



Mortgage Transformation:

Re-platforming Mistakes to Avoid

In association with:



This nCino white paper was authored in association with PwC, drawn from interviews with the following subject matter experts, along with publicly available and proprietary research.



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Executive Summary

UK mortgage lenders confront a challenging and highly uncertain marketplace. Facing macroeconomic headwinds such as rising interest rates and increasing inflation, along with evolving customer expectations and an onerous regulatory burden, lenders can no longer afford to shackle themselves to aging, inefficient legacy technology and processes.

This is why the majority of banks and building societies are looking toward re-platforming as the solution for creating new process efficiencies, reducing expenses and providing a better customer and employee experience. Too often, however, ambitious technology replacement projects quickly become derailed.

In this white paper, experts from nCino and PwC explore five common mistakes that firms make when attempting a re-platforming or digital transformation project and offer recommendations drawn from their experience in deploying hundreds of new platforms on behalf of clients across multiple geographic regions.

Introduction



The macroeconomic outlook for UK homebuyers is daunting—defined by high prices, rising borrowing rates and an acute shortage of homes for sale.

The Bank of England raised interest rates for the twelfth consecutive time in May 2023, leaving the bank rate now at 4.5%—its highest level since the financial crisis of 2008. These rate increases are putting severe pressure on already-high borrowing costs, leading to a softening of demand at least in the short term. According to Nationwide, prices fell by 2.7% year over year in April 2023, although prices are now beginning to stabilise.

In addition to rising interest rates, other factors driving softening demand for mortgages include the pandemic-era “great leave” from cities, a trend that is now reversing as people return to more concentrated urban areas. The sharp rise in inflation over the past 18 months is also placing real pressure on incomes and affordability. First-time home buyers in particular are struggling to make the leap from let to own.

The combination of rising interest rates and ballooning costs of living has led UK Finance to project overall mortgage lending to fall by 15% in 2023, returning to pre-pandemic levels. This projection includes a 23% drop in house purchase mortgages, 21% decline in property transactions and a 27% drop in new buy-to-let transactions. UK Finance does expect refinancing to increase as an above-average volume of fixed rate deals mature in 2023.

Moreover, the risk of impairments is growing as borrowers struggle to meet their obligations. This increased risk has lenders tightening their credit policies, as evidenced by the fact that only 36,000 mortgage applications were approved in the UK in December 2022, the lowest monthly volume since the 2009 financial crisis.



Regulatory headwinds pick up

In recent years, investment property owners (a group dominated by the 55+ age group) have been subject to numerous compliance and tax changes that have made the buy-to-let property market much less attractive than it was previously. This includes new minimum energy efficient standards and a 3% stamp duty surcharge. On the positive side, the government recently enacted a new rule enforcing shorter notice periods for evicting tenants exhibiting “anti-social behaviour.”

Meanwhile, lenders are bracing for the implementation of enhanced guidance around the new “Consumer Duty”, which includes new requirements for firms to deliver good outcomes for retail customers, with a particular focus on the mortgage market.



Borrowers' expectations are changing

The expectations of today's borrower are rapidly changing. Customers demand transparency, flexibility and convenience—attributes that many banks and building societies are not set up to provide.

The biggest point of friction is often post-mortgage, as new home buyers struggle to work through all the steps of homeownership, from obtaining financing, to moving, to purchasing home improvement services and furnishings.

This is why many UK lenders—including digital-only providers—are intent on disrupting the market by serving the needs of their clients through the entire homeownership journey, from applying for a loan to moving support. These innovative players recognise the need to be there when the borrower is ready to refinance by creating a lasting relationship, and loyalty, with the borrower.



What it means for banks and building societies

But to achieve this goal of capturing more of the home buying journey and gaining direct lending market share, mortgage lenders need to be able to provide borrowers with a seamless, frictionless, convenient and efficient mortgage experience.

Unfortunately, many incumbent mortgage lenders are plagued by older technology stacks shackled to on-premises, disparate systems and highly manual processes. These arcane systems and processes result in poor customer and employee experiences, marked by drawn-out, lengthy lending cycles.

During a time when it is more important than ever to identify operational efficiencies and areas for cost savings, lenders can no longer afford to ignore their legacy technology and obsolete, highly manual processes.

Re-platforming is the Solution

The term “re-platforming” refers to a strategy of migrating legacy technology systems and processes to a cloud-based solution that can offer superior efficiency, seamless cross-platform integration and a better user interface.

According to research from Celent and nCino, a majority (70%) of surveyed UK lenders planned to increase their IT spend in 2022, with more than half of those surveyed expecting to make a major enhancement to their loan operating systems (LOS) in the next two years.

There is demand across the market for LOS upgrades and enhancements, but the appetite is greatest among smaller banks (with up to £75 billion in assets) and building societies. Over two-thirds of these organisations expect to make significant enhancements to their mortgage LOS within two years, compared to around 40% of Tier 1 and 2 banks (those with £75 billion or more in assets). The research also shows that 43% of UK banks and 50% of building societies have seen their IT budgets grow by at least 6% in 2022 vs. 2021.

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of UK lenders surveyed planned to increase IT spend in 2022

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43%

of UK banks and 50% of building societies saw their IT budgets grow at least 6% between 2021-2022

Why is re-platforming trending among UK mortgage lenders? And why now?

Re-platforming offers numerous benefits, including greater efficiency, better integration and a more seamless end user experience that meets mortgage customers' desire for fully integrated, frictionless digital solutions.

In addition, it offers banks and building societies the opportunity to transition from being an intermediated lender to a direct lender—empowering them to capture more of the customer journey. By adopting a true end-to-end solution, lenders can address their operating models and processes holistically to enable quicker decisions and gain loyal customer relationships for the long-term. In this way, they can establish themselves as the first choice for homeowners when it's time to refinance.

Re-platforming often comes attached to significant challenges. If not navigated carefully, these challenges can result in just another failed transformation project. For all these reasons, a high proportion of re-platforming projects do not achieve their stated goals. According to research by Oxford University and McKinsey, 66% of large-scale software projects go over budget and 33% are delivered late.



Challenges



Cost

One challenge holding lenders back is potentially high upfront costs, which include not only the expense of the technology itself, but also the hundreds of employee hours it takes to implement such a major installation.



Change

Change management is another major hurdle. The potential failure of staff and customers to adopt a new solution and processes can severely hamper results, leading to frustrations, unnecessary expense and low ROI. Often, barriers to adoption are driven by fear of change and the “we’ve always done it this way” mindset.



Data

Lastly, the inability to effectively capture and migrate borrower data during a re-platforming project represents a significant roadblock on the pathway to success.

5 Re-platforming Mistakes to Avoid

To help you get started on the right foot with your re-platforming project, here are 5 big mistakes to avoid

The number one mistake that lenders make when they take on a re-platforming initiative is not re-looking at their value proposition of how they service their customers."

1

Not having a clear plan anchored to a vision:

One of the biggest mistakes lenders make occurs before the project even begins: not having a clear vision and understanding of what customers and employees expect.

"The number one mistake that lenders make when they take on a re-platforming initiative is not re-looking at their value proposition of how they service their customers," says Daryl Umakanthan, Senior Manager at PwC. "Number two, they don't look at the channels that they can use to attract, target and service their customers. And third, they don't look at the experience they want to offer."

As with most strategic decisions, the vision is set at the top, with senior leadership and the board. It is critical for all top leaders, including the project champion, the CEO, and other key business line executives to have a fully aligned understanding of the project's goals and expected outcomes. Project champions should start by defining what success looks like, and build a business case around that vision. They should then communicate this vision widely to ensure all key stakeholders and partners are aligned.

"Among the common areas or challenges I've personally faced with regards to re-platforming, the first one is defining a clear 'North star,'" says Cam Akhtar, Senior Manager at PwC. "It's about making sure the senior leadership within a company has a unified vision that is well articulated and shared across lower level management and the actual project teams. Defining that North star and understanding what value you're going to get out of the re-platforming project is key because it makes the initial decision to make a move much easier."

2

Poor scope management:

Another common error is underestimating the complexity of the re-platforming project. Often, business and technology teams are misaligned at the start. Once project scope is determined, a best practice is to break the implementation into smaller increments and assign ownership for each stage. This improves accountability and allows progress to be tracked more easily.

"Saying no is perfectly fine if it helps you to manage scope and be pragmatic around what is essential for the success of the project," says Wil D'Costa, Mortgage Delivery Lead, EMEA at nCino.

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3 Ignoring compliance and regulatory requirements:

Compliance is a high bar, and UK regulatory authorities are continuously raising expectations for lenders around providing high quality advice to borrowers, and stress testing borrowers' ability to repay their loans. That's why ignoring compliance requirements is a big mistake that can derail a re-platforming project right from the get-go and can have lasting impacts far into the future.

It's important to engage your risk management, compliance and legal teams from the start of the project, and look to partner with vendors and strategic implementation (SI) partners that have a deep understanding of banking compliance and are up to date on the latest and upcoming regulations.

4 Trying to implement yesterday's policies on today's technology:

Another common mistake that many organisations make is to try to replicate their existing processes on a new technology platform. Re-platforming offers a rare opportunity to examine all current processes and policy and rebuild it better.

"When you've been on a legacy platform and are trained to use that platform in a certain way, and it's all you know, you become used to certain processes," says Tom Chaplin, Head of Mortgage Product, EMEA at nCino. "What typically happens is that organisations end up implementing inefficiencies instead of using it as an opportunity to challenge the old ways of doing things. Policy transformation needs to go hand in hand with platform transformation."

"We recommend an adopt over an adapt approach," Wil D'Costa adds. "We've worked with a number of lenders across multiple geographies and multiple solutions, and we've built a baseline for what we think is a good process. So, if you've got an inefficient process, don't try and build that into the system. Try and challenge yourself by reviewing your overall current state versus future state, and then use re-platforming as a mechanism to achieve that desired target state."

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Chasing perfection to the detriment of good:

It is tempting to try to achieve your ideal future state with the initial go-live. The problem with this approach is that chasing perfection will often result in delays and cost overruns, or worse yet, never launching the solution at all.

A better path to take is an iterative approach to implementation, or what is often referred to as "Agile" methodology.

"You shouldn't try to chase perfection at the expense of time to market," Wil D'Costa warns. "Getting a customer solution live is more important than having a perfect process."

"In addition, don't think of Agile as temporary. It should be an ongoing process. Even once you transition to business as usual, the Agile methodology should still be a major milestone in terms of how your various projects interact.

Setting Up for Re-platforming Success

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When it comes to succeeding in re-platforming, lenders should begin by focusing on the customer's needs and expectations.

"You have to start with the customer experience," says Will Stevens, Partner, Digital Banking and Customer Transformation at PwC. "It should include a high-level digital experience, but with a human component. Borrowers want to be able to do a lot of the home buying process digitally. But it's a big financial decision, and therefore there is a need to enable home buyers to step out of a purely self-service digital mode and be able to speak with an actual human being. So, your ability to deliver hybrid experiences that stitch together various aspects of the value chain to improve the customer experience is critical. Rather than just doing your bit brilliantly—the mortgage process—think about the entire end-to-end home buying journey."

To achieve this end-to-end ideal, bankers will need to "stitch together elements of the value chain across the entire buying journey" by working with partners to create a seamless customer experience using APIs and direct integrations.

Lastly, Will recommends keeping a close eye on changing market dynamics, and being prepared to respond quickly to evolving demands through dynamic and risk-based pricing.

"As we start to think about personalisation, both lenders and brokers will need the ability to very quickly respond to market dynamics and customer expectations," Will says. "This means the ability to potentially move to more risk-based, dynamic pricing is paramount."

Selecting the Right Partner



When rolling out new technology, it's important to prioritise a vendor relationship that will help with the configuration, implementation and internal adoption of a new platform. It's not a one-size-fits-all approach, and any implementation partner needs to understand the exact requirements of a lender to ultimately achieve a greater ROI.

Look for a partner that drives to be more than simply a platform provider—one that drives meaningful business transformation. For example, nCino's clients have influence over the company's roadmap, and nCino is committed to investing more than 25% of revenues into research and development so clients can benefit from continuous innovation.

"The only way to achieve true transformation is by also transforming your vendor procurement processes," Tom Chaplin says. "Often, a request for proposal (RFP) process feels like a 'tick the box' exercise. Your time and effort could be better invested in demoing software or discussing desired outcomes with a prospective vendor. I recommend challenging yourself on the role and purpose of your current vendor assessment processes."

Unfortunately, onerous and arcane vendor assessment and RFP procedures can often serve as a significant barrier to change.

"Some organisations are reluctant to even move to a new solution provider, and we've heard from clients that they'll stay with a vendor they're unhappy with, who has a 3-year long change roadmap, and whilst the pace of change is slow, it is quicker than going through a procurement process," Tom says. "Which begs the question if procurement transformation is the key to unlocking true mortgage transformation. The best solution would be to have a quick and simple procurement process rather than an elongated one that discourages people from having to go through it."

"Partnership and collaboration is key to successful transformation and your assessment process needs to test the strength of relationship building between your firms".



Learn more about nCino's Mortgage Solution
ncino.com