

Open Banking & Mortgages

THE NEXT REVOLUTION IN LENDING

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Open Banking & Mortgages:

The next revolution in lending

Mortgages are a key area of competition for **UK banks and building societies**, but they're becoming less and less profitable. Technology could hold the answer.

Retail banks are facing **significant challenges** maintaining margins, due to compliance/regulation costs, low interest rates and emerging competition from new players who have identified a gap between customer mortgage expectations and reality.

So far, many banks have been unable to deliver convenient borrower experiences due to **complex processes and fragmented systems**. The only options available to preserve market share has been offering bundled discounts and cutting interest rates, further reducing margins.

The rise of **open banking** provides a chance for banks to correct some of the historic issues that have plagued mortgage lending including:

- High cost
- Manual processes
- Lack of tailoring
- Profitability
- Slow processes
- Fraud

In this report, we examine how open banking is creating **new opportunities** for mortgage lending, resulting in more **profitable**, efficient and value-driven lending.

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THE STATE OF PLAY IN UK MORTGAGES

Mortgages are one of the most important products in the British financial landscape. However, a range of market, technical and competitive factors have left many banks **struggling** to turn a profit on their lending books. Incumbents are currently making mistakes, in a market that's ripe for **disruption**, with the open banking silver bullet promising huge rewards through a fast and efficient combination of **automation** and business expert interventions.

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Mortgages with long-term fixed rates (five years or more) now account for **half of UK new mortgage lending**, giving banks less flexibility on rates.



Revenues have dropped **15%** over 10 years owing to low interest rates.



Profit dropped **60%** over the past 10 years.



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THE STATE OF PLAY
IN UK MORTGAGES

WHY APPLY OPEN BANKING TO MORTGAGES?

As the statistics below suggest, mortgages represent significant value for British banks. However, for customers, the mortgage application process is a **painfully slow** and stressful one.

Open banking could help banks improve the mortgage process for customers. With access to a wider and richer array of **data**, banks can develop better insights about their customers, therefore improving their customer-facing products and services.

The mortgage opportunity

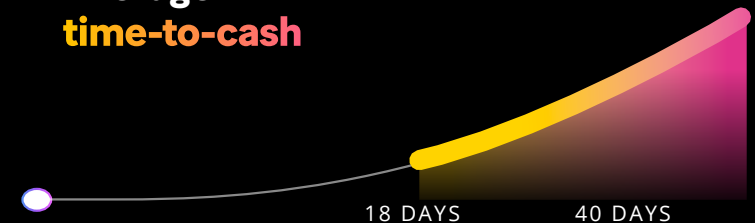
- Mortgages make up nearly **80% of retail credit** and nearly **40% of the total credit portfolio** in Western European countries.
- Mortgage volumes in the UK rose **2x year-on-year** in Q2 2021.
- 90% of customers want to research mortgages online, and 76% want to service their mortgage online.

Improving the customer experience

For many customers, the mortgage application experience is a painfully slow one. Improving the mortgage application process should be key for banks.

- The mortgage process is ranked in the top three most **stressful** situations.
- The “time-to-cash” for mortgage applications has risen in recent years. The industry average is **40 days**, but top performers can complete the process in just 18, giving lenders the chance to be the fastest element of the process.
- Issue resolution and empathy are named as the most important attributes of **customer experience** when taking out a mortgage, per **KPMG research**.

Average time-to-cash



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OPEN BANKING AS PART OF MORTGAGE VALUE CHAIN

Open banking will create new ways to access **customer data** and services, enabling the instant transfer of information, initiating payments and automating manual work. The data from open banking can also address some of the major challenges in the mortgage origination process.

1. A data-centric approach enabling targeted customer growth

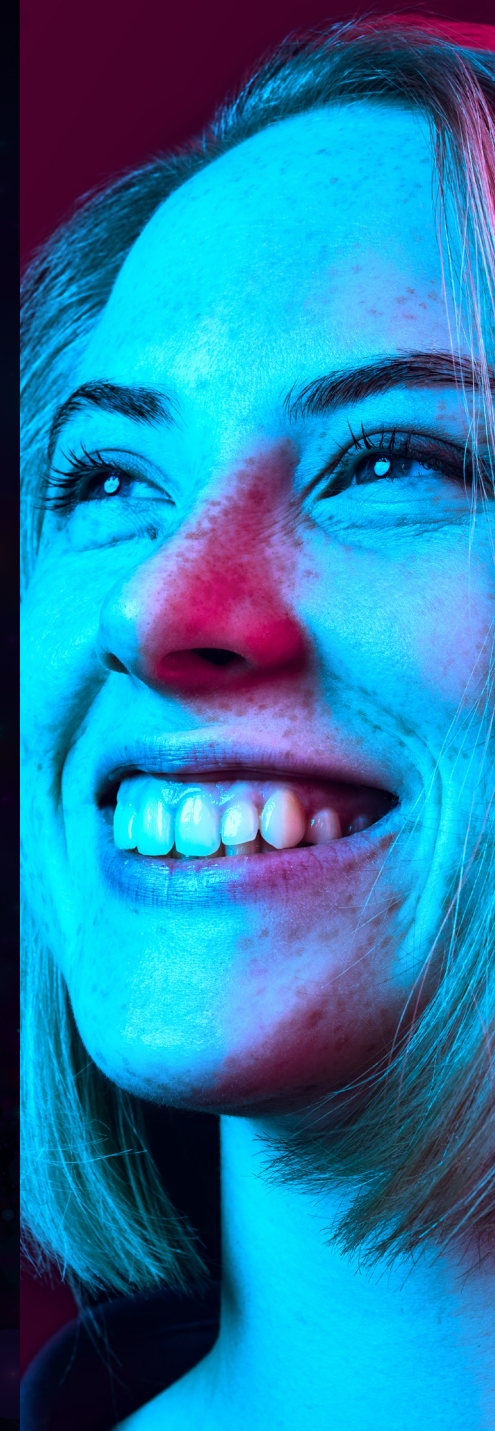
- Enhance data submission with real-time and detailed financial data.
- Check the accuracy of the data and lower the risk of **fraud**.
- Retrieve mortgage information to deduct or identify the current mortgage interest rate of customers and improve **customer acquisition** by targeting those customers with high interest rates.

2. Improved lending efficiency and customer experience

- Open banking can help support **automation** across the workflow.
- Reduce “time-to-cash”, manual labor, errors and unnecessary rejections.
- Allowing staff to focus on more **specialist lending**.

3. Reducing costs and risks

- By leveraging customer data and analyzing spending and categorization, lenders can anticipate risks and assess **financial health** and limit defaults.
- In addition, open banking can help streamline the number of systems needed, eliminate labor-intensive system upgrades, **software updates** and accelerate speed of service and onboarding.



CHALLENGES TO TRANSFORMATION

While more institutions are seeing the value of open banking process integration, challenges remain in coordinating organizations to take advantage of new technology.

ORGANIZATIONAL RESISTANCE

Pushback from lenders on accepting **digital data** in place of traditional bank statements, despite these being more accurate, detailed, and less susceptible to fraud.

MANAGING EXPERIENCE BETWEEN JOINT APPLICATIONS

70% of mortgage applications involve dual applicants but some banks struggle to manage transactions across multiple stakeholders, particularly where there are shared outgoings and a joint account.

BUY VS BUILD

Banks want maximum control, with many CIOs inclined to develop technology in-house, despite ready-made solutions being **quicker to implement and update**.

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ASSESSING THE CAPABILITIES OF OPEN BANKING

Currently, open banking enables lenders to examine a prospect's **current account data**, which is essential for assessing affordability. Since regulators demand that spending and income be categorized, evidence submission is still required. While the **scope is likely to expand**, current capabilities must be considered.

Which mortgage-related use cases is open banking relevant for?

TODAY'S MORTGAGES

TOMORROW'S MORTGAGES

VANILLA MORTGAGES

Straightforward mortgages are the bread and butter of lenders and present the best opportunities for open banking.

- Small margin, so volume is key.
- Standardized process.
- Good target for automation.
- Identify high-cost areas and remove bottlenecks.

ENABLING PRODUCT SWITCH

Product switch currently represents over 40% of mortgage activity and is a process ripe for automation. Open banking can streamline the processes further and enable a near fully automated solution.

- Product switches with no human interaction.
- Staff to focus on value-add work.
- Removing unnecessary robot tools.
- Transferring tens of thousands of mortgages in a single day.

SPECIALIZED MORTGAGES

To maximize the efficiency of this mortgage type, lenders will require the advent of open finance (seen as the next step in open banking), which is expected to open up customers' entire financial footprint to trusted third parties, including mortgages, savings, pensions, insurance and consumer credit data.

- Specialist lenders need to collect more data than open banking can currently offer.
- Requires a combination of automation and manual intervention to enable decision criteria and data gathering.

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THE FUTURE OF BANKING IS OPEN

The Open Banking Implementation Entity's (OBIE's) latest report shows that adoption of open banking services in the UK continues to grow, with 8% of digitally-enabled consumers estimated to be regular users of at least one open banking service - up from 5.5% in December 2020.

The report also shows:

Over three-quarters (76%) of users will or are likely to continue using the services.

90% say they are easy to use and set up.

83% of respondents would be interested in expanding their use of open banking-enabled services.

February to August 2021 saw 11 million open banking payments, compared to 700,000 in the whole of 2020.

The mortgage market is poised for **transformation**. New digital challengers have created an increased level of **customer expectation** in financial services, and it is only a matter of time until they target the lucrative mortgage opportunity.

While this creates new competition for banks, it also provides the chance to evolve. For incumbent institutions, now is the time to **rethink traditional approaches** that add little value for banks, customers or the bottom line.

Open banking is a **powerful tool** for institutions to level the digital playing field by leveraging the full potential of technology to streamline processes, manage risk and provide the experience that modern financial **consumers expect**. Banks that invest in their **digital future** will be those poised to succeed in the new, open banking world.

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OPEN BANKING IN ACTION

With the help of our partners **Tink** – one of Europe's leading open banking platforms – we help our customers access high-quality financial data from banks across Europe through a single API.

And with our own complete **mortgage platform**, trusted by banks and building societies around the world, we're perfectly placed to help you deliver unrivalled customer and broker experience.

tink

 Sopra Banking
Software

Within Sopra Banking Software's platform, Tink data enables us to offer a range of value-adding services, such as live risk scoring, accelerated onboarding and **personalized financial management**.

Working with Swedish lender, **SBAB**, Tink helped create a live web app to identify mortgage savings.

Now, SBAB can identify the interest a customer is paying on their existing mortgage by entering mortgage information

Within seconds, the app calculates whether SBAB can provide a lower rate to save the customer money on their **payments**.

Some numbers around Sopra Banking's Digital Mortgage Platform in the UK

- **49%** of the mortgage providers are Sopra Banking customers
- Our systems provide 20% of the mortgages, meaning that we've helped more than **5 million** people buy their homes

Find out more

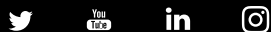
▶ [SOPRA BANKING SOFTWARE'S
DIGITAL MORTGAGE PLATFORM SOLUTION](#)



Sopra Banking Software is the partner of choice for more than 1,500 financial institutions worldwide. The rich variety of our solutions, the strength of our conviction and our passion for innovation enable us to support our clients on a daily basis and in their future projects, as well as in their goals regarding financial inclusion. Our customers, based in over 80 countries around the world, benefit every day from our technologies and software, as well as the expertise of our 5,000 employees.

Sopra Banking Software is a subsidiary of the Sopra Steria Group, a European leader in consulting, digital services and software development. With more than 46,000 employees, the Sopra Steria Group generated a turnover of €4.3 billion in 2020.

To find out how we can help your bank to create market-beating digital transformation strategies, visit www.soprabanking.com or contact us at hello@soprabanking.com



Tink is Europe's leading open banking platform that enables banks, fintechs and startups to develop data-driven financial services. Through one API, Tink allows customers to access aggregated financial data, initiate payments, enrich transactions, verify account ownership and build personal finance management tools. Tink connects to more than 3,400 banks that reach over 250 million bank customers across Europe.

Founded in 2012 in Stockholm, Tink's 500 employees serve more than 300 banks and fintechs in 18 European markets, out of offices in 13 countries.

We power the new world of finance.

We power the new world of finance. For more information, visit www.tink.com