Hyarchis

Defining MORTGAGE Tech

Tech Trends in the **Mortgage Industry**

Introduction

In recent years, there has been a surge in homebuying among Millennials. The Millennial generation, currently in their late 20s and early 30s, are settling down, which hasn't gone unnoticed. This generation is wealthier, less rooted and more tech savvy than any generation before them. Having matured to the point of homebuying, the Millennials are causing a seismic, technology-driven shift throughout the housing market. In this report we reflect on the most important paradigm shifts caused by the Millennial generation entering the housing market.

The population shift from Baby Boomers to Millennials is challenging many long-held practices in the housing sector. Millennials are known for delaying traditional milestones, such as marriage and having children, both of which correspond with buying a house. Now that the older part of the Millennial generation is buying homes, they approach things decidedly differently than previous generations.

Millennials represent the first generation to have grown up in the digital age. They are accustomed to being online perpetually, having instant access to unprecedented amounts of data and being able to access this wealth of information anytime, anywhere. In contrast to Baby Boomers, they are aware and accepting of the fact that most personal business can be done online. Left up to them, everything in their lives would be arranged digitally.

Continuous change, digitization, innovation, and technological development has led to a generation that not only welcomes innovation and change but demands it. This fuels the development of newer, more capable tools, developed by a growing number of tech-driven businesses. Millennials have become attached to their devices as technology plays a central role in their lives. Important life events such as homebuying, taking out a loan or simply moving are no exception to this rule.

From house hunting to property viewing and from mortgage borrowing to investing in buy-to-let properties, technology is central to how Millennials approach housing. With Millennials translating their tech-savviness to the process of homebuying, the whole chain of suppliers in the housing market is confronted with a strong consumer pull for technology-driven change. In this report we cover the top-five trends in Mortgage Technology.

Top 5 trends

1. Digital Mortgage
2. Organizational Agility
3. Privacy by Design
4. Online Mortgage Brokers
5. The Buy-to-Let Revolution

Digital Mortgage

Having grown up in the digital age, Millennials are accustomed to having a practically endless quantity of information at their disposal, often just a click away. They are tech-savvy, able to research independently and arguably impatient. Millennials expect results quickly, if not instantly. The new generation moving into the housing market expects the same level of innovation in the mortgage-buying process as they have come to expect in day-to-day matters – from hailing a ride to ordering a meal.

Existing, established banks tend to utilize cumbersome lending processes based on outdated technologies with little focus on the overall customer experience. The rift between this lacking customer experience and the expectations of the Millennial generation is an important driver behind the growth of neobanks. Nothing in the proposition of neobanks is truly disruptive other than the digital-only form in which they provide their services. The popularity of neobanks among Millennials is therefore not a result of their proposition, but rather follows from their success in facilitating the customer journey of the digital age.

Whereas neobanks like **Revolut**, **Bunq** and **N26** were still very much a curiosity five years ago, they are rapidly growing into household names. An important reason for this growth is the ease with which one can access their financial products. Being digital-only banks, they allow prospective customers to open accounts within minutes. All required due diligence such as ID verification, credit checks and AML prevention are done in the blink of an eye. With such an efficient digital infrastructure in place, neobanks do more than just raise the bar for traditional banks - they make incumbents a less enticing option.

With a solid head start in terms of customer experience and technological capability, it is only a matter of time before neobanks branch out into a more comprehensive product offering. Whereas **N26** already offers several insurance products, **Revolut** has branched out into providing small private loans as well as online stock-trading. It goes without saying that all these products are fully serviced online.

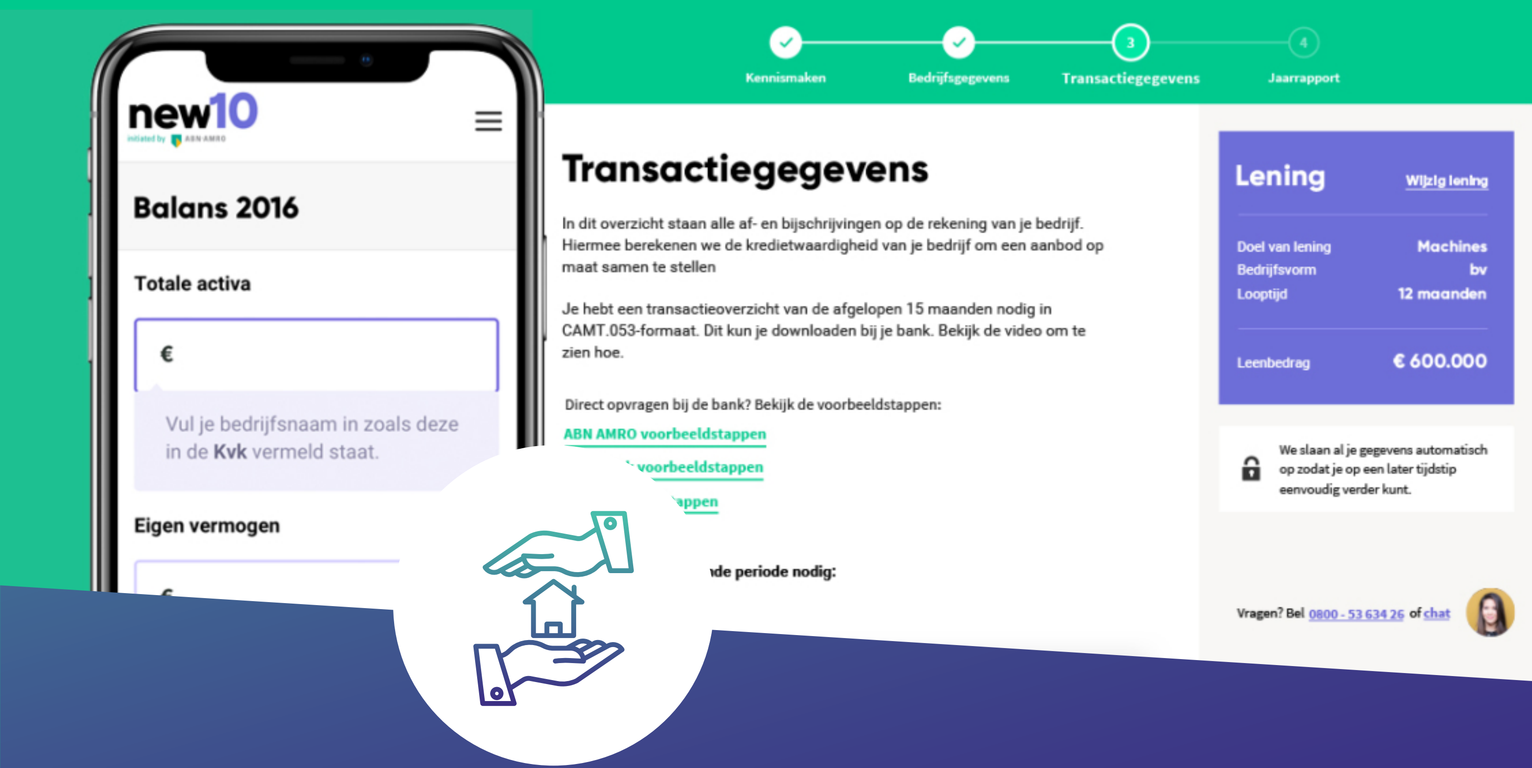
Our prediction: Before we see traditional mortgage lenders transition to digital-only products, neobanks will have transitioned into providing online mortgages. The first fully digital mortgage will most likely not come from within the mortgage industry but from a new entrant.

Organizational Agility

Incumbent banks and traditional mortgage lenders have many advantages over their FinTech challengers. The most important distinguishing factor is the combination of funding and customer trust. While most FinTechs neither have the financial resources nor the required customer base to challenge incumbents, they can meet customer demands a lot quicker and a lot more efficiently. Such levels of customer-centricity cannot be met by traditional financial service providers, whose ability to develop innovative customer experiences is weighed down by legacy systems.

Most successful FinTechs follow a rather straightforward strategy: focus on a small or underserved market and excel therein with a single product or service. Good examples include **Habito**, which provides online mortgages, and **Transferwise**, which facilitates international payments. With dedicated focus on one niche, FinTechs outperform traditional services providers which must divide their attention over many different product- and/or customer groups. With an ever-growing ecosystem in place, FinTechs incentivize incumbents to better serve and support their customers.

Incumbents face not only fierce but also mature competition from within the FinTech domain. One way to counter this development is by launching so-called “flanker brands” which can take on these challengers more efficiently. A good example is **New10**, an online business bank founded by **ABN AMRO** in 2016. The bank observed that financial products for small and medium-sized businesses were/are in strong demand. ABN AMRO also realized it could not seize this market opportunity with their current technology landscape and operating model. By creating a flanker brand, ABN AMRO could bypass the braking force of its legacy systems while piecing together best-in-class solutions in a seamless product offering and customer experience.



Our prediction: The organizational agility needed to adapt to both customer demands and market opportunities will be key in securing the customer loyalty of the Millennial generation. With a new generation entering the housing market, technology-driven initiatives will follow each other in rapid succession with alternating success. While the homebuying practices of the next generation crystallize, it is too risky to bet on a single initiative. Incumbents can therefore follow two routes: invest in platform-driven technology such as **Mambu**, which allows easy adoption of best-in-class banking solutions, or create competitive flanker brands such as **New10**, which combines the best of both worlds.

Privacy by Design

The Millennials are the first generation to grow up in the Internet Age, which is reflected in their perpetual online presence. The Millennial generation maintains friendships through Facebook, finds jobs on LinkedIn, shares travel experiences through Instagram, and finds love via Tinder. Given the wealth of sensitive personal details Millennials share online, it is easy to assume that privacy is not particularly top-of-mind. However, the opposite is true.

Fully aware of the benefits of an online presence, Millennials are equally aware of the pitfalls too. Experiencing the Facebook–Cambridge Analytica scandal first-hand, and having come of age at the same time as the General Data Protection Regulation (GDPR), Millennials are all too aware of the vulnerabilities of being a digital citizen. Embracing data protection at the core of your business model is therefore of paramount importance to gain the trust of the Millennial generation.

For most financial services providers, compliance is still somewhat of an afterthought. Typically, compliance encompasses a series of reactive change initiatives triggered by either an internal audit or a fine which has been imposed by a governing body. Three years after the introduction of the GPDR, ING and Aegon are still the only two large-scale financial institutions in the Netherlands to have prioritized privacy to board-level. In most other organizations, privacy officers have a merely advisory role whilst compliance is mostly achieved by a convolution of manual processes.

With the amount of data growing exponentially each day, automated compliance solutions are a necessity to guarantee customers their privacy. **Link Asset Services** is a good example of embedding privacy-by-design in the core of the business model. Upon acceptance of a mortgage, it automatically scans incoming documents for the presence of sensitive data such as a personal identification number. Using **Hyarchis**' AI-powered application Blurrify, relevant sensitive information is blurred out in documents prior to storage. In this way, Link Asset Services ensures it doesn't store any information which conflicts with GDPR requirements, while securing utmost privacy for their customers and offsetting damage in case of a data breach.

Our prediction: The coming few years will see a surge in Regulatory Technology adoption, which will allow financial institutions to comply efficiently with relevant legislation such as the GDPR, the Anti-Money Laundering and Anti-Terrorist Financing Act (Wwft) and Basel IV. When looking ahead, the wave of regulatory change will continue to gather force and financial services firms will therefore look for scalable frameworks for regulatory compliance. They will not do so to avert fines or reputational damage, but to gain a competitive advantage to secure customer trust.

Online Mortgage Brokers

The COVID-19 pandemic has been credited with moving the world online and this is true, provided the Millennial generation is taken out of the equation. Millennials already spend a large part of their lives online and can organize their lives from virtually anywhere. Estonia, for example, targets these “digital nomads” with a tailored e-residency program as part of their ambition to become the first digital society in the world. This might sound futuristic, but Estonia’s e-government already provides **99%** of all public services online. Only marriage and divorce proceedings require an office visit.

Just as residency can be arranged online, so can housing. Online property listings have been the standard for well over a decade and are characterized by highly polished photographs aimed at selling housing to prospective buyers. Whereas video streaming has taken off as an ad-hoc solution to property viewings during the pandemic, more engaging ways to organize online home viewings have rapidly gained traction. The Latvian start-up **Giraffe360** specializes in home tours powered by virtual reality. VR viewings like this allow you to view a property and its real dimensions from anywhere in the world.

Whereas virtual reality allows you to experience a potential new home as if there in person, apps like **AroundMe** help you acquaint yourself with a neighborhood you've never even set foot in. With all this technology available, and provided everything is to a buyer's liking, all that's really left to do is determine whether the price is fair. For this part of the buying process, a crowded property technology marketplace known PropTech exists.

PropTechs like **Zillow** in the United States and **GeoPhy** in the Netherlands provide accurate real estate valuations within the single-digit median error rate. They do this with the help of so-called automated valuation models. These are AI-powered mathematical models that collect, analyze and rate hundreds of data types, ranging from property features to nearby facilities. Accurate real estate appraisals in place, online mortgage provision becomes increasingly accessible. Start-ups like **Habito** and **Trussle** have collected tens of millions in funding based on the expectation that the global digital lending market will double in size to **€10 billion by 2025**.

Our prediction: With digital residency infrastructure, advanced online home viewings and accurate online property valuations all in place, the market for digital mortgage brokers has fully matured and will grow considerably in the years to come. Traditional brick-and-mortar brokers must rethink their value proposition and can only hold on to their current market share by offering highly tailored and highly personalized customer experiences.

The Buy-to-Let Revolution

For a long period of time, the buy-to-let market has been the domain of those with capital to spare. However, the last two decades have seen both a remarkable growth of the buy-to-let market as well as a drastic change in profile of the buy-to-let investor. Many Baby Boomers have accrued considerable capital gain on their homes which they aim to monetize by moving into the buy-to-let market. According to estimates, around 80% of the current buy-to-let buyers in the Netherlands are amateur landlords who own a maximum of two properties in addition to their own home.

In recently published research, **De Hypotheker** revealed that 45% of all people in the Netherlands above the age of 55 have made a capital gain of more than € 100.000 on their home. Mortgage lenders have steadily been offering tailored products such as the "Verzilveringshypotheek" - an investment of property capital gains into certain funds with a property as collateral - but recent years show a big surge in the buy-to-let market.

The buy-to-let market was valued at €65 billion in 2017 and has since grown to €75 billion. With an average annual growth rate of 5%, the buy-to-let market continues to grow rapidly in the Netherlands. An approximate 6% of the total housing market in the Netherlands is in the hands of buy-to-let investors and this number climbs close to 20% in the larger cities. The Netherlands is one of the most lucrative buy-to-let hotspots in the European Union and this is signified by the recent market entry of buy-to-let lenders such as **Nestr** and **Cassarion**.

The Baby Boomers will eventually pass on their wealth to their Millennial children who tend to start smaller families while generally being wealthier than their parents. This development promises a further, prolonged foundation for the buy-to-let market. With more amateur landlords moving into the buy-to-let market, a clear void becomes apparent. Whereas the buy-to-let market is rapidly growing, technology-driven guidance and support in transitioning into becoming a landlord is largely absent.

Our prediction: The buy-to-let market will prove to be one of the most profitable markets for mortgage lenders within the coming decade. The volume of mortgages might not get anywhere close to the residential mortgage market, but margins will prove to be a lot more attractive. Technology-driven innovation to support amateur landlords is still new ground, fertile enough for innovative start-ups to cultivate. Within the coming few years we will see the first, custom-designed applications to support amateur landlords moving and growing into the buy-to-let market.

Moving Forward

Hyarchis is a Dutch software company providing AI-powered solutions for regulatory compliance and operational efficiency in the financial services industry. If you'd like to know more about our vision on industry developments or the way we can help you to stay **one step ahead**, please get in touch.

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