

WHITE PAPER

Banks Must Create Powerful Hybrid Experiences as Challengers Press Digital Advantage

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For the first time ever, our survey saw a digital challenger be deemed the primary bank by the majority of its customers. Monzo achieved this landmark milestone in 2022, with 50% of its customers regarding it as their chief provider of banking services. This outstanding finding is enhanced further by the fact that less than 25% of Monzo customers considered it to be their primary bank in 2021. It is now apparent that this is not an isolated case, but a trend spanning multiple markets.

Faced with this reality, traditional incumbent banks must see it as a call to action and double down on their transformation journeys. The growing success of digital challengers can be attributed to their delivery of rapid, easy account opening, alongside mobile apps that provide more personalized, intuitive user experiences. To prevent being increasingly associated with secondary accounts, incumbents must act swiftly and strategically to delight and retain their customers.

The experience of customers must be at the core of efforts made by traditional banks to compete, with digital challengers achieving a strong customer advocacy advantage. Innovative banking rivals are beating the net promoter scores of traditional banks by 10 points in some instances, due to their focus on superior, personalised customer experience.

There are some critical things incumbents must do to effectively respond, compete and thrive. Our survey results demonstrate an enduring preference for human contact, which traditional banks are positioned to leverage by reconfiguring their branch networks and fostering hybrid digital journeys. Secondly, it is imperative that traditional banks prioritise ESG innovation and effectively communicate their tangible progress. ESG is becoming a particularly important topic among young customers and those earning higher incomes, both of which are critical segments associated with current and future value.

In this paper, we will review these themes and findings through the lens of our 2022 global consumer survey, which captured insights from 41,884 retail banking customers across 31 countries spanning five continents. This will provide you with a clear and comprehensive view of the primary retail banking trends and priorities as we head into 2023.

The customer advocacy advantage

Monzo was not the only digital challenger that significantly increased its dedicated customer base in 2022. ING Diba in Germany, Synchrony in USA, Rakuten in Japan and ING in Australia have all seen an increase in share of customers who consider them their primary banking relationship.

Our respondents stated that digital banks offer better mobile banking app experiences, with 43% of promoters in agreement, higher than 37% who were impressed with the offerings of traditional banks. Digital banks also received 10% more favour from promoters when it comes to the speed and ease of opening an account, which has proven to be a critical factor in choice of banks.

Low fees, better interest rates, and rewards programs are other areas in which digital banks have taken the lead. Digital banks often undercut traditional banks in prices by offering products and services at a lower cost or even free of charge. However, there are some areas in which traditional banks still have the edge in the eyes of consumers. Consumers have more confidence in traditional banks to keep their money safe and certain segments of customers still value branches for their day-to-day activities.

1. REBEX Consumer Survey 2022 Global results

In terms of customer expectations today, it has become clear that more personalized services are in high demand. This is also an area in which digital challengers have taken the lead over traditional incumbents, outperforming them in all key customer expectation areas. For example, 45% of customer now expect banks to suggest relevant products and solutions that they are not currently taking advantage of. 43% feel that digital challengers are achieving this, while only 35% said the same about traditional retail banks. Another top customer expectation is that banks will help them to make real-life decisions that impact their financial situation.

Exhibit 1: Customers want banks to provide a more personalized service, and digital banks are performing better than traditional banks on this dimension

Customer expectations from their banks (% of responses)

Suggest relevant products and solutions that I was not taking advantage of	45
Help me make real-life decisions that impact my financial situation	43
Help me think about my long-term aspirations, (e.g. buying a house)	42
Provide me with tools to understand and manage my day-to-day spending	42
Help me maintain separate "pots of money" for different purposes	42
Help me understand how my short-term behaviours impact my long-term aspirations	40
Send reminders to help me achieve my objectives	39
Propose changes in my behaviour so I can achieve my objectives and aspirations	39
Help me think about my short-term objectives month to month	38
Allow me to set limits and controls on my spending	37
Engage with me regularly and help me adjust my plans according to my circumstances	36

How the banks perform (% of responses)

Global Avg.	Traditional banks	Digital banks
35	35	43
35	35	38
35	35	37
39	39	48
41	40	53
33	33	40
31	31	39
34	33	45
35	35	42
38	38	49
30	30	39

Question: Which services would you like from your bank and which services does your bank currently provide?
 Source: REBEX Consumer survey 2022, study conducted in Jun-Sept 2022, sample size is 41,884 respondents

Significantly higher than global average

Our survey revealed that customers under the age of 45 are more likely to expect their banks to provide financial management and planning support. Consistent with this, we found that 51% of 35–44-year-olds expect banks to suggest other relevant products that they could benefit from.

Younger customers are also more receptive to offers relating to non-banking services, from their banks, and they also have greater confidence in the security capabilities of digital challengers. In spite of this, traditional banks garner significantly more customer trust when it comes to data privacy overall.

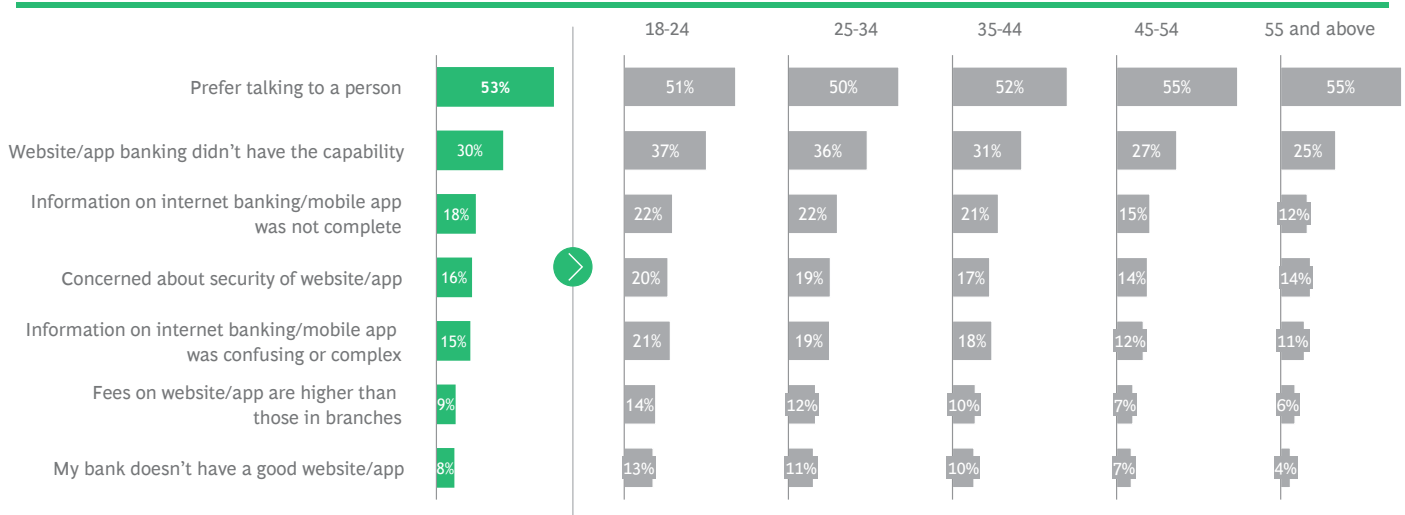
Banking interactions are changing

The 2022 survey findings show that the use of mobile banking apps has continued to climb, while online banking use has declined. During the same period, we also saw a small increase in branch and ATM visits, as well as call centre usage. The number of customers who stated that they are using mobile apps regularly for banking has risen from 49% in 2021, to 55% in 2022. 42% said they regularly used online banking in 2022, compared to 43% in the previous year.

Use of branches continues to bounce back as the pandemic subsides but remains below the pre-pandemic levels. Regular branch visits grew slightly from 8% to 9% in 2022, and regular ATM visits were made by 35% of customers, up from 33% in 2021. The slight increase in ATM usage is partly driven by the increased use of cash to manage budgets as cost-of-living keeps rising. The rebound in branch visits can be attributed to customers wanting to talk to real people, with 53% of retail banking customers who visited branches, citing this as their reason for doing so. A further 30% stated that they visit branches regularly because online and app services do not offer the capability they need.

Exhibit 2: Top reason for visiting branches is the need to speak with a person; many customers still feel the digital experience is not complete enough

Reasons customers visited a branch over using mobile app or online banking



Question: Why did you visit the branch instead of using internet banking or mobile app? Select up to 3 reasons
 Source: REBEX Consumer survey 2022, study conducted in June - Sept 2022, sample size is 41,884 respondents

Our findings show that customers continue to show a preference for in-person meetings when acquiring more complex products. 60% of customers prefer to meet in person when getting a mortgage and 46% do so when getting a loan.

Perhaps surprisingly, customers aged between 18 and 34 visited branches the most in the last 12 months. We found that 12% of customers in this age range visited a branch regularly, compared with just 7% of regular visitors in the over 55 category. A significant 63% of regular

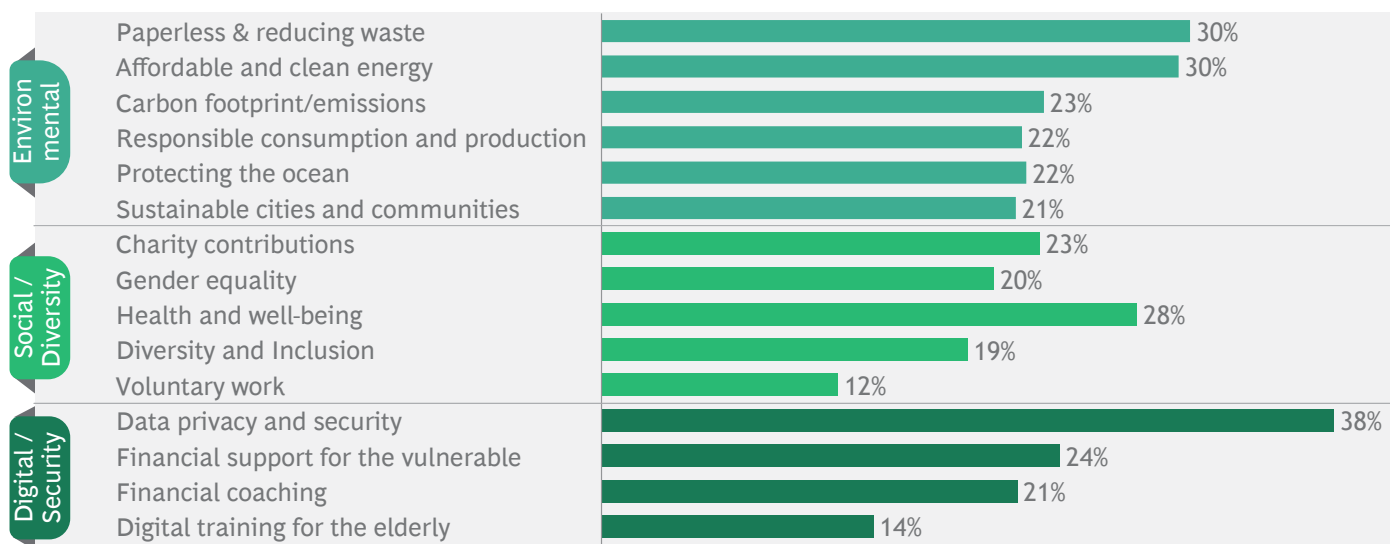
branch visitors put their satisfaction down to their experience with friendly, polite staff, with 49% of customers citing the knowledgeability of those working at bank branches. Waiting times and opening hours were the causes of the most dissatisfaction when visiting branches, with 52% and 30% pointing to these issues respectively.

Sustainability and responsibility

When asked what constitutes a ‘good bank’, 38% of customers highlighted data privacy and security, which was the highest single percentage. Paperless services and waste reduction, as well as clean energy, were deemed the next most important factors with 30% each.

Exhibit 3: Most customers currently associate a ‘Good bank’ with data privacy and security, meaning there is plenty of white space in which to innovate

When you hear about ‘banks doing good’, what words or phrases come to your mind?



Question: When you hear about ‘banks doing good’, what words or phrases come to your mind? Select up to five words/phrases that are most relevant to you?
 Source: REBEX Consumer survey 2022, study conducted in June - Sept 2022, sample size is 41,884 respondents

Banking simplicity along with honesty and transparency stood out as the primary considerations for customers when selecting a bank, with 68% choosing these factors respectively. Although ESG (Environmental, social, and governance) factors rank lower in importance for customers, around 30% of retail banking customers highlighted them as being critical to their decision-making process.

However, customers are not very aware or well informed of what their banks are doing in the ESG space - only around 30% of customers feel well informed, with awareness greater in higher income and younger customer segments. Our research also indicates that there is little difference between the brand awareness of best and worst performing banks when it comes to ESG, further emphasising the scale of the opportunity at hand.

2023 and beyond

Both traditional retail banks and digital challengers are facing turbulence and opportunities to capitalise on in 2023.

Incumbent banks are strongly encouraged to take action in four key areas:

- Invest in leading hybrid experiences, with mobile apps that delight users and encourage daily engagement complemented with human interaction for complex needs
- Migrate low-value transactions from contact centres and branches to digital and focus on providing a higher quality human touch in the channel.
- Become a supportive partner to customers that meets their full range of needs and provides them the advice and guidance they desire about meeting their financial goals
- Maintain their trust advantage in data security and privacy with continued investments in cyber security and mitigation of scams

Newer banking players must focus on demonstrating robust data security and privacy, while also finding ways to provide a more human customer experience. They must do so while striving for financial viability in an environment of rising interest rates and increasing regulatory pressure. In summary, although their next steps may differ, both types of banks have a major opportunity to deliver the experiences customers now demand.

Regardless of whether you are a traditional incumbent or a digital challenger, ESG factors are now more important than ever. Customers are widely lacking awareness of their banks' sustainability stance on the one hand, but it is also becoming much more important to them in their advocacy and choice of banks. In light of this, banks who act now to stand out from the crowd on ESG will gain a vital competitive edge at a time when attracting and retaining customers is critical.

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