

Digital Banking

Is this the end of traditional banking?



Digital finance

The finance industry is rapidly changing with the emergence of digital only banks. But what does this mean for traditional banks?

Most industries are looking to become more streamlined, digitally focused and accessible to customers. But what can this mean in financial services?

Traditionally banking was a face to face industry where customers sought out their local expert to receive personalised advice. But consumers are pushing for much more/

Within this paper we review the digital offerings from the industry and assess what this means for the future of banking.

What you'll get from this guide

1. A review of the digital stars of finance
2. An understanding of the services on offer, the benefits and restrictions
3. A review of the current market offering
4. What the future may hold for banking services
5. Real case studies which have helped brands to compete in the digital market



5 Key Topics

1

Digital Banking: The new kids on the block

What do the digital only banks really have to offer?

2

Bricks and Mortar banking challenges

Can traditional banks challenge their digital rivals?

3

Comparing services

What is the market offering?

4

Future service predictions

Reviewing the increase in lifestyle factors impacting banking practices

5

Case studies

How our clients have begun challenging the digital market



1 **Digital Banking: The new kids on the block**

For many years the banking experience remained unchanged, you'd open your first account, possibly where your parents had theirs and you would stick with them throughout your life. You may have known the branch manager by name, calling them whenever you had a problem, or simply pop in and ask a question.

But those days are gone, with the closure of local branches increasing and most 'personal bankers' based in call centres, customers are looking for something different.

First Direct many years ago were said to be revolutionary, part of the HSBC group they were the first to offer branch free banking. With award winning customer service, a user friendly website and mobile app, the underdogs suddenly became top dog.

Fast forward to today and most mainstream banks also offer these services. However, there are new banks in town offering even more streamlined but tailored services. Digital Banks.

Monzo 'The Millennials' bank'

Monzo, launched by founder Tom Blomfield in February 2015 began as Mondo, with a bright pink pre-payment card, which users could top up and spend instantly in the UK or abroad with no charges. However, this was no ordinary pre-payment card, users were able to categorise their spending as they'd like e.g. food, petrol, clothing, and set targets to help budget their monthly spend. It assisted customers to take control of their finances like no bank had done before.

In 2017 Monzo legally became a bank and began the slow launch of current accounts to their users. Although the company is currently running at a loss they seem up beat and are marching through to become the 'next Amazon or Facebook' for finance.

However, with other digital banks such as Starling Bank cropping up in the market what else have Monzo done to retain and grow their customer base?

1 Speed of sign up

In this day and age customers expect short application processes, anything other than this causes frustration and can lead them to go elsewhere. Monzo has this sorted, a few minutes on the app showing ID and a short video and your account is ready.

2 Customer Community

What is particularly interesting about Monzo is that they use their customers to shape new product developments through their community forum, asking customers to 'help us build the kind of bank you want to use.' This forum currently has 28,000 users, 7,600 posts and 428 topics (July 2018).

3 Saving made easy

The 'Pots' feature of the app enables customers to set up different savings pots within their account, these can be called whatever you like and have targets set to keep goals in mind. They are essentially repackaged savings accounts but in a more simplistic, personalised and engaging format.

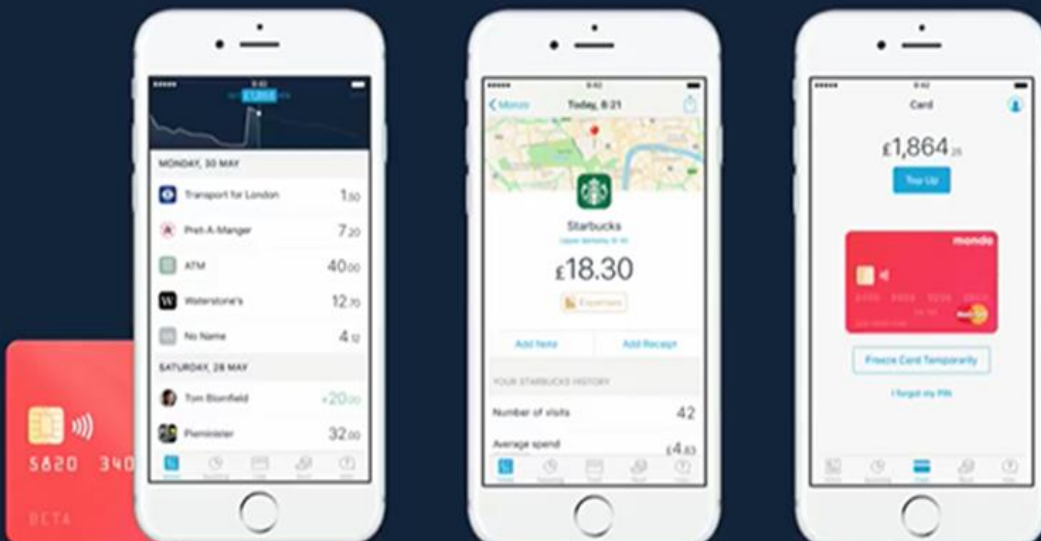
In addition to this 'Coin Jar' was created. A tool which rounds up your spending to the nearest pound, putting the additional money aside into a savings pot. The idea around this that customers can actively save without thinking about it.

4 Customer Testing

Monzo labs allows customers to test new features in exchange for feedback, ensuring products are suitable before full market launch. Not only does this increase brand engagement, but it allows the bank to directly test functionality, resolve issues and improve services prior to launch.

5 Customer Service

Surrounding this functionality is their quick and friendly customer service. With the ability to chat to a team member within the app 24/7, enhancing the flexibility required by the millennial audience. They have also published their tone of voice guidelines on their website, highlighting their transparency as a business and jargon free approach.



This customer centric approach highlights the shift in banking services, no longer is the bank deemed to be the expert. Instead customers are shaping the services and products they want, tailoring them to their individual needs and becoming more engaged with their finances in the process.

The benefit that digital banks such as Monzo and Starling Bank have is that they are much more streamlined than the 'bricks and mortar' banks. With the freedom of not having legacy systems to integrate, digital banks can be more agile, meaning quick decisions can be made and business priorities changed depending on customer demand.

What is the future for Digital Banks?

With digital banks the future only seems brighter for customers as new services are developed to create an increasingly customer centric system whereby customers manage all of their finances in one place. This adds another level of customer service, taking the pain points out of financial management and budgeting.





2 Bricks and Mortar Banking Challenges

Customers are likely to stay with their bank on average for 17 years, 5½ years longer than the average length of a marriage in Britain. This shows when you see that the big four banks, HSBC, Barclays, Royal Bank of Scotland and Lloyds Banking Group, dominate 75% of current accounts and 85% of business accounts in the UK.

When the Switch Guarantee came into force in 2013 this was expected to bring a wave of customers swapping accounts much like their energy provider. Banks began offering incentives such as gadgets or cash to raise interest and draw people in. Since the guarantee came in, 4million customers have switched, which may sound like a lot but this is still only 5% of the market.

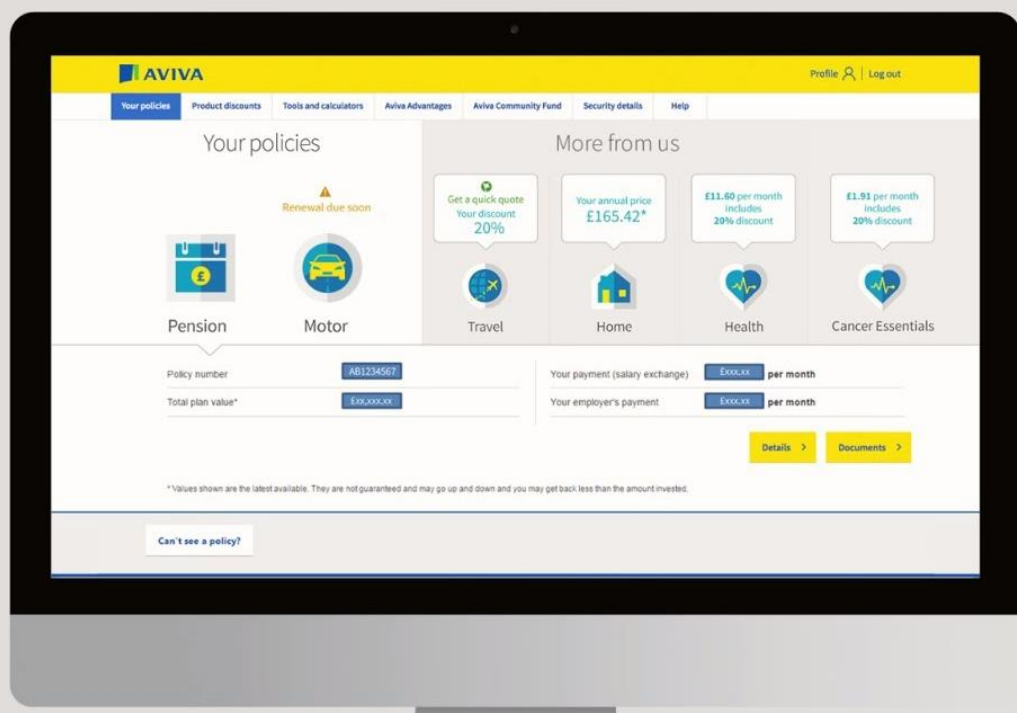
The real test will now be the challenger banks, with deeper investment in customer experience, seamless end-to-end processes and customer orientated product features, the traditional banks will need to act fast.

Challenging Digital Competitors

Whether it be creating their own digital offering or investing in the up and coming challengers such as Monzo, Atom Bank and N26, the traditional banks will need to begin taking notice of the market movements. This is not a fad which is going away.

Clydesdale Bank and Yorkshire Bank have created their answer to digital with B. A digital app and web based bank. This allows customers to view and manage their money in similar ways to Monzo and Starling with spending tags, quick access to savings accounts, set targets for spending and account sweeps into savings.

By having a separate digital bank the hope is that they can serve both modern and traditional markets. With multiple out-dated legacy systems and a long list of products, is it simply easier to create a new brand? Not necessarily.



A good example of creating a digital platform and experience for customers whilst managing a lot of complex legacy systems is Aviva. Their MyAviva platform allows customers to view and take out new products in one space. It also gives discounts for multiple products and allows customers to make instant changes to their policies e.g. add a second person to your car insurance, giving flexibility to customers changing lifestyles and circumstances.

Aviva are also challenging digital with integrated services into their products such as the Aviva drive app. With built in dash cam and driving monitoring to help bring down the cost of insurance, all through the app.

For banking it is crucial to ensure you have a functional app without the complications, giving customers a simplistic journey end to end.

Access to advice

Remember the old bank manager? Customers typically would want to speak to someone face to face when taking out complex products. Are those days really gone?

Whether it be savings, investments, loans or mortgages, these are large financial commitments and most customers worry about making the wrong decision and therefore want professional support. However, with branch closures, working hours and generally being time poor, it can be difficult to connect with customers to share this expertise and support.

Atom Bank are challenging the traditional model by linking with independent advisers and monitoring application processes through the app, prompting customers by email or text when they need to complete information

However bricks and mortar brands have longstanding trust and an existing relationship that can't be easily replicated. Your companies' knowledge and expertise is one of the reasons why customers trust you to support them with their product needs. So why not share this information more freely to engage with them?

Whether it be app based progress reports like Atom Bank, having Skype or FaceTime calls with clients or simply having more flexible opening hours around customers, the key thing is understanding which method works best for them.

Customer retention

From our experience there are two key reasons why consumers will move away from a provider. The first, being refused credit and the second, poor customer service.

Despite market players such as First Direct moving away from customer service messaging in their campaigns, this is still core to their model.

Understanding customers needs and preferences of services is crucial. Although most major banks run customer satisfaction trackers, all this does is monitor levels. The true need is to always leave the communication channels open to not only empower staff and customers to report issues or ideas but also to communicate actions taken to make improvements. This is something that Monzo do very well with their Monzo Community.

Transparency


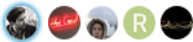


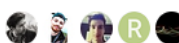

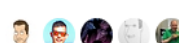






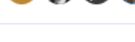


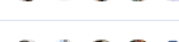




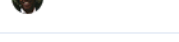
What is clear about digital banks is the transparency of how they make their money and why they provide the service they do. Companies such as Monzo have even published their quarterly goals and project plans which you can log into and see what they are currently working on.

This transparency is not currently delivered within larger traditional banks. Customers have reported to us the sense of ‘feeling ripped off’, not being treated as an individual or explaining why changes occur e.g. increases in interest rates or changes to overdraft facilities.

This doesn’t have to mean a change to systems but instead a change in communications with customers. Breaking down the jargon filled barriers which make banking seem so complex.

Challenging your companies tone of voice, methods of communication and the impact business changes have to the end customer are key to ensuring customers don’t feel there is something to hide.









This is becoming increasingly important as the FCA begin to challenge overdraft and credit fees to help those who are in poor financial positions from being “exploited.” Banks messaging around these will need addressing, especially as Digital Banks are showcasing flat fees, no fee and overdraft controls including text alerts.

Users	Replies	Views	Activity
	0	428	31 May
	21	3.8k	6 Apr
	4	2.6k	19 Jan
	23	284	7h
	526	12.2k	14h
	67	544	2d
	29	565	2d
	157	2.9k	6d
	1	111	8d
	57	367	9d
	3	139	12d
	8	191	17d
	4	327	17d
	4	150	19d
	8	351	29d
	7	245	16 Jun
	46	1.1k	14 Jun
	1	186	14 Jun
	1	98	11 Jun
	6	376	8 Jun
	1	124	5 Jun
	24	863	5 Jun



3 Comparing services

It is easy to see the cross-over in some services across the banks. However what your digital only banks offer is a no hassle sign up approach, no lengthy applications forms or separate internet and telephone banking passwords or processes. This makes it an attractive proposition for those who want convenience and to keep it simple.

									
Accounts	Current Account	✓	✓	✓	✓	✓	✓	✓	✓
	Mortgage	✗	✗	✗	✓	✓	✓	✓	✓
	Loans	✗	✗	✗	✓	✓	✓	✓	✓
	Overdraft	✓	✓	✓	✓	✓	✓	✓	✓
	In app sign up	✓	✓	✗	✗	✗	✗	✗	✗
Features	Current account charge	✗	✗	✗	✗	✓	✗	✓	✗
	Spending categorisation	✓	✓	✓	✗	✗	✗	✗	✓
	Savings pots	✓	✓	✓	✗	✗	✗	✗	✓
	Spending targets	✓	✓	✓	✗	✗	✗	✗	✗
	Instant card lock	✓	✓	✗	✗	✗	✓	✗	✗
	Balance interest	✗	✓	✓	✗	✗	✗	✗	✗
	Free overseas spending	✓	✓	✗	✗	✗	✗	✓	✗
	Customer community/lab	✓	✓	✓	✓	✗	✗	✗	✗
	Marketplace	✗	✓	✗	✗	✗	✗	✗	✗
Service	In app chat	✓	✓	✗	✗	✗	✓	✓	✗
	App Only	✓	✓	✗	✗	✗	✗	✗	✗
	Email	✓	✓	✓	✓	✓	✓	✗	✗
	Online chat	✗	✓	✓	✓	✓	✓	✓	✓
	24/7 telephone	✓	✗	✓	✓	✗	✗	✓	✓
	Internet banking	✗	✗	✓	✓	✓	✓	✓	✓
	Branches	✗	✗	✓	✗	✓	✓	✓	✓



4 Future service predictions

With customers beginning to actively participate in the shaping of digital banking services, businesses are having to become increasingly more agile to keep ahead of competitors and satisfy customer demands. Based on our work with consumers, regulation authorities, service providers and banking organisations, here are our predictions for future services.

1 Financial reviews

Customers will review weekly and monthly reports of their spending through their app to manage household budgets effectively, setting targets and paying bills more flexibly

2 Paper free banking

No longer will applications include back and forth paperwork, instead all will be done online with companies pre-filling existing data they hold for customer ease

3 Insurance based on tracked behaviour

Much like the little black box for car insurance, health, life and home insurance will track your purchases and physical habits to tailor your premium price

4 Restricted spending

Overdrafts will become more restricted and algorithms will identify negative spending patterns to proactively alert customers

5 In app video consultation

For those who want face to face advice they will have 24/7 access to financial advisors

6 Money saving alerts and discounts

Customers accounts will be linked to their shopping behaviour to alert them of offers before purchasing. They will also be sent leisure discounts with the integration of services like Quidco.

7 Banking market platforms

Banks will open marketplaces for service providers enabling customers to manage and switch utilities within one place. Alerts will inform customers if they can get a cheaper deal elsewhere and manage the switching process

8 Financial product growth

The number of financial products held per person will grow due to the increased visibility and simplicity of managing savings, investments and pensions.



Principles INSIGHT

5 Case Studies

These case studies are based on recent projects our clients have completed with us to resolve their digital challenges.



INNOVATION



Launching a digital banking service for SMEs

Question: Can we create a digital banking service for SMEs separate from our core brand identity?

Method: Created a quantitative model that mapped the opportunities for RBS to explore

Deliverables: Insight backed business case for ambitious new digital banking service for SMEs

Results: The business case was accepted by the board, and phase two is now underway.



DIGITAL



Platform testing

Question: Is our investment platform prototype customer friendly?

Method: In-home depth interviews with prototype test

Deliverables: Insight to inform app development and customer expectations

Results: Identified favoured design features and tested pre-app creative. Also advised client to consider potentially more profitable markets which the client is pursuing.



STRATEGY



German Market Opportunity Analysis

Question: Where are the market gaps in Germany for managing personal finances?

Method: Interactive workshops in Germany supported by online quantitative interviews

Deliverables: Customer journey maps, pain point assessment and quantifying market opportunity

Results: Identification of customer need, market opportunity and business strategy.



CUSTOMER EXPERIENCE

Iceland Improving customer retention

Question: How do we evolve our loyalty card propositions to increase customer retention?

Method: In-store shopper interviews, staff interviews and interactive discussion groups

Deliverables: Concept ranking, marcomms feedback and strategy for the card

Results: Identified triggers and barriers to loyalty card use, communications review and action plans to inform development strategy.

Conclusion

So is this the end of traditional banking?

Given that HSBC, Barclays, Royal Bank of Scotland and Lloyds Banking Group currently dominate 75% of current accounts in the UK, we can't imagine there being an immediate stampede away. However, with funding into digital banks significantly increasing and more players coming to the market, they will quickly become mainstream for the digitally savvy.

The important things to note are that customers are demanding a more lifestyle orientated banking system and want their accounts tailored to their needs. It will be crucial for the bricks and mortar banks to keep up to date and compete in what will become a competitive and consumer led industry.

As Monzo have shown with their community, customers are becoming more engaged and involved in the creation of services. This enthusiasm and engagement with financial services could be the key to assisting traditional banks and services to shape their offering.

So could this be the end of traditional banking? We believe so, in the sense that the industry will no longer be led by the industry, but instead by the customer.

Client Questions

In these challenging times clients turn to us to help answer those burning questions and identify areas for growth. Maybe some of these sound similar to your own?

Our **First Principles™** approach to your business issues means all of our insight programmes are bespoke, tailored to meet each unique client challenge.



CUSTOMER EXPERIENCE

How can we get closer to our customers?

What do customers really think about our product?

How does our brand compare to competitors?

What is our customer's buying journey?



INNOVATION

What new products and services should we build?

How do we change our current brand positioning?

What new marcomms campaigns can we create?

What is the next big trend my team should focus on?



DIGITAL

How can we optimise our existing digital systems?

What kind of mobile application can we build?

How can we design immersive experiences?

How do we optimise our website for conversion?



STRATEGY

Which target markets should we focus on?

How do we diversify our revenue streams?

Which territories should our brand move in to?

How do we grow our brand in a saturated market?

About Us

We're a **First Principles™** insight agency meaning we begin projects by making as few assumptions as possible. All of our insight programmes are bespoke, tailored to meet each unique client challenge.

Customer Experience

Truly understanding consumers, their needs, experiences and journeys is at the heart of everything we do. We use this to ensure your business is meeting consumer needs, that you are targeting the right audiences and identifying new market opportunities.

Innovators

Our UX, creative and development credentials stretch across sectors and countries. We've built and launched brands, products and experiences. We can work with you to expand your digital strategy both now and into the future.

Strategy

Running stakeholder workshops is one of our key strengths, taking insight and industry knowledge and directly applying it to your business strategy. These workshops are a great way to engage stakeholders, utilise results and gain business buy in.

A selection of our clients:



Get In Touch

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