Technology and the new banking customer

UK view

shaping tomorrow with you

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This survey of 8,574 consumers in the UK, Germany, Spain, the Nordics and the Republic of Ireland was conducted by Censuswide in August 2019.

The financial services revolution

A time of positive change

European consumers are fully aware of the level of change that financial services has undergone – and thankfully, most say that it's been for the better. The majority of consumers agree that their banking experience today is better than it was five years ago (58%), while a third say that their bank now understands what they need as customers (32%).

And encouragingly, people expect this improvement to continue; almost two thirds expect their banking experience to be even better in five years' time (63%). But is this change because services have improved – or because consumers have switched providers from traditional institutions, to new digitally-led challengers?

Incumbents vs. upstarts

It's true that one in ten European consumers now deal solely with a challenger bank (11%). Speed is clearly an attraction; many say they enjoy how quickly challenger banks provide them with information about their finances (42%).

German consumers are the most likely to use a challenger bank for all of their financial needs (14%). Meanwhile, men are more comfortable with the concept than women (14% compared to 9%) – and millennial consumers are the most likely age bracket to use these services (17% of 16-24 year olds and 14% of 25-34 year olds).

The vast majority of the public, however, still use traditional banks alone (68%) and UK consumers appear to be the biggest traditionalists. Despite the prevalence of the fintech sector 77% of UK respondents only use a "legacy" bank.

A major shift is taking place, however, in the blurring of lines between institutions. A fifth of consumers now use a combination of a traditional bank and challenger bank (21%), with the German and Spanish public the most likely to take this approach (24%). Consumers appear prepared to be "bank-agnostic" – happy to pick and choose where they can get the best services.

The growing challenge

Challenger banks certainly look set to gain ground in the coming years. Looking five years into the future,

- 17% will bank only with a challenger bank (from 14% in 2019).
- 35% will bank with a combination of challenger and traditional banks (from 21% in 2019).
- 48% will bank only with a traditional bank (from 68% in 2019).

Younger consumers will lead the charge into challenger-only banking, with over a fifth of 16-24 year olds (22%) and 25-34 year olds (21%) prepared to make the switch by 2023.

In keeping with current trends, men are more open than women to relying solely on a challenger bank in the future (22% compared to 13%), while Spanish consumers are the most likely to move to a challenger (22%) or use a combination of both (40%).

There are measures that these newer banks could take to broaden out their appeal, particularly when it comes to their infrastructure. Consumers would be more likely to move to challenger-only banking if the bank card was accepted anywhere in the world (37%), the savings account had a competitive interest rate (32%) or the institution was significantly more secure than traditional banks (28%).

Notably, however, a quarter of consumers say that nothing would make them switch to using a challenger-only bank (24%). And in regions like the UK, the majority of consumers plan to remain loyal to traditional banks alone (60%).

Complexity replaces choice

Importantly, for some consumers the changes to the banking landscape are seen as a source of complexity, rather than choice. Two fifths of consumers say that they feel overwhelmed by the sheer number of banking solutions available on the market today (40%).

Perhaps as a result, nearly half of consumers say that in five years' time they plan to interact with one financial services provider (45%), rather than managing multiple accounts with multiple banks.

That suggests that as well as refining their own services, banks new and old might need to focus on integration – and making it as easy as possible for consumers to get the streamlined experience that they want.

Although only one in ten customers have switched to challenger banks to date, if we look to other industries – such as retail and energy – we can see that customers will switch to new challengers over time. Essentially, loyalty can't last in the face of convenience, better value and reputation.

The actual time taken to switch to new providers is dependent on many factors. In the retail sector, it's a relatively easy switch; you choose a supplier with every daily purchase. For the energy sector, its more complicated. You don't think about the best energy supplier whenever you turn on the kettle; that's why the energy market is only very slowly shifting towards challengers. It's the same for banking.

Probably the best evidence, however, that challenger banks are offering more attractive services is the fact that new consumers – the truly digitally native Generation Z – are selecting these suppliers when they first come into the market, without needing to worry about the incumbency of switching suppliers. This is a sign of a real movement towards the challengers, and it's a trend that should be worrying incumbent banks.

What we've seen in other industries is that where Gen Z – and their predecessors millennials – go, other demographics will follow with time. Think of smartphones, social media, instant messaging services, internet shopping and budget airlines – all of which were first adopted by the younger generations, before the wider population. It's also fair to say that older generations wouldn't have predicted that they would have been using these new providers and services when their younger counterparts were first adopting them.

The key question for the banking sector is can the challengers offer enough positive differentiation to pull existing customers away from their traditional banks before these incumbents transform themselves to be truly digital companies?

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For more insights and analysis of the new banking customer download the full report:

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