



The Future of Big British Banks

Battleground for the Deposit Market



Index

Foreword	3
Key Findings	4
Part 1 – Deposits: The Key Battleground for British Banking Customers	5
Part 2 – Motivations for Switching	8
Part 3 – Opportunity for Traditional Lenders	11

Foreword



Why British banks should adopt platform strategies

The British banking sector has had a profound impact on the shape of the industry globally. Banks founded and domiciled in the UK grew to be among the largest and most influential in the world, and on the back of their success the City of London became a global financial capital. British banks have not just led the way in terms of size and scale either; many of our institutions have been at the forefront of the technological developments and innovations that radically changed how the world banks. The world's first ATM was installed in London more than 50 years ago, and since this point our banks have led the charge on numerous technological fronts.

Mobile banking has taken innovation in the banking sector to new heights, and this has ushered in a new era of challenger brands that have pushed the major players at every step. While the big banks have maintained their ascendancy for now, it is fair to say that these agile upstarts have driven further competition and innovation – which has benefitted the consumer enormously.

This research report examines the next chapter in the story of British retail banking and looks at how the deposit market for savings accounts – including overnight money accounts, fixed-term deposits accounts and notice accounts – will become a key battleground for consumers' hearts and minds. It argues that in the long-term, this will make the case for big banks to adopt a platform model. This is nothing

new in the world of commerce; seven of the ten most valuable companies in the world today adopt this strategy: Apple, Google, Microsoft, Amazon, Facebook, Tencent, Alibaba. Central to executing this well is a focus on becoming a central hub for their customers' needs. Ultimately, in this vision of the future, successful banks will expand their own products and services to include those of other players. If banks don't lead the way on this, other companies could step in to fill the void.



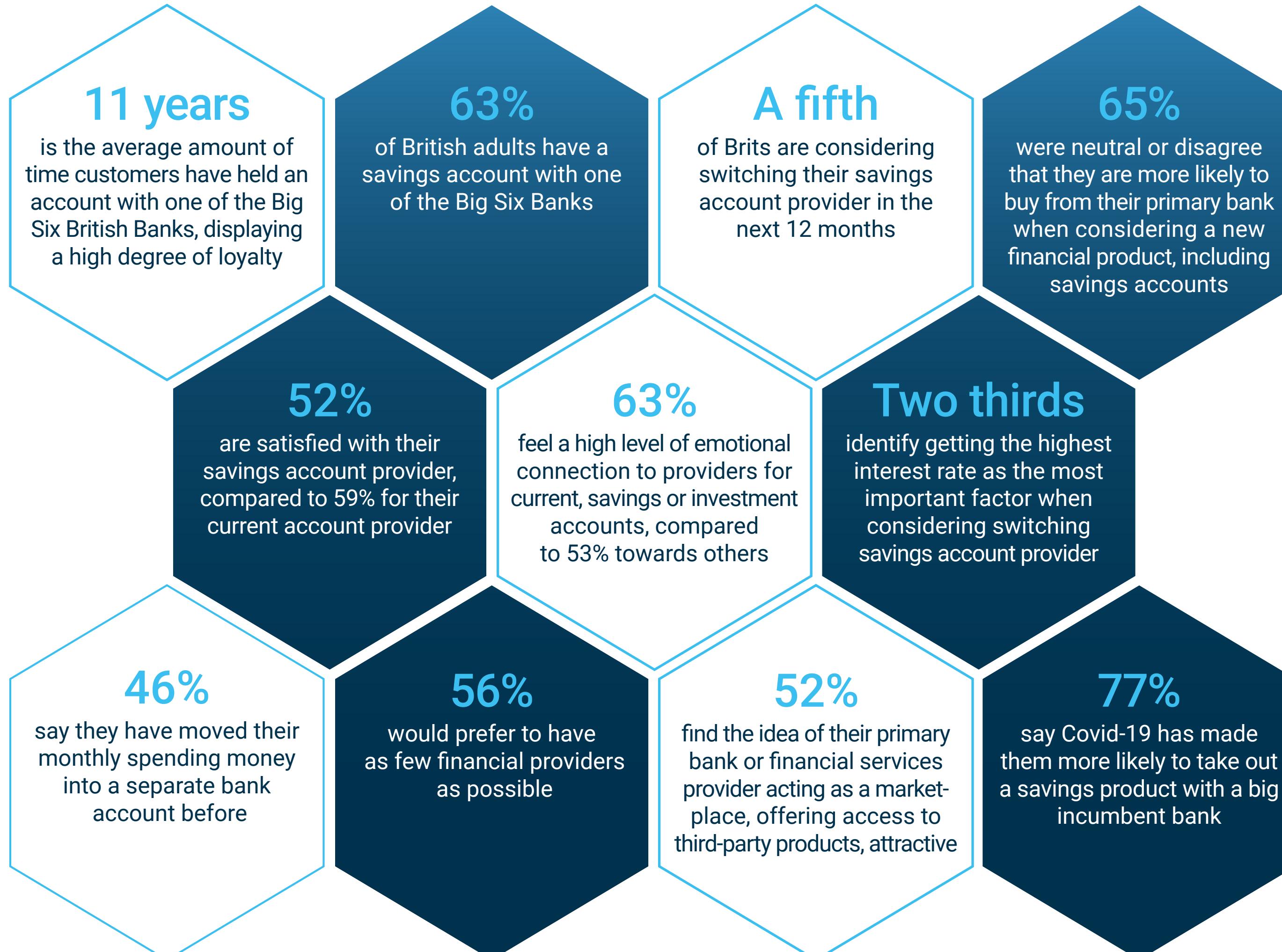
Mark Davison
Managing Director for
UK & Ireland, Deposit Solutions

This will be driven by Open Banking, which is already paving the way for the platform model to grow throughout the financial sector. However, in order to bear the fruits of this approach, our banks must actively adopt this as an end goal and formulate their strategies accordingly.

Key Findings

Although the Big Six British Banks – Barclays, HSBC, NatWest, Lloyds Bank, RBS and Santander – enjoy a high degree of loyalty, UK consumers display a far higher propensity to switch savings account provider

over their current account provider, suggesting deposits will be a key battleground for retaining customers in the face of growing competition from the three main neobanks – Monzo, Starling and Revolut.



Part 1

Deposits: The Key Battleground for British Banking Customers

The Big Six British Banks – Barclays, HSBC, NatWest, Lloyds Bank, RBS and Santander – have long dominated the current and savings account markets, and benefit from high levels of latent loyalty. Four key factors have contributed to the enormous success of these large institutions in the deposits business: They have leveraged their superior scale, long-standing reputation, an illiquid customer base, and first mover advantage to reach a point where a majority of Britons have a current or savings account with them. Based on our sample, **four fifths (82%) of British adults have a current account at one of the country's six biggest retail banks based on revenues and deposits, and three fifths (63%) of British adults have a savings account with one of them.**

The superior scale of these banks has generated enormous public awareness of their brand propositions, provided them with the budgets to commit to massive marketing campaigns, and given them a huge physical footprint to the extent that they are commonly referred to as 'high street' banks. With this has come a reputation for stability and safety, which is one of the most important selling points in the retail banking sector and is a topic this report explores in depth. Furthermore, this market position has been entrenched by a customer base who have

been reluctant to switch providers, which resulted in the Independent Commission on Banking (ICB) recommending the launch of a current account switching service as long ago as 2011. **This is underlined by our figures, which show that customers of the big high street banks have been with them for an average of 11 years.**

While the big retail banks are therefore in a position of obvious strength, and have seen off many challenges over the years, the tide could be beginning to turn on their ascendancy – unless they embrace a new model. Conditions are riper than they have been for some time for a shift. This is particularly true in the savings account market, due to several factors, including the continued fall in savings account interest rates and lower customer loyalty towards big retail banks in this product category. Both of these are explored in further detail in the motivations for switching section of this report.

While we are still some way away from seeing a wholesale shift from the high street banks to other brands in the savings market, there is evidence that change is in the air here. To start with, customers are a lot more willing to shop around to get the best possible deal in this market.

According to our research, British consumers report changing their savings account provider a lot more than their current account provider. Across all institutions, Britons reported changing their current account provider an average of once every twelve years, compared to just seven years for their savings account provider.

Similarly, our research shows that people are more likely to shop around for new financial products, including savings accounts, with just **35% agreeing that they were more likely to buy from their primary bank. 65% are either neutral or disagreed** with the idea – suggesting a low degree of attachment.

Finally, our research shows that **one in five (20%) Brits are considering switching their savings account provider in the next 12 months. This is higher than their likelihood of switching their current account provider (17%, over the same period)**. This disparity is significantly higher when excluding people who use the same bank for both their savings and current accounts. **This cohort are also twice as likely to switch their savings account (30%) than current account (16%) in the next year.** Considering that keeping the two accounts together could be a deterrent to switching, this could be a true indication of Brits lacking attachment to their savings account provider.

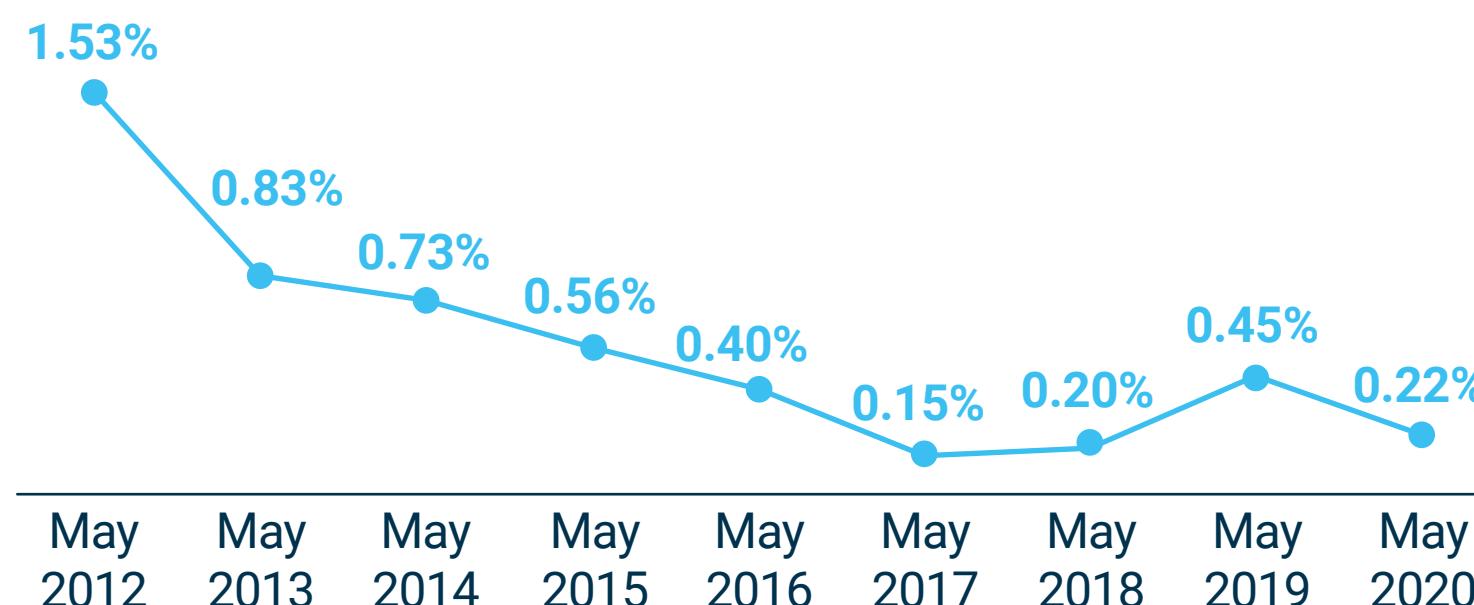
11 years

Customers of the Big Six Banks have had an account with them for 11 years on average

Although the Bank of England has considered negative rates, low interest rates and poor returns are nothing new, and this has not led to large volumes of customers turning their backs on bigger retail banks over the past decade. However, as our research shows, low rates open the door for switching, which nimble and

ambitious competitors can capitalise on. Furthermore, due to COVID-19 the overall-economic picture has darkened somewhat and returns in equity markets are less predictable.

In summary, while Britain's high street banks are in a position of strength, and have seen off multiple challenges over the years, they could be on the cusp of being pushed by non-incumbents. This battle is most likely to play out in the savings deposits market, due to the public's greater willingness to switch here and external factors like low interest rates.



Monthly average interest rate for instant access deposit accounts

Source: Bank of England Quoted Rates Data, June 2020

How long have you been with your account provider?

Excluding those who have the same provider for current and savings accounts



Are you likely to switch to a different provider in the next twelve months?

Excluding those who have the same provider for current and savings accounts



82% of British adults have a current account at one of the Big Six Banks

62% have a savings account with one of the Big Six Banks

65% were neutral or disagreed that they were more likely to buy from their primary bank when considering a new financial product, including savings accounts

20% of Brits are considering switching their savings account providers in the next 12 months



How satisfied are customers with their bank?

(Percentage that gave a positive top 3 score)

Big Six Banks

Top Three Challenger Banks



Our research shows that the people with different providers are overall slightly more satisfied with their current account provider than they are with their savings account provider. According to the figures, **59% of people were satisfied with their current account provider, while 52% were satisfied with their savings account provider**. A lower degree of satisfaction means that customers in the savings account market will have a greater propensity to move providers than those in the current account market.

Moreover, our research also demonstrates that customers are generally more satisfied with challenger banks than large incumbents, and this is also true when it comes to savings deposits.

This is demonstrated by the fact that while more than half (54%) of British customers give these large banks a top score in terms of their satisfaction for the current account service they provide, two thirds (66%) give challengers like Revolut, Starling and Monzo one – a gap of 12%.

And when it comes to customer satisfaction with savings accounts, this disparity only grows. While **59% of consumers give the Big Six a top score in this department, the figure leaps to 73% for challenger banks – a 14% gap**. Although customer satisfaction is generally high across the board, we can see that challenger brands have a slight advantage here, and that this is even higher for savings accounts.



Part 2

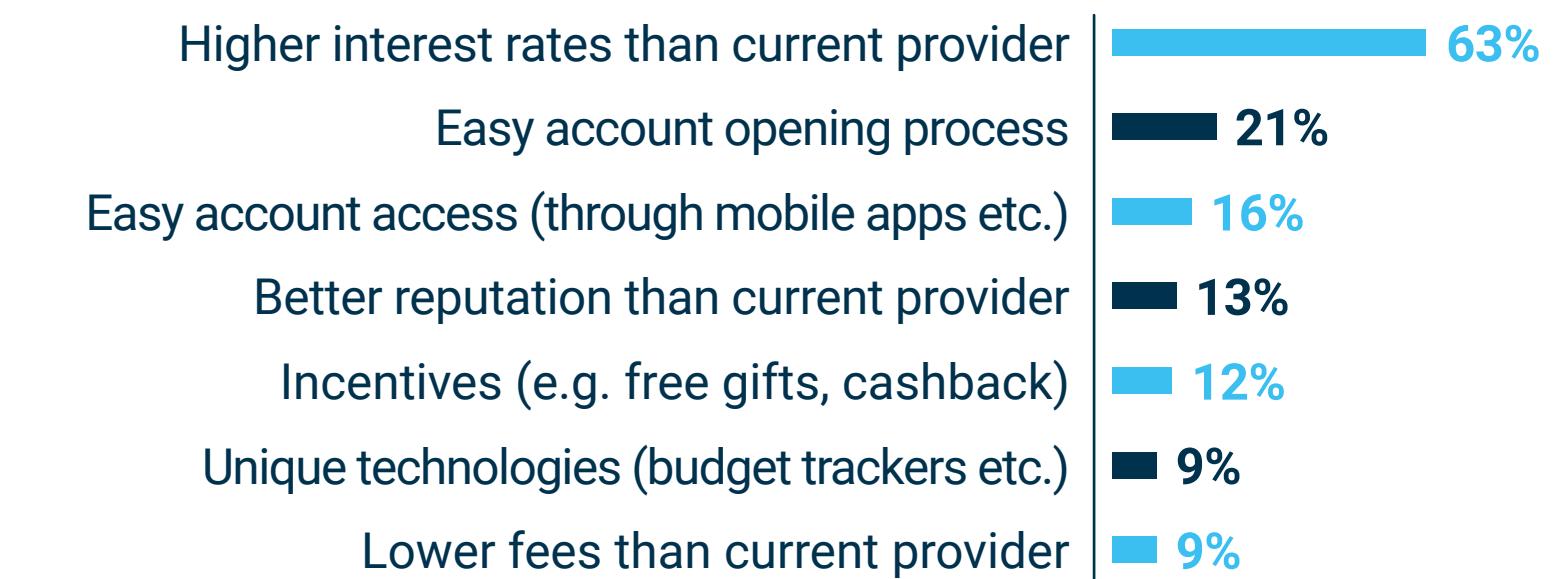
Motivations for Switching

When it comes to considering switching savings accounts, British consumers are more likely to make a practical decision, with **almost two thirds (63%) of respondents identifying getting the highest interest rate as the most important factor** when making their decision. Other key factors include an easy account opening process (21%) and easy account access, such as through mobile apps (16%). All three of these factors could drive customers towards challengers. Promotional pricing on savings accounts presents an opportunity for challengers to take customers away from large incumbents, as can superior UX and an easy account opening process – where the goal is to open a new account in as few clicks as possible.

In comparison, **reputation takes a backseat** in the purchasing decision on savings accounts, ranking fourth on consumers' list of concerns, with **only 13% of people selecting it as a key motivator**. Incentives, such as free gifts and cashback, unique technologies (e.g. budget trackers) and lower fees than a current provider were ranked as even less important to consumers, chosen by only 12%, 9% and 9% of respondents respectively.

While their status offers some advantages to large banks, it's clear that when it comes to keeping savings deposits accounts, the Big Six Banks cannot afford to rest on their laurels.

Why did you choose a different provider for your savings account?



However, reputation's low ranking when it comes to savings stands in contrast to people's priorities when opening a current account. **Reputation was identified as a top consideration for this, with 71% of consumers describing it as the most important factor.** Interestingly, a **poor reputation was also considered the most discouraging factor by over half (52%)** of respondents when it comes to choosing who to open a new current account with. It is, therefore, clear that there are substantial differences between respondents' values when it comes to current accounts and savings accounts.

British consumers report feeling a stronger emotional connection to their current, savings and investment accounts than other types of financial products. On a 0 – 10 scale of how positively people feel about their banks, **two thirds (63%) of respondents feel a high degree of emotional connection with providers where they hold funds – either for current, savings or investment accounts. This is compared to 53% for providers they use for lending accounts (e.g. loans, mortgages and credit cards).**

Barriers to switching accounts

Respondents identified the following factors that would strongly discourage them switching



As a result, respondents were also far more likely to consider either their current, savings or investment account provider when taking out a new financial product.

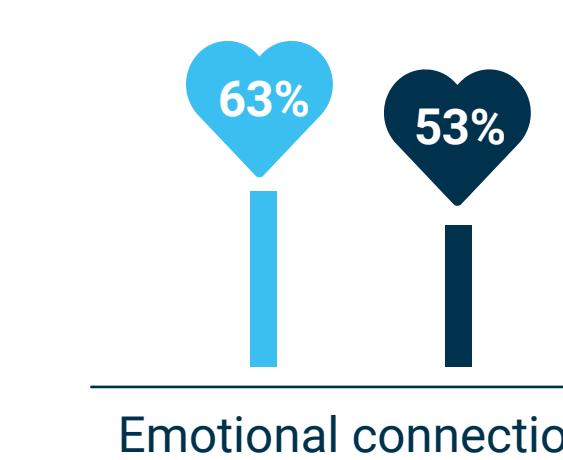
Banks that manage to hold onto customers for current, savings or investment accounts are, therefore, more likely to be considered for other financial products and increase their position as a hub for their customers' financial lives.

How do customers feel about their bank?

(Percentage that gave a positive top 3 score)

■ "The bank where I have my current, savings and/or investment account"

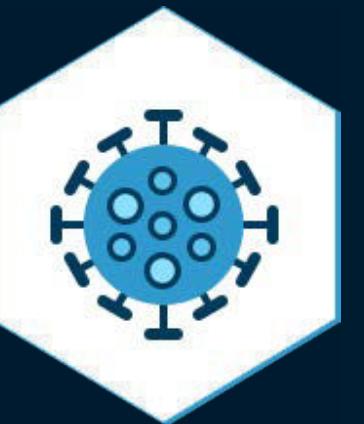
■ "The bank where I have my lending account (e.g. loans, mortgages and credit cards)"



The Age Divide



of 55+ year-olds have **both current and savings accounts** vs. 50% of 18-34-year-olds, who are more likely to just have a current account



of 18-34-year-olds say they have been impacted by **COVID-19** – from either being furloughed, losing work hours, pay or bonus cuts or redundancy – compared to 16% of 55+ year-olds, likely because many of them are retired



middle-aged adults (35-54 years old) are the **most likely age group to move their spending money** to a different account, with 26% doing so



of 18-34-year-olds find the idea of their main financial services provider **acting as a marketplace** appealing, compared to only 41% of 55+ year-olds

Imagine your main financial services provider was able to offer you financial products from other financial services providers. **Would that be appealing to you?**

would find it very/somewhat appealing

63%

SAY
YES



By age

18-34

54%

SAY
YES



35-54

41%

SAY
YES



55+

Part 3

Opportunity for Traditional Lenders

Some challenger banks are already looking to use Open Banking to pursue a marketplace model, offering among other features access to third-party savings accounts, often with attractive interest rates. This is done with the goal of becoming the financial 'control centre' of their customers' financial lives.

While this strategy is not currently prevalent among the large British retail banks, our results indicate that they are very well placed in the battle for consolidation that is set to occur. Indeed, **four in five (79%) UK consumers say they would prefer to consolidate all their financial services with a traditional bank, and very few were comfortable with a mobile or challenger bank taking on this role (13%). Respondents were even more reticent with the idea of a tech company (4%) taking on all their financial services**, despite a number of companies like Apple and Google launching money services in recent years. This suggests that the higher reputation, brand recognition and size of the Big Six makes these providers a safer bet for housing all the wealth in the eyes of UK consumers – if they adopt this strategy.

There are signs that the economic instability caused by COVID-19 and the nationwide lockdown could further play into the hands of the big banks. Because of

COVID-19, **35% of respondents say they are less likely to switch from a major bank to a challenger bank and over three quarters (77%) said they're more likely to take out a savings product with a big incumbent bank.**

Furthermore, **63% say that COVID-19 did not make them more likely to think about their savings and how good a deal they are getting and so would not encourage greater savings account switching.**

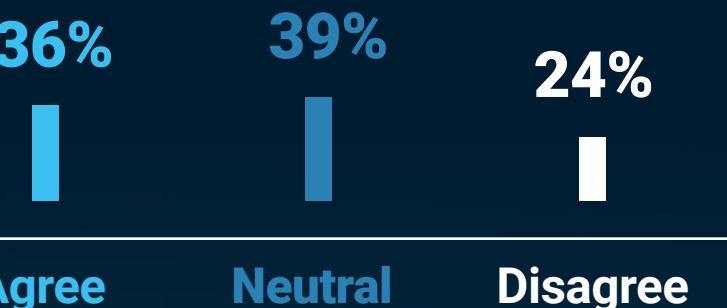
The big banks, therefore, have a unique opportunity to capitalise on the latent loyalty they enjoy, owing to their size, reputation and brand recognition. However, this requires action and to pay attention to the experiences of those pursuing a platform strategy. A platform model with banks connecting with third-parties through a shared infrastructure – that can be provided by a FinTech – brings efficiency to the market. Retail banks can gain access to a wide range of products from third-parties, which can be in various countries, and retain the customer relationship. Product providers, on the other hand, get to access customers from numerous banks and platforms at a stroke.

In the deposits business, **Deposit Solutions** already is operating this kind of infrastructure. The company **connects over 150 banks in 20 countries** that want to offer their customers deposit products from third party banks or collect retail deposits from other financial institutions' customers. To date, **Deposit Solutions has already transmitted over 25 billion euros in deposits**. With its platform, the company is facilitating an open European deposits market. **Deposit Solutions' mission is to establish open banking as the new industry standard in the global deposits business.**

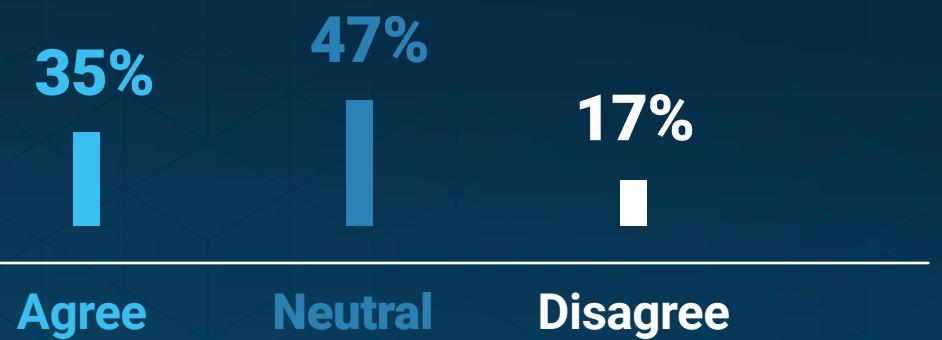
The COVID-19 effect

To what extent do you agree or disagree with each of the following statements?

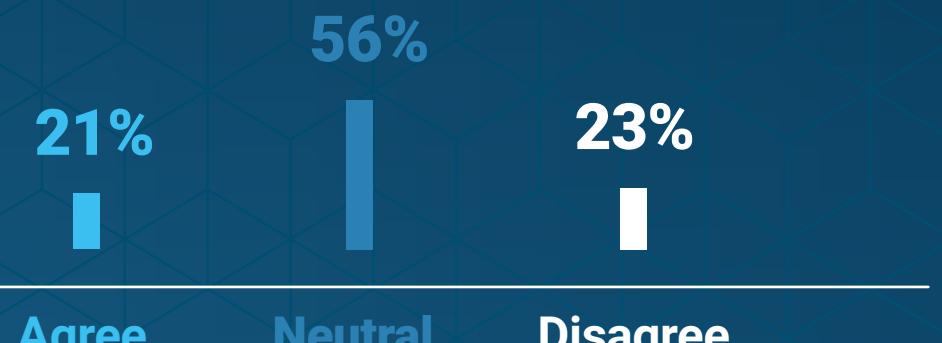
The COVID-19 pandemic has made me think about my savings and their performance a lot more



I am less likely to switch from a major bank to a challenger bank as a result of the COVID-19 pandemic

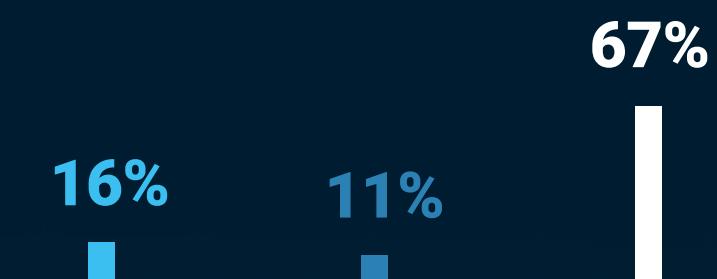


As a result of Coronavirus I am more likely to take a savings product out with a big incumbent bank



How has the COVID-19 outbreak affected the likelihood of you taking a product out with these institutions?

A traditional bank, e.g. Barclays, HSBC



A mobile bank, e.g. Revolut, Monzo



A tech company, e.g. Apple, Amazon, Google



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ABOUT THE RESEARCH

This research is based on a survey of 2,000 UK adults, drawn from nationally representative sample weighted on age, gender, region, social grade and employment status. The research has been conducted by Opinium, and the analysis performed by Deposit Solutions, unless otherwise stated.