



## Growth in the mortgage business thanks to agile business models

### **Improvement in own competitive edge thanks to an agility increase gained through financial ecosystems and agile IT architecture.**

Mortgage business continues to be the core business for retail banks. Yet geographic restrictions and the emergence of attractive competitive offers from new providers are reducing growth opportunities. In this largely saturated market, substantial growth can be guaranteed only via the redistribution of market shares. However, gains in market shares based on cheaper and cheaper prices lead to margin-sapping price erosion in the long term. For this reason, sustainable market positioning is required that features additional services generating added value and making a bank's offering stand out. Banks must aim to be the first point of contact for their customers in all real estate matters. This requires supplementary third-party solutions and specialists throughout the customer journey.

For a bank to make its offering stand out effectively, it is also important to increase agility up to and including at the level of IT architecture. Agile IT architecture must be capable of easily incorporating services along the customer journey. Time to market is critical for taking advantage of market opportunities and adapting existing processes so they generate high added value for customers. This includes, for example, integrating in-house mortgage offerings into the real estate portals used by customers and including innovative coverage options from insurers in the scope of services. The implementation of these requirements is demanding and potentially costly. To keep costs low, mature technological approaches are expedient. Software and data components that can be deployed interoperable via an API/open banking integration layer enable this agility. It is recommended that smaller institutions obtain them as a

service model from the cloud for reasons of cost effectiveness.

### **The problem of growth in the saturated mortgage market**

The mortgage market plays a very central role for the Swiss financial industry. At retail banks, up to 85 percent of income comes from interest differential business – and particularly mortgages. While the market is dominated by banks, insurers and pension funds are also increasingly present as providers. Their share of the market is increasing. The attractive offers of these competitors with longer mortgage terms mean other providers are increasingly coming into play for extensions in particular.

Although the mortgage market has seen constant growth in the low single-digit range in recent years, providers are finding it difficult to generate impressive growth rates due to geographic restrictions and hence largely siphoned-off market areas. This means that, besides participation in general market growth, additional growth can be generated only at the cost of other market participants. However, this is not an easy undertaking, given the fact that customer loyalty remains high. A service offering that stands out clearly and consistently takes account of customer requirements is advantageous in this context.

But how can a bank make itself stand out from other providers in the mortgage business?

### **Positioning by covering customer needs**

The most obvious starting point is price. Better terms might be the crucial argument for customers. This effect can be reinforced via comparison platforms, particularly when it comes to mortgage extensions.



But while price is doubtless an important component in decision-making for customers, it is not the only one. To a greater degree, it is the tangible price/performance ratio, or identifiable added value, that plays a crucial role, particularly with respect to new business. For most customers, buying a property and the associated mortgage financing represent an emotional and life-changing decision. The implications of this decision can be used as the starting point for a customer-oriented offer. From a customer perspective, emotions and uncertainties first arise not when they evaluate the various financing offers but earlier, when they initially think seriously about buying a home, looking for possible building sites or properties and subsequently viewing them. It is at this point that a bank can proactively position itself as a first-choice contact and address customer needs at an early stage. Comparing the simplified value chain of a bank with the customer journey shows that early positioning enables greater customer interaction and thus offers the potential for a higher conclusion rate and additional business from value-added services.

Customers know subliminally that buying a home entails many consequences. It is up to the bank to position itself as a competent contact and indicate the financial and non-financial aspects to be taken into consideration; in that process, it helps to carry out a fair price estimate for the property with a focus on the future. From a customer perspective, these points are not easy to clarify and often lead to great uncertainty. As a first-choice expert and through the inclusion of third-party solutions and other specialists, a bank can position itself early in the customer journey. The bank must endeavor to be the first point of contact for customers in real estate matters based on its service offering and provide services with multiple values to ensure potential customers do not turn to additional experts, such as comparison platforms or mortgage brokers.

Alongside providing support in the initial phase, there are many starting points throughout the customer journey that a bank can use to position itself optimally with customers. Expert knowledge is called for concerning tax aspects, receipt of building support funds and compilation of a suitable insurance package. Subsequently, the right tradespeople need to be found for renovation and conversion work.

There is no expectation that a bank will be able to answer all questions itself like an all-inclusive offer. Instead, the bank's service offer needs to be enhanced by involving appropriate experts to ensure the bank is the first point of contact for customers much like an independent medical examiner. A holistic offer eliminates the large uncertainty

factor related to risk, and customers are generally prepared to pay a premium for it.

Initial efforts to expand the range of offers accordingly can already be seen on the market. However, there is still huge potential to achieve additional growth through the stringent implementation and publicizing of additional services that generate added value. Banks would do well to consistently enhance their mortgage business and so orientate it sustainably towards the future so as not to fundamentally lose market shares.

### Requirements for an agile IT architecture

Cost-effective technological support is critical for the sustainable implementation of such a strategy. This requires adjustments to IT architecture. At the heart of this are agility in terms of service bundling and guaranteeing end-to-end consistency. The IT architecture requirements arising from the customer journey are set out below.

**Channel integrity.** The required customer information must be recorded in a simple manner using channels that the customer considers to be convenient. It must be possible to transfer information using different channels depending on the situation. It is important that information that has been recorded is available in subsequent steps. This makes it possible to take account of different customer needs with respect to information provision and acquisition. A customer journey that starts with the discovery of the desired property on a real estate platform can serve as an example. The customer enters key data relating to the property and their financial capabilities once during the property search.

In the subsequent consultation with an interactive simulation of various financing models, this data is supplemented with the help of the account executive, and, finally, the customer uploads missing customer documents using a customer portal. Intuitively managed data entry is important for all self-service steps in order to obtain high-quality data and avoid customers aborting the process as a result of excessive demands.

**Integrating external systems as building blocks.** Where possible, the IT architecture should be set up in a service-based manner. The goal is to take advantage of the development expertise of the software providers specializing in particular service elements. Generally, integration as a service provides the required functional scope at competitive prices. The integration of additional services such as insurance requires an approach that goes beyond the company's own limits. It is necessary for the integrated systems of the different companies to be able to access data jointly.

**Simulation capability.** Mortgages that are tailored to life situations require the presentation of scenarios in order to offer financing that is optimized based on weighing of risks. The advisory system must be capable of portraying complex interrelations simply and graphically to ensure



that the financing structure that is adapted to the customer's most likely life development can be selected quickly from among the multitude of options. The simulation model must be able to make use of additional data, such as the customer's investment and asset situation, as well as statistical relationships between demographic development and real estate price development.

**Automating complex processes.** The ability to automate complex processes and decision trees is critical for lean, cost-effective processes. The information gained from the customer journey and supplemented by expert systems should be transferred to an intelligent scoring and pricing model that provides a risk-adjusted interest rate for the individual customer. As many mid- and back-office activities as possible - up to and including pay-out - should be automated in order to keep idle costs caused by fluctuations in demand low. The scalability of processes created via automation reduces idle capacities and shortens process throughput times considerably. This improves the customer experience. It also makes it possible to create a lean and very professional mid-office and back office. Automation requires both workflow-controlled process handling and orchestration between legacy and peripheral systems. In this way, it is possible to initiate and process an extension automatically from with portfolio management, for instance.

#### Implementation approaches of agile IT architecture

A combination of different IT architecture elements is needed to implement the requirements. These are listed below.

**API-based software and data building blocks** enable flexible functional design and data recording in customer journeys. They make it possible for the required customer, property and financial information to be entered once only during the course of the customer journey and to be supplemented with additional expert knowledge, e.g. from real estate appraisal databases, in a process that is as automated as possible through the inclusion of an API/open banking integration layer. Credit decisions and subsequent processing steps can be carried out with as great a level of automation as possible in this manner.

Since data recording should take place on the channel that is most convenient for the customer and this can vary from customer to customer depending on the situation, data building blocks should be encapsulated. APIs are to be used to access the data building blocks so data recording, updating and refinement are possible from the systems concerned.

Data recording elements, such as query dialogues, can thus be integrated into every channel (PC, tablet, smartphone app) as building blocks and optimized on a device-specific basis. The decomposition of the data model in contextually encapsulated data building blocks (basic customer data, property data, creditworthiness and credit capacity data) also makes it possible to record the required data in stages in the course of the customer journey without overburdening the customer with a

comprehensive recording dialogue. Interim states can be saved and completed using the various integrated third-party systems (e.g. hedonic property appraisal). Each data building block must be entered in a database within the architecture only once for reasons of consistency.

Since data management is required in different systems (CRM, credit advisory and legacy systems) during the lifecycle of a mortgage as a result of the present existence of system architectures, some of which are monolithic, it is essential that a consistent data updating concept be implemented across the entire IT architecture. To keep the flexibility of the process design high, the data should first be transferred to the legacy system if the mortgage contract was concluded in a legally binding manner, and the data should retain a "static" character.

**API/open banking integration layers** serve as the orchestration layer between front, third-party and legacy systems. An API/open banking integration layer enables quick and cost-effective process configuration throughout the customer journey.

Thanks to the option offered by this technology to "cut" systems that are not, functionally speaking, neatly encapsulated into system building blocks and to make them retrievable in a workflow-controlled manner via APIs, API/open banking integration layers enable heterogeneous, silo-like system landscapes to be transformed into a library of functional modules that can be used to configure needs-based customer processes with minimum effort. It should be ensured that the functional modules are largely logically encapsulated. Modern API/open banking integration layers make it possible to configure workflows with little programming. It is important that the API/open banking integration layer has the necessary data security and anonymization mechanisms to integrate third-party systems from service providers into the workflow as required.

Since the setup and maintenance of such IT infrastructures results in high costs, small financial institutions should particularly consider using IT infrastructure as a service. It must be ensured that the data protection and IT security requirements proscribed by the regulator are complied with and that an API/open banking integration layer is used that enables quick and economic integration of third-party systems from specialist providers. Availability requirements also constitute a significant cost lever. They should be consistently geared towards customer needs. In the retail segment, a fast, binding offer increases the conversion rate.

**Encapsulation of the legacy system** for portfolio management involving much work at the mid-office and back-office level. To ensure an agile IT architecture, it is expedient to shape the customer interaction aspect, which needs to be agile, by using dynamic workflow systems.

In this way and using the API/open banking integration layer, even supplementary services from the in-house ecosystems can be integrated through functional module libraries. The financial institution can liberate itself from



the release cycle of the legacy system provider and its price models for further developments, which can be expensive, without having to accept shortcomings with respect to data integrity and system security. A modern, dynamic workflow system makes it possible to quickly and flexibly set up a customer portal and handle cross-company processes (e.g. start in the real estate portal with an integrated consulting offer and insurance services).

### **Conclusion**

Through service that is consistently focused on added value for customers and an agile IT architecture, processes throughout the customer journey can be designed so they generate significant added value for customers when compared with conventional financing offers. In this way, the financial institution can protect itself against the constant redistribution of market shares, assume an attractive market position and realize sustainable prices in the long term.

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