



Banking Disintermediation: The Personalisation Imperative

How UK Consumers View the Future of Their Banking Relationships



EXECUTIVE SUMMARY

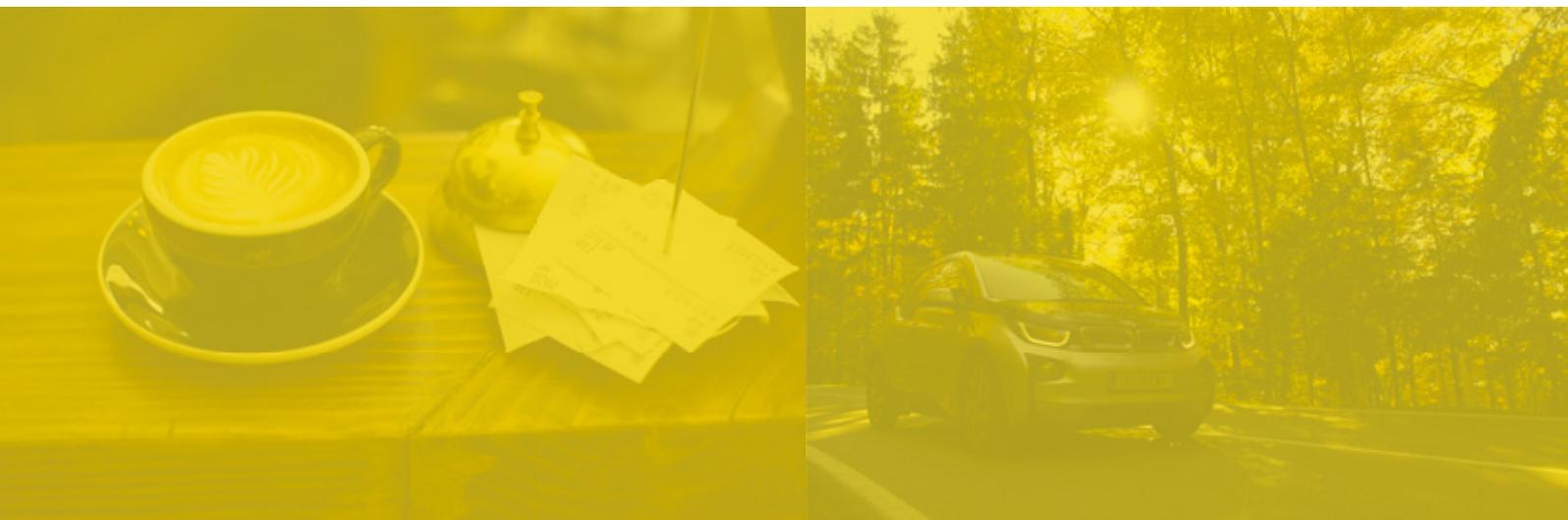
The banking industry is facing a radical transformation. The emergence of digital and mobile as dominant delivery channels has given rise to challenger banks and alternative financial services institutions (AltFIs), expanding consumer choice and broadening the competitive landscape.

Some commentators have suggested it's only a matter of time before traditional institutions take on the role of regulated infrastructure provider without direct access to customers, after being disintermediated by AltFIs.

But what is the actual disintermediation effect that AltFIs are having on the incumbents? What are the key drivers for consumers? And most importantly, what should the incumbents do to remain relevant to consumers?

Personetics partnered with research house Red Bricks to survey over 1,000 UK bank consumers in January 2016 about their attitudes towards traditional financial institutions and towards AltFIs.

The research uncovered trends pointing to a steady shift towards AltFIs driven by the customer experience. While the vast majority of the consumers surveyed still hold their current accounts with a traditional provider (bank or building society), there is a sizeable and growing minority who use AltFIs for other, high value financial services.



KEY FINDINGS

While traditional institutions dominate current accounts, AltFIs are increasingly attracting business for ancillary products:

- **94%** of respondents use traditional financial services companies for their current account
- **30%** of respondents have relationships with AltFIs for products other than a current account, with savings accounts and credit cards being the most popular

These ancillary products may be just the tip of the iceberg. Nearly half of consumers would consider an AltFI for their current account:

- More than 1-in-4 people (**27%**) are currently tempted to switch bank accounts
- Nearly half (**45%**) of those who didn't have an account with an AltFI would consider switching to one

AltFI customers are more satisfied than their traditionally banked counterparts:

- The portion of AltFI customers likely or very likely to recommend their provider is **20%** higher than customers of traditional institutions (**82%** vs. **68%**).
- **66%** of AltFI customers said that they helped them better manage their finances, opposed to **57%** of traditional bank customers.

And customers of traditional institutions feel like they are not important to their provider:

- Close to half (**40%**) of bank customers felt that they were little more than an account number

AltFI usage is greater than industry expectations and while current usage levels are consistent across all age groups they are set to increase as millennials embrace convenience, easy ways to engage, and demand more guidance and personalisation. Customers aren't leaving in droves just yet, but the study indicates that a shift has commenced.

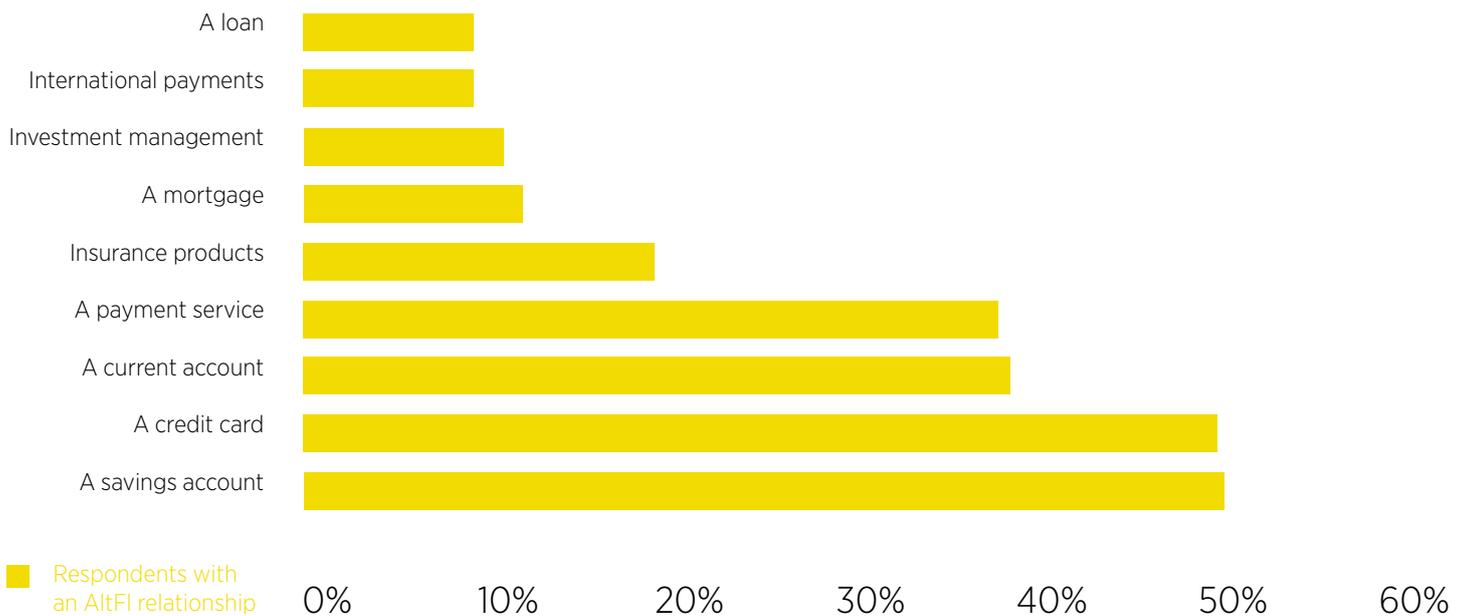
INCUMBENTS STILL DOMINATE, BUT ALTFI CUSTOMERS ARE HAPPIER

94% of respondents still use traditional financial services companies for their main bank account. This is unsurprising given the central role a current account holds in the financial lives of consumers, and the relatively recent rise of AltFIs. This is not the full story however: **30%** of respondents have relationships with AltFIs for products other than a current account, with credit cards and savings accounts being the most popular. Contrary to received wisdom, there were no significant variances reported among the different age groups. Across the board, consumer attitudes and adoption patterns are similar whether they are 18 or 65.

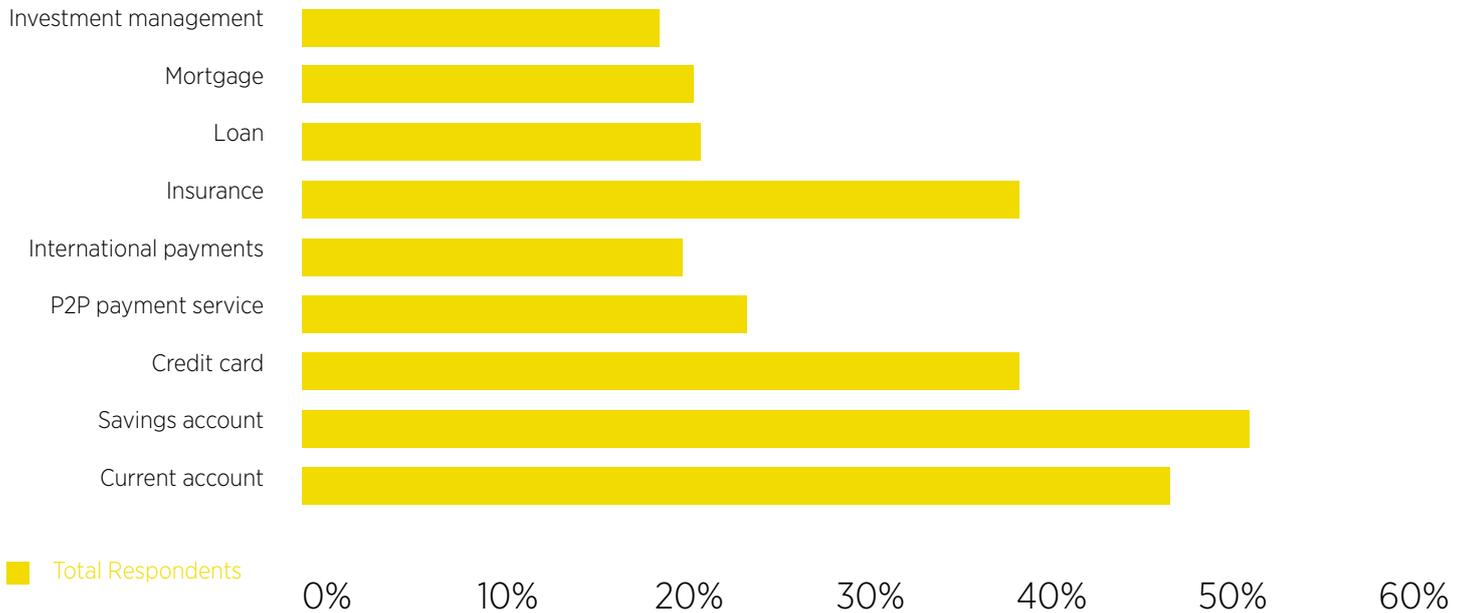
Although incumbent banks still dominate mortgage and loan services, AltFIs are making inroads into the easier-to-disrupt services that dominate customer relationships.

71% of respondents have held their current account for over five years and while many aren't yet ready to commit to moving their main financial relationship, less 'sticky' services are already being disintermediated.

Which of the following do you receive from an AltFI



For which of these services would you consider an AltFI



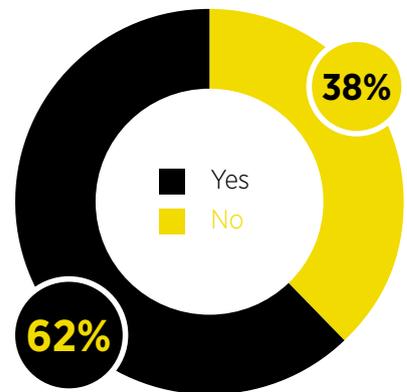
The survey points to an emerging trend that could be worrying for traditional banks.

Almost a third (**27%**) of people are currently tempted to switch bank accounts and **62%** of all respondents would switch their current account to an AltFI. Further, of those who didn't have an account with an AltFI, **45%** would consider switching to one. In other words, traditional banks could lose almost half of their customer base to AltFIs.

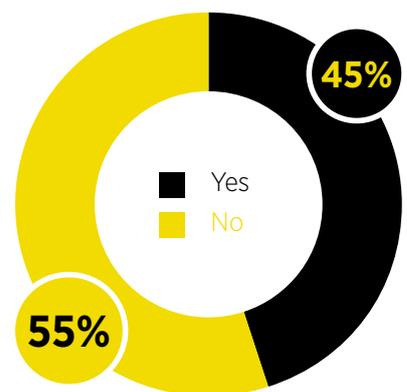
It would also seem that those who switch to AltFIs are happier than their traditionally-served counterparts. **82%** of AltFI current account holders said that they are either likely or very likely to recommend their provider to friends. This is compared with just **68%** of traditional financial institution customers.

With word of mouth playing a sizeable role in consumer behaviour, this factor has the potential to drive more and more customers to AltFIs.

Would you switch your current account to an AltFI? (all respondents)



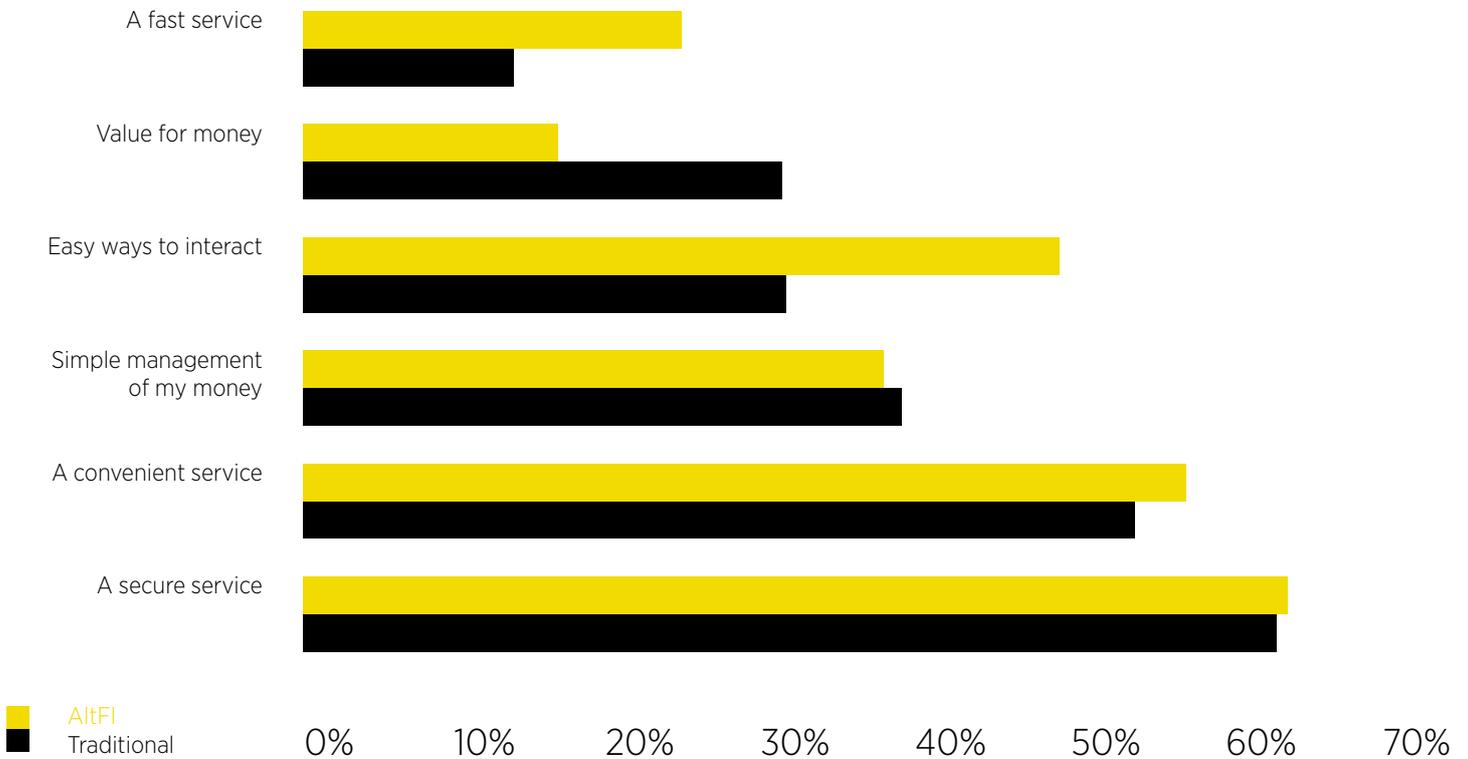
Would you switch your current account to an AltFI? (non AltFI customers)



WHY USE THE ALTERNATIVE?

Clearly AltFIs are doing something right and delving deeper into the data shines a light on a possible answer. Customers of AltFIs seem to be more satisfied with their service than customers of traditional banks. AltFIs' customers see them as more convenient, easier to interact with and faster than traditional banks without any perceived loss in security.

What is your current provider best at supplying? (all respondents)



While in most areas AltFIs are perceived as good as, if not better than, traditional financial institutions there's still work to be done, for example value for money is a key concern.

PERSONALISATION IS A KEY DIFFERENTIATOR FOR ALTFIS

It is clear that AltFIs do a better job understanding customers and providing them with personalised services that help them better manage their finances.

When asked in detail, AltFI customers felt that they were better understood, provided with better guidance and treated better personally than customers of traditional financial institutions.

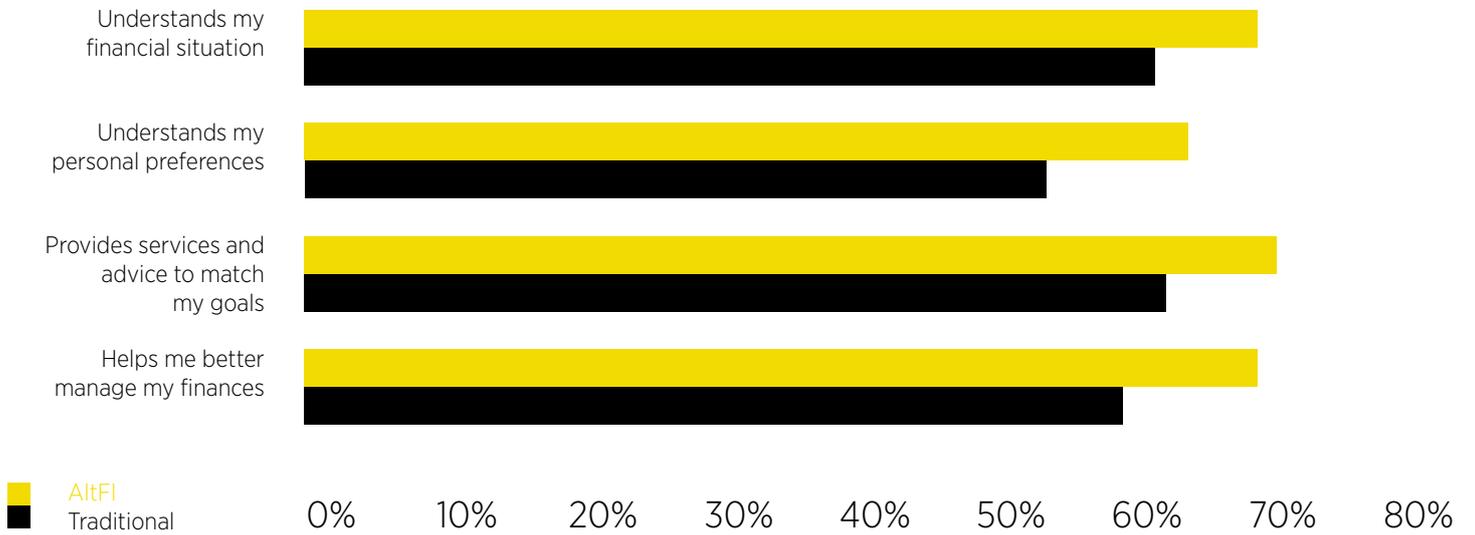
66% of AltFI customers said that they helped them better manage their finances and **68%** said that they provided personalised advice. This is opposed to **57%** and **60%** respectively for traditional financial institutions. **62%** of AltFI customers felt that their bank understood their personal preferences while only **52%** of traditional financial institution customers felt the same way.

Tellingly, less than a third (**31%**) of AltFI customers felt that they were little more than an account number but **40%** of traditional customers felt the same way.

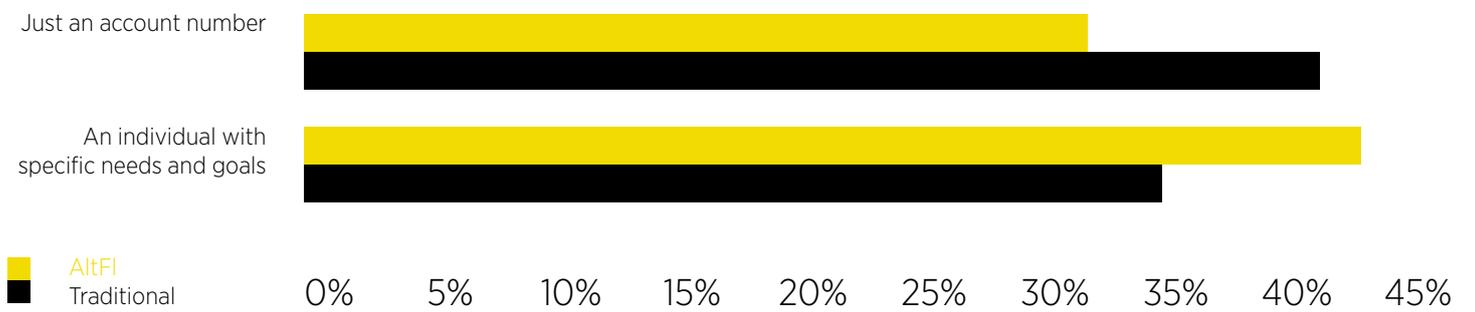
The combination of ease of use and guidance has created offerings which, although not as trusted as traditional incumbents', seems to be much more attractive and satisfying.



I agree that my provider:



My current account provide threats me as just a number (all respondents)



CONCLUSION: BANKS MUST LEARN FROM THE ALTFIS ON GUIDANCE

We set out to understand how real the threat of disintermediation is and what is driving it.

The answer is that the threat is real and growing. AltFIs are being used for current accounts by approximately one in 20 customers, which is significantly ahead of expectations, and more than one-in-four are using AltFIs for some form of financial service. Critically, these customers are happier than traditionally banked ones.

Product usage across AltFIs and traditional institutions is very similar. It is guidance and personalisation that make the difference.

Traditional institutions have access to an enormous amount of their customers' data, but have been slow to make use of this data to better serve the customer. AltFIs have seized this opportunity, and the benefits are starting to become clear. With the imminent onset of PSD2 regulations in 2017, banks must act now to leverage their data assets, before they have to open up this gold mine to the competition.

Personalisation and guidance are imperative. If banks can step up to the challenge, they can take away one of the primary advantages that AltFIs currently claim.



ABOUT PERSONETICS

Personetics helps over 15 million digital users of the world's leading financial institutions receive personalised, real-time, relevant guidance at each step along the customer journey. Accurately anticipating individual customer needs, the Personetics Predictive Analytics platform enables financial institutions to deliver a uniquely engaging digital experience.

Working with leading financial institutions, including three of the top fifteen global banks, Personetics delivers proven results elevating customer satisfaction, affinity, and trust. The company is led by a team of seasoned FinTech entrepreneurs with a proven track record, and was recently named in the KPMG FinTech 100 List, a 2014 Gartner Cool Vendor, and a Top 10 Company to Watch by American Banker.

To learn more about this report or about Personetics solutions, visit [our website](#) or send an email to marketing@personetics.com.

