

# SHOULD BROKERS BE LOOKING TO DIVERSIFY THEIR BUSINESS?

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The UK's housing and mortgage landscape has seen no shortage of turbulence in the past few years, but there are signs we may be seeing some green shoots of recovery.

This July saw 62,000<sup>1</sup> mortgage approvals for house purchases - the highest level since the controversial mini-budget in September 2022 - and the Bank of England's rate cut to 5% in August has helped to buoy spirits.

However, there is still uncertainty in the market. The instability of recent years has demonstrated that change can be swift, which in turn can impact consumer confidence. While there are certainly reasons for brokers to be optimistic, in such a dynamic environment embracing new strategies is an excellent way to help future-ready your business. Diversifying can provide brokers with new opportunities and bolster business resilience.

In this article, we'll explore the why and how of diversification for brokers.

## Market dynamics for brokers

Brokers are pivotal to the distribution of mortgages in the UK. But, in the wake of the 2022 mini-budget, the resulting cost-of-living crisis and rate increases, revenue from mortgage broking fell by 13% in 2023<sup>2</sup>. The same FCA report also found that the number of both mortgage broker firms and employees fell in 2023 from the previous year: there were 1,929 firms with a total of 15,845 staff in 2023, compared to 1,964 firms with 16,452 employees in 2022.

The good news is that inflation has been showing signs of easing, with interest rates falling since the announcement of the bank rate cut in August. Swap rates, while still moving, have stabilised significantly since the worst of the recent volatility. In current conditions, lenders will continue to look at their affordability models, propositions and rates to do what they can to support borrowers while still lending responsibly. With more rate cuts anticipated, the outlook is increasingly positive.

But business remains challenging. Rather than having to wait and see whether the market heats up, brokers can take proactive steps to increase business: by diversifying their current offering.

## The specialist customer opportunity

One of the ways that brokers can expand their business and potentially increase revenue is through horizontal diversification: adding new products and services that are related to existing ones, but appeal to different customers or segments. With a growing cohort of specialist customers and underserved segments in the mortgage market, there are plenty of opportunities for brokers to tap into.

In our recent [webinar](#), Fred Hicks, Senior Policy Adviser at IPSE, discussed data around self-employment - which is on the rise again for the first time since the pandemic. While hundreds of thousands of self-employed workers left the sector early on in the pandemic, we saw a return to year-on-year growth in 2023. Fred quoted that today, '... there are approximately 4.2 million people in the UK classed as solo self-employed - many of whom face significant financial hurdles and are often underserved in the traditional mortgage market.'

Other specialist segments that could offer new avenues for growth include Buy to Let, first time buyers, and customers with less-than-perfect credit history. According to the Money Charity, 2,463 Consumer County Court Judgements (CCJs) were issued each day in England and Wales in Q3 2023 - up nearly 16% compared to the previous quarter<sup>3</sup>. It is likely that we will see further growth in the need for specialist lending solutions for this demographic.

I have heard anecdotally about a firm hiring a broker specifically because of their experience in dealing with the self-employed demographic, and of brokerages that specialise in different sectors coming together as partners to support one another's growth. Specialist knowledge seems increasingly in demand.

Brokers can also refocus on life protection and insurance, providing a wider range of support and services for existing customers. In today's market, innovation, and the ability to pivot can help to unlock progress.

## Harnessing the internet and social media

It has been said that today every company is a media company - meaning that, thanks to the internet, businesses are now able to produce and publish their own content, and in fact many customers have now come to expect this.

As brokers, your website or social media channels are often the first port of call for your customers. Research from McKinsey & Company found that 72% of customers start their mortgage journey online<sup>4</sup>, demonstrating the importance of having a well-crafted digital presence.

If potential customers are seeking out information online, it's prudent to meet them where they are. Ensuring that your website has client testimonials and information tailored to the segments that your business caters for is a great place to start.

Social media - the modern-day word of mouth - presents a real opportunity too. Brokers can build an audience by sharing updates and helpful information, and by being taggable, new customers can easily find you if you're recommended by existing customers. Proactively asking clients to leave reviews, through platforms such as Trustpilot or Yelp, is a great way to build your reputation online.

Getting curious about optimising the channels of communication available to your business can help support diversification and represents another opportunity to attract more borrowers.

## The upshot

There are signs that the economy and the mortgage market may be turning a corner, but in the face of continued instability in the UK market, diversification can offer brokers a pathway to additional income streams and better resilience.

Of course, every business is unique and will require a different approach. But I firmly believe that by considering the best strategy for their own operations, brokers can better navigate market conditions and foster long-term growth.



## Adam Sheldon - National Account Manager.

Adam has over 10 years of sales and relationship management in Financial Services, most recently as Key Relationship Manager at Legal and General. Prior to this, Adam's experience was with Building Societies, working his way from customer advisor through to branch manager before becoming a BDM, giving him a wholly rounded view of the industry, and gaining key insight into intermediaries and their clients. Joining Kensington, Adam will continue to build and nurture key relationships, underpinning the key values of Kensington as an innovative, solution-led and forward-thinking specialist lender.

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