



# The future of home lenders in Australia

July 2022



# Contents

Introduction	05
The starting grid – dominant forces v. digital disruptors	06
The agile mid-tier	07
The need for speed	08
Digitalisation options	09
The racing line	12
The chequered flag	14
Key contacts	15









# Introduction

Rising interest rates, booming property markets and the struggle of younger Australians to get a foot on the home owning ladder continuously fuel the news cycle.

But it shouldn't be a surprise that the home lending sector garners its fair share of speculative headlines.

It isn't only the knock-on effect rate hikes and climbing repayments have on the wider economy and lives of many Australians, but also that home loans remain a massive segment of Australian financial services, representing 44.5% of this AUD185.1 billion market<sup>1</sup>.

Changing economic conditions are just one of many factors forcing home lending lenders to assess their strategic priorities on where and how they will win.

Here, we analyse the current competitive landscape, breakdown the issues facing the dominant providers and look at how digital disruption could change the home lending landscape for good.

## Key insights

Market conditions are creating sense of urgency to review/ refine home lending strategic aspirations

We can help you enable growth in these changing market conditions

The strategic choices matter to attract the right customers you want to attract and retain

We can help you make the choices that win with customers in a competitive environment

Speed to decision still matters

We can help you assess, prioritise and execute on faster time to yes

<sup>1</sup> IBISworld Australia Industry (Anzsic) Report K6200, March 2022

# The starting grid – dominant forces vs digital disruptors

The dominant force in the Australian home lending market, the Big 4<sup>2</sup> Australian banks, enjoy huge customer bases, powerful distribution networks, strong investment capacity and broad product offerings.

But they are encumbered by legacy systems and ways of doing business that mean automation and digitalisation typically take longer than they do at their smaller, more nimble peers.

This relative lack of agility has become starker during the emergence of “the disrupters”, a group of digital-only lenders and “neobanks”,<sup>3</sup> in recent years.

Although the disrupters serve only a tiny section of the overall home lending market, their influence has been disproportionately large. Why? Because their targeted offerings and fast, innovative customer experiences have raised the bar for the speed and precision with which lenders interact with brokers – which still deal with 70% of home loans – and direct to consumers.

The Big 4's big challenge is to meet this higher bar so they can appeal to new sections of the home lending market while maintaining or enhancing their leading positions.

On the flipside, the digital natives now need to address how to stay competitive and continue growing now that their slick UX, speedy processing and asset light operations are easier to replicate.

“Technically, everything a lender needs to launch a new home lending product is now readily available, which has lowered barriers to entry. Niche suppliers for different components of the value chain have reduced the cost of bringing a home lending product to market and operating it. Add in banking as a service (BaaS) and software as a service (SaaS) and it can now take just a few months to introduce a product.”

**Isabel Bantegui**

Deloitte Consulting Director

---

<sup>2</sup> Australia & New Zealand Banking Group (ANZ), Commonwealth Bank (CBA), Westpac and National Australia Bank (NAB)

<sup>3</sup> e.g. Athena, Nano and TicToc

# The agile mid-tier

In between the Big 4 and the digital natives are the mid-tier banks, including domestic institutions and the local platforms of global banks,<sup>4,5</sup> the customer-owned mutual banks<sup>6</sup> and the non-bank lenders.<sup>7</sup>

The mid-tier banks share many of the Big 4's advantages, but with added agility that enables them to create and launch platforms and products at speed. Their challenge is to grow without losing that agility.

The customer-owned mutual banks typically enjoy deep customer loyalty and do not have the same pressure to deliver returns as their larger, listed or private-equity owned peers face. However, they face a struggle to remain relevant.

Non-bank lenders, meanwhile, are typically less weighed down by legacy systems and regulation than their larger peers, with well-established capital market credentials and a higher risk tolerance that enables them to provide specialist lending.

Their main dilemmas are how to serve and what to serve them with to drive growth.

---

<sup>4</sup> e.g. Bank of Queensland, Macquarie and Suncorp

<sup>5</sup> e.g. HSBC, ING and others

<sup>6</sup> e.g. Great Southern Bank, Heritage Bank, Newcastle Permanent and People's Choice Credit Union

<sup>7</sup> e.g. Liberty Financial, Pepper Money, RESIMAC, Beyond Bank and Bank Australia

# The need for speed

The digital natives, their suppliers, BaaS and SaaS have accelerated the Australian home lending market by making digital origination platforms more accessible and faster to create, plus lightening lenders' end-to-end processing load and shortening "time to yes" for homebuyers and brokers.

Some mid-tier banks have also had major successes in this area, with one completely redesigning its home lending origination processes and meeting the demand of brokers for consistent, rapid turnaround.

This was achieved through policy changes, including on minimum document requirements, and project and program management initiatives involving robotics and cognitive technologies.

Even for the Big 4, whose complicated tech stacks have conventionally made digitalisation difficult, advances in technology mean it is now possible to augment legacy systems and create a new front end in months not years.

Before any decision on the shape of their new platform, however, lenders first need to decide whether to build, buy or license a solution. Another, supplementary question is whether to embed that solution into their current offering or use it to underpin a new offering or brand.

The answers to both questions require a thorough assessment based on the lender's strategic objectives and guiding principles for their business and technology, with pros and cons for each approach.

"Moving to a new originations platform no longer requires a capex intensive deployment that can take three or more years. It can now be a matter of months rather than years for the initial product launch, with little to no upfront capital investment and a pricing model that's volume based, with flexibility to scale at speed to meet demand."

**Mike Way**

Monitor Deloitte Strategy Partner





# Digitalisation options

Type	+	—
<b>Home lending as a Service (MaaS)</b> (Outsourced technology and operations)	<ul style="list-style-type: none"> <li>• Quick time to market</li> <li>• Lower up-front and on-going capex/op-ex expense</li> <li>• Pre-built ecosystem with integrated 3rd party vendors</li> <li>• Lower implementation and operational dependencies on bank technology and operation staff</li> </ul>	<ul style="list-style-type: none"> <li>• Vendor risk</li> <li>• Product and customer scope dependent on vendor</li> <li>• Required bank adaptation to vendor operational processes</li> <li>• Reduced control of UX</li> <li>• Vendor dependence on future roadmap</li> </ul>
<b>Licensed platforms integrated into lender operations</b>	<ul style="list-style-type: none"> <li>• Out of the box functionality reduces time to market</li> <li>• Pre-built ecosystem with integrated 3rd party vendors</li> <li>• Configurable to bank product and customer strategy</li> <li>• Differentiated UX</li> </ul>	<ul style="list-style-type: none"> <li>• Vendor risk</li> <li>• Higher capex/opex costs compared to MaaS</li> <li>• Reduced expansion options</li> <li>• High impact on bank resources (configuration/maintenance)</li> <li>• Dependencies on core banking integration</li> </ul>
<b>Build or Build/Buy</b>	<ul style="list-style-type: none"> <li>• Total control of user experience/operational process</li> <li>• Ability to leverage modular capabilities with build or buy</li> <li>• Differentiated UX</li> <li>• Leverage existing bank technology assets (digital, CRM, workflow)</li> </ul>	<ul style="list-style-type: none"> <li>• Ongoing cap-ex commitment to maintain competitive advantage</li> <li>• Significant internal resource dependency impacting other strategic initiatives</li> <li>• Shortage of talent to meet project demands</li> </ul>

Technology is consigning to the past legacy home lending processes that took more than 20 business days from application and assessment to verification and final decision.

Slick digital operations can now connect lenders with customers, suppliers, partners, data, applications and services faster, accelerating the deployment of new products and services, and flexible operating models, enabled by digital collaboration, allowing them to react to market conditions at speed.

Automated document and loan lenders home lending insurance (LMI) verification and a unified view of operational reporting are examples of the processes that are now the norm.

As for time to yes, with brokers and direct borrowers alike having raised their expectations for speed and ease of use, this has been accelerated by digital verification of identity (VOI) services, e-signatures and chat portals, automated credit checks and income and expense validations.

Among brokers and borrowers, lenders are increasingly valued for their ability to quickly reshape their home lending proposition across technology, processes, policy, marketing and behaviour.

“Many lenders are moving from a primary focus on the digital user experience to also a predictive experience as data sharing becomes more widespread providing faster decisions, well-matched products and guidance on responsible loan amounts.”

**Jason Swartz**

Deloitte Consulting Director





Over  
**\$200  
billion**

Fixed loans set to  
mature in the next  
12-18 months\*

With some banks becoming frustrated at not making sufficient progress with digital UX, this approach can sharpen their transformation plans and accelerate delivery.

Intuitively, the digital natives and non-bank lenders would seem to have an advantage in the speed stakes, but this is not always the case and is not a whole-market advantage given they typically serve only specific groups of borrowers.

All lenders need to figure out how to close the technology gap to the digital natives and learn from their approaches to building capability, informed by a thorough understanding of the cost and potential speed of implementation, whether to repurpose existing structures or create entirely new ones, and if they have the cash or expertise in house or need 3rd-party support.

Whatever they decide, these efforts can be transformative, with one mid-tier bank having slashed its approval time for brokers from 33 days to just three and another creating powerful user experiences that have reinvigorated its home lending proposition.

Achievements like these have been achieved through well-honed strategies, astute choices of third parties, end-to-end transformation, smart policy choices and, in one notable case, pursuing higher margin lending rather than volume.

On the flipside, all lenders should be mindful that failures to execute well in this space can have perilous implications for their competitive positions and reputations.

\* <https://www.smh.com.au/money/borrowing/wave-of-expiring-fixed-rate-loans-to-inflict-homeowner-pain-20220214-p59w7i.html>



# The racing line

Beyond technology, each group of lenders must constantly assess two other pivotal issues, where to play in the market and the ability to scale operationally in a price sensitive environment.

The competitive landscape will be reshaped over the next two years as fixed-rate terms on an estimated AUD200 billion in home loans end.

Beyond normal considerations in how to grow their home lending businesses, lenders who already have a slice of these home lendings need to decide now whether and how to retain it, and those without a piece can consider whether it's worth pursuing.

Conventionally, it is only the Big 4 that have the capital, risk and profit profiles to target all corners of the market.

Any attempt by them to enter or strengthen their proposition in new segments will require an assessment and possible adjustment of their pricing, overall value proposition and go-to-market strategy.

One option for the Big 4 is to create multiple home loan experiences, each targeting a different customer segment, for example owner occupiers, investors or small businesses. This kind of tailoring can require changes to systems and risk management and needs a targeted, well-designed marketing approach.

Another option is to diversify appeal through the purchase of one of the digital natives. Any acquisition in this space needs to be assessed carefully to ensure it enhances the bank's value proposition. Once this is ascertained and the deal goes ahead, embedding the acquisition can be complex and require specialist support to mitigate technology, operational and regulatory risks.

For mid-tier banks and non-bank lenders, growth and new scale – and for the mid-tiers even developing a proposition to rival those of the Big 4 – can be achieved through targeted segment strategy, tilting towards third-party distribution, partnering with new digital players or attracting new homeowners through a strong everyday banking proposition.

Non-bank lenders, and some of the mid-tiers, have also been successful in targeting niche groups of borrowers, an approach that typically emphasises fresh customer experiences and new product features rather than low headline rates.



## 3 – 5%

Digital home loans as proportion of current mortgage market\*

\* <https://www.brokernews.com.au/news/breaking-news/how-digital-home-loans-are-taking-over-2022-279535.aspx#:~:text=%E2%80%9Cyou%20think%20about%20where,ve%20built%20our%20enterprise%20arm>

Among mutual banks, where there has been continued consolidation of late,<sup>8</sup> lenders will also be eyeing the end of fixed-rate terms on a large portion of their loan books and considering how to retain this business. In wider competition, their key issue is how best to compete with larger lenders that tend to have more resources to invest in proprietary channels. Options include adding new digital origination capabilities, the pros and cons of which are discussed in the previous section, strengthening their broker propositions or focusing on niche segments.

Finally, the disrupters; whose speed advantage is dwindling. This means they must now address more fundamental issues like the cost of funds and customer acquisition, whether to continue to pursue growth or choose other options like providing “lending-as-a-service”, or even the existential issue of whether to seek an exit while they retain some speed and UX advantages.

Once lenders decide where to compete, they must ensure that they have the right fundamentals in place. And while the number one thing for borrowers might be price, it isn't the only decider.

For the Big 4, mid-tier banks and mutual lenders, brokers will remain the dominant channel with their substantial market share, but they can still seek to replicate the success of the disrupters in end-to-end digital origination.

This can reduce their commission expense, penetrate new areas of lending or help them retain their existing books. On the flipside, it can also expose them to the risk of losing customers, particularly those with straightforward lending needs, to rivals offering a better experience.

Also, despite the rise of digital origination, being able to support brokers and borrowers directly throughout the home lending process, whether they get to speak to someone or just have the comfort of knowing there is someone to speak to, remains a key differentiator for all lenders.

For a while now, some lenders have also sought to differentiate in more bespoke ways, including by embedding other products (home insurance, reward points and discounts) into home lendings.

Technologies like application programming interfaces (APIs) have made this blending approach easier. However, as in other arenas of competition in the Australian home loans market, success depends on taking the right approach and creating a powerful journey for borrowers, including with the support of third parties, to increase the likelihood of retaining existing customers or winning new ones.

Some lenders are also looking to enhance and differentiate their home lending propositions based on non-financial factors.

As investors and capital markets put more pressure on banks to prove they are making progress in tackling climate change, lenders are also helping borrowers reduce the carbon footprints of their homes through guidance and services bundled with home lendings, while other are offering “green loans”, some with lower rates as an incentive.

Before creating green loans, lenders must first assess their market potential and if and how they can fund discounts, if any, using either their in-house expertise or outside guidance.

“The second thing is experience: how intuitive and easy is it for customers to understand what they can borrow, how to apply and when they'll get the okay to buy their home. In a hot market, experience is what makes people feel they are supported and won't miss out; particularly with so many houses being sold pre-auction today.”

**Meredith Wheelhouse**

Partner, Digital – Retail Banking Sector Lead

<sup>8</sup> e.g. Beyond Bank, Bank Australia and P&N Bank.

# The chequered flag

Lenders' success in capturing opportunities in the segments where they want to compete – whether that is a direct only channel, third-party offering or a mix of both, will depend on them being trusted to meet brokers' and borrowers' needs.





# Key contacts

**Meredith Wheelhouse**

Partner, Digital – Retail Banking Sector Lead  
mwheelhouse@deloitte.com.au

**Mike Way**

Partner, Strategy  
mway@deloitte.com.au

**Matt Bailey**

Partner, Banking Transformations & Operations  
mattbailey@deloitte.com.au

**Jason Swartz**

Director, Banking Transformations & Operations  
jswartz@deloitte.com.au



This publication contains general information only, and none of Deloitte Touche Tohmatsu Limited, its member firms, or their related entities (collectively the “Deloitte Network”) is, by means of this publication, rendering professional advice or services. Before making any decision or taking any action that may affect your finances or your business, you should consult a qualified professional adviser. No entity in the Deloitte Network shall be responsible for any loss whatsoever sustained by any person who relies on this publication.

Deloitte refers to one or more of Deloitte Touche Tohmatsu Limited (“DTTL”), its global network of member firms, and their related entities. DTTL (also referred to as “Deloitte Global”) and each of its member firms and their affiliated entities are legally separate and independent entities. DTTL does not provide services to clients. Please see [www.deloitte.com/about](http://www.deloitte.com/about) to learn more.

#### **About Deloitte**

Deloitte is a leading global provider of audit and assurance, consulting, financial advisory, risk advisory, tax and related services. Our network of member firms in more than 150 countries and territories serves four out of five Fortune Global 500® companies. Learn how Deloitte’s approximately 286,000 people make an impact that matters at [www.deloitte.com](http://www.deloitte.com).

#### **About Deloitte Asia Pacific**

Deloitte Asia Pacific Limited is a company limited by guarantee and a member firm of DTTL. Members of Deloitte Asia Pacific Limited and their related entities provide services in Australia, Brunei Darussalam, Cambodia, East Timor, Federated States of Micronesia, Guam, Indonesia, Japan, Laos, Malaysia, Mongolia, Myanmar, New Zealand, Palau, Papua New Guinea, Singapore, Thailand, The Marshall Islands, The Northern Mariana Islands, The People’s Republic of China (incl. Hong Kong SAR and Macau SAR), The Philippines and Vietnam, in each of which operations are conducted by separate and independent legal entities.

#### **About Deloitte Australia**

In Australia, the Deloitte Network member is the Australian partnership of Deloitte Touche Tohmatsu. As one of Australia’s leading professional services firms, Deloitte Touche Tohmatsu and its affiliates provide audit, tax, consulting, and financial advisory services through approximately 8,000 people across the country. Focused on the creation of value and growth, and known as an employer of choice for innovative human resources programs, we are dedicated to helping our clients and our people excel. For more information, please visit our web site at [www.deloitte.com.au](http://www.deloitte.com.au)

Liability limited by a scheme approved under Professional Standards Legislation.

Member of Deloitte Asia Pacific Limited and the Deloitte Network.

© 2022 Deloitte Touche Tohmatsu.

Designed by CoRe Creative Services. RITM1085011