The tie that binds mortgages

Mortgage insurers and lenders have a unique relationship, one that has opened up mortgage lending to a vast number of borrowers but has also often been a source of confusion in the broking industry. *MPA* reports

The mortgage industry is going through an unprecedented period of change. Increased funding pressure as a result of market illiquidity has forced most lenders to raise their interest rates over official Reserve Bank of Australia rate hikes.

As lenders across the board reprice risk as a result of funding pressures, mortgage insurers have also had to adapt to a changed market.

A significant number of Australian borrowers are struggling to maintain mortgage repayments while still meeting all their other financial commitments.

According to Peter Hall, Genworth Financial's country executive of Australia and New Zealand, due to a high level of unsecured debt and the rising cost of living the role of the mortgage insurer has never been more important. He says that increased pressure on borrowers has caused Genworth to look for more effective channels to better to assist in managing or minimising mortgage defaults.

"Since our split from GE, we've fostered a high-performing culture focusing on customer needs"

As well as the formation of its Hardship Solutions team in 2006 – which works closely with borrowers to seek options to manage mortgage stress – the insurer is also focusing more intensely on working with lenders across all aspects of their operations.

Genworth's business is very much based on this partnership approach with its customers, which it defines as major banks, regional banks, credit unions, building societies and non-bank lenders.

While there are obvious differences in the scope and scale of the insurer's customer base, Hall is adamant that each and every relationship it shares is based on mutual understanding of key business needs.

"We really do share genuine value-add relationships with the lenders we insure. Why is it a partnership? Well, we're both able to benefit profitably. For me, that is the basis of a good working business relationship," he says.

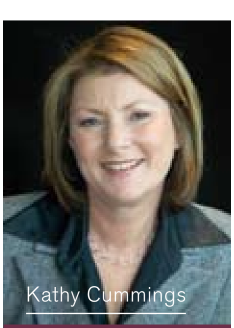
This point is important when appreciating mortgage insurer/lender dynamics. The role of the insurer, says Hall, is to understand the objectives of its customers, and then design specific solutions that are tailored to meet their needs, whether through products, processes or other services.

Considering the growth of Genworth in Australia, this focus on engaging customers as partners has certainly been effective, no more so than in two of its most established lender relationships.

Solid roots

Since 1965, when the insurer first entered the Australian market, it has insured over $300bn in mortgages, working with 250 lenders. Interestingly, the business has existed in a number of guises – one of which was as the mortgage insurance arm of General Electric (GE) before it was spun off into its own separate entity Genworth Financial.

US entity Genworth Financial Inc purchased GE Mortgage Insurance along with GE Capital Mortgage Insurance Corporation in 2004. For Hall, the transformation of the business from the parent GE ownership to Genworth has been a relatively straightforward process – although one with a number of challenges that have been worked through and overcome, eg, there has been some confusion in the market by way of Genworth's ownership.



Kathy Cummings

Genworth has never been part of GE Money, which is itself a relatively new amalgamation of a number of associated Australian GE financial services businesses, including mortgages, credit cards, personal loans and white-labelled finance.

"Communicating to the market that Genworth and GE Money are two very separate entities has been a challenge, particularly since we work in close partnership with GE Money to insure their mortgages," says Hall.

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Tight working arrangements are very common within this sub-sector of the industry because of the synergies and efficiencies they offer both lender and insurer.

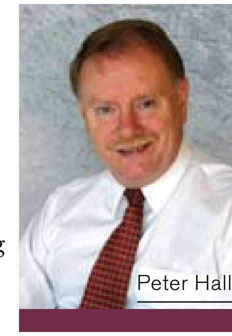
In addition to GE Money, Genworth shares a number of other close relationships with a range of lenders, from both the ADI and non-bank lending sectors.

In the early days there was some confusion between the two brands, which has more recently been resolved and both businesses are now largely recognised as independent entities.

As is often the case with a challenge, this situation also offered opportunity and Hall is quick to point out that the GE pedigree has been an asset to help shape the identity of Genworth in Australia.

"We have been focused on creating our own culture while still retaining some of the best practices of GE," says Hall.

"Like GE, we invest heavily in our people through training and development, and through creating opportunities for career progression," Hall says.



Peter Hall

"Since our split from GE, we've fostered a high-performing culture focusing on customer needs," he adds.

In terms of confusion in the marketplace over the two brands, Hall says that it takes time to build brand recognition. "But I'm pleased to see very positive results in our recent brand equity score – I'm hoping this trend will continue."

Mark Rice, GE Money Third Party Solutions' managing director, says the relationship the lender shares with Genworth is based very much on leveraging each business' core strengths and working closely to ensure brokers can offer the best possible service and products to their customers.

GE Money's third-party operation takes to market a number of products including branded prime and non-conforming mortgages as well as white-labelled origination services via its wholesale mortgage program.

The relationship the lender shares with Genworth has facilitated the growth and development of all these product offerings, working to position products to meet the needs of its customers.

GE Money's recent re-launch of its range of Flexible Options prime mortgages is testament to the level to which a lender and mortgage insurer can work together to build competitively priced and well-positioned products.

"Because of our close working relationship with Genworth, we

Mark Rice

can produce products geared for our market segments and have a two-way dialogue to ensure communication channels are open and effective," Rice says.

"The relationship with Genworth has obviously changed over the years since the insurer split away from our parent company GE.

"However, since we work together in close partnership, I believe it gives us a significant competitive advantage just by way of how we can work on product innovation, as well as managing risk," says Rice.

Relationship dynamics

Genworth shares similar relationships with other lenders, which, according to Hall, gives them access to a range of additional Genworth add-services, such as training and development as well as access to data and research. A good example of this power of partnership is represented by the close working relationship Genworth has enjoyed with the CBA for over 40 years.

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Genworth and CBA operate under an exclusive relationship, where all of the bank's loans requiring LMI are insured by Genworth.

According to CBA's head of third-party banking Kathy Cummings, both companies are committed to engaging in quality business and building strong partnerships within the broker community.

"We've had a longstanding relationship with Genworth since 1965, which allows us to maximise the effectiveness of our broker initiatives," Cummings says.

James Sheffield, general manager of mortgage wealth at CBA, says the exclusive relationship it shares with Genworth gives the lender a number of key advantages.

As the relationship has evolved over a long period of time, systems and processes have been refined, which helps to speed the approval of mortgages should they fit the parameters established jointly by CBA and Genworth.

"This enhances our back office efficiencies, while strengthening the service proposition of our distribution channels, whether branch-based networks or via mortgage brokers," says Sheffield.

For Sheffield, "LMI is LMI". That is, the value of a mortgage insurer is the service they can offer through enhancing processes as well as sharing resources and data to better manage risk across loan portfolios.

"We've always had a very positive and productive relationship with Genworth – it's just strengthened over time," Sheffield says.

"Our risk profile and appetite for risk has not changed, we've always taken a very long-term view, which is holding us in good stead right now considering current market conditions," he continues.

"Our relationship with Genworth gives us a point of difference, as we can move faster than most of our competitors," Sheffield explains.

LMI and the role it plays as an enabler for both lenders and borrowers, while often not seen or understood, has certainly been a major boost for the broker channel.

As the third-party distribution channel goes through what is perhaps its most significant period of change to date, the evolving insurer/lender relationship will not only strengthen brokers' service proposition.

This vital relationship will also enhance lenders' product development capabilities. This, in turn, will enable lenders to continually meet the needs of brokers' clients.