



Retail Banks: Why All is Not Lost in the Battle with NeoBanks



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Digital-only banks, challenger banks, or neobanks have steadily encroached on the customer base of the more traditional retail banks over the last few years. Out of the 256 neobanks globally, nearly half are operating in Europe^[1].

The pandemic has accelerated their adoption. Studies show that in the UK alone, 1 in 4 people has opened an account with a

digital-only bank as of 2021, three times the number in 2019^[2].

Traditional banking institutions feel the pressure to gain ground in the seemingly widening gap lest they end up being completely overtaken. But are these neobanks too far ahead making it impossible to catch up?

Not quite. Here's why.

Traditional Banks Still have Leverage

While banking behaviours and preferences can vary across generations, a recent study conducted by BAI has shown that the traditional bank is still the preferred primary bank across the spectrum. From the Baby boomers and Gen X, who have the affinity for physical branches, to the Millennials and Gen Z, who are banking with the same institutions as their parents^[3]. Data shows that the large majority of consumers are putting their trust, and their money, into financial institutions they have grown used to.

Despite the recent uptake, consumers are not closing down their accounts and leaving their banks en masse in favour of a digital-only bank. This can be attributed to several reasons.

Difficulty in Changing Banks

Have you ever come across the saying “Anyone who gets married is more likely to get divorced than change the bank account they have on their wedding day”? This lends to the fact that people perceive changing main bank accounts as tedious, dreading

re-doing processes from updating payment set-ups, submitting documents, and everything in between.

Parental Influence

Parents are usually a young person’s first model when it comes to financial education and decisions. And being exposed to their parent’s banking habits influences youth’s first banking decisions, including the institution they end up choosing, with 61% of Gen Z’s banking where their parents do.^[3]

Looking for the Human Element

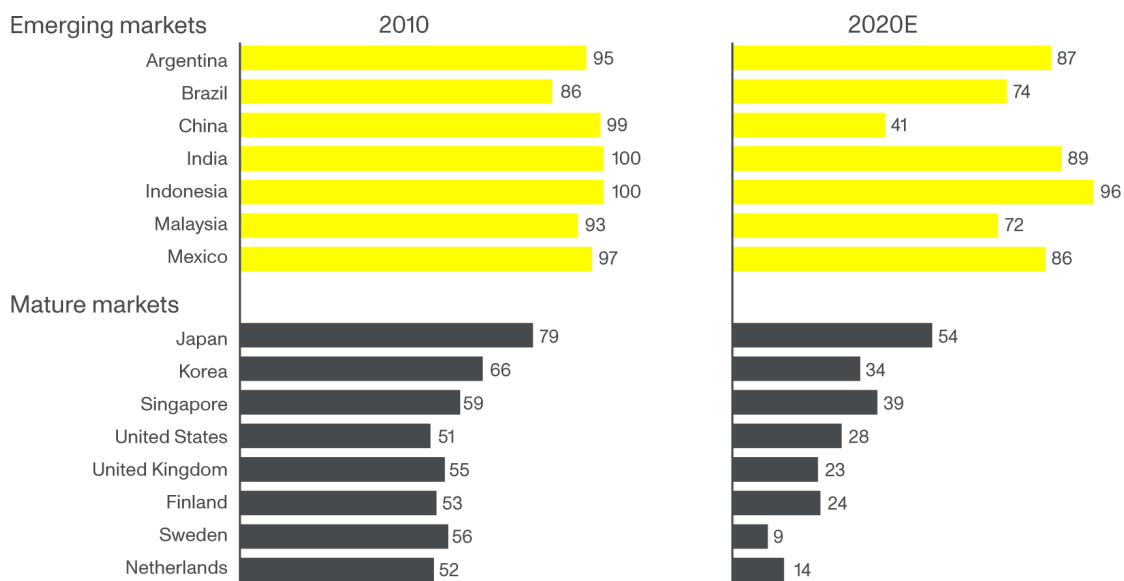
Consumers still find comfort in the idea that they have the option to speak to a person when they need financial advice or when resolving account related issues.^[5] The BAI study shows that more than half of customers from both Baby Boomers to Gen Zs still prefer a primary bank that gives them access to physical branches and people.^[6]

Reliance on Cash

There are countries where cash transactions are still

Cash usage by country

Percent of cash used in total transactions by volume, %



Source: McKinsey Global Payments Map

prevalent despite the availability of digital payment solutions and e-wallets. Germany is a good example. On average, 57% of all payment transactions in 2020 were settled using cash cutting across age groups.^[4] This is also evident for other countries across the globe.

Digital Banks are Playing Second Fiddle

Consumers were treated to an enhanced user experience with the arrival of neobanks. They found unprecedented ease in onboarding and creating an account, sending and receiving digital cash, and for some, starting their investment portfolios. All that with just a few taps on their mobile devices.

On top of that, these digital-first players are offering attractive interest rates and much lower fees compared to their brick and mortar counterparts. Neobanks can offer annual interest rates ranging from 0.9% to 2% for savings and checking account, well above the 0.1% to 0.5% interest rates from a regular bank.^[7] When it comes to fees, they charge lower or even zero costs in areas where traditional institutions would; such as cash transfers, or going below the

required minimum maintaining balance. Despite the attractiveness, accessibility, and superior experience, neobanks still play a secondary role to the incumbent banks. And again, it all comes down to trust. The digital-only banking experience is new and exciting but has yet to be tested.

Customers do not yet have the full confidence that neobanks can stand the test of time. As of the moment, half of UK consumers feel that a digital bank is a riskier place to put their money in than a traditional bank. And among those who do have a digital bank account, 41% said they would limit the amount of money they keep in it^[8].

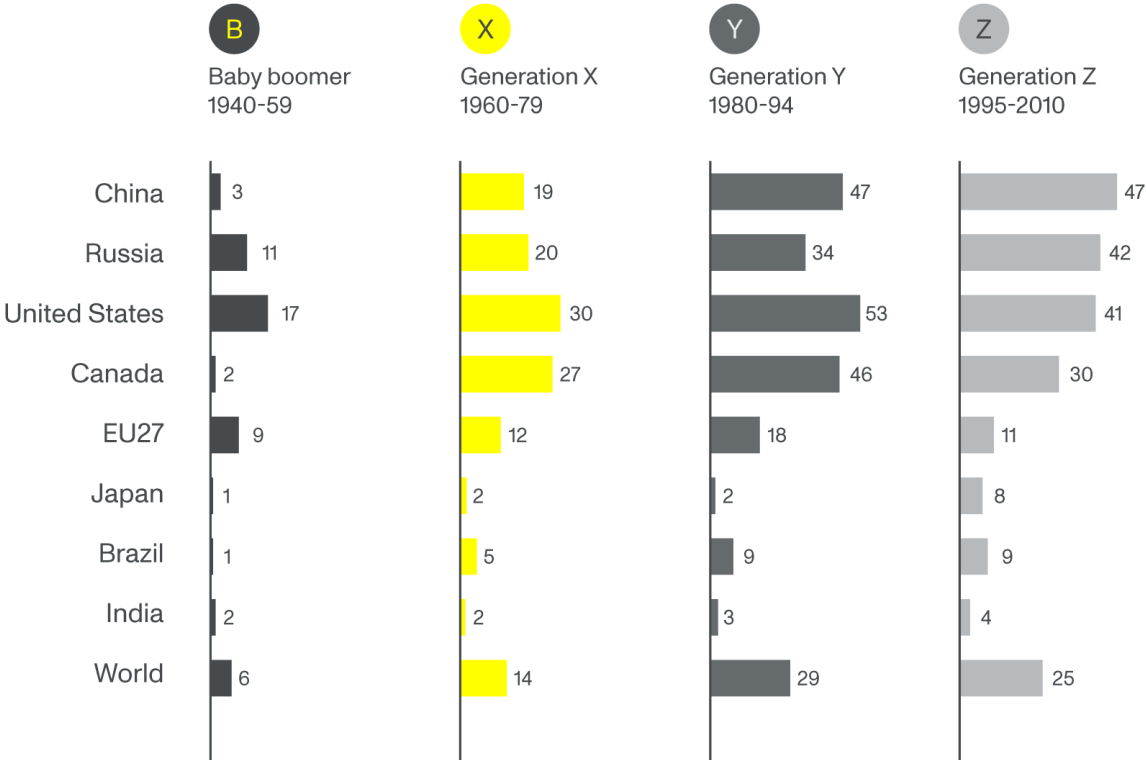
Consumers are slowly embracing the move to digital banks but still rely on their time-tested traditional institutions as their primary providers.

But this may not be the case for very long

We believe that with time, neobanks will gain consumer trust and demonstrate that they can be the ideal long term partner, showing that they can be as reliable as the traditional banks. But they will continue

The “mobile first” segment is reaching an inflection Point.

Share of “mobile first” bankers, %



Source: McKinsey Global Payments Map



to offer a tailored and faster banking experience - giving them the competitive edge. The pandemic has shifted various day-to-day activities online which includes banking. Government restrictions necessitated the use of digital banking, counting the customers who had not tried digital channels before. This opened them up to a new experience in convenience resulting in a shift in customer expectations. They are now expecting interactions to be simple, intuitive, and seamless across channels.

The majority of today's retail bank customers fall into Gen X and Millennial generations. These segments have shown signs that moving over to a digital bank is not at all unthinkable. 75% of millennials are willing to switch

for a better mobile app experience while Gen X wants online account opening for deposits and loans, low fees, and faster payment options ^[3]. All of which a neobank can easily satisfy.

Furthermore, the segments that contribute to the retail banks' business are increasingly becoming mobile-first. This means a largely digital and mobile experience will sooner than later become the norm in the industry.

Now digitisation may seem overwhelming when there is pressure to quickly keep up, more so to get ahead of the challenger banks. A good place to start is to look at your strengths as an institution and digitize while taking your customer's needs at heart.

Amplify Key Strengths and Digitize Effectively

Digitize Core Services

The biggest advantage that retail banks have against digital-only banks is the ability to provide a wider range of services. At the moment, neobanks only offer a fraction of the banking services that traditional institutions do. As such, enabling the digital offering of financial solutions such as mortgages and other types of loans on top of the more common deposit accounts can help give better value for customers and create deeper relationships.

The key to success in this area is avoiding the mistake of replicating the traditionally complicated processes onto the digital channels. A superior customer experience has to be the end goal. This can include executions such as AI-driven processes that can expedite approval processes and systems that will allow personalised automated payment terms.

Expand Local Experience

Another aspect in favour of traditional banks is the human element. The Baby boomers and Gen Z segments both appreciate the personal conversation. In fact, four out of ten Gen Zs would prefer financial issues to be resolved over the phone with a bank representative^[6].

On the other hand, customers under 30 years appreciate personalised and “in the moment” advice when making financial decisions^[9] which is difficult to be effectively provided by a bank representative at all times.

Thus, providing AI and machine learning integrated digital tools can help users make informed financial decisions such as investments and loans on a highly personalised level.

This can then be strengthened with the 24/7 availability of combined technology and people-driven customer service channels like cognitive chatbots and contact/chat support centres to satisfy the inherent need for human interaction.

Elevated Brand Experience

Customers are banking with retail banks because they put their trust in those institutions. They trust in the enduring continuity of their services. However, now they are also looking for a better banking experience. And with a smart digital transformation approach, digitisation for an elevated customer experience is attainable in a reasonable amount of time.

Anders Kongsbak -
Monstarlab Associate Senior
Strategy Consultant

“The local banks have a finger on the pulse, they know what’s going on in the lives of their customers. Their strategic competitive advantage is how they are able to individualise their services to the needs of each client. Currently, the media for this is their branches, but they can do the same via digital and offer a “digital branch experience.”

Accelerate Digitisation by Assimilating Best Practices

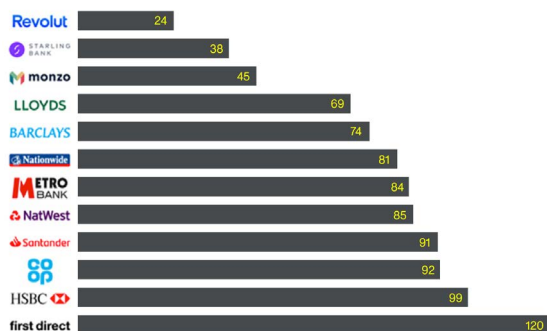
With so many possible areas to digitise, it can be helpful to take a look at top critical consumer banking pain points and emulate best practices from other brands. This can save a tremendous amount of time and allow for faster implementation.

Account Opening

Slow and tedious onboarding is one of the leading customer pain points when it comes to traditional and now, digital banking. This becomes especially important as it is the first interaction a customer has with your digital channel, thus setting the tone for how the overall experience will be like.

In this phase, users of traditional bank channels have to click an average of 53 to 166% times more than it would take to open an account with a neobank.

How many clicks it takes to open an account online at banks and neobanks



Source: BuiltForMars.com © July 2020 The Financial Brand

Revolut App

Revolut employs a simple straightforward approach to customer onboarding. The app asks for the minimum required information to create an account. This allows the user to get started quickly with just the right type of information. When more data is required to get started on products and/or services, it is then asked for at the appropriate time.

Opting to reduce customer information requirements at the onset simplifies the process and reduces friction. It gives the customer a sense of satisfaction as it allows them quick access - only needing to supply further data once they are ready to avail of a banking product.

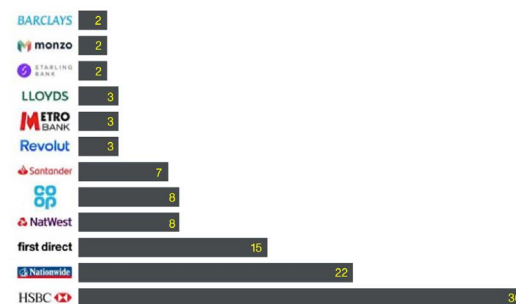
Account Activation

Another point of frustration for customers is the account activation turnaround time. Traditional banks often require customers to submit a tremendous amount of information and documents only to be asked to submit additional documents.

With neobanks, what usually takes weeks, now only takes two to three days at most.

How long it takes to activate an account opened digitally

Days until account is active



Source: BuiltForMars.com © July 2020 The Financial Brand

Use of RegTech

Neobanks utilise regulatory technology partners to help them with identity verification and know-your-customer (KYC) services via API integrations. With the use of these technologies, they are able to expedite the verification process allowing a quick turnaround time.

Tapping into the latest in regulatory technology eases the need for manual intervention in what can be a tedious process. The system can handle processing without regard to workload capacity and even the time as it works 24/7.

Customer Service

When encountering financial issues, customers are anxious to resolve them as soon as possible. Providing relevant channels that will satisfy customer preferences can strengthen customer trust.

Ally Bank

Ally Bank scores a high customer satisfaction rating due to multiple customer service channels made easily available. 24/7 phone support, live chat, email, and even regular mail are notable examples.

Ally Bank's Ally Assist is a text and voice-enabled AI virtual assistant. Users can type or talk to get assistance with transactions such as payments, deposits, transfers, and added information. Ally is able to learn from users, allowing it to suggest solutions in anticipation of the customer's needs.

Using Artificial Intelligence and Machine Learning in customer service provides another level of experience in channels that are already familiar to the customer. This gives them options on how to interact with the channels that suit their preferences.

Personalized Experiences

Customers now expect and demand high levels of personalisation when interacting with brands. Having been exposed to great customer experiences in retail, users engaging with digital banking channels are also looking for similar interactions.

Mashreq Platform

UAE's oldest privately owned bank has revamped its digital banking experience to be highly personalised. Building on the Sitecore platform to allow tailored content and functionalities that are highly relevant to the user.

[View the case here](#)

72% of customers said that personalisation is highly important in today's banking and financial services era ^[9]. That being said, this is one area that traditional banks should place among the top priorities to implement.

Relevant Financial Education

Younger banking customers, Millennials and Gen Z, value financial advice that can help them set and attain financial goals and objectives. This is an area where deeper banking relationships can be forged in a not so distant era that transcends digital and branch banking. Understanding the customer's financial challenges and being able to provide the right advice at the right time strengthens trust in the brand effectively fostering loyalty.

Danske Bank

This Danish multinational bank shifted its focus from pushing products to the support of financial decisions, looking to advise and inspire customers instead of simple education. They put in place a system that delivers financial related content based on life events that will resonate with the target audience.

[View the case here](#)

Conclusion:

The traditional banks' inherent strengths are the key elements to getting back on track in the race against neobanks. But time is not on the incumbent's side as digital banks will continue to win users over with a personalised and valuable customer experience. And when that is coupled with enough time to prove their reliability and resilience, that might just tip the balance in favour of the neobanks, allowing them to obtain primary bank status over traditional banks.

Systematically digitising key strengths now can help gain more ground on digital transformation and at the same time - keeping the confidence of the customer that the brand is committed to providing the best financial services.

In the end, traditional banks should always frame their digital future by leveraging expertise, especially the human element, and carrying it into the realm of digital. Envisioning a new future digital self in relation to what the local banks do best, having a deep relationship and understanding of the individual customer. Thus, delivering the ultimate digital branch experience.

What can you do now?

Often, having a partner from outside the organisation helps put things in perspective. You can uncover challenges and opportunities you might have otherwise overlooked. The same can be said with translating your strengths into best-in-class digital capabilities. Monstarlab's extensive experience with enabling global enterprises with technology gives us expertise that encompasses industries.

Our experts can help guide you through the first steps of the process. For one, we can do a complementary Technology Audit to understand the foundations of your systems and how it stands against the demands of the market and the competition.

We can also then conduct Customer Experience or Product Discovery Workshops to understand the desired brand experience and the right technology to achieve that.

The possibilities are endless. And they are within reach.

Read more on [The Future of Banking, Financial Services, and Insurance](#)

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About Monstarlab



Originally established in 2006 in Tokyo, Japan, Monstarlab has grown into a borderless digital consultancy with 29 global offices and powered by more than 1,200 strategists, designers and engineers who excel at strategy and delivery.

Specialising in end-to-end enterprise-level digital solutions, the company has successfully delivered more than 2,200 projects, including for world-renowned corporations such as Santander Consumer Bank, Danske Bank, Mashreq Bank, and Fortune Global 500 company China Taiping Insurance Holdings Company.

On top of banking, financial services & insurance, the company has strong expertise across sectors, including health & life science, wholesale, retail, & eCommerce, as well as transportation & logistics.

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