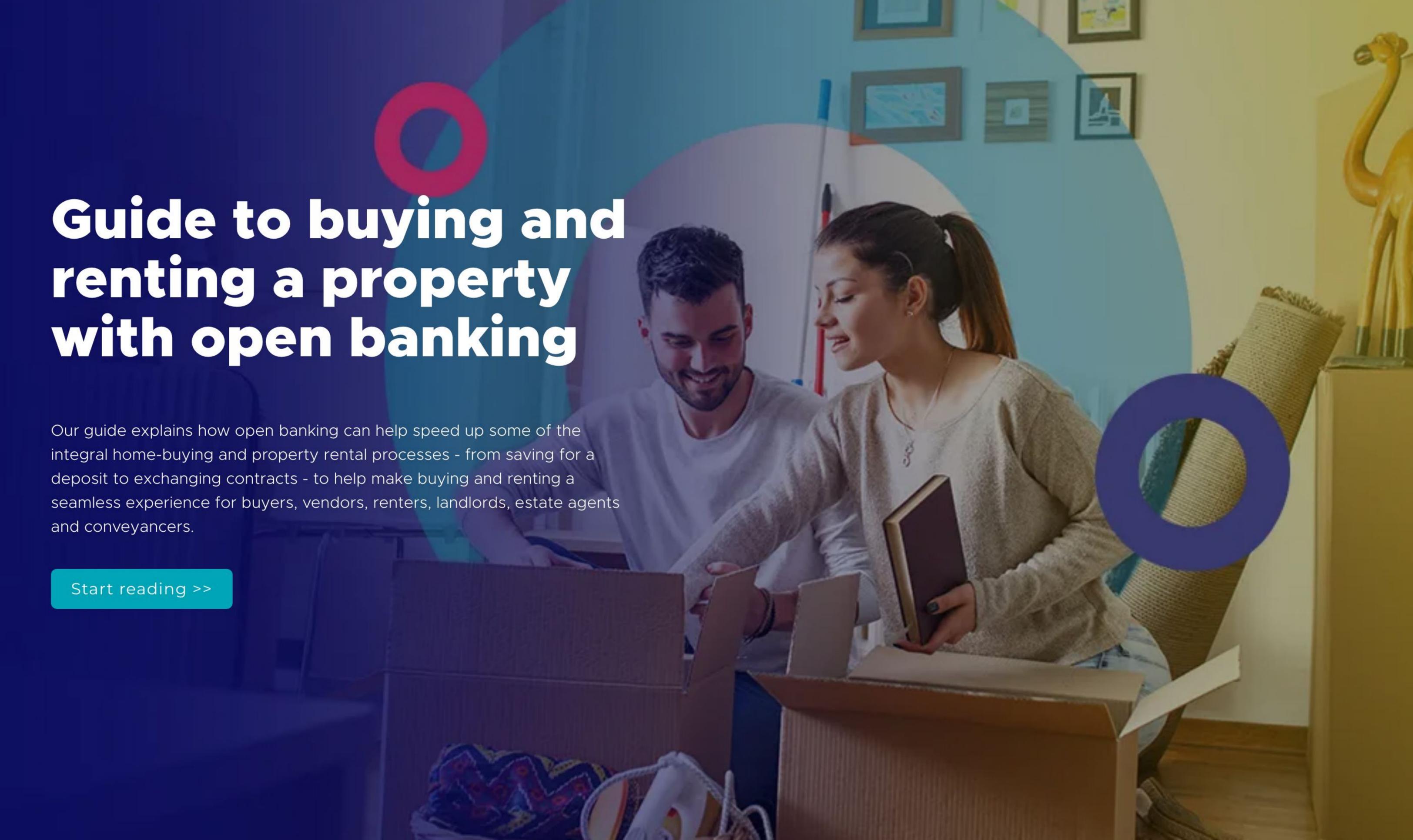




Guide to buying and renting a property with open banking

Our guide explains how open banking can help speed up some of the integral home-buying and property rental processes - from saving for a deposit to exchanging contracts - to help make buying and renting a seamless experience for buyers, vendors, renters, landlords, estate agents and conveyancers.

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Buying a home

Buying and renting a home in the UK are highly stressful activities – a Moneybox survey revealed that 4 in 10 successful home-buyers described buying a home as more fraught than finding a job, planning a wedding or having a child.

A perfect storm of factors, including a shortage of housing stock and increases in interest rates and rental deposits, combined with paperwork-heavy processes to verify income and complete a transaction, make securing a place to live a serious challenge. There's a high failure rate too, with around 30% of house sales falling through each year.

The risk of fraud is also a concern for all parties, particularly as deposits for both rentals and purchases involve the exchange of significant sums of money.

However, open banking technology – where individuals consent to share their bank account data with trusted third parties – is already helping to tackle some of those challenges faced by sellers, buyers, landlords, tenants, lenders, and estate agents.

In turn, this can support wider economic benefits, with one recent survey suggesting that the first-time buyer economy will be worth up to £74bn by 2025, £3bn of which will be spent on additional home-buying related costs.

Our guide explains how open banking can help speed up some of the integral property buying and rental processes and make home-buying and renting in the UK a seamless experience for all the parties involved.

Buying a home

The same Moneybox survey revealed that it took an **average of 5.2 months** to complete a purchase from putting an offer in to collecting the keys, and that 28% of respondents highlighted the sheer volume of **administration involved** in the process as one of the top causes of stress.

We look at some of the ways in which open banking can help with the home-buying process.



Saving for a deposit

One of the key aims of open banking is to build financial resilience, and in the six years since its inception, we know that money management apps have helped people to understand their finances better, offering a clear view of incoming and outgoing finances, enabling them to budget better.

Similarly, open banking savings apps have helped many people build a regular savings habit, often for the first-time in their adult lives, enabling them to quickly and easily move money from their current account to higher interest-bearing accounts.

There is also an open banking-based savings app designed for first-time buyers, which lets buyers open a Lifetime ISA, build their deposit with government incentives, benefit from tax allowances, and allow family and friends to contribute to the fund for their first home. The app also offers savings tips.



Applying for a mortgage

For most buyers, the long paper trail starts with securing a mortgage, and verifying their ability to repay it. This can involve collating several months' worth of pay slips, bank statements, bills as well as proof of identity and address. The application process alone takes an average of four to six weeks.

However, an increasing number of banks, building societies, and mortgage brokers now use open banking connections to validate a borrower's income, eliminating the need to provide all this paperwork.

For first-time buyers, linking their current account payments to their credit score, and providing additional evidence of a good financial track record – such as regular council tax payments – can be factored into mortgage approvals.

Open banking data can also go back further than some traditional credit profiles, providing for example, up to two years' worth of financial information to demonstrate how affordability has evolved over time. They can also aggregate information from other accounts, boosting affordability scores, and take account of large one-off transactions, which can skew results. This makes the process more inclusive than traditional credit scoring systems, and in some cases can mean lenders and mortgage brokers are able to make more personalised mortgage offers.

Importantly, the checking process can now take a matter of minutes instead of days or weeks, saving valuable time for buyers, vendors, and lenders.

In turn, this can significantly reduce the time and admin effort for lenders to make a mortgage offer, saving them time, money, and staff overheads.

It can also help reduce the risk of fraud.



Help mitigate errors and fraud

As well as necessitating the sharing of a great deal of information, buying a property involves the exchange of large sums of money, including deposits, estate agents' fees and legal fees.

In fact, a deposit for a house is probably the largest purchase that most people will make. Before the advent of online banking, this would have involved a banker's draft, or making a physical visit to their solicitor's office with a large cheque and waiting a few days for the funds to clear.

The transparent and secure nature of open banking data connections can also help estate agents and banks to meet their Anti Money Laundering (AML) obligations when verifying the source of clients' funds, which has historically been a challenge for the house-buying industry.

It can also help to tackle '**Friday afternoon or conveyancing fraud**'. This particular fraud is specific to property exchanges because of the large sums of money which change hands, and it occurs when hackers access either the solicitor's or home-buyers email account to intercept emails relating to the exchange of contracts and change account details to divert the transfer of funds to their account.

Because a large number of exchanges take place on a Friday afternoon, the fraud is often not detected until Monday morning when it can be too late to act.

Preventing risk of default

Because open banking apps and connections provide greater visibility of an individual's finances and an up-to-date history of a borrower's financial health, it can flag up potential repayment issues. This is invaluable for borrowers and lenders alike – lenders can anticipate future risks, and discuss ways to manage them before a borrower falls into arrears, as well as offer assistance to prevent potential defaults.



Renting

Around one fifth (19.1%) of homes in the UK are rented, and private rentals account for about 4.6 million of those. Local authority and other social housing rentals also comprise some of this sector.

The increased cost of buying a home and mortgages, driven in part by interest rate increases, has pushed up the volume – and cost – of UK rentals, particularly in cities such as London, Bristol, Brighton, Cambridge, and Edinburgh. This has created a highly competitive market for rental properties, with landlords and letting agents often requiring rigorous vetting and up to six months' worth of rent in advance, on top of a deposit.

This works disproportionately against some sections of the population, particularly the **5 million people** in the UK who have a **'thin' credit file**. This can be a double-edged sword for people aged under 35 or new arrivals to the country, who need to build a traditional credit profile in order to access financial products and services.

We look at how open banking can help the rental process – for tenants, landlords and rental agents.

Tenant vetting

Like the home-buying process, renting a property in the UK is not simple. As well as providing identity documents and sometimes personal references, prospective tenants will need to provide evidence of their ability to pay their rent (an affordability check), usually by providing six months' worth of their most recent bank statements and payslips. This is time-consuming for all parties, can take several days, and is a significant administration overhead for landlords and letting agents. However, open banking offers a speedy and cost-effective alternative that can benefit all parties.

Renters can choose to authorise access to their financial data via open banking connections, with some apps enabling you to quickly categorise transactions, giving agents and landlords an up-to-date and detailed snapshot of all their incomings and outgoings without deciphering bank statements line-by-line. This speeds up the vetting process – checks can sometimes be completed in a single day, giving them a head start in the 'race for space' when trying to secure accommodation.

Open banking data can also provide up to 12 months of financial data, compared with the six months that is often offered by traditional credit scoring services, providing a more comprehensive risk profile for landlords and also helping reduce the risk of fraudulent statement submissions.

They can also increase the likelihood of approval for tenants, particularly those who might be excluded by traditional checks, because they can include evidence of income and additional repayments, for example from savings, international sources, and subscription services, which can help tenants build their profile and increase their likelihood of acceptance.

This is particularly helpful for the growing number of gig economy employees, many of which (56%) are filled by people aged 18 to 34, and who already struggle to build a credit footprint.

There are several platforms that use open banking data to offer one-stop tenant vetting and on-boarding services, pre-qualification and automated document signing, alongside additional services such as insurance. For landlords, these services also help ensure that the tenant data held is compliant with data protection and anti-money laundering regulation.



Student accommodation

Open banking also has a part to play in supporting payments for student accommodation (both deposits and rental fees), and, again, it works for students and educational institutions alike. The target demographic of 16-24-year-olds is already familiar with the technology and comfortable with an app-based payment experience. One university revealed that 30% of its students chose open banking as their preferred way to pay.

Educational institutions, meanwhile, can make significant savings on card processing fees, reducing operational expenditure and time spent on admin, improving reconciliations (linking a payment with a unique identifier for each student helps to reduce manual errors), and improve cashflow by receiving payments in near real-time.

Rent refunds and rebates can also be paid back to students, or their parents, via open banking.

Rent arrears

These cost and administrative savings also apply to local authorities, social housing projects and housing associations, all of which handle large volumes of rental payments.

Open banking payments can also help tackle rent arrears, which are a significant problem for all landlords – private and public. Near real-time payment collections remove the delay in funds clearing, compared with card payments, reducing the risk of arrears if payments are cleared late.



The future

While these are all welcome steps towards a completely digital customer experience, the reality is that, for both house sales and rentals, the customer journey from finding a property to moving in still involves a combination of manual and paper-driven and digital checks and processes.

However, home-buying is one of the seven key economic sectors identified by the government as being able to benefit from increased data sharing by the 'Smart Data Big Bang'. This initiative, which will be enabled by powers conferred in the *Data Protection and Digital Information Bill*, aims to drive increased competition, innovation and consumer choice.

In the Chancellor's 2023 Autumn Statement, £3 million of funding was allocated to run pilot projects in home-buying and selling which will support future smart data schemes. The Department for Levelling Up, Housing and Communities is due to announce details of the projects in Q2 2024.

Meanwhile, initiatives such as those proposed by the **Open Property Data Association** (*see our case study on the next page*) aim to digitise the key steps in the home-buying process. The organisation recently released its **latest property data standards** to make free and shareable data tools available across the property industry.

In the not-too-distant future, home-buying in the UK could follow the Australian market, and be a **digital experience from start-to-finish**.



Case study

The Open Property Data Association – standardising the home-buying process



The **Open Property Data Association (OPDA)** is an independent industry body which aims to “promote the application of open property data for the benefit of all”.

Established in 2023 by Chair Maria Harris, the association recognised that the UK’s property data is held across several different organisations, ranging from government departments to local authorities, from private organisations to financial institutions. Less than one per cent of this data is digitised and there is no common format, standardised API, or trust framework to enable it to be effectively shared.

The absence of a common standard is one of the main causes of delays in the homebuying chain, with each party (estate agents, mortgage lenders and brokers, surveyors, and solicitors) having to source and verify their own data for their part in the process.



Maria Harris,
Chair, Open Property Data
Association

“The lack of access to real-time, digital, and verified personal and property data is a key contributor to inefficiency in the home-buying process, where each government department and industry participant needs to rely on their own compliance, data gathering and manual checks to complete their part of the transaction.

For customers this creates a lack of transparency, control, confidence, and access to the key data needed at each stage of the transaction to make informed decisions.”

The delays this causes are stressful for buyers and sellers, undermine confidence in the home-buying process, incur unnecessary administration costs, and can sometimes cause the entire chain to collapse.

‘Smart Data Big Bang’

Home-buying is one of the seven economic sectors identified in the ‘**Smart Data Big Bang**’, announced in the Chancellor’s Autumn Statement, as being able to benefit from the increased data sharing and standardisation similar to that delivered by open banking, all of which will deliver wider economic benefits and cost-savings to consumers, SMEs and the public sector.

Framework for property data

In February 2024, OPDA launched the **latest version of its framework for property data standards**. The framework aims to speed up the digitisation of the property market, helping to make transactions easier and more efficient for both homebuyers and property professionals.

Converting all property data sources and documents to a standardised digital format and making them shareable through open data standards will support this much-needed transition to digital property transactions.

The toolkit includes a common data dictionary, a standard way to describe property attributes, and a methodology for sharing data with trust and provenance attached. It is available to the property industry and its software providers free of charge, without any proprietary licences.

National Trading Standards material information

Developed in collaboration with key industry organisations such as the **Home Buying and Selling Group**, the **Royal Institute of Chartered Surveyors**, and **Moverly**, which offers an automated system for managing property data, the latest version of the toolkit complies with the **National Trading Standards (NTS) material information** on property listings. Published last year, the guidance aims to help buyers, agents and conveyancers make informed decisions on property purchases by offering verified, transparent and accurate information.

Currently, the data needed by agents to comply with these rules is accessed from numerous data sources, including sellers, and can be hard to both aggregate and verify.

As well as accelerating the digitisation of the home-buying journey, from start to finish, the OPDA framework will also support further innovation in the property and prop-tech sectors.

Both OPDA and Moverly were shortlisted in the Department of Business and Trade’s **Smart Data Discovery Challenge**, which invited organisations from different sectors to submit their ideas for smart data use cases that could benefit consumers, small businesses and wider society.

