Change is inevitable, progress is a choice

Mortgage Efficiency Survey 2018

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Findings at a glance

In the 2017 Mortgage Efficiency Survey, we explored whether mortgage tech would power 2018. We predicted continued growth in digital self-service offerings and the removal of manual processes to simplify and speed up applications for intermediaries. This year's survey confirms that innovation is racing up the industry's agenda. Lenders, intermediaries, regulators and emerging mortgage fintech companies are all looking to technology to improve the market, increase efficiency and guide consumers to more effective choices. Mortgage technology has really come of age.

The rise of mortgage tech

- Open application programming interfaces (API) are expected to provide the most transformative efficiency gains over the next three to five years.
- Half of the lenders are implementing, likely to implement or actively reviewing open banking functionality within the mortgage sales process.
- Over half of lenders provide online product switch for both consumers and intermediaries and almost a quarter plan to offer the service.
- Three out of five lenders are investing in mortgage hub technology.
- Online service provision for intermediaries is increasing with three out of five lenders providing, or planning to provide, online further advance services.

Consumer demand driving change

- Almost half of lenders are actively reviewing or planning to implement voice activated services.
- More than eight of ten lenders have already implemented or are considering offering mobile services to mortgage applicants.
- Over half of lenders are actively reviewing, likely to implement, or implementing instant messaging for both consumers and intermediaries.

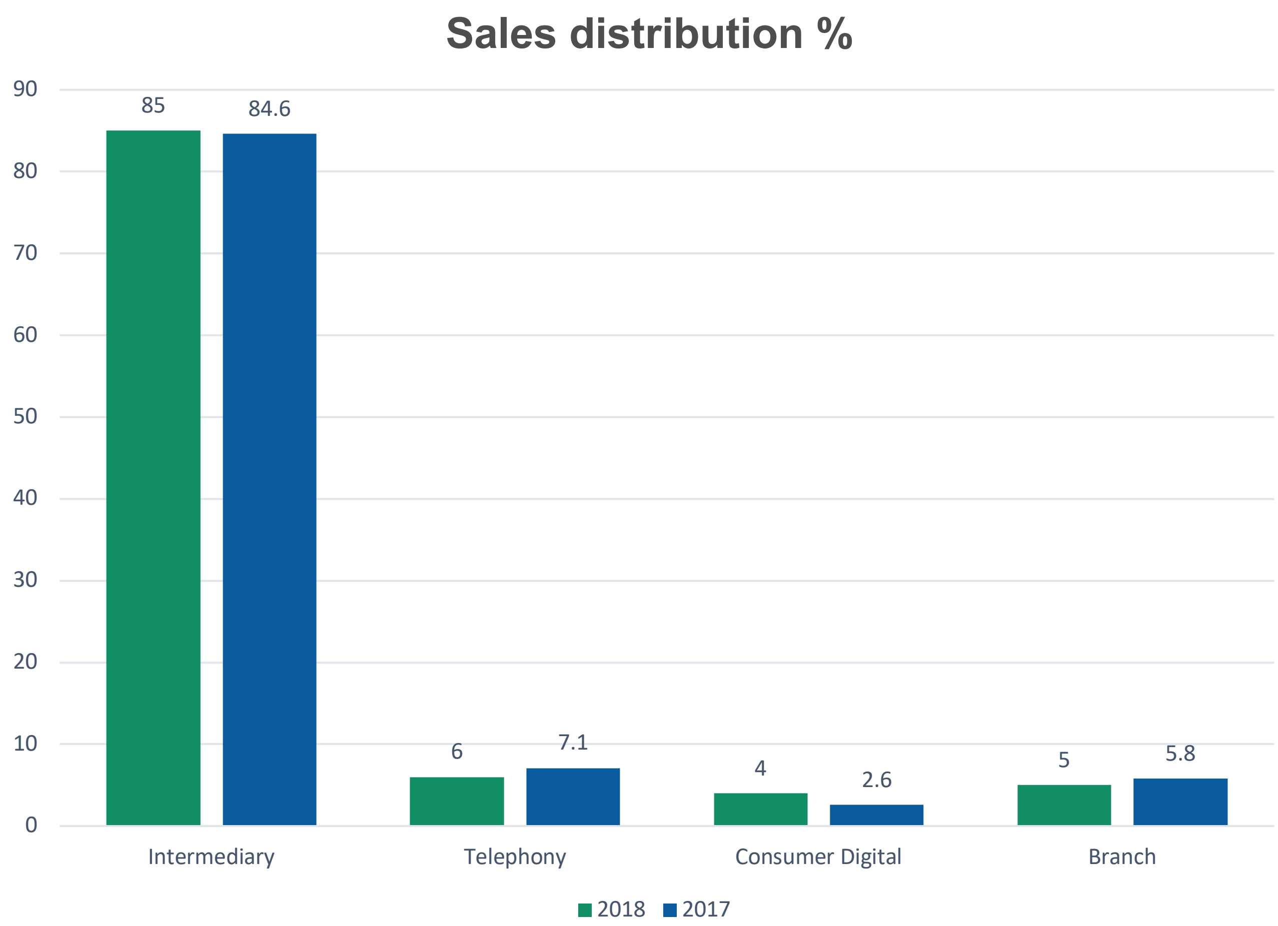
Market overview

- The intermediary channel continues to dominate the mortgage market, with more than eight out of ten mortgages sold through intermediaries.
- Switching a client's mortgage product makes up to three quarters of existing mortgage business activity.
- Six out of ten intermediary applications get an initial accept decision compared to five out of ten direct applications.
- The percentage of offers made in five days or less has doubled from 2017.

We hope you enjoy reading the full report.

Sales distribution

Distribution through intermediaries, at 85%, continues to be the main route to market for most lenders.



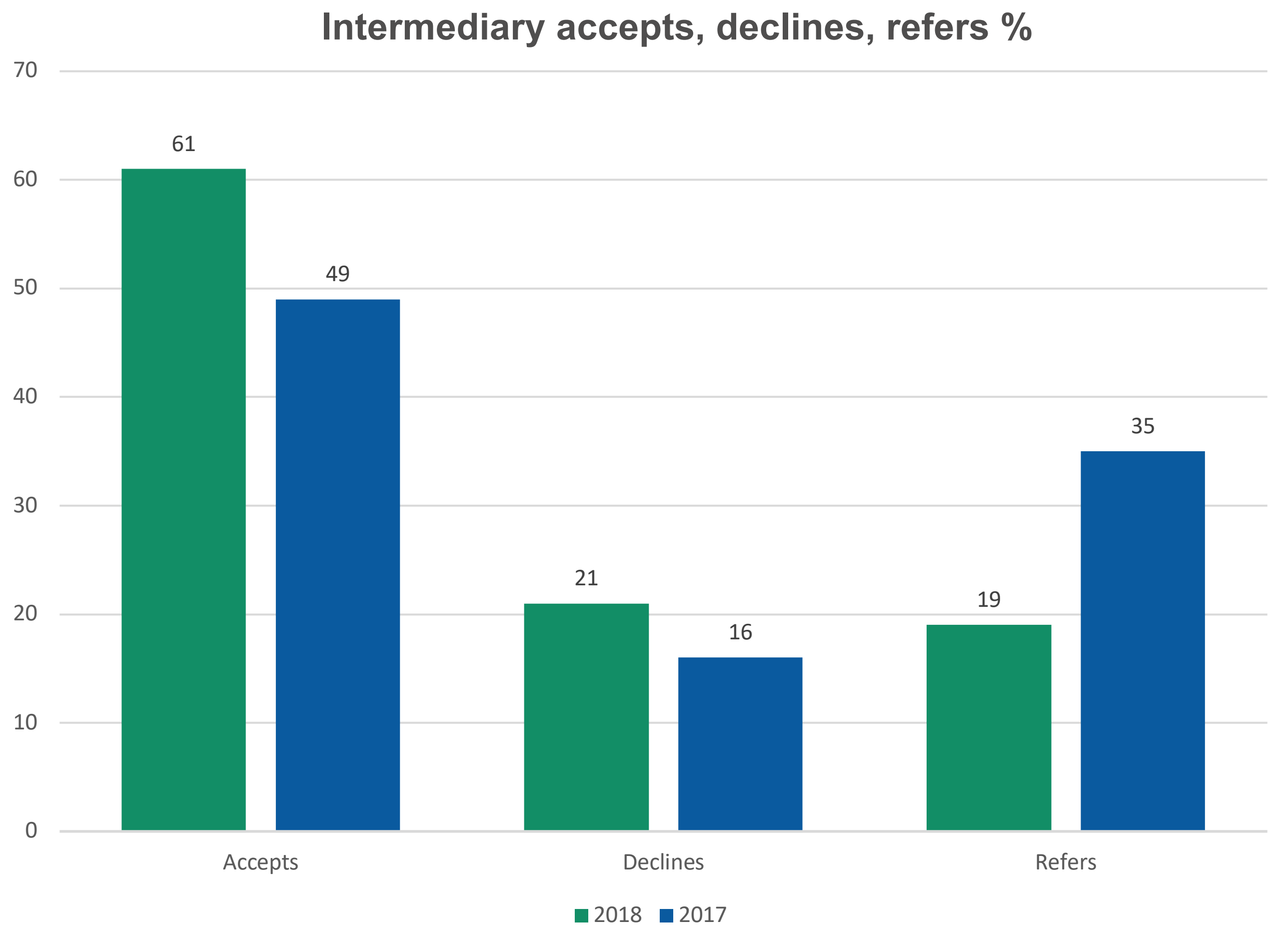
Consumer digital sales have seen a significant increase of 54% from last year, albeit to just four percentage points.

Product switching

Switching a client's mortgage product, typically at the end of a preferential term, is the largest part of existing mortgage business activity for lenders, on average 72%, with further advances 14% and other transactions 14%. Recent UK finance data indicates the product switch market is worth over £200bn.

Accepts, declines, refers

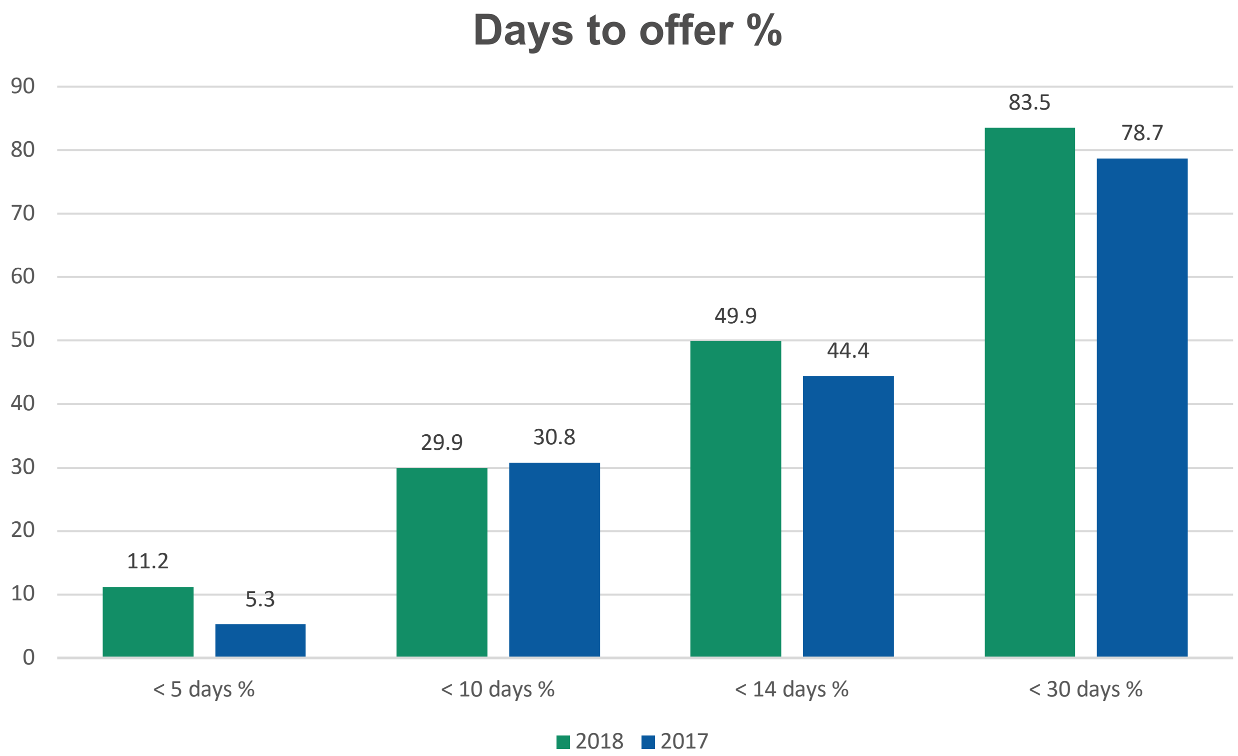
Securing a decision in principle accept for an application is a key point in the mortgage buying process, both for mortgage intermediaries and applicants.



Accepts in the intermediary channel increased by 24.5% from 2017 to 61 percentage points and refers decreased by 46% to 19 percentage points. In the direct channels, accepts of 49.5%, declines of 14.5% and refers of 36% are almost unchanged from 2017, as are accepts of 52%, declines of 31% and refers of 17% for the Internet channel.

> Direct channels have the highest referral rate of 36%.

Days to offer



Although offers in less than 10 days have dropped slightly from last year, each other time band has seen an increase of the percentage of offers issued. After a dip from 2016, offers issued in 5 days or less has seen the largest increase, at 11.2%, more than double from 2017.

There have also been increases in the percentage of offers produced in 14 days or less and 30 days or less, by 12% and 6% respectively.

> The percentage of offers made in five days or less has doubled from 2017 to 11.2%.

Emerging technologies

Digital online services

Half of the lenders (50%) in the 2017 survey said they offered or were about to offer digital self-service propositions. This year the survey looked at digital services in more detail. 43% of respondents offer online house purchase and remortgage services and another 5% are planning to offer these services. But fewer lenders, just 23%, plan to offer a mobile app for mortgages.

55% of survey respondents offer online product switching for their existing customers and another 23% plan to offer the service.

Online service provision for intermediaries is increasing with 18% of respondents already providing further advance services and another 41% planning to offer online further advances. 50% of lenders provide online product switching to intermediaries with another 23% planning to offer the service.

> Half of respondents offer online product switching to intermediaries.

Voice activated services

Voice-powered devices like Amazon Echo and Google Home are changing consumer behaviour. Google says more than 20 percent of searches now happen by voice and expect that figure to reach 50 percent by 2020. So, it is no surprise that banks and building societies are investigating how they can use voice technology to engage with consumers and mortgage intermediaries.

Around a third of respondents are actively reviewing or considering voice activated services and 14% are planning to implement voice activated services. But over half of respondents (54%) are not considering voice activated services.

Lenders commented that voice services could reduce time to verify a customer and route an enquiry to the relevant mortgage agents and also support customer engagement preferences.

Mobile services

Mobile services in finance continue to grow, becoming a ‘bank in your pocket’ and replacing your credit card at checkouts. In the mortgage world, successive IRESS surveys have shown a steady increase in mobile service provision for both consumers and mortgage intermediaries.

Nearly a fifth of respondents (19%) have already implemented mobile services and 67% are reviewing or considering offering mobile services to mortgage applicants. Lenders commented that provision of mobile services was driven by customer expectations of how they wish to engage and transact during the mortgage application process. Mobile services provide convenience and the ability to actively manage a mortgage application and transaction in a simpler, quicker and more efficient way, without being restricted to a desktop computer or laptop. Lenders also see mobile as providing another channel for intermediaries to interact with lenders both from their offices and on the go.

Open banking

Although open banking started slowly and cautiously at the start of the year, both lenders and fintech companies are beginning to explore the opportunities open banking offers, especially around affordability which typically can take days, but with open banking access to relevant data, is likely to take minutes.

Half of the respondents in the survey are actively reviewing (23%), likely to implement (9%) or implementing open banking (18%). The early adopters in the survey are all banks.

With open banking, lenders expect to increase efficiency, reduce time and costs from the mortgage sales process with the ability to assess and verify income electronically and remove paper documentation. Lenders also noted an expectation of improved accuracy and the potential to deter fraud.

Application programming interfaces (API)

Application programming interfaces or APIs open a lenders mortgage platform to innovative technology developments and value-added services, such as income verification, electronic valuations and application submission. Looking at APIs specifically for income and expenditure verification, over half of the survey respondents are actively reviewing (32%) or likely to implement (23%) such services. For other types of value added services, a quarter of the survey respondents (25%) are actively reviewing or likely to implement such services and a quarter (25%) are already using API services to enhance mortgage application processing.

Lenders expect such API services to take the non-value adding elements of processing out of the mortgage journey, reducing the amount of data being keyed and validate the data in real-time. The ability to access and process data from differing sources, through smart APIs, has become a key requirement for a lenders’ target technology architecture. Lenders see their systems developing as API platforms that will speed up the whole journey and provide trusted data sources for things like income and expenditure verification, intermediary and sourcing integration, solicitor integration, AVMs and the Land Registry.

Early decisioning

Early decisioning is seen by lenders as a logical extension and addition to credit decisioning, ruling applicants in or out much earlier in the process. As the technology becomes available to intermediaries, it will help them place their client's application with a lender most likely to accept the application.

Nearly a fifth of respondents (18%) are implementing early decisioning and over fifth actively reviewing (14%) or likely to implement (9%).

Lenders expect early decisioning to improve the quality of applications, provide more certainty for customers and brokers and manage customer expectations.

Instant messaging

The explosion of smartphone usage and social media over the last few years has seen instant messaging become a key method of communication and not just with millennials. Lenders are being driven by consumer demand to offer messaging as part of their engagement with mortgage applicants and existing customers.

Just over half of respondents (52%) are actively reviewing (21%), likely to implement (17%) or implementing (14%) instant messaging for both consumers and intermediaries.

Lenders believe that secure instant messaging for both consumers and intermediaries provides many benefits including reduced operational costs, reduction in calls to contact centres, convenience and an effective communication method choice for applicants. Lender systems can generate event driven messages keeping all parties up-to-date and in real-time.

Mortgage hub technology

Mortgage hub technology connects the broker to sourcing and through to the lender digitally without having to re-key or have multiple steps through the sales and application process. Data is transferred seamlessly and update messages returned.

Three out of five respondents (62%) are actively reviewing (43%), likely to implement (9.5%) or implementing (9.5%) mortgage hub technology.

Lenders expect connecting the mortgage chain together with a dynamic mortgage hub will increase speed of execution, remove waste as part of re-keying applications, increase certainty of decision for consumers and improve service through fully orchestrated integration with sourcing systems and intermediaries.

> Three out of five respondents (62%) are investing in mortgage hub technology.

Credit modelling

Lenders expect credit modelling to improve overall risk management and provide tailored products to match an individual application's risk profile. Credit modelling can speed up the decision-making process, help manage risk and allow for a more complex and rich set of decision criteria using models and scorecards.

Over a third of respondents (37%) already use credit modelling in their decision process and another 16% are actively reviewing or likely to implement credit modelling into their application process.

AI and machine learning

Although it is early days in the mortgage world, fintech companies, lenders and the regulator are working together to make AI and machine learning more transparent to speed up adoption and acceptance.

Over a third of respondents (36%) are actively reviewing (18%), likely to implement (9%) or implementing (9%) AI and machine learning initiatives.

Lenders expect advances in AI and machine learning to both automate processes and allow for a more personalised approach to consumers. Cyber-security measures will need to be robust to gain consumer trust and under GDPR regulation if a computer says "No" the consumer is entitled to understand why.

Emerging technology drivers

The survey asked lenders to review a list of emerging technology drivers and to select those which they believed would provide the most transformative efficiency gains over the next three to five years.

Three technology drivers received over 90% of the votes, with half of respondents' votes going to open application programming interfaces, which reflects commentary from lenders as a key technology they are implementing or actively reviewing.

- 50% - Open application programming interfaces (API)
- 29% - Digitalisation of the whole mortgage journey
- 14% - Open banking

Conclusion

“Change is inevitable, progress is a choice”

In recent years, lenders have made significant investments into their systems to improve processes for intermediaries and consumers. Emerging technologies, like mortgage hub connectivity, open banking and open APIs, are further driving the market’s move away from stand-alone systems to a more connected mortgage ecosystem. Greater integration with intermediary software, sourcing services and other third-parties will increase efficiency, reduce risk, remove friction and provide better outcomes for consumers.

With the FCA calling for more innovation and competition, looking ahead to 2019, the market is set for futher change. Specialist new entrants are aiming to disrupt elements of the mortgage value chain, while challenger banks are moving into the market with the latest digital technology and no legacy issues.

As American management writer and speaker Dean Lindsay said: “Change is inevitable, progress is a choice”. However, progress in the mortgage market will not just be a matter of choosing innovative technology. Lenders will succeed by understanding the needs of their customers and having the right people and processes in place to harness the benefits of technology to meet those needs.

[1] https://deanlindsay.com/change-management/book-speaker-leadership-business-progress/

Appendix

Participants

22 lenders with a combined gross lending of circa £129bn, and a market share of 51% participated in the 2018 survey. They represent a cross section of the mortgage market from specialist lenders, regional building societies, new entrants and high street names.

Atom Bank; Bank of Ireland Mortgages UK; Birmingham Midshires; Cambridge Building Society; Clydesdale Bank PLC; Co-operative Bank; Family Building Society; Foundation Homeloans; Halifax Intermediaries; Hinckley & Rugby Building Society; Leeds Building Society; Leek United Building Society; Nationwide for Intermediaries; Nottingham Building Society; One Savings Bank; Santander; Scottish Widows Bank; Tesco Bank; TMW; Vida Homeloans; The West Brom; Yorkshire Building Society.

Methodology

In general, an average figure has been used to illustrate patterns across the mortgage market and lender types. 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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Lender market tier groups are based on the UK Finance 'largest mortgage lenders by gross lending' table (MM10) and individual lenders' own published lending figures. The three tier groups are: Tier 1 lenders with more than 5% market share; Tier 2 lenders with more than 0.5% but less than 5% market share; and Tier 3 lenders with less than 0.5% market share.

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