Deloitte.

Retail Mortgage Benchmarking in Switzerland

Selected summary results from a survey of 38 leading Swiss mortgage lenders

July, 2024

MAKING AN IMPACT THAT MATTERS since 1845

The current **macroeconomic situation is forcing** financial institutions to take strategic **decisions** in the **mortgage business**

Deloitte's retail mortgage benchmarking provides transparency:

- Leading Swiss market players were surveyed directly in a data-gathering process up to Q4 2023
- Sample of 38 retail and universal banks, cantonal and regional banks, private banks and insurance firms
- Assessment of all Swiss market regions with a focus on owner-occupied housing
- Coverage of over 65 per cent of the Swiss mortgage volume (CHF 750 billion)

Swiss mortgage lenders are significantly influenced by macroeconomic developments such as rising interest rates and ongoing digitalization, as this benchmarking shows in detail

Assumptions and aims of Deloitte retail mortgage benchmarking

Market context and background of Deloitte benchmarking

In recent years, **Swiss mortgage lenders** have been operating in a **fast-changing market**. As well as the above-average **rise** in **property valuations** since the COVID pandemic (+ 18 per cent from Q4 ‘19 to Q4 ‘23) and **interest rates** (SNB base rate from – 0.75 per cent in Q2 ‘22 to + 1.75 per cent in Q2 ’23 and ultimately + 1.25 per cent in Q2 ‘24), rapid **progress** with **digitalisation** and the emergence of **platforms** have changed the market and customer expectations in the housing ecosystem. In addition, the **UBS/CS acquisition** made waves in the Swiss financial centre.

Despite positive impacts on overall P&L due to the interest-rate differential in 2023, **pressure on margins** and **competition** for market share in the mortgage business are continuing to **intensify**. The ongoing **fragmentation** of **value chains** in the lending business, new **regulatory expectations** (e.g. in sustainability or risk management) as well as fundamental questions – particularly in connection with an infrastructure that is ageing in places – are set to exacerbate the situation. Furthermore, rising interest rates in recent months have led to a **major shift towards shorter terms** (as at January 2024, 74 per cent of the private mortgage volume had a residual term of one to five years compared with 69 per cent in 2022). A slight decrease in construction activity is expected in the short to medium term. Accordingly, the **extension and takeover business**, where customers are more willing to change, is set to **gain in importance** – a good combination of customer experience and a competitive price will prove crucial.

Consequently, mortgage lenders **currently face multiple short- and long-term strategic questions** in terms of their **ability to meet** the changing **needs** of customers as well as employees and shareholders **in the future**. In view of this, **Deloitte** provides **in-depth transparency** regarding the current situation as well as **recommendations** for Swiss **financial institutions** with this **unique, objective benchmarking study.**

Hypotheses as guiding topics in this benchmarking

- **Events in the market require a strategic realignment**
- **Pressure on margins has led to a focus on short-term optimizations**
- **A ‘digital first’ approach is also being increasingly applied to mortgage lending**
- **Inflation and rising interest rates are squeezing household budgets**

© Source: Deloitte (2024); residential property price index of the Swiss Federal Statistical Office (2024); SNB data portal (2024); Swiss Federal Office for Housing: Rising interest rates: Effects on housing construction and prices (2024); Note: Detailed methodology and glossary attached

Results confirm growing pressure in the mortgage market, as well as heterogeneous maturity due to untapped internal potential in efficiency, digitalization or risk management

Summary of Deloitte Retail Mortgage Benchmarking in Switzerland (1/2) – Main Results

Guiding topics	Selected results of benchmarking respondents		
Events in the market require a strategic realignment (Slides 6–10)	**2,2%**	market growth is expected from Q3 '23 to Q4 '24 (3.1% in 2022)	• Declining market growth is expected, however, **47% plan to grow** much **more strongly than the market** (at up to 5%) • Most institutions see **UBS/CS acquisition** as an **opportunity**, especially for specialist staff (55%) and loan takeovers (53%) • At the same time, **cantonal** and **regional banks** in particular are being **proactive** (e.g. customer enticement, pricing)
	74%	see sustainability as a priority and a challenge	• **More than ever**, institutions see many **parallel, strategic priorities** and **challenges** in the mortgage business • **ESG increased as a priority** (from 24% in 2022 to 74% for 2024), while digitalisation saw the biggest fall (from 63% to 37%) • **Traditional process optimisation** remains **highly valued** (55%), but is a challenge just as often
Pressure on margins has led to a focus on short-term optimizations (Slides 11–13)	**80%**	have an acute need for action in their mortgage process	• Respondents **confirm** substantial potential for optimisation and **efficiency** across mortgage processes • **39%** have a particularly **acute need for action** in relation to customer-focused steps from the lead to approval • Streamlining **standardisation** as a key requirement for major digitalisation plans is **not yet established**
	CHF 1'560	is the cost of a standard mortgage application on average	• Substantial differences (e.g. time to indicative commitment ranges from 1h to 3d) confirm **heterogeneous market maturity** • **Large banks** benefit from **economies of scale**, while **cantonal banks** have the **highest margins** but are also exposed to risk • Clear **correlation is apparent**, particularly in **efficiency**, e.g. processing time (1 <> 8 h) in relation to costs or conversion rate
A 'digital first' approach is also being increasingly applied to mortgage lending (Slides 14–19)	**57%**	only have one orchestrating, central end-to-end workflow tool	• Digitalisation initiatives focus on stronger customer retention, but **efficiency pressure** remains the **biggest driver** (at 37%) • **For customers**, **digital features** (e.g. mortgage calculator (70%)) are now **standard**, but cantonal banks show less ambition • Regarding **internal digitalisation** (e.g. workflow tool, reporting), there are clear **correlations** with bank size and efficiency
	82%	no longer have any concerns regarding platforms	• **Partnerships** (up to 42% of respondents) with **platforms** are on the rise, with **B2C archetypes** still being **preferred** • Recent **consolidation** in the **platform market** strengthen **benefits** of **B2B providers** and offer **new strategic opportunities** • **Restraint** is apparent in the **consideration** of **SBA ESG recommendations**; there is a desire to wait for clearer guidelines
Inflation and rising interest rates are squeezing house-hold budgets (Slides 20–21)	**32%**	of applications to cantonal banks have an affordability of > 33%	• Rising in past years in **exception-to-policy** (between 0% and 40%) and **affordability rates stabilised** since 2023 • **32%** see **a need** to **adapt** the **calculation** parameters, partly on account of the rapid rises in interest rates • **33%** still **check loan applications** in the **2nd LoD**, which is proof of different **corporate governance** approaches
	0,8%	default rate is expected by the end of 2024 (+ 60% compared with 2023)	• Overall, institutions are on **sound foundations** in **credit-risk monitoring** (e.g. 76% with AQR) • However, an **increased probability of default** (rise of up to 60%) and **NPL** (rise of up to 30%) are now **expected for 2024** • **Potential** exists in **proactive risk prevention** (e.g. only 53% with early-warning system, only 12% with equity buffer increase)

Financial institutions should act now to increase their maturity in the mortgage business in order to ensure their competitiveness and thereby also benefit the Swiss market as a whole

Summary of Deloitte Retail Mortgage Benchmarking in Switzerland (2/2) – Conclusions

Guiding topics	Conclusions for financial institutions
Events in the market require a strategic realignment (Slides 6–10)	Given the wide range of emerging **strategic initiatives** in the mortgage business, it is necessary to **focus on a consequent implementation** while remaining **open** to **innovative** business models. A continuous **focus** on **customer requirements**, holistic consideration of complex dependencies and an **objective change** beyond internal silos must be ensured here.
Pressure on margins has led to a focus on short-term optimizations (Slides 11–13)	**End-to-end process optimisations** must be carried out **holistically** to **ensure** an efficient and **scalable organisation** in time for the next surge in growth and to simplify parallel internal digitalisation efforts based on top of this. **Specific KPI ambitions** along the value chain with relevant **executive reporting** support performance measurement and **agile decision-making**.
A 'digital first' approach is also being increasingly applied to mortgage lending (Slides 14–19)	On the basis of **previously** established **process standardisation**, overall **planning** of the **future digital tool landscape** is required in a symbiotic relationship with the core banking system. Despite the **expansion** of **platform partnerships**, it is necessary to couple **internal, digital** and analytics-based **customer journeys** along the moments of truth with comprehensive advice to **avoid losing the customer relationship**.
Inflation and rising interest rates are squeezing house-hold budgets (Slides 20–21)	To minimise unexpected NPL, it is necessary to ensure effective **management of risk appetite** and **proactive monitoring** of the credit risks in the portfolio. Along with methodological aspects, issues regarding **governance and risk culture, operational risks** and controls must be explored, particularly on account of the end-to-end complexity in the mortgage business.

Overall conclusions for further market players

Financial institutions

End customers

With **first-time customers**, the macroeconomic situation makes the use of a **reliable, capable advisors** even more necessary than in recent years (particularly with regard to a sustainable overall financial situation). In the case of loan **extensions**, selected customers could benefit more strongly in the future from **providers** that offer a **more attractive refinancing interest rate** with **platform models**.

Platforms

At present, **focus** is turning to **selected archetypes** with a commensurate **increase in market coverage**. Combined with the growing openness to these models among customers and financial institutions, and in view of the relative increase in extensions, a **sharp rise in enquiries is expected**. Success depends on a **rapid expansion** of the **offering** (e.g. types of building/loan structuring) and technical connectivity.

Regulators

Compared with previous years, **credit risk management** (e.g. AQR, stress testing) **gained in prominence again** (though institutions are on a sound footing and risks tend to be more in commercial properties). Yet, there is an **opportunity** to provide the market with **more robust guidelines** for more uniform implementation in the future in **specific topics** (e.g. ETP, corporate governance, sustainability, operational risk).

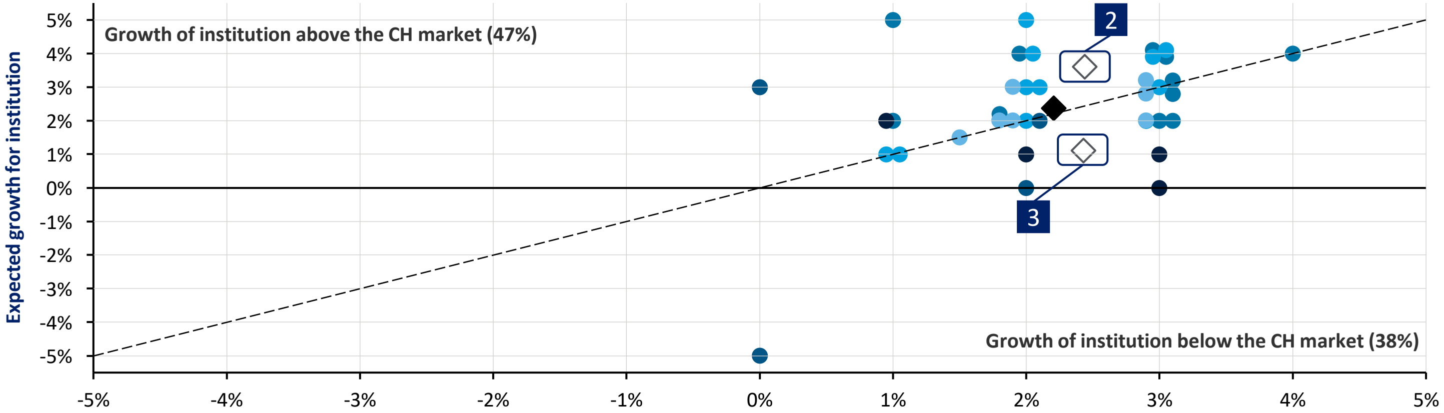
II – Selected results:

Events in the market require
a strategic realignment

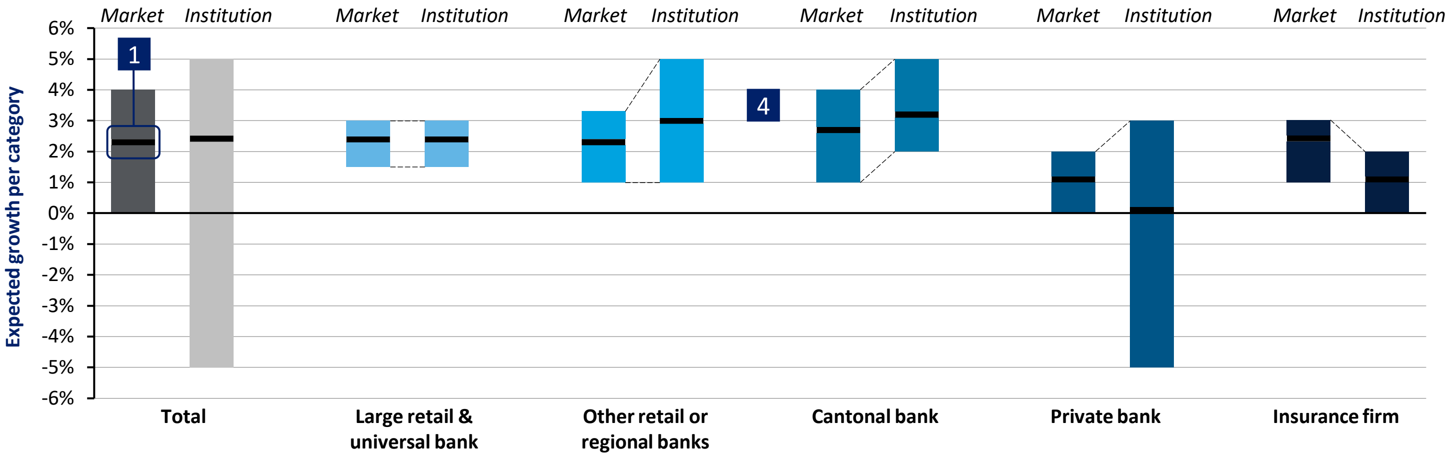
Competition for market share in the mortgage business is intensifying – respondents expect declining market growth of 2.2 per cent from Q4 '23 to Q3 '24, but plan to outperform the market themselves

What is the expected level of growth in the mortgage lending market?

Expected growth in volume in the next 12 months (Q4 '23 – Q3 '24)



Expected growth for CH market



Observations

The mortgage market is a **key pillar** of the **Swiss financial sector** and a major driver of its growth. It also **matters a great deal to many households**, which is why shifts in the expected competition (e.g. market share) can have a major influence on the choice of provider.

On average, the **study respondents expect declining market growth** of 2.2 per cent until Q3 2024 (1) compared with the **growth of 3.1 per cent** achieved in 2022 according to SNB statistics – an unsurprising result given the interest-rate rises.

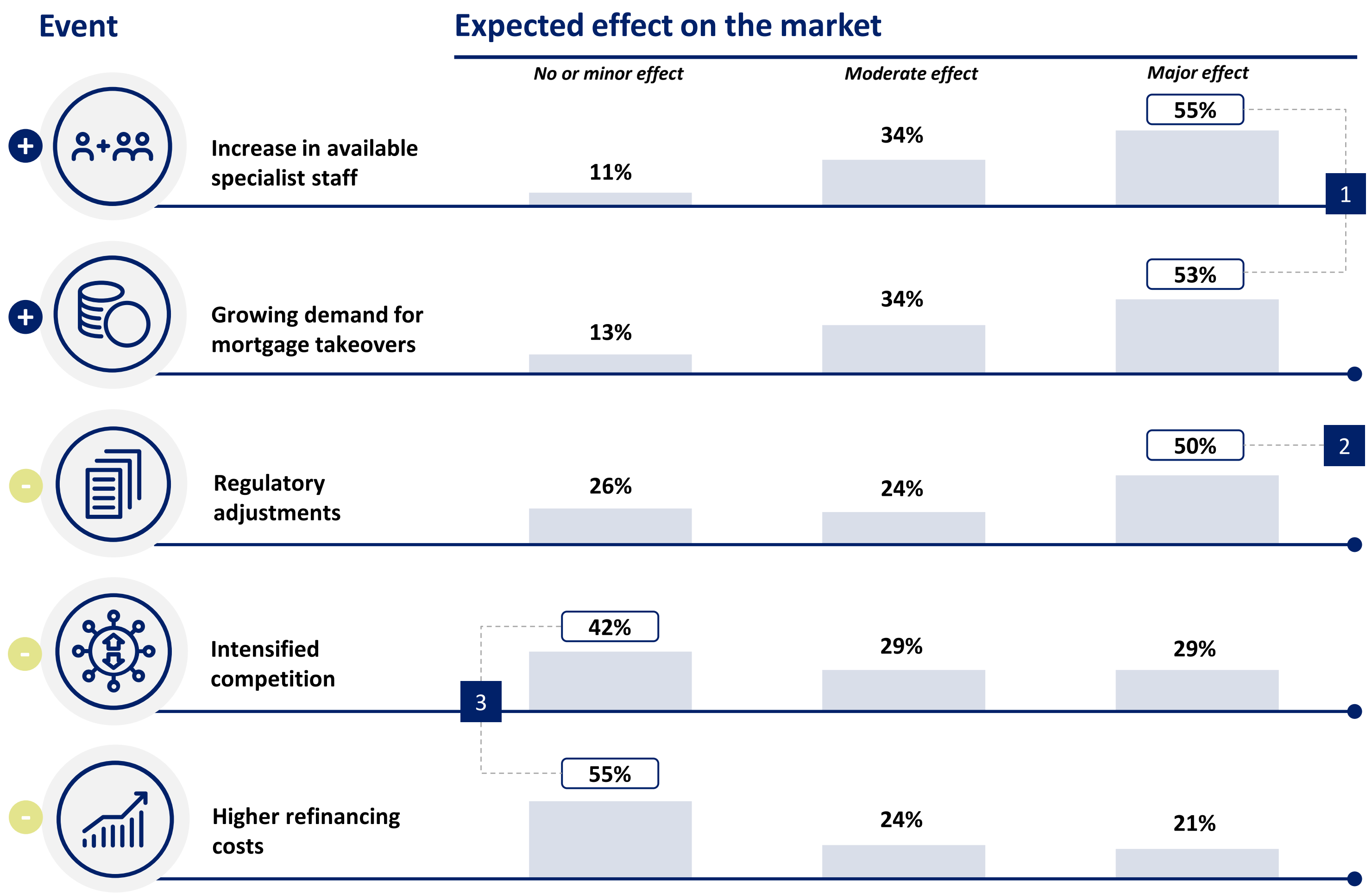
Around **47 per cent of respondents assume** that they **will significantly exceed** the expected **market growth** with **average growth of 3.6 per cent** (2). **38 per cent** of respondents envisage growth of 1.1 per cent, which is well below the expected market growth and constitutes a **conscious loss of market share** (3). The remaining 14 per cent plan to keep pace with the market. Overall, these figures suggest **intensified competition for market share**.

It must be emphasised that the **regional and cantonal banks** in particular **plan** to significantly **outstrip market growth** with growth of more than 3 per cent (4), while the growth forecasts of private banks and insurance firms in particular are more conservative.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: ◇ ▬ Average; Expected growth of banks; Expected market growth
Central, overall observations

The UBS/CS acquisition is expected to have direct effects – availability of specialist staff (55 per cent), rising demand for customer mortgage takeovers (53 per cent) and regulatory adjustments (50 per cent)

How is the UBS/CS acquisition impacting the mortgage lending market?



Observations

It was **expected** that the **acquisition of Credit Suisse** (~10 per cent of the Swiss mortgage volume at the end of 2022) **by UBS** would also have **repercussions on** the **mortgage market**.

The increased **availability of specialist staff** (55 per cent) and the **growing demand for takeovers** of existing mortgages (53 per cent) among **customers willing to change** are seen as **positive effects** (1) for respondents. Both effects are short-term opportunities, as proactive institutions could temporarily have advantages over the large banks here.

At the same time, there are also **concerns regarding regulatory adjustments** (50 per cent, 2) – such as the prospect of **stricter equity regulations** or the extension of FINMA category 1 and 2 banking requirements to category 3 and 4 respondents. In **combination with further events in the Swiss banking sector** in recent years (mainly in the corporate client segment), some generally **stricter requirements** in areas such as **capital structure, governance** (1st LoD/2nd LoD separation) or **credit risk management** are also expected.

Interestingly, **most** respondents **do not expect** a direct **increase in competitive pressure** (42 per cent) or **higher refinancing costs** (55 per cent) as a direct consequence (3). All in all, **therefore, most respondents** have a **positive attitude** to the UBS/CS acquisition.

Color: X Central, overall observations;
+ A generally positive effect for institutions;
- A generally negative effect for institutions

Selected respondents are using the UBS/CS acquisition as a growth opportunity – proactive enticement of customers and more intensive customer support, particularly on the part of cantonal and regional banks

Have temporary proactive measures been taken in the mortgage business in response to the UBS/CS acquisition?

Institution-specific measures as a result of the UBS/CS acquisition

Measure	Σ	Large retail & universal bank	Other retail or regional banks	Cantonal bank [3]	Private bank	Insurance firm
Increase in enticement measures	21% [1]	13%	38%	38%	25%	0%
Intensification of customer support	21% [1]	13%	38%	25%	50%	0%
Focus on portfolio acquisitions	18%	14%	29%	43%	25%	0%
Other(1)	18% [4]	14%	57%	29%	0%	0%
Adjustment of mortgage prices	5% [2]	0%	50%	0%	0%	50%
Focus on branch acquisitions	0%	0%	0%	0%	0%	0%
Engagement with experts	0%	0%	0%	0%	0%	0%

Observations

The study respondents also include institutions that have **proactively planned** or **already taken measures** with regard to the before-mentioned effects:

Enticement of specialist staff and **more intensive customer support** are the most common responses to the UBS/CS acquisition (21 per cent each, 1). This is partly attributable to the **general uncertainty** that leads to more intensive support. In addition, **there is a targeted positioning as a reliable** (safe) **partner**, such as to entice CS customers ahead of the migration to UBS. Very few intend to win the competition via price adjustments (5 per cent, 2), as after **persistent pressure on margins** in the interest-related business, the volatile interest-rate developments currently beneficial to banks will **not be proactively relinquished**.

Regional retail and cantonal banks in particular seem keen to **use** the UBS/CS situation as an **opportunity** and have taken far more measures than other types of bank (3). **Larger banks** and insurance firms **run the risk** of **underestimating this** and losing market share. This observation is **shared by 18 per cent of respondents**, all of them cantonal banks and regional banks that have taken alternative measures (4). These include **stepping up** their **local advertising efforts.**

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations

1) Focus on local strength, scenario planning or proactive marketing activity

Financial institutions must set many strategic priorities and face challenges – along with an ongoing need for process optimisation, sustainability has become much more relevant

What are the priorities and current challenges in the mortgage business?

Category / Priority in 2024 [■] vs. 2022 [■] / Challenge

Category	Total (2024 / 2022)	Large retail & universal bank (2024 / 2022)	Other retail or regional banks (2024 / 2022)	Cantonal bank (2024 / 2022)	Private bank (2024 / 2022)	Insurance firm (2024 / 2022)	Challenge YES	Challenge NO
Sustainability/ESG	74% [1] / 24%	100% / 14%	64% / 18%	75% / 25%	75% / 50%	50% / 25%	55%	45%
Process optimisation	55% / 61%	43% / 57%	55% / 73%	75% / 42%	50% / 75%	25% / 75%	45%	55%
Pricing/margins	42% / 32%	29% / 29%	45% / 18%	25% / 33%	50% / 75%	100% [3] / 25%	45%	55%
Customer acquisition	39% / 37%	43% / 29%	18% / 45%	42% / 50%	75% /	50% / 25%	26%	74%
Digital Banking	37% [2] / 63%	43% / 86%	36% / 73%	33% / 58%	50% / 75%	25% /	34%	66%
Operating model	34% / 42%	57% / 57%	27% / 55%	33% / 33%	50% /	/ 50%	16%	84%
Monitoring	34% / 16%	43% / 14%	27% / 27%	17% / 8%	75% / 25%	50% /	18%	82%
Organisation	26% / 34%	/ 14%	18% / 73%	42% / 17%	25% / 50%	50% /	18%	82%
Policies	24% / 32%	29% / 29%	9% / 45%	25% / 17%	50% / 50%	25% / 25%	11%	89%
Reporting	24% / 24%	14% / 14%	9% / 45%	17% /	50% / 50%	75% / 25%		100%
Governance	21% / 13%	14% / 14%	27% / 18%	17% / 8%	50% /	/ 25%	25%	95%

Observations

In a volatile market, **mortgage providers** currently face **complex issues**, forcing them to adopt a **clearly focused** approach to resources and **investments**.

Sustainability has **become much more of a strategic priority** for all mortgage providers – particularly banks – in the past two years (24 per cent to 74 per cent, 1), yet also poses the **biggest challenge in terms of concept and implementation**. Increased demands from society and policymakers as well as stricter regulatory requirements in the banking sector (SBA) are the main reasons for this (see details on slide 19).

In addition, the **priority of digital banking** saw the biggest fall (from 63 per cent to 37 per cent, 2). Post-COVID, there is still a **noticeable focus** on **fundamental upstream process optimisation** (a priority for 55 per cent again in 2024). At the same time, this remains a challenge for just under half of respondents (45 per cent). There seems to be a focus on 'back to basics'.

By contrast, **pricing** is **currently a key factor** for **insurance firms** (100 per cent, 3). Soaring interest rates and the resultant change in customer demand for short term structures, coupled with the establishment of comparison platforms, have changed the competitive landscape and the P&L flexibility of banks, blunting the competitive edge of insurance firms from the low-interest era.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations

II – Selected results:

Pressure on margins has led to a focus on short-term optimizations

There is a clear need for action in terms of process optimisation – institutions are keen to optimise customer-oriented steps in particular, in order to extend the lead funnel and conversion through to commitment

At what points in the mortgage process is there potential for improvement in a self-assessment?

No potential for improvement → **High potential for improvement**

Process step	*No immediate need for action*	*Need for action*	*Immediate need for action*
Customer acquisition	8%	1 53%	39% 2
Customer advising	8%	63%	29%
Assessment & indicative offer	11%	53%	37% 2
Approval & final offer	18%	71% 3	11%
Execution & payment	13%	63% 3	24%
Portfolio management	8%	76%	16%
Reporting & monitoring	16%	66%	18%

Observations

Financial institutions are continuously improving their **internal processes** to ensure that **customer requirements**, competitiveness, internal efficiency and regulatory requirements **are achieved**. This is particularly challenging in the mortgage process (see also slide 10). From customer acquisition by advisors, underwriting and approval, through to portfolio monitoring, **most units** and **systems are affected**.

Over 80 per cent of respondents (1) see **a need for action** in at least one **process step.** This shows that there is still much **potential** for **optimisation**. In particular, there is a perceived immediate need for action (2) in **customer acquisition** (39 per cent) and the **preparation** of **indicative offers** (37 per cent). This is **hardly surprising**, as a **growing erosion of customer loyalty** has been apparent in **recent years**, which is particularly attributable to brokers, comparison platforms and the shift towards digital channels. The **certainty** of an **indicative commitment reduces** the **time pressure** for customers and banks, and correspondingly an acute need for action in the lead funnel (3).

Overall, although many **potential efficiencies** have been **identified**, financial institutions have **not fully addressed them yet**. This is also **confirmed by key indicators** (see slide 13). Furthermore, **sufficient standardisation** and streamlining are **key requirements for** major **digitalisation** and automation plans.

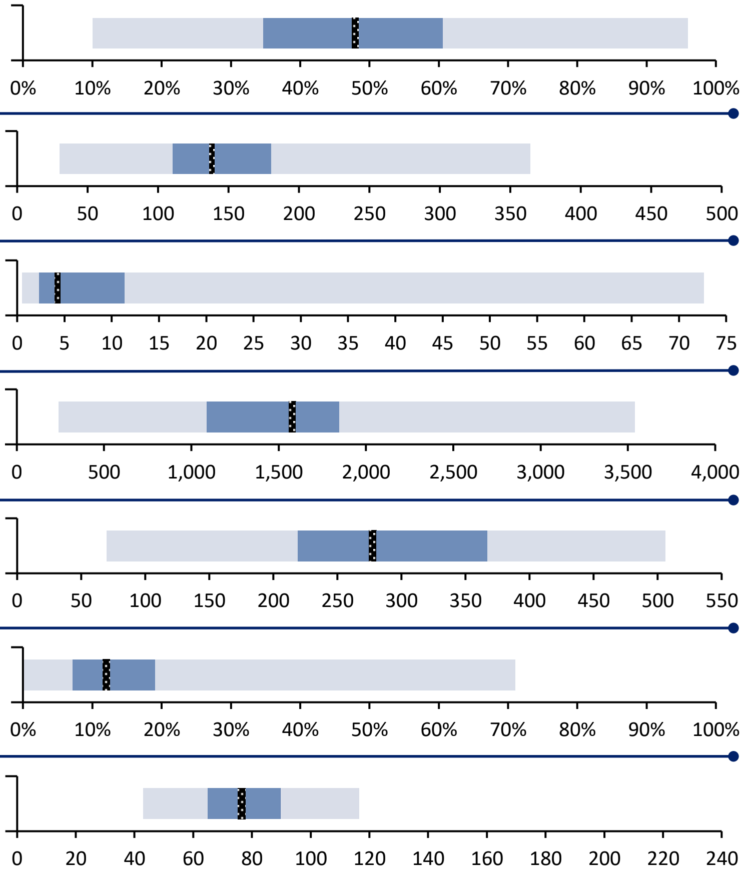
Form: Central, overall observations

Major differences in the market regarding central KPIs confirm potential for optimisation – larger banks benefit from economies of scale; cantonal banks tend to have highest margins but are also exposed to risk

How are KPIs quantified across the mortgage process?

Process step	KPI [unit]
Customer acquisition	1 Avg. conversion rate in 2023 [%]
Customer advising	2 Avg. length of advice for customers [minutes]
Assessment & indicative offer	3 Avg. time-to-yes to indicative offer [hours]
Approval & final offer	4 Avg. process costs per loan application [CHF]
Execution & payment	5 Avg. processing time per mortgage [minutes]
Portfolio management	6 Avg. level of affordability > 33% [%]
Reporting & monitoring	7 Avg. gross interest margin [bps]

Range of all responses



Observations

Key performance indicators (KPIs) are increasingly important tools for rating **competitiveness** and for measuring **success** from internal **optimisations** in the mortgage process.

The **average conversion rate** is around **50 per cent** (1), which means that every other lead is converted. However, there are **major differences** here. **Regional** and **cantonal banks** have **much higher** conversion rates, as they are the preferred port of call on account of long-established banking relationships, especially in rural areas. The average **length of advice** varies significantly with a factor of x12 (2). However, there is no correlation with the **conversion rate or margin** – ultimately, what counts is conversation quality. By contrast, it is no surprise that a **strong direct correlation** between **process costs** (CHF 1,550 per mortgage on average, 4) and **processing times** (1–8 hours, 5) is apparent. This confirms the high level of potential for standardisation and efficiency.

Much more important factors for **end customers** include the time to **indicative commitment** (time to yes). This is still usually more than one working day for many respondents, while **digitally mature providers** only need a few minutes (3). Further KPIs vary greatly according to risk appetite and strategy. In terms of average **affordability** (6), **cantonal banks** tend to have **higher** figures than the average of 13 per cent. Despite higher process costs than competitors, cantonal banks can offset this risk with a margin that is approx. 5 bps higher (average 80 bps., 7).

Form: Minimum value up to 25% quartile and 75% quartile up to maximum value;
25% quartile up to average and average up to 75% quartile
Average

II – Selected results:

A ‘digital first’ approach is also being increasingly applied to mortgage lending

Institutions are focused on stronger customer retention – strategic initiatives must be broadly in line with ambitions, both in relation to the market and internally (e.g. efficiency pressure as a driver in 37 per cent)

What ambitions are mortgage providers currently pursuing with strategic initiatives?

Ambitions	Total	Large retail & universal bank	Other retail or regional banks	Cantonal bank	Private bank	Insurance firm
Fulfilling customer expectations	27 (71%)	71%	82%	80%	75%	50%
Strengthening market presence	23 (61%)	86%	55%	60%	50%	75%
Strengthening customer retention	22 (58%)	71%	55%	60%	50%	75%
Income diversification	17 (45%)	14%	82%	40%	25%	50%
Positioning as a digital pioneer	14 (37%)	29%	36%	40%	75%	25%
Efficiency pressure	14 (37%)	29%	36%	60%	25%	25%
Replacement of legacy systems	9 (24%)	47%	9%	30%	25%	25%
Improved use of data	8 (22%)	14%	36%	20%	25%	0%
Increased flexibility	4 (11%)	14%	18%	0%	25%	25%
Other [1]	2 (8%)	14%	0%	10%	0%	0%

1: Fulfilling customer expectations, Strengthening market presence, Strengthening customer retention
2: Efficiency pressure
3: Improved use of data, Increased flexibility

Observations

Given the many challenges (see slide 10), **targeted improvement** of the **business model** is **crucial.** Only by doing this can financial institutions maintain a continuously competitive and **distinctive positioning in the market**.

It is clear that the **top three** ambitions of **strategic initiatives** are all **focused** on **end customers** – meeting **customer expectations** (71 per cent), strengthening **market presence** (61 per cent) and strengthening **customer retention** (58 per cent) (1). As well as leading to a higher conversion rate, this **counters the decline in loyalty** that has sharpened in recent years. This is particularly the case in the transactional, price-sensitive extension business, where comparison platforms and independent (advice) providers are increasingly challenging banks as the standard point of contact.

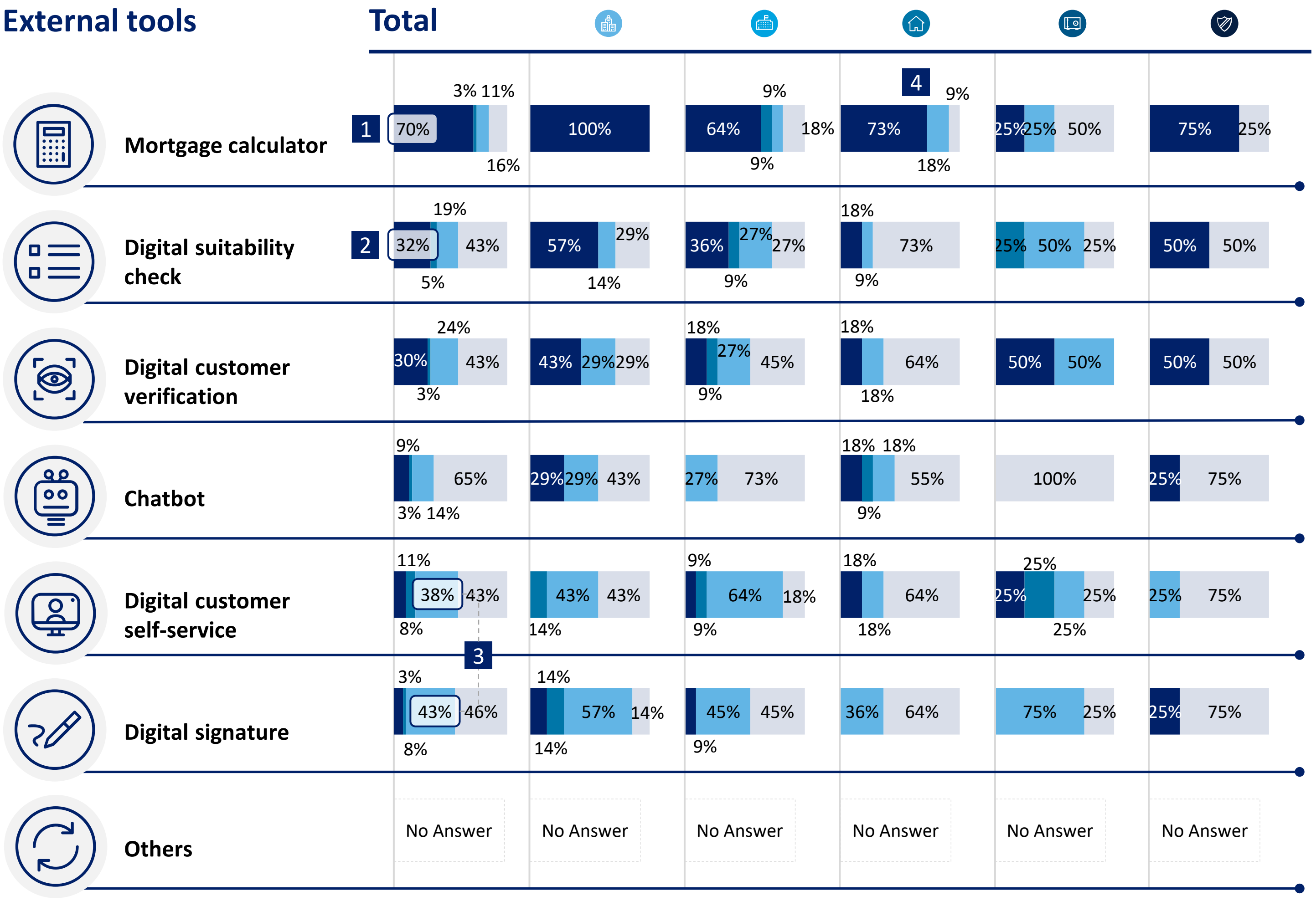
Over a third (2) of respondents are **still** implementing **strategic initiatives** because of **efficiency pressure** despite the positive impact of rising interest rates on P&L. This seems to affect cantonal banks in particular (60 per cent).

Surprisingly, only **22 per cent** are focused on **improving** their **use of data** (3), even though this is becoming increasingly important, such as in the context of digitalisation, analytics or recent FINMA circulars.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations
1) For instance, development of own platform or onboarding of risk carriers

Major differences in digital customer features – mortgage calculator is standard (70 per cent); digital signature is the most planned project in 2024 (43 per cent); however, cantonal banks are less ambitious

What customer-relevant digital features does your bank already offer or is it planning to introduce?



Observations

A seamless, **digital customer experience** is becoming **more important in the mortgage process**; partly driven by simpler processes (e.g. credit card, pillar 3a), through which FinTechs and Neobanks have shown customers what is possible. Although a personal advise is still to be expected as a standard demand – especially for first time home owners - the **digital channels** are increasingly **decisive** in the **initial selection of** possible **financing partners** or the **NPS**. Digitally concluded mortgages are already standard, particularly at international level (e.g. US, Saudi Arabia).

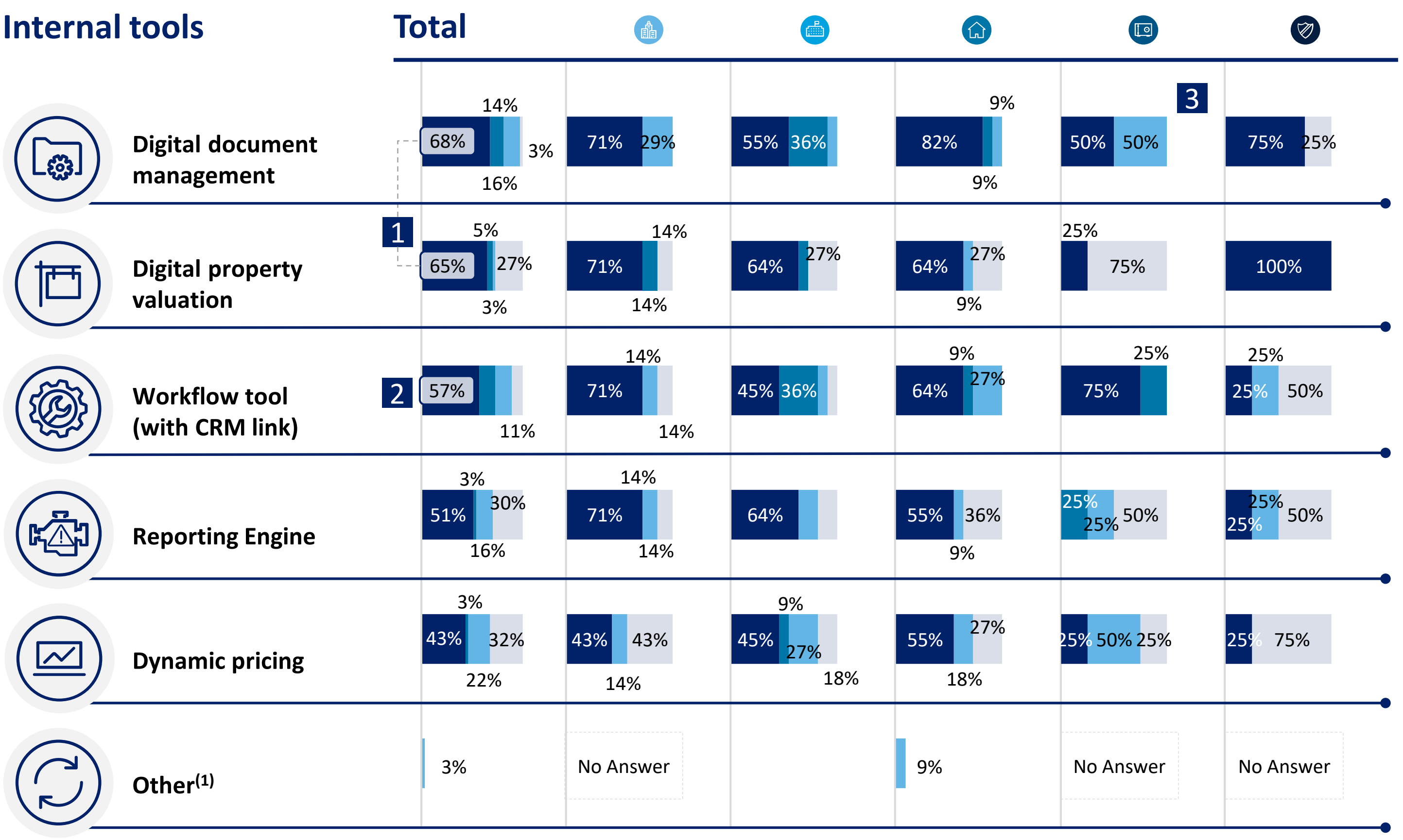
This is precisely why, with **coverage** of around **70 per cent** (1), a **mortgage calculator** is now the **industry standard for attracting customers** digitally**.** Additionally, **32 per cent of respondents** have introduced a **digital suitability check** (2) that **enables personalisation** as well as **immediate feedback** on the feasibility of the transaction without visiting a branch.

The **most frequently planned projects** up to the **end of 2024** include the introduction of the **digital signature** (43 per cent) and digital **customer self-service** options (38 per cent) (3). Both these features are particularly useful in the case of less advice-intensive extensions. **Cantonal banks** seem to be planning **fewer digitalisation initiatives** than other institutions (4). Despite the advantage of existing banking relationships, this runs the risk of **losing pace with the market**.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations
Live Go-Live 2023 Project 2024 No priority

Internal digitalisation has made greater strides – use of digital tools such as document management, workflow tools and reporting is more established among larger lenders than smaller providers

What employee-relevant digital features does your bank already offer or is it planning to introduce?



Observations

Just as they are for customers, **digitalisation efforts** are also **crucial internally** in order to **reduce** workloads and enable a scalable infrastructure, particularly in **loan processing**. This applies **not only to new business**, but **also** to **portfolio management**, which accounts for approx. 70 per cent of operating costs in the mortgage business.

Document retention and **property valuation** (68 per cent and 65 per cent respectively) are **already mostly digitalised** (1), in particular through external valuation partners or offerings such as Terravis.

By contrast, the **workflow tool** is **still** established as a **key, orchestrating layer** and an essential requirement for a digital end-to-end process **by only 57 per cent** (2), with a **further 32 per cent planning to introduce it by the end of 2024.** There appears to be a correlation with the size of the institution here.

It is hardly surprising that **insurance firms** (small volumes) and **private banks** (less standard business) have made **less progress** with **internal digitalisation** (3**).** This in turn creates an **opportunity for digitalised banks** or **platforms** to act as a **strategic BPO partner in the future**, eliminating the need for smaller institutions to invest heavily in new infrastructures.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations;
Live Go-Live 2023 Project 2024 No priority
1) Other includes renewal of internal applications

Partnerships with mortgage platforms are on the rise – B2C archetypes are currently preferred, but recent consolidations are reinforcing advantages for B2B and offer new strategic opportunities

What partnerships are in place with brokers or platforms?

Broker/platform	Form	Total	Large retail & universal bank	Other retail or regional banks	Cantonal bank	Private bank	Insurance firm
MoneyPark	B2C, B2B	42%	83%	18%	45%	0%	75%
Valuu	B2C	39%	50%	45%	36%	0%	50%
Hypoplus	B2C	22%	17%	18%	36%	0%	25%
Hypotheke.ch	B2C	19%	17%	9%	36%	0%	25%
Credit Exchange	B2B	14%	33%	9%	0%	0%	50%
UBS key4 mortgages	B2C, B2B	6%	17%	0%	0%	0%	25%
Others (brokermarket, Viac, Resolve, Swissquote)		14%	17%	9%	18%	25%	0%

1 2 3

Observations

Abroad (e.g. GB, NL, DE), **independent platforms** are now **increasingly the first port of call** for property financing (45 per cent to 75 per cent). This is not yet the case in **Switzerland** (approx. 5 per cent to 10 cent), although the **value chain** has also become **increasingly modular here in recent years**. Platforms increase the market presence of financiers, offer price transparency for customers (particularly B2C) and enable refinancers in the background to gain greater access to the market (particularly B2B, including for pension funds), for instance.

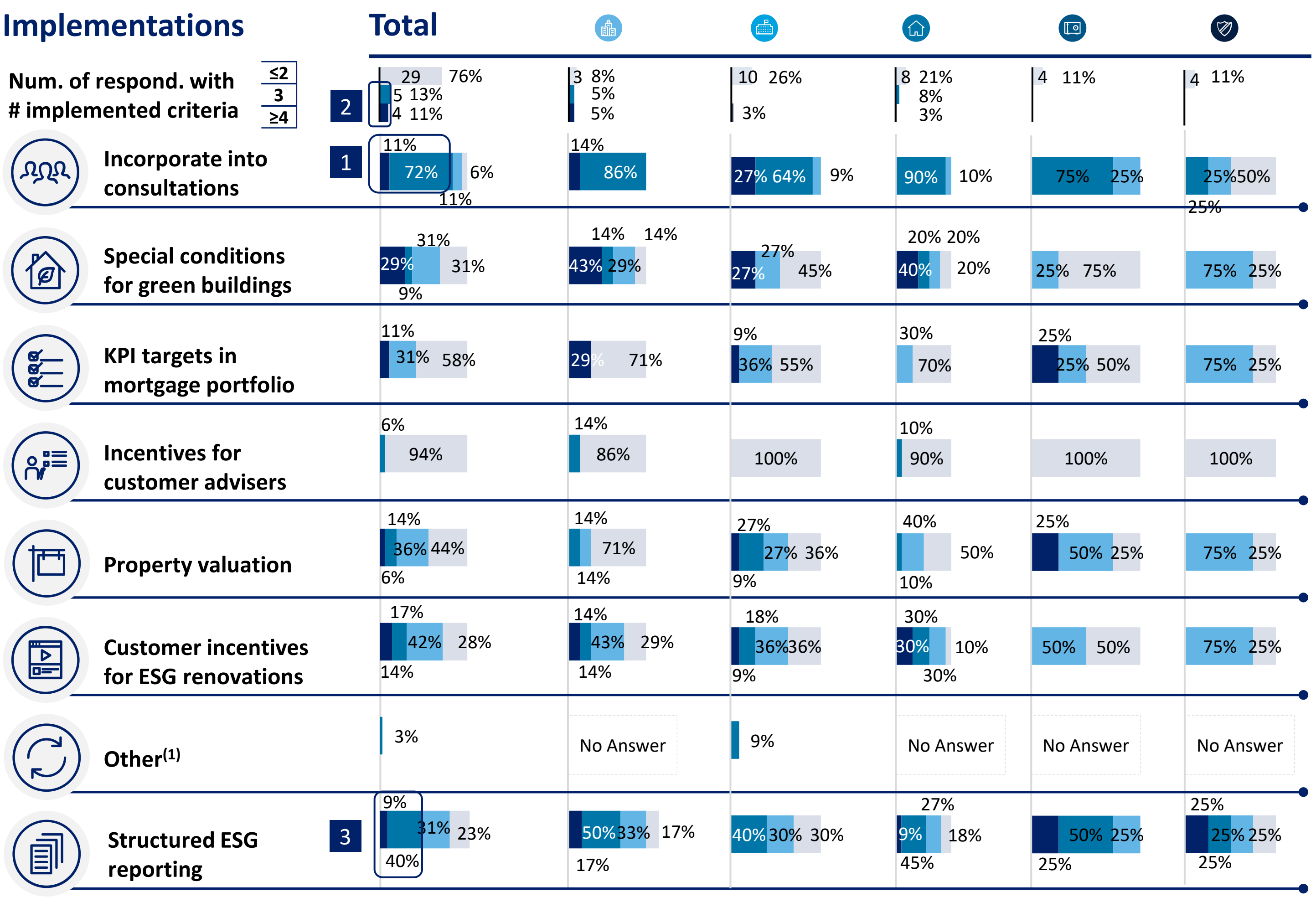
The **participation rates for B2C comparison platforms** among the survey respondents seem generally **higher** (1, up to 42 per cent). This is often because the customer and the associated handling are transferred to the institution, whereas there is still a prevailing fear of loss of customer loyalty with regard to B2B providers, particularly among banks. **Private banks** are usually only found with alternative brokers (2), as the requirements tend to be more unconventional (platforms often still have upper limits regarding wage or purchase price).

Recent **consolidations on the platform market** (e.g. the merger of Credit Exchange, Valuu and brokermarket; the integration of MoneyPark in Helvetia, 3) compel market players to adopt a clear strategic positioning. This can also be seen as the start of a new chapter and an **opportunity in the Swiss market**.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations

There are signs of restraint regarding the integration of ESG components – to date, consideration of SBA recommendations has involved sticking to the essentials and waiting for clearer guidelines

How have SBA's ESG guidelines on promoting energy efficiency in the mortgage business been implemented internally?



Observations

The importance of **ESG factors** in the financial sector is continuing to rise, not least because targeted (non-)**financing of projects and companies** has an **impact on the environment and society**. Therefore, integration of ESG factors is also becoming more relevant in the mortgage sector, particularly with regard to the overarching goals of the Net-Zero Banking Alliance and in view of the **first regulatory requirements of the SBA** since 2023.

83 per cent (1) of respondents implemented the sole mandatory item of the new guidelines (integration of sustainability matters in the consultation) before the deadline (January 2024). The insurance firms in particular are an exception, as they are not affected. Around **24 per cent** (2) have **additionally integrated at least two further ESG guidelines** into their **business model** (e.g. special terms, portfolio targets). Around **half** (3) of respondents **are already able to filter out ESG data** from their portfolio (e.g. for Federal Council climate reporting).

In general, however, it is apparent that **most respondents** have a **wait-and-see approach to these matters**. This is because of **unclear guidelines**, risks of **unforeseen complexities** in the technical **implementation** (e.g. integration into directives and systems) or the idea that this will even out across the market values of properties, and not be penalised proactively or twice via banks' risk appetite.

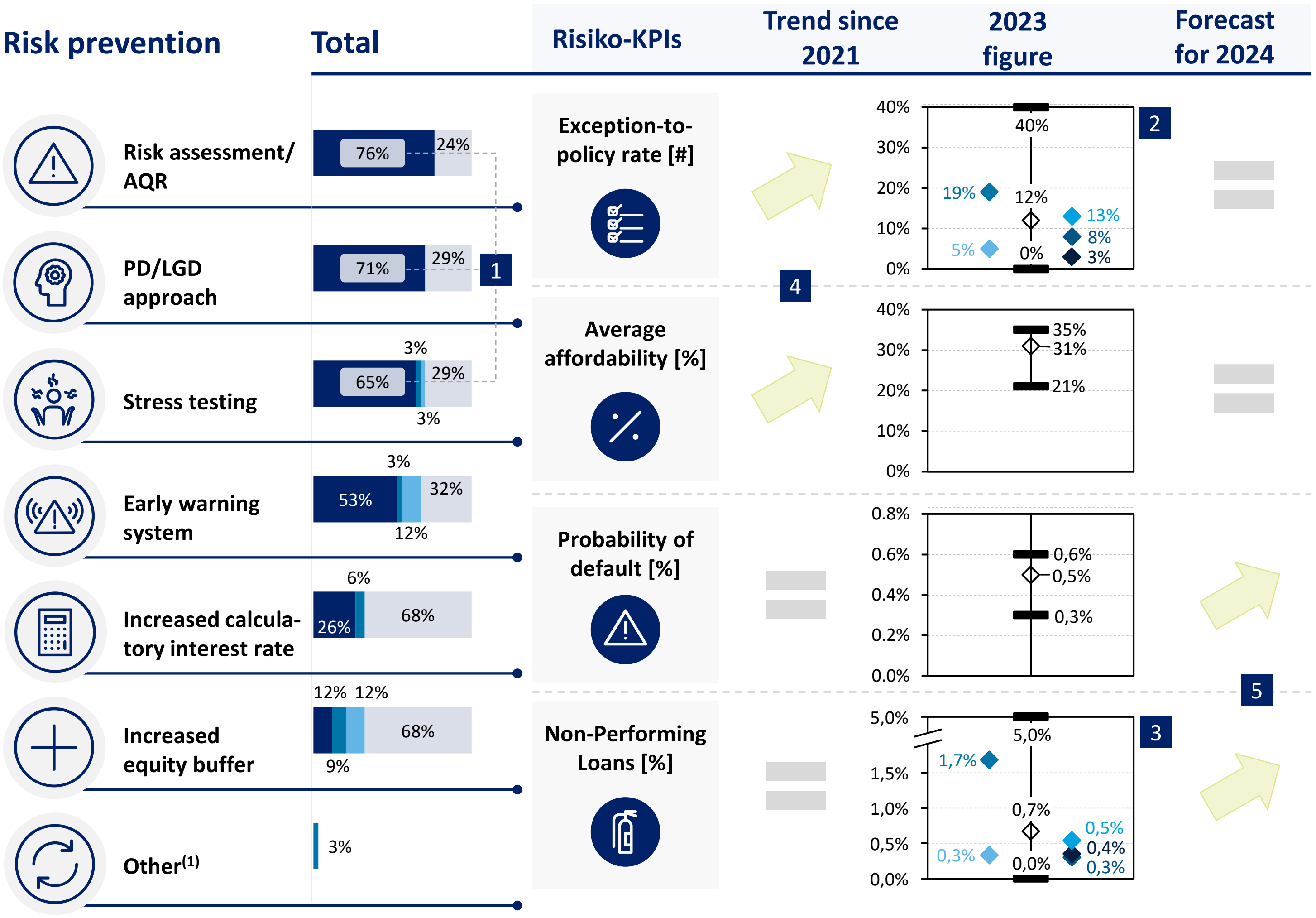
Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations; Already in place for some time; Introduced in 2023; Planned by end of 2024; No focus
1) Other, for instance financial interest with building energy certificate

II – Selected results:

Inflation and rising interest rates are squeezing household budgets

Overall, institutions have sound foundations, but credit risks are growing – the probability of default is expected to increase, and cantonal and retail banks in particular must prevent this

How are risk parameters developing in the mortgage loan portfolio and what preventive measures are established?



Observations

The **most established measures** for **credit risk prevention** are additional **asset quality reviews** (76 per cent), **use** of the **PD/LGD approach** (71 per cent) and **stress testing** (65 per cent) (1). These methods have been in widespread use since the last financial crisis. Adjustments are expected in 2024, partly on account of the Basel III regulations. Further measures (e.g. early warning systems or an increased equity buffer) are much less common. Across all measures, **hardly any differences between bank categories** are apparent – however, **insurance firms** have **established** much less here.

Differences between the respondents can be seen in terms of risk KPIs. With regard to the **ETP rate,** which ranges from 0 per cent to 40 per cent (2), **cantonal banks at 19 per cent** are **above** the **overall average** of **12 per cent**. There is **potential for standardisation** here. The picture is similar for **non-performing loans**, with **cantonal banks** above the **overall average of 0.67 per cent** at 1.68 per cent(3).[2)]

Given the high demand for mortgages in the period of low interest rates coupled with rising house prices, **ETP** and **affordability** have also **increased** accordingly in the **past two years** (4). A stabilisation is expected here. It is therefore hardly surprising that in **combination** with **inflation**, a **rapid rise in interest rates** and corrections in the property market, **a rise in defaults is expected** (5). This makes **proactive risk prevention even more important**.

Color: Large retail & universal bank; Other retail or regional banks; Cantonal bank; Private bank; Insurance firm
Form: Central, overall observations; Already in place for some time; Introduced in 2023; Planned by end of 2024; No Focus 1) For instance, risk premium pricing; 2) Data with no adjustment for historic non-recurring effects of individual respondents — Min. / Max. figure ◇ Overall average

Contacts and annex

The experienced Deloitte Retail Mortgage Benchmarking team is on hand at any time to provide you with more detailed study results or discuss how they apply to your institution

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Deloitte is an established thought leader for banking target operating models (TOM), lending business and mortgages in particular – internationally and with a substantial footprint in Switzerland

Deloitte thought leadership – a selection of further CH publications

The Swiss mortgage lending landscape in transformation

Banking risks amid challenges: How economic turbulences are spilling over into the banking sector

Property Index – Overview of European Residential Markets

Strategic trends and implications for bank operating models

The SBA guidelines on energy efficiency in mortgages: Where things stand 180 days before coming into force

Looking to safeguard mortgage leads in the «digital new normal»?

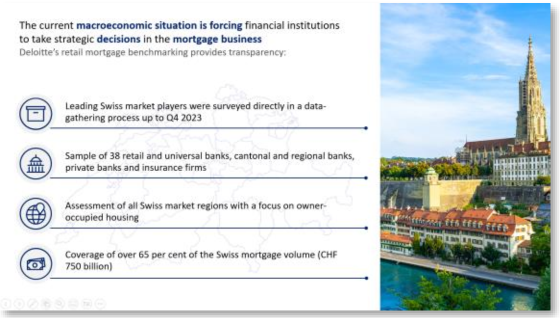
Methodology

May to July (2023) — **July to November (2023)** — **November (2023) to February (2024)**

Survey preparation

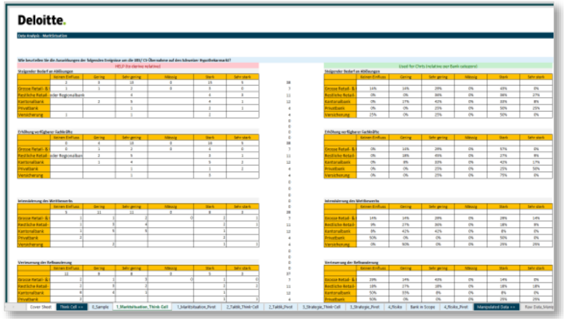
- Preparation of an **online survey**, using the survey software **Qualtrics**, on current topics in the CH mortgage market and beyond
- The survey was structured in a standardised questionnaire with **20 questions** (drop-down, numerical input, multiple choice, free text, etc.) on the basis of **predefined Deloitte assumptions**

Questioning of respondents



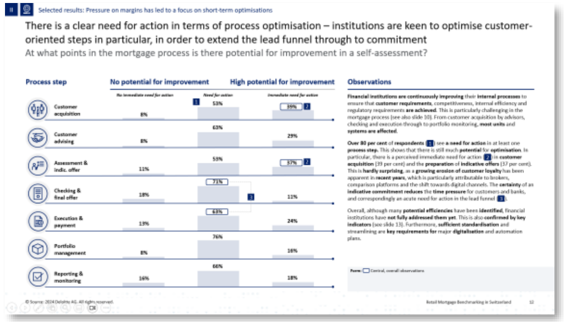
- **Questioning of 69 Swiss mortgage providers of all types** (banks, insurance firms, pension funds) and **sizes** for participation in the study
- The target group was primarily **management team members** with a focus **on CEOs, COOs and CROs,** with direct contact from Deloitte

Data gathering



- **On average**, the respondents took around **30 minutes** to complete the **online survey**
- All **data** was provided **by** the **institutions themselves** and kept confidential (only visible to respondents individually)
- A high **response rate of ~55 per cent** – **38 respondents** in total with **market coverage of > 65 per cent**

Evaluation



- **Unfiltered analysis** and **consolidation** of the **submitted data by Deloitte**, broken down according to the various institutions
- **Discussion** of individual **results** with **respondents** in individual conversations for data validation and inclusion of additional quality-related comments
- **Derivation** of implications as well as summary **conclusions**

Glossary

Term (abbreviation)	Meaning/explanation
Takeover of a mortgage	Takeover of a mortgage means that a borrower has their existing mortgage taken over by another provider (e.g. in the context of an extension)
Asset quality review (AQR)	An additional, dedicated review of individual credit files or the entire portfolio (similar to periodic resubmission) with a focus on property valuation and loan structure (e.g. affordability) for proactive risk identification
BPO partner	A business process outsourcing partner is a company that outsources and manages business processes and functions for another company, such as handling mortgages for small institutions
Gross interest margin	The difference between the interest income that a financial institution generates from loans and the interest expenses that it pays on deposits as a key indicator of the profitability of the interest business
Business-to-business (B2B)	Business relationships between companies where one company sells products or services to another company (e.g. a bank refinances a mortgage in the background via an insurance firm)
Business-to-consumer (B2C)	Business relationships between a company and an end user where a company sells products or services directly to the customer (e.g. a platform refers an end customer to a financing partner)
Customer experience (CX)	The experience that a customer has during the mortgage process, including interaction with the lender, the user-friendliness of (digital) application processes and the quality of customer service
Equity buffer	Additional equity retained by institutions to cushion unexpected losses and ensure that they meet regulatory requirements
ESG	Environmental, social and governance (ESG) relates to the criteria used to rate companies or products with regard to their sustainability and social responsibility
Exception to policy (ETP)	Approval of a mortgage outside of the predefined risk appetite/internal guidelines due to specific circumstances (e.g. affordability > 33 per cent, loan-to-value > 80 per cent, mortgage outside of the predefined market area, etc.)
FINMA bank categories	FINMA has a system of supervisory categories. Category 1 comprises large institutions that may jeopardise the stability of the financial system in certain circumstances. In lower categories, the risk impact decreases down to category 5.
Indicative offer	A provisional offer of mortgage terms that is issued by the financial institution on the basis of details of the potential customer and serves as a guide (e.g. as to whether the institution would finance the transaction in principle)
Key performance indicator (KPI)	Measurable indicator for rating the success or performance of a company, department or process. In the context of the study, for monitoring target attainment and progress in the mortgage process
Lead funnel	Process in which potential customers are divided into different phases to process and qualify them in a targeted manner until they eventually become paying customers
Line of Defense (LoD)	Common Corporate Governance definitions see 1st LoD as Front/Mid-Office units responsible for single requests and client interaction, 2nd LoD as risk control functions with a portfolio view below the CRO and 3rd LoD as internal audit
Loss given default (LGD)	The proportion of the original loan amount that the lender is likely to lose if a borrower is unable to repay their mortgage and a repossession is carried out
Net promoter score (NPS)	An indicator that measures the probability of customers recommending the institution, based on a single question such as “How likely are you to recommend us to friends?”. Often used in digital CX.
Non-performing loans (NPL)	Loans where the borrower has not made their mortgage payments and the financial institution has difficulty calling in the loan or realising the value of the collateral (e.g. the property)
Pricing	Setting of the interest rate and the fees that a lender charges a borrower for a mortgage, based on various factors such as creditworthiness, market conditions and risk
Probability of default (PD)	The probability of a borrower being unable to make their mortgage payments and therefore defaulting or even having their property repossessed
Reporting engine	Software that is used for automatic generation of reports and analyses that lenders need in order to monitor the performance of their mortgage portfolios and make decisions
SBA	Swiss Bankers Association, the industry association of Swiss-based banks, which works to protect the interests of its members and promotes collaboration in the financial sector, including self-regulation
Stress testing	Simulation of various (macroeconomic) scenarios (e.g. rising interest rates) to assess impacts (such as PD or LGD) on the mortgage portfolio and ensure that risks are sufficiently mitigated (e.g. capital buffer)
Time to yes	Period of time that a lender needs to make an indicative offer/final decision on the approval of a loan after all essential documents and information have been submitted
Affordability	A borrower’s ability to make the monthly mortgage payments, based on the imputed interest rate, their income and their expenditure, in order to ensure that they can afford the mortgage over the long term
Workflow tool	Software that is used by employees as a central orchestration tool (usually on top of the core banking system) to manage the mortgage process end-to-end by automatically assigning and monitoring different steps of the process

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