.

- survey respondents indicated that call centres are the least popular choice for traditional channels across all stages of the home loan lifecycle.

![Home loan life cycle stages](chart)

<table>
<thead>
<tr>
<th>Channels</th>
<th>1 Researching</th>
<th>2 Applying</th>
<th>3 Servicing</th>
</tr>
</thead>
<tbody>
<tr>
<td>Desktop and laptops</td>
<td>77%</td>
<td>33%</td>
<td>42%</td>
</tr>
<tr>
<td>Mobile and tablets</td>
<td>9%</td>
<td>4%</td>
<td>31%</td>
</tr>
<tr>
<td>Video conference</td>
<td>1%</td>
<td>1%</td>
<td>4%</td>
</tr>
<tr>
<td>Call centre</td>
<td>1%</td>
<td>2%</td>
<td>6%</td>
</tr>
<tr>
<td>Home visit</td>
<td>3%</td>
<td>15%</td>
<td>17%</td>
</tr>
<tr>
<td>Branch visit</td>
<td>9%</td>
<td>45%</td>
<td>0%</td>
</tr>
</tbody>
</table>

Note: (6) Previous KPMG engagement experience has shown the value video conferencing can provide to home loan customers that reside in rural areas
(7) Includes application submission through to home loan settlement and draw down

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Customer experience preferences

Factors considered ‘essential’ when taking out a home loan varied significantly by age group

Are the following factors ‘essential’ to you when taking out a home loan? (n = 603)

<table>
<thead>
<tr>
<th>Factor</th>
<th>% that considered it ‘essential’</th>
</tr>
</thead>
<tbody>
<tr>
<td>Competitive interest rates</td>
<td>99%</td>
</tr>
<tr>
<td>Ability to vary payments</td>
<td>83%</td>
</tr>
<tr>
<td>Competitive fees</td>
<td>81%</td>
</tr>
<tr>
<td>Ability to offset against savings</td>
<td>80%</td>
</tr>
<tr>
<td>Ability to fix rate</td>
<td>31%</td>
</tr>
<tr>
<td>Ability to make payment holidays</td>
<td>22%</td>
</tr>
<tr>
<td>Building insurance included</td>
<td>16%</td>
</tr>
</tbody>
</table>

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 home loan.

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

- the flexibility to make over or under payments is most important for Mature Workforce
- the ability to offset savings accounts has a greater importance to the Mature Workforce

26% of Young Workforce consider building insurance as ‘essential,’ which is considerably higher than the Established and Mature Workforce.

Essential factors when taking out a home loan, by age group

- building insurance inclusion is three times more important for the Young Workforce group at 26 percent, than for the Mature Workforce, with only 9 percent
- Payment holidays are not considered essential for any segment, which may be perceived as an unnecessary ‘luxury’ for this mass affluent segment.
Integrity and simplicity are rated as the most important customer experience pillars when taking out a home loan

Previous KPMG research has identified six pillars\(^6\) that define customer experience in banking. Based on these 6 pillars, our survey asked respondents to rate them from ‘extremely important’, to ‘not important at all’ when taking out a home loan, regardless of whether they had done so previously. Our findings showed that ‘Simplicity’ and ‘Integrity’ are rated the most important, with ‘Empathy’ and ‘Personalisation’ deemed least important. These preferences provide an important guideline as to how banks should be tailoring their customer experience journeys for home loans.

Customer Experience pillars, by importance

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

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

- **Integrity**
  - Being trustworthy and engendering trust.

- **Simplicity**
  - Minimising customer effort and creating frictionless processes.

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

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

Source: (15): KPMG Nunwood 2016 Banking Sector Briefing “Banking the Customer Experience Dividend”

Legend
- 66\(^{th}\) percentile
- Average
- 33\(^{rd}\) percentile
Customer experience preferences continued

A clear gap exists between customer expectations and the reality of their home loan experience

Our survey asked respondents who have previously taken out a home loan to rate their customer experience according to the 6 pillars. The majority of respondents consistently rated their experience as either ‘Good’ or ‘Average’ in all 6 pillars. Additional findings include:

- brokers performed the worst in all customer experience pillars
- ‘new financial institutions’ performed the best, on average, across all pillars, potentially a reflection of going ‘the extra mile’ to capture new customers by delivering a good initial experience
- none of the origination channels rated higher than 4.2 out of 5 for any pillar, highlighting that there is still room for improvement in customers’ home loan experiences.

Rating of customer experience, by origination channel

<table>
<thead>
<tr>
<th>Emphathy</th>
<th>Personalisation</th>
<th>Integrity &amp; Trust</th>
<th>Simplicity</th>
<th>Expectations</th>
<th>Resolutions</th>
</tr>
</thead>
<tbody>
<tr>
<td>3.5</td>
<td>3.8</td>
<td>4.0</td>
<td>3.8</td>
<td>3.7</td>
<td>3.7</td>
</tr>
<tr>
<td>3.5</td>
<td>3.8</td>
<td>3.8</td>
<td>4.0</td>
<td>3.7</td>
<td>4.0</td>
</tr>
<tr>
<td>3.6</td>
<td>3.7</td>
<td>4.0</td>
<td>3.6</td>
<td>3.7</td>
<td>3.9</td>
</tr>
<tr>
<td>3.5</td>
<td>3.7</td>
<td>3.9</td>
<td></td>
<td></td>
<td></td>
</tr>
</tbody>
</table>

A clear gap exists between customer expectations and the reality of their home loan experience.
Of the respondents that have previously taken out a home loan, we compared their expectations across KPMG’s 6 customer experience pillars to their actual experience. The following was observed:

• the largest differences are found in the ‘Resolution’ and ‘Simplicity’ pillars, with actual customer experience rated 19% lower than expectations for both

• empathy is the only pillar that on average exceeded customers expectations, with all other pillars coming below expectations.

Overall, there is a clear gap between what customers expect from their home loan experience versus what financial institutions are currently delivering.

Comparison of expectations, with actual customer experience, when taking out a loan
The way forward

Strategies to assist financial institutions “win the fight for customers” in the Australian home loan market

The findings from this survey of mass affluent Australians pose a number of key challenges that Australian financial institutions must address to “win the fight for home loan customers”:

1. As the survey results indicate, important differences exist for mass affluent customers at the sub-segment level and these differences need to be factored into efforts to improve the end to end customer experience. To successfully differentiate themselves and bridge the current gap between expected and actual home loan experiences, Australian financial institutions need to take a big data, analytically driven approach to redesigning their home loan customer journeys and use the insights from this analysis as an input into human centred, zero-based design efforts.

2. The use of brokers for acquiring home loan customers is on the ascent and is clearly a popular choice amongst our mass affluent survey respondents. But what is the long-term equilibrium for the Broker channel? How will this affect home-loan pricing and retention strategies? What implications does it pose for the changing size and capabilities required in the branch networks of the major banks and credit unions? Australian financial institutions need to develop clearly defined strategies for optimising the value of broker partnerships and balance these plans with its proprietary channel strategies.

3. Respondents to our survey have clearly stated that Integrity and Simplicity are extremely important factors in the decision making process around which institution to deal with when it comes to the most important investment they are likely to make in their lifetime. However, the survey also shows that most financial institutions are failing to consistently deliver against these expectations. Cultural change lies at the heart of transforming customers’ home loan experiences and earning their trust. Through our client work we are seeing increased investment in cultural change programs and performance clinics designed to improve decision making by enhancing staff well being and engagement. Leading institutions are also experimenting with cutting edge technologies that draw on multi-channel, psychographic data to optimally match customers with the home loan specialist best suited to their personality and needs.

Note: (8) For example, in terms of channel preferences at different stages of the home loan lifecycle, propensity to renegotiate home loan terms and product features deemed to be essential
(9) This is a key component of KPMG’s approach to business transformation and entails drawing insights from both internal and external data sources such as social media, complaints data and channel behaviour data
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