

WHITE PAPER

Double Down on Key Demographics to Dodge Digital Bank Threat

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By Holger Sachse, Alasdair Keith and Ankur Patil

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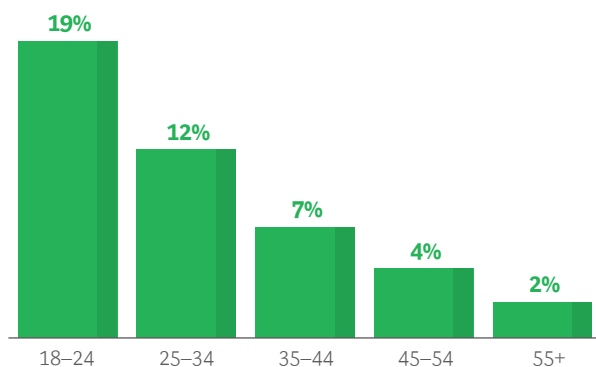
Agile digital banks are winning customers over from slow-moving incumbents, maintaining a 10-point net promoter score (NPS) lead on average according to recent BCG analysis. Based on the 2023 REBEX Consumer Survey, younger and more affluent customers are two key demographics for incumbents to pay attention to, with both groups significantly more likely to change their primary bank than others. To stem these losses, banks must take swift, strategic action and make innovation a top priority. We have pinpointed where digital challengers are making the greatest gains, and revealed the key defensive steps incumbents need to take.

Crucial Customer Segments

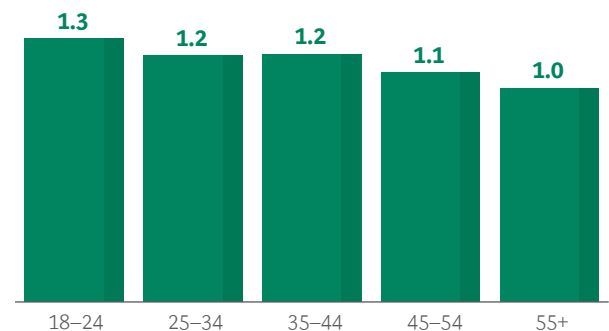
Younger customers and affluent customers are two of the most critical and profitable demographics for traditional banks, but our survey found that 19% of 18 to 24-year-olds have switched their primary bank in the last year. Under 24-year-olds are three times more likely to make this transition than those aged between 35 and 45, underlining the importance of this category for incumbents. A substantial 12% of 25 to 34-year-olds have also swapped primary providers in the past year.

Exhibit 1 - Younger customers are most likely to switch their primary banks; they also have the most products on average with digital/direct banks

Customers who have switched their primary bank in the last 1 year



Number of products held by customers with digital/direct banks



Source: REBEX Consumer survey 2023, study conducted in April–May 2023, sample size is 26,067 respondents.

Question: Have you switched your main bank in the last one year?

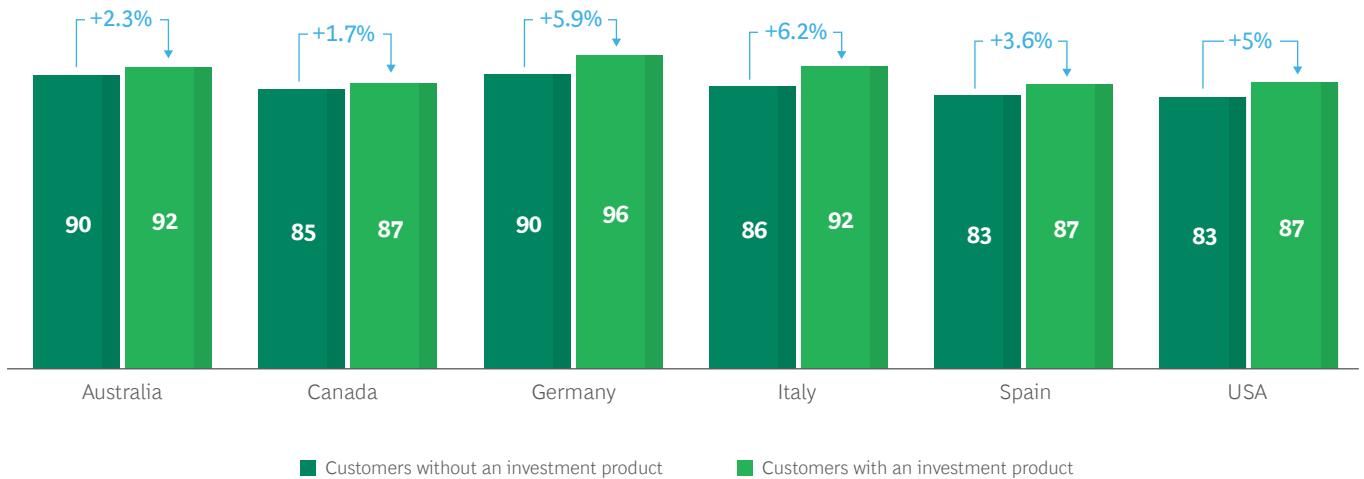
Question: Which banking products do you own and with which banks?

In the case of affluent customers, two key factors are presenting an increased risk for traditional banks. Affluent customers tend to use more products the higher their income, and they are more likely to shop around. They hold the least products offered by their primary bank. High income customers tend to own 6.9 products on average, just 44% of which are issued by their primary provider. Low-income customers have 3.6 products on average, with 59% provided by their primary bank.

The findings outlined above point to the fact that despite the critical importance of affluent customers for incumbents, this demographic is frequently under-served in terms of tailored offers and branch services. The analysis also shows that customer stickiness tends to be higher among those owning investment products. In most markets, affluent customers who hold an investment product are up to 6 percentage points more likely to stay with their bank for two or more years, compared to similar customers without an investment product.

Exhibit 2 - Stickiness (Affluent customers only)

% of Affluent customers who stay with the bank more than 2 years



Source: REBEX Consumer survey 2023, study conducted in April–May 2023, sample size is 26,067 respondents.

Question: Have you switched your primary bank in the last 1 year?

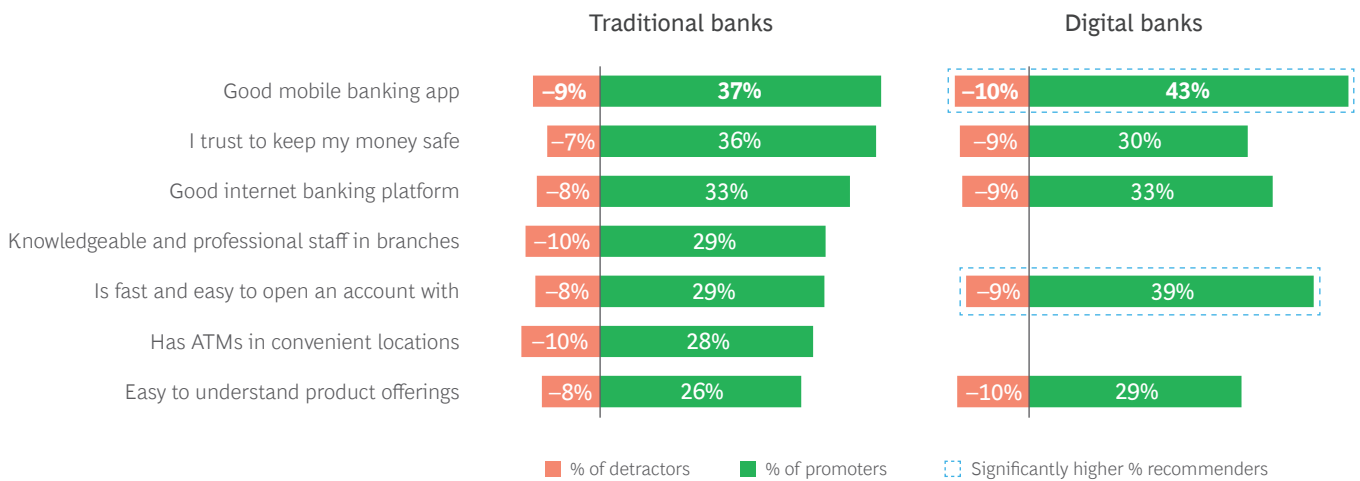
Question: Which banking products do you have and with which banks? Which of your banks do you consider as your main bank?

Innovation and Digital Experience

As part of the survey, respondents were asked about the reasons they would and would not recommend their banks to others, including both incumbents and challengers. According to our findings, one factor making customers more likely to recommend digital banks over traditional players is the strength of their mobile banking apps. The speed and ease with which accounts can be opened also stands out as an advantageous factor for challengers.

Another area in which digital banks are winning favour is customer understanding, specifically in terms of how easy it is to understand product offerings. Despite having fewer staff and no physical branches in most cases, the effective digital experiences offered by challengers are helping customers to determine which products they need and how they work. Although digital challengers are gaining ground on incumbents, customers still favour traditional banks when it comes to trust and keeping their money safe. The knowledgeability of call center support staff is also a category in which incumbents continue to lead.

Exhibit 3 - Digital banks outperform incumbent banks in customer advocacy, key reasons include better mobile apps and fast and easy account opening



Source: REBEX Consumer survey 2022, study conducted in June–Sept 2022, sample size is 41,884 respondents.

Question: What are the reasons you are likely to recommend your bank? What are the reasons you are NOT very likely to recommend your bank?

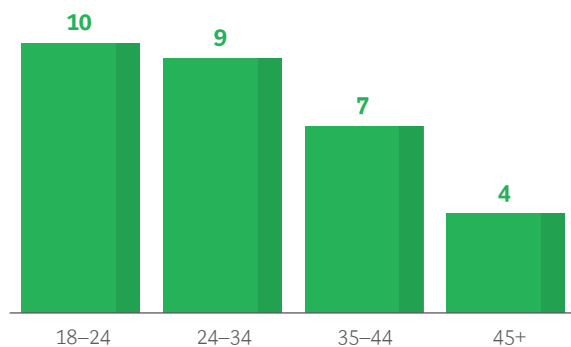
A Call to Action for Incumbents

To remain relevant and competitive in the future, it is crucial that traditional banks attract younger customers today. As stated by our survey, retaining customers under the age of 45, and particularly those under 24, will hinge on an incumbent's ability to offer superior digital experiences. By offering innovative, tailored services and experiences for young and affluent customers, traditional banks can maintain their critical primary relationships. Dynamic mobile app experiences are essential when it comes to satisfaction among these customer segments, as are speed and ease when opening accounts.

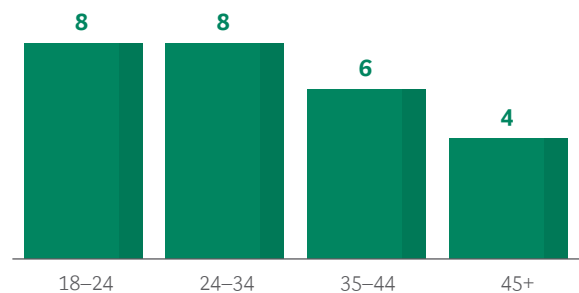
Incumbents can also win a greater share of wallet (SOW) among older customers by providing easily understandable investment products that help them achieve their goals. By issuing investment products to more customers, banks can tap into the increased levels of loyalty associated with the ownership of this product type, as revealed by our survey. With these considerations in mind, traditional banks and challengers alike must plot a course towards deepening customer relationships and driving cross-product holding.

Exhibit 4 - Customers who are unlikely to recommend their bank to friends and family because of poor mobile banking app and family because of poor internet banking

% of customers who cited **poor mobile banking app** as a reason they are not likely to recommend their bank



% of customers who cited **poor internet banking** as a reason they are not likely to recommend their bank



Source: REBEX Consumer survey 2023, study conducted in April–May 2023, sample size is 26,067 respondents.

Question: Have you switched your main bank in the last one year?

Question: Which banking products do you have and with which banks? Which of your banks do you consider as your main bank?

About the Authors

Holger Sachse is a Managing Director and Senior Partner at BCG based in the Düsseldorf office. He is the Head of BCG's activities in retail banking in Europe. You may contact him at Sachse.Holger@bcg.com.

Alasdair Keith is a Knowledge Director based at BCG and is based in the London office. You may contact him at Keith.Alasdair@bcg.com.

Ankur Patil is a Solution Delivery Director in the Retail Banking Excellence (REBEX) team and is based in the Singapore office. You may contact him at Patil.Ankur@bcg.com.

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For Further Contact

If you would like to discuss this report, please contact the authors.

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