The mortgage journey continues

Improved technology and better client experiences.

Iress Mortgage Efficiency Survey 2020

Foreword

An unprecedented response in unprecedented times

Welcome to the 2020 Mortgage Efficiency Survey. I would like to extend my appreciation and thanks to the many lenders that have made the time to participate this year and I hope you all find the following report as illuminating as I have done.

This year we significantly changed not only the format of the report but also the type of information we sought, and the manner in which we researched it. Your positive feedback on the experience was most welcome and as a result we believe we have left no stone unturned in pursuit of a 'state of the nation' narrative on the efficiency of the mortgage journey.

When we conducted this survey, we were at the beginning of the lockdown that saw the entire mortgage market close for a period of weeks – an event not experienced before in any of our lifetimes. The scale of the government's response, which included measures like mortgage deferrals for borrowers, furlough for many, and a Stamp Duty holiday, has hugely impacted the market going forward in addition to the new norm of working at home for so many of us.

Thankfully, video-conferencing meant we were able to get in touch with even more of you than ever before and find out not only how your processes had been working to date but what impact the pandemic and the measures we have all taken to one degree or another had affected your businesses and your plans for the future.

I trust you will all get something important and useful out of this report and please do get in touch if you'd like to go through any of the themes in more detail.

Thank you.

Steven Carruthers
principal consultant (lending)

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Introduction

The mortgage journey continues

Our report aims to shed light on lenders' use of technology to support the origination and writing of mortgage business, and to uncover the issues that affect and define efficient lending.

It is an annual investigation to understand the commonality of experience among lenders and the difference of approaches employed. For our audience, the report is an opportunity to look beyond their own businesses to contextualise their performance in the wider market. The research specifically looks at the process of lending from sales, through origination then to completion, as well as the business and technology issues that impact lenders' ability to administrate that journey efficiently.

The purpose of this paper is to lift the veil on how technology issues and automation can impact lenders' mortgage processing across pre-origination, DiP, application, offer, post offer and completion.

We use the term 'mortgage efficiency' in the context of originating and writing loans. We do not look at post completion servicing elements such as redemptions or arrears. While lenders did refer to third-party integration for sourcing business, progress in this area is sporadic so we have concentrated on those areas of activity common to all lenders and have reported on APIs in this context rather than making it a specific area of research.

We have endeavoured to speak to as broad a sample of lenders in the UK as possible.

FOR SALE
SOLD
FOR SALE
FLAT 2

Methodology

Open dialogue with video interviews

We interviewed 36 lenders, representing every type of institution whether by organisation type, size of balance-sheet, lending market or business model.

The 45-minute video-conference interviews were qualitative and this approach allowed for a more open dialogue. In order to get a frank appraisal of lenders' positions, thoughts and views, interviews were conducted under strict condition of anonymity.

Scores reflected not only the perceived firms experience but crucially the experience and expectations of the individuals who participated. Many interviews included more than one respondent while other single more senior respondents often 'spoke for' colleagues with specific responsibilities for areas such as operations or underwriting.

Occasionally some who scored their own organisations lower were in firms that were comparatively further ahead of their peers but had higher expectations of automation. Nevertheless, time and again the same areas of common experience and frustration were raised even if responses, priorities and solutions were more specific at an organisation level

Peer groups

Responding firms were placed in peer groups so lenders may more readily understand their own place among similar firms. This helped to give an overall picture and a more nuanced insight into the issues, as well as strategies and solutions adopted by lenders to address these.

High-street lenders
Typically banks lending over £4bn per annum, wholesale and retail funded, established with some legacy technology. This group comprises of 6 firms.

Larger societies
Typically larger building societies with gross mortgage lending over £1bn but under £10bn per annum, retail funded only, with some legacy technology. This group comprises of 5 firms.

Challengers and specialists
Typically newer institutions with under £1.5bn of lending per annum, wholesale or retail funded, and fewer legacy technology issues. This group comprises of 11 firms.

Smaller regionals
Typically smaller building societies lending under £1bn per annum, retail funded and with legacy technology issues. This group comprises of 14 firms.

Areas of enquiry

Our initial questions covered the mortgage origination to completion process. Subsequent questions focused on how technological change has impacted businesses, and whether larger issues were accelerating technological change and any process risks.

Market at a glance

Unprecedented times

The pandemic and subsequent lockdown from the middle of March has meant that, at the time of the interviews, typical data was unavailable for much of H1 2020.

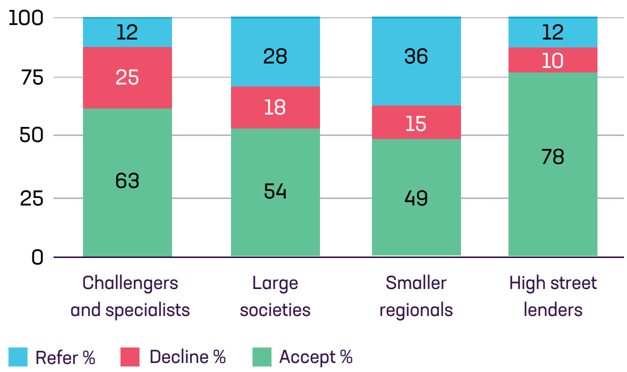
The situation has dramatically changed the operational landscape, attitudes and strategic priorities for technology investment. The infrastructure required to support working from home, and the need to divert resources to address mortgage deferrals and furlough earnings has highlighted the weaknesses of certain processes, the improvement of which might otherwise have been considered less urgent. For some, it has meant effectively re-underwriting vast numbers of cases, a significant impact on capital and cash-flow, and the logistical challenges of tactically promoting and withdrawing products at short notice.

For the most part lenders shared 2019 data, though occasionally offered rolling year data to the end of March 2020.

With one exception, all lenders relied heavily upon intermediated distribution and this was never below 75% of their applications and more frequently upward of 80%.

Decision to accept, decline or refer from Decision in Principle

In terms of processing decisions from their Decision in Principle (DiP), the four peer groups reported as follows.



We make four observations of this data;

1. When applications are made to challengers and specialists, their efficiency is helped because brokers, who are their principal distributors, know they are going to the most appropriate type of lender for that business. Newer technology employed by these lenders means that they can and choose to automate decisions (pass or fail) more than other sectors.

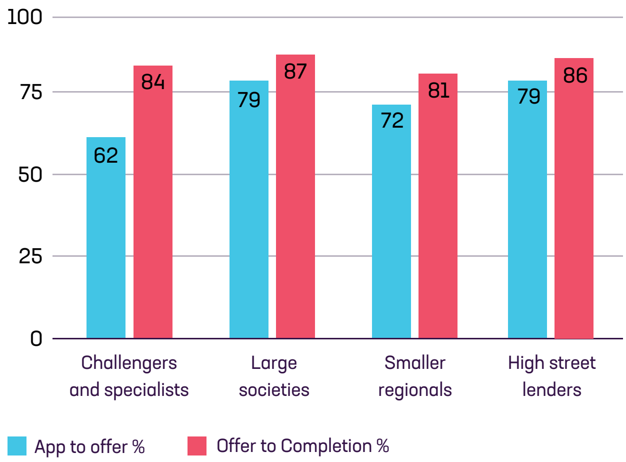
2. Smaller societies maximise opportunities in niche and more complex areas but have more legacy system issues to combat so use manual underwriting for more cases to write better margin business. It is worth noting that in our conversations even those lenders with the technology to automate often expressed a desire to retain manual underwriting capability.

3. High-street lenders receive a greater amount of lower LTV business, much of which is automated and hence the high pass rate at DiP. Interestingly, in our interviews these lenders described an increased requirement to manually underwrite more complex applications as a direct result of COVID-19.

4. Larger societies occupy the efficiency and risk territory currently between the high-street and the smaller societies and challengers and their conversion rates reflect this.

There is much more commonality when it comes to processing applications to offers and from there converting to completions.

Conversion rates - App to offer, offer to completion



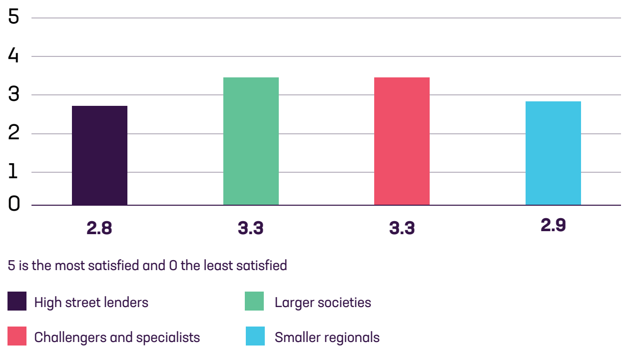
Lenders' processes post-application may differ in levels of automation, but they drive remarkably similar outcomes in terms of conversion rates across all groups. This is also reflected in the scores for the offer and completion processes detailed later. The lack of investment and more manual nature of the process post-application suggests a focus on sales, market share and lending targets as well as the complex nature of the home-moving process continue to be a deterrent to improvements post offer.

Pre-DiP and affordabilty

Pre-DiP and affordability

We asked lenders about the level of automation and technological integration in their initial interaction with intermediaries and borrowers through affordability calculators and scored lenders' satisfaction with their own process.

Overall satisfaction score across all lenders: 3



In most instances, affordability calculators do not go beyond residential repayment and buy-to-let. Few responders were effusive about what they currently made available. Key to the affordability decision is a rudimentary gathering of client income and expenditure data. The expenditure data is sometimes calibrated against a data feed, typically from the Office of National Statistics (ONS). A minority of lenders reported that they would not request expenditure data but use only the ONS file. In most cases the calculator was standalone, very often built in Microsoft Excel and hosted on the lender's own portal. Where a lender's information or calculator does inform third-party sites, we did not encounter any examples of integration that were anything other than one-way from the lender to a portal or hub.

A complex calculation

This area of the process scored lowest with lenders but is the focus of much attention going forward in terms of solutions for interfacing with sourcing and other eligibility solutions, or propensity-to-lend platforms. Several lenders had successfully integrated the calculators with their DiP and some were comfortable contemplating the notion of a universal DiP but others saw the security, technology and data difficulties of doing this as being too onerous. Specialists with niche products had no appetite to integrate and continue to provide, and host, their own models for lending areas such as shared-ownership and self-build which do not lend themselves to easy calculations.

Can we trust the data?

Lenders reported that their affordability calculators constantly made them question the efficiency and validity of affordability decisions. They are a 'ready reckoner' for the intermediary or borrower and the lighter touch the better. At least one lender recognised the problem with checking supplied data from borrowers against ONS data only to raise more queries if there was a discrepancy with the borrower supplied data. For some, however, this is a necessary evil given the inherent issues with the timeliness, completeness and accuracy of data sources where a time lag could misrepresent borrower's potential circumstances to their gain or detriment.

Other data sources, such as Open Banking, were thought by most to not be worth the difficulty of obtaining a borrowers' permission given the other sources available. Where banking details are readily available in the lender's own system, this data is often used. This view of Open Banking was mixed with at least one challenger bank looking to pilot Open Banking imminently and other lenders acknowledging the perceived benefits in the medium to longer term.

Integration headaches

The pre-DiP stage is the poor relation in terms of technological achievement for the vast majority of lenders but this is not to underplay its significance as the original point of entry for intermediaries and borrowers. There is a general acceptance in the overall scoring that this process is not as efficient as it should be. Some calculators do prompt other products in the event of an 'affordability fail' but this was the exception to the rule and often only available on lenders' own sites.

With regard to third party integration, many lenders are wary of partnership with external suppliers who require any type of access to their systems and platforms. For many there is a pressure to 'back the right horse' when assessing the value of building application programming interfaces (APIs) and the strategy for all is to connect with strategic distribution partners to manage the amount of integration work.

Lenders cited the difficulties of integrating with external third parties. One example given was that 'one will ask for the age of children, another will simply want to know how many children there are and a third will ask for the dates of birth of any children'. Having no data standards or uniformity in the UK is a constant frustration for lenders. Equally the delays in updating information held externally on product or criteria sourcing platforms (with up to 48-hour lead times for updating) understandably leads to frustration from brokers. As one lender remarked, 'in the current market, if you want to know what we have available you have to look at our website. A less than efficient process if intermediaries are sourcing multiple lender products to find the most suitable for their clients.'

However, this state of affairs is not one that anyone felt was likely to persist. The current crisis and consumer expectations will mean that in the words of one lender, 'the market will change for us rather than we will change the market'. This point was echoed by another lender who said, 'it is possible that technology will change not only our business but also our distribution'.

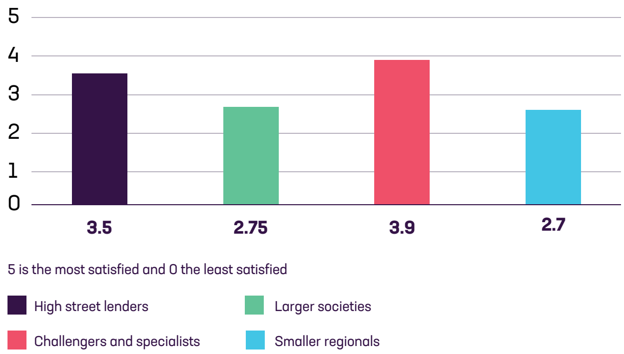
The pre-DiP affordability stage registered the lowest score in all parts of the process journey – and is the focus of much attention for interfacing with sourcing systems. This piece was often highlighted as a key point of future integration with lenders' own DiPs. For now, most are stand-alone, necessitating any information collated at this point to be rekeyed or re-sourced at DiP stage.

Decision in principle

Decision in Principle

We asked lenders about the level of automation and technological integration in their decision in principle process and assessed lenders' satisfaction with it.

Overall satisfaction score across all lenders: 3.2



At Decision in Principle, the level of information requested and referenced varies tremendously. Lenders are in many cases still using 'hard' credit searches – cited by one as a legacy from locking in borrowers in earlier times. The DiP is evolving and while it still does not guarantee a decision to lend it is seen as being instrumental in giving borrowers and their intermediaries certainty of a willingness to lend. Indeed, a common complaint from lenders was when this willingness turned out not to be the case later, it injected huge inefficiencies into the process and caused issues among intermediaries.

The cracks begin to show

The levels of satisfaction among lenders diverge across the peer groups. What comes over loud and clear is that a lot of time and effort is going into the evolution of the DiP to deliver a quick decision that offers certainty. Rekeying remains an issue for the lenders who have not been able to upgrade their systems. But even those with more automated DiPs point out there are still inadequacies where, for example, they cannot track multiple DiPs on their own portals that had been made to 'get the right decision'. The use of the hard footprint by organisations large and small is surprisingly prevalent at the DiP stage though at least two lenders acknowledged the time had come to change and that this may be driven by DiPs becoming available on other portals or aggregator sites. The hard footprint DiP is unhelpful in the event a borrower needs to try multiple scenarios. One lender remarked on the irony that 'hard searches' offered the certainty that many wanted in the event of a pass but that they precluded borrowing in the event of a fail.

Getting the borrower story straight

The key issue is around how much information lenders request or reference to give a solid decision. Many lenders, in part as a result of Mortgage Conduct of Business rules, request a lot of client information. Newer institutions are far more comfortable referencing external data. Most do both as part of a credit risk procedure but many of them felt this was not efficient, created more credit enquiries, and was onerous for intermediaries and clients.

The level of information required depended on the distribution channel. Two larger lenders reported that they maintained a tighter DiP and application model for direct business in terms of the evidence they required, as intermediaries are assumed to have done appropriate checks.

Getting the right product at the right time

The communication of product pricing and criteria information across multiple platforms (where some providers offer 48 hours SLA to update) is a growing frustration for lenders who can have up to a dozen external hubs to update. But one lender, whose DiP was light touch by comparison to many, mooted the idea that with soft credit searches there was no reason why hubs and aggregators could not offer a one-stop DiP for intermediaries and borrowers – even if this was eventually a precursor to a reverse auction.

Full mortgage application

We asked lenders about the level of automation and technological integration in their full mortgage application process and assessed lenders' satisfaction with it.

Overall satisfaction score across all lenders: 3.3

By this point most lenders have soft 'approved' the borrower(s) subject to full underwriting and any further income and employer checks. For those lenders (the majority) that have conducted a 'soft' credit search this will become a hard search and information about the property security will be requested for property checks. Very few lenders do not conduct automated identity checks now, and some are using automated income checks. Almost all will request information about employers and use automated IDV (some use applications such as DocuSign to facilitate applications) and provide portals for intermediaries for the upload of documents such as P60s.

One lender does outsource the fee collection for the valuation. Many lenders utilise 3rd party integrations to valuation panel managers. Often, valuation and product fees are processed in-house but many lenders do not have joined-up systems for this. Where necessary, lenders circumvent the issue with fee-free products.

> **One lender described their business as 'we are what we write' highlighting that efficiency for many is a debate conducted in the context of risk appetite."**

Full mortgage application

Spending enough time on the right things

Overall 72% of applications make it to offer across the peer groups but that process is far from homogenous. In many cases it is entirely manual, particularly if that supports the lender's proposition. Many responders believe their underwriters still have to take on significant legwork to get decisions through. Most new lenders echoed this sentiment but stated that their processes are changing to remedy this – whether through the sourcing of external available data or the recalibration of credit boundaries. Some challengers felt that there was an over-involvement of underwriters in cases, highlighting that often it is not the technology that affects processing efficiency but the balance between credit risk and sales.

Making more of what is out there

The key issue for most was how to access the 'data lake' that can support underwriters and relieve them and the business of this heavy lifting to focus more on decisions. Whether that meant in effect 'greenlighting' more loans or making current nuanced cases quicker to underwrite with data support dependent on risk appetite. However, an organisation's culture is important in reviewing the processes it has. One responder intimated that it is often difficult to unwind processes created by long-serving well-intentioned employees interests.

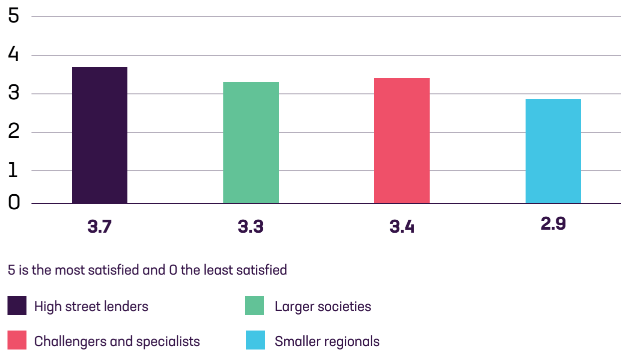
The rise and rise of the AVM

AVMs (Automated Valuation Models) have enjoyed a huge boost as a result of COVID-19, as have digital valuations though to a lesser degree, but physical valuations remain incredibly useful and desirable for wholesale-funded lenders where ratings agencies or investors want the security of a physical inspection with the asset. Lenders who have recently embraced AVM's have done so using LTV to manage any risk. Where fees for valuations were not outsourced to a provider they were administered on a separate system.

Offers

We asked lenders about the level of automation and technological integration in their offers process and about lenders' satisfaction with it.

Overall satisfaction score across all lenders: 3.3



In many instances, the process after full mortgage application becomes very manual and yet lenders' scores largely expressed increased satisfaction with the offer and completion parts of their processes compared to the earlier pre-offer journey.

The opportunities to improve processes are clear to everyone with whom we spoke. Conveyancing was highlighted as a particular challenge.

> "It does what it says on the tin."

For the most part, offers are physically posted to borrowers and while portals are frequently used to deliver offers to intermediaries, open email or post was used for solicitors. External dependencies are problematic. Many pointed out that solicitors still use fax machines and that generic email boxes are unhelpful for lender administrators chasing cases. One responder remarked that their systems were increasingly not capable of handling the 'long firm names' that frequently accompany legal entities as they merge and extend firm names.

Offers

But if it's not broken, why fix it?

When scoring this section lenders tended to be more positive despite the lack of automation in this part of the business. Many stated that since there were no complaints, it could not be that bad. And yet one lender acknowledged that the cost of keeping committed funds to the point of completion is probably considerable if not fully understood.

One responder remarked that, 'Accuracy is key as, under the MCD, you cannot take back a mortgage offer once it is issued,' yet investment in automation and efficiency in this area was considerably lower than in more 'sales' oriented parts. Even where lenders had solutions such as the ability to receive and process electronic Certificates of Title, it was not unusual for that to be on a 'to-do' list in terms of implementation.

Special conditions may apply

Special conditions, such as the need for independent legal advice, NHBC roads or a reinspection for a RIO product, are manual in most cases. A significant number of lenders had dealt with this by removing these conditions or including them in standard contracts. It is a solution that highlights efficiency is as much about streamlining processes as it is about finding a technical fix to a problem.

Smaller societies increasingly scored higher as the process continued to become much more contained.

> "We are not fully utilising the features of our originations system."

Completion

Completion

We asked lenders about the level of automation and technological integration in their completion process and about lenders' satisfaction with it.

Overall satisfaction score across all lenders: 3.2

5 is the most satisfied and 0 the least satisfied

High street lenders
Larger societies
Challengers and specialists
Smaller regionals

Untouched and unloved?

Completions for every responder are the least automated part of the process. One lender made the point that regardless of headcount or technological efficiency, as they saw it, the time to complete is not really in their hands. If timing is the measure of process efficiency then all methods produce a similar result as far as the borrower is concerned.

The receipt of the Certificate of Title is most often a manual instruction to another system and these origination systems frequently do not interface efficiently with core banking platforms. The release of funds is often manual with spreadsheets passed between departments. There were the exceptions to this but not many.

Much like the offer stage, the commonly held view is that this part of the process works as long as there are no problems (for instance from solicitors regarding property boundaries) and where issues occur, the fix is always manual. Like the offer stage again, there was a view that the low level or awareness of complaints means the process is working well enough.

Completed and forgotten?

The feedback about the completion process underscored the fact that the real investment is all in the front-end processes that support sales, market share and revenue. Issues such as the cost of funds committed to completion but not earning for weeks did not appear to be on the radar. One lender remarked that these sums might be significant, prompting the observation that when cost-to-income ratios are at record levels and margins so tight, offers and completions are surely an area ripe for innovation.

> "We don't have any plans to address the efficiency of the completion because things don't go wrong."

Plans for other services

Plans for other services

We asked about plans for the future and the current availability of certain online and digital services.

Lenders diverged enormously here. The common areas of interest included online facilities for home purchase for direct-to-consumer but far more already provided or planned to offer online remortgage for borrowers and product switch for consumers, intermediaries or via aggregators.

Product transfers for direct and intermediary channels and consumer remortgages are low hanging fruit, and nearly all lenders either had these facilities or were embarking upon delivering them. Further advances were less of a priority for lenders because of the volumes and, in many cases, the awkward behind the scenes processes already in existence.

Consumer apps were available for retail savings customers but few had plans to make anything other than mortgage balances available on them, if they were planning anything at all. No lender planned to deliver an intermediary app (one does offer an information only app) though it was pointed out by one lender that it was incredibly important for their business going forward to 'be in brokers' hands'.

Underpinning a lot of thinking was the notion that consumer behaviour might change dramatically as a result of the current pandemic but it has also quickly shifted lender behaviour. Some lenders had moved away from wet signatures and while borrowers might require advice, how and from where they got that advice might change as it was increasingly conducted remotely.

Themes for the future

When we began this survey, we decided to break the mortgage process into five parts but the responses revealed that this could instead be expressed in terms of looking at everything pre-application and very little post-offer. This reflects the fact that the most pressing priority for lenders is securing borrowers' debts and retaining market share in a market of variable transactions and increased specialisms.

We were keen to understand whether macroeconomic issues such as public health and climate change were affecting decisions to invest in technology and processes. This is what our interviewees told us:

Mortgage processing – the next move

Where lenders are in their processing and efficiency journey can be broadly categorised into three stages; those who recognise they are behind and feel they need to catch-up, those ready to make a 'quantum leap' that involves reassessing current processes and then using data to automate more of what they do, and those that are more visionary in nature.

For those lenders that are thinking about the 'quantum leap', it is clear that re-assessing processes is an integral part of moving forward. Data and technology must support a process that is warranted, not automate current poor practice. As one lender pointed out, "Why do we ask for ONS data only to not use it?" But this has to be balanced with other considerations. The personal touch is still incredibly important for many lenders.

At the time of conducting these interviews, it was clear that some standard processes do not lend themselves to these exceptional times. Physical valuations are just one example. Many processes are now being re-thought in a market of mortgage payment deferrals and furlough earnings. This prompted one high-street lender to express an appetite to conduct more manual underwriting – considered a unique selling point among many building societies. As one building society pointed out, 'We make our money in the grey.' Automation needs to accompany a recalibration of risk appetite that supports a personal touch where this is a key USP.

At a most basic level, the pandemic has undoubtedly changed hearts and minds about automation and the technology supporting working from home. More than one lender spoke of how essential changes have been achieved in record timescales – 'let's not go back to where we were'. But one was quick to point out that while in the short-term the focus had been acutely on dealing with the operational demands of now, the longer-term ambitions will need rethinking. COVID-19's impact on capital and cash-flow has meant for lenders that some 'quick fix' projects were fast forwarded but that others have been delayed. For others, the enforced lockdown had prompted a rethink and accelerated requirements to understand the infrastructure and security impacts of a significant home-based workforce as office premises are let go or are not utilised. If old habits die hard then some may have perished as a result of the pandemic with several lenders reporting they had removed the requirement for 'wet signatures'. Some have decided to fast-track investigations into Open Banking so decisions are less about the to-and-fro of information and checks could become more self-contained.

Future themes

Managing technology risk

From technical and communications infrastructure to data management, the changes in working arrangements have raised risk issues. A couple of lenders reported a rise in activities such as phishing – indeed one responder had been the victim of identity theft during the lockdown period. One responder said that in response to the issue, "'Those whose role is a greater risk at home have been prioritised in the return to the office."

One lender reported it has appointed more IT experience to its board and many pointed to the challenges of data security in a home working environment. Lenders recognise the imperfections of the home-working environment. Homes are not built to be offices and many employees do not have the space to work effectively at home on sensitive work in an environment with no domestic distractions. While many remained confident about the levels of security within the systems themselves, some reported having broader concerns around data security in the home. One lender highlighted the issue facing call centre operatives operating on domestic broadband and phone line arrangements on company business. For some employees going forward, this infrastructure may well become part of an employee's package instead of other benefits like a car.

Technology is supporting a greener agenda... for some

Many lenders have seized the current situation to fast track paperless processing and for some that was as far as any green agenda would go. But while being greener might be a by-product of saving money whether through physical resources or travel, the green agenda featured larger in the plans of some lenders' product development. Some have workstreams looking at the impact of policy decisions (such as EPC ratings affecting property values) as well as more conventional flood and subsidence considerations on the back-book values as well as new lending. At least one lender held the Carbon Trust standard and another mooted that if bond investors stipulated that greener behaviours were important to a successful securitisation, attitudes might change more quickly. The agenda split opinion between those who would fulfil the requirement if it coincided with the business direction and those that saw it as an opportunity to develop a unique selling point.

> "More points of entry mean more risk."

The changing consumer world and lending culture

Priorities have undoubtedly changed as lenders divert critical resources and investment to deal with the new day-to-day of payment deferrals and furlough earnings. One high-street lender is addressing the vulnerable customer agenda in light of the impact of the public health crisis on customers' well-being. Others pointed to the acceleration of digital solutions for borrowers and savers and reflected upon the likely future of the high-street branch in an age of social distancing. Customer adoption of technology will force lenders to join-up processes in the future – the question is which lenders will lead and which will follow and is following late a viable strategy?

Technology-first companies use their core skills, knowledge and talents and their lack of scale to re-imagine banking processes. Established lenders find this much harder. Change is invariably instigated by consumers or policy makers rather than introduced by the industry itself. There are exceptions among the lenders we interviewed but, for most, progress in the arena of third-party integration is something they believe will be more likely visited upon them. One lender observed that people are often wedded to processes especially where they have been in situ for a long period or 'brought these processes into being' themselves. For the most part lenders were content to respond to the demands of the market rather than lead it in becoming more digital though all acknowledged this will happen.

Distribution

Lenders all expressed the opinion that the pandemic had strengthened the need for advice. "There is anecdotal evidence that consumers value advice more at times like these." All lenders with branches foresaw a repurposing of these and acknowledged their distribution footprint might further change to an intermediated one in a post pandemic world where borrowers' requirements will be more complex. Every lender foresaw growth in the product transfer market and all were developing online solutions for this.

> **"Consumers value advice more at times like these."**

Future themes

Proprietary technology or outsourcing – the path to success

Either approach is valid with lenders invariably being acutely aware of the limitations of their chosen path. Where this altered was where new partners were in situ. The right partner understands the lender's goals and is prepared to implement technology that supports efficient processes - not just digitise what is already in place. Outsourcing is clearly a way to short-cut hefty internal development investment. Internally-led approaches can create significant pinch points making meaningful change very difficult if resources are required elsewhere. Acquiring and building internal resource can also be expensive. One lender observed that system upgrades are a rolling work in progress and that the competitive advantage of any new system is on a count down from the minute it goes live. This illustrates an interesting divergence from other technology-led lenders for whom technology is business as usual and a constant work in progress – not a project which is 'done' as soon as it is delivered.

When the volumes do not justify the investment...yet

Many smaller lenders highlighted how their need for automation had to complement their market approach and need for a personal touch. Businesses do rightly justify manual processes until a 'tipping point' is reached. That the high street is possibly adopting more manual underwriting practices might ring alarm bells for lenders for whom this has been a point of differentiation but any further automation has to maximise its value at the requisite scale but also be flexible and precise enough to deliver nuanced outcomes that support lender strategies going forward.

Are we nearly there yet?

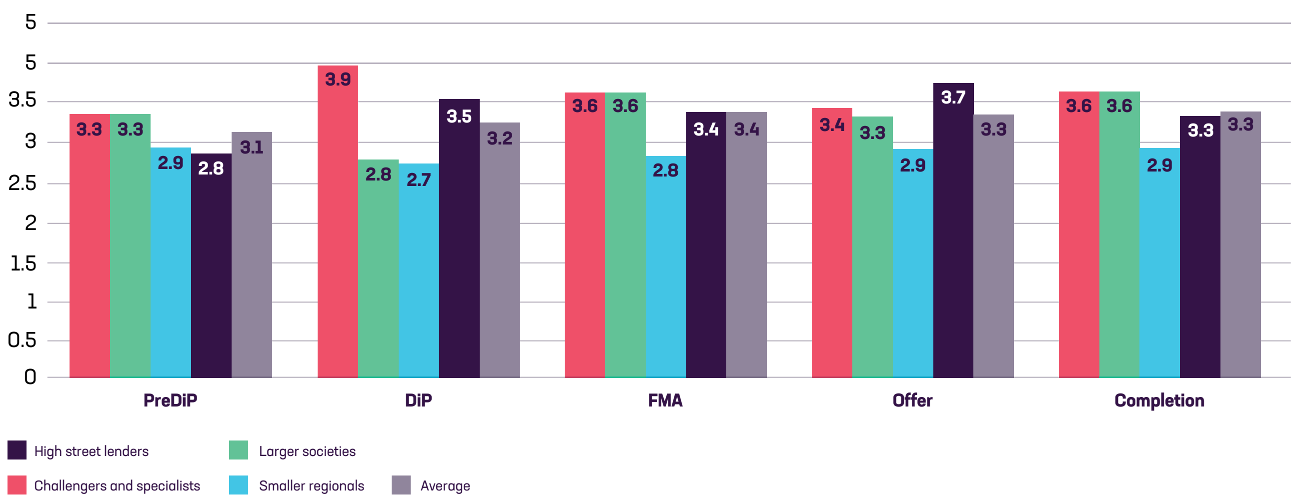
Our survey has underlined the fact that while lenders face common issues, the solutions are very often different and nuanced. We created peer groups in response to lenders' requests from the last survey but even within these groups the legacy, heritage, ambition and remit of these lenders can vary enormously. Comparisons can be reassuring and worrying in equal measure but our interviews highlighted how resilient all these institutions are.

As we went through the mortgage process, lenders' confidence as a whole across the groups generally improved as APIs and external dependencies diminished. This in part was due to the perception that fewer people complained, but it highlighted a universal nervousness around integration of systems with external providers. There is a relationship between 'external data dependencies' and lenders' happiness with origination and underwriting processes.

While individuals scored their institutions from their own personal perspective it is clear that, when we compare the peer groups to one another, a larger balance sheet or little legacy technology hugely affect lenders' views of themselves and their satisfaction with the level of automation they achieve.

The ambitions and concerns of the peer groups reflect their risk appetite and their ability to drive the change they want to see. The elimination of rekeying remains an ambition for many, others are re-examining processes before making the next 'quantum leap' in efficiency and will use technology to access more data sources and support decision making.

Scores across peer groups



Conclusion

Some attitudes are commonly held, ambitions less so and yet the pace of change is quickening in lending. The nature of debt means that it is not a product like others but neither is it a market acting in isolation. How lenders deliver their debt to market is likely to change quickly and some lenders are starting to envisage quite radical futures. All seek to balance the desire to lend against the need to lend responsibly and in a manner that is true to their core purpose. Ambitions and timetables are underpinned by the viability of balance-sheets and by people to deliver.

The ability to automate and conduct manual business is increasingly important across the groups – the key for each is to understand what type of lending requires which approach. The ramifications of COVID-19 have caused everyone to re-assess the value of manual underwriting for their busines. But we also know not all underwriting can and should be manual. The hand-off points are still being worked through but technological automation will support those new processes whatever their shape and size.

Average score across the process

The digitalisation of the consumer world in every other walk of life will drive the re-invention of business origination which will increasingly be online. Interfacing with third parties through APIs will eliminate many current frustrations and inefficiencies and will be the focus of more effort going forward across all the groups.

It is worth noting that lending over the last 20 years has been driven by supply side dynamics; liquidity and funding, fiscal policy events, and regulation. The process has been largely unchanged over this period so the technology supports what has always existed. What is starting to happen is two things, the first is the advent of a more digital world and the second is the re-imagining of mortgage processes.

Our conversations with the market have revealed that while lenders grapple with the issues of the day they are largely following broader trends meaning it is less a case of whether some of the changes in this report happen but when, and on what terms, lenders engage.

Our next survey will provide validation of some of the views within this report as well as highlighting emerging trends over the remainder of this year.

Participants

36 lenders with a combined gross lending of circa £153bn*, and a market share of 58%*, participated in the 2020 survey. They represent a cross section of the UK mortgage market from challenger banks, specialist lenders, large national and small regional building societies and high street banks.

Aldermore; Atom Bank; Bluestone; Buckinghamshire Building Society; Cambridge Building Society; Coventry Building Society; Cumberland Building Society; Darlington Building Society; Dudley Building Society; Fleet Mortgages; Foundation Home Loans; Furness Building Society; Hinckley & Rugby Building Society; Landbay; Leeds Building Society; Leek United Building Society; Marsden Building Society; Masthaven; Molo; Natwest Bank; Nationwide Building Society; Newcastle Building Society; Nottingham Building Society; Principality Building Society; Scottish Building Society; Shawbrook Bank; Santander; Skipton Building Society; The Co-operative Bank; The Mortgage Lender; Tipton & Coseley Building Society; TSB; Vida Homeloans; Virgin Money; Yorkshire Building Society; West Bromwich Building Society.

(*Based on 2019 figures taken from UK Finance Largest Mortgage Lenders Table MM10G and lenders annual trading accounts)

Iress has taken all reasonable care to provide clear and accurate statistics based on the data provided by each participant. Please note that the data provided by the participants has not been independently verified.

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Appendix

The mortgage journey continues

Improved technology and better client experiences.

A better mortgage experience.

Iress' strategic commitment is to make the mortgage process easier for everyone. Our software helps lenders and intermediaries give their clients the best mortgage experience through an efficient, connected journey from sourcing to completion.

Powering lenders who process one in three mortgages in the UK, and recognised as the most advanced end-to-end system of its kind, our mortgage sales and originations software reduces the constraints of legacy systems and is transforming the way lenders of all sizes do business.

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