

Value of a broker



Executive summary

MORTGAGE BROKERS ARE CURRENTLY IN THEIR STRONGEST POSITION FOR AT LEAST A DECADE, REAPING THE REWARDS OF YEARS OF HARD WORK SINCE THE BEGINNING OF THE FINANCIAL CRISIS. THEY ARE TRANSACTING A BIGGER PORTION OF THE MARKET SHARE BECOMING MORE SUCCESSFUL THAN EVER BEFORE.

And borrowers, too, are benefiting, from low interest rates providing some of the best deals we've seen, to a quality of advice better than it's ever been.

If brokers want this success to continue, however, they will need to face two big challenges: disruptive technology being employed by firms that are determined to change the face of the market through automated advice; and a public that remains, in many cases, poorly informed about the work of brokers and the benefits they can bring.

This new study from Legal & General sheds light on both these challenges. A survey of 1,000 recent and prospective borrowers clearly shows how brokers are delivering for their customers:

- Of those who have bought in the last 12 months and used a broker, 58% said they'd do so again.
- More than nine out of ten (93%) buyers and prospective buyers said they'd be quite likely or very likely to recommend that their friends use a broker when getting a mortgage.
- More than eight in ten (81%) said brokers were quite valuable or extremely valuable in securing a mortgage.

Borrowers also see value in brokers' ability to give them access to a wider range of products and deals (46%); providing reassurance and someone to talk to (35%); and in reducing the hassle of filling out forms and applications (33%). And they're particularly likely to use a broker for complex cases and first-time purchases: an encouraging finding in a market driven by first time buyers.

However, there are worrying signs that buyers are confused as to the broker's role:

- Only 44% correctly identified that the mortgage broker works primarily for the borrower, with more than a quarter (28%) thinking the broker works for the lender.
- Fewer than half (45%) of all buyers and prospective buyers understand that brokers will look at more products than a bank or building society.
- One in seven (14%) thinks going to the lender direct gives them access to the same impartial advice they'll get from a broker.

Brokers need to tackle these myths if they're to continue to ensure success, particularly as the market becomes more competitive.

At the moment, about half of buyers (49%) say they usually prefer personal advice for complex requirements over the alternative of using online platforms or robo advice. In other cases, though, technology looks set to become increasingly popular. Borrowers say they would be more likely to use automated solutions in a number of circumstances:

- If it significantly sped up the information gathering process (42%)
- If they got access to more products or better rates (36%)
- If it were more convenient / they could fill in the information at their leisure (34%)
- If it significantly sped up the mortgage approval (34%).

Advisers therefore need to be working just as hard. First, to develop their own digital solutions so they can also provide a fast and convenient service to clients, but also to develop personal relationships that will enable them to offer a richer, deeper level of service that robots can't match and that will ensure their continued success in future.

Introduction: Sunny side up

Mortgage brokers and their clients are enjoying something of a golden age. Brokers have seen a massive reversal of fortunes since the start of the decade, when half or fewer of mortgage sales involved an adviser.¹ Today, the figure is closer to 80%.² And the market's grown, too, from about £138 billion in lending to £250 billion over the period.³

Between 2013 and 2016 alone, the FCA estimates broker revenue from arranging mortgages increased by 53%,⁴ while the number of firms over the same period increased by less than 8%.⁵ Loans made direct from providers to consumers was down by 20%.

Brokers, then, are getting a bigger share of a bigger pie than ever before. And it remains a good time for borrowers, too. A recent survey of brokers found eight out of ten thought it was the best time ever to remortgage.⁶

It's not surprising, then, that mortgage brokers are bullish. The latest IMLA Mortgage Market Tracker found 96% optimistic about the market's future.⁷

With the quality of advice better than ever before, brokers are in a strong position for the future.

IF IT AIN'T BROKE?

That future is not without challenges, however. New and existing players are looking to disrupt the market. Online Mortgage Broker Habito, for example, raised another £18.5m⁸ in its recent funding round and has launched a TV advertising campaign.⁹ As the adverts point out, Habito still use a combination of technology and brokers, but for how long? In the US, Blend Labs has raised over \$100 million to develop software that allows its lending partners to take online applications direct from borrowers.¹⁰

And it's not just new technology, but also old myths that threaten brokers. A new study for Legal & General shows that, while the value of brokers is well recognised by many customers, misconceptions and ignorance of the benefits they bring remain widespread. A survey of 500 borrowers who have bought a home in last 12 months and 500 first time buyers who plan to buy in the next six shows many still don't realise the value a broker can add.

Brokers will need to address these myths, as well as the technology challenge, if they're to continue to see success.

SURVEY FINDINGS: Satisfied customers

The survey confirms that the vast majority of brokers are doing a good job. Of those who have bought in the last six months and used a broker, 82% said they'd do so again. More than nine out of ten buyers and prospective buyers also said they'd be quite likely (49%) or very likely (44%) to recommend their friend use a broker when getting a mortgage.

That's a ringing endorsement of the industry and a reflection of buyers' respect for brokers' work and advice. Asked to rate how valuable brokers were in securing a mortgage, more than eight in ten said a broker was either extremely (27%) or quite (54%) valuable.

These good opinions count. Of the many reasons borrowers have for using a broker, at least one in five (20%) say they did so because it was recommended by a friend or family member.



82% of homeowners who had used a broker in their most recent house purchase said they would use a broker again



82% of homeowners thought the advice of a broker was quite valuable or extremely valuable when securing a mortgage

1. <https://www.mortgagestrategy.co.uk/issues/5-september-2011/cml-broker-sales-data-is-called-into-question/>
 2. http://www.mortgagesolutions.co.uk/news/2017/10/04/broker-market-share-rises-80-channel-increases-importance-lenders/?utm_source=Adestra&utm_medium=email&utm_term=&utm_content=&utm_campaign=Daily%20SP21%20SecureBank&utm_campaignid=864&utm_cmid=79547
 3. <https://www.cml.org.uk/news/housing-and-mortgage-forecasts/>
 4. <https://www.fca.org.uk/publication/data/data-bulletin-issue-9.pdf>
 5. <https://www.fca.org.uk/publication/data/data-bulletin-issue-9.pdf>
 6. <http://www.mortgagesolutions.co.uk/news/2017/09/20/best-ever-time-remortgage-brokers-worry-borrower-apathy-poll-result/>
 7. http://loantalk.co.uk/article-desc-2755_88-per-cent-of-mortgage-applications-via-intermediaries-result-in-offers
 8. <https://www.mortgageintroducer.com/habitos-jenny-watts-leaves-two-months-becoming-coo/#.We9PM2hSyUk>
 9. <http://www.mortgagesolutions.co.uk/news/2017/09/11/mortgage-broker-launches-prime-time-tv-ad-campaign/>
 10. <http://webreprints.djreprints.com/54106.html>

THE VALUE OF A BROKER

DEFINING THE VALUE OF A BROKER

What value means for borrowers varies, though. For most it includes getting access to a wider range of products and deals (53%). A range of other factors play into the decision to use a broker, with about a third of customers mentioning at least one of three other key reasons:

- Reassurance from talking to someone else (35%)
- An opportunity to reduce the hassle of filling out forms and applications (33%)
- The prospect of a cheaper mortgage in the long run (32%).

A quarter of respondents (25%), meanwhile, said that the market was complex and they wanted guidance.



53% wanted access to a wider range of products and deals



35% wanted the reassurance of talking to someone



32% thought their mortgage would be cheaper in the long run



25% said they had used a broker because the market was complex and they needed guidance.

TRICKY CASES

That need for guidance is particularly apparent where buyers lack experience or requirements are more specialised.

Overall, among prospective and recent buyers, two thirds said they would either be very likely (23%) or quite likely (43%) to use a broker. The proportion was significantly higher for first time buyers, however, with more than three quarters saying they'd be very likely (40%) or quite likely (38%) to use a broker for a first mortgage.



Buyers were also more likely to say they'd talk to an intermediary if they had a poor credit history, with 36% very likely and 35% quite likely to use a broker. Two thirds (67%) said they'd go to a broker for advice if they were turned down for a mortgage by their normal banking provider.

For buy to let customers, 27% are very likely and 40% quite likely to use a broker. 26% of customers looking for a residential re-mortgage, very likely to use a broker and 35% quite likely.

MORTGAGE MYTHS: WORKING FOR YOU?

With first time buyers amongst those currently driving the market,¹¹ the findings show that things look good for brokers. Nevertheless, there are responses that should concern intermediaries.

First, the survey commissioned by Legal & General Mortgage Club shows that customer confusion about the role of the broker is widespread. Worryingly, only a significant proportion (44%) correctly identified that the mortgage broker works primarily for the borrower. More than a quarter (28%) thought the broker worked for the lender, 12% for the estate agent, and 14% weren't sure who the broker was working for.

There was also uncertainty about the benefits a broker brings. Less than half (45%) of all buyers and prospective buyers accepted that brokers could look at more products than a bank or building society. Almost one in five (19%) thought that brokers and banks had access to the same deals, and one in seven (14%) thought the bank or building society could give them the same impartial advice as a broker.

In reality, of course, there are 29,886 products available to intermediaries and just 3,721 direct only products.¹² Of the latter, the lender will be recommending on only their own products perhaps choosing from a range of a dozen products as opposed to hundreds or thousands through a broker.

The findings suggest brokers have significant work to do to get this message across.

11. <https://www.aol.co.uk/money/2017/06/13/first-time-buyers-driving-lending-momentum-in-lopsided-housing/>
12. Trigold, as of 18 September 2017

THE VALUE OF A BROKER

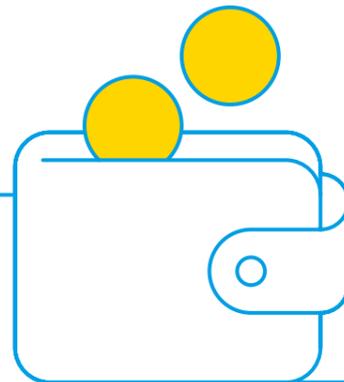
THE COST OF ADVICE

There were also significant concerns about cost of using an intermediary with 23% of respondents stating they were too expensive. A quarter surveyed said they thought it would be cheaper to go direct to a lender than use a broker, and 15% said lenders could offer better deals directly.

Those concerns have real consequences for customers:

- 23% who didn't use a broker for their purchase in the last 12 months said it was because brokers were "too expensive"
- 15% thought they'd get a cheaper mortgage by going direct to the lender
- 7% said they didn't trust fee-free brokers.

The most common reason for not using a broker given by about half (48%) of borrowers, was simply that they thought the bank or building society had offered them a good deal. In reality, it's likely that many of these borrowers may have missed out on the best deal for their circumstances, as well as the valuable advice and protection a broker can provide.



23% thought brokers were "too expensive"

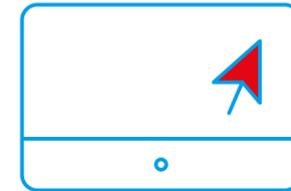
DIGITAL DISRUPTION: TECH CHALLENGES

More will miss out in future, too, if advisers don't address the technology challenge.

Our previous research has shown that four in ten (38%) brokers see the rise of robo-advice as the biggest threat to their business in the next three years.¹³

They're right to be thinking about it; this survey from Legal & General Mortgage Club finds that a number of factors would make borrowers likely to apply for a mortgage through an online-only or robo advice service:

- If it significantly sped up the information gathering process so they spent less time inputting personal information (42%)
- If they got access to more products or better rates (36%)
- If it were more convenient, so they could fill the information in at their leisure, and stop and start the process as desired (34%)
- If it significantly sped up the mortgage decision process, cutting the time to get an approval (34%).



This is significant given the imminent arrival of open banking. From January 2018, lenders must make their application programming interfaces (APIs) publicly available.¹⁴ The result is that technology will be able to help online advisers cover more of the market. Moreover, the data needed for the application and affordability assessments could, theoretically, be automatically taken from existing lenders, greatly increasing the convenience for borrowers.¹⁵

As the digital offering develops, the attraction of online advice looks likely to grow.

13. <http://www.financialreporter.co.uk/finance-news/over-a-third-of-brokers-threatened-by-robo-advice.html>

14. <http://www.mortgagesolutions.co.uk/better-business/2017/09/18/open-banking-going-change-everything-davidson/>

15. <http://www.mortgagesolutions.co.uk/better-business/2017/09/18/open-banking-going-change-everything-davidson/>

THE VALUE OF A BROKER

THE HUMAN TOUCH

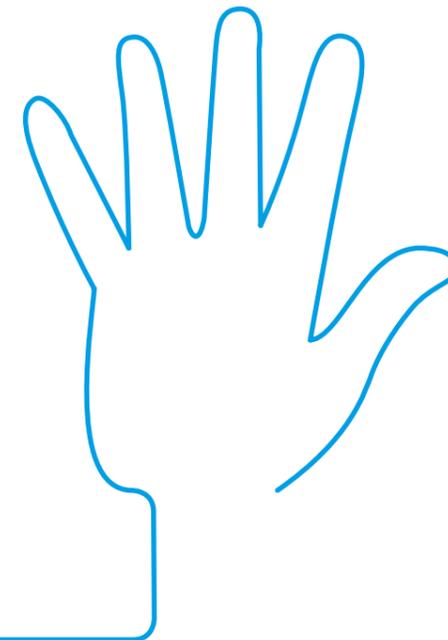
Advisers can also take some comfort from the findings, however. We found, for instance, that almost half (49%) of respondents would opt for personal advice through a broker for situations or product needs that are complex. Likewise, a quarter of respondents (25%) said they would only opt for online advice through a robo-adviser for simple requirements. In more specialist cases, then, our research would suggest that people will remain the preferred choice for borrowers seeking advice.

At the same time, however, fewer than one in ten (9%) said they would never trust a robo-adviser. As such, traditional brokers, are likely to need to embrace the benefits offered by technology in order to remain competitive.

Two things will be needed here. First, brokers will need to adopt technology that can meet borrowers' expectations for convenience and speed, without sacrificing the personal service and one-on-one advice. The evidence is that borrowers neither want just personal advice or just technology. They want advisers that use technology to make things quicker and simpler. Those that don't will therefore risk finding themselves with a shrinking customer base.

Secondly, brokers must continue to develop and maintain real life relationships with their client base to enable them to provide the holistic advice that technology cannot. Not just focusing on the mortgage process, but the deep understanding of the borrower's particular circumstances, preferences and the need to find the very best solution for them.

If they can do that, brokers' advice will remain difficult for any robot to match, and the sector can truly look to the future with confidence.



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