

Can Challengers Banks disrupt the power of the banks? The Consumer View

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January 28th 2014



In the news... again

1 RBS sets aside £3.1bn for new claims and litigation

Financial Times

2 Hardware is the "root of Lloyds'" shutdown

BBC

3 Challenger banks face uphill struggle against 'big four' lenders

Metro

4 Sainsbury's Bank hits back at Tesco as it launches special offer on personal loans at a record low rate of 4.6%

Financial Times

5 Why do bank IT systems keep failing?

Guardian

6 Forget challenger banks, Ed – and hand share in RBS and Lloyds to the British public

Telegraph

Customer perception and technology are disrupting the status quo

Should the established high street banks be concerned?

Issue	Impact
Significant IT-related incidents	Impacts customer service & increased likelihood of switching
Current Account "switching guarantee" launched in Sept 2013	Increased press attention, inter-bank competition: now gaining momentum
New mobile wallet/payment services	Shaking up the payments industry; 5 major bank brands have signed up
Bonus culture continuing to create negative press	Negative opinion, threat of new EU rules, UK government ambivalence
Challengers launching new PCA propositions	Significant threat of disrupting market, leveraging customer loyalty
On-going exposure of 'scandals' (PPI, CPP, Endowment selling)	Promoting scandal-free challenger banks to front-of-mind
UK Payments Council infrastructure upgrade to link PCAs & mobile #s	Implications for existing infrastructure provided by main clearing banks
Regulatory focus competition both from twin pillars, EU and political parties	Verde, Rainbow, Account Switching, Labour bank break up, Business Bank



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Our online survey has been weighted to deliver a representative sample of the UK population

Reach and depth of service

Representative online survey with 1552 responses

Gender profile

48% Male

52% Female

Gross household income

10%
<£10k

24.4%
£10k-20k

22.9%
£20k-30k

18.6%
£30k-40k

10.2%
£40k-50k

13.9%
>£50k

Age profile

16%
16-24

15.8%
25-34

18.2%
35-44

16%
45-54

14%
55-64

20%
65+

Geographic profile

15%
London

22.1%
South

14.9%
Midlands

26.2%
North

11.8%
Scotland

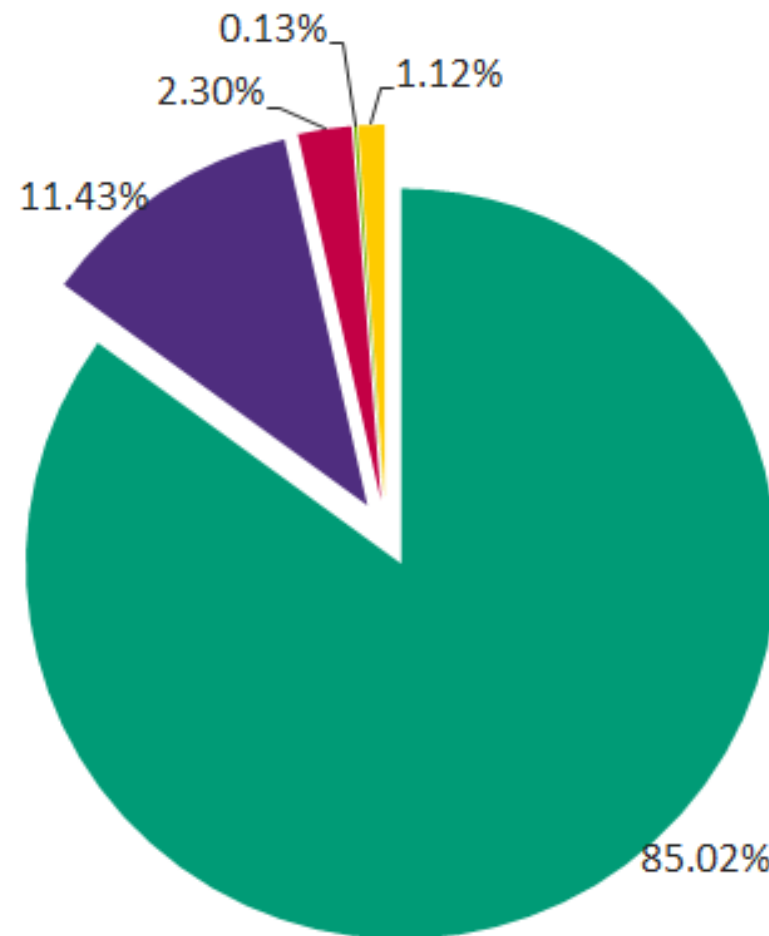
7.1%
Wales

2.9% NI

Under attack... but the big banks still dominate

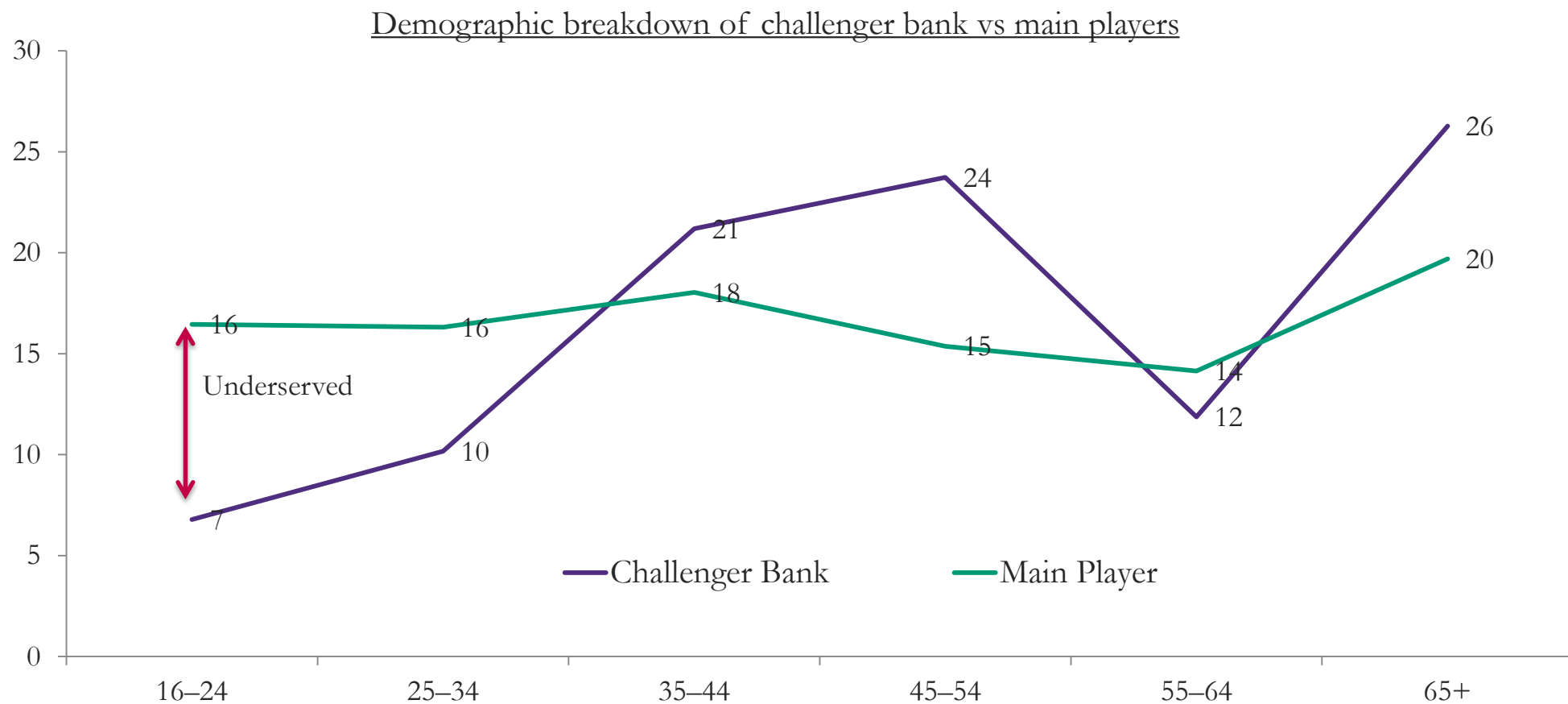
Based on a free text response, 85% of consumers actually bank with a major bank so it would appear that even if they bank with a sub brand they are aware they are part of a larger group

Our findings (right) align broadly with industry data collated by Datamonitor.



■ A Major Bank ■ A Building Society ■ A Small Bank ■ I don't have a Current Account ■ Other

Which demographic should the Challengers target?



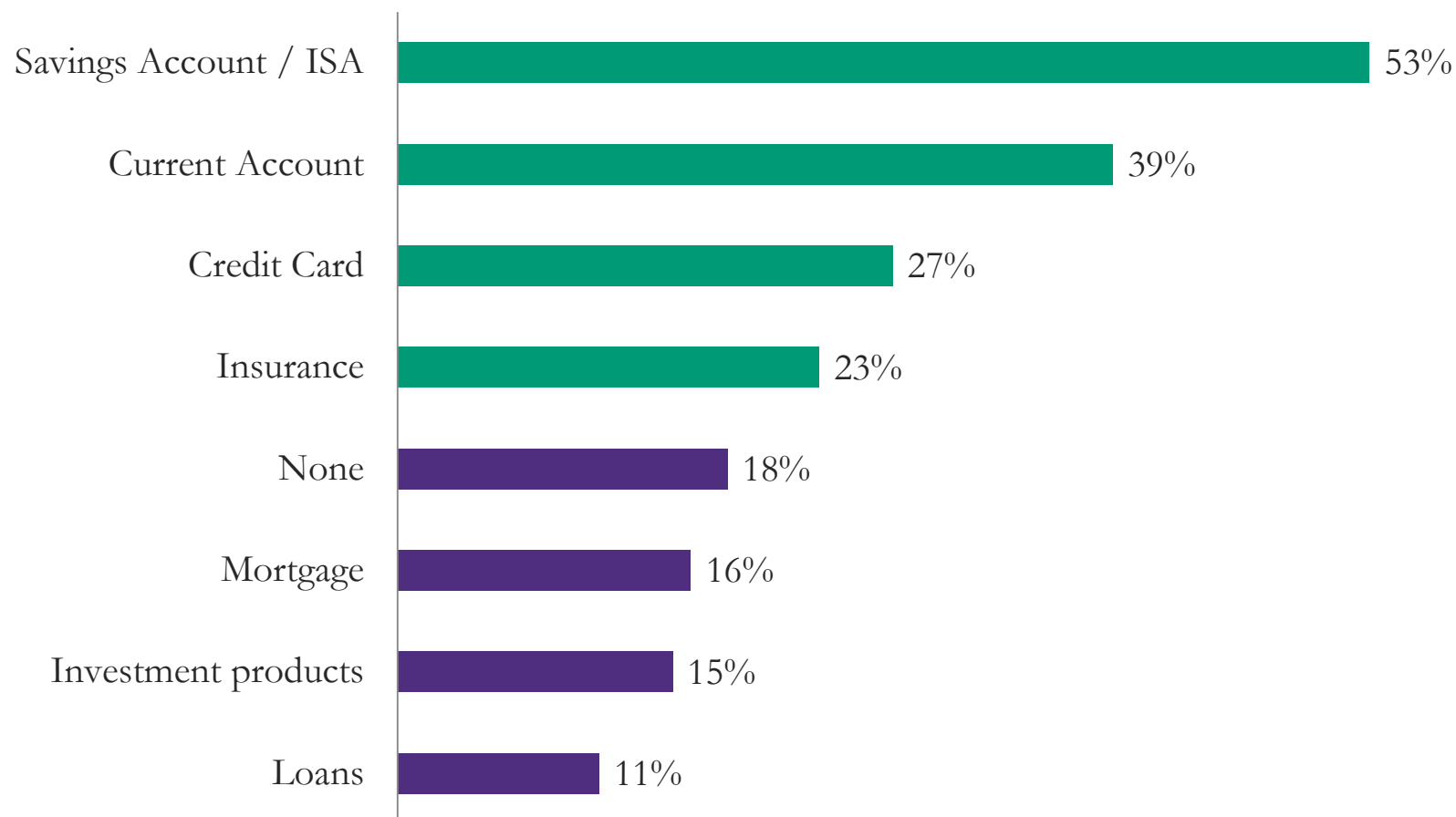
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Savings and credit card accounts are traditionally high turnover products, but will 7-day switcher persuade unhappy customers to switch?

What products customers are likely to buy next?



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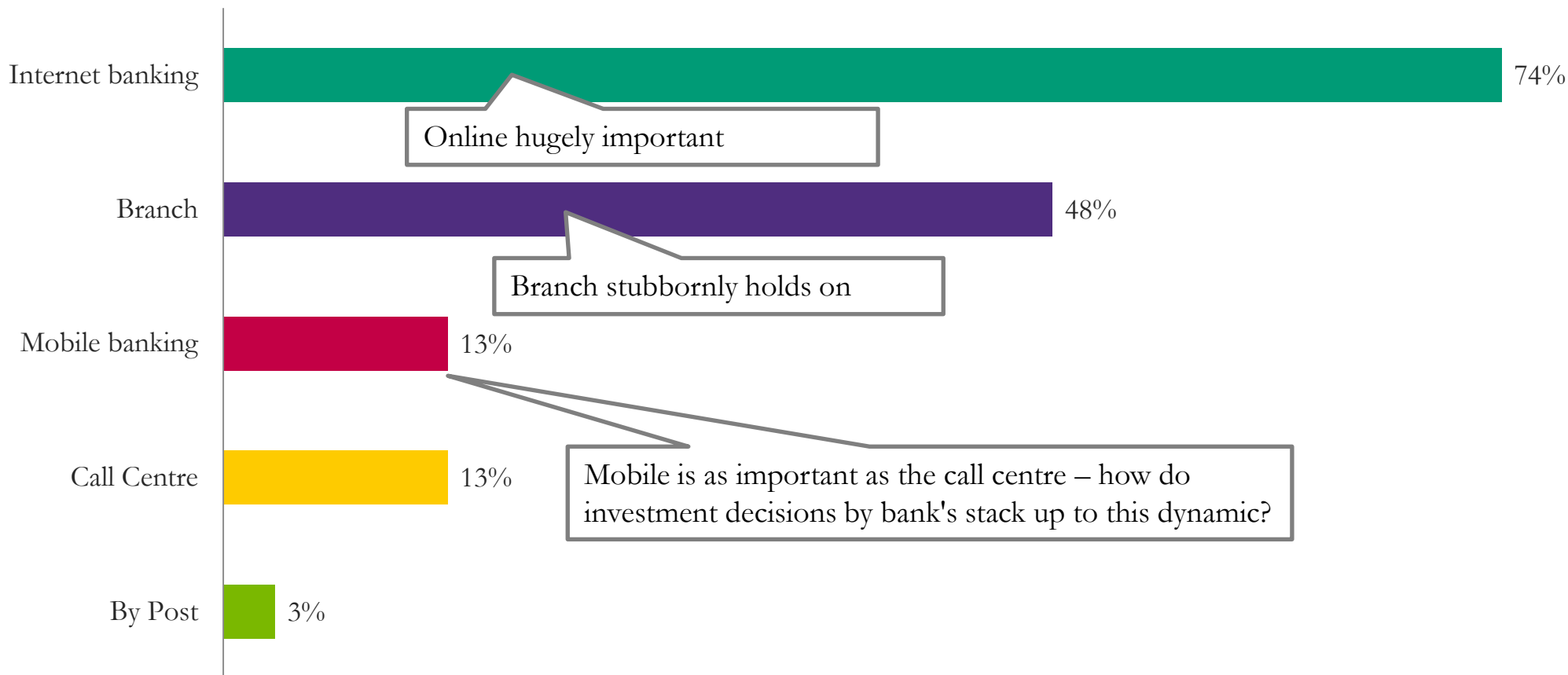
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Mobile is now as important to customers as the call centre

Preference when contacting a bank about a day-to-day query or transaction

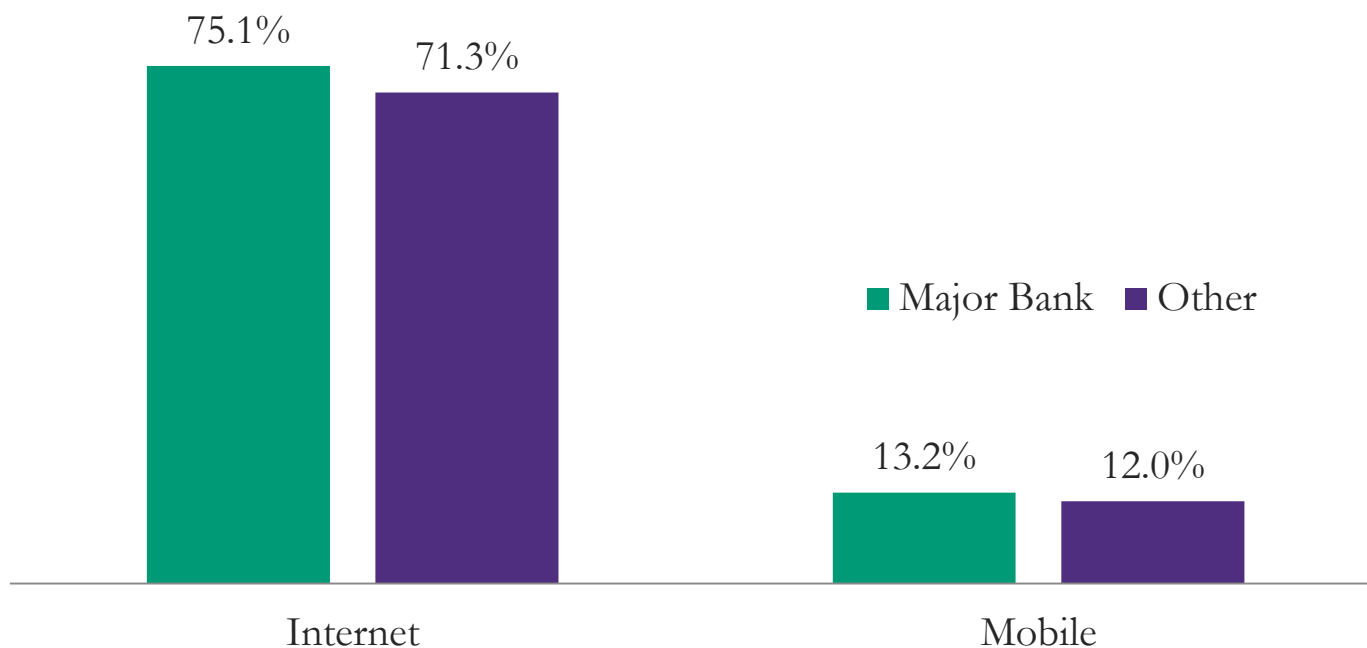
How customers like to contact their bank for simple transactions



Challengers, as well as having fewer branches, are yet to catch up in the digital space

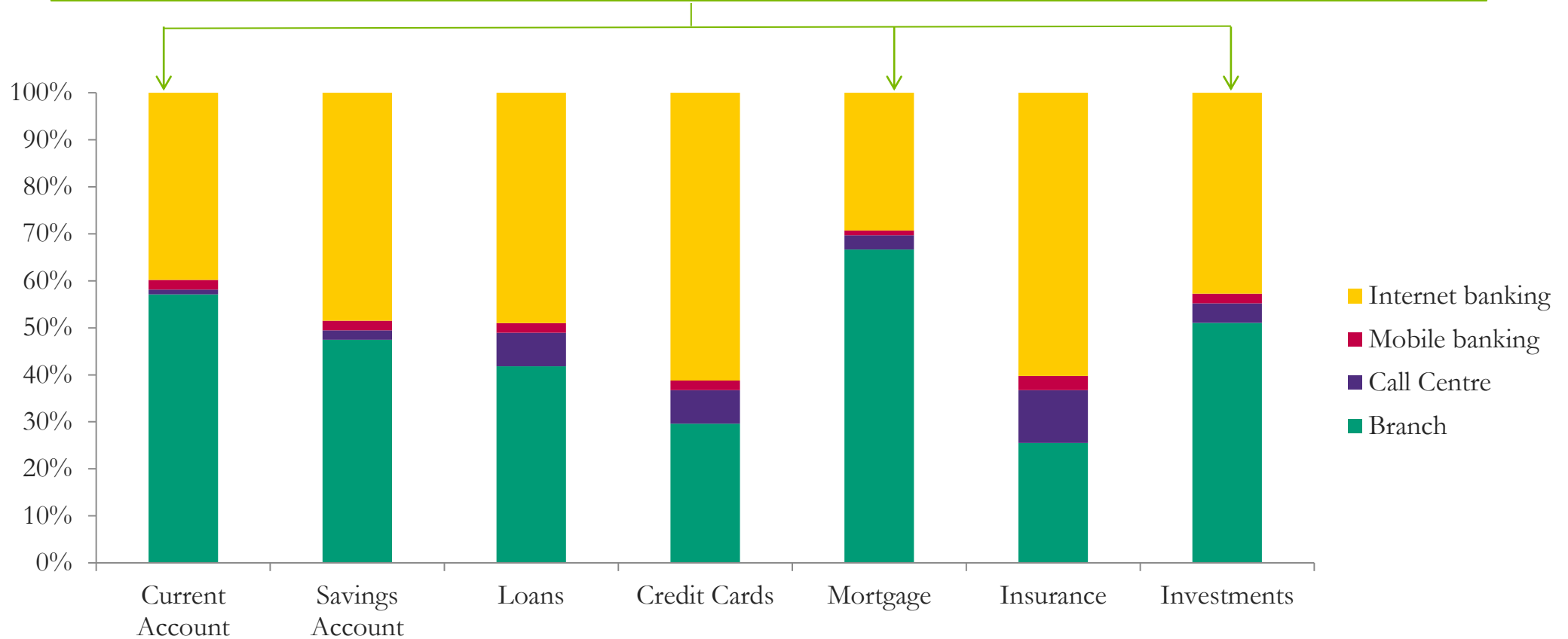
There is a small, but significant difference in digital usage, which when extrapolated, could lead to millions in extra costs/investment...

How customers like to contact their bank for simple transactions
(more than one answer available)



Branch remains the primary method of buying more complex products

Challenger Banks need to consider how to distribute products which have traditionally gravitated towards branch – Remote advice, increased ATM functionality, internet banks with no branch overheads are seen as a possible options



Cash remains important and ATM's account for 72% of cash withdrawals in the UK, yet...

The average withdrawal amount for the last 7 years remains at £65

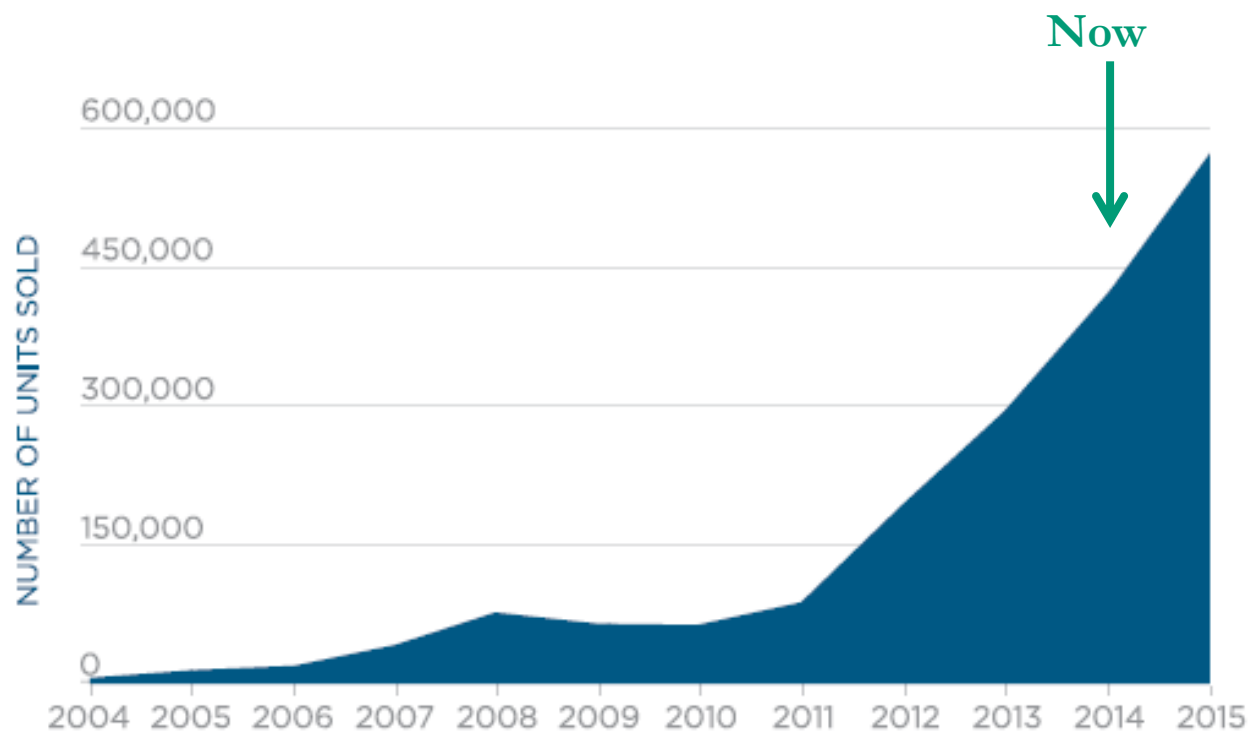
Cash is generally used for low value purchases

Biggest threat to cash is NFC cards – contactless card payments have increased by 400% in 2013 and 50% of consumers will have one by end of the year

NFC enabled smartphones will increase significantly by 2015 but adoption is slow due to poor understanding, no incentives and security concerns

Research shows that UK consumers are more enthusiastic about mobile wallets than their US counterparts

NFC Enabled UK Smartphone Devices Set to Take Off



Source: IHS iSuppli

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Contrary to perceived wisdom, most consumers are content with their Financial Services products

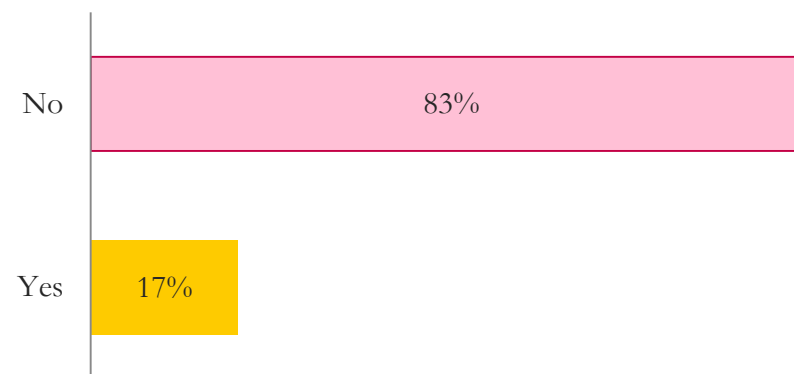
Our survey showed consumers are happy with their providers – especially building societies

... with a stark correlation between satisfaction and propensity to switch

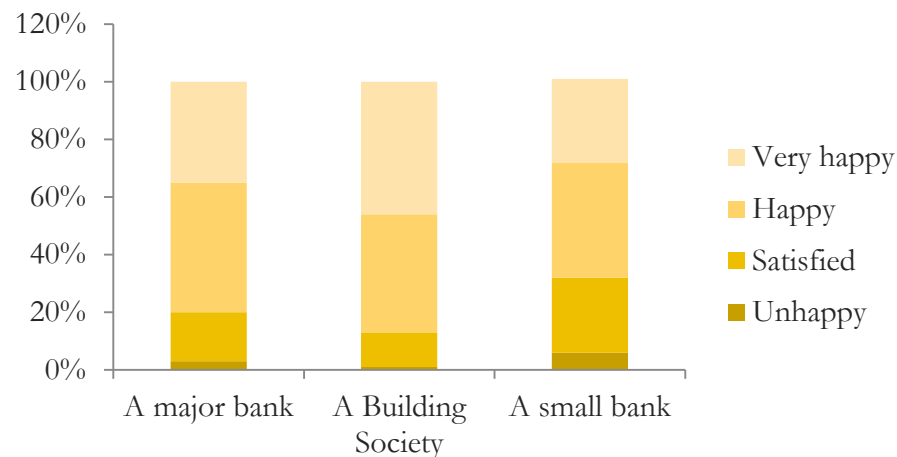
Satisfaction with financial service providers - overall



Propensity to switch



Satisfaction with financial service providers – by type

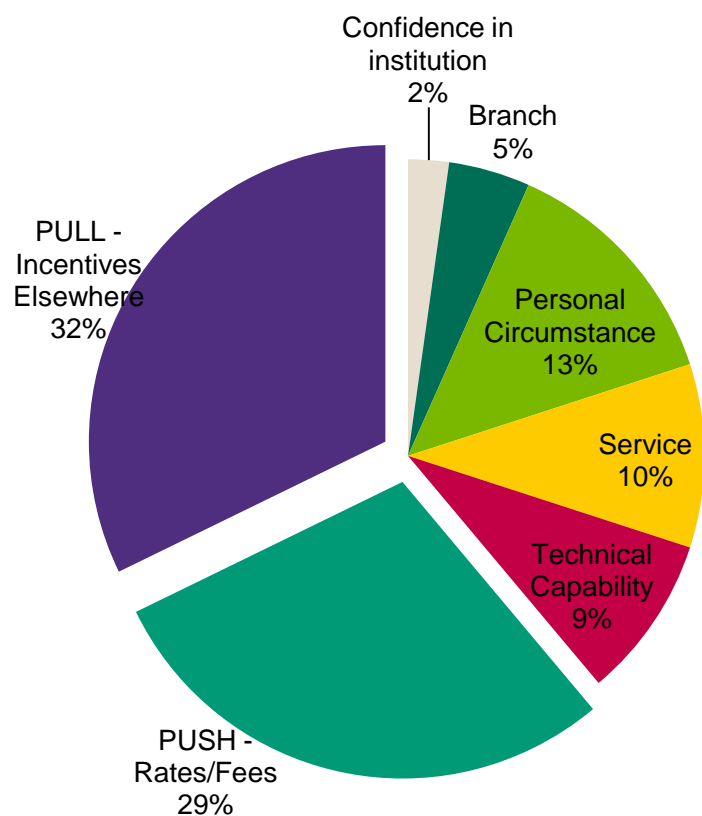


Institutions should tailor their strategies to account for the distinct differences in why consumers considering switching

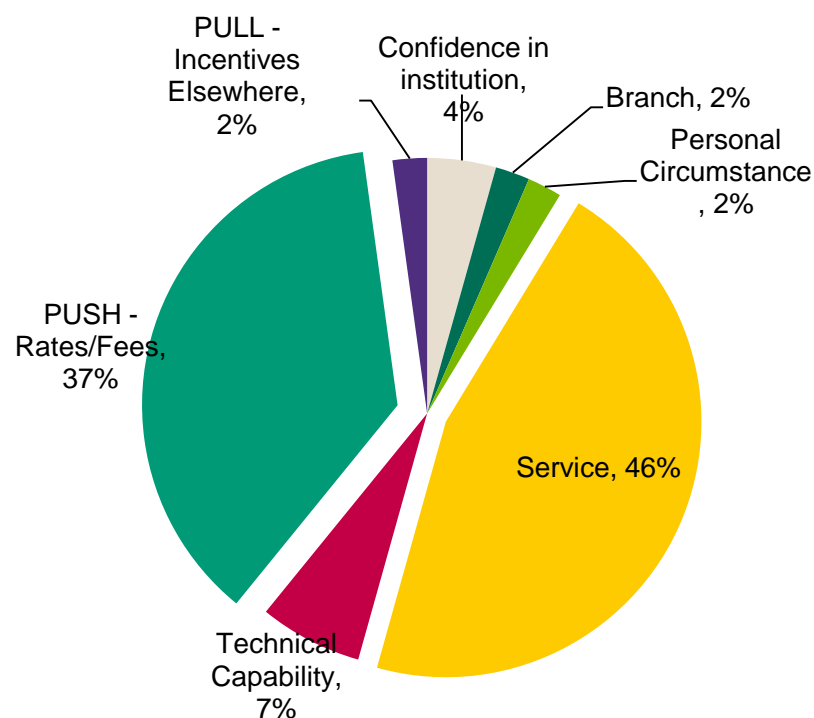
Happy customers tend to be attracted elsewhere by incentives or the perception of a better rate

Unhappy customers are pushed by dissatisfaction with service and/or fees

Reason for leaving – Happy customers

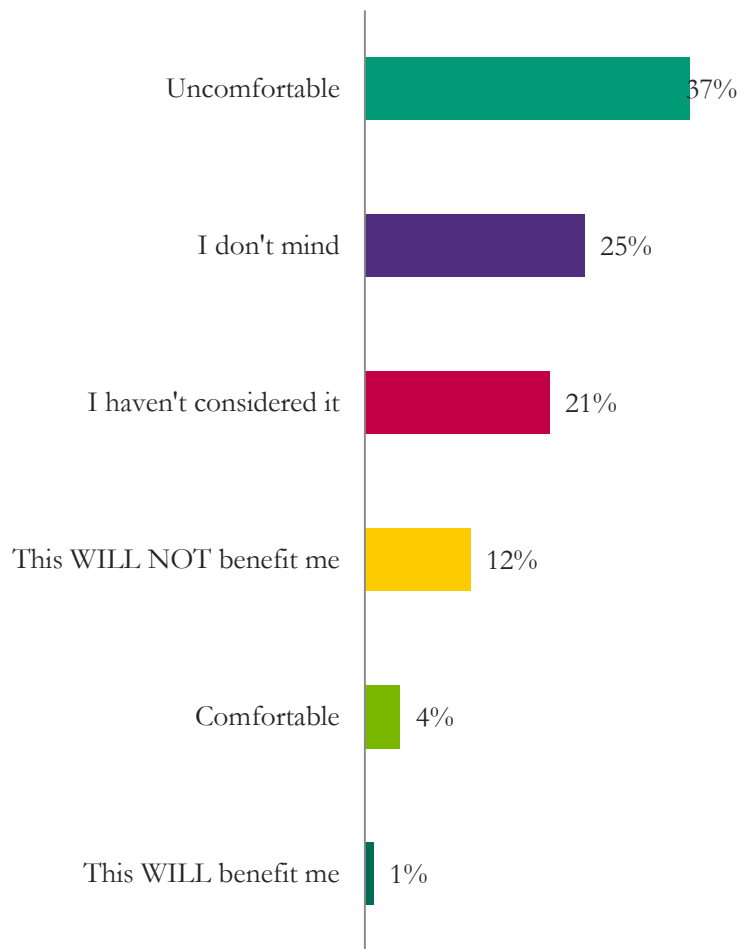


Reason for leaving – Unhappy customers

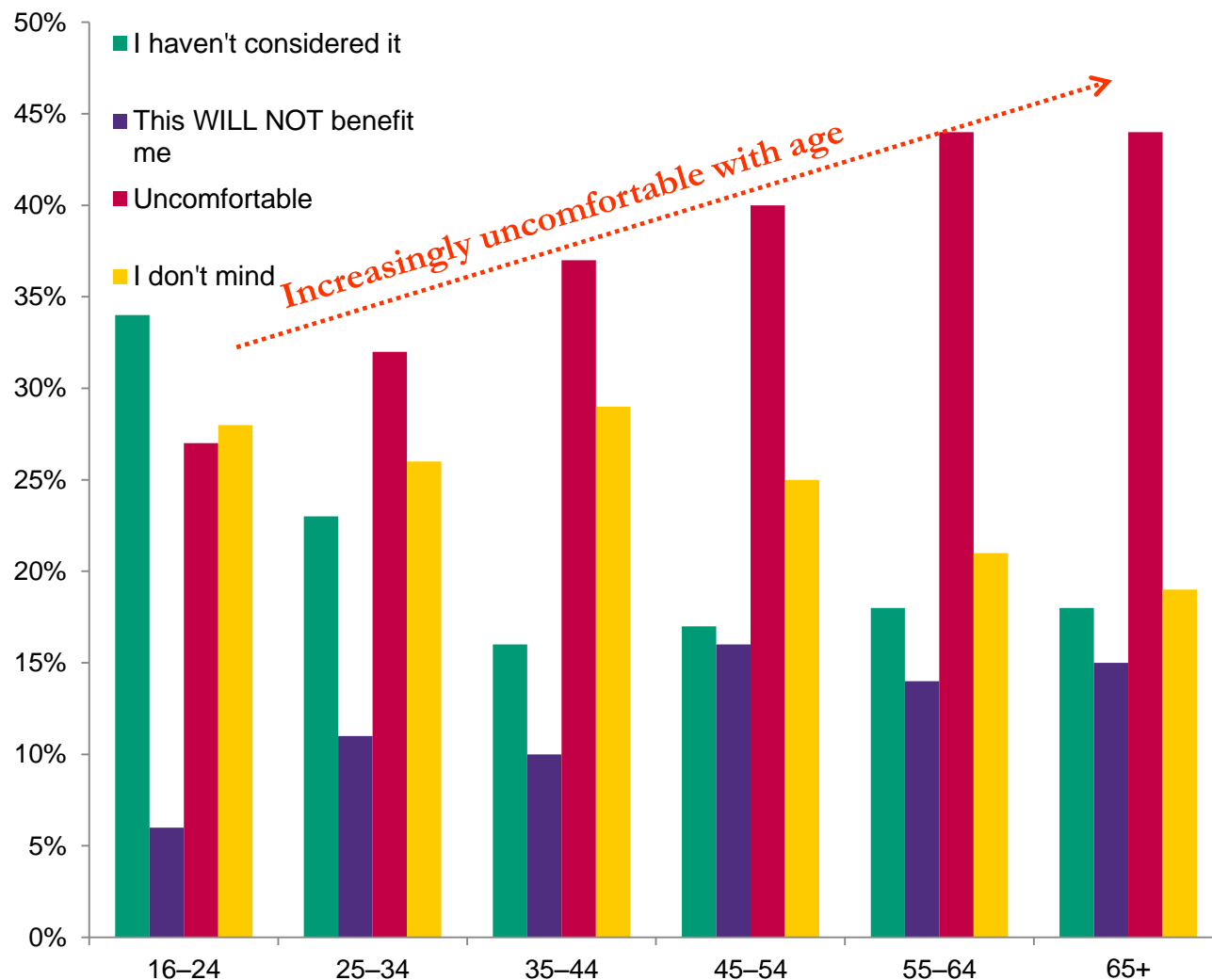


Banks and challengers have a lot to do to convince customers of the merits of using their data to make decisions

Attitudes to use of data



Attitudes to use of data – by age group



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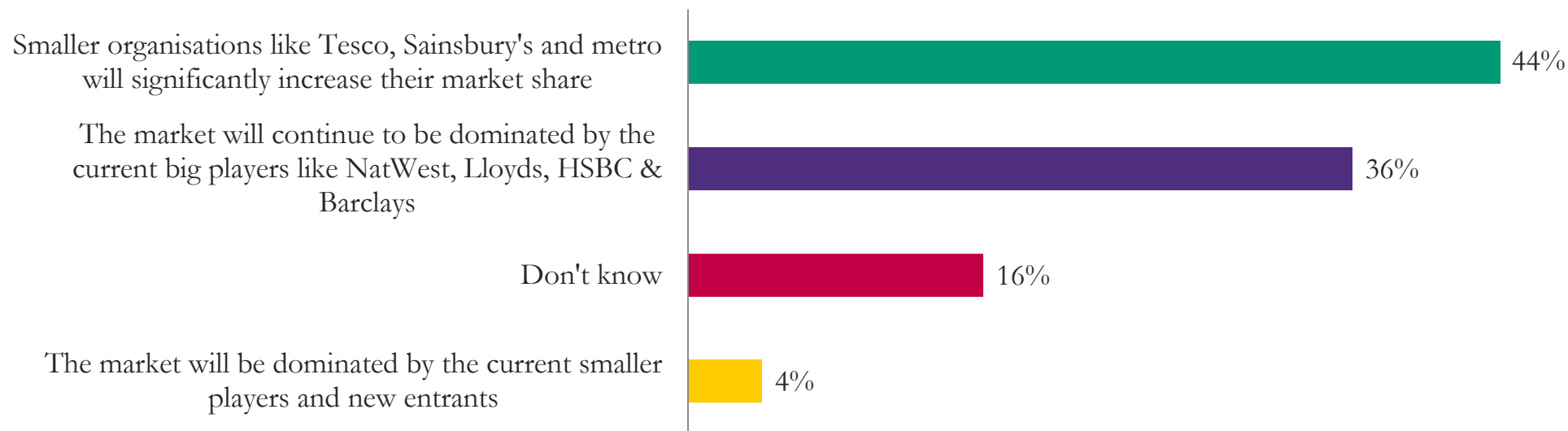
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The general public believe in challengers and there is a significant opportunity to increase market share

The public believe smaller banks will significantly increase their market share

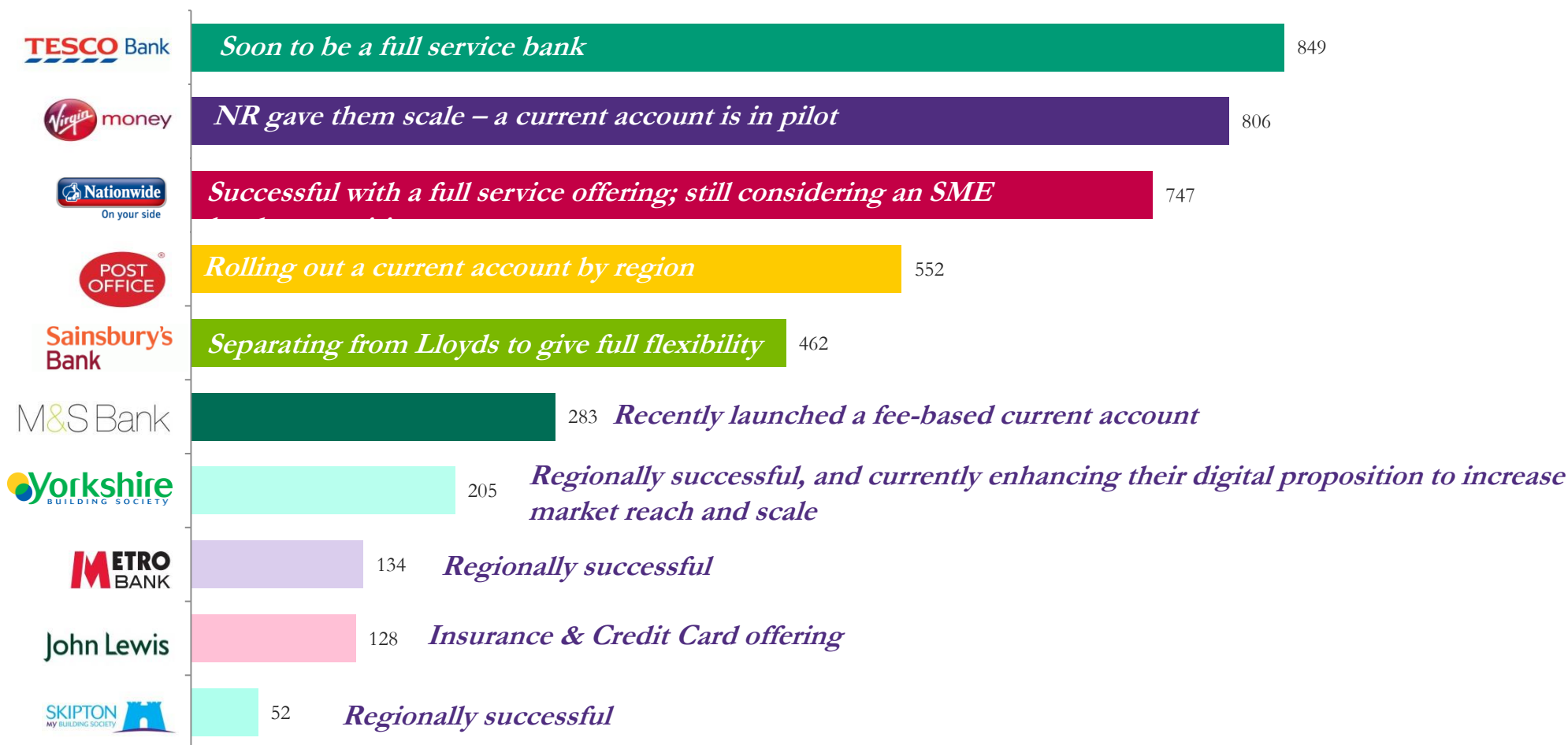
Consumer Opinion on the most likely group of organisation to succeed in the future



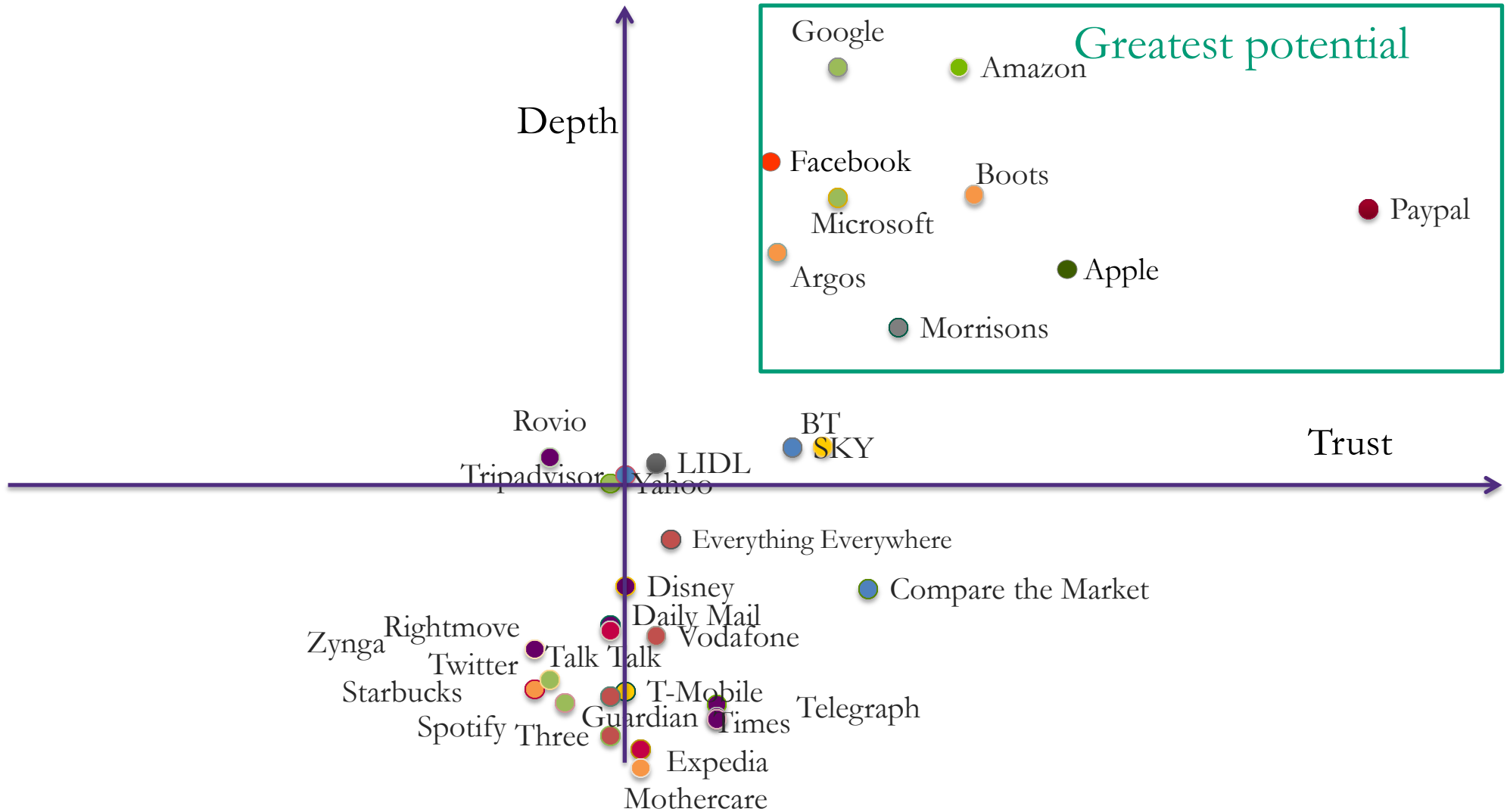
- 20% of those that believe in challengers are thinking of switching
- 13% of those that believe in big banks are thinking of switching

Consumers believe the established challengers will be successful...

Consumer Opinion on the most likely organisation to succeed in the future – consumers could select three



When comparing trust to provide products with the depth of the current relationship, the potential is clear



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Summary

- Recent technology issues experienced by the like of RBS and Lloyds are prompting people to switch
- Our research suggests that whilst people may not like the “banking sector” but they are happy with their bank
- 7 Day switcher has had minimal impact on the market. The biggest winners so far have been Santander and Nationwide.
- The view is that consumers have confidence that certain challengers banks will succeed
- The responses from our survey indicate that challengers should target 16-34 year olds
- Customers don't want branches – they want best in class applications that allow them to transact on the go.
- Underinvestment to date from challenger banks in "digital" has limited their effectiveness
- Customers of both established and challenger banks are nervous about the way their personal data is used
- Whilst branch remains the preferred route for buying more complex products such as mortgages, there is a move to implementing new distribution methods
- The role of call centres is changing – now seen as a point of resolution rather than a primary channel
- Cash incentives remain the largest influencer for "happy" customers swapping products and fees and charges are the biggest driver for "unhappy" customers

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In addition to obtaining opinions on the existing banks we asked consumers to rate institutions which have the potential to become a challenger bank.

They rated them against four criteria:

1. **Awareness** – have they heard of them?
2. **Trust** – would they trust them with a financial services product?
3. **Perception** – how much they like and respect them?
4. **Depth** – how often they use their products?

We've also segmented potential new entrants into five groups:

1. **Online**
2. **Telecommunications**
3. **Dotcoms/Social Networks**
4. **Retail**
5. **Others**