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A SEA CHANGE IS UPON US

The need for innovation within the appraisal profession is undeniable. Valuation professionals are constantly being challenged by their clients to be more efficient, to add greater value and to charge lower fees. This reality is particularly evident in the residential mortgage financing sector where appraisals are becoming commoditized and other risk-mitigation methods are emerging that may be 'good enough' for lenders given Canada's historically low risk of mortgage default. The Appraisal Institute of Canada (AIC) Board and staff have spent a great deal of time researching and analyzing these changes, and working to develop strategies for appraisers to continue to thrive in this



changing environment. Technology is fueling this change and is one of the key industry disruptors within the financial and real estate sectors. Increasingly sophisticated automated valuation models (AVMs) that are populated with robust data and enhanced with artificial intelligence can now, in some cases, provide reliable market values in seconds. Emerging technologies are now gaining mainstream acceptance – from open banking to online lending marketplaces to block-chain technology.

Competition within the lending industry is also becoming increasingly fierce, as non-federally regulated financial institutions are poised to improve their market share at the expense of the 'Big-Five' banks. Shifting consumer behaviours, particularly from millennials who are entering the real estate market, are changing the expectations of the mortgage process, demanding it to be quicker and easily accessible via a smart device – all at a very competitive rate. Millennials' loyalty to a traditional bank is not like that of previous generations, allowing new institutions with 'deep pockets' to enter the lending industry. As the mortgage-lending industry continues to be lucrative, new risk-mitigation models are being offered to lenders. Some providers have begun offering a "revolutionary approach

to valuations in Canada." These firms offer various valuation products – from low-ratio valuation using AVMs to desktop/drive-by appraisals, as well as full appraisals that engage 'field technicians' and, in some cases, 'certified appraisers' – all at a fraction of the time, at an affordable rate and with a unique indemnity insurance to mitigate property valuation risk. If this model, and others similar to it, are accepted by regulators and the 'Big-Five' banks, the impact on the residential appraisal profession as we know it would be significant, with a ripple effect being felt throughout non-residential appraisal assignments as well.

This market reality was the impetus for AIC to proactively engage its national and provincial leadership in a facilitated workshop on February 24. The purpose of the discussion was to discuss AIC's challenges within the evolving market, as well as the potential impact of these challenges on AIC Members and AIC; and to brainstorm potential solutions for the future sustainability and success of AIC Members.

● IMPACT OF INDUSTRY DISRUPTERS ON AIC MEMBERS

During the workshop discussion, participants agreed that the industry disrupters could:

- Have a significant negative impact on residential appraisers, especially those who are not diversified and rely only on mortgage-financing assignments for their livelihood. The impact on **residential appraisers** would be a decrease in fees, as well as a decrease in mortgage-financing appraisal assignments and other point-in-time residential appraisals.
- Affect **non-residential appraisers**, but at a slower pace. There may be less demand for point-in-time appraisals and more opportunity to become real estate advisors or consultants by leveraging other professional standards beyond the real property standard.

- Affect **non-fee Members**, especially those who specialize in data gathering within large assessment agencies, who may be at risk of being displaced by technology. However, more opportunity may exist in interpretation and analyzing data and positioning themselves as real estate consultants/project managers within their organization.
- Have an impact on the competencies needed by **AIC Candidates**. AIC's current education and training may need to be enhanced to adequately meet the needs of the market in the future. Participants also discussed the potential need to redirect Candidates from the CRA stream to the AACI stream in order to ensure they have a wider range of valuation opportunities.

Participants discussed that **the future success of AIC Members lies in diversification of competencies and services. Those who resist diversification will be at risk.** They also indicated that the *Canadian Uniform Standards of Professional Appraisal Practice (CUSPAP)* provide flexibility and guidance that provide significant potential for AIC Members to diversify. There was overall agreement that members must leverage their valuation expertise to become real estate advisors/specialists, add value through thoughtful analysis of data, embrace technology to become more efficient and effective, and utilize other professional standards to diversify their practice.

● IMPACT OF INDUSTRY DISRUPTERS ON AIC

The impact on the membership will also have a symbiotic impact on AIC at the national, provincial and chapter levels. Participants agreed that, if Members do not diversify, there is a risk of a loss of membership, which will result in a loss of revenue and an inability to deliver the same level of programs and services. Volunteers for key committees could dwindle and the organizational structure would need to be reviewed to

ensure the most efficient and effective use of staff resources and technology. Professional standards will need to continue to provide strong guidance and flexibility and the professional liability insurance program will need to be reviewed to ensure its sustainability. Advocacy and communicating Members' value proposition to stakeholders is an important activity that AIC must continue to deliver.

• AIC OF THE FUTURE

Participants were asked to brainstorm what AIC should 'look like' in the future, considering the potential challenges and opportunities within the marketplace. Ideas were categorized into several topics including: advocacy, branding, diversifying services, forming new partnerships, streamlining AIC's governance and operations, facilitating innovation, flexibility and adaptability of Members, embracing technology, and reflecting the needs of the market within the accreditation program. As AIC moves forward, there are several key efforts participants identified that AIC must continue: publish and maintain *CUSPAP*, deliver a high-quality education program, respect Canada's official languages, engage high-quality staff, advocate on behalf of the membership, and, promote the value of AIC Members to stakeholders.

Participants also wanted to ensure that any future decisions add value to AIC Members, consistently deliver services and messages across the country, provide opportunities and guidance for Members to diversify and succeed, and maintain a transparent organization with a respected self-regulation process. AIC must focus on services and programs that it can successfully deliver and add value to the membership.

• RECOMMENDATIONS

Based on the workshop discussions, five recommendations were presented to AIC for further consideration.

a. AIC needs to analyze various scenarios of what the changing landscape for

residential appraisals means for its future direction.

- Scenario 1: AIC facilitates residential appraisers who choose to work within viable risk-mitigation solutions.
 - Scenario 2: AIC facilitates Members' ability to meet changing market demand in mortgage-financing sector.
 - Scenario 3: AIC lets market forces determine the fate of residential appraisers; AIC can focus on facilitating Members' success by diversifying their expertise and continue to deliver value to Members at a reasonable price.
- b. AIC needs to conduct a review of its governance and organizational structure to ensure the most efficient and effective delivery of services and programs.

c. AIC needs to refocus its resources to facilitate Members' ability to diversify their services.

d. AIC needs to explore the impact of technology on the profession.

e. AIC needs to review its education program to ensure it is reflecting the changing needs of the market.

• NEXT STEPS

Over the summer and into the fall, AIC, under the leadership of a Board-Appointed Task Force (with senior representatives from the national and provincial levels), will engage with Members across the country in order to formulate a clear path forward for our organization and for the profession as a whole. We are facing what are perhaps the greatest challenges to our profession in our 81-year existence, but I am confident that we are up to the task. I look forward to soliciting your input into the process. 📌

