



# Buyer's market

**In the evolving UK mortgage market, customers could be the ultimate winners**

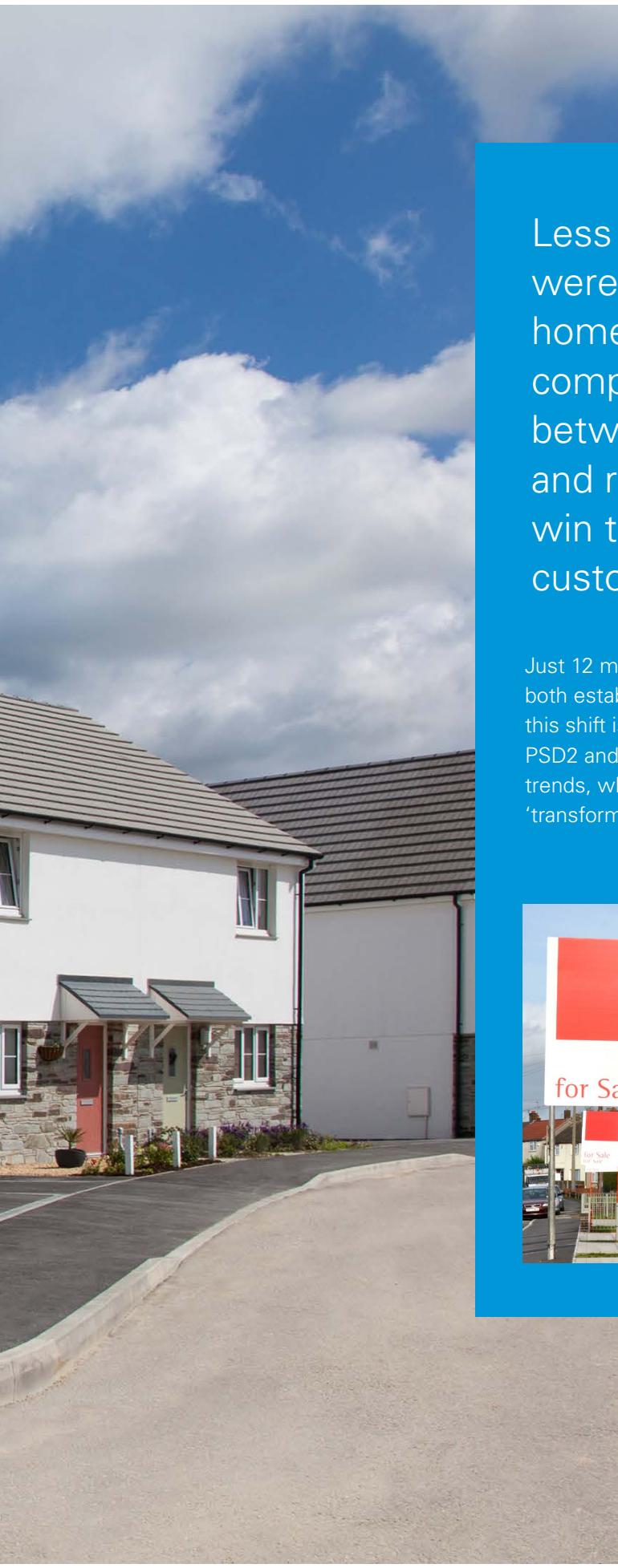
July 2018

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Less than a year ago, retail banks were fighting to differentiate their home loan offers in an intensely competitive market. Seeing gaps between customer expectation and reality, we asked: can banks win the fight for home loan customers?<sup>1</sup>

Just 12 months on, the landscape is changing in favour of both established large lenders and their customers. Behind this shift is a blend of favourable regulation (specifically PSD2 and Open Banking), innovation and demographic trends, which we believe will accelerate the current 'transformative state' of the UK mortgage industry.



<sup>1</sup> Frontiers in Finance, KPMG, 2017

# A changing market landscape

## Challenging conditions

The backdrop to today's mortgage market is challenging. Economic growth forecasts of 1.5% in 2018, Brexit uncertainty, dampened investment and weak house price growth are contributing to a squeeze on consumer spending. In the home loan market itself, growth projections are slowing and transaction volumes are flat. Overall, Bank of England statistics show growth in gross mortgage lending of just 3.7% from Q1 2017 to Q1 2018. The impact of the Chancellor's tariffs and incentives on the mortgage market are starting to mature: the most recent Bank of England statistics show fewer home movers, lowest levels of lending agreed in advance since 2016 Q3 and in turn remortgaging and buy to let percentages of total market increasing<sup>2</sup>. Yet despite the economic context in the UK, 67% of CEOs are confident in the global economy, according to the KPMG 2018 Global CEO Outlook<sup>3</sup>, with some countries such as Australia and Canada continuing to see high rising house prices.

We believe that we are now seeing the early stages of a positive, long-term transformation in the mortgage market. For example, UK Finance have estimated gross mortgage lending for the total market in May 2018 is £22.2bn, 8.8% higher than a year earlier<sup>4</sup>. Additionally, the percentage of mortgages in arrears continues to drop quarter on quarter in the UK which suggests an improvement in lending decisions. Indeed in the same CEO survey 95% of CEOs now say they see technological disruption as an opportunity rather than a threat (30 point increase on 2017) with over half saying they are actively disrupting their own sector rather than waiting for competitors to move first. This momentum is being mirrored in the mortgage sector which will benefit both customers and established lenders putting challenger banks and specialist lenders under increasing pressure.

## Open banking drives innovation

While fintechs have been working hard to resolve pain points in the mortgage journey – from product selection to application and drawdown – it is Open Banking that holds the most potential for change in the market. It opens up access to more granular customer data, which will improve decision-making and allow for more bespoke lending. Niche lending activities such as buy-to-let for corporates or lending to houses in multiple occupation could become mainstream. It also clears the way for more automation: for example, when customer financial information, HMRC data and automated house valuation can all be accessed and analysed online, machines can make more reliable, granular underwriting decisions.

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Open Banking also has the potential to move the mortgage broker market, towards an online 'robo-advice' model.

In Australia, which is in the early stages of preparing for Open Banking, there are signs that it will have the desired impact of increased competition and greater choice, ultimately leading to better service and sharper pricing. The last six months have seen two new digital banks entering the market: Volt and Xinja. Australia's five largest banks have either invested in or acquired 50 fintech companies in the last two years. Examples include Westpac's investment in Uno Home Loans, National Australia Bank's partnership with REA (a leading real estate search engine) and the announcement by Macquarie Bank of its open banking platform.

<sup>2</sup> <https://www.ukfinance.org.uk/remortgaging-market-softens-in-march-after-busy-start-to-year/>

<sup>3</sup> 2018 Global CEO Outlook: UK, KPMG, 2018

<sup>4</sup> <https://www.ukfinance.org.uk/household-finance-update-may-2018/>



## Demographic shift

If open data provides the fuel for mortgage innovations, demographic change creates new markets for them. The UK's ageing population, changing patterns of home ownership and intergenerational inequality are giving rise to new products designed to match changing mortgage needs. Innovations include the concept of drawdown equity release, in which a mortgage becomes a 'house pension', and fixed-rate mortgages that are secured against pensions. Intergenerational mortgages could allow for remortgaging to release money for children or avoid nursing home fees. The FCA is actively expressing interest in solutions for a broader range of home loan customers.

## What do these trends mean for customers and lenders?

### More customer choice, superior experience and faster, better decisions

In the mortgage market, the five metrics that matter are brand, price, accessibility, customer experience and speed of service. While the big lenders are strong on the first three, they have typically lost out to the superior customer journey and responsiveness offered by challengers. However, we anticipate that as well as taking advantage of Open

Banking, the big lenders will also partner with – or buy – smaller and more agile competitors. This will enable them to progressively set themselves up to perform well on all five metrics and in more complex products, such as buy to let portfolios or better meeting the needs of customers across mortgage, unsecured and overdraft offerings. Customers will also see a greater choice of more personalised products and a simplified customer journey.

Over the next three years, lenders will digitise and take advantage of relevant available third-party data and prepopulation. This will enable greater mobile and online penetration for new business, accelerating the offer process and also meaning a single customer application can generate many offers from different lenders.

In the UK market, brokers have significant and increasing influence in shaping a customer's first impression of a lender. With an estimated 10,000 brokers operating in today's market<sup>5</sup>, it remains to be seen to what extent, this number will be able to adapt and survive the wider technological changes influenced by Open Banking. The FCA's Mortgage Market Study has identified a number of ways in which the mortgage market could work better for consumers in choosing a mortgage<sup>6</sup>.

<sup>5</sup> <https://www.mortgagestrategy.co.uk/feature-will-mortgage-industry-look-10-years/>  
<sup>6</sup> <https://www.fca.org.uk/publications/market-studies/mortgages-market-study>

This includes a wider range of innovative tools and selecting brokers on an informed basis. In an earlier survey, 49% of brokers saw robo-advice and technology as the biggest threat to their business within the next three years<sup>7</sup>. As larger lenders digitise their direct customer journey, it is predicted that brokers will focus more on higher value and complex cases, as well as first-time buyers and older clients.

## Open access to HMRC records and consumer spending data gives lenders intelligence that they can also use to personalise their offers.

We envisage the time from application to offer soon reducing from 15-20 days to 5-10 days, with the process running less than five days possible in the medium term. Remortgage specialist Dynamo Mortgages and Virgin Money are already committing to less than 10 days.

However, we believe it will be several years before same-day approval is a possibility: most banks are still debating whether this is necessary.

The quality of decisions is also set to improve. Open access to HMRC records and consumer spending data gives lenders intelligence that they can also use to personalise their offers. This will favour buyers with frugal spending histories, for example, as well as making it easier for the self-employed to access home loans. And it offers better protection and confidence for more vulnerable customers. One example of this development is Castlight, who are developing an 'affordability passport' for customers and providing banks with categorisation of data as-a-service. This type of development is helping to speed up decision making for customers and build confidence for banks on the quality of decisions being taken. CEO Phil Grady said "at Castlight we are committed to supporting the financial services industry as they look to better protect and serve customers in their most crucial financial decision making moments".

<sup>7</sup> <https://www.mortgagestrategy.co.uk/feature-will-mortgage-industry-look-10-years/>

## 1. Pre-decision

Daniel and Jennifer use the bank's online advice to determine the appropriate product and start their mortgage application on the banks' cross-channel platform



*They only need to provide names, address, contact details and, following PSD 2, opt-in to share their bank data. They have the option to video call a mortgage advisor for support.*



The application form links to core bank & external platforms and pre-populates known information for validation

5 mins



*Daniel and Jennifer check their details and only need to input information where it is not held or has changed.*

5 mins

The application portal provides options to upload documentary evidence to support the mortgage



*As Daniel and Jennifer have opted in to share their bank transactions their application skips the need to upload any documents.*

## 2. Decision

A smart ruleset supported by internal and external data validates the application and makes a personalised lending decision based on calculated lifetime affordability



<15% cases

## Resurgence of the big lenders

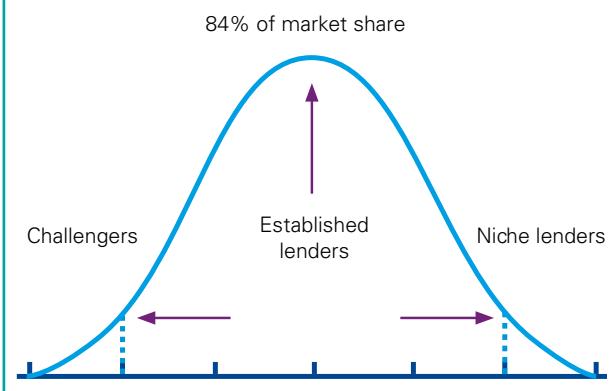
Amidst this transforming market, who will the key players be? Although challengers and specialists have increased their share of the UK mortgage market from 12% to 16% since 2016, we believe the big lenders are catching up and will increasingly threaten newer players. We expect consolidation of smaller players and a trend for big lenders to either acquire or partner with challengers and fintechs. Open data works to the advantage of established lenders, enabling them to extend their offerings to customers typically served by the niche providers. Using smart algorithms based on granular customer data, they will be able to serve 'whole of market' at an acceptable level of risk.

We also see bigger lenders catching up with the 'digital mortgage journey' offered by challengers, but also able to offer the human interaction that 60% of mortgage customers still prefer<sup>8</sup>.

<sup>8</sup> Digital change and mortgage borrowers, Council of Mortgage Lenders, June 2017

<sup>9</sup> "Another fintech sector could be succumbing to profitability struggles," Business Insider, February 2018

## Challenging the challengers



Big lenders can also access cheaper funding via their banking deposits, which gives them a further advantage over challengers. Mortgage tech startup Burrow recently switched from a B2C to a B2B model in the face of rising customer acquisition costs, sparking speculation around further consolidation in the fintech space<sup>9</sup>.

## 3. Post-decision

Additional data is gathered on the property (including use of AVMs) to value property and accelerate application completion

<1 min



### Exceptions

As all of Daniel & Jennifer's information is verified and they have no exceptional circumstances, their application has no requirement to be reviewed by an underwriter.

An electronic offer pack is generated, confirming mortgage offer and additional steps/data required before completion

<1 min



### Conveyancing

Daniel and Jennifer track progress and liaise with conveyancers through an app



*Daniel and Jennifer receive a push notification that their mortgage has been accepted; they can download the pack through the mobile application. They are delighted at how quickly and easily everything was arranged.*

*Two weeks before drawdown they receive an additional notification providing tailored insurance and utility quotes to help save them money. On the day they complete they receive a bottle of champagne from the bank to welcome them to their first home.*

**Market players will need a clearly defined transformation strategy delivering targeted, tangible benefits to customers across the customer journey value chain**

Customer journey	From	To	Ambition	Disruptor/capability
<b>Education</b>	Low financial literacy	• High understanding of financial management and mortgages	• Well educated population to make informed financial and product decisions	• Area comparisons and research prior to finding a home • Home research • Financial education, mortgage product education
<b>Research</b>	Ability to research products but unclear	• Simple experience for researching mortgage products with clear details on offering	• Simple, consolidated comparison platform highlighting products from a range of providers with clear and transparent terms etc.	• Alternative methods of finance or companies that boost buying power by supporting deposits
<b>Product selection</b>	c.1000 FTE Retail product management	• c.300 FTE Retail product management	• Intelligent product selection, aligned	• Always on marketing and insight • Dynamic pricing • Product development
<b>Decision in principle</b> KYC	Inconsistent decision provided	• Quick, reliable decision with minimal information provided by the customer	• Robust decision • Routing the customer to the most efficient and effective channel • Making the application journey easy	• Aggregator links • Data sources
<b>Application</b> Authentication	Up to 2 hours application interview	• Self service – real time support a click away • Application form pre populated	• Immediate decision • Automated affordability checking • Customer provides minimal information	• Electronic ID&V • Loan origination • Thin file decision making • Affordability – bureau and third party data
<b>Offer</b> Process mgmt	Average 18 days from product selection	• 99% electronic decision • Average 1 hour	• Auto valuation • Electronic offer	• Electronic signature • Funds release
<b>Drawdown</b> Storage	Average 50 days from product selection	• Funds available immediately after e-signature received	• One touch fulfilment of product • Frictionless • Conveyancing simplified /accessible – workflow driven by customer	• Comprehensive online banking/self service capability • Virtual assistant concept
<b>Ongoing advice</b> Insurance	60% Telephony 35% Branch	• 90% Self Service	• Enhanced automation supports volume reduction and self service fulfilment before a call reaches an agent e.g. personalised statements, flexing repayment options	• Highly capable, customer facing technology offering for both origination and servicing

# Conclusion

The big lenders now have three important advantages for the near future: the agility to continuously create more relevant products, low cost of funding that keeps them ahead on pricing, and improved targeting capability from digital innovation and artificial intelligence. This will enable them to deliver a viable customer experience from quality lending pools that were once seen as too complex or cumbersome to process. Other market participants may well be forced to review the fundamental assumptions on appetite for risk and margin that underpin their business models.



# Appendix

At the time of writing, the following represent a series of fintech innovations that our clients spend most time discussing with KPMG.

## Customer experience

**CLEVVA** enables businesses to effectively capture and scale their sales, support, system, process and technical expertise. This is captured into Virtual apps (VAs) which can then be deployed across the company and assist in the decision-making process.

**Morovus LTD** offers an online platform for businesses to communicate with their audience and walk them through various processes using owned and external media. It offers features including engagement optimisation, social statistics, in-depth analytics, content personalisation, and product sales integration.

**OneDome** is a proptech start-up that helps customers with their end-to-end property-buying experience. It also works with estate agents, conveyancers and mortgage brokers with their digital customer journey and helps them adapt to their customers' changing needs.

**Moneycatcha** is an Australia-based fintech which enables mortgage organisations to reduce their end-to-end processing time for a home loan application from an industry average of 42 days, to just 5 days.

## Investments insights

**Proportunity** pushes the edge on real estate data-driven investment insights by applying machine learning technology to identify real estate trends and future high-growth areas.

**Wisor** enables mortgage lenders to structure and monitor personalised tailored loans that adjust to borrower's lifestyle.

**Earnix** empowers financial services companies to predict customer risk and demand and their impact on business performance, enabling the alignment of product offerings with changing market dynamics.

## Cloud-based platform solutions

**Cloud Lending Solutions** provides a cloud-based, end-to-end lending platform designed for the global lending community. The company's cloud-based, end-to-end lending platform that covers front-to-back office applications enables banks, traditional finance companies, online lenders, lessors and marketplace platforms.

**Blend**, a Silicon Valley-based company has created a cloud platform that brings simplicity and transparency to consumer lending. Blend's platform gives customers a choice when it comes to how they want to apply for a loan.

## Digital brokers

**Trussle** – It's been estimated that one in two mortgage holders in the UK are losing £4,000 each year by not switching to better deals. Trussle is a digital mortgage broker that helps first-time buyers and existing homeowners save time and money securing a great-value mortgage online.

**Habito** is a digital mortgage broker which aims to refresh the mortgage application, making the process fast, transparent and impartial. Once a mortgage has been selected, a dedicated mortgage expert will keep the customer updated with the progress of their application.

**Burrow** is a digital broker with mortgage report service that takes clients through a five-part process to narrow down the available product options based on their individual circumstances. Customers can contact Burrow's mortgage advisers via WhatsApp and manage the entire application online.

**HashChing** is an online marketplace for home loans allowing consumers to access deals without having to shop around. It connects users directly to independent verified mortgage brokers who can further negotiate a better rate from lenders.

## KYC & AML

**Trulioo** is a global ID verification company that provides advanced analytics from traditional and cyber data sources to instantly verify identities online. It helps businesses comply with Anti-Money Laundering (AML) and Know-Your-Customer (KYC) identity verification needs, and provides a reliable and trustworthy way for businesses to evaluate new and existing users through one, single portal or API.

**Onfido** helps businesses work out who they can trust in a digital world. Specialising in identity verification, Onfido uses machine learning to validate a person's identity document and compare it with their facial biometrics. The identity can then be checked against international credit bureaus and watchlists.

**Contego Fraud Solutions** provides a software platform that helps financial services, property, and fintech firms improve and automate AML and KYC checks and processes. Its single risk-scoring platform can handle complex, multi-entity fraud detection, and compliance checks in real time, all delivered via a single API, which expedites and improves customer onboarding.

## Financing

**Ahauz** is a proptech start-up helping first time buyers get on the property ladder. The company can provide buyers with a contribution towards their deposit for up to 15% of a house's value. With just a 5% deposit, the buyers can now afford a house of large value and access better interest rates.

**StrideUp**'s mission is to break the binary nature of home finance and help an entire generation to meet its aspiration of home ownership. Using technology and data, StrideUp is building a new way to own your home and invest in residential property.

**TicToc**, an Australian-based company, has developed the technology to automate the end-to-end home loan approval process, reducing the time it takes to be granted loan approval to as little as 22 minutes, saving customers both time and money.

## Credit scoring/ affordability assessments

**MOGOPLUS** enables customers to simply, securely and quickly package up and supply their online banking transactional data. MOGOPLUS provides a fast and secure way to supply the organisation they are applying to with bank statements and financial data as part of the application process.

**Castlight** is a financial technology company providing financial retailers with digital tools to enhance the way they do business with their customers. The Affordability Passport® allows customers to share a real-time picture of their income, expenditure and financial capability to make fully informed credit and lending decisions.

**Aire** uses a proprietary artificial intelligence process to allow banks to lend to new, qualified borrowers. During an online interview, the company collects and validates applicant-provided data to evaluate profession, education, and financial knowledge. Lenders can then use this score to evaluate applicants and provide them with credit.

**Hello Soda** builds products that make data driven decisions accessible across businesses. With a current focus on credit markets, gaming, recruitment and insurance, their treatment of BIG, Smart, Linked and Social data can be used to deliver in depth consumer insights.

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