Mortgages, star products of online banking

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The real estate loan war, which blew up in 2003, shows that online mortgages have turned out to be one of the most attractive financial services on the Internet.

For certain products to work, to be successful, several factors must converge. Among them is the need for their existence, the interest of the users and the good health of the sector. Therefore, we could make a rough idea to explain the growing popularity of online mortgages.

On the one hand, electronic banking is one of the most dynamic factors of the Internet in Spain, as the study by the Auna eEspaña 2003 Foundation confirms. Likewise, Forrester calculates that the number of Spanish surfers using online banking services in 2004 will reach the six million mark as against the 3.2 million users in 2002. On the other hand, the “Asociación Hipotecaria Española” (The Spanish Mortgage Association) foresees that there will be an increase in information requests for mortgages in 2004, and that mortgages will grow by between 15% and 18%, exceeding one million mortgage loans. This growth has forced companies to increase their competitiveness. The Internet may be one way of doing this as, among other reasons, this means a decrease in costs for the bank and is more convenient for the user. In this context, online mortgages have shown themselves to be one of the most attractive financial services in gaining Internet customers. Evidence of this is the online mortgage war that broke out in 2003. The main incentive of online mortgages for banks is that they are information intensive products, a specific requisite for the Internet infrastructure. In this way, the Internet provides them with a channel to obtain a lot of information on potential customers, gives them access to the customers apart from providing a reduction in transaction and structural costs (employees, furniture, office space, etc.) For their part, the users appreciate the agility, convenience and time-saving of this type of online financial product. On occasions, it may even mean a saving of costs as some banks offer lower rates on the Internet.

Characteristics
As we can see, mortgages are in fact a financial product with characteristics that make it particularly appropriate to succeed on the Internet. Basically, there is an exchange of information, a certain amount of calculation and many other processes that lend themselves to automation. The customer chooses one bank or another depending on the conditions he finds and compares all the offers. The Internet makes the search and selection easy and there are even portals that gather all the information on banks in one web site. The banks, on the other hand, base their decision to grant the loan on the analysis of the financial situation of the applicant. They only need to see his/her bank accounts, income and expenses not how he/she is dressed. In other words, the loan can be granted without having to see the applicant in person.
However, if we made a quick analysis of the web sites of six different banks chosen at random, we would see that for now the likelihood of closing a mortgage on the Internet barely reaches 30% in the best of cases (taking that the chances of signing a full mortgage on the Internet equals 100%). On the least likely side to give a mortgage are Cajamar and Banco Zaragozano with 5%, while BBVA and Bankinter (20%) and La Caixa (30%) lead the more likely side. Caja Extremadura with a 10% chance are in the middle.

One of the essential requirements for this type of operation to be successfully carried out on the Internet is to extend the use of the electronic signature. This will be the only way to finalise any procedure on a completely virtual basis, without having the customer to go to the bank or the notary public to sign on paper, which up to very recently was unavoidable. In Spain, the government took a major step forward last December when it put the electronic signature on the same level as a person’s signature. Even so, for online mortgages to reach the public at large certain things must change; the feeling of security in the online method needs to improve; some deep-rooted habits must be overcome, such as the need of the customer to physically see the bank or the custom of making the down payment in cash.

What must be done so that online mortgages reach the degree of maturity other Internet banking products have?

There is a long way to go
Jorge Soley, IESE professor
The new technologies are modifying, to a large extent, the way we understand banking. Today it is possible to make a bank transfer from a WAP terminal or consult a bank balance via satellite television.
Investments in the financial sector have allowed online platforms to spring up that let us do many operations, including business services like invoicing and electronic certification. However, there is still a long way to go. For instance, electronic invoicing standards need to include the necessary information for invoicing and certification procedures, whose base is the invoice.
These are actions that, without being as spectacular as online mortgages, in the mid term they will be more decisive in the development of online banking, whose future will be conditioned by the growth in penetration of the Internet, the role played by public administrations and the regulation governing signature and electronic invoicing.

Towards an efficient integration
Arturo Derteano, Director of Financial Services at PwC
In spite of the wide range of mortgage products on the Internet, there is still quite a lot of room for evolution in this field. The narrowingness of margins forces banks to compete not only in price but also through the increase in the quality of service. In this sense, the online mortgage offer cannot be considered mature. It has to develop towards the effective integration of the mortgage process, its tools (transactional, risk management, records management) and actors (company, customer, surveyors, managers, notaries, etc.) so that the customer can feel a true advantage to doing business online. The inclusion of (BPM)[Bundling of process management] process automation tools plays a fundamental role in this much needed evolution; they let customers carry out a profound
follow-up in real time of the state of one’s application at the same time as drastically reducing the response time and making a true reduction possible in the cost of each transaction.