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FUTURE FINANCE

How will the mortgage market look in 2030?

Our panel discusses the future of the mortgage industry

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How will the mortgage market look in 2030?

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A lot can change in a decade. Go back to 2010, for example, and the mortgage market was a very different place. The credit crunch and subsequent financial crisis reshaped the sector in a way nobody could have ever predicted, ushering in a new wave of regulation to stop it repeating the mistakes of the past. The result has been a decade of weaker lending, rock-bottom interest rates and significantly tighter underwriting criteria.

But just as the financial crisis shaped the past decade, technology is expected to mould the next. With that in mind, and with the recent passing of the new decade, MRM felt it only natural to ask: how will the mortgage market look in 2030?

To do that, we asked some of the most-respected leaders, from all corners of the mortgage and property markets, to give us their visions of the future.

We discussed the role of the broker in 2030, how technology will revolutionise products, what will be the misselling scandals of tomorrow and what the Government can do to fix the housing market in the coming decade. With that, I would like to give a special thanks to our attendees, who are listed on the next page, and hope you enjoy reading their conclusions.

Will brokers still dominate the market in 2030?

Since the Mortgage Market Review, brokers have been king, responsible for processing 77% of all mortgages, according to data from the Intermediary Mortgage Lenders Association. However, our panel agreed that brokers will find it difficult to maintain their dominant position as lenders invest in technology and utilise Big Data to generate direct business. So how much of the market will brokers control in 2030?

Andrew Montlake: "It's slowly moving but will change over the next 10 years. Brokers take around 77% of business now, with some lenders relying on brokers for 85% of their business. Lenders are starting to move into the tech space and that will start to take market share away from brokers.

"Looking forward 10 years, you will probably have the head of the FCA sitting in front of the Treasury Select Committee being asked why they thought it was a good idea to bring back execution-only. That will raise a lot of issues"

"Brokers won't have 75% of the market but still have a really good future. It's all about adapting to consumer demand; reacting to how they want to be dealt with; embracing tech, rather than being scared of it; and looking after their customers better. There will be fewer brokers in the market but if those that are left can do this, they will have a good relationship with their clients."

Face-to-face advice

Jane Cross: "People's lives are much more complicated than they were years ago and as soon as you get into those complexities, that's when you need proper face-to-face advice. That's where brokers really add value."

Lynda Blackwell: "I agree with that but I think broker markets will be a lot smaller in the future. I think disintermediation is really starting to happen and intermediaries are definitely going to be impacted. I think it will shadow what is happening on the lending side.

"Big lenders are going to look for efficiencies, digitalise and move away from brokers because it is such an expensive distribution channel.

"We are more likely to see the building societies of this world – those that survive – continuing to rely on traditional brokers. I expect in 2030 the market will have changed a lot."

Tech takeover

Dev Malle: "To answer the broker question you need to look at the rest of the market. There are three buckets: the lender one, the broker one and the aggregator one. Tech will increase intelligent underwriting and execution-only.

"We tend to overestimate what will happen in the next two years and underestimate the next 10. I would say 50% of the market in the next 10 years will be execution-only.

"The critical bit here is data. Brokers haven't got anything like the data lenders have. Are lenders going to trust risk decisions to a third-party when they have access to this data?

"Consumers increasingly want to get things done quickly. Today's 25-year-old is going to be the borrower in 10 years' time. When you have all of these dynamics in play, the broker will be about a deeper relationship – a one-stop shop for other products, such as insurance.

"People still don't trust banks, whereas brokers have that trust. That takes some time to shift."

Execution-only vs advised?

Lynda Blackwell: "I'm not so sure about this distinction between execution-only and advised, when you have data-driven smart machines that can actually give the customer the service that they want. I think there is going to be a blurring and a moving away from that distinction.

"Molo is looking to do digital advice. It's painless, fast and the customer almost doesn't know they are getting it. Frankly, what matters is the service the customer wants is what they get.

"It will all be powered by data. Customers will almost get what they want before they know they want it because data will inform and drive all of the big manufacturers and providers. It doesn't matter who the particular lender is, you will go onto a smart platform and get whatever you want, irrespective of what the brand is."

Dev Malle: "Yes, I agree. It won't be called execution-only – it will be called a 'hybrid consumer solution.'"

Will brokers and lenders be forced out of the market in the coming decade?

High-Street lenders

Andrew Montlake: "Lenders have the biggest issues here. Going too far down the road of technology, execution only and doing deals with price comparison sites could mean that lenders will just become product providers, with their brand becoming irrelevant.

"What differentiates Santander from Barclays and Nationwide in a cheapest-is-best, non-advised environment? Nothing. Nobody cares because it is driven by what the product is. It's only with strong partnerships between lenders and brokers that we can all have a secure future."

David Whittaker: "In the short-term the misalignment between lenders and brokers will have to be addressed. As we see more longer-term mortgages, there will emerge a difference in payment structures where lenders and brokers align their interests in the interest of the consumer.

"There will be a political push for longer-term mortgages but that is an irrelevance - we are going to head to that over the next five to 10 years anyway.

"Just as brokers need to fear for their future, so too do incumbent High Street lenders, whose grip on technology is at best passing, and have shown no willingness to get to grips with today's problems.

"They have to be fearful about what is going to happen to them, rather than brokers having to be fearful for their future. Lenders need to align themselves to their existing market to mutual effect."

Building society comeback

Lynda Blackwell: "What you might see is a move back to local building societies. With an amorphous mass in the prime area, there might be a move back to the traditional model that appeals to younger borrowers with ethical, green and local values.

"I don't think the building society sector will die. I actually think it could get a breath of life."

Jane Cross: "With the younger, more ethically-minded generation coming through, they might find a mutual building society an attractive proposition.

"When it comes to brokers, they also need to embrace technology as they need to remain relevant."

Andrew Montlake: "It's going back 20 years. There will always be tech-based, vanilla, prime lending but people still want that personal relationship and it's often forgotten ▶

ROUNTABLE ATTENDEES

David Whittaker, CEO, Keystone Property Finance

David is one of the most respected names in the buy-to-let market and walked away with the Mortgage Personality of the Year at the 2017 Mortgage Strategy Awards. He is currently chief executive of specialist buy-to-let lender Keystone Property Finance and is regularly asked for his views on the market by trade and national journalists.

Dev Malle, Group Sales Director, My Home Move

Dev is well-known and respected in the mortgage market for his time as sales & marketing director at network Personal Touch Financial Services, a role he left in 2012. Since then he has been in charge of sales and distribution for My Home Move, the UK's largest provider of conveyancing services.

Jane Cross, Managing Director, e.surv Chartered Surveyors

Jane, who is a trained accountant, has more than 20 years' experience in the insurance and mortgage markets and is currently managing director of e.surv, one of the UK's leading suppliers of surveying and valuation services. She is well-known to mortgage brokers for her time as chief executive of adviser network Personal Touch Financial Services.

Andrew Montlake

A media darling for more than a decade, 'Monty', as he is often known, is one of the most quoted experts in the financial trade and national press. With nearly 25 years' experience, Monty is one of the leading figures in the broker market and is currently deputy chairman of trade body the Association of Mortgage Intermediaries.

Lynda Blackwell

As a former sector manager for mortgages at the Financial Conduct Authority and one of the key architects of the Mortgage Market Review, Lynda has had an incredible amount of influence on the UK mortgage market in the past decade. She is now an industry consultant as well as a non-executive director of digital lender MoloFinance.

OUR MRM MORTGAGE SPECIALIST

Paul Thomas, Senior Consultant, MRM

Before joining MRM, Paul spent nearly a decade reporting on the mortgage market as editor of leading trade title Mortgage Strategy and then as a reporter for the Daily Mail's money section. He chalked up multiple award-wins in that time, including Headlinemoney B2B Mortgage Journalist of the Year in 2012, 2013 and 2014 and National Newspaper Rising Star in 2017.

> The Government is not doing enough – and we are not building enough appropriate properties.”

how little people actually know about mortgages. Financial education is shocking. And that's where I think the danger is.

"First-time buyers may think they want a flashy tech solution but actually don't really understand what they are doing. At the moment we have execution-only which is limited, and until artificial intelligence is good enough to understand the information, especially the soft facts, there will be a lot of issues and a lot of complaints in the future for lenders.

"Lenders are going to have to be careful what they wish for when it comes to striking deals with aggregators because they just become about price. They don't add any other value, whereas brokers can stay relevant. There will be fewer brokers but they will be doing a lot more business and will be looking after their clients a lot better."

What should the Government do to fix the housing market in the next decade?

The Government is an omnipresent shadow over the property and mortgage markets. In the next 10 years, the panellists agree if it fails to act on some of the most severe aspects of the housing crisis, a demographic time bomb could detonate.

But what can the Government do to fix the problems plaguing the housing market in the next 10 years?

Culture of homeownership

Lynda Blackwell: "We absolutely must move away from this fixation on homeownership. I think it's really important. Younger people are happy to rent.

"If you look at Germany, 50% of people rent and it is not an issue – people are happy and house prices are equated to income. You can get a house if you want to, but most young people are happy renting.

"In this country it is entirely different, driven by Government policy, which universally supports the housebuilder instead of the private rented sector. It's a massive mistake. In Germany, they have security of tenure, they have enforceable rights. It's a completely different ball game.

"This Government needs to take action now because the private rented sector is essential for younger people and it is critical to the UK. The whole approach to renting needs to change."

Dev Malle: "The Government has been heavily involved in driving a culture of homeownership. It's not just about policy but culture too. For example, Right to Buy schemes, where homeownership is incentivised. Government policy going forward will be critical."

Short-termism

Lynda Blackwell: "The problem is that we have a Government, regulator and infrastructure that is traditional and backward looking. Housing policy goes back to the Second World War. Nobody seems to be waking up to the fact that everything is quickly changing around us.

"It is very difficult to predict the future unless the Government gets it act together. And we don't really know what the new Government will do. At the moment, the way housing policy is set is just disastrous. We have an intergenerational and regional divide - all thanks to housing policy."

Jane Cross: "Every democratic nation needs to plan for demographic changes – in the NHS, education, housing – 20 or 30 years ahead. The Government of the day is only planning as far as the next election, nobody looks far enough ahead."

Andrew Montlake: "The Government is completely focused on short term, vote-winning initiatives. Plus a new housing minister every five minutes doesn't help.

"The housing minister needs to be someone with experience in the market who then chairs a cross-party committee that looks long-term and where the members can come and go, but that sets the policy for the next 10, 20 or 30 years."

House builders

Andrew Montlake: "I think the Government missed a trick in the financial crisis and should have nationalised a housebuilder."

Lynda Blackwell: "That would have made a big change, because some of the current builders are not incentivised to build the properties the market actually needs. The housebuilders don't think about older people.

"The Government is not doing enough – and we are not building enough appropriate properties. The housing market is stuck. We are living longer, people are staying in their houses, first-time buyers can't buy and the second-steppers are getting stuck."

Dev Malle: "This is one of the challenges of the housing market. You assume new homes are for first-time buyers. But actually, if you release stock from the top end, that can help unclog the market for second or third-time buyers."

David Whittaker: "The influence of housebuilders within the Government is disproportionate and inappropriate.

"There was talk at one time about taxing large housebuilders over land banking. Did that make it to statute? It got squashed.

"Small and regional housebuilders will buy land in 2018, develop it in 2019 and sell it in 2020 because they can't afford to hang around. The big housebuilders will buy land in 1970 and develop it in 2020. Their profits are based on the fact it has cost them less for the land.

"Those behaviours need to be taxed out. It is the only way to get big housebuilders to behave. This can happen now, whereas some of the other issues we have identified will probably take a generation to fix."

The planning system

Jane Cross questioned if there is not a route to mixed-need development through planning controls, such as the mix of properties needed to be built in larger developments.

But **Lynda Blackwell** explained: "Yes, but then you face the same problem as you had with Battersea Power Station, where the Mayor of London said that a part of that needed to be affordable housing. When it came to it, it didn't happen, because of the commercials. It's all political and it doesn't work."

David Whittaker: "Surveyors will know from their day-to-day jobs that the planning system in this country is not fit for purpose, even if you overlay it with some smart rules, it wouldn't be able to absorb it."

Lynda Blackwell: "We have a horrible mix of problems without anyone being grown-up enough to say: 'Stop, let's really think about this and decide what we really need to do.' Until we fix the housing market, we will have a problem with the mortgage market, because the two are completely linked.

"A lot of us around this table will have made a lot of money on our houses. My daughter isn't going to and she's not going to have a decent pension either, so what is she going to live on when she is old and retired? We are walking into a horrible mess unless something happens."

Social housing

David Whittaker: "The private rental sector sits alongside the social housing sector, which successive Governments have ignored for the past 20 years. This is either because it either doesn't wish to espouse, or cannot afford a policy.

"Actually, the private rental sector would welcome a social housing sector with a clear identity and being reinvigorated. The private rented sector isn't the Aunt Sally for the failures of Governments over successive years.

"There needs to be a better balance. The social housing segment needs to be reinvigorated, to provide accommodation that people are happy with and perhaps for those looking to come back down the ladder."

Lynda Blackwell: "It really is important because there is a big problem with indebtedness in this country and lots of people are never going to buy a house. When it comes to pension age, they can't afford to rent, so the social housing sector is crucial and needs to be built back up again."

What happens in 10 years if we do nothing?

Social mobility crisis

Lynda Blackwell: "It is not a good picture. The issue of 'haves and have nots' and the north versus the south will be exacerbated. Super prime customers will remain the

preserve of the big banks. But we can't help the people who struggle with affordability.

"The regulator needs to get a grip. There needs to be a way to help poorer people onto the ladder. It could solve a lot of issues."

Jane Cross: "We are walking into a social mobility crisis. My parents, like a lot of people their age, were the first people to own a home in the family. We are now two generations of homeowners and that wealth will pass down the family.

"It means their grandchildren will have a chance of getting onto the ladder. But for those families who don't have homeowners already, I cannot see in 10 or 20-years' time how they will get onto the ladder without inherited wealth."

The Bank of Mum and Dad

Lynda Blackwell: "The Bank of Mum and Dad exists because people can afford it. But that won't be the case for future generations."

Andrew Montlake: "There has been Government scheme after Government scheme, which has just pushed up house prices."

Later-life lending

Lynda Blackwell: "I have a major problem with the later-life lending sector. Children will eventually inherit, but the later life lending sector is pushing people to transfer that wealth earlier.

"Nobody thinks they are going to get old and need care; that is not people's mentality. But more and more people, something like 5% of the later life sector are only 55. It's really scary and growing.

"People are taking money out of their houses now and will have nothing later in life. There is going to be a massive mis-selling crisis because brokers are selling products to earlier age groups and people will argue they were not told they would need to have access to money for care costs in the future."

Dev Malle: "The later-life market is still small. I don't think it will get to the heights many people think. The mainstream lenders will not enter that market, because the dynamics don't work.

"The people that it is aimed at are wealthier and don't need it. The people who it shouldn't be aimed at are using it for debt consolidation. That is the major challenge around that market together with the perceived reputational risk if anything went wrong."

Will Big Data and technology revolutionise the mortgage market?

Technology has made huge strides in the past decade. However, the mortgage market – fairly or unfairly – is often seen as a laggard when it comes to technological progress.

Lynda Blackwell: That said, attendees believe that the market is on the cusp of a data-led revolution, one that could transform the way products are built and the way loans are distributed.

How big a role will Artificial Intelligence play in the market in 2030?

Machine learning

Lynda Blackwell: "Big data and machine learning are going to be very important over the next 10 years. But I'm not sure to what extent artificial intelligence will play a role, probably not in the next 10 years."

Dev Malle: "A lot of what is happening, and at a pace, is machine learning. It will enable efficient decisions and smoother processes. Much of this will be behind the scenes, so the consumer won't necessarily see anything.

"For example, our scanning machines are based on machine learning. It will identify characters based on thousands of examples, and trigger tasks on the back of it.

"Another thing we are set to introduce is to simulate the conditions of a mortgage offer at quicker speeds. Let's say it takes 25 minutes at the moment, the prototype we are building will simulate those in less than a second and tell the consumer."

Individual risk pricing

Lynda Blackwell: "Big data will transform products. Lenders will have staggering amounts of information on a borrower. That will enable them to look at a customer as an individual.

"Eventually we will get individual pricing for risk. Having such a good picture of the risk that borrower poses means that products will be transformed. It will be individually priced."

Dev Malle: "If a customer goes to a lender and those are the sorts of decisions they're getting, the proposition becomes very attractive."

Lynda Blackwell: "Customers will get a mortgage decision in minutes. Brokers really need to get their act together. They need to adjust because eventually it won't be a lender they are dealing with; it will be a one-stop-shop platform that gives you everything you want.

"We could see a situation where you walk past a house and your phone pings in your pocket because you've said you are interested in a particular type of property - then your phone tells you that you are the perfect person for it. 'And, guess what? You can afford it, click here for a mortgage offer.'

"In the future, lenders will try to keep customers for life. They will aim to be one step ahead and proactively give the client a consistently optimal price. When you deliver a personalised service to a customer, you look after them and ensure they are not being ripped-off, that customer can be incredibly loyal."

Consumer trust

David Whittaker: "It might take some time for customers to trust banks again. I wouldn't allow my bank to have live data on me. Unless you are giving them that data, and allowing them to continuously access it, which they are not currently able to do, then I think that is a big step to overcome."

Jane Cross: "People don't necessarily always think about the consequences of what happens to their data. If someone tells them that it's in their interests, you could find a lot of people willing to give it up."

David Whittaker: "Until there is a GDPR breach – which will almost certainly happen – and the banks will lose all trust again.

"Ascertaining individual risk is problematic. Once again it becomes a case of the 'creditworthy haves and have nots.' If you're a banker and you have to give a special price to one borrower, someone further down the chain is going to pay more for credit.

"In the dash to reach this supposed desirable point, actually you then disadvantage others. Everyone involved in this process needs to think hard about that."

Credit-impaired borrowers

Lynda Blackwell: "If you look across the market as a whole, the pre-crisis risks – high LTV lending etc, that we were all worried about – they are all back today. The only thing that hasn't come back is credit-impaired."

"Smart tech and data will help credit impaired borrowers. If you have a good picture of what that customer looks like, and you are prepared to take the risk, then you will be able to service them."

David Whittaker: "If that is part of the behaviour of a more responsible market, that allows a person to buy who wouldn't have done previously, then that is fixing the problem and is a good thing, rather than using data to offer super low interest rates to prime borrowers."

Personalised products

Lynda Blackwell: "We are no longer in the world where lenders manufacture products, pile them high and sell them. The world we are now moving into is driven by the customer and is all about 'you'."

"If I have all of the data about you, then I can give you a product that is personalised. That is powerful and will change a lot."

"That extends to product features. Lenders will be able to design a product specific to you. The sky is the limit. And the later life lending sector will have access to health data,

> “We should look forward to a better and more responsible market place because of data.”

which will totally transform everything. If they have a proper understanding of how long you are going to live, whether you will be sick etc, data should help make for a much better marketplace.

"We should look forward to a better and more responsible market place because of data."

Property risk

David Whittaker: "And would I as a lender give a better rate for a property with an energy efficiency rating of A, B or C or D, E or F? I think lenders will use all of the data not just to assess the borrower but also for the property's green credentials."

Jane Cross: "Exactly. There are two parts to the risk the banks are managing. The first part is the credit risk and the second part is if there is a credit event, what is the value of the property underlying?

"There are changes being driven around Big Data, because there is a massive amount of data out there on properties as well as individuals.

"The banks are doing a really good job of using that to drive AVMs and remote valuations. Using that data will allow us to give a really quick decision. The key to that is keeping the data fresh."

FUTURE FINANCE

This roundtable from MRM is the latest in a series known collectively as Future Finance. Whether it be mortgages, pensions, investments, fintech or any other area of finance, our aim is simple: to gather the industry's leading minds to discuss the future of their respective markets.

UK financial services is constantly evolving, improving and becoming smarter in the way it works and through the Future Finance series, MRM will be at the forefront of the latest trends.

If you would be interested in taking part at a future event, or would like MRM to help you create one of your own, please get in touch with **Paul Thomas** at **paul.thomas@mrm-london.com** or **020 3326 9904/078 8466 7981**.

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