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What Small and Midsize Mortgage Companies Need to Know About Cloud Native Platforms

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Introduction: When Customer Experience and Technology Collide

Nearly all small mortgage providers are under pressure to use new technologies to create digital credit journeys that drive revenue growth and cost savings. The most successful global challenger and digital banks are technology companies that leverage software to deliver a powerful customer experience.

As Anita Arch, Head of Saffron Building Society says that one of the main concerns for small mortgage providers is **"the cost of getting up to speed and of keeping up. Technology is changing so much and whilst we might be able to get a system that works for us now, how long until the next thing comes along?"** Legacy IT systems, a lack of automation, limited data access and multiple owners of the credit process all increase the risk of failed projects and poor results.

But if technology is critical to acquiring and retaining customers, how can small and midsize mortgage providers adopt a digital first approach?

The answer is to explore ways to accelerate their path towards Cloud Native Platforms (CNPs). The Cloud Native Computing Foundation says, **"Cloud native technologies empower organisations to build and run scalable applications in modern, dynamic environments such as public, private, and hybrid clouds. Containers, service meshes, microservices, immutable infrastructure, and declarative APIs exemplify this approach."**

In its **Top Tech Trends for 2023** report, Gartner argues that **"To truly deliver digital capabilities anywhere and everywhere, enterprises must turn away from the familiar 'lift and shift' migrations and toward CNPs."** CNPs enable small and midsize mortgage companies to provide scalable and flexible digital capabilities that facilitate better decisions, improved customer experience, and scalable capabilities.

In this white paper, you will discover:

- **How digital lending has changed the mortgage industry**
- **The limitations of traditional mortgage lending**
- **How to drive incremental change with CNPs**
- **What an ideal solution looks like**
- **The benefits of CNPs**

This white paper is intended to help small and midsize mortgage companies to diagnose their current position by identifying value gains and priorities so they can scale with confidence.

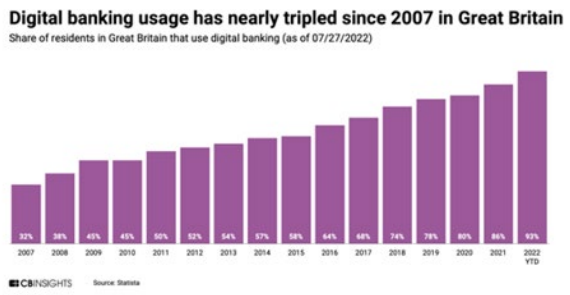
Digital Lending has Changed the Mortgage Industry

In the past, taking out a mortgage meant a trip to the bank for an in-person assessment. In 2023, legacy mortgage systems cannot support the digital experiences that customers expect.

The problem is that the conventional mortgage systems developed in the 1970s were monolithic and designed to run on expensive mainframes. In the 1980s, investment focused on resilience and volume management rather than flexible architectures. As a result, systems require downtime for changes to be made and this is expensive, time consuming and disrupts business as usual.

In the 2000s, the rise of online and mobile banking meant that the traditional model of in-person mortgage approval supported by a legacy core was challenged. According to which? nearly 5,000 High Street banks have shut in the UK since 2015. During the Covid-19 pandemic, further branch closures accelerated digital banking and traditional banks developed digital offerings to keep up with shifts in demand. In fact, a survey by CB Insights shows that digital banking usage has nearly tripled in the UK since 2007.

The share of residents in Great Britain that use digital banking has risen from 32% in 2007 to 93% in 2022 YTD (7/27/22)

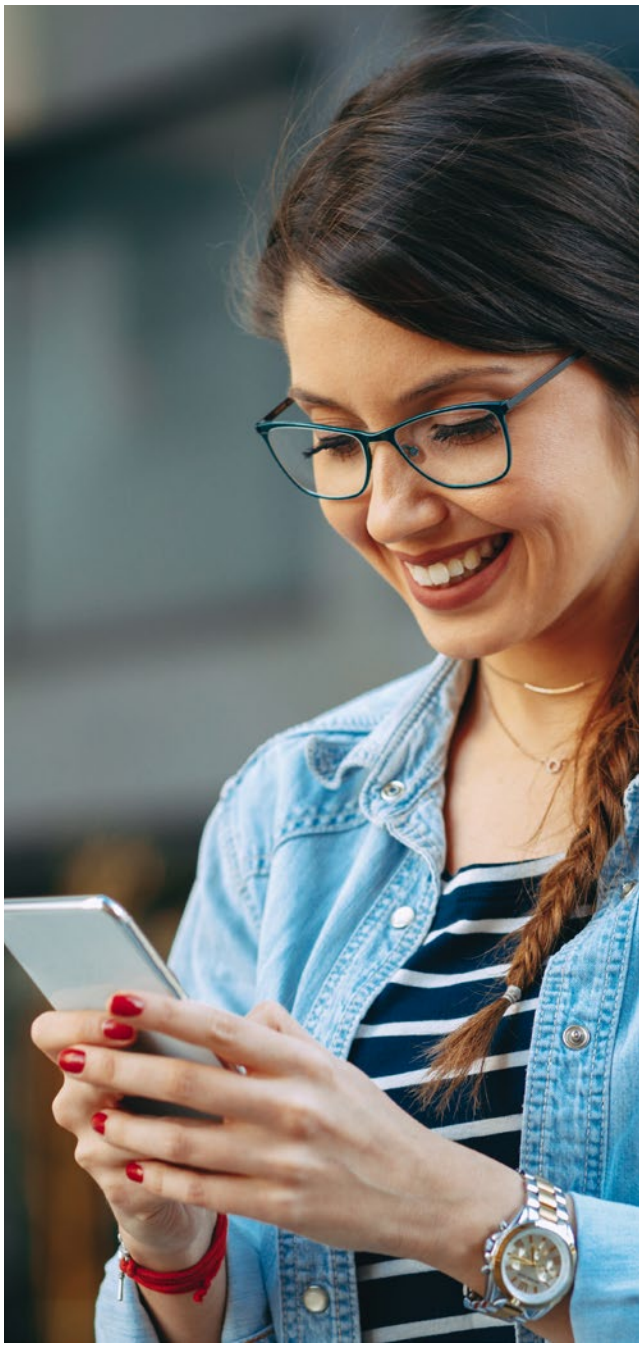


Small and midsize mortgage providers tried to answer the challenge of online banking by developing new products in modern programming languages. Yet, the addition of modern products created data silos which frustrated attempts to meet regulatory demands. With systems that couldn't scale, small and midsize mortgage companies risked being left behind in a market driven by new technology.

Now, the economic impact of COVID-19 and recession have reduced applicant incomes and increased competition for customers. At the same time, the digital efforts of small and midsize mortgage providers have been frustrated by the demands of niche lending, complex loans and third-party needs, such as those of brokers. The impact has been narrowed eligibility criteria, long approval times and low customer satisfaction rates.

Nigel Moden, EY EMEIA Financial Services Banking and Capital Markets Leader says, **"digital lending is a key opportunity for competitive differentiation. This is not just about speed of decisioning and fulfilment (the important basics) but also about delivering personalized customer journeys on a scale never seen before."**

To succeed in this context, small and midsize lenders need to evaluate the potential of cloud to enable incremental strategies that create best-in-class mortgage experiences at affordable cost and low risk.



The Limitations of Traditional Mortgage Lending

Monolithic systems designed for in-person lending must evolve to take into account the role of technology in the competitiveness of small and midsize mortgage companies. Robert Ford, Senior Manager, Mortgage New Business at Principality Building Society says, **"Everybody's playing for the same customers, unless you've got a real USP. What you can't afford to do is let yourself get left behind with the challenges that are coming in."**

Legacy systems: high costs and operational risks

The problem is that legacy systems constrain agility and innovation, forcing incremental change that is held back by high costs and operational risks across different areas of the business. For example, on-premise software or customized platforms require updates and batch changes, create functional silos, are difficult to scale and cannot be easily integrated with new technologies. This holds back lenders that need to optimise costs to remain competitive.

Regulation and compliance: unable to automate processes

Traditional lending makes it difficult for small to midsize mortgage companies to keep up with regulatory pressures as they are unable to benefit from Artificial Intelligence (AI), Machine Learning (ML) and other technologies designed to prevent fraud, secure data access and meet requirements for the speed at which customers can access funds.

The mortgage ecosystem: poor internal and external collaboration

Because traditional lending relies on manual processes that are connected to external stakeholders such as brokers, solicitors, and local government, there are common pain points and bottlenecks across the customer journey. For example, inconsistent data formats, fragmented data and the absence of a central system. As such, mortgage providers need to evolve their core to work effectively within a complex partner ecosystem.

Customer experience: no personalisation

Traditional lending relies on manual processes that create a poor employee and customer experience. For example, they can lead to inaccurate credit scoring, a lack of transparency, inefficient document management and a fragmented experience across multiple touchpoints. In addition, monolithic systems do not support personalisation and a mix of offline and online processes increases friction and prevents a single customer view.

Driving Incremental Change with Cloud Native Platforms

Many mortgage providers still have reservations about CNPs, specifically around the receptiveness of external stakeholders, such as brokers. Michelle Bradford, Financial Crime Manager at Paragon Bank points out, **"There are a lot of brokers that are not technically savvy...there would be a good percentage of their intermediaries that just will not use the tools."**

However, incremental migrations provide an opportunity to implement CNPs in line with the pace of generational change. For example, a **2021 report by Fannie Mae showed that first-time homebuyers were more willing to authorize electronic access to their records compared to repeat homebuyers (41% vs. 33%, respectively).** The imperative for online lending is, therefore, moderated by a generational shift that can work as a starting point for digital roadmaps.

It is critical that, to drive a successful incremental roadmap, mortgage providers take into account the following three factors:

The need to balance business-as-usual with change

Mortgage companies must focus on each element of the migration, ensuring that changes will add value to the target architecture without diminishing the immediate or short-term value of the core or adding redundant functionalities.

How to design for business value and market risk

Small to midsize providers should adopt an agile approach with continuous feedback and testing to keep key stakeholders on board, satisfy clients and support target roadmaps. Risk modeling enables priority capabilities and functionalities to be added at the pace of market change whilst retiring ineffective products.

When to consider the trade-off between new technologies and legacy systems

System stability and consistent development need to be balanced with the full lifecycle application roadmap. Mortgage companies must avoid new architecture or functionality that does not improve their competitive position in the short or long term. The core principle of incremental change is to reach a modern platform that creates a differentiated customer experience in the long-term using a low-risk approach.

What an Ideal Solution Looks Like

CNPs are the most significant driver for improved margins and cost savings in an industry where granular innovation drives customer experience in a highly regulated environment. In 2022 an IDC report found that 70% of mid-size banks are looking to revamp or replace their legacy core banking systems to expand their customer base without breaking limited IT budgets.

Here's a list of the essential elements that small to midsize mortgage providers should look for in a CNP:

Low-code and no-code:

Increase your developer productivity and give business units more control over IT solutions with low-code platforms that orchestrate multiple applications and enable complex mortgage applications.

Application Programming Interface (API):

Enable interconnected sets of services with API ecosystems that exchange data with internal and external partners and boost product delivery.

Resilient architecture:

Increase resilience with automation, self-healing and zero touch production that enable the platform to recover without human intervention. A monitoring stack allows platforms to track metrics for incident resolution and analysis.

Microservices architecture:

Independently run, update and deploy services in response to business needs with separate capabilities that are self-contained. Provide differentiated services to different customer segments, regions or products to increase market competitiveness.

Robust security:

Leverage built-in security with an ISO 27001 certified platform that covers infrastructure and applications. The automated integration of new regulations automatically ensures compliance and data analytics detects threats in real-time.

A CNP designed for small to midsize mortgage providers automates the mortgage value chain to increase their competitiveness:

Front office:

Advanced AI/ML can pull together multiple data sources to predict customer conversion rates, so that marketing teams can focus on high probability prospects. The same models can find and flag risks from customer behaviour to combat fraud.

Middle office:

AI/ML will calculate credit scores for loan origination, automatically request, report on the status of documentation during post-closing and leverage document templates for closing documentation. It can also capture data from third party providers for underwriting and determine acceptable customer loan pricing.

Back office:

Predictive models can suggest which borrowers to call and when to send them reminders, to improve servicing. CNPs also have a very flexible and configurable product engine that eliminates the need for system changes for improving products to match the digital ambitions of customers.

That means that with the right CNP solution, small to midsize providers will improve efficiency, optimise profits, and increase customer acquisition with flexible and configurable products.

The Benefits of Cloud Native Platforms

Small to midsize mortgage companies can use CNPs to improve customer acquisition and retention with modern operational strategies and technology infrastructures.

Ashley Sellers, Sales Leader at IES Mortgage, Equifax says, **"This is especially important for small to midsized mortgage lenders, which need to remain agile and flexible to keep pace with the changing market, regulatory pressures, and borrower preferences - with limited resources and manpower."**

Here are some of the most powerful benefits of CNPs:

- **A customer journey that meets the demands of Know Your Customer (KYC) compliance whilst also optimising onboarding**
- **Positive customer experience that avoids prospect frustration and brings cost and revenue benefits**
- **A single platform that captures as many different broker and lender requirements as possible to speed up the customer journey and onboarding**
- **Maintains manual intervention when dealing with complex scenarios whilst also meeting regulatory demands with automation**
- **Meet different customer segments and generational expectations with micoservices**
- **A global network of implementation partners who can support or enhance the product roadmap in line with your business needs and new technologies**

A best-in-class solution delivered by a specialist integrator can enable small to midsize mortgage companies to connect modern capabilities with their own legacy context and organisational goals. This makes sense for companies looking for futureproof infrastructure.

Conclusion: Cut Costs and Increase Revenue with Cloud Native Platforms

Regulatory pressures, high interest rates and the demand for online lending have shifted the competitive landscape in the mortgage industry. To navigate difficult economic circumstances, small to midsize mortgage companies can leverage CNPs to meet customer demands.

The challenges of economic disruption must be met by lowering operational costs as well winning new customers through an improved customer journey. As such, small to midsize mortgage companies need to balance business-as-usual with change, design for business value and consider the trade-offs between new technologies and legacy systems. Then, they can use technology to make lending functions faster and improve the customer experience for market resilience and revenue growth.

Mastek can provide everything you need, with Mortgage services.
Please get in touch with us at **info@mastek.com**
to find out how it can evolve your legacy systems.

About Mastek

Mastek (NSE: MASTEK; BSE: 523704), is a Turnkey & Trusted Digital Engineering & Cloud Transformation Partner that delivers Innovative Solutions and Business Outcomes for clients in Healthcare & Life Sciences, Retail, Manufacturing, Financial Services, Government/Public Sector, etc. We enable customer success and decomplex digital by partnering with enterprises to unlock the power of data, modernize applications to the cloud, and accelerate digital advantage for all stakeholders. We are the only Oracle Cloud implementation and consultancy partner to have successfully moved 1300+ clients to cloud. Customers Trust Mastek to deliver Business Value with Velocity and we operate in 40+ countries including the UK, Americas, Europe, Middle East & APAC with ~6000 employees. MST Solutions, a Mastek company, is a Summit level Salesforce consulting partner trusted by several Fortune 1000 enterprise clients. For more details, please visit our website www.mastek.com

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